CMP286 & 287
Improving TNUoS Predictability

Workgroup 16 recap

20.09.2023

The Defect

- Final TNUoS tariffs are published with a notice period of only 2 months.
- TNUoS tariffs are set by National Grid ESO by populating a number of inputs into the Transport & Tariff model
- Many of these inputs are difficult to predict and are not finalised until shortly before final tariff publication.
- In previous years, we have observed significant changes in both revenue and volume inputs between National Grids forecasts over a short period of time.
- This creates uncertainty around the level of final tariffs
- Given that market participants are trying to predict TNUoS costs as accurately as possible, large and late changes of inputs which significantly affect the calculation of TNUoS prices need to be avoided

Impact on Consumers

- Final TNUoS tariffs are published with a notice period of only 2 months. Suppliers are particularly vulnerable to the short notice period and are reliant on forecasting TNUoS tariffs many months ahead to provide their customers with the fixed price contracts they require.
- A typical domestic or business customer, whose meter is settled on non-half hourly data (NHH), and agrees a fixed price contract with their supplier will have TNUoS costs reflected within their contract rates.
- This will comprise a best view forecast plus an element of risk based on volatility and unpredictability of this charge for the period where final tariffs have not yet been published.
- If we consider a NHH two-year contract starting in October, TNUoS tariffs are only known for a quarter of the contracted period, the remaining three-quarters being reliant on a forecast.
- National Grid Quarterly Forecasts are the key source of this information for market participants, such volatility can cause unexpected price shifts across the market. This can result in customers bills which are not reflective of the costs that suppliers incur

The Solution

CMP286

The date at which Target Revenue to be recovered via TNUoS tariffs is fixed should be brought forward. These inputs should be fixed 15 months ahead of tariffs going live (i.e. 31st December in year t, for tariff year t+2).

CMP287

- The date at which certain parameters that feed into the TNUoS tariff setting process are fixed should be brought forward. These inputs should be fixed 15 months ahead of tariffs going live (i.e. 31st December in year t, for tariff year t+2).
- These inputs are including (but not limited to): the ‘tariff model peak demand MW’, ‘Tariff model HH demand MW’, ‘Tariff model NHH demand TWh’, gross Consumption by residual charging band and site count by residual charging band.

Ofgem Send Back

On 30th June 2023 Ofgem sent back CMP286 & CMP287 for two reasons.

(a) FMR presented with a single set of voting statements and legal text for both mods, despite the two never being formally amalgamated

(b) Lack of analysis of CMP287 alone – no Transmission Owner (TO) analysis on impact of fixing demand, and uncertainty of how often forecasts of demand have been incorrect

E.ON preferred option:

- keep both mods separate – not amalgamate
- Risk premia analysis has been separated more clearly into CMP286 & CMP287
- Resubmit CMP286 FMR to authority ASAP
- Explore how to demonstrate uncertainty of how often forecasts of demand have been incorrect

Revised Risk Premia analysis

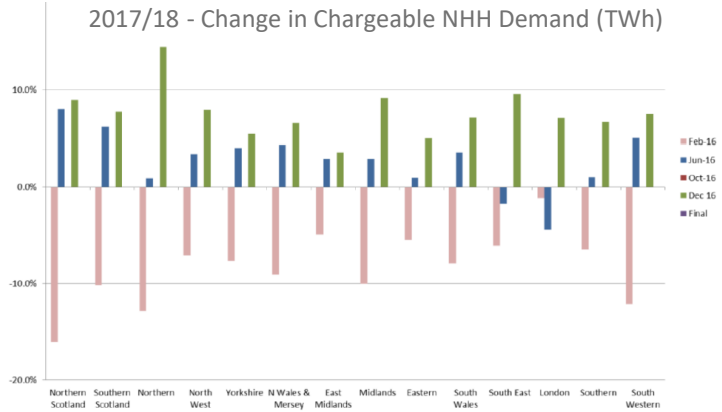
Risk Premia data/manipulation unchanged, but more clearly split into separate impacts for CMP286 and CMP287

