



Forum

# **Second Balancing Services Task Force – Interim Consultation Launch**

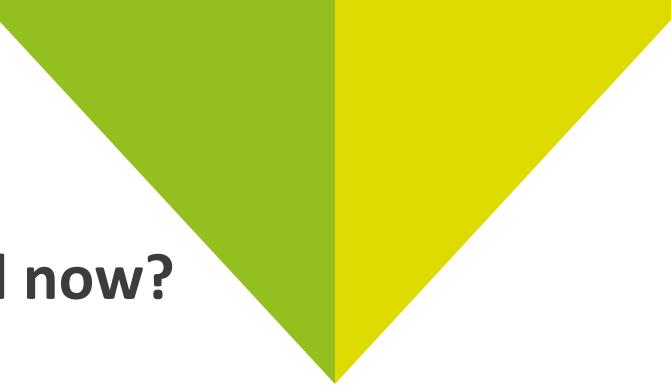
**20 July 2020**





# Background to Task Force

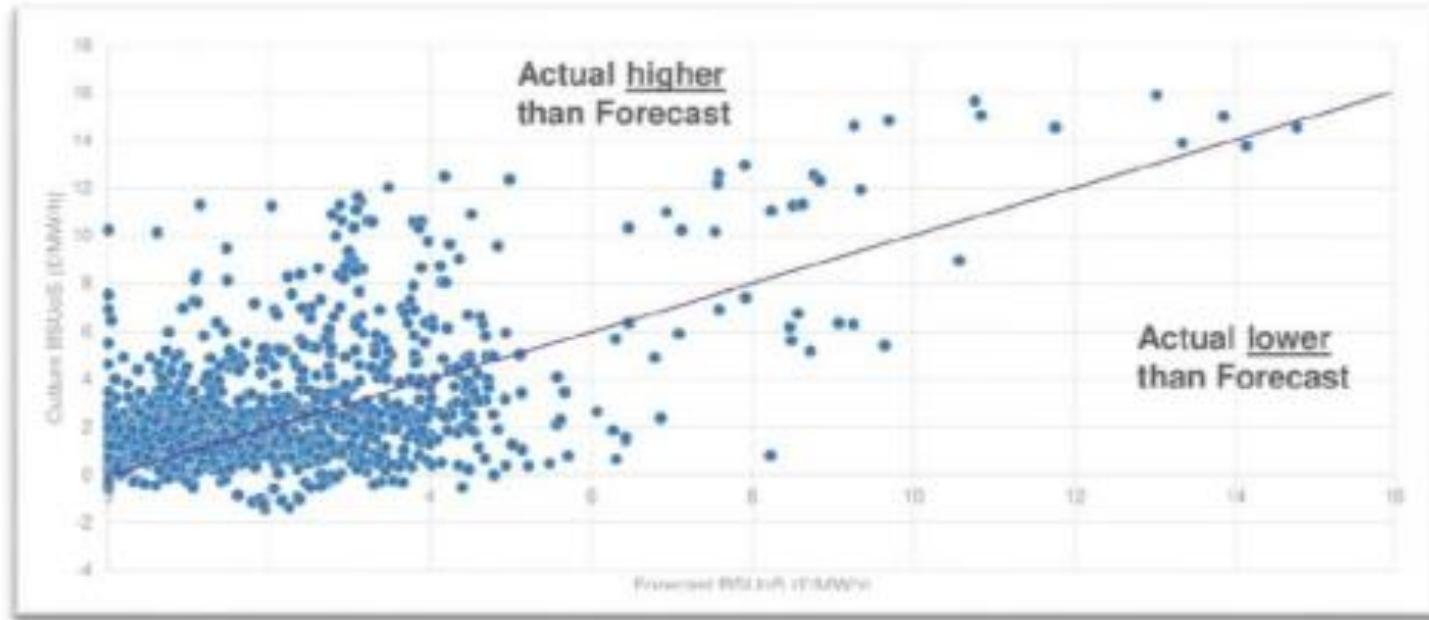
- > The first Balancing Services Charges Task Force was launched in late 2018 and published its report in Summer 2019
- > The taskforce was asked by Ofgem to answer 3 questions –
  1. The extent to which elements of balancing services charges currently provide a forward-looking signal that influences the behaviour of system users
  2. Whether or not existing elements of balancing services charges have the potential to be made more cost-reflective and hence provide better forward-looking signals
  3. The feasibility of charging any identified potentially cost-reflective elements of balancing services charges on a forward-looking basis. It should also consequently identify the extent to which the different elements of balancing services charges should be considered cost-recovery charges.



