

Alternative Request Proposal Form	At what stage is this document in the process?
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CMP317/327:

‘Identification and exclusion of Assets Required for Connection when setting Generator Transmission Network Use of System (TNUoS) charges’ and ‘Removing the Generator Residual from TNUoS Charges (TCR)’

01	Proposed Alternative
02	Proposed Workgroup Alternative

Purpose of Alternative:

The definition of assets required for connection is

all local circuits and local substations except for pre-existing assets and shared assets.

The CMP317/327 Original does not attempt to address key issues that clearly do need to be addressed based on the TCR Direction, the CMP261 determination and subsequent CMP261 CMA Appeal decision.

The NGESO proposes an ‘assets required for connection’ approach which will incorrectly exclude both shared and pre-existing local assets from the Limiting Regulation compliance calculation.

The term “pre-existing system” was first used by Ofgem in its CMP261 Decision document, and was used subsequently by the CMA in its decision, at paragraph 5.94, on the Appeal of CMP261: *“It seems to us that ‘the system’ here must mean the system as it exists at the point that a new Generator wishes to be connected to it. Any assets that are then required by that new Generator for connection to that pre-existing system (such as Offshore GOS in the case of a new windfarm) are ones that fall within the Connection Exclusion, and such assets continue to be required by that Generator for connection to the pre-existing system even once the Generator is operational..”* The CMA went on to state in 5.82: *“The parties agreed that the interpretation of an EU instrument could not ordinarily depend on the approach taken in domestic law. We were referred to the Monsanto judgment of the CJEU,*

in which it was said that: The need for the uniform application of Community law and the principle of equality require that the terms of a provision of Community law which...makes no express reference to the law of the Member States for the purpose of determining its meaning and scope must normally be given an autonomous and uniform interpretation throughout the Community, which must take into account the context of that provision and the purpose of the legislation in question.” We believe this reinforces the need for the development of a robust compliant solution rather than one that just appears to be based on a simplistic overlay with the current structure of domestic regulations.

The expected Scottish Island links are all, if constructed, to be shared, not sole use. They also are most likely to be connected so as to serve demand, not just generation, and are certainly not for the purpose of a sole connected generator. The Original appears to conflict with the approach agreed at the CMA. It is incontrovertibly the case that the cost of local circuit charges related to these island links must be included in the Limiting Regulation compliance calculation.

This leads to the correct definition of physical assets required for connection is that which includes the charges for both shared and pre-existing local assets in the Limiting Regulation compliance calculation (i.e. shared and pre-existing local assets are not part of the Connection Exclusion). This means that the charges for local circuits and substations in respect of island links, or other physical assets, used by demand, or other Generators, must fall within the scope of the amount controlled by the Limiting Regulation.

Regardless of any estimate of the current materiality it is necessary for the solution to be fully compliant, rather than an expedient, non-compliant solution based on a simplistic overlay onto the current structure of domestic regulations.

In January 2020 the UK Government announced that they are considering various changes to ensure the CfD scheme is able to support the increase in ambition needed to deliver the government’s 2050 net zero target.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/869778/cfd-ar4-proposed-amendments-consultation.pdf

Following this Ofgem published their Decarbonisation Programme Action Plan in February stating in it that *“To achieve net zero will require a huge increase in renewable and low carbon electricity, especially to meet new sources of demand such as electric vehicles”*. They go on to say *“The current frameworks relating to developing and connecting offshore wind generation need to be reviewed in light of the government’s expectations for offshore wind. In 2019, the government stated its ambition of achieving a significant increase in offshore wind capacity by 2030 from the level of around 10GW currently. We do not consider that individual radial offshore transmission links for this amount of offshore generation are likely to be economical, sensible or acceptable for consumers and local communities. We are therefore working with government and industry to review the frameworks for connecting offshore wind generation and will explore whether a more coordinated offshore transmission system could reduce both financial and environmental*

costs”.

https://www.ofgem.gov.uk/system/files/docs/2020/02/ofg1190_decarbonisation_action_plan_revised.pdf

This indicates that the materiality of failing to use the correct definition of physical assets required for connection is due to be very significant in future so the CMP317/327 solution must include both shared and pre-existing local assets in the Limiting Regulation compliance calculation.

Amount to be targeted.

€0.00/MWh.

Error Margin

No error margin is required.

The current function of the error margin is to deal with variances from the forecasts, used for setting tariffs, to the outturn of the exchange rate and the total MWh generated, given the target is set at the top of the limiting range in the existing calculation. These risks are not present when targeting lower €/MWh values.

