

Workgroup Consultation Response Proforma**CMP286 & CMP287: Improve TNUoS predictability through increased notice of the Target Revenue (CMP286) and inputs (CMP287) used in the TNUoS Tariff Setting Process**

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 9 May 2022**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

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

Respondent details	Please enter your details
Respondent name:	Niall Coyle
Company name:	E.ON
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I wish my response to be:

(Please mark the relevant box)

☒ Non-Confidential☐ Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

For reference the Applicable CUSC (charging) Objectives are:

- 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;*
- 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);*
- 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;*
- Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*

- e. *Promoting efficiency in the implementation and administration of the system charging methodology.*

**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 in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions								
1	Do you believe that CMP286 and CMP287 Original proposal better facilitates the Applicable Objectives?	<p>Mark the Objectives which you believe the Original solution better facilitates:</p> <table border="1"> <tr> <td>Original</td> <td><input checked="" type="checkbox"/> A</td> <td><input type="checkbox"/> B</td> <td><input type="checkbox"/> C</td> <td><input type="checkbox"/> D</td> <td><input type="checkbox"/> E</td> </tr> </table> <p>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.</p> <p>It is our view that fixing the target revenue (CMP286) and demand charging base inputs (CMP287) earlier in the process will allow suppliers to reflect the true TNUoS costs more accurately in fixed price contracts for both domestic and non-domestic customers. This will reduce supplier risk premia (as demonstrated in annex 5 of the report) and the price distortions in the competitive market, thereby facilitating effective competition in retail energy supply.</p>	Original	<input checked="" type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
Original	<input checked="" type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E			
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>The proposed implementation approach of fixing the revenue based on the forecast MAR achieves the intention of the original modification of fixing the revenue with increased notice, while not impacting National Grid ESOs existing tariff setting process or Ofgem's price control annual iteration process.</p>						
3	Do you have any other comments?	n/a						
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>n/a</p> <p>n/a</p> <p>n/a</p>						

Specific Workgroup Consultation questions

5	The Workgroup have concluded that if the CMP286 and CMP287 Original are approved, the risk premia that Suppliers price into contracts will be reduced. Do you agree with this conclusion? Please provide rationale for your response.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>The analysis provided on the volatility of the revenue and demand inputs into the TNUoS tariff setting process demonstrates significant variation in the target revenue and demand inputs close to tariff setting, leading to increased volatility and unpredictability in the ESO forecasts. We believe that this could drive Suppliers to include larger risk premiums in fixed price contracts.</p> <p>This view is supported by the collated RFI responses in annex 5 of the workgroup report, which demonstrates that the risk premia observed on 12- and 24-month contracts is reduced for all permutations (ie for HH/NHH for both CMP286 & 287). While this analysis does show an increase to 36-month premia we believe the benefits on the 12- and 24-months contracts outweighs this.</p>
6	Does the CMP286 and CMP287 Original Proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how? <i>Confidential Information can be shared with Ofgem directly</i>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>As a supplier we are reliant on forecasting TNUoS tariffs many months ahead to offer fixed price contracts that customers require. We are therefore vulnerable to late changes in the inputs that can significantly affect the level of the published tariffs.</p> <p>Publishing the revenue and demand charging base inputs 15-months ahead will allow us to more accurately reflect the true TNUoS cost for our customers contract, thereby reducing the value of any risk premia that may apply.</p>
7	Are there other options which could enable Suppliers to mitigate the issues the proposer is seeking to address via this modification, which could avoid the need for code/licence changes (as applicable)? Please provide rationale for your response.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>The volatility of inputs to the TNUoS tariff setting process makes predicting TNUoS tariffs to include in customer pricing extremely challenging, resulting in the need for suppliers to include risk premia in fixed price contracts. While these inputs remain volatile, we do not foresee any alternatives for suppliers to mitigate this volatility without code/licence changes.</p>
8	Do you have any additional analysis that supports or counters	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

	the benefits of CMP286 and CMP287? Are you content to share this directly with Ofgem?	n/a
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