



CMP384

Apply adjustments for inflation to manifest error thresholds using indexation

9th February 2022



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Background

Error identified during 22/23 Tariff Setting

- ESO identified an error in their TNUoS model where a Moyle interconnector capacity TEC of 490MW was used instead of 250MW
- Rectification of the error prompted ESO to consider Manifest Error thresholds in the CUSC which prescribe if changes to individual Users' TNUoS charges should be reconciled directly with Users

Manifest Error definition

- CUSC section 14.17.34 currently defines the Manifest Error thresholds as:
...an impact of the lesser of either: a) an error in a User's TNUoS tariff of at least +/-£0.50/kW; or b) an error in a User's TNUoS tariff which results in an error in the annual TNUoS charge of a User in excess of +/-£250,000

Defect

- The manifest error thresholds contained in 14.17.34 were set in October 2006 following an Ofgem decision on GB ECM 05
- The values set in 2006 have not been subject to indexation and therefore do not reflect present day value
- As an indication, applying inflation to the current threshold levels produces c. 50% increase to each of the values

TCMF (timing and impact)

- At NGENSO's TCMF on 4th of February it was tabled that three generators will be impacted
- End of charging year reconciliation based on thresholds as at 31st of March 2022 is imminent
- A significant commercial impact was noted to be at least £250k per generator, in line with CUSC section 14.17.34

Proposal: The Manifest Error thresholds CUSC Sect 14.17.34 to be indexed, from when the values were implemented

Current Impact

	Impact	Party
Outdated Threshold	<ul style="list-style-type: none"> • Current manifest error thresholds currently sit at +/- £0.5/kW or £250k • GB ECM 05 justified the materiality levels in October 2006: In their decision, Ofgem noted the solution did not discriminate between classes of users 	All
Unexpected Impact to TNUoS	<ul style="list-style-type: none"> • Unexpected financial impact of at least £250,000 to each (3 of) generators involved per TCMF slides presented 3rd Feb 2022 • Causing unpredictable financial impact to fixed TNUoS tariffs set over a year in advance 	Generators / Suppliers

Solution: An indexed error threshold will reduce the possibility of future ESO errors impacting Users directly

Solution

Enduring

- To apply an indexation approach to the manifest error thresholds
 - RPI* would be used from October 2006 until March 2021 to update and fix values in the CUSC
 - To account for inflation thereafter, an additional line of text will be included in CUSC Section 14.17.34 stating that the thresholds will be indexed by Transmission Owner Price Index (TOPI)
- The approach to indexation would be similar to that set out in CUSC Section 4, 4.5 (Indexation) but would use TO Price Indexation (as per CMP356) accounting for CPIH per current TO price control revenues
- Assuming implementation before the end of the charging year, the proposal will not be applied retrospectively to years prior to the current charging year (*April 2021 to March 2022*)

* Office for National Statistics data will be used

CUSC Section 14.17.34

A manifest error shall be considered material in the event that such an error or, the net effect of multiple errors, has an impact of the lesser of either:

- a) an error in a User's TNUoS tariff of at least +/-£0.74/kW; or
- b) an error in a User's TNUoS tariff which results in an error in the annual TNUoS charge of a User in excess of +/-£370,384.

Thresholds are stated in 2020/21 money and will be indexed annually by TOPI thereafter.

(Revised CUSC text)