Improving TNUoS Tariff Forecast Volatility Increased Notice of Inputs CMP286 & 287

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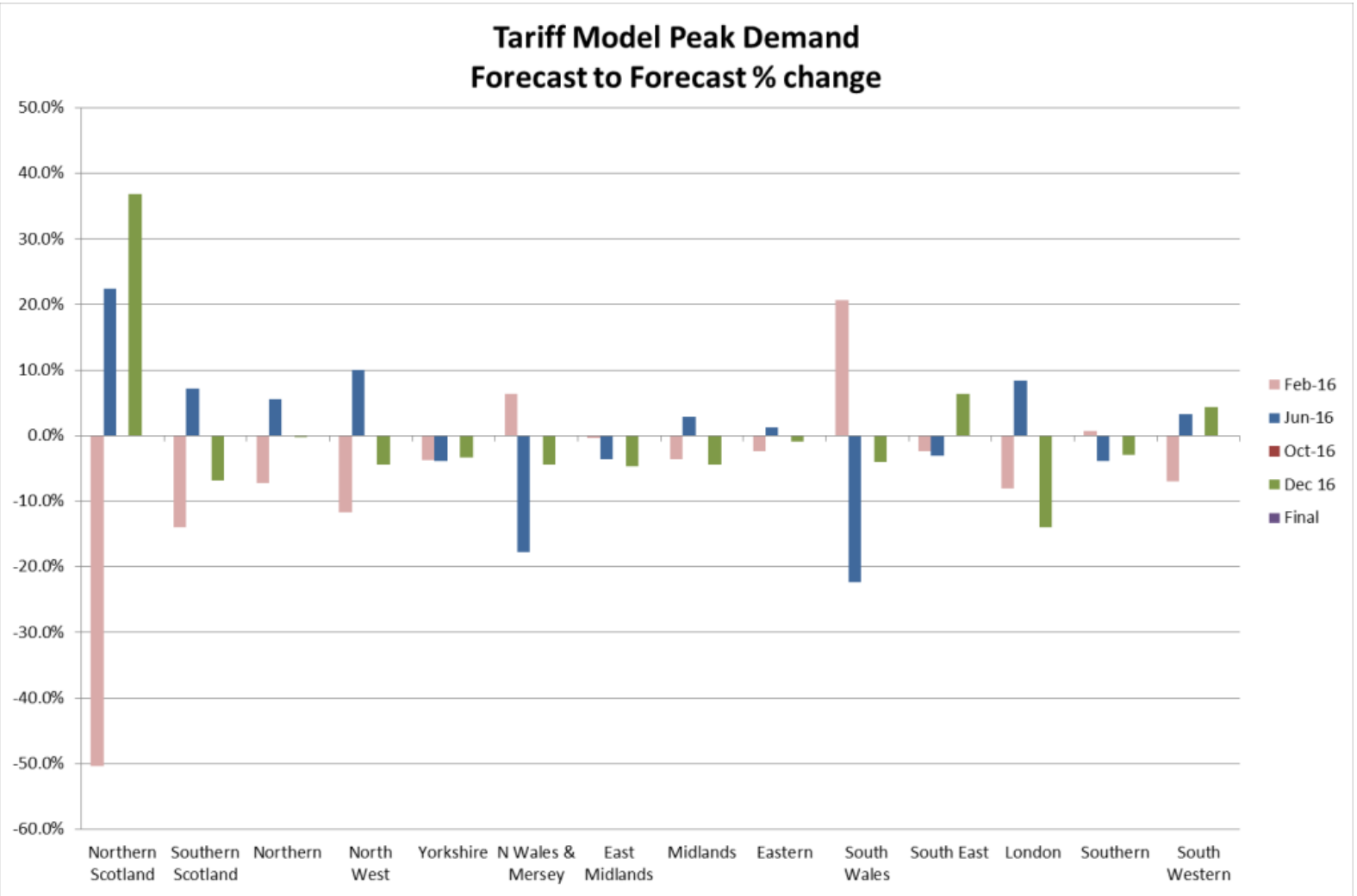
CUSC Panel October 2017

