

Workgroup Consultation Response – Pro-Forma

CMP287: ‘Improving TNUoS Predictability Through Increased Notice of Inputs 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 by **5pm on 23 May 2019** to cusc.team@nationalgrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the CUSC Modifications Panel when it makes its final determination.

These responses will be included in the Final CUSC Modification Report which is submitted to the CUSC Modifications Panel.

Respondent:	<i>Binoy Dharsi (binoy.dharsi@edfenergy.com)</i>
Company Name:	EDF Energy
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	<p>For reference, the Applicable CUSC objectives are:</p> <p>(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;</p> <p>(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);</p> <p>(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;</p> <p>(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</p> <p>(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.</p> <p>*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).</p>

	<p>We believe that this modification better facilitates Applicable CUSC objective (a). Removing risk premia to allow more effective competition between suppliers and removes additional cost to consumers.</p> <p>We believe that this modification better facilitates Applicable CUSC objective (b)</p> <p>We are neutral on Applicable CUSC objectives (c), (d) and (e)</p>
<p>Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.</p>	<p>Yes. CMP287 seeks to fix components within the TNUoS Charging Model that will significantly reduce NHH demand tariff volatility which historically have been changed at very short notice (a few months prior to the effective date) and has caused windfall gains and losses for customers and suppliers. It is therefore better than the baseline.</p> <p>EDF Energy also wishes to raise an alternative request (form enclosed separately to this response) which still achieves lowering the risk premia applied to customer contracts but by fixing the components 6-8 months ahead of the TNUoS tariff effective/implementation date.</p> <p>We are satisfied that the use of risk premia to address the defect is supported with quantifiable evidence through a RFI conducted by National Grid. The analysis clearly shows that customers are being penalised by the inclusion of a risk premia on contract offers by suppliers due to the instability of certain components that derive demand tariffs. This risk is best placed to be managed by National Grid ESO when deriving demand tariffs.</p> <p>We note that the defect has not always been as significant as the one that occurred in 2017/18 which prompted this modification to be raised but the threat of such an occurrence in future is enough for suppliers to continue including risk premiums. This appears to be backed-up in the risk premium analysis from the RFI in Appendix 2 of the workgroup consultation report.</p>
<p>Do you have any other comments?</p> <p>Who should bear the risk of TNUoS volatility – the market, or the ESO? Why?</p>	<p>EDF Energy raised CMP244 in May 2015 which aimed to set all tariff components between 6 and 8 months prior to the effective date and this was submitted to the authority for determination.</p> <p>The modification was rejected by the authority due to a lack of quantifiable evidence which CMP287 now provides.</p> <p>The reason for the lack of quantifiable evidence at the time was due to suppliers being unwilling to divulge any confidential information in the format requested.</p> <p>The RFI analysis conducted for CMP287 shows customers would see a reduction or even removal of risk premia for contracts up to 24 months from the effective date. We therefore support the 15-month original proposal but understand that the greater the stability sought can lead to less cost reflective tariffs.</p> <p>We would like to note that other components are fixed even</p>

	<p>further in advance than the 6-8 months we propose to raise as an alternative. For example, the exchange rate, that is in the formula to comply with EC838/2010 is taken from the Economic and Fiscal Outlook published by the Office of Budgetary Responsibility in March (circa twelve months before the effective date).</p> <p>In summary we believe this risk is best placed to be managed by National Grid ESO when deriving demand tariffs.</p>
<p>Is 15 months the optimum time period? If you disagree, please suggest a timeframe and reasoning.</p>	<p>We support setting parameters in the charging model 15 months in advance to allow for TNUoS tariff stability, but we do not necessarily agree that this is the optimal time period just because it aligns with DUoS charge setting. DUoS charges are, in their entirety, set 15 months in advance, this defect seeks to only fix certain components. In the CMP244 workgroups it was demonstrated that there needs to be a reasonable balance in fixing parameters so that it will not exacerbate other risks but still continue to provide a meaningful benefit in lowering risk premia for customers.</p> <p>Analysis provided by EDF Energy at the time showed that non-domestic customers contracted through TPI channels secured a significant amount of volume approximately 7 months prior to the effective date.</p> <p>For clarity, this does not mean we do not support 15 months advance notice of fixing parameters.</p>
<p>Please provide comment on the benefits analysis contained in Annex 2.</p>	<p>The analysis conducted through the RFI provides quantifiable evidence that risk premiums are applied to customers contracts. However, we feel that using the benefit analysis to determine the optimal length to fix parameters is not advisable because the RFI required suppliers to make some of their own assumptions on calculating risk premiums within information requested; this would inevitably return inconsistent premiums.</p> <p>We therefore conclude that we can only ascertain that risk premiums are applied to mitigate the risk of the defect and that in determining the correct length of time it is best to look at other factors such as contractual behaviour and minimising other risks.</p>