STCP Modification Proposal Form

PMXXX:
TNUoS Revenue Collection Risk Transfer

Overview: A recent Ofgem decision means the cashflow timing risk of TNUoS revenue collection is being reallocated from National Grid ESO to the onshore Transmission System Operators. Changes will therefore be made to finance processes, requiring a CUSC mod and associated STCP changes to facilitate the new processes.

Modification process & timetable

1. **Initial STCP Proposal Form**
   16 February 2021
2. **Approved STCP Proposal**
   XX month year
3. **Implementation**
   XX month year

Status summary: The Proposer is seeking approval from the Panel for the modification to be raised and implemented.

This modification is expected to have a: High Impact
Onshore transmission system operators and National Grid ESO.

Proposer's recommendation of governance route	The Panel will make the decision on whether the modification should be implemented.	
Who can I talk to about the change?	**Proposer:** Matt Baller Matt.baller@nationalgrideso.com Phone: 07866 197 575	**Code Administrator**: Jennifer Groome Jennifer.Groome@nationalgrideso.com Phone: 07966 130 854

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What is the issue?

In December 2019, Ofgem ran a consultation further to decisions made within the RIIO-2 price control methodology for the Electricity System Operator ("The ESO"). The consultation set out to explore whether allocation of risk relating to Transmission Network Use of System ("TNUoS") revenue collection was appropriate in its current form, or whether moving it to onshore transmission owners ("TOs" for the purpose of this proposal) may be more cost-effective for consumers moving forwards.

The resulting decision noted that the difference between allowed and collected revenues (known as "The K Correction Term[1])" can be material in relation to the size of the ESO, concluding that it would be more efficient to reallocate the TNUoS collection cashflow timing risk to the TOs.

The decision will change how TOs invoice TNUoS charges to the ESO, affecting the amount which can be invoiced monthly. The amount will be proportional to that which the ESO has invoiced to customers in each month (less retained funds to pay for OFTO licence obligations and other pass-through items), including invoices raised in respect of demand and generation reconciliations.

As a consequence, amendments are required to financial and operational processes via STCP changes, applicable both ESO and TOs.

Background Detail – Existing Process and Risk Ownership

TNUoS charges recover the cost of installing and maintaining the transmission system in England, Wales, Scotland and offshore. The ESO recovers the revenue from TNUoS charges on behalf of: National Grid Electricity Transmission (NGET); Scottish Power Transmission (SPT); Scottish Hydro Electricity Transmission (SHET); OFTOs, and other network schemes.

The TOs inform the ESO of their allowed revenues annually. The ESO then sets TNUoS charges to reflect this and these charges are paid to the ESO by suppliers and generators. There are various reasons why a difference may arise between the collected TNUoS revenue and what the ESO has paid to TOs and other parties. For example, the ESO's forecast of volumes may differ from outturn volumes.

Currently, the ESO pays the revenue that the TOs are allowed as specified in the TOs' price controls as these are notified by the respective TOs prior to the start of each Financial

[1] ESO Transmission Licence, Special Licence Condition 3A

year, rather than the actual TNUoS revenues the ESO has collected. Therefore, currently the ESO is exposed to the cash difference, the "cashflow risk", between collected and allowed revenues, until ESO recovery is made via the so-called 'K' correction term which reconciles payments made with actual revenues collected (under/over-recovery).

Previously the ESO was part of NGET and the magnitude of the variance was modest compared to the size of NGET's Regulatory Asset Value (RAV) (over £13bn) and borrowings. However, since the ESO separated from NGET in April 2019 and became a standalone legal entity, the size of the variance is less modest relative to the ESO's RAV (£211m in nominal terms at the end of 2019/20) and borrowings. This variance disparity is the key driver for the reallocation of the risk.

What is the proposer's solution?

Reallocation of Cashflow Risk

From 1 April 2021 onwards, the ESO will continue to calculate TNUoS tariffs based on TOs' confirmation of allowed revenue to be recovered for the following year, but will pay the Onshore TOs based on TNUoS charges invoiced (net of payments to the Authority, offshore transmission owner allowed revenue, electricity interconnector licensees, innovation funding winners and NGESO). This "pay-as-invoiced" approach ensures that the ESO is not exposed to the cash flow difference between allowed and collected revenues ("The K Correction Factor") thus reallocating the risk to the Onshore TOs. Payments to each Onshore TO will be proportional to their allowed revenue for the relevant charging year.

Bad debt risk, for example associated with unpaid NGESO invoices, remains with NGESO.

The invoicing process set out in the CUSC will continue to be followed by the ESO meaning that invoiced amounts will be predominantly influenced by 2 factors generating the "cashflow risk":

1) Supplier Demand Forecasts
2) Metered Volumes

This change will be made via amendments to STCP 13-1 "Invoicing and Payment", STCP14-1 "Data Exchange for Charge Setting" and STCP 24-1 "Revenue Forecast Information Provision".

Note that the implementation date for this proposal means the changes will apply for Charging Year 2021/2022. As such, year "Y" in the timelines below begins with Charging Year 2021/2022.

