

Meeting Minutes

Balancing Service Charges Task Force

Meeting Number 1

Date: 29/01/2019 **Location:** Faraday House, Warwick

Start: 10:00 **End:** 15:30

Participants

Attendee	Attend/Regrets	Attendee	Attend/Regrets
Colm Murphy, Chair, National Grid ESO (CM)	Attend	John Tindal, SSE, Task Force Member (JT)	Attend
Joseph Henry, Technical Secretary, National Grid ESO (JH)	Attend	George Moran, Centrica, Task Force Member (GM)	Attend
Paul Wakeley, National Grid ESO, Presenter (PW)	Attend	Grace Smith, UK Power Reserve, Task Force Member (GS)	Attend
Sophie Van Caloen, National Grid ESO, Presenter (SVC)	Attend	David Bird, Octopus Investments, Task Force Member (DB)	Attend
Mike Oxenham, National Grid ESO, Task Force Member	Attend	Dr Graham Pannell, RES, Task Force Member (GP)	Attend
Paul Mott, EDF, Task Force Member (PM)	Attend	Lisa Waters, Waters Wye Associates, Task Force Member (LW)	Attend
Laurence Barrett, E.On, Task Force Member (LB)	Attend	Tom Edwards, Cornwall Insight, Task Force Member (TE)	Attend
Paul Jones, Uniper, Task Force Member (PJ)	Attend	Caroline Bragg, ADE, Task Force Member (CB)	Attend
Tim Aldridge, Ofgem, Task Force Member (TA)	Attend	Nicholas Gall, Solar Trade Association, Task Force Member (NG)	Attend
James Kerr, Citizens Advice, Task Force Member (JK)	Attend	Rob Hudson, Tata Chemicals Europe, Task Force Member (RH)	Attend
Nigel Bessant, SSEN DNO, Task Force Member (NB)	Attend	Joseph Underwood, Energy UK, Taskforce Member (JU)	Apologies

Discussions

1. Introductions and Apologies for Absence

01. CM opened the meeting and welcomed the attendees to the first meeting of the Balancing Service Charges task force. CM commented on how excited he was to be chairing the Task Force, and that it was a great honour to be able to do so for the more independent and enhanced ESO.
02. CM stated that it was an excellent opportunity for industry to demonstrate collaborative working, and highlighted that it was an important industry initiative for National Grid ESO. CM advised the attendees that he was looking forward to working with them all. CM further highlighted that there is a need for the task force to be mindful of being transparent with wider industry, and also that data and modelling should be used to drive the outputs of the Task Force.
03. PJ asked if pre-existing industry analysis would be utilised by the task force in its tasks. CM confirmed that it would be.
04. CM noted that apologies had been received from JU, and that LW had dialled in.
05. The attendees were asked by CM to give a brief introduction on themselves and their expertise that they bring to the Task Force.
06. LW asked if the Authority would give a steer on the task force, and what they expect, and whether their position on previously rejected BSUoS mods stood. TA stated that Ofgem have an open mind on the process and were there to observe, but mentioned that Ofgem wished to have the questions that they have posed answered. TA continued by reiterating that Ofgem have not made any decisions on ongoing BSUoS related modifications.

