

Stage 06: Final CUSC Modification Report

Connection and Use of System Code (CUSC)

CMP207 Limit increases to TNUoS tariffs to 20% in any one year

What stage is this
document at?

01	Initial Written Assessment
02	Workgroup Consultation
03	Workgroup Report
04	Code Administrator Consultation
05	Draft CUSC Modification Report
06	Final CUSC Modification Report

This proposal seeks to modify the CUSC such that the TNUoS charging methodology calculations are revised such that no demand tariff can increase by more than 20% in any one charging year.

Date of Issue: 12 December 2012



The CUSC Modifications Panel recommends:

CMP207 does not better facilitate the Applicable CUSC Objectives and so should not be implemented.



High Impact:

Users who pay Demand TNUoS charges (Half-hourly and Non Half-hourly);
National Grid Electricity Transmission plc



Medium Impact:

None Identified



Low Impact:

None Identified

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About this document

This is the CUSC Modification Report which contains the details of the CUSC Modifications Panel Recommendation Vote. This document has been prepared and issued by National Grid under the rules and procedures specified in the CUSC. The purpose of this document is to assist the Authority in their decision whether to implement CMP207.

Document Control

Version	Date	Author	Change Reference
1.0	4 December 2012	Code Administrator	Version for Panel Comment
2.0	12 December 2012	Code Administrator	Version to the Authority



Any Questions?

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1 Summary

- 1.1 This document describes the CMP207 Modification Proposal and seeks views from industry members relating to the proposal.
- 1.2 CMP207 was proposed by Haven Power Ltd and submitted to the CUSC Modifications Panel for their consideration on 20 March 2012. The Panel determined that the proposal should be sent to the Code Administrator Consultation phase and that they should report back to the CUSC Modification Panel in November 2012.
- 1.3 The Code Administrator Consultation was published on the 3rd October 2012, 7 responses were received.

CUSC Modifications Panel View

- 1.4 The Panel voted by majority that CMP207 and the four Workgroup Alternative CUSC Modifications do not better facilitate the Applicable CUSC Objectives and so should not be implemented.

Workgroup Conclusion

- 1.5 The majority of Workgroup members do not support the original proposal nor any of the alternatives.

National Grid's Opinion

- 1.6 National Grid does not support the original proposal, nor any of the four Workgroup Alternative CUSC Modifications developed.

2 Why Change?

- 2.1 The Proposer has put forward that the current TNUoS Charging Methodology results in transmission charges that are volatile year on year and make it difficult for Users to plan and to manage their risk in respect of these charges. Changes notified by NGET for both generation and demand TNUoS tariffs for the 2012-13 charging year have been very substantial. For example, the non locational residual generation tariff will rise by over 17%, with zonal tariff changes of between -53% and +248%. The half hourly demand tariff is similarly set to rise by between 6% and 64% and non half hourly charges by between 9% and 67% dependent on zone.
- 2.2 There is currently no mechanism in place that would enable increases in TNUoS tariffs to be phased in, and thus mitigate the detrimental impacts to competition of sharp changes.
- 2.3 These detrimental impacts include the costs of managing the risks of major changes (in TNUoS tariffs) and raising barriers to entry. No evidence has been supplied to the Workgroup to support or quantify these impacts.
- 2.4 The Proposer is concerned, in particular, about the position with regard to the volatility of Supplier TNUoS charges, but drafted the proposal on the basis it could apply to all network Users; i.e. Generators and Suppliers. However, following Workgroup discussion, the Proposer seeks to limit the change to Supplier TNUoS charges only.



What is TNUoS?

TNUoS charges are paid by generators and suppliers directly connected to the electricity transmission grid to National Grid Electricity Transmission (NGET) for use of the network. The charges vary for generators and suppliers according to their location and the demand for grid usage at that location

3 Solution

- 3.1 The Proposer's original solution sought to rectify the defect (detailed in the CMP207 Proposal Form – see Annex 1) through capping percentage increases to TNUoS tariffs in any one charging year at 20%. It was viewed that such a cap would be applicable to both demand and generation Users. Other elements of the proposed solution were unclear from the original submission and these, along with the parameters of the original solution were discussed at length by the Workgroup. A summary of these parameters is given in the table in Annex 3 of this document.
- 3.2 Following Workgroup discussions, the Proposer has reviewed his original solution to reflect a revised view of some elements, and also to further define a complete solution. The Proposer's original solution, as laid out in the table in Annex 3 of this document, now seeks to rectify the defect through the introduction of a 20% limit to the annual changes to Zonal Demand TNUoS tariffs which, via the current TNUoS methodology, would also result in a similar limit to changes to Energy Consumption Tariffs. This limit would apply to both TNUoS tariff increases and decreases in any one particular charging year.
- 3.3 This CMP207 proposal can result in a difference in the revenue collected by National Grid to fund the work of transmission companies within GB. Whilst in theory this difference could be either an under or over recovery (depending on if the TNUoS tariff change was an increase or decrease) it was widely recognised that the most likely situation is of a shortfall in the funds collected in a particular charging year. In order to ensure that these parties remain fully funded; it is proposed that any unrecovered revenue, caused as a result of the limiting of Zonal Demand and Energy Consumption TNUoS tariffs, would be collected from Suppliers in the appropriate TNUoS zones in the following charging year via a commensurate increase (or decrease) in the affected Zonal Demand and Energy Consumption TNUoS tariffs.
- 3.4 In order to ensure that National Grid, in its role of National Electricity Transmission System Operator (NETSO), remains cost neutral for this uncollected revenue, there would be an increase in value of any revenue deferred from one charging year to the next charging year. This level of increase would be at a rate to be agreed with the Authority and defined in National Grid's Electricity Transmission Licence.
- 3.5 In the event of an over-collection of revenue caused through the limiting of a decrease of 20% in a Zonal Demand TNUoS tariff, any tariff adjustment would be made in the following charging year, and would include an appropriate increase in value to recognise the timing of the payment. This would similarly need to be defined in National Grid's Electricity Transmission Licence.
- 3.6 Following Workgroup discussion, the Proposer's current original solution does not intend to introduce limits to other TNUoS tariffs, charges, and payments.
- 3.7 The proposed 20% limit would be exclusive of RPI.

4 Summary of Workgroup Discussions.

Presentation of Proposal

- 4.1 The Proposer, Haven Power, presented the background and reasons for raising CMP207. The original proposal form is shown in Annex 1 and the [presentation](#) is available on the CUSC website. The Proposer's principal reason for proposing to limit annual TNUoS tariff increases to no greater than 20% is to mitigate against volatile year on year tariff changes, allowing Suppliers to price with some certainty. No evidence was provided to support the choice of a 20% cap, or to demonstrate the benefit of the proposal.
- 4.2 The Proposer stated that the CMP207 proposal does not seek to create an under-recovery of allowed revenue, however the Proposer acknowledged that the proposal could create an under-recovery within a charging year which would not be collected until the following charging year at the earliest.
- 4.3 The NGET representative presented a [TNUoS overview](#) which is available on the CUSC website. The presenter described the input parameters to the TNUoS methodology which make up TNUoS tariffs and compared the changes to demand and generation tariffs from 2011/12¹ to 2012/13. Analysis of the impact of changes to different input parameters to TNUoS was presented; this information being from 2012/13 final and 2013/14 indicative tariffs. The purpose of this analysis was to show how variation of these input parameters can result in volatility to TNUoS charges. The NGET representative commented that transmission charge stability could also be managed through limiting changes to such input parameters rather than output tariffs, but noted that this was out of scope of this CMP207 proposal.

Workgroup Discussion

- 4.4 The Workgroup discussed the original proposal and explored the detail of the proposal. As an outcome of this discussion a number of parameters required to facilitate the proposal were produced. These are shown in the table contained in Annex 2 along with the options for each parameter, and brief descriptions.
- 4.5 When submitted, many of these parameters were not explicitly captured in the CMP207 Proposal Form. Through the Workgroup discussions, and presentation of data from the NGET representative, the Proposer and Workgroup members have further developed the original Modification proposal to capture additional parameters. The table contains the information from the CMP207 Proposal Form, the Proposer's preferred model following Workgroup discussions and the alternatives developed by the Workgroup members.
- 4.6 Workgroup discussions focused on the impact of these parameters on the proposal, and in relation to the Terms of Reference set out by the CUSC Panel. The discussions relating to the Terms of Reference are reported below.
- 4.7 TNUoS tariffs are made up of elements, and a User's overall TNUoS charge can be the summation of a number of applicable tariffs. For example, wider locational tariffs are comprised of a locational element (which provides a forward looking cost-reflective signal) and a residual element (which ensures the correct revenue is recovered). The Workgroup discussed whether the CMP207 proposal seeks to affect the overall tariff or individual elements of

¹ Unless otherwise stated, references in this consultation to years, such as 2011/12, refers to TNUoS charging years which start on the 1st April and end on the following 31st March.

TNUoS tariffs. The Proposer commented that the original proposal sought to affect overall tariffs, but that should not preclude alternatives considering the effect on individual elements. There was majority agreement to this approach within the Workgroup.

- 4.8 The Workgroup agreed that if a cap is implemented it should be exclusive of RPI. This means that if the 20% cap is successfully implemented, the actual cap on a TNUoS change; charging year on charging year; would be 20% + RPI.
- 4.9 The Workgroup also questioned whether the Modification was limited to capping increases, and whether it should also provide a collar for decreases. It was viewed that capping only increases could lead to higher TNUoS charges for those Users in high TNUoS zones who would rarely be capped, but would not benefit any greater if TNUoS charges fell. The Proposer commented that the original proposal considered increases in TNUoS tariffs only, as decreases did not have the same detrimental impact on a Supplier. However, following Workgroup discussions the Proposer stated that they would be willing to change their original proposal to take into account both (charging) year on year increases and decreases in TNUoS tariffs. The Workgroup unanimously agreed with this revised approach.
- 4.10 The Workgroup discussed whether the 20% limit should be applied on a zonal or national average basis. In the case of a national average basis the Workgroup considered a simple example, where TNUoS charges for zone 'X' were due to rise in one charging year from, say, £100/kW to £125/kW and decrease, in zone 'Y', from £100/kW to £74/kW then if increases and decreases were capped (at 20% each) on a national basis then the difference between zone 'X' (£-5/kW) and zone 'Y' (£+4/kW) would help to balance each other out and go some way to reduce the 'under recovery' (arising from the cap) that would have to be paid. There was unanimous agreement that any 20% limit should be applied on a zonal basis.