Billing Process and Timescale

For the charging year Y, the new monthly process is summarised as follows:

- 1st Business Day of the month: NGESO confirms amount payable to Onshore TOs
- 4th Business Day of the month: Onshore TOs invoice NGESO
- 15th calendar day (or the following Monday if the 15th falls on a weekend): NGESO makes payment to Onshore TO

Generation Reconciliation Process

- 1st Business Day of May annually: NGESO confirm amount to be paid/received by Onshore TOs for the previous Charging Year
- 4th Business Day of May annually: Onshore TOs issue invoice/credit to NGESO

- 30th May (or 31st if 30th is a Sunday): NGESO or Onshore TO as applicable makes payment

Initial Demand Reconciliation Process

- 1st Business Day of July Y+1: NGESO confirms amount payable or receivable by the Onshore TO in relation to Charging Year Y
- 4th Business Day of July Y+1: Onshore TOs issue invoice/credit to NGESO
- 30th July Y+1 (or next available Business Day): NGESO or Onshore TO as applicable makes payment

Final Demand Reconciliation Process

- By 31st October Y+2: NGESO confirms amount payable or receivable by Onshore TOs in relation to charging year Y.
- 4th Business Day of November Y+2: Onshore TOs issue invoice/credit to NGESO
- 30th November Y+2 (or 1st December if 30th November falls on a Sunday): NGESO or Onshore TO as applicable makes payment

Quarterly Actual and Forecast TNUoS Revenue Data

There are also obligations on the ESO added within STCP24-1 "Revenue Forecast Information Provision" to provide regular information to the Onshore TOs to facilitate efficient internal revenue forecasting. To provide greater visibility of TNUoS revenue collection, each charging year from 1 April 2021 the ESO will provide regular data reports throughout the year (Y) in addition to the confirmation on the 1st of each month of the amount payable to the Onshore TO by the ESO. This change is reflected as a new section 3.5.

To ensure data is as accurate and useful as possible, it will be provided by the ESO on a quarterly within-year basis by default (to include the half-year and full-year points), and may be provided additionally on an ad hoc basis where agreed between the ESO and the Onshore TO; for example, where previously unexpected conditions may lead to significant forecasting deviations (such as experienced during the COVID-19 pandemic).

The reports will include data relating to the amount of revenue to be collected for the year from each of the charges in accordance with final TNUoS tariffs, as published annually in January Y-1, broken down as follows:

- Half-hourly demand
- Non-half hourly demand
- Generation
- Month-on-month demand income and forecast
- Month-on-month generation revenue
- TNUoS revenue distribution – actual and forecast
- ESO TNUoS revenue summary (for info as will be fixed through the year)

Forecast demand revenue data will be based on actual demand from latest available metering data, and assumptions based on historic demand.

Forecast generation revenue data will be based on the latest TEC register for onshore generators and expected asset transfer date of the relevant offshore transmission system.

An example of the form of this report can be seen at Appendix 1 to this proposal and will be added as an indicative example at Annex D to STCP 24-1. However the Appendix D

serves only as an example of the intended data format to be exchanged – the structure, format, and precise content will be agreed/amended as required with the unanimous agreement of NGESO and all Onshore TOs. This ensures flexibility for the reporting process to evolve without requiring further STCP changes.

Legal text

Attached separately.

What is the impact of this change?

Proposer's Assessment against STC Objectives	
Relevant Objective	**Identified impact**
(a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act	**Positive:** provides clarity around each party's obligations, shifts risk more logically, and new reporting template provides enhanced visibility for forecasting and reconciliation.
(b) development, maintenance and operation of an efficient, economical and coordinated system of electricity transmission	**None**
(c) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the distribution of electricity	**None**
(d) protection of the security and quality of supply and safe operation of the national electricity transmission system insofar as it relates to interactions between transmission licensees	**None**
(e) promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC.	**Positive:** provides clarity around each party's obligations, and new reporting template provides enhanced visibility for forecasting and reconciliation.

(f) facilitation of access to the national electricity transmission system for generation not yet connected to the national electricity transmission system or distribution system;	**None**
(g) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.	**Positive:** ensures all affected parties are clear of their roles, and facilitates necessary exchanges of information

In addition, for an STCP Change, Section B 7.3.2 details that the following should be considered:

Provision	View of the Proposer
(a) the amendment or addition does not impair, frustrate or invalidate the provisions of the Code	**Positive:** Confirmed
(b) the amendment or addition does not impose new obligations or liabilities or restrictions of a material nature on Relevant Parties which are not subsidiary to the rights and obligations of the Relevant Parties under the Code	**Positive:** Confirmed
(c) the amendment or addition is not inconsistent or in conflict with the Code, Transmission Licence Conditions or other relevant statutory requirements	**Positive:** Consistent with proposed licence changes
(d) the Relevant Party Representatives deem that the amendment or addition is appropriate to support compliance with the Code	**Positive:** Workgroup-formed solution represents co-creation approach ensuring most appropriate solution for all affected parties.

When will this change take place?

Implementation date: 1st April 2021.

Implementation approach:

[Insert approach]

Commented [011]: Tbc

Interactions

None expected.

Panel Determination

Commented [G2]: Code Admin use
To be populated post Panel with the view of Panel members.

Party	Determination
National Grid (ESO)	Approve / Reject
National Grid (TO)	Approve / Reject
Offshore Transmission Owners (OFTOs)	Approve / Reject
Scottish Hydro Electric Transmission plc (SHET)	Approve / Reject
SP Transmission Limited (SPT)	Approve / Reject

Acronyms, key terms and reference material

Commented [BM3]: To do

Commented [014]: Insert any acronyms or key terms used in this document and their meaning.

Acronym / key term	Meaning

Reference material:

Commented [BM5]: WIP

1. Ofgem decision letter: https://www.ofgem.gov.uk/system/files/docs/2020/07/tnuos_decision_letter_final_0.pdf

Annex 1 – Reporting Template

Commented [BM6]: Added as separate file