nationalgrid

Stage 03: Workgroup Report

Connection and Use of System Code (CUSC)

CMP244 / CMP256

‘Set final TNUoS tariffs at least 15 months ahead of each charging year’ & ‘Potential consequential changes to the CUSC as a result of CMP244’

What stage is this document at?

01	Initial Written Assessment
02	Workgroup Consultation
03	Workgroup Report
04	Code Administrator Consultation
05	Draft CUSC Modification Report
06	Final CUSC Modification Report

CMP244 sought to increase the length of the notice period for TNUoS tariffs (currently 2 months) to a suggested period of 15 months. This has subsequently been changed by the Proposer to a notice period of 200 calendar days.

CMP256 seeks to introduce consequential changes to Section 3 and 11 of the CUSC, as a result of charging modification CMP244.

This document contains the discussion and conclusions of the Workgroups formed to develop and assess the CMP244 and CMP256 proposals.

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High Impact:
All parties liable for TNUoS and Transmission companies

Contents

Any Questions?

Contact:

Jade Clarke

Code Administrator

Jade.Clarke@nationalgrid.com

01926 653606

Proposer:

Binoy Dharsi

EDF Energy

Binoy.dharsi@edfenergy.com

About this document

This document is Workgroup Report for CMP244 and CMP256 which details the Workgroup discussions, responses to the Workgroup Consultation and the conclusions of the Workgroup.

An electronic copy of this document can be found via the following link; http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP244-and-CMP256/

Document Control

Version	Date	Author	Change Reference
0.1	24/02/2016	Code Administrator	Draft Workgroup Report for Workgroup comment

1 Summary

1.1 CMP244 was raised by EDF Energy and submitted to the CUSC Modifications Panel (the Panel) for their consideration in May 2015. A copy of this Proposal is provided in Annex 1. The Proposal first sought to extend the TNUoS tariff notice period to a period of at least 15 months (from the current 2 months). The Panel decided to send the Proposal to a Workgroup to be developed and assessed against the CUSC Applicable Objectives.

1.2 As part of the Workgroup discussions on CMP244, it was recognised that a consequential modification to Section 3 and Section 11 would be required if CMP244 was to be approved by the Authority. To address this, CMP256 was raised by EDF Energy and submitted to the CUSC Panel for their consideration in November 2015. A copy of this Proposal is provided in Annex 2. The CUSC Panel agreed that CMP256 should be considered by a Workgroup and decided it appropriate for the existing CMP244 Workgroup to also develop CMP256. It was proposed by the CUSC Panel that following an initial Workgroup Consultation for CMP256, that CMP244 and CMP256 should be considered in parallel, in particular, with a joint Code Administrator Consultation. See Figure 1 for an illustration of the proposed process for both modifications;

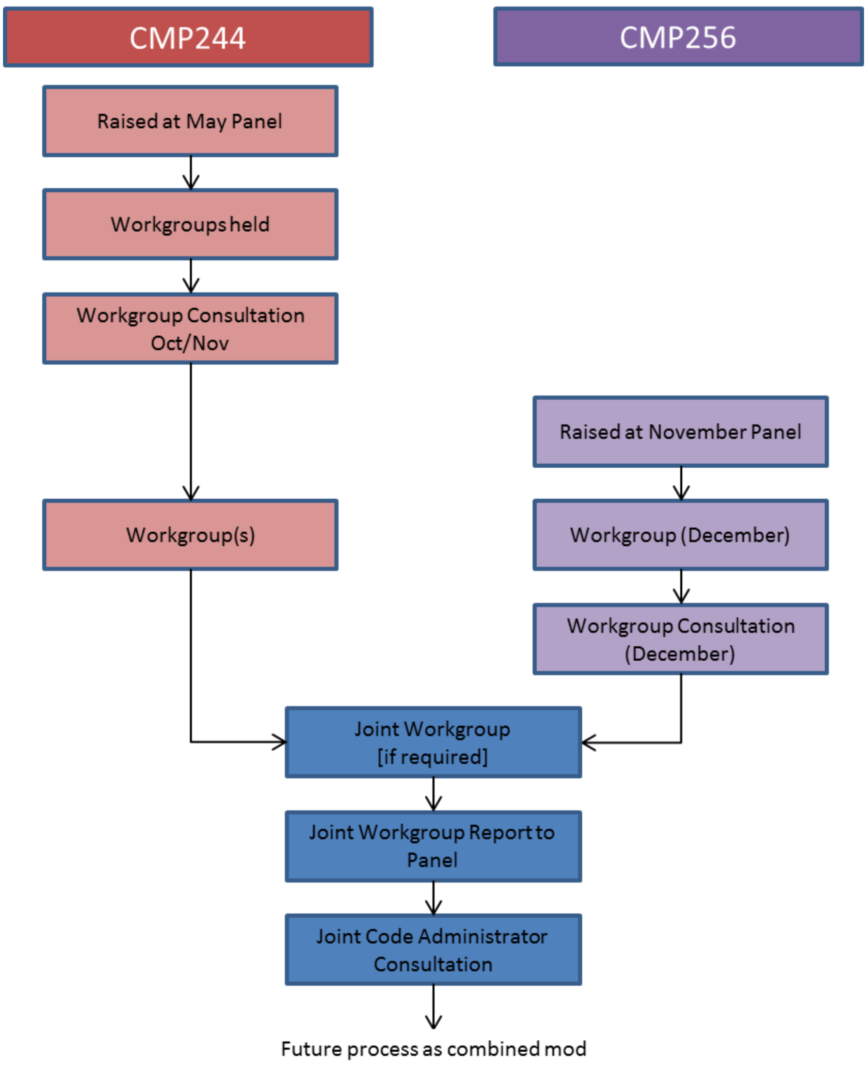


Figure 1 – Proposed process for CMP244 and CMP256

1.3 This document describes the CMP244 and CMP256 CUSC Modification Proposals, and summarises the deliberations and conclusions of the Workgroup. The Workgroup Terms of Reference can be found in Annex 3 for CMP244 and Annex 4 for CMP256.

Summary of CMP244

1.4 The Workgroup discussed the issues raised by the CUSC Modification Proposal and considered the risks and benefits associated with extending the TNUoS tariff notice period to 15 months (from the current 2 months). As a result of these discussions, the Proposer initially chose to change the Original Proposal in September 2015 – to consider a notice period of 6-8 months instead of 15 months. The Workgroup sought views from the Industry on this new notice period within their Workgroup Consultation.

1.5 Following the Workgroup Consultation, the Workgroup considered the responses received and the Proposer specified a specific time within the 6-8 months' notice period of 200 calendar days' notice to be included within the Original Proposal.

1.6 The Workgroup discussions, Workgroup Consultation responses and conclusions of the CMP244 Workgroup can be found in Sections 2, 3, 4 and 5 of this Report. Supporting information can also be found in the Annexes to this document.

Summary of CMP256

1.7 The CMP256 modification is purely consequential to CMP244 and its detail therefore depends on the CMP244 Original Proposal and any agreed Workgroup Alternative CUSC Modifications (WACMs) to CMP244.

1.8 The Workgroup discussions, Workgroup Consultation responses and conclusions of the CMP256 Workgroup can be found in Sections 6, 7, 8 and 9 of this Report.

1.9 This Workgroup Report has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid Website, http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP244-and-CMP256/, along with the Modification Proposal Forms.

Workgroup Conclusions

1.10 The CMP244 Workgroup met on 8th February 2016 to agree on any alternatives to the Original Proposal and to vote. There were no WACMs proposed for CMP244 so the Workgroup only voted on the Original Proposal. It was agreed by majority that CMP244 better met the Applicable CUSC Objectives (for charging modifications) and therefore should be implemented. Further details of this vote can be found within Section 5 of this Report.

1.11 The CMP256 Workgroup also met following the CMP244 Workgroup on 8th February 2016. As there were no WACMs raised to CMP244, there was only the Original Proposal for CMP256. The Workgroup agreed by majority that CMP256 better facilitated the Applicable CUSC Objectives (for non-charging modifications) and therefore should be implemented.

2 CMP244 Workgroup Discussions

Original Proposal

2.1 The Original Proposal brought forward by EDF sought to set TNUoS tariffs at least 15 months in advance of the 1st April start of each charging year, rather than the current 2 months' notice provided to Transmission users.

2.2 The defect identified by the Proposer was that the current publication of TNUoS charges 2 months ahead of the start of each charging year creates uncertainty that is difficult for Suppliers (or customers on pass-through TNUoS contracts) to manage effectively. The Proposer believes that this uncertainty means that Suppliers include a risk premium when setting prices for longer term fixed contracts – leading to an increase in prices for end consumers - and that this risk would be better centralised and managed by the System Operator. The Proposal also noted that this uncertainty may be more difficult for smaller Suppliers to manage, and hence could reduce competition.

Potential benefits of a 15 month notice period

2.3 The CUSC Proposal submitted by EDF notes that a 15 month notice period would increase predictability of charges for Suppliers, and would eliminate the need to add a risk premium to prices for many fixed term contracts. This would in turn reduce costs to end consumers. The Proposal noted that a longer notice period could increase costs to network companies, due to increased under / over recovery of TNUoS revenue and any associated cash flow / financing costs that this entails – discussed in further detail later in this report. However, the proposal stated that this cost / risk is more efficiently managed by network companies as opposed to Suppliers and customers on pass-through contracts, due to the fact that network companies have a lower cost of capital.

2.4 The proposal also referenced a recent change to the electricity distribution tariff regime (DCP178) which altered the DCUSA such that distribution use of system charges are now set with 15 months notice. A change to transmission charging for electricity to bring it in line with the distribution charging regime would therefore also reduce complexity.

2.5 The Workgroup discussed whether it would be possible to quantify the size of any risk premiums being added by Suppliers to account for TNUoS volatility associated with a 2 month or 15 month notice period. Initially, the Proposer had considered using variations in TNUoS tariff forecasts as a proxy for risk premiums added by Suppliers, but some Workgroup members felt that this was not a helpful process – as some Suppliers will be not pricing / planning solely on the basis of National Grid's numbers, but will substitute their own forecast where they believe this is more accurate.

2.6 The Workgroup discussed whether there may be any merit in Ofgem confidentially collecting information on risk premiums added to prices from Suppliers. However, it was noted that this would not provide full information as to what all industry participants may be charging, due to different parties' view of risk. In addition, it was noted that although Suppliers may have different views on risk, logically in a competitive market they will not necessarily be able to pass these different views through to consumers. So potentially it is the lowest risk premium applied by a Supplier that is influencing consumer costs.

2.7 The Workgroup also noted that the benefit of any extension to the TNUoS tariff notice period would depend on the amount of contracts in the market that are fixed term, and their length. The 2015 Ofgem report on retail energy markets suggests that currently over two-thirds of domestic consumers remain on Standard Variable Tariffs (SVTs), but that the majority of business customers are on fixed-term, fixed-price contracts. The Workgroup also noted that extending the notice period may influence the market towards setting more or longer fixed term tariffs. However, a 15 month notice period could also mean that whilst the risk premiums for years 1 and 2 of a fixed term contract reduce, the risk premium for year 3 of any fixed term contract may increase. Thus a consequence of a longer notice period could be that it possibly creates an unintended barrier to longer term contracting - but only if the increased risk faced by participants in the final year of a long term contract outweighs the reduction in risk in earlier years.

2.8 As a result of these discussions the Workgroup decided that it would only be able to discuss risk premiums qualitatively rather than attempting to quantify any overall market risk premium. The Workgroup also discussed the fact that Suppliers' customers, particularly those who are heavy energy users, may *themselves* add a risk premium in prices to account for volatility in the cost of energy. The Workgroup noted that whilst the primary purpose of the CUSC process is to consider benefit to GB energy customers, it may be useful to understand this indirect impact on other markets. The Workgroup also agreed that as part of any industry consultation it would be valuable to ask Suppliers' customers about the benefits of tariff certainty from their perspective.

Current notice period within the CUSC and Transmission Licence

2.9 The current CUSC methodology (section 3.14.3) states that a notice period of not less than two months' notice should be given when setting TNUoS tariffs. It is also noted within the Transmission Licence (condition C4.5 paragraph c) that no less than one month's notice would be given. There is hence a discrepancy between the CUSC and the Transmission licence in this regard, leading to National Grid adopting the longer of the two notice periods in order to remain compliant with the transmission licence and its contractual obligations under the CUSC.

2.10 Currently, final tariffs are published by National Grid at the end of January, for the following charging year beginning the following April. Final TNUoS tariffs are preceded by quarterly forecasts and indicative tariffs in December. In addition a 5 year forecast is provided once a year.

2.11 The Workgroup considered whether they would need to change the Year and 5 Working Days' notice given by generator parties for their TEC reductions and agreed that this was out of scope of the Modification and hence would not be changed within the CMP244 proposal.

Mid-year TNUoS tariff changes

2.12 Within the current methodology, National Grid cannot change TNUoS charges within a charging year 'except in so far as the Authority otherwise directs or consents' (Transmission Licence C4.5.b) – and must give the Authority 150 days' notice of this (except where the Authority consents to a shorter period).

2.13 Given the intention of the CMP244 proposal, the Workgroup discussed whether it would be appropriate for this proposal to remove the potential for a mid-year tariff change under a longer notice period. Comparing CMP244 to the related DCUSA

Modification DCP178, the new DCUSA legal text is quite clear that tariffs are now set once a year with 15 months' notice, and distribution companies need a derogation from Ofgem to change tariffs after they have been set.

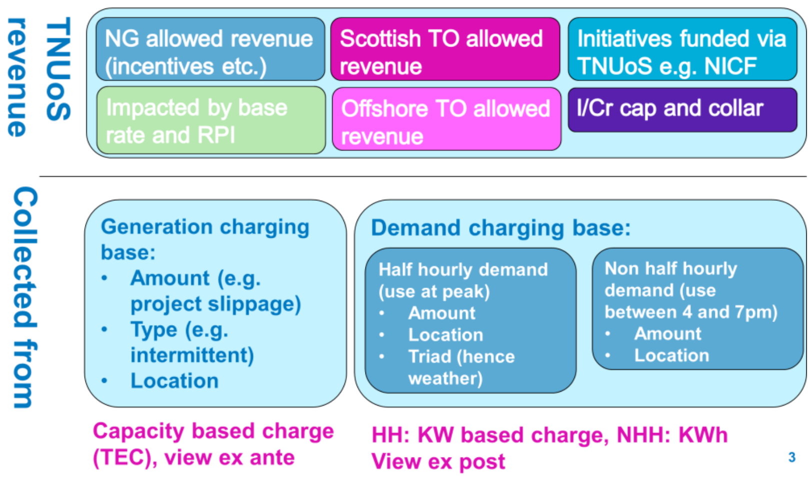
2.14 The Workgroup considered whether it was reasonable to leave current arrangements regarding mid-year tariff changes unchanged, or recommend a removal of the appropriate licence clause so that mid-year changes were no longer possible. In doing so, the Workgroup considered analysis undertaken by the National Grid representative to illustrate that a longer notice period implies more risk of inaccuracy of tariffs as compared to the status quo (further discussed later in this report). It was noted that National Grid as System Operator holds a unique position in the market – for example in the SO standard Licence condition C24 which looks at the case of licencee actions in the case of energy supply company administration. Furthermore, the Workgroup examined the 'unanticipated events' clause in offshore transmission licences which allow an offshore Transmission Owner to increase its revenue to cover an unanticipated event or emergency. This revenue would need to be paid out by National Grid and recovered via TNUoS charges (further discussed later in this report).

2.15 For all of these reasons, the Workgroup noted that National Grid as System Operator could be left in a position of needing to fund unanticipated or emergency situations at short notice, and hence not allowing a mid-year change in such situations could mean there is no way of recovering this revenue for a long time. The Workgroup clarified that they were not trying to cover all potential market events under this Modification - however any new arrangements under CMP244 would need to be flexible enough to allow for some contingency in exceptional circumstances, as per the current arrangements. As a result of these discussions, the Workgroup agreed that under a longer notice period such as 15 months, the current arrangements regarding mid-year tariff changes should remain unchanged, but the Workgroup noted that mid-year tariff changes are destabilising for the industry and hence should be avoided wherever possible.

Accuracy of setting TNUoS tariffs 15 months ahead: TNUoS revenue recovery

2.16 The Workgroup wanted to understand whether extending the notice period for setting TNUoS tariffs to 15 months ahead would have an impact on the precision of tariffs, and if so, the size of this impact. As part of the terms of reference set for the Workgroup, the Workgroup needed to consider two aspects here – firstly the potential impact on TNUoS revenue recovery (and any associated financing costs), and secondly the impact on cost reflectivity of TNUoS tariffs (discussed in further detail later in this report).

2.17 The National Grid representative explained that at a high level, National Grid are required to forecast a number of datasets to set TNUoS tariffs. Firstly, the allowed revenue to be recovered via TNUoS needs to be forecast. This is made up of National Grid's TO and SO allowed revenue, allowed revenue for other Transmission Owners (Scottish TOs, offshore TOs) and other items – for example innovation funding that is funded via TNUoS, and interconnector schemes. At a simple level, this revenue amount effectively makes up the 'numerator' when considering TNUoS tariffs.



2.18 National Grid then needs to look at **who** this revenue will be collected from – the charging base (the volume) which makes up the denominator in the above diagram. This necessitates forecasting generation capacity (TEC) – the overall amount of generation capacity, what type of generation this is (i.e. intermittent or conventional plant), and where this generation will be. The demand charging bases also need to be forecast – including the type of demand (half hourly vs. non half hourly), the overall amount of demand on the transmission network at relevant times (Triad periods for HH demand and annual demand at 4-7pm for NHH demand), and where this demand is anticipated to be. The generation: demand split of charges also needs to be forecast (see paragraphs 2.55 – 2.61).

2.19 The Workgroup discussed that as the notice period becomes longer (from 2 to 15 months), forecasts further ahead need to be used for each of the above aspects, and these necessarily become more inaccurate as they seek to forecast further ahead in time. In order to understand the impact on forecasting accuracy if the notice period was set to 15 months, the National Grid representative looked at the 5 year forecast reports. These are usually released in January, so looking at the view of, for example, 2014/15 in the 5 year forecast report issued in January 2013 (14 months before) gives a view as to how accurate forecasts might be 15 months ahead. The Workgroup noted that if National Grid had to issue a binding tariff (rather than a long term forecast) at this point, they would put more resource into the production of tariffs - therefore this analysis can only provide an indicative view of the accuracy of tariffs 15 months ahead of the charging year.

2.20 Annex 9 gives a breakdown of the National Grid view of TNUoS revenue and the generation and demand charging bases 14 months ahead of the charging year. This data shows that the tendency in recent years has been towards over forecasting the charging base (partly because generation projects get delayed and hence don't go live in a particular charging year, and also because the rapid growth of embedded generation and changing consumer behaviour have made it more challenging to forecast demand charging bases accurately). As a result, if the charging base (the denominator) is set too high, tariffs are set too low and not enough revenue is recovered. Any under or over recovery of revenue is referred to as 'k' in the CUSC and the transmission licence, and reconciliation of k takes place by adjusting TNUoS tariffs 2 years later; i.e. any under/over recovery for charging year 2016/17 would be recovered in charging year 2018/19.

2.21 The National Grid representative presented the table below. The 2nd column shows the estimated potential under / over recovery of TNUoS revenue, *had charges been set according to the information known approximately 15 months ahead of the charging year*. The 3rd column shows this as a proportion of the overall revenue that needs to be collected via TNUoS. The 4th column shows what under / over recovery of revenue actually was in each of these years, with charges published 2 months in advance. The 'delta' column therefore shows how under / over recovery could change as a result of moving from a 2 month notice period to a 15 month notice period. The price control year was removed from this dataset as it will be addressed separately later in this report.

Year	Estimated under / over recovery 15m notice	As a proportion of TO revenue	Compared to current scenario (2 months notice)	As a proportion of TO revenue	**Delta (2m to 15m)**	**Drivers**
2014/15	-£186.3m	-7.6%	- £99m	-3.8%	**£87.3m**	Demand over forecast (Mild winter / embedded)
2013/14	*[Price control]*	*[Price control]*	- £54m	-2.5%		
2012/13	-£175.3m	-9.2%	£3m	0.1%	**£178.3m**	Rollover year
2011/12	-£89.2m	-5.4%	- £24m	-1.4%	**£65.2m**	
2010/11	-£40.7m	-2.6%	£12m	0.75%	**£52.7m**	Mid year price change

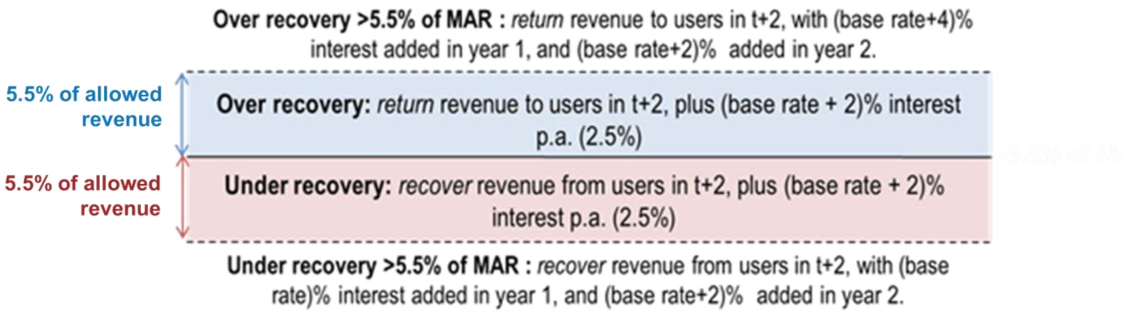
2.22 It was noted that in each of the charging years examined, the increase in the notice period from 2 to 15 months would potentially have led to an increase in the under recovery of TNUoS revenue.

Transmission Licence conditions associated with under / over recovery of TNUoS

2.23 The Workgroup then wanted to understand what the implications of this under recovery might be. In order to do this the National Grid representative presented how under and over recovery of revenue is addressed in the Transmission Licence, specifically Special Condition 3A: 14 – 22. This condition states that any under or over recovery of TNUoS revenue is held by National Grid for 2 years. National Grid can either *recover* financing costs (in the case of under recovery), or has to pay back financing costs to transmission users (in the case of over recovery). This takes place via an adjustment to TNUoS tariffs 2 years later (i.e. 2016/17 under or over recovery is factored into 2018/19 TNUoS tariffs).

2.24 The National Grid representative also noted that there is a licence condition (Special Condition 3A: 2) that obliges the licensee to use 'best endeavours' to avoid over recovery – but there is no equivalent condition to avoid under recovery.

2.25 The current conditions in the Transmission Licence state that, as long as under or over recovery of revenue is less than 5.5% of allowed TNUoS revenue, National Grid recovers or pays back financing costs at a rate of 2% plus the Bank of England base rate; i.e. in 2015 this would have been 2+0.5% - a total of 2.5%. If, however, the under or over recovery of revenue exceeds 5.5% of allowed TNUoS revenue, these rates change for the first year that the under / over recovery is held. For an under recovery of revenue greater than 5.5% of allowed revenue, the whole amount of the under recovery is charged back to transmission users at base rate (currently 0.5%) for the first year, and then 2% + base rate (currently 2.5%) for the second year. This therefore has the effect of reducing the allowed financing rates National Grid can recover.



2.26 The National Grid representative undertook some analysis to look at what allowed financing rates would have been for the estimated under recovery at 15 months' notice, and compared this to current allowed financing rates and under / over recovery when tariffs are published at 2 months' notice. This can be found in Annex 10. The Workgroup noted that in 2-3 years out of the last 5, it is anticipated that had tariffs been published at 15 months' notice, under recovery would have been greater than 5.5% and hence these different financing rates would have applied. It was also noted that in 2014/15 tariffs were published at 2 months' notice and under recovery was 4%, hence already starting to approach the outer limits of this 'bandwidth'.

2.27 The Workgroup noted that under current licence conditions revenue recovery beyond the 'bandwidths' could have a direct impact on the financing of NGET and therefore as a consequence of CMP244 NGET would need to seek to redress this position with Ofgem.

Increase in predictability vs. medium term volatility

2.28 The Workgroup noted that as a result of increased under / over recovery due to a longer notice period, there could be a trade off in short term predictability vs. medium term volatility of TNUoS tariffs. Essentially, setting TNUoS tariffs 15 months ahead of the charging year would give clear predictability of charges for 15 to 27 months.

2.29 However in the longer term, as can be illustrated by the data, the size of any under / over recovery of TNUoS revenue could increase as a result of an increase in the notice period (from 2 to 15 months). As this under / over recovery, plus any associated financing costs, has to be reconciled via TNUoS tariffs 2 years later, this could lead to increased volatility of TNUoS tariffs in the medium term.

Implications for cost reflectivity

2.30 The Workgroup then considered the implications of a longer notice period for cost reflectivity, which is a stated aim of the Applicable CUSC Charging Objectives. Again, it was noted that as the notice period becomes longer, forecasts further ahead may need to be used in setting TNUoS tariffs and these will necessarily be less cost reflective as assumptions are made further ahead in time. Also, where time lagged data is used in the charging model (for example generators' individual Annual Load Factors), increasing the notice period by 13 months to 15 months is likely to mean that data from a previous year is used, rather than the latest data at the time of TNUoS tariff setting 2 months ahead as is the case currently. Both of these aspects are likely to reduce cost reflectivity.

2.31 The Workgroup noted that the closure or opening of large generation projects, and the building of transmission infrastructure projects were two examples of how cost reflectivity could be reduced under a 15 month notice period. For example, if TNUoS tariffs were set anticipating a large generator to stay open, and it closed between the time of tariff setting 15 months ahead and those tariffs going live, this could lead to a dilution of cost reflectivity in the tariffs. Similarly, if charges were set anticipating that a large infrastructure project would be operational at the time of tariffs going live, and this project was then delayed, the associated charge and locational impact of this project would be included in TNUoS tariffs earlier than it 'should' be, again reducing cost reflectivity.

2.32 The Workgroup asked the National Grid representative to undertake some analysis to look at the impact of a large generator closing or opening in various charging zones, to understand the impact on tariffs. Similarly, the impact of including or not including two large infrastructure projects; namely (i) Caithness-Moray and (ii) the Western HVDC link; in TNUoS tariffs was also modelled. Extracts from this work can be found in Annex 11.

2.33 This analysis shows that in some cases, including an infrastructure project in tariff calculations that was later found not be operational in the charging year in question would lead to some generation tariffs being up to £9/kW higher than they would have been had the project *not* been included. Similarly, some HH demand tariffs decreased by up to £10/kW. The Workgroup noted that generation / demand on the periphery of the network would be more susceptible to these kinds of variations in tariffs, as they were more likely to be affected by changes in power flows when new projects begin or generators open / close. The Workgroup also noted that HVDC projects use project specific rather than generic costs in terms of setting TNUoS tariffs, and at 15 months' notice this would need to be forecast. This could also reduce cost reflectivity as such costs are more difficult to forecast.

2.34 However the Workgroup also discussed the fact that the objective behind setting cost reflective TNUoS tariffs is to ensure that the tariffs act as an accurate price signal, clearly signalling the cost of an incremental increase in capacity being added to the transmission network. This should drive efficient investment decisions in the market. The Workgroup discussed whether the TNUoS tariff should actually be a more forward looking price signal than currently - as it is seeking to drive long term investment decisions. From this perspective, a tariff that uses information that looks further ahead in time could actually be a more useful price signal. However this would need to be weighed against the risk of, e.g. including a large generator that subsequently closes.

2.35 It was agreed to draft a table showing the numerous information items required for cost reflective TNUoS tariffs and at what point in the year these information items are available. This was presented to the Workgroup in the following meeting and is available in Annex 12.

Increase in forecasting accuracy over time

2.36 The Workgroup then wanted to consider how forecasting accuracy might decrease as the notice period for TNUoS tariffs is increased from 2 to 15 months. The National Grid representative presented a series of graphs which illustrated the potential increase in forecasting error when setting TNUoS charges up to 2 years ahead of the charging year. The graphs (reproduced below in Diagrams 1-3) considered the potential forecasting accuracy associated with forecasting (i) TNUoS revenue (ii) the generation charging base and (iii) the demand charging base over time. This was based on discussions with the relevant teams within National Grid that provide information to the TNUoS tariff setting team.

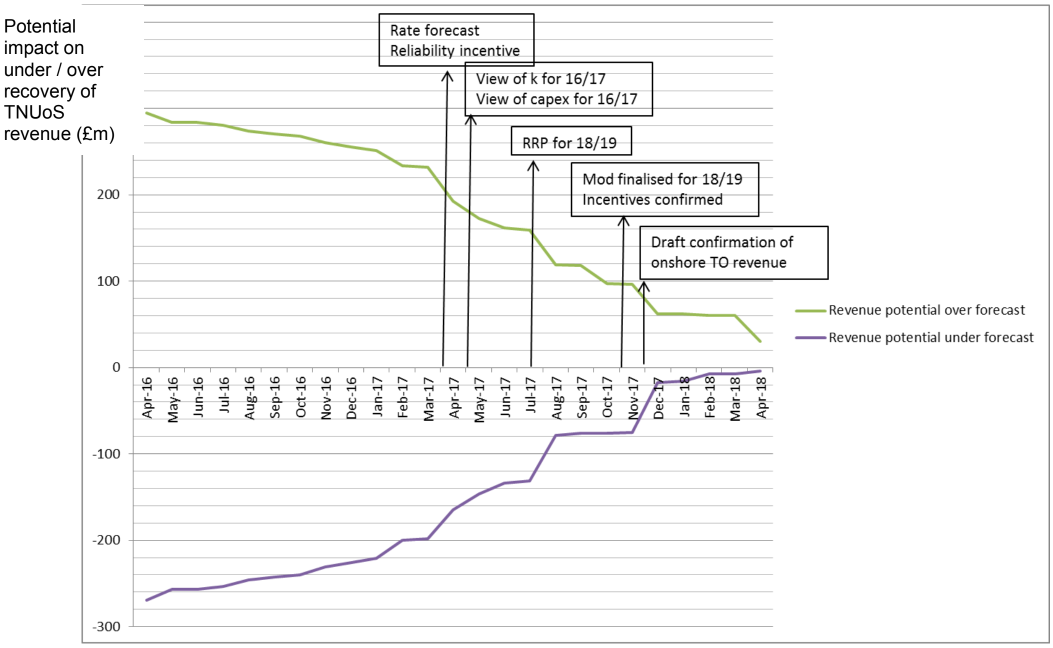


Diagram 1: potential forecasting accuracy over time when forecasting 18/19 TNUoS revenues

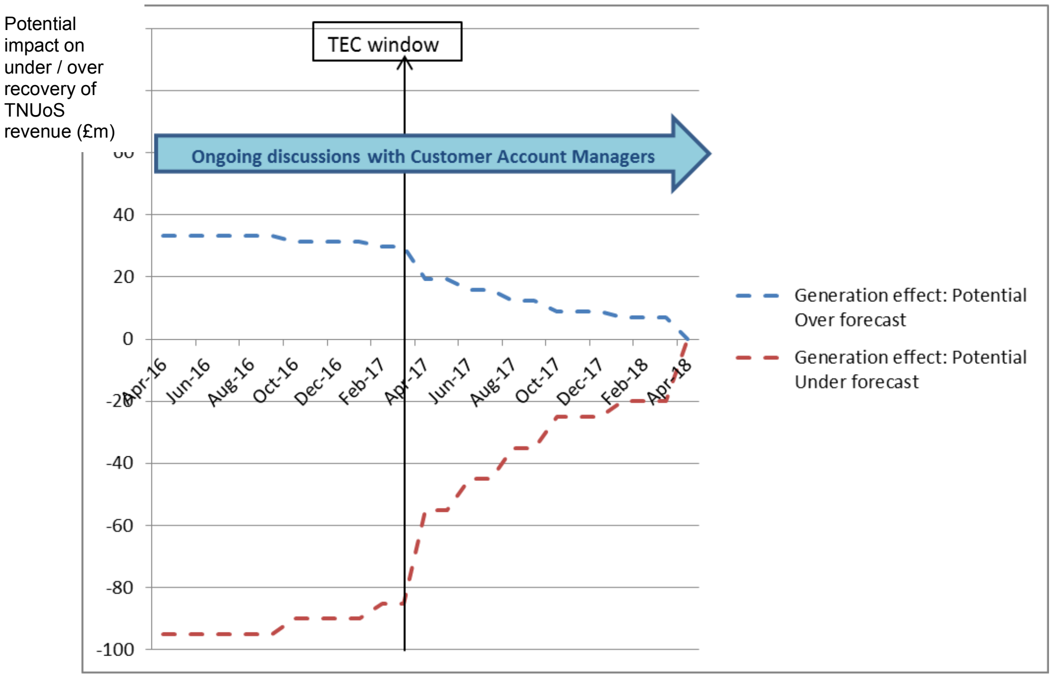


Diagram 2: potential forecasting accuracy over time when forecasting 18/19 generation charging base

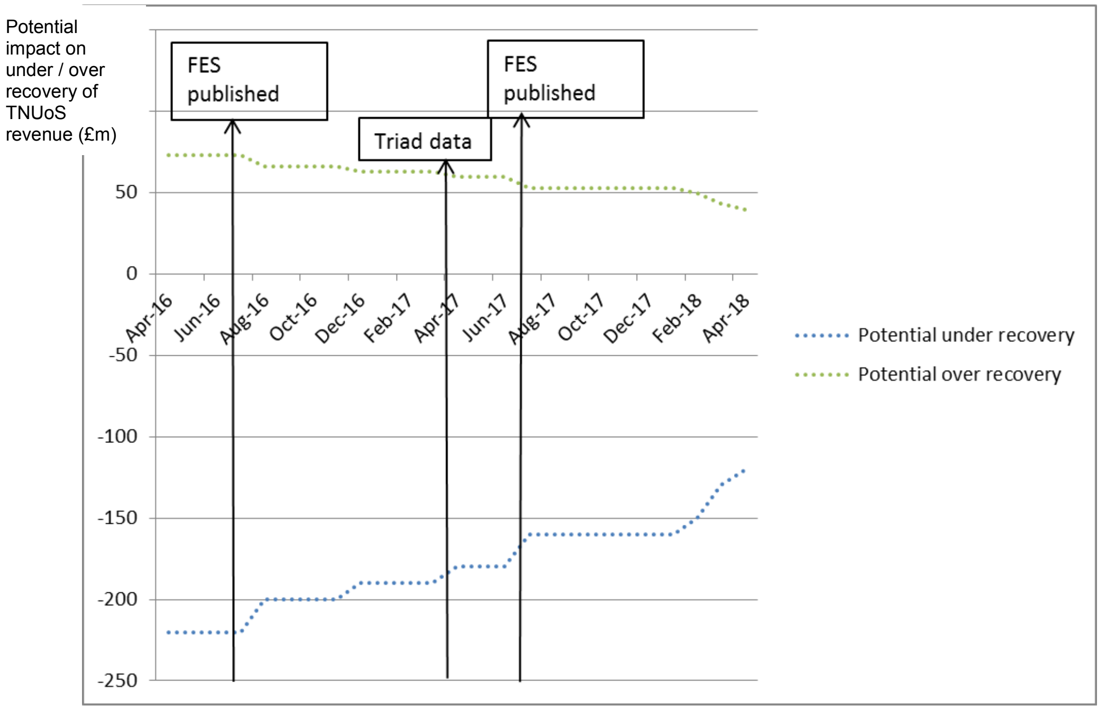


Diagram 3: potential forecasting accuracy over time when forecasting 18/19 demand charging base

2.37 The graphs showed some 'step changes' in the accuracy of forecasting TNUoS tariffs (and the associated impact on under / over recovery of revenue) over time. The National Grid representative noted that there are more than 50 components that feed into this diagram and that these step changes are due to events in time (like information only being available from a given date) where National Grid will have a better view of what the TNUoS tariffs will be.

2.38 For example, the National Grid representative explained the 'MOD' process to the Workgroup. This is the mechanism by which many of the larger moving parts in the price control flow through to allowed TO revenues each year, and includes significant items. National Grid and other onshore Transmission Owners submit a pack (the Regulatory Reporting Pack or RRP) to Ofgem each year in July with performance information to evidence that year's MOD allocation, and Ofgem make a final decision on the allocation each November. Therefore both July and November are key points in each year when TO revenues can be forecast with greater accuracy than previously.

2.39 Similarly, it was noted that for forecasting, for example, the generation base, the TEC cancellation notices (submitted by mid/late March each year) are a key piece of information, and once this is received by National Grid a more accurate forecast of the generation base for the subsequent charging year is possible. It was less easy to identify particular points in the year that demand information becomes more accurate, partly because until recently the demand charging base has been quite stable and hence frequent updates were seen as unnecessary. However winter data (e.g. availability of Triads) and the publication of the Future Energy Scenarios were noted as important data points in terms of forecasting demand.

