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To all interested industry parties

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Dear Colleagues,

Our Five-Year View of TNUoS Tariffs: Your feedback sought

Each year, we publish a view of how TNUoS tariffs may evolve over the next five years. We published our last set of forecast tariffs in December 2017 for 2018/19 to 2022/23[i]. It was the first time we had included the CUSC methodology changes CMP264/265[ii], which impacted on demand tariffs.

Thank you for the feedback you gave us on our last set of tariff forecasts – we recognise that our customers value our forward views of TNUoS. In advance of this year's forecast, I am writing to you to seek feedback on our proposed approach. In August 2018, we intend to publish an updated five-year view of TNUoS tariffs[iii]. This will cover 2019/20 until 2023/24. We have discussed this at June TCMF[iv], and would welcome your feedback on our proposed approach for the upcoming five-year view and future publications.

Context

To produce a view of TNUoS tariffs for a given year we need to undertake a complete run of the charging methodology defined in Section 14 of the CUSC. This includes: a forecast of revenue to be recovered[v], a network model of 1400+ transmission circuits, a forecast of generation and demand at each of the 950+ nodes in our model, a forecast of chargeable demand volumes by demand zone and per tariff, more than 100 substations with generation local circuit charges, and a view to the future development of Offshore transmission.

These parameters all affect tariffs. Both locational tariffs (varying by 27 generation zones and 14 demand zones) and residual tariffs (to ensure the correct total revenue is recovered).

Locational tariffs depend on parameters including the volume of generation at each node under two different scenarios, DNO demand data at each node, and the configuration of the network. Charges for zones on the edges of the system tend to be most affected by small changes to the input parameters.

Residual tariffs depend on the volume of chargeable generation and demand, the total revenue to be recovered, and the limit on revenue allowed to be recovered from generation charges.

Our proposal for the next five-year view, due in August 2018

In our next five-year view of TNUoS tariffs we are proposing to publish the following:
- A year-by-year full set of TNUoS tariffs for generation and demand for each of the five-years[vi]. This will be based on our best view of parameters, which is a view of the likely generation, demand, and other network parameters based on the available data at the time of the forecast.
- Sensitivity of tariffs to changes to input parameters:
  - Changes to residual tariffs:
    - The error margin and other parameters in G/D split calculation,

- - Demand volumes (HH, NHH and Embedded Export volume),
  - Change in total £m revenue.
- - Changes to locational tariffs:
  - - A shift from conventional carbon generation to more Intermittent generation.
    - DNO demand data.
- Qualitative discussion of the impact of the start of RIIO-T2. Various parameters in the charging methodology are reset at the start of the next price control period in April 2021.

We will calculate our future view of TNUoS tariffs using the current methodology defined in Section 14 of the CUSC. We recognise that there is a lot of proposed change to the charging methodology for future years. This is through existing CUSC modifications, Ofgem's Targeted Charging Review and the Network Access Project under the Charging Futures forum. The effect of proposed methodology changes on tariffs will be considered during the development of the changes, and are not considered within our five-year view publication.

Feedback

We welcome your feedback on our approach to the five-year view of TNUoS:
1. What do you think of our proposals for the August 2018 five-year view of TNUoS tariffs? In particular, the sensitivities for changes to residual and locational tariffs.
2. What other sensitivities would you like us to consider when preparing future five-year views of TNUoS tariffs?

Please send your feedback to me, via charging.enquiries@nationalgrid.com by 6 July 2018. If you would like to discuss anything in this letter, please contact the team on 01926 654633.

We will summarise the feedback that we receive in our August 2018 five-year view of TNUoS tariffs.

Yours sincerely,

Paul Wakeley
TNUoS Revenue Manager
National Grid Electricity System Operator

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i   https://www.nationalgrid.com/sites/default/files/documents/Forecast%20from%202018-19%20to%202022-23%20%282%29.pdf
ii CMP264/265 was implemented in April 2018. It caused a change from net demand charging to gross demand charging for TNUoS. The net HH demand tariff was replaced by a gross HH demand tariff, and an embedded export tariff.
iii See the timetable we published in January 2018 https://www.nationalgrid.com/sites/default/files/documents/Timetable%20of%20TNUoS%20forecasts%20for%20201920.pdf
iv Transmission Charging Methodologies Forum https://www.nationalgrid.com/uk/electricity/charging-and-methodology/transmission-charging-methodology-forum-tcmf
v   This includes revenue for the three onshore Transmission Owners: National Grid Electricity Transmission, Scottish Power Transmission and Scottish Hydro Electricity Transmission; the current and future Offshore Transmission Owners (OFTOs); the Interconnector Cap and Floor regime, and the funds for the Network Innovation Competition Fund.
vi Tariffs for 2019/20 are being updated throughout 2018/19 as part of the quarterly update. The values used will be the June Forecast of 2019/20 TNUoS tariffs.