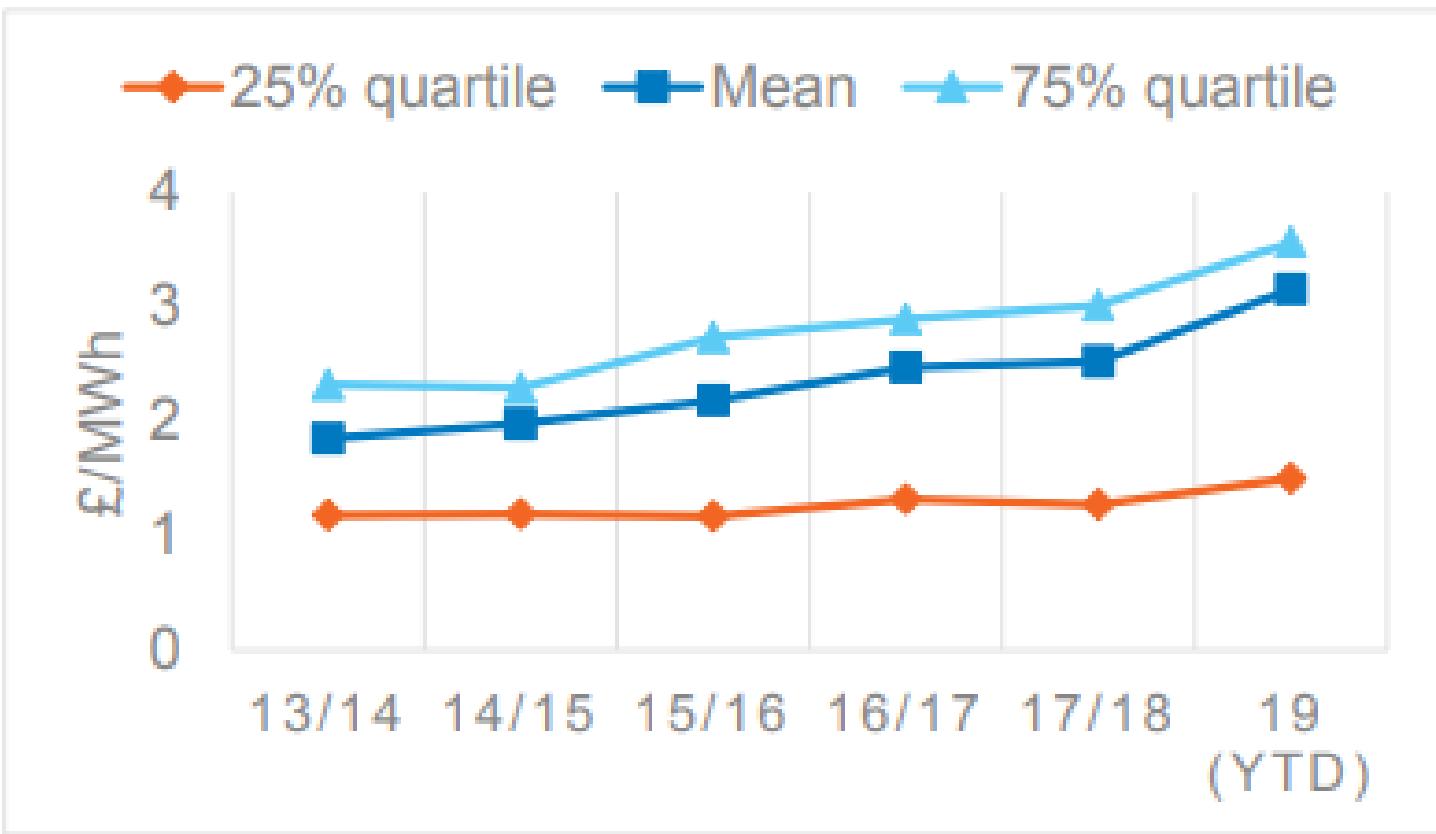
# First taskforce: Findings

- > Does BSUoS act as a cost-reflective, forward-looking signal now?
- > No because –
  - i. It is hard to forecast
  - ii. Complex
  - iii. Increasingly volatile
  - iv. Other market signals are more material; and
  - v. Applies to all users of the transmission system on an equal basis

