



CMP317 Straw Man

19 August 2019



Synopsis

- Workgroup's Scope of Work
 - Target Zero
 - Zero Justification
 - Zero Achievement
 - Ofgem's DAFT
 - European DUDS...
 - ...Fits MITS
 - Local Charges in Connection Exclusion
 - Smooth Transition
- Job's Done?

Target Zero

- Limiting Directive sets €0-2.50/MWh range for Generator Tx charges G
- CUSC Target currently at highest point in range
 - Why? Certainly questionable post CMP261 Decision
- Zero is a special number
 - $x \times 0 = 0$ regardless of x
 - $0/x = 0$ provided $x \neq 0$
- Therefore
 - exchange rate risk disappears: £0/MWh = €0/MWh for all £/€ rates
 - volume risk disappears: £0 is £0/MWh for all total generator output

Zero Justification

- Comparability across Europe

“Overall there has been a tendency towards generation transmission charges being set at zero since the beginning of the liberalisation process in Europe.”

See pg. 25 http://ec.europa.eu/smart-regulation/impact/ia_carried_out/docs/ia_2010/sec_2010_1075_en.pdf
Commission Document referenced by Ofgem in CMP261 Decision

- Comparability with GB Embedded Generation

- CMP264/5 Decision gives zero residual payment to EG
 - AGIC is determined to be cost reflective saving of EG to transmission system

- Limiting Directive range was set pre Local Charges definition in CUSC

“From 2004 to early 2008, GB had a ‘shallow’ connection boundary but no local TNUoS charge.”

CMP261 Decision p9

- Local Charges now in part offset significant negative wider locational charges
- Reduces force of argument that set target near top of range

Zero Achievement

- CMP284 proposed elegant way of setting G TNUoS charges to zero
 - Property of Reference Node in Transport Model is that total revenue collected is zero
 - Setting Reference Node to a distributed node weighted by generation means the locational revenue collected from generation will move towards zero
 - Initial view of NGENSO was implementation of this change should be straightforward
 - CMP284 withdrawn and now deemed in scope of TCR
 - This offers Ofgem a simple route to implement its indicated policy for TGR moving to zero
- Residual uncertainty for total G charge outturn remains
 - CMP264 initial wider G charges may not be zero (ALF + shared infrastructure charges)
 - MAR outturn different from forecast
 - Changes to generator TEC during year

Ofgem's DAFT

- Require adjustment ex post initial charge setting to meet a target

- Flagged by Ofgem in CMP261 Decision

“Nonetheless, the TGR may still become negative under this interpretation, albeit not as significantly and not until further in the future, due to the growth in revenue recovered from wider locational charges. In this case, a negative residual, or comparable ‘adjustment charge’ in the event a residual charge is no longer appropriate, may still need to be levied on larger generators in future to ensure generator charges remain within the charge range.”
p13

- So apply a “Directive Adjustment Factor for TNUoS” per kW of TEC
 - Can be applied in final month of charging year to set annual G charges to zero
 - MAR is then known and firm (?)
 - TEC changes known as have to be notified in advance
 - No need for any other ex post adjustment

European DUDS...

- CMA Decision upholds agreed position of GEMA and Appellants that there is a European Directive Uniform Definition of “System” DUDS

“The parties agreed...the Monsanto judgment of the CJEU, in which it was said that ‘The need for the uniform application of Community law and the principle of equality require that the terms of a provision of Community law which...makes no express reference to the law of the Member States for the purpose of determining its meaning and scope must normally be given an autonomous and uniform interpretation throughout the Community’.” para 5.82 and CMA “we see no other reason to depart from the general approach outlined in Monsanto.” para 5.83

- Discussion in Commission Document (referenced in prior slide) sheds light on what it considers the definition of system to be:

