

Meeting Summary

Second Balancing Service Charges Task Force

Meeting Number 4

Date:	11/03/2020	Location:	Energy Networks Association, London
Start:	10:00	End:	16:00

Participants

Attendee	Attend/Regrets	Attendee	Attend/Regrets
Colm Murphy, Chair, National Grid ESO (CM)	Attend		
Joseph Henry, Technical Secretary, National Grid ESO (JH)	Attend	George Moran, Centrica, Task Force Member (GM)	Attend
Eleanor Horn, National Grid ESO (EH)	Attend	Grace March, Sembcorp, Task Force Member (GMa.)	Attend
Joseph Underwood, Energy UK, Taskforce Member (JU)	Attend	Joshua Logan, Drax, Task Force Member (JL)	Attend
Jon Wisdom, National Grid ESO, Task Force Member	Attend	Olaf Islei, Shell, Task Force Member (OI)	Attend
Keith Munday, Bryte Energy, Task Force Member (KM)	Attend	Lisa Waters, Waters Wye Associates, Task Force Member (LW)	Attend
Jon Tindal, SSE, Task Force Member (JT)	Attend	Tom Edwards, Cornwall Insight, Task Force Member (TE)	Attend
Paul Jones, Uniper, Task Force Member (PJ)	Attend	Holly Tomilson, Energy Local, Task Force Alternate (HT)	Attend
Kayt Button, Ofgem, Task Force Member (KB)	Attend	Simon Cowdroy, RES, Task Force Member (SC)	Attend
George Douthwaite, Npower, Task Force Member (GD)	Attend	Tom Steward, Good Energy, Task Force Member (TS)	Attend
Andrew Rimmer (AR), Engie, Task Force Member	Attend		

Discussions

1. Introductions, Actions and Engagement

- 1.1 Colm Murphy opened the meeting and welcomed the attendees to fourth meeting of the second Balancing Service Charges Task Force. All members attended, including Holly Tomlinson as an alternate attendee. All slides for the day can be found [here](#).
- 1.2 The TF the actions log. An up to date actions log can be found [here](#). A number of the actions have now closed, including Actions 2,5,7,8,9,10. In regards to action 12 around the ESO's interconnector analysis, it was felt that this was no longer required and was closed accordingly. Actions 11 and 17 around workgroup analysis on Risk Premia were covered off within meeting 4 and will be closed accordingly at the next meeting of the TF.
- 1.3 Colm thanked the TF members for their engagement at various industry forums. Lisa Waters provided feedback from the Energy Intensive Users Group (EUIG) advising their preference for more forecastable BSUoS charges. Jon Wisdom indicated that he had held further discussions with a supplier who had previously fed into the TF also. Jon also reminded members that Citizens Advice were being regularly engaged.
- 1.4 Joseph Henry advised that the TF Webinar date would have to change, dependent on when the TF planned to consult on the interim report. The TF members are to be sent suitable dates ahead of meeting 5. Olaf Islei and Tom Edwards put themselves forwards to participate in upcoming podcasts. The members were also advised that due to the postponement of the Charging Futures Forum in March, Caroline Bragg would not be presenting on the progress of the TF, as the forum would now take place via webinar and provide updates on the Targeted Charging Review SCR and a shortlisting of options for the Access and Forward Looking Charges SCR. Caroline was thanked for her efforts on this.