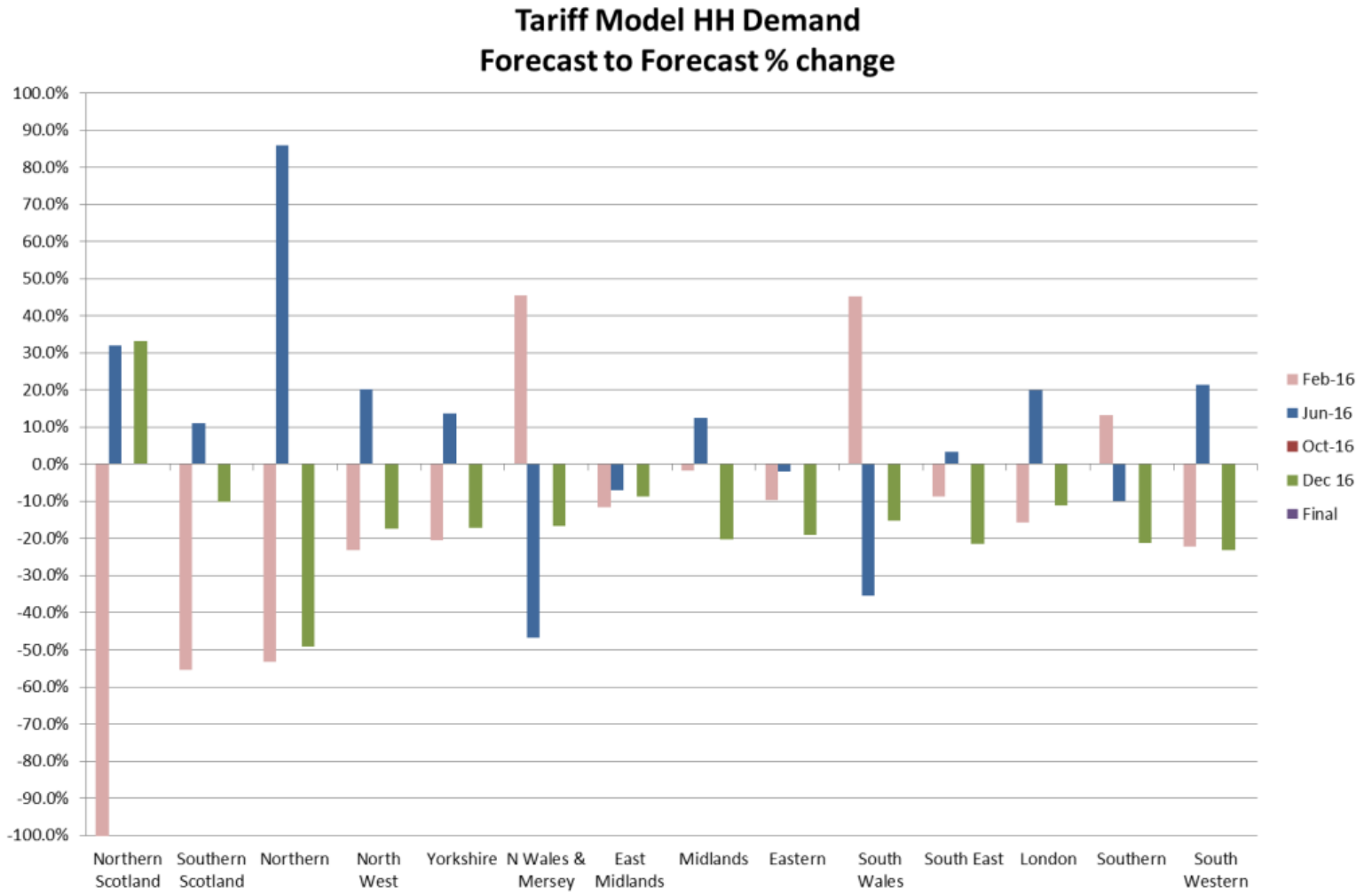
Summary of Defect

- **Final TNUoS tariffs are published with a notice period of only 2 months.**
- **TNUoS tariffs are set by National Grid System Operator (SO) populating a number of inputs into the charging methodology models.**
- **Many of these inputs are difficult to predict and are not finalised until shortly before final tariff publication.**
- **Some of these inputs may be known by National Grid but are not published until final tariff setting, some inputs are fully under the control of National Grid and there is no published methodology on how these are calculated.**
- **In recent years, we have observed significant changes in both revenue and volume inputs between National Grid's forecasts over a short period of time.**
- **This creates uncertainty around the level of final tariffs in the case of Target Revenue**
- **Changes to volume inputs result in significant regional changes and also between HH/NHH Tariffs**
- **This can result in customers' bills which are not reflective of the costs that suppliers have incurred. Given that market participants are trying to predict TNUoS costs as accurately as possible, large and late changes of inputs which significantly affect the calculation of TNUoS prices need to be avoided.**

