



Alternative Request Proposal Form	At what stage is this document in the process?
<h1>CMP324/5:</h1> <h2>Generation Zones – changes for RIIO-T2 and Rezoning – CMP324 expansion</h2>	<p>02 Proposed Workgroup Alternative</p>
<p>Purpose of Alternative: This seeks to set zones for generation TNUoS charges not on the basis proposed in the original solution, to follow those used for Demand Charging, but to inflate the +/- £1/kW used in the current methodology to +/- £2.25/kW in line with RPI and thereafter to index the number to an appropriate inflation index when reviewing the zones at the end of each price control period.</p>	
<p>Date submitted to Code Administrator: 02 April 2020</p> <p>You are: A Workgroup member</p> <p>Workgroup vote outcome: Formal alternative</p>	

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1 Alternative proposed solution for workgroup review

This alternative proposal would continue the existing methodology for setting generation zones for TNUoS, but would use an inflated value of £2.25/kW instead of £1/kW in section 14.15.42. The purpose of this is to reflect the increase in RPI which has occurred in the time since the original £1/kW to a rounded value. Thereafter, the zones would be reviewed at the end of each price control period as now and the initial new value of £2.25 would be indexed using an appropriate inflation index. This index should be consistent with that used for other elements such as the Expansion Constant. At present, this would mean RPI, but if this should change in future for the other elements then it would be expected that an equivalent change would be made for the zoning methodology too.

2 Difference between this proposal and Original

This solution differs from the original modification in that zones will continue to change and adapt to differences in generation and demand on the network, rather than

being fixed as DNO zones (or GSP Groups). This should allow zones to continue to contain nodes which are electrically, as well as geographically, proximate.

In contrast, fixing the zones to a fixed area based on the DNO network topology does not seem an appropriate basis for setting transmission charging zones. It should be remembered that these zones are used for demand charging purposes solely because the demand settlement systems cannot provide more suitable granular demand data.

The limitations of using DNO zones are apparent in terms of lower cost reflectivity resulting in significant cross subsidies in some zones. For instance, a station located in the south of DNO Zone 1 and one located in the north of Zone 2 would, on the basis of the indicative tariffs produced for the CMP324/5 consultation, have a difference in charges of £16/kW, despite potentially being very close to each other geographically and electrically. This is because the southern generators in Zone 2 would be subsidising the generator connecting in the north, whereas the generator connected in the south of Zone 1 would be subsidising those in the north of the zone. This creates a significant distortion in locational signals.

The degree of cross subsidisation in the DNO model is apparent when the range of nodal charges contained within the zones is examined. Although these only show the year round tariffs, the range in Zone 2 between the highest nodal charge and lowest is just under £33/kW. The equivalent range is just under £29/kW in Zone 1.

Of course, this cross subsidising effect occurs for all zones due to the averaging involved, but with the existing methodology, and this alternative proposal, there are specific rules in place to ensure that this effect is limited.

3 Justification for alternative proposal against CUSC Objectives

Mandatory for the Alternative Proposer to complete.

Impact of the modification on the Applicable CUSC Objectives (Standard):

Relevant Objective	Identified impact
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>Removes the chance of a significant cross subsidy in costs between different generators in a zone, better promoting competition in generation.</p> <p>This level of cross subsidy is likely to only increase further in time. For instance, if 600MW of generation were to connect to Spittal substation from Shetland, with £60/kW being added on top of the onshore MWkms, this would move the indicative DNO zonal cost provided in the CMP264 consultation by £9.5kW. This is a significant change to every other generator's charge in that zone caused by one new connection. Therefore, the DNO approach could increase uncertainty significantly for projects in this area, whereas the RPI approach would protect them by ensuring that zonal costs were closer to nodal costs and not subject to the same level of effect.</p>
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);	<p>Improves cost reflective signals by allowing them to adapt to changes in the pattern of generation and demand on the transmission system.</p> <p>This improved cost reflectivity should result in more efficient and economic investment decisions to be made by generators, resulting in benefits to customers.</p>

<p>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;</p>	<p>This approach will respond better to changes on the network, by allowing zonal values to be closer to their nodal ones. We believe that this will result in an approach which is more sustainable in the long run and therefore better for long term investment confidence.</p> <p>In contrast, the cross subsidies inherent in the DNO zones approach are likely to increase in time, for example when remote island connections are made to the mainland (the working assumption for previous modifications such as CMP320 has been that these would be treated as wider network and not local). So we would expect that eventually the pressure to change to something more cost reflective will become too great, in the same manner as occurred for the Demand Residual Embedded Benefit. If this was to occur then projects which had invested assuming the level of subsidy would continue would be exposed to very high cost swings when a more cost reflective alternative is implemented.</p>
<p>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</p>	<p>Neutral.</p>
<p>e. Promoting efficiency in the implementation and administration of the CUSC arrangements.</p>	<p>Maintains the current arrangements, so needs no major change to processes, while ensuring that the number of zones are maintained at a manageable number. However, it does require the zones to be reviewed every price control which will require some administrative work from the GBESO at that time. It is not clear that this would be disproportionate</p>

	to the benefits that improved cost reflectivity would bring.
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*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).
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4 Impacts and Other Considerations

With the clear target of meeting zero carbon by 2050, then no solution should claim to have benefits in terms of environmental impact in terms of carbon emissions. However, by improving the cost reflectivity of the charging signals over the original proposal, this solution should result in that target being met more efficiently.

Consumer Impacts

More efficient competition driven by more efficient investment decisions should result in lower costs to customers compared with a methodology with significant cross subsidies inherent in it.

5 Implementation

Must be approved by 30 June to meet 1 April 2021 in line with Ofgem TCR Direction

6 Legal Text

Set out business rules in plain English

To be agreed with ESO