Terms of Reference

a) Consider the Transmission Price Control Review and the emerging OFTO regime

- 4.11 The NGET representative, in his presentation, outlined forecast revenues for TNUoS charges for the five year period to 2016/17. It was noted that the total transmission revenues to be recovered from TNUoS payers are forecast to increase each charging year during this period, with an increase of in excess of 25% forecast from 2012/13 to 2013/14.
- 4.12 It was noted that some of this increase is due to the existing on-shore TO funding requirements forecast under RIIO-T1. These are provided in Table 1 below², and indicate a 21.7% increase from 2012/13 to 2013/14. It is also recognised that transmission revenues to be recovered via TNUoS charges have the potential to become more uncertain under the new RIIO-T1 arrangements, due to the increased proportion of transmission revenue managed via uncertainty and incentive mechanisms. The Workgroup noted that the mitigation of network charging volatility arising from the RIIO-T1

² Source: A discussion of Possible TNUoS Tariff Scenarios Under Project TransmiT, National Grid, April 2012: <http://www.nationalgrid.com/NR/rdonlyres/C9BF215A-2616-49C6-B40F-D1E895F58189/53212/ADiscussionofPossiblePTTariffScenariosv10.pdf>

price control settlement is the subject of an Ofgem consultation³. It was noted that this Ofgem consultation also seeks to reduce the volatility in Users' transmission charges, and the NGET representative noted that the Ofgem consultation may provide a more efficient solution than management via limiting TNUoS tariffs (as proposed with CMP207).

Table 1

£m in 12/13 prices	11/12	12/13	13/14	14/15	15/16	16/17
NGET	-	1,532	1,775	1,875	1,983	2,105
SHETL	-	128	243	339	405	419
SPTL	-	235	289	301	327	316
Total	1751	1,895	2,307	2,515	2,715	2,841

4.13 The remaining increases in TNUoS charges are due to the increasing number of offshore transmission owner (OFTO) connections. Forecast revenue allowances for these connections, which are subject to Ofgem agreement, are given below⁴. It was noted that both the volume and timings of these connections are subject to significant change, which can present additional uncertainty for TNUoS charges year on year.

Table 2

£m in 12/13 prices	11/12	12/13	13/14	14/15	15/16	16/17
Existing OFTOs	-	31	30	30	30	30
New OFTOs	-	69	149	184	281	421
Total	105	100	179	214	311	452

4.14 The NGET representative noted that, under the current TNUoS methodology, there are a number of variables that are re-assessed at the start of a new price control period, as would be the case with RIIO-T1. These can introduce additional volatility to Users in the first charging year at the start of a new price control period. Such variables include the determination of generation charging zones⁵, expansion constant, expansion factors, and locational security factor. Additionally Local Substation Tariffs are reviewed.

4.15 The Workgroup commented that the rezoning of generation zones could have broader implications on the recovery of transmission revenue in zones which have reached a 20% cap. For example, a generation charging zone may have reached its annual 20% limit, and hence have uncollected revenue that is deferred to the following charging year. If the following charging year is at the start of a new price control period it may be that this generation charging zone no longer exists (it may have been incorporated into other zones for instance). In such a case NGET would still be required to recover the uncollected revenue, and it is unclear how this could be achieved for any proposal involving zonal limits and associated revenue recovery. The Workgroup discussed an alternative solution whereby



Transmission Entry Capacity (TEC)

TEC is the amount of generation a generator wishes to export onto the National Electricity Transmission System and is stated in Megawatts. The TEC register is available on the following link.

<http://www.nationalgrid.com/uk/Electricity/GettingConnected/ContractedGenerationInformation/TransmissionEntryCapacityRegister/>

³ Mitigating network charging volatility arising from the price control settlement, Ofgem, April 2012: <http://www.nationalgrid.com/NR/ronlyres/C9BF215A-2616-49C6-B40F-D1E895F58189/53212/ADiscussionofPossiblePTTariffScenariosv10.pdf>

⁴ Source: A discussion of Possible TNUoS Tariff Scenarios Under Project TransmIT, National Grid, April 2012: <http://www.nationalgrid.com/NR/ronlyres/C9BF215A-2616-49C6-B40F-D1E895F58189/53212/ADiscussionofPossiblePTTariffScenariosv10.pdf>

⁵ Demand charging zones relate to the GSP Groups used for energy market settlement purposes and therefore would not be routinely reviewed..

revenue collection could be targeted on generation Users within the 'original' zone, even if they 'moved' zones due to a price control rezoning. It was noted that this would add complexity to the proposal, and would still leave outstanding issues such as the management of generation Users with unrecovered revenue who had changed Transmission Entry Capacity (TEC) between charging years.

- 4.16 The Proposer was asked how the CMP207 proposal sought to manage changes caused through variables altered at the start of a Price Control period. The Proposer commented that the original proposal was written with a view that a 20% cap would apply irrespective of such changes. However, following the Workgroup discussion he now could see a need for a 'force majeure' clause to cover such eventualities.
- 4.17 It was also noted that similar, and potentially more significant, changes could also be introduced through implementation of other future Modification proposals (e.g.CMP213, changes to G/D split). The Proposer commented that such a 'force majeure' clause could apply in these cases also.
- 4.18 The Workgroup agreed that such a clause would be required to manage such extraordinary events as a Price Control change or a methodology change. Alternatively when considering implementation timescales, account should be taken of the impact on users. This would allow for such extraordinary events to be managed for an option which considered limits against a forecast, but issues would still remain for management of these events with a year on year solution to CMP207.
- 4.19 The Workgroup asked whether the industry agreed that there should be a force majeure clause as outlined above. While the majority of respondents supported a force majeure clause to deal with price controls, 2 respondents disagreed, considering that a price control would not constitute an event of force majeure in the normal usage of the term and would add unnecessary additional complexity to the proposal. One of the respondents who supported a force majeure clause noted that it may be needed to cover rezoning if CMP207 were to apply to generation as well as demand.

b) Understand the existing forecasting arrangements

- 4.20 Ofgem require NGET to produce, in accordance with Condition 5 of its Transmission Licence, at least annually information on the forecast future path of TNUoS tariffs for the next five years. This year, due to the current uncertainty over the future TNUoS methodology (due to Project TransmiT) National Grid has currently provided an initial forecast for 2013/14 and a view on possible TNUoS tariff scenarios under Project TransmiT. National Grid intends to provide an updated view on completion of the CUSC Workgroup process that considers the Project TransmiT directed modification (CMP213).
- 4.21 Normally these indicative forecasts are produced using contracted generation and forecast demand for the next five years along with transmission data from the Seven Year Statement produced by National Grid. The data is made available to customers on National Grid's website for use in the Transport model.
- 4.22 The NGET representative noted that, in Ofgem's consultation entitled 'Mitigating network charging volatility arising from the price control settlement', paragraph 2.10 states that *'We consider that changes in charges should not give rise to a risk premium if the changes are predictable, as the supplier can price the expected change into the contract with the customer'*. The Workgroup discussed whether rather than seeking



Condition 5

This link to National Grid's website contains information on Condition 5 – Long Term Tariff Publications

<http://www.nationalgrid.com/uk/Electricity/Charges/gbchargingapp/rovalconditions/5/>

to introduce additional stability into TNUoS charges, this CMP207 proposal should consider improving the predictability of these charges.

- 4.23 The Workgroup asked whether respondents believed that CMP207 should improve predictability or stability of TNUoS charges. Respondents gave mixed views as to whether CMP207 would or should improve either of these aspects. Three respondents felt that CMP207 would improve both predictability and stability, although one of these respondents caveated their response by saying that CMP207 should be applied to generation as well as demand users. Two respondents considered that CMP207 would improve stability, with one noting that this would not necessarily equate to stability in the predictability of TNUoS tariffs. One respondent did not feel it would improve either of these aspects as the proposal would take volatility from one party and place it on another party. One respondent thought that CMP207 should aim to improve predictability of charges as this would be helpful to parties who pay those charges. One of the respondents noted that the changes proposed by CMP206 (Requirement for National Grid Electricity Transmission to provide and update year ahead TNUoS forecasts) would better meet the requirements for improved predictability.
- 4.24 It was suggested that an alternative could be raised to consider limiting tariff changes from forecast TNUoS charges rather than (charging) year on year changes. There was general Workgroup agreement to such an alternative and its benefits over the original. In such an alternative, if National Grid were to forecast a TNUoS tariff to be £1/kW then the actual tariff could be anywhere between £0.8/kW and £1.2/kW without breaching a 20% limit.
- 4.25 The Workgroup indicated that, if a TNUoS limit was linked to a forecast of tariff charges, the date of such a forecast would need to be defined at a suitable time in advance of the charging year. It was suggested that publishing the forecast at the same time as confirming the final tariffs for the following charging year would be the most valuable. This would mean that the forecast for 2014/15 would be published in January 2013 at the same time as the 2013/14 tariffs are confirmed by National Grid. The NGET representative noted that publishing forecast charges at this stage would still leave a number of input parameters to the methodology uncertain. The forecasting of TNUoS charges closer to the charging year would reduce this uncertainty, as information would be more defined. For instance, a forecast produced in April 2013 for the 2014/15 charging year would allow inclusion of notified generation TEC changes from March 2013.
- 4.26 The Workgroup asked what the best time of year was for the forecast upon which a cap could be based. The majority of respondents thought that the forecast should be produced in January, at the same time as confirming final tariffs for the following charging year. One respondent felt that the forecast should be produced once the TEC changes were known, generally the end of April for the following charging year, as these changes represent one of the largest influences on the locational differentials in TNUoS tariffs. One further respondent suggested the forecast should be produced after the week 24 demand submission in June of each year.
- 4.27 Differing slightly from the forecast option detailed above, a potential third option suggested using the National Grid forecast but capping the difference between the previous charging years actual tariff and the following years forecast tariff. In practice this would mean that if the 2012/13 actual tariff is £1 and the 2013/14 forecast tariff is £1.20 then the cap would apply to the 20p difference between them. So a 20% cap would mean the actual 2013/14 tariff could be anywhere between £1.16 and £1.24 without breaching a 20% limit.
- 4.28 A Workgroup member also suggested the possibility of limits based on a two year ahead forecast. There was discussion over the appropriateness of



