

CUSC Modification Proposal Form		At what stage is this document in the process?												
<h1 style="margin: 0;">CMP287</h1> <p style="margin: 10px 0 0 0;">Mod Title: Improving TNUoS Predictability Through Increased Notice of Inputs Used in the TNUoS Tariff Setting Process.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">01</td> <td style="border: 1px solid #ccc; border-radius: 5px; background-color: #00a651; color: white; text-align: center; font-weight: bold;">Proposal Form</td> </tr> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">02</td> <td style="border: 1px solid #ccc; border-radius: 5px; text-align: center; font-weight: bold;">Workgroup Consultation</td> </tr> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">03</td> <td style="border: 1px solid #ccc; border-radius: 5px; text-align: center; font-weight: bold;">Workgroup Report</td> </tr> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">04</td> <td style="border: 1px solid #ccc; border-radius: 5px; text-align: center; font-weight: bold;">Code Administrator Consultation</td> </tr> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">05</td> <td style="border: 1px solid #ccc; border-radius: 5px; text-align: center; font-weight: bold;">Draft CUSC Modification Report</td> </tr> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">06</td> <td style="border: 1px solid #ccc; border-radius: 5px; text-align: center; font-weight: bold;">Final CUSC Modification Report</td> </tr> </table>		01	Proposal Form	02	Workgroup Consultation	03	Workgroup Report	04	Code Administrator Consultation	05	Draft CUSC Modification Report	06	Final CUSC Modification Report
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06	Final CUSC Modification Report													
<p>Purpose of Modification: The purpose of this modification proposal is to improve the predictability of TNUoS demand charges by bringing forward the date at which certain parameters used in TNUoS tariff setting (such as demand forecasts) are fixed to allow customer prices to more accurately reflect final TNUoS rates.</p>														
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> assessed by a Workgroup and determined by the Authority <p>This modification was raised on 10 October 2017 and will be presented by the Proposer to the Panel on 20 October 2017. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>													
	<p>High Impact: Suppliers, Generators, embedded generators and National Grid</p>													
	<p>Medium Impact: None</p>													
	<p>Low Impact: None</p>													

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Draft Timetable			 email address.
			 telephone
The Code Administrator recommends the following timetable:			
Initial consideration by Workgroup		w/c 27/11/2017	
Workgroup Consultation issued to the Industry		02/05/2018	
Modification concluded by Workgroup		18/07/2018	
Workgroup Report presented to Panel		27/07/2018	
Code Administration Consultation Report issued to the Industry (15 WD)		30/07/2018	
Draft Final Modification Report presented to Panel		23/08/2018	
Modification Panel decision		31/08/2018	
Final Modification Report issued the Authority		07/09/2018	
Indicative Authority Decision Date		05/10/2018	
Decision implemented in CUSC		01/04/2019	

Proposer Details

Details of Proposer: (Organisation Name)	npower
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or “National Consumer Council”)	CUSC Party
Details of Proposer’s Representative: Name: Organisation: Telephone Number: Email Address:	Daniel Hickman npower 0121 336 5256 Daniel.hickman@npower.com
Details of Representative’s Alternate: Name: Organisation: Telephone Number: Email Address:	George Douthwaite npower 0121 336 5322 George.douthwaite@npower.com
Attachments (Yes/No): If Yes, Title and No. of pages of each Attachment:	

Impact on Core Industry Documentation.
Please mark the relevant boxes with an “x” and provide any supporting information

BSC	<input type="checkbox"/>
Grid Code	<input type="checkbox"/>
STC	<input type="checkbox"/>
Other	<input type="checkbox"/>

(Please specify)

This is an optional section. You should select any Codes or state Industry Documents which may be affected by this Proposal and, where possible, how they will be affected.

1 Summary

Defect

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 two-year fixed price contract with their supplier will have TNUoS cost 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.

TNUoS tariffs are set by National Grid System Operator populating a number of inputs into the charging methodology models. Whilst there are some aspects of TNUoS forecasting which are manageable by suppliers and generators, some of these inputs may be known by National Grid but are not published until final tariff setting. In addition, some inputs are fully under the control of National Grid and there is no published methodology on how these are calculated. System and half hourly triad demand, and non-half hourly evening volumes all fall into this category. TNUoS tariffs can be extremely sensitive to these inputs. Market participants are fully reliant on National Grid to provide a view of those inputs through their Quarterly TNUoS forecasting process.

