National Grid ESO
Faraday House, Gallows Hill
Warwick, CV34 6DA

nationalgridESO

Frances Warburton
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Kayte O'Neill
Head of Markets

Kayte.ONeill@nationalgrideso.com
Direct tel +44 (0) 7769 643 146

www.nationalgrideso.com

Date: 25th March 2020

Dear Frances,

Request to approve National Grid Electricity System Operator's (NGESO) withdrawal of Connection and Use of System Code (CUSC) Modification Proposal (CMP) 332 "Transmission Demand Residual bandings and allocation (TCR)[1]"

As directed by the Authority following the conclusion of the Targeted Charging Review (TCR) Significant Code Review (SCR), NGESO raised the above modification and other CUSC modifications in 2019 to remove the generation residual, charge Suppliers on gross demand volumes for Balancing Services Charges (BSUoS) and implement a new banding solution for demand residual charges.

NGESO is fully supportive of Ofgem's aims under the TCR SCR and the intent that the changes should deliver benefits to consumers. Since the Authority's TCR SCR decision in November 2019, we have been working closely with the Distribution Network Operators (DNOs), Ofgem and industry to ensure the successful implementation of the TCR SCR. In December, we published a joint Project Initiation Document (PID)[2] with the DNOs setting out how we can deliver on the Authority's Direction and we have raised the requisite CUSC modifications to implement the required outcomes. Running in parallel, the DNOs have also raised DCUSA modifications to implement the demand residual changes at a distribution level. NGESO and industry have progressed these proposals swiftly through the change process ensuring that they are given sufficient focus and allowing the timescales laid out by the Authority to be met. In addition, NGESO have stood up an IT programme to ensure that the changes can be delivered on time. Although this is a complex and challenging plan we are collectively on track for delivery in April 2021.

In the code change process and through the SCR more generally, NGESO consider that although the changes envisaged for Suppliers being charged based on gross demand for BSUoS and the removal of the transmission generation residual are substantial there has been clear indication to, and awareness within, the industry of the likely impacts on market parties. NGESO are supportive of these modification proposals to continue to progress at this time.

However, during the Workgroup process and Workgroup consultation for the demand residual methodology, CMP332, significant issues have been raised that question the value and impacts to consumers. This highlights the risks to Suppliers and larger customers of implementing the transmission demand residual reform as currently set out in Ofgem's direction for April 2021. We have also received regular and consistent feedback from market parties of the risks to them and consumers from adopting an April 2021 implementation.

There are two specific areas that we wish to highlight:

- Lack of visibility to the workgroup of modelled tariffs and consideration of alternatives: Through the Workgroup deliberations and consultations a full set of modelled tariffs under the intended transmission demand residual charging methodology has not been available due to the necessary data being unavailable until very recently from market participants. This has meant that Suppliers and users of the system have not been able to understand the effects of the methodologies that have been put forward and are unaware of the full impacts on them of the changes. This has also meant that full consideration of any alternative proposals

[1] https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/cmp332-transmission-demand-residual
[2] http://www.chargingfutures.com/media/1390/tcr-joint-eso-dno-pid-v10.pdf

has not been possible. As such NGESO consider more time to consider these and make market parties aware of impacts is appropriate.

- Short term realisation of consumer benefits: Suppliers and demand users will only know the full extent and impact of the changes to the demand residual charges they face after Ofgem publish their decision on the TCR SCR modifications in the summer and the ESO and DNOs have used the new methodology to produce final tariffs. This means that they will receive invoices in April-21 following notification of approximate final charges late in 2020. This provides very little time for parties to truly understand the impacts on them, adjust their business models in response to the new tariffs and for suppliers to pass the consumer benefits through bills. In addition, due to the uncertainty created by these charging structures, NGESO consider that Suppliers may feel they have to include risk premia or other mitigating elements within consumer contracts.

Based on industry feedback and engagement with Ofgem to date, NGESO consider there to be merit in withdrawing the current proposal (CMP332) to give further time for consideration of the issues raised in the workgroup and in the consultation responses, a review of the impacts and the implementation timescales. We note that joint workgroups with DCUSA must continue to ensure the DNOs can implement successfully so NGESO have not requested the withdrawal of other TCR related modifications at this time.

In accordance with paragraph 8.17A2 of the Connection and Use of System Code (CUSC) and paragraph 4 of the Targeted Charging Review (TCR) Significant Code Review (SCR) Direction[3] NGESO can only withdraw CMP 332 with the Authority's consent. NGESO is therefore seeking the Authority's consent to immediately withdraw CMP332 for it to then be progressed in accordance with any further directions issued by the Authority in this respect.

Thank you for your consideration of this matter.

Yours sincerely

Kayte O'Neill

For and on behalf of

National Grid Electricity System Operator plc

[3] https://www.ofgem.gov.uk/system/files/docs/2019/11/cusc_direction_1.pdf