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:	*Bill Reed, bill.reed@rwe.com, 07795355310*
Company Name:	*RWE Supply & Trading GmbH*
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?*	**CMP317** We agree that for purpose of compliance with the Limiting Regulation annual average generation charges payable by generation should comprise wider components (Wider Peak Security Component, Wider Year Round Not-shared component and Wider Year Round component) of generation TNUoS tariffs as set out in Clause 14.15.2 of the CUSC. We agree that the local components (local substation charges and on-shore local circuit charges and Offshore local circuit charges)] of generation TNUoS

		tariffs set out in Clause 14.15.2 comprise charges paid by generation for physical assets required for connection or the upgrade of the connection from local components as envisaged under the Limiting Regulation. Consequently we agree that the original proposal under CMP317 better facilitates Objective (d) of the CUSC with regard to compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. **CMP327** The Original proposal does not better deliver Objective A of the CUSC with regard to the facilitation of competition. The ESO has interpreted the Direction from Ofgem under the Targeted Charging Review (TCR) Significant Code Review (SCR) with regard to the treatment of "applicable" charges for generation as requiring the applying to the wider components of generation TNUoS tariffs without consideration of the effects on competition. There are several aspects of this proposal which impact detrimentally on competition. These are: 1. The proposed treatment of the "applicable" generation tariffs results in significant cost recovery from transmission connected generation. This creates unjustified differences in treatment between transmission connected generation and generation connected to the distribution networks; and 2. The proposed treatment requires the application of an adjustment to cap generation charges at the upper limit of the Limiting Range. Consideration should be given to the effects of the adjustment factor and the resultant tariffs on competition. The adjustment factor can set generation tariffs to recover zero revenue from generation, with beneficial effects on competition; and 3. The proposed treatment of the applicable tariffs does not take into account the work being undertaken as part of the Access and Forward Looking Charges Significant Code Review which is seeing to address the level playing field issues identified as part of the current charging regime. There is a significant risk that any change under CMP327 could be implemented on a temporary basis causing material volatility in Generation transmission charges. The resultant significant short term costs cannot be recovered by generators in the energy and

		capacity Market creating a risk that cannot be hedged thereby distorting competition; and 4. The proposed treatment of the applicable tariffs for generators will introduce a significant short term distortion to cross border trade since annual average generation charges in GB will be significantly higher than similar charges in other European markets.
2	Do you support the proposed implementation approach?	**CMP317** We support the implementation approach with regard to CMP317 which essentially requires a reclassification of existing transmission charges for the purpose of compliance with the Limiting Regulation. **CMP327** We do not support the implementation approach with regard to CMP327 which simply applies the applicable wider generation tariffs and requires an adjustment mechanism. Our preference is to set applicable charges for generators to recover zero revenue by setting the generation/demand split to 0%/100%. This ensures zero revenue recovery from generation wider tariffs under CMP327 as an interim measure pending the outcome of Access and Forward Looking Charges Significant Code Review.
3	Do you have any other comments?	We have no other comments on the modification proposals.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Our preference is for a Workgroup Consultation Alternative which implements CMP317 with a target of zero or close to zero revenue recovery from generation wider tariffs. We have set out our preference and a potential solution under Annex 6 of the Consultation. The solution is achieved by setting the generation/demand split to 0%/100% using the existing CUSC methodology.

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	<u>Question A:</u> We note the options identified under paragraphs 2.1 - 2.4. Our preference is that annual average generation charges payable by generation should comprise wider components (Wider Peak Security

	so, which do you prefer, and why? b) Is there another option you think should be considered, and why? Please provide evidence if possible.	Component, Wider Year Round Not-shared component and Wider Year Round component) of generation TNUoS tariffs as set out in Clause 14.15.2. We note the discussion on further definitions of charges. We do not believe that they are required if the local components (local substation charges and on-shore local circuit charges and Offshore local circuit charges)] of generation TNUoS tariffs set out in Clause 14.15.2 are determined under the CUSC to comprise charges paid by generation for physical assets required for connection or the upgrade of the connection from local components as envisaged under the Limiting Regulation. We believe such an outcome is compliant with the Limiting Regulation. <u>Question B:</u> We do not support the development of any other options.
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.	<u>Question A:</u> We note the four options highlighted in section 4, paragraph 3 regarding the range targeted to achieve compliance. Our preference is to introduce a target that is zero or close to zero revenue recovery from generation wider tariffs under CMP327 as an interim measure pending the outcome of Access and Forward Looking Charges Significant Code Review. <u>Question B:</u> We do not think there are any other options which should be considered.
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.	<u>Question A:</u> We agree with the two options identified in Section 4 paragraph 4. Our preference is to introduce a target that is zero or close to zero revenue recovery from generation wider tariffs under CMP327 as an interim measure pending the outcome of Access and Forward Looking Charges Significant Code Review. The targeting of zero or close to zero revenue recovery from generation wider tariffs will not require an error margin (though there may be a need for some limited ex post adjustments). <u>Question B:</u> We do not believe that there are any other feasible

		approaches to setting the error margin.
8	Implementation 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.	We may support a phased implementation approach with regard to CMP327 which could apply to the applicable wider generation tariffs for an interim period. However this gives rise to compliance concerns under the Limiting Regulation. Our preference is to introduce a target that is zero or close to zero revenue recovery from generation wider tariffs under CMP327 as an interim measure pending the outcome of Access and Forward Looking Charges Significant Code Review.
9	Modules 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 are incompatible? b) Is there an additional module combination that you think should be considered? If so, please provide justification.	Question A: We note the modules identified. We think that the simplest approach is to define annual average generation charges payable by generation as the wider components (Wider Peak Security Component, Wider Year Round Not-shared component and Wider Year Round component) of generation TNUoS tariffs as set out in Clause 14.15.2 under CMP317. CMP327 should establish a target revenue target that is zero or close to zero revenue recovery from generation wider tariffs (by setting the generation/demand split at 0%:100%). Question B: We do not believe that there have any additional module combinations under CMP317 and CMP327.
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.	We note the discussion on the island links under CMP317 and CMP327. The treatment the island links in the CUSC charging methodology (i.e. whether they are subject to local or wider charges) requires resolution outside CMP317 and CMP327. Once the applicable charges for the island links have been identified the definitions adopted under CMP317 for the purpose of the Limiting Regulation (i.e. in relation to annual average generation charges payable by generation and charges paid by generation for physical assets required for connection or the upgrade of the connection from local components) should be applied.

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?	Question A: Revenue recovery from the applicable wider generation charges is influenced by the treatment of the Reference Node in the charging methodology. The current treatment of the distributed reference node in the CUSC methodology results in cost recovery from wider generation charges and zero cost recovery from demand locational charges. We note that a distributed generation reference node would result in a reverse outcome (i.e. cost recovery from demand locational charges and zero cost recovery from generation wider charges). Consequently the cost recovery element of the model is essentially arbitrary and distorts the level playing field between generation and demand locational charges. This situation is unsustainable and requires review as part of the Access and Forward Looking Charges SCR. As an interim measure wider generation locational charges should target zero revenue recovery (by setting the generation/demand split to 0%/100%). Question B: Our preference is to introduce a target that is zero or close to zero revenue recovery from generation wider tariffs under CMP327 as an interim measure pending the outcome of Access and Forward Looking Charges Significant Code Review which will consider the treatment of the reference node.