2. Scope, Programme and Ways of Working

07. CM presented slides (which can be found [here](#)) to the group, and commenced by discussing the drivers, scope and impact of the task force. CM highlighted that Balancing Service Charges recover the efficient costs incurred by National Grid ESO in undertaking obligations in respect of operating the national electricity transmission system.
 08. CM highlighted that the objective of Task Force is to provide analysis to support decisions on the future direction of balancing services charges. CM continued, stating that the Task Force will examine the potential for and feasibility of some elements of balancing services charges being made more cost-reflective and hence providing stronger forward-looking signals.
 09. The deliverables of the taskforce were highlighted and discussed. CM advised the Task Force that a view on which elements of BSUoS currently give forward looking signals which influence user behaviour is expected by the end of February 2019, with the expectation of the Task Force assessing the potential for existing elements of balancing services charges to be charged more cost-reflectively and hence providing better forward-looking signals in March 2019. A draft report is due for April 2019, with the assessment of the feasibility of elements of balancing services charges to be charged more cost-reflectively and to provide better forward-looking signals. The final submission will be in May 2019. CM highlighted the report would be representative of the Taskforce opinion and not that of the ESO.
 10. CM then proceeded to highlight the expectations of the various ways of working for Task Force members, the ESO in its secretariat function, and that of the chair. Ways of working in terms of critical success factors were also discussed. CM asked Task Force members to share experiences of previous task forces.
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11. Several questions were posed by Task Force members during the presentation. GS initially asked CM if the running costs of the Gas SO were included in BSUoS charges. It was confirmed they are not included.
 12. LB made a statement that the ability of the BSUoS charge to be cost reflective and forward looking were not necessarily the same thing. LB asked whether the Task Force were looking to make BSUoS cost reflective and forward looking. DB stated a similar opinion. MO responded that task force was considering forward-looking signals which influence customer behaviour.
 13. LW stated that a fixed charge should be potentially considered, despite not being cost reflective. MO stated that this would be examined in the feasibility section of the Task Force.
 14. JT suggested that it is important for the Task Force to be clear regarding what type of forward looking price signal was being considered, such as for investment signals, or dispatch signals.
 15. JT suggested that it would be important to consider how BSUoS forward looking charges may interact with other charging elements, such as potentially double counting the constraint cost signal which is already provided by the TNUoS Year-Round network charge.
 16. PJ highlighted that ongoing work elsewhere could bring significant change to how BSUoS is charged out, and noted that there was nothing in the current Terms of Reference for the workgroup to talk about this aspect of BSUoS. TA agreed, and stated that subsequent work may be required thereafter. PJ stated that he did not agree with work being stopped on cost recovery modifications which he believed could be progressed separately without interfering with the work of the taskforce. CM stated that it was his focus to remain tight to the scope of the taskforce. JT stated that the counterfactual may not be BSUoS as it currently is today and this may become clear during the TCR/SCR process.
 17. JK asked about delivery of the report. CM stated that this would be done step by step. CM advised that the draft report would take feasibility into account, with the final report to be delivered to the Authority in May. LW opined that any signals within BSUoS would need to be useful. CM advised that any such discussions would come under the feasibility aspect of this process.
 18. CB stated that it was important that the Task Force remained industry led throughout. Clarity was sought on whether this was an Ofgem convened process. TA confirmed that industry would lead. LW stated that it was her belief that third party analysis would be beneficial to the process. CM advised that Analysis would be undertaken by the ESO, but with resource availability being taken into account. LW asked if Ofgem had a budget this group could use for analysis. TA referred to CM answer on the matter. CM did however advise the group that the feasibility of data rooms and live documents could be explored. This was welcomed by several taskforce members as it would enable to Task Force to work on data tailored towards delivery.

3. Engagement and Modelling

19. SVC presented slides on Engagement within the Task Force, which are available [here](#). SVC stated that the objective is to discuss and agree on a communication and engagement plan, with the aim being to ensure we provide industry with regular updates on progress and also give industry the ability to engage and contribute.
 20. The objectives were discussed. The main aim of engaging the industry is to understand the TF objective and the tight delivery timescales. SVC reiterated the wish to inform ongoing progress of the TF and enable the possibility for our stakeholders to engage and provide feedback, and to show the Task Force is listening to wider industry concerns. This will allow the industry to provide constructive feedback. The approach with timescales was outlined including a draft programme plan noting meetings and planned communications.
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21. SVC asked the Taskforce Members for thoughts and feedback on the engagement plan. SVC advised that the Task Force may seek additional input on an ad hoc/targeted/bilateral basis. JK asked if there would be a Charging Futures Forum (CFF) during the process. SVC said it is not yet planned but may be in May or June to coincide with the conclusion of the Task Force. JK stated his concern around duplication of efforts between the CFF platform and the workings of this group.
 22. LB asked whether Ofgem would consult on outcomes of the Task Force. TA said outputs would inform the final TCR decision, but report would provide an evidence base which may need subsequent changes. LB stated that he believes this is not aligned with the other elements of the TCR which have a minded-to decision followed by and industry consultation. NB stated that he believes the group needs to consider the feedback from communications channels and use this to input into work of the Task Force. There was a broad consensus of agreement.
 23. LB stated that he believes there may be a need for a subsequent consultation post Task Force and sought clarification from Ofgem. TA said he would take this away and come back to the taskforce.

ACTION 1: TA to come back to the next meeting with information on whether a formal consultation process would follow the Task Force.

