CMP408: Allowing consideration of a different notice period for BSUoS tariff settings

14 June 2023
10am
Online Meeting via Teams

Objectives and Timeline

Claire Goult – National Grid ESO Code Administrator

Objectives

- Review Alternative Requests
- Alternative Vote
- Workgroup Vote

Timeline for CMP408 – as of 16th March

Milestone	Date	Milestone	Date
Proposal Presented to Panel	27 January 2023	Panel sign off that Workgroup Report has met its Terms of Reference	30 June 2023
Workgroup Nominations	06 February 2023 – 27 February 2023	Code Administrator Consultation (20 working days)	11 July 2023 – 08 August 2023
Workgroup 1 – Understand / discuss proposal and solution(s), review and agree on Terms of Reference and Timeline, review cross code impacts, review analysis and agree next steps.	16 March 2023	Draft Final Modification Report (DFMR) issued to Panel	17 August 2023
Workgroup 2 – Refine solution(s), draft legal text, consider potential Workgroup Consultation questions and finalise Workgroup Consultation	13 April 2023	Panel undertake DFMR recommendation vote	25 August 2023
Workgroup Consultation	27 April 2023 – 22 May 2023	Final Modification Report issued to Panel to check votes recorded correctly (5 working days)	30 August 2023 – 06 September 2023
Workgroup 3 – Review Workgroup Consultation responses, consider new points raised, refine solution, review legal text and discuss any potential alternatives	30 May 2023	Final Modification Report issued to Ofgem	07 September 2023
Workgroup 4 – Finalise solutions (including legal text) and alternatives and hold alternative vote. Finalise Workgroup Report and hold Workgroup Vote	14 June 2023	Ofgem decision	End October 2023
Workgroup Report issued to Panel (5 working days)	22 June 2023	Implementation Date	01 April 2024

