

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. 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 or cusc.team@nationalgrideso.com.

Respondent:	<i>Kirsty Ingham (Kirsty.ingham@esb.ie)</i> <i>Kamila Nugumanova (kamila.nugumanova@esb.ie)</i>
Company Name:	<i>ESB GT</i>
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	<p>We acknowledge the detailed and thorough work the WG has done in a short period of time. We are nevertheless concerned that that the WG consultation and discussion are based on very limited sources of reference, predominantly referring to the CMA and GEMA decision on CMP261. While we understand that there is a lack of definitive interpretation available at legislative level, and CMP 261 conclusions is the only direction given by Ofgem, we do not agree that this is the only optimal baseline or point of reference for these modifications. CMP261 decision has been taken with a view to respond to potential GB specific charging errors with no intention to change the rules. CMP317 has more far-reaching implications and clear cross-border competition impacts. Furthermore, we believe that there are certain aspects of Ofgem's decision on CMP261 that need to be updated as a result of the Net Zero policy commitment and wider decarbonisation policy targets. It will be useful to reflect whether this decision is still a valid baseline to be used for interpretation of the Limiting Regulation and explore other routes that may provide direction on this.</p> <p>With regards to the consultation document itself, we consider it to be very complex to read. We acknowledge the complexity of the issues discussed, however, we believe that some elements of the proposals or analysis behind them could have been explained better. We are concerned that the complexity of the report may preclude wider</p>

	stakeholder engagement, as parties who have not been close to the development of the mod may not be able to assess all options and respond efficiently.
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Standard Workgroup Consultation questions

Q	Question	Response
1	<i>Do you believe that CMP317/CMP327 Original Proposals better facilitates the Applicable CUSC Objectives?</i>	<p>We do not believe that the original proposal or any of its variations better facilitate any of the CUSC relevant objectives. We believe that the Limiting Regulation, which is the main reason for this modification, refers to G-charges as a collective term that includes a range of charges which are currently levied on generators in Europe. These charges include UoS charges, initial connection charges, charges for Tx losses and ancillary services. Following a number of studies and analysis work, the European Commission concluded that only UoS charges can be harmonised within the range provided, therefore the remaining elements are excluded from the calculation of tariff ranges set out in Regulation 838/2010.</p> <p>We, therefore, believe that no changes to CUSC are required to meet compliance with the EU regulation and no O&M charges for local circuit and local substations (or any other costs of providing Tx infrastructure) should be excluded from the calculation of compliance with the € 0-2.50 range for TNUoS charges. We provide reasoning for our interpretation in response to Q5 below. This does not preclude implementation of the TCR Directions since the residual can still be set to 'zero'. However, we expect the adjustment to be based on a more accurate and efficient solution as the amount adjusted would have a higher value.</p> <p>For the reasons outlined above, unless the WG presents a more justifiable, transparent and distinct interpretation of the Limiting Regulation, which demonstrates that the costs of maintaining connection assets should be excluded from the UoS charges, we do not see a valid rationale for these changes. We are also concerned that this may constitute a non-compliance with the Regulation which would set GB generators in a less competitive position vis-à-vis other EU generators.</p> <p><i>For reference the applicable CUSC objectives are:</i></p> <ul style="list-style-type: none"> a) <i>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;</i> b) <i>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</i>

		<p>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> <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>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>e) Promoting efficiency in the implementation and administration of the CUSC arrangements.</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>
2	Do you support the proposed implementation approach?	<p><u>Implementation date</u></p> <p>While we acknowledge that 1 April 2021 is the target implementation date required by the TCR Direction, we do not believe it is practical or efficient to implement such significant reform within this timeline. Given the far-reaching impacts and clear cross-border implications of the changes, appropriate depth of analysis and consideration of wider issues needs to be taken into account prior to full implementation of the new charging regime. We also note that the "Proposer's intention is for a minimal change and appropriate notice and/or staggered implementation approach of these changes to be given to all Parties allowing consideration of these costs within Users' businesses". We are not convinced that the proposed implementation date and modification timelines meets this objective.</p> <p>If the decision is made to continue with the Apr 2021 implementation date, we would support a phased implementation approach similar to CMP264/265.</p> <p><u>Impact assessment</u></p> <p>We are also concerned about the baseline used in the analysis becoming invalid as it changes and evolves as a result of concurrent reforms and modifications, such as CMP324/325, AFLC SCR and RIIO-2 decisions. The IA carried out as part of this mod development may therefore become irrelevant by the time of implementation of the mod.</p> <p><u>Transparency, stability and predictability of charges</u></p>