ACTION 2: SVC to think about how industry feedback can be taken into account.

24. JT opined that the workgroup should capture and write up discussion as the meetings progressed to inform the final report. He noted this does not mean that the final report needs to be written as meetings progressed because this could result in the report seeming sequential and less clear. JT suggested that it may be appropriate for some detailed notes describing stages of the task force work to be included in an appendix, while the final report may include a summary.
25. PM asked what would happen when opinions differ e.g. would there be a vote. MO stated that this would be made clear within the report but he would check the terms of reference to ensure alignment.

ACTION 3: MO to check if the Terms of Reference refer to conflicting opinions and subsequent decisions.

26. GM asked the Task Force what the purpose of engaging with pre-existing workgroups and code panels was. SVC stated this engagement would help feed discussions within the Task Force, and vice versa. GM stated his concern around mutual influence. TA stated that the taskforce must keep the “evidence base” at the forefront of its thinking. CM stated it was important that nothing allows a pre-empting of the outcomes of this Task Force, and that the report should reflect this. PJ stated that overlaps and interactions should be managed as they arise.
27. LW stated her belief that podcasts and webinars may saturate an already busy industry diaries. DB noted that a significant number of parties weren’t attending or aware of industry meetings, stating that the Webinars should be targeted at those less engaged participants.

ACTION 4: SVC to ensure additional information is produced in a streamlined / targeted fashion.

28. JK stated that he believes that recent National Grid ESO and Charging Futures Podcasts broke down barriers and that they are of use. JK stated his belief that the podcasts should have different contributors and views from the Task Force members. JK also noted that he found the webinars to be useful also.

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29. CM summarised, stating that the Task Force should employ a variety of communications channels, be mindful of other industry events, and ensure communication is valuable and not overwhelming. LW gave feedback that if National Grid ESO ask for opinions of industry, then they should listen to them. CM noted feedback. CM thanked SVC and introduced PW.

4. **Modelling**

30. PW began by explaining the modelling approach to the taskforce. PW explained that the modelling approach would understand the current products and cost, by looking at correlation to other factors, patterns of volatility, and asking whether there are signals on different timescales. Consideration would also be given to whether there are any signals that could be driving behaviour in the market and whether these signals should be utilised in any end product. This would then lead to the ability to propose and review what any new product could look like to market participants. This process would be informed by data. PW's slides are available [here](#).
31. PW explained the various components that make up BSUoS and stated that he would be looking to see if said if the component costs align with external factors. TE asked if trading costs were included. PW affirmed that BSCCV would.
32. PW explained that the modelling would investigate whether the BSUoS Charge (£/MWh per settlement period) would be equal to the HH charge (£) divided by Chargeable Volume (MWh) and other permutations of BSUoS components. Possible correlation factors were discussed. GM asked if correlation was always a good idea – using weather and BSUoS as an example as weather was uncontrollable. PJ noted that there was some history of weather hedging within the industry.
33. PW explained that the purpose of the work is to identify if there are signals that could be used to drive behaviour and separately consider should they be used. PW invited views on the focus of analysis. PW stated that he hoped historical data analysis would be available for the Task Force to use by meeting 2.
34. GP suggested quantification of the spread of volatility of each dataset pairing (e.g. the variance). TA and others concurred this would be useful.
35. LB asked whether trends over time should be considered. PW highlighted that his focus would be on the previous 2-3 years and that he would also look at BSUoS quartile trends. It was also mentioned that at this moment in time, spreads are bigger. When the data is considered in percentiles, the mean and median BSUoS prices have been higher. PW highlighted that external factors should be considered in conjunction with this information.
36. TE stated that a pre and post P305 assessment should be made. TE also asked whether future day modelling could be accessed. PW stated he is exploring options, but the challenge remains that forecasting is difficult, especially in regards to day ahead. TE asked if this could be discussed with the Future Energy Scenario (FES) teams.
37. PW was keen to separate correlation from causation. PW advised that a first step was to identify any mathematical correlation without judgement. Subsequent work would be to consider this correlation against whether it could or should be used in relation to signalling user behaviour (e.g. whether a found correlation was forward-looking, practical, or any number of other tests).
38. JT stated the view that it is important to consider that correlations may change over time, so even if the data shows correlations during a relatively short historical time period, this does not necessarily mean that those correlations will continue to apply in the future.
39. NB asked if user behaviours on different networks were likely impactful on BSUoS as there are impacts on the Transmission and Distribution networks. TE stated that if needed he could provide RAG data to PW. CM stated that there seems like a lot of activities the task force could undertake, but the Task Force would need to derive tangible benefit from these actions.