2.40 It was estimated that the potential range of under / over recovery of TNUoS revenue under a 15 month notice period (as a result of the forecasting error on the inputs used to calculate tariffs, illustrated in diagrams 1, 2 and 3) could be in the region of +£150m to -£380m (worst case). However the National Grid representative stressed that this was purely an estimate, based on current possible forecasting errors for different components of TNUoS tariffs - and that changes in the industry (for example the growth of offshore generation) could change these margins. She stressed that the most important piece of information to focus on was the time period in which pieces of data become available. The Workgroup agreed and asked the National Grid representative to list the key pieces of information influencing the accuracy of tariffs, and to show when these were received by National Grid. This is available in Annex 12, and lists key pieces of information that influence the accuracy of the forecast of TO revenues, generation, HH and NHH demand and that influence cost reflectivity.

2.41 The Workgroup noted that with regards to under and over recovery of TNUoS revenue discussed above, the key driver for this was the forecast of TO revenues as this is a primary input. In terms of an error in, for example, the generation charging base it was noted that as this only makes up c. 20% of the overall charging base, any errors in forecasting the generation charging base element are diluted – a 10% error in generation charging base forecasting only leads to a c. 2% change in under / over recovery of revenue for example. In contrast, any error in forecasting TO revenues translates directly into an under / over recovery of revenue. However it is important to make the distinction here that whilst an error in forecasting the demand and generation charging bases has less of an impact on revenue recovery, it could in some circumstances have significant implications for cost reflectivity and therefore for individual generator or supplier charges.

Forecasting under / over recovery with a notice period of greater than 9-10 months

2.42 As part of the analysis above, the Workgroup discussed the specific implications of setting a notice period greater than 9-10 months. It was noted that as financial reconciliation for each charging year takes some two months to be completed, the under / over recovery (known as the ‘k’ factor) for any given charging year ending on 31st March is not usually known until the end of May. However for any notice period of greater than 9-10 months, TNUoS tariffs would have been set before this point and so it would be necessary either to forecast ‘k’ (and reconcile this later), *or* to increase the time lag in which ‘k’ is reconciled (e.g. to three charging years). The latter could potentially increase financing costs as any under recovery would need to be financed for an additional charging year. The Workgroup therefore agreed that a pragmatic option to address this issue would be to forecast ‘k’ and reconcile this later. However it was noted that this could increase the overall error in forecasting (thereby increasing the risk of under / over recovery of revenue) and may necessitate formulae changes in the CUSC / Transmission Licence.

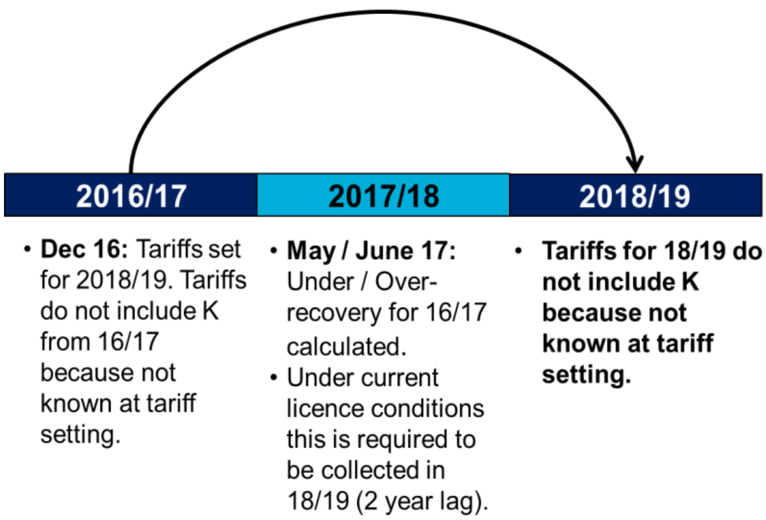


Diagram 4: Implications of a 15 month notice period – forecasting under / over recovery

Parties best placed to hold risks

2.43 In considering the process of forecasting TO revenues, the National Grid representative noted that a number of pieces of information are submitted to National Grid (as SO) by other parties in order for National Grid (as SO) to forecast the overall revenue to be collected via TNUoS tariffs. For example, all Transmission Owners are currently required to submit a final revenue forecast to National Grid (SO) ten weeks ahead of each charging year. This requirement is codified in the STC. National Grid (SO) uses this information to set TNUoS tariffs and then pays all Transmission Owners exactly what they asked for ten weeks ahead of charging (even if their view of revenue changes after this point). As such, all Transmission Owners bear their own forecasting risk from this point onwards.

2.44 The additional risk for National Grid as System Operator is that any under or over recovery of TNUoS revenue is wholly borne by National Grid as SO.

2.45 In considering an extension of the TNUoS tariff notice period, the Workgroup discussed who should be the best placed party to bear any increased forecasting risk. The Workgroup agreed that wherever possible, the party with the most influence over a risk should be the party that bears that risk. This could require changing the STC so that all Transmission Owners are required to submit final revenue requirements to National Grid (SO) 15.5 months ahead of each charging year (in the case of a 15 month notice period). This would be a separate STC Modification raised by National Grid, and is discussed further in section 4.5 of this report - 'Impact on core industry documents'.

2.46 The Workgroup agreed that where it was not possible for a party with the most influence over a risk to hold this risk, the party that ends up bearing the risk should not be worse off as a result. For instance, where NGET as SO was holding a risk on behalf of the industry, it would not be unreasonable for NGET to be 'held whole'.

Implications for an Independent System Operator

2.47 The Workgroup discussed the implications of a longer notice period for an Independent System Operator. It was noted that an Independent System Operator (ISO) is likely to have a higher cost of capital than NGET, as it would not have a large asset base to borrow against. Hence the financing costs of managing under / over recovery of TNUoS revenue would increase with an Independent System Operator. This in turn could increase volatility of TNUoS in the medium term.

Risks associated with the offshore charging regime

2.48 As part of the Workgroup discussion on parties holding risks, the offshore charging regime was discussed. The National Grid representative explained that there were two areas of particular risk with National Grid's role as collector of OFTO revenues. The first related to the first year of OFTO revenues and the timing of OFTO transfer. For generator 'own build' offshore projects, the generator will build the generation aspects of the project and the associated offshore transmission network, and then begin generation. It will not pay any local circuit charges for use of this offshore transmission network at this point (as it owns the offshore transmission network) however it will pay the wider locational tariff.

2.49 Within 18 months of generation beginning, EU Regulation states that the transmission network must be transferred to a separate owner (as the same party cannot own generation and transmission). This necessitates a tender process to be run by Ofgem, an offshore Transmission Owner to be identified and a contract value agreed. The contract value then influences both the revenue stream that is paid to the OFTO (recovered from TNUoS by National Grid, then paid to the OFTO) and the local circuit and offshore substation charges that are derived (paid by the generator to National Grid).

2.50 This 18 month window means that 15 months ahead of TNUoS tariffs going live, National Grid may know that an offshore project is likely to go live within the next 18 months, but does not know exactly when this will happen or the final contract value. Hence it does not know the revenue stream that needs to be included in TNUoS revenue, or when this will need to start being paid to the OFTO. Furthermore, because the value of an offshore generator's local circuit charges depend on the contract value of an offshore project; these could not be set with any certainty 15 months in advance.

2.51 The Workgroup discussed various mitigating actions for this problem. One suggestion was that Ofgem could give an anticipated contract value to National Grid ahead of the tender being finalised. This would give greater certainty of OFTO revenue forecasts and the associated local circuit tariffs, and these could be included in the TNUoS revenue forecasts (and thus be reflected in the TNUoS tariffs set 15 months ahead). A further option was also discussed, which was to make offshore local circuit charges exempt from any increased notice period in the first 1-2 years of an offshore project going live.

2.52 The second risk identified by the National Grid representative with regards to offshore charging was that of fluctuations in an OFTO's revenue stream. In particular, the Workgroup discussed the 'income adjusting events' clause in OFTO licences, and other moving parts in OFTO revenue streams such as the OFTO availability incentive and pass through terms. OFTO revenues can fluctuate from one year to the next as a result of these terms, but local circuit charges for the offshore generator are indexed by inflation for the duration of the price control. This may result in a differential between these two amounts going into the overall TNUoS 'pot', which must be recovered via the residual.

2.53 Under a 15 month notice any large, unanticipated change in the OFTO revenue stream would therefore lead to under / over recovery of TNUoS revenue – as the updated OFTO revenue is paid out to the OFTO, but tariffs cannot be updated to accommodate this. It was noted that this is similar to any kind of allowed unexpected event happening to an onshore TO that changes their revenue requirement after tariffs are set – essentially the issue is that National Grid must pay out revenue associated with the event but is unable to adjust TNUoS tariffs accordingly to collect the revenue.

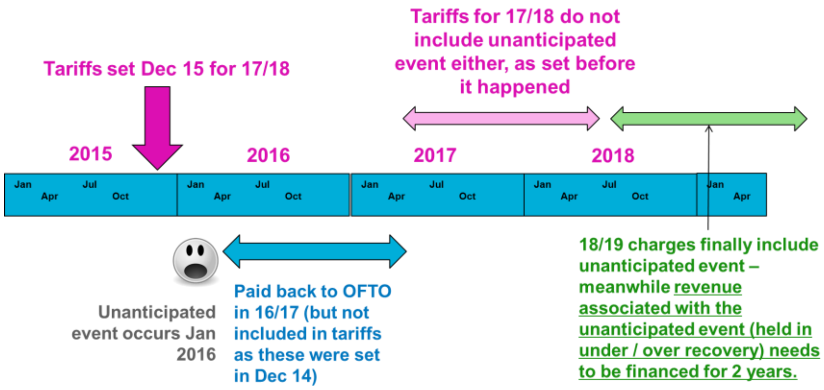


Diagram 6: Implications of a 15 month notice period for OFTO 'unanticipated events'

2.54 To understand the size of this risk for offshore Transmission Owners, the National Grid representative presented an extract from the Dec 14 OFTO revenue report written by Ofgem, which showed that the size of some pass through items for offshore Transmission Owners has been sizeable, and also explained that the OFTO availability incentive could lead to a fluctuation in the OFTO revenue stream of up to +5% to -10% of an OFTO's revenue in any one year. Moreover it was noted that the income adjusting event in OFTO licences does not have an explicit limit and could cover a number of eventualities.

2.55 With regards to who would be best placed to bear this forecasting risk, the Workgroup noted that OFTOs would be the party in the best position to forecast their own revenues, and hence should bear the risk, albeit noting the difficulties associated with the first year of OFTO operation which might require a transition arrangement. It was noted that a change to the STC as discussed previously could require OFTOs and onshore TOs to give a binding revenue forecast before tariffs are finalised. It was noted that it may not be possible to pass on this risk to OFTOs as their debt arrangements may not accommodate this. However the National Grid representative noted that to require some Transmission Owners to give a binding revenue forecast and not others could constitute discrimination between TOs.

Implications of European Regulation EC 838/2010 under a GB 15 month notice period

2.56 Under EU Regulation EC 838/2010, the amount that can be charged to GB generation for use of the GB transmission system is capped – average annual generation charges cannot exceed €2.5 / MWh. Within the CMP224 CUSC Modification, an 'error margin' to take account of previous forecasting errors was introduced in TNUoS tariff setting to ensure that tariffs always stay below the €2.5 / MWh cap. The 'error margin' agreed as part of CMP224 was 7% for TNUoS tariffs set 2 months in advance of the charging year (i.e. set charges to meet €2.33). Analysis was also done as part of CMP224 that suggested an 'error margin' of 14% would be needed for TNUoS tariffs set 12 months in advance of the charging year (i.e. set tariffs to meet €2.15).

2.57 The 'error margin' set under CMP224 did not seek to account for any £/€ exchange rate fluctuation, but rather it was agreed that the UK Government's Office for Budget Responsibility (OBR) exchange rate forecast produced for the Chancellor's spring Budget in the year before charges went live would be used to set TNUoS tariffs. Under a 15 month notice period this would therefore need to change, either to the OBR spring Budget forecast in the year TNUoS tariffs are set (i.e. 2 years ahead of tariffs going live), or to the latest available OBR forecast at the time of TNUoS tariff setting (which may depend on the timing of the Chancellor's Autumn Statement).

2.58 The Workgroup noted that the CMP224 7% 'error margin' would need to be reviewed under a 15 month notice period, as the potential risk of both greater forecasting error and greater volatility in exchange rates would be likely under a 15 month notice period. The National Grid representative stated that the National Grid charging team would be reviewing the CMP224 7% 'error margin' later this year. It was also noted that in August 2015 a CUSC Modification Proposal (CMP251) was proposed to move to a post year reconciliation of generator charges to ensure compliance with the EC Regulation 838/2010. This Modification would remove the 7% 'error margin' introduced by CMP224 and hence would mean that a greater 'error margin' was not required if the notice period was to increase from 2 to 15 months. However, it would lead to reconciliation payments to / from generators shortly after the end of each charging year, and such payments would not be subject to any 15 month notice period. The Workgroup noted this was a separate Modification (CMP251) and hence should not be discussed as part of CMP244. Lastly it was noted that the ACER opinion published in April 2014 made a number of suggestions relating to TNUoS tariffs across Europe and that the European Commission has asked ACER to examine this in more detail.

2.59 As a result of this ongoing work on the harmonisation of TNUoS structures across Europe the Workgroup did not seek to calculate a new 'error margin' to ensure GB compliance with EC 838/2010 under a 15 month notice period. Rather, it was noted that a greater 'error margin' than the current 7% could be necessary to accommodate a longer notice period and this would have the effect of reducing generator tariffs, and increasing demand tariffs.

Increase in risk when transitioning across transmission price controls

2.60 The Workgroup discussed the fact that when Transmission Owners move from one price control period to another, there is increased difficulty in forecasting Transmission Owner revenue – as incentives etc., are in the process of being negotiated between the TOs and Ofgem. This could then have a consequential impact on the accuracy of TNUoS tariff setting. The National Grid representative presented the example of 2013/14, which was the first year of the RIIO T1 price control. In that case, 15 months ahead of the start of that charging year, the National Grid forecast of allowed revenue for all Transmission Owners was 16% (c. £300m) higher than the final allowed revenues agreed at the end of the price control process. Had TNUoS tariffs been set 15 months ahead, they would therefore have been inaccurate, as they would have been based on inaccurate TO revenue forecasts.

2.61 The National Grid representative added that they had spoken to their RIIO finance team who suggested that 15 months ahead of the start of a new transmission price control period, National Grid revenues alone could be inaccurate by up to £400m. The error margin for other Transmission Owners would need to be added to this. Therefore the extent to which TNUoS revenues could be inaccurate ahead of a price control process being finalised could, in future price controls, be significantly greater than the previously observed £300m error forecast under a 15 month scenario for charging year 2013/14. This could lead to volatility in subsequent charging years two years later when any under / over recovery (plus associated financing costs) is reconciled via TNUoS tariffs.

2.62 Given the large potential forecasting error here and the consequential impact on TNUoS tariffs, the Workgroup suggested that charging year(s) where there is a transition between two transmission price control regimes would need to be treated differently, as a 15 month notice period could lead to an unacceptable inaccuracy of TNUoS tariffs.

Publication of company financial information

2.63 The National Grid representative noted that publicly traded companies such as the three onshore Transmission Owners need to manage release of company information to the stock market(s). For National Grid, for example, key dates include the release of Stakeholder documents in September each year, providing information and narrative about the following financial (i.e. TNUoS charging) year, and the publication of financial results in November, again providing a view of the following financial (charging) year. Under a 15 month notice period, the publication of TNUoS tariffs ahead of the release of company information presents an issue, as it is possible to ‘back work’ TNUoS tariffs to get a view of company performance well ahead of any such information being released by that company to the stock market.

2.64 The National Grid representative noted that this issue could be dealt with in two ways. Firstly, any individual TO revenue information not yet released to the stock market could not be included in the calculation of TNUoS tariffs – however this would have an impact on the accuracy of those tariffs, and hence the under / over recovery of TNUoS revenue. Secondly, National Grid could ‘black box’ all assumptions made in the calculation of TNUoS tariffs, and not provide to CUSC parties any breakdown of, for example, of any of the three onshore TO revenue forecasts. The Workgroup noted that being able to ‘test’ the assumptions being made in calculating TNUoS tariffs charging is primarily of value for tariff forecasts (so that customers can take their own view of how their tariff might move). Once the final TNUoS tariffs are published there is less value in doing this. Hence ‘black boxing’ the individual onshore TO revenue assumptions in the publication 15 months ahead of the final TNUoS tariffs should not be an issue - as long as that TO revenue information was made available to CUSC parties as soon as practicable after it had been released to the stock market.

<u>CUSC charging methodology and impact on CUSC Modifications timescale</u>

2.65 The National Grid representative noted that if the notice period for TNUoS tariffs was extended from 2 to 15 months, there would be a consequential impact on Modifications to the charging methodology within the CUSC. Essentially, a version of the CUSC would have to be frozen for the setting of TNUoS tariffs, and the version of the CUSC used for each set of charges clearly identified. In addition, any changes to the charging methodology would take longer to feed through to TNUoS tariffs. For example, a CUSC Modification raised in November 2015 may not affect tariffs until charging year 2018/19, as illustrated below:

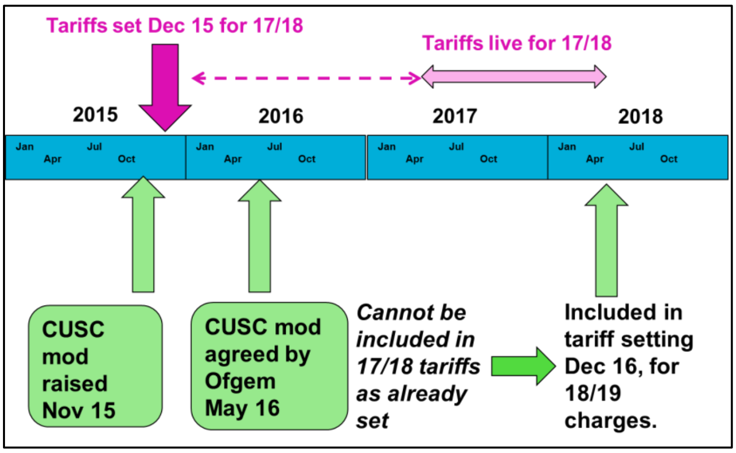


Diagram 7: Implications of a 15 month notice period for the CUSC charging methodology

Potential Alternative CUSC Modifications: Notice period of 6-8 months

2.66 Having considered the costs, benefits, risks and issues associated with a move to a 15 month notice period, the Workgroup decided to 'take stock' of the analysis to date and consider any alternative solutions to the defect aside from a 15 month notice period.

2.67 Some Workgroup members suggested that instead of fixing TNUoS tariffs 15 months ahead, certain *elements* of those tariffs could be fixed, thus reducing volatility of tariffs whilst allowing greater predictability of tariffs, without some of the risks associated with freezing tariffs completely at 15 months ahead. For example, one Workgroup member suggested that the G:D split could be set further in advance. However the Workgroup had some concerns about this option – in the case of the G:D split for example, this could lead to a greater risk of non-compliance with EU Regulation 838/2010 and / or use of a larger 'error margin', as discussed previously. It was also noted that potentially only the more predictable elements of the TNUoS tariffs could be 'frozen', hence this option would be of limited use in reducing volatility.

2.68 Another Workgroup member suggested that a 15 month notice period could go ahead but as an optional notice period. In this scenario, Suppliers could choose between either (i) the 'status quo' 2 month notice period or (ii) the CMP244 15 month notice period, giving Suppliers the opportunity to align TNUoS tariffs with their majority customer base. This could potentially facilitate competition by allowing those Suppliers who wished to compete on the basis of their view of TNUoS.

2.69 The National Grid representative noted that there would be a number of practical challenges to be overcome to make such an option possible, and that in her view this option was likely to enhance the defect rather than solve it. This is because part of the defect as described in the proposal was that smaller suppliers have less ability to forecast tariffs and hence are more affected by TNUoS volatility. Introducing a 2 month / 15 month optionality means that Suppliers now need to be able to take a view on (a) how tariffs might change between 15 months and 2 months and (b) whether 15 months or 2 months is more beneficial for their business. The defect as discussed in the CMP244 Proposal would suggest that smaller Suppliers are less likely to be able to make this as an informed decision. Therefore, in the view of the National Grid representative, this option could reduce competition rather than improve it.

2.70 Another Workgroup member suggested the option of reconciling any generator charge over €2.5/MWh at the end of the charging year to ensure the charges never exceeded this amount to remain compliant with EC Regulation 838/2010. The Workgroup agreed that this was out of scope for CMP244, and this was later developed into a separate CUSC Modification proposal (CMP251).

2.71 The Workgroup discussed Diagrams 1-3 that looked at potential forecasting error over time. It was noted that at certain points in each year, predictability of TNUoS tariffs become much more accurate due to particular sets of information becoming available. It was suggested that it may be a good idea to set TNUoS tariffs at one of these points where it is clearly demonstrated that forecasts become more accurate.

2.72 Having considered the Workgroup discussions, the Proposer at this stage confirmed that they believed that a TNUoS tariff notice period of 6-8 months was a better solution than their initial suggestion of 15 months. The reason for considering this timescale was because it was noted that key pieces of data become available just before this time, specifically:

- A view of the previous charging year's performance for each Transmission Owner (available end of May, 10 months ahead of the following charging year)
- A view of under / over recovery of TNUoS revenue for the previous charging year is also available end of May (see issues discussed under 'Forecasting under / over recovery with a notice period of more than 9/10 months')
- The latest industry forecast of demand is published in the Future Energy Scenarios mid-July (8.5 months ahead of the following charging year)
- The Regulatory Reporting Packs (RRPs) are submitted to Ofgem by Transmission Owners on 31st July each year (8 months ahead of the following charging year)

2.73 The Proposer noted that October is a key contracting round for half hourly customers in particular, therefore a TNUoS tariff notice period that fell between information being available at the end of the July and the start of October should be considered to obtain the best trade-off between the benefit to industry and accuracy of TNUoS tariffs. A 6 month notice period would be 1st October, an 8 month notice period would be 1st August – hence the new proposition for the CMP244 solution to consider a notice period of 6-8 months. A Workgroup representative noted that for Suppliers to use published tariffs in the October contracting round they would need to be available before 1st October. The National Grid representative also noted that if the notice period was set to 1st August it is likely that there would not be enough time for the RRP information to be fed into tariffs, nor the full FES information.

2.74 The Workgroup agreed to pursue a proposition for the CMP244 solution of a notice period of 6-8 months. It was agreed that this would be put forward for industry consultation without any Workgroup potential alternatives as the Workgroup members who had suggested (i) optionality of 15 months / 2 months and (ii) freezing certain elements of TNUoS tariffs agreed that a 6-8 month notice period would be a better option than either of these two approaches at this stage. The Chair of the Workgroup, after consulting with the CUSC Panel, agreed that the Proposer could adopt 6-8 months as the basis of the solution for the Original Proposal.

2.75 One Workgroup member asked for further clarity on the impact of setting TNUoS tariffs before the Ofgem MOD term was determined for each of the Transmission Owners, and wanted to understand what kind of elements of TO revenue could change between a MOD term based on the TO Regulatory Reporting Pack data as submitted to Ofgem each July, and the Ofgem MOD determination in the November. The National Grid representative explained that a key difference which could arise between the TOs July forecast and final determination relate to the annual cost of debt index and pension elements that are re-calculated every 3 years, which are finalised during this period. However the National Grid representative noted that the specific 're-opener' windows in the transmission price control (in 2015 and 2018) may also significantly impact the variance between forecast and determined MOD. In these years, Transmission Owners submit information around re-opener issues in May to Ofgem, and the allowances relating to these are determined at the end of September of the relevant years.

2.76 One Workgroup member asked for further clarity on how the data used to calculate TNUoS tariffs would change with a 6-8 month notice period as compared to the current process of tariff setting at 2 months' notice, to better understand the change in risk implied when moving from a 2 month to a 6-8 month notice period. The National Grid representative drew up the following table to explain how some data items would change, based on the information in Annex 12:

	2 month tariff setting	6-8 month tariff setting
View of previous year's under / over recovery	Actual included	Actual included– no change
Satisfaction incentive payments and capex for previous year	Actual included	Actual included– no change
RRP forecast of MOD determination, impacting TO revenues	Included	Included *if* notice period set at 6 or 7 months.
Actual MOD determination	Included	Not included – risk explained above
Generation forecast information and TEC freezing	TEC used in locational model 'frozen' in the October before the applicable charging year (5 months before). Additional information from account managers (re: closing / opening of generation) added until the December.	TEC used in locational model would be 'frozen' in the April before the charging year (12 months before). Any information from account managers could be added up until June / July.
FES information from year before tariff setting	Included	Fully included *if* notice period set at 6 or 7 months.
NHH forecasts		NHH forecasts use actual data to create coefficients / trends. Less recent actual data (and not the most recent winter data) will be available.
Triad data (impacting HH forecast)	When setting tariffs in January, 1 or 2 Triads have usually occurred from the most recent Winter.	Triad data from most recent winter before charging year could not be included as would not have occurred. Additional risk for first 1-2 years: as part of P272 meters are moving from NHH to HH – 6+ months' notice means that NG will have no actual data on how customers perform over Triads before TNUoS tariffs are set.
Week 24 data	Currently week 24 data from t-1 included	Week 24 data from t-1 included– no change.
Transmission circuit data	Currently circuit data updated in the October before the charging year – 5 months before.	TBC – may be able to use same data as for 2 month notice period, but depends on processing timescales
Generator Annual Load Factor data	Currently ALF data from t-1 to t-6 used	ALF data from t-2 to t-7 would be used.
Engagement incentive	Actual included	Would not be known– forecast required
	2 month tariff setting	6-8 month tariff setting

NICF allocation	Actual included	Would not be known – forecast required
Inflation forecast	Currently inflation forecast 4 months ahead of charging year used – this is reconciled after the charging year	Inflation forecast 8-10 months ahead of charging year used – this would be reconciled after the charging year
Other TO revenues	Final forecast included (what is then paid to TOs)	Final forecast included (what is then paid to TOs) *if* STC change taken forward (see section 4)
Offshore information – new projects	Data about potential transfer dates, contract values etc. added up until tariff setting.	Data could only be added up until July.

2.77 The Workgroup noted that as any draft TNUoS tariffs would need to take place before the RRP process had been finalised on July 31st each year, they would be of limited value under this new 6-8 month notice period, and so proposed they be dropped.

Issues and assumptions from previous Workgroup discussions

2.78 The Workgroup then discussed what issues and assumptions from their previous discussions would still stand in the case of a 6-8 month notice period. It was clarified that:

- The risk of greater under / over recovery of TNUoS revenue associated with a longer notice period is still valid, but this risk is reduced with a 6-8 month notice period compared to 15 months, as illustrated by the analysis examining improved accuracy of forecasting tariffs over time (see paragraphs 2.35 – 2.40). It was estimated that the potential range of under / over recovery of TNUoS revenue under a 15 month notice period could be in the region of +£150m to -£380m (worst case) as discussed in paragraph 2.39. Using the same method of analysis this error range potentially reduces to +£100m to -£250m for a 7 month notice period. However the National Grid representative again stressed that this was an estimate, and that these margins could change according to industry developments.
- This reduction in the potential forecasting error for TNUoS tariff components, and the consequent reduction in potential under / over recovery of revenue impacts on the trade-off discussed between short term predictability and medium term volatility discussed in paragraphs 2.27 and 2.28. A 6-8 month notice period reduces predictability of tariffs compared to a 15 month notice period – but as the risk of under / over recovery of revenue is reduced, the potential for greater medium term tariff volatility also decreases.
- There would be some impact on cost reflectivity (see discussions in paragraphs 2.29 – 2.34) but this is likely to be a smaller impact than for a 15 month notice period.
- There would be no need to forecast previous years' under / over recovery with a 6-8 month notice period, as this would be known (see paragraph 2.41).
- Decisions regarding mid-year tariff changes and the window for TEC reduction would not change, i.e. that there would be no change to these terms under a 6-8 month notice period. Similarly the principle that parties

best placed to influence risks should hold these risks wherever possible (see paragraphs 2.42 – 2.45).

- With regards to EC Regulation 838/2010 (the GB €2.5/MWh cap on average generator charges), there is a smaller risk of forecasting error and £/€ exchange rate volatility as compared to a 15 month notice period – but a greater risk as compared to the current 2 month notice period (see discussions in paragraphs 2.55 – 2.58). Therefore it is likely that the 7% 'error margin' developed under CMP224 would have to increase, or another method found to deal with the risk of breaching the Regulation.
- The issue of increased risk when transitioning from one price control period to another still stands, although the revenue forecasting risk is reduced as compared to a 15 month notice period (see paragraphs 2.59 to 2.61).
- The Workgroup agreed that for a 6-8 month notice period; i.e. publication of TNUoS tariffs between 1st August and 1st October, the generation TEC for the transport model would be frozen as at the April of that year.
- There could still be an issue with regards to publication of TNUoS tariffs ahead of the onshore TOs company financial information, depending on the exact notice period chosen – for example for National Grid the Stakeholder document is released at the end of September, so a 7 or 8 month notice period would still imply publishing TNUoS tariffs ahead of this information (see paragraphs 2.62 – 2.63).
- There would be a similar issue as already identified with regards to timescales for CUSC Modifications; i.e. a version of the CUSC would need to be 'frozen' and TNUoS tariffs set and published according to this (see paragraph 2.64). Under a 6-8 month notice period, there could be a delay of up to 20 months for CUSC Modifications to go live (for any CUSC Modifications agreed after the charging year in question's TNUoS tariffs had been published).

<u>Post-Workgroup Consultation discussions</u>

2.79 The Workgroup considered each of the responses received to the Workgroup Consultation by discussing industry views question by question within the response proformas. The Workgroup noted that there was a mixed support of CMP244 within the responses. The Suppliers that had responded to the consultation generally supported it, with one exception. However there were a number of responses that did not support the proposal, specifically those representing OFTO / Interconnectors, due to these parties highlighting the increased risk they would face in providing revenue forecasts earlier. In addition, the Workgroup noted that only qualitative information had been provided in terms of the benefits of the proposal, and that unfortunately only one large HH customer had responded, making it difficult to quantify benefits for these parties.

2.80 The Workgroup agreed to re-visit the following areas in light of the responses received to the Workgroup consultation questions:

- The trade-off between accuracy and certainty of tariffs for a notice period of 6 to 8 months - and what might be the 'optimal' notice period in this time
- The sharing of revenue forecasting risk – particularly for OFTOs and interconnectors
- Any further benefits information that could be provided to support a longer notice period

- The issue of OFTO local circuit charges and whether these should be exempt from a longer notice period
- Revised timetable for TNUoS forecasts under a longer notice period
- Revenue risk for the first year of a price control

6 to 8 month notice period

2.81 The Workgroup reviewed the respondent's views on when TNUoS tariffs should be set within the 6, 7 or 8 months options they provided within the report. It was noted that Suppliers generally preferred the longer notice period of 8 months, but some recognised the difficulty in setting tariffs ahead of the TO RRP process in July, and the potential impact on tariff accuracy this could have. The Workgroup also discussed the practicality of the TNUoS tariff team needing analysis and sign-off time after receiving new information to re-calculate and sign-off tariffs ahead of publication.

2.82 As part of these discussions a new notice period was suggested of 200 calendar days. Effectively this would mean that TNUoS tariffs were published in mid-September. This would mean that Suppliers receive final TNUoS tariffs ahead of the October contracting round, but also that National Grid has some time after receiving RRP information on 31st July to calculate and audit tariffs.

2.83 The National Grid representative agreed to refresh the analysis that had been done previously to look at how accuracy of tariffs changed over time – this time to focus in on the 6-8 months ahead of tariffs, and specifically 200 calendar days. This analysis would also take consideration of the new information received by the Workgroup, in particular

- Further detail on interconnector regime and modelling of potential cap and floor payments (received via Ofgem).

- Detail from OFTOs submitted in response to the CMP244 Consultation – these provide a better estimate of how much OFTO revenue could change compared to a forecast provided 6-8 months ahead of the start of TNUoS charging year.

2.84 Using the new information received, and making a working assumption that OFTOs and interconnectors would not bear their own forecasting risk (but that onshore TOs would – discussed below) the National Grid representative presented the following table to the Workgroup:

£m	8 months	200 calendar days	6 months
Maximum over recovery	+130	+120	+110
Over recovery 95% CI	*+40*	*+70*	*+50*
Under recovery 95% CI	*-240*	*-225*	*-190*
Max under recovery	-360	-285	-260

2.85 This analysis was based on Monte Carlo modelling that considers all the possible forecasting errors across individual components of tariffs, and runs these scenarios c. 1,000 times to understand what kind of overall under / over recovery of revenue is likely to be observed as a result of the cumulative impact of these errors. The National Grid representative noted that this analysis is based on forecasting errors which have been seen in the past and that it is difficult to predict the variability in the future. Therefore the accuracy of such analysis should not be overstated – rather it provides an illustrative idea of the scale of forecasting error for a 6-8 month notice period, and the ensuing impact on under / over recovery of TNUoS revenue.

2.86 A Workgroup representative noted that National Grid have recently undertaken a project to improve the forecast demand data used for setting TNUoS tariffs. Hence in the future it could be reasonably expected that the forecasting error in setting the demand charging base (and the resulting under recovery of TNUoS revenue) should reduce. He suggested that the 200 calendar day analysis be repeated using a smaller forecasting error margin for demand, so that the Workgroup could see what under / over recovery of revenue might look like if demand forecasting error is reduced.

2.87 The National Grid representative agreed to repeat the analysis using a smaller demand forecast error, and to present the results broken down into forecasting error for revenue, generation and demand so that the Workgroup could see this. If the assumption was made that in future, National Grid forecasts of the demand charging base for TNUoS were accurate to within +/- 1.5%, then the likely scale of potential under / over recovery of TNUoS revenue would change:

£m	200 calendar days' notice – assumption of improved demand foreacsting
Over recovery 95% CI	+155
Under recovery 95% CI	*-70*

2.88 It can be seen therefore that the impact of improving forecasts of the TNUoS demand charging base has the effect of reducing potential under / over recovery of revenue, and also 'shifting' the error margin upwards so that over recovery becomes more likely. However it should be noted that as forecasts of the TNUoS demand charging base are exposed to both Triads and weather, it may be that accuracy of forecasts to within 1.5% are unlikely in future, even given the significant work undertaken to improve forecasting.

2.89 The Workgroup also wanted to understand the impact on tariffs for the sizes of possible under / over recovery of revenue discussed. Ultimately this will depend on the exact financing rates for under / over recovery (defined in National Grid's licence special condition 3A) and the Bank of England base rate for the years in question. To give an example of how a specific size of under / over recovery of revenue in year t impacts on tariffs in year t+2, the National Grid representative undertook some calculations based on the following assumptions:

- Tariff impact modelled for an under / over recovery in **2018/19** (likely first year of implementation of an extended notice period – see discussion below)
- Using example financing rate of **2% plus BoE base rate** (this is the current 'normal' financing rate currently allowed in National Grid's licence, for under / over recovery of TNUoS revenue that does not exceed 5.5% of allowed revenue)
- Using the latest OBR forecasts of the base rate (published November 2015)
- Assumption that the G cap has been reached, therefore there would be no impact on G tariffs

- The latest forecast demand (system peak and charging bases) as per final 16/17 tariffs were used (best estimate as these will obviously change by 20/21)

These assumptions gave the following impact of TNUoS demand tariffs for the scale of under / over recovery discussed above:

Size of k	**Forecast financing rate: added to TNUoS for under recovery or subtracted from *TNUoS* for over recovery: (k x 3.8% in 18/19) x 4% 19/20**	**HH tariff impact (actual change)**	**NHH tariff impact (average change)**
-£225m	£17.89m	+£0.36 / kW	+0.05p / kWh
-£70m	£5.56m	+£0.11 / kW	+0.016p / kWh
+£70m	-£5.56m (paid back to TNUoS payers)	-£0.11 / kW	-0.016p / kWh
+£155m	-£12.32m (paid back to TNUoS payers)	-£0.25 / kW	-0.035p / kWh

2.90 One Workgroup member noted that the impact of the forecast financing rate could in fact be close to neutral depending on transmission users' costs. For an under recovery for example, the impact to Suppliers for example, is not paying the full amount of TNUoS in year t. This amount is then paid back, plus the financing rates applied in years t and t+1, in year t+2. However in the intervening 2 years, the Supplier has avoided payment and hence either pays less interest on debt or can put the cash to other profitable use before it is paid back in year t+2. Therefore depending on transmission Users cash flow costs, the impact of the financing rate on Supplier's costs could in fact be close to neutral. However, another Workgroup member did not believe that this would be the case.

