

To all interested industry parties

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www.nationalgrid.com/tnuos

Dear Colleagues,

Appeal to the CMA of Ofgem's Rejection of CMP261

This letter is to provide an update on National Grid's approach to tariff setting for the 2018/19 charging year following the appeal of CMP261 to the Competition and Markets Authority.

CMP261 Background

CUSC Modification Proposal CMP261 (Ensuring the TNUoS paid by Generators in GB in Charging Year 2015/16 is in compliance with the €2.5/MWh annual average limit set in EU Regulation 838/2010 Part B (3))¹ was raised on the 11th March 2016 by SSE Generation Limited (the Proposer) as they considered that Generators in Great Britain had paid more than €2.5/MWh as directed by the Regulation. The modification proposal was assessed by a Workgroup from March to October 2016 and then again, following a "send-back" by Ofgem, from April 2017 to May 2017. The eventual Proposal and Workgroup Alternatives (WACM) were voted upon by the CUSC Panel in June 2017. At that meeting a majority of Panel members concluded that the Original proposal, WACM1 and WACM2 were better than the baseline.² All of the options recommended by the CUSC Panel resulted in an immediate rebate to Generators and recovery of costs from Suppliers in future charging years.

Following the panel vote in June 2017 Ofgem concluded in its decision letter of November 2017³ that the €2.5/MWh annual average limit had been complied with as they determined that the limit should not only exclude connection assets as referred to elsewhere within the CUSC but a broader interpretation of the assets involved in connection. As this broader interpretation would reduce the amount paid by Generators in 2015/16 to less than the average limit specified in the regulation the modification would not in Ofgem's view better facilitate the applicable objectives of the CUSC and would not be consistent with their principal objective of protecting the interests of future and existing consumers.

¹ <https://www.nationalgrid.com/uk/electricity/codes/connection-and-use-system-code/modifications/cmp261-ensuring-tnuos-paid>

² <https://www.nationalgrid.com/sites/default/files/documents/CMP261%20FMR%20post%20sendback%20%281%29.pdf>

³ <https://www.nationalgrid.com/sites/default/files/documents/CMP261%20D.pdf>

Latest position

On the 6th December EDF Energy (West Burton Power) Limited and SSE Generation Limited jointly appealed Ofgem's decision not to approve CUSC Modification Proposal CMP261 or any of the alternatives developed through the process to the Competition and Markets Authority. The general aim of CMP261 was to return £120m to Generators and recover the same from Suppliers, the timescales and process for this varying between the original and the various alternatives. A right of appeal arises where Ofgem's decision does not align with the majority vote of the CUSC Panel on the proposal. We recognise that this means there remains some uncertainty for our customers in respect of 2018/19 TNUoS tariffs.

Firstly, although National Grid understands that many of our customers feel there remains some uncertainty surrounding the calculation of the G/ D split of transmission revenue following Ofgem's decision to reject CMP261, the regulation provides for a range and CUSC sets the average within this range. We therefore have no immediate plans to take forward any modification to the methodology prior to the setting of 2018/19 transmission tariffs.

A timetable has to be established but any CMA appeal process is expected to conclude within 12 weeks of the Authority decision date. This however will be beyond the date on which National Grid is required to set the 2018-19 tariffs (31 January 2018).

However, to help understand the potential impact should the Ofgem decision be reversed, customers should be aware that the CMP261 modification included proposals to provide a rebate of £120m to generators that would be recovered from demand customers. Using our October forecast of 2018/19 tariffs as the baseline, Half-Hour demand tariffs would increase by £2.28/kW across all zones and the Non Half-Hour tariff would increase by 0.309p/kWh. On average this increases the Half-Hour tariff from £45.81/kW to £48.10/kW and the Non Half-Hour tariff from 6.16p/kWh to 6.46p/kWh. We provided these indicative demand rebate levy values for the 2018/19 tariffs within Appendix A of the October forecast report.

In line with our licence obligation National Grid keeps the charging methodology under review and will continue to do so throughout any appeal process.

If you have any further queries, please contact us on 01926 654633.

Yours faithfully

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