

CUSC Workgroup Consultation Response Proforma**CMP324 and CMP325: 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 by **5pm on 18 March 2020**. 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 Joseph Henry joseph.henry2@nationalgrideso.com or cusc.team@nationalgrideso.com.

| Respondent details | Please enter your details |
|-------------------------|---------------------------|
| Respondent name: | Paul Youngman |
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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 regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

| Standard Workgroup Consultation questions | | |
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| 1 | Do you believe that the CMP324 and CMP325 Original Proposal better facilitates the Applicable CUSC Objectives? | <p>We do not believe the original proposal facilitates the applicable CUSC objectives. There has been little evidence of any benefits of this proposal and it is unclear why a reduction in the number of zones in and of itself is beneficial. It is however clear that, if reducing the number of zones is beneficial, then that could be accomplished through various methods that are more cost reflective than the original proposal.</p> <p>Our assessment of the original modification against the relevant objectives is:</p> <p>A – negative – The original modification would result in fewer zones. It is accepted by the proposer that this will reduce cost reflectivity. Cost reflectivity is a key tenet of effective competition, as to have otherwise distorts the true economic benefit/disbenefit of any subsequent sale, distribution or purchase of electricity.</p> <p>B – negative – The use of DN geographical boundaries as the method of zoning would reduce cost reflectivity and would restrict future changes. Little justification has been provided to support alignment with DN zones as an appropriate way forward that would lead to improved outcomes for consumers.</p> <p>C – negative – The proposal seeks to set the zones on an enduring basis and would not enable review either before a price control (as is the case now) or another time. This proposal would therefore not enable the charging methodology to reflect changes to the transmission business.</p> <p>D – negative - To the extent that the original modification reduces cost reflective charges compared to the current arrangements, then the proposal is not compliant and runs counter to Art18(1) of regulation 2019/943.¹ This article contains provision that charges shall be cost-reflective and transparent.</p> |

¹ https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3AL%3A2019%3A158%3ATOC&uri=uriserv%3AOJ.L_.2019.158.01.0054.01.ENG

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| | | E – negative - By design the original modification does not allow for future changes. The fixing of the zones is arbitrary and would not enable the charging methodology and associated CUSC arrangements to evolve to reflect changes to the transmission system. |
| 2 | Do you support the proposed implementation approach? | We accept the desire for the review to conclude by October to align with the start of the next RII02 price control. However the process should not be rushed and modifications should only be implemented if there are positive outcomes across the relevant CUSC objectives. The original proposal does not achieve this. We would urge the ESO to amend its original modification to deliver a cost reflective solution. |
| 3 | Do you have any other comments? | We believe that there is opportunity for consensus if the ESO alters its original proposal to be based on one of the cost reflective options that have been discussed. |
| 4 | Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider? | We reserve the right to raise an alternative if we feel that the original modification is not sufficiently altered following this workgroup consultation. |
| Specific CMP324 and CMP325 Workgroup Consultation questions | | |
| 5 | What are your views on the potential solutions discussed in the report? Please provide any evidence or rationale for your preferred solution. | <p>The two options that we think should be taken forward are the indexation approach (+/- £2.25) and a variation that sets the value applied initially to match the current 27 zones, and then moves forward with indexation.</p> <p>The setting to +/- £2.25 is preferable to the original proposal as it offers a more cost reflective solution. However, it does still reduce the number of zones from 27 to 21 which implies a dilution of the cost reflectivity of the zoning process compared to the status quo.</p> <p>We expect that the ESO should undertake analysis to identify what +/- £ price would lead to the 27 zones that currently exist. This would be a more cost reflective starting point than the original proposal, or the +/- £2.25 method, as it would more accurately reflect the topology of the network. This</p> |

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| | | value is also likely to be lower than the +/- £2.25 limit. Once known the value can then be indexed to reflect future changes and should remain more cost reflective. |
| 6 | What are your views on the distributional effects of the potential solutions outlined? Please provide your rationale. | <p>The original solution has inappropriate distributional effects especially for Scotland and the North. The original proposal would introduce inefficient distortions by reducing the cost reflective nature of the zones. This may impact on competition and potentially increase costs for consumers.</p> <p>The +/-£2.25 approach or a similar variant that enables indexation into the future will be more cost reflective, keep pace with network change and ensure that industry parties' charges are predictable and reflective of the costs applicable for the transmission zone.</p> |