2.91 Having considered the discussions around an 'optimal' notice period the Proposer confirmed that he would like to change his original Proposal to consider a TNUoS tariff notice period of 200 calendar days.

Sharing of revenue risk

2.92 The Workgroup noted that several parties had responded to question 8 within the Workgroup Consultation 'Do you think that OFTOs and onshore TOs should bear their own forecasting risk?' and that there was some support for parties to bear their own risks. However there was some concern within the consultation responses that the Proposal did not take into account the design principles of the OFTO or interconnector regimes and is inconsistent with them. There were some suggestions from the responses that OFTOs and interconnectors should be excluded from any requirement to provide an earlier binding forecast of revenue.

2.93 As noted above, in light of these responses the National Grid representative agreed to undertake additional analysis using the working assumption that OFTOs and interconnectors were exempt from submitting an earlier binding revenue forecast. This means their revenue forecasting risk would effectively by held by the SO and borne in under or over recovery of TNUoS revenue. However the Workgroup acknowledged that any decision in this area (of who bears what aspect of forecasting risk) lay outside the scope of this CUSC modification as this is outlined in licences and the STC.

2.94 For the purposes of the additional analysis after the consultation, the Workgroup made the working assumption that OFTOs and interconnectors would not give earlier binding revenue forecasts ahead of an extended notice period for TNUoS, but that onshore TOs would.

Benefits of a longer notice period

2.95 The Workgroup noted that whilst some qualitative information regarding the benefits of a longer notice period had been provided through the Workgroup consultation, no quantitative information had been provided to help understand the benefits of different notice periods. It was noted that the Workgroup would find it difficult to quantify the benefits of the modification as certain information would be unlikely to be provided to them due to confidentiality All Users apply their risk premium differently and wouldn't necessarily want to provide this information to the Workgroup as they would consider it confidential.

2.96 The Workgroup discussed whether there would be any other way of collecting this information to help to evidence the benefits of a longer notice period. The Workgroup were asked if they would be happy to provide information on their processes across the 6-8 month period, to ascertain whether there was a particular point in the 6-8 month notice period where benefits increase / decrease. However the Workgroup felt that it would not be possible to share, for example, their timelines or processes in a wider context, or their volume of contracting at points in time.

2.97 As a result the Workgroup suggested that if further quantitative information was to be gathered on benefits it may be more appropriate for this to be undertaken via Ofgem – for example via a confidential information gathering exercise, or as part of a Regulatory Impact Assessment.

2.98 In addition the Proposer offered to analyse some third party data to see if helpful information about, for example, contracting volumes at different points in the year could be extracted to help better understand the benefits of different notice periods.

2.99 The Proposer updated the Workgroup on some analysis he had carried out to look at tender timings using TPI data. This analysis showed TPI tenders received for both NHH and HH metered customers operating in the B2B market sector, and is shown in full in Annex 13. The analysis showed that for NHH metered sites, 16,323 sites would be able to contract with TNUoS certainty by increasing the notice period from 60 days to 200 calendar days (6.5 month). However only an additional 176 sites would gain certainty when increasing to 240 days (8 months). Similarly 548 sites would be able to contract with TNUoS certainty by increasing the notice period from 60 calendar days to 200 calendar days (6.5 month), but only an additional 93 sites would gain certainty when increasing to 240 days (8 months). The conclusion drawn from this was that the marginal benefit of increasing the notice period from 200 calendar days to 240 calendar days (8 months) was relatively small in terms of numbers of customers impacted.

Offshore local circuit charges

2.100 The Workgroup considered the materiality of this issue and whether it should be included within any of the options proposed under CMP244 and consequently CMP256. The National Grid representative explained that currently under a 2 month notice period there is a delay between when the System Operator starts paying revenue out to an OFTO (from the day of asset transfer) and when an offshore generator starts paying offshore local circuit charges to reflect its use of the offshore network (2 months later). Most of the time this is not a problem – the generator's remaining months charges are recalculated to reflect the 2 months it did not pay local circuit charges and all reconciliation takes place within a financial year.

2.101 The exception to this would be an unforeseen OFTO project slippage that meant that an OFTO transfer took place in, for example, February – but local generator charges could not be collected until the following year because of the 2 months' notice period. In this case, a small under recovery would take place for the year that the OFTO transferred (OFTO revenue paid out to the OFTO, but no offshore generator charges collected) and then an over recovery would take place the following year when the offshore generators charges were recalculated to reflect the February and March payments it did not make due to the 2 month notice period.

2.102 The National Grid representative explained that under a longer notice period of, for example 200 calendar days, this risk is increased – because there is a longer period of time (200 calendar days instead of 2 months) in which the situation outlined in paragraph 3.34 could occur, and rather than 2 months of non-payment of charges being reconciled it is now 200 calendar days' worth. Hence k in both the years in question could be adversely affected.

2.103 It was suggested by some that this could be picked up under a separate modification, however it was a concern of one Workgroup member that this could leave National Grid open to a revenue risk. The National Grid representative emphasised that should OFTO local circuit charges be made exempt from a longer notice period, this would not mean that any aspect of TNUoS tariffs was re-calculated after the 200 calendar day notice period. The tariffs would be published for all users in advance as per a new notice period, and the shorter notice period only applied to offshore generator local circuit tariffs for new offshore projects. National Grid would use an estimate of both the new OFTO revenue and the new offshore local charges for the purpose of calculating wider tariffs, but the exemption would mean that income could be collected more quickly from new offshore projects, minimising under / over recovery.

2.104 The Workgroup therefore agreed that the Original Proposal would exclude new offshore generator local circuit tariffs from an extended notice period.

Revised forecasting timetable for TNUoS tariffs.

2.105 The Workgroup considered in which months National Grid should provide updates to the forecast tariffs and what information would be available for them to provide accurate and useful forecasts. The National Grid representative noted that she had discussed a previously suggested timetable with colleagues and they had advised that there isn't a significant update in information between December and April. She therefore updated the suggested forecasting timetable as follows (for a 200 calendar day notice period):

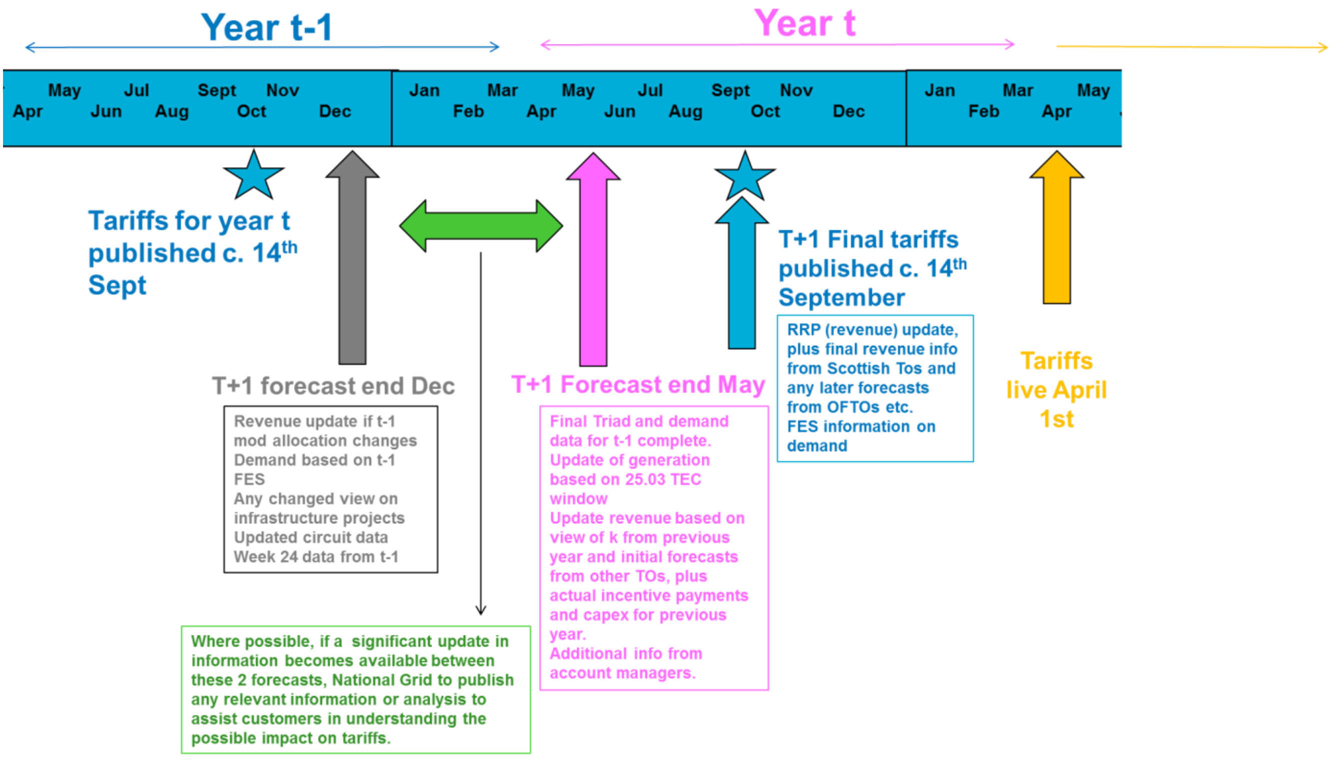


Diagram 8: Forecasting timetable under a 200 calendar day notice period for TNUoS tariffs

2.106 The Workgroup agreed that this seemed like a sensible approach. The Proposer noted that in the past, where there has been an area of uncertainty National Grid has sometimes provided additional information with a tariff forecast, for example how tariffs might change if a particular project is included. The Workgroup agreed that this is helpful when there are areas of uncertainty. In addition, the Workgroup noted that if for some reason there was a significant change in circumstances between 2 tariff forecasts, any additional information from National Grid would be welcomed by customers.

2.107 It was suggested that, rather than state specific months in which National Grid would provide the forecasts, the CUSC legal text would state that they would provide no less than two forecasts within a certain time before the final tariffs are published. National Grid could then clarify this within a published timetable to the Industry when they would be planning on producing their forecasts (the CUSC currently obligates National Grid to publish a timetable of forecasts ahead of the year). The Workgroup were happy with this approach.

2.108 It was questioned whether there would be any draft tariffs published with the notice period being 200 calendar days. The Workgroup had previously discussed that as any draft TNUoS tariffs would need to be calculated *before* the RRP process had been finalised on July 31st each year, they would be of limited value under a new 200 calendar day notice period – the Workgroup therefore agreed that they be dropped.

<u>Revenue risk in the first year of a new price control</u>

2.109 The Workgroup discussed the responses received to the consultation question highlighting the increased risk of revenue forecasting in the first year of a new price control. Various suggestions had been made by consultation respondents, including for example using draft determinations to set tariffs.

2.110 The Workgroup noted that in electricity distribution the decision was made by Ofgem that for the purposes of tariff setting in year 1 of the new price control, revenue would be set according to draft determinations (in the year befor the new price control). Ofgem also decided thatany under / over recovery of revenue for this initial year would be recovered over the price control period rather than in Y3 of the price control as would be the case normally for under / over recovery of revenue. However the National Grid representative noted that this would distort the incurring of cost from those who paid it.

2.111 It was noted that the decision to treat the first year of the price control in this way for electricity distribution was *not* part of the distribution modification extending the notice period to 15 months – but a separate decision made by Ofgem. The Workgroup noted that any decision with regards to how to treat the first year of the price control lay outside the scope of this modification.

Further Workgroup discussions

2.112 A Workgroup member also advised that the Annual Load Factor (ALF) is currently published in draft form in November. Given that the ALF is an important factor in calculating individual generator charges, Users would want this data to be published ahead of tariffs also.

Final Original Proposal

2.113 Throughout the Workgroup process, the Proposer and the rest of the Workgroup members considered a number of decisions which would need to be made in order to distinguish what would be included within the Original Proposal and any agreed WACMs. These questions and options were as follows;

- What will the notice period be?
- Will offshore generator local circuit charges be exempt?
- What will the forecasting timetable look like?

2.114 Following the Workgroup discussions after consultation, the Proposer confirmed that he would like the final Original proposal to be; a notice period of 200 calendar days, with offshore generator local circuit charges exempt from a longer notice period, and a minimum of 2 tariff forecasts produced in the 15 months ahead of a financial year.

3 Impacts and Implementation (CMP244)

Proposed Implementation and Transition

3.1 It is proposed to make the amendment to the charging methodology as soon as practically possible, namely ten working days after receipt of an Authority decision. However the Workgroup recognise that moving to a 200 calendar day notice period for the charging year 2017/18 (i.e. publishing mid-September 2016) is likely to be impossible given that the final report will not be with the Authority before May 2016 and that a Regulatory Impact Assessment may take place after this.

3.2 The National Grid representative also noted that given that National Grid collects revenue for other parties, and that the dates of information submission from other parties are specified in industry regulation other than the CUSC (e.g. the STC) it is extremely unlikely that these changes could also be progressed and finalised ahead of September 2016

3.3 The Workgroup therefore accepted that the first year of implementation of the modification would be the charging year 2018/19. This would mean that tariffs were finalised and published in September 2017 for the 18/19 charging year.

Impact on the CUSC

The Workgroup then considered what changes to the CUSC may be necessary to implement a 200 calendar day notice period for TNUoS tariff publication. It was noted that changes required to section 14 of the CUSC would fall under the scope of CMP244, and changes outside section 14 would fall under the scope of CMP256.

CUSC	14.14.13	"The Company will typically calculate TNUoS tariffs annually, publishing final tariffs in respect of a Financial Year by the end of the preceding January".
	14.15.6 to 8	Reference to October update of 7 year statement
	14.15.23	Refers to 31st December as a cut-off date for changes to the transport model following off charges as per 14.15.13
	14.19.1 and 14.19.2	Timings of TEC forecasts and generation forecasts
	14.29	Predictability of tariffs section "The Company is required …. to give Users 2 months written notice of any revised charges" and 150 day notification of charges
	14.15.98	Reference to Annual Load factor publication
	14.15.104	Reference to publication date of draft ALFs

Impact on Greenhouse Gas Emissions

3.4 None identified.

Impact on Core Industry Documents

Changes to the System Operator / Transmission Owner Code (STC)

3.5 The Workgroup discussed that in order to accommodate a longer TNUoS tariff notice period, a consequential change to the STC could be required. Currently Transmission Owners give a final revenue requirement to National Grid on 25th January each year, ten weeks prior to the charging year starting on 1st April. This final revenue requirement is paid by National Grid to the Transmission Owners as asked, despite any under / over recovery of revenue via TNUoS. The Workgroup recognised that if this arrangement was not changed, any error in forecasting made by the Transmission Owners would be borne by National Grid in under / over recovery of TNUoS revenue. Therefore the Workgroup recommended that an STC change would be needed to require relevantTransmission Owners to submit a binding revenue forecast ahead of TNUoS tariffs being published, so that the appropriate party bears their own forecasting risk. Ultimately this will depend on Ofgem decisions regarding which parties may / may not be exempt from earlier binding revenue forecasts.

STC	STCP14-1	Data exchange for charge setting (requirement for TOs to submit revenue requirements to the SO)
	STCP13-1	Timing of invoicing and billing between NGET and other Transmission Owners
	STCP24-1	Provision of information for 5 year forecasting reports

3.6 The Workgroup recognised that there may be some practical issues for parties to submit binding revenue forecasts earlier in the financial year; however these were outside of scope for CMP244 and would need to be discussed as part of any STC Modification process.

Changes to Transmission Owner licences

3.7 The Workgroup discussed potential changes that may need to take place in the Transmission Owner licences to reflect the greater risk of under / over recovery of TNUoS revenue and timing of revenue forecasts. The following industry documents were identified as possibly requiring consequential changes:

TO licences National Grid Special Conditions	3A.7	Inflation forecast used in calculation of TNUoS tariffs – currently refers to HM Government forecast for November of t-1. (GRPIFc)
	3A.14 and 3A.17	Financing costs and allowed 'bandwidth' associated with under / over recovery (5.5% symmetrical bandwidth)
	3A.20 and 3A.22	Requirement to inform Ofgem of under / over recovery greater than 9.5% of allowed revenue

TO licences Onshore TOs Special Conditions	2N	Provision of information to the System Operator
	3A.7	Inflation forecast used in calculation of TNUoS tariffs – currently refers to HM Government forecast for November of t-1. (GRPIFc)
	3A.14 and 3A.17	Financing costs and allowed 'bandwidth' associated with under / over recovery (4% symmetrical bandwidth)

	3A.20 and 3A.22	Requirement to inform Ofgem of under / over recovery greater than 8% of allowed revenue

TO licences Offshore TOs Special Conditions	Standard condition E12-J2	Treatment of k term and allowed financing rates
	Standard condition E12-J5	Restriction of transmission revenue adjustments
	Standard condition E12-J6	Provision of information to the System Operator

3.8 The Ofgem representative confirmed that the discussion and negotiation of these changes lay outside the scope of the CMP244 Workgroup.

Impact on other Industry Documents

3.9 None identified.

4 CMP244 Workgroup Consultation Responses

4.1 Twenty responses were received to the CMP244 Workgroup Consultation; these were all considered by the Workgroup before developing their final conclusions. The responses are summarised below and are included in full in Annex 7.

Respondent	Do you believe CMP244 better facilitates the Applicable CUSC Objectives?	Preference for 6, 7 or 8 months	View on implementation	Other comments
British Gas	**Yes.** Would provide increased predictability to Suppliers and Customers, facilitating more effective competition, with no/minimal increase in risk to the TOs or reduction in cost reflectivity of the tariffs	An appropriate balance between the length of notice period and quality/certainty of data used should be struck. There would be no difference in the quality and certainty of the data to set tariffs 6, 7 or 8 months in advance with the exception of; • MOD forecast • Information from the Future Energy Scenarios publication. If these items are known, or can be estimated with sufficient certainty, 8 months' notice should be provided. If however, these items remain uncertain prior to submission/publication then a notice	The proposed implementation approach seems sensible.	If it is assumed that a 'fast-tracking' will be retained for the next price control review and a timetable similar to that for the RIIO-T1 price control review is adopted, allowed revenues for any TO granted 'fast-track' status will be known approximately twelve months in advance of the 2021/22 charging year. As such the determination of allowed revenues for any such TO according to that timetable should not introduce any additional uncertainty for a 6-8 month notice period. Care should be taken reaching conclusions on the magnitude of under-/over-recovery. Analysis is needed for 6-8 months against the status quo.

Respondent	Do you believe CMP244 better facilitates the Applicable CUSC Objectives?	Preference for 6, 7 or 8 months	View on implementation	Other comments
		period of 7 months may be more appropriate.		
Frontier Power: BT London Array	**No.** The Proposal fails to take into account the specific characteristics of the OFTO business model and related licence conditions. CMP244 is inconsistent with OFTO regime principles.	The OFTO proposes that it is carved out from any change in the notification process as it currently operates. A notification period of 6, 7 or 8 months would not help OFTO's forecasting of unplanned outages, exceptional events or income adjusting events.	Do not support implementation approach as do not support the proposal.	OFTO regime has not been adequately considered. The longer the required notice period using forecast RPI – the greater the probability of deviation from actual RPI, this risk does not seem to have been covered by the Workgroup. The OFTO believes that the timing of any OFTO revenue forecast provided to NGET should not be contrary to or otherwise 'cut-across' the existing OFTO licence conditions and existing STC procedure as this would be inconsistent with the design and aims of the OFTO regime.
Frontier Power: BT Sheringham Shoal	**No.** The Proposal fails to take into account the specific characteristics of the OFTO business model and related licence conditions. CMP244 is inconsistent with OFTO regime principles.	The OFTO proposes that it is carved out from any change in the notification process as it currently operates. A notification period of 6, 7 or 8 months would not help OFTO's forecasting of unplanned outages, exceptional events or income adjusting events.	Do not support implementation approach as do not support the proposal.	OFTO regime has not been adequately considered. The longer the required notice period using forecast RPI – the greater the probability of deviation from actual RPI, this risk does not seem to have been covered by the Workgroup. The OFTO believes that the timing of any OFTO revenue forecast provided to NGET should not be contrary to or otherwise 'cut-across' the existing OFTO licence conditions and existing STC procedure as this would be inconsistent with the design and aims of the OFTO regime.

Respondent	Do you believe CMP244 better facilitates the Applicable CUSC Objectives?	Preference for 6, 7 or 8 months	View on implementation	Other comments
Frontier Power: BT Walney 1	**No.** The Proposal fails to take into account the specific characteristics of the OFTO business model and related licence conditions. CMP244 is inconsistent with OFTO regime principles.	The OFTO proposes that it is carved out from any change in the notification process as it currently operates. A notification period of 6, 7 or 8 months would not help OFTO's forecasting of unplanned outages, exceptional events or income adjusting events.	Do not support implementation approach as do not support the proposal.	OFTO regime has not been adequately considered. The longer the required notice period using forecast RPI – the greater the probability of deviation from actual RPI, this risk does not seem to have been covered by the Workgroup. The OFTO believes that the timing of any OFTO revenue forecast provided to NGET should not be contrary to or otherwise 'cut-across' the existing OFTO licence conditions and existing STC procedure as this would be inconsistent with the design and aims of the OFTO regime.
Frontier Power: BT Walney 2	**No.** The Proposal fails to take into account the specific characteristics of the OFTO business model and related licence conditions. CMP244 is inconsistent with OFTO regime principles.	The OFTO proposes that it is carved out from any change in the notification process as it currently operates. A notification period of 6, 7 or 8 months would not help OFTO's forecasting of unplanned outages, exceptional events or income adjusting events.	Do not support implementation approach as do not support the proposal.	OFTO regime has not been adequately considered. The longer the required notice period using forecast RPI – the greater the probability of deviation from actual RPI, this risk does not seem to have been covered by the Workgroup. The OFTO believes that the timing of any OFTO revenue forecast provided to NGET should not be contrary to or otherwise 'cut-across' the existing OFTO licence conditions and existing STC procedure as this would be inconsistent with the design and aims of the OFTO regime.
EDF	**Yes.** Allowing Suppliers to know TNUoS tariffs further	Final notice period should be as close to 8 months as possible.	Implementation should be as soon as	It would be preferable for the Authority to provide guidance on OFTO revenue to National Grid to

Respondent	Do you believe CMP244 better facilitates the Applicable CUSC Objectives?	Preference for 6, 7 or 8 months	View on implementation	Other comments
	in advance removes uncertainty when contracting with customers.	Annual revenue requirements sent to Ofgem, due at the end of July each year, leave a small window for tariffs to be subsequently produced to meet the 6-8 month period.	practically possible in the first year.	assist them in providing a more accurate forecast. The greater the notice period, the less need for suppliers to consider applying a risk premium.
E.ON	**Yes.** 6-8 month notice period better facilitates CUSC Objective (a). Increasing the notice period, will help reduce the information asymmetry in the market and encourage more effective competition.	We believe an 8-month notice period will better serve business purposes than a 6 or 7 month period.	No. We suggest postponing the implementation to the following charging year. This will allow a minimum of 8 months' notice and allow NG to prepare.	OFTOs should provide the forecast to be fed into NGETs final tariff. A binding revenue forecast may drive OFTOs and the onshore TOs to provide as accurate forecast as possible.
Fab Link Ltd	**No.** CMP244 would bring about additional cash flow financing charges for consumers under the cap and floor regime.	There is no currently obvious material difference between 6, 7 or 8 months.	Not supportive as the impact on cap and floor regime interconnectors has not been covered in the implementation approach.	Any increase in the current 2 month notice period has the potential to cause a significant negative cash flow effect in the funding of the interconnectors cap and floor regime. Interconnectors and the impact with the cap and floor regime have not been considered within this consultation. The Workgroup should consider this impact and how it would feed into the TNUoS charging structure.
Gazprom Energy	**Yes.** Better facilitates (a). A greater notice period of	We would have preferred a 15 month notice period as was originally	Would hope that the increased notice period	There is a risk of getting the forecast wrong and either being uncompetitive and not winning

Respondent	Do you believe CMP244 better facilitates the Applicable CUSC Objectives?	Preference for 6, 7 or 8 months	View on implementation	Other comments
	TNUoS tariffs would undoubtedly reduce some of the uncertainty supplier's face and reduce the risk premia that customers may be paying.	proposed and which would align with what has been introduced into the DCUSA for DUoS tariffs. However, a 6-8 month notice period is still an improvement on the current arrangements. 8 month notice period is preferred due to it giving 2 months more tariff certainty than a 6 month notice period.	would be introduced in time for the 2017/18 charging year but acknowledge that this is contingent on further workgroup meetings and the timing of Ofgems decision.	contracts, or getting the forecast wrong and not factoring enough into the price offered. A longer period reduces this risk for all suppliers as there will be a longer period where TNUoS tariffs are known and are therefore not being forecast.
Haven Power	**Yes.** Better facilitates (a). It increases the predictability of charges for suppliers and reduces the need for price changes to customers by eliminating the need to add a risk premium to prices for many fixed term, fixed price contracts.	15 months' notice period would be ideal as it aligns with DUoS tariffs so would ease understanding. However if were selecting from the proposed 6, 7 or 8 months' notice, we believe an 8 month notice period is most beneficial for customers.	Yes	OFTOs are best placed to bear their own forecasting risk. To ensure that costs of managing risks across the industry are minimised, we think the same notice should apply to all TOs. It should be possible to agree the first year revenue in the next price control period in advance of the final price control settlement and in time for tariff publication.
Nemo Link	CMP244 will have implications on planned and future cap and floor interconnector projects and	The longer the notice period the higher the forecast related risk. The difference can be material.	N/A	This proposal can increase uncertainty and complexity for cap and floor interconnector projects because of the potential for payment flows to and from the GBSO.

Respondent	Do you believe CMP244 better facilitates the Applicable CUSC Objectives?	Preference for 6, 7 or 8 months	View on implementation	Other comments
	their investors because above cap and below floor payments will be made to and recovered from the GBSO via the TNUoS charging mechanism.			
RWE	**Yes.** Better facilitates (a). Longer notice of prices will allow more certainty in costs and therefore facilitate competition.	8 months is more effective as it will allow greater certainty in the October contracting round. If the notice period was only 6 months this would not allow sufficient time for the prices to be incorporated into contracts leading to customers still bearing risk premia for the following charging year. 8 months gives a good balance between predictability in the short term while only moderately increasing long term volatility.	Supportive of the proposed implementation method.	Stabilisation of charges in the medium term will result in reduced costs for consumers on fixed price deals through the removal of risk premia and will allow greater stability in business planning for those consumers with pass-through arrangements. We would suggest that the process utilised in the RIIO ED-1 price control is used where the revenues published in Ofgem's initial proposals (normally released in July) are utilised for the first charging year.
Scottish Power	**Yes.** Better facilitates (a). Reducing uncertainty over future TNUoS charges, the Proposal will enable market participants to	A 7 or 8 month notice period would benefit contract negotiation for the October round with longer notice (8 months) enabling negotiation to begin earlier and allowing customers	Proposal should be implemented as soon as possible following an Authority decision. In order to facilitate	The data in table 2.21 appears to show that recent under/over recoveries have largely been due to factors other than variations in the TO revenue and that other factors play a greater role. However, we recognise that with an increased

Respondent	Do you believe CMP244 better facilitates the Applicable CUSC Objectives?	Preference for 6, 7 or 8 months	View on implementation	Other comments
	reduce the risk premia applied when setting power prices and thus better facilitates competition.	greater time to consider offers.	implementation for the 2017/18 charging year it may be necessary to provide a shorter notice period than 6-8 months in the first year.	number of OFTOs connecting and greater volatility in TO revenues due to the RIIO-T1 price control it may be appropriate to exclude any under/over recovery due to OFTO/ Onshore TO revenue forecasts from the calculation of allowed over/under recoveries under National Grid's Special Licence Condition 3A: 14-22.
SHE Transmission	**Neutral.** The overall impact can be considered neutral as the proposal will have the effect of moving the burden of risk rather than providing mitigation in respect of charging.	No comments	No	In the event of advance notice being required for setting tariffs, the TOs will be required to forecast allowances based on potential projects proceeding. This may result in enhanced volatility for customers but also for network operators. This enhanced volatility is more inclined to increase the cost of capital and would have an adverse impact on customers. In the event advance notice was required the forecasting risk would transfer to the TOs instead of being mitigated or reduced.
Smartest Energy	Neutral on (a) and (c) and No on (b) and (d). Cost reflectivity will clearly be affected.	No pt looking at 7 or 7	No	Does not provide a benefit, it's a relatively small subset of customers which actually fix energy rates in the time window that the additional notice would provide. We can see that there are issues with some TOs being treated differently from others.

Respondent	Do you believe CMP244 better facilitates the Applicable CUSC Objectives?	Preference for 6, 7 or 8 months	View on implementation	Other comments
				There is little point considering 6 or 7 months as these do not provide enough time to affect pricing of October round contracts.
SSE	Yes. Better facilitates (a) and (c), these benefits outweigh the fact that CMP244 may slightly not better facilitate (b).	It is appropriate to strike a balance between greater certainty around the various component elements that go into the TNUoS tariffs. The longer the notice period, the more time Suppliers (and their customers) have prior to the closure of the October contracting round to finalise and inform the other party of their position. In our view the ideal balance is 7 months.	In light of the changes required to other Core Industry Documents as well as to the CUSC itself (as noted in Section 4) we agree that the timing challenge and the interdependence with the timing of an Authority decision on CMP244 (plus any related STC and associated Licence changes) means that it's looking unlikely that this proposal will have practical effect until Charging Year 2018/19; i.e. the first notice period occurring	It seems that if this risk has been taken into consideration by the OFTOs and the three onshore TOs; National Grid (as TO, not SO), SPTL and SHE-T; as part of their regulatory arrangements that it is reasonable that they should bear their own forecasting risk by providing a binding revenue forecast to the SO (National Grid) ahead of the setting of TNUoS tariffs. potential alternative approach suggested in paragraph 2.50 that Ofgem could give an anticipated contract value to National Grid ahead of the tender being finalised. This, it seems to us, is the better of these two approaches to this issue.

Respondent	Do you believe CMP244 better facilitates the Applicable CUSC Objectives?	Preference for 6, 7 or 8 months	View on implementation	Other comments
			during the summer / autumn of 2017.	
Tesco	We support the move to advanced TNUoS tariffs.	Longer notice periods allows the business to have some greater financial predictability which in turn will lower or remove financial risk premiums associated with TNUoS, this eventually will feed into lower costs to our customers. The current two months' notice period for TNUoS tariffs is insufficient for our business to have the budget certainty it would like.	N/A	With the significant amount of volatility in TNUoS tariffs noticed in the past few years and as more revenue is collected from NHH and HH metered customers, advance notice is essential to be able to recognise and budget TNUoS costs in our financial planning. As an end customer we are generally opposed to fixing TNUoS costs ahead of time as we fear that risk premiums could be higher than simply taking pass-through terms. By setting TNUoS tariffs earlier, we would be happier to sign contracts that has a fixed TNUoS element, meaning it is one less variable to contend with.
Transmission Investment	No. CMp244 introduces risk to the OFTOs which would most likely result in necessary interest charges for the OFTOs without suggestions on how to mitigate these risks.	Shorter notice period would result in greater certainty over the revenue forecasts provided by the OFTOs and would minimise the risk of under/over recovery. Prefer baseline of 2 month notice.	N/A as not supportive of modification.	Would suggest that the OFTOs are excluded from the proposed changes. Greater certainty of TNUoS tariffs does not provide any benefit to an OFTO. The requirement for an OFTO to forecast both RPI and transmission availability only serves to add unnecessary risk to an OFTO's revenue profile.
VPI	Yes. Better facilitates (a)	No material difference between 6, 7	We support the	We recognise the concerns regarding the inaccuracy

Respondent	Do you believe CMP244 better facilitates the Applicable CUSC Objectives?	Preference for 6, 7 or 8 months	View on implementation	Other comments
Immingham	as it enables suppliers to set longer term fixed tariffs more effectively and generators to trade at a more accurate price along the curve.	or 8 months. However as a matter of principle, longer timeframes would suit our business model so 8 months is preferable.	proposed implementation approach. We would support longer timeframes where possible, i.e. at 8 months, as we believe that this would promote the most effective competition.	of forecasts in a price control year. However, some of these concerns may be mitigated by the updated proposal of a 6-8 month notice period and analysis should be shared to demonstrate what the inaccuracy could be. However, if it is still inaccurate, it may be appropriate to have a shorter notice period in these years only. With the 2013 RIIO-T1 finalised in December, we would suggest a minimum of three months, although a more accurate view should be available before this date.
Frontier Power: WODS Transmission plc	**No.** The Proposal fails to take into account the specific characteristics of the OFTO business model and related licence conditions. CMP244 is inconsistent with OFTO regime principles.	The OFTO proposes that it is carved out from any change in the notification process as it currently operates. A notification period of 6, 7 or 8 months would not help OFTO's forecasting of unplanned outages, exceptional events or income adjusting events.	Do not support implementation approach as do not support the proposal.	OFTO regime has not been adequately considered. The longer the required notice period using forecast RPI – the greater the probability of deviation from actual RPI, this risk does not seem to have been covered by the Workgroup. The OFTO believes that the timing of any OFTO revenue forecast provided to NGET should not be contrary to or otherwise 'cut-across' the existing OFTO licence conditions and existing STC procedure as this would be inconsistent with the design and aims of the OFTO regime.

5 Workgroup Views on CMP244

5.1 The Workgroup met on 8th February 2016 to discuss the Original, decide whether there would be any alternatives to the Original and vote on each of the proposed options.

5.2 The Proposer clarified the Original Proposal as outlined in paragraph 2.111. The Chair welcomed Workgroup members to propose any alternatives to the solution, however there were no alternatives proposed.

5.3 The Workgroup voted on the Original solution and considered whether it better facilitated the Applicable CUSC Objectives (for charging), these are outlined below;

(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 unclear and un accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

5.4 The Workgroup agreed by majority that CMP244 better facilitates the Applicable CUSC Objectives and therefore should be implemented. Further details of the vote are as follows;

Workgroup member	(a)	(b)	(c)	(d)	Overall
Garth Graham	Yes	No	Yes	Neutral	Yes
Binoy Dharsi	Yes	Neutral	Neutral	Neutral	Yes
James Anderson	Yes	Neutral	Neutral	Neutral	Yes
Jon Wisdom	Yes	Neutral	Neutral	Neutral	Yes
Chris Granby	Yes	No	Neutral	Neutral	Yes
Juliette Richards	Yes	No	Neutral	Neutral	Yes
Joseph Underwood	Yes	Neutral	Neutral	Neutral	Yes
Lin Gao	No	No	Neutral	Neutral	No
Karl Maryon	Yes	Neutral	Neutral	Neutral	Yes
William Chilvers	Yes	No	Neutral	Neutral	Yes

5.5 The Workgroup were asked to provide reasoning for why they voted as they did, this is detailed below;

Garth Graham – CMP244 better facilitates objective (a) as it will give customers and suppliers the information they require sooner. There is a small dis-benefit against objective (b) as there may be a possibility that charges are less cost reflective, however the benefit of better achieving

(a) in CMP244 outweighs this. There is a small benefit under (c) and CMP244 is neutral against (d).

Binoy Dharsi – CMP244 better facilitates (a) as it creates a level playing field when customers are making choices, there will be no discrepancy in network costs. I believe the modification is neutral on (b), (c) and (d).

James Anderson – CMP244 reduces uncertainty over TNUoS charges which will enable suppliers to reduce risk premia, it therefore better facilitates (a). Objectives (b), (c) and (d) are neutral. There is a possibility that (b) may be marginally worse, however as long as costs are known at the time and reflected properly, this shouldn't be the case.

Jon Wisdom – Setting tariffs ahead gives more certainty to Suppliers, I agree with the comments made by the other Workgroup members who have voted against (a). The modification better facilitates (a) however does not better facilitate (b) as it would be less cost reflective. Neutral against (c) and (d).

Juliette Richards – CMP244 better facilitates objective (a) by giving greater transparency of information which will be beneficial to Suppliers. Earlier availability of TNUoS tariffs will improve competition by helping small and large Suppliers alike reduce uncertainty in pricing. CMP244 does not better facilitate (b) as it will reduce cost reflectivity given the increased use of forecasts. CMP244 is neutral against (c) and (d) – althought ultimately this could depend on how revenue forecasting risk is allocated across parties, which is beyond the scope of this modification. Overall wish to note that it is difficult to make a clear analysis of the costs and benefits of this modification, because the final allocation of costs lies beyond the scope of the modification, and because of the difficulties the Workgroup has encountered in evidencing the benefits of the change.