In recent years, we have observed large changes in these volume inputs between National Grid's forecasts over a short period of time. National Grid have confirmed that this has been as a result of 'methodology changes and improvements' to forecasting. However, this results in significant regional changes between National Grid's own quarterly forecasts, draft and final tariffs over very short periods of time. These changes also result in movements between half hourly and non-half hourly tariffs. Given that these National Grid Quarterly Forecasts are the 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.

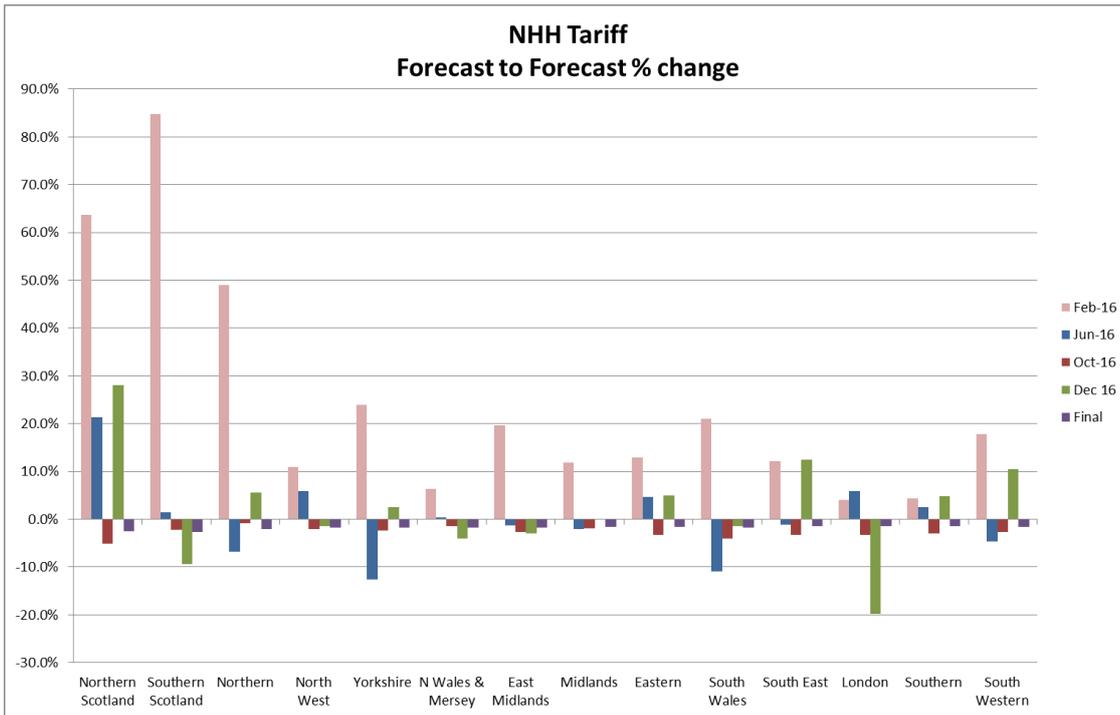
National Grid has endeavoured to assure industry that those inputs are becoming more stable. However National Grid acknowledge they are still highly likely to change these inputs. Given that market participants are trying to predict TNUoS costs as accurately as possible, large and late changes of inputs which significantly affect the calculation of TNUoS prices need to be avoided. Unexpected changes to inputs could have a detrimental impact to those customers who have been contracted using forecast tariffs.

Non Half Hourly Tariff setting for 2017/18 illustrates the issue:

National Grid made changes to the forecasting methodology of their demand forecast inputs in the lead up to publishing tariffs for 2017/18. This process and the risks were not clearly explained to the industry which led to significant volatility in NHH tariffs over four months between October and January.

Graph 1 demonstrates the percentage change to tariffs from one National Grid's forecast to the next for the 2017/18 charging year. It clearly shows volatility. The relationship between the tariff volatility and National Grid's demand forecast volatility is shown on Graph 5-8.

