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for energy consumers

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Date: 8 September 2015

Dear Mr. Toms,

CUSC Modifications Panel recommendation not to grant urgency for CMP251: "Removing the error margin in the cap on total TNUoS recovered by generation and introducing a new charging element to TNUoS to ensure compliance with European Commission Regulation 838/2010."

On 19 August 2015 British Gas (the Proposer) raised CUSC modification proposal CMP251¹, which aims remove the error margin in the calculation of the split of revenue between generation (G) and demand (D) (the G:D split) for transmission network use of system (TNUoS) charges, and introduce a new mechanism to ensure compliance with European Union (EU) regulation 838/2010 (the Regulation). The Proposer requested that it be progressed on an urgent timetable. The CUSC Modifications Panel (the Panel) considered CMP251 at its meeting on 28 August 2015.

On 28 August 2015 the Panel wrote to us with its recommendation not to treat this proposal as urgent. The Panel also set out its view that a standard four month Workgroup process should be followed to assess these proposals with the option of the Workgroup reporting back to the Panel earlier if possible.

This letter confirms that we are in agreement with the Panel and do not consider that this is a matter that should be progressed on an urgent basis.

Background to the proposals

The Regulation limits average transmission charges for generators in EU member states. The range of allowable average transmission charges for generators in Great Britain (GB) is €0-2.5/MWh. GB TNUoS charges were forecast to exceed the €2.5/MWh upper limit in 2016/17. To prevent this we approved CUSC Modification Proposal CMP224 in October 2014². As a result the average generation TNUoS charge in GB is "capped" each year to ensure compliance with the Regulation.

Charges are set in advance of the charging year based on forecasts. To mitigate the risk of exceeding the limits due to inaccurate forecasts the calculation of the G:D split includes an error margin. The error margin is set by NGET and was 7% for 2015/16. This resulted in a forecast average transmission charge of €2.33/MWh, based on a

¹ <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP251/>

² Our decision on CMP224 is published on our website <https://www.ofgem.gov.uk/publications-and-updates/connection-and-use-system-code-cusc-cmp224-cap-total-tnuos-target-revenue-be-recovered-generation-users>

forecast Pound/Euro exchange rate of 1.22. Since 1 April 2015 the average Pound/Euro exchange rate has been 1.38. This is significantly higher than the forecast. Assuming the forecasts for other components are correct it would result in an average charge of €2.64/MWh for 2015/16.

The proposal

CMP251 proposes to remove the error margin in the calculation of the G:D split and introduce an adjustment towards or after the end of the charging year such that the average charge would not breach the €2.5/MWh limit.

Panel Discussion

The Panel discussed CMP251 at its meeting on 28 August 2015. The proposer requested urgent treatment of CMP251 to ensure that for the next charging year (from 1 April 2016) compliance with the regulation is not dependent on the accuracy of forecasts.

The Panel agreed unanimously that CMP251 should not be treated as an urgent CUSC Modification Proposal. They noted that the issues involved are complex and that there is a risk of unintended consequences if the modification process is rushed. They also noted a standard four month workgroup process would allow the authority to make a decision before 1 April 2016. (Although not before charges are normally set in January 2016).

The Panel therefore recommended that the proposals should be addressed in a timely manner within a standard CUSC modification timetable.

Our Views

In reaching our decision³, we have considered the details contained within the proposals, the Proposer's justification for urgency and the views of the Panel. We have assessed the request against the criteria set out in Ofgem's published guidance⁴, in particular whether it is linked to "*an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholder(s)*".

We recognise that if a change to the charging methodology is to be made from 1 April 2016, it would normally be better if our decision was made before 31 January when final charges are usually set. This would require CMP251 to be progressed on an urgent timetable. We also agree with the Panel that progressing CMP251 on an urgent timetable would increase the risk of unintended consequences. On balance, our view is that the increased risk of unintended consequences associated with an urgent timetable outweighs the benefits of making a decision before 31 January.

We note that the standard modification process is designed to allow sufficient opportunity for industry to consider and submit their views in respect of a modification proposal, and we consider it should apply in this case.

For the avoidance of doubt, in not granting this request for urgency, we have made no assessment of the merits of the proposals and nothing in this letter in any way fetters the discretion of the Authority in respect of these proposals.

Yours sincerely,

Kersti Berge
Partner, Transmission
Duly authorised on behalf of the Authority

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

⁴ Our guidance on the urgent treatment of code modifications is published on our website here <https://www.ofgem.gov.uk/ofgem-publications/61726/ofgem-guidance-code-modification-urgency-criteria.pdf>