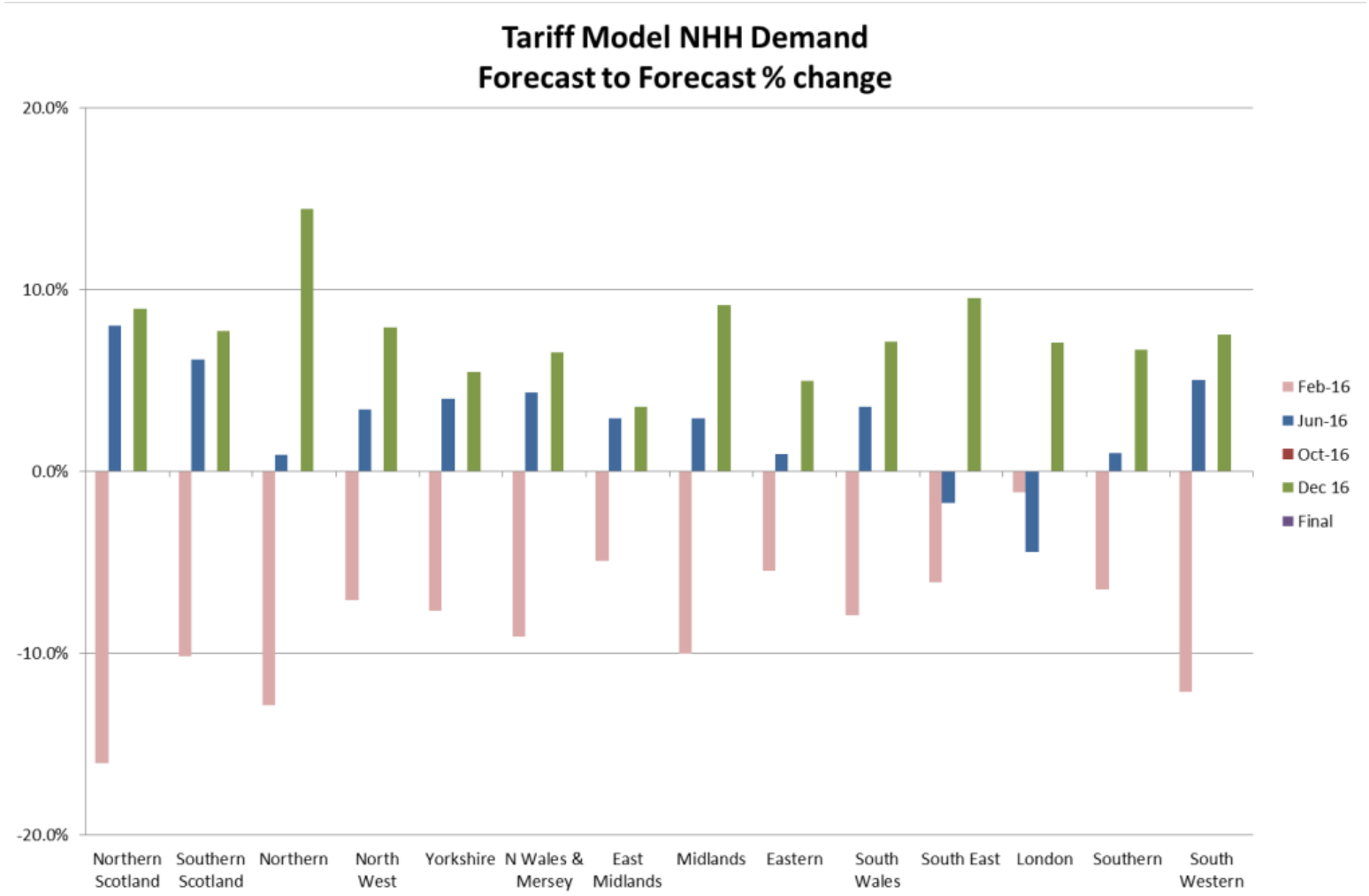
Previously Observed Input Volatility



