

BSUoS Fixed Tariff

Final Tariff 3 - Apr 2024 - Sep 2024

Draft Tariff 4 - Oct 2024 – Mar 2025

Published 30th June 2023

Introduction

From 1st April 2023 BSUoS costs have been recovered under a new fixed tariff methodology as defined by CMP361. The CMP361 decision determined that the tariff should be fixed for 6 months with 9 months-notice of the tariff values being provided by the ESO. This report defines the final BSUoS tariff for the Apr 2024 to Sep 2024 period as well as providing a draft view of the Oct 2024 to Mar 2025 tariff period. We are calling these BSUoS Fixed Tariff 3 and 4 respectively.

Background

The costs of balancing the system are volatile and difficult to predict and this makes the BSUoS charge also difficult to predict.

CMP361 introduced an ex-ante fixed volumetric BSUoS tariff set over a total fixed and notice period of 15 months which was designed to deliver the recommendations of the Second BSUoS Task Force. The decision on implementing CMP361 was made by Ofgem on the 15th December 2022.

The decision from Ofgem was to implement WACM3 (Workgroup Alternative CUSC Modification) from the 1st April 2023. WACM3 fixed BSUoS for 6 months with 9 months' notice and defined that there would be no BSUoS fund to support the tariff.

Final BSUoS tariffs for Apr 2023 to Sep 2023 and Oct 2023 to Apr 2024 were published at the end of January 2023.

Webinar – 7th July

We will be running a webinar on the 7th July to discuss this final and draft tariff and answer any questions that you may have about it.

Click the button below to register for the webinar.

[Register for the BSUoS Tariff Webinar Here](#)

1. BSUoS Fixed Tariffs Overview/Calculation

The forecasting model we have developed is used to determine balancing costs for the fixed tariff period ahead. The central forecast number determines the cost that goes into the tariff.

Before a tariff can be calculated, there are other non-balancing costs that need to be included. These are provided as a single central forecast only. The additional costs can be subject to change but sit outside of the capabilities of the current model, external influences affect them rather than parameters within the model.

The forecast for these additional costs is added to the central forecast for the balancing costs to calculate the total BSUoS Costs. These total BSUoS Costs are then divided by the BSUoS volumes to get to the final BSUoS tariff estimation for the fixed period.

Under WACM3 the process described above is carried out for each 6-month period that a tariff is fixed over.

		Financial Year 2024/25 - Tariff 3 - Final				Financial Year 2024/25 - Tariff 4 - Draft	
		Description	Final Tariff			Description	Draft Tariff
Fixed Tariff 3 Apr - Sep	Balancing Costs (Central) £m		1,259.30	Fixed Tariff 4 Oct - Mar	Balancing Costs (Central) £m		1,407.68
	Internal Costs £m		236.43		Internal Costs £m		235.14
	Winter Security of Supply Payback from 23/24 £m		-75.00		Winter Security of Supply Payback from 23/24 £m		-75.00
	Over recovery from Fixed Tariff 1 (Apr 23-Sep 23) £m		-429.23		Over recovery from Fixed Tariff 2 (Oct 23-Mar 24) £m		-435.89
	Total BSUoS £m		991.50		Total BSUoS £m		1,131.93
	Estimated BSUoS Volume TWh		129.90		Estimated BSUoS Volume TWh		149.00
	BSUoS Tariff £/MWh		£7.63		BSUoS Tariff £/MWh		£7.60

2. Balancing Costs - £2,667m

The biggest portion of the costs to be recovered through the BSUoS charge are the costs to balance the system. These costs have increased significantly over the last three years. Several factors have contributed to the rising costs including the increased contribution of renewable generation, the suppression of demand due to COVID-19 restrictions, the corresponding reduction in system inertia, and more recently the increase in wholesale electricity prices driven to a large extent by Russia's invasion of the Ukraine.

As well as being the largest portion of the BSUoS cost and therefore biggest component of the tariff, the balancing costs are also the hardest to forecast.

One of the key drivers of balancing costs in the model is the wholesale electricity price. Over the last few months there has been a significant change in the forward curve of GB wholesale electricity for the financial year 24/25. For example, since the final tariff produced in January, there has been a drop in the wholesale electricity prices for 24/25 of approximately 43%. This is reflected in the updated final tariff.

For further information on the methodology used in our model please refer to the BSUoS fixed tariff model consultation document links in the appendix section of this document.

3. Internal Costs - £471.6m

Internal costs (allowed revenue) are calculated in the Price Control Financial Model (PCFM) process as determined by the current RIIO-2 price control period.

The costs for the 2024/25 charging year are currently based on the December 2022 PCFM.

