

Meeting minutes

Transmission Charging Methodologies Forum and CUSC Issues Steering Group 91

Date: 12/12/2018 **Location:** National Grid House, Warwick

Start: 11:30 AM **End:** 15:30 PM

Participants

Attendee	Company	Attendee	Company
Jon Wisdom (JW)	National Grid ESO (Chair)	Karl Maryon (KM)	Haven Power
Jennifer Groome (JG)	National Grid ESO (TCMF Technical Secretary)	Nicola Percival (NP)	Innogy Renewables UK Ltd
Harriet Harmon (HH)	National Grid ESO (Presenter)	Melanie Ellis (ME)	Limejump Ltd
Joseph Henry (JH)	National Grid ESO (Presenter)	Sally Lewis (SL)	National Grid Ventures
Mike Oxenham (MO)	National Grid ESO (Presenter)	Richard Woodward (RW)	National Grid, ETO
Thomas Selby (TS)	National Grid ESO	Daniel Hickman (DH)	npower
Lynda Carroll (LC)	Ofgem (Presenter)	Tim Aldridge (TA)	Ofgem
Faye Hankin (FH)	Bryt Energy	Nicola Fitchett	RWE Generation UK
George Moran (GM)	Centrica	James Anderson	ScottishPower
Robert Longden (RL)	Cornwall Energy	Colin Prestwich	SmartestEnergy
Laurence Barrett (LB)	E.ON	Garth Graham	SSE
Simon Vicary (SV)	EDF Energy	Michael Rieley	SSE
Hannah McKinney (HM)	EDF Energy	Lewis Elder	Statera
Sam Repetto (SR)	EDF Trading	Grace Smith	UK Power Reserve
Joseph Underwood (JU)	Energy UK	Paul Jones	Uniper
Christopher Granby (CG)	Fred Olsen Renewables	Peter Bolitho	Waters Wye Associates

Agenda

The agenda for the meeting can be found here:

<https://www.nationalgrideso.com/sites/eso/files/documents/TCMF%20Agenda%20December%202018.pdf>

Slides

The slide pack from the meeting can be found here:

<https://www.nationalgrideso.com/sites/eso/files/documents/TCMF%20Slidepack%20December%202018.pdf>

Appendices

The code modifications appendices can be found here:

<https://www.nationalgrideso.com/sites/eso/files/documents/TCMF%20Code%20Administrator%20Appendices%20-%20December%202018.pdf>

Discussion and details

1. Introduction, meeting objectives and review of actions – Jon Wisdom, National Grid ESO

- TA gave an update regarding Action ID17 (Confirmation on the year that CAPM costs are going to be recovered). He updated that this first requires a licence change followed by a CUSC modification and Ofgem are unsure when this will happen. TA confirmed that the basis of the assessment will be how reasonable, proportionate and efficient these are.

2. TCMF

TNUoS Draft Tariffs Q&A, Thomas Selby - National Grid ESO

Questions and Feedback

- GG queried whether the slides from the webinar will be circulated to the TCMF attendees today. TS responded yes. The slides are available [here](#).
 - GM asked if there was any commentary on TO revenues. He used an example that the SHETL revenue forecast has reduced for next year by £30m and he requested to know what was driving that. TS responded that he is unsure how much commentary TOs provide on regulatory changes and agreed to take an action. **Action (ID18) on TS to get more clarity on this.**
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Discussion and details - Transmission Charging Methodologies Forum

3. Code Modifications Update, Joseph Henry - National Grid ESO (slides 7 – 13)

- JH gave an update on the progress of CUSC modifications.

