



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](mailto: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](mailto: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>Shell agrees with the Task Force's recommendation that Balancing Services Charges should be paid by final demand only provided that:</p> <ol style="list-style-type: none"> <li>1. a minimum of two years notice is provided to industry for the change – the aim of the notice period is to minimise suppliers operational and financial costs associated with the BSUOS charge being paid solely by them; and</li> <li>2. that the exploratory work of the BSUOS TF is complemented by Ofgem with an evidence-based assessment (or impact analysis) before reaching a final conclusion on reform of BSUOS charging – this is because the case for suppliers to pay the full charge has not been fully substantiated or demonstrated by the limited analysis undertaken by the BSUOS TF.</li> </ol>

	<p>While we believe that the BSUOS TF has identified the right issues to support its proposal, a large part of the justification hinges on the assertion that generators in the GB face a charge that is not faced by generators in neighbouring members states, which places GB generation at a competitive disadvantage – we believe that Ofgem should assess and validate whether the assertion holds true by checking the arrangements in neighbouring interconnected countries.</p> <p>We also note that, as with TCR, careful consideration will need to be given to the definition of “final demand”,</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>Shell considers that the recent decisions under Ofgem’s Targeted Charging Review and changes being considered and proposed by the BSUOS TF may increase the risk of defection by large users. Our primary concern would be if costs for large users increase significantly and as a result, those production activities are moved to other countries – partial or full grid defection is not in the interest of GB consumers as this would result in there being fewer parties subject to the same cost base, and in the case of full grid defection a decline in economic activity and employment. This is something that Ofgem should consider in reaching its decision on how best to take forward the BSUOS TF recommendations.</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. We believe that the overall costs to industry – and GB consumers – associated with the recovery of BSUOS charges would be minimised if the BSUOS charge were known ex-ante as opposed to ex-post.</p> <p>We also believe that the National Grid Electricity System Operator (NG ESO) is best placed to forecast the level of the charge – and a requirement to set it ex-ante may provide an incentive for NG ESO to better forecast the level of the charge. In case NG ESO incurs additional costs associated with fixing the charge ex-ante, these costs could be recoverable.</p> <p>In fixing the charge ex-ante careful consideration should be given to how any over-or-under recovery is treated between consecutive periods over which the charge is fixed. One option may be to consider introducing absolute caps to the level of over or under-recovery that can be shifted from one period to the next – similar to</p>

	<p>the caps on BSUOS that were recently introduced as a result of the impact of COVID-19 on GB system balancing costs. Whatever the mechanism it needs to be recognised that suppliers would not be able to recover any ex-post changes to the charge, which should be avoided.</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>Shell believes that the charge should be fixed for one year and that the optimal notice period in advance of the charge coming into effect is 15 months.</p> <p>If the decision is taken to shift the charge to final demand only, then the recovery mechanism should be set to minimise the operational costs and financial risks to suppliers in the recovery of that charge. We believe that setting the recovery mechanism to minimise operational costs and financial risks will also minimise the costs to GB consumers associated with this cost recovery activity.</p> <p>The more confident suppliers are in the ESO forecast, the lower the risk prima suppliers will apply to customers tariffs. This could benefit millions of domestic consumers, especially vulnerable customers who are most at risk of being unable to engage with customer solutions for rising balancing costs.</p> <p>In addition, we consider that it would also be beneficial for NG ESO to forecast the annual BSUOS charge for the next three years. This is because for smaller non-domestic and domestic customers, fixed price contracts are typically of one, two- or three-years' duration.</p> <p>In taking forward any proposals, Ofgem should assess the optimal notice period to minimise costs for GB consumers.</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>Shell would prefer a fixed volumetric charge on an ex-ante basis as all parties benefit equally from a balanced system and therefore the charge should be on an equal basis. BSUoS is an energy-related cost rather than capacity-related.</p> <p>In addition, a TDR banded £/site/day approach has not had quantitative impact analysis for assessing distributional impacts. Domestic, especially vulnerable customers, will always need a grid connection at a reasonable cost. Residual costs should avoid network</p>

	charging distortions, which have not been fully explored by the BSUOS Taskforce to date.
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.	Shell would be concerned if Ofgem proposed to adopt a banding approach with the bands fixed over a five-year period – this is because the period is too long a time frame and should be more flexible to accommodate the changing needs (and demands) of customers.
7. Is 2years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer.	<p>A reasonable implementation time period should be given to provide successful implementation of this reform. There should be no opportunity for windfall gains or losses.</p> <p>Shell considers that a 2-year lead-time is the minimum required notice period from the date a decision is taken before the charges take effect, so that suppliers can fully reflect the anticipated change into customer tariffs.</p> <p>We fundamentally disagree with the view put forward by some parties that Ofgem flagging that a change may happen to BSUOS under the TCR process provides industry with any degree of certainty or foresight to be able to reflect an anticipated change in BSUOS in tariffs or commercial decisions.</p> <p>If the decision is taken to levy BSUOS on suppliers, we believe it is only fair that the timescales associated with implementation are designed to minimise the associated losses for those suppliers – as opposed to maximise the gains for generators.</p> <p>Any Ofgem decision/direction should give certainty of expected timelines, with or without an interim solution.</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>We believe that the role of the BSUOS TF should be to develop and propose an enduring solution for the recovery of balancing costs and not to consider any interim measures.</p> <p>In case a party wishes to put forward an interim measure, in between now and implementation of the enduring solution, it is able to propose such a measure through the normal industry code modification process.</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>Balancing charges will form part of ‘policy and network costs’ which Ofgem consider when setting the Supplier Price Cap. Therefore, any notice period/fixed period for balancing charges will need to be aligned with the Supplier Price Cap period in order for suppliers to fully recover the cost of balancing charges in the correct period.</p> <p>To achieve this, the charges will need to be known at the latest by the time that Ofgem must announce the cap for the upcoming cap period (by the 5<sup>th</sup> working day in February for the cap period starting 1 April, and the 5<sup>th</sup> working day in August for the cap period starting 1 October).</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>11. Is there anything further you think the Task Force needs to consider?</p>	<p>It is noted that limited quantitative analysis has been done by the BSUOS Task Force to support its recommendation. Ofgem should make an evidenced based decision based on the BSUSO Task Force findings complemented by its own detailed Impact Analysis.</p> <p>We also note that, in case BSUOS is fully recovered from demand, the current method of calculating the charge that is dependent on whether a Trading Unit is importing or exporting – i.e. whereby, a BM unit that is exporting to the system within a Trading Unit that is offtaking would be paid the BSUOS charge – would have to be amended.</p>
<p>12. Please use this box to add any further comments that you may have</p>	