Alternative Request Proposal Form	At what stage is this document in the process?
# 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

Generator Only Spurs. Generator Only Spurs are to be defined as transmission assets which are used solely by a specific generator to allow it to export to, or import from, the rest of the transmission system. The rationale for this is that any asset which is shared with another generator or with demand should be considered as wider network and not a connection asset. This is because in the absence of the particular generator, the asset would still be needed to serve the other generator or demand. Therefore, if the assets would exist anyway, they cannot be regarded as necessary for the connection of the generator to the transmission system. This is the same logic as exists for the rest of the transmission system. That is, its use is shared across multiple users which is why it cannot be considered as forming part of connection assets needed for a specific generator.

For the avoidance of doubt, the concept of an asset existing anyway does not refer to stranded assets. That is, if existing redundant assets become sole use for a generator which subsequently connects they will still be regarded as part of a Generator Only Spur. Similarly, assets can change status. Therefore, if a sole use asset starts to be shared with another generator or demand, then it will cease to be part of a Generator Only Spur. Similarly, if shared assets become sole use for a specific generator due to another

generator permanently disconnecting from the system, then they will be regarded as Generator Only Spur assets.

Below is suggested legal text highlighting red coloured changes from the Competition and Markets Authority published decision, p11 which in footnote 24 sources this original text from Ofgem's reply[1]:

Offshore GOS

"~~3.10 A typical OFTO's assets~~ In terms of an offshore generator, a spur consists of (a) an offshore substation (the Offshore Local Substation); and (b) subsea cables, that is not shared with demand, or another generator, which run from the Offshore Local Substation to an onshore substation, from where electricity can be transmitted towards its ultimate users. Such a link, i.e. the Offshore Local Substation and the subsea cable, ~~was referred to by the Parties as~~ is an Offshore Generation Only Spur (Offshore GOS)."

Onshore GOS

"~~3.10 A typical OFTO's assets~~ In terms of an onshore generator, a spur consists of (a) an ~~off~~ onshore substation (the ~~Off~~ Onshore Local Substation); and (b) ~~subsea~~ underground cables, or overhead line that is not shared with demand, or another generator, which run from the ~~Off~~ Onshore Local Substation to an onshore substation, from where electricity can be transmitted towards its ultimate users. Such a link, i.e. the ~~Off~~ Onshore Local Substation and the ~~subsea~~ underground cable or overhead line, ~~was referred to by the Parties as~~ is an ~~Off~~ Onshore Generation Only Spur (~~Off~~ Onshore GOS)."

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

Yes

[1] https://assets.publishing.service.gov.uk/media/5a95295de5274a5b849d3ad0/EDF-SEE-decision-and-order.pdf

Two Step Ex Ante Adjustment

Yes

Date submitted to Code Administrator: 31/3/2020

You are: A Workgroup member

Workgroup vote outcome: WACM72

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

Contents

Any questions?

Contact:
Code Administrator

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1 Alternative proposed solution for workgroup review

The definition of assets required for connection is

generator only spurs.

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 tarification.* ***The general preference was to move towards*** *a narrower range with an average charge of* ***zero in the medium term***"[2]

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*[3]", 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

[2]Pg24-5 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)

[3] Pg25 ibid

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.

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

Yes. As set out in paragraphs 3.1-3.3 of Annex X 'insert title & date', BSUoS costs that are charged to generators, excluding ancillary services, shall be included for the purposes of calculating the annual average transmission charges paid by generators in GB in accordance with the limiting regulation.

Ancillary services are defined in Regulation 2019/944 - Article 2: Definitions (48). 'Ancillary Service' means a service necessary for the operation of a transmission or distribution system, including balancing and non-frequency ancillary services, but not including congestion management. Note that this definition specifically excludes "congestion management".

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.

Generator only spurs.

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 NGESO 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.

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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	neutral

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;	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.

