CUSC Workgroup Consultation Response Proforma

CMP332: Transmission Demand Residual bandings and allocation (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 to cusc.team@nationalgrideso.com by **5pm** on **27 February 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 Paul Mullen at paul.j.mullen@nationalgrideso.com or 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 regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions		
1	Do you believe that the CMP332 Original Proposal better facilitates the Applicable CUSC Objectives?	[See below]
2	Do you support the proposed implementation approach?	[See below]
3	Do you have any other comments?	[See below]
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	[See below]
Specific CMP332 Workgroup Consultation questions		
5	Based on the mapping table in Annex 6, does the proposed CMP332 solution deliver Ofgem's TCR SCR Direction? Please identify any areas you believe need to be addressed.	[See below]
6	CMP332 solution proposes to have one Transmission Band for the demand residual charge. Do you agree, if not what do you suggest instead, and why?	[See below]
7	The TCR SCR Direction specifies that 24 months of data is required to allocate the customers to charging bands. The Original solution (for CMP332)	[See below]

	proposes to use a standard 12 months period for all. What period of historical data do you think is required for setting the bands, and why?	
8	If there is any revenue under/over recovery due to the differences between the initial allocation of charging bands vs the outturn of such bands, how should this amount be recovered/rebated?	[See below]
9	Should we use Measurement Classes rather than "No MIC" or "MIC" to determine initial grouping for the charging bands at low voltage, and why?	[See below]
10	Should UMS be included in the banding structure (e.g. LV no MIC) or charged separately on a volumetric basis?	[See below]
11	Do you have any thoughts on any of the suggested options and/or do you believe there any other options for the Workgroup to consider?	[See below]

Q1 Do you believe that the CMP332 Original Proposal better facilitates the Applicable CUSC Objectives?

In principle we believe that CMP332 Original does better facilitate the Applicable CUSC Objectives for the reasons set out in the Proposal form.

However, we are mindful that depending on the solution adopted that it's possible that the resultant changes may be detrimental in terms of Applicable CUSC Objective (b) in terms of not being better in respect of cost reflective (as we detail in our answer to Q7 below.

Q2 Do you support the proposed implementation approach?

Whilst noting the significant interactions and dependencies between this proposal and the seven other CUSC and DCUSA Modification / Change Proposals, which we have yet to see (in terms of their detailed solutions) we support, at this stage, the proposed implementation approach.

However, we are mindful of the substantial interactions and dependencies between these eight Modification / Change Proposals; as well as the key roles that numerous parties will play in ensuring that the tasks necessary to achieve the successful implementation of CMP332 (and the other related CUSC and DCUSA changes); which could jeopardise the proposed implementation approach.

Q3 Do you have any other comments?

Nothing further at this time.

Q4 Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?

Not at this time.

Q5 Based on the mapping table in Annex 6, does the proposed CMP332 solution deliver Ofgem's TCR SCR Direction? Please identify any areas you believe need to be addressed.

Without seeing the final CMP332 proposal we are unable to say if it will or will not deliver Ofgem's TCR SCR Decision.

Q6 CMP332 solution proposes to have one Transmission Band for the demand residual charge. Do you agree, if not what do you suggest instead, and why?

Based on the discussions held on Thursday 20th February during the DCP359 and 'shadow' CMP334 Workgroup meeting (as well as the deliberations on Tuesday 25th February at the joint CMP335/336 Workgroup) it is clear that the use of a single Transmission Band for the demand residual charge would not take account of the significant volume of demand association with flows from the GB network to (i) Northern Ireland (ii) the Isle of Man or (iii) other Member States.

In respect of (i) and (ii) the Workgroup was unsure how such demand flows would be treated in terms of paying a residual charge (at transmission for (i) and distribution for (ii)); although it was noted by DNO colleagues that the current wording within the DCUSA would mean that if this was a DNO to DNO demand flow that residual

demand charge would be applied by one of the DNOs and recovered from the other DNO.

In respect of (iii) based on the Commission's 27th April 2018 statement, the possibility may arise within the next ten months or so that such demand flows from GB maybe subject to similar charges from the European Union and therefore an equivalent, reciprocal, charge could (should?) be applied likewise.

This is primarily a concern in terms of the distortion to competition that not addressing (iii) would give rise too. This is because if GB demand pays (GB) TNUoS, but interconnected demand (from GB) does not, then there would be a distortion to competition which would affect cross-border trade[1]. Failure to charge (GB) TNUoS on interconnector demand (from GB) would create an incentive to locate demand in other countries, rather than GB, and build interconnectors to export the power from GB in order to avoid (GB) TNUoS. That could be seen to be detrimental for GB consumers and, more generally, the GB economy overall.

