

Modification proposal:	Connection and Use of System Code (CUSC) CMP260: TNUoS Demand charges for 2016/17 during the implementation of P272 following approval of P322 and CMP247		
Decision:	The Authority ¹ has decided to reject ² this modification ³		
Target audience:	National Grid Electricity Transmission PLC (NGET), Parties to the CUSC and other interested parties		
Date of publication:	8 July 2016	Implementation Date:	N/A

Background

The electricity settlement process determines how much suppliers pay for the energy that their customers use in each half hour of the day. The majority of electricity consumers do not have meters that can record half-hourly (HH) consumption data. They are therefore settled non-half-hourly (NHH) using estimates of their consumption in each half hour. These estimates are based on a consumer's annual metered consumption and its assumed load profile, ie how its total consumption is spread over time, which is determined by a consumer's 'Profile Class'.⁴

Since 6 April 2014, suppliers have had a licence obligation to supply customers in Profile Classes 5–8 (generally considered to be larger non-domestic customers) through a HH-capable advance meter. In October 2014, we approved Balancing and Settlement Code (BSC) modification P272⁵ which introduced mandatory HH settlement for these customers. A potential key benefit of implementing P272 is the incentive it may provide to shift load away from peak periods through demand side response (DSR) activity. Further code modifications were required to enable these metering systems to realise the benefits from DSR activity before the P272 implementation date (originally 1 April 2016).

In order to meet the requirements of P272, suppliers need to move customers in Profile Classes 5-8 from NHH settlement to HH settlement during a charging year. Under the Transmission Network Use of System (TNUoS) charging methodology, charges are determined in different ways for NHH and HH meters. Without a change to the charging methodology, these customers would have spent part of the year in which they were moved being charged as a NHH customer and part of the year charged as a HH customer.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ 'Change' and 'modification' are used interchangeably in this document.

⁴ NHH customers are assigned to one of eight Profile Classes based on their expected consumption pattern and meter type. Most domestic customers are assigned to Profile Class 1 but domestic customers with an Economy 7 meter (which tracks energy consumption during the day and during the night separately, allowing consumers to access cheaper rates for energy consumed during the night) are assigned to Profile Class 2.

⁵ Our P272 decision is here: <https://www.ofgem.gov.uk/publications-and-updates/balancing-and-settlement-code-bsc-p272-mandatory-half-hourly-settlement-profile-classes-5-8>. We extended the P272 implementation date to 1 April 2017 (see here): <https://www.ofgem.gov.uk/publications-and-updates/ofgem-response-bsc-panel-s-second-request-extension-implementation-date-bsc-modification-p272>

This would have resulted in suppliers and customers being overcharged. To avoid this, we approved CMP241⁶ in March 2015. CMP241 resulted in:

- Customers in Profile Classes 5-8 that were moved from NHH to HH settlement during a charging year prior to P272 implementation being treated as NHH for charging purposes for that whole charging year.
- For customers moved from NHH to HH settlement prior to the start of the charging year beginning before P272 is implemented, suppliers could choose for the consumer to be treated as HH or NHH for charging purposes in that charging year, if the Supplier notified NGET about this before the start of the Triad⁷ season.⁸

When CMP241 was approved, the implementation date for P272 was still 1 April 2016. Suppliers therefore had the choice to treat customers that were migrated from NHH to HH settlement prior to 1 April 2015 as either NHH or HH for TNUoS charging purposes during the 2015/16 charging year. Due to the relatively small numbers involved, it was considered feasible to process suppliers' choices in respect of these customers manually.

We approved BSC modification P322⁹ in June 2015 to put in place new arrangements for migrating sites in Profile Classes 5-8 to HH settlement, as required by P272. At the same time, we extended the P272 implementation date to 1 April 2017. This extension meant that suppliers would have the choice to treat migrating customers as HH for the 2016/17 charging year, affecting significantly larger numbers of customers.

Two potential issues arose from these decisions. Firstly, allowing suppliers this choice for a larger number of customers would require NGET and, potentially suppliers, to make temporary information system changes. Secondly, there would be significant uncertainty about the number of customers to be charged as HH and the number of customers charged as NHH, which would affect the accuracy of TNUoS charges forecasts.

To address these issues we approved CMP247.¹⁰ It removed the optionality to submit further metering systems that migrated throughout the 2015/16 charging year (predominantly taking advantage of our decision on BSC modification P300¹¹) as HH for the 2016/17 charging year. It allowed all meters migrating into Measurement Classes E-G to be treated as NHH up until the full charging year starting on or after the P272 implementation date. Suppliers could still choose for those meters migrating before April 2015 to be treated as HH.

