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:	Joseph Dunn *(joseph.dunn@scottishpower.com)*
Company Name:	***Scottish Power Renewables***
Please express your views regarding the Workgroup Consultation, including rationale. ***(Please include any issues, suggestions or queries)***	The amalgamated consultation recognises the significant interdependencies between CMP317 and CMP327 and the need for ongoing compliance with the Limiting Regulation (EU 838/2010). It is also recognised that the workgroup will "need to consider the most appropriate mechanisms to ensure compliance on an ongoing basis" (p.9). Given the technical complexities in changing the charging formula, it is crucial that in addition to reviewing ongoing compliance with the Limiting Regulation, the impacts of the modification are also reviewed and assessed on an ongoing basis. The consultation fails to provide evidence to demonstrate the effects of the proposals (alternatives and including the original) for CMP317/27 to enable the reader (without additional analysis) to understand their benefits or otherwise. As a result, it will be difficult for the majority of readers to recommend any of the proposals (or elements of the proposals) with the information contained in the consultation. As a minimum, it would be useful to be presented with each proposals' effects on forecast charges to enable comparative analysis and to consider the pros/cons of each proposal. Also, with the suggestion of implementing a change in reference node in section 4 paragraph 6, it would have been helpful for the

	ESO or others to provide information about what would happen if the reference node was to be changed to a distributed generation node - for both the current methodology and for each of the original and alternative proposals. While we acknowledge the difficulty involved with trying to simulate this change within the transport model, if it is to remain a consideration (and we believe it should), some level of detail needs to be provided in the consultation as to the impacts and effects. We do not believe that the correct approach has been taken to obtain robust legal advice following the CMA's decision to uphold GEMA's rejection of CMP261. There seems to be significant unresolved discussion on a satisfactory definition and, in order for this to be resolved, we believe specialist legal advice should be sought *(see our response to Question 3 'Do you have any other comments?' below).*

Standard Workgroup Consultation questions

Q	***Question***	***Response***
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;* **Negative** – the original will result in a sharp increase in generator charges that will impact investor confidence and create an instability that will affect risk appetite and therefore competition. Only in principle and in isolated consideration of the removal of the embedded disbenefit can this objective be positive. 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);* **None**

		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;* With the exception of carrying out Ofgem's direction under the TCR SCR, **none.** 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* **None** – please see point on 'legal advice' in our response to Question 3 'Do you have any other comments?'. e) *Promoting efficiency in the implementation and administration of the CUSC arrangements.* **Negative** – unless consideration of the reference node and wider potential implications and potential future effects of the AFLC SCR can be taken into account, the proposal would be contrary to promoting efficiency in the implementation and administration of the CUSC arrangements. **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).*
2	Do you support the proposed implementation approach?	No We note that the proposed implementation approach is purely to satisfy Ofgem's direction and that otherwise, it is likely that more time would have been spent considering the effects of the various options. Notwithstanding this, it is worth noting that we believe it should be of the obligation of this workgroup to liaise with the ESO in order that any and all scenario draft forecasts can be considered. It is hinted later in the consultation response that phased implementation may be an option however, further evidence or arguments should be provided by the workgroup (see response to Question 8 below)

3	Do you have any other comments?	<u>Stability of charges</u> We are concerned that the proposed modification (original and many of the alternatives) will lead to a material increase in transmission charges for generators. This may then be followed by a reduction in charges, depending on the outcome of Ofgem's work on the reference node in the context of AFLC SCR. Charging volatility should be avoided. Generators enter into long term PPAs, and an increase in charges may adversely affect the economic interests of generators and hence investor confidence. PPAs in some cases may contain provisions that allow for re-opening of charging for changes to network charges. Lack of stability in the charging regime requires that these provisions are employed more often, incurring material costs, including in some cases the instruction of experts. Generators are also continuing to negotiate PPAs. These include "corporate PPAs", under which generators sell the output of renewable projects. We understand Ofgem and the Government to be very supportive of this development, because it leads to the commissioning of additional renewable generation. In so doing it relieves pressure on the CfD budget and helps achieve the environmental outcomes that Ofgem supports. Uncertainty over future transmission charges makes the negotiation of such arrangements more difficult. In addition to the costs mentioned above, instability in the charging regime will also hamper new entry into the generation market, thus harming competition and the achievement of de-carbonisation targets. Against that background, the modification should be made in a way that maintains stability in generator charges. <u>Legal Advice</u> We urge the working group to obtain specific legal advice on the correct approach to be taken to the exclusion of charges from the calculation of annual average transmission charges in paragraph 1 part B of the Access Regulation (Regulation 714/2009). In particular, advice should be obtained on the 'connection exclusion' (charges paid by producers for

		physical assets required for connection to the system) following the CMA's decision upholding GEMA's rejection of CMP 261 *(EDF Energy/ SSE Generation v GEMA dated 26 February 2018)*. As the consultation notes, the CMA's decision "created the need for an explicit definition of Charges paid by producers for physical assets required for connection to the system (…'excluded charges') for the purposes of applying the Limiting Regulation" (paragraph 1.1.5). In our view, this is not a question that can be resolved without legal and technical expertise. It would therefore be an error to proceed with the modification without the benefit of specialist legal advice.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	If Ofgem concludes that the reference node should not be allowed to be considered by the CMP317/327 workgroup, we may consider raising an Alternative that allows for the later formal inclusion of a more permanent solution (potentially involving a change to the reference node), combined with a temporary fix until such time as the RAFLC SCR is concluded .

