

Modification proposal:	Connection and Use of System Code (CUSC): CMP247 'TNUoS Demand Charges during the implementation of BSC Modification P272 following the approval of BSC Alternative Modification P322'		
Decision:	The Authority ¹ consents that this modification ² be made ³		
Target audience:	National Grid Electricity Transmission PLC (NGET), Parties to the CUSC and other interested parties		
Date of publication:	9 November 2015	Implementation date:	23 November 2015

Background

The electricity settlement process determines how much suppliers pay for the energy that their customers use in each half hour of the day. The majority of electricity consumers do not have meters that can record half-hourly (HH) consumption data and they are therefore settled non-half-hourly (NHH) using estimates of their consumption in each half hour. These estimates are based on a consumer's annual metered consumption and their assumed load profile, ie how its total consumption is spread over time, which is determined by a consumer's 'Profile Class'.

NHH consumers are assigned to one of eight Profile Classes, based on their expected consumption pattern and meter type. For example, most domestic consumers are assigned to Profile Class 1, but domestic consumers with an Economy 7⁴ meter are assigned to Profile Class 2.

Since 6 April 2014, suppliers have had a licence obligation to supply consumers in Profile Classes 5-8 (who are generally considered to be larger non-domestic consumers) through a HH-capable advanced meter. In October 2014, we approved Balancing and Settlement Code (BSC) Modification P272.⁵ This change requires suppliers to settle consumers in Profile Classes 5-8 using their HH consumption data. The original implementation date for P272 was 1 April 2016. On 20 March 2015, we received a request from the BSC Panel to delay implementation of P272 until 1 April 2017. Since then, we have approved a further BSC modification, P322⁶, and agreed to extend the P272 implementation date to 1 April 2017.⁷

In order to meet the requirements of P272, suppliers need to move consumers in Profile Classes 5-8 from NHH settlement to HH settlement during a charging year. Under the TNUoS methodology, charges are determined in different ways for NHH and HH

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

² 'Change' and 'modification' are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ Economy 7 meters track energy consumption during the day and during the night separately. This allows consumers to access cheaper rates for energy consumed during the night.

⁵ Our decision on P272 is available on our website here: <https://www.ofgem.gov.uk/publications-and-updates/balancing-and-settlement-code-bsc-p272-mandatory-half-hourly-settlement-profile-classes-5-8>

⁶ Our decision on P322 is available on our website here: <https://www.ofgem.gov.uk/publications-and-updates/balancing-and-settlement-code-bsc-p322-revised-implementation-arrangements-mandatory-half-hourly-settlement-profile-classes-5-8>. We approved the alternative modification.

⁷ Our letter agreeing to extend the implementation date for P272 is available on our website here <https://www.ofgem.gov.uk/publications-and-updates/ofgem-response-bsc-panel-s-second-request-extension-implementation-date-bsc-modification-p272>

settlement customers. Without a change to the charging methodology, these consumers would have spent part of the year in which they were moved being charged as a NHH customer and part of the year charged as a HH customer. This would have resulted in suppliers and consumers being overcharged. To avoid this, we approved CMP241⁸ in March 2015 and it was implemented from 1 April 2015. The effect of CMP241 was the following:

- consumers in Profile Classes 5-8 that were moved from NHH to HH settlement during a charging year prior to the implementation of P272 would be treated as NHH for charging purposes for that whole charging year. For example, if the implementation of P272 was 1 April 2016, a customer moved from NHH to HH during the 2015/16 charging year would be treated as NHH for TNUoS charging purposes for that whole year.
- Where consumers have moved from NHH to HH settlement prior to the start of charging year that begins before P272 is implemented, suppliers could choose for the consumer to be treated as HH or NHH for charging purposes in that charging year. For example, if the implementation date for P272 was 1 April 2016, a customer moved from NHH to HH in 2014/15 charging year would be treated as NHH during the year in which it moved, ie 2014/15, but for 2015/16 its supplier would have the choice to treat it as NHH or HH for charging purposes.

When CMP241 was approved, the implementation date for P272 was still 1 April 2016. This meant that suppliers would have had the choice to treat consumers that were migrated from NHH to HH settlement prior to 1 April 2015 as either NHH or HH for TNUoS charging purposes during the 2015/16 charging year. Due to the relatively small numbers involved, it was considered feasible to process suppliers' choices in respect of these consumers manually.

