



Please use this Pro-Forma when responding to the Interim Report and Consultation of the second Balancing Services Charges Task Force.

The Taskforce will take all responses into its consideration when producing the final report. When providing a response please supply a rationale, particularly in respect of any specific questions detailed below.

Please send your responses to chargingfutures@nationalgrideso.com by 5pm on **26 August 2020**. Please note that any responses received after the deadline or sent to a different email address may not be taken into account by the Taskforce.

If you have any queries on the content of this consultation, please contact us at chargingfutures@nationalgrid.com .

Question	Response
1. Do you agree with the Task Force's recommendations on who should pay Balancing Services Charges (Deliverable	BSUoS is a residual charge that collects revenue associated with essential system services and services that are required to manage flows on the transmission system at least cost. The recovery of these costs should in principle rest with the end consumer unless there is evidence that allocating specific costs to other market participants reduces overall system costs. We do

<p>1)? Please state your reasoning and evidence behind your answer.</p>	<p>not believe that such specific costs have been identified and therefore BSUoS should be paid by the end consumer.</p> <p>There is evidence that the current approach to charging BSUoS has led to an increase in whole system costs given the difference in treatment between embedded generation and transmission connected generation (with embedded generation being given an unmerited marginal cost advantage relative to transmission generation as well as lower investment costs). This has driven an increase in the level of distribution connected generation with the resulting increase in network cost for all consumers as well as sub-optimal despatch decisions.</p> <p>Given this view we believe that BSUoS should be charged to end consumers (Final demand) in a way that avoids the potential to incentivise generation to connect behind the meter so to avoid the charge. We need to avoid the charging regime being a driver of inefficient investment decisions.</p> <p>The long-term solution we believe is to apply the charge to final demand on a £/site basis and the methodology being adopted to collect residual demand TNUoS and DUoS is appropriate. We appreciate that this may take some time to implement and it may be necessary to delay implementation of the enduring solution beyond April 2023.</p> <p>However, if it is determined that the enduring solution cannot be implemented by April 2022 then we consider it necessary for there to be an interim measure to reduce the distortion between transmission connected and embedded generation. The generation charging base should be increased from October 2021 to include all supplier connected generation. This will produce an estimated saving for consumer of ~£130m per year made up of reduced £/MWh BSUoS costs and a subsequent reduction in wholesale costs driven by the reduction in transmission connected generation marginal cost. Whilst an interim solution is not ideal it is important to realise these savings. It is not necessary for the Taskforce to develop the interim solution, rather the direction for the industry to develop it should be part of Ofgem's response to the report (assuming that the enduring solution cannot be implemented from April 22).</p>

<p>2. The Task Force have discussed how the recommendation on Deliverable 1) for Final Demand only to pay Balancing Services Charges could impact on large energy users and the potential for 'grid defection'. Do you think 'grid defection' is a possibility and to what extent would the Task Force's recommendations impact on your answer?</p>	<p>Whilst others in the industry have raised the prospect of full or partial grid defection we do not have any evidence that this should be a concern. It is not clear that given the magnitude of the BSUoS change relative to energy and other wholesale cost this BSUoS change will drive grid defection.</p>
<p>3. Do you agree with the Task Force's recommendations that an ex ante fixed charge would deliver overall industry benefits? Please state your reasoning and evidence behind your answer.</p>	<p>Recent BSUoS costs have shown that it is impossible to forecast total BSUoS with any degree of accuracy on long term or annual basis. Some elements are relatively easy to forecast but actions to manage wind and solar output as well as low demand conditions are forecastable only on a short term basis of a few weeks ahead.</p> <p>Given this we believe that a solution of fixing BSUoS for a period of 12 months with a 2-6 month lead time ahead basis would provide a balanced approach. It would enable supply businesses to have more confidence in selling the kind of fixed price contracts which are valued by customers.</p> <p>Clearly, the "premium fee" such a fixing methodology requires should be minimised.</p> <p>This approach would work for a £/MWh or a £/site basis.</p>

<p>4. How long do you think the fixed period should be and what in your opinion is the optimal notice period in advance of the fixed charge coming into effect? Please state your reasoning and evidence behind your answer.</p>	<p>See answer to question 3.</p>
<p>5. Which approach discussed by the Task Force (TDR banded £/site/day or volumetric £/MWh) do you feel is most appropriate for Balancing Services Charges? Please consider your answer against the TCR principles and state your reasoning and evidence to support your answer.</p>	<p>See answer to question 1: we support a £/site basis for the charge as it ensures that the charge cannot be avoided (and so is consistent with the principle of minimising harmful distortions).</p>
<p>6. The Task Force noted limitations of the approaches covered in Q5, what other methodologies or improvements to the ones in Q5 could you recommend to tackle them? Please consider your answer against the TCR principles and state your</p>	

reasoning and evidence to support your answer.	
7. Is 2years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer.	<p>Market participants have been aware of changes to BSUoS for a number of years and parties placing products in the market on a "fixed" basis will need to look to their own contract terms to mitigate change.</p> <p>Some consideration must be given to the time required to explain the changes in charging to consumers and implement that change. Two or more years would be appropriate as a timeline for an enduring change. If interim measures were adopted, then a longer implementation period could be adopted for the enduring change (albeit this comes at a cost of reduced competition in the wholesale market given that interconnector flows are not liable for BSUoS). See answer to question one.</p> <p>We have separately submitted further evidence to Ofgem that covers this point.</p>
8. Should the Task Force consider any interim measures? Please provide details of any suggested interim solution including how it may deliver benefits to consumers or help to mitigate specific challenges facing market participants, whilst limiting any windfall gains or losses between industry participants.	<p>Yes, if the enduring solution cannot be implemented for April 2022 then we believe that an interim measure of expanding the charging base to include supplier connected generation (embedded) should be implemented for October 2021.</p>

<p>9. Do you feel that there any interactions with the Supplier Price Cap that need to be considered? Please state your reasoning and evidence behind your answer.</p>	<p>If there are any such interactions, then these should be considered by the regulator when the CUSC modification is determined.</p>
<p>10. The Task Force's initial recommendation is that Final Demand only will pay BSUoS. If this is the case, is the current RCRC mechanism is still appropriate? Please state your reasoning and evidence behind your answer.</p>	<p>This is a secondary issue, RCRC has a number of factors in determining its size (system length, imbalance position) so whilst BSUoS is one ingredient it is not the only one.</p>
<p>11. Is there anything further you think the Task Force needs to consider?</p>	<p>We have separately provided evidence to Ofgem including the forward position of suppliers, their available mitigation measures and the derivation of our estimate of the consumer benefit.</p>
<p>12. Please use this box to add any further comments that you may have</p>	