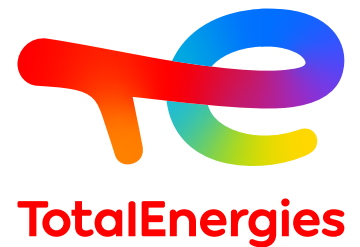


Industry Focus

What is happening with BSUoS?

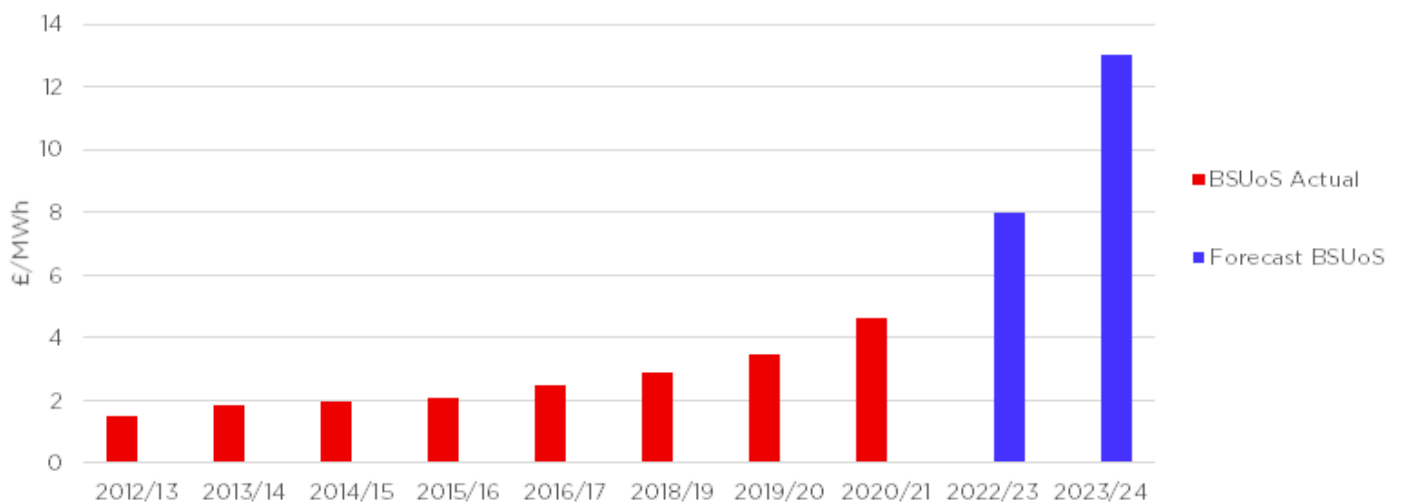


In recent times we have seen Balancing Services Use of System (BSUoS) charges evolve from a stable non commodity rate to an increasingly volatile and high charge.

BSUoS charging has been steadily rising mainly due to the increasingly complex addition of intermittent generation to the network in the drive to decarbonise the electricity mix. Often weather and other variables do not match the requirement of demand, and this has required National Grid to make more frequent and larger balancing actions.

More recently, added challenges of low demand during the Covid lockdowns and now the high price of commodity has further amplified costs.

BSUoS £/MWh



During the summer of 2020 Ofgem introduced a half hourly BSUoS cap of £15/MWh and then £10/MWh to try and limit the impact of extreme balancing costs during the Covid-19 low demand. £21.2M of deferred cost was later recovered during 2021/22.

Unfortunately, another cap has been required during the winter of 2021/22 due to the unprecedented high gas and electricity prices which have further increased the costs of balancing the network. A cap of £20/MWh was introduced from 17th January to 31st of March 2022 and £43.9M of deferred cost will be recovered in 2022/23.

What are the major balancing costs?

Constraints

The most significant and volatile component of BSUoS which mainly consists of paying generators to switch off to avoid overloading the transmission system. Generators are compensated for the loss of revenue (such as renewable subsidies) when they are instructed to turn off. As a double whammy, payments are made to other generators in less congested

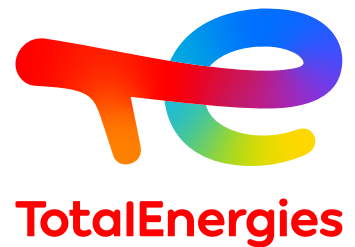
regions of the network to turn up generation to balance the network if the demand is still required.

Reserve Services

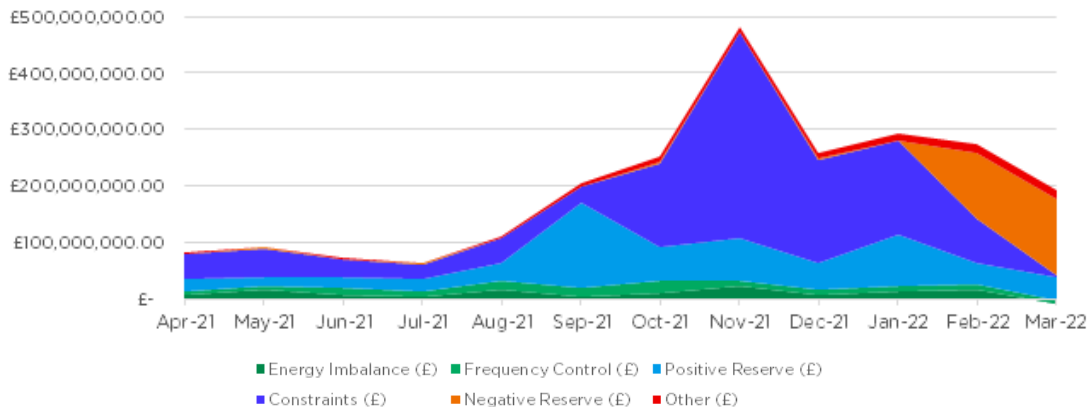
In order to provide system security National Grid pay generators for increased generation or for large demand users to reduce usage at times when the system requires balancing.

Industry Focus

What is happening with BSUoS?



2021/22 Cost Breakdown



Future costs and charging of BSUoS

Ofgem has recently approved the bold decision to remove transmission connected generation from the total volume used to socialise BSUoS costs (CMP 308). Currently BSUoS costs are shared by generators and demand users and now it will only be charged to final demand.

Implementation will take place as of the 1st of April 2023 and is likely to double the £/MWh rate for consumers due to the removal of almost half of the charging volume base.

The change has been made with the intention to provide a level playing field for all types of generation as interconnectors and embedded generation do not pay BSUoS costs. It will also align generators costs with other markets in Europe as most do not contribute to balancing.

The theory is generators are expected to pass through the avoided BSUoS cost saving into the wholesale electricity price as of April 2023. There should also be savings in the adjustments of CfD strike prices for generators that participate in the Contracts for Difference scheme.

Due to the added cost burden on suppliers and consumers, and inherent unpredictability of BSUoS a change is current pending where National Grid will fix and publish the BSUoS £/MWh rate in advance (CMP 361/362). The total fixed and notice period has been proposed to be no longer than 15 months, for example a BSUoS rate will be published in January and fixed for the period of the coming year of April to March.

Long term

BSUoS costs for demands users look set to remain high for the foreseeable future while energy markets remain abnormally high, and the electricity generation mix continues to evolve and decarbonise.