

STCP Modification Proposal Form

PM0119: TNUoS Revenue Collection Risk Transfer

Overview: An [Ofgem decision](#) of 9 July 2020 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 and associated STCP changes to facilitate the new processes.

Modification process & timetable

1

- Initial STCP Proposal Form
- 14 June 2021

2

- Approved STCP Proposal
- 30 June 2021

3

- Implementation
- 01 July 2021

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.

Low Impact

Offshore transmission system operators

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?

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Contents

- **What is the issue?**
- **What is the solution?**
- **What is the impact of this change?**
- **When will the change take place?**
- **Interactions**
- **Acronyms, key terms and reference material**

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 (“NGESO”). The consultation set out to explore whether allocation of cashflow risk relating to Transmission Network Use of System (“TNUoS”) revenue collection was appropriate in its current form, and to consider the impact of moving it to Onshore transmission owners (“ONTOs” for the purpose of this document).

The resulting decision of 9 July 2020 was to reallocate the TNUoS cashflow risk timing (the difference between allowed and collected revenues) to ONTOs.

The decision will change how TNUoS charges are invoiced by and paid to ONTOs each month. The amount will be proportional to that which NGESO has invoiced to customers in TNUoS Charges each month (less retained funds to pay for OFTO licence obligations and other pass-through items).

As a consequence, amendments are required to financial and operational processes via STCP changes, applicable both NGESO and ONTOs. There are also consequential changes to the timeline for submission of revenue forecasting which will additionally impact OFTOs (see “Data Submission and Enhanced Engagement for Tariff Setting” section).

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. NGESO recovers these costs (the TO revenue) through TNUoS charges on behalf of: National Grid Electricity Transmission (NGET); Scottish Power Transmission (SPT); Scottish Hydro Electricity Transmission (SHET); Offshore Transmission System Operators (OFTOs), and other network schemes.

The TOs inform NGESO of their allowed revenues annually. NGESO then sets TNUoS charges to reflect this and these charges are recovered by NGESO from suppliers and generators on behalf of the TOs. There are various reasons why a difference may arise between the collected TNUoS revenue and what NGESO has to pay to Onshore and Offshore TOs and other parties such as interconnectors. For example, NGESO’s forecast of volumes may differ from outturn volumes.

Currently, each financial year NGESO pays the revenue to the TOs that the TOs are allowed as specified in the TOs’ price controls and which are notified to NGESO by the respective TOs prior to the start of each financial year, rather than the actual TNUoS revenues NGESO will collect during that financial year. Throughout RIIO-T1 NGESO managed the cash difference - the “cashflow risk” - between collected revenue and revenues based on tariffs for any given year. NGESO recovery is made via the ‘K’

correction term in its transmission licence which reconciles payments made with actual revenues collected (under/over-recovery).

Ofgem set out the reasons for its decision in the July 2020 letter “Decision on Reallocation of TNUoS Revenue Collection” (linked below).

Additional

There are also some additional minor housekeeping changes identified and corrected within the three STCP documents.

What is the proposer’s solution?

Reallocation of Cashflow Risk

NGESO will continue to calculate TNUoS tariffs dating from 1 April 2021 onwards based on TOs’ confirmation of allowed revenue to be recovered for the following year – however the payment process will change for ONTOs from 1 July 2021.

In accordance with the STC established under B12 of the Transmission Licence, NGESO will calculate the amount payable to ONTOs consistent with the principle that the System Operator will only pay invoiced transmission network revenue (net of payments to the Authority, offshore transmission owner allowed revenue, electricity interconnector licensees, innovation funding winners and NGESO) to ONTOs.

This “pay-as-invoiced” approach to ONTOs ensures that NGESO is not exposed to the cash flow difference between allowed and collected revenues (“The K Correction Factor”) thus reallocating the risk to the ONTOs. Payments to each ONTO will be proportional to their allowed revenue for the relevant financial year.

This allocation will be performed on a year to date basis (financial year), such that year to date invoiced transmission network revenue (net of payments noted above) will be payable to ONTOs less payments already made within the Financial Year.

