

To all Electricity Suppliers

Louise Schmitz
Head of Charging and Access Arrangements
National Grid Electricity System Operator

www.nationalgrid.com

31 May 2018

Dear Colleague,

Informal request for information – CMPs 286, 287 and consumer risk premia – on behalf of National Grid Electricity System Operator

As you may be aware, CUSC Modification Proposals 286 and 287 are progressing through Workgroup stage. This open letter serves as an informal request for information which may help the Workgroup in assessing the consumer benefit to be derived from either or both of these modifications were they to be implemented.

The Proposals:

Under current arrangements, each Transmission Owner (Onshore or Offshore, collectively “TO”, including National Grid’s TO) provides to us, the Electricity System Operator (“ESO”) its revenue which should be collected in a charging year. This information is fixed on 25th January, and used by us as an input into TNUoS tariff calculations, which are set and published on 31st January each year and take effect from the following 1st April.

Separately, throughout each charging year, we forecast the expected chargeable demand in MWh (the volume to be used in the next charging year). The forecasts alter as the year progresses owing to new information becoming available, and can change up until final tariffs are set in January. The forecast is also an input into the demand TNUoS tariff calculation (specifically into the derivation of the ‘residual’ element of TNUoS).

Under CMPs 286 and 287, these two methodology inputs would be ‘frozen’ 15 months in advance of the charging year in which they would apply. In practice, if these changes were approved, in January 2019, we would freeze the TO revenue values and the chargeable demand base value for the charging year 2020/21. Other inputs into the TNUoS calculations would still change over time as they currently do. The methodology itself, (Section 14 of the CUSC), would also remain open to alteration through the open governance process.

Full detail of these proposals can be found at:

www.nationalgrid.com/uk/electricity/codes/connection-and-use-system-code/modifications/improving-tnuos-predictability

The rationale:

We share forecasts of TNUoS tariffs for the following year roughly every quarter; Suppliers use these forecasts to create their own TNUoS forecasts for the purposes of consumer pricing. To mitigate the risk of a significant variance between outturn and forecast TNUoS, Suppliers may add into their p/kWh consumer price (ppu) a risk premium. This premium is designed to offset the cost to the Supplier in the event that they have under-recovered TNUoS from electricity consumers against actual TNUoS costs.

The proposer of these two modifications believes that fixing elements of the calculations in advance will reduce the volatility in TNUoS tariffs; a reduction in volatility, it is argued, will lead to a reduction in the value of the risk premia Suppliers may apply – there is a view that this could therefore reduce costs to electricity consumers.

Request for information:

Owing to the commercially confidential nature of an individual Supplier's risk premium, we have offered to collate, anonymise and analyse the potential consumer benefit derived from a reduction in risk premia which may stem from implementation of either or both of these modifications. There are six (6) Suppliers represented on the Workgroup and it is felt that information from other Suppliers, in addition to those on the Workgroup, would be beneficial in ensuring that the full range of possible outcomes is captured.

To that end, I invite you to answer the following specific questions about the risk premia you may use to mitigate TNUoS volatility, and to share any other information which you feel is pertinent. Any responses should be sent to us directly, using the below contact information.

As ESO, we believe that we are well-placed to analyse this data independently as we have no commercial interests in knowing a Supplier's risk premium. We already have contractual relationships – including confidentiality and non-disclosure provisions - with each licensed Supplier through the CUSC. In line with our Forward Plan, we see our role in the market as one which supports competition, and one which helps industry create environments in which competition and innovation are encouraged, to the benefit of the end consumer. We will help industry to consider the costs and benefits of code changes as far as we are able to, especially where market participants might not be able to do so themselves due to data sensitivity.

Data use/confidentiality:

In line with our CUSC contract with you, we will not share any information you provide in a way which enables any other market participant (Suppliers, Generators etc.) to determine what you've sent through, or to determine the risk premia used by any group/type of Suppliers. Any information you do provide will only be used by us to understand the specific benefits of CMPs 286 & 287 and will not be kept, or used for any other purpose. Only aggregated, anonymised information will be shared with the Workgroup and CUSC Panel.

Questions:

1. Do you currently include a risk premium for TNUoS volatility within your p/kWh consumer prices?
 - a. If yes, what is the p/kWh value of the risk premium currently, for a typical NHH consumer agreeing a 12-month, 24-month and 36-month fixed price contract?
 - b. If yes, what is the p/kWh or £/kW value of the risk premium currently, for a typical HH consumer agreeing a 12-month, 24-month and 36-month fixed price contract?

2. Do you agree that freezing the inputs into the TNUoS methodology in advance of the relevant charging year would directly lead you to change your risk premia?
 - a. If yes, what would your response to questions 1a) and 1b) have been if:
 - i. The TO revenue value was fixed 15 months in advance of the relevant charging year (CMP286); and
 - ii. The chargeable demand volume was fixed 15 months in advance of the relevant charging year (CMP287); and
 - iii. Both the TO revenue and chargeable demand volume were fixed 15 months in advance of the relevant charging year?

Please send all responses via email to Harriet Harmon, our representative on the Workgroup for these changes:

Harriet.harmon@nationalgrid.com

If you wish to discuss any aspect of this letter, the RFI questions, or any non-disclosure requirements you might have, please either email Harriet using the address above, or call her on 07970458456

The deadline for any responses is 30th June 2018. A pro forma is appended to this letter.

Yours sincerely

[by email]

Louise Schmitz