TNUoS Tariff Forecast Volatility
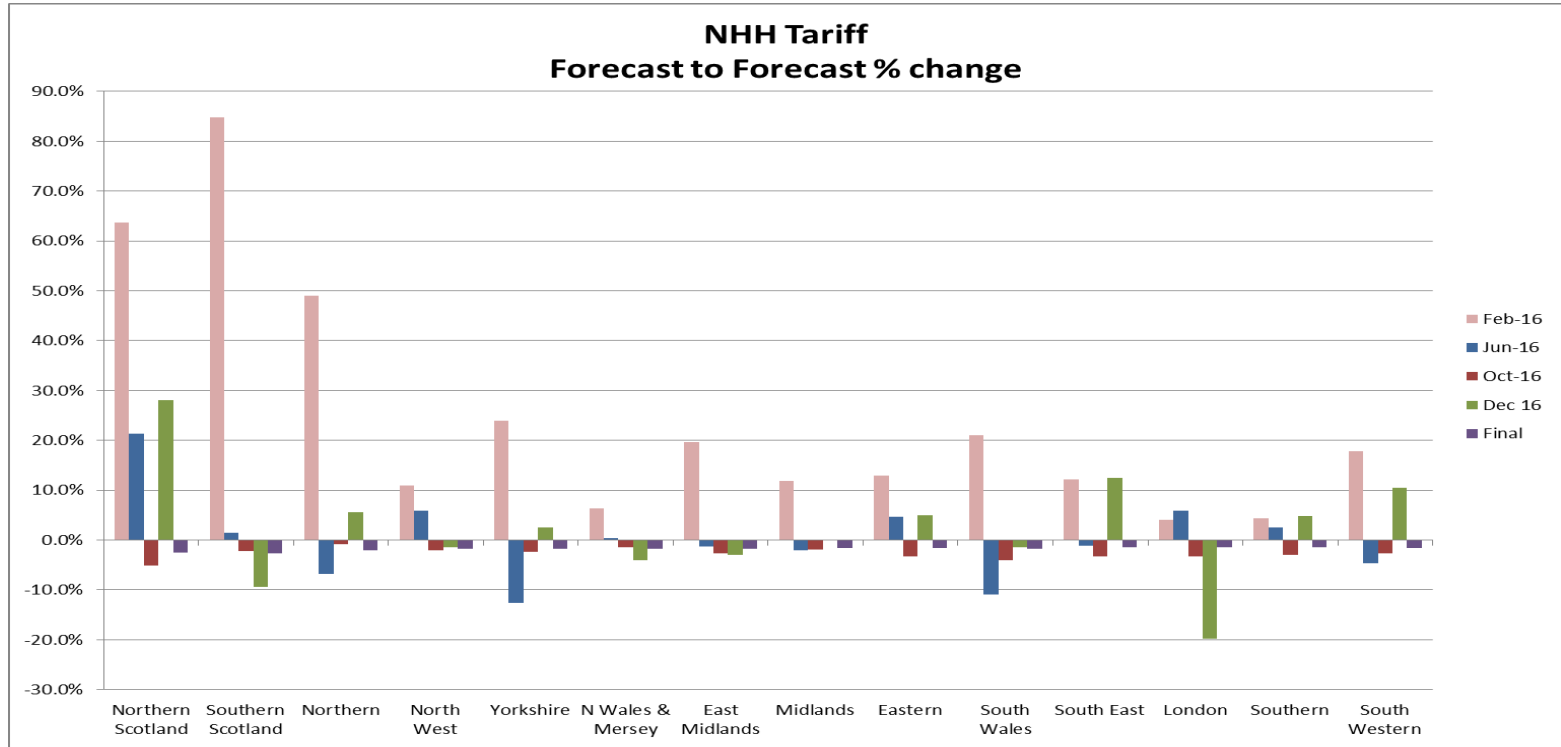
Daniel Hickman

