

Modification proposal:	<b>Connection and Use of System Code (CUSC): CMP241 'TNUoS Demand Charges during the Implementation of P272'</b>		
Decision:	The Authority <sup>1</sup> consents that this modification <sup>2</sup> be made <sup>3</sup>		
Target audience:	National Grid Electricity Transmission PLC (NGET), Parties to the CUSC and other interested parties		
Date of publication:	30 March 2015	Implementation date:	1 April 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 total consumption and its 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 7<sup>4</sup> 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.<sup>5</sup> As a result of this change, suppliers will be required to settle consumers in Profile Classes 5-8 using their HH consumption data from 1 April 2016.

As part of the P272 solution, and to meet the 1 April 2016 implementation date, suppliers will need to move consumers in Profile Classes 5-8 from NHH settlement to HH settlement during the 2015/16 charging year, ie the year from 1 April 2015. These consumers will therefore spend part of the year under NHH settlement and part of the year in HH settlement. Under the current transmission charging arrangements, this move from NHH to HH settlement could result in suppliers being over charged for transmission network use of system (TNUoS) charges. This is due to the different ways in which TNUoS charges are levied in respect of HH and NHH consumers.

TNUoS charges recover the costs of constructing and maintaining the GB electricity transmission system. They are levied on suppliers in respect of their customers' use of the transmission system. The way in which consumers are settled (ie whether HH or

<sup>1</sup> 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.

<sup>2</sup> 'Change' and 'modification' are used interchangeably in this document.

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

<sup>4</sup> 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.

<sup>5</sup> 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>

NHH) determines the way in which TNUoS charges are calculated. For NHH consumers, charges are based on use of the network each day between 16:00 and 19:00. However, for HH consumers, TNUoS charges are based on average use of the network at 'Triad', the three points of peak demand during the charging year. These normally occur in the latter half of the charging year. So, under the current charging arrangements, if a consumer moves from NHH to HH settlement before Triad, its supplier will be subject to a full year's HH TNUoS charge, but will also receive a NHH TNUoS charge for the part of the year in which the consumer was NHH metered.<sup>6</sup>

Suppliers are required to provide demand forecasts to National Grid Electricity Transmission (NGET). The TNUoS charges levied by NGET on them are based on these forecasts and invoiced throughout the charging year. The difference in charges between actual and forecast demand is subject to interest and also affects the amount of credit that a supplier needs to put in place for the following charging year. So, if suppliers are unable to provide accurate forecasts, this can increase their costs which will in turn be passed on to consumers.

On 20 March 2015, we received a request from the BSC Panel to delay implementation of P272 until 1 April 2017. We expect to make a decision on this request soon.

### **The modification proposal**

NGET proposed CMP241 on 23 February 2015. CMP241 proposes that, from 1 April 2015:

- where Profile Class 5-8 consumers move from NHH to HH settlement during a charging year that begins before P272 is implemented, they are treated as NHH for TNUoS charging purposes for that full charging year;
- where Profile Class 5-8 consumers have moved from NHH to HH settlement prior to the start of a charging year that begins before P272 is implemented, the associated supplier may choose whether they are treated as HH or NHH for TNUoS charging purposes for that charging year.

For example, if P272 is implemented as planned on 1 April 2016, where a customer has moved to HH settlement during the 2015/16 charging year, it will be treated as NHH for TNUoS charging purposes for that whole year. Where a customer has moved to HH settlement prior to the 2015/16 charging year (ie before 1 April 2015), the associated supplier can choose for that customer to be treated as NHH or HH for TNUoS charging purposes during the 2015/16 charging year.

If we were to agree to delay P272 as requested by the BSC Panel the same arrangements will apply for any future charging year that begins prior to the implementation of P272. Customers that move during that year will be treated as NHH for TNUoS charging purposes for that whole year. Where customers have moved prior to the start of that charging year, suppliers can choose for them to be treated as either NHH or HH.

CMP241 seeks to avoid suppliers being overcharged by receiving a part year's NHH TNUoS charge and a full year's HH TNUoS charge for a given customer and, therefore, such charges being passed on to consumers.

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<sup>6</sup> This is currently the case if a customer was to move from NHH to HH settlement, but timing of the move is more easily controlled than under P272. P272 requires a large number of customers to be moved in a year, hence the increased likelihood TNUoS impact.