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- 40. LW stated that Interconnectors could not be overlooked in the process. PW stated that the purpose of the data is only to fuel discussion on the cost of balancing the system. LW stated that she would also think it useful to review correlations with the gas system.
 - 41. LW expressed further interest in NGESO's incentives under the RIIO framework and whether this has an impact on cost basket. PW replied, saying that the system has changed since BSIS. LW stated that she was worried about the behaviours being driven by the incentives.
 - 42. PW stated that the incentives are clear around what goes into price. CM refocussed the conversation to the scope of the taskforce. LW stated that forward plan messaging from the ESO and RIIO teams seemed to be letting these fall between gaps.
 - 43. JT stated the view that the correlation between observable events and BSUoS cost depends on what actions the ESO chooses to take; so, if the ESO incentives changed, this could change ESO actions, which could in turn change the relationship between observable events and outturn BSUoS cost.
 - 44. CB stated that she understood Ofgem are moving towards a level playing field in regards to BSUoS and henceforth the technology and energy mix must be taken into consideration of data and also the impact of export. Workgroup concurred generation mix should be considered when prompted by GP.

ACTION 4 – Action on All Taskforce Members to give consideration to analysis, questions and data sets required and provide this to the taskforce where possible.

- 45. NG stated that forecast and out turn discrepancies between wind and solar should be considered. RH asked how information would be presented by NGESO modelling team to the group. RH asked PW for a form of dashboard, PW said he would consider this option.

ACTION 5: Live Data Sets/Dashboards/Data rooms to be looked into by NGESO.

5. **Overview of BSUoS and Wider Context**

- 46. TE presented an overview of BSUoS and the wider context, which can be found [here](#). TE highlighted 3 current CUSC modifications, namely CMP250: Stabilising BSUoS over a 12-month period, CMP281: Removing BSUoS from Storage and CMP308: Removing BSUoS from Generation. An explanation of each modification was given to the Task Force, and also an explanation of the relevance of each modification.
 - 47. PJ mentioned a modification which is currently on hold, namely CMP307 which looked to expand the BSUoS charging base to include embedded generation. PJ mentioned that there were some issues for pumped storage during night, where there are increased BSUoS charges but not necessarily a corresponding reduction in market prices to compensate. MO advised the modifications given by TE were simply given as examples to raise awareness of ongoing developments in the area of BSUoS.
 - 48. PJ highlighted that the Task Force should be aware of what comes into scope of the TCR/SCR. On the subject of CMP250, it was highlighted by TE that the Workgroup discussed BSUoS as a market signal or a cost recovery mechanism, with the majority of the workgroup considered BSUoS as cost-recovery and not as market signal. It was also noted that the workgroup noted fixing elements of BSUoS makes them inherently less cost reflective. The concept of volatility was broadly agreed on by Task Force members.
 - 49. MO stated his belief that some of the modelling used in CMP250 was now out of date but some of this modelling could be useful for the Task Force if updated. PJ stated that analysis undertaken for CMP250 was carried out in the context of BSUoS but noted that the group noted that if parties reacted to the signals that were currently provided they could make matters worse and increase balancing costs. In terms of CMP281, GP explained that the work there showed that summer evenings with low demand tended to lead to higher average BSUoS, which would perversely send a signal to discourage demand users. LW mentioned other modifications with could be of interest to the taskforce, namely P375, P376, and P379.
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6 Breakout Groups and Findings