Given this, together with the volume of the demand flows involved, it would seem inappropriate to limit the Transmission charging of the demand residual to one band only as it could unduly impact on non-interconnector demand parties connected at transmission.

Therefore, a second Transmission (demand residual) Band, based around a circa 1GW and above threshold, would be appropriate to address these concerns (and ensure that transmission connected demand, excluding interconnector demand flows, do not end up paying extra whilst interconnectors pay less – itself distortionary (and discriminatory?) - which is what would occur if a single Transmission Band were to be used).

Q7 The TCR SCR Direction specifies that 24 months of data is required to allocate the customers to charging bands. The Original solution (for CMP332) proposes to use a standard 12 months period for all. What period of historical data do you think is required for setting the bands, and why?

Given the wording in 3.57(7) and (8) of the TCR SCR Decision (and in particular the wording we have shown in red text below) coupled with the statement in 3.55 as regards the harmful distortionary effects; we understand that Ofgem requires (1) at least 24 months of data must be used, where it is available, and longer than 24 months if its available at a proportionate cost or (2) where less than 24 months of data is available, use of what data is available.

This also reflects the comments provided by the Ofgem representative to the DCP358/360 Workgroup on 26th February[2] that:

[1] Which, in turn, would place the UK in contravention of its Third Package obligations.
[2] Via email at ~ 10:14.

> "*The policy intent behind the residual reform is to reduce harmful distortions. For fixed charges the distortions will arise where 'gaming' is enabled around the bandings for the fixed charges. For example, the band allocation method should not allow a site to artificially negotiate down its connection capacity at the time of band allocation, only to increase it later. Taking an average of historic capacity or consumption over a long time period makes this more difficult.*" [emphasis added]

Given these statements from Ofgem, in our view applying an arbitrary 12 month period would seem to (a) run directly counter to Ofgem's reasoned decision and (b) could lead to unintended consequences in terms of giving rise to harmful distortions, being less cost reflective[3] and potentially being discriminatory which, if this were to be the case, could render the demand residual charges being incompatible with the obligation on (i) the Authority to "ensure that transmission and distribution tariffs are non-discriminatory and cost-reflective[4]" and (ii) the similar 'non-discriminatory and cost-reflective' legal obligations, to that placed on the Authority, which also apply to the ESO and DNOs in terms of their methodologies for transmission and distribution network tariffs[5].

> 3.57
> "[page 57] (7) *Setting and allocating consumers to residual charging bands: Boundaries are to be established by the network licensees on a consistent basis and users will be allocated to bands based on available industry agreed capacity where available, or net consumption data, as applicable. This is to be averaged over a period of no less than 24 months prior to the setting of the applicable residual charges, or longer if the requisite data can be made readily available at proportionate cost. For any customers for whom data cannot be made available for the period of 24 months, the process for New customers and customers lacking appropriate data below should be followed*.
>
> [page 57-58] (8) *New customers and customers lacking appropriate data: A process shall be established to allocate customers for whom the requisite data is not available or available for a period of less than 24 months, such as new customers connected within that period, to the appropriate charging band, based on an assessment of their agreed capacity or consumption, as applicable. The process shall make use of such information as is available to best estimate the expected usage of the customer, eg by taking an average of all the data that is available, or based on an understanding from such sources as are considered appropriate of the typical profile of a similar customer, updating as needed*."
>
> 3.55

[3] Whilst the residual is focussed on cost recovery, if a party who should pay the residual does not (or pays less than it should) then other parties pay more: leading to both types of parties paying none cost reflective prices.
[4] Recital 36 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0072&from=EN
[5] See for example, Article 25(6) and Article 37(6) https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0072&from=EN

> "[page 51] *Reducing harmful distortions: The TCR residual charging reforms aim to reduce the harmful distortions caused by the current residual charging methodology which encourages some network users to take measures to lower their contributions to residual charges. Changes should seek to reduce the potential for and impact of any harmful distortions introduced as a result of changes to the residual charging arrangements. Residual charges that cause network users to adjust their investments or operational decisions are distortionary and can lead to inefficient use of the networks. [emphasis added] They have the potential to distort competition between different network users. As some network users avoid charges, this increases the charges to other network users, further distorting usage and investment. Any method of residual charging will lead to some distortions, but harmful distortions should be reduced as far as possible so that the energy system works efficiently and in the interests of consumers*."
>
> [page 52] "*Harmful distortions can impede a level playing field for competition between network users and encourage users to invest in technologies to reduce their demand from the network, for example by generating electricity on-site. Such investment may only be economic when avoidance of residual network costs is taken into account, with the generation having no effect in reducing network or system costs. Residual charges based on a fixed or agreed capacity basis may incentivise users to reduce their agreed capacity [emphasis added] or disconnect from the grid entirely.*"

Notwithstanding the above, we agree that the time period to be used should be uniformly applied across GB by the ESO, the DNOs and the IDNOs in terms of, say, January-December or April-March etc., be that on a 24 month or 12 month basis.

