

| Alternative Request Proposal Form | At what stage is this document in the process? |
|---|--|
| <h1 data-bbox="165 331 817 421">CMP317/327:</h1> <p data-bbox="165 461 1072 1039">‘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)’</p> | <div data-bbox="1182 309 1481 501"> <div data-bbox="1182 309 1257 389">01</div> <div data-bbox="1265 309 1481 389">Proposed Alternative</div> <div data-bbox="1182 421 1257 501">02</div> <div data-bbox="1265 421 1481 501">Proposed Workgroup Alternative</div> </div> |
| <p data-bbox="165 1144 520 1178">Purpose of Alternative:</p> <p data-bbox="150 1209 852 1243">The definition of assets required for connection is</p> <p data-bbox="197 1272 959 1305">as the Original, all local circuits and local substations.</p> <p data-bbox="150 1337 477 1370">Amount to be targeted.</p> <p data-bbox="150 1400 373 1433">1) €1.25/MWh.</p> <p data-bbox="197 1462 1477 1787">This proposed alternative reduces the negative adjustment from baseline, which was identified as a distortion between Dx and Tx generation in the TCR. Reducing this adjustment, from the current TGR to an adjustment to reach €1.25/MWh, will improve competition between Dx ad Tx generation. A set target will provide stability for future generation costs and setting a target in the middle will mitigate against material swings to generation charges, especially as charges may change in 2023 due to the reference node being in scope of the Reform of Access and Forward Looking Charges SCR.</p> <p data-bbox="197 1816 1445 1895">It fulfils the Direction by Ofgem to remove the Transmission Generation Residual, whilst remaining compliant to the Limiting Regulation using a compliance adjustment.</p> <p data-bbox="197 1924 1477 2056">It reduces the risk of non-compliance with the Limiting Regulation by setting a target in the middle of allowed range. It also puts a reconciliation process in place, should forecasting error result in a breach of the allowed range in either direction.</p> | |

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

Implementation is to be phased over 2 years.

Ofgem provided industry with a range of possible implementation dates and therefore it was impossible to reflect this uncertainty within commercial arrangements, specifically Capacity Market Auction bids. The proposed implementation date of 1st April 2021 was given in Ofgem's November 2019 TCR Decision. This notice was too late for generators that had already been successful in the Capacity Market auction for the 2021/22 delivery year.

It is appropriate to phase the implementation of this material change over 2 years, which is consistent to other material network charging reforms such as CMP264/5. Ofgem stated in their decision letter for CMP264/5 that "*Allowing a phased introduction of this significant change will provide time for investors and generators to adapt their despatch and business models.*"

There is also credible evidence from respectable trade/industry commentators that clearly shows participants failed to correctly understand Ofgem's determination to set TGR=0. This has led to underestimating the potential impact on generators.

Date submitted to Code Administrator: 31/3/2020

You are: A Workgroup member

Workgroup vote outcome: WACM6

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

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1 Alternative proposed solution for workgroup review

The definition of assets required for connection is

as the Original, all local circuits and local substations.

Amount to be targeted is

€1.25/MWh.

The Limiting Regulation specifies a range of €0/MWh to €2.50MWh and Ofgem have directed the removal of the Transmission Generation Residual, whilst allowing an adjustment to remain compliant with the Limiting Regulation. This alternative solution proposes that the revenue from generation that falls into the allowed range be set at €1.25/MWh. This reduces the negative adjustment required, and so the distortion identified by Ofgem in the TCR, whilst remaining compliant and reducing material swings to generation charges, especially given that charges are likely to change in 2023 with the Reform of Access and Forward Looking Charges SCR.

Because the revenue recovery is targeted to the middle of the range, the risk of non-compliance is minimised, and an error margin is not needed to adjust either higher or lower in the range.

Error Margin

No.

Phased Implementation

The implementation would be phased over 2 years, in a similar way to CMP264/5.

2 Difference between this proposal and Original

Definition of assets required for connection.

As Original, all local circuits and local substations.

Amount to be targeted.

€1.25/MWh. A compliance adjustment is then applied to bring the remaining forecast revenue to €1.25/MWh to all generators in the same manner as the Transmission Generation Residual is now. Reconciliation, through the method proposed in the residual, will only be needed if the actual collected revenue breaches either end of the prescribed range.

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

The implementation would be phased over 2 years, in a similar way to CMP264/5.

- In the First Charging year following the implementation date of CMP 317/327 the TGR value used to set generator tariffs will be $\frac{1}{2}$ XTGR with a corresponding adjustment to TDR.
- In the Second charging year following the implementation date of CMP 317/327 and every subsequent charging year the TGR value used to set generator tariffs will be zero.
- Where XTGR = Forecast value of generator residual (TGR) for the relevant charging year forecast by the ESO ('The Company') in March 2019 using the Limiting Regulation compliance calculation methodology that was in place in the year prior to implementation of CMP 317/327. i.e. for charging year 2021/22 XTGR = -£5.56/kW

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

Phased Implementation

The implementation would be phased over 2 years, in a similar way to CMP264/5.

- In the First Charging year following the implementation date of CMP 317/327 the TGR value used to set generator tariffs will be $\frac{1}{2}$ XTGR with a corresponding adjustment to TDR.
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6 Legal Text

To be drafted by the workgroup and ESO.