

Meeting Summary

Second Balancing Service Charges Task Force

Meeting Number 2

Date: 12/02/2020	Location: Amba Hotel, Charing Cross, London
Start: 10:00	End: 16:00

Participants

Attendee	Attend/Regrets	Attendee	Attend/Regrets
Colm Murphy, Chair, National Grid ESO (CM)	Attend	Eleanor Wood, Ofgem, Observer (EW)	Attend
Joseph Henry, Technical Secretary, National Grid ESO (JH)	Attend	George Moran, Centrica, Task Force Member (GM)	Attend
Eleanor Horn, National Grid ESO (EH)	Attend	Grace March, Sembcorp, Task Force Member (GMa.)	Attend
Joseph Underwood, Energy UK, Taskforce Member (JU)	Attend	Joshua Logan, Drax, Task Force Member (JL)	Attend
Jon Wisdom, National Grid ESO, Task Force Member	Attend	Olaf Islei, Shell, Task Force Member (OI)	Attend
Keith Munday, Bryte Energy, Task Force Member (KM)	Attend	Lisa Waters, Waters Wye Associates, Task Force Member (LW)	Attend
Jon Tindal, SSE, Task Force Member (JT)	Attend	Tom Edwards, Cornwall Insight, Task Force Member (TE)	Attend
Paul Jones, Uniper, Task Force Member (PJ)	Attend	Holly Tomlinson, Energy Local, Task Force Alternate (HT)	Attend
Kayt Button, Ofgem, Task Force Member (KB)	Attend	Simon Cowdroy, RES, Task Force Member (SC)	Attend
George Douthwaite, Npower, Task Force Member (GD)	Attend	Tom Steward, Good Energy, Task Force Member (TS)	Attend
Andrew Rimmer (AR), Engie, Task Force Member	Attend		

Discussions

1. **Introductions, Actions Log and Apologies for Absence**
 - 1.1 Colm Murphy opened the meeting and welcomed the attendees to the second meeting of the second Balancing Service Charges Task Force. All members attended, with Holly Tomlinson from Energy Local attending as an alternate for Caroline Bragg. Eleanor Wood from Ofgem attending as an observer. All slides for the day can be found [here](#).
 - 1.2 Colm reviewed the actions log. An up to date actions log can be found [here](#). Both Actions 1 and 2 remain open from the first meeting, and will be ongoing.
 - 1.3 Task Force members were commended for reaching out to various Industry Forums to update and gain feedback on the progress of the Task Force thus far, under Action 1.

 2. **Engagement Plan**
 - 2.1 Jon Wisdom summarised the engagement undertaken to this point, and key milestones approaching in the near future. Jon noted that Citizens Advice would be attending TF meeting 3 as an observer, and that he would be in regular contact with Citizens Advice to keep them updated on the progress of the Task Force.
 - 2.2 Jon also highlighted that several engagement opportunities were upcoming, in particular highlighting TCMF(5 March 2020) and Charging Futures Forum (12 March 2020). Joseph Henry advised the Task Force of similar opportunities for the work of the group to be shared, in particular a podcast to be held after the next meeting. Joseph asked members if they would be prepared to volunteer to speak at both TCMF and the Charging Futures Forum, as well as the podcast, and a Webinar ahead of the interim consultation.
 - 2.3 Colm tasked members with volunteering for these engagement opportunities, underlining the importance of engaging the Industry. Grace March volunteered to update TCMF meetings. Several workgroup members advised that they had been actively engaging industry forums since the last meeting. This led to a discussion around feedback received from these engagements.

Action: Task Force members to volunteer for upcoming engagement opportunities and events by contacting Joseph Henry.

Action: Grace March to attend TCMF and provide updates on Task Force progress.
 - 2.4 The feedback highlighted some concerns from suppliers, including a potential increase in BSUoS payments for these parties, coupled with customer and IT implications any consequential modifications from this work may have. There was also feedback indicating some parties may be more concerned with the predictability of the charge than who pays it, and how it is recovered. Transitional risk was also discussed. The Ofgem representative recognised the view of the Task Force that that it was preferable that any changes to BSUoS arising from the TF should not be effective post- April 2021. It was also noted that whilst a CUSC modification may be approved ahead of April 2021, implementation could be delayed, if required.