50. MO explained the objective of this session is to look at Deliverable 1: assess the extent to which elements of balancing services charges currently provide a forward-looking signal that influences the behaviour of system users. The various elements of Balancing Services were analysed.
51. MO presented a list of elements of balancing services charges. DB asked if constraints need to be split out between the payments to the constrained generator and the actions on the other side of the constraint needed to balance the system. CM stated it may not be possible to split out. PJ stated that the present analysis of this split tends to be misleading as it uses Market Index Price as the comparator rather than something more suitable to the BM price curve, and bids and offers tended to sit asymmetrically around this. PJ said that prices accepted should be compared with something which related to the BM prices that were available, such as alternative bids or offers which could have been accessed by the System Operator if the constraint had not been active. GM noted that the MBSS report splits constraint costs between 'Payments to Manage Constraint' and 'Payments to Rebalance System'.
52. DB asked if figures presented in terms of the percentages the cost elements make up were monthly. DB also stated he would like to see these figures and the contribution of spread to the HH price. LW asked how much purchase prices would alter with a change in the BM for smaller generators, and questioned how the alignment with European products would impact. TE stated Fast Frequency Response may also be impactful. MO stated that ESO costs were not included but were separately listed and would be considered by the task force.
53. LW questioned the breakout questions. She mentioned that she thought that the questions should focus on the concept of BSUoS. LB agreed because he believes most parties still look at BSUoS or at only a few main components. LW stated that industry parties don't currently look at this impact from component costs but as BSUoS.
54. CM reiterated to the breakout groups that throughout the process confidential information would be treated as such.
55. The workgroup broke into 3 groups to discuss Deliverable 1. After 90 minutes, the groups reconvened. GP summarised for the first group. GP advised the Task Force that his group had concluded that for almost all services in almost all situations, operationally there is no forward looking signal. The exceptions were written down and passed to the secretariat. It was further noted that many generators and other system users cannot change their behaviours (contingent on weather such as Solar/Wind), and costs are influenced by mainly unplanned events. GP added that many ancillary service payments made are effectively retainers, which make a fixed contribution to the price from HH to HH.
56. LB, summarising for the second group, advised that his group broadly concurred that there is no forward looking signal. The group felt that users on the system factor in a view of BSUoS and forecasting. The groups' interpretation of what "behaviours" mean is where a user does something different, not just change its price. This would then change the actions the ESO needed to take to balance the system. A forward-looking signal should encourage users to take actions which reduce the need for ESO actions and hence reduce system costs. However, the only example of any such signal the group could think of were overnight signals which perversely cause the ESO to take more actions and therefore increase system costs. The group opined that currently, constraint costs are smeared, so there would not be a signal to encourage a generator on the wrong side of a constraint to cease generating without compensation. The group struggled to think of data to demonstrate user behaviour is not influenced as this is trying to prove a negative.
57. JT stated his belief that BSUoS does currently provide a forward-looking investment signal to developers depending on whether an asset is liable to pay BSUoS. JT gave the example of a transmission connected generator that pays BSUoS compared with an interconnector that does not; also, compared with a smaller embedded generator attached to the distribution network, or behind a customer meter, which receives demand BSUoS avoidance embedded benefit and is not liable to pay generation BSUoS. JT suggested this can affect which assets may be successful in CfD, or Capacity Market auctions.
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58. CM, summarising for the third group, advised that his group spent time discussing transmission constraints, and ultimately came to view that BSUoS did not currently give signals. The question of modelling the constraint element came to the fore. The issue of double counting under the TNUoS regime was also considered by the group. The group also noted that the change in peak demands has also made it more difficult to forecast BSUoS, henceforth nullifying any potential signals. DB mentioned that if there were any signals, they currently would not give anywhere near enough information for investors to make decisions. It was also noted by the group that there is currently no feedback loop between BSUoS costs and actions taken by the ESO.
 59. RH discussed the lack of feedback loop and asked whether generators would turn down, or whether demand would drop inherently. LB agreed, stating that this may cause illogical signals to be sent out. RH stated charges may not be proportional, and questioned whether BSUoS drove wholesale signal. MO stated that signals for an element could be sharpened and would allow for different actions to take place but this would need to be further considered in the later task force deliverables.
 60. LW questioned whether analysis to prove BSUoS was hard to forecast to the authority would be easy to attain and could we rely on the responses to previous mods such as CMP250.
 61. SVC agreed that it would be hard, but a good quality, qualitative report could go some way to address this. JT suggested that it is very difficult to prove a negative. RH stated a way to do this would be to disprove a hypothesis that it was forecastable.

7. **Summary**

62. CM summarised the events of the day and the actions detailed in these minutes. CM thanked the presenters and highlighted the dedication and focus shown in the room at this meeting. The key takeaway from the afternoon session was that the workgroup agreed the view that BSUoS broadly does not seem to provide forward-looking signals which influence user behaviour but with some subtle nuances. The next meeting was confirmed for 11 February at Faraday House.
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