Phased Implementation

No, as Original.

BSC Costs

Yes

Congestion Costs

No, As Original

Two Step Ex Ante Adjustment

Yes

Date submitted to Code Administrator: 31/3/2020

You are: A Workgroup member

Workgroup vote outcome: WACM37

(Should your potential alternative become a formal alternative it will be allocated a reference)

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		Contact: Code Administrator
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1 Alternative proposed solution for workgroup review

The definition of assets required for connection is

all local circuits and local substations except for pre-existing assets and shared assets.

Amount to be targeted is

€0.00/MWh.

This alternative proposes that the revenue collected from transmission connected generation (TG) should be at the lowest end of the permissible range set in the Limiting Regulation. In its 2010 Impact Assessment undertaken prior to the Limiting Regulation being put into force the European Commission states: *“Overall there has been a tendency towards generation transmission charges being set at zero since the beginning of the liberalisation process in Europe....As generators can be expected include transmission charges they face in the price at which they sell electricity, changing the average charge to zero should in theory have no effect on relative prices within a particular system or on the final prices that customers pay for electricity...Many*

*respondents to the consultation process argued that significant beneficial impacts in terms of the effective functioning of the internal market which would result from harmonised transmission tariffication. **The general preference was to move towards a narrower range with an average charge of zero in the medium term***¹

Ten years on would appear to be the ‘medium term’ by which this aspirational goal could be delivered within GB. This has become much more important for GB as its interconnection capacity with Continental European markets has materially increased over the last decade and is set to increase further in the coming years. Average wider locational transmission charges of zero places GB TG in the most appropriate competitive position with other European generation, assisting the most economically efficient pan European dispatch of generation to satisfy GB demand.

Whilst the EC IA identified “*significant ‘negative charges’ (i.e. paying generators to use the transmission system) ...could lead to difficulties in implementation*”², no evidence has been provided that suggests this would be a practical issue. Local Charges for TG will in part offset any negative wider locational charges that a generator connecting into a negative charging zone would receive. These local charges were not part of transmission charges when the Limiting Regulation came into force so were not part of the context of the EC IA, and represent a contribution by TG to the costs of using the GB defined transmission system (NETS) which would continue to be paid.

Zero is a special number. Zero multiplied by anything =0. Therefore the tariffs which would be set to achieve average zero are not affected by changes to the £/€ exchange rate. Similarly zero divided by anything other than zero itself = 0. If TG pays zero charges on average then the tariffs set are not affected by volume risk (the TWh assumed to be transported across the transmission system in the year to assess compliance with the Limiting Regulation). This means there is no need for an error margin to be calculated in order to address these risks. Such an error margin would be necessary for any other average value. Having no necessity for an error margin therefore simplifies the calculation process used to derive the tariffs.

Setting average charges at zero at the same time as changing the tariff calculation for the purposes of these modifications could give a relatively smooth transition between the two calculation methodologies. Evidence provided to the Workgroup suggested the old calculation would result in forecast total receipts from TG in 2021/2 of £405.7m, compared with £430.0m from a calculation that treated charges for all local circuits and substations as “charges paid by producers for physical assets required for connection to the system” as stated in the Limiting Regulation but set average wider locational charges collected from TG to be zero. Such a difference of just 6% would suggest any transitional arrangements in implementation would not be necessary, meaning this could be introduced without phasing simply and efficiently with the minimum dislocation to charge levels that could undermine investor confidence.

¹Pg24-5 http://ec.europa.eu/smart-regulation/impact/ia_carried_out/docs/ia_2010/sec_2010_1075_en.pdf (document referenced by Ofgem in its CMP261 Decision)

² Pg25 *ibid*

Workgroup members agreed it was possible (if not certain) that defining all local charges to be “charges paid by producers for physical assets required for connection to the system” could exclude charges that should correctly be included within the calculation determining compliance with the range of the Limiting Regulation, as demonstrated by alternatives outlined in this document. There was no evidence provided or identified to suggest that local charges did not capture all charges that could be considered for assets required for connection to the system. Therefore there is an in-built buffer within the combination of these two alternative definitions of components which means that there is less case for including an error margin and the risk of breach of the lower end of the range of the Limiting Regulation is reduced.

Error Margin

No.

Phased Implementation

No, as Original.

