

**CUSC Code Administrator Consultation Response Proforma****CMP324/5 Generation Zones – changes for RIIO-T2 and Rezoning – CMP324 expansion**

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 24 June 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Panel.

If you have any queries on the content of this consultation, please contact Joe Henry [joseph.henry2@nationalgrideso.com](mailto:joseph.henry2@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

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**For reference the applicable CUSC 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. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 \*; and*
- e. *Promoting efficiency in the implementation and administration of the CUSC arrangements.*

*\*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 in the right-hand side of the table below, including your rationale.**

Standard Code Administrator Consultation questions		
1	Do you believe that the CMP324/5 Original solution, WACM1, WACM2 or WACM3 better facilitates the Applicable CUSC Objectives?	<p>WACM1 does, but the others do not. We believe that the concern over the effects of a high number of zones has been over estimated. There is an assumption that more zones automatically means higher volatility, but there has been no analysis undertaken to prove the extent to which this might be the case.</p> <p>Volatility can be caused by different things. Changes in demand and generation on the network can change MWkms at different nodes. In flexed zoning options, certain nodes can move from one zone into a newly defined zone which can change the zonal average they are exposed to. In fixed zones, generation can be added to or removed from nodes within the zone, or new nodes can be added to the zone which moves the average for the zone.</p> <p>We have demonstrated through modelling that there is a particular issue with fixed zones where they will not cope with adding high MWkm assets to them, such as remote island links, as this introduces a big shift in the charges experienced by all other parties in the relevant zone. This is a volatility effect, but it also works against cost reflectivity, as the difference between the nodal costs the generation causes in the ICRP model and the locational charges it is exposed to becomes significant. This results in lower cost generation subsidising higher cost generation to a significant extent. Indeed, the analysis of the ranges of nodal charges shows that the other options show a much wider disparity between nodal and zonal charges than WACM1 regardless of whether or not very high MWkm assets are connected to a zone.</p> <p>A flexed method such as WACM1 does not fully avoid cross subsidies, as these are inherent in any zonal averaging. However, it limits the extent of this by design and allows the zones to adapt to changes in network topography to ensure that no generation unduly benefits or suffers from over averaging. In contrast, fixed zones will average regardless of the</p>

		<p>range of nodal costs within the zone and the level of cross subsidy this results in.</p> <p>Therefore, we believe that WACM1 would better meet objectives a), b) and c) than the baseline and be neutral in respect of other objectives.</p>
2	Do you support the proposed implementation approach?	Yes, for WACM1
3	Do you have any other comments?	<p>We appreciate that there is an argument that the use of demand zones for transmission connected generation could allow embedded generators and transmission generators to be exposed to the same charges. However, the demand locational and generational locational charges are averaged in different ways so this will not be an outcome of CMP324/5 even if the demand zones option were chosen. This is particularly the case as demand locational charges do not have ALFs applied to them as generation charges do. A better way to achieve this aim would be to bring embedded generation into the same regime as transmission connected generation by exposing them to transmission locational charges and zones.</p> <p>We also note that the NGESO has concerns about reviewing the connectivity of zones each price control period in order to complete the boundary mapping exercise and that the mapping undertaken for the demand zones option had to make assumptions about the routes of flows between zones. Given the changing nature of generation and demand on the system, we do not believe that it would be safe to assume that this mapping for the demand zone option is a one off exercise and that flows will always be the same. Directions of flows can change and have done in the past. Therefore, we would expect that the NGESO would have to redo the mapping exercise each price control period to ensure that its assumptions for sharing are still valid.</p>