Joseph Underwood – CMP244 give greater transparency and early view of charges and therefore better facilitates objective (a). The modification is neutral against (b), (c) and (d).

Lin Gao – The benefits of CMP244 are not clear and would bring additional financing costs as well as being less cost reflective. Therefore it does not better facilitate (a) and (b) and is neutral to (c) and (d).

Karl Maryon – CMP244 reduces risk premia by giving greater certainty to suppliers, it therefore better facilitates Applicable CUSC Objective (a). It is neutral against (b), (c) and (d).

Will Chilvers – By reducing the risk premia, CMP244 opens the playing field in terms of competition, better facilitating objective (a). Objective (b) is marginally worse as there is some information that won't be known at the time of publishing tariffs. The modification is neutral against (c) and (d).

6 CMP256 Workgroup Discussions

6.1 In May 2015, CMP244 'Set final TNUoS tariffs at least 15 months ahead of the charging year' was raised by EDF. Following analysis at the CMP254 industry Workgroup, the Proposer decided to modify the Original Proposal to suggest an extended notice period of 6-8 months for TNUoS tariffs. This modified CMP244 Original Proposal is currently within the Workgroup development stage (its Workgroup consultation closed on 19th November 2015).

6.2 As part of the Workgroup analysis, the CMP244 Workgroup identified that whilst it was a charging modification (which if approved would require change to aspects of section 14 – Charging Methodologies of the CUSC) there are in fact some minor references outside section 14 of the CUSC that would require change should CMP244 be approved. However these could not be addressed via CMP244 as it is a charging modification seeking to amend Section 14 of the CUSC and therefore will be assessed against the Applicable Charging Objectives. Any modifications to the CUSC outside of Section 14 – Charging Methodologies are assessed against the CUSC Objectives (not Charging).

6.3 At the CMP256 Workgroup, members agreed to proceed to Workgroup Consultation with their proposal to align the changes to Section 3 and 11 (CMP256) with those to Section 14 (CMP244), and to seek views from industry on their proposed approach via this Workgroup Consultation.

6.4 The Workgroup noted that this modification does not deal with the defect and proposals identified in CMP244, but rather the consequential changes required to Sections 3 and 11 of the CUSC if CMP244 is approved. Any implementation for CMP256 would be conditional and dependent on the implementation of CMP244, with the aim to implement both modifications on the same day (if approved by the Authority).

<u>Impacts on the CUSC Sections 3 and 11 arising from CMP244</u>

6.5 The consequential changes identified in CMP244, which are dependent on the final form of CMP244 are as follows, and are covered by the Original Proposal are as follows:

Reference to notice period (section 3.14.3 and 3.14.4)

6.6 Section 3.14.3 needs alteration if CMP244 modification is passed; currently the legal text states "*The Company shall give the User not less than 2 months prior written notice of any revised charges*". Should CMP244 be approved, Section 3.14.3 would need to change to reflect the final revised notice period agreed by the CMP244 Proposer or any alternative proposals agreed by the CMP244 Workgroup. Paragraph 3.14.4 should reflect this also.

6.7 The final form of changes to Section 3.14 will be dependent on the solution decided by CMP244.

Definition of tariff forecast timetable (section 3.15.1 and section 11)

6.8 Section 11 currently defines the TNUoS tariff forecasting timetable as 'an annual timetable prepared and published by The Company by the end of January of each Financial Year (t) which sets out when The Company will publish updates in Financial Year (t+1) (being not less than quarterly) to the forecast of Transmission Network Use of System Charges for the Financial (t+2)'.

6.9 Should CMP244 be approved, Section 11 would need to change to reflect the final revised forecasting timetable agreed as part of CMP244. Section 3.15.1 which refers to this timetable should also be adjusted accordingly.

6.10 If any other consequential CUSC changes (outside of Section 14) are required by CMP244, these will also be included within CMP256.

Post Workgroup Consultation discussions

6.11 The Workgroup considered the two responses received to the Workgroup Consultation and noted that without CMP244 being finalised it is difficult to give a view on CMP256.

6.12 The CMP256 Workgroup met to vote following the CMP244 vote so therefore were able to state that there would be only the Original Proposal for CMP256 as there were no alternatives raised to CMP256.

7 Impacts and Implementation (CMP256)

Proposed Implementation and Transition

7.1 It is proposed to make any changes under CMP256 conditional upon, and at the same time as, those implemented to Section 14 under CMP244. The result is that all sections of the CUSC will be updated concurrently to reflect any change in the TNUoS notice period.

7.2 Details of the Proposed Implementation and Transition for CMP244 were detailed in the Workgroup Consultation[1].

Impact on the CUSC

7.3 The changes to the CUSC required by this modification are those to Section 3 and 11, consequential on CMP244.

CUSC	3.14.3	" The Company shall give the User not less than 2 months prior written notice of any revised Transmission Network Use of System charges"
	3.14.4	Reference to notice period
	3.15.1	Reference to tariff forecast timetable
	Section 11	Definition of tariff forecast timetable: requirement to publish 4 quarterly forecasts in t-1

Impact on Greenhouse Gas Emissions

7.4 None identified.

Impact on Core Industry Documents

Changes to the System Operator / Transmission Owner Code (STC)

7.5 Changes to the STC have been highlighted in the CMP244 Workgroup Consultation. There are no further changes required as a result of this modification.

Changes to Transmission Owner licences

7.6 Changes to the Transmission Owner licences have been highlighted in the CMP244 Workgroup Consultation. There are no further changes required as a result of this modification.

Impact on other Industry Documents

7.7 None identified.

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1 CMP244 Workgroup Consultation: http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP244-and-CMP256/

8 CMP256 Workgroup Consultation Responses

8.1 The CMP256 Workgroup Consultation closed on 15th December 2015 and received two responses. The responses are summarised below and contained in full in Annex 8.

Respondent	Does CMP256 better facilitate the Applicable CUSC Objectives?	Do you support the implementation approach?	Do you have any other comments?
Scottish Power	CMP256 is required to align sections 3 and 11 of the CUSC with the changes being made to Section 14 should CMP244 be approved. If CMP244 is approved, CMP256 will better facilitate Objective (a)	Yes	No
SSE	At this stage we are not certain of the timeframe proposed under CMP244 and therefore cannot comment on whether CMP256 better facilitates the CUSC Objectives.	Yes	The lack of code change(s) associated with CMP256 makes us difficult to provide comment.

9 Workgroup Views on CMP256

9.1 The Workgroup met on 8th February 2016 following the vote on CMP244 to note that there would only be the Original proposal on CMP256 as there were no alternatives agreed under CMP244.

9.2 The Workgroup voted on the Original solution and considered whether it better facilitated the Applicable CUSC Objectives (for non-Charging modifications), these are outlined below;

(a) the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;

(b) Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;

(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency

9.3 The Workgroup agreed by majority that CMP256 better facilitates the Applicable CUSC Objectives and therefore should be implemented. Further details of the vote are as follows;

Workgroup member	(a)	(b)	(c)	Overall
Garth Graham	Neutral	Yes	Neutral	Yes
Binoy Dharsi	Neutral	Yes	Neutral	Yes
James Anderson	Neutral	Yes	Neutral	Yes
Jon Wisdom	Neutral	Yes	Neutral	Yes
Chris Granby	Neutral	Yes	Neutral	Yes
Juliette Richards	Neutral	Yes	Neutral	Yes
Joseph Underwood	Neutral	Yes	Neutral	Yes
Lin Gao	Neutral	No	Neutral	No
Karl Maryon	Neutral	Yes	Neutral	Yes
Will Chilvers	Neutral	Yes	Neutral	Yes

9.4 The Workgroup noted that generally CMP256 was neutral against (a) and (c) and that the same reasons for voting against CMP244 Objective (a) would be given for voting against CMP256 Objective (b).

Annex 1 – CMP244 Proposal form

Title of the CUSC Modification Proposal
Set final TNUoS tariffs at least 15 months ahead of each charging year
Submission Date
19th May 2015
Description of the Issue or Defect that the CUSC Modification Proposal seeks to address
At present, TNUoS tariffs are finalised just two months ahead of each charging year – said charging year beginning on the 1st of each April. This adds uncertainty for CUSC parties which have to pay TNUoS, as they do not know charges very far in advance. It also adds uncertainty for those customers with TNUoS pass-through arrangements in their supply contracts. Suppliers, in particular, are likely to have to add a risk premium into their tariffs to end consumers; Suppliers cannot manage this risk or finance it cheaply, so this feature of baseline is not in consumers' interests. Therefore, given the existing and growing volume of fixed price retail contracts and the inability of Suppliers to hedge network charges, there is an implied cost to customers due to the uncertainty that is created by today's short-notice annual TNUoS tariffs. Most contracts to supply non-domestic customers are from one to two years in duration; a growing proportion of domestic tariffs are fixed, often for a given term. National Grid has recognised the value CUSC parties place in advanced forecasts by agreeing to provide quarterly updates in the year ahead of final charging. These updates have been useful; however, the volatility of the inputs that feed the models which creates tariffs generally only becomes more stable approximately one additional month from the publication of final tariffs. It seems inefficient for Suppliers to compete for business on the basis of Transmission tariff uncertainty. This uncertainty could be more disadvantageous for smaller Suppliers, as they may need to add larger risk premia. The uncertainty is generally hard for all Suppliers, or (where passed-through) customers, to manage. The energy and climate change select committee noted in its recent report[1] that "market conditions can be improved if … the 40-day notification period for price changes is increased to 15 months"

[1] http://www.publications.parliament.uk/pa/cm201415/cmselect/cmenergy/386/38601.html

Conversations we have had with larger customers, who (although some do have such contracts) do not have the ability to easily support some of the more complicated contracts with "pass through" clauses in relation to TNUoS, show they would welcome the increase in budget certainty – they have a pressing need for certainty of the elements of their electricity purchase costs.

The greater certainty of network charges that this modification proposal would bring, would reduce costs to suppliers, and while it may increase costs to the network companies (due to cash flow costs), the overall net benefit to consumers will be positive due to network companies having lower cost of capital. This issue is not unique to TNUoS; there has recently been an approval of the same general form as this CUSC Mod, for a change (DCP 178) to Distribution Use of System (DUoS) charges under the DCUSA :
https://www.ofgem.gov.uk/ofgem-publications/93572/dcp178d.pdf
Approving this modification will thus, as an incidental benefit, assist in inter-code consistency – one of the themes in recent CMA documents – making comprehending and using the industry arrangements that little bit easier for small and new entrant type CUSC parties.

Description of the CUSC Modification Proposal

The proposal is to increase the length of the notice period for final TNUoS tariffs (currently 2 months) – to, for example 15+ months. This would provide greater certainty of TNUoS tariffs over a longer time period, reducing the risk premium that suppliers would have needed to otherwise add to consumer prices to address uncertainty of TNUoS tariffs.

The workgroup will need to consider the practicalities of both OFTOs and onshore TOs forecasting their revenues 15 months ahead, and of the way that EC regulation EC 838/2010 can be made to work in the context of a longer notice period. It will also need to address the issue of demand and generation forecasts being made further ahead, and the implications and cost reflectivity on the collection of TNUoS revenue that this longer forecast period will pose.

Furthermore the workgroup will need to consider other components of the charging model that may need to be requested further ahead – for example the Ofgem 'mod' process for TOs, the interconnector cap and collar regime and notice that users provide to National Grid that could affect TNUoS recovery (e.g. closure / delay within this period) and / or affect the cost reflectivity of the charge. The Workgroup will also need to consider whether / how an extended notice period would operate across 2 price control periods.

Should Ofgem decide to approve this modification, it may require other code changes and licence changes for Transmission Owners that are outside the CUSC.

Impacts on the CUSC
Section 3.14.3 needs alteration if this mod is passed; currently it says, "The Company shall give the User not less than 2 months prior written notice of any revised charges ". The workgroup may consider with Code Administrator's advice whether any other parts of the CUSC need amendment. Section 14.14.10 needs alteration if this mod is passed; currently it says, "The Company will typically calculate TNUoS tariffs annually, publishing final tariffs in respect of a Financial Year by the end of the preceding January". Section 14.28 (on predictability of tariffs) would need alteration if this mod were passed; currently it says, "The Company is required …. to give Users 2 months written notice of any revised charges". In addition to the above we expect further alterations to Section 3 and Section 14 of the CUSC if any such are identified.
Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes / No
No
Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information
BSC **N** **Grid Code** **N** **STC** **Y –** The STC will need a simple parallel amendment to specify that transmission owners give necessary information to National Grid's charging team in sufficient time. **Other** **Y :** It is possible that Ofgem may review some of the parameters in the RIIO-T1 price control to ensure that TOs can efficiently finance themselves given the need to stabilise revenues collected by TNUoS 15 months ahead.
Urgency Recommended: Yes / No
No
Justification for Urgency Recommendation
n/a

Self-Governance Recommended: Yes / No

No

Justification for Self-Governance Recommendation

n/a

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?

There are no relevant SCRs in process.

Impact on Computer Systems and Processes used by CUSC Parties:

No impact

Details of any related modification proposal you have raised to other industry codes

None

Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives for Charging:

Please tick the relevant boxes to show where the proposal better meets that objective than baseline, and then provide justification.

- [x] (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 incurred by transmission licensees in their transmission businesses
- [ ] (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 ACER.

Suppliers offer contract terms to customers in advance of the final Transmission Charges being known. This creates a financial risk that the supplier must value, which is ultimately passed onto the customer. By having longer advanced notice of Transmission network tariffs, suppliers will be able to eliminate this risk premia from quotations to customers, or fixed price domestic contracts, for the length of time the charges are fixed. Generators will be able to strike forward contracts that are more keenly priced without the risk created by TNUoS charge uncertainty.

This maps onto the first of the applicable charging objectives above : the net system cost should be lower as Suppliers cannot very economically finance TNUoS risk into their quotes to end customers, so this modification, if passed, would help CUSC parties, particularly Suppliers, to price their business operations more keenly, better facilitating competition (applicable charging objective A).

The consistency that would be created with the notice period for DUoS tariffs in the DCUSA (as updated by DCP 178) enhances the ease of understanding and access of these codes for all parties, including newcomers – again, this can be beneficial for competition.

Additional details

Details of Proposer: (Organisation Name)	Binoy Dharsi, EDF Energy
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Binoy Dharsi, EDF Energy, 020 3126 2165, 07790 893 373, Binoy.Dharsi@edfenergy.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Paul Mott, EDF Energy, 0203 126 2314, Paul.Mott@edfenergy.com

Attachments (Yes/No):
If Yes, Title and No. of pages of each Attachment:

Contact Us

If you have any questions or need any advice on how to fill in this form please contact the Panel Secretary:

E-mail cusc.team@nationalgrid.com

Phone: 01926 653606

For examples of recent CUSC Modifications Proposals that have been raised please visit the National Grid Website at http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Current/

Submitting the Proposal

Once you have completed this form, please return to the Panel Secretary, either by email to jade.clarke@nationalgrid.com and copied to cusc.team@nationalgrid.com, or by post to:

Jade Clarke
CUSC Modifications Panel Secretary, TNS
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

If no more information is required, we will contact you with a Modification Proposal number and the date the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, the Proposal can be rejected. You will be informed of the rejection and the Panel will discuss the issue at the next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform you.

Annex 2 – CMP256 Proposal form

nationalgrid

Title of the CUSC Modification Proposal
Potential consequential changes to the CUSC as a result of CMP244
Submission Date
19th November 2015
Description of the Issue or Defect that the CUSC Modification Proposal seeks to address
In May 2015, CMP244 ('Set final TNUoS tariffs at least 15 months ahead of the charging year') was raised by EDF. Following analysis at the industry Workgroup, the Proposer decided to modify the Original Proposal to suggest an extended notice period of 6-8 months for TNUoS tariffs. This modified CMP244 Original Proposal is currently within the Workgroup development stage (its Workgroup consultation closed on 19th November 2015). As part of the Workgroup analysis, the Workgroup identified that whilst this was a charging modification (which if approved would require change to aspects of section 14 - Charging Methodologies of the CUSC) there are in fact some minor references outside section 14 of the CUSC that would require change should CMP244 be approved. However these could not be addressed via CMP244 as it is a charging modification seeking to amend Section 14 of the CUSC and therefore will be assessed against the Applicable Charging Objectives. Any modifications to the CUSC outside of Section 14 – Charging Methodologies are assessed against the CUSC Objectives (not Charging). Consequently this modification has been raised to detail the required changes to Section 3 and Section 11 of the CUSC. It is suggested that this Modification is amalgamated with CMP244, and the detailed CUSC changes be taken forward should CMP244 be approved.
Description of the CUSC Modification Proposal
It is proposed that sections 3 and 11 of the CUSC (and any other sections outside section 14 deemed appropriate by the CMP244 Workgroup) are modified as detailed below to reflect any changes to section 14 should CMP244 be approved. This will ensure that sections 3 and 11 of the CUSC align with section 14, in order to provide clarity to CUSC parties.

Impacts on the CUSC

Under the current Original Proposal for CMP244, Section 3.14.3 needs alteration if the modification is passed; currently the legal text states "*The Company shall give the User not less than 2 months prior written notice of any revised charges*". Should CMP244 be approved, this would need to changed to reflect the final revised notice period agreed by the CMP244 Proposer or any alternative proposals agreed by the CMP244 Workgroup.

Section 11 currently defines the TNUoS tariff forecasting timetable as
'*an annual timetable prepared and published by The Company by the end of January of each Financial Year (t) which sets out when The Company will publish updates in Financial Year (t+1) (being not less than quarterly) to the forecast of Transmission Network Use of System Charges for the Financial (t+2)'*.
Should CMP244 be approved, this would need to change to reflect the final revised forecasting timetable agreed as part of CMP244.

The suggested amendments above are to be developed by the CMP244 Workgroup and depending on whether the Proposer changes their Original Proposal or any alternatives are agreed, the Workgroup may consider with Code Administrator's advice whether any other parts of the CUSC need amendment.

Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes / No

No

Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information

BSC **N**

Grid Code **N**

STC **N –** If CMP244 is approved the STC will need a simple parallel amendment to specify that transmission owners give necessary information to National Grid's charging team in sufficient time for any future approved TNUoS forecasting timetable. Modification CMP256, to make minor amendments to non-charging sections of the CUSC (outwith CMP244, as that is a charging mod) if CMP244 is passed, does nothing to add to or detract from this effect of CMP244. It merely ensures that CMP244 can properly be given effect in CUSC wording, including the part of the CUSC outwith section 14 where CMP244, as a "charging" modification, cannot change the wording.

Other **N :** If CMP244 is approved, it is possible that Ofgem may review some of the parameters in the RIIO-T1 price control to ensure that TOs can efficiently finance themselves given the need to stabilise revenues collected by TNUoS 6-8 months ahead. However, Modification CMP256, to make minor amendments to non-charging sections of the CUSC (outwith CMP244, as that is a charging mod) if CMP244 is passed, does nothing to add to or detract from this effect of CMP244.

Both of these impacts on core industry documentation are being considered as part of CMP244.

Urgency Recommended: Yes / No

No

Justification for Urgency Recommendation

n/a

Self-Governance Recommended: Yes / No

No

Justification for Self-Governance Recommendation

n/a

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?

There are no relevant SCRs in process.

Impact on Computer Systems and Processes used by CUSC Parties:

No impact

Details of any related modification proposal you have raised to other industry codes

CMP244 '**Set final TNUoS tariffs at least 15 months ahead of the charging year'**

Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives:

This section is mandatory. You should detail why this Proposal better facilitates the Applicable CUSC Objectives compared to the current baseline. Please note that one or more Objective must be justified.

Please tick the relevant boxes and provide justification:

☒ (a) the efficient discharge by The Company of the obligations imposed upon it by the Act and the Transmission Licence

☒ (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

☐ (c) 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.

Objective (c) was added in November 2011. This refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Please tick the relevant boxes to show where the proposal better meets that objective than baseline, and then provide justification.

Justification:
a) National Grid is obliged to comply with Modification Proposals approved by the Authority and integrated into the CUSC. Where the two do not align as intended then this leads to inefficiency and a lack of clarity for CUSC parties.

b) Generators and Suppliers pay TNUoS charges to access the National Electricity Transmission System. These costs end up in the final prices passed on to GB consumers. The proposed changes herewith will bring greater clarity in the CUSC to the notice period Suppliers and Generators will receive for their TNUoS tariffs, and to the forecasts they will receive ahead of final tariffs being published. This will enable both Generators and Suppliers to more clearly account for the impact of TNUoS costs into their prices, reducing uncertainty and thus improving competition.

Additional details

Details of Proposer: (Organisation Name)	Binoy Dharsi, EDF Energy
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Binoy Dharsi, EDF Energy, Binoy.Dharsi@edfenergy.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Paul Mott, EDF Energy, 0203 126 2314, Paul.Mott@edfenergy.com
Attachments (Yes/No): NO	

Contact Us

If you have any questions or need any advice on how to fill in this form please contact the Panel Secretary:

E-mail cusc.team@nationalgrid.com

Phone: 01926 653606

For examples of recent CUSC Modifications Proposals that have been raised please visit the National Grid Website at http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Current/

Submitting the Proposal

Once you have completed this form, please return to the Panel Secretary, either by email to jade.clarke@nationalgrid.com and copied to cusc.team@nationalgrid.com, or by post to:

Jade Clarke

CUSC Modifications Panel Secretary
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

If no more information is required, we will contact you with a Modification Proposal number and the date the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, the Proposal can be rejected. You will be informed of the rejection and the Panel will discuss the issue at the next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform you.

Annex 3 – CMP244 Terms of Reference

Workgroup Terms of Reference and Membership
TERMS OF REFERENCE FOR CMP244 WORKGROUP

CMP244 seeks to increase the length of the notice period for TNUoS tariffs (currently 2 months) to a suggested period of 15 months.

Responsibilities

1. The Workgroup is responsible for assisting the CUSC Modifications Panel in the evaluation of CUSC Modification Proposal **244** ‘**Set final TNUoS tariffs at least 15 months ahead of each charging year’** tabled by EDF Energy at the CUSC Modifications Panel meeting on 29th May 2015.

2. The proposal must be evaluated to consider whether it better facilitates achievement of the Applicable CUSC Objectives. These can be summarised as follows:

   Use of System Charging Methodology

   (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.
   These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1.

   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).

3. It should be noted that additional provisions apply where it is proposed to modify the CUSC Modification provisions, and generally reference should be made to the Transmission Licence for the full definition of the term.

Scope of work

4. The Workgroup must consider the issues raised by the Modification Proposal and consider if the proposal identified better facilitates achievement of the Applicable CUSC Objectives.

5. In addition to the overriding requirement of paragraph 4, the Workgroup shall consider and report on the following specific issues:

   a) *What impact will CMP244 have on mid-year tariff changes?*
   b) *Consider impact on €2.5/MWh limit within EC Regulation 838/2010.*
   c) *Transition to 15 months' notice*
   d) *Consider any risks and identify parties who will face these risks.*
   e) *Measure longer notice periods against increased volatility of tariffs.*
   f) *TEC Reductions – could notice period / cancellation charge be extended?*
   g) *Consider interaction with any licence changes.*
   h) *What would happen if costs fell (and they were not passed onto consumers within 15 months)*
   i) *Consider large TO investment and possible delays.*
   j) *Securities and liabilities for generators*
   k) *Should the 15 month notice period only apply to demand TNUoS tariffs, or both demand and generation?*
   l) *Should it be optional for Suppliers to remain on 2 months' notice?*
   m) *Under and over recovery, how should the consequence of the risk be financed?*
   n) *What would the situation be with an independent System Operator.*
   o) *Consider the impact on locational tariffs applied to other generators arising from the delay in commissioning/cancellation of generation projects, particularly in tariff zones sensitive to major changes in modelled power flows.*
   p) *Consider the interaction of the calculation and publication of Annualised Load Factors, by 25 December, t-1, with the publication of final TNUoS tariffs at least 15 months ahead of the Charging Year.*
   q) *Implementation*
   r) *Review draft legal text*

6. The Workgroup is responsible for the formulation and evaluation of any Workgroup Alternative CUSC Modifications (WACMs) arising from Group discussions which would, as compared with the Modification Proposal or the current version of the CUSC, better facilitate achieving the Applicable CUSC Objectives in relation to the issue or defect identified.

7. The Workgroup should become conversant with the definition of Workgroup Alternative CUSC Modification which appears in Section 11 (Interpretation and Definitions) of the CUSC. The definition entitles the Group and/or an individual member of the Workgroup to put forward a WACM if the member(s) genuinely believes the WACM would better facilitate the achievement of the Applicable CUSC Objectives, as compared with the Modification Proposal or the current version of the CUSC. The extent of the support for the Modification Proposal or any WACM arising from the Workgroup's discussions should be clearly described in the final Workgroup Report to the CUSC Modifications Panel.

8. Workgroup members should be mindful of efficiency and propose the fewest number of WACMs possible.

9. All proposed WACMs should include the Proposer(s)'s details within the final Workgroup report, for the avoidance of doubt this includes WACMs which are proposed by the entire Workgroup or subset of members.

10. There is an obligation on the Workgroup to undertake a period of Consultation in accordance with CUSC 8.20. The Workgroup Consultation period shall be for a period of 3 weeks as determined by the Modifications Panel.

11. Following the Consultation period the Workgroup is required to consider all responses including any WG Consultation Alternative Requests. In undertaking an assessment of any WG Consultation Alternative Request, the Workgroup should consider whether it better facilitates the Applicable CUSC Objectives than the current version of the CUSC.

    As appropriate, the Workgroup will be required to undertake any further analysis and update the original Modification Proposal and/or WACMs. All responses including any WG Consultation Alternative Requests shall be included within the final report including a summary of the Workgroup's deliberations and conclusions. The report should make it clear where and why the Workgroup chairman has exercised his right under the CUSC to progress a WG Consultation Alternative Request or a WACM against the majority views of Workgroup members. It should also be explicitly stated where, under these circumstances, the Workgroup chairman is employed by the same organisation who submitted the WG Consultation Alternative Request.

12. The Workgroup is to submit its final report to the Modifications Panel Secretary on 16th November 2015 for circulation to Panel Members. The final report conclusions will be presented to the CUSC Modifications Panel meeting on 27th November 2015.

Membership

13. It is recommended that the Workgroup has the following members:

Role	Name	Representing
Chairman	Patrick Hynes	Code Administrator
*National Grid Representative**	Juliette Richards	National Grid
*Industry Representatives**	Binoy Dharsi	EDF Energy
	Garth Graham	SSE
	James Anderson	Scottish Power
	William Chilvers	ESB
	Karl Maryon	Haven Power
	Jon Wisdom	N Power
	Christopher Granby	Infinis
	Joe Underwood	Drax Power
	Guy Phillips	EON
	Andy Manning	British Gas

Authority Representatives	Dena Barasi	Ofgem
Technical secretary	Jade Clarke	Code Administrator
Observers		

NB: A Workgroup must comprise at least 5 members (who may be Panel Members). The roles identified with an asterisk in the table above contribute toward the required quorum, determined in accordance with paragraph 14 below.

14. The Chairman of the Workgroup and the Modifications Panel Chairman must agree a number that will be quorum for each Workgroup meeting. The agreed figure for CMP244 is that at least 5 Workgroup members must participate in a meeting for quorum to be met.

15. A vote is to take place by all eligible Workgroup members on the Modification Proposal and each WACM. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person or by teleconference). The Workgroup chairman shall not have a vote, casting or otherwise. There may be up to three rounds of voting, as follows:

- Vote 1: whether each proposal better facilitates the Applicable CUSC Objectives;
- Vote 2: where one or more WACMs exist, whether each WACM better facilitates the Applicable CUSC Objectives than the original Modification Proposal;
- Vote 3: which option is considered to BEST facilitate achievement of the Applicable CUSC Objectives. For the avoidance of doubt, this vote should include the existing CUSC baseline as an option.

The results from the vote and the reasons for such voting shall be recorded in the Workgroup report in as much detail as practicable.

16. It is expected that Workgroup members would only abstain from voting under limited circumstances, for example where a member feels that a proposal has been insufficiently developed. Where a member has such concerns, they should raise these with the Workgroup chairman at the earliest possible opportunity and certainly before the Workgroup vote takes place. Where abstention occurs, the reason should be recorded in the Workgroup report.

17. Workgroup members or their appointed alternate are required to attend a minimum of 50% of the Workgroup meetings to be eligible to participate in the Workgroup vote.

18. The Technical Secretary shall keep an Attendance Record for the Workgroup meetings and circulate the Attendance Record with the Action Notes after each meeting. This will be attached to the final Workgroup report.

19. The Workgroup membership can be amended from time to time by the CUSC Modifications Panel.

Appendix 1 – Indicative Workgroup Timetable

The following timetable is indicative for CMP244

5th June 2015	Deadline for comments on Terms of Reference / nominations for Workgroup membership
W/C 15th June 2015	Workgroup meeting 1
W/C 29th June 2015	Workgroup meeting 2
W/C 6th July 2015	Workgroup meeting 3
14th July 2015	Workgroup Consultation issued for 1 week Workgroup comment
21st July 2015	Deadline for comment
23rd July 2015	Workgroup Consultation published
20th August 2015	Deadline for responses
W/C 24th August2015	Workgroup meeting 4
W/C 31st August 2015	Workgroup meeting 5
W/C 14th September 2015	Workgroup meeting 6
9th November 2015	Circulate draft Workgroup Report
16th November 2015	Deadline for comment
22nd November 2015	Submit final Workgroup Report to Panel
27th November 2015	Present Workgroup Report at CUSC Modifications Panel

Post Workgroup modification process

2nd December 2015	Code-Administrator Consultation published
31st December 2015	Deadline for responses
6th January 2016	Draft FMR published
13th January 2016	Deadline for comments
21st January 2016	Draft FMR issued to CUSC Panel
29th January 2016	CUSC Panel Recommendation vote
11th February 2016	Final CUSC Modification Report submitted to Authority

Annex 4 – CMP256 Terms of Reference

nationalgrid

Workgroup Terms of Reference and Membership

TERMS OF REFERENCE FOR CMP256 WORKGROUP

CMP256 seeks to introduce consequential changes to Section 3 and 11 of the CUSC, as a result of charging modification CMP244. CMP244 is seeking to change Section 14 of the CUSC to increase the length of the notice period for TNUoS tariffs which is currently 2 months.

Responsibilities

1. The Workgroup is responsible for assisting the CUSC Modifications Panel in the evaluation of CUSC Modification Proposal **256 'Potential consequential changes to the CUSC as a result of CMP244'** tabled by EDF Energy at the CUSC Modifications Panel meeting on 27th November 2015.

2. The proposal must be evaluated to consider whether it better facilitates achievement of the Applicable CUSC Objectives. These can be summarised as follows:

   Use of System Charging Methodology

   (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.
   These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1.

   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).

3. It should be noted that additional provisions apply where it is proposed to modify the CUSC Modification provisions, and generally reference should be made to the Transmission Licence for the full definition of the term.

Scope of work

4. The Workgroup must consider the issues raised by the Modification Proposal and consider if the proposal identified better facilitates achievement of the Applicable CUSC Objectives.

5. In addition to the overriding requirement of paragraph 4, the Workgroup shall consider and report on the following specific issues:

   a) *Implementation*
   b) *Review draft legal text*

6. The Workgroup is responsible for the formulation and evaluation of any Workgroup Alternative CUSC Modifications (WACMs) arising from Group discussions which would, as compared with the Modification Proposal or the current version of the CUSC, better facilitate achieving the Applicable CUSC Objectives in relation to the issue or defect identified.

7. The Workgroup should become conversant with the definition of Workgroup Alternative CUSC Modification which appears in Section 11 (Interpretation and Definitions) of the CUSC. The definition entitles the Group and/or an individual member of the Workgroup to put forward a WACM if the member(s) genuinely believes the WACM would better facilitate the achievement of the Applicable CUSC Objectives, as compared with the Modification Proposal or the current version of the CUSC. The extent of the support for the Modification Proposal or any WACM arising from the Workgroup's discussions should be clearly described in the final Workgroup Report to the CUSC Modifications Panel.

8. Workgroup members should be mindful of efficiency and propose the fewest number of WACMs possible.

9. All proposed WACMs should include the Proposer(s)'s details within the final Workgroup report, for the avoidance of doubt this includes WACMs which are proposed by the entire Workgroup or subset of members.

10. There is an obligation on the Workgroup to undertake a period of Consultation in accordance with CUSC 8.20. The Workgroup Consultation period shall be for a period of 3 weeks as determined by the Modifications Panel.

11. Following the Consultation period the Workgroup is required to consider all responses including any WG Consultation Alternative Requests. In undertaking an assessment of any WG Consultation Alternative Request, the Workgroup should consider whether it better facilitates the Applicable CUSC Objectives than the current version of the CUSC.

    As appropriate, the Workgroup will be required to undertake any further analysis and update the original Modification Proposal and/or WACMs. All responses including any WG Consultation Alternative Requests shall be included within the final report including a summary of the Workgroup's deliberations and conclusions. The report should make it clear where and why the Workgroup chairman has exercised his right under the CUSC to progress a WG Consultation Alternative Request or a WACM against the majority views of Workgroup members. It should also be explicitly stated where, under these circumstances, the Workgroup chairman is employed by the same organisation who submitted the WG Consultation Alternative Request.

12. The Workgroup is to submit its final report to the Modifications Panel Secretary on 21st January 2016 for circulation to Panel Members. The final report conclusions will be presented to the CUSC Modifications Panel meeting on 29th January 2016. This shortened timetable is to align CMP256 with the current timetable of CMP244 so that both Workgroup Reports will be presented to the CUSC Panel at the same time.

Membership

13. It is recommended that the Workgroup has the following members:

Role	Name	Representing
Chairman	Nikki Jamieson	Code Administrator
*National Grid Representative**	Juliette Richards	National Grid
*Industry Representatives**	Binoy Dharsi (Proposer)	EDF Energy
	Karl Maryon	Haven Power
	William Chilvers	ESB
	James Anderson	Scottish Power
	Garth Graham	SSE
	Jonathan Wisdom	RWE NPower
	Lin Gao	E.On
	Christopher Granby	Infinis
	Joseph Underwood	Drax Power
	Andy Manning	British Gas
Authority Representatives	Edda Dirks	Ofgem
Technical secretary	Jade Clarke	Code Administrator
Observers		

NB: A Workgroup must comprise at least 5 members (who may be Panel Members). The roles identified with an asterisk in the table above contribute toward the required quorum, determined in accordance with paragraph 14 below.

14. The Chairman of the Workgroup and the Modifications Panel Chairman must agree a number that will be quorum for each Workgroup meeting. The agreed figure for CMP256 is that at least 5 Workgroup members must participate in a meeting for quorum to be met.

15. A vote is to take place by all eligible Workgroup members on the Modification Proposal and each WACM. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person or by teleconference). The Workgroup chairman shall not have a vote, casting or otherwise. There may be up to three rounds of voting, as follows:

- Vote 1: whether each proposal better facilitates the Applicable CUSC Objectives;

- Vote 2: where one or more WACMs exist, whether each WACM better facilitates the Applicable CUSC Objectives than the original Modification Proposal;
- Vote 3: which option is considered to BEST facilitate achievement of the Applicable CUSC Objectives. For the avoidance of doubt, this vote should include the existing CUSC baseline as an option.

The results from the vote and the reasons for such voting shall be recorded in the Workgroup report in as much detail as practicable.

16. It is expected that Workgroup members would only abstain from voting under limited circumstances, for example where a member feels that a proposal has been insufficiently developed. Where a member has such concerns, they should raise these with the Workgroup chairman at the earliest possible opportunity and certainly before the Workgroup vote takes place. Where abstention occurs, the reason should be recorded in the Workgroup report.

17. Workgroup members or their appointed alternate are required to attend a minimum of 50% of the Workgroup meetings to be eligible to participate in the Workgroup vote.

18. The Technical Secretary shall keep an Attendance Record for the Workgroup meetings and circulate the Attendance Record with the Action Notes after each meeting. This will be attached to the final Workgroup report.