Changing the P272 implementation date to 1 April 2017 means that suppliers would have this choice for the 2016/17 charging year. This means that suppliers have this choice for a significantly larger number of consumers. This raises two potential issues. Firstly, allowing suppliers this choice for a larger number of consumers would require NGET and, potentially, suppliers to make temporary information system changes. Secondly, there would be significant uncertainty about the number of consumers that would be charged as HH and the number of consumers that would be charged as NHH. This would be likely to make forecasts of HH and NHH demand, which are used to set demand TNUoS tariffs, less accurate.

The modification proposal

NGET proposed CMP247 on 22 July 2015 with the aim of addressing the issues associated with suppliers having the choice between NHH to HH charging for a larger number of consumers, as discussed above. CMP247 proposes that all meters which migrate from NHH to HH after 1 April 2015 will be charged as NHH until the revised implementation date of P272, ie 1 April 2017. Suppliers will still have the option to treat meters which migrated before 1 April 2015 as HH or NHH up until 1 April 2017.

⁸ Our decision to approve CMP241 is available on our website here <https://www.ofgem.gov.uk/publications-and-updates/connection-and-use-system-code-cusc-cmp241-tnuos-demand-charges-during-implementation-p272>

CUSC Panel⁹ recommendation

The CUSC Panel considered the draft Final Modification Report for CMP247 at its meeting on 25 September 2015. A majority of the Panel (7:1) voted that the proposal better facilitates the relevant CUSC charging objectives, in particular objectives (a) and (b). The views of Panel members are set out in full in the Final Modification Report (FMR).

Our decision

We have considered the issues raised by the modification proposal and the FMR dated 7 October 2015. We have considered and taken into account the responses to the Code Administrator consultation on the modification proposal and the views of Panel members which appear in the FMR.¹⁰ We have concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant CUSC charging objectives¹¹; and,
2. directing that the modification be made is consistent with our principal objective and statutory duties.¹²

Reasons for our decision

We set out below our views on the applicable CUSC charging objectives relevant to our decision and which are better facilitated by the modification proposal. In respect of objective (d), we consider that the proposal is neutral.

Objective (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"

CMP247 will improve NGET's ability to forecast HH and NHH demand. As discussed below under objective (b), this should improve its ability to set cost reflective charges. It should also help to reduce under or over recovery, making charges less volatile and more predictable. CMP247 will also reduce the administrative burden on suppliers by reducing the need for temporary information system changes and costs associated with these changes. All these factors should help improve competition in the supply of electricity. However, CMP247 may also reduce choice for suppliers and consumers which could have a minor negative impact on competition. Overall, we would expect the benefits of more predictable and cost reflective charges and reduced administrative burden to outweigh any negative impacts resulting from reduced choice for suppliers and customers. Therefore, we consider that CMP247 better facilitates objective (a).

⁹ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

¹⁰ CUSC modification proposals, modification reports and representations can be viewed on NGET's website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/>

¹¹ As set out in Standard Condition C5(5) of NGET's Transmission Licence, see: <https://epr.ofgem.gov.uk//Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

¹² The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

Objective (b) "that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection)"

We consider that CMP247 will impact cost reflectivity in two ways. Firstly, it reduces uncertainty around the levels of HH and NHH demand. This should allow NGET to make more accurate forecasts of HH and NHH demand, which should in turn improve the cost reflectivity of NGET's charges. However, the second effect of CMP247 will be that fewer consumers are being settled HH prior to implementation of P272. HH charges more accurately reflect a consumer's use of the network, so will tend to be more cost reflective than NHH charges. As a result, charges in respect of some consumers will be less cost reflective. Our view is that because the choice between HH and NHH metering only affects charges for Profile Class 5-8 consumers, whereas forecasting of HH and NHH demand affects charges for all demand TNUoS consumers, CMP247 will have a positive effect on cost reflectivity overall. Therefore, we consider that it better facilitates objective (b).

Objective (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"

CMP247 helps to mitigate issues related to changing the implementation date of P272 from 1 April 2016 to 1 April 2017 in an efficient manner. It improves NGET's ability to forecast HH and NHH demand and it avoids temporary system change costs which NGET estimate to be in the region of £2 million. We therefore consider that CMP247 properly takes account of a development in NGET's business as System Operator with responsibility for administering transmission charges, ie the move from NHH settlement to HH settlement for consumers in Profile Classes 5-8. Therefore, we consider that the proposal better facilitates objective (c).

Decision notice

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority, hereby consents that modification proposal CMP247 'TNUoS Demand Charges during the implementation of BSC Modification P272 following the approval of BSC Alternative Modification P322' be made.

Catherine Williams
Head of Commercial Regulation and System Operator, Transmission
Signed on behalf of the Authority and authorised for that purpose