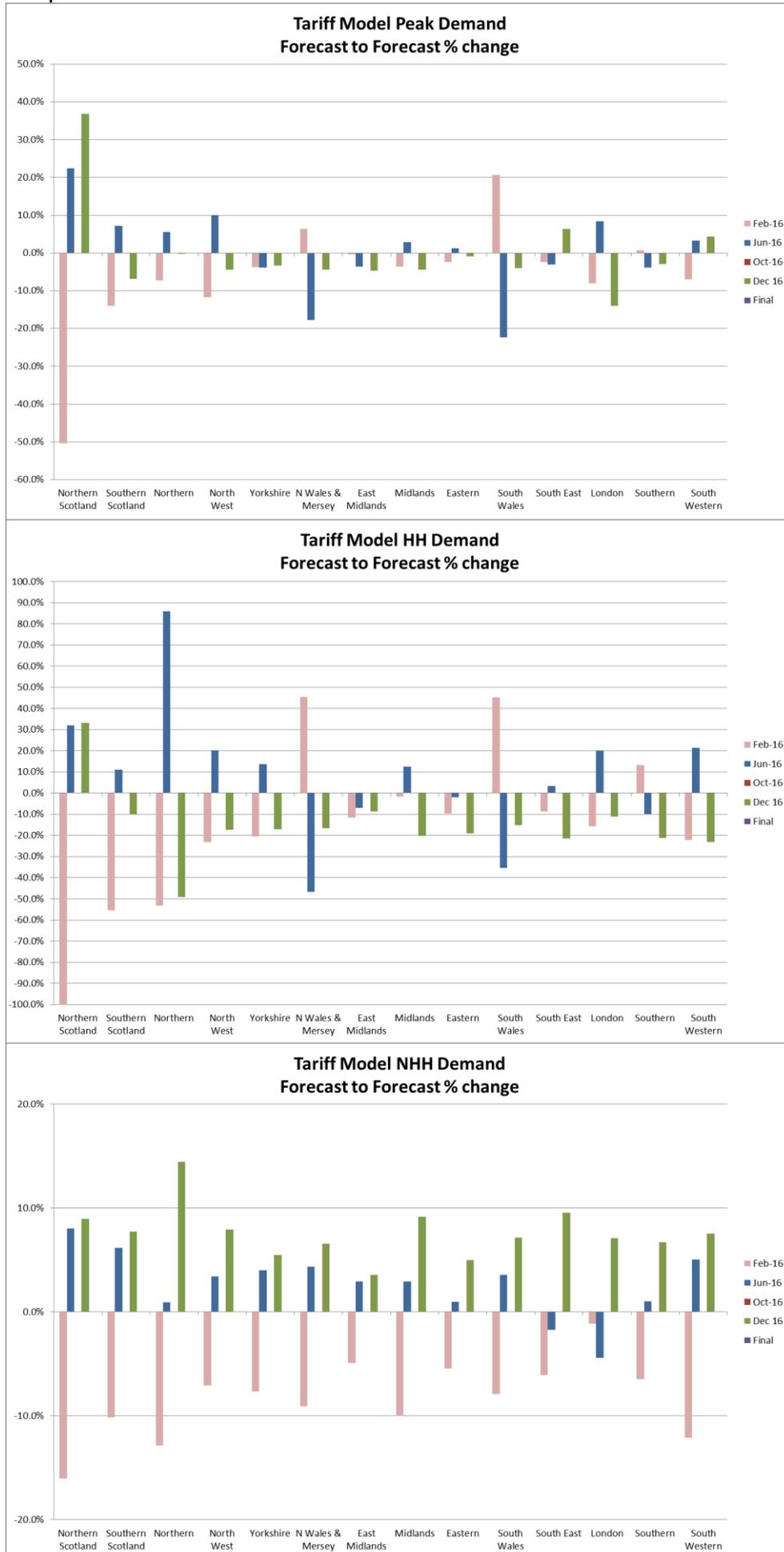
Graph 1



The main driver of this regional forecast volatility is the forecast demand by region due to trying to better forecast embedded generation.

The following charts (Graph 2-4) show the percentage change to demand forecasts from one National Grid's forecast to the next for the 2017/18 charging year.

