Workgroup Alternative Proposal Form	At what stage is this document in the process?
# CMP336 WACM1: Transmission Demand Residual - Billing and consequential changes to CUSC Section 14 (TCR)	01 Proposed Alternative 02 Proposed Workgroup Alternative

Purpose of Alternative: This alternative is raised to introduce a review for new Transmission Connected Final Demand Sites' band allocation after a full financial year's data is available to the ESO.

Date submitted to Code Administrator: 10/08/2020

You are: A Workgroup member

Workgroup vote outcome: Formal alternative

Contents

1 Alternative proposed solution for workgroup review 2
2 Difference between this proposal and Original 2
3 Justification for alternative proposal against CUSC Objectives 4
4 Impacts and Other Considerations 5
5 Implementation 6
6 Legal Text 6

Any questions?

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1 Alternative proposed solution for workgroup review

The proposed alternative introduces a review for all new Transmission connected Final Demand Sites' band allocation after a full financial year's data is available to the ESO. This review is proposed to take place in the September a full financial year after the site has connected.

This proposal is only relevant to newly connected Transmission connected Final Demand Sites where the following banding hierarchy applies for banding allocation:

i. A mean average of 24 months of latest historic actual data for the Final Demand Site or if not available;
ii. A mean average using all available historic actual data for the Final Demand Site up to 24 months or if not available;
iii. Should no data be available for the specific Transmission connected Final Demand Site a 12 month mean average of all Transmission connected Final Demand Sites

2 Difference between this proposal and Original

The Original proposal does not include a review new sites allocated to a band using a mean average of all Transmission connected sites will remain in the band for the duration of the price control. This alternative proposes to introduce a review.

Any reviews will take place once per year in September. The same material change in circumstances conditions will apply to the review as does to a customer charging dispute. These conditions must be demonstrated by:

1. the voltage of connection of the Final Demand Site changing with an accompanying signed Construction Agreement; or
2. providing 12 months of actual metered gross Consumption data which shows gross Consumption is lower than 50% or greater than 150% of the Consumption data used in [14.12.150]. or;
3. A notice to Disconnect is provided in accordance with CUSC Section 5.7.

The outcome of the review will be effective in the subsequent monthly invoice following the September review, this will be the 1st October invoice. The ESO proposes not to backdate the charges for sites whose bands are altered as a result of a September Review. This is due to concerns about unequal treatment between new sites connecting in the first three years of a price control compared to the later years. As all sites will be re-banded prior to the start of a new price control those that connected in the 4th or 5th year of a five year price control would not reach their September review prior to the start of the new price control. The ESO expects that such sites would be re-banded along with

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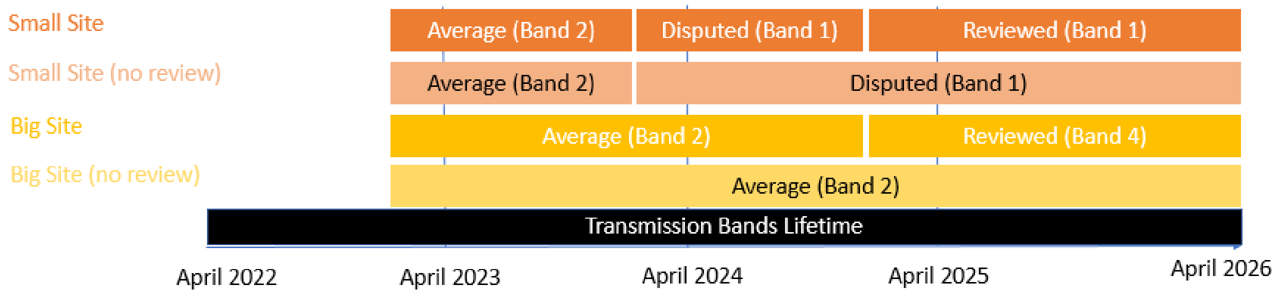
all other Transmission connected sites using item two in the data hierarchy (some but fewer than 24 months of data). We are concerned about carrying over charging obligations from one price control to another as we do not expect that this would be the case for an existing site. Therefore, to avoid this unequal treatment the pragmatic approach is not to backdate charges for sites whose bands are changes as the result of a September Review.

