

## 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](mailto: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](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

<b>Respondent:</b>	Andrew Rimmer  <a href="mailto:andrew.rimmer@engie.com">andrew.rimmer@engie.com</a>
<b>Company Name:</b>	First Hydro Company
<b>Please express your views regarding the Workgroup Consultation, including rationale.  (Please include any issues, suggestions or queries)</b>	

### Standard Workgroup Consultation questions

<b>Q</b>	<b>Question</b>	<b>Response</b>
1	Do you believe that CMP317/CMP327 Original Proposals better facilitates the Applicable CUSC Objectives?	For reference the applicable CUSC objectives are:  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;

		<p>b) <i>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);</i></p> <p>c) <i>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;</i></p> <p>d) <i>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</i></p> <p>e) <i>Promoting efficiency in the implementation and administration of the CUSC arrangements.</i></p> <p><i>*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).</i></p> <p>No.</p> <p>Establishing the exact assets to be excluded (when assessing compliance with the Limiting Regulation) is clearly difficult. It is recognised that the original proposal excludes too much. Therefore, unless the amount targeted is altered then generators will pay too much. The original proposal does not address this aspect.</p>
2	Do you support the proposed implementation approach?	<p>If the original was to be implemented, then a phased approach to the implementation should be taken.</p> <p>The ex-post reconciliation method is fine.</p>
3	Do you have any other comments?	See answers to the questions below.

4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.
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**Specific CMP317/327 questions**

Q	Question	Response
5	<p><u>Definition of physical assets required for connection to the system</u></p> <p>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?</p> <p>b) Is there another option you think should be considered, and why? Please provide evidence if possible.</p>	<p>There should be pragmatic approach taken to the implementation of Ofgem’s TCR SCR direction.</p> <p>The most pragmatic solution is to use all local circuits and substations (as described in paragraph 2.2). This would comply with objective (c). However, it should be noted that this would exclude too much from the calculation and this is a good reason to change the target amount to be recovered.</p> <p>There were extensive discussions in the workgroup on this topic that did not give a clear result. The subtleties of compliance with the Limiting Regulation are important and are well represented in the report. However, Ofgem’s direction must be delivered and a pragmatic solution would deliver CUSC objective (a).</p> <p>That being said, there are obvious difficulties in identifying the real cost of local circuits. The current ICRP methodology values the circuits based on a forward-looking bare asset value (excluding many of the real work costs). The Offshore TO cost are all inclusive so there may be merit in just excluding the offshore TO cost as there are the only ones that are known with certainty.</p>
6	<p><u>Amount targeted (G average)</u></p> <p>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?</p> <p>b) Is there another option you think should be considered, and why? Please provide evidence if possible.</p>	<p>G = 0 should be targeted. If all local circuits and substation charges are used as the basis for the “assets required for connection” then the assumption is that the absolute value recovered through the generation wider charges are appropriate (once the generation residual is removed). However, the wider charges (except the residual) establish a relative locational charge. The absolute value of these wider charges is essentially arbitrary, as it is a function of the choice of the reference node in the model. The wider charges are not a precise signal of exact, appropriate charges. Ofgem have acknowledged the potential distortion the choice of reference node can</p>

	<p>cause (as noted in the working group report).</p> <p>The reference node was changed to D=0 (a distributed node methodology) as part of Transmit to facilitate the two load flow methodologies in the model, without this change the two load flow outputs would have been mathematically difficult to combine in the early stages of the tariff calculation. During the Transmit process the Initial report of the Technical Working Group (Sep 2011), page 61, stated:</p> <p><i>“Currently a single reference node is selected. This selection is arbitrary as, due to the re-referencing process, only the relative locational charges are of relevance. However, due to the use of two background criteria in the Transport Model, the re-referencing process will become more involved. In order to simplify this revised re-referencing process as much as possible, it is proposed to use a distributed reference node rather than a single reference node. This would effectively split the incremental 1MW of demand from a single point to proportions on each demand node in the Transport Model. The proportion would be based on the background nodal demand in the model.”</i></p> <p>With a single load flow and simplistic assumptions setting the reference node to D=0 sets the collection (£m) from D to zero, and generation collection (£m) is based on the sum of the nodal incremental prices multiplied by the TEC at the node. This is a meaningless quantity and does not reflect the cost of the system; rather it reflects the cost if every node was subject to an increase in generation based of TEC at the marginal cost at these generation nodes.</p> <p>Given the dual load flows it is not possible to set a generation based distributed node but the overall effect of this can be achieved by getting G=0 after the collection phase by “re-referencing” prior to any further adjustments to collect the correct revenue.</p> <p>Given this aspect of the model then the most appropriate thing to do is to target G (average) = 0. Failure to set G = 0 would mean a failure to comply with CUSC objective (b)</p> <p>By re-referencing the model to G=0 only and collecting the differential locational charge, this would fit with Ofgem’s principles of only charging generation forward looking charges; the current approach based on a distributed demand reference not does not fit with this principle.</p>
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		<p>Further, the original proposal results in a substantial increase in the overall contribution made by generation; G = 0 would have the additional benefit: there would not be a step change in the total charges being paid by generation. There would be no need for a phased transition period and there would be no financial shock for generation. That is, G = 0 is a pragmatic solution.</p>
7	<p><u>Error Margin</u></p> <p>a) Do you agree with the two options highlighted in section 4, paragraph 4 in regards to the inclusion of an error margin?</p> <p>b) Is there another way to calculate the methodology for an Error margin? Please provide evidence if possible.</p>	<p>If G= 0 is targeted, then there is no need for an error margin.</p> <p>If there is no target, then there is a requirement for an error margin. The same methodology as that currently employed should be used.</p>
8	<p><u>Implementation</u></p> <p>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.</p>	<p>If the original proposal is implemented, then a phased approach should be used. The original implies a substantial increase in the total charges paid by generators. When planning participation in certain markets (e.g. capacity market) then assumptions will have been made about the expected transmission charges. Whilst it should be acknowledged that transmission charges are subject to change (and therefore a risk) a phased implementation over three years would mitigate that risk to an appropriate degree (this has been used before).</p>
9	<p><u>Modules</u></p> <p>The workgroup have identified a number of permutations in Section 4, Paragraph 8 that could work as possible alternative solutions.</p> <p>a) Do you think any of the modular combinations are incompatible?</p> <p>b) Is there an additional module combination that you think should be considered? If so, please provide</p>	

	justification.	
10	<p>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.</p>	
11	<p>In section 4 paragraph 6, the workgroup has identified its consideration of the Reference Node.</p> <p>a) Do you have any evidence that would support solutions which include the Reference Node?</p> <p>b) Do you have any views on the Workgroup progressing this work alongside the Access and Forward Looking Charges SCR?</p>	<p>Changing the reference node is a possible and potentially elegant solution to several problems.</p> <p>Whilst changing the reference node is complex, a simplistic approach of re-referencing the location output from the model to G=0 prior to any other adjustments will achieve the same effect.</p> <p>It is not obvious that changing the reference node could be completed in the timeline necessary to deliver Ofgem's direction. Further, it is not clear that this should be completed within the workgroup. Rather, a separate process should be established or the question should be addressed through the Access and Forward-Looking Charges SCR.</p> <p>By re-referencing the model to G=0 only and collecting the differential locational charge would fit with Ofgem's principles of only charging generation forward looking charges; the current approach on a distributed demand reference node does not fit with this principle.</p> <p>However, the fact that this has been raised (and is a credible solution) does illustrate the problem discussed in question six.</p>