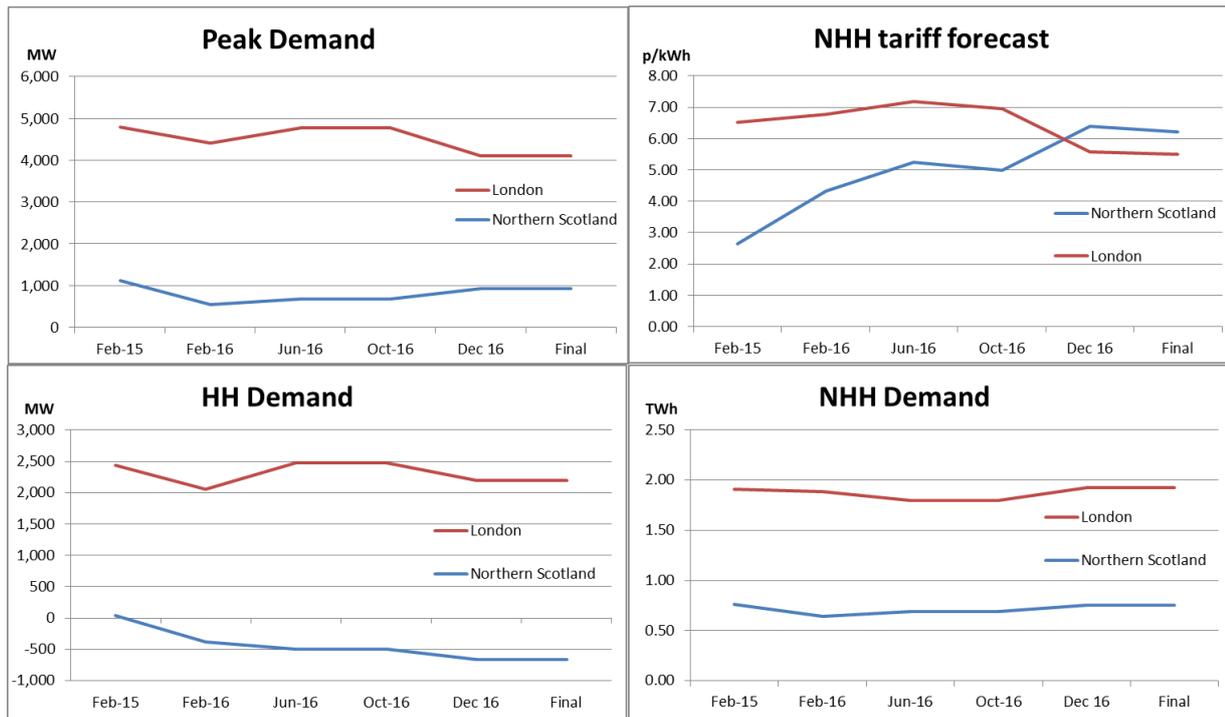
Graphs 2-4



What

Forecasts of certain parameters that feed into the TNUoS tariff setting process (including but not limited to the ‘tariff model peak demand MW’, ‘Tariff model HH demand MW’ and ‘Tariff model NHH demand TWh’) are currently volatile and can have significant impact to commercial arrangements offered to customers. These input changes are a significant driver of unpredictable volatility, as shown by the change in TNUoS tariffs forecast by National Grid.

Graph 5-8



How

The date at which forecasts of certain parameters that feed into the TNUoS tariff setting process (including but not limited to the ‘tariff model peak demand MW’, ‘Tariff model HH demand MW’ and ‘Tariff model NHH demand TWh’) are fixed should be brought forward so that they are fixed earlier in the process to align customer pricing timeline expectations. We would suggest that these inputs should be fixed 15 months ahead of tariffs going live (i.e. 31st Dec yy for tariff year yy+2/yy+3). This aligns with supplier / customer pricing timeline expectations and is consistent with the timescales committed to by DNOs.

2 Governance

Justification for Normal Procedures

This modification should follow the normal governance procedure.

Requested Next Steps

This modification should be assessed by a Workgroup

Requested Next Steps

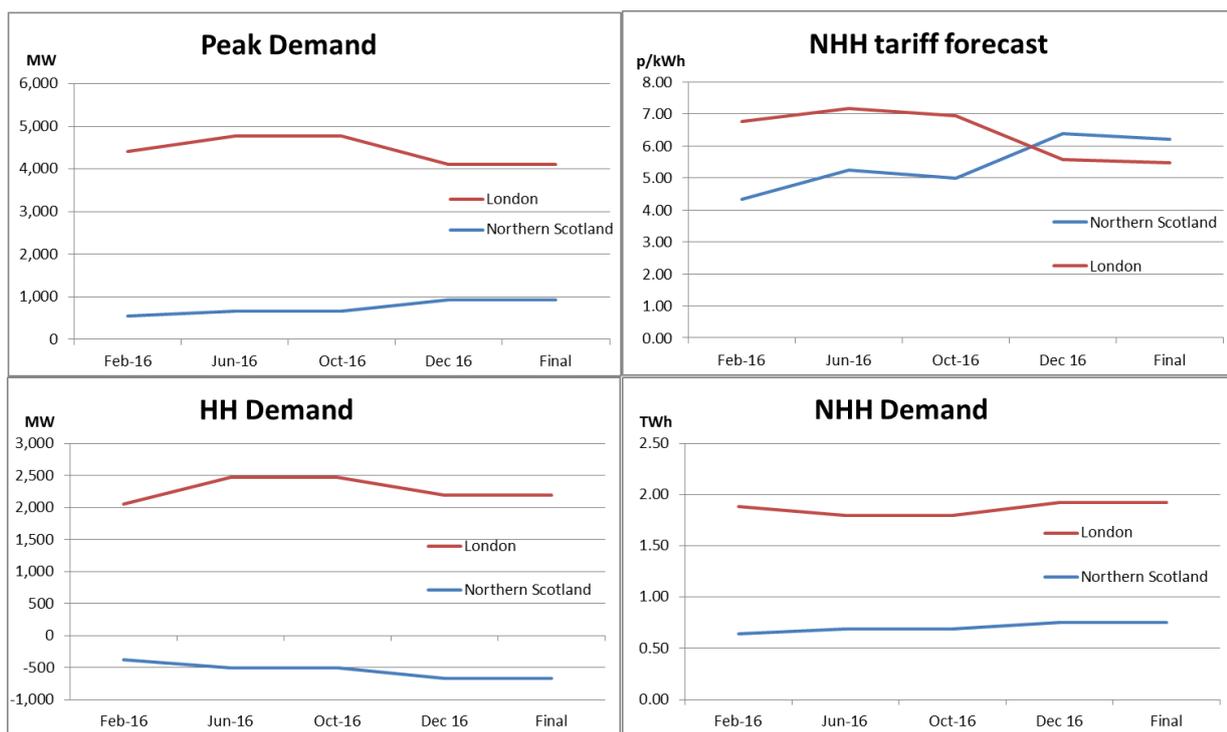
This modification should:

