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.	Ultimately the costs of balancing eventually find their way to the end consumer either through the wholesale cost or as a BSUoS charge levied by the Supplier. Removing a charge on Generators removes an intermediary where a risk premium can be added. However, that risk premium would also be removed if a fixed charge were levied so that argument may diminish depending on how the BSUoS charge is levied. During the summer, large costs were incurred due to low demand, and high amounts of renewable generation. Removing any BSUoS charges on Generation removes another price signal which may incentivise Generation to reduce its output thus increasing the cost of balancing as any actions would not

	include the avoidance of BSUoS, therefore would be more expensive. Pushing all costs onto final demand if a volumetric charge, would also act as a disincentive for users to increase demand through EV's, or home battery storage. Therefore historically there are arguments on pushing all the costs on to Final Demand all year round but careful consideration should be made if this creates the right incentives moving forward based on the changing landscape of increased renewables, low summer demand and prosumers. For example based on previous arguments, for June, July or August where Balancing Services costs may increase, should Exports (Generation) pay and Demand not. This could be made locational for particular problem areas of the country. This does however move closer to polluter pays model which goes against early Taskforce recommendations.
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 'grid defection' is a possibility and to what extent would the Task Force's recommendations impact on your answer?	Following on from question 1, final users should not see a change in their charges as Generators proportion of BSUoS is currently included in the wholesale price therefore Grid defection should not increase.
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.	An ex ante charge provides stability and predictability, but how the charge is levied determines how much so. With increases in Smart meters, EV's etc. careful consideration would need to be made on whether the Fixed Charge should be a flat charge per settlement period or time of use to incentivise the right behaviour and for prosumers to self-balance. Again this

	goes back to the question of whether BSUoS should be simply about cost recovery. By the time any changes will be implemented the marketplace may have moved on, and a flat charge which bears no resemblance to actual costs being occurred may be a lost opportunity and not provide the right incentives. With advances in smart charging, and home energy systems which can react to changing prices, which ultimately then reduces overall BSUoS, be careful in going down a route which removes one of the revenue streams for such initiatives and a reason to shift demand to match supply. A fixed charge may be attractive for Suppliers to then pass on that charge. However it also does remove an Industry voice which would challenge increasing BSUoS costs when they are variable, such as this summer. Who provides the voice of the end consumer in this end process challenging increasing costs? Potential incentive schemes for the SO should also be investigated
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.	Fixing for longer periods does provide certainty but can also create large under and over recovery's which can then make the charge extremely variable. Fixed charges and highly variable costs underlying costs do cause their own issues. Moving forward those costs may start to stabilise and reduce as more storage is introduced into the market (including EV's), which may allow for longer periods for which the charge can be fixed. Costs may also decrease which lends the question is this a temporary fix or a permanent solution
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	A fixed charge per site does provide extra certainty over costs recovery, and does guard against the issue of reducing demand and increasing costs as seen this summer. However, it does then also remove any incentive, which may exist, to change behaviour, which may have actually reduced overall balancing costs.

the TCR principles and state your reasoning and evidence to support your answer.	
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.	Will the Fixed Charge have Time of Use? Could a combination of the two be implemented? However, unlike the TNUoS charge there is less of an argument that the charge should be unavoidable which lessens the rationale for the capacity charge If going down the route of a per site charge, please bear in mind how the charge will be set, and then subsequently charged. Lessons learnt from the TCR will be a useful exercise. For example, will different sites be in different bandings for TNUoS or BSUoS or could the same bandings be used? If different bandings are to be used will there be sufficient Line Loss Factor Classes available, or will a new approach be needed, and how long will this take to be implemented?
7. Is 2years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer.	Is the question, 2 years to implement the change or 2 years notice of any change which may happen with a date to be decided? In a rapidly changing balancing market a long notice period may make any proposed changes less advantageous. From an implementation perspective, it all depends on the chosen solution whether 2 years is sufficient or too long. With TNUoS charging there was the argument that certain parties benefitted from Embedded Benefits therefore there was the need to act quickly. With BSUoS there is less of an argument that individual parties are benefitting or suffering more than others. Sufficient time should be allowed for the costs of BSUoS to be removed from any hedging.

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.	Part of the problems is the unpredictability of BSUoS. Improvements in BSUoS forecasting have been made but further improvements could be done to address some of the concerns. An interim solution to fix costs could be implemented, whilst what the market looks will look like becomes clearer, therefore making any changes more reflective of what is needed in the future. Ofgem's recent consultation on BSUoS costs this summer should also feed into this work
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.	
10. The Task Force's initial recommendation is that Final Demand only will pay BSUoS. If this is the case, is the current RCRC mechanism is still appropriate? Please state your reasoning and evidence behind your answer.	To some extent, RCRC can be seen as offsetting BSUoS. If the market becomes more short, and other things remain equal, BSUoS will increase (due to NGESO purchasing more power to balance the system), and Parties will receive a payment through RCRC. To the extent that imbalance prices reflect the marginal cost of balancing the two effects will offset each other. To the extent that BSUoS and RCRC are linked in this way, there would be benefits in ensuring that the same parties are responsible for both (in order to avoid windfall profits and losses, and unnecessary credit cover requirements). However, it should be noted that the Assessment Procedure Consulation on BSC Modification P285 revealed differing views from BSC Parties on whether BSUoS and RCRC should be seen as linked in this way (although views may have moved on since then). In light of this, we suggest that it would be appropriate for BSC Parties to consider (through the Issue or Modification process) whether consequential changes to RCRC are appropriate. It is vital that

	any such process is started in sufficient time to allow for the governance process, and implementation of system changes. We note that their our two BSC panel members on the BSUoS taskforce, however as BSUoS charging relies on data being sent from ELEXON to the NETSO and RCRC being a fundamental element of the BSC, ELEXON may need to be more intrinsically involved in this taskforce as opposed to just being a responder to a consultation
11. Is there anything further you think the Task Force needs to consider?	The concept of Final Demand is open to interpretation. Consideration of what is classed as Final Demand will need to be made. For example the future aim is that the Final Consumption Levy will be levied on Final Consumption, and not just imports at the Boundary Meter, thus removing behind the meter Storage but including Demand at a Power Station for office use for example. CMP281 may also move towards a solution which removes Behind the Meter Storage. All these solutions are dependent on modifications like P375 which have current implementation timescales of February 2022. Therefore setting recommendations based on the limitations and granularity of current demand data may not provide the optimum solution
12. Please use this box to add any further comments that you may have	None