



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 1)? Please state your reasoning and evidence behind your answer.	<p>EIUG agrees with the Task force's recommendation to move BSUoS charge recovery to final demand only.</p> <p>However, Ofgem must robustly monitor wholesale prices to ensure that wholesale power prices reduce to reflect the reduction in costs to generators. Ofgem's policy will only be of benefit to customers if these savings in power prices are realised.</p> <p>There is an argument that longer term, Interconnectors should be included to fund balancing costs as they can be a major reason for balancing actions. At the very least, once Brexit is complete, and demand across interconnectors should pay in the same way other demand in the GB market will. EIUG notes the comments about cross border competition for generation, but</p>

	<p>competition is also an issue for industrial customers such as EIUG members.</p> <p>Moving to Demand only charge recovery should ensure a level playing field for Transmission & Distribution connected generators, and in theory should reduce the wholesale electricity prices.</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>EIUG are very concerned about the cumulative effect that CfDs, FiTs, CM and changes to balancing costs are having on energy intensive users. If BSUoS charges also increase, with no corresponding reduction in wholesale prices, this will further add to EII's cost base. This is having a direct impact on GB industrial competitiveness compared to their international competitors and as such Ofgem should conduct an impact assessment (IA) on the charges added to customers' bills under their charging reforms.</p> <p>The IA must specifically recognise the differences between large users, such as water companies and EIIs, where energy costs can account for a majority proportion of costs. Ofgem needs to understand that these companies operate in global markets, so cannot simply move these costs onto their customers. Therefore, when fulfilling its statutory duty to protect the interests of <u>all</u> customers, Ofgem should considering how these companies' businesses will be impacted.</p> <p>The UK already has one of the highest energy costs in Europe for large energy consumers (source: BEIS International industrial energy prices). UK electricity prices (incl. taxes) are the highest of the EU15 and only Cyprus has a higher electricity price in the EU28. The UK electricity prices are around twice as high as key competing countries like Germany, France, Holland & Poland.</p> <p>This means that the UK's EIIs are already at a significant financial disadvantage to many of their global competitors. If costs continue to be placed on industry for CM auctions, regime changes. balancing costs, new nuclear and network reinforcement (for the electrification of transport), EII's will eventually be priced out of the UK, only for their products to be replaced by imports.</p>

	<p>The cumulative effect of additional BSUoS costs for EIs may result in grid defections/site closures. It is therefore vital that EIs are not disproportionately charged more than other sectors.</p> <p>Perhaps the taskforce could compare international prices of BSUoS costs (by demand sector) so that they can understand the potential impact on the different sectors.</p> <p>The BSUoS Task Force has said that the BSUoS charges should be about cost recovery. However, it has not looked in any great detail about what is driving those costs. It is our understanding that the costs are driven by the changing nature of the electricity generation sector coupled with the reduced demand being bought about in part by improvements in domestic energy efficiency, etc.</p> <p>EI's are generally stable, baseload consumers and therefore have are actually helping to keep costs lower than they may otherwise have been. If EIUG members are driven offshore or close (due to high base costs) then it seems likely that the BSUoS costs will increase still further. We therefore believe that there is a good case for charging EIs a lower BSUoS fee than say domestic customers.</p> <p>EIUG members are part of the net zero carbon solution, not the problem. They are the customers who can be there to consume solar and wind power when domestic customers do not. This situation is likely to be ever more important as more and more renewable & nuclear generation and interconnectors connect.</p> <p>The introduction of smart meters may generate some change in the shape of demand, but EIUG members have been responding to energy market signals for decades, with many having invested in achieving the very flexibility Ofgem and BEIS are now promoting. While BSUoS may be only one charge of many that make up GB energy bills, EIUG believes that there is a strong case for charging these industries less for BSUoS than other types of customers.</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>Yes, EIUG agrees that an ex ante fixed charge would likely benefit industry as it would remove the volatility of the balancing charges.</p> <p>However, we would like to see a strong incentive on NG ESO to make sure that there are not large changes ($c > 10\%$) between the charging periods. As many EIUG members have contracts where BSUoS is a pass-through cost from suppliers, it is them and not the suppliers that have to manage this risk.</p> <p>As per question 2, a range of balancing costs/rates should be created to incentivise ELLs to continue to help prop up demands at times of low system demand (summer/off peak/baseload)</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>This is a difficult question. Longer fixed periods will provide stability/certainty but will likely increase the step changes.</p> <p>EIUG recommends analysing historic datasets to understand the balance between fixed periods & volatility.</p> <p>To manage this risk, we would like to see the price set for a fixed period [a month, quarter, year?] with reasonable [month, 2 month, 3 months?] notice of price movements for the next period. Any price movement between periods should be capped to avoid big step increases. This should strike a balance between NG ESO's forecasting being correct and BSUoS bill payers factoring in the cost changes between periods.</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</p>	<p>A volumetric (£/MWh) is the preferred option until more detail on how the bandings would work is available.</p> <p>EIUG is concerned that a banded approach (£/site/day) would be used to move costs away from certain demand bandings to industrial bandings.</p>

