

**Code Administrator Consultation Response Proforma****CMP286 & CMP287: Improving TNUoS Predictability through Increased Notice of the Target Revenue & 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 to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) by **5pm** on **1 November 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 Jennifer Groome [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>	George Moran
<b>Company name:</b>	Centrica
<b>Email address:</b>	George.moran@centrica.com
<b>Phone number:</b>	07557 611983

**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.*

**CMP286 & CMP287****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. To promote 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 CMP286 & CMP287 Code Administrator Consultation questions		
1	Do you believe that the CMP286 & CMP287 Original Proposal and/or WACM1, better facilitates the Applicable Objectives?	Yes, both CMP286 & CMP287 Original and WACM1 better facilitate Applicable Objective (a) by providing more certainty of aggregate expected TNUoS charges faced by suppliers. This will reduce risk premia related to variables which the TOs and ESO are much better placed to forecast than suppliers.
2	Do you support the proposed implementation approach?	Yes
3	Do you have any other comments?	<p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>

	<p>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.</p> <p>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 (i.e. year t+1 only). Therefore, fixing allowed revenues 15 months in advance will focus the TOs efforts on ensuring forecasts of expenditure 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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