

CUSC Modification CMP244

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

May 2015

welcome



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Background to the modification

- Consumers are given 2 months notice of Final TNUoS tariffs which become effective on 1st April each year
- Those customers who contract before final tariffs are published tend to have a risk premium priced into their quote to manage this uncertainty; the earlier a contract is agreed the higher the risk premium applied
- Those customers who contract on variable (TNUoS “pass-through”) terms have said it is problematic for them, in that they cannot hedge or efficiently manage those costs. They can include energy-intensive customers with very small per-unit profit margins.
- Suppliers agree that customers do contract up to two years in duration and can agree these terms up to one year in advance of the start date
- This can mean that Suppliers must cover the risk of TNUoS uncertainty for up to three years in total
- Smaller / independent Suppliers who do not necessarily have a diverse portfolio may be inclined added higher risk premiums to protect them from losses which could be better absorbed by larger suppliers

Description of the Modification Proposal

- This modification proposal is requesting that a suitable lead time is given on setting final TNUoS tariffs to allow suppliers to remove or reduce risk premiums that are passed on to customers in their contract terms
- The balance of this proposal is to ensure that the removal/reduction of risk premia applied by Suppliers outweighs any additional costs borne by the Transmission Owners, as Suppliers (and customers, where on fixed price contracts) cannot finance or manage this risk as efficiently as TOs could through an adjusted price control
- CUSC parties are aware that there are several aspects that need to be taken account of for this modification to be successful. i.e. impact of EC838/2010
- This proposal is seeking a minimum of 15 months notice of TNUoS charges ahead of the start of each charging year



Justification against applicable CUSC objectives

- **This Modification Proposal meets objective (a)**
- **End customers will benefit from lower net costs, as Suppliers will be able to remove or reduce risk premium applied to contracts**
- **This modification will better facilitate competition between Suppliers as there will be the removal of any risk premium in the period where tariffs are known**
- **Generators will also be able to strike forward contracts that are more keenly priced due to the removal/reduction of financial risk created by TNUoS charge uncertainty**



Questions?

