

<b>Alternative Request Proposal Form</b>	At what stage is this document in the process?
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# 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

all local circuits and local substations except for pre-existing assets and shared assets.

The CMP317/327 Original does not attempt to address key issues that clearly do need to be addressed based on the TCR Direction, the CMP261 determination and subsequent CMP261 CMA Appeal decision.

The NGESO proposes an ‘assets required for connection’ approach which will incorrectly exclude both shared and pre-existing local assets from the Limiting Regulation compliance calculation.

The term “pre-existing system” was first used by Ofgem in its CMP261 Decision document, and was used subsequently by the CMA in its decision, at paragraph 5.94, on the Appeal of CMP261: *“It seems to us that ‘the system’ here must mean the system as it exists at the point that a new Generator wishes to be connected to it. Any assets that are then required by that new Generator for connection to that pre-existing system (such as Offshore GOS in the case of a new windfarm) are ones that fall within the Connection Exclusion, and such assets continue to be required by that Generator for connection to the pre-existing system even once the Generator is operational..”* The CMA went on to state in 5.82: *“The parties agreed that the interpretation of an EU instrument could not ordinarily depend on the approach taken in domestic law. We were referred to the Monsanto judgment of the CJEU,*

*in which it was said that: The need for the uniform application of Community law and the principle of equality require that the terms of a provision of Community law which...makes no express reference to the law of the Member States for the purpose of determining its meaning and scope must normally be given an autonomous and uniform interpretation throughout the Community, which must take into account the context of that provision and the purpose of the legislation in question.”* We believe this reinforces the need for the development of a robust compliant solution rather than one that just appears to be based on a simplistic overlay with the current structure of domestic regulations.

The expected Scottish Island links are all, if constructed, to be shared, not sole use. They also are most likely to be connected so as to serve demand, not just generation, and are certainly not for the purpose of a sole connected generator. The Original appears to conflict with the approach agreed at the CMA. It is incontrovertibly the case that the cost of local circuit charges related to these island links must be included in the Limiting Regulation compliance calculation.

This leads to the correct definition of physical assets required for connection is that which includes the charges for both shared and pre-existing local assets in the Limiting Regulation compliance calculation (i.e. shared and pre-existing local assets are not part of the Connection Exclusion). This means that the charges for local circuits and substations in respect of island links, or other physical assets, used by demand, or other Generators, must fall within the scope of the amount controlled by the Limiting Regulation.

Regardless of any estimate of the current materiality it is necessary for the solution to be fully compliant, rather than an expedient, non-compliant solution based on a simplistic overlay onto the current structure of domestic regulations.

In January 2020 the UK Government announced that they are considering various changes to ensure the CfD scheme is able to support the increase in ambition needed to deliver the government’s 2050 net zero target.

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/869778/cfd-ar4-proposed-amendments-consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/869778/cfd-ar4-proposed-amendments-consultation.pdf)

Following this Ofgem published their Decarbonisation Programme Action Plan in February stating in it that *“To achieve net zero will require a huge increase in renewable and low carbon electricity, especially to meet new sources of demand such as electric vehicles”*. They go on to say *“The current frameworks relating to developing and connecting offshore wind generation need to be reviewed in light of the government’s expectations for offshore wind. In 2019, the government stated its ambition of achieving a significant increase in offshore wind capacity by 2030 from the level of around 10GW currently. We do not consider that individual radial offshore transmission links for this amount of offshore generation are likely to be economical, sensible or acceptable for consumers and local communities. We are therefore working with government and industry to review the frameworks for connecting offshore wind generation and will explore whether a more coordinated offshore transmission system could reduce both financial and environmental*

costs”.

[https://www.ofgem.gov.uk/system/files/docs/2020/02/ofg1190\\_decarbonisation\\_action\\_plan\\_revised.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/02/ofg1190_decarbonisation_action_plan_revised.pdf)

This indicates that the materiality of failing to use the correct definition of physical assets required for connection is due to be very significant in future so the CMP317/327 solution must include both shared and pre-existing local assets in the Limiting Regulation compliance calculation.

Amount to be targeted.

€1.25/MWh.

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 and 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.

It fulfils the Direction by Ofgem to remove the Transmission Generation Residual, whilst remaining compliant to the Limiting Regulation using a compliance adjustment.

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.

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 1<sup>st</sup> 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.

BSC Costs

Yes

Congestion Costs

No

Two Step Ex Ante Adjustment

Yes

**Date submitted to Code Administrator: 31/3/2020**

**You are: A Workgroup member**

**Workgroup vote outcome: WACM41**

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

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		 Contact: <b>Code Administrator</b>
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## 1 Alternative proposed solution for workgroup review

The definition of assets required for connection is

all local circuits and local substations except for pre-existing assets and shared assets.

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.

BSC Costs

Yes. In accordance with Ofgem's decision on P396, those BSC/Elexon costs which are considered to be network charges that are paid by generators shall be included for the purposes of calculating the annual average transmission charges paid by generators in GB in accordance with the limiting regulation.

'We consider the Main Funding Share and SVA (Production) Funding Share charges recovered via BSC Charges to be network access charges for the purposes of the Electricity Regulation.' ([Ofgem Decision Letter on P396](#)).

Congestion Costs

No.

Two Step Ex Ante Adjustment

Yes.

- Take BSC/BSUoS costs into account on an ex ante basis
- Target €value for TNUoS(0/0.25/0.5/1.25)
  - Then take into account other relevant costs (BSC/BSUoS)
  - If average charges then breach range (€0-2.5), make an ex-ante adjustment

## 2 Difference between this proposal and Original

Definition of assets required for connection.

Assets required for connection are defined as local circuits and local substations except for pre-existing assets and shared assets where,

- Pre-existing assets are local circuits and/or local substations that existed prior to the connection of the new generator to the transmission network.
- Shared assets are local circuits and/or local substations that are used, or could be used just by switching without the need for new assets, by either (i) more than one generator or (ii) a single generator and at least one demand site that is directly transmission network connected.

This means that local circuit charges and local substation charges will not be excluded from the Limiting Regulation compliance calculation if they are for pre-existing assets and/or shared assets.

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

### BSC Costs

In accordance with Ofgem’s decision on P396, those BSC/Elexon costs which are considered to be network charges that are paid by generators shall be included for the purposes of calculating the annual average transmission charges paid by generators in GB in accordance with the limiting regulation.

‘We consider the Main Funding Share and SVA (Production) Funding Share charges recovered via BSC Charges to be network access charges for the purposes of the Electricity Regulation.’ ([Ofgem Decision Letter on P396](#)).

### Two Step Ex Ante Adjustment

Yes.

- Take BSC/BSUoS costs into account on an ex ante basis
- Target €value for TNUoS(0/0.25/0.5/1.25)
  - Then take into account other relevant costs (BSC/BSUoS)
  - If average charges then breach range (€0-2.5), make an ex-ante adjustment

## 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	Positive. It fulfils the SCR TCR direction from the Authority to remove the TGR whilst remaining compliant with the Limiting

developments in transmission licensees' transmission businesses;	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.
- 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

## 6 Legal Text

To be drafted by the workgroup and ESO.