Meeting Headline Report

TNUoS Task Force Meeting 12

Date:	25/01/2024	Location:	Hogarth's
Start:	10.00	End:	16:00

Demand Analysis

Lead: Frontier

Objective: Present analysis setting out the case for, and a high level assessment of possible options for, reform to the charging of locational TNUoS to demand users

Outcome:

Frontier presented analysis on possible reforms to locational TNUoS demand charges. The key points of discussion were:

- In principle, TNUoS charges should focus on sending efficient locational investment signals, and it is likely that they should avoid sending operational signals.
- In contrast to the current approach where incremental Peak Security and Year Round costs are both charged on Triad demand, there is a case to consider the charging design for each cost driver separately.
- For Peak Security, there continues to be a rationale for charges based on peak demand as a driver of network costs, but changes could be required to remove/limit operational signals.
- For Year Round, in principle charges should be based on the contribution of demand to causing or alleviating constraints, rather than peak demand as is currently the case. At a simple level, this could be based on annual consumption, but more sophisticated approaches (e.g., targeted on consumption during constraints) could be considered for flexible sources of demand.

TO Data

Lead: Brendan Clarke

Objective: Update Task Force on TO Data inputs session

Outcome:

- Discussion of the session consisted of TO inputs and ESO inputs to T&T model
- Task force updated on this discussion recommending:
  - ❖ TOs and ESO to find a solution to improve data communication to provide context to substantial changes in revenue forecast
  - ❖ Suppliers would benefit from earlier or better visibility of potential changes to charges
  - ❖ Greater transparency in projects that are included in TO revenues and projects that may be included pending Ofgem approval

Data

Lead: Frontier & LCP Delta

Objective: Present analysis exploring the impact of a range of different TNUoS charge inputs on locational and residual charge volatility and predictability

Outcome:

Frontier presented analysis on data inputs that lead to volatility in TNUoS charges. The key points presented were:

- In respect of locational charges:
  - ALF is not a significant driver of charge volatility
  - Week 24 data is highly volatile but typically only generates volatility in locational charges at the extremities of the network
  - Plant mix (changes in TEC) is a key driver of volatility in peak tariffs in Southern England, with a smaller impact through sharing factors in other zones
  - The cost of large network reinforcements (e.g., HVDC bootstraps) is a significant driver of charge volatility and is not easily predicted
  - Inflation of the expansion constant under CMP353 creates volatility but is more easily understood.
- Uncertainty and volatility in locational charges could be reduced by fixing some parameters over time, though this may reduce cost reflectivity of the charges.
- In respect of residual charges:
  - Changes in Transmission Owner allowed revenue (including annual reconciliation and true up terms) are drivers of residual charge volatility
  - RIIO reopeners (e.g., the regime for ASTI projects) can result in large changes in Transmission Owner allowed revenue relative to forecasts
- Uncertainty and volatility of Transmission Owner allowed revenue is largely inherent in the RIIO framework. This volatility in revenue requirement largely cannot be eliminated. However, the risk associated with this volatility could in principle be reallocated to other industry parties (e.g., ESO/TOs).
  - Such a reallocation would reduce volatility of end charges to users but represent and increase in cashflow risks for ESO/TOs
- In respect of the risk margin applied to ensure average generation tariffs comply with the regulation limiting them to a maximum of EUR2.50/MWh
  - This is a driver of volatility of demand residual and total generation charges
  - In principle this volatility could be reduced by fixing the risk margin term.
    - However, this would either increase the share of TNUoS recovered from demand or increase the risk that regulation limiting average generation TNUoS to less than EUR2.50/MWh would be breached. If it were breached this would imply a need for adjustments to charges to be made in year.