

2024/25 to 2028/29 Five-Year View TNUoS Tariffs Webinar

Q&A Summary – 10/05/23

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| Purpose | To summarise the questions asked as part of the 2024/25 to 2028/29 Five-Year View TNUoS Tariffs webinar and the answers provided by the presenters. |
| Date: | 10/05/2023 |

You can download the slide deck from this webinar [HERE](#)

You can view a recording of this webinar [HERE](#)

Introduction

A webinar was held on 10th May 2023 to outline the ESO’s five-year view of the 2024/25 to 2028/29 TNUoS tariffs.

The following questions were asked, and answers provided during the webinar Q&A session:

| # | Questions | Answers | Category |
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| 1 | Why is it that the largest increase in revenue is due to Offshore? | The level of offshore wind generation is expected to increase significantly over the next 5 years. As additional projects (including existing projects that are awaiting asset transfer and new projects that connect) get transferred to the ownership of an OFTO there will then be additional OFTO revenue to be collected for each project and therefore increased revenue to collect in total. | Revenue |
| 2 | There have been large increases in TAR vs. the previous two 5-year tariff forecasts (+c. £1bn/yr vs. 2021), are such increases expected within a price control? | Since the 2021 5-year view the base revenues for each TO has increased to reflect k-correction, inflation, and other factors. These reasons have impacted the revenue to be recovered as a result. See Q3 to see how individual TO revenues have been impacted. | Revenue |
| 3 | Can you provide any detail on why the base revenue for each TO have seen large increases which in | We reached out to the TOs for clarification around the large increase in revenue. For National Grid’s revenue, the differences between the preliminary data and the final data were due to | Revenue |

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| | <p>turn contributes to the increases seen in total revenue?</p> | <p>Ofgem updating the Financial Parameters as part of the Annual Iteration Process. This impacted upon Cost of Debt (CoD), Risk Free Rate (RfR), Real Price Effects (RPEs) and inflation, which ultimately impacted the allowed revenues. Also, due to the under-recovery in 2022/23, the PCFM was updated to include a forecast for the recovered revenue resulting in a positive k-factor, which showed the best view between draft and final (£108.9m)</p> <p>For the SHET TO, the increase again occurred between draft and final, and their primary drivers again were due to Ofgem's inflationary updates on RPEs and cost of debt revisions. Forecasted under recovery (k correction) had increased materially to c.£40 - £50m. Between draft and final, pass-through items were updated to reflect the business rate views which apply to Scottish TOs. Lastly, Ofgem finalised the close out methodologies for RIIO-T1 post draft which influenced their legacy T2 parameters.</p> <p>For SPT, the increase was smaller but largely due to their under-recovery cost of approx. £27.78m.</p> | |
| 4 | <p>For the contracted, modelled & chargeable diagram. Is 'contracted' the total amount of capacity approved and waiting to go live?</p> | <p>The Contracted TEC is made up of all capacity which is expected to connect within the forecast period based on the TEC register (which is published on our website). This includes all projects that hold contracts with us for Transmission Entry Capacity (both existing and future connection projects).</p> | <p>Generation</p> |
| 5 | <p>Then 'modelled' is the total amount of capacity the ESO believe will actually go live?</p> | <p>Modelled TEC considers information from our customer contract managers about any changes to the connection dates that they are expecting, this is based on their discussions with those generators. Additionally, for the 5-year view only, we consider the Future Energy Scenarios forecasts and which projects they are expecting to connect over the next five years.</p> | <p>Generation</p> |
| 6 | <p>The inflation PI looks to be aligned to the Nov 22 PCFM, not the more recent Feb 23 version, outdated inflation caused issues last year can this be revised?</p> | <p>The inflation is aligned to the Nov 22 PCFM as the 5-year view inputs were submitted in January. This will be updated as future forecasts are issued.</p> | <p>Revenue</p> |
| 7 | <p>Will using outturn 2022/23 demand data for TDR banded charges be unduly impacted by cost-of-living crisis? Would 2023 FES forecast be more appropriate?</p> | <p>The process and methodology for the updating the TDR site counts and consumption data is included within the CUSC, and therefore we are limited in moving away from the current process. We will be using 2022/23 outturn data for the draft tariffs, which we will review and aim to provide as much detail as possible if there are any significant swings.</p> | <p>Demand</p> |
| 8 | <p>What is driving the sharper locational tariff</p> | <p>Locational tariff charges are reducing year-on-year including South West and South Wales. The</p> | <p>Demand</p> |