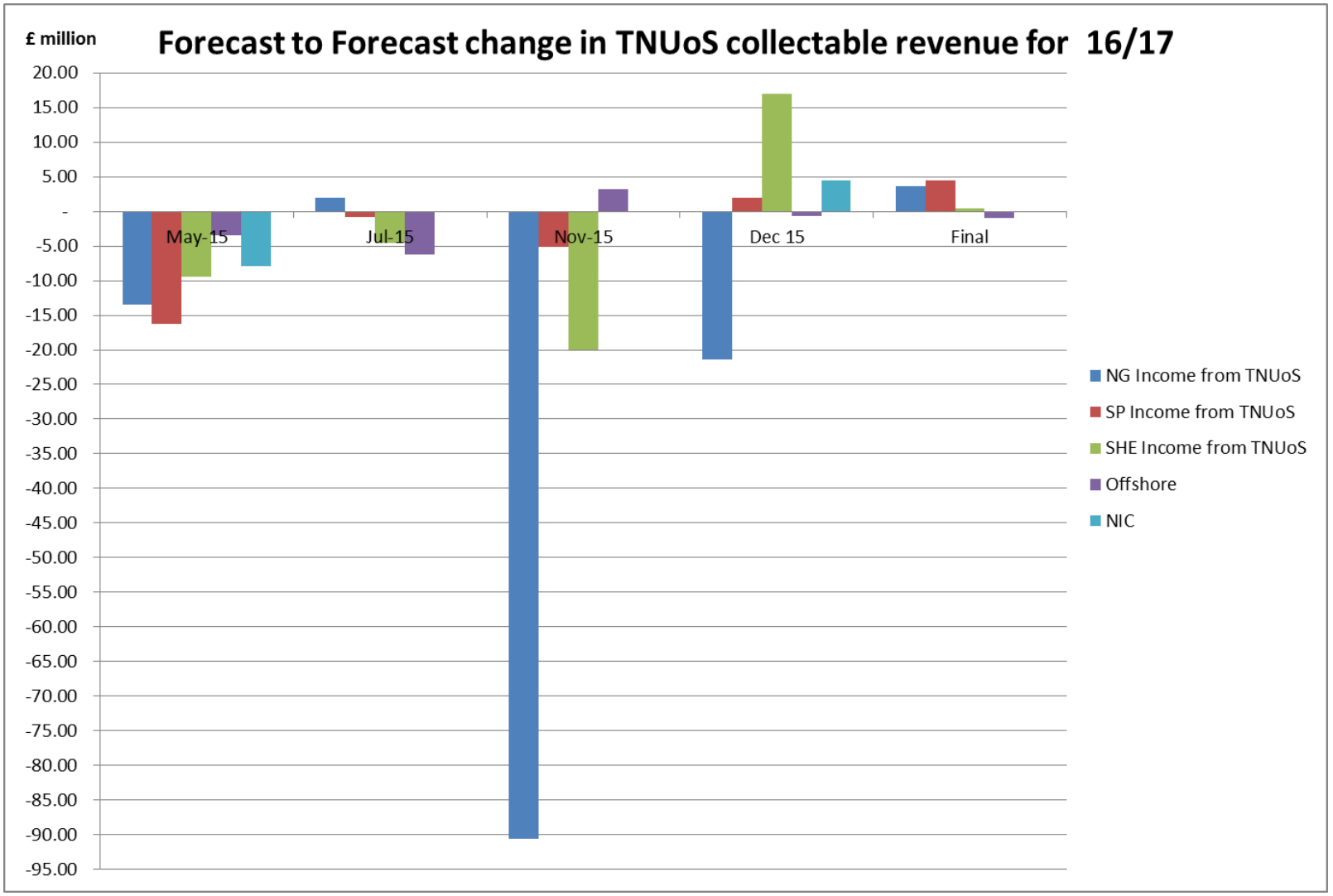
Previously Observed Input Volatility (continued)



