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?	Objective a) Yes As identified in Ofgem's Targeted Charging Review (TCR), the current method of recovering the residual is causing a distortion as consumers that are able to respond to the forward-looking element of Demand TNUoS are also avoiding the residual element, which is cost recovery. Removing this distortion and recovery the residual on this basis will remove the distortion and therefore facilitates competition. Objective b) Neutral The amount to be recovered is not affected by this modification and the residual is not intended to be reflective of any immediate costs. Objective c) Yes This modification fulfils the Direction from Ofgem. Objective d) Neutral Objective e) Neutral Provided the methodology is clearly defined through the legal text, there will no effect against this objective.
2	Do you support the proposed implementation approach?	We feel the time between Ofgem's decision on the TCR does not give the industry suitable time to prepare and so risks short-term negative impacts to consumers, as they may not receive forecasts of their new transmission residual charge in good time. The materiality of these costs should not be underestimated. However, the proposed implementation fulfils the Direction
3	Do you have any other comments?	Given the amount of change necessary to implement Ofgem's Direction, the need for several modifications is clear. However, it is difficult to understand the impact of this Modification on users without clarity around the definitions of "Site" and "Final Demand", which will be proposed as part of CMP334. For instance, the ESO's analysis on the Transmission Band (Annex 5) requires some key assumptions. As the related TCR Modifications were raised after the first meetings of the Workgroup, there were

		discussions which turned out to be not directly relevant to Modification. However, the ESO are coordinating between the Modifications well, so there is unlikely to be any negative impact. It is vital that the corresponding DCUSA modifications ensure there is consistency applied across all DNOs, to ensure the ESO is charging the Transmission residual equitably across GB.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No
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.	The Modification does not propose when Charging Bands should be reviewed, as requested in paragraph 34 of the Direction. The assumption in Workgroup meetings was that this would be at the beginning of a Price Control period, which would give consistency with other elements of transmission charging and give some stability, to allow customers to forecast their residual charges over the price control period. This would be in line with the TCR [*"The boundaries of the charging bands shall be reviewed at such times as to ensure that the outcome of the review can be implemented at the same time as the next transmission price control takes effect."* 3.57(11) TCR Full Decision]. Given the materiality of the residual costs, this should be done early enough to reduce uncertainty and allow consumers to prepare and, if necessary, resolve any disputes arising from the new charging boundaries.
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?	The analysis from the ESO needed to make a number of key assumptions on the definition of "Site" and "Final Demand" but is adequate for the purposes of this consultation. Transmission users have the same level of access to the network and so should pay the same level of charge, as described in the TCR Design Principles under Fairness ["*Charges … should mean that users with certain similarities (for example, level of access to the network), pay similar levels of residual charges.*" 3.57(7) of TCR Full Decision]. The low number of sites in a potential second band means it could be viewed as discriminatory against those users.

		Any review of a single Transmission Band should be undertaken in alignment with reviewing the other Charging bands, or there is a risk of creating a distortion between Distribution and Transmission connected consumers.
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) 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?	Paragraph 3.57(7) of the TCR Full Decision could be read as applying the period of 24 months to both setting bands and allocating consumers to residual charging bands, as the paragraph covers both subjects. However, paragraphs 23 and 24 of the CUSC Direction separates the two, with 24 months specified for allocation to bands only. The TCR also states that *"Boundaries are to be established by the network licensees on a consistent basis"* 3.57(7) and a 12 month period would align with DNOs, assuming the DCUSA Modification goes ahead as DNOs intend. As part of the purpose of residual reform was to avoid consumers changing behaviour to avoid/reduce their residual costs, a longer time period of 24 months would reduce distortions caused by consumers changing their capacity. It would also align the two processes of establishing bands and allocating customers, thus increasing transparency. There is no compelling reason, other than the ambiguity in 3.57(7), to have the transmission residual use different criteria to the distribution residual. Availability of data is a potential barrier for time periods longer than 12 months, but there is the possibility to address this question ahead of the next set of charging band boundaries, by which time the data may be available.
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?	It is appropriate that Workgroup consider this as a risk, but it is unlikely to be an ongoing material issue. For the first year of implementation, the data used for setting the bands and allocating customers will overlap, so there should be little under/over recovery. There is a second opportunity for under/over recovery once the 24 months historical data used for allocating consumers fully reflects any capacity changes consumers may have made in expectation of the new methodology. Since the residual is cost-recovery, socialised across all final demand and should not be used to reward/penalise particular consumers, the current methodology of incorporating any under/over recovery into the

		following year is most suitable, as described in 14.15.134 of the CUSC.
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?	The Direction to the ESO is explicit in paragraph 20c) and d) that the bands should be separated by having an agreed capacity or not. There is a potential distortion when using MIC/no MIC as consumers migrate to HH settlement, but Measurement Classes have not been fully evaluated as a possible solution. Alignment between a consumer's distribution band and transmission band is desirable but, given that charging boundaries will change with different price control periods, it is impossible to guarantee. The possibility that using MIC/no MIC could cause a customer to fall into different bands is therefore not enough to justify deviating from the Direction.
10	Should UMS be included in the banding structure (e.g. LV no MIC) or charged separately on a volumetric basis?	Including UMS could distort the LV no MIC band, and consistency between the DNOs and the ESO is desirable. In the Direction, UMS are described separately to other consumers [*"there will be a set of single fixed TNUoS residual charges for distribution-connected consumers for each of the following distribution-connected groups* ***(except unmetered supplies)****"* Direction paragraph 20, emphasis added] which suggests it is Ofgem's intention that they be charged separately. They should therefore not be included in the banding structure.
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?	On treatment of areas with negative locational tariffs: The high value of the residual charged over Triad periods was identified as causing a market distortion, as consumers who could were avoiding importing. The locational signal from the transport model is for demand in certain zones to increase at peak times (so have a negative tariff), but this signal has been distorted by the residual. If there is no floor, consumers in those zones will go from receiving a (relatively weak) signal to reduce demand, coming from the residual, to a signal to increase demand at system peak. To a consumer receiving a local, operational signal, the absence of a floor will cause a reversal from the current baseline. This was not indicated as the intention on the TCR. In the TCR Decision document, Ofgem state *"As per today we would expect appropriate arrangements to*

		prevent perverse incentives to hoard capacity or increase through negative charges" (3.52), which supports the £0 floor described in the CUSC currently in 14.17.3. It is not clear if there will be repercussions on the relevant distribution networks if local demand increases significantly due to removal of the floor, which would not align with the ESO's principle of coordinating across system boundaries to deliver efficient network planning and development. The workgroup attempted to investigate some alternatives, but the time scales required for CMP332 means it will be challenging to work them through fully. Changes to the Triad methodology are outside of the scope of the Modification and within the scope of the Access and Forward-Looking Charges SCR. Given any proposed changes from the Access & Forward-Looking Charges SCR will be implemented by April 2023, removing or keeping a £0 floor should be viewed as an interim solution, and therefore, in the absence of any clear consumer harm/benefit, should be the least change. All three suggested options in the Workgroup report have significant disadvantages. Option 1 distorts the locational signal because of the residual, which was part of the distortion the TCR was addressing. Option 2 is a significant change to the current charging methodology and would require development and analysis, which would jeopardise the April 2021 deadline for this Modification. Option 3 would apply a flat uplift to all locational tariffs, which is what the residual is currently and so would be directly against the TCR decision.