

## CUSC Workgroup Consultation Response Proforma

### **CMP317:**

**Identification and exclusion of Assets Required for Connection when setting Generator Transmission Network Use of System (TNUoS) charges**

**and:**

### **CMP327:**

**Removing the Generator Residual from TNUoS Charges (TCR)**

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 by **5pm** on **12 March 2020** to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com). Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Paul Mullen at [paul.j.mullen@nationalgrideso.com](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

<b>Respondent:</b>	<i>Paul Youngman paul.youngman@drax.com</i>
<b>Company Name:</b>	<i>Drax</i>
<b>Please express your views regarding the Workgroup Consultation, including rationale.  (Please include any issues, suggestions or queries)</b>	

### **Standard Workgroup Consultation questions**

Q	Question	Response
1	Do you believe that CMP317/CMP327 Original Proposals better facilitates the Applicable CUSC Objectives?	<p>For reference the applicable CUSC objectives are:</p> <p>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;</p> <p>b) That compliance with the use of system</p>

		<p><i>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);</i></p> <p>c) <i>That, so far as is consistent with subparagraphs (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;</i></p> <p>d) <i>Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 *; and</i></p> <p>e) <i>Promoting efficiency in the implementation and administration of the CUSC arrangements.</i></p> <p><i>*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).</i></p> <p><b>Original CMP317</b></p> <p>For the CMP317 original modification we believe there are insufficient benefits against the relevant CUSC objectives in its current form to warrant implementation. Our assessment against the relevant objectives is outlined below.</p> <p>A – <i>Negative</i> - The current drafting of the original does not improve effective competition between generators based in GB, or reduce the distortion between GB-based generators and those in the EU.</p> <p>The modification determines for the GB market</p>
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		<p>which TNUoS charges should constitute “<i>Charges applied by network operators for access to the transmission system</i>”<sup>1</sup> and should therefore be calculated as average generation charges within the methodology.</p> <p>The practical effect of the modification will be an increase in charges for GB-based generation only. This is due to the exclusion of all local charges from the calculation of average generation charges. This in turn creates a competitive distortion between GB and EU based generators.</p> <p>Earlier drafts proposed by National Grid reduced the impact of this change by targeting a value within the range of average charges (€0 - 2.50/MWh) permissible under EU 838/2010. We would support amendment of the original modification (or such alternatives) to encompass a method/mechanism to target a value within the range.</p> <p><i>B – Neutral</i> - We believe that the original is neutral against this relevant objective. It is worth noting that the methodology is a cost recovery mechanism to recover allowed revenue.</p> <p><i>C – Negative</i> – We consider that the original proposal is overall negative against the relevant objective.</p> <p>There are three elements that will need further work.</p> <ol style="list-style-type: none"> <li>1- The original modification, by excluding all local charges, appears to go further than the CMA decision on which assets should be excluded from the calculation of average generation charges.</li> <li>2- The Ofgem TCR decision identified that an adjustment charge should be introduced to ensure that average generation charges are within the range €0 – 2.50/MWh. The original modification does not contain an adjustment charge and should do so to ensure it addresses the TCR decision.</li> </ol>
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<sup>1</sup> Art 2 <https://eur-lex.europa.eu/eli/reg/2010/838/oj>

		<p>We recognise that alternatives that apply a target within the charging methodology may not require an adjustment charge in the short term.</p> <p>3- During the workgroup consultation, Ofgem confirmed in their decision for P396<sup>2</sup> that <i>“We consider the Main Funding Share and SVA (Production) Funding Share charges recovered via BSC Charges to be network access charges for the purposes of the Electricity Regulation.”</i> This decision will need to be accommodated by the proposer and workgroup to ensure that the modification addresses all network access charges. This will also need inclusion in the calculation of average generation charges in line with Article 2 and Annex B of EU 838/2010.</p> <p><i>D – Neutral</i> – Subject to the further work on the proposal (as outlined above) to ensure ongoing EU compliance in light of Ofgem’s recent TCR decision, the modification (and any alternates) should be neutral against this relevant objective.</p> <p><i>E – Neutral</i> – We do not believe there is any impact on this relevant objective.</p> <p><b>Original CMP327</b></p> <p>The purpose of CMP327 is to remove the transmission generation residual (TGR) or set it to zero in line with Ofgem’s Targeted Charging Reform (TCR) decision. The original modification achieves this objective. Against all relevant objectives the proposal is neutral except:</p> <p><i>A – Negative</i> – Without a TGR there is no existing mechanism to ensure that average generation charges remain within the range prescribed by EU 838/2010 of €0 – 2.50/MWh. No comprehensive methodology has been presented to introduce an adjustment charge that would have the same effect as the TGR, and this could impact competition in the GB market and between GB and EU generators.</p> <p><i>C – Positive</i> – The original modification implements</p>
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<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/03/p396\\_d\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/03/p396_d_0.pdf)

		the Ofgem TCR decision narrowly, in that it removes the TGR.
2	Do you support the proposed implementation approach?	<p>We support the proposed implementation approach and note that the TCR reforms are a whole package of interconnected and complimentary changes.</p> <p>If there is a risk of implementation being delayed, then the programme as a whole should progress to new altered timescales. We would not support an approach where implementation is piece-meal and does not have a benefits assessment.</p>
3	Do you have any other comments?	<p>We agreed with the original intent of the proposer's modification that;</p> <p><i>"It is not necessary, for the purposes of ensuring The Company's ongoing compliance with the Limiting Regulation, to levy charges to Generator Users which would constitute a significantly greater proportion of total TNUoS recovery than that levied today".</i></p> <p>It is not clear why this has changed though the ESO has acknowledged that its original intent has altered, and Generators will be charged more under their proposal. The proposer refers to section three of the workgroup report and Ofgem's TCR decision as an explanation. We can see how this relates to the adoption of CMP327. However, there is no clarity as to why the ESO abandoned its initial proposals to target a specific value in the charging methodology.</p> <p>We are also conscious that since the workgroup consultation Ofgem has decided that BSC charges should be considered as network access charges through its decision on P396. These charges are not currently included in the calculation of average generation charges and the workgroup should address this anomaly to ensure ongoing compliance with EU 838/2010.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Not at this time, although we may need to do so if the current proposals are not modified to ensure compliance with EU 838/2010, in light of Ofgem's recent decision on P396.