Q8 If there is any revenue under/over recovery due to the differences between the initial allocation of charging bands vs the outturn of such bands, how should this amount be recovered/rebated?

We note that in respect of the suggested EHV, HV and LV banding charges, as illustrated in tables 6 and 7 of Ofgem's TCR SCR Decision, that parties may seek to challenge their initial (and thus enduring for period of the price control) allocation on a site by site basis.

We do appreciate given the complaint procedure set out in CUSC 7.3 along with the overriding rights that parties have, in respect of both transmission and distribution charges; as set out in Article 37(11) of the Third Package[6]; that the quantity and materiality of complaints raised directly with the Authority may well, at least initially, be significant both in terms of the numbers involved as well as the financial quantum that could arise. Given this it is appropriate that detailed consideration is given to how any significant under or over recovery is addressed.

[6] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0072&from=EN

That having been said, given the two-month timeframe for an Authority determination of any Article 37(11) complaint, we would hope that with the use of a transition period / appeal window that the complaints can be received, actioned and adjudicated upon ahead of final transmission[7] tariffs being set in January 2021

Q9 Should we use Measurement Classes rather than "No MIC" or "MIC" to determine initial grouping for the charging bands at low voltage, and why?

For the reasons we detail in our answer to Question 7 above, we are not certain that using a single, snap shot, figure which is not calculated by way of an average of the available date for existing consumer would be compatible with Ofgem's TCR SCR decision.

Q10 Should UMS be included in the banding structure (e.g. LV no MIC) or charged separately on a volumetric basis?

We are concerned at the growth in unmetered supplies that are foreshadowed by the growth in, for example, street charging of electric vehicles via street furniture. Allocating UMS to the LV no chargeable MIC banding could potentially see a large urban conurbation with hundreds of thousands of such equipment etc., treated in the same manner as the smallest Council in the land with a few hundred of such equipment. This would seem to be unfair and potentially discriminatory in effect.

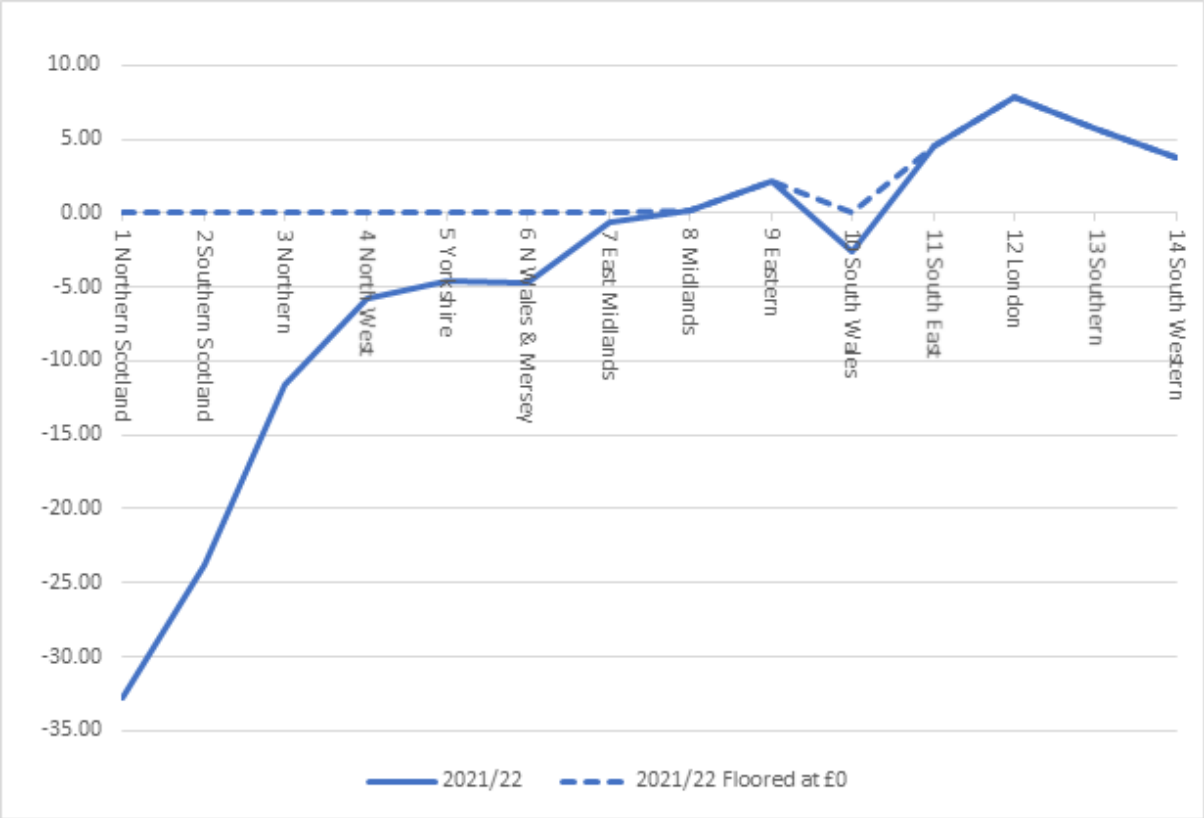
Therefore, a volumetric basis for applying the residual charge may, in the case of UMS, be appropriate. It would be prudent to make this change now, as part of the introduction of the residual demand charging regime, rather than putting it off till a later date by which time many of this type of equipment / usage may already have been installed on the basis that they are not subject to such a volumetric based charge.