19. The Workgroup membership can be amended from time to time by the CUSC Modifications Panel.

Appendix 1 – Indicative Workgroup Timetable

The following timetable is indicative for CMP256

1st December 2015	Workgroup meeting 1
1st December 2015	Workgroup Consultation issued for Workgroup comment
4th December 2015	Deadline for comment
8th December 2015	Workgroup Consultation published
15th December 2015	Deadline for responses
W/C 4th January 2016	Workgroup meeting 2
8th January 2016	Circulate draft Workgroup Report
15th January 2016	Deadline for comment
21st January 2016	Submit final Workgroup Report to Panel
29th January 2016	Present Workgroup Report at CUSC Modifications Panel

Post Workgroup modification process

4th February 2016	Code-Administrator Consultation published
25th February 2016	Deadline for responses
2nd March 2016	Draft FMR published
9th March 2016	Deadline for comments
10th March 2016	Draft FMR issued to CUSC Panel
18th March 2016	CUSC Panel Recommendation vote
31st March 2016	Final CUSC Modification Report submitted to Authority

Annex 5 – CMP244 Attendance Register

A – Attended
X – Absent
O – Alternate
D – Dial-in

Name	Organisation	Role	24/06/15	07/07/15	04/08/15	17/08/15	16/09/15	01/12/15	19/01/16	08/02/16
Patrick Hynes	National Grid	Chair	A	A	A	A	A	O	O	O
Jade Clarke	Code Administrator	Technical Secretary	A	A	A	A	O	A	A	A
Binoy Dharsi	EDF Energy	Proposer	A	A	A	A	A	A	A	A
Juliette Richards	National Grid	Workgroup member	A	A	A	A	A	A	A	A
Guy Phillips	E.ON	Workgroup member	X	O	O	O	O	A	O	O
Joseph Underwood	Drax Power	Workgroup member	A	A	A	A	A	X	A	A
Christopher Granby	Infinis	Workgroup member	X	A	A	A	A	A	A	A
Jon Wisdom	N Power	Workgroup member	A	A	A	A	A	O	A	A
Karl Maryon	Haven Power	Workgroup member	A	A	A	O	A	A	A	A
William Chilvers	ESB	Workgroup member	A	A	A	X	A	A	A	A
James Anderson	Scottish Power	Workgroup member	A	X	A`	A	A	A	A	A
Garth Graham	SSE	Workgroup member	D	A	A	A	A	A	X	A
Andy Manning	British Gas	Workgroup member	X	A	O	O	X	O	A	X
Edda Dirks	Ofgem	Authority Representative	A	A	A	A	A	A	A	A

Annex 6 – CMP256 Attendance Register

A – Attended
X – Absent
O – Alternate
D – Dial-in

Name	Organisation	Role	01/12/15	19/01/16	08/02/16
Patrick Hynes	National Grid	Chair	O	O	O
Jade Clarke	Code Administrator	Technical Secretary	A	A	A
Binoy Dharsi	EDF Energy	Proposer	A	A	A
Juliette Richards	National Grid	Workgroup member	A	A	A
Guy Phillips	E.ON	Workgroup member	A	O	O
Joseph Underwood	Drax Power	Workgroup member	X	A	A
Christopher Granby	Infinis	Workgroup member	A	A	A
Jon Wisdom	N Power	Workgroup member	O	A	A
Karl Maryon	Haven Power	Workgroup member	A	A	A
William Chilvers	ESB	Workgroup member	A	A	A
James Anderson	Scottish Power	Workgroup member	A	A	A
Garth Graham	SSE	Workgroup member	A	X	A
Andy Manning	British Gas	Workgroup member	O	A	X
Edda Dirks	Ofgem	Authority Representative	A	A	A

Annex 7 – CMP244 Workgroup Consultation Responses

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Andy Manning* *andy.manning@britishgas.co.uk*
Company Name:	*British Gas*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	Yes. A 6-8 month notice period strikes an appropriate balance between the length of the notice period and the quality and certainty of the data used to generate those tariffs. As such we believe that CMP244 would provide increased predictability to suppliers and customers, facilitating more effective competition, with no/minimal increase in risk to the TOs or reduction in cost reflectivity of the tariffs.
2	**Do you support the proposed implementation approach?**	Yes. The proposed implementation approach presented in paragraphs 4.1-4.2 appears broadly sensible.
3	**Do you have any other comments?**	No
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Specific questions for CMP244

Q	Question	Response

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	The additional period of certainty provided by increasing the notice period is beneficial for all parties liable to pay TNUoS. We believe that a 6-8 month period can deliver this without materially affecting the risk to TO revenues, or the long-term stability of tariffs, and so this should be beneficial overall
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	n/a
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	n/a

Q	Question	Response
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	If it is assumed that 'fast-tracking' will be retained for the next price control review and a timetable similar to that for the RIIO-T1 price control review is adopted, allowed revenues for any TO granted 'fast-track' status will be known approximately twelve months in advance of the 2021/22 charging year (Final Proposals for SHETL and SPTL were published in April 2012, ahead of the start of the RIIO-T1 price control in April 2013). As such, the determination of allowed revenues for any such TO according to that timetable should not introduce any additional uncertainty for a 6-8 month notice period. We also do not believe any additional uncertainty will arise for those TOs not granted 'fast-track' status. We expect, and would support, the approach taken for the transition from the DPCR5 to the RIIO-ED1 electricity distribution price controls to be adopted for future price controls. Allowed revenues, and so network charges, for the first year of RIIO-ED1 were based on the numbers presented in draft determinations (which were published in July 2014, approximately 8 months ahead of the start of RIIO-ED1 in April 2015). Any differences in allowed revenues included in final determinations will be reconciled over the remaining years of that price control. As such, any additional uncertainty associated can be managed through the RIIO process and should not prevent the introduction of a 6-8 month notice period. Further information on the RIIO-ED1 approach can be found at: https://www.ofgem.gov.uk/publications-and-updates/timing-decision-electricity-distribution-networks%E2%80%99-revenue-2015-16

Q	Question	Response
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	An appropriate balance between the length of the notice period and the quality and certainty of the data used to generate those tariffs should be struck. Based on the information provided in paragraph 3.11 of the consultation, we note there would be no difference in the quality and certainty of the data used to set tariffs 6, 7 or 8 months in advance with the possible exception of: • MOD forecast, which is based on the annual Regulatory Reporting Pack submissions in July. This forecast would not be available to set tariffs 8 months in advance. • Information from the Future Energy Scenarios publication, which would not be available to set tariffs 8 months in advance. If these items are known, or can be estimated with sufficient certainty, to permit 8 months notice of tariff changes then 8 months should be provided. If, however, these items remain uncertain prior to submission/publication then a notice period of 7 months may be more appropriate.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	The range of risks and issues seems appropriate and appears to have been given reasonable consideration. However, we note that care should be taken reaching conclusions relating to the magnitude of under-/over-recovery. In some instances, the analysis presented is based on a comparison of a 15-month notice with the status quo rather than a comparison of a 6-8 month notice period with the status quo. We also note the uncertainty of the presumed counterfactual: *“The Workgroup noted that if National Grid had to issue a binding tariff (rather than a long term forecast) at this point, they would put more resource into the production of tariffs - therefore this analysis can only provide an indicative view of the accuracy of tariffs 15 months ahead of the charging year.”*

Q	Question	Response
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	We note consideration of Transmission licence changes are outside the scope of the CMP244 Workgroup, as stated in paragraph 4.8 of the consultation: *“The Ofgem representative confirmed that the discussion and negotiation of these changes lay outside the scope of the CMP244 Workgroup.”* For the avoidance of doubt, we do not believe any changes to Transmission licence financing costs and bandwidths are necessary.

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Steve Noonan (01926 350 076 or steve.noonan@frontierpower.biz)*
Company Name:	*Blue Transmission London Array Limited (the "Company" or " the OFTO")*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	No. While in principle the objectives of the CUSC may appear to be met, we believe that the proposal fails to take into account the specific characteristics of the OFTO business model and related licence conditions. The OFTO regime was developed so as to encourage investment in this sector of the market and to access non-traditional sources of finance with a view to achieving the lowest cost of capital and hence benefit the end customer. The OFTO licence conditions respond to those general principles. In that regard the certainty of revenue forecasting for the OFTO is extremely important and the timing of tariff setting that is reflected in the Company's offshore transmission licence is consistent with this overall objective. Unfortunately, the CMP244 proposals are inconsistent with the OFTO regime principles that are embedded within the licence for the OFTO and in effect would either be inconsistent with or frustrate the operation of those licence conditions. We believe that the consultation proposals "cut-across" a number of the OFTO's licence conditions such that they do not operate as intended or that they are contrary to the requirements of those conditions – this is dealt with more fully in our response to Q6. In addition, the STC is defined under the OFTOs' lending documents as a "Project Document". The proposed changes to the STC may be viewed as a material adverse change, which would then require the consent of the Company's senior lenders. While such consent cannot prevent a change to the STC it is highly likely to result in additional legal and adviser costs being incurred by the OFTO to obtain that consent that were never envisaged. While the Company is supportive of the objectives of this review, it does not believe that the position of the OFTO has been properly considered as part of the review to date and will increase the costs to the OFTO. In so far as the proposals may be acceptable to other respondents to this consultation, the Company believes that any changes to the notice period for TNUoS charging should 'carve out' the OFTO from such changes – in effect we favour applying the current reporting/charging arrangements to the OFTO as they currently stand.
2	**Do you support the proposed implementation approach?**	No, for the principles outlined above.

Q	Question	Response
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No.*

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	No.

Q	Question	Response
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	**Forecasting Risk response:** In principle yes. However, the Company does not believe that the proposals have taken into account the design principles of the OFTO regime. The OFTO believes that the timing of any OFTO revenue forecast provided to NGET should not be contrary to or otherwise "cut-across" the existing OFTO licence conditions and existing STC procedures, as this would be inconsistent with the design and aims of the OFTO regime. **OFTO Licence and current STC procedures** Amended Standard Condition E12 – J2 of the OFTO licence specifies the calculation of the OFTO's transmission revenue and in particular requires the use of the percentage change in the Retail Price Index (RPI) over a twelve month period ending on 30 September of each year. The RPI outcome for any performance year ending 31 December will be known prior to the commencement of for the following charging year. Amended Standard Condition E12 – J4 of the OFTO licence specifies the calculation of the OFTO's performance availability revenue adjustment term. The calculation of such a term substantially depends on the availability performance of the OFTO over the 12 months ending the 31 December prior to the commencement of the following charging year. Amended Standard Condition E12 – J6 of the OFTO licence requires the OFTO to provide the System Operator with a regulated revenue forecast on or before 1 November of each year and "*If at any time, the licensed reasonably considers that the values of* $OFTO_t$ *and/or* $OFTO_{t+1}$*, notified to the System Operator will be significantly different from the estimates previously notified to the System Operator, the licensee shall notify the System Operator of the revised values for* $OFTO_t$ *and/or* $OFTO_{t+1}$ *as soon as reasonably practicable".* STC Procedure paragraph 3.3.1 notes that *"Only under exceptional circumstances, can General System Charges be changed after final notification on 25th January or post asset transfer for the first year of existence of an OFTO. Exceptional circumstances means an event or circumstance that is beyond the reasonable control of the licensee and for which it should not reasonably bear the financial risk."* All of the above licence conditions and STC Procedure are supportive of the objectives of the OFTO regime - being to give the participants in such a regime a high degree of certainty of costs and revenue.

Q	Question	Response
6	**Continued**	The primary sources of forecast revenue variation that the OFTO may "suffer" relates to performance credits / penalties which are calculated by reference to the availability of the transmission system; exceptional events; and income adjusting events. Taking these issues in turn: **Availability** The risk profile of an onshore system is significantly different to an offshore system. Consequently, forecasting system availability for the OFTO is very different compared with an onshore TO. The OFTO can suffer the risk of a complete system outage as a result of an unexpected failure of: equipment on the offshore sub-station; the export cable; and equipment in the onshore sub-station. In effect, a single point of failure can cause a complete loss of availability. By contrast, an onshore transmission system has in most instances multiple transmission routes and in effect enjoys the benefit of the "portfolio" effect that such system redundancy has on the overall availability of their transmission system. This allows the onshore TO to forecast transmission system availability with a much higher degree of confidence than that which is available to the OFTO. In principle, the OFTO can forecast planned maintenance activities and its impact on availability. However, there are additional risk factors to consider that differentiate the OFTO from an onshore TO that reduce the 'confidence' associated with the timing and length of those planned activities including the complication of the marine environment generally and the potential adverse impact of actual weather conditions as compared with the planning assumptions. Furthermore, The OFTO cannot forecast unplanned failures in any meaningful way and consequently cannot forecast the impact of such failures on availability. The Company believes that the consultation proposals as drafted do not take these factors into account. If (say) the OFTO forecasted its revenue on the basis of there being no planned outages for the following year, then all other things being equal the OFTO would forecast 100% transmission system availability. Such an assumption would drive a revenue forecast for the following charging year that assumed the collection of performance credits equivalent to 5% of the base revenue for the immediately preceding charging year. If the OFTO then suffered an unplanned significant outage prior to the commencement of the forecast charging year, but post-submission of a "binding" forecast, then the maximum variation in revenue comparing the "binding" forecast and "allowed revenue" calculated in accordance with the licence conditions (ignoring inflation) would be equivalent to 15% of the OFTO's revenue.

Q	Question	Response
6	**Continued**	Based on the Company's base revenue for 2015/16, this maximum variation would be approximately £6m – which would represent approx. 0.2% of the total 2016/17 TNUoS Revenue forecast produced by NGET (Oct 2015). We do not believe that the OFTO should suffer the risk of forecast errors arising from unplanned outages, as this is inconsistent with the principles of the OFTO regime and in addition would be either inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. Any over-recovery of revenue collected in excess of 4% of allowed revenue would result in the OFTO suffering 4% penal interest on the over-recovered income. As significant unplanned outages cannot be forecast, and because the inherent system design of the OFTO transmission system does not allow this risk to be mitigated, the only way for the OFTO to avoid penal interest in such a situation would be to provide information to NGET consistent with the current licence and STC procedures and charge accordingly consistent with this information. The OFTO notes that the overall impact of the maximum variation arising from OFTO system availability forecast deviation would not significantly impact on the overall TNUoS forecast, as referenced above, this maximum deviation represents approx. 0.2% of the forecast 2016/17 TNUoS. The OFTO further notes that under paragraph 2.60 of the consultation document, that NGET proposes a "carve-out" from the notification proposals contained within the consultation document for what, in effect, would be potential forecasting errors that are in essence outside of the control of NGET. In principle, a significant unplanned OFTO outage is the same, it is material to the OFTO in the same way that a change in expected revenue caused by price control changes is material to NGET. It is merely the absolute size of the numbers that are different. **Exceptional events** The Licence permits the OFTO to exclude the impact of certain events ("exceptional events") from the calculation of the OFTO's system availability. Given the nature of these exceptional events it is not possible to forecast such events in advance of a future charging period if the event in question has not happened. If the Authority agree that an event is "exceptional" then this can impact on the calculation of allowed revenue and therefore this may differ from any forecast prepared in accordance with the principles of the CMP244 consultation.

Q	Question	Response
6	**Continued**	We do not believe that the OFTO should suffer the risk of forecast errors arising from exceptional events, as this is inconsistent with the principles of the OFTO regime and in addition would either be inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. As exceptional events, by their very nature, cannot be forecast, the mitigation of this risk would be through an amendment to the OFTO's charging statement - necessary to comply with paragraph 4 and paragraph 5 of Amended Standard Condition E12 – J9 of the OFTO licence. The OFTO would then commence collecting the revised charges in Revenue following the approval of the revised charging statement. As previously noted, the STC procedures contain an exception that permits charges to be amended after the 25^{th} January in exceptional circumstances. **Income adjusting Events** Income adjusting events are defined under the OFTOs licence as: (a) an event or circumstance constituting force majeure under the STC, (b) an event or circumstance resulting from an amendment to the STC not allowed for when allowed transmission owner revenues of the licensee were determined for the relevant year t, and; (c) an event or circumstance other than listed above which, in the opinion of the Authority, is an income adjusting event and is approved by it as such in accordance with paragraph 21 of this licence condition, where the event or circumstance has, for relevant year t, increased or decreased costs and/ or expenses by more than £1,000,000 (the "STC threshold amount"). The ability to forecast an income adjusting event, is by its very nature, extremely difficult. In addition, even if the OFTO is able to forecast that they believe an income adjusting event has occurred, the Authority would need to opine as to whether they accepted the OFTO's analysis.

Q	Question	Response
6	**Continued**	Similar to the rationale discussed earlier, we do not believe that the OFTO should suffer the risk of forecast errors arising from income adjusting events, as this is inconsistent with the principles of the OFTO regime and in addition would either be inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. To allow for the mitigation of this risk, an amendment to the OFTO's charging statement would be necessary to comply with the requirements of paragraph 4 and paragraph 5 of Amended Standard Condition E12 – J9 of the OFTO licence. The OFTO would then commence collecting the revised charges in Revenue following the approval of the revised charging statement. As previously noted, the STC procedures contains an exception that permits charges to be amended after the 25th January in exceptional circumstances. **Alternative ways for this risk to be managed?** We do not have any specific suggestions as to how the risks might be managed, however, as indicated in response to the first part of this question, the overall impact of the maximum variation arising from OFTO system availability forecast deviation would not significantly impact on the overall TNUoS forecast, as referenced above, this maximum deviation represents approx. 0.2% of the forecast 2016/17 TNUoS.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	We have no comment on this proposal.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	We have no comment on this proposal

Q	Question	Response
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	For the reasons outlined in responses to previous questions, the OFTO proposes that it is carved out from any change in the notification process as it currently operates. A notification period of 6, 7 or 8 months would not help the OFTO's forecasting of unplanned outages, exceptional events or income adjusting events.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	No. The OFTO does not believe that the OFTO regime has been adequately considered for the reasons outlined in responses to previous questions. Furthermore, while we are currently in a low inflation period, the risk of there being a significant variation in forecast TNUoS charges as compared with that which would be calculated with the benefit of known RPI rates is likely to be insignificant. However this situation could change significantly in a future period and this risk does not appear to have been seriously considered in the consultation document, which merely references that any changes would form part of the 'reconciliation' following the end of the charging year. The longer the required notice period using forecast RPI - the greater the probability of deviation from actual RPI. In a period of rapidly changing prices, such variations could be significant.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	In response to previous questions, the OFTO believe that the proposals are inconsistent with or otherwise attempt to frustrate the operation of the licence conditions of the OFTO.

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Steve Noonan (01926 350 076 or steve.noonan@frontierpower.biz)*
Company Name:	*Blue Transmission Sheringham Shoal Limited (the "Company" or " the OFTO")*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	No. While in principle the objectives of the CUSC may appear to be met, we believe that the proposal fails to take into account the specific characteristics of the OFTO business model and related licence conditions. The OFTO regime was developed so as to encourage investment in this sector of the market and to access non-traditional sources of finance with a view to achieving the lowest cost of capital and hence benefit the end customer. The OFTO licence conditions respond to those general principles. In that regard the certainty of revenue forecasting for the OFTO is extremely important and the timing of tariff setting that is reflected in the Company's offshore transmission licence is consistent with this overall objective. Unfortunately, the CMP244 proposals are inconsistent with the OFTO regime principles that are embedded within the licence for the OFTO and in effect would either be inconsistent with or frustrate the operation of those licence conditions. We believe that the consultation proposals "cut-across" a number of the OFTO's licence conditions such that they do not operate as intended or that they are contrary to the requirements of those conditions – this is dealt with more fully in our response to Q6. In addition, the STC is defined under the OFTOs' lending documents as a "Project Document". The proposed changes to the STC may be viewed as a material adverse change, which would then require the consent of the Company's senior lenders. While such consent cannot prevent a change to the STC it is highly likely to result in additional legal and adviser costs being incurred by the OFTO to obtain that consent that were never envisaged. While the Company is supportive of the objectives of this review, it does not believe that the position of the OFTO has been properly considered as part of the review to date and will increase the costs to the OFTO. In so far as the proposals may be acceptable to other respondents to this consultation, the Company believes that any changes to the notice period for TNUoS charging should 'carve out' the OFTO from such changes – in effect we favour applying the current reporting/charging arrangements to the OFTO as they currently stand.
2	**Do you support the proposed implementation approach?**	No, for the principles outlined above.

Q	Question	Response
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No.*

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	No.

Q	Question	Response
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	**Forecasting Risk response:** In principle yes. However, the Company does not believe that the proposals have taken into account the design principles of the OFTO regime. The OFTO believes that the timing of any OFTO revenue forecast provided to NGET should not be contrary to or otherwise "cut-across" the existing OFTO licence conditions and existing STC procedures, as this would be inconsistent with the design and aims of the OFTO regime. **OFTO Licence and current STC procedures** Amended Standard Condition E12 – J2 of the OFTO licence specifies the calculation of the OFTO's transmission revenue and in particular requires the use of the average percentage change in the Retail Price Index (RPI) between January and December of each year. The RPI outcome for any performance year ending 31 December will be known prior to the commencement of for the following charging year. Amended Standard Condition E12 – J4 of the OFTO licence specifies the calculation of the OFTO's performance availability revenue adjustment term. The calculation of such a term depends on the availability performance of the OFTO over a period of 5 performance years ending the 31 December prior to the commencement of the following charging year. Amended Standard Condition E12 – J6 of the OFTO licence requires the OFTO to provide the System Operator with a regulated revenue forecast on or before 1 November of each year and "*If at any time, the licensed reasonably considers that the values of $OFTO_t$ and/or $OFTO_{t+1}$, notified to the System Operator will be significantly different from the estimates previously notified to the System Operator, the licensee shall notify the System Operator of the revised values for $OFTO_t$ and/or $OFTO_{t+1}$ as soon as reasonably practicable".* STC Procedure paragraph 3.3.1 notes that *"Only under exceptional circumstances, can General System Charges be changed after final notification on 25th January or post asset transfer for the first year of existence of an OFTO. Exceptional circumstances means an event or circumstance that is beyond the reasonable control of the licensee and for which it should not reasonably bear the financial risk."* All of the above licence conditions and STC Procedure are supportive of the objectives of the OFTO regime - being to give the participants in such a regime a high degree of certainty of costs and revenue.

Q	Question	Response
6	**Continued**	The primary sources of forecast revenue variation that the OFTO may "suffer" relates to performance credits / penalties which are calculated by reference to the availability of the transmission system; exceptional events; and income adjusting events. Taking these issues in turn: **Availability** The risk profile of an onshore system is significantly different to an offshore system. Consequently, forecasting system availability for the OFTO is very different compared with an onshore TO. The OFTO can suffer the risk of a complete system outage as a result of an unexpected failure of: equipment on the offshore sub-station; the export cable; and equipment in the onshore sub-station. In effect, a single point of failure can cause a complete loss of availability. By contrast, an onshore transmission system has in most instances multiple transmission routes and in effect enjoys the benefit of the "portfolio" effect that such system redundancy has on the overall availability of their transmission system. This allows the onshore TO to forecast transmission system availability with a much higher degree of confidence than that which is available to the OFTO. In principle, the OFTO can forecast planned maintenance activities and its impact on availability. However, there are additional risk factors to consider that differentiate the OFTO from an onshore TO that reduce the 'confidence' associated with the timing and length of those planned activities including the complication of the marine environment generally and the potential adverse impact of actual weather conditions as compared with the planning assumptions. Furthermore, The OFTO cannot forecast unplanned failures in any meaningful way and consequently cannot forecast the impact of such failures on availability. The Company believes that the consultation proposals as drafted do not take these factors into account. If (say) the OFTO forecasted its revenue on the basis of there being no planned outages for the following year, then all other things being equal the OFTO would forecast 100% transmission system availability. Such an assumption (having regard to the licence conditions applicable to the collection of performance credits and the existing credit bank position) would drive a revenue forecast for the following charging year that assumed the collection of performance credits equivalent to 5% of the base revenue for the immediately preceding charging year. If the OFTO then suffered an unplanned significant outage prior to the commencement of the forecast charging year, but post-submission of a "binding" forecast, then the maximum variation in revenue comparing the "binding" forecast and "allowed revenue" calculated in accordance with the licence conditions (ignoring inflation) would be equivalent to 15% of the OFTO's revenue.

Q	Question	Response
6	**Continued**	Based on the Company's base revenue for 2015/16, this maximum variation would be approximately £3m – which would represent approx. 0.1% of the total 2016/17 TNUoS Revenue forecast produced by NGET (Oct 2015). We do not believe that the OFTO should suffer the risk of forecast errors arising from unplanned outages, as this is inconsistent with the principles of the OFTO regime and in addition would be either inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. Any over-recovery of revenue collected in excess of 4% of allowed revenue would result in the OFTO suffering 4% penal interest on the over-recovered income. As significant unplanned outages cannot be forecast, and because the inherent system design of the OFTO transmission system does not allow this risk to be mitigated, the only way for the OFTO to avoid penal interest in such a situation would be to provide information to NGET consistent with the current licence and STC procedures and charge accordingly consistent with this information. The OFTO notes that the overall impact of the maximum variation arising from OFTO system availability forecast deviation would not significantly impact on the overall TNUoS forecast, as referenced above, this maximum deviation represents approx. 0.1% of the forecast 2016/17 TNUoS. The OFTO further notes that under paragraph 2.60 of the consultation document, that NGET proposes a "carve-out" from the notification proposals contained within the consultation document for what, in effect, would be potential forecasting errors that are in essence outside of the control of NGET. In principle, a significant unplanned OFTO outage is the same, it is material to the OFTO in the same way that a change in expected revenue caused by price control changes is material to NGET. It is merely the absolute size of the numbers that are different. **Exceptional events** The Licence permits the OFTO to exclude the impact of certain events ("exceptional events") from the calculation of the OFTO's system availability. Given the nature of these exceptional events it is not possible to forecast such events in advance of a future charging period if the event in question has not happened. If the Authority agree that an event is "exceptional" then this can impact on the calculation of allowed revenue and therefore this may differ from any forecast prepared in accordance with the principles of the CMP244 consultation.

Q	Question	Response
6	**Continued**	We do not believe that the OFTO should suffer the risk of forecast errors arising from exceptional events, as this is inconsistent with the principles of the OFTO regime and in addition would either be inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. As exceptional events, by their very nature, cannot be forecast, the mitigation of this risk would be through an amendment to the OFTO's charging statement - necessary to comply with paragraph 4 and paragraph 5 of Amended Standard Condition E12 – J9 of the OFTO licence. The OFTO would then commence collecting the revised charges in Revenue following the approval of the revised charging statement. As previously noted, the STC procedures contain an exception that permits charges to be amended after the 25th January in exceptional circumstances. **Income adjusting Events** Income adjusting events are defined under the OFTOs licence as: (a) an event or circumstance constituting force majeure under the STC, (b) an event or circumstance resulting from an amendment to the STC not allowed for when allowed transmission owner revenues of the licensee were determined for the relevant year t, and; (c) an event or circumstance other than listed above which, in the opinion of the Authority, is an income adjusting event and is approved by it as such in accordance with paragraph 21 of this licence condition, where the event or circumstance has, for relevant year t, increased or decreased costs and/ or expenses by more than £1,000,000 (the "STC threshold amount"). The ability to forecast an income adjusting event, is by its very nature, extremely difficult. In addition, even if the OFTO is able to forecast that they believe an income adjusting event has occurred, the Authority would need to opine as to whether they accepted the OFTO's analysis.

Q	Question	Response
6	**Continued**	Similar to the rationale discussed earlier, we do not believe that the OFTO should suffer the risk of forecast errors arising from income adjusting events, as this is inconsistent with the principles of the OFTO regime and in addition would either be inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. To allow for the mitigation of this risk, an amendment to the OFTO's charging statement would be necessary to comply with the requirements of paragraph 4 and paragraph 5 of Amended Standard Condition E12 – J9 of the OFTO licence. The OFTO would then commence collecting the revised charges in Revenue following the approval of the revised charging statement. As previously noted, the STC procedures contains an exception that permits charges to be amended after the 25th January in exceptional circumstances. **Alternative ways for this risk to be managed?** We do not have any specific suggestions as to how the risks might be managed, however, as indicated in response to the first part of this question, the overall impact of the maximum variation arising from OFTO system availability forecast deviation would not significantly impact on the overall TNUoS forecast, as referenced above, this maximum deviation represents approx. 0.1% of the forecast 2016/17 TNUoS.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	We have no comment on this proposal.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	We have no comment on this proposal

Q	Question	Response
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	For the reasons outlined in responses to previous questions, the OFTO proposes that it is carved out from any change in the notification process as it currently operates. A notification period of 6, 7 or 8 months would not help the OFTO's forecasting of unplanned outages, exceptional events or income adjusting events.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	No. The OFTO does not believe that the OFTO regime has been adequately considered for the reasons outlined in responses to previous questions. Furthermore, while we are currently in a low inflation period, the risk of there being a significant variation in forecast TNUoS charges as compared with that which would be calculated with the benefit of known RPI rates is likely to be insignificant. However this situation could change significantly in a future period and this risk does not appear to have been seriously considered in the consultation document, which merely references that any changes would form part of the 'reconciliation' following the end of the charging year. The longer the required notice period using forecast RPI - the greater the probability of deviation from actual RPI. In a period of rapidly changing prices, such variations could be significant.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	In response to previous questions, the OFTO believe that the proposals are inconsistent with or otherwise attempt to frustrate the operation of the licence conditions of the OFTO.

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Steve Noonan (01926 350 076 or steve.noonan@frontierpower.biz)*
Company Name:	*Blue Transmission Walney 1 Limited (the "Company" or "the OFTO")*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	No. While in principle the objectives of the CUSC may appear to be met, we believe that the proposal fails to take into account the specific characteristics of the OFTO business model and related licence conditions. The OFTO regime was developed so as to encourage investment in this sector of the market and to access non-traditional sources of finance with a view to achieving the lowest cost of capital and hence benefit the end customer. The OFTO licence conditions respond to those general principles. In that regard the certainty of revenue forecasting for the OFTO is extremely important and the timing of tariff setting that is reflected in the Company's offshore transmission licence is consistent with this overall objective. Unfortunately, the CMP244 proposals are inconsistent with the OFTO regime principles that are embedded within the licence for the OFTO and in effect would either be inconsistent with or frustrate the operation of those licence conditions. We believe that the consultation proposals "cut-across" a number of the OFTO's licence conditions such that they do not operate as intended or that they are contrary to the requirements of those conditions – this is dealt with more fully in our response to Q6. In addition, the STC is defined under the OFTOs' lending documents as a "Project Document". The proposed changes to the STC may be viewed as a material adverse change, which would then require the consent of the Company's senior lenders. While such consent cannot prevent a change to the STC it is highly likely to result in additional legal and adviser costs being incurred by the OFTO to obtain that consent that were never envisaged. While the Company is supportive of the objectives of this review, it does not believe that the position of the OFTO has been properly considered as part of the review to date and will increase the costs to the OFTO. In so far as the proposals may be acceptable to other respondents to this consultation, the Company believes that any changes to the notice period for TNUoS charging should 'carve out' the OFTO from such changes – in effect we favour applying the current reporting/charging arrangements to the OFTO as they currently stand.
2	**Do you support the proposed implementation approach?**	No, for the principles outlined above.

Q	Question	Response
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No.*

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	No.

Q	Question	Response
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	**Forecasting Risk response:** In principle yes. However, the Company does not believe that the proposals have taken into account the design principles of the OFTO regime. The OFTO believes that the timing of any OFTO revenue forecast provided to NGET should not be contrary to or otherwise "cut-across" the existing OFTO licence conditions and existing STC procedures, as this would be inconsistent with the design and aims of the OFTO regime. **OFTO Licence and current STC procedures** Amended Standard Condition E12 – J2 of the OFTO licence specifies the calculation of the OFTO's transmission revenue and in particular requires the use of the average percentage change in the Retail Price Index (RPI) between January and December of each year. The RPI outcome for any performance year ending 31 December will be known prior to the commencement of for the following charging year. Amended Standard Condition E12 – J4 of the OFTO licence specifies the calculation of the OFTO's performance availability revenue adjustment term. The calculation of such a term depends on the availability performance of the OFTO over a period of 5 performance years ending the 31 December prior to the commencement of the following charging year. Amended Standard Condition E12 – J6 of the OFTO licence requires the OFTO to provide the System Operator with a regulated revenue forecast on or before 1 November of each year and "*If at any time, the licensed reasonably considers that the values of* $OFTO_t$ *and/or* $OFTO_{t+1}$*, notified to the System Operator will be significantly different from the estimates previously notified to the System Operator, the licensee shall notify the System Operator of the revised values for* $OFTO_t$ *and/or* $OFTO_{t+1}$ *as soon as reasonably practicable".* STC Procedure paragraph 3.3.1 notes that *"Only under exceptional circumstances, can General System Charges be changed after final notification on 25th January or post asset transfer for the first year of existence of an OFTO. Exceptional circumstances means an event or circumstance that is beyond the reasonable control of the licensee and for which it should not reasonably bear the financial risk."* All of the above licence conditions and STC Procedure are supportive of the objectives of the OFTO regime - being to give the participants in such a regime a high degree of certainty of costs and revenue.

Q	Question	Response
6	**Continued**	The primary sources of forecast revenue variation that the OFTO may "suffer" relates to performance credits / penalties which are calculated by reference to the availability of the transmission system; exceptional events; and income adjusting events. Taking these issues in turn: **Availability** The risk profile of an onshore system is significantly different to an offshore system. Consequently, forecasting system availability for the OFTO is very different compared with an onshore TO. The OFTO can suffer the risk of a complete system outage as a result of an unexpected failure of: equipment on the offshore sub-station; the export cable; and equipment in the onshore sub-station. In effect, a single point of failure can cause a complete loss of availability. By contrast, an onshore transmission system has in most instances multiple transmission routes and in effect enjoys the benefit of the "portfolio" effect that such system redundancy has on the overall availability of their transmission system. This allows the onshore TO to forecast transmission system availability with a much higher degree of confidence than that which is available to the OFTO. In principle, the OFTO can forecast planned maintenance activities and its impact on availability. However, there are additional risk factors to consider that differentiate the OFTO from an onshore TO that reduce the 'confidence' associated with the timing and length of those planned activities including the complication of the marine environment generally and the potential adverse impact of actual weather conditions as compared with the planning assumptions. Furthermore, The OFTO cannot forecast unplanned failures in any meaningful way and consequently cannot forecast the impact of such failures on availability. The Company believes that the consultation proposals as drafted do not take these factors into account. If (say) the OFTO forecasted its revenue on the basis of there being no planned outages for the following year, then all other things being equal the OFTO would forecast 100% transmission system availability. Such an assumption (having regard to the licence conditions applicable to the collection of performance credits and the existing credit bank position) would drive a revenue forecast for the following charging year that assumed the collection of performance credits equivalent to 5% of the base revenue for the immediately preceding charging year. If the OFTO then suffered an unplanned significant outage prior to the commencement of the forecast charging year, but post-submission of a "binding" forecast, then the maximum variation in revenue comparing the "binding" forecast and "allowed revenue" calculated in accordance with the licence conditions (ignoring inflation) would be equivalent to 15% of the OFTO's revenue.

Q	Question	Response
6	**Continued**	Based on the Company's base revenue for 2015/16, this maximum variation would be approximately £2m – which would represent approx. 0.07% of the total 2016/17 TNUoS Revenue forecast produced by NGET (Oct 2015). We do not believe that the OFTO should suffer the risk of forecast errors arising from unplanned outages, as this is inconsistent with the principles of the OFTO regime and in addition would be either inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. Any over-recovery of revenue collected in excess of 4% of allowed revenue would result in the OFTO suffering 4% penal interest on the over-recovered income. As significant unplanned outages cannot be forecast, and because the inherent system design of the OFTO transmission system does not allow this risk to be mitigated, the only way for the OFTO to avoid penal interest in such a situation would be to provide information to NGET consistent with the current licence and STC procedures and charge accordingly consistent with this information. The OFTO notes that the overall impact of the maximum variation arising from OFTO system availability forecast deviation would not significantly impact on the overall TNUoS forecast, as referenced above, this maximum deviation represents approx. 0.07% of the forecast 2016/17 TNUoS. The OFTO further notes that under paragraph 2.60 of the consultation document, that NGET proposes a "carve-out" from the notification proposals contained within the consultation document for what, in effect, would be potential forecasting errors that are in essence outside of the control of NGET. In principle, a significant unplanned OFTO outage is the same, it is material to the OFTO in the same way that a change in expected revenue caused by price control changes is material to NGET. It is merely the absolute size of the numbers that are different. **Exceptional events** The Licence permits the OFTO to exclude the impact of certain events ("exceptional events") from the calculation of the OFTO's system availability. Given the nature of these exceptional events it is not possible to forecast such events in advance of a future charging period if the event in question has not happened. If the Authority agree that an event is "exceptional" then this can impact on the calculation of allowed revenue and therefore this may differ from any forecast prepared in accordance with the principles of the CMP244 consultation.