CMP241 also seeks to remove uncertainty about TNUoS liabilities for suppliers. Suppliers need to know how different classes of consumers will be treated from a charging perspective to provide accurate forecasts to NGET and reflect these charges in their commercial positions accurately. Inaccurate forecasts will impact on suppliers' charges, cash flows and future liabilities and securities.

Following a request from NGET, and on the recommendation of the CUSC Panel, we agreed to grant urgent treatment for consideration of the proposal.<sup>7</sup> We set out that we agreed that this issue needs to be addressed urgently, to give consumers and suppliers certainty over TNUoS charges prior to the implementation of P272. It is important that any change is implemented as soon as possible to give suppliers and customers more certainty in respect of the TNUoS charges they will face in the 2015/16 charging year. A workgroup assessed and consulted on CMP241 in line with the urgent timetable proposed by NGET in their request for urgency to which we agreed.

### **CUSC Panel<sup>8</sup> recommendation**

The CUSC Panel considered the draft Final Modification Report for CMP241 at its meeting on 23 March 2015. The Panel voted unanimously that the proposal better facilitates the relevant CUSC charging objectives. Five Panel members considered that the proposal better facilitates objectives (a), (b) and (c) and is neutral against objective (d). Three Panel members considered that the proposal better facilitates objectives (a) and (b) and is neutral against objectives (c) and (d). 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 25 March 2015. We have considered and taken into account the responses to the workgroup and Code Administrator consultations on the modification proposal and the views of Panel members which appear in the FMR.<sup>9</sup> We have concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant CUSC charging objectives<sup>10</sup>; and
2. directing that the modification be made is consistent with our principal objective and statutory duties.<sup>11</sup>

### **Reasons for our decision**

In our view, CMP241 prevents overcharging of suppliers and customers and also provides certainty for suppliers and customers in respect of their TNUoS liabilities prior to the implementation of P272. Both factors should reduce uncertainty and risk for suppliers and

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<sup>7</sup> Our 27 February decision agreeing to urgent treatment is available here:

<http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP241/>

<sup>8</sup> The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

<sup>9</sup> CUSC modification proposals, modification reports and representations can be viewed on NGET's website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/>

<sup>10</sup> 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>

<sup>11</sup> 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.

consumers. For these reasons, we consider that CMP241 better facilitates relevant CUSC charging objectives (a), (b) and (c). We consider that CMP241 is neutral in respect of relevant CUSC charging objective (d).

***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'***

CMP241 will reduce uncertainty for suppliers and their customers in relation to their TNUoS charges prior to the implementation of P272. Suppliers will know in advance how their customers will be charged such that they can provide accurate forecasts to NGET and their customers. Inaccurate forecasts will impact on suppliers' charges, cash flows and future liabilities and securities. CMP241 will also prevent overcharging of suppliers and customers. This overcharging was not assumed when the 2015/16 TNUoS tariffs were finalised. Therefore, there is an increased risk that overcharging may also lead to over recovery of TNUoS revenue in 2015/16 (although we recognise there are other relevant factors that will influence levels of recovery in any given charging year). This over recovery will also feed through to tariffs for 2017/18 leading to increased tariff volatility.

All these factors should reduce uncertainty and risk for suppliers and consumers and, therefore, better facilitate effective competition in the supply of electricity.

***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)'***

In our view, treating consumers as NHH and HH in a single charging year for the purposes of TNUoS charging will result in charges that are not cost reflective, and in particular in potential overcharging. It is estimated that if all metering systems affected by P272 moved across at the end of October 2015, TNUoS demand liabilities for 2015/16 will increase by approximately £70m without CMP241.<sup>12</sup> By preventing this, CMP241 will result in charges that better reflect the costs incurred by transmission licensees in their transmission businesses.

***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'***

CMP241 provides clarity in respect of TNUoS charging during the implementation of P272. CMP241 also seeks to avoid over recovery of TNUoS charges by NGE. We therefore consider that CMP241 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 of customers in profile classes 5-8.

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<sup>12</sup> This is a high estimate based on historical average demand per month and NHH/HH demand being as forecast when finalising TNUoS demand tariffs for 2015/16. The transfer is evenly spread across the year and it is estimated that the total liabilities could increase by around £40m.

**Decision notice**

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority, hereby consents that modification proposal CMP241 '*TNUoS Demand Charges during the Implementation of P272*' be made.

**Kersti Berge**

**Partner, Transmission**

Signed on behalf of the Authority and authorised for that purpose