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| | changes year-on-year from 2026/27 (particularly South West and South Wales)? | exception is South-Western region where locational charges are higher in 2024/25 and 2025/26 compared to future years. This is down to higher Peak zonal tariff and year-round transport zonal tariff. | |
| 9 | Is Grid still intending to publish a list of the transmission-connected sites and their corresponding demand residual band? If so, is there an ETA for this? | We raised the question at a previous TCMF to see if anyone had objections to us publishing this data, we haven't received any objections to date and now intend to publish. | Demand |
| 10 | How will domestic customers with elective HH settlement be charged TNUoS? Similar to other customers moving from NHH to HH? | HH unmetered would be charged using the HH methodology so £/kW triad demand. NHH unmetered would be charged the NHH p/kWh 4-7pm) consumption and both are charged the unmetered p/kwh TDR on consumption over every period through the day | Demand |
| 11 | Are there any indicative deadlines for the 10-year tariff forecast mentioned at the start of the call? | We are aiming to get this published before the end of August. | 10-Year Tariffs |
| 12 | Will remote island / wider gen re-zoning be looked at for RIIO-3? Or are current 27 zones frozen indefinitely until a CUSC mod/taskforce/SCR looks at the issue? | A CUSC mod was previously raised, and the conclusion was to keep the 27 generation zones as they currently are as a stop gap arrangement, while CMP315/CMP375, looking at expansion constant and expansion factors is ongoing. Once this mod has concluded, we will be asked as ESO to raise another modification to review zoning again | Modifications |
| 13 | In future, is it possible for TOs to be present in the webinar to give more detail on the increases in revenue given that they provide the revenue forecasts? | We will continue to encourage the TO's to attend the webinar, so that they can continue to offer their insight into revenue costs. | Revenue |
| 14 | Would the impact of the HVDC Links and the increases North of the B6 boundary impact AAHEDC Costs in future? | AAHEDC is not part of the CUSC, but part of the ESO license. We collect money from suppliers and pass that money for remote Scottish areas. The new HVDC links will be funded via TNUoS, not AAHEDC. Thus no impact on AAHEDC costs. | AAHEDC |
| 15 | Could a more realistic ALF than 45% for PV be included in future 5-year forecasts, in addition to the results currently presented? | We will consider what data we include in the tables with the next 5-year view and what would be most helpful. In the meantime, Appendix A of our publications include the tariff calculations for each type of generator (carbon conventional, low carbon and intermittent tariffs), so it is possible to calculate your own example tariffs with an ALF of your choice if you should wish to. | Generation |

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| 16 | Where do your inflation assumptions come from as the data implies a decreasing value for inflation for 2024/25 and 2025/26? | Figures are from our internal finance team – we expect that inflation was high for a period and then settled back down to a normal level. The final 3 years have been uplifted by 2% to account for long term inflation | Revenue |
| 17 | On the Contracted, Modelled & chargeable diagram - what is the reason for the large jump in modelled & chargeable from 25/26 to 26/27? Other years seem stagnant? | The reason for the increase between 25/26 and 26/27 is that several projects that were expected to connect in 24/25 or 25/26 have been delayed, as part of our best view, to the 26/27 charging year which causes it to look like a steeper than is seen in other years. Unfortunately, we cannot share details of specific projects since the information is commercially sensitive. | Generation |