		<p>More importantly we are concerned about the lack of clear direction on interpretation of legislative EU instruments and regulations. Since there are no defined and clear terms, most of the terminology and rules are interpreted by the WG and the proposer. We do not believe this provides sufficient transparency of the process and necessary stakeholder engagement. We note ACER guidance which marks sufficient transparency regarding tariff setting being of utmost importance and highlights that effective involvement of stakeholders and proper public consultations need to support well-informed regulatory decisions.</p> <p>ACER guidance also refers to stability and predictability being among key objectives to be pursued when setting transmission tariffs. However, given the number of concurrent changes and consequential decisions, we believe the baseline forecast of impacts of the CMP 317/327 modification will be constantly changing throughout the year, leading to inability of users to have any certainty of tariff changes until late in 2020. Therefore, implementation in Apr 2021 would not allow sufficient time for parties to assess the scale of changes and to incorporate them into their commercial decisions.</p>
3	Do you have any other comments?	<p>Below we highlight shortfalls and concerns with specific elements of the proposals:</p> <p><u>Interpretation of the Limiting Regulation</u></p> <p>We are concerned that there is still ambiguity in interpretation of EU Regulation 838/2010 and lack of direction from Ofgem on whether interpretations considered by the WG will be deemed compliant. As a result, the WG report presented for consultation draws on a range of possible options that vary significantly in their legislative presumptions as well as monetised and non-monetised implications. Due to this lack of systematic and consistent interpretation of relevant regulations and definitions, it is difficult to conclude whether the proposed change is the optimal solution to better facilitating the applicable CUSC objectives and whether the presumptions developed by the group have sufficient justification.</p> <p><u>Scope of the mods is wider than the SCR and should be given due consideration</u></p> <p>Furthermore, while we support the amalgamation of the two modifications and believe that there are critical dependencies and cross-references between these proposals, we are concerned that the amalgamated solution will be developed and assessed within standard SCR modification timelines (6 months from initiation to approval). These timelines may not be sufficient for giving full consideration to cross-border implications. Specifically,</p>

		<p>it is our view that CMP317 may lead to broader strategic and indirect impacts on the competitiveness of GB generators in the context of participation in the GB Capacity Market, project TERRE and potential future Direct Foreign participation in capacity mechanisms of neighbouring markets.</p> <p><u>EU comparison</u></p> <p>We note that some WG members suggested that a comparison with other EU states should be made. Yet, this has been dismissed due to the wide differences in countries' transmission charging regimes. We consider it to be of utmost importance to examine how other MSs have interpreted the Limiting Regulation. It is evident from EU Commission discussions and studies preceding the Limiting Regulation that the rationale for introducing harmonisation of G-tariffs was better facilitation of the IEM and introduction of comparable, level-playing field tariffs across all MSs. Regulation 714/2009 for example states that: "<i>A certain degree of harmonisation is therefore necessary in order to avoid distortions of trade</i>". CEPA's study 'Scoping towards potential harmonisation of electricity transmission tariff structures' for ACER has also established that in setting Tx tariff structures, NRAs should also consider impacts on the integrity and objectives of the IEM. Hence, we believe it is critical to perform comparable analysis of other MSs in order to check consistency of interpretation of the Regulation, taking into account the overall goal of levelling the playing field across EU states.</p> <p>As a minimum, the comparison needs to establish the following:</p> <ul style="list-style-type: none"> - MSs interpretation and adoption of the Limiting Regulation - Treatment of RES connections and their integration into national Tx systems
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No

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,</p>	<p>Q 5a) To reinforce our message in Q1 above, on the balance of evidence we do not believe that change is required to CUSC/TNUoS to comply with the Regulation and that there are no grounds for "excluded charges" in the current GB charging context.</p>