For further information on the PCFM process please visit the Ofgem PCFM ESO webpage [HERE](#)

For further information on our BP2 submission please visit our webpage [HERE](#) or check out the [Final BP2 Delivery Plan 2023-2025](#) or for the overview the [BP2 Executive Summary](#)

Uncertainties for Draft Fixed Tariff 4

In April 2022, Ofgem and the Department for Energy Security and Net Zero (DESNZ) jointly decided to proceed with the creation of a new, independent Future System Operator (FSO). The implementation of the FSO creates transition costs for the Electricity System Operator (ESO), National Grid plc (NG) and National Gas Transmission (NGT) that they would not otherwise have incurred.

ESO

Ofgem have launched a consultation regards the funding of the Future System Operator ([link here](#)). It's possible that there could be significant additional funds that need to be recovered through the BSUoS charge in the second half of the 2024/25 charging year which is covered by Fixed Tariff 4. Dependent on final determinations by Ofgem up to £300m of additional money could need to be recovered through Fixed Tariff 4.

4. Winter Security of Supply - £-150m

For winter 2023/24 the Secretary of State requested ESO to undertake enhanced actions to ensure ongoing security of supply across the winter period. In anticipation of this request, we included £175m across Fixed Tariff 1 and 2 to secure these contracts. Per the announcement on the 28th June, both EDF and Drax have stated that they will be unable to make their coal units available for another winter and have commenced the decommissioning process. Uniper's Ratcliffe-on-Soar coal unit, which had a winter contingency contract last year, has returned to the market after securing a Capacity Market contract. Therefore the £175m will be largely unused aside from a relatively small amount that will be allocated to DFS.

Due to the above, £150m is being credited across Fixed Tariff 3 and draft Fixed Tariff 4.

The ESO has not received instruction to secure additional contracts for Security of Supply for winter 2024/25, and therefore no Winter Security of Supply cost has been included in final Fixed Tariff 3 or draft Fixed Tariff 4.

Uncertainties for Draft Fixed Tariff 4

ESO has received instruction to secure additional capacity over the past two winters (2022/23 and 2023/24), therefore should a similar request be made additional money could need to be recovered through Fixed Tariff 4, assuming that plant was available.

5. Forecast Over-Recovery from Fixed Tariff 1 (£429m) and Fixed Tariff 2 (£436m)

Over-recovery figures stated exclude Winter Security of Supply, which is addressed through point 4)

From 1st April 2023, the daily costs incurred to operate the transmission system are now detached from what is recovered against the fixed tariff. This results in potential for both significant over and under recovery of revenue v costs. Per the legal text of CMP361, any under/over recovery feeds into future fixed tariffs. The over-recovery forecast position from Fixed Tariff 1 and Fixed Tariff 2 are reflected in the corresponding tariffs in the next charging year, so Fixed Tariff 3 and Fixed Tariff 4.

Forecast cash position at the end of Fixed Tariff 1 and Fixed Tariff 2 is as of 22nd June 2023. This is derived using the latest available outturn data and monthly BSUoS forecast.

BSUoS outturn for April 23 – May 23 has been significantly below forecast, driven by reductions in the wholesale market price and a lower proportion of demand met by renewables. As of 22nd June 2023, the over-recovered costs were c.£250m.

BSUoS cost projections for the remainder of the fixed tariff periods are also significantly below the forecast used at fixed tariff price setting, with the central balancing cost forecast for the remaining 9 months c£650m below the January forecast.

For further detail on our over-recovery position please visit our website for the latest view [Fixed Tariff Revenue vs Costs Report](#)

Uncertainties for Draft Fixed Tariff 4

Over-recovery currently included in Draft Tariff 4 reflects the forecast over-recovery position for Fixed Tariff 2 as of 22nd June 2023. Final over/under-recovery for Fixed Tariff 2 will be based on the latest available outturn data and monthly BSUoS forecast as at Final Fixed Tariff 4 setting (December 2023).

6. BSUoS Chargeable Volume - 278.9 TWh

From April 2023, the code reform CMP308 has come into effect which moved the charging of BSUoS from generation and demand to “Final Demand” only. Final Demand is currently defined as electricity consumed other than for the purposes of generation or export onto the electricity network. The BSUoS chargeable volume has therefore been estimated using a simple linear regression using the NGESO national demand forecast as the explanatory variable.

7. BSUoS Fund - £0

Per Ofgem’s final determination for CMP361 no BSUoS fund has been included within Final Fixed Tariff 3 or draft Fixed Tariff 4, however options to be discussed within BSUoS TCMF sub-group.

8. CMP408 - Allowing consideration of a different notice period for BSUoS tariff settings

This modification looks to change the BSUoS notice period from its current 9 months to 3 months.

