

**CUSC Workgroup Consultation Response Proforma****CMP357 'Clarification of Transmission Licensee revenue recovery and the treatment of revenue adjustments in the Charging Methodology'**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) by **5pm on 8 January 2021**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation, please contact [paul.j.mullen@nationalgrideso.com](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

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**For reference the applicable CUSC (charging) objectives are:**

- 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;*
- 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 accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);*
- 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;*
- d. *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency; and*
- e. *Promoting efficiency in the implementation and administration of the system charging methodology.*

*\*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

**Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.**

CMP357 - Standard Workgroup Consultation questions		
1	Do you believe that the CMP357 Original Proposal or the potential alternative options better facilitates the Applicable Objectives?	<p>We do not believe that any options which increase the number of decimal places the Security Factor is expressed to, from the current practice of one decimal place, better meet the objectives. There are a number of issues identified in the report which are likely to make quoting to a higher number of decimal places less cost reflective as it entails a spurious or false level of accuracy. In particular we are concerned about the factor being calculated on the basis of a regression with a positive value of intercept and then applied on the basis of a zero intercept. We discuss this further in our response to question 5 below, but we would note that when calculated on this more appropriate basis the factor is set at value slightly above 1.8 (1.8 to one decimal place). Therefore, we do not believe that the proposed options improve cost reflectivity on this one issue alone.</p> <p>The proposals to increase the number of decimal places would undermine competition in generation and supply by introducing a significant change in TNUoS tariffs just before the final values are about to be published, on the basis of a change to the process which no party should have been expected to have predicted would be made. The Security Factor has been set at 1.8 for the past 16 charging years and has been very stable over that time. It would have been reasonable for parties to have assumed that a value of 1.8 was to continue as a central case.</p> <p>This would simply move money between parties but not improve cost reflectivity.</p> <p>An alternative which confirmed in the CUSC that the Security Factor would be expressed to one decimal place would provide more certainty to participants on the basis of its calculation, without providing any cost shocks or windfalls to</p>

		parties. It would also not affect cost reflectivity of the arrangements.
2	Do you support the proposed implementation approach for CMP357?	No.
3	Do you have any other comments?	No.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.
<b>Specific Workgroup Consultation Questions</b>		
5	Do you have any further analysis/evidence to support your conclusions under Question 1?	<p>We believe that there presently a potential error with the current calculation of the security factor due to it being derived through a regression which calculates a gradient and intercept value, when only the gradient is used when the factor is applied to tariffs. Analysis undertaken by NGESO on this shows that a regression carried out with a zero intercept calculates a Security Factor of 1.80 to two decimal places (1.80452 to five places). We note that the CUSC is silent on the exact form of least squares regression to be undertaken, but one based on a zero intercept would be mathematically more appropriate when that is the basis of its application.</p> <p>We also note that such a regression still achieves an R squared value of circa 99% on average, compared with the R squared value for the intercept based calculation of 99.4% on average, so it still produces a similarly very strong correlation.</p> <p>We believe that if the factor were to be expressed to a higher number of decimal places as proposed, this issue with the regression should be addressed too. This is something which can be carried out with a more considered modification, such as has been proposed by NGESO with a potential implementation for April 2022. In the meantime, carrying on the existing practice of quoting the security factor to one decimal place would result in the same value regardless of the regression approach adopted.</p>

6	Will the CMP357 Original Proposal or the potential alternative options impact on your business. If so, how?	As we mention above, if CMP357 is implemented it would simply introduce a last minute redistribution of revenue with some parties losing out and others gaining a benefit. In Uniper's case, the tariffs provided with the original consultation suggested this would be significant. The tariffs published with the CMP357 suggested the impact wouldn't be as significant to us. Our views on the modification remain the same though.
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