Questions and Feedback

- LB queried whether the workgroup have voted on other solutions for CMP280 at this stage. JH responded that SVA (Supplier Volume Allocation) and storage have been discussed at CUSC panel, yet there has not yet been a direction that this will be considered further. HH added that NGENSO will be raising alternatives to cover generation only, which will be limited to CVA (Central Volume Allocation) only. She added that SVA will be looked at separately. PB queried whether this is within the scope of the defects. HH responded yes.
 - SV made attendees aware that it had been raised by Ofgem whether CMP308 will be affected by the work of the Task Force. It was agreed that the work on this will carry on, unaffected by the Task Force.
 - SV raised concerns that some workgroups appear to be getting delayed, referring to the workgroup for CMP308. JH explained that some modifications have struggled to gain quoracy, however assured attendees that the code administrator are clear which workgroups will be held in January. JH explained that there was an early CUSC panel in December which caused some delays this month.
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4. Targeted Charging Review update, Lynda Carroll – Ofgem (slides 14 – 27)

Please refer to the detailed slides in the slide pack for the notes on this section.

- The update covered
 - A background on Targeted Charging Review (TCR) and what Ofgem are consulting on now
 - A timeline of work and how it slots in with other work
 - Desired outcomes
 - The process of the Significant Code Review (SCR)
 - An overview of the leading options Ofgem are consulting on, on:
 - Residual charges
 - Embedded benefits

There were no questions on this section.

- There will be a slot for the Access team from Ofgem to present at January's TCMF.
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5. Please refer to slides 29 to 32 in the slide pack for the full update. Notably:

- MO discussed some of the reflections from stakeholders from the ESO BSUoS webinar and workshops.
- MO talked attendees through the scope of the Task Force, draft Terms of Reference and timeline of work.
 - The Task Force final report will go to Ofgem in May 2019 prior to their decision/policy statement on the Targeted Charging Review.
- The first Task force will be held in late January 2019 after the Charging Futures Forum. If anybody is interested in being a member of the Task Force they need to register their interest by 4 January 2019 [here](#). MO mentioned that they have not limited the size of the task force in the Terms of Reference, but if it is popular they may have to set a limit to ensure a suitable number of participants.

Questions and Feedback

- LB highlighted that lessons learnt from Access & Forward Looking Charges task forces should be incorporated into this work. He proposed that they run a similar timeframe as previously, however, emphasised that to link up to the TCR decision in June 2019, the timeframe cannot slip. LB suggested that appropriate notice is given to the task force members in terms of meeting times to keep this moving.
- PB stated that certain elements of the charge were talked about under CMP250. He queried how the work which has already been done will be reflected in this. MO responded that there is an expectation for TF members to make themselves aware of previous work, such as modifications and wider work. RL added further that it would be helpful if TF members could do this as it might reduce time spent getting up to speed at the start and begin contributing as soon as possible. He mentioned that there was a lot of time spent “storming” before they could achieve “norming” and “performing” on the previous task forces.
- IH stated that he met with Frontier Economics earlier in the week and the Task Force may be interested in their recent work on cost reflectivity of BSUoS.
- HH stated that the feedback from the BSUoS workshops was that there did not appear to be a strong appetite to create any type of forward-looking signal with BSUoS. She added that unless there is a locational or temporal signal that can be seen and calved out, there may not be a desire to create one. MO added that there will be more on the feedback from stakeholders from the webinar and workshops at the Charging Futures Forum in January 2019, including graphical data. SV agreed that there shouldn't be too much time spent looking for signals which aren't necessarily there. LB agreed. LB mentioned that Ofgem are considering whether this should be a cost reflective recovery or a fixed capacity type charge.
- NP noted the importance that there is a broad representation on the task forces. She referred to the last task force as being viewed to be largely network owners and operators. She was concerned as some parties felt that some of the decisions were taken out of the room, and some members were not aware of these until they were presented back to the task forces. GG added that those who are not currently paying BSUoS, and who might - because of the changes, be paying the charge in future, should be represented on the TF. MO noted breadth of representation would be considered when creating the Task Force.
- PJ commented that the deliverables of the task force are quite narrow. He queried where the other deliverables get discussed, and whether they will be left as a cost recovery exercise. LB mentioned that Ofgem suggest that methodologies similar to the current residual charge will be done for this as under the minded to position of the Targeted Charging Review. HH explained that the purpose of the task force is to consider the structure and the content of the charge – not who should pay what.
- NP highlighted the importance to understand the impact on different parties, as this does vary between different groups.
- PJ asked whether we are expecting to see more detail on the minded to decision in January / February time on cost recovery. LC responded that Ofgem will feed that into their stakeholder feedback. TA voiced that we should expect a publication from the task force in May at the latest.
- PJ stated that BSUoS is not currently providing a signal, but this may be because cost reflective elements are hidden. He referred to the letter from Ofgem on CMP308 and voiced that he is unsure why there is a need to wait for the outcome of the task force when some work can be done now. TA responded that CMP308 doesn't necessarily address those issues. He mentioned that they can potentially work in parallel. LB commented that people have an issue with how the current arrangements work and queried whether a modification could be raised now to address that. JW stated that he thinks the question is answered in the TCR document which gives a clear indication of who should pay. LB agreed that it is demand, but noted that

