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Dear Mr. Toms,

CUSC Modifications Panel recommendation not to grant urgency for CMP260: 'TNUoS Demand charges for 2016/17 during the implementation of P272 following approval of P322 and CMP247'

On 20 January 2016 RWE Npower (the Proposer) raised CUSC modification proposal CMP260. CMP260 aims to allow suppliers greater choice in respect of how larger non-domestic customers being transferred from Non-Half-Hourly (NHH) to Half-Hourly (HH) settlement are charged for Transmission Network Use of System (TNUoS) during the 2016/17 charging year. CMP260 is related to BSC modifications P272¹ and P322² and CUSC modifications CMP241³ and CMP247.⁴

The Proposer requested that CMP260 be progressed on an urgent timetable and the CUSC Modifications Panel (the Panel) considered this request at its meeting on 29 January 2016. Following that meeting the Panel wrote to us with its recommendation not to treat this proposal as urgent. The Panel also set out its view that a four month Workgroup process should be followed to assess this proposal with the option of the Workgroup reporting back to the Panel earlier if possible.

This letter confirms that we are in agreement with the Panel and do not consider that the modification should be progressed on an urgent basis.

Background to the proposal

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

¹ Our decision on P272 is available on our website here: <https://www.ofgem.gov.uk/publications-and-updates/balancing-and-settlement-code-bsc-p272-mandatory-half-hourly-settlement-profile-classes-5-8>

² Our decision on P322 is available on our website 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>

³ Our decision to approve CMP241 is on our website here <https://www.ofgem.gov.uk/publications-and-updates/connection-and-use-system-code-cusc-cmp241-tnuos-demand-charges-during-implementation-p272>

⁴ Our decision to approve CMP247 is on our website 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>

consumers do not have meters that can record HH consumption data and they are therefore settled NHH using estimates of their consumption in each half hour. These estimates are based on a consumer's annual metered consumption and their assumed load profile, ie how its total consumption is spread over time, which is determined by a consumer's 'Profile Class'.

Since 6 April 2014, suppliers have had a licence obligation to supply consumers in Profile Classes 5-8 (who are generally considered to be larger non-domestic consumers) through a HH-capable advanced meter. In October 2014, we approved Balancing and Settlement Code (BSC) Modification P272. This change requires suppliers to settle consumers in Profile Classes 5-8 using their HH consumption data. The P272 implementation date has since been extended from 1 April 2016 to 1 April 2017.

In order to meet the requirements of P272, suppliers need to move consumers in Profile Classes 5-8 from NHH settlement to HH settlement during a charging year. Under the TNUoS methodology, charges are determined in different ways for NHH and HH settlement customers. Without a change to the charging methodology, these consumers 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. This would have resulted in suppliers and consumers being overcharged. To avoid this, we approved CMP241 in March 2015. Under CMP241 suppliers could choose for consumers who were moved from NHH to HH settlement prior to 1 April 2015, to be treated as HH or NHH for TNUoS charging purposes prior to the implementation date for P272. HH TNUoS charges are based on use at 'Triad', the three points of peak demand during the charging year. Consumers charged on a HH basis can, therefore, reduce their charges by avoiding Triad. This has benefits in reducing peak demand and, in the longer run, reducing transmission investment.

When CMP241 was approved, the implementation date for P272 was still 1 April 2016. This meant that suppliers would have the choice of NHH or HH TNUoS charges for a relatively small number of consumers, and it was considered feasible to process suppliers' choices in respect of these consumers manually. Changing the P272 implementation date to 1 April 2017 meant that suppliers would have had this choice for a larger number of consumers, ie all those that moved prior 1 April 2016 (rather than just those that moved prior to 1 April 2015). This raised two potential issues. Manual processing would not be feasible and forecasts of HH and NHH demand would be less accurate leading to less cost reflective TNUoS tariffs. In order to address these issues we approved CMP247 in November 2015. Under CMP247 customers that migrate from NHH to HH settlement during the 2015/16 charging year will be treated as NHH for TNUoS charging purposes until implementation of P272 on 1 April 2017.