Alternative Request 1

Niall Coyle – EON

Alternative Request 2

Damian Clough – SSE

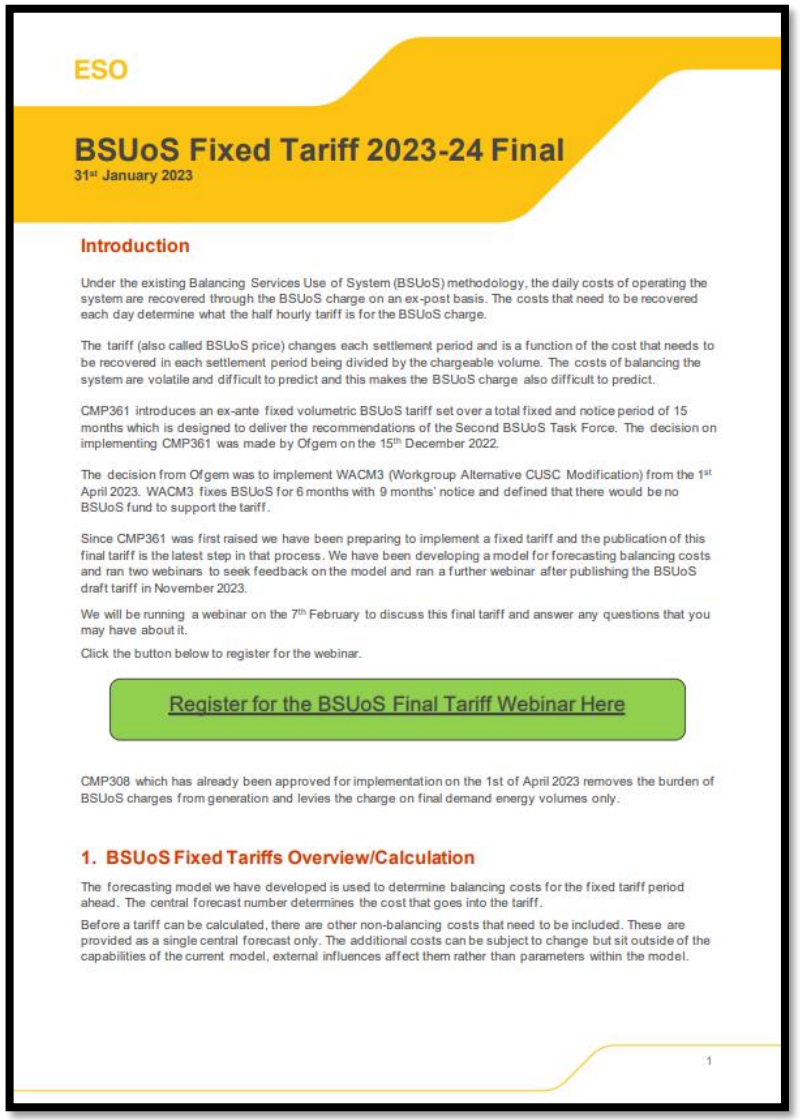
Seasonality Analysis

Nick Everitt – ESO SME

Potential Seasonal issues with a BSUoS Fixed Tariff



BSUoS Fixed Tariff Recap



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BSUoS Fixed Tariff 2023-24 Final

31st January 2023

Introduction

Under the existing Balancing Services Use of System (BSUoS) methodology, the daily costs of operating the system are recovered through the BSUoS charge on an ex-post basis. The costs that need to be recovered each day determine what the half hourly tariff is for the BSUoS charge.

The tariff (also called BSUoS price) changes each settlement period and is a function of the cost that needs to be recovered in each settlement period being divided by the chargeable volume. The costs of balancing the system are volatile and difficult to predict and this makes the BSUoS charge also difficult to predict.

CMP361 introduces an ex-ante fixed volumetric BSUoS tariff set over a total fixed and notice period of 15 months which is designed to deliver the recommendations of the Second BSUoS Task Force. The decision on implementing CMP361 was made by Ofgem on the 15th December 2022.

The decision from Ofgem was to implement WACM3 (Workgroup Alternative CUSC Modification) from the 1st April 2023. WACM3 fixes BSUoS for 6 months with 9 months' notice and defined that there would be no BSUoS fund to support the tariff.

Since CMP361 was first raised we have been preparing to implement a fixed tariff and the publication of this final tariff is the latest step in that process. We have been developing a model for forecasting balancing costs and ran two webinars to seek feedback on the model and ran a further webinar after publishing the BSUoS draft tariff in November 2023.

We will be running a webinar on the 7th February to discuss this final tariff and answer any questions that you may have about it.

Click the button below to register for the webinar.

Register for the BSUoS Final Tariff Webinar Here

CMP308 which has already been approved for implementation on the 1st of April 2023 removes the burden of BSUoS charges from generation and levies the charge on final demand energy volumes only.

1. BSUoS Fixed Tariffs Overview/Calculation

The forecasting model we have developed is used to determine balancing costs for the fixed tariff period ahead. The central forecast number determines the cost that goes into the tariff.

Before a tariff can be calculated, there are other non-balancing costs that need to be included. These are provided as a single central forecast only. The additional costs can be subject to change but sit outside of the capabilities of the current model, external influences affect them rather than parameters within the model.

1

Step	Link/Date
Final BSUoS Fixed Tariffs Published 31/01/2023	Download
CMP408 Change tariff notice period to 3 months	16/03/2023
TCMF Sub group looking at fund + wider remit	22/03/2023
Ofgem Fixed Tariff Reset meetings (more to come)	27/03/2023
CAB change implementation	31/03/2023
Moved Forecast/Outturn Reports to Revenue team	01/04/2023
Fixed Tariff II – First Run	12/04/2023
Fixed Tariff SF – First Run	27/04/2023
Industry Webinar to discuss reporting/tariff reset methods	05/04/2023
Fixed Tariff Revenue v Costs Report Published	24/05/2023
Running of model moved to Revenue Team	05/06/2023
Fixed Tariff 3 Set – Apr 2024 to Sep 2024	30/06/2023
Industry Webinar after Tariff 3 publication	TBC

Outline of the issue

- A fixed BSUoS charge applied on a £/MWh basis means the value of BSUoS recovered across a financial year by the ESO is directly related to BSUoS volume. However, the BSUoS costs incurred are not related to this and can be relatively flat across a year

- With a single fixed £/MWh charge, for some years (and under some forecast scenarios) this may result in the ESO significantly under-recovering during the summer months with this shortfall recovered over winter