TCMF September 2017

Why is TNUoS Tariff Forecast Volatility an Issue

The current TNUoS notice period of 2 months creates uncertainty that is difficult for Suppliers or business customers on pass-through contracts to manage effectively.
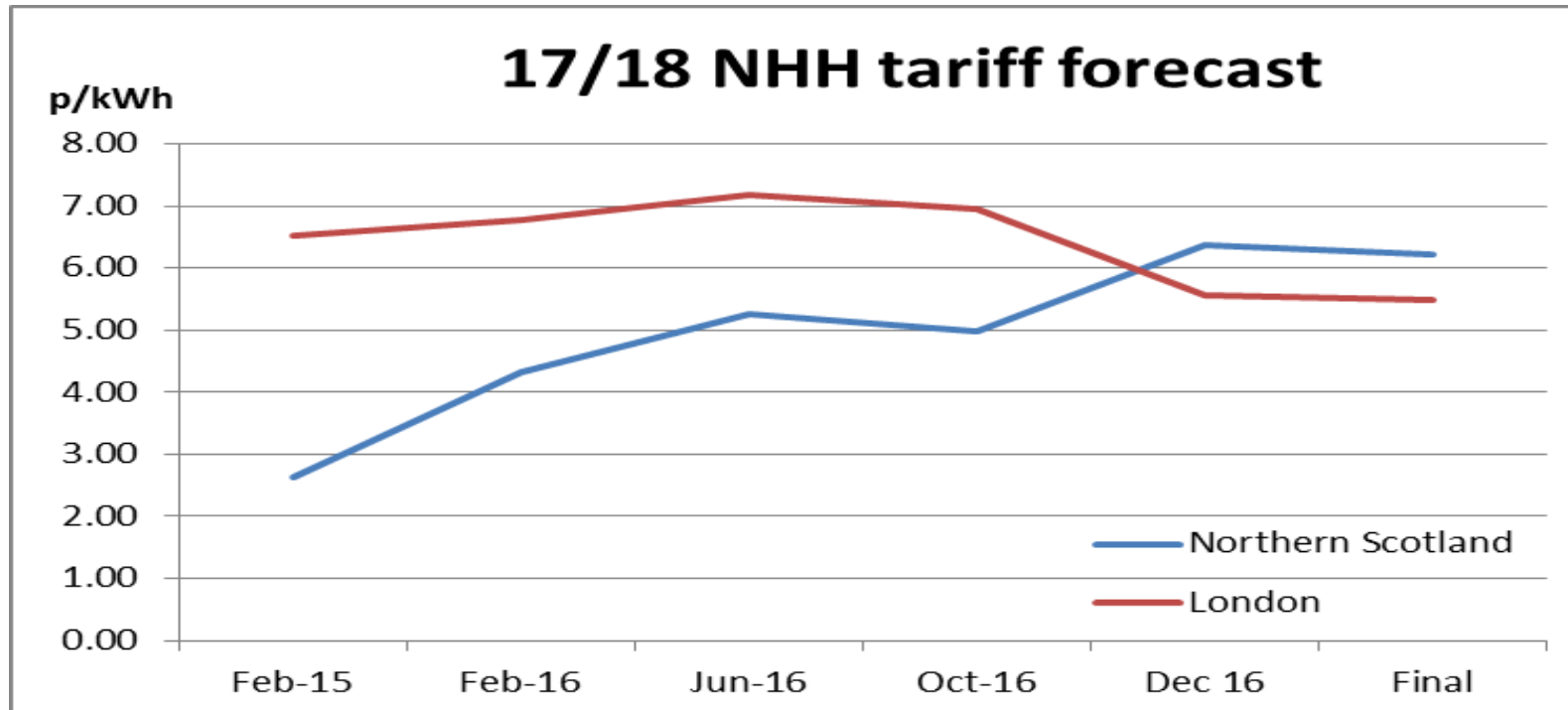
- CMP244 sought to improve tariff predictability by proposing an increased notice period for TNUoS tariffs (originally 15 months, then 200 days).
    - The Authority rejected the proposal in July 2016, noting that it was difficult to quantify the consumer benefits of such a proposal, and hence whether these benefits would outweigh the increase in cashflow risk and costs borne by other parties

- A typical business customer will agree a 2 year contract with their supplier
    - A significant proportion of I&C customers contracts start on the 1st October
    - Customer Priced in July/August
    - TNUoS rates not known for majority of contract period

