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 reply[1]:

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.

€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 ad 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.

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

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 1st 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

Yes

Two Step Ex Ante Adjustment

Yes

Date submitted to Code Administrator: 31/3/2020

You are: A Workgroup member

Workgroup vote outcome: WACM76

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

Contents

Any questions?

Contact:
Code Administrator

email address

telephone

Alternative Proposer(s):
John Tindal

john.tindal@sse.com

1 Alternative proposed solution for workgroup review

The definition of assets required for connection is

generator only spurs.

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

Yes. As set out in paragraphs 3.1-3.3 of Annex X 'insert title & date', BSUoS costs that are charged to generators, excluding ancillary services, shall be included for the purposes of calculating the annual average transmission charges paid by generators in GB in accordance with the limiting regulation.

Ancillary services are defined in Regulation 2019/944 - Article 2: Definitions (48). 'Ancillary Service' means a service necessary for the operation of a transmission or distribution system, including balancing and non-frequency ancillary services, but not including congestion management. Note that this definition specifically excludes "congestion management".

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.

Generator only spurs.

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 $^1/_2$ XTGR with a corresponding adjustment to TDR.
- In the Second charging year following the implementation date of CMP 317/327and 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.

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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 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

Phased Implementation

The implementation would be phased over 2 years, in a similar way to CMP264/5.

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6 Legal Text

To be drafted by the workgroup and ESO.

