

**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>The original solution to CMP324 is to fix generation zones to the 14 GSP groups; this solution brings about better alignment between embedded generators and transmission-connected generators via alignment between generation and demand charges . Embedded generators are exposed to zonal demand-side forward looking (“raw”) locational charges. If the demand and generation zones were aligned, so that the same nodal prices were averaged into each zone (as the zones were the same), this charge would be the inverse of the forward looking (raw) locational charges for generation, making DG (of &lt;100 MW) and other generators more alike in charging terms. Conversely, under baseline, nodal prices are averaged into zonal prices differently for demand than how they are for generation (i.e. the zones differ), which creates an unnecessary distortion between DG and larger generation, due to the different zoning.</p> <p>By mapping the generation zones to the GSP groups, there would be no need to re-zone the generation zones at each price control period, creating real long-term zonal stability for generation sites. The new generation charging zones from April 2021 under both baseline and under WACM1 are entirely unable to be forecast at the present time, because :</p> <ol style="list-style-type: none"> <li>1. there is no certainty of the RIIO-T2 final parameters, and</li> <li>2. there may be more than one unique solution (to minimising the number of zones, subject to meeting the maximum inter-nodal price separation) – depending whether the zone-defining exercise starts from the North, West, East or South of Britain.</li> </ol> <p>The enormous uncertainty that is inherent in WACM1 (and baseline), particularly shortly before the start of each price control period and particularly for single-site generators and for new projects at a specific location that do not know what their transmission charge will be, is bad for competition, and may even be viewed as a barrier for entry for some projects.</p>

	<p>The certainty of zonal allocation, and stability of pricing, under the CMP324 original approach is good for competition, and so is the removal of one source of distortion between DG and larger generation – so applicable objective (a) is better facilitated.</p> <p>Under CMP324 Original, generation TNUoS charges would still reflect regional differentials between the cost-reflective nodal price changes that are averaged into these (stable) zones. Cost-reflectivity is thus maintained.</p> <p>WACM2 is proposed (owned) by SSE. It proposes that we make today's 27 generation charging zones permanent. This does better facilitate CUSC charging objective (a), competition, because of the increased stability that comes from generators knowing their zone, and always being allocated to the same one. WACM2 therefore provides better investment signals, more longer-term certainty, and some simplification of the current regime.</p> <p>Unlike original, WACM2 doesn't feature the same zones as are used for demand TNUoS, and so doesn't embody one key advantage of the original.</p> <p>WACM2 offers more charge stability than baseline and than WACM1, yet less so than the original (or WACM3).</p> <p>WACM3 (proposed by EDF Energy; 27 zones to start with, until 2023/4 – from then, the approach is as per Original) better facilitates charging objective (a), competition, because increased stability provides better investment signals, longer-term certainty and simplification of the current regime removing a barrier to entry.</p> <p>The RIIO-T2 data will not be available until later this year; the original is certainly very advantageous but WACM3 seeks to recognise the strong advantages of certainty of zonal assignment, whilst giving parties a little more time to adjust. It retains initially the current 27 zones, which are known to all generators, until 2023, yet knowing in advance also of the move to 14 zones, with all the advantages that that brings, as from then. This, perhaps bearing in mind also COVID-19 disruption, is aligned with the approach taken recently to the implementation date of CMP332, which was put back to give affected parties</p>
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		<p>more notice of a change that for some could be material.</p> <p>Moreover, April 2023 implementation of the 14 zone solution (with today's zones stabilised before then) would coincide with the intended implementation date for any measures taken forward for Ofgem's review of access and forward looking charges, from when it is possible that other changes could come in including a shortlisted option entailing SDG potentially starting to pay generation TNUoS (or similar) - so rather than there being several consecutive changes affecting generation TNUoS, one of which would be the move to 14 zones, some of the changes could come in at the same time, in April 2023; this is more holistic and easier for participants to deal with than a "string" of charging changes, one after another.</p> <p>WACMs 2 and 3 (and the original) all do away with the possibility of rezoning in "exceptional circumstances", adding to certainty (and to propriety of process; charge changes should be made by way of a CUSC mod process passed, or not passed, by Ofgem – the possibility of material changes like this by executive <i>fiat</i> of the ESO, is not desirable). These three variants (original, 2, and 3) all better facilitate charging objective (e), because fixed zones improve transparency and improve efficiency in TNUoS tariff setting and publication processes, as well as simplifying matters on a long-term basis.</p>
2	Do you support the proposed implementation approach?	We agree that a decision is needed on any solution by mid-October so that it can be used in time for charges from 1 April 2021, as (50 to 60, currently unknown) new generation charging zones are due to be calculated under baseline starting around 1st November.
3	Do you have any other comments?	No