Action: ESO to identify suitable dates for TF Webinar

2. Meeting 3 Recap

- 2.1 Eleanor Horn played back the outcomes of the third TF meeting to the room, recapping on the updates given by ESO and Ofgem regulatory finance teams. Lisa Waters questioned some of the information provided to the TF in the previous meeting, stating that she was unsure if the ESO had to declare any under recovery of BSUoS charges as a loss. Information that Lisa had received indicated that this was a choice made by the ESO. The ESO agreed to clarify this with their finance team. The ESO also advised that they would take an action to seek feedback from its investor relations team on the work of the TF thus far.
- Action: ESO to check position in regards to declaring under recovery as a loss**
Action: ESO to consult investor relations team
- 2.2 Task Force attention turned to the accuracy of BSUoS forecasting by the ESO. Olaf Islei suggested that there was an argument that if the ESO were to bear some BSUoS risk, this would inherently incentivise the ESO to forecast better. The ESO highlighted that one of the conclusions of the first Task Force was that BSUoS is difficult for all parties to forecast. Other members of the Task Force highlight that whilst this may be the case, there are other parties in industry who currently forecast BSUoS better than the ESO. This was followed by some discussion around the ESO's resource around BSUoS forecasting. Some TF members suggested that the ESO could theoretically forecast BSUoS more accurately and operate the system, and they felt that the two did not have to be mutually exclusive in terms of resource although it was recognised that if resources were forecasting BSUoS they were not necessarily contributing to system management.
- 2.3 The TF continued to debate whether there was logic in the argument that if the ESO was more exposed to BSUoS risk, then it would be incentivised to forecast well. Olaf pointed out that there was a material difference in the accuracy of forecasting displayed by the ESO and some industry forecasts. This line of discussion developed around the costs other industry parties had in regards to BSUoS forecasting, and whether centrally provided forecasts resulted in more established suppliers being able to gain a competitive advantage.
- 2.4 The nature of commercial arrangements that suppliers had with I&C and SME customers was discussed. It was highlighted that BSUoS volatility meant that some form of fixing BSUoS was preferable to most suppliers,
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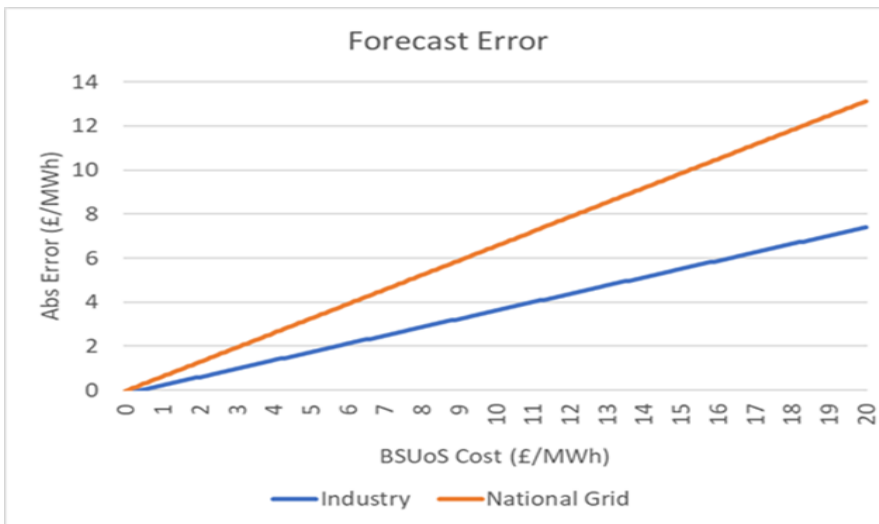
but the members debated the time horizon such fixing should take place over. It was highlighted that consumers wish to fix use of system charges as much as possible to avoid this volatility. Much of the time, this manifests itself in fixed price and pass through contracts. This wish to fix use of system charges gives rise to a risk that suppliers may have to pay more for use of system charges, or over recover. Some members suggested that a 12 month fix of BSUoS would be useful and result in a reduction in suppliers risk premia, however it was also observed that a 12 month fix may increase BSUoS risks in longer contracts into future years. Discussions around notice periods also took place but it became apparent that there was likely no “sweet spot” between supplier and ESO risk.

2.5 Task Force members acknowledge that the ESO has a lower Cost of Capital and guaranteed rate of return, so may be in the best position compared to other market participants to carry BSUoS risk. Several members accepted that whilst this may be the case, consideration should be given as to whether this would present the lowest cost to the end consumers.