	<p>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>If a clear and justifiable direction from the Authority is given to indicate that exclusion connection does apply to O&M charges for assets installed for connection, we would only support option 2 or option 3 with a variation that only local circuit costs will be included.</p> <p>We disagree with the first option identified and believe it is too broad and over-prescriptive. The proposer indicates that this is the simplest approach to the required interpretation. However, adopting a solution simply due to convenience is not in line with good regulatory principles and proper assessment should be given to all elements of the proposal and related legislative reference given the material impacts of the potential change as well as wider compliance considerations. We also consider this solution to be inconsistent with the power-based Transmission tariff system, shallow connection charging used in GB and the zonal approach used in the UK for treatment of offshore assets and OFTO regime.</p> <p>Overall, we do not agree with the premise and interpretations used in the WG approach and therefore do not consider any of the options to be fully reflective of the actual compliance requirement.</p> <p>Our interpretation of the Limiting Regulation, and specifically excluded connection assets, is as follows:</p> <p><u>Interpretation of the Limiting Regulation</u></p> <p><u>The Limiting Regulation excludes only initial connection charges from the calculation of compliance with the set range - No changes to TNUoS are required</u></p> <p>Connection exclusion should only apply to charges for the initial connection of a single generator to the nearest point of connection on the national transmission system. The Limiting Regulation refers to Transmission charges as a collective term for all charges that a generator in any MS would have to pay to be able to access and use the system. It also recognises that the connection charging regime is different in all MSs and, therefore, aims to harmonise <u>only</u> the on-going charge that generators would pay for each unit of power injected into the grid. Therefore, only one-off initial connection charges are excluded from harmonisation, and O&M charges should not be included in the interpretation, contrary to the GEMA and CMA interpretation provided in the CMP261 appeal.</p> <p><u>If O&M related charges for connection assets were to be included, they should only entail local circuit charges</u></p> <p>If, however, we were to use the aforementioned GEMA and CMA interpretation, it is still clear that the definition of 'excluded charges' should only include charges for circuits, lines and equipment installed for the purpose of</p>
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		<p>connecting a generator to the connection boundary and are for the sole use of that generator. Therefore, the following would apply:</p> <ul style="list-style-type: none"> • All shared assets, including substation assets do not fall under the exclusion definition. When discussing relevant connection exclusions, EU Regulations clearly refer to sole use by a generator. Therefore, any shared assets or assets that have a capability of being shared cannot be excluded from the calculation of tariffs under the Limiting Regulation. • Once the generator is connected, any assets that have been used for connection beyond the connection boundary are integrated into the National Transmission System and become part of the wider infrastructure or pre-existing network. Thus, ‘pre-exisitng’ cannot be a static term and refers to an integrated transmission system that expands dynamically with addition of new points of connection. The ESO becomes responsible for their O&M and can recover the costs through UoS charges, specifically under power-based tariffs. • Offshore substation costs should not be included in the definition of ‘excluded charges’. Once necessary assets are built for the purpose of extension or reinforcement of the network (even when this is done to facilitate a connection of an individual generator) they are integrated into the main infrastructure and costs are socialised under network charging as per the shallow approach to connection charging, power-based approach to network charging and specific UK OFTO regime. <p>Q 5b) In line with the above, we would encourage the WG to pursue an alternative interpretation to the one referenced in the CMA/GEMA decision on CMP261. Explicitly, we believe that the connection exclusion of the Limiting Regulation only applies to initial connection charges which are paid separately to TNUoS, therefore, no elements of TNUoS generator charges should be excluded from calculating compliance with the Limiting Regulation, i.e. the €0-2.50/ MWh range.</p> <p>In line with the above, it is our view that current TNUoS tariff elements are all consistent with the objectives and desired structure expressed by the EU Commission:</p> <p>Power-based tariffs can include all infrastructure costs (including maintenance of shared assets)</p>
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		<p>background to the development of EU Regulations 838/2010.</p> <p>One-off initial connection charge only</p> <ol style="list-style-type: none"> 1. Connection exclusion should only apply to charges for the initial connection of a single generator to the nearest point of connection on a national transmission system. The rationale for harmonising transmission tariffs at an EU level was around level playing field and new generators being able to connect in any MS on comparable terms. The legislation therefore focused on the marginal cost of connection to a national transmission system and overall access to the system by individual generators. EU regulations do not specify that the Limiting Regulation applies to Use of System charges, instead, it refers to Transmission Charges as a collective term for UoS, initial connection charges and other charges that a generator may face to access the grid. Hence, it is appropriate to interpret the Limiting Regulation to exclude connection charges from harmonisation of tariffs, i.e. only these charges fall under the Limiting Regulation. <ol style="list-style-type: none"> a) In 2005, ERGEG, following request for advice from the European Commission, has developed and further refined a draft of “Guidelines on Transmission Tarification”. In the discussion paper exploring issues that need to be addressed by the harmonization process, ERGEG refers to connection charges (excluded charges) as the initial connection to the grid by saying ‘<i>Generators and consumers may also be required to pay a one-off charge for their initial connection to the grid usually called “connection charge”. Charges related to losses, congestion and other ancillary services are also an important feature. These charges are not, however, considered to be part of the G charge for the purpose of these Guidelines.</i>’ It goes on to say: “<i>Annual average G shall exclude any charges paid by generators for physical assets required for the generators connection to the system (or the upgrade of the connection) as well as any charges paid by generators related to ancillary services or any specific network loss charges paid by generators.</i>” b) In response to the consultation on “Draft Guidelines on Transmission Tarification”, organisations including TSOs have provided their views that would indicate that their interpretation of the exclusion of connection costs would be in line with the above. For instance, the ETSO (Electricity Transmission System Operators) response says: “<i>ETSO agrees with the draft Guidelines that internal congestion costs, any specific charges</i>
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		<p><i>a system of connection charging in place, the high capital costs of network provision will still need to be recovered. Most of this will be cost related to prior investment in system capacity.”</i> This can be interpreted to mean that these assets (including substations) would have been integrated into the National Transmission System and are counted as general infrastructure costs and NOT assets required to maintain a specific connection.</p> <p>2. With regards to specific offshore substation charges, we believe that they count as extension of the national transmission system. In this relation, the role of offshore generation has to be considered in the context of social and economic benefits and wider policy targets, specifically Net Zero. With that in mind, we find the following extract from the “European Commission guidance for the design of renewables support schemes” useful in exploring treatment of and challenges with integration of remote, offshore connections into the national system.</p> <p>The paper also implies that shared infrastructure costs should not be recovered from a marginal connection cost:</p> <p><i>“As with other aspects of the electricity system, national practices regarding the financing of new, as well as existing infrastructure differ considerably and have evolved as markets are "unbundled". New entrants (often renewable energy producers), have to bear widely varying connection costs depending on the national regime. Imposing these costs on new producers causing the need for new grid construction risks reducing incentives to locate production where the resource is optimal ("wind where the wind blows", "sun where the sun shines"). It also risks imposing the costs of creating a <u>socially</u> optimal infrastructure on the marginal producer (in the same way that the costs of interconnectors should not be borne by individual users or indeed, single Member States).”</i></p> <p>Therefore, while we agree with Ofgem’s CMP261 conclusion that without offshore substation and circuit assets individual offshore generators would not be able to connect, we view these assets as required for extension of national transmission and, thus, not attributable to specific offshore generators, apart from the circuit that connects the generator to the nearest point of connection (offshore substation) to the grid. As mentioned previously, once these assets are built they are transferred to OFTO ownership and become chargeable under TNUoS. Overall, the maximum responsibility for the connection cost should be the local offshore circuit and local offshore substation only when it is designed for bespoke and single use by that</p>
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		generator and has no capability of being shared in the future.