**CMP206 To provide
and update year
ahead TNUoS
forecasts**

More information on
CMP206 is available on
the following link.
<http://www.nationalgrid.com/NR/rdonlyres/CC7BD5E7-AF1F-4FEB-8AFB-1E12D1CCD493/54644/Stage02CMP206WorkgroupConsultationVersion10.pdf>

such a limit. The NGET representative commented on the increased uncertainty for methodology input data at such timescales. Another Workgroup member noted that use of such lengthy limits to TNUoS charge changes could result in the unnecessary deferral of cost reflective changes for a number of charging years.

- 4.29 The nature of TNUoS forecasting arrangements is also being considered by CMP206 - Requirement for National Grid Electricity Transmission to provide and update year ahead TNUoS⁶. The Workgroup also considered the interaction between this CMP207 Modification proposal and CMP206. The majority view was that the two Modifications were complimentary to one another, but not dependent.

c) Consider whether percentage is the key in terms of volatility

- 4.30 The Workgroup debated the merits of a percentage cap compared to a cap on the absolute TNUoS tariff change. Workgroup members commented that allowing a percentage cap means that in some transmission charging zones a 20% cap could be reached even for cases where the absolute value of the increase in the TNUoS tariff is relatively low. For example, the Zone 15 wider generation tariff in 2012/13 is £2.03/kW. As such a 20% change would mean an annual increase would be limited to only £0.406/kW.
- 4.31 An alternative solution would be the use of an absolute £/kW cap which would apply to every zonal tariff of a particular classification. For instance, a £5/kW cap could be applied to all generation zonal tariffs. It was argued that such a cap could be non-discriminatorily applied to all Users of a certain class, whilst a percentage cap would discriminate against those Users in high charging zones. Whilst there was significant support for such an alternative, the Proposer preferred the use of a percentage cap.
- 4.32 To assist discussion, the NGET representative produced graphs showing both the absolute and percentage differences between the final 2011/12 tariffs and 2012/13 Condition 5 forecast from final 2012/13 demand tariffs.
- 4.33 To implement an absolute limit, it would be necessary to know what the cap is and how it will change over time. Such a limit would need to be annually incremented by RPI. For the purposes of comparative analysis the Workgroup suggested a figure representative of an averaged annual 20% change from 2011/12 to 2012/13 for zonal demand TNUoS tariffs representative in £/kW weighted by the zonal demand.
- 4.34 The Workgroup asked whether respondents believed an absolute or percentage limit (as outlined in paragraphs 4.27-4.30) would be a more suitable use of a limit. 4 respondents preferred the use of an absolute limit, considering that this would account better for large differences in tariffs between charging zones and that users in high charging zones could be less disadvantaged by an absolute cap than by a percentage. 2 respondents supported the use of a percentage limit, but one noted that in some charging zones the absolute value of the increase would be relatively low and suggested an alternative solution of using a cap of 20% or 20p, whichever is the higher. 1 of the respondents supporting the percentage cap noted the arguments raised by other Workgroup members in favour of an absolute limit. 2 respondents did not agree with having a limit at all, but noted that if there had to be a limit, they would prefer an absolute limit for the same reasons set out above.

⁶ <http://www.nationalgrid.com/NR/ronlyres/CC7BD5E7-AF1F-4FEB-8AFB-1E12D1CCD493/54644/Stage02CMP206WorkgroupConsultationVersion10.pdf>

- 4.35 To account for the differences between generation, zonal demand and energy consumption TNUoS tariffs, different limits would be required for each. The NGET representative suggested that the limits would be published with the annual TNUoS Statement of Use of System Charges (the Charging Statement).
- 4.36 It was noted that the TNUoS methodology derives energy consumption tariffs for non-half hourly metered demand customers from zonal demands and zonal demand tariffs for half-hourly metered customers. Hence a limit placed on zonal demand TNUoS tariffs would account for energy consumption tariffs also.

d) Consider how percentage works in a negative zone

- 4.37 One Workgroup member put forward a method of applying the same cap to positive and negative zones, as is detailed below.
- 4.38 For zones with a positive original value use formula (i)

Formula (i)

$$\text{Percentage_Change} = \frac{(\text{New_Value} - \text{Original_Value})}{\text{Original_Value}}$$

- 4.39 For zones with a negative original value use formula (ii)

Formula (ii)

$$\text{Percentage_Change} = \frac{(\text{Original_Value} - \text{New_Value})}{\text{Original_Value}}$$

- 4.40 The Workgroup noted that, if there was an absolute cap on TNUoS tariffs, rather than a percentage cap, any confusion over negative zones would be reduced.
- 4.41 The Workgroup queried whether there was a risk that, in zones where the TNUoS charge is close to zero, the tariff would become 'trapped', never able to change by more than a fraction of a penny without breaching the 20% cap, leading to a constant 'rolling over' of the under recovered amount from one charging year to many future charging years.
- 4.42 A potential solution to prevent the trapping of TNUoS tariffs could be to apply a deadband around zero that doesn't take into account any percentage cap.

e) Consider if the 20% cap is absolute

- 4.43 The original modification proposal states the 20% figure is not intended to preclude consideration of a lower figure. The Proposer did not provide any evidence to justify the choice of a 20% cap.
- 4.44 The NGET expert provided tables of data showing the percentage and absolute annual changes of zonal TNUoS tariffs from 2007 in 2007/8 prices.
- 4.45 For implementation of an absolute limit, instead of a percentage limit, the Workgroup suggested that using the average TNUoS tariff increase would be a good starting point for the value of the cap. The derivation of this average is further described in section 4.33.

- 4.46 The Workgroup concluded that any limit on (charging) year on year TNUoS tariffs changes would be an arbitrary choice.
- 4.47 The Workgroup asked whether respondents agreed with the 20% limit suggested by the Proposer. Of the 2 respondents who supported using a percentage limit, both agreed with using the 20% figure. Of the remaining respondents who either supported an absolute cap or did not support a limit at all, 3 could see some merit in using the 20% figure, although one noted that such a figure would always be arbitrary to start with.
- 4.48 The Workgroup also asked whether respondents believed that a limit of 20% is suitable for a (charging) year on year change, or a forecast change. There were mixed views, with the majority of respondents supporting the limit for a forecast change only. Two respondents also supported a year on year change.

f) Consider the likely costs for NGET

- 4.49 Within the original CMP207 proposal, the Proposer stated that the proposal does not seek to create an under-recovery of allowed revenue. This could be interpreted as the under-recovery would be smeared into the charges of other Users within the same charging year. There was general Workgroup consensus that this would dilute the cost reflective signal within TNUoS charges, and could potentially discriminate between Users in capped zones and those in the zones which had been smeared. It could also lead to TNUoS charges in some smeared zones breaching (as a result of the first smearing) the 20% cap, leading to further smearing of this under-recovery (and so on).
- 4.50 The Proposer commented that the intention was that CMP207 would seek to collect any under-recovery in the following charging year from those Users that had reached their charging cap.
- 4.51 The NGET representative noted that any carry-over of unrecovered revenue to the following charging year would have a financial impact on NGET in its role as NETSO in its ability to collect the allowed revenues on behalf of transmission companies within GB. National Grid would be obliged to pay out the allowed revenues to ScottishPower Transmission (SPT), Scottish Hydro Electric Transmission Ltd (SHETL) and Offshore Transmission Owners (OFTOs) and therefore it was critical to National Grid that it remain whole for an under recovery of revenue.
- 4.52 Such an under-recovery would therefore carry a level of risk and financing cost for National Grid to recognise both the impact of RPI between years, and also to reflect the risk taken by National Grid in its cash-flow. The NGET representative suggested that this financing could be equal to RPI plus NGET's agreed regulatory rate of return. This uplift would be applied to any unrecovered revenue. Thus if a particular zone was due to have a 25% TNUoS increase in charging year 1 then the additional 5% would be carried over. Assuming, in this simple example, a combined RPI and NGET rate of return figure of 10% then 5.5% would need to be recovered in charging year 2 from those Users in that zone. The NGET representative commented that these financing costs would be best placed in National Grid's electricity transmission licence, and outside of the remit of this modification proposal.
- 4.53 A Workgroup member commented that, for an option considering a cap and collar, there should also be a mechanism for reflecting over recovery of revenue by National Grid. The NGET representative agreed that consideration should also be given to over recovery, although the likelihood of this occurring was thought to be slim.