3. **Analysis – BSUoS Forecasting, Fixing and Risk**

3.1 Previously, the Task Force had looked at analysis undertaken in CMP250 looking at BSUoS risk premia added by supplier. In TF meeting 2, it was decided that it would be beneficial to update the data used to reflect the interim period between CMP250 being rejected, and 2019. The analysis indicated BSUoS, over time, has become more volatile leading the TF to conclude that additional risk premia would need to be added to bills to cover the potential of unexpected costs. Josh Logan took the TF through this updated data.

3.2 The data also highlighted that when demand is increased, balancing actions are also increased, leading to increase BSUoS costs. This lead the TF to question over what time horizons fixing would be useful for, with some members suggesting that this should be looked at on a monthly basis as well as the yearly basis within the analysis. This also lead to further conversation as to whether the BSUoS forecast from the ESO was the best basis to go on if there were better forecasts available. Olaf Islei presented the below graph showing average absolute forecast error for industry and the ESO (National Grid) depending on BSUoS outturn.



3.3 The members acknowledged that some form of fixing would lead to a reduction in supplier risk premia, and also that if the ESO was best placed to carry BSUoS risk, then this be considered within the assessment of allowed revenues for the next price control period. Olaf also took an action to apply the forecast data over different time horizons, and to clarify the statistical significance of this.

Action: Olaf Islei to refine and clarify forecast error data.

3.4 George Douthwaite also undertook analysis which examined BSUoS risk from a pricing and customer viewpoint. In summary, the analysis concluded that the total cost of BSUoS was less to consumers if the ESO carried some of the risk. The members discussed the implications of this based on who should pay BSUoS. The members agreed with the presenter of the analysis that this becomes more difficult to quantify, based on who pays BSUoS, be that generation or demand.

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- 3.5 The TF agreed that there is a cost to the consumer on a principle basis, but it is hard to quantify what that exact cost is, as this would be contingent on what suppliers pass through to their customers and over what period any risk was removed from them. It was also underlined that at the moment, the analysis does not signify a “hard and fast” consumer benefit, and would need further tweaking of inputs such as forecast data, and time horizons.
- 3.6 It was agreed that the ESO and the presenters of both pieces of analysis would discuss further on how to effectively tweak and combine both pieces of analysis to further inform the conclusions and recommendations of the TF.
- Action: ESO, George Douthwaite and Josh Logan to further refine Risk Premia, Fixing and Forecasting analysis**

4 Options for Solutions

- 4.1 The TF reviewed the potential BSUoS charging options put forwards in meeting 3. The options broadly came into 3 charge constructions; a volumetric BSUoS charge, a banded charge (similar to the treatment of TNUoS and DUoS under the Targeted Charging Review) and a capacity charge. The options were assessed for positives and negatives against the TCR principles of reducing distortions, fairness, and proportionality. The members assessed these options in three groups, feeding back in collectively and agreeing that the following options should be taken forward over various time horizons:
- i) Ex-Post Volumetric Charge
 - ii) Ex-Ante Volumetric Charge
 - iii) Ex-Post Banded Charge
 - iv) Ex-Ante Banded Charge.
- 4.2 These options were amalgamated and sent to the workgroup to review further ahead of TF meeting 5. The TF will further develop these options ahead of the initial consultation, working on how these options could be structured. The TF also recognised that there was an option for a hybrid capacity based solution, but would need further clarification before whether deciding to take this option forwards. The ESO will also send a draft report to the workgroup to review, which will be reviewed and refined ahead of publication
- Action: TF to review options for solutions ahead of next meeting**
- Action: George Moran to distribute his option to TF for further consideration.**
- Action: ESO to distribute draft report.**

5.0 AOB and Next Meeting

- 5.1 The next meeting will be held on 1 April 2020 via WebEx
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