

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal

Set final TNUoS tariffs at least 15 months ahead of each charging year

Submission Date

19th May 2015

Description of the Issue or Defect that the CUSC Modification Proposal seeks to address

At present, TNUoS tariffs are finalised just two months ahead of each charging year – said charging year beginning on the 1st of each April. This adds uncertainty for CUSC parties which have to pay TNUoS, as they do not know charges very far in advance. It also adds uncertainty for those customers with TNUoS pass-through arrangements in their supply contracts. Suppliers, in particular, are likely to have to add a risk premium into their tariffs to end consumers; Suppliers cannot manage this risk or finance it cheaply, so this feature of baseline is not in consumers' interests.

Therefore, given the existing and growing volume of fixed price retail contracts and the inability of Suppliers to hedge network charges, there is an implied cost to customers due to the uncertainty that is created by today's short-notice annual TNUoS tariffs. Most contracts to supply non-domestic customers are from one to two years in duration; a growing proportion of domestic tariffs are fixed, often for a given term.

National Grid has recognised the value CUSC parties place in advanced forecasts by agreeing to provide quarterly updates in the year ahead of final charging. These updates have been useful; however, the volatility of the inputs that feed the models which creates tariffs generally only becomes more stable approximately one additional month from the publication of final tariffs.

It seems inefficient for Suppliers to compete for business on the basis of Transmission tariff uncertainty. This uncertainty could be more disadvantageous for smaller Suppliers, as they may need to add larger risk premia. The uncertainty is generally hard for all Suppliers, or (where passed-through) customers, to manage.

The energy and climate change select committee noted in its recent report¹ that "market conditions can be improved if ... the 40-day notification period for price changes is increased to 15 months"

¹ <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmenergy/386/38601.html>

Conversations we have had with larger customers, who (although some do have such contracts) do not have the ability to easily support some of the more complicated contracts with “pass through” clauses in relation to TNUoS, show they would welcome the increase in budget certainty – they have a pressing need for certainty of the elements of their electricity purchase costs.

The greater certainty of network charges that this modification proposal would bring, would reduce costs to suppliers, and while it may increase costs to the network companies (due to cash flow costs), the overall net benefit to consumers will be positive due to network companies having lower cost of capital. This issue is not unique to TNUoS; there has recently been an approval of the same general form as this CUSC Mod, for a change (DCP 178) to Distribution Use of System (DUoS) charges under the DCUSA :

<https://www.ofgem.gov.uk/ofgem-publications/93572/dcp178d.pdf>

Approving this modification will thus, as an incidental benefit, assist in inter-code consistency – one of the themes in recent CMA documents – making comprehending and using the industry arrangements that little bit easier for small and new entrant type CUSC parties.

Description of the CUSC Modification Proposal

The proposal is to increase the length of the notice period for final TNUoS tariffs (currently 2 months) – to, for example 15+ months. This would provide greater certainty of TNUoS tariffs over a longer time period, reducing the risk premium that suppliers would have needed to otherwise add to consumer prices to address uncertainty of TNUoS tariffs.

The workgroup will need to consider the practicalities of both OFTOs and onshore TOs forecasting their revenues 15 months ahead, and of the way that EC regulation EC 838/2010 can be made to work in the context of a longer notice period. It will also need to address the issue of demand and generation forecasts being made further ahead, and the implications and cost reflectivity on the collection of TNUoS revenue that this longer forecast period will pose.

Furthermore the workgroup will need to consider other components of the charging model that may need to be requested further ahead – for example the Ofgem ‘mod’ process for TOs, the interconnector cap and collar regime and notice that users provide to National Grid that could affect TNUoS recovery (e.g. closure / delay within this period) and / or affect the cost reflectivity of the charge. The Workgroup will also need to consider whether / how an extended notice period would operate across 2 price control periods.

Should Ofgem decide to approve this modification, it may require other code changes and licence changes for Transmission Owners that are outside the CUSC.