- 4.54 A further complication with the under-recovery 'roll-over' approach could arise if the subsequent charging years' TNUoS charges also exceeded the cap. The Workgroup noted that with the ~25% increase in allowed revenue already expected in 2013/14 (see Table 1 and Table 2) it could be feasible for the 20% cap to apply in a number of zones across a number of TNUoS charging years. It was also noted that if targeting zones, in zones with low TNUoS charges this could result in a number of consecutive years of under-recovery where the zonal tariff had continuously capped out. It was noted that this issue only occurs with a (charging) 'year on year' option, as a forecast option would allow changes to be incorporated in the forecast.
- 4.55 It was noted that the capping (and collaring) of transmission revenues to mitigate charging volatility is currently the subject of a separate Ofgem consultation⁷. It was also noted that decisions which would impact on a network company's revenue streams need to be managed through the respective licences rather than the CUSC.
- 4.56 The NGET representative advised that the proposed deferral of transmission revenues between charging years would impact on NGET's transmission licence, including its revenue formula. This would need adjustment to reflect the increased level of over / under recovery which is currently managed through the k_t ('k factor') licence term. Such an adjustment would need to be agreed between Ofgem and NGET.
- 4.57 The NGET representative noted that, in addition to the aforementioned financing costs, there would also be a level of Information Systems (IS) costs associated with this CMP207 proposal. These include the costs of modifying the Transport and Tariff model used to derive TNUoS charges, and potentially updates to the NGET billing system to ensure Users are informed of cases where deferred charges / payments are due.

g) Assess the materiality on generation and demand

- 4.58 There was discussion as to whether this CMP207 proposal would have similar impact for demand and generation Users. It was agreed that generation Users are more likely to respond to a cost reflective signal, and therefore any proposal which seeks to reduce the cost reflectivity of the charge will have a greater impact on generation Users than on demand Users.
- 4.59 The CMP207 proposal does not intend to alter the 27:73 generation: demand split in the TNUoS methodology and the original modification proposal was written such that it should apply to all network Users. However, the Workgroup noted that a further complication with delaying transmission revenue recovery would be the need to maintain the 27:73 (G:D) split. It could be argued that any unrecovered revenue from a (charging) year relates to that year's transmission revenue regardless of the actual year of recovery.
- 4.60 The link between uncertainty in offshore revenue, and local charges for offshore generation was noted; i.e. if a new OFTO connects, there will be an associated new offshore generator with some level of associated local charge. As these local charges are part of the TNUoS charges required to collect the main infrastructure revenue in accordance with the 27:73 split, this will have the broader effect of reducing locational generation tariffs and increasing locational demand tariffs. The impact of volume and timing for

⁷ Mitigating network charging volatility arising from the price control settlement:
http://www.ofgem.gov.uk/Networks/Policy/Documents1/Charging_Volatility_Cons.pdf

new OFTOs creates volatility in charges as with any other unforecast TO revenue change.

- 4.61 It was noted that the application of limits to TNUoS tariffs on a zonal or User specific basis could potentially discriminate between different Users through introducing different treatment of TNUoS charge changes. Though this impact could be reduced through some of the alternatives discussed (e.g. absolute rather than percentage limits) this potential would still exist.
- 4.62 There was a suggestion that in those TNUoS charging zones that reach the (20%) cap, specific Users who had benefitted from the under-recovery, could be targeted in future years, via an increase in their specific charges to recover the under-recovery (plus National Grid's financing costs). This would account for changes to the customer base between years. This was felt to be particularly important for generation Users, as there are frequent changes to individual generator Transmission Entry Capacities (TECs). However, it was noted that this could be applicable to demand customers also, particularly large industrial operations. A general consensus was reached that the changing of suppliers within a zone would not be a concern, as the TNUoS charge would still be paid by the same end consumers. Some members of the Workgroup believed that a User specific limit could have a detrimental impact on competition because, even though slight, as TNUoS impacts end consumer bills it can affect a Supplier's competitive position. Other members of the Workgroup believed that recovering the under-recovery (plus financing costs) only from those Users who had benefitted from the under-recovery was both cost-reflective and (thus) better for competition in the sale or supply of electricity as it avoided windfall gains and losses for individual Users. Recovering under-recovered transmission revenue from new Users who had not benefitted from the lower capped TNUoS tariff would be discriminatory. The Workgroup agreed that User specific targeting would be more complex than a zonal targeting methodology.
- 4.63 There was general agreement that the CMP207 proposal would be more difficult to implement for generation Users and TNUoS tariffs for a number of reasons. These reasons included:
- Treatment of local generator charges which are User specific;
 - Management of TEC changes;
 - Treatment of generation wider tariff re-zoning.
- 4.64 There was general Workgroup consensus that given the increased response to cost reflective signals of generation Users, complexities surrounding price control generation re-zoning and accounting for the additional difficulties with implementation, the proposal could be targeted on demand Users only via Demand Tariffs and Energy Consumption Tariffs.
- 4.65 The Workgroup asked respondents whether they agreed with the Workgroup's views on cost reflectivity and the potential for discrimination. The majority of respondents agreed with the Workgroup's views.
- 4.66 The Workgroup also asked whether respondents agreed with the Workgroup's consensus that the proposal could be targeted on demand Users only. Two respondents suggested that the proposal should be extended to generation, with one of these respondents considering that generators will be most affected by current regulatory change proposals and that better foresight of transmission charging would provide some predictability to assist generators' business planning.

h) Assess the impact on small suppliers

4.67 The Workgroup discussed the definition of small Supplier. Several definitions were circulated around the Workgroup:

- According to the Ombudsman services and contained within the Energy Ombudsman Terms of Reference; *Small Supplier means an Energy Supplier who has less than 1 million customers.*⁸
- Two definitions were found on the Elexon website. The first classified a Supplier as small if annual metered energy offtaken by the trading party group is greater than zero TWh and less than 25 TWh⁹. The second suggested that a small Supplier is one with less than 250,000 meters.¹⁰
- According to the Standard Conditions of the Transmission Licence a small participant means (a) a generator, supplier, distributor, or new entrant to the electricity market in Great Britain that can demonstrate to the code administrator that it is resource-constrained and, therefore, in particular need of assistance; (b) any other participant or class of participant that the code administrator considers to be in particular need of assistance; and (c) a participant or class of participant that the Authority has notified the code administrator as being in particular need of assistance¹¹.

4.68 The application of a limit to TNUoS tariff changes on a company basis rather than a zonal or User specific basis could be a barrier to expansion for small Suppliers across different zonal areas. This is because, for such an option, Suppliers with customers in multiple zones would have some element of smearing of overall TNUoS charge increase(s), thus reducing the probability of a cap. On this basis, such a company based targeting approach, which could also be considered discriminatory, has been discounted by the Workgroup.

4.69 The Workgroup could not find another reason why this CMP207 proposal would have an impact on a small Supplier that would differ from any other Supplier. The Workgroup asked whether respondents considered that there is any impact on small Suppliers over and above those already identified by the Workgroup. Two respondents suggested that smaller suppliers are less likely to have large diverse portfolios over which increases could be spread and would therefore be exposed to greater average increases.

i) Consider the consistency with the like-for-like DCUSA proposal

4.70 An equivalent DCUSA proposal was raised by the Proposer that seeks to introduce a 20% cap on year on year DUoS charges. The equivalent DCUSA Workgroup¹² is currently looking at three possible solutions.

- Option 1 – cap changes to individual tariff components at 20%
- Option 2 – cap the impact to the average customer at 20%
- Option 3 – limit the percentage increase in tariffs, potentially based on the last published tariffs relative to the final published tariffs.

⁸ <http://www.ombudsman-services.org/downloads/Annex%201%20OSE%2019Jul11%20final.doc>

⁹ <http://www.elexon.co.uk/wp-content/uploads/2012/02/p129.pdf>

¹⁰ <http://www.elexon.co.uk/wp-content/uploads/2012/01/Slides-Feb-194-Final-Version.pdf>

(Slide 10)

¹¹ <http://epr.ofgem.gov.uk/EPRFiles/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

¹² DCUSA Workgroup DCP125 is looking to limit increases to DUoS tariffs to 20% in one year.

- 4.71 The Proposer, a member of this Workgroup, provided updates to the CMP207 Workgroup. Based on these updates, the Workgroup considered that the two proposals (CMP207 and DCP125) could remain independent of each other and each be progressed separately.
- 4.72 On 24th July 2012 the original Distribution Change Proposal (DCP 125) was withdrawn. Haven Power intends to submit an alternative modification, which will align with the cap against forecast approach as discussed in the CMP207 workgroup.

j) Review the illustrative legal text

- 4.73 The changes required to Section 14 of the CUSC were circulated to Workgroup members after the consultation closed and are included in Volume 2 of this report.

Workgroup Alternative CUSC Modifications (WACMs)

- 4.74 Following the Workgroup Consultation, the Workgroup met to discuss consultation responses, confirm the CMP207 original proposal and discuss WACMs. The Proposer confirmed that he wished the original to remain the same as set out in Annex 3 of this Report.
- 4.75 The Workgroup then discussed potential WACMs, starting with the two options that were consulted on. The discussions resulted in a range of six possible WACMs, which were then assessed by the Workgroup against the Applicable CUSC Objectives. The Workgroup selected four of the six potential WACMs to progress to the Workgroup vote. The options and rationale are set out below. A summary table of all the options can be found in Annex 3.

Potential WACM1

- 4.76 A 20% cap and collar based on a year ahead forecast of Zonal Demand TNUoS tariffs which would be applicable to demand customers only. The forecast would be produced in January each year. This option received majority support from Workgroup Members and was progressed as WACM1.
- 4.77 The reasons given for supporting WACM1 were that it results in more cost reflective charges and therefore better facilitates the Applicable CUSC Objectives than CMP207 original. Workgroup members also felt that using a forecast gives more certainty to parties and therefore better facilitates competition.

Potential WACM2

- 4.78 This option is the same as potential WACM1, except that the forecast would be produced in April each year, to allow for changes to generation capacity to be taken into account. This option received majority support from Workgroup Members and was progressed as WACM2.
- 4.79 Workgroup members gave the same reasons for supporting WACM2 as for WACM1 above.