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Previously Observed Volatility

National Grids published forecast of 17/18 NHH Tariffs

NHH Tariff
Forecast to Forecast % change

Legend: Feb-16, Jun-16, Oct-16, Dec 16, Final

Categories: Northern Scotland, Southern Scotland, Northern, North West, Yorkshire, N Wales & Mersey, East Midlands, Midlands, Eastern, South Wales, South East, London, Southern, South Western

Previously Observed Volatility

17/18 NHH tariff forecast
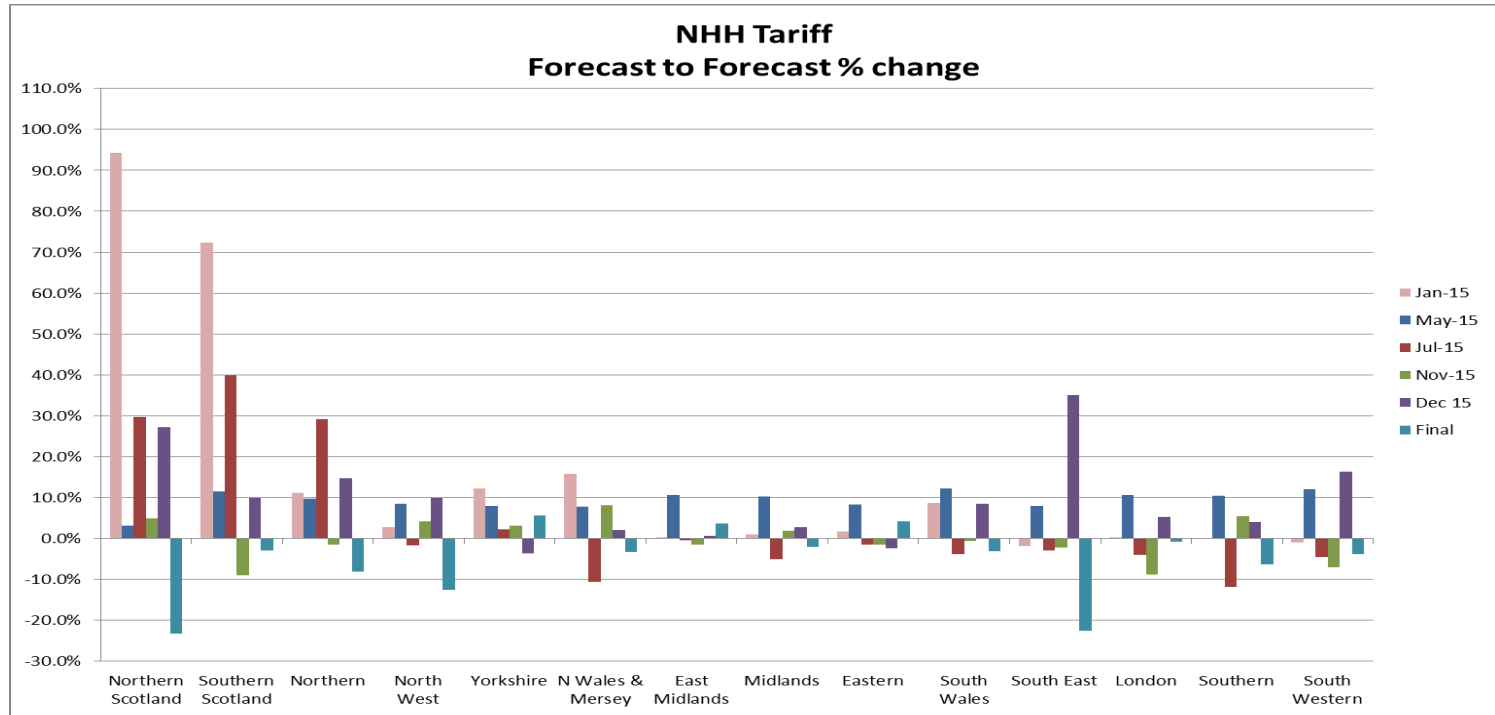
Previously Observed Volatility