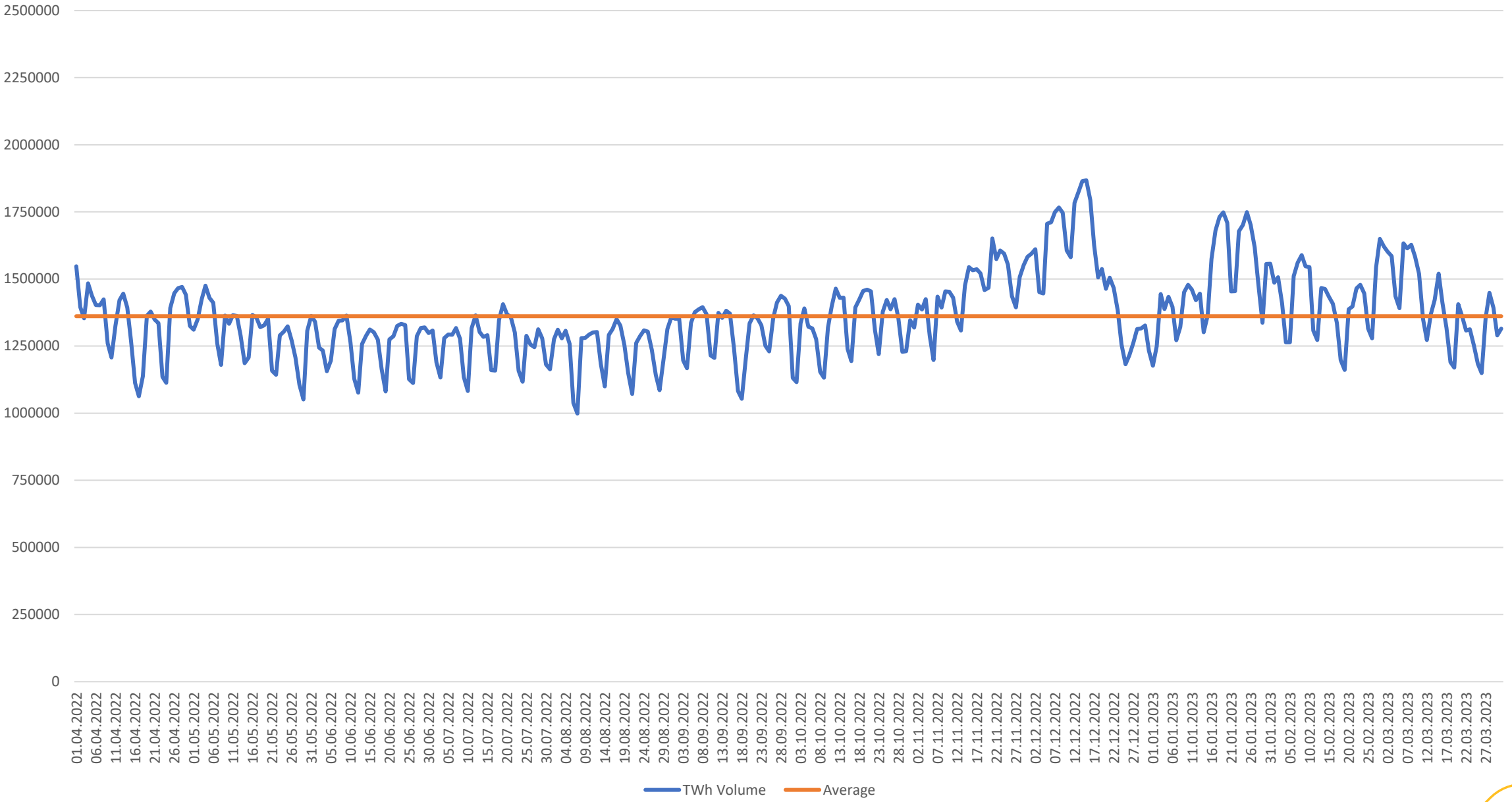
- Given the higher than expected BSUoS costs in 2022/23, there is a risk that the ESO's working capital fund is depleted, requiring a mid year tariff change to maintain market cashflows.

- A proactive solution to prevent this happening could be a summer tariff (1 April – 30 September) and a winter tariff (1 October – 30 March). Both tariffs would be set at the same time to maintain a 12 month period of certaintity with the requisite notice period also being observed.