there is discussion over whether it should be fixed or an ex ante capacity charge. JW agreed that and voiced that Ofgem are clear that the cost recovery part should be recovered from demand.

- GG asked how many meetings there are likely to be and asked that these are put into the diary as soon as possible. There were further requests to have the meetings as back-to-back days with CMP308 workgroups as there may be some attendees on both the work group and the task force. GG voiced his preference that meetings are booked in and then cancelled nearer the time if necessary, rather than scheduled last minute. MO agreed this was a sensible approach and would look to schedule meeting as soon as possible.
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6. Transmission Generator Residual and 838/2010 Compliance, National Grid ESO (slides 35 – 38)

- HH presented NGENSO's plans to raise a new modification soon, to exclude as a minimum, the cost of Offshore Circuits from consideration of TNUoS cap/collar. NGENSO propose that the workgroup determine what other assets could be excluded in line with GEMA/CMA determinations (i.e. components of Local Circuit). See the slides for a background summary and recap of the regulation.
- HH explained what they intend the workgroup's focus to be:
 - Introducing interpretation into CUSC;
 - Ensuring CUSC is compliant on ex ante and ex post basis with a TGR of 0;
 - Creating an appropriate methodology for the 'connection exclusion' – ESO has identified circuit types which will need to be categorised.

Questions and Feedback

- SV queried whether NGENSO can currently identify which of the assets are shared or not shared (onshore). He added that he would like to understand how they move into and out of being shared.
 - There was a discussion about the error margin. SV mentioned that the 2 euro 50 cap is at the high end of the caps throughout Europe. He queried whether the error margin is in scope of this. SV referred to the last TCMF meeting where PW shared a view that the error margin should be changed, and that it can be changed without a modification. SV agreed this should be changed without a modification. JW made attendees aware that NGENSO have had a clear direction from Ofgem to keep the error margin as low as possible.
 - SV raised that other modifications such as CMP301 have set a precedence and added that this is within NGENSOs limits to permit. JW responded that NGENSO need to have a further conversation with Ofgem to get confirmation on the approach to take on this.
 - GG queried whether this is in terms of the requirements in the 3rd Package or the CUSC methodology. JW responded that if this was a CUSC change it would need to be raised as a modification through the usual process and the way the CUSC is currently written doesn't require a modification to change the error margin. LB raised concern that anybody could raise a modification on this and if it was not done in an open way, work could happen in parallel which could create complications.
 - NP queried what NGENSO anticipate the impacts are going to be on offshore and how this will be charged. JW responded that he does not see any changes to the calculations for local circuits, as this is in relation to the residual charges. NP stated she is interested in what the modification is proposing to change to the CUSC.
 - PJ raised that there will be a step change in charges and emphasised the significance of this. LB added that this was outlined in the impact assessments from Frontier Economics.
 - LB asked how that interacts with changes proposed by Ofgem with an implementation date of 2021. HH responded that the intention is to align them as far as possible. Further, that there may be potential to look at this in the immediate term, however some of this fits within the TCR. She added that NGENSO are not anticipating this will be a quick modification. JW made attendees aware that raising the modification as soon as possible does not mean it will happen that quickly.
 - JW added that NGENSO would like to raise this in January, dependent on the scope of the SCR.
 - PJ asked for clarification that the proposal is looking to pull more costs into the exclusion, whilst being aware of the 2 euro 50 cap. HH responded yes and assured attendees that even after pulling out elements of offshore, this is still below the cap. The ESO must remain compliant with 838/2010.
 - PJ stated that most people want to avoid an ex-poste reconciliation. HH responded that NGENSO are cognisant of that.
 - JA emphasised that this is about a breach of the regulation, rather than an arbitrary target set within the CUSC.
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7. **CISG**