National Grids published forecast of 16/17 NHH Tariffs

Drivers of Forecast Volatility
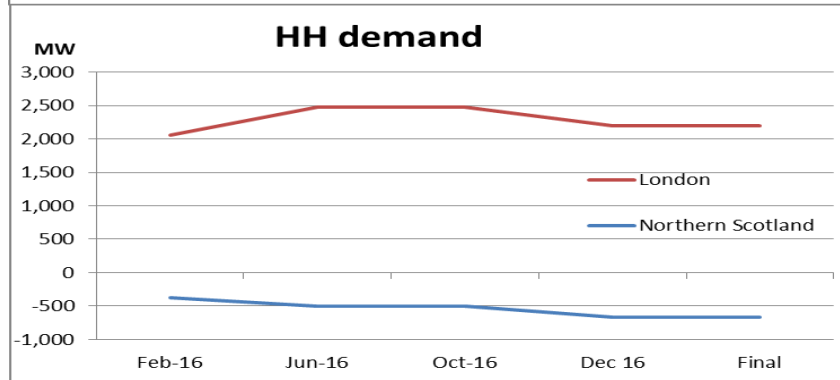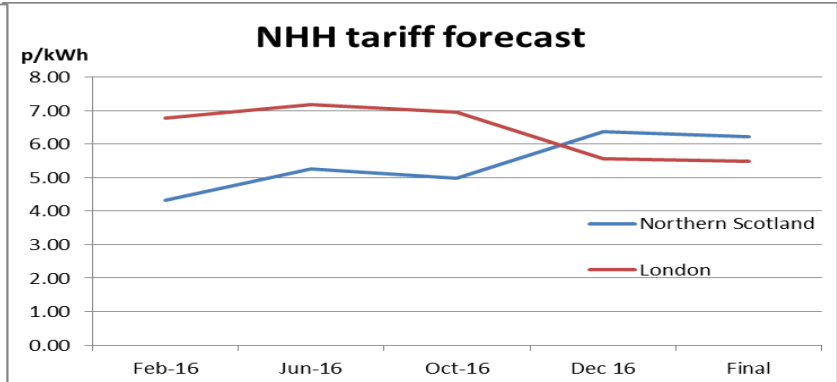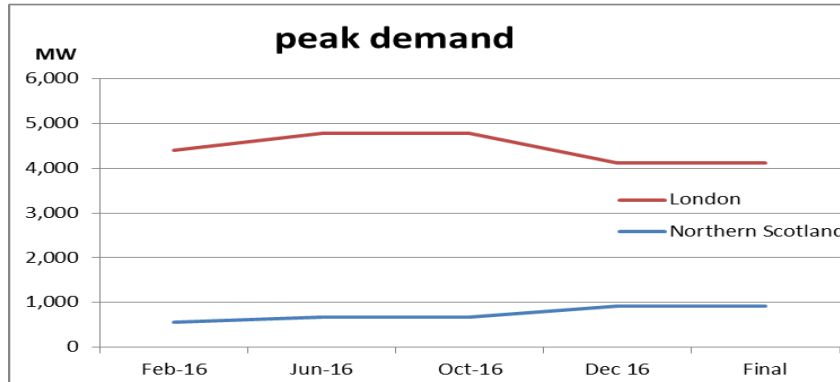
Volume Forecasts

Tariff model Peak Demand (MW)

Zone	Zone Name	Jun-16	Dec 16
1	Northern Scotland	22.4%	36.8%
2	Southern Scotland	7.2%	-6.9%
3	Northern	5.6%	-0.2%
4	North West	10.0%	-4.4%
5	Yorkshire	-3.9%	-3.3%
6	N Wales & Mersey	-17.8%	-4.4%
7	East Midlands	-3.6%	-4.7%
8	Midlands	2.9%	-4.4%
9	Eastern	1.3%	-0.9%
10	South Wales	-22.4%	-3.9%
11	South East	-3.1%	6.4%
12	London	8.5%	-14.0%
13	Southern	-3.8%	-2.9%
14	South Western	3.2%	4.4%

Tariff model HH Demand (MW)