Payments to the Authority, electricity interconnector licensees, innovation funding winners and NGESO will be allocated on a flat monthly phased basis across the year. The approach to payments to electricity interconnector licensees remains unchanged and will be in accordance with existing payment schedule arrangements as per STCP13-1 article 3.1.8.

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

Pre-vesting/BETTA charges will continue to be collected and distributed directly outside of this allocation process.

The invoicing and reconciliation processes set out in the CUSC and applicable to NGESO are unchanged, meaning that invoiced amounts will be predominantly influenced by two factors generating the “cashflow risk”:

- 1) Supplier Demand Forecasts
- 2) Metered Volumes

This change in invoicing approach 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”. The timeline for communication of and actions associated with the forecasting, invoicing and reconciliation processes is outlined below.

Note that the implementation date for this proposal means the changes will be implemented from 1st July and will apply for the full Financial Year 2021/2022. Given the timing, any under or over collection for April to June will initially be borne by NGESO with a specific reconciliation to address this in the July invoices. As such, year “Y” in the timelines below begins with Financial Year 2021/2022 and will always represent the current Financial Year.

The detail below is not an exhaustive breakdown of all interactions and information to be shared between NGESO and ONTOs during the charge setting and collection processes; it is a quick-reference point outlining the core monthly process pertaining to the new invoicing arrangements, followed by the reconciliation processes.

Billing Process and Timescale

For the Financial Year Y, the new monthly invoicing process is summarised as follows:

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

Generation Reconciliation Core Process

- **1st Business Day of May annually:** NGESO confirm amount to be paid/received by ONTOs for Financial Year Y-1.
- **4th Business Day of May annually:** ONTOs issue invoice/credit to NGESO
- **30th May annually (or next Business Day if 30th falls on a weekend):** NGESO or ONTO as applicable makes payment

Initial Demand Reconciliation Core Process

- **1st Business Day of July annually:** NGESO confirms amount payable or receivable by the ONTO in relation to Financial Year Y-1
- **4th Business Day of July annually:** ONTOs issue invoice/credit to NGESO
- **30th July annually (or next Business Day if 30th falls on a weekend):** NGESO or ONTO as applicable makes payment

Final Demand Reconciliation Core Process

- **By 31st October annually:** NGESO confirms amount payable or receivable by ONTOs in relation to Financial Year Y-2.
- **4th Business Day of November annually:** ONTOs issue invoice/credit to NGESO
- **30th November annually (or next Business Day if 30th falls on a weekend):** NGESO or ONTO as applicable makes payment

Data Submission and Enhanced Engagement for Tariff Setting

To ensure sufficient time for TOs and NGESO to engage regarding the TNUoS tariff-setting process, it is necessary to adjust the annual tariff setting timeline. Facilitation of this enhanced engagement means TNUoS-related data will require earlier submission. This does not affect the connection charging data submission timescales. The proposed amended timeline is as follows, and begins in relation to Financial Year 2021/2022 (being year “Y” below in this case):

- **By 5th Business Day August Financial Year Y:** NGESO requests a forecast of TO General System Charges from TOs for Financial Year Y+1, and the five years from Financial Year Y+2 onwards*
- **By 5th Business Day October Financial Year Y:** TOs submit a forecast of TO General System Charges forecast for Financial Year Y+1, and the five years from Y+2 onwards.*
- **By 19th November Financial Year Y:** NGESO shares draft TNUoS tariffs with TOs for Financial Year Y+1
- **By 30th November Financial Year Y:** NGESO publishes draft tariffs for Financial Year Y+1
- **By 7th January Financial Year Y:** ONTOs confirm final revenue for Financial Year Y+1 and the updated five year forecast from Financial Year Y+2 onwards
- **By 14th January Financial Year Y:** NGESO share indicative final TNUoS Tariffs with TOs for Financial Year Y+1
- **By 25th January Financial Year Y:** OFTOs confirm final revenue for Financial Year Y+1 and the updated five year forecast from Financial Year Y+2 onwards
- **By 31st January Financial Year Y:** NGESO publish year-ahead final tariffs for Financial Year Y+1

*note the forecast covers six years in total as it is driven by the publication of the five-year view. NGESO publishes final tariffs for Financial Year Y+1 in January of Financial Year Y, and the five-year view for Financial Years Y+2, Y+3, Y+4, Y+5 and Y+6 in March of Financial Year Y.