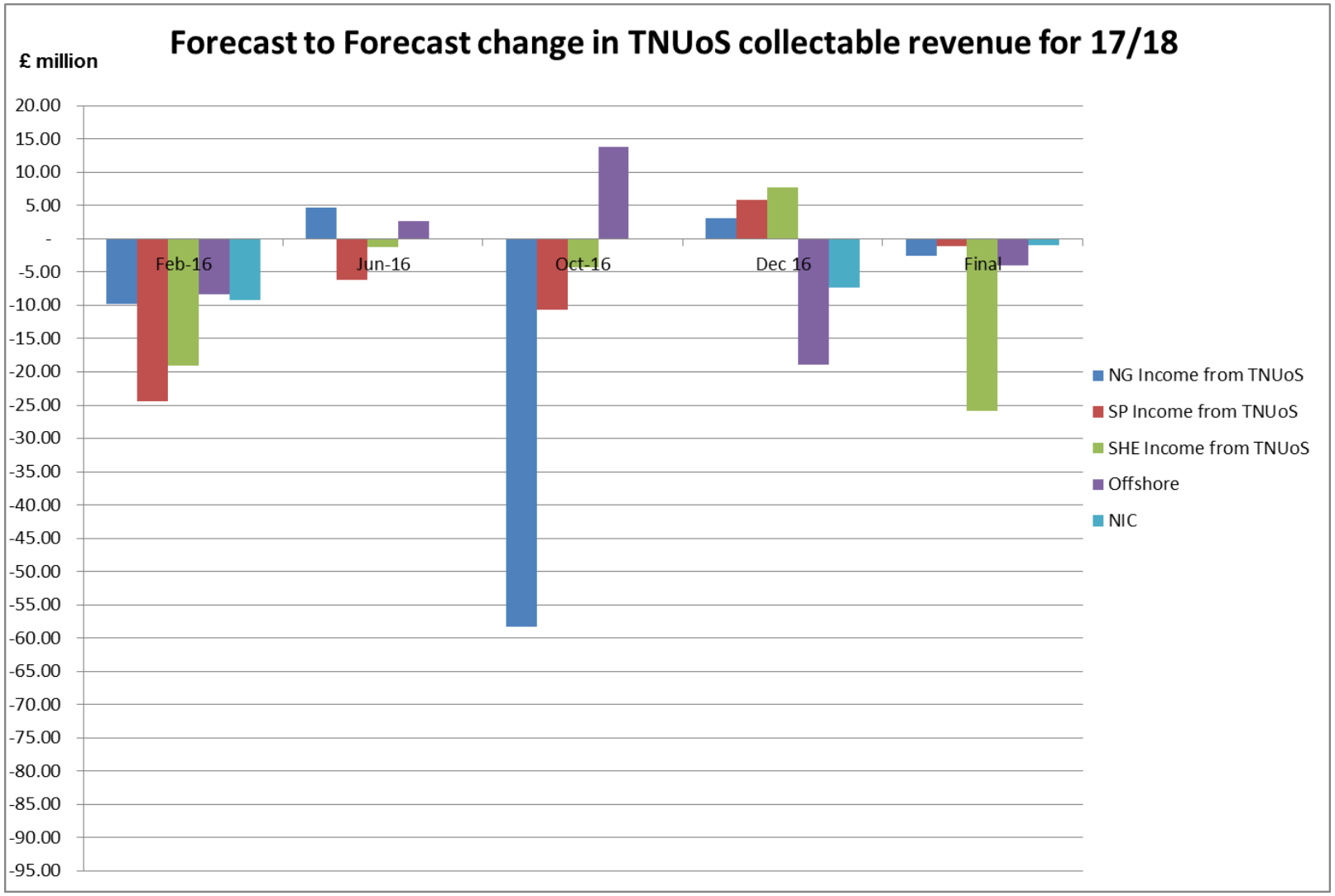
Previously Observed Input Volatility (continued)



Previously Observed Input Volatility (continued)



Previously Observed Input Volatility (continued)