- be assessed by a Workgroup

3 Why Change?

Forecasts of certain parameters that feed into the TNUoS tariff setting process (including but not limited to the ‘tariff model peak demand MW’, ‘Tariff model HH demand MW’ and ‘Tariff model NHH demand TWh’) are currently volatile and can have significant impact to commercial arrangements offered to customers. These input changes are a significant driver of unpredictable volatility, as shown by the change in TNUoS tariffs forecast by National Grid.

Graphs 5-8



This makes predicting TNUoS tariffs to include in customer pricing extremely challenging resulting in the need for suppliers to include risk premia.

A typical domestic or business customer, whose meter is settled on non-half hourly data (NHH), and agrees a two-year fixed price contract with their supplier will have reflected within their contract rates TNUoS cost. 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.

In recent years, we have observed large changes in these volume inputs between National Grid's forecasts over a short period of time. This results in significant regional changes between National Grid's own quarterly forecasts, draft and final tariffs. These changes also result in movements between half hourly and non-half hourly tariffs. Given that these National Grid Quarterly Forecasts are the 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. Given that market participants are trying to predict TNUoS costs as accurately as possible for customer pricing, large and late changes of these inputs, which will significantly affect the calculation of TNUoS prices, need to be avoided.

Locking down these inputs earlier in the process removes this element of uncertainty and will allow suppliers to more accurately reflect the final TNUoS tariffs in customers' bills. It will reduce the risk premia.

4 Code Specific Matters

Mandatory for the Proposer to complete. Please provide any specialist information (that is Code-specific), such as technical skillsets required and any reference documents.

Technical Skillsets

Insert text here *Provide the required technical skillset that will be required to assess this modification.*

Reference Documents

Insert text here *Provide any reference documents that need to be considered.*

5 Solution

The date at which forecasts of certain parameters that feed into the TNUoS tariff setting process (including but not limited to the 'tariff model peak demand MW', 'Tariff model HH demand MW' and 'Tariff model NHH demand TWh') are fixed should be brought forward so that they are fixed earlier in the process to align customer pricing timeline expectations. We would suggest that these inputs should be fixed 15 months ahead of tariffs going live (i.e. 31st Dec yy for tariff year yy+2/yy+3). This aligns with supplier / customer pricing timeline expectations and is consistent with the timescales committed to by DNOs.

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

We do not believe this modification impacts any areas within the scope of the current SCR

Consumer Impacts

Customer costs reduced through a reduction in supplier risk premia since there will be more certainty around TNUoS forecasts.

Customers' bills will be more reflective of the costs that suppliers incur.

7 Relevant Objectives

Mandatory for the Proposer to complete. Please delete the CUSC Objectives that is not applicable.

Impact of the modification on the Applicable CUSC Objectives (Charging):

Relevant Objective	Identified impact
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;	Positive
(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);	Positive
(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses*;	None
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1; and	None
(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.	None

*Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

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.

This modification will give more certainty to inputs into the TNUoS Charging Methodology that market participants cannot forecast, thereby making the costs that customers pay more reflective of the final charge and consequently reduce the risk premia charged by suppliers. This will reduce the price distortions in the competitive market thereby facilitating effective competition in retail energy supply.

8 Implementation

As soon as practicably possible.

9 Legal Text

Legal text changes to be developed by the working group

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Normal governance procedures should apply
- Refer this proposal to a Workgroup for assessment.