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:	*Grace March grace.march@sembcorp.com*
Company Name:	*Sembcorp Energy UK*
Please express your views regarding the Workgroup Consultation, including rationale. ***(Please include any issues, suggestions or queries)***	

Standard Workgroup Consultation questions

Q	***Question***	***Response***
1	*Do you believe that CMP317/CMP327 Original Proposals better facilitates the Applicable CUSC Objectives?*	a) On balance, yes The Original proposal minimises the negative adjustment needed to maintain compliance with EU Limiting Regulation and removes the Transmission Generation Residual (TGR) and so removes a distortion between Transmission and Distribution Connected generation identified by Ofgem in the Targeted Charging Review (TCR). The result is a significant increase from previous forecasted TNUoS tariffs, which places a great deal of uncertainty onto Tx generators, which Dx generators are not facing. GB already has higher transmission charges on generation that most EU Member states, and the €2.50/MWh cap is higher than all of Europe except

		the Irish Single Electricity Market. The original proposal will take charges to the top of this range and so will create a distortion for cross border trade, so potentially inhibiting GB Tx generation from cross border trade. It seems more likely that the increase in TNUoS is likely to be reflected in Capacity Market prices than the half hourly wholesale market. b) None c) Yes This proposal satisfies the Direction put upon the ESO by Ofgem as a result of the TCR. d) Yes This proposal is about correct implementation of EU Regulation 838/2010 Part B (the Limiting Regulation) and ensuring compliance and a suitable reconciliation mechanism, should a breach occur. e) None
2	Do you support the proposed implementation approach?	The Original Proposal would see a fairly sudden and material shift in generation TNUoS charges, in a year which will see other key modifications implemented, most notably CMP324/5. However, a phased implantation would risk interfering with the outcomes of the Reform of Access and Forward Looking Charges (RAFLC) SCR.
3	Do you have any other comments?	The definition of the Connection Exclusion is complicated and, due to the tight timescale for implementation, the immediate practicality of any solution is more important than would normally be expected for a Modification of this impact.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	I intend to raise version v) from Table 8.1 in the Workgroup consultation. This would take the total proportion of revenue from Generation to 21% in 2021/2, from the baseline of 13%. I believe this is the most pragmatic solution. The definition of All local circuits and substations is the only practical correct definition within the dates directed by Ofgem. A clear target gives stability to generation charges and targeting the middle of the range minimises risk of non-compliance. There is no need for an error margin, meaning the calculation of charges will not be distorted by historic events. Lower targets may facilitate cross-border competition, but the Targeted Charging review identifies a large negative TGR as distorting domestic competition. A target of €1.25/MWh will reduce the domestic distortion, whilst limiting the sudden increase to generation charges. It therefore doesn't need a phased implementation approach and would not risk interfering with implementation of the RAFCL SCR.

Specific CMP317/327 questions

Q	Question	Response
5	<u>Definition of physical assets required for connection to the system</u> a) Do you agree with the three options identified in Section 4, Paragraphs 2.1-2.4? If so, which do you prefer, and why? b) Is there another option you think should be considered, and why? Please provide evidence if possible.	a) "All local circuits and substations" (2.2 in the consultation document) is a broad definition but most straightforward. Given the timescales this Modification must met in order to avoid non-compliance (either with the Limiting Regulation or Ofgem's Direction), this would be most practical whilst being compliant. Attempting to define "pre-existing" assets would be challenging, although the decision flow presented in 2.4.8 of the Workgroup consultation would give a method. As the decision would have to made on a case by case basis, it would be hard for that decision to be transparent. It would also make the overall charging methodology much harder for consumers to understand. Generator Only Spurs are used throughout the CMA decision as an example, so the definition should include, but not limited to, GOS. I therefore think that the definition described in 2.2 of the Workgroup consultation ("All local circuits & local substations) complies with the Limiting Regulation and is most suitable for this modification, taking the implementation date into account. b) Given the close implementation date, if the ESO continues to advise that identifying pre-existing assets is not possible in time, it may be possible to have a definition that changes later in time. The initial definition could be "All local circuits & substations except for shared assets", changing to "All local circuits & substations except for shared and pre-existing assets" a year after implementation. This would mean the immediate risk of non-compliance is removed, whilst the eventual solution is tightly compliant with the Limiting Regulation.
6	<u>Amount targeted (G average)</u> 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? b) Is there another option you think should be considered, and why? Please provide evidence if possible.	a) The purpose of the Limiting Regulation is to facilitate a level playing field between member states, and as such, generation charges should be comparable to other member states. Looking at existing and planned Interconnectors, 9.8GW of capacity is connected to transmission systems capped at €0.50/MWh, 1.4GW to transmission systems capped at €1.2GW and 1.5GW connected to Ireland & Northern Ireland, which has the came cap and floor as Great Britain. There is potentially significant distortion to cross-border trade if charges are near the top of the range. When a target is not explicitly stated, the absolute value is dictated by the Reference Node and as such, in the absence of any change due to the