Potential WACM3

- 4.80 An absolute cap and collar, based on a year ahead forecast of Zonal Demand TNUoS tariffs which would be applicable to demand customers only. It is suggested that the cap and collar would be set to a figure equal to an average 20% change to Demand Tariffs weighted by zonal demands. For 2012/13 this would equate to £4.72/kW. The forecast would be produced in

January each year. This option received majority support from Workgroup Members and was progressed as WACM3.

- 4.81 Workgroup members gave the same reasons for supporting WACM3 as for WACM1 above.

Potential WACM4

- 4.82 This is the same as WACM3, except the forecast would be produced in April each year. This option received majority support from Workgroup Members and was progressed as WACM4.

- 4.83 Workgroup members gave the same reasons for supporting WACM4 as for WACM1 above.

Potential WACM5

- 4.84 This proposed a hybrid of WACMs 1 and 3, whereby above a certain threshold, a percentage change would be used and below that a threshold, an absolute figure would be used. This option would use a January forecast. Workgroup members felt that this option would be more complex and there would be difficulties in setting the threshold. This option was therefore not supported as a WACM.

Potential WACM6

- 4.85 This WACM suggested a variation to one element of the original, as set out in row G of the options table in Annex 4. The National Grid representative suggested that a WACM could be raised which would place a cap and collar on locational elements of TNUoS charges only, rather than whole tariff. This element could be applied to CMP207 original and all of the other WACMs suggested. This option was not supported by Workgroup Members and was not progressed as a WACM. The National Grid representative agreed with this approach and suggested that it could be raised as a stand-alone change at some point in the future, if there was industry support.

5 Impacts and Costs

Impact on the CUSC

- 5.1 CMP207 requires amendments to the following parts of the CUSC:
- Section 14
- 5.2 The legal text proposed for CMP207 original and the four WACMs can be found in Volume 2 of this report.

Impact on Greenhouse Gas Emissions

- 5.3 Neither the proposer nor the Workgroup has not identified any material impacts on Greenhouse Gas Emissions

Impact on Core Industry Documents

- 5.4 Changes would potentially be required to NGET's transmission licence as detailed in paragraphs 4.52 and 4.56 of this report.

Impact on other Industry Documents

- 5.5 Neither the Proposer nor the Workgroup identified any impacts on other Industry Documents although, as noted in paragraphs 4.70-4.72, an equivalent DCUSA proposal was raised by the Proposer that seeks to introduce a 20% cap on year on year DUoS charges. This proposal was later withdrawn.

Costs

Code administration costs	
Resource costs	£7,260 - 4 Workgroup meetings £166 - Catering
Total Code Administrator costs	£7,426

Industry costs (Standard CMP)	
Resource costs	£21,780 - 4 Workgroup meetings £14,520 – 2 Consultations <ul style="list-style-type: none">• 4 Workgroup meetings• 6 Workgroup members• 1.5 man days effort per meeting• 1.5 man days effort per consultation response• 8 consultation respondents
Total Industry Costs	£43,726

6 Proposed Implementation

- 6.1 The Workgroup proposes that CMP207 should be implemented on 1st April 2013, which is in accordance with the principles in CUSC that charging methodology changes should be implemented on the 1st April.
- 6.2 For alternatives considering limits to TNUoS tariffs against year ahead forecast tariffs, implementation on the 1st April 2013 would mean that the first applicable year ahead forecast tariffs would be produced during the 2013/14 charging year as a forecast for the 2015/16 charging year. Hence there would be no impact (in terms of limits on changes) on final TNUoS tariffs until the start of the 2015/16 charging year.
- 6.3 For Workgroup alternatives proposing a January forecast date, then the Workgroup suggested that the first forecast tariffs would be published in January 2014. For Workgroup alternatives proposing an April forecast date, it was agreed that first forecast tariffs would be best published in April 2014 which would allow for reflection of changes due to the new RIIO-T1 price control, and also any changes as a result of CMP213 – Project Transmit TNUoS Developments.
- 6.4 NGET's initial view is that any required IS changes to the Transport and Tariff model to calculate TNUoS tariffs, and also to billing systems would be achievable in the timescales laid out above. One respondent to the Workgroup consultation noted NGET's view and asked that NGET publish any changes to the Transport and Tariff model as early as possible to allow Users to check National Grid's tariffs and undertake their own forecasts in the future.
- 6.5 Of those respondents who commented, all were supportive of the proposed implementation date of 1st April 2013. The Proposer suggested that, were CMP206 also implemented, then for the first year of implementation of CMP207, the next forecast published under CMP206 after April 2013 for the 2014/15 charging year should be used as the CMP207 reference forecast. If CMP206 were not implemented, the Proposer suggested that National Grid should publish a reference forecast before the end of April 2013.

Assessment against Applicable CUSC Objectives

- 7.1 The Workgroup believes that the Terms of Reference have been fulfilled and that CMP207 has been fully considered. On 30th August 2012, the Workgroup voted on CMP207 and the four WACMs. A summary of the Workgroup voting is set out in the table below. Full details of the voting can be found in the following paragraphs.
- 7.2 In summary, a majority of Workgroup members concluded that none of the options would better facilitate the Applicable CUSC Objectives than the CUSC baseline. However, the Workgroup also concluded unanimously that all of the Workgroup Alternative CUSC Modifications better facilitate the objectives than CMP207 original proposal.

View against Applicable CUSC Objectives	Better than CUSC baseline	Better than CMP207 original	Best
CUSC baseline	N/A	5	4
Original	1	N/A	0
WACM1	2	6	2 ¹³
WACM2	2	6	0
WACM3	2	6	2
WACM4	2	6	0

- 7.3 For reference the Applicable CUSC Objectives for the Use of System Charging Methodology 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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Vote 1: Whether each proposal better facilitates the Applicable CUSC Objectives (than the CUSC baseline)

¹³ Two members voted that either WACM1 or WACM 3 provided the best solution.

a) CMP207 Original Proposal

	(a) Competition	(b) Cost reflectivity	(c) NGET's business dev	Overall
Antony Badger	Reduction in volatility = better for suppliers' competition. Less exposure to unhedgeable risk = better for new entrants.	Neutral.	Phasing would help this objective.	Yes
Andy Wainwright	Neutral. May improve competition due to reduction in volatility, however this needs to be considered alongside erosion in cost reflectivity.	No. Erodes cost reflective signal.	No. Not allowing TO's revenue to be passed through – puts hurdles in TOs' funding mechanisms.	No
Lesia Bandura	No. Wouldn't be a reduction in volatility as original.	No. Wouldn't be more cost reflective.	No. Inhibits TO getting their revenue.	No
Jon Wisdom	Slightly positive. More predictability to market participants	No.	No. Not allowing TO to recover appropriate costs.	No
Garth Graham	No. Parties would get cheaper charge in one year – they'd have more advantageous position in that year.	No. As per (a).would not be cost reflective	No. Developments include expansion of Tx network – these costs wouldn't be recovered.	No
Tom Darby	Marginally better, introduces level of stability compared to current.	No. Taking way lot of cost reflectivity.	No. TO can't recover revenue, doesn't take account of developments.	No

b) WACM 1

	(a) Competition	(b) Cost reflectivity	(c) NGET's business dev	Overall
Antony Badger	Positive, as per original.	Neutral.	Positive, signalled in advance for bill payers, payers can see in advance that NGET will have to invest and will know they'll have to pay for it.	Yes
Andy Wainwright	Neutral. May improves competition due to reduction in volatility, however this needs to be considered alongside erosion in cost reflectivity.	No. Erodes cost reflective signal.	No. Not allowing TO's revenue to be passed through – puts hurdles in TOs' funding mechanisms.	No
Lesia	More positive than	More cost reflective	n/a	No

	(a) Competition	(b) Cost reflectivity	(c) NGET's business dev	Overall
Bandura	original, would marginally increase competition.	than original. Would give predictability on 15 month ahead basis. (WACMs 1 & 3)		
Jon Wisdom	Equally positive, give more certainty to mkt participants.	Yes. Allow for cost reflective charges.	Yes. Still allow TO to react to changes on their network.	Yes
Garth Graham	No. Parties would get cheaper charge in one year – they'd have more advantageous position in that year.	No. As per (a).would not be cost reflective	No. Developments include expansion of Tx network – these costs wouldn't be recovered.	No
Tom Darby	Yes. Forecast to price against, could reduce premiums.	No. Taking away cost reflectivity whether you spread across year on year. Cashflow cost, just adds to deficit. I believe that the objective relating to cost reflectivity, (b), to be most significant overall in determining whether it is better in comparison with the CUSC baseline.	Yes. TO has chance to put out good forecast.	No

c) WACM 2

	(a) Competition	(b) Cost reflectivity	(c) NGET's business dev	Overall
Antony Badger	Positive, as per original.	Neutral.	Positive, signalled in advance for bill payers, payers can see in advance that NGET will have to invest and will know they'll have to pay for it.	Yes
Andy Wainwright	Neutral. May improve competition due to reduction in volatility however this needs to be considered alongside erosion in cost reflectivity.	No. Erodes cost reflective signal.	No. Not allowing TO's revenue to be passed through – puts hurdles in TOs' funding mechanisms.	No
Lesia Bandura	More positive than original, would marginally increase competition.	More cost reflective than original. Would give predictability on 15 month ahead basis. (WACMs 1 &	n/a	No

