

BSUoS Fixed Tariff

Final Tariff 4 - Oct 2024 - Mar 2025

Draft Tariff 5 - Apr 2025 – Sep 2025

Published 22nd December 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 Oct 2024 to Mar 2025 period as well as providing a draft view of the Apr 2025 to Sept 2025 tariff period. We are calling these BSUoS Fixed Tariffs 4 and 5 respectively.

Background

The costs of balancing the system change and are difficult to predict. 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 was made 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 (Fixed Tariff 1) and Oct 2023 to Apr 2024 (Fixed Tariff 2) were published at the end of January 2023.

Final BSUoS tariff for Apr 2024 to Sep 2024 (Fixed Tariff 3) was published at the end of June 2023.

Webinar – 11th January

We will be running a webinar on the 11th January 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 4 - Final | | |
|---|---|--------------|
| Fixed Tariff 4 Oct - Mar | Description | Final Tariff |
| | Balancing Costs (Central) £m | 1,502.5 |
| | Internal Costs £m | 359.2 |
| | Forecast over-recovery by end of FT2, less any adjustment already made for FT1 in FT3 | -182.0 |
| | Winter Security of Supply | 25.0 |
| | 2021/22 Under-Recovery of BSUoS | 21.7 |
| | Total BSUoS £m | 1,726.4 |
| | Estimated BSUoS Volume TWh | 141.8 |
| | BSUoS Tariff £/MWh | £12.17 |
| | | |

| Financial Year 2025/26 - Tariff 5- Draft | | |
|--|---|--------------|
| Draft Tariff 5 Apr-Sep | Description | Draft Tariff |
| | Balancing Costs (Central) £m | 1,267.4 |
| | Internal Costs £m | 271.8 |
| | Forecast under-recovery from FT3 in FT5 | 73.0 |
| | Total BSUoS £m | 1,612.2 |
| | Estimated BSUoS Volume TWh | 129.2 |
| | BSUoS Tariff £/MWh | £12.48 |
| | | |

2. Balancing Costs

The biggest portion of the costs to be recovered through the BSUoS charge are the costs to balance the system. These costs have increased over the last three years. Several factors have contributed to costs including the increased contribution of renewable generation, changing nature of the generation mix, 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.

The balancing cost forecast was produced based on an average of the forward price curves derived between 1st of December to the 7th of December 2023.

Since Draft Tariff 4 was published, our balancing cost forecast has increased. Despite a small drop in wholesale electricity price (£/MWh), constraints forecasts for Fixed Tariff 4 have increased since Draft Tariff 4 was published in June 2023. This is reflected in the updated final tariff.

Draft Fixed Tariff 5 is forecasted to have Balancing Costs of £1,267m. Final Fixed Tariff 5 will be updated using forecasted data available in June 2024.

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

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

Fixed Tariff 4 - £359.2m

The costs for the 2024/25 charging year are currently based on the December 2023 PCFM.

Fixed Tariff 3 (Apr 2024 – Sep 2025) was set in June 2023, based on the December 2022 PCFM. Fixed Tariff 4 trues up the difference between the Internal Costs included in Fixed Tariff 3, and the costs for the 2024/25 charging year per the December 2023 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](#)

Draft Tariff 5 - £271.6m

Costs for 2025/26 are currently based on the December 2023 PCFM.

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). All the details of the implementation of the FSO and the funding of it have yet to be agreed.

4. Forecast Over/Under Recovery Adjustment

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 over and under recovery of revenue versus costs. Per CMP361, any under/over recovery feeds into future fixed tariffs.

The cumulative forecast over-recovery from Fixed Tariff 1 and Fixed Tariff 2, minus repayment already included in Fixed Tariff 3 has been included as repayment in Fixed Tariff 4. Forecast under-recovery from Fixed Tariff 3 is added in Draft Tariff 5. Forecast cash position used within tariff setting is as of 14th December 2023.

Fixed Tariff 4 – (£182m)

We are currently forecasting to be £686m over-recovered by the end of Fixed Tariff 2. £504m was included as repayment within Fixed Tariff 3, with the remaining £182m to be repaid during Fixed Tariff 4.

