

Code Administrator Consultation Response Proforma

CMP286: Improving TNUoS Predictability Through Increased Notice of the Target Revenue used in the TNUoS Tariff Setting Process

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@nationalgrideso.com by **5pm on 05 January 2024**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact Catia Gomes catia.gomes@nationalgrideso.com or cusc.team@nationalgrideso.com.

Respondent details		Please enter your details	
Respondent name:	George Moran		
Company name:	Centrica		
Email address:	George.moran@centrica.com		
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Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network <input type="checkbox"/> Operator <input type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input checked="" type="checkbox"/> Supplier <input type="checkbox"/> System Operator <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input type="checkbox"/> Other	

I wish my response to be:

(Please mark the relevant box)

Non-Confidential

Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

For reference the Applicable CUSC (charging) Objectives are:

- 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;*
- 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);

- 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;
- d. Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and
- e. Promoting efficiency in the implementation and administration of the system charging methodology.

**The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.

Please express your views in the right-hand side of the table below, including your rationale.

Standard Code Administrator Consultation questions		
1	Please provide your assessment for the proposed solution(s) against the Applicable Objectives?	Mark the Objectives which you believe the proposed solution(s) better facilitates:
		Original <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WA(G)CM1 <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		Yes, both CMP286 and WACM1 better facilitate Applicable Objective (a) by providing more certainty of aggregate expected TNUoS revenues to be charged to suppliers. This will reduce risk premia related to variables which the TOs and ESO are much better placed to forecast than suppliers and should focus the minds of TOs to improve their forecasts.
2	Do you have a preferred proposed solution?	<input checked="" type="checkbox"/> Original <input type="checkbox"/> WA(G)CM1 <input type="checkbox"/> Baseline
		On balance we consider the Original to be the best solution.
3	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		Click or tap here to enter text.
4	Do you have any other comments?	We consider changes made to RIIO-2 price control arrangements have materially improved the benefits case

of this change, when compared with CMP244. Since CMP244, RIIO-2 has increased the risks faced by suppliers relating to inaccuracies in TO expenditure forecasts whilst it has reduced the risk that TOs are exposed to.

In RIIO-1, suppliers could rely on a two-year lag of price control true-ups introduced by Ofgem following the conclusions of its review of volatility in network charges in 2013. However, these lags have been removed in RIIO-2, greatly increasing the exposure of suppliers to inaccuracies in TO expenditure forecast. The risks faced by suppliers in RIIO-2 is therefore much higher than when CMP244 was assessed and this has been further exacerbated by Ofgem's decision to delay publication of the PCFM to 31 January.

Similarly, whilst it is true to say that the transmission owners can bring forward large scale transmission projects (relative to distribution) and RIIO-2 introduced more uncertainty mechanisms (volume drivers and re-openers), a key development in RIIO-2 is that TOs are now able to update forecasts of these costs and all other elements of expenditure on an annual basis through the annual iteration process.

The TOs should have good foresight of their expected level of general expenditure, when they will be bringing forward a large project, or what they will be requesting in a re-opener etc. and therefore they have significantly more control in RIIO-2 relative to RIIO-1 to ensure their forecasts of allowed expenditure are more aligned with their profile of actual expenditure.

Whilst TOs have more control over the forecasts of allowed expenditure, suppliers are unable to rely on the TOs forecasting on a best endeavours basis particularly for years beyond the upcoming charging year. This is because the TOs have little incentive to forecast accurately until the forecasts they provide impact the revenues used for charge setting. This is illustrated by the £433m (11%) increase in TNUoS revenue target for 2023/24 between draft tariffs (published in Nov-22) and final tariffs (published in Jan-23). This material movement in target revenues was primarily driven by TOs choosing not to reflect higher inflation expectations which were plainly visible to them at the time of draft tariffs.

		<p>Therefore, fixing allowed revenues 15 months in advance will focus the TOs' efforts on ensuring forecasts of expenditure and revenues for all years (t+2 and beyond) are on a best endeavours basis.</p> <p>We are also unconvinced that the TO licence changes highlighted are strictly necessary. The DNOs provide 15 months' notice of final charges without having to lock down allowed revenue for year t+2 (i.e. it is based on a forecast of allowed revenue). We see no reason why the TO licence arrangements need to be any different.</p>
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