		3)		
Jon Wisdom	Equally positive, give more certainty to mkt participants.	Yes. Allow for cost reflective charges.	Yes. Still allow TO to react to changes on their network.	Yes
Garth Graham	No. Parties would get cheaper charge in one year – they'd have more advantageous position in that year.	No. As per(a).	No. Developments include expansion of Tx network – these costs wouldn't be recovered.	No
Tom Darby	Yes. Forecast to price against, could reduce premiums.	No. Taking away cost reflectivity whether you spread across year on year. Cashflow cost, just adds to deficit. I believe that the objective relating to cost reflectivity, (b), to be most significant overall in determining whether it is better in comparison with the CUSC baseline.	Yes. TO has chance to put out good forecast.	No

d) WACM 3

	(a) Competition	(b) Cost reflectivity	(c) NGET's business dev	Overall
Antony Badger	Positive, as per original.	Neutral.	Positive, signalled in advance for bill payers, payers can see in advance that NGET will have to invest and will know they'll have to pay for it.	Yes
Andy Wainwright	Neutral. May improve competition due to reduction in volatility however this needs to be considered alongside erosion in cost reflectivity.	No. Erodes cost reflective signal.	No. Not allowing TOs' revenue to be passed through – puts hurdles in TOs' funding mechanisms.	No
Lesia Bandura	More positive than original and other WACMs; may better facilitate objective (a) by promoting competition in the supply of electricity.	More cost reflective than original. Would give predictability on 15 month ahead basis. (WACMs 1 & 3)	n/a	No
Jon Wisdom	Equally positive, give more certainty to	Yes. Allow for cost reflective charges.	Yes. Still allow TO to react to changes on	Yes

	market participants.		their network.	
Garth Graham	No. Parties would get cheaper charge in one year – they'd have more advantageous position in that year.	No. As per (a).	No. Developments include expansion of Tx network – these costs wouldn't be recovered.	No
Tom Darby	Yes. Forecast to price against, could reduce premiums.	No. Taking away cost reflectivity whether you spread across year on year. Cashflow cost, just adds to deficit. I believe that the objective relating to cost reflectivity, (b), to be most significant overall in determining whether it is better in comparison with the CUSC baseline.	Yes. TO has chance to put out good forecast.	No

e) WACM 4

	(a) Competition	(b) Cost reflectivity	(c) NGET's business dev	Overall
Antony Badger	Positive, as per original.	Neutral.	Positive, signalled in advance for bill payers, payers can see in advance that NGET will have to invest and will know they'll have to pay for it.	Yes
Andy Wainwright	Neutral. May improves competition due to reduction in volatility however this needs to be considered alongside erosion in cost reflectivity.	No. Erodes cost reflective signal.	No. Not allowing TO's revenue to be passed through – puts hurdles in TOs' funding mechanisms.	No
Lesia Bandura	More positive than original, would marginally increase competition.	More cost reflective than original. Would give predictability on 15 month ahead basis. (WACMs 1 & 3)	n/a	No
Jon Wisdom	Equally positive, give more certainty to mkt participants.	Yes. Allow for cost reflective charges.	Yes. Still allow TO to react to changes on their network.	Yes
Garth Graham	No. Parties would get cheaper charge in one year – they'd have more advantageous position in that year.	No. As per (a).	No. Developments include expansion of Tx network – these costs wouldn't be recovered.	No
Tom Darby	Yes. Forecast to price against, could reduce premiums.	No. Taking away cost reflectivity whether you spread across year on year. Cashflow cost, just adds to deficit. I believe that the objective relating to cost reflectivity, (b), to be most significant overall in determining whether it is better in comparison with the CUSC baseline.	Yes. TO has chance to put out good forecast.	No

Vote 2: Whether each WACM better facilitates the Applicable CUSC Objectives than CMP207 original

a) WACM 1

	(a) Competition	(b) Cost reflectivity	(c) NGET's business dev	Overall
Antony Badger	Yes. Due to use of forecast	Neutral.	Yes.	Yes
Andy Wainwright	Neutral	Yes. Still allows annual cost reflective changes to be put through.	Yes. Allows developments to be reflected where they're known in advance.	Yes
Lesia Bandura	Yes. Due to forecast rather than year on year.	Neutral.	Neutral.	Yes
Jon Wisdom	Yes. Should have same transparency & predictability of charges.	Yes.	Yes.	Yes
Garth Graham	Yes. Forecast is stronger than year on year change.	Neutral	Neutral	Yes
Tom Darby	Yes. Less constraints around competition	Neutral.	Neutral.	Yes

b) WACM 2

	(a) Competition	(b) Cost reflectivity	(c) NGET's business dev	Overall
Antony Badger	Yes. Due to use of forecast	Neutral.	Yes.	Yes
Andy Wainwright	Neutral	Yes. Still allows annual cost reflective changes to be put through.	Yes. Allows developments to be reflected where they're known in advance.	Yes
Lesia Bandura	Yes. Due to forecast rather than year on year.	Neutral.	Neutral.	Yes
Jon Wisdom	Yes. Should have same transparency & predictability of charges.	Yes.	Yes.	Yes
Garth Graham	Yes. Forecast is stronger than year on year change.	Neutral	Neutral	Yes
Tom Darby	Yes. Less constraints around competition	Neutral.	Neutral.	Yes

c) WACM 3

	(a) Competition	(b) Cost reflectivity	(c) NGET's business dev	Overall
Antony Badger	Yes. Due to use of forecast	Neutral.	Yes.	Yes
Andy Wainwright	Yes. Absolute changes are applied equitably	Yes. Still allows annual cost reflective changes	Yes. Allows developments to be	Yes

	across whole charge-paying community.	to be put through.	reflected where they're known in advance.	
Lesia Bandura	Yes. Due to forecast rather than year on year.	Neutral.	Neutral.	Yes
Jon Wisdom	Yes. Should have same transparency & predictability of charges.	Yes.	Yes.	Yes
Garth Graham	Yes. Forecast is stronger than year on year change.	Neutral	Neutral	Yes
Tom Darby	Yes. Less constraints around competition	Neutral.	Neutral.	Yes

d) WACM 4

	(a) Competition	(b) Cost reflectivity	(c) NGET's business dev	Overall
Antony Badger	Yes. Due to use of forecast	Neutral.	Yes.	Yes
Andy Wainwright	Yes. Absolute changes are applied equitably across whole charge-paying community.	Yes. Still allows annual cost reflective changes to be put through.	Yes. Allows developments to be reflected where they're known in advance.	Yes
Lesia Bandura	Yes. Due to forecast rather than year on year.	Neutral.	Neutral.	Yes
Jon Wisdom	Yes. Should have same transparency & predictability of charges.	Yes.	Yes.	Yes
Garth Graham	Yes. Forecast is stronger than year on year change.	Neutral	Neutral	Yes
Tom Darby	Yes. Less constraints around competition	Neutral.	Neutral.	Yes

Vote 3: Which option BEST facilitates achievement of the ACOs?

Workgroup members were able to express a preference between the CUSC baseline; CMP207 Original; WACM 1; WACM 2; WACM 3 and WACM 4.

Name	Preference
Antony Badger	WACM1 and WACM3
Andy Wainwright	CUSC baseline
Lesia Bandura	CUSC baseline
Jon Wisdom	WACM1 and WACM3
Garth Graham	CUSC baseline
Tom Darby	CUSC baseline

National Grid View

7.4 National Grid have engaged extensively with customers on the subject of transmission charging volatility, both through the RIIO-T1 stakeholder engagement and the Transmission Charging Methodologies Forum (TCMF). From this engagement, National Grid understands that customers can

efficiently incorporate changes into their charges when these charges are known in sufficient advance. Hence they believe that any proposal that seeks to limit changes to charges should be focused on managing charging transparency and predictability rather than stability. National Grid also believe that any requirement to manage a Transmission Owner's revenue flow is best developed through discussion between the Authority and that licensee and implemented via the relevant transmission licence, which is consistent with Ofgem's consultation on Mitigating Charging Volatility. Whilst National Grid believes that there may be merit in limiting changes to the locational elements of TNUoS charges from a forecast position, they feel that this is better facilitated through control to the inputs to the methodology rather than limiting output tariffs as this maintains the cost reflectivity of TNUoS charges. However they recognise that such proposals are outside the scope of this modification proposal. For the avoidance of doubt, National Grid does not support the original proposal, nor any of the four workgroup alternatives developed.

CUSC Modifications Panel Determination Vote

The CUSC Modifications Panel voted by majority the CMP207 does not better facilitate the Applicable CUSC objectives and so should not be implemented. Full details of the vote are found below:

Original

Panel Member	Better facilitates ACO (a)	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Overall (Y/N)
Garth Graham	Some merit, but capping charges would be detrimental to competition. Mindful of Authority's recent work on capping charges – not taken forward as an option.	No, does not reflect cost within year (met in subsequent years). Counters merits against (a).	Neutral.	No.
Bob Brown	Yes, it enhances competition. Trade-off required between comp and cost reflectivity. CMP207 designed to address severe shocks in tariff changes. New entrants have had to develop innovative products to enter market to compete with existing players, particularly longer-term products.	Neutral. Dampens cost reflective signals.	Neutral.	Yes.
Simon Lord	Neutral. Some other mods going through will enhance forecasting, therefore cost	No. Will reduce cost reflectivity.	Neutral.	No.

	reflectivity.			
James Anderson	Yes, marginally. Improves stability, but note comments in report on alternative measures to improve predictability.	No. All options will be less cost reflective. Report talks about requiring carve-outs for price controls, this would undermine cost reflectivity even further.	Neutral.	No.
Paul Jones	No. Reduces cost reflectivity which is an important precondition for effective competition. % vs absolute: if you address stability, all options with % address stability but to differing extents, depending on what you start with. Therefore absolute change addresses stability better. Year on year vs forecast: Yr on Yr addresses stability instead of predictability. Forecast address predictability and view is that these are better.	No, reduces cost reflectivity.	Neutral.	No.
Paul Mott	Neutral. It's about predictability and CMP206 will help.	No. Damaging natural cost reflective outcome of TNUoS charging process.	Neutral.	No.
Duncan Carter	Yes. Suppliers – and in particular smaller suppliers - are currently negatively impacted by high volatility in costs so CMP207 will improve competition by reducing volatility. This will offset the disadvantages from a reduction in cost reflectivity.	Neutral. 207 will reduce cost reflectivity in the short-term, but here benefits to competition outweigh the cost reflectivity issue. Costs would be recouped from appropriate party eventually so there is some benefit to the consumer and costs are spread more evenly.	Neutral.	Yes.