“Secondly, electricity flows on each individual transmission system affect all other parts of the interconnected European system instantaneously. This is because electricity transmission flows utilize all available paths on the interconnected system in accordance with the laws of physics. The actual transmission path that a commercial trade between two points takes is dependant (sic) on all injections and all load points on the system across the grid. The precise flows which take place depend on production and consumption on all other points on the grid at that point in time.” p7

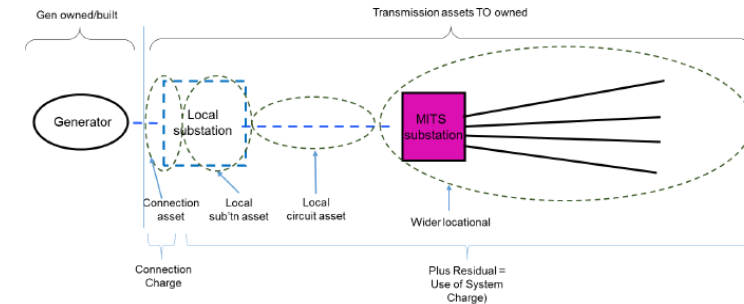
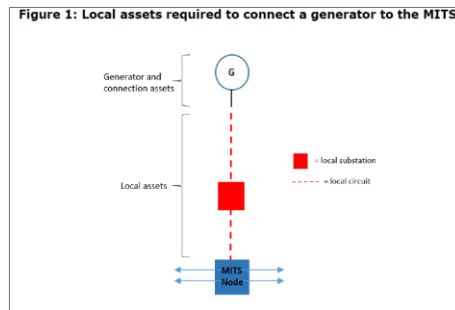
- Therefore all spurs are excluded from DUDS
 - Flow along a spur is not affected by flows elsewhere on the system to which it connects
 - Flow affected only by demand/generation at remote end

...fits MITS

- In GB there are no demand-only spurs to transmission system
 - If there were then charges for them would be in the Connection Exclusion, as for GOS
- Demand or other generation joining the remote end of a spur doesn't make it become included within the DUDS
 - Consistent with GEMA case para 6.16 of CMA Decision
- Use of MITS is not inconsistent with CMA's "pre-existing system"
 - Workgroup debate has been about whether more of the NETS than MITS was in the CMA's assumption of DUDS in a GB context

Local Charges in Connection Exclusion

- CMP261 Decision shows schematic with Local Assets as spur to MITS
- CMA Decision presents similar diagram as statement of fact, not GEMA submission



- If local circuits are spurs, all Local Charges validly excluded from $G=0$ target
 - Onshore substation, circuit and offshore
- **Excluding all Local Charges remains Directive compliant even if these did include charges for Local Assets inside the DUDS (provided $G = 0$ is target)**
 - Directive allows a range - not confined to a single value
 - Compliance achieved with $G > 0$ – but still lower than €2.50/MWh cap

Smooth Transition

- Current Forecast of G.MAR £405.7m in 2021/2
 - G.MAR forecast £415.1m in 2020/1 and £403.5m in 2019/20
- Straw Man Solution: Local Charges Forecast at £430.0m in 2021/2
 - 3.6% higher than previous year
 - 6.0% higher than current G.MAR forecast for same year
 - These represent total G.MAR if $G=0$
 - Difference within reasonable range of forecast uncertainty
- Local Charges forecast at £680.5m in total £3,459.2m in 2023/4
 - ~ 20% of MAR is lower than historic 27:73 G:D split
 - ~ 80% of Local Charges are Offshore Local in 2023/4

Job's Done?

- Sending a Straw Man proposal swiftly to Ofgem would flush out its thinking without spending time pursuing dead end avenues
 - if sent back to Workgroup, Ofgem has to focus the work areas...
 - ...albeit CMP261 send-back wasted Workgroup time given Ofgem's ultimate in-principle decision
- Proactively shape outcome of TCR rather than wait and react to it
- Early consultation on proposal informs market
 - Allow suppliers to react to it in longer term pricing offers
 - Traders start to price in change in longer term trades