Q11 Do you have any thoughts on any of the suggested options [for negative zones] and/or do you believe there any other options for the Workgroup to consider?

Our analysis of the 2021/22 TNUoS tariffs suggest that eight of the 14 DNO areas in GB would be detrimentally impacted by flooring the negative charge at £0/kW.

This would mean that consumers in northern Britain and South Wales would, overall, pay higher TNUoS demand charges whilst consumers in southern Britain (excluding South Wales) would pay less. The following graph shows this effect.

[7] In terms of distribution, depending upon the financial materiality of any successful complaints, a within the 15 month fixed period change may be required as a one off transitional arrangement for the implementation of the TCR SCR demand residual change.



Our analysis, which accords with that from the Workgroup, shows that the quantum of this change is significant at ~£200M for a single Charging Year. Our analysis, shown below, also identifies that the effect is growing over the coming years.

	Final	NGESO 5yr	NGESO 5yr	NGESO 5yr	NGESO 5yr
	2020/21	2021/22	2022/23	2023/24	2024/25
Sum of negative collection £m	-181.9	-215.9	-209.3	-223.4	-229.5
Resulting increase in TDR £/kW	3.61	4.32	4.18	4.45	4.56
Percentage of demand affected by kW	38.5%	47.7%	47.6%	44.1%	44.2%

We are mindful that Ofgem has confirmed to the CMP332 Workgroup that the effect of flooring the locational demand signal at £0/kW, resulting in a ~£200M annual (recurring) impact on consumers, had not been modelled as part of the Impact Assessment commissioned by Ofgem; as summarised in Table 14 (page 159) of Ofgem's TCR SCR Decision.

In our view it would be detrimental to consumers to arbitrarily remove the locational signal for demand from the majority of GB ahead of the detailed and comprehensive

examination of this important item (and relevant related matters) as part of Ofgem's ongoing Access and Forward Looking Charges SCR.

We appreciate the concern expressed by some Workgroup members that a perverse incentive may in theory exist, if CMP332 were to be introduced, for consumers to potentially increase their demand in order to maximise their locational signal. That having been said, we are mindful that if those consumers were to do so they would be constrained by their existing connection agreement capacity limitations and by the need for them to pay for the consequential increase in their energy costs.

Notwithstanding the above, it seems to us that the most equitable way to proceed with this item would be to maintain the existing (£negative/kW) locational signal for demand until the Access and Forward Looking Charges SCR has concluded; but to base the customer's actual locational kW quantum (to which the (£negative/kW is applied) on their historic usage for the year preceding the implementation of this change; i.e. Charing Year 2019/20.

As a result there would be no perverse incentive; in theory or in practice; introduced, by CMP332, for parties who pay demand charges to maximise their usage of the transmission system going forward in order to maximise their locational signal – as any such action on their part would be fully negated by them being billed on the basis of their historic usage not actual usage (in, say, Charging Years 2021/22 or 2022/23).

Furthermore, such a radical departure (by flooring negative at £0/kW) from the locational principles that underpin the long established[8] ICRP methodology (with positive and negative locational signals for demand and generation) would call into doubt the core justification for transmission charging in GB and could give rise to a legitimate expectation that the entire (transmission) locational signalling approach (for demand and generation) is now rendered redundant as a result.

In terms of Option 3, we agree with Ofgem that this would be a more fundamental change that, in our view, would not be warranted for such a short period (2-3 Charging Years) before the Access and Forward Looking Charges SCR solutions comes into effect.

[8] See National Grid, 30 June 1992, 'Transmission Use of system Charges Review, Proposed Investment Cost Related Pricing for use of System'.