Should this modification be approved, the proposer’s preferred option to set a new tariff by end of December 2023 for April 2024 charging, superseding this final Fixed Tariff 3, with Fixed Tariff 4 to be published in June 2024.

For further details on the background and status of CMP408 please visit the webpage [HERE](#)

9. BSUoS Reporting

We have committed to providing industry with visibility of upcoming costs and the potential for tariffs to be reset. To fulfil this, we have provided the following reporting:

1. Daily BSUoS costs as part of our web pricing.
2. Weekly report on the current recovery values against fixed tariff forecasts based on:
 - Actual BSUoS outturn costs (using the latest of control room data, II and SF costs)
 - Actual BSUoS outturn volumes (using the latest of II and SF volumes)
 - Updated projections of cost and volume, based on latest monthly forecast
3. Monthly publications of balancing service forecast cost over a 2-year time horizon (as today)

In the event of tariff reset during a fixed period looking likely, we would provide notice to industry as soon as practicably possible via our usual communication channels.

10. Next Steps

On the 7th July we will be running a webinar to discuss this BSUoS Tariff document, you can register for the webinar [HERE](#)

Please subscribe to our mailing list to receive further updates about the BSUoS fixed tariff implementation and anything else BSUoS related if you are not already a subscriber. [Click here to Join Our Mailing List](#)

If you have any immediate questions about this publication or anything else BSUoS fixed tariff related, please contact us at BSUoS.queries@nationalgrideso.com

11. Appendix

	Description	Link/Source
Model Consultation Info.	BSUoS Fixed Tariff Model Consultation - June 2022	https://www.nationalgrideso.com/document/262041/download
	BSUoS Fixed Tariff Model Consultation - Webinar Slides June 2022	https://www.nationalgrideso.com/document/262326/download
	BSUoS Fixed Tariff Model Consultation - Webinar Q and A June 2022	https://www.nationalgrideso.com/document/262531/download
	BSUoS Fixed Tariff Model Consultation - Webinar Recording	https://players.brightcove.net/867903724001/default_default/index.html?videoId=6308766047112
	BSUoS Fixed Tariff Model Consultation 2 - Webinar Slides August 2022	https://www.nationalgrideso.com/document/265571/download
Model Inputs	Plexos constraint forecast	https://data.nationalgrideso.com/constraint-management/24-months-ahead-constraint-cost-forecast
	Historic daily balancing costs	https://data.nationalgrideso.com/balancing/daily-balancing-costs-balancing-services-use-of-system
	Future energy scenarios	https://www.nationalgrideso.com/future-energy/future-energy-scenarios
	Weather data	https://gmao.gsfc.nasa.gov/reanalysis/MERRA-2/
Mods Info.	CMP361 and CMP362 Final Modification Report (8th March 2022)	https://www.nationalgrideso.com/document/246486/download
	Ofgem's minded-to decision (21st September 2022)	https://www.ofgem.gov.uk/sites/default/files/2022-09/CMP361 Minded-to final PDF - Publication.pdf
	Ofgem's final decision (15th December 2022)	https://www.ofgem.gov.uk/publications/cmp361-and-cmp362-decision
	CMP61 and CMP362 Modification WebPage	https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp361-cmp362
	CMP308 Modification WebPage	https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp308-removal
Cost Info.	Ofgem PCFM ESO webpage	https://www.ofgem.gov.uk/publications/eso-price-control-financial-model
	ESO BP2 Webpage	https://www.nationalgrideso.com/our-strategy/riio
	Final BP2 Delivery Plan 2023-2025	https://www.nationalgrideso.com/document/266156/download
	BP2 Executive Summary	https://www.nationalgrideso.com/document/266151/download
General	ESO Main BSUoS Webpage	https://www.nationalgrideso.com/industry-information/charging/balancing-services-use-system-bsuos-charges
	ESO BSUoS Queries Email Join the ESO BSUoS Mailing List	BSUoS.queries@nationalgrideso.com https://subscribers.nationalgrid.co.uk/h/d/BB2F9EBE89031B0C
CMP395	CMP395 Code Page	https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp395-cap-bsuos
	CMP395 Implementation Comms	https://subscribers.nationalgrid.co.uk/t/d-70A7FD34A13A9F032540EF23F30FEDED
	CMP395 Data	https://data.nationalgrideso.com/balancing/current-balancing-services-use-of-system-bsuos-data
CMP408	CMP408 Code Page	https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp408-allowing-consideration-different-notice-period
FSO Consultation	OFGEM FSO Page	https://www.ofgem.gov.uk/publications/funding-transition-future-system-operator