⁶ Our CMP241 decision (implemented from 1 April 2015) is here: <https://www.ofgem.gov.uk/publications-and-updates/connection-and-use-system-code-cusc-cmp241-tnuos-demand-charges-during-implementation-p272>

⁷ Triad demand is the average demand on the system over three half hours between November and February. These three half hours comprise the half hour of system demand peak and the two other half hours of highest system demand which are separated from system demand peak and each other by at least ten days. These 3 half hours of peak demand are referred to as Triads.

⁸ This option is in conjunction with also providing verified metering data for those meters in time for the end of year reconciliation in June of the Charging Year Y+1.

⁹ Our P322 decision is here: <https://www.ofgem.gov.uk/publications-and-updates/balancing-and-settlement-code-bsc-p322-revised-implementation-arrangements-mandatory-half-hourly-settlement-profile-classes-5-8>

¹⁰ CMP247 decision (implemented on 23 November 2015) is here: <https://www.ofgem.gov.uk/publications-and-updates/connection-and-use-system-code-cusc-cmp247-tnuos-demand-charges-during-implementation-bsc-modification-p272-following-approval-bsc-alternative-modification-p322>

¹¹ Our P300 decision (implemented on 5 November 2015) is here: <https://www.ofgem.gov.uk/publications-and-updates/balancing-and-settlement-code-p300-introduction-new-measurement-classes-support-half-hourly-dcusa-tariff-changes-dcp179>

At the time we approved CMP247, the number of sites which could migrate prior to April 2016 was considered too large to manage through a manual process, with an estimated 180,000 meters affected by P272. The prohibitive costs of an information system solution affected our decision. It now appears that the numbers requiring manual adjustment are significantly lower than previously expected. Only around 14,000 meters had transferred prior to 1 April 2016.

The modification proposal

CMP260 was raised in January 2016 by RWE Npower (the 'proposer'). CMP260 proposes allowing suppliers to choose whether NHH customers migrating to HH during 2015/16 are treated as NHH or HH for TNUoS charging purposes in the 2015/16 charging year. The current baseline is for suppliers to notify NGET of these customers before 1 April 2015. CMP260 moves this date out to 1 April 2016, effectively reversing our CMP247 decision.

CMP260 proposes that, for meters registered as HH during the 2015/16 charging year on Measurement Class E-G, on or before 1 April 2016 (or 30 September 2016 under the Workgroup Alternative CUSC Modification (WACM) raised during workgroup assessment of CMP260), suppliers should have the option to choose that they be treated as HH for TNUoS charging purposes. These customers would benefit from calculating the actual annual liability up until the full charging year after the implementation date for P272.

Under CMP260, suppliers must provide a list of Meter Point Administration Numbers (MPANs) they wish to be treated as HH for TNUoS charging before the Triad season starts. Suppliers must also provide verified 2016/17 metered demand data captured for those customers for the hours around when Triads traditionally occur. NGET will use the data to amend the NHH demand for those MPANs a supplier designates and calculate HH demand for each MPAN.

The proposer asked for urgent treatment of the proposal. The CUSC Panel recommended to us not to agree to urgent treatment but proposed an accelerated timetable for CMP260 instead. We agreed with the Panel's view.¹²

CUSC Panel¹³ recommendation

The CUSC Panel voted on the CMP260 Original proposal and WACM at its meeting on 27 May 2016. Panel opinion was split: six Panel members agreed that both the Original and WACM better facilitate the CUSC charging objectives compared to the baseline but three Panel members thought the baseline was better than both options. On which option was best, one Panel member voted for the Original, five Panel members for the WACM and three Panel members for the baseline. The Panel's majority view was therefore that the WACM is the best option. The full views of Panel members appear in the Final Modification Report (FMR).

Our decision

We have considered the issues raised by the modification proposal and the FMR dated 3 June 2016. We have considered and taken into account the responses to the Code Administrator's consultation on the modification proposal included in the FMR.¹⁴

¹² Our letter on the CMP260 urgency request is here: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP260/>

¹³ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

¹⁴ CUSC modification proposals, modification reports and representations can be viewed on the NGET website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/>

We have concluded that neither the Original nor the WACM modification proposal will better facilitate the achievement of the relevant charging objectives of the CUSC¹⁵ and should not therefore be implemented.

Reasons for our decision

We have considered the views of the CUSC Panel and the respondents to the industry consultation. We consider that CMP260 (Original and the WACM) does not better facilitate either CUSC charging objectives (a) and (b) for the reasons set out below. We consider the modification has no impact on objectives (c) and (d).

Objective (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'

Four of the five workgroup consultation responses considered that CMP260 contributes to effective competition by increasing options for customers, improving cost reflectivity, and allowing more customers to realise the benefit of load management activity at peak demand times. NGET considers that CMP260 would only benefit suppliers able to absorb the one-off costs of implementation, thus adversely affecting competition.