It is has now been claimed that the number of customers migrating from NHH to HH settlement during the 2015/16 charging could be significantly less than was expected when CMP247 was considered by industry.

The proposal

The Proposer raised CMP260 on 20 January 2016. In its view the reasons for approving CMP247 are no longer valid. This is because it expects the number of customers transferring to HH settlement during the 2015/16 charging year to be significantly less than was envisaged at the time CMP247 was considered by industry. CMP260 therefore seeks to reverse CMP247 so that, for customers who transferred from NHH to HH settlement during the 2015/16 charging year, suppliers may choose to treat them as HH or NHH for TNUoS charging purposes during the 2016/17 charging year. This would allow consumers nominated as HH to engage in Triad avoidance.

The Proposer requested urgent treatment for the proposal to give customers and suppliers more certainty over TNUoS charges in the 2016/17 charging year. Under the Proposer's suggested timetable we would make our decision prior to 1 April 2016, the start of the 2016/17 charging year.

Panel Discussion

The Panel discussed CMP260 at its meeting on 29 January 2016. The Panel voted by majority that CMP260 should not be treated as an urgent modification. Panel members noted that there are questions and issues in respect of CMP260 that should be considered by a Workgroup. The Panel noted that the urgent process holds an inherent risk of unintended consequences, which may arise should there be insufficient time to consider all aspects of a modification proposal. Ultimately the Panel's majority view was that the benefit gained from taking time to develop the modification is greater than that of delivering it in line with the Proposer's suggested urgent timetable.

Our Views

In reaching our decision⁵, we have considered the details contained within the proposal, the Proposer's justification for urgency and the views of the Panel. We have assessed the request against the criteria set out in Ofgem's published guidance⁶, in particular whether it is linked to "*an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholder(s)*" or "*a significant impact on the safety and security of the electricity systems*".

We recognise that it would be helpful to make our decision in respect of CMP260 reasonably quickly. However, we also agree with the Panel that progressing CMP260 on an urgent timetable would increase the risk of unintended consequences, ie as a result of making a decision without fully understanding the costs, benefits and risks associated with the proposal. On balance, our view is that this increased risk of unintended consequences associated with an urgent timetable outweighs the benefit of additional certainty that would be provided by making a decision before 1 April 2016. We note that the Proposer considers the main benefits of CMP260, if approved, would derive from the opportunity for more customers to engage in Triad avoidance during 2016/17. A potential Authority decision in July 2016 in line with the Panel's proposed non-urgent timetable would, in our view, be early enough for any such benefits to be realised (if the benefits are real and were the proposal to be approved). We therefore consider that the potential benefit of progressing CMP260 on an urgent timetable is relatively small compared to the four month Workgroup process proposed by the Panel, which would involve a more detailed review of the proposal. Accordingly, we do not consider that urgent treatment is required in this case. In particular, we do not consider that failure to address this issue urgently will have a significant commercial impact on parties, consumers or other stakeholder(s) or on the safety and security of the electricity system.

The standard modification process is designed to allow sufficient opportunity for industry to consider and submit their views in respect of a modification proposal, and we consider that it should apply in this case.

We have reviewed this proposal on the issue of urgency and not its substantive merits, which will be assessed once the proposal is submitted for a decision on whether or not to

⁵ This document is notice of the reasons for this decision as required under section 49A Electricity Act 1989.

⁶ Our guidance on the urgent treatment of code modifications is published on our website here <https://www.ofgem.gov.uk/ofgem-publications/61726/ofgem-guidance-code-modification-urgency-criteria.pdf>

approve it. This decision on urgency should not be taken as indicating the conclusions the Authority will reach at that stage.

Yours sincerely,

Frances Warburton
Partner, Energy Systems Integration
Duly authorised on behalf of the Authority