ESO

Draft TNUoS Tariffs 23/24 Webinar

Q&A Summary – 15/12/22

Introduction

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Purpose	To summarise the questions asked as part of the TNUoS draft tariffs webinar and the answers provided by the presenters.
Date:	15/12/2022

A webinar was held on 15th December 2022 to outline the ESO's TNUoS draft tariffs.

Reference documents:

- Draft TNUoS Tariffs webinar slides, here
- Draft TNUoS Tariffs webinar recording, here

The following questions were asked, and answers provided during the webinar Q+A slot:

#	Question	Answer
1	Can you reconfirm the inflation actuals and forecast used?	Most onshore locational tariffs are linked to the average May-Oct CPIH, these values have been updated with the latest actual data from the Office of National Statistics (ONS), and therefore these are now fixed and will not change in the Final tariffs. Onshore TOs' revenue is linked to 12 months average CPIH and therefore is yet to be finalised. OFTO revenues and associated offshore local tariffs are slightly different as they are linked to RPI, these have also been updated with actual data from ONS (where available) which means that any tariffs associated to an OFTO whose indexation term is linked to September RPI have now been fixed, the inflation for any remaining projects currently includes our internal forecast data and will be finalised in January
2	Could you elaborate on the main drivers of the £108m reduction in demand revenue for 23/24, compared to your view at Aug-22 forecast please?	The £108million reduction in demand revenue for draft tariffs is driven by the reduction in the overall revenue recovery for 2023/24 and the reduction in demand revenue percentage. As the demand proportion of revenue fell by 1% this meant less revenue was collected overall by demand. For draft tariffs forecast, £106m of the £108m reduction in demand revenue is attributed to the residual element of demand. The locational element of demand revenue increased by £1m and the embedded export went up by £3m. We will have an updated TO onshore / offshore for final forecast tariffs submission which could swing recovered revenue for 2023/24.

3	Compared to Aug-22 forecast, the EHV non-locational tariffs on avg has come down by 15%. Is there any particular reason for this level of reduction?	The TDR tariff revenue for each banding is determined by the consumption apportion multiplied by total residual revenue. EHV updated consumption data compared to last year's update showed that consumption had reduced by 3.2%. The lower amount of residual revenue recovery for draft tariffs combined with lower overall apportion of revenue recovery from EHV customer segment meant that EHV banding had a greater reduction in TDR tariffs compared to other groups.
4	If offshore assets are yet to transfer / included in OFTO revenue does this get recovered via demand residual? Will this switch to generator post-transfer?	When we forecast revenue for offshore projects that have not yet asset transferred to an OFTO, the revenue that we expect to collect from the offshore generator is accounted for – this is approximately 80% of the total OFTO revenue. This amount does not enter the total revenue to be collected from demand residual, only the remaining portion that will be socialised is included in the revenue forecast.
5	Demand revenue and TDR demand tariffs - what inflation forecast has been used for revenue, is it still Mar-22 OBR?	Inflation that is applied to onshore TO revenues and a number of key charging parameters are based on CPIH values, whereas inflation that is applied to OFTO revenues is based on RPI values. For each we use actual data for the months available and beyond that we use a forecast provided to us by our Finance colleagues. We received our latest inflation forecast in November and this was used within the Draft forecast. The inflation forecast is updated for each tariff forecast submission; therefore, the Final tariff forecast submission will be updated new inflation assumptions.
6	If a ten-year forecast is produced for TNUoS then will this be published at the same time as the planned 5-year forecast in April, or stand alone?	Currently no further information is available on a 10-year forecast, although we can appreciate how useful this would be to industry parties. Internal discussions are taking place and as soon as any further information is available this will be shared via our usual comms channels.
7	Would your view of inflation for 23/24 change, when setting the 23/24 final tariffs in Jan-23? Thanks	It is important to highlight that most data would have been finalised prior to final tariffs. However, we will get an updated view of inflation for Final tariffs. We will be using the latest outturn data where possible. Internally we receive the latest values of the PCFM from our finance colleagues and our own internal inflation figures.
8	Compared to the 5yr forecast in Apr-22, the non-locational tariffs went up by 5.1% in the Aug-22 forecast. Compared to the Aug-22 forecast, the Nov-22 non-locational tariffs have come down by c.4.5%. Could you please explain the high-level reasons behind these type of swings between Aug-22 and Nov-22 forecast?	At the high level, the non-locational tariffs are heavily impacted by the revenue swing. As the demand revenue went up by approximately 4.5% for the 5-year forecast view to the August forecast, this meant that the residual element demand tariffs were going to go up by a similar amount as that's where c97% the demand tariff revenue is collected from. As there was a c.4% reduction in demand revenue this period, that falls under the residual element, which explains the similar decrease. The swing in demand revenue has a direct impact on non-locational tariffs.