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BSUoS – Forecast Model, Revenue vs Costs and Tariff Updates Webinar - Q&A

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Purpose	To summarise the questions asked as part of the BSUoS Forecast Model, Revenue vs Costs and Tariff Updates webinar and the answers provided by the presenters
Date:	17/04/2024

You can download the slide deck from this webinar: HERE

You can view a recording of this webinar: HERE

Introduction

A webinar was held on 17th of April 2024 to present BSUoS Forecast Model, Revenue vs Costs and Tariff updates.

The following questions were asked, and answers provided during the webinar Q&A session:

#	Questions	Answer
1	Are we going to see an increase in the October 25 forecast when your nearer term model goes out that far (there is a much higher cost in October 24 than 25)	There is a lot of uncertainty around the forecast, particularly in the second year, which is why we publish lower and upper estimates as well as the central case. This means it is hard to say how the October 2025 forecast will change as we get nearer to the date. Recent work on the forecast has focussed on the short-term models (the main models in the blend at <14months ahead). Our next steps to take before the next tariff setting is to review and refresh the data used in the longer-term model.
2	Do you not believe that residual demand impacts BSUoS costs? Or is the impact no longer relevant please?	We have found that the best variables for predicting balancing costs are wholesale electricity prices and proportion of demand met by renewables. This second variable is very similar to residual demand (taking residual demand to be equal to “all demand – all renewables”.). However, rather than demand minus renewables, we use renewables divided by demand. This variable will capture the same underlying drivers as using residual demand.

		We are still using these variables in the model - the change to using 'Prophet' rather than 'ARIMAX' does not change this. Both these approaches fit a linear relationship to both variables (price and renewable proportion of demand), and then look at the historic data to see what cannot be explained by those variables. It is only what cannot be explained (residual error) that Prophet and ARIMAX look for patterns in and fit a timeseries model to.
3	Do you have a view of how high wholesale prices would need to go to force a tariff reset?	The ESO currently has a £300m working capital fund to support tariffs, and any circumstances that look likely to take us beyond that would threaten our ability to maintain the market mechanisms that the BSUoS charge supports. The weekly revenue v costs report that we publish gives transparency of our current and future recovery against the actual and forecast costs to provide a view of how likely tariff resets are. For example, as of the 15th April 2024 we were forecasting to be over-recovered by £455.8m by the end of Fixed Tariff 4, therefore we would need an increase of c.£755m in our balancing cost forecast to take us beyond our working capital. As a benchmark, a 20% increase in the wholesale energy price results in a 10% increase in the balancing cost forecast. However, the decision to reset tariffs will be dependent on several factors, including, but not limited to, the forecast cash position and the time scale of the potential tariff reset. We will inform industry as soon as reasonably practicable if tariff reset looks likely.

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Document Revision History

Version Number	Date of Issue	Notes
1.0	01/05/2024	Publication of BSUoS Forecast Model, Revenue vs Costs and Tariff Updates Webinar Q&A