Action: Secretariat to review Terms of Reference to determine whether implementation strategies for the TF recommendations are in scope

Action: Ofgem to consider an industry publication around implementation timescales.

 3. **Meeting 1 Re-Cap**
 - 3.1 Eleanor Horn had a re-cap and discussion on the work undertaken during meeting 1, and invited discussion on her takeaways from the last meeting, especially in regards to how the report should be drafted.
 - 3.2 TF members broadly agreed with the hypotheses presented to them (see slide 12 of the pack). There was further debate about risk premia and it was clear that there was no consistent view amongst the TF. Some members believed the most important factor in determining the risk premia was the ability to forecast BSUoS so the more competent an organisation at forecasting BSUoS the lower the risk premia would be. Others drew attention to the risk preferences of an organisation factoring into this value. The TF agreed that this topic needed further work.
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Jon Wisdom highlighted that Citizen’s Advice had recommended to the Task Force that they should consider in its workings the possibility of GB not being a part of the Internal Energy Market (IEM) post-Brexit.

3.3 There was an opinion expressed by members that GB may well leave the IEM, and argued that this should form part of the TF’s central case to build analysis on. The TF agreed that reference to potential effects of leaving the IEM should be made but that it would be difficult to recommend a solution based on the final position of GB post 2020.

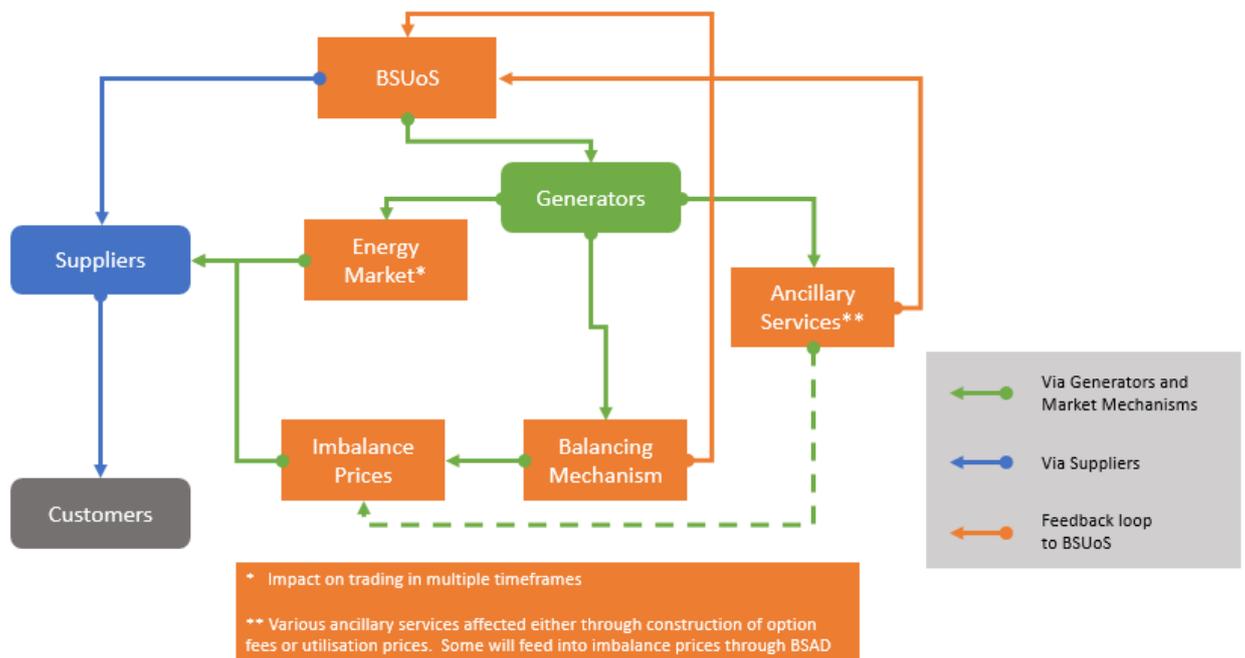
3.4 The members agreed that the report should be clear on the point that it is crucial to get the implementation timescales and methods right to avoid major losses or windfalls to industry parties this will be a key part of the recommendation the TF submits to Ofgem.