Impacts on the CUSC

Section 3.14.3 needs alteration if this mod is passed; currently it says, "The Company shall give the User not less than 2 months prior written notice of any revised charges ". The workgroup may consider with Code Administrator's advice whether any other parts of the CUSC need amendment.

Section 14.14.10 needs alteration if this mod is passed; currently it says, "The Company will typically calculate TNUoS tariffs annually, publishing final tariffs in respect of a Financial Year by the end of the preceding January".

Section 14.28 (on predictability of tariffs) would need alteration if this mod were passed; currently it says, "The Company is required to give Users 2 months written notice of any revised charges".

In addition to the above we expect further alterations to Section 3 and Section 14 of the CUSC if any such are identified.

Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes / No

No

Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information

BSC **N**

Grid Code **N**

STC **Y** – The STC will need a simple parallel amendment to specify that transmission owners give necessary information to National Grid's charging team in sufficient time.

Other **Y** : It is possible that Ofgem may review some of the parameters in the RIIO-T1 price control to ensure that TOs can efficiently finance themselves given the need to stabilise revenues collected by TNUoS 15 months ahead.

Urgency Recommended: Yes / No

No

Justification for Urgency Recommendation

n/a

Self-Governance Recommended: Yes / No

No

Justification for Self-Governance Recommendation

n/a

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?

There are no relevant SCRs in process.

Impact on Computer Systems and Processes used by CUSC Parties:

No impact

Details of any related modification proposal you have raised to other industry codes

None

Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives for Charging:

Please tick the relevant boxes to show where the proposal better meets that objective than baseline, and then provide justification.

- (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 incurred by transmission licensees in their transmission businesses
- (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 ACER.

Suppliers offer contract terms to customers in advance of the final Transmission Charges being known. This creates a financial risk that the supplier must value, which is ultimately passed

onto the customer. By having longer advanced notice of Transmission network tariffs, suppliers will be able to eliminate this risk premia from quotations to customers, or fixed price domestic contracts, for the length of time the charges are fixed. Generators will be able to strike forward contracts that are more keenly priced without the risk created by TNUoS charge uncertainty.

This maps onto the first of the applicable charging objectives above : the net system cost should be lower as Suppliers cannot very economically finance TNUoS risk into their quotes to end customers, so this modification, if passed, would help CUSC parties, particularly Suppliers, to price their business operations more keenly, better facilitating competition (applicable charging objective A).

The consistency that would be created with the notice period for DUoS tariffs in the DCUSA (as updated by DCP 178) enhances the ease of understanding and access of these codes for all parties, including newcomers – again, this can be beneficial for competition.

Additional details

Details of Proposer: (Organisation Name)	Binoy Dharsi, EDF Energy
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or “National Consumer Council”)	CUSC Party
Details of Proposer’s Representative: Name: Organisation: Telephone Number: Email Address:	Binoy Dharsi, EDF Energy, 020 3126 2165, 07790 893 373, Binoy.Dharsi@edfenergy.com
Details of Representative’s Alternate: Name: Organisation: Telephone Number: Email Address:	Paul Mott, EDF Energy, 0203 126 2314, Paul.Mott@edfenergy.com
Attachments (Yes/No): If Yes, Title and No. of pages of each Attachment:	

Contact Us

If you have any questions or need any advice on how to fill in this form please contact the Panel Secretary:

E-mail cusc.team@nationalgrid.com

Phone: 01926 653606

For examples of recent CUSC Modifications Proposals that have been raised please visit the National Grid Website at <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Current/>

Submitting the Proposal

Once you have completed this form, please return to the Panel Secretary, either by email to jade.clarke@nationalgrid.com and copied to cusc.team@nationalgrid.com, or by post to:

Jade Clarke
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If no more information is required, we will contact you with a Modification Proposal number and the date the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, the Proposal can be rejected. You will be informed of the rejection and the Panel will discuss the issue at the next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform you.