Zone	Zone Name	Jun-16	Dec 16
1	Northern Scotland	32.1%	33.3%
2	Southern Scotland	11.0%	-10.1%
3	Northern	86.0%	-49.0%
4	North West	20.2%	-17.4%
5	Yorkshire	13.7%	-17.0%
6	N Wales & Mersey	-46.7%	-16.6%
7	East Midlands	-7.0%	-8.8%
8	Midlands	12.5%	-20.2%
9	Eastern	-1.9%	-19.0%
10	South Wales	-35.5%	-15.1%
11	South East	3.4%	-21.4%
12	London	19.9%	-11.2%
13	Southern	-9.9%	-21.2%
14	South Western	21.3%	-23.2%

Volume Forecast Volatility

Volume Forecasts and Tariff Impact

Volume Forecast Volatility

To accurately forecast TNUoS tariffs you need an accurate forecast of volume…….

..….but not the 'actual' volumes, you need to forecast what National Grid are going to forecast the volumes to be.

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Revenue

16/17 Forecast £m	Jan-15	May-15	Jul-15	Nov-15	Dec 15	Final
National Grid						
Price controlled revenue	*1,953.8*	*1,937.0*	*1,938.8*	*1,848.9*	*1,827.5*	*1,828.2*
Less income from connections	*48.3*	*45.0*	*45.0*	*45.6*	*45.6*	*42.7*
Income from TNUoS	**1,905.5**	**1,892.0**	**1,893.9**	**1,803.3**	**1,781.9**	**1,785.5**
Scottish Power Transmission						
Price controlled revenue	*321.0*	*303.1*	*302.3*	*300.7*	*302.6*	*306.4*
Less income from connections	*10.5*	*8.9*	*8.9*	*12.4*	*12.4*	*11.8*
Income from TNUoS	**310.5**	**294.2**	**293.4**	**288.3**	**290.2**	**294.6**
SHE Transmission						
Price controlled revenue	*343.0*	*333.6*	*329.0*	*309.0*	*325.9*	*326.2*
Less income from connections	*3.6*	*3.5*	*3.5*	*3.5*	*3.5*	*3.4*
Income from TNUoS	**339.5**	**330.1**	**325.5**	**305.5**	**322.4**	**322.8**
Offshore	**269.1**	**265.6**	**259.3**	**262.5**	**261.8**	**260.8**
Network Innovation Competition	**48.4**	**40.5**	**40.5**	**40.5**	**44.9**	**44.9**
Total to Collect from TNUoS	**2,873.0**	**2,822.4**	**2,812.6**	**2,700.1**	**2,701.2**	**2,708.7**

forecast to forecast change £m		May-15	Jul-15	Nov-15	Dec 15	Final
National Grid						
Price controlled revenue		*(16.8)*	*1.8*	*(89.9)*	*(21.4)*	*0.7*
Less income from connections		*(3.3)*	*-*	*0.6*	*-*	*(2.9)*
Income from TNUoS		**(13.5)**	**1.9**	**(90.6)**	**(21.4)**	**3.6**
Scottish Power Transmission						
Price controlled revenue		*(17.9)*	*(0.8)*	*(1.6)*	*1.9*	*3.8*
Less income from connections		*(1.6)*	*-*	*3.5*	*-*	*(0.6)*
Income from TNUoS		**(16.3)**	**(0.8)**	**(5.1)**	**1.9**	**4.4**
SHE Transmission						
Price controlled revenue		*(9.4)*	*(4.6)*	*(20.0)*	*16.9*	*0.3*
Less income from connections		*(0.1)*	*-*	*-*	*-*	*(0.1)*
Income from TNUoS		**(9.4)**	**(4.6)**	**(20.0)**	**16.9**	**0.4**
Offshore		**(3.5)**	**(6.3)**	**3.2**	**(0.7)**	**(1.0)**
Network Innovation Competition		**(7.9)**	**-**	**-**	**4.4**	**-**
Total to Collect from TNUoS		**(50.6)**	**(9.8)**	**(112.5)**	**1.1**	**7.5**