3.5 Whilst much of the discussion in the first meeting would indicate that a majority of the workgroup thought the charge would best sit with suppliers, members made the point that other options are yet to be explored.

4 **Analysis – Deliverable 1**

4.1 During the first meeting, members were tasked with undertaking analysis in regards to who should pay BSUoS. This analysis formed the mainstay of Meeting 2.

4.2 **Analysis – Transactional Costs and Risk Premia**



4.3 Paul Jones and Tom Edwards presented analysis in regards to how the transactional costs of BSUoS and risk premia may be passed through several market routes onto end consumers (see diagram above), via their suppliers. At each stage, it was highlighted that additional risk premia or transactional cost may be applied, which eventually ends up sitting with the end consumer.

4.4 Tom’s analysis included some modelling which looked to map out these transactional costs and risk premia in different scenarios, also considering Weighted Average Cost of Capital (WACC). The ESO was asked to provide more BSUoS forecast information, if available, to feed into the analysis. A minority of members challenged which industry parties would be best placed to forecast, hypothesising that generators may be well placed due to their involvement in the wholesale market. Other workgroup members disagreed with, highlighting that there are recognised forecasts from the ESO, and that all parties find it difficult to forecast BSUoS. Other members also questioned how transactional costs impact on embedded generation.

Action: ESO to provide BSUoS forecast information

Action: Tom Edwards to look at modelling energy losses and risk premia into analysis.

4.5 A key conclusion from this analysis was that finding the most efficient way of recovering BSUoS should reduce the distortive effect of BSUoS. If BSUoS is a cost recovery charge, as per the findings of the first TF then it should not be a driver for competition. Tom advised that he would further refine the modelling.

Cost of Capital

4.6 Kayt Button advised that Ofgem are of the stance that Cost of Capital should not be a major issue within the workings of the Task Force. Members briefly discussed the ease of access to capital, especially when some well-established suppliers/generators may find this easier to access than other parties.

Regulatory Review

4.7 Ofgem expressed the view that Interconnectors form part of the European Transmission network and as such cannot currently be charged domestic balancing charges, but there was potential to review NOA and connect and manage arrangements. Olaf Islei advised that it would be useful for the group to reference and review a 2009 European Commission Infringement letter sent to Ofgem for further clarity. Members also suggested that relevant regulation be considered as part of Deliverable 2, including 838/2010 and domestic price cap.

Action: Kayt Button to distribute EU Commission Infringement Letter (2009)

Contractual Positions Analysis

4.8 Ofgem advised that they cannot release any information that they have on contractual positions. The Task Force asked Ofgem if they could write to industry to ask for this information, which Ofgem could anonymise and use for Analysis. Some members opined that this request could be applied to both generation and demand parties.

Action: Ofgem to write to Industry to request Contractual Positions Data

Action: JW and KB to word questions for Industry for the request of Contractual Positions Data

Analysis undertaken in CMP250 around Risk Premia

4.9 Joshua Logan ran through the methodology Drax undertook in analysis for a previous CUSC modification, CMP250, which looked at fixing BSUoS charging. Joshua advised that the analysis could be updated and tweaked to suit different scenarios, namely a different G:D split, and also could be updated as the data as it stands only includes analysis from 2012-2016. Josh was asked to:

- Update the analysis based on the ESO forecast
- Update the analysis to see what the impacts would be if liability for Balancing Services Charges was placed on suppliers
- Undertake recovery frequency analysis
- Update the data to encompass 2016-2019 figures

Action: Joshua Logan to update CMP250 Analysis ahead of next meeting

Interconnector Flows

4.10 Phil Clough from National Grid ESO presented analysis on Interconnectors, which encompassed a 'day ahead' look at flows over the IFA interconnector between GB and France. The analysis undertaken by The ESO found that in 2019, there was 2.6TWh transmitted across IFA where the price differential between GB and France was between price parity and 2.5 EU/MWh cheaper in France. This is 24% of the 11.1 TWh total that was transmitted across the interconnector. For comparison, in the price parity to 2.5EU/MWh cheaper in GB region, only 0.5 TWh was transmitted.