NGET has already fixed tariffs for the 2016/17 charging year, based on forecasts of the HH and NHH demand bases. If actual demand deviates from these forecasts, an under or over recovery of revenue will result. Additional customers who can reduce their Triad demand and actively Triad avoid during winter 2016/17 could benefit in particular, potentially receiving reduced TNUoS charges. This would place them in a similar position to those customers moved to HH metering prior to 1 April 2015, resulting in some benefit to competition. However, a reduced TNUoS recovery from these customers in 2016/17 must be recovered through future TNUoS charges and would disproportionately impact suppliers whose customer base is dominated by Profile Classes 1–4 (NHH). Therefore, while CMP260 would benefit those customers able to Triad avoid, it would adversely affect those customers subject to higher charges as a result.

We consider that it is very late in the charging process to make changes which will impact on these charges and introduce additional uncertainty for suppliers and customers. We consider that this additional uncertainty would have a negative impact on effective competition.

We do not agree with the proposer's view on the significance of the load management related benefits of increased Triad avoidance. Transmission investment is based on network use over the long term and will not be affected by a small number of network users engaging in Triad avoidance earlier than under the status quo. Energy prices and NHH charges will still give an incentive to HH-settled customers to reduce network use at times of peak demand.

We note that since our CMP247 decision, significantly fewer meters appear to have migrated from NHH to HH before 1 April 2016 than expected. This means that the costs of allowing suppliers the choice between HH and NHH charging for these customers may be lower than expected, but also means that the benefits in terms of increased choice

¹⁵ As set out in Standard Condition C5(5) of NGET's Transmission Licence, see: <https://epr.ofgem.gov.uk//Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

would be lower. In our view, uncertainty concerning the number of affected customers and their potential response means that not allowing the choice would provide greater forecasting demand accuracy, thereby improving the accuracy of TNUoS allowed revenue recovery and NGET's ability to set cost reflective charges. The administrative burden and costs which could impact a supplier's competitiveness would also be minimised.

For these reasons, we do not consider that either the original proposal or the WACM better facilitates objective (a).

Objective (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 CMP260 workgroup considered that the modification provides appropriate price signals for customers to manage demand, and prevents overcharging of customers within a specific year. In the workgroup's view, CMP260 can also deliver positive security of supply benefits in managing system peaks.

NGET is required to set charges to recover allowed revenues. Implementing a modification to alter the demand bases after charges have been fixed purposely negates NGET's ability to recover allowed revenues. NGET is also required to set cost reflective tariffs. NGET considers that CMP260 would reduce the cost reflectivity of 2016/17 charges. Under recovery of revenue¹⁶ would affect future charges in 2018/19, reducing their cost reflectivity, with NHH customers and suppliers disproportionately affected.

We consider that the status quo could reduce the incentive for some of these customers to manage demand around system peaks in the short term, but will not worsen the system peaks prior to full P272 implementation. CMP260 would make it possible for some additional customers to reduce demand at peak periods and potentially avoid Triad. However, uncertainty regarding the numbers and how effectively these customers could respond increases uncertainty and risk to existing HH customers, potentially causing them to be unable to Triad avoid and paying higher than expected TNUoS charges. The potential over recovery of revenue could impact future tariffs.

At the time we approved CMP247, the number of sites likely to migrate during the 2015/16 charging year was unknown. NGET considers that the analysis undertaken by the CMP260 workgroup and the difficulties around what demand levels to use in the analysis highlight some of the challenges in setting cost reflective tariffs for the 2016/17 charging year. Introducing additional uncertainty would negatively impact on this ability.

Previous analysis had indicated that the effect of customers moving from NHH to HH would be fairly neutral, as some would benefit and others would not. However, CMP260 proposes that suppliers be able to select which customers to charge under the HH methodology for 2016/17. The workgroup agreed that those selected would be those who could benefit financially from being charged under the HH methodology. All other factors being equal, this would lead to an under recovery for NGET. Any under recovery would be recovered in tariffs in later years, further distorting pricing signals.

¹⁶ Some workgroup analysis indicates this potential under recovery could be as high as £30m which would have a noticeable impact on charges.

We consider that the potential impacts of implementing CMP260 could distort cost reflectivity of tariffs in the future, as well as introduce additional uncertainties. We therefore consider that CMP260 would have an overall negative impact on cost reflectivity.

For these reasons, we do not consider that either the original proposal or the WACM better facilitates objective (b).

Decision Notice

In accordance with Standard Condition C10(1) of NGET's Transmission Licence, the Authority hereby directs that modification proposal CMP260 '*TNUoS demand charges for 2016/17 during implementation of P272 following approval of P322 and CMP247*' not be made.

Frances Warburton
Partner, Energy Systems

Signed on behalf of the Authority and authorised for that purpose