

CUSC Workgroup Consultation Response Proforma**CMP335 - Transmission Demand Residual - Billing and consequential changes to CUSC Section 3 and 11 (TCR)' &****CMP336 'Transmission Demand Residual - Billing and consequential changes to CUSC Section 14 (TCR)**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@nationalgrideso.com by **5pm on 11 June 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation please contact Paul Mullen paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com.

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For reference the applicable CUSC objectives are:**CUSC (non-charging) objectives - for CMP335:**

- The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;*
- Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;*
- Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- Promoting efficiency in the implementation and administration of the CUSC arrangements.*

**Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

CUSC (charging) objectives - for CMP336:

- 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;*

- 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);*
- c. That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;*
- d. Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 *; and*
- e. Promoting efficiency in the implementation and administration of the CUSC arrangements.*

**Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions		
1	Do you believe that CMP335 Original proposal better facilitates the Applicable CUSC Objectives?	Yes, CMP335 introduces the necessary changes to the non-charging sections of the CUSC, in particular Section 3, to enable the implementation of Ofgem's TCR decision regarding Transmission Demand Residual (TDR) charges. The Original proposal will therefore better facilitate ACO(a) enabling NGESO to discharge its license obligations following the outcome of a Significant Code Review. By making changes to billing processes and other non-charging requirements CMP335 will also better facilitate ACO(d). This is because billing processes need to be updated to best manage Final Demand Site related billing for the TDR.
2	Do you believe that CMP336 Original proposal better facilitates the Applicable CUSC Objectives?	Yes, CMP336 introduces necessary changes to Section 14 to enable the implementation of Ofgem's TCR decision regarding Transmission Demand Residual (TDR) charges. In particular, the process by which Final Demand Sites will be allocated to Residual Charging Bands and the reconciliation process for demand TNUoS. This better facilitates ACO(c) by ensuring that sites can be allocated into Charging Bands and support the implementation of the new TDR charging methodology.
2	Do you support the proposed implementation approach?	We are supportive of the new implementation date of April 2022 for CMP335 and CMP336. This is in line with Ofgem's modified Direction of 31 st March 2020.
3	Do you have any other comments?	<p>The ESO recommends that the workgroup consider the interaction between CMP336 and CMP317/327 specifically regarding "ex-post reconciliation".</p> <p>Occasionally, further, ex-post adjustments to generator's TNUoS tariffs may be required to ensure compliance with European Regulation 838/2010. CMP317/327 will introduce new wording to S14.17 to create a methodology for an "ex-post reconciliation". If the upper limit of the Limiting Regulation is breached (i.e. Generators are found to be paying more than €2.50/MWh related to all costs included for the purposes of compliance) then an adjustment tariff will be calculated and credited to generators at the generator reconciliation at the end</p>

		<p>of the Charging Year. If the lower limit of the Limiting Regulation is breached (i.e. Generators are found to be paying less than €0/MWh related to all costs included for the purposes of compliance) then an ex-post adjustment tariff will be calculated and billed to generators at the generator reconciliation at the end of the Charging Year.</p> <p>To ensure there is no over or under recovery as a result of the ex-post generator reconciliation and the debiting or crediting (as appropriate) of the Ex-Post Adjustment Tariff, a corresponding debit/credit needs to be made through the demand reconciliation.</p> <p>The amount to credit/debit through the reconciliation will be related to the €0-2.50/MWh cap and collar and therefore will not change as a result of the changes to the TDR methodology introduced by CMP335/6 and other TCR TDR modifications. The method of distributing this amount, however, is proposed to be based on HH Triad demand and NHH 4-7pm consumption. The CMP336 workgroup is advised to consider whether this approach remains appropriate in light of the TCR TDR changes and the move to a site based charges for the majority of the demand TNUoS value. If the workgroup feels that change in this area is required, this could be incorporated as part of the CMP336 solution.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p>The ESO has raised an alternative proposal to bill Suppliers for the TDR based on the most recent actual site count data as opposed to using a forecasted site count submitted by the Supplier. Supplier forecasts of the BMU Triad and NHH 4-7 consumption will still be required to invoice for the <u>locational component</u> of demand TNUoS.</p> <p>Depending on the consultation responses received the ESO would like to raise a WACM to incorporate billing based on monthly actuals.</p>
Specific CMP335/6 Workgroup Consultation questions		
5	Based on the mapping table in Annex 4, does the proposed CMP335/CMP336 solution deliver Ofgem's TCR SCR Direction? Please	The ESO believes that the solution delivers the TCR SCR direction based on the mapping table in Annex 4.