Q	Question	Response
6	**Continued**	We do not believe that the OFTO should suffer the risk of forecast errors arising from exceptional events, as this is inconsistent with the principles of the OFTO regime and in addition would either be inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. As exceptional events, by their very nature, cannot be forecast, the mitigation of this risk would be through an amendment to the OFTO's charging statement - necessary to comply with paragraph 4 and paragraph 5 of Amended Standard Condition E12 – J9 of the OFTO licence. The OFTO would then commence collecting the revised charges in Revenue following the approval of the revised charging statement. As previously noted, the STC procedures contain an exception that permits charges to be amended after the 25th January in exceptional circumstances. **Income adjusting Events** Income adjusting events are defined under the OFTOs licence as: (a) an event or circumstance constituting force majeure under the STC, (b) an event or circumstance resulting from an amendment to the STC not allowed for when allowed transmission owner revenues of the licensee were determined for the relevant year t, and; (c) an event or circumstance other than listed above which, in the opinion of the Authority, is an income adjusting event and is approved by it as such in accordance with paragraph 21 of this licence condition, where the event or circumstance has, for relevant year t, increased or decreased costs and/ or expenses by more than £1,000,000 (the "STC threshold amount"). The ability to forecast an income adjusting event, is by its very nature, extremely difficult. In addition, even if the OFTO is able to forecast that they believe an income adjusting event has occurred, the Authority would need to opine as to whether they accepted the OFTO's analysis.

Q	Question	Response
6	**Continued**	Similar to the rationale discussed earlier, we do not believe that the OFTO should suffer the risk of forecast errors arising from income adjusting events, as this is inconsistent with the principles of the OFTO regime and in addition would either be inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. To allow for the mitigation of this risk, an amendment to the OFTO's charging statement would be necessary to comply with the requirements of paragraph 4 and paragraph 5 of Amended Standard Condition E12 – J9 of the OFTO licence. The OFTO would then commence collecting the revised charges in Revenue following the approval of the revised charging statement. As previously noted, the STC procedures contains an exception that permits charges to be amended after the 25th January in exceptional circumstances. **Alternative ways for this risk to be managed?** We do not have any specific suggestions as to how the risks might be managed, however, as indicated in response to the first part of this question, the overall impact of the maximum variation arising from OFTO system availability forecast deviation would not significantly impact on the overall TNUoS forecast, as referenced above, this maximum deviation represents approx. 0.07% of the forecast 2016/17 TNUoS.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	We have no comment on this proposal.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	We have no comment on this proposal

Q	Question	Response
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	For the reasons outlined in responses to previous questions, the OFTO proposes that it is carved out from any change in the notification process as it currently operates. A notification period of 6, 7 or 8 months would not help the OFTO's forecasting of unplanned outages, exceptional events or income adjusting events.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	No. The OFTO does not believe that the OFTO regime has been adequately considered for the reasons outlined in responses to previous questions. Furthermore, while we are currently in a low inflation period, the risk of there being a significant variation in forecast TNUoS charges as compared with that which would be calculated with the benefit of known RPI rates is likely to be insignificant. However this situation could change significantly in a future period and this risk does not appear to have been seriously considered in the consultation document, which merely references that any changes would form part of the 'reconciliation' following the end of the charging year. The longer the required notice period using forecast RPI - the greater the probability of deviation from actual RPI. In a period of rapidly changing prices, such variations could be significant.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	In response to previous questions, the OFTO believe that the proposals are inconsistent with or otherwise attempt to frustrate the operation of the licence conditions of the OFTO.

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Steve Noonan (01926 350 076 or steve.noonan@frontierpower.biz)*
Company Name:	*Blue Transmission Walney 2 Limited (the "Company" or " the OFTO")*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	No. While in principle the objectives of the CUSC may appear to be met, we believe that the proposal fails to take into account the specific characteristics of the OFTO business model and related licence conditions. The OFTO regime was developed so as to encourage investment in this sector of the market and to access non-traditional sources of finance with a view to achieving the lowest cost of capital and hence benefit the end customer. The OFTO licence conditions respond to those general principles. In that regard the certainty of revenue forecasting for the OFTO is extremely important and the timing of tariff setting that is reflected in the Company's offshore transmission licence is consistent with this overall objective. Unfortunately, the CMP244 proposals are inconsistent with the OFTO regime principles that are embedded within the licence for the OFTO and in effect would either be inconsistent with or frustrate the operation of those licence conditions. We believe that the consultation proposals "cut-across" a number of the OFTO's licence conditions such that they do not operate as intended or that they are contrary to the requirements of those conditions – this is dealt with more fully in our response to Q6. In addition, the STC is defined under the OFTOs' lending documents as a "Project Document". The proposed changes to the STC may be viewed as a material adverse change, which would then require the consent of the Company's senior lenders. While such consent cannot prevent a change to the STC it is highly likely to result in additional legal and adviser costs being incurred by the OFTO to obtain that consent that were never envisaged. While the Company is supportive of the objectives of this review, it does not believe that the position of the OFTO has been properly considered as part of the review to date and will increase the costs to the OFTO. In so far as the proposals may be acceptable to other respondents to this consultation, the Company believes that any changes to the notice period for TNUoS charging should 'carve out' the OFTO from such changes – in effect we favour applying the current reporting/charging arrangements to the OFTO as they currently stand.
2	**Do you support the proposed implementation approach?**	No, for the principles outlined above.

Q	Question	Response
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No.*

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	No.

Q	Question	Response
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	**Forecasting Risk response:** In principle yes. However, the Company does not believe that the proposals have taken into account the design principles of the OFTO regime. The OFTO believes that the timing of any OFTO revenue forecast provided to NGET should not be contrary to or otherwise "cut-across" the existing OFTO licence conditions and existing STC procedures, as this would be inconsistent with the design and aims of the OFTO regime. **OFTO Licence and current STC procedures** Amended Standard Condition E12 – J2 of the OFTO licence specifies the calculation of the OFTO's transmission revenue and in particular requires the use of the average percentage change in the Retail Price Index (RPI) between January and December of each year. The RPI outcome for any performance year ending 31 December will be known prior to the commencement of for the following charging year. Amended Standard Condition E12 – J4 of the OFTO licence specifies the calculation of the OFTO's performance availability revenue adjustment term. The calculation of such a term depends on the availability performance of the OFTO over a period of 5 performance years ending the 31 December prior to the commencement of the following charging year. Amended Standard Condition E12 – J6 of the OFTO licence requires the OFTO to provide the System Operator with a regulated revenue forecast on or before 1 November of each year and "*If at any time, the licensed reasonably considers that the values of $OFTO_t$ and/or $OFTO_{t+1}$, notified to the System Operator will be significantly different from the estimates previously notified to the System Operator, the licensee shall notify the System Operator of the revised values for $OFTO_t$ and/or $OFTO_{t+1}$ as soon as reasonably practicable".* STC Procedure paragraph 3.3.1 notes that *"Only under exceptional circumstances, can General System Charges be changed after final notification on 25th January or post asset transfer for the first year of existence of an OFTO. Exceptional circumstances means an event or circumstance that is beyond the reasonable control of the licensee and for which it should not reasonably bear the financial risk."* All of the above licence conditions and STC Procedure are supportive of the objectives of the OFTO regime - being to give the participants in such a regime a high degree of certainty of costs and revenue.

Q	Question	Response
6	**Continued**	The primary sources of forecast revenue variation that the OFTO may "suffer" relates to performance credits / penalties which are calculated by reference to the availability of the transmission system; exceptional events; and income adjusting events. Taking these issues in turn: **Availability** The risk profile of an onshore system is significantly different to an offshore system. Consequently, forecasting system availability for the OFTO is very different compared with an onshore TO. The OFTO can suffer the risk of a complete system outage as a result of an unexpected failure of: equipment on the offshore sub-station; the export cable; and equipment in the onshore sub-station. In effect, a single point of failure can cause a complete loss of availability. By contrast, an onshore transmission system has in most instances multiple transmission routes and in effect enjoys the benefit of the "portfolio" effect that such system redundancy has on the overall availability of their transmission system. This allows the onshore TO to forecast transmission system availability with a much higher degree of confidence than that which is available to the OFTO. In principle, the OFTO can forecast planned maintenance activities and its impact on availability. However, there are additional risk factors to consider that differentiate the OFTO from an onshore TO that reduce the 'confidence' associated with the timing and length of those planned activities including the complication of the marine environment generally and the potential adverse impact of actual weather conditions as compared with the planning assumptions. Furthermore, The OFTO cannot forecast unplanned failures in any meaningful way and consequently cannot forecast the impact of such failures on availability. The Company believes that the consultation proposals as drafted do not take these factors into account. If (say) the OFTO forecasted its revenue on the basis of there being no planned outages for the following year, then all other things being equal the OFTO would forecast 100% transmission system availability. Such an assumption (having regard to the licence conditions applicable to the collection of performance credits and the existing credit bank position) would drive a revenue forecast for the following charging year that assumed the collection of performance credits equivalent to 5% of the base revenue for the immediately preceding charging year. If the OFTO then suffered an unplanned significant outage prior to the commencement of the forecast charging year, but post-submission of a "binding" forecast, then the maximum variation in revenue comparing the "binding" forecast and "allowed revenue" calculated in accordance with the licence conditions (ignoring inflation) would be equivalent to 15% of the OFTO's revenue.

Q	Question	Response
6	**Continued**	Based on the Company's base revenue for 2015/16, this maximum variation would be approximately £2m – which would represent approx. 0.07% of the total 2016/17 TNUoS Revenue forecast produced by NGET (Oct 2015). We do not believe that the OFTO should suffer the risk of forecast errors arising from unplanned outages, as this is inconsistent with the principles of the OFTO regime and in addition would be either inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. Any over-recovery of revenue collected in excess of 4% of allowed revenue would result in the OFTO suffering 4% penal interest on the over-recovered income. As significant unplanned outages cannot be forecast, and because the inherent system design of the OFTO transmission system does not allow this risk to be mitigated, the only way for the OFTO to avoid penal interest in such a situation would be to provide information to NGET consistent with the current licence and STC procedures and charge accordingly consistent with this information. The OFTO notes that the overall impact of the maximum variation arising from OFTO system availability forecast deviation would not significantly impact on the overall TNUoS forecast, as referenced above, this maximum deviation represents approx. 0.07% of the forecast 2016/17 TNUoS. The OFTO further notes that under paragraph 2.60 of the consultation document, that NGET proposes a "carve-out" from the notification proposals contained within the consultation document for what, in effect, would be potential forecasting errors that are in essence outside of the control of NGET. In principle, a significant unplanned OFTO outage is the same, it is material to the OFTO in the same way that a change in expected revenue caused by price control changes is material to NGET. It is merely the absolute size of the numbers that are different. **Exceptional events** The Licence permits the OFTO to exclude the impact of certain events ("exceptional events") from the calculation of the OFTO's system availability. Given the nature of these exceptional events it is not possible to forecast such events in advance of a future charging period if the event in question has not happened. If the Authority agree that an event is "exceptional" then this can impact on the calculation of allowed revenue and therefore this may differ from any forecast prepared in accordance with the principles of the CMP244 consultation.

Q	Question	Response
6	**Continued**	We do not believe that the OFTO should suffer the risk of forecast errors arising from exceptional events, as this is inconsistent with the principles of the OFTO regime and in addition would either be inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. As exceptional events, by their very nature, cannot be forecast, the mitigation of this risk would be through an amendment to the OFTO's charging statement - necessary to comply with paragraph 4 and paragraph 5 of Amended Standard Condition E12 – J9 of the OFTO licence. The OFTO would then commence collecting the revised charges in Revenue following the approval of the revised charging statement. As previously noted, the STC procedures contain an exception that permits charges to be amended after the 25th January in exceptional circumstances. **Income adjusting Events** Income adjusting events are defined under the OFTOs licence as: (a) an event or circumstance constituting force majeure under the STC, (b) an event or circumstance resulting from an amendment to the STC not allowed for when allowed transmission owner revenues of the licensee were determined for the relevant year t, and; (c) an event or circumstance other than listed above which, in the opinion of the Authority, is an income adjusting event and is approved by it as such in accordance with paragraph 21 of this licence condition, where the event or circumstance has, for relevant year t, increased or decreased costs and/ or expenses by more than £1,000,000 (the "STC threshold amount"). The ability to forecast an income adjusting event, is by its very nature, extremely difficult. In addition, even if the OFTO is able to forecast that they believe an income adjusting event has occurred, the Authority would need to opine as to whether they accepted the OFTO's analysis.

Q	Question	Response
6	**Continued**	Similar to the rationale discussed earlier, we do not believe that the OFTO should suffer the risk of forecast errors arising from income adjusting events, as this is inconsistent with the principles of the OFTO regime and in addition would either be inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. To allow for the mitigation of this risk, an amendment to the OFTO's charging statement would be necessary to comply with the requirements of paragraph 4 and paragraph 5 of Amended Standard Condition E12 – J9 of the OFTO licence. The OFTO would then commence collecting the revised charges in Revenue following the approval of the revised charging statement. As previously noted, the STC procedures contains an exception that permits charges to be amended after the 25th January in exceptional circumstances. **Alternative ways for this risk to be managed?** We do not have any specific suggestions as to how the risks might be managed, however, as indicated in response to the first part of this question, the overall impact of the maximum variation arising from OFTO system availability forecast deviation would not significantly impact on the overall TNUoS forecast, as referenced above, this maximum deviation represents approx. 0.07% of the forecast 2016/17 TNUoS.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	We have no comment on this proposal.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	We have no comment on this proposal

Q	Question	Response
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	For the reasons outlined in responses to previous questions, the OFTO proposes that it is carved out from any change in the notification process as it currently operates. A notification period of 6, 7 or 8 months would not help the OFTO's forecasting of unplanned outages, exceptional events or income adjusting events.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	No. The OFTO does not believe that the OFTO regime has been adequately considered for the reasons outlined in responses to previous questions. Furthermore, while we are currently in a low inflation period, the risk of there being a significant variation in forecast TNUoS charges as compared with that which would be calculated with the benefit of known RPI rates is likely to be insignificant. However this situation could change significantly in a future period and this risk does not appear to have been seriously considered in the consultation document, which merely references that any changes would form part of the 'reconciliation' following the end of the charging year. The longer the required notice period using forecast RPI - the greater the probability of deviation from actual RPI. In a period of rapidly changing prices, such variations could be significant.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	In response to previous questions, the OFTO believe that the proposals are inconsistent with or otherwise attempt to frustrate the operation of the licence conditions of the OFTO.

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	Binoy Dharsi
Company Name:	EDF Energy
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	Yes.
2	**Do you support the proposed implementation approach?**	We agree that in the first year of implementation, the effect of this mod will be transitional as the necessary licence changes may not come into effect by the time it reaches the 6-8 month period. Therefore implementation as soon as practically possible in the first year is acceptable.
3	**Do you have any other comments?**	We would like to ensure that the final notice period be as close to 8 months as possible. It is understood that annual revenue requirements sent to Ofgem, due at the end of July each year, leave a small window for tariffs to be subsequently produced to meet the 6-8 month period. It would be preferable if National Grid (along with co-ordination with other inputs from TOs) could start to work on producing final tariffs as this process comes close to submission, rather than at the date of submission. This would allow final tariffs to be published as close as possible to the preferred (longer) 8 months notice period (with the exception of the first year of implementation).
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Specific questions for CMP244

Q	Question	Response

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Allowing suppliers to know TNUoS tariffs further in advance removes uncertainty when contracting with customers. This can remove any risk premium that may need to be considered as part of the contract terms.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	It would be preferable for the authority to provide guidance on OFTO revenue to National Grid to assist them in providing a more accurate forecast. If guidance is not possible for contractual reasons, then it is appropriate for National Grid to recover additional costs they reasonably incur. For Onshore TO's it is agreed that revenue forecasting risk is held by them.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	It would depend on the materiality of this. Where possible, if the cost is prohibitively high, then 2 months' notice period would be preferable.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	EDF Energy believes that the Authority should move forward any process to ensure the business plans and subsequent revenue confirmation are completed in time for the final tariffs to be set. i.e. there is a need to make their final determination within 6 months, in line with the proposed longer notice period.

Q	Question	Response
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	The greater the notice period, the less need for suppliers to consider applying a risk premium. A six month notice period, or a four months additional notice to baseline, would have a small benefit for half-hourly metered customers specifically contracting in the October renewal round for terms longer than one year. Contracts would already have been agreed and any suitable risk premium would be added to the period of uncertainty for the second year. (TNUoS for HH metered customers are charged for Peak Demand between November and February) It would therefore be advantageous for an eight month notice period to allow sufficient time for contracts to be agreed with terms greater than a year. For NHH metered customers, contracts are signed more evenly across the year, although a peak still exists in the October and April contracts rounds. NHH metered customers are, unlike HH metered customers exposed to TNUoS costs throughout the year. It would therefore be best to have the longest notice period possible to avoid any additional risk premiums that may need to be added.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	Yes.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	EDF Energy is unable to think of any such consequent changes

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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Please send your responses by **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Lin Gao* *Lin.gao@eon-uk.com* *Mob: 07816060421*
Company Name:	*E.ON UK Plc*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	Yes, we believe a 6-8 month notice period better facilitates CUSC Objective (a). The uncertainty TNUoS tariff brings to customer bills is managed via the risk premium added by the suppliers. Suppliers who are better at predicting future TNUoS tariffs have more competitive advantages than others. Those suppliers can add a lower risk premium thereby gaining more customers. A better forecasting capability is often associated with more business investment in this area. Hence if National Grid extends the notice period and centrally manages TNUoS tariff forecasting risk, it will help reduce the information asymmetry in the market and encourage more effective competition.
2	**Do you support the proposed implementation approach?**	No. As discussed in Question 9 a notice period between 2 to 8 months will not bring substantially more benefits as compared to the current 2-month notice period. Hence we suggest to postpone the implementation to the following charging year. This will allow a minimum of 8 month notice and also allow National Grid to do a thorough preparation before the change takes place.
3	**Do you have any other comments?**	Most business contracts are signed in July or August for contracts starting from October. If TNUoS charge period also starts from October instead of the current April, there will be more overlap between the supply contract period and TNUoS charge period. This will provide more certainty to the TNUos component of the customer bills and less risk premium will be added by the suppliers.

Q	Question	Response
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website[1], and return to the CUSC inbox at* cusc.team@nationalgrid.com No

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Yes. Business customers do annual business planning. A longer notice period meets this business demand by feeding actual charge information into customers' next year plans. It also helps with the residential customers in that the cost-savings suppliers gain via reduced forecasting work in TNUoS charges will be passed to the end customers. The key element probably is identifying a notice period which makes the best balance between the medium-term certainty and the long-term volatility. Please see Q9 for the discussion. To quantify the benefits will involve the suppliers disclosing some sensitive commercial information. This will be challenging if possible.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	Yes. Given that OFTOs and the onshoreTOs have better information about their future TNUoS revenue than NGET they should provide the forecast to be fed into NGET's final tariff. A binding revenue forecast may drive OFTOs and the onshore TOs to provide as accurate forecast as possible. However consideration needs to be given on how to set the rules around the binding revenue forecast. The rules should allow a reasonable error margin and accommodate for unexpected future events. They should not be so relaxed that give OFTOs and the onshore TOs no incentive to provide reliable estimations.

[1] http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/

Q	Question	Response
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	Yes. The 18-month OFTO tendering process means that until the point an OFTO is appointed NGET can not request the TNUoS revenue forecast information as NGET does not know who should provide such information. Hence it is reasonable to have the notice period set as close as possible to the start of the charging period in the first 2 years after the asset transfer. However if the asset transfer ends before the notice period (e.g. 8 month) NGET should still request the revenue forecast from the OFTO and include it into the final TNUoS tariff.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	The risk should be managed by National Grid and Ofgem. National Grid should have better information available than other market participants. By working together with Ofgem National Grid can provide the best view a few months before the new price control period starts. The market should be prepared for an additional unknown factor in the first year of the new price control period.
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	Yes. We believe an 8-month notice period will better serve business purposes than a 6 or 7 month period. A longer notice period will remove some risk premia but not all. The magnitude of risk premia is determined by when customers enter into supply contracts. The more over-lap between the contract period and the known TNUoS tariff period the lower the premium. Business customers mostly sign up or renew their supply contracts in July or August for contracts starting from October. An 8-month notice period announces the following year's TNUoS tariff in July, which coincides with business customers' renewal period and TNUoS tariff will just-in-time be fed into the October supply contacts. A 6 or 7 month notice period however will miss this opportunity. For residential customers, a 6,7, or 8 month notice period doesn't make much difference. However as discussed in Question 5 the customers will still benefit from the cost-savings the suppliers gain via a longer notice period. Quantitative information is more commercially sensitive than qualitative information. Ofgem however can provide quantitative segmental information.

Q	Question	Response
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	Not aware of any other issues.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	How will the change of TNUoS tariff notice period affect the current TNUoS Quarterly Forecast published by National Grid? CUSC changes might be required to reflect this.

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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Please send your responses by **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*James Dickson* *Project Director – FAB Link Ltd* *james.dickson@transmissioninvestment.com* *Tel: +44 20 3668 6684*
Company Name:	*Transmission Investment LLP*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	The FAB Link interconnector project is being developed by FAB Link Ltd in Britain and Alderney, together with RTE in France (www.fablink.net). FAB Link Ltd will raise the finance required for the project through a project finance process. The project has been declared a project of common interest (PCI), has an interconnector licence, and was granted a cap and floor regime in principle by Ofgem in July 2015 on the basis that it is likely to provide significant net benefits for GB consumers. (https://www.ofgem.gov.uk/publications-and-updates/decision-initial-project-assessment-fab-link-ifa2-and-viking-link-interconnectors) The final detail of the mechanics regarding the cap and floor regime is still under development however the commentary below is based upon the envisaged way in which this will be implemented: The cap and floor regime is set up encourage the investment in interconnectors by providing top up payments in the event that outturn revenues are below an anticipated floor. This floor will be set based upon capital expenditure and operational expenditure

figures that are agreed in advance of commercial operation (although there is the potential for the operating costs to be re-assessed every 10 years).

The cap provides the opportunity for payments to be made to the GB consumer in the event that net revenues exceed the anticipated cap level.

Provision is expected to be made for annual payments to/from NETSO / National Grid accommodate the cashflow requirement of the interconnector, in particular to meet annual debt servicing requirements. It is currently envisaged that the annual ex-post reporting and subsequent payments will be designed to fit in with the existing TNUoS charging system. Consequently, as can be seen in the diagram below, payments due under Year X will be recovered on a monthly basis in the 12 months from Apr in Year X+1 though to Mar in Year X+2. This means that the cashflow is potentially 15-16 months behind incurrence. Reserves will be required in the project's capital structure to cover this potential cash-flow lag. It is not clear as to whether or how the revenue floor will incorporate the holding cost of these reserves. In any event, the holding cost of these reserves will be a direct cost to the project with no compensatory revenue stream if revenues are above the floor.

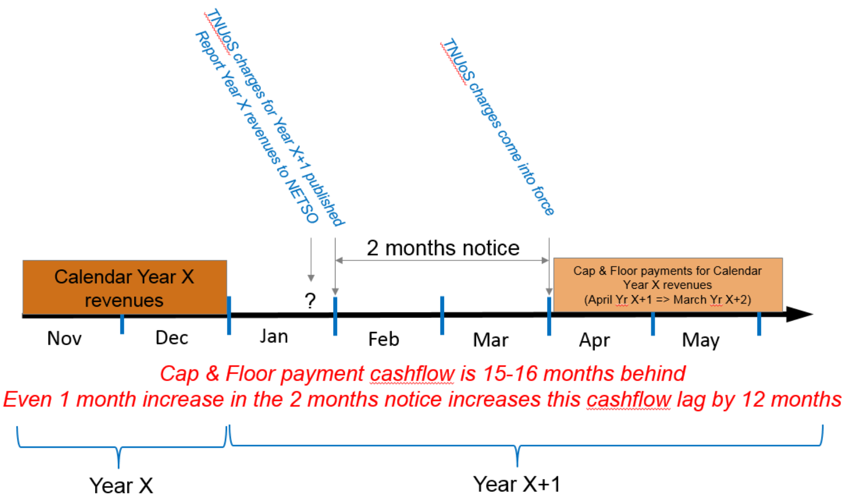

Figure 1: envisaged cap and floor payment timeframes (without CMP 244)

In the event that the results from the completed Year X are not able to feed into the TNUoS charging period of Year X+1, then the cashflow lag would increase by an additional 12 months.

The final cap and floor levels for the FAB Link project are yet to be determined. An indication of the scale of the cap and floor levels can be found in the Ofgem decision on the cap and floor regime for the GB-Belgium interconnector project Nemo: (https://www.ofgem.gov.uk/publications-and-updates/decision-

	cap-and-floor-regime-gb-belgium-interconnector-project-nemo). This document refers to a floor of £50.4m and a cap of £80m per year (2013/14 prices). The allowed revenue in any particular year (floor payment) will be based upon the difference between the floor level and the actual outturn market revenues, the latter being completely outwith the control of the interconnector and difficult to predict. The interconnector will need to have access to certain funds if revenues turn out to be below the level to meet debt servicing requirements and so if required to forecast the allowed revenue ahead of the cap and floor period to which the revenue calculation relates it would either need to: a. Not forecast the need to call on the floor but to have even higher capital reserves to bridge the longer cashflow gap if it did need to call on the revenue floor; or b. Forecast the need to call on the floor in every year; or c. A combination of the above (i.e. hold some additional reserves but also forecast some shortfall below the floor in every year) Under b and c it would be very likely to be outside of the 5.5% forecasting tolerance threshold of the allowed revenue. In addition to this, in the event that a payment is due and the CMP244 modification means that an additional 12 months goes by before the payment is made then the consequential costs associated with the financing of this will be in the order of hundreds of thousands of pounds per annum. There is currently no provision within the cap and floor regime for the interconnector to be kept whole to account for these costs. In addition, it should be made clear that the financing rates set for National Grid for accurate forecasting (base rate + 2%) bears no reflection to the actual cost of debt for a project financed interconnector like Fab Link. In fact cashflow is a vital consideration for project financed entities because they, by definition, do not have spare resources available to cover cashflow shortfalls. Consequently any potential shortfall needs to be forecast, quantified and incorporated into the project finance capital structure in advance of construction at additional cost to the project. Consequently: i. We do not agree with CMP244 for the reasons stated above and we think it should be rejected; ii. If it is approved then the cap and floor should be allowed to recover any floor payments within the currently

	envisaged timescales and NETSO should finance the cash flow lag between making these payments and recovering the cash through the TNUoS charges.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	No. please see commentary under (b) and (c) below: *For reference, the Applicable CUSC objectives are:* ***Use of System Charging Methodology*** *(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);* This proposal would bring about additional cashflow financing charges for consumers under the cap and floor regime. In doing so it potentially reduces the viability of new interconnector projects under the cap and floor regime and therefore may reduce the competition in generation and supply that these projects would otherwise bring. *(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.* This proposal does not properly take account of the developments in the interconnector cap and floor regime *(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.*

Q	Question	Response
2	**Do you support the proposed implementation approach?**	No. The impact on cap and floor regime interconnectors has not been covered in the implementation approach.
3	**Do you have any other comments?**	A comprehensive and full consultation response has not been possible based upon the treatment of the topic presented to date. We request the right to be re-consulted once the impact on cap and floor interconnectors has been considered and appropriate treatment to account for any modification proposed. Aside observation: The diagram in clause 2.24 depicts an over-recovery interest charge for amounts above 5.5% of allowed revenue of base rate + 4% although this is not referenced in the text. It would be useful for the reader to clarify this.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	Please consider and clarify an exemption to the cap and floor interconnectors whereby their ex-post reporting is paid by NETSO/National Grid in the following financial year as currently envisaged irrespective of future CMP244 notice period changes.

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Question not applicable to the FAB Link project.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	Question not applicable to the FAB Link project.

Q	Question	Response
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	Question not applicable to the FAB Link project.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	Question not applicable to the FAB Link project.
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	Any increase in the current 2 month notice period has the potential to cause a significant negative cashflow effect in the funding of the interconnector cap and floor regime. There is no currently obvious material difference between 6, 7 or 8 months.

Q	Question	Response
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	No. CMP244 CUSC Modification Proposal Form sets out the scope of the review and states “the workgroup will need to consider other components of the charging model that may need to be requested further ahead – for example the Ofgem ‘mod’ process for TOs, **<u>the interconnector cap and collar regime</u>** and …” Despite this, Interconnectors and the impact with the cap and floor regime have not been considered in the consultation document. The Workgroup should consider the impact of the envisaged timing of the reporting under the cap and floor regime and how this would feed into the TNUoS charging structure. In the event that the Workgroup propose that the notice period should be increased above the current 2 months, the Workgroup should propose that the cost and risk associated with the mismatch in timings between the payments under the cap and floor regime and the reconciliation thereof under the TNUoS charging should be the responsibility of (and to the cost of) NETSO.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	The Interconnector Licence is the implementation document for the cap and floor regime. Any changes brought into effect under CMP244 that do not address the implications to each project specific Interconnector Licence will fail to achieve an effective implementation.

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Tom Breckwoldt*
Company Name:	*Gazprom Marketing & Trading Retail Ltd ("Gazprom Energy")*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	We believe that CUSC Objective A would be better realised by the implementation of this modification. TNUoS tariff uncertainty has been experienced over the past few years with rising tariffs and was seen just recently with the updated TNUoS forecast published by National Grid. This shows large falls for HH demand tariffs when comparing the November forecast to the July forecast (but generally still an increase on the current year's tariffs). The volatility in these forecasts, just a few months apart, come from National Grid who is in the best position to assess what future charges may be. A greater notice period of TNUoS tariffs would undoubtedly reduce some of the uncertainty supplier's face and reduce the risk premia that customers may be paying. There will also be some customers where TNUoS is a pass through item and so they too would benefit directly. For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	Yes. We would have preferred a 15 month notice period as was originally proposed and which would align with what has been introduced into the DCUSA for DUoS tariffs. However, a 6-8 month notice period is still an improvement on the current arrangements.
2	**Do you support the proposed implementation approach?**	We would hope that the increased notice period would be introduced in time for the 2017/18 charging year but acknowledge that this is contingent on further workgroup meetings and the timing of Ofgem's decision.
3	**Do you have any other comments?**	

Q	Question	Response
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website[1], and return to the CUSC inbox at* *cusc.team@nationalgrid.com*

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Yes, there would be a benefit in greater certainty of TNUoS costs as suppliers may currently offer fixed price contracts a number of years into the future. Commonly this may be for 1-3 years but could be longer. Where these contracts cut across a charging year (as they would in most instances), suppliers need to forecast future TNUoS costs. In addition, contract negotiations may take place sometime in advance of the supply start date which is an additional lead time ahead of the actual contract length. There is a risk of getting the forecast wrong and either being uncompetitive and not winning contracts, or getting the forecast wrong and not factoring enough into the price offered. A longer notice period reduces this risk for all suppliers as there will be a longer period where TNUoS tariffs are known and are therefore not being forecast. This may be particularly beneficial for smaller parties who have less resource to do a detailed assessment of National Grid's forecasts.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	

[1] http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/

Q	Question	Response
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	An 8 month notice period is preferred due to it giving 2 months more tariff certainty than a 6 month notice period. We would anticipate almost all (if not all) customer contracts benefiting from the longer notice period as TNUoS tariffs will be certain for a longer period.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	

Q	Question	Response
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Karl Maryon* *karl.maryon@havenpower.com*
Company Name:	*Haven Power*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	Yes. CMP244 better facilitates 'a' of the applicable CUSC objectives. This proposal facilitates competition, as it increases the predictability of charges for suppliers and reduces the need for price changes to customers by eliminating the need to add a risk premium to prices for many fixed term, fixed price contracts. This will allow for industry parties to contract forwards with confidence and more keenly priced contracts. Currently, an industry party that includes a risk premium that is too little could find a profit making trade becomes loss making. Vice versa, a risk premium that is too excessive can mean the industry party becomes uncompetitive. An extended notice period for transmission tariffs that ideally aligns with the 15 months' notice period introduced for DUoS tariffs (DCP 178) would ease the understanding and access of the codes for all parties This would benefit both existing suppliers and new entrants to the market. We don't feel that objectives (b), (c) or (d) are impacted by this change proposal.
2	**Do you support the proposed implementation approach?**	Yes.
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website[1], and return to the CUSC inbox at cusc.team@nationalgrid.com* Not at this stage.

[1] http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Yes. As a supplier, it is becoming increasingly difficult to forecast third party costs for the purpose of providing fixed price all-inclusive contracts for customers. TNUoS is one such cost and a recent example of the difficulty we face is the change in TNUoS tariffs between Draft and Final from 2014/15 to 2015/16. HH was initially communicated as a near 16% increase then uprated to almost a 19% increase for example. Forecast for next year's TNUoS tariffs have been highly volatile and this leads to suppliers building premia into their prices to cover the risks. These changes occurred in the space of a few weeks and highlight the need for this CUSC modification. As well as impacting suppliers ability to predict regulated costs for fixed, inclusive contracts, the large increases at short notice also directly impact on larger customers who require TNUoS charges to be treated as a pass through cost item. Large businesses set their budgets in advance and in our view, earlier visibility of TNUoS charges would be seen as another positive move (in addition to the increased DUoS tariff notice period) by system and network operators to better help end consumers manage their costs.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	Yes. We believe they are best placed to bear this risk. They both benefit from the certainty that they will be able to recover the revenues. This is not the case for suppliers. The only risk for the TOs is timing.

Q	Question	Response
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	No. To ensure that the costs of managing risks across the industry are minimised, we think the same notice should apply to all TOs.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	We believe it should be possible to agree the first year revenue in the next price control period in advance of the final price control settlement and in time for tariff publication. Under / over recovery arising from the first year could then be wrapped into tariffs for subsequent years.
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	We would prefer 15 months' notice of TNUoS cost changes as provided for distribution use of system costs – this option would ensure that the risks were managed at the lowest cost for customers. However, as the question asks us to select from 6, 7 or 8 months' notice we believe an 8 month notice period is more beneficial for consumers. October is a key contracting round for half hourly customers and therefore a TNUoS tariff notice period that fell between information being available at the end of July and the start of October should be considered to obtain the best trade-off between the benefit to consumers and accuracy of TNUoS tariffs.□
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	Yes. We would however, suggest that more emphasis could be placed on the value of the proposals for end customers. The end customer is sometimes forgotten when the proposals impact companies.

Q	Question	Response
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	No.

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Bert Maes (bert.maes@nemolink.co.uk)*
Company Name:	*Nemo Link Limited - electricity interconnector*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	
2	**Do you support the proposed implementation approach?**	

Q	Question	Response
3	**Do you have any other comments?**	The Nemo Link Limited electricity interconnector licence will be the first interconnector licence to incorporate the cap and floor regulatory regime. The statutory process by which the interconnector licence will be modified in order to implement the cap and floor regime for the Nemo Link Limited electricity interconnector licence will not be finalised before the Final CUSC Modification Report will be submitted to the Authority on 11th February 2016. The modification will however have implications on planned and future cap and floor interconnector projects such as Nemo Link Limited and their investors because above cap and below floor payments will be made to and recovered from the GBSO via the TNUoS charging mechanism. Our view is that consideration of the likely impact of the modification on the intended operation of the cap and floor regime to be applied to future interconnector projects is in the interest of interconnector investors and consumers.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website[1], and return to the CUSC inbox at* cusc.team@nationalgrid.com

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	From the Nemo Link interconnector's point of view the proposal can increase uncertainty and complexity for cap and floor interconnector projects because of the potential for payment flows to and from the GBSO. Uncertainty and complexity includes but is not limited to the followings: • Uncertainty of revenue forecasts, • Uncertainty of timing/amount of cash flows, especially for immediate within period adjustments under the cap and floor regime. This point may be related to 2.14 OFT 'unanticipated events' section on page 7 of the CMP244 consultation document. Further discussed in 2.46 to 2.54. • The forecast requirement and the related under/over recovery can introduce more complexity to the processes and systems.

[1] http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/

Q	Question	Response
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	Is this question related to *only* OFTOs and onshore TOs? What about interconnectors? Interconnectors subject to the cap and floor regulatory regime may also be considered under this point.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	For Nemo Link the longer the notice period the higher the forecast related risk. The difference can be material.

