

Purpose of this note

This note sets out how Balancing Services Use of System (BSUoS) charges may be affected in future by two major areas of Ofgem's charging work. Both the Electricity Network Access project, and the Targeted Charging Review (TCR), may lead to changes to BSUoS.

This note is based on already-published documents and does not contain any new policy from Ofgem or other parties. It puts all the relevant public information in one place, to make it easier and quicker for you to get hold of.

Executive summary

Ofgem's Electricity Network Access project may or may not lead to changes that will affect some of the revenues recovered in the current BSUoS charges.

The TCR may lead to arrangements for setting residual charges that could also be appropriate for setting BSUoS charges in future. How the TCR could impact BSUoS will also depend on the outcome of the Access project:

- › If the Access project changes elements of BSUoS, the remainder elements of BSUoS may be impacted by changes to residual charges, or;
- › if the Access project does not change any elements of BSUoS, all of BSUoS could be impacted by changes to residual charges.

A table of the possible outcomes from these two areas of work is in this note.

What is Balancing Services Use of System (BSUoS) charge?

BSUoS charges recover the System Operator's costs of operating the system. They are currently recovered on a socialised £/MWh basis from demand, transmission-connected generation and larger distribution-connected generation. In 2016-17, BSUoS charges were around £1.25bn.

Constraint management

A significant proportion of these costs relate to managing constraints on the transmission network. Generators connected to the transmission network generally have 'financially firm' access. This means they are paid by the SO if they need to be 'curtailed', that is, being prevented from putting power onto the network. How much constraint management costs are as a proportion of the total BSUoS can vary. For example, for the whole of 2016-7, constraint costs were a quarter of total BSUoS costs. However, from April-August 2017 they were more than a third of total BSUoS costs.

Under the 'connect and manage' approach, allowing more connections to constrained areas of the network is likely to increase these costs to the SO, which are consequently passed on to consumers.

Other costs recovered through BSUoS

The remainder of the costs recovered by BSUoS relate to energy balancing – ensuring that supply and demand on the system are matched. It also includes the cost of procuring other system services, such as 'black start' – the procedure for recovering from a total or partial shutdown of the transmission system.

How is BSUoS being considered today?

Wider changes to BSUoS could be determined by two areas of charging work; the Electricity Network Access project, and the Targeted Charging Review.

At present, there is an active modification proposal looking at how BSUoS is charged – CMP250 'Stabilising BSUoS with at least a twelve month notice period'.¹ This proposal seeks to change the way suppliers and generators are charged by setting a fixed BSUoS price for a set length of time, with a notice period of at least twelve months. Market participants would then receive an invoice based on this price and their metered volume. Any under or over-recovery would be carried over to the next charging period and incorporated into the subsequent BSUoS price. Ofgem is likely to be asked to make a decision on this proposal in spring 2018.

How might this change in the future?

In the Electricity Network Access project, Ofgem will consider whether the proportion of BSUoS that relates to the cost of managing constraints should be set differently in future - to provide signals to users about their impact on the network. Options could include making the charges to recover those costs more cost-reflective, and/or bringing the recovery of these costs into the Transmission Network Use of System (TNUoS) methodology.

The TCR's Significant Code Review (SCR) is considering whether to reform residual charges, which include TNUoS residual charges and DUoS scaling charges. If the Electricity Network Access project concludes that BSUoS charges recovering constraint management costs should be set differently in future, Ofgem will consider whether to apply the TCR SCR approach (to setting residual charges) to the remaining costs currently recovered in BSUoS.

If the Electricity Network Access project concludes that the element of BSUoS relating to managing constraints should not be changed to provide signals, Ofgem will consider whether the approach it chooses for residual charges in the TCR SCR would be appropriate to apply to BSUoS charges as a whole in future.

¹ <https://www.nationalgrid.com/uk/electricity/codes/connection-and-use-system-code/modifications/cmp250-stabilising-bsuos-least>

The possible outcomes for future BSUoS are set out below.

Decision on BSUoS	Electricity Network Access project	Targeted Charging Review
Option 1: Change recovery of constraint management cost charges	May re-design or replace BSUoS charges that recover the costs relating to constraint management	May align <i>remaining</i> BSUoS charges with our approach to network residual charges
Option 2: Keep one set of BSUoS charges	May conclude no change to the element of BSUoS that recovers constraint management costs	May align <i>all</i> current BSUoS charges with our approach to network residual charges

How can you get involved or find out more?

Contribute

- › There will be workshops on the Access work, and on the Targeted Charging Review, in the coming months. These will be publicised on the [Charging Futures](http://www.chargingfutures.com) website – www.chargingfutures.com.
- › Both the Access work and the TCR will be discussed at the next future Charging Futures Forum meetings.

Learn

- › The working paper on Ofgem’s Access work is [here](#)
- › The working paper on Ofgem’s Targeted Charging Review is [here](#)

Ask

- › You can contact Ofgem directly on Access and Forward-looking charges via networkaccessreform@ofgem.gov.uk
- › You can contact Ofgem on the TCR via TCR@ofgem.gov.uk
- › For general queries on electricity charging reform, email Chargingfutures@nationalgrid.com