4.11 The Analysis also contended that with an assumed reduction in the GB day-ahead market price of 2.5EU/MWh (if BSUoS charge for generation was eliminated), this could hypothetically place a large proportion was of the interconnector flows into the marginal and GB cheaper price band. Analysis was also presented which illustrated that in 2019, 95% of flows from the French market over the IFA were efficient, whereas only 64% of flows were efficient from GB, flowing to the cheaper market. Ultimately, The ESO analysis portrayed that there could potentially be an increase in GB generation, and less clear cut arbitrage trading.

4.12 The members questioned the analysis by the ESO, some stating that they believed that the initial analysis needed more granularity, and would also need to be developed further. It was also noted that further analysis on the impacts of the GB wholesale price would be useful, as well as looking at other interconnector relationships the GB Market is part of, most pertinently those in The Netherlands and Belgium.

Action: ESO to confirm timescales to refine analysis on Interconnector Flows

Decarbonisation

4.13 Simon Cowdroy presented to the meeting on the impact of who pays BSUoS on de-carbonisation. The analysis predicted that if all parties were to be liable for BSUoS, then a negative impact on decarbonization would manifest itself, using figures presented by Frontier Economics¹ in Ofgem’s TCR SCR decision to quantify this, as well as stating that removing market distortion through application of BSUoS to interconnector imports would further erode interconnector parties competitive advantage leading to reduced interconnector imports and increased carbon emissions (from GB perspective). It was also contended that levying BSUoS on Embedded Generators would also increase system costs and have a negative impact on Decarbonisation targets.

4.14 There were also arguments put forward in this section in regards to the impacts that levying the charge on suppliers would have. The analysis put forward that if the charge were to be levied solely on suppliers, then there would be a broadly neutral impact on decarbonisation, assuming that the offset in BSUoS from generators would lead to a reduction in the wholesale price. This is because there would be less system and transactional costs, as per the analysis.

4.15 Scrutiny of the analysis followed, and it became apparent that a large proportion of the members believed that reforming BSUoS charges should not be a vehicle for de-carbonisation, as there were other vehicles for decarbonisation action.

Comparisons with other countries’ balancing services cost recovery regimes and Interconnector TCR Review

4.16 Eleanor Horn and Paul Jones revisited some analysis undertaken under CMP308, a CUSC modification which looked to remove BSUoS charges from generation. The analysis undertaken in the modification suggested that the GB market was that GB generators currently pay much higher Balancing Services Charges than their European counterparts. The analysis undertaken in CMP308 was refined, and although arrangements for GB generators are different to their counterparts, it is apparent that if BSUoS was removed from GB generators, costs would be more comparable with other domestic markets in the IEM.

4.17 Other key takeaways from these comparisons were that some of the countries that GB will be interconnected to (by 2023) charge some balancing services charges to generators however these costs are, without exception, much lower than those faced by GB generators. The TF also acknowledged that the integrated nature of GB markets means that generators located in countries across the IEM are accessing the GB market and competing with GB generators. Analysis provided by the CMP308 workgroup supported the fact that GB generators were unusual across Europe in facing Balancing Services costs.

4.18 Eleanor also took the taskforce through a review of how the TCR looks at treating interconnectors, and also analysis from Frontier Economics which highlighted the impact on interconnector flows from BSUoS and Transmission Generator Residual to zero reforms on interconnector flows. This work from frontier highlighted that this impact would be neutral, but also noted that this analysis was not representative of what would happen if BSUoS costs were removed from generation.

5.0 Meeting conclusions

5.1 The TF determined that no further conclusions on who should pay BSUoS could be drawn until the TF has debated how that charge could be levied. It is thought that working through different methodologies required for the recommendation of the second deliverable will help to solidify the arguments and implementation constraints around our first deliverable. As such, the members were asked to record their thoughts in a table ahead of the next meeting, and these inputs would form the majority of the discussion of the next meeting. These inputs are to be assessed against the principles outlined in the TCR decision.

Action: Task Force Members to complete Table detailing their thoughts on potential solutions ahead before 21 February 2020

6.0 AOB and Next Meeting

6.1 The next meeting will be held on 25 February 2020 at the Energy Networks Association, 4 More London

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Source: Annex 1: Targeted Charging Review Significant Code Review: Final Impact Assessment OFGEM Dec 2019

