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Dear Jonathan

## **Balancing and Settlement Code Modification Proposal 272 – draft impact assessment**

Thank you for the opportunity to provide our view on your draft impact assessment. This response is provided on behalf of National Grid Electricity Transmission plc (NGET) and is not confidential. In the UK NGET's primary duties under the Electricity Act are to develop and maintain an efficient network and to facilitate competition in the generation and supply of electricity. Our activities include the residual balancing of the electricity system in real time. However, the main focus of our response concerns the impact that the proposed change under P272 would have on our process for setting transmission charges.

As part of our role as National Electricity Transmission Operator, we collect revenues on behalf of all Transmission Owners in GB. 73% of these revenues are collected from the demand side through Demand Transmission Network Use of System (TNUoS) charges. The way that these charges are collected from suppliers varies depending on the type of customer concerned. For the half hourly (HH) metered customers within a supplier's portfolio, the charges are based on demand over the three 'Triad' peaks<sup>1</sup>, whereas for non-half hourly (NHH) metered customers they are based on profiled energy consumption between 4pm and 7pm. This data is provided to NGET through settlement files from Elexon.

To set charges for the following year we use a forecast of demand from these two customer types using historical data. Therefore, any substantial changes to the respective magnitudes of these charging bases (i.e. the proportion of HH to NHH) may lead to the possibility of significant over or under recovery of revenue in the event that these changes are introduced without being taken into account within the demand forecast. Whilst any over or under recovery is corrected in charges two years later, this leads to increased tariff volatility which has been highlighted in customer feedback to be a major concern. This is due to the risk that tariff volatility potentially leads to winners and losers, undermines competition and increases risk premiums passed on to end consumers. Therefore, to mitigate this risk, it is important that sufficient time is available to allow NGET to analyse the potential effects of changes to the HH and NHH customer base mix.

Implementing P272 in April 2014 (as set out in the original modification) would lead to a high risk that the changes to the ratio of HH to NHH customers would not be taken into account in 2014/15 TNUoS charges given that these have to be finalised by January 2014. It could even, in an extreme case, lead

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<sup>1</sup> These are the three highest demand peaks separated by 10 days and falling between the months of November and February.  
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to a mid-year change being required to TNUoS charges which further increases the tariff volatility risk for transmission users.

In the event that a mid-year tariff change is not possible for any reason, there is also a risk that any significant over or under recovery could have a material impact on NGET revenues through the revenue recovery forecasting incentive in the transmission licence.

Therefore, whilst this response does not attempt to assess the wider benefits of the proposal considered under P272, we agree with Ofgem's 'minded to' position in so far as the implementation timelines contained in the alternative modification (April 2015) would better facilitate incorporation of the proposed changes into our transmission charges.

Moving forward, to ensure we can best forecast the impact of any large movements of customers between NHH and HH metering on TNUoS charging bases and tariffs, it would be very useful if NGET could be kept informed of any developments in this area. More generally, we are keen to work with Ofgem, Elexon and other industry parties (such as data collectors and data aggregators) to ensure that any benefits realised through use of improved metering can be achieved without any corresponding volatility in transmission charges.

We are happy to discuss this response further and, if you have any questions, please contact Stuart Boyle on 01926 65 5588 or on [stuart.boyle@nationalgrid.com](mailto:stuart.boyle@nationalgrid.com) in the first instance.

Yours sincerely,

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