



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>Energy UK agrees with the Task Force’s recommendation that Balancing Services Charges should be paid by final demand only provided that sufficient notice is given. We agree that the distortions between generators will be reduced. Further, we agree that the GB is an outlier in the amount generation pays for balancing services charges and therefore levying from final demand will alleviate this disparity.</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</p>	<p>Energy UK members believe that the risk of grid defection is real and Ofgem should take this into consideration. Further, there is a risk that companies may move production offshore. There’s potential for complete grid defection but it would be expensive for a demand user to achieve. Partial grid defection is more likely than complete defection, but only if a volumetric charging option is adopted. Partial or full grid defection is not in the best interest to of the rest of industry as a</p>

<p>Force's recommendations impact on your answer?</p>	<p>fewer number of parties will be subject to the same cost base.</p> <p>Grid defection as a result of the implementation of the TCR changes could be indicative of further defection as a result of charging final demand balancing charges.</p> <p>We agree that there could be unforeseen impacts on larger energy users, especially when changes to BSUoS are combined with changes to the network charging regime. We therefore hope that in considering now to levy charges on the largest users that Ofgem is considering with Government their wider industrial strategy and the impacts on the competitive position of ELLs in particular.</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. As per the endorsed conclusions of the first Balancing Task Force, BSUoS sends no actionable signal and it is therefore detrimental to collect balancing charges on an ex-post basis as all/the vast majority of industry are unable to accurately forecast the charge due to the complex and changing physics and engineering fundamentals that lie behind the ESO's needs to procure a fast-changing, developing, array of balancing services; the ESO alone really understands these trends and the cost to it of each tendered solution-set. An ex-ante charge will allow industry participants to accurately include this charge in their tariffs. Any associated risk premia included would be better managed by a central party.</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>Energy UK does not yet have a view on the length of the notice, or fixed period. More analysis – through an Ofgem Impact Assessment (IA) – is necessary to properly assess each option. Ofgem should ensure that the timelines of the IA, and any further work stream, are properly planned and indicated early. The defects identified need to be addressed swiftly, but the level of change proposed by the Task Force is large so a properly outlined timeframe is important.</p> <p>Whilst it varies between different suppliers and segments of the market, it is true that some of the largest I&amp;C customers, do tender in February for an April contract start. So a minimum two month lead with a one year, or six month, fix could work well for suppliers active in this market, and it fits with the TNUoS and DUoS fixing period around which so many Supplier</p>

	<p>business processes are already designed. That said, some customers wish to enter into contracts a year in advance, so in some cases a longer notice period would be ideal. In the case of smaller non-domestic customers, fixed price contracts are typically of one, two or three years' duration, meaning that much longer notice periods (say 15 months) would be desirable.</p> <p>Consideration should be given to the length of these periods and the cost to the party covering the debt/risk, as well as the wholesale market price setting and other charge setting periods such as TNUoS and DUoS.</p> <p>The fixed period and notice period should as a minimum be compatible with the timescales for Ofgem's price cap setting process (see response to Question 9).</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>Energy UK members have varying views on approach, but do consider that an IA should indicated this direction.</p> <p>Some members don't like the idea of banding as was done with the TCR because the charge bands can create distortions and may cause users to defect from the grid.</p> <p>Other members however agree that the TCR banded methodology is sound. Any deviation from the TCR principles should be justified with a strong rationale. If a banded £/site/day approach is adopted, the banding should be identical to TDR to minimise administrative costs and maintain simplicity.</p> <p>Some members 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 like covered under the TCR.</p> <p>The policy decision has been taken to remove BSUoS-related embedded benefits via CMP333, as they are distortive, but this cannot be achieved for behind the meter generation, hence the benefit of not applying BSUoS charges on a £/MWh basis, so as to remove the aspect of the distortion that cannot be removed by CMP333.</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>A banding approach with the bands fixed over a five year period has caused concern with some Energy UK members. The concern being the period is too long a time frame and should be more flexible to accommodate the changing needs of the user.</p> <p>It is suggested that a methodology whereby smaller customers pay balancing charges based on capacity, and larger customers based on commodity is investigated to see if there is merit in different user groups being charged on different basis. For the avoidance of doubt, Energy UK has no viewpoint on this element of methodology. This could alleviate some of the negative points highlighted in the table on page 17 of the Task Force’s Interim Report and Consultation.</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>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>Some Energy UK members would agree that a 2 year lead-time is sufficient so long as Ofgem’s determination to the Task Force conclusions allow industry to clearly undertake the necessary work to reflect this into commercial terms for customers.</p> <p>Other members argue that this change of payment basis for BSUoS was flagged in Ofgem’s 2019 TCR decision document, and so that it should already be an expectation.</p> <p>The recommendations were based on supplier time scales. It should be noted however that I&amp;C investment decisions have a longer timescale than two years.</p> <p>Delayed implementation of these recommendations may lead to a prolonged discrepancy in treatment of TNUoS and BSUoS charging elements in the context of EU Limiting Regulation 838/2010. This will leave large generators exposed to higher TNUoS charges calculated in the basis of a potentially non-compliant interpretation of Network Access Charges.</p> <p>Further, delays in implementing changes to balancing services arrangements will exacerbate distortions between large and distributed generators, as well as cross-border competition.</p>