Quarterly Actual and Forecast TNUoS Revenue Data

There are also obligations on NGESO added within STCP24-1 “Revenue Forecast Information Provision” to provide regular information to the ONTOs to facilitate efficient internal revenue forecasting. To provide greater visibility of TNUoS revenue collection, each Financial Year from 2021/2022 onwards, NGESO will provide regular data reports throughout the year (Y). This change is reflected as a new section 3.5 to STCP24-1. Due to the delayed implementation of this modification, the first of these new quarterly updates will be issued in July for Financial Year Y.

To ensure data is as accurate and useful as possible, it will be provided by NGESO 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 NGESO and an ONTO; for example, where previously unexpected conditions may lead to significant forecasting deviations (such as experienced during the COVID-19 pandemic). This can be requested by individual or all ONTOs under the STCP and will be considered by NGESO. Where agreement cannot be reached the request will be referred to Ofgem for consideration.

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
- NGESO 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 as the drafted 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 ONTOs. This ensures flexibility for the reporting process to evolve without requiring further STCP changes.

Monthly Data Exchange

In addition to the confirmation on the 1st of each month of the amount payable to the ONTO by NGESO, and beyond the quarterly reports noted above, NGESO will provide ONTOs with a higher-level monthly update within the other months, containing data on:

- Monthly TNUoS revenue forecast split per ONTO
- Monthly revenue distribution split per ONTO
- Monthly and year-to-date revenue invoiced by NGESO
- Generation and reconciliation invoicing forecast
- An accompanying narrative outlining differences to previous forecast and priced revenue

Additional Engagement

While NGESO and ONTOs may agree to additional ad hoc meetings where requested and agreed by both parties during the year, the following meetings will occur as standard process. Other than the year-end meeting, specific dates are not suggested in order to retain the flexibility to make arrangements as suitable for all parties on each occasion.

- **July:** Quarterly review meeting, go through the Quarterly Revenue forecast report and answer any queries
- **September:** Review meeting of TNUoS tariff forecasts incl. demand and generation charging base forecast & historical analysis (based on August forecast)
- **October:** Quarterly review meeting, go through the Quarterly Revenue forecast report and answer any queries
- **November** (no later than 19th): Tariff setting review meeting, go through the Tariff setting report and answer any queries
- **January:** Quarterly review meeting, go through the Quarterly Revenue forecast report and answer any queries

- **January (no later than 21st):** Tariff setting review meeting, go through the indicative final tariffs and answer any queries
- **March (last Business Day):** NGESO/TO year-end meeting

Additional Amendments

There are also some additional minor housekeeping changes within the three STCPs.

Indexation has been changed from RPI to CPIH throughout.

Legal text

Legal Text has been provided in separate attachments.

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 July 2021.

Implementation approach:

Updated legal text (as per the proposal) in the procedure, to establish this revised way of TNUoS Revenue Collection Risk Transfer.

Interactions

None expected.

Panel Determination

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

Acronym / key term	Meaning
NGESO	National Grid Electricity System Operator
ONTO	Onshore Transmission Owners
OFTO	Offshore Transmission Operators
TEC	Transmission Entry Capacity
RPI	Retail Price Index
CPIH	Consumer Prices Index Including Owner Occupiers' Housing Costs (UK)
TNUoS	Transmission Network Use of System
NGET	National Grid Electricity Transmission
SPT	Scottish Power Transmission
SHET	Scottish Hydro Electricity Transmission
RIIO	Revenues = Incentives + Innovation + Outputs

Reference material:

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