Q	Question	Response
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	The Nemo Link Limited electricity interconnector licence will be the first interconnector licence to incorporate the cap and floor regulatory regime. The statutory process by which the interconnector licence will be modified in order to implement the cap and floor regime for the Nemo Link Limited electricity interconnector licence will not be finalised before the Final CUSC Modification Report will be submitted to the Authority on 11th February 2016. The modification will however have implications on planned and future cap and floor interconnector projects such as Nemo Link Limited and their investors because above cap and below floor payments will be made to and recovered from the GBSO via the TNUoS charging mechanism. Our view is that consideration of the likely impact of the modification on the intended operation of the cap and floor regime to be applied to future interconnector projects is in the interest of interconnector investors and consumers.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Jonathan Wisdom*
Company Name:	*Npower ltd*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	RWE believe that the modification better facilitates objective (a) as longer notice of prices will allow more certainty in costs and therefore facilitate competition. In addition it will allow suppliers to offer contracts for extended terms with reduced risk premia, greatly benefitting consumers.
2	**Do you support the proposed implementation approach?**	RWE are supportive of the proposed implementation method.

Q	Question	Response
3	**Do you have any other comments?**	In section 3, it is suggested that certain inputs to the Tariff setting process could be published early. Annex 7 lays out the "Timeline of key information used in setting TNUoS tariffs". We feel that as each of these items is received by Grid it should be approved and published on their website with confirmation of when it will be updated or if it is fixed for the tariff year in question. For example the Sterling/Euro exchange rate. We consider that the RIIO revenue process introduces volatility into the charges at short notice and would like to see this adapted in future with potentially a year's notice – in this scenario incentive allowances and under/over recovery could still be taken into account at shorter notice. In addition we received this comment from one of our customers:- "We welcome the change "CMP244" on increasing the notice period of TNUoS charges from 60 days to 6-8 months. From an end users perspective the improved visibility on charges for the next period will assist in more timely and accurate budgeting and forecasting."
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Greater certainty assist suppliers, generators and customers alike. Current arrangements lead to short notice volatility in costs leading to unpredictability in charges. Stabilisation of charges in the medium term will result in reduced costs for consumers on fixed price deals through the removal of risk premia and will allow greater stability in business planning for those consumers with pass-through arrangements.

Q	Question	Response
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	We believe the party best placed to forecast the revenue should bear the risk of any error. This suggests that the risk should fall on the TO responsible for creating the revenue forecast rather than the party collecting the revenue or customers.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	We would suggest that the process utilised in the RIIO ED-1 price control is used where the revenues published in Ofgem's initial proposals (normally released in July) are utilised for the first charging year. When final proposals are produced these can be reflected (including any true-ups) in the following charging year.
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	We consider that an 8 month notice period is more effective as it will allow greater certainty in the October contracting round. If the notice period was only 6 months this would not allow sufficient time for the prices to be incorporated into contracts leading to customers still bearing risk premia for the following charging year. We consider that 8 months gives a good balance between predictability in the short term while only moderately increasing long term volatility.

Q	Question	Response
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	Yes
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	No

CUSC Workgroup Consultation Response Proforma

CMP244 – 'Set final TNUoS tariffs at least 15 months ahead of each charging year'

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*James Anderson* *James.anderson@scottishpower.com*
Company Name:	*ScottishPower Energy Management*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	By reducing uncertainty over future TNUoS charges, the Proposal will enable market participants to reduce the risk premia applied when setting power prices and thus better facilitate competition. The Proposal therefore better facilitates Objective (a). The Proposal is neutral against Objectives (b), (C) and (d)
2	**Do you support the proposed implementation approach?**	We agree that the Proposal should be implemented as soon as possible following an Authority decision and that in order to facilitate implementation for the 2017/18 charging year it may be necessary to provide a shorter notice period than 6-8 months in this first year.
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No.

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Providing greater certainty of TNUoS tariffs enables power prices to be set with a greater degree of accuracy and reduces the time period during which forecast TNUoS values have to be derived and evaluated. There is therefore a small resource saving in this area. The degree of uncertainty reduces during National Grid's TNUoS forecasting cycle (and key elements of the charging model become firm) and therefore the risk premium applied may vary over time. When considering the range of potential tariff outcomes for any charging year, the range of historical variations between forecast and out-turn tariffs provides one potential scenario.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	The data in table 2.21 appears to show that recent under/over recoveries have largely been due to factors other than variations in the TO revenue and that other factors play a greater role. However, we recognise that with an increased number of OFTOs connecting and greater volatility in TO revenues due to the RIIO-T1 price control it may be appropriate to exclude any under/over recovery due to OFTO/ Onshore TO revenue forecasts from the calculation of allowed over/under recoveries under National Grid's Special Licence Condition 3A: 14-22.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	As the offshore generator's local circuit charges are indexed by inflation for the duration of the price control period, there would appear to be little uncertainty over the TNUoS revenue derived from this area. However, as discussed at question 6 above, there can be considerable uncertainty over the OFTO's allowed revenue although variations in this have no direct bearing upon the local circuit charges within the price control period.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	While we accept that there is potentially a greater level uncertainty over the TO revenues during the period of negotiation of a price control, it is hoped that there would be a reasonable degree of certainty by the time of the proposed notice period of 7-8 months. Once again, National Grid's Special Licence Condition 3A: 14-22 could be amended to exclude any over/under recoveries arising from the RIIO-T1 negotiation process.

Q	Question	Response
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	The two principal contract rounds are April and October although negotiations with potential customers begin before these dates. A 7 or 8 month notice period would benefit contract negotiation for the October round with longer notice (8 months) enabling negotiation to begin earlier and allowing customers greater time to consider offers. Contract volumes are fairly evenly split between the April and October rounds and therefore around half of customers (October round) would benefit from this Proposal.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	We are satisfied that the Workgroup have considered all the risks and issues and have not identified any other items.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensure its objectives are achieved?**	We have not identified any further Code or Licence changes beyond those outlined in Chapter 4, Impacts and Implementation.

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Kenny.stott@sse.com 01738 456335*
Company Name:	*Scottish Hydro Electric Transmission plc*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	As we view it the consequence of this proposal will be to move rather than remove the burden of forecasting risk by placing that risk with the Transmission Owners resulting in a similar degree of price volatility as at present. There are also wider practical implications on the regulatory framework and T.O. licences as the current timing of the Mod Term and Annual Iteration processes are not aligned with the requirements of this proposal. Under the current Strategic Wider Works process circumstances could result where a TO either omits a large project (i.e. Caithness – Moray HVDC Link) from their revenue forecasts until a sufficient stage of approval has been achieved, If the project then proceeds after the cut off date it could result in a significant shortfall in revenue, possibly leading to finance / gearing issues for a TO. Conversely, TO's may forecast large increases in revenue for projects expected to be approved which subsequently change significantly, also resulting in more volatile charging. There are currently a number of ongoing industry discussions / proposals in policy areas which may have a material effect on current industry charging mechanisms (Extending competition in transmission – onshore tendering, charges for exporting GSP's) and this particular proposal may benefit from being considered as part of a wider, more fundamental review which will be associated with such industry initiatives. OFGEM's current proposals indicate competitive tendering of transmission works

	from 2017 onwards. As a result of this and were CMP244 to be approved and implemented in its current form in the short-term then further regulatory change may be required before there is the opportunity to fully realise the perceived benefits of this proposal.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	The overall impact can be considered neutral as the proposal will have the effect of moving the burden of risk rather can providing mitigation in respect of charging.
2	**Do you support the proposed implementation approach?**	No
3	**Do you have any other comments?**	No
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Specific questions for CMP244

Q	Question	Response

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Under RIIO-T1, the regulatory framework was designed to match revenue to partly finance the network investment (alongside any debt financing). The nature of the capital programme that SHE Transmission plc undertake means that the 2 year lag and annual iteration process defined in the licence is a key component to financing this substantial activity. In the event of advance notice being required for setting tariffs, the TOs will be required to forecast allowances based on potential projects proceeding. This may result in enhanced volatility for customers but also for network operators. This enhanced volatility is more inclined to increase the cost of capital and would have an adverse impact on customers. At this stage, modifications would be required to facilitate advance notice being given for tariffs.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	Any forecasting risk that is present in the existing arrangements resides with National Grid and not the TOs. In the event advance notice was required the forecasting risk would transfer to the TOs instead of being mitigated or reduced. The proposed arrangements therefore do not present the most effective way to mitigate risk, merely pass it from one party to another. Further work is required to enhance the proposed arrangements to make sure they are practical and achieve a reduction in the forecasting risk and volatility and any adverse impact this has on affected parties.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	No comments

Q	Question	Response
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	Under RIIO-ED1 revenues were set based on Draft Determinations which were 6 months in advance of the normal deadline prior to the change to setting two years tariffs. In advance of the next price control, if these arrangements were implemented, the revenue could be based on some form of Draft Determinations plus any other adjustments expected. The current arrangements under the licence, handbook and revenue models are insufficient to ensure operation of these proposals and would require significant revision plus consultation. This will take a substantial period of time and would need to commence in early 2016 to ensure implemented correctly in advance of the 2017/18 tariff setting deadline under these new arrangements.
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	No comments
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	We have outlined our view on the risks and issues particularly around the financial aspects of RIIO-T1, the impact on the licence, handbook and revenue models, and the transfer of risk (as opposed to mitigation of risk).
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	As mentioned previously, the licence, handbook and revenue model require substantial modification and consultation. In the absence of a workable and practical solution, it is likely the proposals will result in increased volatility for the benefit of enhanced certainty. The consultation document captures most aspects but omits the impact on the revenue models, and any guidance required in setting tariffs as far in advance currently being proposed.

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Colin Prestwich*
Company Name:	*SmartestEnergy*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	Whilst we would ordinarily have some sympathy for increasing the amount of notice (albeit at the expense of some accuracy) we are not convinced that it is worth bothering with in this instance. As the consultation document shows, many key pieces of information would not be available to be able to get tariffs out to be considered for the October round. There is no point in talking about a 6 – 8 month range. At 6 months there is no time to change things for October pricing. The analysis should have been done at 8 months only.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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. Neutral on a) – all suppliers are in the same boat No on b) – cost reflectivity will clearly be affected Neutral on c) – NGT should not really be affected by a bit of revenue shifting No on d)

Q	Question	Response
2	**Do you support the proposed implementation approach?**	No. A potentially shorter notice period than 6-8 months occurring for the first charging year of implementation is a nonsense.
3	**Do you have any other comments?**	No
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Not really, no. It's a relatively small subset of customers which actually fix energy rates in the time window that the additional notice would provide. TRIAD consumption volume remains the predominant uncertainty.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	Yes, but we can see that there are issues with some TOs being treated differently from others.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	Yes

Q	Question	Response
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	This question underlines the reason why things are the way they are. The uncertainty can only be reduced by ensuring that tariffs are calculated as close to real time as possible. There may be some justification to consider the notice period for generation tariffs, but for demand side the stakeholder engagement alongside RIIO ED1 is adequate notice.
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	There is little point in considering 6 or 7 months as these do not provide enough time to affect pricing of October round contracts
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	Further analysis could be conducted on the reduced accuracy if 8 months is chosen. The main risk seems to be that the additional inaccuracy in forecasting results in a greater under/over recovery, i.e. further cross subsidisation between consumers and consumption years by migrating further away from accurate tariff setting.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	No

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Garth Graham (garth.graham@sse.com)*
Company Name:	*SSE*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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. **[NOTE – in accordance with paragraph 1.4 of the consultation document all of our responses to the following questions are on the basis of the notice period being circa 6-8 months (and not 15 months). If this was not the case then we would answer the questions in a materially different way.]**

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	We believe that extending the TNUoS tariff notification period from the current two months (January) to six (October) to eight (August) months does better facilitate the Applicable CUSC Objectives, and in particular (a) in terms of 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. Whilst there maybe a case for this proposal not better facilitating Applicable Objective (b), in terms of cost reflectivity, we believe that this is outweighed by the benefits that accrue in terms of facilitating competition under (a). In respect of (c) we believe that the proposal does better facilitate this Applicable Objective. In our view this proposal is neutral with respect to Applicable Objective (d).
2	**Do you support the proposed implementation approach?**	We note the detailed implementation aspects set out in Section 4 of the consultation document. In light of the changes required to other Core Industry Documents as well as to the CUSC itself (as noted in Section 4) we agree that the timing challenge and the interdependence with the timing of an Authority decision on CMP244 (plus any related STC and associated Licence changes) means that it's looking unlikely that this proposal will have practical effect until Charging Year 2018/19; i.e. the first notice period occurring during the summer / autumn of 2017.
3	**Do you have any other comments?**	Nothing further at this time.

Q	Question	Response
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No.

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	The increase in certainty afforded to Suppliers of moving from a January (2) to an August (8) or September (7) or October (6) notification of TNUoS tariffs could provide benefits. That having been said, it is difficult to quantify those, given that there are already forecasts provided during (and before) this period from National Grid – thus any benefits are incremental.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	It seems that if this risk has been taken into consideration by the OFTOs and the three onshore TOs; National Grid (as TO, not SO), SPTL and SHE-T; as part of their regulatory arrangements that it is reasonable that they should bear their own forecasting risk by providing a binding revenue forecast to the SO (National Grid) ahead of the setting of TNUoS tariffs. Noting the dual role that National Grid has (as both SO and TO) it would seem reasonable that their final TO revenue forecast is, when sent to the SO, copied to Ofgem (and we would not be averse to all the OFTO and TO final revenue forecast submissions to the SO being copied to Ofgem).
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	Whilst we appreciate the issue set out in paragraphs 2.47-2.54 it seems to us that permitting the notice period to remain on two months for the OFTO based generator's local circuit tariff could undermine the benefits (for that generator) of this proposal. In this regard we note the potential alternative approach suggested in paragraph 2.50 that Ofgem could give an anticipated contract value to National Grid ahead of the tender being finalised. This, it seems to us, is the better of these two approaches to this issue.

Q	Question	Response
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	As per our **NOTE** above, in our view a 6-8 month notice period could be accommodated within the price control setting regime; not least because the parties concerned (the Authority and the regulated parties) could, presumably, agree to setting the date of the finalisation of the price control prior to the 6-8 month TNUoS tariff production / notification timeline(s).
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	We have reviewed the information in Annex 7 and the associated table on pages 20-21 of the consultation document. In seeking to determine which timeframe; 6 or 7 or 8 months; is appropriate it will require a balance to be struck between the greater certainty around the various (and numerous) component elements that go into the TNUoS tariffs; as in when are they more (or less) certain / finalised; and, primarily, the 'October' contractual round (which relates, in the main, to industrial and commercial customers). In this respect the longer the notice period the more time Suppliers (and their customers) have prior to the closure of the October contracting round to finalise and inform the other party of their position(s). Therefore, in our view, the '*ideal*' balance between these two '*competing*' timescales (longer for Suppliers and customers v shorter for greater certainty and lower risks / costs in terms of, for example, under or over recovery) is seven months; i.e. TNUoS tariffs notified to the market by 30th August in the preceding year.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	In our view the Workgroup has identified a comprehensive range of risks and issued associated with extending the TNUoS tariff notification period to 6-8 months.

Q	Question	Response
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	In our view the Workgroup has identified; in Section 4 of the consultation document; a comprehensive range of other Code, licence and industry changes that may need to be changed in order to implement this proposal,

From: Conlin, James [mailto:James.Conlin@uk.tesco.com]
Sent: 19 November 2015 16:28
To: Clarke, Jade
Subject: EXT || TNUoS tariffs consultation

Jade,

As one of the UK's largest power users Tesco support the move to advanced TNUoS tariffs. This would be particularly beneficial from a budgeting perspective.

- The current two months' notice period for TNUoS tariffs is insufficient for our business to have the budget certainty it would like.
- Longer notice period allows the business to have some greater financial predictability which in turn will lower or remove financial risk premiums associated with TNUoS, this eventually will feed into lower costs to our customers.
- With the significant amount of volatility in TNUoS tariffs noticed in the past few years and as more revenue is collected from NHH and HH metered customers, advance notice is essential to be able to recognise and budget TNUoS costs in our financial planning.
- As an end customer we are generally opposed to fixing TNUoS costs ahead of time as we fear that risk premiums could be higher than simply taking pass-through terms. By setting TNUoS tariffs earlier, we would be happier to sign contracts that has a fixed TNUoS element, meaning it is one less variable to contend with.

Kindest regards,
James

James Conlin
UK and Republic of Ireland Energy Buyer
Tesco Stores Ltd
125 Finsbury Pavement
London
EC2A 1NQ

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

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Respondent:	***Dominik Adamus*** *Senior Commercial Manager* *dominik.adamus@transmissioninvestment.com* *+44 203 668 6692*
Company Name:	*Transmission Capital Partners (TCP) on behalf of:* • *TC Robin Rigg OFTO Ltd* • *TC Gunfleet Sands OFTO Ltd* • *TC Barrow OFTO Ltd* • *TC Ormonde OFTO Ltd* • *TC Lincs OFTO Ltd*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	Although the revenue forecast for OFTOs can be relatively straightforward if assets are fully operational increasing the length of the notice period for final TNUoS tariffs would inevitably introduce higher risk of under/overrecovery for the OFTOs. This is because the current arrangement allows the OFTOs to calculate its availability incentive revenue for the precedent year based on actual performance and actual RPI without the need to estimate either of these factors. Should this arrangement be changed the risk of under/over estimation would be greater because the OFTOs are not in a position to either underrecover (because of their debt repayment obligations) or overrecover (because of the interest charge risk). Certain OFTO transmission licences include a Performance Adjustment Term mechanism. This mechanism defers any

	payment of performance credits earned for 5 years and offsets any performance losses firstly against any credits previously earned. We believe further consideration needs to be given by the working group as to how the proposed changes will interact with this OFTO licence condition. If the obligation is placed on the OFTOs to submit its forecast 8 months ahead of 1 April then the OFTOs will be estimating last 5 months of the availability incentive year. Although most planned outages which affect the availability incentive can be calculated effectively due to the fact that such outages are carried out in low wind months (May to July), any unplanned outages would have a negative impact on the forecasts supplied by the OFTOs. Unplanned outages are generally much longer in their duration than planned outages and therefore their impact can be very significant on revenue forecast. If the revenue forecast would be required from the OFTOs 8 months before 1st April it is highly likely that each OFTO would assume 100% availability unless urgent outages were planned in autumn and winter due to repair works which very unlikely. Consequently, the OFTOs would almost certainly overrecover their revenues in case of unplanned outages (or overestimated planned outages), a situation which would expose the OFTOs to the risk of high interest rates that could not be mitigated. Certain OFTO licences contain an inflation mechanism that uses September each year as the base. The inflation figures for September are usually published on or around 15 October each year. For either a 6, 7, or 8 month notice period the actual inflation for September would not be known and an estimation of its value would need to be made. In a similar manner other OFTO licences contain an inflation mechanism that uses yearly average as the licence reference point. For either a 6, 7, or 8 month notice period the actual average inflation would not be known until January after the estimation is made. The proposed notice period for final TNUoS tariffs would require an OFTO to include an estimate of both availability and RPI into its submissions. At present both these factors are fixed and determined at the time of submission and therefore the proposed changes bring unnecessary uncertainty into the calculations. Therefore, TCP would advocate for the current arrangement to remain in place to keep the certainty of revenue forecasts at the highest level and keep the risk of under/overrecovery to the minimum. If it is not possible to maintain the current arrangements then we suggest the OFTO's are excluded from the proposed changes.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	*(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);* The proposal introduces risk to the OFTOs which would most likely result in unnecessary interest charges for the OFTOs (if revenue was to be overrecovered), or cash flow issues (if revenue was to be underecovered). In both cases, the cost of mitigating the risk would have to be borne by the OFTOs as there are no other mechanisms to effectively manage such a risk. *(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.* This proposal seems to be increasing the risks placed on the OFTOs without any suggestions on how to mitigate such risks considering the highly constrained regulatory environment in which the OFTOs operate and their inability to manage such risks effectively. We would suggest the OFTO's are excluded from the proposed changes as stated above. *(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.* We would not be able to comment on how the proposal facilitates the above objective..

Q	Question	Response
2	**Do you support the proposed implementation approach?**	No. The proposed change increases the risk of under/overrecovery of revenues to the OFTOs and introduces greater uncertainty into the revenue forecasts provided by the OFTOs.
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No. However, as stated above we would suggest the OFTO's are excluded from the proposed changes.

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Greater certainty of TNUoS tariffs does not provide any benefit to an OFTO. The requirement for an OFTO to forecast both RPI and transmission availability only serves to add unnecessary risk to an OFTO's revenue profile.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	No. We believe the OFTO regime works well and reduces uncertainty in determining an OFTO's annual revenue.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	As per our response above TCP would recommend that the 2 month's notice period remains in place for all OFTOs regardless of the asset transfer date. The reasons are stated in our response above.

Q	Question	Response
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	This question is not applicable to the OFTOs.
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	As stated above, a shorter notice period would result in greater certainty over the revenue forecasts provided by the OFTOs, and would minimise the risk of under/overrecovery. Certain OFTO licences contain an inflation mechanism that uses September each year as the base. The inflation figures for September are usually published on or around 15 October each year. For either a 6, 7, or 8 month notice period the actual inflation for September would not be known and an estimation of its value would need to be made. In a similar manner other OFTO licences contain an inflation mechanism that uses yearly average as the licence reference point. For either a 6, 7, or 8 month notice period the actual average inflation would not be known until January after the estimation is made.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	In sections 2.47 – 2.54 the Workgroup has identified the risks associated with the extension of the TNUoS notice which may affect the OFTOs, and concluded that it may not be possible to pass such risks to the OFTOs. This open-ended conclusion has not mentioned how the impact of those risks can be mitigated by the OFTOs.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	The most effective way which would require the least implementation effort and cost from the OFTOs would be the STC. Should the change be implemented through the transmission licence it may require greater effort and cost in terms of implementation due to legal reviews needed.

CUSC Workgroup Consultation Response Proforma

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Mary Teuton (mteuton@vpi-i.com; 0207 312 4469)*
Company Name:	*VPI Immingham*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	Yes, we believe that the CMP 244 proposal (i.e., a 6-8 month notice period for publication of TNUoS tariffs) better facilitates some of the CUSC objectives, namely: (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; This is because it will enable suppliers to set longer term fixed tariffs more effectively and generators to trade at a more accurate price along the curve. This should provide more accurate and transparent pricing, without the need to add risk premiums and hence enable better competition between larger players, who may have either better forecasting abilities or the ability to set lower risk premia, than smaller independent participants. In terms of the other three CUSC objectives, we see no noticeable difference between the proposal and the existing arrangements.
2	**Do you support the proposed implementation approach?**	Yes, we support the proposed implementation approach. We would support longer timeframes where possible, i.e. at 8 months, as we believe that this would promote the most effective competition.

Q	Question	Response
3	**Do you have any other comments?**	We believe that risk should be placed with those parties best placed to manage it, which, in this case is National Grid. They currently manage a level of risk associated with the setting of TNUoS tariffs and any over/under recovery and a small addition to this risk would come at a great advantage to other market participants, both on the supply and generation side. Regarding paragraphs 2.62 and 2.63, noting we were not party to the conversation within the work group, but National Grid currently release TNUoS quarterly forecasts well ahead of the timeframes set out in these paragraphs (May, July and November for the 16/17 charging year). We do not understand why a similar approach could not be adopted as currently and what different information would be provided that is not included in the existing forecasts. Therefore we do not believe this to be a significant issue.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No*

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	Greater certainty of TNUoS tariff setting would enable us to more accurately reflect prices when trading longer timeframes. However, with so many different variables influencing longer term pricing, we are not able to put a specific value on this. In addition, VPI Immingham works on a calendar year as its financial year. Currently, final TNUoS charges for our financial year are not known until after the start of year. This makes budget setting immensely difficult and hence certainty whilst setting budgets would improve our financial management.
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	Working on the basis that those best placed to manage the risk do so, this would seem like the most appropriate solution.

Q	Question	Response
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	Others are better placed to comment in detail on this question.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	We recognise the concerns regarding the inaccuracy of forecasts in a price control year. However, some of these concerns may be mitigated by the updated proposal of a 6-8 month notice period and analysis should be shared to demonstrate what the inaccuracy could be. However, if it is still inaccurate, it may be appropriate to have a shorter notice period in these years only. With the 2013 RIIO-T1 finalised in December, we would suggest a minimum of three months, although a more accurate view should be available before this date.
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	There is no material difference to us between 6, 7 or 8 months. However, as a matter of principle, longer timeframes would suit our business model, as an independent generator better and so we would favour an 8 month notice period.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	Yes

Q	Question	Response
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	No

CMP244 – Set Final TNUoS tariffs at least 15 months ahead of each charging year

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 **19th November 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at jade.clarke@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Steve Noonan (01926 350 076 or steve.noonan@frontierpower.biz)*
Company Name:	*WoDS Transmission plc (the "Company" or " the OFTO")*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **Use of System Charging Methodology** (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP244 proposal (a 6-8 month notice period for publication of TNUoS tariffs) better facilitates the Applicable CUSC Objectives?**	No. While in principle the objectives of the CUSC may appear to be met, we believe that the proposal fails to take into account the specific characteristics of the OFTO business model and related licence conditions. The OFTO regime was developed so as to encourage investment in this sector of the market and to access non-traditional sources of finance with a view to achieving the lowest cost of capital and hence benefit the end customer. The OFTO licence conditions respond to those general principles. In that regard the certainty of revenue forecasting for the OFTO is extremely important and the timing of tariff setting that is reflected in the Company's offshore transmission licence is consistent with this overall objective. Unfortunately, the CMP244 proposals are inconsistent with the OFTO regime principles that are embedded within the licence for the OFTO and in effect would either be inconsistent with or frustrate the operation of those licence conditions. We believe that the consultation proposals "cut-across" a number of the OFTO's licence conditions such that they do not operate as intended or that they are contrary to the requirements of those conditions – this is dealt with more fully in our response to Q6. In addition, the STC is defined under the OFTOs' lending documents as a "Project Document". The proposed changes to the STC may be viewed as a material adverse change, which would then require the consent of the Company's senior lenders. While such consent cannot prevent a change to the STC it is highly likely to result in additional legal and adviser costs being incurred by the OFTO to obtain that consent that were never envisaged. While the Company is supportive of the objectives of this review, it does not believe that the position of the OFTO has been properly considered as part of the review to date and will increase the costs to the OFTO. In so far as the proposals may be acceptable to other respondents to this consultation, the Company believes that any changes to the notice period for TNUoS charging should 'carve out' the OFTO from such changes – in effect we favour applying the current reporting/charging arrangements to the OFTO as they currently stand.

Q	Question	Response
2	**Do you support the proposed implementation approach?**	No, for the principles outlined above.
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No.*

Specific questions for CMP244

Q	Question	Response
5	**Does greater certainty of TNUoS tariffs provide any benefit to you? Is it possible to quantify this benefit in any way? If so, please provide any additional information or evidence.**	No.

Q	Question	Response
6	**Do you think that OFTOs and the onshore TOs should bear their own forecasting risk by providing a binding revenue forecast to National Grid ahead of TNUoS tariffs being set? If not, are there alternative ways for this risk to be managed?**	**Forecasting Risk response:** In principle yes. However, the Company does not believe that the proposals have taken into account the design principles of the OFTO regime. The OFTO believes that the timing of any OFTO revenue forecast provided to NGET should not be contrary to or otherwise "cut-across" the existing OFTO licence conditions and existing STC procedures, as this would be inconsistent with the design and aims of the OFTO regime. **OFTO Licence and current STC procedures** Amended Standard Condition E12 – J2 of the OFTO licence specifies the calculation of the OFTO's transmission revenue and in particular requires the use of the percentage change in the Retail Price Index (RPI) over a twelve month period ending on 30 September of each year. The RPI outcome for any performance year ending 31 December will be known prior to the commencement of for the following charging year. Amended Standard Condition E12 – J4 of the OFTO licence specifies the calculation of the OFTO's performance availability revenue adjustment term. The calculation of such a term substantially depends on the availability performance of the OFTO over the 12 months ending the 31 December prior to the commencement of the following charging year. Amended Standard Condition E12 – J6 of the OFTO licence requires the OFTO to provide the System Operator with a regulated revenue forecast on or before 1 November of each year and "*If at any time, the licensed reasonably considers that the values of $OFTO_t$ and/or $OFTO_{t+1}$, notified to the System Operator will be significantly different from the estimates previously notified to the System Operator, the licensee shall notify the System Operator of the revised values for $OFTO_t$ and/or $OFTO_{t+1}$ as soon as reasonably practicable".* STC Procedure paragraph 3.3.1 notes that *"Only under exceptional circumstances, can General System Charges be changed after final notification on 25th January or post asset transfer for the first year of existence of an OFTO. Exceptional circumstances means an event or circumstance that is beyond the reasonable control of the licensee and for which it should not reasonably bear the financial risk."* All of the above licence conditions and STC Procedure are supportive of the objectives of the OFTO regime - being to give the participants in such a regime a high degree of certainty of costs and revenue.

Q	Question	Response
6	**Continued**	The primary sources of forecast revenue variation that the OFTO may "suffer" relates to performance credits / penalties which are calculated by reference to the availability of the transmission system; exceptional events; and income adjusting events. Taking these issues in turn: **Availability** The risk profile of an onshore system is significantly different to an offshore system. Consequently, forecasting system availability for the OFTO is very different compared with an onshore TO. The OFTO can suffer the risk of a complete system outage as a result of an unexpected failure of: equipment on the offshore sub-station; the export cable; and equipment in the onshore sub-station. In effect, a single point of failure can cause a complete loss of availability. By contrast, an onshore transmission system has in most instances multiple transmission routes and in effect enjoys the benefit of the "portfolio" effect that such system redundancy has on the overall availability of their transmission system. This allows the onshore TO to forecast transmission system availability with a much higher degree of confidence than that which is available to the OFTO. In principle, the OFTO can forecast planned maintenance activities and its impact on availability. However, there are additional risk factors to consider that differentiate the OFTO from an onshore TO that reduce the 'confidence' associated with the timing and length of those planned activities including the complication of the marine environment generally and the potential adverse impact of actual weather conditions as compared with the planning assumptions. Furthermore, The OFTO cannot forecast unplanned failures in any meaningful way and consequently cannot forecast the impact of such failures on availability. The Company believes that the consultation proposals as drafted do not take these factors into account. If (say) the OFTO forecasted its revenue on the basis of there being no planned outages for the following year, then all other things being equal the OFTO would forecast 100% transmission system availability. Such an assumption would drive a revenue forecast for the following charging year that assumed the collection of performance credits equivalent to 5% of the base revenue for the immediately preceding charging year. If the OFTO then suffered an unplanned significant outage prior to the commencement of the forecast charging year, but post-submission of a "binding" forecast, then the maximum variation in revenue comparing the "binding" forecast and "allowed revenue" calculated in accordance with the licence conditions (ignoring inflation) would be equivalent to 15% of the OFTO's revenue.

Q	Question	Response
6	**Continued**	Based on the Company's base revenue for 2015/16, this maximum variation would be approximately £3m – which would represent approx. 0.1% of the total 2016/17 TNUoS Revenue forecast produced by NGET (Oct 2015). We do not believe that the OFTO should suffer the risk of forecast errors arising from unplanned outages, as this is inconsistent with the principles of the OFTO regime and in addition would be either inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. Any over-recovery of revenue collected in excess of 4% of allowed revenue would result in the OFTO suffering 4% penal interest on the over-recovered income. As significant unplanned outages cannot be forecast, and because the inherent system design of the OFTO transmission system does not allow this risk to be mitigated, the only way for the OFTO to avoid penal interest in such a situation would be to provide information to NGET consistent with the current licence and STC procedures and charge accordingly consistent with this information. The OFTO notes that the overall impact of the maximum variation arising from OFTO system availability forecast deviation would not significantly impact on the overall TNUoS forecast, as referenced above, this maximum deviation represents approx. 0.1% of the forecast 2016/17 TNUoS. The OFTO further notes that under paragraph 2.60 of the consultation document, that NGET proposes a "carve-out" from the notification proposals contained within the consultation document for what, in effect, would be potential forecasting errors that are in essence outside of the control of NGET. In principle, a significant unplanned OFTO outage is the same, it is material to the OFTO in the same way that a change in expected revenue caused by price control changes is material to NGET. It is merely the absolute size of the numbers that are different. **Exceptional events** The Licence permits the OFTO to exclude the impact of certain events ("exceptional events") from the calculation of the OFTO's system availability. Given the nature of these exceptional events it is not possible to forecast such events in advance of a future charging period if the event in question has not happened. If the Authority agree that an event is "exceptional" then this can impact on the calculation of allowed revenue and therefore this may differ from any forecast prepared in accordance with the principles of the CMP244 consultation.

Q	Question	Response
6	**Continued**	We do not believe that the OFTO should suffer the risk of forecast errors arising from exceptional events, as this is inconsistent with the principles of the OFTO regime and in addition would either be inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. As exceptional events, by their very nature, cannot be forecast, the mitigation of this risk would be through an amendment to the OFTO's charging statement - necessary to comply with paragraph 4 and paragraph 5 of Amended Standard Condition E12 – J9 of the OFTO licence. The OFTO would then commence collecting the revised charges in Revenue following the approval of the revised charging statement. As previously noted, the STC procedures contain an exception that permits charges to be amended after the 25th January in exceptional circumstances. **Income adjusting Events** Income adjusting events are defined under the OFTOs licence as: (a) an event or circumstance constituting force majeure under the STC, (b) an event or circumstance resulting from an amendment to the STC not allowed for when allowed transmission owner revenues of the licensee were determined for the relevant year t, and; (c) an event or circumstance other than listed above which, in the opinion of the Authority, is an income adjusting event and is approved by it as such in accordance with paragraph 21 of this licence condition, where the event or circumstance has, for relevant year t, increased or decreased costs and/ or expenses by more than £1,000,000 (the "STC threshold amount"). The ability to forecast an income adjusting event, is by its very nature, extremely difficult. In addition, even if the OFTO is able to forecast that they believe an income adjusting event has occurred, the Authority would need to opine as to whether they accepted the OFTO's analysis.

Q	Question	Response
6	**Continued**	Similar to the rationale discussed earlier, we do not believe that the OFTO should suffer the risk of forecast errors arising from income adjusting events, as this is inconsistent with the principles of the OFTO regime and in addition would either be inconsistent with or otherwise frustrate the operation of the OFTO's existing licence conditions. To allow for the mitigation of this risk, an amendment to the OFTO's charging statement would be necessary to comply with the requirements of paragraph 4 and paragraph 5 of Amended Standard Condition E12 – J9 of the OFTO licence. The OFTO would then commence collecting the revised charges in Revenue following the approval of the revised charging statement. As previously noted, the STC procedures contains an exception that permits charges to be amended after the 25th January in exceptional circumstances. **Alternative ways for this risk to be managed?** We do not have any specific suggestions as to how the risks might be managed, however, as indicated in response to the first part of this question, the overall impact of the maximum variation arising from OFTO system availability forecast deviation would not significantly impact on the overall TNUoS forecast, as referenced above, this maximum deviation represents approx. 0.1% of the forecast 2016/17 TNUoS.
7	**If the TNUoS tariff notice period was extended, do you think that in the first 2 years after asset transfer to an OFTO, the generator's local circuit TNUoS tariff should remain on a 2 month notice period? If not, why?**	We have no comment on this proposal.
8	**Currently the electricity transmission price control period lasts for 8 years, and the next price control is due to begin in April 2021. How do you think the additional uncertainty around tariff setting in the year before a new price control should be best addressed?**	We have no comment on this proposal

Q	Question	Response
9	**Is there any material difference for you between a 6, 7 or 8 month notice period and if so, could you quantify this / provide justification? For example, which of your contracts would benefit from 6, 7 or 8 month TNUoS notice period and can you quantify what proportion of total customer contracts would benefit?**	For the reasons outlined in responses to previous questions, the OFTO proposes that it is carved out from any change in the notification process as it currently operates. A notification period of 6, 7 or 8 months would not help the OFTO's forecasting of unplanned outages, exceptional events or income adjusting events.
10	**Do you think that the Workgroup have identified and fully considered all the risk and issues associated with extending the TNUoS tariff notice period to 6-8 months? If not, please give further details**	No. The OFTO does not believe that the OFTO regime has been adequately considered for the reasons outlined in responses to previous questions. Furthermore, while we are currently in a low inflation period, the risk of there being a significant variation in forecast TNUoS charges as compared with that which would be calculated with the benefit of known RPI rates is likely to be insignificant. However this situation could change significantly in a future period and this risk does not appear to have been seriously considered in the consultation document, which merely references that any changes would form part of the 'reconciliation' following the end of the charging year. The longer the required notice period using forecast RPI - the greater the probability of deviation from actual RPI. In a period of rapidly changing prices, such variations could be significant.
11	**Are there any other Code, licence or industry changes that may be needed to ensure the implementation of this Proposal, and to ensures its objectives are achieved?**	In response to previous questions, the OFTO believe that the proposals are inconsistent with or otherwise attempt to frustrate the operation of the licence conditions of the OFTO.

