



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.

RESPONSE FROM PAUL MOTT : EDF ENERGY

| Question | Response |
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| 1. Do you agree with the Task Force's recommendations on who should pay Balancing Services Charges (Deliverable 1)? | <p>Yes. We agree with Ofgem's assessment in the TCR consultations that a charge that is deemed cost recovery is most efficiently recovered by end demand users.</p> <p>Additionally, European generators in markets to which GB is electrically connected such as France, Holland and Ireland don't pay this type of charge, as shown in the table on page 12 of the TF2 consultation document, and neither do the owners or operators of interconnectors that can import their power into Britain. The capacity and number of interconnectors between GB and continental Europe and Eire has</p> |

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| | <p>increased over time and will continue to do so substantially, so the resulting distortion is growing. GB generators must be able to compete on a level playing field in this respect with both interconnected European generators that export to the UK, and with embedded generators that don't pay BSUoS as generators.</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>True Grid Defection (disconnection and termination of all external supplies) seems most unlikely to be economic, or sufficiently secure. Partial grid defection (where a customer self-supplies some of its energy) is incentivised if the recovery from demand is on a £/MWh basis. As predicting BSUoS by £/MWh per period in advance is difficult it may not lead to grid defection in specific periods, but a general growth in the average level of BSUoS would nonetheless tend to incentivise more "behind the meter" generation.</p> |
| <p>3. Do you agree with the Task Force's recommendations that an ex ante fixed charge would deliver overall industry benefits?</p> | <p>It is a question of which party can best forecast BSUoS and which party can most economically finance an error. Fixing BSUoS values sufficiently in advance to reflect them into customers contract terms would have significant benefits as it would mean that supply contracts to customers could be offered with no risk premium as to the forecast Balancing Services Charges – which isn't something that Suppliers can forecast well. The lack of risk premium would benefit customers; supply tariffs would be able to be created that accurately reflect the Balancing Services bill. The Supplier price cap would be easier for Ofgem to set as there would be greater certainty over BSUoS costs; a source of uncertainty would be either removed, or very much ameliorated.</p> <p>The ESO is already carrying forward some BSUoS under-recovery via CMP345, and CMP350 that entails it</p> |

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| | <p>carrying forward up to £100m a year. Its finance costs due to the type of firm it, and its parent, are, and due to complete non-recovery being a zero-risk item under the rules and regulations that would apply, with suitable securitisation, should be relatively modest.</p> <p>Over or under-recovery of TNUoS revenue is currently made during the financial year two years later than the year in which the over or under-recovery took place. This recovery period could be utilised for correction of over or under-recovery of a fixed BSUoS charge.</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?</p> | <p>We suggest the fixed period should be a year in duration, and should start on the 1st April, as the largest customers, who as a class consume a considerable amount of GB's electricity energy volume, tend to rollover on 1st April. Their bespoke quotes are generated anywhere up to a year in advance and can have multiple year terms. We therefore support as long a notice period which can be justified.</p> <p>We do believe that fixing the charge would result in an improved accuracy in forecasting from the ESO – it would put some resource into that job, but that's clearly far more efficient than a large number of Suppliers, who don't fully understand the nuances of the ESO's real operations and the engineering and physical drivers, attempting to each do the same thing.</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?</p> | <p>We accept that allocating a cost recovery charge to different types of users is challenging. There is no perfect solution that can satisfy all users.</p> <p>Generally, a volumetric approach to recovery has the drawback of incentivising behind the meter generation / activity, which would represent a distortion and can be an inappropriate approach for a cost recovery type item.</p> |

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| | <p>We believe for BSUoS recovery however a flat profiled volumetric recovery is most appropriate.</p> <p>The TCR delivered a solution to recover network residual charges based on the Maximum Import Capacity for half-hourly metered customers.</p> <p>We believe that creating yet another charge recovery based on the same methodology could increase the incentive for users to look to lower their Import Capacity and move to a lower charging band. Using a different driver to recovery BSUoS charges limits this incentive.</p> <p>We also believe that volumetric charging is simpler to implement for suppliers.</p> <p>BSUoS is already recovered via a £/MWh methodology and therefore suppliers should be able to implement these changes quicker, allowing for quicker implementation and at a lower cost than fully re-designing their quoting and billing systems to adapt to a new charging methodology.</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 reasoning and evidence to support your answer.</p> | <p>We have nothing to add to our answer to question 5</p> |
| <p>7. Is 2years' notice of the changes prior to an implementation date appropriate?.</p> | <p>We expect that once Ofgem has made a clear determination implementation should be no longer than 2 years.</p> <p>Ofgem's November 2019 TCR letter did make clear the direction of this TF2 work</p> |

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| | <p>and where we were headed, so there are no new surprises for anyone here in these draft recommendations, and their later acceptance by Ofgem won't be surprising, either.</p> <p>We remain concerned that Ofgem's intent of delivering reform as a package is diverging thus exacerbating distortions between large and distributed generators, as well as cross-border competition.</p> <p>Ofgem's direction should give absolute clarity of expected timelines, with or without an interim solution.</p> <p>(we expand further in our response to Question 8)</p> |
| <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> | <p>It is a long time since, in 2018, EDF raised CMP308, to move BSUoS onto demand, and it has been frozen because of the work of the second task force. We consider that if there is any delay in moving to the fixing of BSUoS, and the new capacity-based recovery charging, then at least CMP308 should be unfrozen and progressed as soon as possible so that GB generators can compete on a level playing field in this respect with both interconnected European generators that export to the UK, and with embedded generators that don't pay BSUoS as generators.</p> <p>We also note that originally Ofgem grouped generation reform as a package. If BSUoS reform is delayed even further then it leaves a longer distortion between transmission and distribution connected generators.</p> |
| <p>9. Do you feel that there any interactions with the Supplier Price Cap that need to be considered?</p> | <p>The Supplier Price Cap would seem to be easier for Ofgem to set, as there would be greater certainty over the Balancing Services charges component of a "capped" consumer's bill.</p> |
| | <p>RCRC has nothing to do with BSUoS. It is to do with the recovery or allocation of</p> |

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| <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?</p> | <p>net energy imbalance cashout revenues/deficits. It has nothing to do with the balancing services cashflows. RCRC is quite rightly wholly outside the scope of TF2. If there is a debate to be had about RCRC, that's a different debate and can be hosted by Elexon under the BSC, where it belongs – the usual route would be via a BSC "issue group" in the first instance. Regarding the collection of the energy imbalance cashout revenues/deficits on a £/MWh basis, it is conceivable that the issue group could conclude that this charge is a cost recovery item and that a capacity basis to its recovery has merit. This shouldn't delay the work on BSUoS.</p> |
| <p>11. Is there anything further you think the Task Force needs to consider?</p> | <p>No</p> |
| <p>12. Please use this box to add any further comments that you may have</p> | <p>None</p> |