	identify any areas you believe need to be addressed.	
6	Do you support the proposed allocation method to allocate transmission connected sites to bands (if more than 1 band is created under the new modification which will replace CMP332)? If not, what approach would you prefer? Please provide your rationale.	<p>The Original solution, as raised by the ESO, for CMP343 (which replaces now withdrawn CMP332) is to have just one Charging Band for Transmission connected Final Demand Sites. Whilst this is the ESO's preferred solution, we agree that it is important to consider how allocation to Transmission bands would work should Ofgem's preferred solution be for multiple Transmission Charging Bands.</p> <p>The primary data source for allocation to Charging Bands for Transmission connected Final Demand Sites is actual metered consumption data. Following the same methodology as developed under DCP360 the ESO will take the latest 24 months of consumption data and average across this period. This average will be used to allocate transmission connected sites into bands. We are supportive of this approach as it is completely aligned with the approach taken by the DNOs to allocate Distribution connected sites to Charging Bands.</p> <p>If 24 months of metered consumption data is not available any consumption data that is available will be used to make an average for the site. Again, we are supportive of this approach as it is a practical and proportionate way to manage allocation for sites where insufficient consumption data is available. Additionally, this approach aligns the Transmission allocation methodology with the methodology for Distribution connected sites.</p> <p>Finally, for sites where no metered consumption data is available, the correct allocation is less straightforward.</p> <p>There are two options: to use an average of all Transmission connected sites or to develop a site-specific estimate.</p> <p>Crucially, the ESO believes that any band allocation made using estimated or averaged data for a Transmission connected Final Demand Site should be reviewed when actual data becomes available.</p>

	<p>This could be before the band boundaries are reviewed again for a new price control. This would apply to these new sites only and not be applicable to existing sites for whom metered consumption data was already available.</p> <p>The current CMP336 proposal is to use an average of all Transmission connected Final Demand Sites. Given the nature of the banding methodology for a “two band” approach which separates particularly large consumers (85th percentile +) from smaller ones, the new site would be allocated into the lower of the two bands. For the “four band” approach which cuts band boundaries at the 40th, 70th and 85th percentiles the average site will slot in to Band 2.</p> <p>Averaging is a simple approach and guarantees equal and consistent treatment to all new Transmission connected sites. Conversely, taking an averaging approach might not deliver a cost reflective outcome for these new sites. As the values of the Transmission Charging Bands could differ substantially, there is a risk the site would be significantly under or over charged. This effect will be exacerbated as the site will need to gather actual metered data in order to raise a dispute about its band allocation.</p> <p>For distribution sites with no consumption data the DNOs will use EAC (Estimated Annual Consumption) values for the purposes of allocation to Charging Bands. The ESO does not have an independently calculated EAC to use but sites do submit annual load projections when they apply for a connection. It might be possible to use this self-assessment of annual consumption in band allocation for sites where no metered data exists.</p> <p>This would reduce the risk of over or under charging from taking a one size fits all approach. There would however be a risk that the customer will be using an estimate based on their initial connection application which for transmission connections was likely made several years before energisation. The connection plans may have changed since then (i.e. phasing the connection) but the load estimates not updated.</p>
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		<p>The ESO believes either of these approaches would be achievable and there are merits to each. The ESO would encourage the workgroup to develop the CMP336 solution further to identify the best option.</p>
7	<p>Do you think it would be appropriate for ESO to seek a derogation from Ofgem to be outside of the 5% to 9.5% tolerance range where there is under/over recovery arising from successful disputes?</p>	<p>The ESO has a license obligation to use best endeavours to set tariffs such that Transmission Network Revenue (from TNUoS) does not exceed the TOs' Maximum Allowed Revenue. Every year due to the uncertainty of some parameters that feed into the TNUoS tariff calculations there arises a small discrepancy. This difference is then paid out or recovered through the "K factor" in a later tariff setting cycle.</p> <p>The ESO has some concerns that the implementation of the new methodology for TDR may result in a larger over or under-recovery in 2022/23 than in previous charging years. This is due to the fact that the TDR accounts for over 70% of TNUoS revenues and so changes in the parameters used for residual tariff setting have a larger impact than for other TNUoS components. Changes in site consumption, especially in the non-domestic sector, due to the impacts of COVID-19 may also have an unexpected effect on tariff setting parameters.</p> <p>Finally, the volume of successful disputes will impact revenue recovery. We expect that there are likely to be more disputes raised where the expected outcome is to move to a lower band rather than a higher one. This effect, should it materialise, will contribute towards an under-recovery of TNUoS revenue for the Charging Year.</p> <p>The revised implementation date for the TCR TDR changes should, however, mean that a lot of disputes can be resolved prior to publication of final tariffs in January 2022. Finalised Charging Bands will be published no later than October 2020 leaving at least 12 months for disputes to be raised and resolved in time for the outcome to be factored into tariff setting.</p> <p>The ESO will take necessary action to avoid excessive over or under-recovery seeking the approval of the Authority where required. The ESO does not believe there is an immediate need to seek</p>

		a derogation from Ofgem relating to the treatment of over or under-recovery outside of the +/-5.5% tolerance range.
8	Do you agree with the proposed disputes process for transmission sites? Do you agree that this is compatible with the DCUSA disputes process?	The ESO agrees with the proposed disputes process and believes that it aligns well with the DNO process.
9	Do you support the method in ESO's alternative proposal to bill the Transmission Demand Residual? If not, what approach would you prefer? Please provide your rationale.	As proposer of this alternative, the ESO is supportive of using latest actual site counts rather than Supplier forecasts of site counts to bill Suppliers for the TDR. Using actuals requires less time from Suppliers to derive forecasts of site counts in each Charging Band and less time from the ESO to verify the forecasts. The ESO believes that there is no loss of accuracy from the use of actuals rather than forecasts as the forecasts would be verified using the latest actual report regardless.