Andrew Ryan
Regulatory Finance Team
Ofgem
By email: RIIO2@ofgem.gov.uk

31 January 2020

Dear Andrew,

TNUoS Revenue Collection Risk Consultation

ESB Generation & Trading (ESB GT) welcomes the opportunity to provide our response to Ofgem's **TNUoS Revenue Collection Risk Consultation**.

We are supportive of Ofgem's initiative to consider a reallocation of the TNUoS cashflow risk from the ESO to onshore TOs. Given the legal separation of the ESO, this has a potential to become a much higher risk for the new ESO's working capital and finance arrangements which translates into a cost to electricity system end users.

ESB believes that the proposal put forward by this consultation provides a more efficient and economic way to treat this cashflow risk. We would expect the removal of the ESO's exposure to the cash difference between collected and allowed revenues to result in lower cost of finance, improved credit rating and generally lower costs of managing this risk through error margins for the ESO. Therefore, we would expect any savings arising from such benefits to be passed through to TNUoS-paying parties via charges. Should there be financial savings to be passed through as a result of this change, we would welcome full transparency and timely reconciliations.

We are of the view that even if the proposals do not manifest into concrete savings to current ESO costs, they are still likely to prevent the cost of finance and costs of managing the risk from increasing further. The loss of parental support as a result of legal separation may result in negative impacts on the ESO's credit rating, working capital and access to finance arrangements if no changes to the current allocation of TNUoS cashflow risks are made. Therefore, this proposal is likely to offset some of those risks and should be more appropriate for the new corporate structure of the ESO.

With regards to the proposal not to consider changes to the OFTO-related cashflow timing risk, we agree that these arrangements represent a less significant risk since these are a much smaller proportion of overall revenues. At this stage, we believe it is appropriate to leave the OFTO-related timing risk outside the scope of this review, although consideration should be given to future-proofing and avoidance of distortion. We are mindful that given the legislated decarbonisation targets and overall projected increase in offshore generation, these revenues may increase in future. If and when changes to the OFTO-related regime are proposed, we would expect a much longer notice and consultation on the changes since the scale of potential impact on individual TNUoS-paying parties is likely to be more significant.

We also agree that the ESO is best placed to manage forecasting and tariff calculation errors. It is our view that licence obligations and ESO incentive scheme should be sufficient and appropriate instruments for incentivising the ESO to maintain accurate forecasting and tariff calculation.

Finally, we are supportive of progressing the proposed changes via the routes outlined in the consultation, such as licence and code modifications.

We hope you find these comments helpful.

Yours faithfully

Kamila Nugumanova
Regulation
ESB Generation & Trading