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) In the absence of robust legal advice and of the three options defined in paragraphs 2.1-2.4, our preference lies with paragraph 2.4 – *"All local circuits & local substations except for pre-existing assets and shared assets".* Despite the identification of the "pre-existing system" being a '*substantial*' task, it is the most correct option that has been considered (again in the absence of robust legal advice) for this modification and as such, the best option for ensuring compliance with the limiting regulation. b) No Comment
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?	a) We partially agree with the 4 options highlighted in section 4 paragraph 3. We believe the two main options are a) have no target within the range or b) target a value within the range. There are then a multitude of values that could be targeted – 0, 0.5 and 1.25 €/MWh being a reasonable selection.

	b) Is there another option you think should be considered, and why? Please provide evidence if possible.	Our strong preference is for €0/MWh for a number of reasons: i) To ensure generator charges do not sharply increase, significantly affecting existing generators who could not have taken additional costs into account ii) To maintain stability and protect investor confidence and maintain the existing level of competition iii) to ensure that there is a level playing field for cross border trade over interconnectors between the UK and Europe. The analysis presented in Annex 6 by Waters Wye consultants provides good arguments to target zero. With reference to the point made in 3.1.14, if workgroup members believe that targeting €0.00/MWh will result in an overall cost increase for consumers, it is essential that analysis is provided to support this as we cannot see how the argument is valid. Target of €0.50/MWh (section 3.1.19) - For an argument to be made that the need for ex-post reconciliation is less than when targeting €0.00/MWh, there needs to be some form of (quantitative) evidence to support this point. We are also doubtful of the point made in 3.1.19 about €0.50/MWh acting as an error margin for €0.00/MWh due to €0.50 being non-zero and giving way to both exchange rate and generation output risk. Therefore, if treating €0.50/MWh as a buffer/error margin for €0.00/MWh, what is the rationale for not targeting €0.00/MWh initially? Target of €1.25/MWh (section 3.1.21) - The idea of an equal margin for inaccuracies in forecasting is logical however with this being the only point for, or against targeting this value, then it doesn't carry enough benefits to prefer it over targeting €0.00/MWh. Once again – more evidence to analyse this is required. The point made at the foot of page 24 section 4, 3.1.17 concerning the reference node must remain to be a point of interest and one that we would be in favour of exploring, though more information and analysis is required to consider it properly.

		Otherwise, within the present confines of the current scope of 317/327, we do not seek to propose anything further than what has originally been proposed in Section 4 of the document. This is mainly due to our position being in favour of targeting €0.00/MWh.
7	Error Margin 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.	a) Yes, we agree with the options that an error margin can either be included or not included. It is so that the magnitude of this error margin will depend largely on the amount that is targeted in the selected proposal. For example, if €0.00/MWh is targeted then the need for an error margin is eliminated as there is no exchange rate risk and there is no volume risk. In our view there is no need for an error margin in the intermediate options either, i.e. €0.50/MWh and €1.25/MWh. However, if the top end value of €2.50/MWh is targeted, the risk of non-compliance increases and the an error margin is therefore justified. b) No Comment
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 agree that a phased implementation may be beneficial to generators across the system, depending on the solution adopted. If a solution targeting €0.0 is adopted, there will be less need for a phased implementation, but if a solution targeting the €2.50 end of the range is adopted, there will be sharp increase in generator charges and a strong case for phasing. A phased implementation would allow a smoother transition in terms of stability and predictability of charges. Also, when taking into account other changes happening on the system within the scope of the TCR and AFLC SCRs, a phased implementation, for transmission connected generators, would gesture slightly towards alleviating the adverse impact on investor confidence.
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	a) No, we do not believe any of the proposed options are incompatible. It would however be useful for the consultation to present quantitative insight into the €/MWh tariff that each proposal will produce over the next 5 years. Information in this regard would make it possible to form substantiated arguments for/against any of the proposed solutions.

	you think should be considered? If so, please provide justification.	b) While we are in favour of option ix, we would like to understand why targeting €0.00/MWh is thought to require an error margin. c) No, we are content with the range of options proposed within the consultation Section 4 paragraph 8. It is worth at this stage noting that our preferred scenarios from the table in section 8 are options: • iii • ix
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.	No Comment
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?	a) We understand that if the reference node were to be changed from distributed demand to distributed generation, this would have the consequence that average TNUoS wider charges for generators would approach zero (in the same way that demand charges average to zero with a distributed demand reference node). This is extremely relevant to CMP317/327 since it would ensure compliance with 838/2010 and negate the need for an ad-hoc charging adjustment. We also note that Ofgem has suggested that changing the reference node could reduce distortions between providers facing negative demand charges (DSR etc) and those facing positive generation charges. Furthermore, to the extent that a distributed demand node may in the past have been justified on the basis that demand was more 'fixed' than generation, we would note that the prospect of significant growth in 'green' hydrogen production to meet net zero targets could shift this balance. Accordingly, we think there is strong evidence to believe that an appropriate long term solution to CMP317/327 may involve changes to the reference node. b) We agree that including consideration of the reference node would significantly increase the complexity of the work to be undertaken by the workgroup. However, we think it is vitally important that the work is done, and the workgroup could be a good forum to progress this

		work, provided it has access to necessary modelling resources and expertise. It may also be necessary to extend the timescales for the workgroup if it is to be considered properly. In the alternative, if the reference node question is to be considered under the AFLC SCR, it is essential that the workgroup takes this into account in considering its recommendations. In these circumstances we think the workgroup should give additional weight to solutions at the €0.0/MWh end of the range, pending resolution of the reference node issue in the SCR. It would be highly undesirable from the perspective of the CUSC objectives for generator charges to increase sharply for 2 years (as would be the case for a solution at the €2.50/MWh end) and then fall back again with a change in the reference node.