evidence to support your answer.	
<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>EIUG is concerned that EII's are being asked to pay a larger proportion of decarbonisation and balancing costs than some other sectors.</p> <p>As noted above, EIUG believes that there is a very strong case for having a lower cost to EII's in particular. It is in the interests of UK plc that these industries thrive here. We would like to see the task force or Ofgem consider if it is sensible to continually signal to larger users to shut given that scenario would likely increase costs to all other customers.</p> <p>EIUG would question whether there is an option of a hybrid solution to recognise [daily/weekly] peak and off-peak demands, but with stable charges. This would provide certainty of charges for industry but incentivise production at times when demands are needed.</p> <p>EIUG would also raise the question whether some constraint costs should be picked up by the TOs.</p>
<p>7. Is 2 years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer.</p>	<p>EIUG believes 2 years notice should be appropriate only if NG ESO can forecast with enough certainty so as not to create vast changes in costs between periods. To that end, we would expect NG ESO to be giving regular updates on where costs actually are and what they may mean in terms of charges for the following period.</p> <p>The report highlights the level of inaccuracy in NG ESO forecasting ability. To help focus their forecasting efforts, maybe NG ESO should be responsible for a set percentage of the forecasting error?</p>
<p>8. Should the Task Force consider any interim measures? Please provide details of any suggested interim solution including how it may deliver</p>	<p>As noted above, the UK already has one of the highest energy costs in Europe for large energy consumers (source: BEIS International industrial energy prices) which is impacting their competitiveness. If future costs are unduly placed on EII's for balancing costs, new nuclear and network reinforcement (for the electrification of transport), EII's will eventually be priced out of the</p>

<p>benefits to consumers or help to mitigate specific challenges facing market participants, whilst limiting any windfall gains or losses between industry participants.</p>	<p>UK, which will increase the balancing costs for all other consumers.</p> <p>To protect jobs and the GB economy (EIUG members make an annual contribution of £15bn to UK GDP, supporting 200,000 jobs directly and 800,000 jobs indirectly), an opportunity exists to protect industrial consumers from higher charges, Fixed charges or bandings could be set to provide proportionally lower charges for EILs which would help secure jobs, and ensure these companies continue funding the wider economy. This is in-line with the Government's Industrial Strategy and policy towards EILs. EIUG therefore hopes that Ofgem is talking to BEIS to explain the impacts of the various policies on the government's wider economic goals.</p> <p>Balancing costs are higher with intermittent generation but are also higher where demand is volatile. EIUG is concerned that EIL's are being asked to pay a larger proportion of balancing costs despite providing stable, peak demand.</p> <p>Please see Q6 for more information.</p>
<p>9. Do you feel that there are any interactions with the Supplier Price Cap that need to be considered? Please state your reasoning and evidence behind your answer.</p>	<p>No comment</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 still appropriate? Please state your reasoning and evidence behind your answer.</p>	<p>No Comment.</p>

<p>11. Is there anything further you think the Task Force needs to consider?</p>	<p>EIIs are vital for propping up summer electricity demands (and therefore reducing balancing actions and costs) as has been seen in 2020. Without EII's processes – summer 2020 BSUoS costs would be significantly higher.</p> <p>This situation is likely to be ever more important as more and more renewable & nuclear generation and interconnectors connect. Large Industry are part of the solution for balancing the system, not the problem. Therefore, a range of balancing costs/rates should be created to incentivise EIIs to continue to help prop up summer baseload demands.</p> <p>The task force seems to have done little by way of actual analysis. It has established that most generators on the continent do not pay BSUoS or an equivalent and those that do, pay a far lower charge. We would like to see the task force also look into whether the same is true for EIIs. As noted above, we believe EIIs are more exposed to international competition (being in global not just EU markets).</p> <p>The report highlights the level of inaccuracy in NG ESO forecasting ability. To help focus their forecasting efforts, maybe NG ESO should be responsible for a set percentage of the forecasting error.</p> <p>The UK's EIIs are already at a financial disadvantage to many of their global competitors as a result of the high electricity costs and the UK only Carbon Prices Support. If the costs that EIIs pay continue to increase because of changes to balancing regimes, new nuclear, and electricity network reinforcement (for the electrification of transport), EIIs will eventually be priced out of GB, only for their products to be replaced by imports. The energy industry should protect GB industry from ever increasing costs to ensure they remain located in and providing jobs in GB and therefore helping fund the economy.</p> <p>The UKs Energy Intensive Industries want to work with the government and the energy industry to help them achieve the decarbonisation targets and to help reduce the global carbon emissions. The</p>
--	--

	<p>ElUG believes that this can be achieved without forcing UK industry to relocate.</p>
<p>12. Please use this box to add any further comments that you may have</p>	<p>ElUG notes that EIs are not represented in the task force despite their contributions to both paying balancing costs and providing balancing services being significant. Suppliers should not represent consumers as these costs are simply a pass-through cost to suppliers. The balancing costs do not have the same level of impact on suppliers that they do on consumers. ElUG is also worried that there is an overriding emphasis on protecting domestic consumers rather than the industrial consumers who are the employers of many.</p> <p>Ofgem should closely monitor the impact of this change to ensure that wholesale prices are reduced from moving the charge recovery to demand only and is ultimately passed onto energy consumers.</p> <p>Ofgem must also not lose sight of the fact that many EIs are critical to UK plc. Not only do they provide jobs, but many are engaged in the very developments that will help the UK meet its environmental goals, such the development of small scale nuclear reactors, CCUS, insulation, materials to reduce the weight of planes and cars, chemicals that clean up pollution, etc. EIs, combined with green energy production, are providing solutions to global problems and the Industrial Strategy recognises that and so must Ofgem.</p> <p>Perhaps the taskforce could compare international prices of BSUoS costs (by demand sector) so that they can understand the potential impact on the different sectors. They went to the trouble of ascertaining that other countries generators did not pay – so why not look at demand sectors?</p>