Ian Pashley	No (marginally). Recognise benefits of reducing volatility.	No. Cost reflectivity is reduced by not allowing costs to be recovered.	No. Doesn't facilitate timely revenue collection for Tx companies.	No.
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WACM 1

Panel Member	Better facilitates ACO (a)	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Overall (Y/N)
Garth Graham	More intuitive than Original but does not better facilitate Objective as still detrimental to competition.	No. Not cost-reflective.	No.	No.
Bob Brown	No. Not cost-reflective.	Neutral. Same as for Original.	Neutral.	Yes.
Simon Lord	Neutral. Same as for Original.	No. Same as for Original.	Neutral.	No.
James Anderson	Yes, marginally. Same as for Original.	No. Same as for Original.	Neutral.	No.
Paul Jones	No. Same as for Original, but marginally better as it addresses differences to forecast.	No, same as for original.	Neutral.	No.
Paul Mott	Neutral. Same as for Original.	No. Same as for Original.	Neutral.	No.
Duncan Carter	Yes. Same as for Original.	Neutral. Same as for Original.	Neutral.	Yes.
Ian Pashley	No (marginally). Same as for Original.	No. Same as for Original.	No. Same as for Original.	No.

WACM 2

Panel Member	Better facilitates ACO (a)	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Overall (Y/N)
Garth Graham	No. Same as for WACM 1.	No. Not cost-reflective.	No.	No.
Bob Brown	Yes. Same as for Original.	Neutral. Same as for Original.	Neutral.	Yes.
Simon Lord	Neutral. Same as for Original.	No. Same as for Original.	Neutral.	No.

James Anderson	Yes, marginally. Same as for Original.	No. Same as for Original.	Neutral.	No.
Paul Jones	No. Same as for Original, but marginally better as it addresses differences to forecast.	No. Same as for original.	Neutral.	No.
Paul Mott	Neutral. Same as for Original.	No. Same as for Original.	Neutral.	No.
Duncan Carter	Yes.	Neutral. Same as for Original.	Neutral.	Yes.
Ian Pashley	No (marginally). Same as for Original.	No. Same as for Original.	No. Same as for Original.	No.

WACM 3

Panel Member	Better facilitates ACO (a)	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Overall (Y/N)
Garth Graham	No. Same as for WACM 1.	No. Not cost-reflective.	No.	No.
Bob Brown	Yes. Same as for Original.	Neutral. Same as for Original.	Neutral.	Yes.
Simon Lord	Neutral. Same as for Original.	No. Same as for Original.	Neutral.	No.
James Anderson	Yes, marginally. Same as for Original.	No. Same as for Original.	Neutral.	No.
Paul Jones	No. Same as for Original, but marginally better as it addresses absolute changes and differences to forecast.	No. Same as for original.	Neutral.	No.
Paul Mott	Neutral. Same as for Original.	No. Same as for Original.	Neutral.	No.
Duncan Carter	Yes. Same as for Original.	Neutral. Same as for Original.	Neutral.	Yes.
Ian Pashley	No (marginally). Same as for Original.	No. Same as for Original.	No. Same as for Original.	No.

WACM 4

Panel Member	Better facilitates ACO (a)	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Overall (Y/N)
Garth Graham	No. Same as for WACM 1.	No. Not cost-reflective.	No.	No.

Bob Brown	Yes. Same as for Original.	Neutral. Same as for Original.	Neutral.	Yes.
Simon Lord	Neutral.	No. Same as for Original.	Neutral.	No.
James Anderson	Yes, marginally. Same as for Original.	No. Same as for Original.	Neutral.	No.
Paul Jones	No. Same as for Original, but marginally better as it addresses absolute changes and differences to forecast.	No. Same as for original.	Neutral.	No.
Paul Mott	Neutral. Same as for Original.	No. Same as for Original.	Neutral.	No.
Duncan Carter	Yes. Same as for Original.	Neutral. Same as for Original.	Neutral.	Yes.
Ian Pashley	No (marginally). Same as for Original.	No. Same as for Original.	No. Same as for Original.	No.

BEST

(Baseline, CMP207 Original, WACM1, WACM2, WACM3, WACM4)

Garth Graham	Baseline
Bob Brown	WACM1 and WACM3
Simon Lord	Baseline
James Anderson	Baseline
Paul Jones	Baseline
Paul Mott	Baseline
Duncan Carter	WACM1 and WACM3
Ian Pashley	Baseline

8 Code Administrator Consultation Response Summary

8.1 7 responses were received to the Code Administrator Consultation. These responses are contained in Volume 2 of the Draft Final Modification Report. The following table provides an overview of the responses received.

	Objective a)?	Objective b)?	Objective c)?	Preference	Overall view (For or Against?)
EDF Energy	No - due to impeding cost-reflectivity	No - it reduces cost-reflectivity	Neutral effect - no relevant developments in transmission licensees' transmission businesses	Baseline	Against - a 20% cap is unworkable for large changes in charges overall (eg. G/D split change would cause the cap to be breached over many demand side zones. Additionally a 20% cap discriminates between lower- and higher-priced zones in terms of the absolute (nominal) value of changes allowed
EON	n/a	No - could prevent charges recovering the correct amount of revenue for a number of years as the rolled over amounts from previous caps will be capped again.	n/a	Baseline	Against - Nominal changes are the issue not percentage changes. A cap against a forecast makes more sense as would improve predictability
Scottish Power	Potentially yes - if it was based on an absolute cap on the change between forecast and outturn tariffs, as it would reduce uncertainty and improve predictability	Neutral effect - won't improve the cost-reflectivity but does have safeguards to ensure cost-reflectivity between Users is maintained between charging years	Neutral effect	n/a	n/a
Opus Energy	Yes - benefits competition between suppliers by reducing uncertainty and the risk that they face from large charge changes	Neutral effect - WACM 1 & 3 only require tariffs to not deviate from forecasts hence cost-reflectivity can still be properly maintained in the long-term but with a more suitable amount of warning for any extreme changes	Yes - the increased amount of warning for large changes meets the 'reasonably practical' test for phasing in significant charging changes	WACM1/3	For - Supports WACM1 and 3

Haven Power	Yes - enables suppliers to improve the accuracy of their forecasts and assessments of future costs, hence business plans and pricing strategies will be more informed. Also it would reduce uncertainty as there will be fewer un-hedgable risks for suppliers; benefitting new and current Users	n/a	Yes - enables more orderly phasing of significant changes to TO's charging, and may enable NGET to better meet the 'reasonably practical' test	n/a	For - Supports CPM207
Smartest Energy	Yes (to an extent) - because it reduces the detrimental impacts on competition from sharp increases on suppliers (especially small suppliers)	No	n/a	one of the WACMs	Against - Not practical to implement the original due to the difficulties of moving costs elsewhere, especially as Ofgem prefers cost-reflectivity and charges and costs being in the same period. Would support a WACM which had deviations from forecast, locational caps/collars and a combination of percentage and fixed movement.
SSE	No - adversely affects competition between suppliers if some suppliers exercise good industry practice (anticipating and reflecting increases in their commercial arrangements) and others did not and still had the increases capped. Also removes the incentive for suppliers to anticipate changes and differentiate themselves; hence harming competition.	No - causes a weakening of locational signals therefore reduces cost-reflectivity. Also, there is a potential for a "never-ending" rollover of TNUoS if cost rolls over then causes the next years charges also capping out.	Neutral effect	Baseline (separate regulatory changes needed)	Against - Support the broad aims of reducing volatility of charges to consumers, but need regulatory changes. Ofgem have previously stated that caps and collars wouldn't be beneficial to customers or improve the allocation of risk. Additional potential to cause all demand zones to be capped due to the expected increase in TOs revenue under RIIO (currently indicating a 21.7% increase in Onshore SO revenue 2012-2014)

- 8.2 1 respondent provided comments on the legal text. The majority of these comments related to typographical errors, however one comment related to a minor change to paragraph 14.15.89 which the Workgroup and the CUSC Modifications Panel agreed as a minor change and approved the updated legal text..