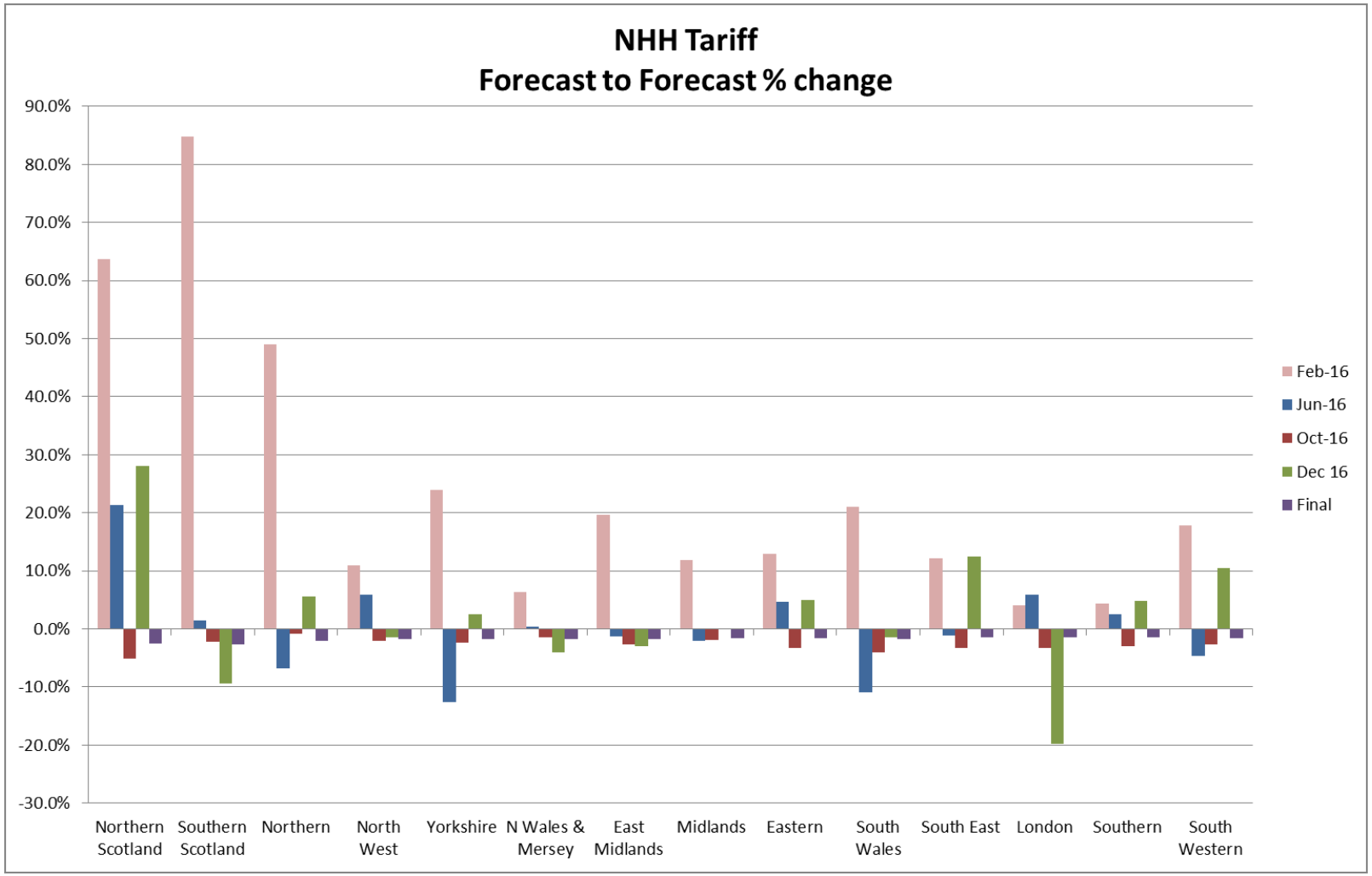
Impact on Consumers

- **Final TNUoS tariffs are published with a notice period of only 2 months. Suppliers are particularly vulnerable to the short notice period and are reliant on forecasting TNUoS tariffs many months ahead to provide their customers with the fixed price contracts they require.**

- **A typical domestic or business customer, whose meter is settled on non-half hourly data (NHH), and agrees a two-year fixed price contract with their supplier will have TNUoS costs reflected within their contract rates. This will comprise a best view forecast plus an element of risk based on volatility and unpredictability of this charge for the period where final tariffs have not yet been published. If we consider a NHH two-year contract starting in October, TNUoS tariffs are only known for a quarter of the contracted period, the remaining three-quarters being reliant on a forecast.**

- **National Grid Quarterly Forecasts are the key source of this information for market participants, such volatility can cause unexpected price shifts across the market. This can result in customers' bills which are not reflective of the costs that suppliers incur.**

Volatility of National Grids Tariff Forecast



Percentage change to tariffs from one National Grid's forecast to the next for the 2017/18 charging year

Solution

CMP286 'Improving TNUoS Predictability Through Increased Notice of the Target Revenue used in the TNUoS Tariff Setting Process'

- The date at which Target Revenue is fixed should be brought forward to align customer pricing timeline expectations. We would suggest that these inputs should be fixed 15 months ahead of tariffs going live (i.e. 31st December yy for tariff year yy+2/yy+3). This aligns with supplier / customer pricing timeline expectations and is consistent with the timescales committed to by DNOs. To facilitate this, we would also suggest the Annual Iteration Process that takes place between July and November of Year yy should be concerned with setting Mod term for tariff year yy+2/yy+3 rather than yy+1/yy+2.

