

Call for Evidence

Topic 2: Working Capital Facility and TNUoS Risk

THE NGESO propose a £550 million working capital facility (WCF) to managing their short-term liquidity. This has been sized to cover the major risks associated with their revenue management role, including TNUoS charges collection risk. They estimate that transferring the TNUoS risk to onshore TOs could reduce the WCF requirements by approximately £300 million.

We reject this proposal on the grounds that is contrary to good practice and regulatory principles that risk should lie with the party or parties best able to manage that risk, and that wherever the risk is managed, there is adequate recompense for the party. It also entirely fails to recognise the contractual positions with respect to the ESO and the TOs, and the relevant industry codes and well established, understood industry processes.

TNUoS cashflow risk should remain with the ESO, in line with their responsibility to manage and administer the Connection and Use of System Code (CUSC).

Alternatively, the ESO is part of a large organisation, the National Grid Group, that has historically been able to bear this cashflow risk effectively. We see no reason why such an arrangement couldn't continue in the future

Such a proposal has not considered the additional costs on the TOs in the management of new treasury policies which would require expensive facilities to manage this new higher cashflow risk environment. There is no evidence presented by the ESO that this proposal is in consumer interests.

Supporting Evidence: NGESO Main Business Plan

9.3.2.2. Working capital facility page 132:

"We estimate that transferring the TNUoS risk to onshore TOs could reduce the WCF requirements by approximately £300 million. The remaining facility would predominantly cover the OFTO TNUoS billing and credit risks as well as the significant cash flow risk for termination payments. We would expect funding to cover the appropriate facility size, taking into account our exposure for RIIO-2, and recognise that the current facility will remain in place for the first year of RIIO-2."