BSC Costs

Yes. In accordance with Ofgem’s decision on P396, those BSC/Elexon costs which are considered to be network charges that are paid by generators shall be included for the purposes of calculating the annual average transmission charges paid by generators in GB in accordance with the limiting regulation.

‘We consider the Main Funding Share and SVA (Production) Funding Share charges recovered via BSC Charges to be network access charges for the purposes of the Electricity Regulation.’ [\(Ofgem Decision Letter on P396\)](#).

Congestion Costs

No

Two step Ex-ante adjustment

Yes.

- Take BSC/BSUoS costs into account on an ex ante basis
- Target €value for TNUoS(0/0.25/0.5/1.25)
 - Then take into account other relevant costs (BSC/BSUoS)
 - If average charges then breach range (€0-2.5), make an ex-ante adjustment

2 Difference between this proposal and Original

Definition of assets required for connection.

Assets required for connection are defined as local circuits and local substations except for pre-existing assets and shared assets where,

- Pre-existing assets are local circuits and/or local substations that existed prior to the connection of the new generator to the transmission network.

- Shared assets are local circuits and/or local substations that are used, or could be used just by switching without the need for new assets, by either (i) more than one generator or (ii) a single generator and at least one demand site that is directly transmission network connected.

This means that local circuit charges and local substation charges will not be excluded from the Limiting Regulation compliance calculation if they are for pre-existing assets and/or shared assets.

Amount to be targeted.

€0.00/MWh.

A £/kW compliance adjustment is applied to bring the average forecast revenue to €0/MWh across all TG in the same manner as the Transmission Generation Residual is now. Reconciliation, through the method proposed in the Original, will only be needed if the actual collected revenue breaches either end of the prescribed range, it being self-evident that breach of the lower end of the range is more likely.

Workgroup discussions included whether a change to the Reference Node in the NGENSO Transport Model (from weighted average demand to weighted average generation) could be a means to give effect to this option. Such an approach would be a means of achieving compliance with the Ofgem Direction of removing the Transmission Generation Residual, leaving only need for a de minimus compliance adjustment. This option was ruled out of scope by Ofgem as it was included in the scope of the concurrent AFLC SCR. Ofgem's position was in general supported within industry consultation responses to the Workgroup consultation.

Error Margin

No error margin is required.

The current function of the error margin is to deal with variances from the forecasts, used for setting tariffs, to the outturn of the exchange rate and the total MWh generated, given the target is set at the top of the limiting range in the existing calculation. These risks are not present when targeting lower €/MWh values.

Phased Implementation

No, as Original.

BSC Costs

In accordance with Ofgem's decision on P396, those BSC/Elexon costs which are considered to be network charges that are paid by generators shall be included for the purposes of calculating the annual average transmission charges paid by generators in GB in accordance with the limiting regulation.

'We consider the Main Funding Share and SVA (Production) Funding Share charges recovered via BSC Charges to be network access charges for the purposes of the Electricity Regulation.' ([Ofgem Decision Letter on P396](#)).

Two Factor Ex-Ante Adjustment

Yes.

- Take BSC/BSUoS costs into account on an ex ante basis

- Target €value for TNUoS(0/0.25/0.5/1.25)
 - Then take into account other relevant costs (BSC/BSUoS)
 - If average charges then breach range (€0-2.5), make an ex-ante adjustment

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;	Positive. It fulfils the SCR TCR direction from the Authority to remove the TGR whilst remaining compliant with the Limiting Regulation.
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);	neutral
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;	Positive. It fulfils the SCR TCR direction from the Authority to remove the TGR whilst remaining compliant with the Limiting Regulation.
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	Positive. It fulfils the SCR TCR direction from the Authority to remove the TGR whilst remaining compliant with the Limiting Regulation.
e. Promoting efficiency in the implementation and administration of the CUSC arrangements.	neutral

*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).

The Authority has directed CMP327 to be raised and implemented to enact their SCR TCR Decision in conjunction with CMP317.

4 Impacts and Other Considerations

This proposed alternative will impact the same parties, systems and processes as the original. Generators that pay TNUoS will be highly impacted, although less materially than the original solution.

Consumer Impacts

Consumer TNUoS values may be affected as where Generator TNUoS increases/decreases there is a commensurate decrease/increase in Demand TNUoS. This impact is likely to be less than the original.

5 Implementation

As the Original, this modification needs to be implemented by April 2021 to allow ESO to comply with the Direction letter published by The Authority on the 21st November 2019.

6 Legal Text

To be drafted by the workgroup and ESO.