- We would ensure any solution is 'cash neutral' across the whole financial year (i.e. it shouldn't cost the industry more or less)

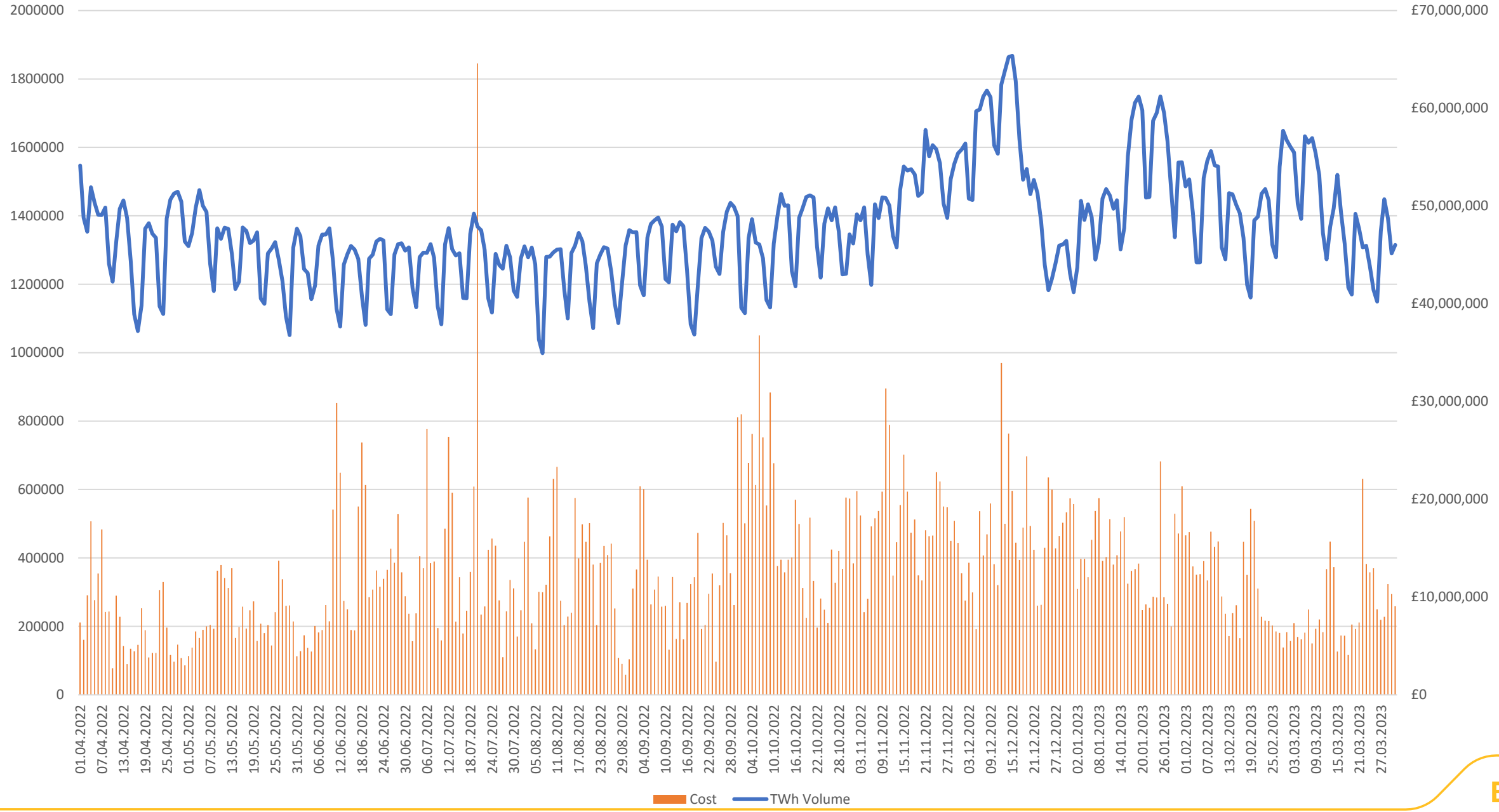
- These changes would help support the ESO's working capital and thus market mechanisms.

