

CMP361/362 Workgroup Meeting 1

BSUoS Task Force Outcomes

The Task Force recommendations to the two questions they were asked to respond to was:

- Who should be liable for Balancing Services Charges: “Final Demand” should pay all Balancing Services charges, subject to sufficient notice to industry prior to implementation
- How these charges should be recovered: a volumetric fixed BSUoS charge would deliver overall industry benefit, and that the total length of the fix and notice period should be around 14/15 months in length

In their letter to industry on the 10th December Ofgem broadly agree with the recommendations of the Task Force. Ofgem will commission quantitative analysis to assess the overall net benefits of these reforms.

Background (CMP361)

Alongside the outcomes of the BSUoS Task Force, in our RII02 Business Plan we shared our support and commitment to reviewing the option of fixing BSUoS to address industry concerns about unpredictability of BSUoS costs and resulting risk premia. We believe fixing BSUoS can unlock benefits for industry and consumers. Suppliers will have more certainty over BSUoS charges, facilitating their pricing decisions. Consumers are expected to see cost savings through reduced risk premia.

Defect:

- BSUoS tariffs, currently set on a half-hourly basis and changing each settlement period do not provide certainty, stability or transparency, therefore the methodology should be updated to enable a fixed tariff.
- Currently there is no consideration of ESO's ability to finance BSUoS in the CUSC as this isn't required for existing BSUoS cost recovery. To enable a fixed tariff whereby the ESO holds associated risk, the CUSC methodology needs to ensure the ESO's financial position remains viable.

Scope of CMP361 (BSUoS Reform: Introduction of an ex-ante fixed BSUoS tariff)

Scope:

Interaction with CMP308 (to be discussed today)

- CMP308 solution to feed into CMP361 to allow creation of holistic BSUoS Reform solution

Timescales and Process (to be discussed today)

- Tariff published in January, fixed for April to March, summer and winter price

Setting Fixed Price BSUoS Tariff (to be discussed today)

- Tariff created from BSUoS cost inputs and final demand forecast

Applying Fixed Price BSUoS Tariff to Charging Base (to be discussed today)

- BSUoS liability to be calculated based on final demand and fixed tariff as above

ESO Working Capital and Capped Liability (to be discussed once BSUoS variability analysis complete)

- Capped ESO liability and recommendation for additional working capital to be provided

Process for Exceptional Circumstances (to be discussed after previous point)

- Steps that can be taken in unlikely event that working capital breached

Note:

Not all elements described in CMP361 proposal are expected to be included into CUSC legal text solution (some may be addressed via the licence). Description to provide overview on all elements required to enable fixed BSUoS tariff

Scope of CMP362 (Consequential Definition Updates required to support BSUoS Reform)

Mod Overview: Alongside CUSC modification to introduce fixed BSUoS tariff, consequential definition updates in CUSC section 11 will be required for BSUoS Reform

Scope: add and amend required definitions needed to introduce fixed BSUoS (and BSUoS payable by final demand only) into CUSC section 11

CMP362 to run alongside CMP361

Solution: to be developed through CMP361, likely that some definition updates driven by CMP308

Terms of Reference

First WG meeting	Second WG meeting	Third WG (and maybe Fourth) meeting	
Consider EBGL implications	Consider how the ESO creates visibility and transparency of its BSUoS forecasting processes	Consideration of other market mechanisms that allow financing of asset light organisations	Consider the mechanisms and effects of a situation where the ESO's Working Capital is in danger of being exceeded. Consider effects on: BSUoS payers; and Parties with Balancing Services Contracts. Consider impact of re-openers on stakeholders
Consider conclusions of 2 nd BSUoS Taskforce on "Deliverable 2 – how BSUoS charges should be levied" and Ofgem's response letter of 10 December 2020 re: Deliverable 2	Consider what will be covered in CUSC and what will be covered in Licence	Consider impact on consumers	
Consideration of any points of learning from the CMP250 Workgroup and Ofgem's CMP250 decision	Consideration of ESO Financability	Consider what (if any) ringfencing arrangements may be required	
	Consideration of ongoing System Operator review	Consider how any non-payments by those liable for BSUoS will be addressed	
		Consider interactions with the Consumer Price Cap	

Background (CMP250)

CMP250 was a CUSC modification, which sought to fix the value of BSUoS for a period of time, with a notice period in advance of this. The original proposal sought to fix the BSUoS price for 12 months with a 12-month notice period. The CMP250 Workgroup agreed to support four alternative modification proposals, which all proposed a fixed BSUoS price but with varying fixed and notice periods.

Outcome:

- Ofgem rejected CMP250
- They did not consider that the evidence provided in the final modification report was sufficient to allow Ofgem to determine whether the solutions presented would have had a positive or negative impact on the relevant charging objectives.
- With regard to enabling competition, Ofgem were not satisfied that a case has been made that the proposed changes facilitate more effective competition leading to lower costs to consumers.

This was before the findings of the first BSUoS Task Force, that BSUoS should be treated as a cost recovery charge and the further analysis carried out by the second Task Force

Workgroup Discussion: Solution

Timescales and Process

Prices will be fixed in January for the following charging year (April to March) including known and forecast under/over recovery for preceding years. This could benefit consumers as suppliers will be able to remove risk premia from their bills.

The ESO will set two prices to reflect changes in £/MWh levels (Summer vs. Winter) allowing within year cashflow positions to be managed. This will contribute to the successful management of the scheme by the ESO and should reduce overall funding costs leading to consumer benefits.

Setting Fixed Price BSUoS tariff

The total BSUoS pot to be recovered will be made up of all the relevant cost elements that make up BSUoS including financing costs and any over/under recovery adjustment. The ESO will forecast final demand volumes over the fixed period. These two inputs will be used to set the relevant fixed BSUoS tariff.

Applying fixed price BSUoS to charging base

The ESO will calculate each relevant User's BSUoS liability based on final demand and the fixed tariff as above. The frequency of billing and the associated credit cover and data requirements will be considered through modifications to the CUSC and BSC which will be raised in due course.