

## Workgroup Consultation Response Proforma

### CMP286 & CMP287: Improve TNUoS predictability through increased notice of the Target Revenue (CMP286) and inputs (CMP287) 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](mailto:cusc.team@nationalgrideso.com) by **5pm on 9 May 2022**. 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 Paul Mullen [paul.j.mullen@nationalgrideso.com](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com)

Respondent details	Please enter your details
<b>Respondent name:</b>	Paul Bedford
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#### 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.*

*\*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).*

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

Standard Workgroup Consultation questions												
1	Do you believe that the Original Proposal and WACM1/WACM1 better facilitates the Applicable Objectives?	Mark the Objectives which you believe the Original solution better facilitates:										
		<table border="1"> <tr> <td>Original</td> <td><input checked="" type="checkbox"/>A</td> <td><input checked="" type="checkbox"/>B</td> <td><input type="checkbox"/>C</td> <td><input type="checkbox"/>D</td> <td><input type="checkbox"/>E</td> </tr> <tr> <td>WACM1</td> <td><input checked="" type="checkbox"/>A</td> <td><input checked="" type="checkbox"/>B</td> <td><input type="checkbox"/>C</td> <td><input type="checkbox"/>D</td> <td><input type="checkbox"/>E</td> </tr> </table>	Original	<input checked="" type="checkbox"/> A	<input checked="" type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E	WACM1	<input checked="" type="checkbox"/> A	<input checked="" type="checkbox"/> B	<input type="checkbox"/> C
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WACM1	<input checked="" type="checkbox"/> A	<input checked="" type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E							
<p>We note that only the Original proposal has been formally raised in the CUSC workgroup and so we have not commented upon WACM1. The Original proposal improves transparency and foresight in the tariff setting process which results in benefits aligned with Applicable CUSC Objectives a) and b).</p> <p>For Applicable objective a), improving transparency and giving greater certainty to inputs into the TNUoS Charging Methodology should enable suppliers to compete more vigorously around the costs that are within their control.</p> <p>That focus will increase the competitive pressure across suppliers leading to economically efficient prices for consumers. It will also enable suppliers to better reflect the actual TNUoS costs in charges to customers and reduce (if not remove) any risk premia that is currently included in charges to mitigate the uncertainty in forecasting transmission network charges.</p> <p>For Applicable objective b), if Target Revenue (CMP286) and parameters that feed into the TNUoS tariff setting process (CMP287) are fixed 15 months ahead of TNUoS tariffs going live, and the ESO holds the risk of forecasting error rather than Suppliers (who have no ability to control such a risk), then it will incentivise the ESO to forecast charges more accurately.</p> <p>In addition, changes to the methodology would align the CUSC with the DCUSA for which the notification for changes to Distribution Use of System charges is 15 months. This would create greater cross-code alignment.</p> <p>We also note that CMP244, which previously sought to set all tariff components between 6 and 8 months prior to the effective date, was rejected by Ofgem due to a lack of quantifiable evidence. Reflecting that oversight, CMP286/CMP287 includes the necessary supporting analysis.</p> <p>That analysis shows that customer prices include risk premia reflecting suppliers' exposure to uncertain cost</p>												

		elements, such as TNUoS. We believe the ESO is better placed to mitigate the risk of TNUoS uncertainty as they understand the underlying cost drivers far better than Suppliers and can therefore forecast them more accurately, and they can also better manage the exposure because they will have a lower cost of capital than many suppliers.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>We support the proposed solution for Target Revenue to be fixed 15 months ahead of TNUoS tariffs going live (CMP286) and for certain parameters that feed into the TNUoS tariff setting process to be fixed 15 months ahead of tariffs going live (CMP287). We also support the 1 April 2024 implementation date subject to a decision by Ofgem no later than 31 October 2022.</p>
3	Do you have any other comments?	Not at this time.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>Click or tap here to enter text.</p> <p>Click or tap here to enter text.</p> <p>Click or tap here to enter text.</p>

### Specific Workgroup Consultation questions

5	The Workgroup have concluded that if the CMP286 and CMP287 Original are approved, the risk premia that Suppliers price into contracts will be reduced. Do you agree with this conclusion? Please provide rationale for your response.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>Yes, we agree with the conclusion. As stated within the consultation, a customer with a two-year fixed price contract with their Supplier starting in October will only have visibility and certainty of TNUoS tariffs for approximately a quarter of the contracted period and for the remaining three quarters will be reliant upon forecasted Network charges. Feedback from Suppliers to the ESO's open letter of May 2018 confirmed that risk</p>
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		premiums have been added by Suppliers to transmission charge tariffs to reflect the uncertainty that demand forecasts have on fixed term contracts. Analysis also showed that average risk premia on certain contracts would decrease based upon data provided by Suppliers.
6	Does the CMP286 and CMP287 Original Proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how? <i>Confidential Information can be shared with Ofgem directly</i>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>In line with our response to Q5) the proposed increase in notice period from 2 months to 15 months' notice ahead of TNUoS tariffs going live (in line with the methodology used for DUoS) would reduce the degree of reliance on a forecast such that we would expect to reduce our risk premia to the benefit of end consumers. <a href="#">Click or tap here to enter text.</a></p>
7	Are there other options which could enable Suppliers to mitigate the issues the proposer is seeking to address via this modification, which could avoid the need for code/licence changes (as applicable)? Please provide rationale for your response.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>Not that we are aware of at this time. The primary source of data is the networks upon which we are reliant for the forecast data.</p>
8	Do you have any additional analysis that supports or counters the benefits of CMP286 and CMP287? Are you content to share this directly with Ofgem?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>Not at this time.</p>
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