	<p>The Ofgem decision/direction should give certainty of expected timelines, with or without an interim solution. Energy UK would also welcome clarity over the status of code modification currently in progress over these timescales.</p> <p>Please also refer also to individual member responses.</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>Energy UK has no position on interim measures. Please refer to individual member responses.</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>Yes. Overall the fix will be beneficial if it is done well, in terms of assisting Ofgem in setting the cap, the fix is clearly beneficial as it removes uncertainty: Ofgem can no more forecast BSUoS than other non-ESO parties can.</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. 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>RCRC is outside the scope of the task force’s work, and is not an ESO cashflow, it is an energy imbalance cashout related cashflow under Elexon. It could be considered separately via an Elexon “Issue Group” prior to a BSC mod, if thought meritorious; there could be sense in moving its recovery to a capacity recovery basis from its present £/MWh basis - but this should not</p>

	<p>influence or delay any decision made about the focus of the task force's work: Balancing Services charges. While RCRC should not influence a decision, it needs to be considered in the analysis.</p>
<p>11. Is there anything further you think the Task Force needs to consider?</p>	<p>It is noted that no quantitative analysis has been done ahead of the Task Force recommendation. Ofgem should make an evidenced based decision based on the Task Force findings as well as an IA.</p> <p>Industry are unaware of the process following a final recommendation by the Task Force. The Task Force should consider recommending a pathway Ofgem should follow after the final recommendation.</p> <p>Energy UK highlights that there are many work streams addressing balancing charges progressing at the moment. It would be prudent to give thought to the various interactions the work streams could have on one another. For example, CMP333 which expands the BSUoS charging base to include embedded generation, is expected to be implemented in April 2021; it removes an embedded distortion, but cannot do so for behind the meter generation, so the task force is asking exactly the right questions here as to the nature of BSUoS recovery in future. CMP307 and CMP308 also need to be considered. All work streams need to be looked at holistically.</p>
<p>12. Please use this box to add any further comments that you may have</p>	<p>During CMP317/327, a paper from RWE Supply and Trading was addressed that suggested the treatment of congestion costs had been overlooked. Energy UK notes that this topic is likely out of scope for the Task Force to consider but it could be something for Ofgem to address. As mentioned in the comment to Q 7 above, there is an interaction with CMP 317/327 timelines as well. Further delays to implementation of Recommendation 1 will increase the discrepancy.</p> <p>Consideration also needs to be given to how any changes will fit in with the 2050 targets. This is important when considering energy intensive users defecting off grid as they would tend in many cases to be reliant on more carbon-intensive, more particulate-emitting, less-well-abated, and smaller behind the meter generation.</p> <p>Energy UK note that timing of changes from charging reviews have slipped and/or moved and we would</p>

	welcome clarity on when these changes will be implemented.
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