The timing of the review in September is to ensure that the outcome of the review can be factored into tariff setting for the subsequent Charging Year beginning in April. The September review will include all sites that connected between 1st April and 31st March of the Charging Year two years previously and no other sites. This period has been chosen as it gives at least 17 months of actual metered consumption data for consideration in the review and prevents the need for an ad-hoc process for the ESO to manage. Most importantly the outcome of the review can be included in tariff setting for the following charging year.



This graphic example of the review process assumes there are 4 transmission bands and shows two transmission sites that have both connected in January 2023. They both are allocated into Band 2 and they or their Supplier begins to pay the TDR tariff for Band 2. The smaller site disputes this allocation after 12months in January 2024 and is reallocated into Band 1. The site is reconciled back to connection date to be liable for Band 1 tariffs.

The review for both of these sites takes place in September 2024 using 19 months of actual metered data. At the review the big site is reallocated to Band 4 effective from 1st October 2024. Re-banding for the new price control will take place effective from April 2026. Only new sites will be subject to a September review and no more than once in the lifetime of their connection.

To support the September review, it is proposed that the ESO will prescribe some key dates in the September review process to provide visibility to industry. In mid-August (no later than the 15th), the ESO will confirm to Users that their Final Demand Sites will be included in September review for that year. The ESO will notify the User and their respective Supplier of the outcome of the September review 5 working days after completion of the review. Finally, all Final Demand Sites will have their review completed no later than 15th September each year.

In general, once tariffs are set for the charging year, any new sites connecting during the charging year will result in over-recovery of TNUoS and conversely any disconnections during the charging year will result in under-recovery. In light of this and the potential for Final Demand Sites to move bands as per the disputes process or review described in this alternative, any under/over recovery of TNUoS will be corrected in following years using the already established 'k' factor.

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3 Justification for alternative proposal against CUSC Objectives

Impact of the modification on the Applicable CUSC Objectives (Standard):	
Relevant Objective	Identified impact
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;	Neutral
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);	Neutral
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;	Positive
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	Neutral
e. Promoting efficiency in the implementation and administration of the CUSC arrangements.	Neutral
*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).	

Ofgem's decision to implement TDR reforms as part of the TCR states that bandings were chosen with the aim of "balancing equity across bands with equality among relatively similar users within them"1. When new Transmission sites are allocated into Charging

[1] https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf section 3.157

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Bands using an average of all Transmission sites this banding may not be reflective of their true characteristics. This causes two problems which, if left unaddressed, would contradict Ofgem’s assessment of the fairness of these reforms under the TCR principles:

1) A site with lower than average consumption will be paying markedly more than other relatively similar users.
2) A site with higher than average consumption will (in subsequent tariff setting rounds) draw markedly more consumption volume into the median band than the sites already in that band based on historic consumption data. This will increase the tariff faced by this band disproportionately to the site added into it.

Problem 1 can be solved by the site in question using the disputes process to raise a dispute against its banding allocation with the ESO. After collecting 12 months of metered consumption data if the site can prove that its consumption is less than half of the average assumed to it then the site will have a successful dispute and most likely (depending on the banding thresholds) be reallocated into Band 1. This dispute outcome will be backdated up to RF settlement run (14 months).

Problem 2 is trickier. There is no commercial incentive for a site to dispute allocation to a band if they have double the consumption used in their initial allocation. As things stand the site would likely remain in Band 2 until new band setting takes place for the start of a new price control. This would not be a major problem if there were hundreds of sites in each band as the impact of a erroneously allocated ‘big consumer’ would be outweighed by the overall number of sites but there are only a small number of Transmission connected demand sites in each Charging Band. The ESO, therefore, feel it is appropriate to review the banding allocation outside of the start of a new price control for new transmission connected sites only.

The ESO believes that this alternative better facilitates ACO (c) because a review period enables the methodology to take into account the impact of new transmission connections within a price control therefore better accounting for developments in transmission licensees businesses.

4 Impacts and Other Considerations

This alternative will protect existing sites from being banded with a much larger site for the duration of a price control and reallocate small consumers to a lower band if the site hasn’t already chosen to review.

A consideration needs to be made to the impact of an increase in charges to a larger site within a charging year. A shock in costs would take place at the start of a new price control regardless of whether a within price control review was conducted so we do not feel that this fact alone prevents the consideration of a review.

Consumer Impacts

This proposal affects non-domestic customers only.

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5 Implementation

This alternative should be implemented in April 2022 alongside all other TDR changes.

6 Legal Text

As developed by ESO

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