Reactive Power Roadmap update, Amy Boast and David Preston - National Grid ESO (slides 41 – 50)

- AB gave an update on the Reactive Power Roadmap, covering the context, current state & issues, future state & opportunities and next steps.
- NGESO want to work with Network Owners in January to design an approach for efficient Reactive Power flows between networks. They also want to work with industry to determine the future role to Reactive Power and design a more competitive.
- AB then talked through the current state & issues and future state and opportunities, including the ideas they intend to progress in their engagement next year.

Questions and Feedback

- GG queried what plans there are to change the obligatory service. AB responded that the purpose of the presentation is to present a plan to design something which will address the flexible needs for the future, not to present a proposal.
 - GG raised concern that this might prevent some parties from being competitive. AB responded that there are some options for discussion, for example, introducing competition for the obligatory service - then mandating it, or decoupling the capability from the mechanism which it is remunerated.
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8. Review of ESO credit cover requirements - Harriet Harmon, National Grid ESO (slides 53 – 56)

- Sections 3 & 15 of CUSC require relevant parties to provide security cover for their Use of System (UoS) or Cancellation Charge liabilities. Section 3 of CUSC enables parties to access “allowed” and “unsecured credit” based on their credit rating or payment history. NGENSO is therefore exposed to a proportion of parties’ liabilities.
- HH explained NGENSO’s suggestion to reduce the (current) 20% tolerance for Supplier forecasts to 5%, and to require the submission of forecasts to be good faith (i.e. ‘best view’, not ‘reasonable’), reducing NGENSO’s exposure to Suppliers’ UoS by c.£150m. Further, to remove Unsecured Credit from CUSC so that ESO funds (i.e. consumer funds) cease to subsidise Parties’ liabilities. This would mean that all requisite securities would be required to be provided in full.
- GG asked for clarification on who pays if the unsecured credit if a party ceases to trade. He gave the example of a party owing NGENSO £100 who had only securitised £30. NGENSO would take normal credit management steps (liquidation etc.) and if all else fails would have to request permission from the authority to put that shortfall into future years’ recovery. PJ added that if it is due to the requirement of the CUSC, it is unlikely that the authority would refuse it. HH responded that Ofgem have set a criterion for to determine whether NGENSO should be approved for recovering this from future years. She added that given the number of suppliers who have ceased trading recently, NGENSO are mindful that the number of requests will increase, and now seems like the right time to consider this.
- GG questioned whether there any examples NGENSO can point to were there has not been a recovery. HH was unable to share this information. She added that if parties do not pay their TNUoS, the ESO is still required to pay the TO.
- HH explained that NGENSO currently give a 20% tolerance level for over/under-forecasting demand before customers are forced to rebill. She continued to say that 20% is quite a wide tolerance level, which was written into the CUSC when there were not as many suppliers as there are today. She explained that considering the number of failures seen this year, this is a significant financial risk to NGENSO and to everybody, because eventually it gets shared. Once credit management steps begin, it can take up to 2 years to recover the money (with liquidators etc.). NGENSO estimates there is an approximate value of £200m of TNUoS being underpaid. PB stated that if there is ever an overpayment of TNUoS, this should be taken off the estimate figure. **Action (ID19) on HH to find out and confirm figure.** GG added that if the supplier has over-forecasted they do receive a refund. HH explained that our financial liabilities and cashflow is borne by consumers through BSUoS.
- HH stated that as well as reducing the 20% tolerance to 5%, NGENSO want to change the current requirement that the submission of forecasts must be “reasonable” to be instead “best view”, and to remove unsecured credit from CUSC so that all security amounts are provided in full.
- HH gave reasoning that when NGENSO is separate, they no longer have the TOs assets to hedge against.