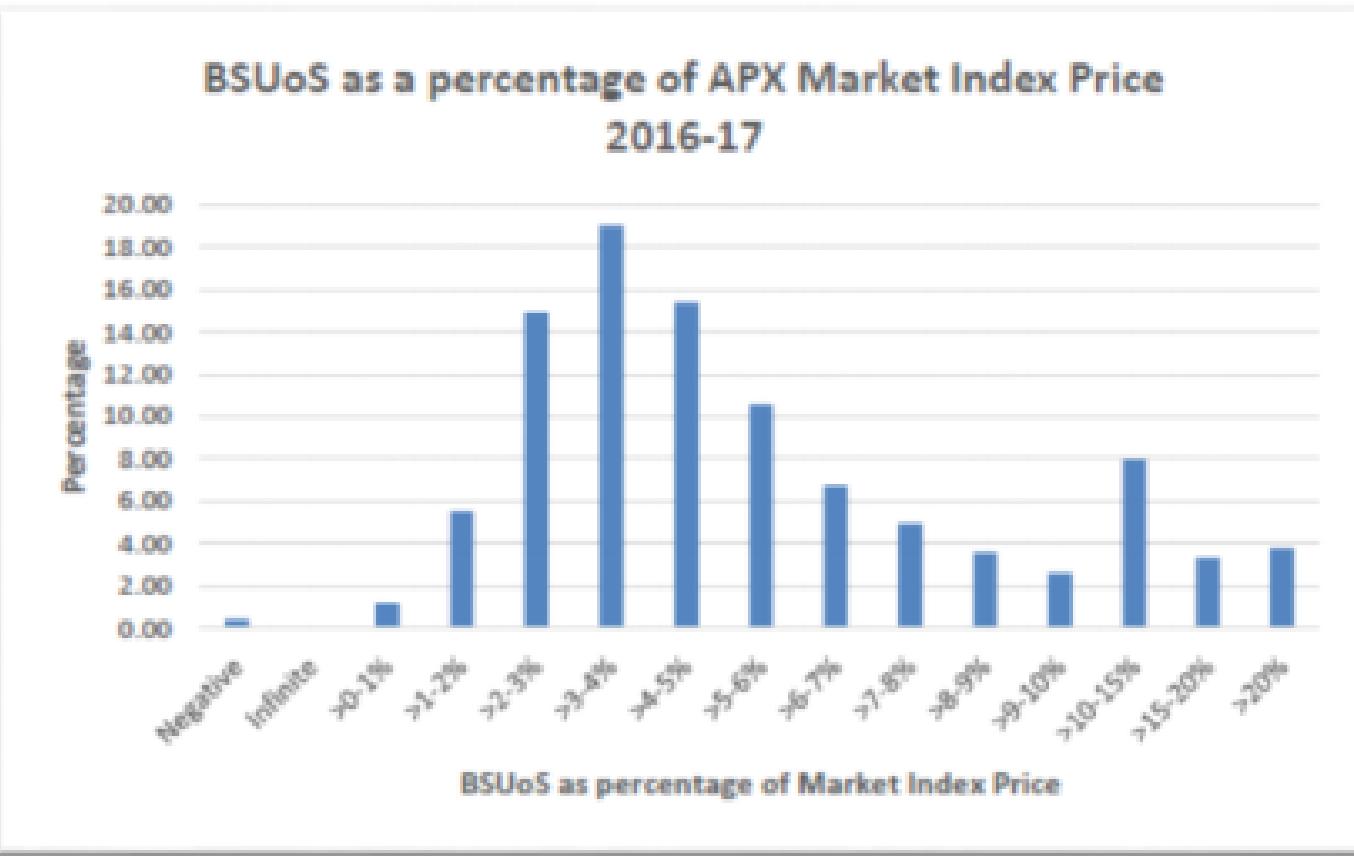
# ➤ First taskforce: Findings



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# First taskforce: Findings

- > How could BSUoS become such a signal?
- > The taskforce categorized the different elements of BSUoS by their potential to be a cost-reflective signal – e.g. transmission constraints scored highly, black start scored less highly
- > The taskforce investigated:
  - i. Locational transmission constraints
  - ii. Locational reactive and voltage constraints
  - iii. Response and reserve bands
  - iv. Response and reserve utilization
- > For each, it proved very difficult to create an appropriate charge in a practical and proportionate way

# First taskforce: Findings

- > How could BSUoS become such a signal?
- > Difficulties in creating a cost-reflective, forward-looking signal from BSUoS –
  - > Should be built on marginal costs to be cost-reflective, not total costs but difficult to see how to construct it on the latter
  - > Risk of double-counting with e.g. TNUoS, Balancing Mechanism, cash-out
  - > Would still be complex, volatile and difficult to predict
  - > Allocating BSUoS costs to responsible market parties would be highly complex e.g. services are procured and used based on complex assessments of the whole system
- > **Final conclusion of the First Balancing Services Charges taskforce:**
- > *It is not feasible to charge any of the components of BSUoS in a more cost-reflective and forward-looking manner that would effectively influence user behaviour. Therefore, the costs within BSUoS should all be treated on a cost-recovery basis.*

