

Patrick Hynes  
Charging & Capacity  
Development Manager  
[patrick.hynes@nationalgrid.com](mailto:patrick.hynes@nationalgrid.com)  
Direct tel.: 01926 656319

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Dear Donald,

## **Consultation on CUSC modification proposal 224 CMP224)**

National Grid, through our subsidiary National Grid Electricity Transmission plc (NGET), owns and operates the electricity transmission system in England and Wales, and is the National Electricity Transmission System Operator (NETSO) for the entire transmission system across Great Britain. In our role as NETSO we are responsible for setting Transmission Network Use of System (TNUoS) tariffs, calculating TNUoS charges to generators and suppliers, and recovering the associated revenue on behalf of Transmission Owners whose assets comprise the National Electricity Transmission System (NETS). In relation to CMP224, National Grid is the proposer, and has been heavily involved in working with stakeholders to develop the proposal to this stage.

We welcome the opportunity to comment on Ofgem's "minded to" position in relation to CMP224. In summary, National Grid fully supports Ofgem's reasoning as laid out in the consultation document. We note in the consultation a request for views on three specific areas, which we set out below:

1. The interpretation of Paragraph 2(1) Annex Part B of the Regulation
  - National Grid's analysis of the legal interpretation of this regulation notes the additional risks associated with excluding connection and local charges for generation only spurs. Any doubt in the legal validity of the charging basis could serve to undermine the charging regime with significant scope for uncertainty, delay and ultimately higher costs for consumers as industry participants take account of the higher legal risk. This is why we don't believe that the two options excluding the local charges (WACMs 2 and 3) better meet the applicable CUSC objectives.
2. The impact on consumers of transferring costs from generation to demand under the different proposals
  - National Grid does not have any additional comment on this area over the information already included in the Final CUSC Modification report.

3. The impact on consumers of any additional risk that suppliers and/ or generators face for options with a shorter lead time for setting the G:D split as compared to options with a longer lead time
  - It is our view that there is a balance to be struck between the benefits of a more predictable transmission tariff against the potential doubling of the G:D split forecast error margin. We are mindful of comments industry have made during the development of other CUSC modifications regarding the timescales in which the majority of energy is traded (typically in excess of 18 months in advance). We would not therefore expect to see a change to the wholesale price of electricity under either option if the generation element of the G:D split is subsequently lowered as a result of the €2.5/MWh cap biting. It is therefore our understanding that any additional charge made to suppliers would represent an increase in supplier costs and hence consumer bills. As the options containing an additional notice period increases both the likelihood and impact of a G:D split change (due to the increased error margin), this will increase the level of additional cost borne by consumers.

Further, fixing the G:D split one year ahead only provides certainty over one component of the model used to set final tariffs. Any changes which affect the residual, such as demand forecasts or changes to the DCLF model used to calculate the locational element of tariffs, would still flow through and affect the final tariffs even after the split is fixed. Fixing the G:D split does not stop these other variables from materialising.

Whilst we appreciate there are benefits to predictability, we note that little quantitative evidence has been presented supporting the argument for the relevant alternative proposals, and specifically on how they would benefit costs to end consumers. On this basis we do not believe that there is sufficient evidence to demonstrate that options including an increased notice period provide an overall benefit to consumers.

If you would like to discuss any of these points further, please do not hesitate to contact me or Nick Pittarello (email: [nick.pittarello@nationalgrid.com](mailto:nick.pittarello@nationalgrid.com) tel: 01926-656261).

Yours sincerely

Patrick Hynes

Electricity Charging and Capacity Development Manager