### Specific CMP317/327 questions

Q	Question	Response
5	<p><u>Definition of physical assets required for connection to the system</u></p> <p>a) Do you agree with the three options identified in Section 4, Paragraphs 2.1-2.4? If so, which do you prefer, and why?</p> <p>b) Is there another option you think should be considered, and why? Please provide evidence if possible.</p>	<p>a)</p> <p>(i) We agree that all options could be considered as valid interpretations however we were not party to the detailed information and arguments put to the CMA.</p> <p>(ii) Our preference is that this should be limited to those assets defined as GOS as this is consistent with what we understand to be the decision of the CMA.</p> <p>b)</p> <p>(i) We would like to explore further, through the workgroup, the option that looks at pre-existing and shared definitions. We do not believe this to be an onerous task for the ESO to facilitate.</p>
6	<p><u>Amount targeted (G average)</u></p> <p>a) Do you agree with the four options highlighted in section 4, paragraph 3 for where in the range set out by the Limiting Regulation should be targeted? If so, which do you prefer and why?</p> <p>b) Is there another option you think should be considered, and why? Please provide evidence if possible.</p>	<p>a)</p> <p>(i) The CMA noted that Ofgem argued its policy was “€2.5/MWh is a cap, rather than a target. GEMA does not have a policy of imposing the maximum transmission charges possible under the Regulation. GEMA submitted that it had been seeking to prevent a breach of the Cap rather than aim for a charge of €2.5/MWh.” We agree that €2.5/MWh should not be a target. However, we believe that the ESO proposal of not targeting a value within the methodology leads to charges maximising towards the upper level of the range. The impact of this would be to continue to place GB generation at a competitive disadvantage to EU-based generation.</p> <p>(ii) To ensure no distortions in cross-border trade we will be supportive of measures that target between €0 - 0.50/MWh. Targeting at this lower level would fulfil the intent of the regulation to minimise distortion between states due to differences in network access charges.</p>

7	<p><u>Error Margin</u></p> <p>a) Do you agree with the two options highlighted in section 4, paragraph 4 in regards to the inclusion of an error margin?</p> <p>b) Is there another way to calculate the methodology for an Error margin? Please provide evidence if possible.</p>	<p>a) Yes. We agree with the argument that the original modification requires an error margin to avoid breaching the range. This is unlikely to be required if targeting between zero and €0.50/MWh within the methodology, as adverse currency movements should not cause a breach of the range beyond that which could be recovered through an adjustment charge.</p>
8	<p><u>Implementation</u></p> <p>The workgroup has identified a phased implementation approach may be preferable. Do you agree with this position or not, and if so, why? Please provide evidence if possible.</p>	<p>There has not been substantive discussion of this issue in the workgroup on how a transition would be introduced. We would need to consider the impact on the whole TCR package of reforms and the relevant justification for a transition.</p> <p>As highlighted in response to question two, our preference is for a coordinated approach and that any alteration of timings should be equally coordinated and accompanied by clear benefits analysis.</p>
9	<p><u>Modules</u></p> <p>The workgroup have identified a number of permutations in Section 4, Paragraph 8 that could work as possible alternative solutions.</p> <p>a) Do you think any of the modular combinations are incompatible?</p> <p>b) Is there an additional module combination that you think should be considered? If so, please provide justification.</p>	<p>a) Each of the modules could work as alternatives and none appear to have incompatible elements. We would argue that those combinations that do not apply an explicit target within the methodology will inevitably lead to charges at the maximum of the permitted range which is not Ofgem's policy objective.</p> <p>b) Each of the modules will need to incorporate the scope of network access charges in line with Ofgem's decision for P396<sup>3</sup>, i.e. <i>"We consider the Main Funding Share and SVA (Production) Funding Share charges recovered via BSC Charges to be network access charges for the purposes of the Electricity Regulation"</i>. This will be necessary to ensure accurate calculation of average generation charges in line with Article 2 and Annex B of EU 838/2010 and ongoing compliance aligned with relevant objective (d).</p>

<sup>3</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/03/p396\\_d\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/03/p396_d_0.pdf)

10	<p>In section 4 paragraph 2.2.6 and 2.5.3, the workgroup has identified its proposed approaches to island links. Do you agree or disagree with any of these suggested approaches? Please provide justification.</p>	<p>It is not clear that the workgroup has identified the proposed approaches to Island links. This area needs further consideration as under the original we understand that it is to be excluded from the calculation of average generation charges. It is clear that there is a significant impact by excluding island links from the calculation of average generation charges as highlighted in the tables accompanying paragraph 2.5.3, which identifies the 8% increase in the cost to transmission-connected generators.</p>
11	<p>In section 4 paragraph 6, the workgroup has identified its consideration of the Reference Node.</p> <p>a) Do you have any evidence that would support solutions which include the Reference Node?</p> <p>b) Do you have any views on the Workgroup progressing this work alongside the Access and Forward Looking Charges SCR?</p>	<p>a) We have no evidence to offer at this time.</p> <p>b) We offer no comment at this time.</p>