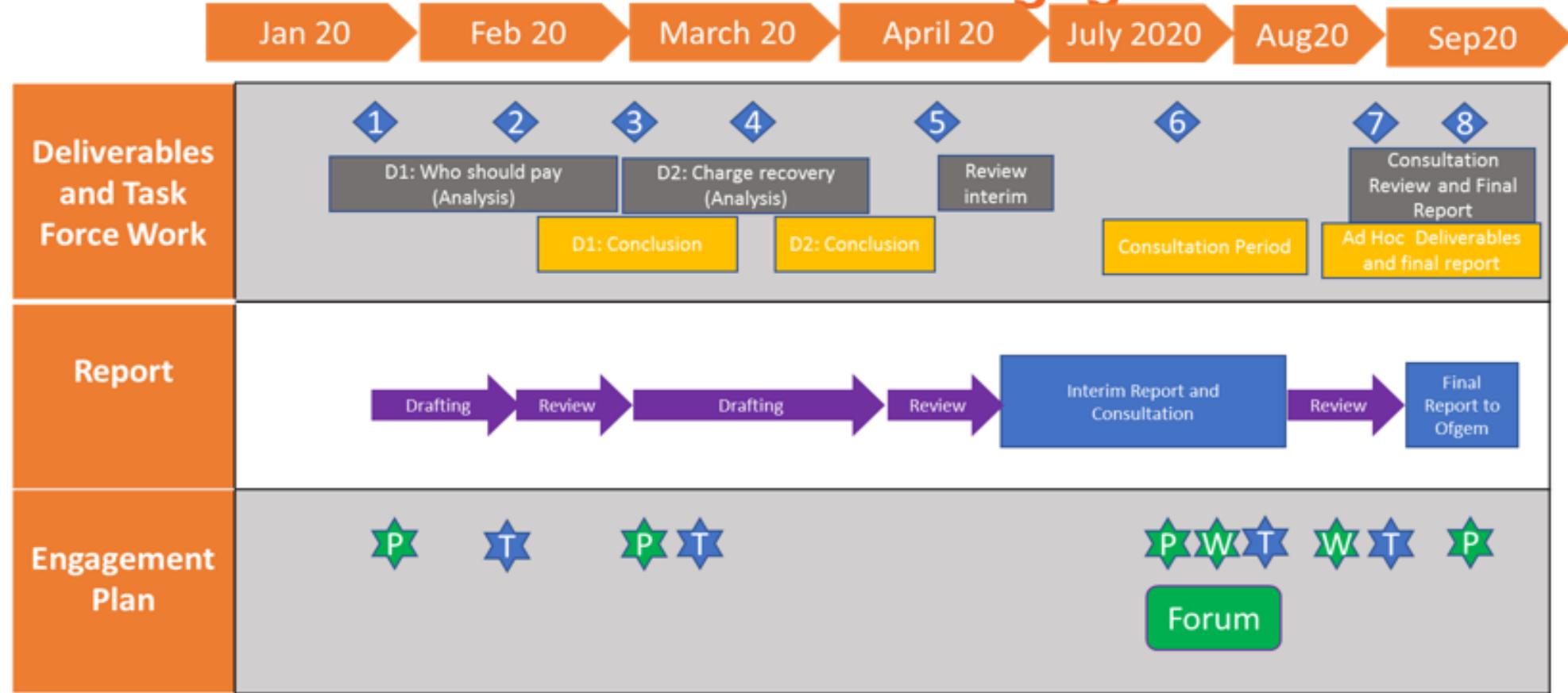


# Second taskforce: Timescales

## Timescales

- > Second taskforce was launched with the TCR decision in late 2019
- > It will publish a consultation on the draft report on 22 July 2020, which will be open for 5 weeks.
- > Final report in September 2020
- > Currently TBC when changes would be implemented

# Overview of Deliverables and Engagement Plan





# Scope of Work

- > The taskforce was asked by Ofgem to answer 2 questions –
  1. Who should be liable for balancing services charges?
  2. How should these charges be recovered?
- > Noting: The TCR principles and any additional risks on the ESO (following the new RIIO-2 framework)
- > As with TCR, suppliers are considered to act as proxy for consumers' interests



# Second taskforce: Work thus far

## Who should be liable for balancing services charges?

- > Whilst TCR clearly states that residual network charges should be charged on final demand only, Ofgem advised Task Force to maintain an open mind regarding BSUoS
- > The majority of the taskforce currently support moving BSUoS to final demand only:
  - > Transaction costs & efficiency of cost recovery
  - > Removal of distortions between types of GB generators and GB/interconnected generators
  - > If levied onto distributed generation, has potential to hinder decarbonisation
- > Need to consider effect suppliers' liabilities and market impacts, especially small suppliers.



# ➤ Second taskforce: Work thus far

## How should the charges be recovered?

- Charges should be recovered Ex-Ante, reducing uncertainty and minimising financing costs
- Currently differing views within the taskforce on charge design –
  - Fixed charge as per TCR: Relatively simple and exposes demand with on-site generation to the full BSUoS charge
  - Volumetric charge (p/kWh): Simple to administer, reflects BSUoS as the costs of flowing electricity, not of assets
  - If charges are fixed for a period of time, gives greater certainty to market participants but potentially exposes ESO to risk

