



Please use this Pro-Forma when responding to the Interim Report and Consultation of the second Balancing Services Charges Task Force.

The Taskforce will take all responses into its consideration when producing the final report. When providing a response please supply a rationale, particularly in respect of any specific questions detailed below.

Please send your responses to chargingfutures@nationalgrideso.com by 5pm on **26 August 2020**. Please note that any responses received after the deadline or sent to a different email address may not be taken into account by the Taskforce.

If you have any queries on the content of this consultation, please contact us at chargingfutures@nationalgrid.com.

Question	Response
1. Do you agree with the Task Force's recommendations on who should pay Balancing Services Charges (Deliverable 1)? Please state your reasoning and evidence behind your answer.	Given that the first Task Force concluded that BSUoS should be treated as a cost-recovery charge, we agree that this Task Force's recommendation, that BSUoS should be levied on final demand, is consistent with Ofgem's TCR conclusions on the approach to residual network charge recovery.
2. The Task Force have discussed how the recommendation on Deliverable 1) for Final Demand only to pay Balancing Services Charges could impact on large energy users and the potential for 'grid defection'. Do you think	We cannot comment on how applying balancing services charges to final demand only would impact the likelihood of grid defection. We would agree with the Task Force's assessment that the incentives for partial grid defection should be lower under a fixed banded per site charge.

<p>'grid defection' is a possibility and to what extent would the Task Force's recommendations impact on your answer?</p>	
<p>3. Do you agree with the Task Force's recommendations that an ex ante fixed charge would deliver overall industry benefits? Please state your reasoning and evidence behind your answer.</p>	<p>Given the uncertainty and associated risk premia of the existing arrangements, we agree that there would be benefits to industry of implementing fixed ex ante balancing services charges. However, the Task Force report does not offer a conclusive mechanism for how under or over recovery would be funded given the existing limitations on the ESO's ability to finance a potentially volatile payment stream. The Contracts for Difference funding model offers an example of how an ex ante payment mechanism has been set up to fund a variable stream of costs and includes an additional reserve amount to provide for instances where the payments received are unexpectedly lower than the costs incurred.</p>
<p>4. How long do you think the fixed period should be and what in your opinion is the optimal notice period in advance of the fixed charge coming into effect? Please state your reasoning and evidence behind your answer.</p>	<p>We do not have a view on this.</p>
<p>5. Which approach discussed by the Task Force (TDR banded £/site/day or volumetric £/MWh) do you feel is most appropriate for Balancing Services Charges? Please consider your answer against the TCR principles and state your reasoning and evidence to support your answer.</p>	<p>Our view is that a site banded charge would be preferable to a volumetric charge on final demand. As concluded by the first Task Force, the nature of balancing services means that the level of costs incurred is not proportional to energy usage, as experience has demonstrated (particularly over the COVID-19/lockdown period of 2020) the absence of demand can lead to considerable balancing costs. The demand that is on the network in this circumstance is contributing towards system balancing and it would not seem appropriate for those users to be effectively penalised with the burden of balancing costs. In terms of both the TCR principles of reducing harmful distortions and fairness, the behavioural signalling from a volumetric charge would have the higher risk of</p>

	charge avoidance which might be neither helpful to the network nor fair.
6. The Task Force noted limitations of the approaches covered in Q5, what other methodologies or improvements to the ones in Q5 could you recommend to tackle them? Please consider your answer against the TCR principles and state your reasoning and evidence to support your answer.	We do not have any additional methodologies to suggest.
7. Is 2years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer.	We agree with the Task Force's view that two years' notice prior to implementation is appropriate. As the report suggests, given that forward contracts in the wholesale power market are typically agreed up to two years in advance, the proposed timeframe will avoid exposing industry parties to windfall gains or losses.
8. Should the Task Force consider any interim measures? Please provide details of any suggested interim solution including how it may deliver benefits to consumers or help to mitigate specific challenges facing market participants, whilst limiting any windfall gains or losses between industry participants.	When considered in the context of other changes that are being considered and taking place in network charging, there is a risk that implementing interim measures would give rise to unintended consequences as well as an increase in uncertainty. We do not have any suggestions for effective interim measures that would avoid this risk.
9. Do you feel that there any interactions with the Supplier Price Cap that need to be considered? Please state your reasoning and evidence behind your answer.	We do not have a view on this.
10. The Task Force's initial recommendation is that Final Demand only will pay BSUoS.	Within industry, RCRC and BSUoS are commonly considered to be 'two sides of the same coin' such that if a party is subject to RCRC payments/charges without being liable for

<p>If this is the case, is the current RCRC mechanism is still appropriate? Please state your reasoning and evidence behind your answer.</p>	<p>BSUoS charges then there is a risk that that party could be exposed to windfall gains or losses. We agree that the existing RCRC arrangements should be reviewed if BSUoS is paid by final demand only. Since RCRC is a 'residual' charge/payment flow, to be consistent with the TCR principles, it would seem appropriate to treat it as a cost recovery charge.</p>
<p>11. Is there anything further you think the Task Force needs to consider?</p>	<p>The current wording of the report on the relationship between decarbonisation and interconnector flows is, in part, misleading.</p> <p>In the discussion on the impact to decarbonisation of applying BSUoS charges to final demand users only, the Task Force appears to dismiss the expected decrease in decarbonisation resulting from lower interconnector imports with the inference that the displaced imports are likely to be dominated by 'conventional plant on the continent'.</p> <p>This is false, interconnectors support decarbonisation by allowing access to the renewable capacity of other countries and they play a pivotal role in maximising the use of zero-carbon energy across the UK and Europe. The results of our own internal analysis conclude that, in the first half of 2020 (January to June) 68% of the total 12.44 TWh GB imports came from zero-carbon sources. If these imports were replaced by domestic CCGT we would see an increase of approximately 2.75 megatonnes of CO₂ emissions¹¹. Looking ahead, the impact of reduced interconnector imports on decarbonisation will only become more significant, by 2025 85% of imports are expected to be zero-carbon and by 2030 we estimate that 90% of imports over NGV interconnectors will be from a zero-carbon source. As such, if the impact on decarbonisation of the proposals contained in this report is a key consideration we would suggest that quantitative impact analysis should be undertaken.</p>

¹¹ Based on the assumption of CCGT operating at 56% efficiency with a carbon production rate of 0.323 CO₂/MWh

<p>12. Please use this box to add any further comments that you may have</p>	<p>We broadly agree with the majority of the report's recommendations; however, we note that due to the circumstances within which the Task Force was working (limited timeframe and COVID-19 restrictions), their recommendations are based largely on qualitative arguments rather than quantitative analysis. The Task Force suggests that Ofgem progresses this work by undertaking a quantitative assessment of the recommendations, we agree that doing so is key to understanding the consumer and societal impacts of the proposed changes.</p>
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