

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>a) Negative. All parties are exposed to same charges and risk to suppliers is the same. However, the short timescales of delivery is introducing a retail market distortion (see below).</p> <p>b) Agree no impact.</p> <p>c) Neutral.</p> <p>d) Neutral.</p> <p>e) Neutral.</p>
2	Do you support the proposed implementation approach?	<p>We strongly feel that an implementation date of 2021 is inappropriate. The congested implementation results in an inability of suppliers to be entirely confident of assigning customers to the correct bands. This has resulted in some suppliers deliberately under-quoting new tariffs for larger customers but including a claw-back clause – initially placing them at a competitive advantage, which could eventually cause detriment to the customer. Other suppliers are introducing risk premia to reflect their perceived level of uncertainty, creating a competitive advantage for suppliers with a greater risk appetite, which again could result in customer detriment in the long term. A longer-term implementation would alleviate these distortions in the retail market. Consumers on contracts starting October 2020 will also see a significant cash flow impact (the site will now pay 100% of the 2020/21 TNUoS charges plus 50% of the 2021/22 residual rate in a single 12m contract with very little notice to make appropriate preparations.</p>
3	Do you have any other comments?	Please see the answer to question 2.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.
Specific CMP332 Workgroup Consultation questions		
5	Based on the mapping table in Annex 6, does	No view.

	the proposed CMP332 solution deliver Ofgem's TCR SCR Direction? Please identify any areas you believe need to be addressed.	
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?	<p>One of the principles underpinning the TCR decision was 'fairness.' Ofgem recognise that <i>"Equity and equality are both important concepts, but ones where there is likely to be some tension between them, as a charge cannot be both completely equal and equitable unless all users are very similar to one another."</i> However, the use of a single Transmission band for the demand residual will result in sites which are not even <i>remotely</i> similar paying the same charge.</p> <p>This is demonstrated in Annex 5 (slide 5) of this consultation. In this case, two sites will skew the charges faced by the rest.</p> <p>Scope could be provided for the ESO to add more bands, to accommodate for outliers and ensure that the resultant charging methodology is indeed compatible with the fairness principle.</p>
7	The TCR SCR Direction specifies that 24 months of data is required to allocate the customers to charging 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?	Ideally the same data and period would be used for both setting the bands and allocating customers to them, but if this is not practical, 12 months is a reasonable timescale to use.
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?	The best solution would be for this process to follow industry precedent and apply a correction factor which can subsequently adjust for any under or over recovery in future charging periods. It would not be appropriate for this financial risk to sit across all suppliers (and therefore customers) with varying credit ratings. TOs have a licence requirement to maintain an Investment grade credit rating and will be able to manage financial risk at the lowest cost to the consumer.

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?	Yes, Measurement Class is an existing defined term which will allow differentiation between metering systems and mitigates the possibility of customers being assigned to the wrong band. This makes the banding unambiguous and based on industry held data rather than relying on the current DUoS charging regime at the point of TCR implementation.
10	Should UMS be included in the banding structure (e.g. LV no MIC) or charged separately on a volumetric basis?	This depends on the outcome of CMP 334. If it is determined that UMS do not fall under the definition of a site, then they should be charged separately. Due consideration should be paid to the incentives this would provide (or diminish) for, for example, Electric Vehicle charging which is performed by plugging into street furniture.
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?	Regarding the treatment of zones which have a negative locational tariff, we believe the most suitable proposal is to floor the location demand tariff at £0/kW. As the consultation shows, this would result in charges being impacted by <1% in the majority of zones.