

## 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
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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 CMP286 and CMP287 Original proposal better facilitates the Applicable Objectives?	<p>Mark the Objectives which you believe the Original solution better facilitates:</p> <table border="1" data-bbox="614 416 1465 477"> <tr> <td data-bbox="614 416 855 477">Original</td> <td data-bbox="855 416 970 477"><input type="checkbox"/> A</td> <td data-bbox="970 416 1085 477"><input type="checkbox"/> B</td> <td data-bbox="1085 416 1200 477"><input type="checkbox"/> C</td> <td data-bbox="1200 416 1315 477"><input type="checkbox"/> D</td> <td data-bbox="1315 416 1465 477"><input type="checkbox"/> E</td> </tr> </table> <p>NGESO does not consider that the proposed solution better facilitates the Applicable Objectives.</p> <p>Fixing of the inputs (revenue and charging base) 15 months ahead of the TNUoS tariffs going live creates a large (when compared to NGESO Regulatory Asset Value) cashflow risk to NGESO. NGESO is an asset light business and cannot take on this additional cashflow risk due to cashflow risks that NGESO currently hold (e.g. BSUoS).</p> <p>From a process perspective, the solution may provide more certainty over a longer period and therefore does hold some positive change for (a). However, this is offset by potential for significant financial impact on NGESO as described in the previous paragraph.</p> <p>The end-to-end solution process is more complex than current which will require reconciliation of forecast errors to ensure recovery over future years. Due to this associated complexity, we believe that the solution is negative with respect to Applicable Objective (e).</p> <p>The solution outcome is a balance of longer-term certainty over process complexity. There is some ambiguity over realisation of reduced costs to the end consumer and this is dependent upon the application of risk premia by industry parties.</p> <p>NGESO consider that the challenges with respect to Applicable Objective (a) can be overcome with an alternative solution which we have proposed for consideration.</p>	Original	<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
Original	<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E			
2	Do you support the proposed	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No						

	<p>implementation approach?</p>	<p>If this solution, or the NGESO alternate, were to be approved, then revenue and demand charging inputs would be required to be fixed during Dec-22 for setting tariffs for two charging years Apr-23 and Apr-24. (During Dec-23, revenue and demand charging inputs would be required to be fixed for setting tariffs for charging year Apr-25.)</p> <p>To support implementation, a decision will be required by Ofgem by 31 October 2022.</p> <p>The reason that NGESO's response for implementation is positive is due to the assumption that consequential STCP Modifications and any licence changes will be progressed and completed in a timely manner. A whole end to end solution is required and all needs to be approved and implemented at the same time. Note that changes to the CUSC cannot be concluded in isolation.</p> <p>NGESO are concerned about the impact of the proposed solution on NGESO cashflow and the risks that this presents as an asset light business. NGESO has raised an alternative proposal to ensure that NGESO pass through costs are not locked down within this solution.</p>
3	<p>Do you have any other comments?</p>	<p>NGESO note the following additional comments regarding the solution:</p> <ul style="list-style-type: none"> <li>- NGESO are supportive of lower costs, transparency, and greater certainty to the end consumer. However, it is NGESO's view that the potential benefits for CMP286/287 solution are not certain nor can be tangibly/transparently identified for the consumer. It is not clear that the transfer of TNUoS risk premia from suppliers to TOs will lead to a certain reduction in cost to the end consumer. It is difficult to determine the value that will be realised by the transfer of risk premia from suppliers to TOs (&amp; NGESO).</li> <li>- Note that a new process to reconcile the larger difference between actual and recovered revenue will be required to ensure that this delta is recovered over future years. Early thoughts about how this change will be implemented according to the TO and ESO licences is that it will take upto three years (Y+1 to Y+3) to fully recover this delta.</li> </ul>

		<p>However, it is expected that most of this could be recovered within Y+1.</p> <ul style="list-style-type: none"> <li>- Consideration should be given to additional resource required by NGENSO and possibly TOs to maintain the solution.</li> <li>- The solution could be implemented to coincide with the start of RIIO-T3 to provide more advanced notice to market participants.</li> </ul>
4	<p>Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>NGESO wish to raise an alternative to the CMP286/287 Original solution, where the “ESO pass through” costs (c.£50m) are not locked down 15 months ahead of the TNUoS tariffs going live. NGENSO is an asset light business and cannot take on this additional cash flow risk. Note that £50m is small compared to c.£3bn (total TNUoS revenue) and so we are proposing to ringfence c.1.5% to enable a broader solution and significant reduction in risk to NGENSO.</p> <p>Please also see attached alternate form.</p> <p>Click or tap here to enter text.</p> <p>Click or tap here to enter text.</p>

Specific Workgroup Consultation questions		
5	<p>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.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Theoretically yes, however we are unable to determine yes/no since there are other areas of uncertainty to be considered:</p> <ul style="list-style-type: none"> <li>- Implementation on top of TDR changes is complex with a change to charging base (which will be determined through site counts).</li> <li>- Despite the fixing of revenue, variability remains due to generator background. Historically generator revenue has been more stable however, this could change as industry experiences more TOs and OFTOs market participants. Generator</li> </ul>

		<p>revenue is likely to be less stable in the future with more market participants.</p> <ul style="list-style-type: none"> <li>- For the reasons above historic revenue/charging base volatility may not be indicative of future volatility for revenue and charging base.</li> </ul>
6	<p>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></p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Fixing of the inputs (revenue and charging base) 15 months ahead of the TNUoS tariffs going live creates a large (when compared to NGENSO Regulatory Asset Value) cashflow risk to NGENSO and we consider that the risk is too great for the business. The alternate proposed by NGENSO will mitigate this impact.</p>
7	<p>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.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>NGESO welcome ideas from market participants. NGENSO do not have a view on this area on how suppliers could mitigate this risk.</p> <p>It is NGENSO's view that this is a suitable area for further evaluation by the TNUoS Task Force to consider and recommend that a review is considered for elements that drive volatility with TNUoS tariffs.</p>
8	<p>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?</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>NGESO do not have any additional analysis to add.</p>