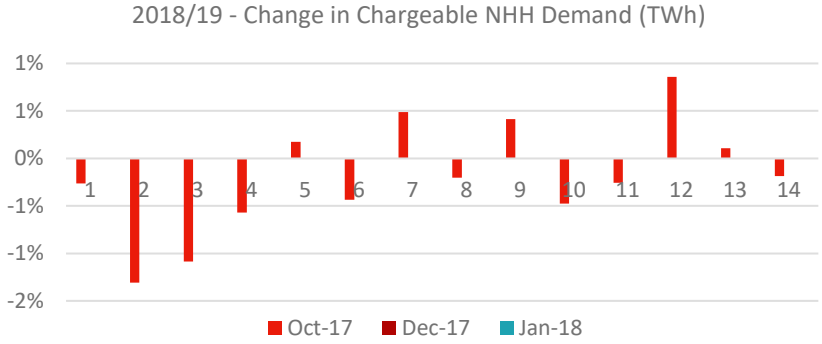
CMP286	2018 Demand				2022 Demand			
Scenario	Current Premia (£m)	CMP286 Premia (£)	Variance (£)	Variance (%)	Current Premia (£m)	CMP286 Premia (£)	Variance (£)	Variance (%)
Domestic A	22.9	17.9	-5.0	-22%	16.9	13.2	-3.7	-22%
Domestic B	28.2	20.2	-8.0	-28%	20.7	14.9	-5.9	-28%
Domestic C	27.8	24.1	-3.7	-13%	20.5	17.7	-2.7	-13%
Non-dom 100% fixed	105.8	80.5	-25.3	-24%	96.1	73.1	-23.0	-24%
Non-dom 75% fixed	79.4	60.4	-19.0	-24%	72.1	54.8	-17.2	-24%
Non-dom 50% fixed	52.9	40.3	-12.7	-24%	48.0	36.5	-11.5	-24%
Non-dom 25% fixed	26.5	20.1	-6.3	-24%	24.0	18.3	-5.7	-24%

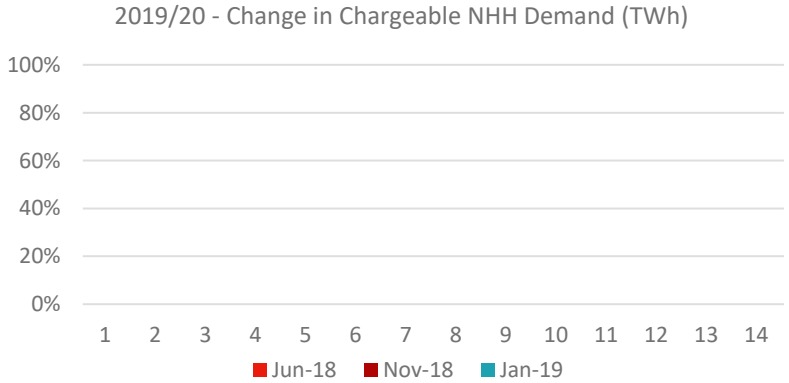
CMP287	2018 Demand				2022 Demand			
Scenario	Current Premia (£m)	CMP287 Premia (£)	Variance (£)	Variance (%)	Current Premia (£m)	CMP287 Premia (£)	Variance (£)	Variance (%)
Domestic A	22.9	16.9	-6.0	-26%	16.9	12.5	-4.4	-26%
Domestic B	28.2	19.1	-9.0	-32%	20.7	14.1	-6.7	-32%
Domestic C	27.8	23.0	-4.7	-17%	20.5	17.0	-3.5	-17%
Non-dom 100% fixed	105.8	75.9	-29.9	-28%	96.1	68.9	-27.2	-28%
Non-dom 75% fixed	79.4	56.9	-22.5	-28%	72.1	51.7	-20.4	-28%
Non-dom 50% fixed	52.9	38.0	-15.0	-28%	48.0	34.5	-13.6	-28%
Non-dom 25% fixed	26.5	19.0	-7.5	-28%	24.0	17.2	-6.8	-28%

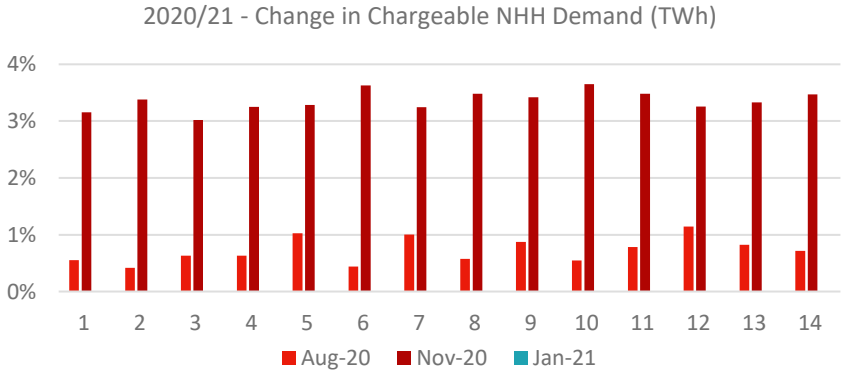
CMP287 Demand Variation

NHH chargeable demand variation for the last four years, prior to demand impacts of Covid-19 and war in Ukraine









Summary

- CMP286 & CMP287 aim to fix certain revenue and volume inputs used in the TNUoS tariff setting process 15 months in advance of charges taking effect.
- This will allow suppliers more certainty when pricing fixed products, thereby reducing the level of risk charges applied.
- Following Ofgem Send back, E.ON preferred route forward
  - keep both mods separate – not amalgamate
  - Risk premia analysis separated more clearly into CMP286 & CMP287
  - Resubmit CMP286 FMR to authority ASAP
  - Explore how to demonstrate uncertainty of how often forecasts of demand have been incorrect