		RAFLC SCR, pushes charges to the top of the allowed range. A lower target, between €0 and €0.50/MWh is compliant with the Limiting Regulation, both the wording and the intent, and removes a cross-border distortion. The original solution increases the revenue recovered from generators by over £5/kW. Changes to the reference Node as part of the RAFLC SCR may reverse this change and such significant swings over a short time period are not in consumers' best interest, as uncertainty decreases investment and pushes up prices. I therefore believe a target of €0/MWh or €0.50/MWh would retain cost-reflectivity in locational charging and facilitate cross-border competition, as well as offering stability for forecasting future charges. However, a target of close to €0/MWh would require a negative compliance adjustment similar to the current negative TGR, which Ofgem have identified as a distortion between Distribution and Transmission connected generation. I do not believe any improvement to cross border flows, which are distorted by a number of signals including differing carbon prices, would justify keeping the existing distortion in the domestic market. The target of €1.25/MWh would significantly negate the risk of non-compliance, being in the centre of the range. It strikes a compromise between facilitating cross border flows and levelling the playing field for domestic generation. b) The Workgroup has discussed every sensible option around targeting.
7	<u>Error Margin</u> a) Do you agree with the two options highlighted in section 4, paragraph 4 in regards to the inclusion of an error margin? b) Is there another way to calculate the methodology for an Error margin? Please provide evidence if possible.	The need for an error margin depends on the target being used (if at all). Any error margin should be evidence based, as deciding a fixed buffer (giving rise to a fixed range, such as €0.50-€2.00/MWh) may be pragmatic in the short-term, but could lead to unintended consequences in the future, especially if the exchange rate changes significantly, or EU-wide charges become closer to €0. Industry has seen how fixed values in the CUSC need to be revised (for example the ±1/kW difference between nodes in forming charging zones), so if a fixed buffer is set, there should be a process or timeline for revision, e.g. at the beginning of a new price control period. The risk of breaching the floor is significantly smaller

		than breaching the cap, so a symmetrical error margin or buffer is not necessary. Given that generation in many member states pay no transmission charges, building in an error margin at the lower end could create a distortion between markets. Setting a target in the middle or at the lower end of the range removes or reduces the need for an error margin, whilst still maintaining compliance. Error margins based on historic outturn risk being distorted by high unusual events, so I would suggest a process similar to calculating a Generator's ALF, where the highest and lowest errors from previous years are removed.
8	<u>Implementation</u> 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.	A phased implementation approach depends on the solution. A target that results in a reasonably small change to the current charging level can be enacted immediately, in line with the Direction from Ofgem and the TCR, which stated an implementation date of April 2021. Removal of the Transmission Generation Residual was clearly signposted through the Targeted Charging Review. The industry was also alerted to the issue of non-compliance, due to incorrect exclusions, through ESO stakeholder work. It is not clear that the industry realises the effect of both this changes together. It is possible that some industry parties interpreted the allowance of "an adjustment to ensure compliance" in the TCR to be similar to the negative TGR and therefore would not have prepared for the materiality of the proposed ESO solution. Given there will be significant changes to charges as a result of the RAFLC SCR in April 2023, a phased change would risk interfering with the implementation of those changes and create confusion amongst users attempting to understand and forecast their charges. In the interests of transparency and reducing uncertainty, a solution that does not require phased implementation would be more appropriate.
9	<u>Modules</u> The workgroup have identified a number of permutations in Section 4, Paragraph 8 that could work as possible alternative solutions. a) Do you think any of the modular combinations	In practice, it seems likely that vi) and ix) will be extremely similar, depending on the how the error margin is defined. I do not believe an error margin is needed for a target of €1.25/MWh, €0.50/MWh or €0/MWh and therefore consider ix) unnecessary.

	are incompatible? b) Is there an additional module combination that you think should be considered? If so, please provide justification.	
10	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.	Where island links connect demand, the physical assets are not solely for use of the generators and therefore it can be argued they should be included in the Limiting Regulation. In the interest of transparency, it would be more practical to treat all island links the same. Given the short time scales for this modification, island links should be treated as other local circuits and be part of the Connection Exclusion. If a more complex definition is decided on, such as that described in 2.4, then the decision flow in 2.4.8 should treat island links on a case by case basis.
11	In section 4 paragraph 6, the workgroup has identified its consideration of the Reference Node. a) Do you have any evidence that would support solutions which include the Reference Node? b) Do you have any views on the Workgroup progressing this work alongside the Access and Forward Looking Charges SCR?	Solutions using the reference code could provide elegant solutions that retain cost reflectivity for a number of current Modifications ongoing, including this one. It could be done in such a way as to minimise an adjustment whilst remaining compliant. However, any solution using the reference node is likely to have wide-ranging impacts across all users and market implications. A modification with a tight timeline whilst the industry is busy with other ongoing changes is not an appropriate forum. The rate of changes to network charging is alarming, but Ofgem clearly feel there would be consumer harm by allowing the identified distortions to continue.