Questions and Feedback

- GG queried the estimated reduction of £200m to £100m and suggested it should be more like £50m. JW explained that some people will already be within the 5% and stated that it seems right that NGENSO lowball the benefits on this so far. HH added that NGENSO are unsure how much difference the wording change of “best view” will look like in terms of the benefits.
- PJ commented that he is unsure what you get out of “best view” rather than “reasonable view”. HH responded that it is to set clear expectations. Further, that all parties have to recognise their CUSC requirements are part of their licence requirements and a failure to provide your best view as per the CUSC is stronger than taking it up with the ESO.
- GG advised that caution be taken on removing unsecured credit. He suggested that rather than removing it, the other variables in terms of payment history etc. could be changed. He explained that there could be a significant impact on companies if unsecured credit is removed, as their available credit is reduced. He suggested that the way unsecured credit is calculated could be amended to get a more secure figure. GG highlighted the number of parties who have paid reliably for a number of years.
- PB suggested there are potentially two modifications; the defects could clearly be worded in a way which wouldn’t prevent anybody from raising any alternatives.

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- GM queried whether this been shared with NGENSO's RIIO2 controls team. HH responded that they are aware, but for the purposes of RIIO2 assumptions cannot be made on a modification that has not yet been approved.

9. AOB and Close

- PJ raised AOB on the Small Generators Discount. He explained that the designated sum in CUSC section 14 is set on what the embedded benefit used to be for TNUoS. This is based on 25% of the sum of generation and demand residuals. Given that the embedded benefit calculation has changed, PJ suggested that the calculation of the dedicated sum should change, which affects the phased residual and the AGIC. If C13 is reinstated for 2 more years, PJ queried whether the designated sum will change. JW responded that NGENSO are unaware of a methodology change because of this legislation, TA was also unaware. **HH (ID20) took an action to get clarity on this.**
 - JW commented that to determine whether a modification is required depends whether there will be a recalculation of the sum in the approval of C13. PB stated that the statutory consultation only refers to changing the date rather than postponing it for a couple of years, and does not include any alternative sums. PB queried what the process will be if Ofgem responds to somebody's point in terms of the consultation. HH stated that they would have to consult again. She added that the decision to amend the NGENSO license would have to be made 28 weeks prior to 21 April 2019. PJ added that although this is in CUSC, it is not a CUSC issue and Ofgem should be able to designate it. HH if we had a clear direction from the authority then NGENSO would be able to implement this.
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Action Item Log

Action items: In progress and completed since last meeting

ID	Month	Agenda Item	Description	Owner	Notes	Target Date	Status
18	Dec-18	TNUoS Draft Tariffs Q&A	TS to get clarity on whether commentary can be provided from the TO on regulatory changes which affect revenues.	TS		Jan-19	In-progress
19	Dec-18	Review of ESO credit cover requirements	NGESO estimates there is an approximate value of £200m of TNUoS being underpaid. PB stated that if there is ever and overpayment of TNUoS, this should be taken off the estimate figure. HH to find out and confirm figure.	HH		Jan-19	In-progress
20	Dec-18	AOB	HH to find out whether any methodology changes are required on the designated sum calculation.	HH		Jan-19	In-progress
17	Nov-18	Introduction, meeting objectives and review of actions	To get confirmation on the year revenue will be recovered and the basis of assessment.	TA	This is regarding the increase in TO costs in relation to CACM licence changes.	Dec-18	Complete

Action items: Previously completed

If you wish to view any previously completed actions, please contact cusc.team@nationalgrid.com