BSUoS Daily Volume v Average - 2022-23



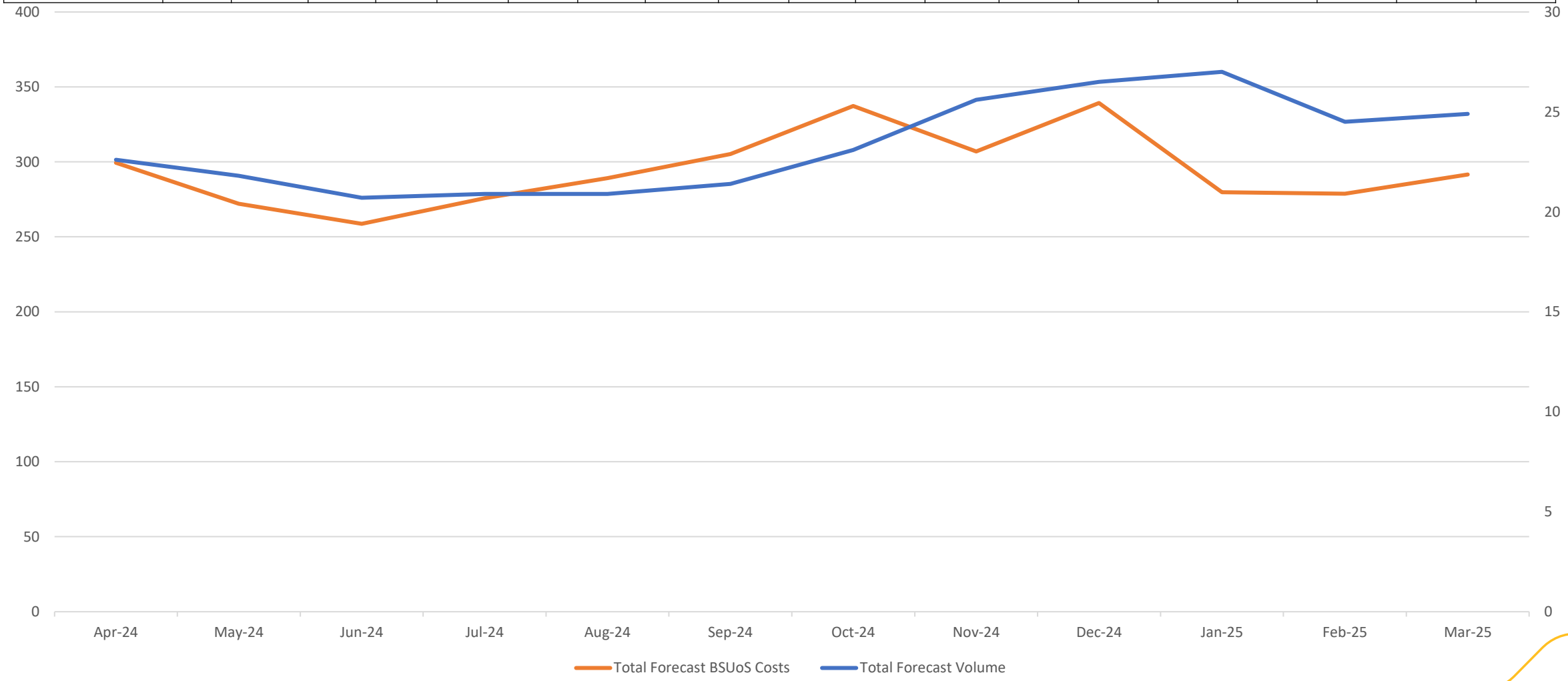
ESO

BSUoS Volume plotted Against Cost – 2022-23



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Forecast Costs and Volumes for 2024-25													Costs and Volumes Totals			Single Tariff Recovery		Split Tariff Recovery	
	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Full Year	Apr-Sep	Oct-Mar	Apr-Sep	Oct-Mar	Apr-Sep	Oct-Mar
Total Forecast BSUoS Costs	299.4	272	258.7	275.7	289.1	305.2	337.2	307	339.2	279.7	278.8	291.5	3533.5	1700.1	1833.4	12.62	12.62	13.25	12.09
Total Forecast Volume	22.6	21.8	20.7	20.9	20.9	21.4	23.1	25.6	26.5	27	24.5	24.9	279.9	128.3	151.6	1619.7	1913.8	1700.1	1833.4



Alternative Request Review and Alternative Vote

ALL

Workgroup Vote

ALL

The Applicable CUSC Objectives (Charging) are:

a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;

b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);

c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;

d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and

e) Promoting efficiency in the implementation and administration of the system charging methodology.

AOB

Claire Goult – National Grid ESO Code Administrator

Next Steps

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