Since Fixed Tariff 3 and Draft Tariff 4 setting (June 2023), there has been a reduction in our forecast over-recovery position for Fixed Tariff 1, Fixed Tariff 2, and Fixed Tariff 3

For Fixed Tariff 3, the £504m repayment (including £75m over-recovery for Winter Security of Supply) was for forecast over-recovery by the end of Fixed Tariff 1. Actual outturn costs were £351m.

For Draft Tariff 4, we included a £511m repayment (including £75m over-recovery for Winter Security of Supply) for the forecast over-recovery within Fixed Tariff 2. As of the 14th December, we are forecasting a £335m over-recovery for Fixed Tariff 2.

The reduction in both outturn and forecast over-recovery since June have been driven by increases in both forecast and actual constraint costs, as well as a reduction in our forecast volume.

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

Draft Tariff 5 – £73m

Over-recovery currently included in Draft Tariff 5 reflects the forecast under-recovery position for Fixed Tariff 3 (excluding the £504m repayment) as of 14th December 2023. Final over/under-recovery adjustment for Fixed Tariff 5 will be based on the latest available outturn data and monthly BSUoS forecast as of Final Fixed Tariff 5 setting (June 2024) with intent to get the ESO cash position back to net nil by the end of tariff 5.

5. Winter Security of Supply

For winter 2022/23 and 2023/24 the ESO has received requests from the Secretary of State to undertake enhanced actions to ensure ongoing security of supply across the winter period. In anticipation of a potential similar request for winter 2024/25 we have included £25m in fixed tariff 4 for winter security of supply costs.

6. BSUoS under-recovery from 2021/22

We have identified an under recovery of £21.7m due to a calculation error in the 2021/22 charging year. This amount will now be recovered in fixed tariff 4.

7. BSUoS Chargeable Volume

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 ESO national demand forecast as the explanatory variable. In the latest forecast we also have updated the data used to estimate the linear regression. The relationship is now estimated using only BSUoS chargeable volume and national demand from after April 2023.

8. BSUoS Fund

Per Ofgem’s final determination for CMP361 no BSUoS fund has been included within Final Fixed Tariff 4 or draft Fixed Tariff 5, however options are to be investigated through different CUSC modifications.

9. CMP408 - Allowing consideration of a different notice period for BSUoS tariff setting.

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 would be to reset any tariffs that fall within the current 9 months’ notice period and the revised 3 month notice period that this modification would enforce.

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

10.CMP420 - Treatment of BSUoS Revenue Recovery, and creation of a BSUoS Fund

This modification looks to codify the treatment of over-recovery and allow the potential use of over-recovery to reduce the risk of reopening prices during a future Fixed Period.

This modification also seeks to add interest on the amount of over-recovery seen over a financial year. The interest could firstly be included in Fixed Tariff 5. Based on the current forecast over-recovery position as at the end of Fixed Tariff 2, this could amount to an additional £15m on the draft tariff (+£0.12/MWh).

For further details on the background and status of CMP420 please visit the webpage [HERE](#)

11.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 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.

12.Next Steps

On the 11th January 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

13.Appendix – Document Links

| | 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://www.nationalgrideso.com/data-portal/daily-balancing-costs-balancing-services-use-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 Web Page | 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/rrio |
| | 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 | BSUoS.queries@nationalgrideso.com |
| | Join the ESO BSUoS Mailing List | 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://www.nationalgrideso.com/industry-information/charging/balancing-services-use-system-bsuos-charges |

| | Description | Link/Source |
|------------------|------------------|---|
| CMP408 | CMP408 Code Page | https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp408-allowing-consideration-different-notice-period |
| CMP420 | CMP420 Code Page | https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp420-treatment-bsuos-revenue-recovery-and-creation-bsuos-fund |
| FSO Consultation | OFGEM FSO Page | https://www.ofgem.gov.uk/publications/funding-transition-future-system-operator |

Document Revision History

| Version Number | Date of Issue | Notes |
|----------------|---------------|--|
| 1.0 | 22/12/2023 | Publication of Fixed Tariff 4 (Oct 24 – Mar 25) and Draft Tariff 5 (Apr 25 – Sep 25) |