

CUSC Workgroup Consultation Response Proforma**CMP332: Transmission Demand Residual bandings and allocation (TCR)**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@nationalgrideso.com by **5pm on 27 February 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation please contact Paul Mullen at paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com.

Respondent details	Please enter your details
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For reference the applicable CUSC objectives are:

- 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 accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);*
- 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;*
- d. *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 *; and*
- e. *Promoting efficiency in the implementation and administration of the CUSC arrangements.*

**Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions		
1	Do you believe that the CMP332 Original Proposal better facilitates the Applicable CUSC Objectives?	<p>Yes, but the original proposal is incomplete as there is no defined methodology to calculate the total cost for sites directly connected to the Transmission network.</p> <p>Please find below our assessment against the applicable CUSC objectives:</p> <ul style="list-style-type: none"> a) Neutral b) Neutral c) Positive as NGESO has been directed to raise this modification and implement its effects by the Authority. d) Neutral e) Neutral
2	Do you support the proposed implementation approach?	<ul style="list-style-type: none"> • No. When Ofgem delivered their determination in November 2019, several months after the expected date, suppliers had assumed that an April 2021 implementation was unlikely. This was because suppliers would have already entered into significant fixed term contracts with their customers and would have assumed that Ofgem would have assessed the impact an early implementation would have on commercial arrangements already in place. Failure to give enough notice, specifically a structural change to TNUoS recovery, requires the use of Terms and Conditions to recover additional costs imposed on the supplier. • We are also concerned for those customers who entered into contracts with durations post April 2021 who are accustomed to managing their own network charging risk but will be bearing an additional one-off-cost, without accounting for this changing so soon. We understand some of our customers will be responding to this consultation to make this point. • To be clear, we are not referring to the risk an April 2021 implementation has on the forecasted tariff rate of TNUoS costs between the two methodologies, which

		<p>suppliers and some sophisticated customers can, to a degree, manage. We are referring to the one-off additional cost recovery imposed on customers as you transition between the two charging methodologies. If enough advanced notice had been given of the implementation date, this additional cost could have been reflected in the contracts offered to customers, industry wide. The uncertainty of the implementation date made it impossible to reflect this additional cost in fixed term contracts or for those more sophisticated customers who manage their own exposure to network costs.</p> <ul style="list-style-type: none"> • We have detailed, in a supplementary confidential document, the impact an April 2021 implementation will have on EDF and ultimately customers. • We would urge Ofgem to consider the significant commercial impacts of an April 2021 implementation and request a delay until April 2022 to align with DUoS to minimise impacts to customers.
3	Do you have any other comments?	<ul style="list-style-type: none"> • Ofgem has chosen non-standard methods for suppliers to identify customers that will reside in one of the residual charging bands. Ofgem has suggested that industry use a centralised system to ensure the customer is allocated in the correct band. We agree with this suggestion however through workgroups it has been identified that this will not be possible to deliver in time for April 2021. This creates a risk for suppliers trying to allocate a customer into the correct band. Even when providing information in good faith it is not uncommon for information to change significantly. EDF has detailed, in our confidential supplementary analysis, the magnitude of changes to the Agreed Capacity that would have potentially incorrectly assigned a site to a specific banding. This will ultimately lead to many sites being allocated to incorrect bands and more disputes until such time as industry creates an enduring centralised solution.
4	Do you wish to raise a Workgroup Consultation	<ul style="list-style-type: none"> • No

	Alternative Request for the Workgroup to consider?	
Specific CMP332 Workgroup Consultation questions		
5	Based on the mapping table in Annex 6, does the proposed CMP332 solution deliver Ofgem's TCR SCR Direction? Please identify any areas you believe need to be addressed.	<ul style="list-style-type: none"> The direction of this modification is to deliver a solution to recover residual costs. We believe that altering any resulting negative locational signal is not within the current scope of this modification. In principle we agree with maintaining the prevailing negative locational signal. Except for two zones, the incentive and opportunity for customers to increase demand will be low. The Reform of Access and Forward-Looking Charges SCR is expected to address this from April 2023, unless this work is added to the scope of this modification. The Workgroup report states that the Ofgem representative told them that the modelling for the Ofgem TCR decision did not adjust negative TNUoS charges to zero. Therefore, the Original Proposal is not, in our view, consistent with the TCR decision. We have concerns that no methodology currently exists to calculate the revenue recovery from customers directly connected to the transmission network.
6	CMP332 solution proposes to have one Transmission Band for the demand residual charge. Do you agree, if not what do you suggest instead, and why?	<ul style="list-style-type: none"> Ofgem has given the workgroup discretion to determine how to band sites connected directly to the transmission network. It is clear that the workgroup has not yet reached any definitive conclusions and therefore perhaps Ofgem would be best placed to guide the workgroup further. The necessity of additional bands is a function of how much revenue needs to be collected by this segment. If there is a clear distortion between small and large sites, then two bands would be appropriate to avoid distortive charges.
7	The TCR SCR Direction specifies that 24 months of data is required to allocate the customers to charging	<ul style="list-style-type: none"> Firstly, we note that CUSC and DCUSA are not aligned in their approach to this issue. DSUCA intends on using a minimum of 24 months and CUSC 12 months but we believe the approach needs to be consistent.

	bands. The Original solution (for CMP332) proposes to use a standard 12 months period for all. What period of historical data do you think is required for setting the bands, and why?	<ul style="list-style-type: none"> We cannot realistically appraise whether 12 months is more appropriate than using 24 months of data to create a band. There may well be incorrect allocations and incorrect disputes arising from the use of 12-months worth of data. There is a more fundamental issue to address which is that a rushed implementation will eventually lead to sub-optimal delivery which will likely be subject to further CUSC changes in the future. Ofgem has already recognised a centralised process would deliver the best solution and we believe this is what the industry should be tasked with delivering ahead of a disjointed set of arrangements.
8	If there is any revenue under/over recovery due to the differences between the initial allocation of charging bands vs the outturn of such bands, how should this amount be recovered/rebated?	<ul style="list-style-type: none"> To minimise the risk for Suppliers and Consumers the revenue over/under recovery should be an adjustment in TNUoS charges in year Y+2 (i.e. 2023/24 for 2021/22) using the existing methodology.
9	Should we use Measurement Classes rather than “No MIC” or “MIC” to determine initial grouping for the charging bands at low voltage, and why?	<ul style="list-style-type: none"> We accept that there will be some sites that do not fit perfectly into the LV banding segments identified. Our preference is that through a centralised process, each site is accurately allocated a band which is transparent to all suppliers. This will alleviate the need to create further segmentations.
10	Should UMS be included in the banding structure (e.g. LV no MIC) or charged separately on a volumetric basis?	<ul style="list-style-type: none"> Separately on a volumetric basis seems the fairest solution to avoid market distortions such as a site with thousands of MPANs paying the same as one with tens of MPANs
11	Do you have any thoughts on any of the suggested options and/or do you believe there any other options for the Workgroup to consider?	<ul style="list-style-type: none"> No