

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 reply¹:

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.

€0.25/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.

Date submitted to Code Administrator: 31/3/2020

You are: A Workgroup member

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

Workgroup vote outcome: WACM10

(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

generator only spurs.

Amount to be targeted is

€0.25/MWh.

Workgroup meetings included discussions as to whether it was possible for average charges for TG to outturn below €0/MWh on average if zero were the value used to set

the tariffs ex ante. Whilst theoretical examples were raised, in practice no practical example was brought forward in evidence, and if it ever did occur in practice, the CUSC contains a reconciliation mechanism to correct charges ex post.

Notwithstanding, this alternative proposes a value that effectively sets a fixed error margin above €0/MWh when setting tariffs, providing a buffer to cover for a hypothetical case that the Workgroup could not identify where tariffs would otherwise be structurally set ex ante in non-compliance with the range in the Limiting Regulation. The value was proposed as the average of the alternatives (2) and (4).

The arguments justifying this alternative include those of option (2), noting that (i) a non-zero average value exposes the charges to exchange rate risk and volume risk but that these will change the magnitude of the charge, not its sign, so these cannot send a positive charge negative, (ii) the transition step in average charges faced by TG is greater and (iii) the long term competitive position of TG compared with European generation is not as favourable.

Error Margin

No.

Phased Implementation

No, as Original.

2 Difference between this proposal and Original

Definition of assets required for connection.

Generator only spurs.

Amount to be targeted.

€0.25/MWh.

A £/kW compliance adjustment is applied to bring the average forecast revenue to €0.25/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.

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.

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

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.