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>We do not oppose the introduction of a target amount, however, we believe it will be difficult to justify and will have to go through a formal consultation with ACER.</p> <p>The European Commission recommends that energy-based charges do not include infrastructure costs and reflect only the marginal costs of energy produced and/or injected into the grid (€/MWh). Therefore, it recommends that these tariffs are targeted at €0/MWh to avoid distortion for cross-border competition and trade.</p> <p>Since power-based tariffs (used in GB and Ireland) have no restrictions on including infrastructure costs they do not have a target amount. ACER's 'Scoping towards potential harmonisation of electricity transmission tariff structures Conclusions and next steps' notes that '<i>The Agency also concluded that different levels of power-based or lump-sum G-charges can be used and that it is not necessary to propose restrictions on such charges as long as they reflect the costs of providing transmission infrastructure services to generators, are properly justified and set in an appropriate and harmonised way</i>'.</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) We agree with the two options identified in the WG consultation. It is our view that should the current methodology with the €0-2.50/MWh range remain in place, an error margin should continue to be included in the calculation</p> <p>b) No</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>Yes, we agree with a phased implementation approach. Setting TGR to zero will have major financial implications for all users. It is important to give users sufficient time and predictability of tariffs in order for them to incorporate the updates into their commercial frameworks and contracts. Also, as envisaged by the TCR SCR, this will give enough time for impacted users to incorporate the difference in their CM and CfD pricing.</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) No. However, as stated in our response to Q 6, we would only expect a target rate of 'zero' in energy-based tariffs, i.e. where no infrastructure costs are recovered through TNUoS.</p> <p>b) No</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>	
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>We agree that excluding the charges for local circuits and substations in respect of island links would not be compliant with the Limiting Regulation if the interpretation of the Regulation put forward by the proposer was applied. As per our response to Q 5, shared assets are considered to be part of the wider infrastructure and are socialised via UoS tariffs. Connection exclusion only applies to assets solely used by a single generator.</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>We agree that it is important to consider the reference node as a potential resolution to the adjustment required once the residual is set to 'zero'. We believe that if an option presents a potential to be an effective solution, it must be given due consideration and analysis. This is in line with good regulatory principles and effective code modification developments.</p>