Annex 1 – CUSC Modification Proposal Form

CUSC Modification Proposal CMP207

Charging Methodology Modification Proposals Form v1.2

CUSC Modification Proposal Form (for Charging Methodology proposals)	CMP207
Title of the CUSC Modification Proposal: <i>(mandatory by proposer)</i> Limit increases to TNUoS tariffs to 20% in any one year	
Submission Date <i>(mandatory by Proposer)</i> 20 March 2012	
Description of the CUSC Modification Proposal: <i>(mandatory by proposer)</i> <p>This proposal would require National Grid Electricity Transmission (NGET) to limit changes to Transmission Network Use of System (TNUoS) charges so that no element of the charges will increase by more than 20% in any one year.</p> <p>The proposal seeks to reallocate the recovery of allowed revenue within year where tariffs would otherwise rise by more than 20%. The tariff increase would be limited to 20% in any one year, and any changes required more than that amount would be thereby phased in.</p> <p>For the avoidance of doubt the proposal does not seek to create an under-recovery of allowed revenue which would be carried forward to the following year. Charges would be rebalanced to ensure NGET is able to recover the foregone revenue from other grid users.</p> <p>Two comments on the 20% figure:</p> <ul style="list-style-type: none"> • this is not intended to preclude consideration by the working group of a lower figure; and • the figure is a cap on increases, and it is not intended to limit pass through of any reductions in excess of the threshold. 	
Description of Issue or Defect that the CUSC Modification Proposal seeks to Address: <i>(mandatory by proposer)</i> <p>The current TNUoS charging methodology is generating charges that are volatile year on year and make it very difficult for users to plan and to manage their risk in respect of these charges.</p> <p>Changes notified by NGET for both generation and demand tariffs for 2012-13 have been very substantial. For example, the non locational residual generation tariff will rise by over 17%, with zonal tariff changes of between -53% and +248%. The half hourly demand tariff is similarly set to rise by between 6% and 64% and non half hourly charges by between 9% and 67% dependent on zone.</p> <p>There is currently no mechanism in place that will enable increases in tariffs to be phased in, and thus mitigate the detrimental impacts to competition of sharp price changes, which include the costs of managing the risks of major changes and raising barriers to entry.</p> <p>The proposer is concerned about the position with regard to supplier charges, but has drafted the change on the basis it would apply to all network users.</p>	
Impact on the CUSC: <i>(this should be given where possible)</i> <p>This proposal if implemented will amend the TNUoS charging methodology to revise the calculation of tariffs for generation and demand such that no tariff can increase in any one year by more than 20%. The allowed revenue represented by the tariff cap will be reapportioned over other generation/demand tariffs in order to maintain the overall 27:73 generation: demand split.</p>	

Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes/No (mandatory by Proposer. Assessed in accordance with Authority Guidance – see guidance notes for website link)

No

Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information:(this should be given where possible)

BSC ☐

Grid Code ☐

STC ☐

Other ☐
(please specify)

Urgency Recommended: Yes / No (optional by Proposer)

No

Justification for Urgency Recommendation (mandatory by Proposer if recommending progression as an Urgent Modification Proposal)

N/A

Self-Governance Recommended: Yes / No (mandatory by Proposer)

No

Justification for Self-Governance Recommendation (mandatory by Proposer if recommending progression as Self-governance Modification Proposal)

N/A

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews? (mandatory by Proposer in order to assist the Panel in deciding whether a Modification Proposal should undergo a SCR Suitability Assessment)

Yes, though this issue might need to be considered further as there is a potential interaction with the Project Transmit SCR, which is currently underway.

Impact on Computer Systems and Processes used by CUSC Parties:(this should be given where possible)

Details of any Related Modifications to Other Industry Codes (including related CUSC Modification Proposals):(where known)

A similar DCUSA change proposal has been raised by the proposer, which seeks to limit increases in DUoS charges to no more than 20% in one year.

Justification for CUSC Modification Proposal with reference to Applicable CUSC**Objectives:***(mandatory by proposer)***Please tick the relevant boxes and provide justification for each of the Charging Methodologies affected.****Use of System Charging Methodology**

- ☒ (a) 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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Full justification:

The proposal would better facilitate applicable objective (a) in that it would reduce the volatility of charges and increase their predictability, which should lead suppliers to formulate more informed business plans and pricing strategies. Users would also face less uncertainty with respect to future changes in their transmission use of system charges and so be exposed to reduced unhedgable risk. In turn this should facilitate competition in the supply market.

The proposal would better facilitate applicable objective (c) as it would enable more orderly phasing of significant changes to NGET's charging. Capping changes in this way may also enable NGET to better meet the "reasonably practical" test in this objective.

Connection Charging Methodology

- ☐ (a) that compliance with the connection 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 connection 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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);
- ☐ (c) that, so far as is consistent with sub-paragraphs (a) and (b), the connection charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;
- ☐ (d) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.

Full justification:**N/A**

Details of Proposer: (Organisation's Name)	Haven Power Limited
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party, "National Consumer Council" or Materially Affected Party)	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Antony Badger Haven Power 01473 707182 antony.badger@havenpower.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Nigel Cornwall Cornwall Energy 01692 407865 nigel@cornwallenergy.com
Attachments (Yes/No): No	
If Yes, Title and No. of pages of each Attachment:	

Annex 2 – Workgroup Options Table

Parameter	Option 1	Option 2	Option 3	Pre Workgroup Original	Post Workgroup Original	W/G option 1	W/G option 2
A	Zonal TNUoS should be capped per zone	National Aggregated national TNUoS charges should be capped.		Zonal	Zonal	Zonal	Zonal
B	Percentage The cap should be a percentage	Absolute The cap should be an actual number		Percentage	Percentage	Percentage	Absolute
C	Increases Only TNUoS increases should be capped	Increases and Decreases Both TNUoS increases and decreases should be capped.		Increases	Increases and Decreases	Increases and Decreases	Increases and Decreases
D	Smear excess across uncapped zones For zones that reach the cap, any under recovered revenue should be smeared across charges for other zones within the same charging year. If all zones reach cap there will be a carryover to the following charging year.	Targeted (generic zonal) In zones that reach the cap, the under recovered revenue will role over into that zone's tariffs for the following year, until the amount is fully recovered.	Targeted (user specific) In zones that reach the cap, the users in the zone when the cap is reached will have the excess added to their tariffs in future years, regardless of any re-zoning. New users within such zones would not be targeted.	No view	Targeted (generic zonal)	Targeted (generic zonal)	Targeted (generic zonal)
E	Year on year (previous year's charges) TNUoS tariffs would be no more than the cap above the previous year's charges. E.G. If a 20% cap is implemented then the 2013/14 charges could be no more than 20% different to the 2012/13 tariffs.	Difference from forecast A cap would be based on the year ahead forecast for the following year's TNUoS tariffs, irrespective of the previous year's tariffs. E.G if the forecast for 2013/14 was £1.00/kW and the 20% cap was implemented then tariffs could be no more than £1.20/kW and no less than £0.80/kW.	Difference from forecast change. A cap would be based on the difference between the previous year's actual tariff and the following years forecast tariff. E.G. If 2012/13's actual tariff was £1.00/kW and 2013/14's forecast was £1.20/kW then the cap would be based on the 20p difference. So a 20% cap would mean the actual 2013/14 tariff could be anywhere between £1.16/kW and £1.24kW.	Year on Year	Year on Year	Difference from Forecast	Difference from Forecast
F	Demand Any cap on TNUoS charges applies only to demand charges	Generation Any cap on TNUoS charges applies only to generation charges	Both Any cap on TNUoS applies to both demand and generation.	Both (but primarily concerned with demand)	Demand	Demand	Demand
G	Elements of TNUoS The cap on TNUoS applies to individual elements which, when aggregated, make up the TNUoS tariff.	TNUoS tariffs Any cap applies to the specific TNUoS tariff rather than the individual elements.	TNUoS charge Cap applies to a specific user's overall TNUoS charge.	Elements of TNUoS	TNUoS tariffs	TNUoS tariffs	TNUoS tariffs

Annex 3 – Original and Workgroup Alternative CUSC Modifications (WACMS)

Parameter	Option 1	Option 2	Option 3	Original	WACM 1	WACM 2	WACM 3	WACM 4
A	Zonal TNUoS should be capped per zone	National Aggregated national TNUoS charges should be capped.		Zonal	Zonal	Zonal	Zonal	Zonal
B	Percentage The cap should be a percentage	Absolute The cap should be an actual number		Percentage (20%)	Percentage (20%)	Percentage (20%)	Absolute (equal to an average of 20%)	Absolute (equal to an average of 20%)
C	Increases Only TNUoS increases should be capped	Increases and Decreases Both TNUoS increases and decreases should be capped.		Increases and Decreases	Increases and Decreases	Increases and Decreases	Increases and Decreases	Increases and Decreases
D	Smear excess across uncapped zones For zones that reach the cap, any under recovered revenue should be smeared across charges for other zones within the same charging year. If all zones reach cap there will be a carryover to the following charging year.	Targeted (generic zonal) In zones that reach the cap, the under recovered revenue will role over into that zone's tariffs for the following year, until the amount is fully recovered.	Targeted (user specific) In zones that reach the cap, the users in the zone when the cap is reached will have the excess added to their tariffs in future years, regardless of any re-zoning. New users within such zones would not be targeted.	Targeted (generic zonal)	Targeted (generic Zonal)	Targeted (generic Zonal)	Targeted (generic zonal)	Targeted (generic zonal)
E	Year on year (previous year's charges) TNUoS tariffs would be no more than the cap above the previous year's charges. E.G. If a 20% cap is implemented then the	Difference from forecast A cap would be based on the year ahead forecast for the following year's TNUoS tariffs, irrespective of the previous year's tariffs. E.G if	Difference from forecast change A cap would be based on the difference between the previous year's actual tariff and the following years forecast tariff. E.G. If 2012/13's actual tariff was £1.00/kW and 2013/14's forecast was	Year on Year	Difference from Forecast (January Forecast)	Difference from Forecast (April Forecast)	Difference from Forecast (January Forecast)	Difference from Forecast (April Forecast)

Parameter	Option 1	Option 2	Option 3	Original	WACM 1	WACM 2	WACM 3	WACM 4
	2013/14 charges could be no more than 20% different to the 2012/13 tariffs.	the forecast for 2013/14 was £1.00/kW and the 20% cap was implemented then tariffs could be no more than £1.20/kW and no less than £0.80/kW.	£1.20/kW then the cap would be based on the 20p difference. So a 20% cap would mean the actual 2013/14 tariff could be anywhere between £1.16/kW and £1.24kW.					
F	Demand Any cap on TNUoS charges applies only to demand charges	Generation Any cap on TNUoS charges applies only to generation charges	Both Any cap on TNUoS applies to both demand and generation.	Demand	Demand	Demand	Demand	Demand
G	Elements of TNUoS The cap on TNUoS applies to individual elements which, when aggregated, make up the TNUoS tariff.	TNUoS tariffs Any cap applies to the specific TNUoS tariff rather than the individual elements.	TNUoS charge Cap applies to a specific user's overall TNUoS charge.	TNUoS tariffs	TNUoS tariffs	TNUoS tariffs	TNUoS tariffs	TNUoS tariffs