Revenue

17/18 Forecast £m	Feb-15	Feb 2016 Initial View	June 2016 Update	Oct 2016 Update	Dec 2016 Draft	Final
National Grid						
Price controlled revenue	1,818.0	1,806.4	1,811.2	1,750.4	1,753.4	1,748.8
Less income from connections	48.3	46.5	46.5	44.1	44.0	41.9
Income from TNUoS	**1,769.7**	**1,760.0**	**1,764.7**	**1,706.3**	**1,709.5**	**1,706.9**
	-	-				
Scottish Power Transmission		-				
Price controlled revenue	368.5	347.1	341.0	327.7	333.5	333.7
Less income from connections	10.9	13.9	14.0	11.4	11.4	12.8
Income from TNUoS	**357.6**	**333.1**	**327.0**	**316.3**	**322.1**	**321.0**
	-	-				
SHE Transmission		-				
Price controlled revenue	347.6	328.5	327.3	305.8	312.6	304.7
Less income from connections	3.7	3.6	3.6	(13.6)	(14.6)	3.4
Income from TNUoS	**344.0**	**324.9**	**323.7**	**319.4**	**327.2**	**301.4**
	-	-				
Offshore	**284.8**	**276.5**	**279.2**	**293.0**	**274.1**	**270.2**
Network Innovation Competition	**49.7**	**40.5**	**40.5**	**40.5**	**33.1**	**32.1**
Total to Collect from TNUoS	**2,805.8**	**2,735.0**	**2,735.1**	**2,675.6**	**2,666.0**	**2,631.5**

forecast to forecast change £m	Feb 2016 Initial View	June 2016 Update	Oct 2016 Update	Dec 2016 Draft	Final
National Grid					
Price controlled revenue	(11.5)	4.8	(60.8)	3.0	(4.6)
Less income from connections	(1.8)	-	(2.4)	(0.1)	(2.1)
Income from TNUoS	**(9.7)**	**4.8**	**(58.4)**	**3.1**	**(2.6)**
Scottish Power Transmission					
Price controlled revenue	(21.5)	(6.1)	(13.3)	5.8	0.2
Less income from connections	3.0	0.1	(2.6)	-	1.4
Income from TNUoS	**(24.5)**	**(6.1)**	**(10.7)**	**5.8**	**(1.1)**
SHE Transmission					
Price controlled revenue	(19.1)	(1.2)	(21.4)	6.8	(7.9)
Less income from connections	(0.1)	0.0	(17.2)	(1.0)	18.0
Income from TNUoS	**(19.1)**	**(1.2)**	**(4.3)**	**7.8**	**(25.8)**
Offshore	**(8.3)**	**2.7**	**13.8**	**(18.9)**	**(3.9)**
Network Innovation Competition	**(9.2)**	**-**	**-**	**(7.4)**	**(1.0)**
Total to Collect from TNUoS	**(70.8)**	**0.1**	**(59.5)**	**(9.6)**	**(34.5)**

Drivers of Forecast Volatility

- Forecasts of TNUoS collectable revenue have fallen as we neared the relevant year.
- Significant changes with only 2 months notice >1%
- This has led to poor value for consumers as any forecast of TNUoS based on the published forecasts of revenue (which as provided by the TOs should be expected to be the best view) would have been higher than final tariffs out turn.

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How to Reduce the Impact to Consumers and Suppliers

- Freeze both the volume and the revenue forecasts used in the charging models at the values used for the June quarterly update.
- Bringing forward by just a few months the date at which these two key inputs to the charging model are fixed would significantly reduce the uncertainty of TNUoS tariff rates in that timeframe.
- Resulting in significant reduction in the detriment to consumers on fixed price contracts and risk faced by suppliers and consumers on pass through contracts.

What next?

- npower intend to raise CUSC modification proposals

- Concerns, Comments, Suggestions?

AOB

Next meetings

October	November	December
11	**8**	**13**
Wednesday	Wednesday	Wednesday

Will be an 10:30am start unless otherwise notified.

We value your feedback and comments

If you have any ***questions*** or would like to give us ***feedback*** or share ***ideas***, please email us at:

cusc.team@nationalgrid.com

Also, from time to time, we may ask you to participate in surveys to help us to improve our forum – *please look out for these requests*

Close