



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
<p>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>	<p>Yes, we agree with the recommendation of the Task Force that BSUoS charges should be levied on final demand only. We believe this is in line with key principles of TCR SCR and is a logical result of the First BSUoS Task Force findings, which were established to be correct by Ofgem.</p> <p>In addition to better facilitating regulatory objectives, this recommendation will also lead to a more level playing field between different types of generators as well as deliver material benefits for end consumers.</p> <p>We would, however, highlight that the benefits identified by the Task Force can only be achieved if this recommendation is implemented in a timely manner.</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>We do not believe that recommendation under Deliverable 1 itself leads to a higher risk of grid defection. The implementation of this recommendation may be a contributing factor to that risk, but only when combined with other factors and wider policy decisions, such as impacts of other charging reforms, environmental policies, decisions around taxation, subsidies and support mechanisms. All of these factors will form economic decisions made by these large users and need to be evaluated in a balanced way.</p> <p>More importantly, the scale of the risk will depend on the outcomes of Deliverable 2 and the exact structure of the levy. Due to the lack of data and largely commercially sensitive information required for additional analysis of this issue, it is not possible to conclude whether the risk is real and material. Instead, this needs to be analysed together with other contributing factors and only once a more certain list of implementation options is available.</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>Out of all three options discussed, the ex-ante fixed charge solution has the potential to be the most efficient and practical solution.</p> <p>Overall, an ex-ante solution will lead to a better certainty and stability for suppliers and end consumers.</p> <p>While ex-ante approach is preferable, the structure and implementation options need further development and analysis in order to draw conclusions. Relevant CUSC WG could be best placed to work on the next level of detail.</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>It would be useful for suppliers to have a longer fixed period, which would allow them to align BSUoS charge schedules with common length of customer contracts. Longer notice periods are also critical as pricing of tariffs and contracts typically happens in advance. A DUoS style approach with a 14 months notification of charges would be optimal. It would also be useful to have draft or interim forecasts ahead of charges being fixed. Overall, it would be useful to see a more detailed proposal from NG ESO around charges forecasts, publication schedules, updates, billing and other operational specifics.</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>Due to the lack of analysis on impacts of each approach on various types of users, it is difficult to conclude which solution would provide a more cost-reflective, less distortive charging mechanism. We believe that the shortlisted options need to be analysed further by a CUSC work group or other focused work group. We note, however, that whatever approach is chosen, it should allow suppliers to price in the BSUoS charge to customers in a straightforward manner. Complexity and uncertainty will attract a risk premium which is likely to be transferred to end customers.</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 note the limitation discussed by the TF and agree with those listed in the report. We believe that with limited information about the exact number of final demand sites and types of consumers it is difficult to make any valuable conclusion about fairness and impact on distortions. With regards to practicality and proportionality of the solutions discussed, the volumetric approach seems to be more straightforward and easy to implement. However, while banding or per site charging may seem complex at the moment, it may become more practicable once similar solutions in respect of DUoS and TNUoS charging are implemented, so parallels and similarities may need to</p>

	<p>be drawn with relevant charging changes .</p>
<p>7. Is 2years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer.</p>	<p>Yes, we agree with the proposed 2-year notice prior to implementation. We note, however, that it is not clear what the baseline starting point for this 2 -year notice is. Therefore, we support the proposed 2-year notice period on condition that the notice period for the ex-ante charge is included in the 2 years. As such, the expected implementation date should not be beyond April 2023. Implementation after this date will undermine Ofgem's SCR principles and will compromise all the work undertaken by both Balancing Task Forces.</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>Overall, interim solutions can bring more harm and complexities and can be counter-productive. However, there is a strong dependency on the exact implementation dates as well as decision timelines.</p> <p>If recommendations identified by the TF were to be implemented no later than April 2023, no interim solutions would be required as they could lead to unnecessary uncertainty and pricing risks , as well as complexities and distortions for the overall market. If, however, there are no sufficient assurances or certainty that implementation will take place within 2 years, then solutions must be sought by the industry. It will not be prudent to continue with a regime where large generators are in a significantly worse competitive position due to higher BSUoS and TNUoS charges as result of discrepancies in implementation of TCR SCR decisions.</p>
<p>9. Do you feel that there any interactions with the Supplier Price Cap that need to be considered? Please state your</p>	<p>Yes, there are clearly interactions with the price cap and this needs to be considered by Ofgem ahead of the implementation of the preferred solution.</p>

reasoning and evidence behind your answer.	
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>There is some parallel between BSUoS and RCRC recovery. Hence, it is important that charging principles and base for both charges are aligned. However, we believe this is outside of the scope of ToR for this TF and given the time and resource restrictions, Second Balancing TF may not be the best place to analyse this matter in detail. The relationship and interaction between the two charges needs to be addressed as part of other industry processes and mechanisms.</p>
11. Is there anything further you think the Task Force needs to consider?	<p>We agree with the analysis done by the Second Balancing TF.</p> <p>We believe that the TF has met its ToR for Deliverable 1 and recommendations and conclusions on this deliverable do not require any further analysis. As stated in our response to Q1 these recommendations are in line with TCR principles.</p> <p>We understand that given the limitations in time and access to data shortlisted solutions could not be developed further in more detail. Therefore, we believe that Deliverable 2 should be accepted as a list of options for how the charge may be levied on final demand; further IA and detailed work on implementation options should be undertaken by a more focused group, such as a CUSC mod WG.</p>
12. Please use this box to add any further comments that you may have	<p>It is important to highlight the interaction between recommendations and conclusions on Deliverable 1 and CMP 317/327 work. Specifically, we would highlight the issue of congestion cost elements of BSUoS potentially falling into Network Access charges, therefore requiring wider interpretation of EU Regulation 838/2010.</p>

	<p>CMP 317/327 WG established that Second Balancing TF should look into the detailed elements of BSUoS and explore this issue in the context of Exclusion Assets under EU Regulation 838/2010. The TF confirmed that this issue has been discussed, but due to the nature of recommendation on Deliverable 1 the issue should be eliminated once the proposals are implemented. While we agree with this conclusion, we note that there will still be a period between implementation of CMP 317/327 and implementation of the TF recommendations when large generators will be exposed to TNUoS charges that are based on a potentially non-compliant interpretation of relevant EU rules. Therefore, at the point of a CMP 317/327 decision, the industry needs to be sufficiently satisfied that the recommendations of the Second Balancing TF will be implemented within the proposed timelines.</p> <p>Further delays to or uncertainties about implementation of these proposals will exacerbate the less favourable position of large generators vis-à-vis both small GB generators as well as cross-border competition. This will lead to further or prolonged distortions between technologies and types of generators, and will increase the risk of stalling investments into renewable assets.</p>
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