CMP287 'Improving TNUoS Predictability through Increased Notice of Inputs Used in the TNUoS Tariff Setting Process'

- The date at which forecasts of certain parameters that feed into the TNUoS tariff setting process(including but not limited to the 'tariff model peak demand MW', 'Tariff model HH demand MW' and 'Tariff model NHH demand TWh') are fixed should be brought forward so that they are fixed earlier in the process to align customer pricing timeline expectations. We would suggest that these inputs should be fixed 15 months ahead of tariffs going live (i.e. 31st Dec yy for tariff year yy+2/yy+3). This aligns with supplier / customer pricing timeline expectations and is consistent with the timescales committed to by DNOs.

Locking down these inputs earlier in the process removes this element of uncertainty and will allow suppliers to more accurately reflect the final TNUoS tariffs in customers' bills. It will reduce the risk premia paid by consumers.

Justification Against 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;

- **This modification will give more certainty to inputs into the TNUoS Charging Methodology that market participants cannot forecast. This will reduce the price distortions in the competitive market thereby facilitating effective competition in retail energy supply.**

(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);

- **This modification will give more certainty to inputs into the TNUoS Charging Methodology that market participants cannot forecast, thereby making the costs that customers pay more reflective of the final charge. Consequently this will reduce the risk premia charged by suppliers to consumers.**

Proposed Timetable: CMP286 and CMP287



CUSC Panel – 20 August 2017

Heena Chauhan

Code Administrator - Proposed Progression

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- The Panel is asked to agree:
  - If CMP286 and CMP287 should be progressed using:
    - Standard CUSC Proposal timetable (with Workgroup)

Approach for initial WG meetings – *Improving the use of Industry time*

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- **Pre work** by Code Admin and Proposer:
  - Start developing Workgroup Report with the Proposer
  - Identify pre-reading/analysis requirements for the Workgroup
- **Meeting 1**: WebEx or Face to Face meeting to ensure Workgroup members have:
  - a full understanding of the context of the modification
  - consistent understanding of the baseline
  - identified specific areas of focus/analysis needed
  - Understood the scope under the ToR
- **Meetings 2 - 6**: Number of Workgroup meetings expected to take place to develop the Proposal prior to issuing the Workgroup Consultation.

Proposed Timetable for CMP286 and CMP287

10 October 2017	CUSC Modification Proposal submitted
20 October 2017	Modification Presented to the Panel
25 October 2017	Request for Workgroup Members (10 working days)
w/c 20 November 2017	**Meeting 1** via Webex or face to face to ensure Workgroup members have a fully understanding of the context of the modification
w/c 27 November 2017	Circulate draft Workgroup Report
w/c 4 December 2017 to w/c 23 April 2018	**Meetings 2 to 6** - agree Workgroup report
2 May 2018	Workgroup Consultation issued to the Industry (15WD)
w/c 28 May 2018	**Meeting 7** - Workgroup view consultation responses
w/c 11 June 2018 to w/c 9 July 2018	**Meetings 8 to 10** - Agree options, finalise legal text and vote
19 July 2018	Workgroup Report issued to CUSC Panel
27 July 2018	CUSC Panel meeting to discuss Workgroup Report

Proposed Timetable for CMP286 and CMP287 - Code Administrator Stage

30 July 2018	Code Administration Consultation Report issued to the Industry (15 WD)
22 August 2018	Draft FMR published for industry comment (5 Working days)
23 August 2018	Draft Final Modification Report presented to Panel
31 August 2018	CUSC Panel Recommendation vote
7 September 2018	Final Modification Report issued the Authority (25 WD)
12 October 2018	Indicative decision due date
1 April 2019	Decision implemented in CUSC (Start of next charging year)