TCR Principles	Fixed Volumetric Charges (£/MWh)	Fixed Banded per Site Charges (£/site/day)	Pros/Cons
Reducing Harmful Distortions	Flat volumetric charge would reduce harmful Time of Day distortion	Harder to Avoid than a volumetric charge, so Reduces Inefficient Avoidance Action	Positives
	Reduced Behavioural Signalling	No Behavioural Signalling	
	Encourages potentially “out of merit” BtM generation	Charging Bands can Create Distortions	Negatives
Fairness	Energy Services should be billed in relation to Energy Volume	Benefit from a Stable System whether small or large user Reduces Incentives for Partial Grid Defection	Positives
	Some Users Find it Easier to Avoid Than Others	Grid Defection Impacts All Remaining Users Impact on those in fuel poverty	Negatives
Practicality and Proportionality	Frameworks Exist for Easy Implementation Simpler than Banding Approach Low distributional impact on end consumers as maintains status quo	Frameworks Exist for Easy Implementation contingent on Final Demand only paying	Positives
		Risk of Overloading Industry Parties An Untested Methodology could have Unintended Consequences May require a Disputes process (like the TCR) Large distributional impact across end consumers	Negatives

# ➤ Second taskforce: Work thus far

## Further considerations

- Previous industry modifications have found:
  - **CMP201 Charge only demand:** Rejected as consumer detriment likely as increasing GB generation's competitiveness vs. Europe would, in the short term, raise the wholesale price with uncertain effects in the long-term
  - **CMP202 Remove charge from I/C:** Approved to align with EU law
  - **CMP250 Stabilise BSUoS for 12 mths:** Rejected as no clear benefits
  - **CMP296 Remove from VLPs:** Approved to avoid double-counting
- Ongoing modifications that should be taken into consideration:
  - **CMP281 Removing BSUoS from storage imports:** Agreed
  - **CMP307 Expand BSUoS to include Dx generation:** Suspended given TCR
  - **CMP308 Remove BSUoS from generation:** Suspended
  - **CMP333 Charge suppliers on gross:** Ongoing, part of TCR implementation



# Implementation

- > Getting the implementation approach right is crucial in avoiding windfall gains or losses and market disturbance.
- > The Task Force agreed that 2 years' notice from the point of Ofgem's response to the Task Force would avoid the vast majority of windfall gains and losses as most industry contracts that included a fixed BSUoS price would expire during this period.
- > Delaying implementation would allow continued distortions between GB and European generators and GB Transmission and Distributed generators to persist and so more than 2 years' notice would be detrimental.



# Interim Solutions

- > Options for an interim solution were briefly considered by the Task Force.
- > There were concerns that the feasibility of such a solution would mean it either didn't tackle the identified distortions or undermined the 2 years' notice recommendation creating windfall gains or losses.
- > The Task Force are keen to hear industry's views on interim solutions through consultation responses before returning to the discussion in September.

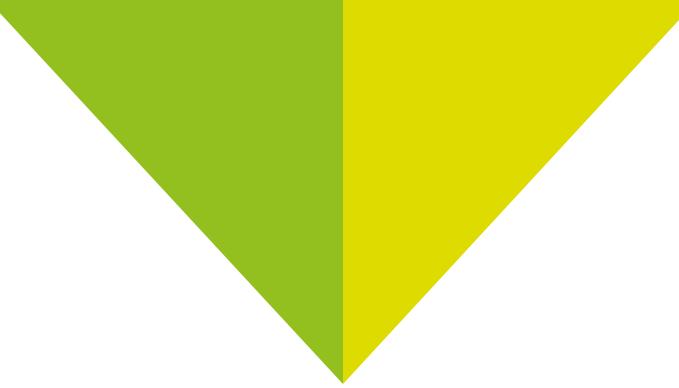


# Next Steps

Date	Event/Milestone	Purpose
22-July	Consultation Opens (25 Working Days)	Industry feedback
11- August	Webinar	Opportunity to update and take questions
27-August	Consultation Closes	-
2-September	TF Meeting 7	Review Consultation Responses
17-September	TF Meeting 8	Final Report
26-September	Review Final Report	Finalise report
30-September	Report to Ofgem	-



# Q&A



- > Jon Wisdom – ESO
- > Grace March – Sembcorp
- > Paul Jones - Uniper