Annex 8 – CMP256 Workgroup Consultation Responses

CUSC Workgroup Consultation Response Proforma

CMP256 'Potential consequential changes to the CUSC as a result of CMP244'

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 15th December 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at cusc.team@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*James Anderson* *james.anderson@scottishpower.com*
Company Name:	*ScottishPower Energy Management*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	We believe that CMP256 is required to align sections 3 and 11 of the CUSC with changes to section 14, should CMP244 be approved, and that the proposed approach to its development and implementation is appropriate.
	For reference, the Applicable CUSC objectives are: **Applicable CUSC Objectives** (a) the efficient discharge by The Company of the obligations imposed upon it by the Act and the Transmission Licence. (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity. (c) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that CMP256 Proposal (potential consequential changes to the CUSC as a result of CMP244) better facilitates the Applicable CUSC Objectives?**	Should CMP244 be approved, CMP256 will improve efficiency in the discharge of the Transmission Licensee's obligations by facilitating the implementation of CMP244. It will thus better facilitate Applicable CUSC Objective (a).
2	**Do you support the proposed implementation approach?**	Yes. We agree that CMP256 should be implemented concurrently with CMP244 (if approved).
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No.

CUSC Workgroup Consultation Response Proforma

CMP256 'Potential consequential changes to the CUSC as a result of CMP244'

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 15th December 2015** 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 Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at cusc.team@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Garth Graham (garth.graham@sse.com)*
Company Name:	*SSE*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	
	For reference, the Applicable CUSC objectives are: **Applicable CUSC Objectives** (a) the efficient discharge by The Company of the obligations imposed upon it by the Act and the Transmission Licence. (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity. (c) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that CMP256 Proposal (potential consequential changes to the CUSC as a result of CMP244) better facilitates the Applicable CUSC Objectives?**	We note the reference in paragraph 1.2 of the consultation document that:- "….this [CMP256] modification seeks to ensure that changes to the other sections of the CUSC can be implemented in parallel with the changes to Section 14 if adopted under CMP244." At this stage in the process we are not certain that the timeframe for the proposed notice (15 months v 6-8 months) for CMP244 and therefore if it better facilitates the Applicable Objectives. Given this we are not, as yet, in a position to opine on whether CMP256 itself does better facilitate the Applicable CUSC Objectives. Notwithstanding the above, we also note the comments in paragraph 2.10 that:- "If any other consequential CUSC changes (outside of Section 14) are required by CMP244, these will also be included within CMP256". Given that this details (of what the CMP256 changes will actually be) is lacking at this time it is also difficult for us to give a view with respect to the facilitate the Applicable CUSC Objectives.
2	**Do you support the proposed implementation approach?**	Given the linkage to CMP244, if that proposal were to be approved then the proposed approach (for the implementation of CMP256) is one that we would support.
3	**Do you have any other comments?**	The lack of actual code change(s) associated with CMP256 makes it difficult for us to provide other comments at this time.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No.*

Annex 9 – Forecasts of TNUoS revenue and generation / demand charging bases

Forecast of allowed TNUoS revenue used to forecast / set TNUoS tariffs (TNUoS revenue, no pre-vesting)

£m Nominal	Initial View report (14m ahead)	Tariff Setting (2m ahead)	Final allowed revenue	Error margin for forecast 14m ahead
2015/16	2,650	2,637	2,625	+1.0%
2014/15	2,433	2,477	2,428	+0.2%
2013/14	Price control	2,153	2,100	N/A
2012/13	1,813	1,949	1,914	-5.3%
2011/12	1,727	1,724	1,642	+5.2%
2010/11	1,603	1,600	1,551	+3.4%

Generation forecasts used to forecast / set TNUoS tariffs

GW	Initial View (14m ahead)	Tariff Setting (2m ahead)	Actual	Error margin for 14m forecast*
2015/16	75.288	71.464		
2014/15	81.252	73.031	72.40	+12.23%
2013/14	80.606	75.141	76.21	+5.76%
2012/13	93.435	83.338	82.69	+12.99%
2011/12	91.088	83.158	82.57	+10.31%
2010/11	89.196	84.780	79.80	+11.78%

**Over forecasting the generation base leads to the denominator in TNUoS tariffs being set too high – hence leads to under recovery of revenue. All initial view reports based on contracted generation except for the 15/16 initial view report which was based on a best view of generation.*

Demand forecasts used to forecast / set TNUoS tariffs – Half hourly

MW	Initial View	Tariff Setting	Actual	Error margin*
2015/16	15,899	14,987		
2014/15	16,100	15,899	14,319	+12.44%
2013/14	16,100	16,100	14,810	+8.71%
2012/13	17,167	16,100	15,940	+7.70%
2011/12	19,063	16,100	15,238	+25.10%**
2010/11	18,578	16,000	16,330	+13.77%

**Over forecasting the demand base leads to the denominator in TNUoS tariffs being set too high – hence leads to under recovery of revenue.*

*** Due to a CUSC Modification changing how interconnectors were charged TNUoS.*

Demand forecasts used to forecast / set TNUoS tariffs – Non half hourly

TWh	Initial View	Tariff Setting	Actual	Error margin
2015/16	28.600	27.390		
2014/15	28.600	28.600	27.10	+5.53%
2013/14	28.451	28.600	27.61	+3.04%
2012/13	28.900	28.451	28.99	-0.31%
2011/12	29.500	29.100	27.96	+5.51%
2010/11	29.500	28.900	29.17	+1.13%

Annex 10 – Analysis of under / over recovery of TNUoS revenue and associated financing rates, had tariffs been set based on information known 15 months in advance

The table below seeks to illustrate what under / over recovery of TNUoS revenue would have been, had tariffs been set with the information available 14-15 months in advance (column 2).

According to the current Transmission Licence conditions, the financing rates (that are recovered from, or repaid to transmission users in t+2 to account for under / over recovery) change once under / over recovery exceeds the 'bandwidth' of 5.5% of allowed revenue. The table below shows that had TNUoS tariffs been set 14 months in advance, it is likely that this 5.5% bandwidth would have been breached in 2-3 of the last 5 years (*column 2 – breaches shown in red, pink text indicates close to breach of the bandwidth*). Column 3 shows the financing rate and costs that would have been recovered from transmission users in t+2 to account for the under recovery – under current licence conditions that impose different rates once the 5.5% bandwidth has been breached. Column 4 shows what the financing rates would have been if the bandwidth had not been applied.

Columns 5 and 6 shaded in purple then contrast this to the under / over recovery, and associated financing costs that were actually experienced when tariffs were set at 2 months' notice.

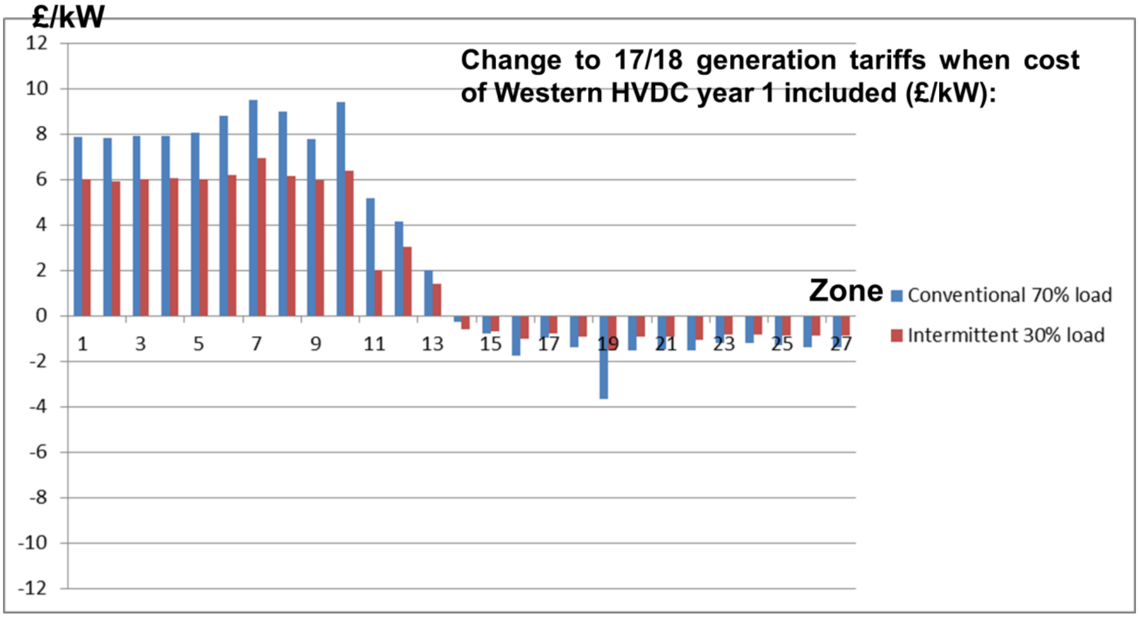
Year	Estimated under / over recovery 15m ahead	Cumulative financing costs added to TNUoS in t+2* (current licence conditions)		Financing costs if bandwidth not applied	Under / over recovery with 2m notice	Financing costs added / *repaid to* TNUoS (all 5.1%)
2014/15	-£186.3m (-7.6%)	3%	**£5.59m**	£9.50m	- £99m	**£5.05m**
2013/14	Price control	Price control			- £54m	**£2.75m**
2012/13	-£175.3m (-9%)	3%	**£5.25m**	£8.94m	£3m	***£0.15m***
2011/12	-£89.2m (-5.4%)	5.1%	**£4.55m**	£4.55m (same)	- £24m	**£1.22m**
2010/11	-£40.7m (-2.6%)	5.1%	**£2.08m**	£2.08m (same)	£12m	***£0.61m***

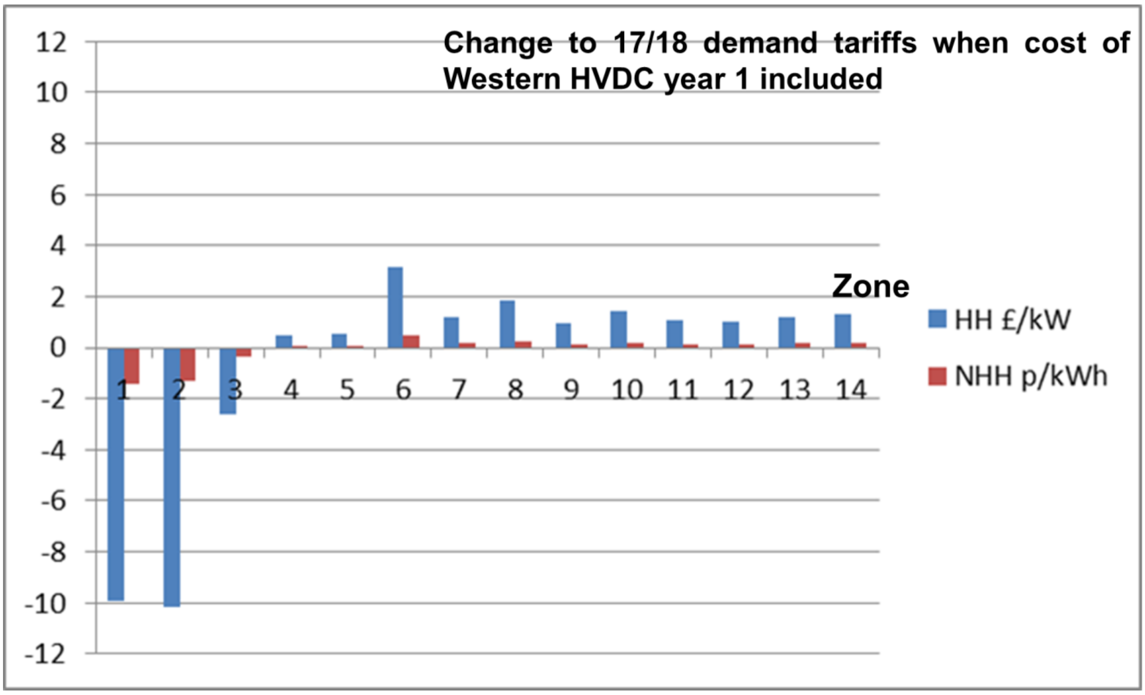
The Workgroup noted that this analysis can only provide an indicative view of the accuracy of tariffs (and hence associated under / over recovery of revenue) 15 months ahead of the charging year (see paragraph 2.19).

Annex 11 – Analysis to consider impact of generation closing / opening under a 15 month notice period, and major transmission projects delaying

Impact on tariffs of infrastructure changes: Western HVDC

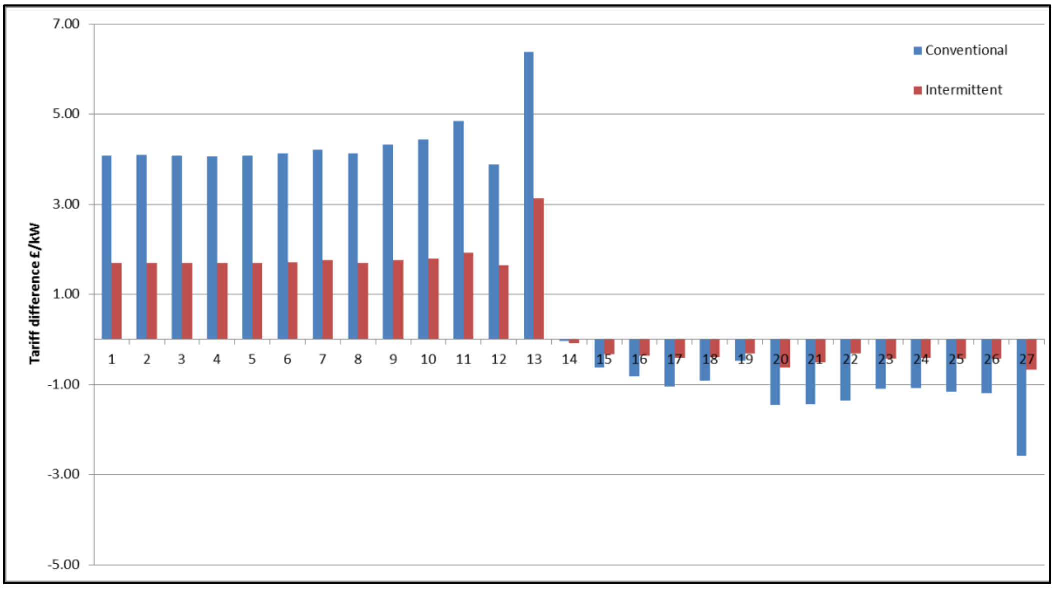
The example below looks at the change to TNUoS tariffs as a result of including the Western HVDC project into TNUoS revenue and the transport model. The implication here is that if that project was delayed, but its costs and the locational impact had been included in TNUoS tariffs set 15 months ahead (and before it was known that the project had delayed) there would be a loss of cost reflectivity in those tariffs.



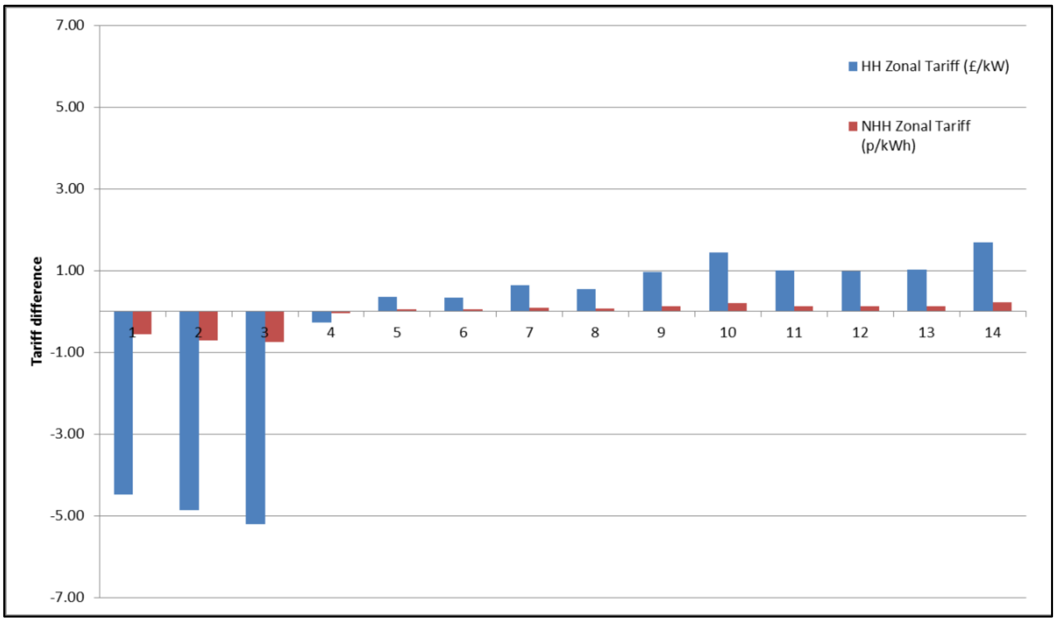


Similarly the Workgroup wanted to understand the impact on cost reflectivity of TNUoS tariffs if a generator decided to open or close after those tariffs had been set. To do this the National Grid representative modelled the change to generation and demand tariffs under a number of different scenarios, looking at the impact of different sizes and types of plant increasing or reducing TEC in different TNUoS charging zones. Some extracts of this work are shown below (all modelled using best view of the 2016/17 charging base):

Increasing conventional generation in zone 13 by 1207MW – impact on tariffs
Generation tariffs:

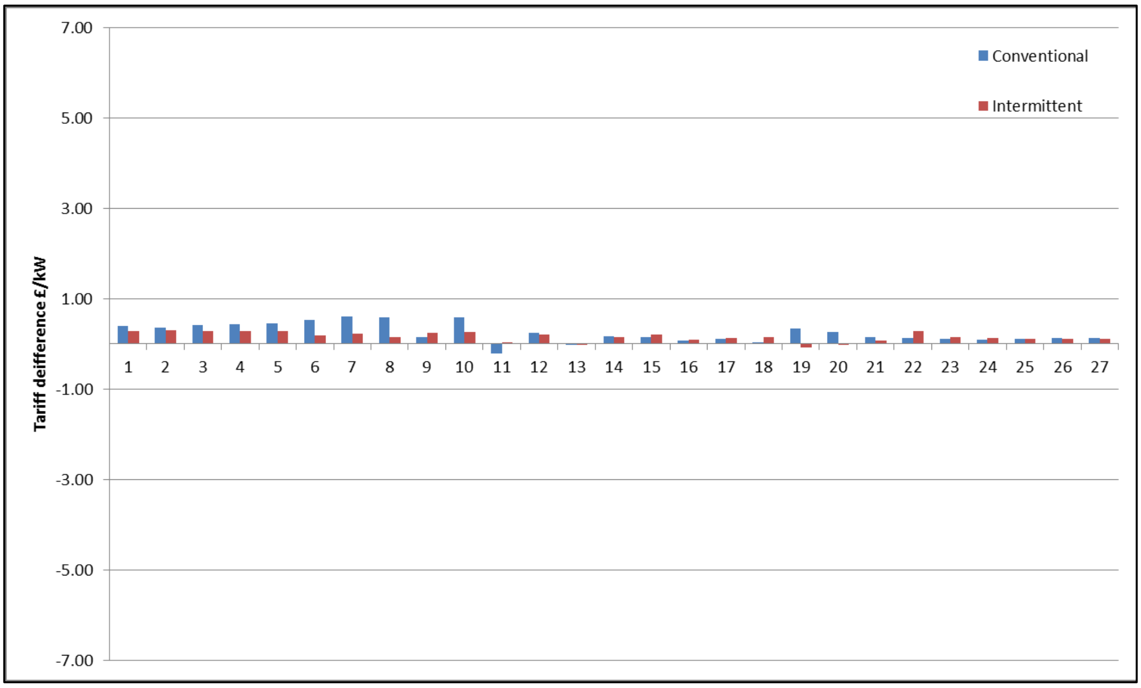


Demand tariffs:

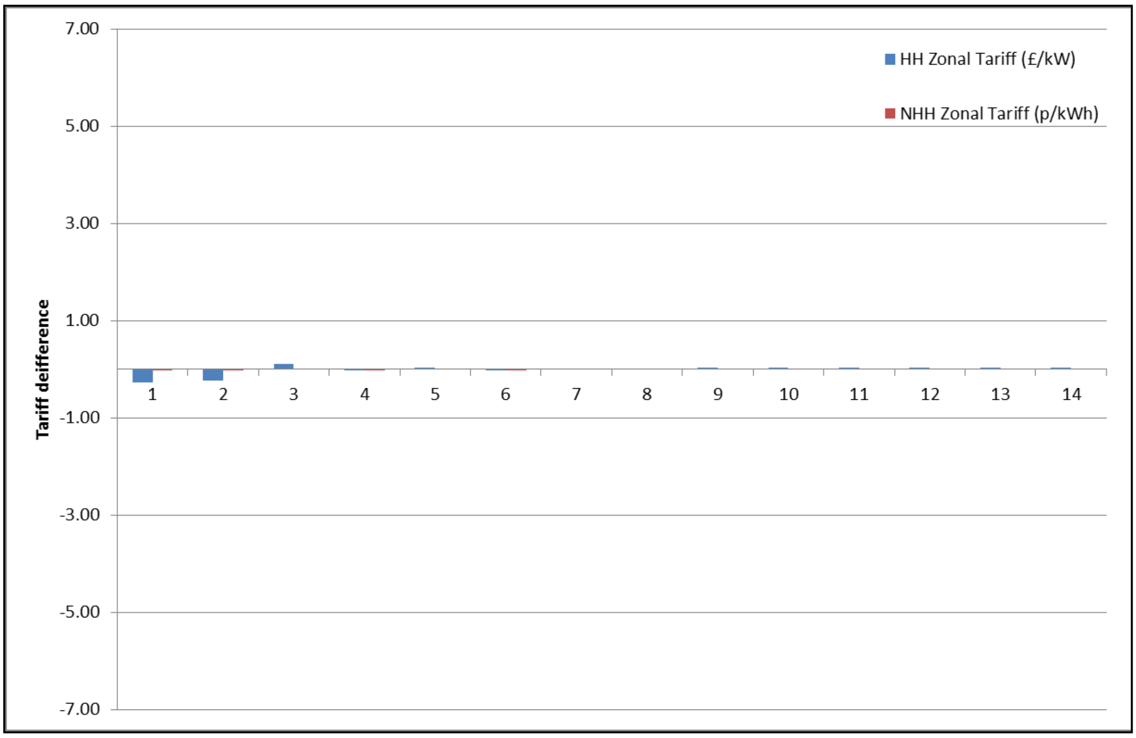


Reducing conventional generation in zone 15 by 1940MW – impact on tariffs

Generation tariffs:



Demand tariffs



Increasing intermittent generation (onshore) in zone 21 by 228MW – <u>no discernible impact</u> on generation or demand tariffs

The Workgroup noted that larger changes in TNUoS tariffs (and hence a greater potential change in cost reflectivity) take place when:

- A transmission circuit changes direction due to change in flows.
- Transmission circuits at the periphery of the transmission network are changed.
- A change in flows causes a transmission circuit to be re-classified from Year Round to Peak Security or vice versa.
- There is a change in the ratio of intermittent to conventional generation in a TNUoS charging zone. When intermittent generation exceeds conventional generation in a zone, all Year Round costs in that zone become non-shared. This would have the effect of increasing intermittent charges relative to conventional, as shared costs are scaled by the generation Annual Load Factor, but non-shared are not.

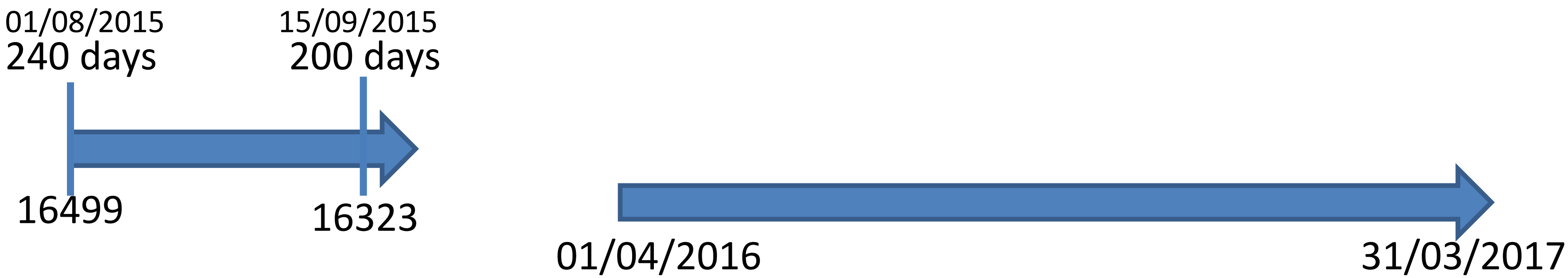
Annex 12 – Timeline of key information used in setting TNUoS tariffs

Information impacting:	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Revenue forecast			Initial view of previous charging year's 'k'		Final view of previous charging year's 'k' Satisfaction incentive for previous charging year known Capex (for previous charging year) known		RRP submitted to Ofgem – better view of MOD allocation SF6 performance for previous charging year (linked to incentive payment) known.				MOD finalised Inflation forecast to be use is published NG engagement incentive confirmed.	NICF allocation confirmed Onshore TOs provide revenue forecast for following charging year
Generation base forecast (how much and what kind)	Throughout the year, Customer Account Managers will inform team of project changes. Generators may also receive ancillary / other contracts.		TEC window									
HH demand forecast				View of previous winter's Triads			April - July, NG internal work to analyse demand data, published in the FES in July					

Information impacting:	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
NHH demand forecast							April to July, NG internal work to analyse demand data which is then published in the FES in July					
Cost reflectivity			Generation TEC notification (indication of location of generation)						Week 24 data – impacts forecast of locational flows	Circuit data Confirmation of infrastructure timings		ALFs published

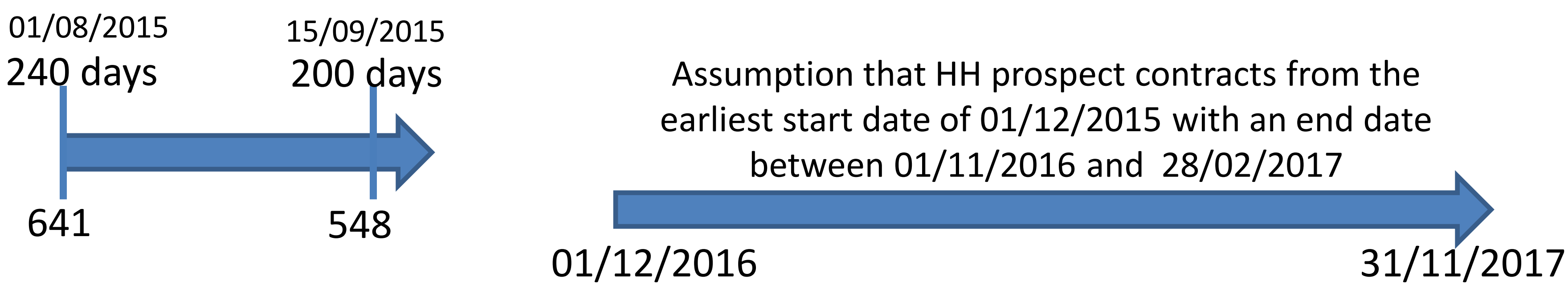
Annex 13 – Analysis to consider contracting periods

NHH Metered sites from TPIs



16,323 sites would be able to contract with TNUoS certainty by increasing the notice period from 60 days to 200 days (6.5 month). An additional 176 sites would gain certainty when increasing to 240 days (8 months)

HH Metered sites from TPIs



548 sites would be able to contract with TNUoS certainty by increasing the notice period from 60 days to 200 days (6.5 month). An additional 93 sites would gain certainty when increasing to 240 days (8 months)

This analysis details the amount of sites that are able to contract with final TNUoS costs from 240 days up to 31st January 2016 and 200 days up to 31st January 2016.

The parameters for NHH are for prospects that has a start date of at least 1st April 2016 and an end date of 31st March 2017

The parameters for HH are for prospects that has a start date of at least 1st December 2016 but also their end date is within the 1st November 2016 and 28th February 2017 so will cover the Triad period.

Disclaimer:
This analysis has been carried out using data captured from Third Party Intermediaries (TPI) operating in the business market. The data does not constitute all TPI activity.

It has been assumed that the date on which the tender was received was the date at which a decision could have been made.

Commentary on the analysis:
This analysis shows TPI tenders received for both NHH and HH metered customers operating in the B2B market sector.

Annex 14 – CMP244 Draft Legal text

CMP244 Draft Legal text

Changes to paragraph 14.14.10 (14.14.13 in post 1st April 2016 version)

14.14.10 The Company will typically calculate TNUoS tariffs annually, publishing final tariffs in respect of a Financial Year no less than 200 calendar days prior to the start of that year except in the case of offshore generator local circuit tariffs. In this case the offshore generator local circuit tariffs will be published as soon as is practically possible after asset transfer, with Users receiving no less than 2 months' notice of tariffs ~~by the end of the preceding January~~. However The Company may update the tariffs part way through a Financial Year.

Changes to paragraphs 14.15.6 to 14.15.8 (14.15.6 to 14.15.10 in post 1st April 2016 version)

14.15.6 For a given charging year "t", the nodal TEC figure at each node will be based on the Applicable Value of the contracted TEC position as at April of the year "t-1". ~~for year "t" in the NETS Seven Year Statement in year "t-1" plus updates to the October of year "t-1".~~ The contracted TECs in the NETS Seven Year Statement include all plant belonging to generators who have a Bilateral Agreement with the TOs. For example, for 2010/11 charges, the nodal generation data is based on the forecast for 2010/11 in the 2009 NETS Seven Year Statement plus any data included in the quarterly updates in October 2009.

14.15.7 Nodal demand data for the transport model will be based upon the GSP demand that Users have forecast to occur at the time of National Grid Peak Average Cold Spell (ACS) Demand for year "t" in the November Electricity Ten Year Statement for year "t-2". ~~April Seven Year Statement for year "t-1" plus updates to the October of year "t-1".~~

14.15.8 Subject to paragraphs 14.15.12 to 14.15.20. Transmission circuits for charging year "t" will be defined as those with existing wayleaves for the year "t" with the associated lengths based on the circuit lengths indicated for year "t" in the November Electricity Ten Year Statement for year "t-2". ~~April NETS Seven Year Statement for year "t-1" plus updates to October of year "t-1".~~ If certain circuit information is not explicitly contained in the NETS Seven Year Statement, The Company will use the best information available.

Changes to paragraph 14.15.17 (14.15.20 in post 1st April 2016 version)

14.15.17 Where a request is made under paragraph 14.15.13 on or prior to 31st July ~~December~~ in a charging year, and The Company is satisfied based on the accompanying evidence provided to The Company under paragraph 14.15.14 that it is a valid request, the transport model inputs shall be adjusted accordingly and taken into account in the calculation of TNUoS tariffs effective from the year commencing on the 1st April following this and otherwise from the next subsequent 1st April.

Changes to paragraph 14.15.20 (14.15.23 in post 1st April 2016 version)

14.15.20 The Company shall publish any adjusted transport model inputs that it intends to use in the calculation of TNUoS tariffs effective from the year commencing on the following 1st April in the Electricity Ten Year Statement published in the year t-2. ~~NETS Seven Year Statement October Update~~. Any further adjustments that The Company makes shall be published by The Company upon the publication of the final TNUoS tariffs for the year concerned.

Changes to paragraph 14.19.1 to 14.19.3

14.19.1 Users who are Generators or Interconnector Asset Owners provide to The Company a forecast for the following Financial Year of the highest Transmission Entry Capacity (TEC) applicable to each Power Station or Interconnector for that Financial Year. For Financial Year 2008/9 Scottish Generators or Interconnector Asset Owners provide to The Company a forecast of the equivalent highest 'export' capacity figure. This data is required by The Company as the basis for setting TNUoS tariffs. The Company may request these forecasts in the June ~~November~~ prior to the Financial Year to which they relate, in accordance with the CUSC.

14.19.2 Users who are owners or operators of a User System (e.g. Distribution companies) provide a forecast for the following Financial Year of the Natural Demand attributable to each Grid Supply Point equal to the forecasts of Natural Demand under both Annual Average Cold Spell (ACS) Conditions and a forecast of the average metered Demand attributable to such Grid Supply Point for the National Grid Triad. This data is published in the Electricity Ten Year Statement~~table 2.4 of the Seven Year Statement~~ and is compiled from week 24 data submitted in accordance with the Grid Code.

14.19.3 For the following Financial Year, The Company shall use the latest available forecasts described in 14.19.2 ~~these forecasts~~ as the basis of Transmission Network Use of System charges for such Financial Year. A description of how this data is incorporated is included in 14.15 Derivation of the Transmission Network Use of System Tariff.

Changes to paragraph 14.28 (14.29 in post 1st April 2016 version)

Predictability of tariffs

The Company revises TNUoS tariffs each year to ensure that these remain cost-reflective and take into account changes to allowable income under the price control and RPI. There are a number of provisions within The Company's Transmission Licence and the CUSC designed to promote the predictability of annually varying charges. Specifically, The Company is required to give the Authority ~~150~~200 calendar days notice of its intention to change use of system charges together with a reasonable assessment of the proposals on those charges; and to give Users 200 calendar days~~2~~ months written notice of any revised charges – except in the case of offshore generator local circuit tariffs where the Company will give the User no less than 2 months prior written notice of tariffs. ~~The Company typically~~

~~provides an additional months notice of revised charges through the publication of "indicative" tariffs.~~ Shorter notice periods are permitted by the framework but only following consent from the Authority.

…

~~The first year of tariffs forecasted in the annual information paper are updated twice throughout the proceeding financial year as the various Transport and Tariff model inputs are received or amended. These updates are in addition to the Authority 150 days notice and publication of "indicative" tariffs.~~

Changes to new paragraph 14.15.98 in post 1st April 2016 version

For a given charging year "t" the Power Station ALF will be based on information from the five charging years from t-2 to t-7. ~~previous five charging years, calculated for each charging year as set out below.~~

$$ALF = \frac{\sum_{p=1}^{17520} GMWh_p}{\sum_{p=1}^{17520} TECp \times 0.5}$$

Where:

$GMWh_p$ is the maximum of FPN or actual metered output in a Settlement Period related to the power station TEC (MW); and
TEC_p is the TEC (MW) applicable to that Power Station for that Settlement Period including any STTEC and LDTEC, accounting for any trading of TEC.

Changes to new paragraph 14.15.104 in post 1st April 2016 version

Users will receive draft ALFs before 25th August~~December~~ of the charging year (t-1) for the charging year (t) and will have a period of 15 working days from date of publishing to notify the Company of any errors. Failure to agree changes relating to errors will be treated as a charging dispute under the CUSC.

Annex 15 – CMP256 Draft Legal text

<u>CMP256 Draft Legal text</u>

Changes to paragraph 3.14.3

3.14.3 Subject to paragraph 3.14.4 below, **The Company** shall give the **User** not less than <u>200 calendar days</u> ~~two months prior~~ written notice of any revised **Transmission Network Use of System Charges**, <u>except in the case of offshore generator local circuit charges where **The Company** shall give the User not less than 2 months prior written notice of charges.</u> ~~which~~ <u>This</u> notice shall specify the date upon which such revisions become effective (which may be at any time) and will make reference to the new tariffs set out in the relevant **Charging Statements**. The **User** shall pay any such revised charges from the effective date.

Changes to paragraph 3.14.4

3.14.4 Where in accordance with the **Transmission Licence**, the **Authority** determines a shorter period than <u>the period specified in paragraph 3.13.3</u>~~2 months~~ for the implementation of revised charges, the notice period will be determined by the **Authority**. The notice will specify when the new charges are effective and the **User** shall pay any such revised charges from the effective date.

Changes to Section 11 Definitions

TNUoS Tariff Forecast Timetable	an annual timetable prepared and published by **The Company** by the end of <u>December</u>~~January~~ of each **Financial Year** (t) which sets out when **The Company** will publish <u>a minimum of 2</u> updates <u>ahead of the final publication of the **Transmission Network Use of System Charges** for the financial year (t+2).</u> ~~in **Financial Year** (t+1) (being not less than quarterly) to the forecast of **Transmission Network Use of System Charges** for the **Financial** (t+2).~~