

CUSC Code Administrator Consultation Response Proforma**CMP324/5 Generation Zones – changes for RIIO-T2 and Rezoning – CMP324 expansion**

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 to cusc.team@nationalgrideso.com by **5pm on 24 June 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Panel.

If you have any queries on the content of this consultation, please contact Joe Henry joseph.henry2@nationalgrideso.com or cusc.team@nationalgrideso.com.

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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;*
- 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);*
- 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;*
- 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*
- e. *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).*

Please express your views in the right-hand side of the table below, including your rationale.

Standard Code Administrator Consultation questions		
1	Do you believe that the CMP324/5 Original solution, WACM1, WACM2 or WACM3 better facilitates the Applicable CUSC Objectives?	<p>Our view is summarised here, then explained in further detail below:</p> <p>Original (DNO zones): Better (Best)</p> <p>WACM1 (RPI): <u>Not</u> better</p> <p>WACM2 (Fix current 27 zones): Better</p> <p>WACM3 (Fix 27 zones, then Original): Better</p> <p>Overall, the Original solution, as well as WACM2 and WACM3 better facilitate the applicable CUSC objectives.</p> <p>By contrast, WACM1 does <u>not</u> better meet the applicable CUSC objectives overall.</p> <p>We believe that the Original <u>best</u> meets the CUSC objectives compared to Baseline (in particular CUSC objectives “A” and “E”), and further details are below:</p> <p><u>Original: Overall better (best)</u></p> <p>Original will result in increased stability and predictability of tariffs, as well as tend to result in better alignment of charges between transmission generation compared with distribution connected generation, behind the meter generation and demand. Regarding cost reflectivity, Original is broadly the same as Baseline and broadly the same as other options because the other options do not deliver a more cost reflective solution to zoning. Original is better regarding practicality and proportionality due to removing the requirement for ESO to carry out a regular re-zoning process and to attempt to produce a 5 year forecast of tariffs when the ESO does not know what the generation charging zones are going to be for much of the period of the forecast.</p> <p>Original is <u>better</u> for objective “a” effective competition due to:</p> <p>Increased stability in tariffs results in more economically efficient generation investment</p>

	<p>decisions - This is because TNUoS tariffs will tend to be more predictable, so parties will have greater certainty of future TNUoS charges over the lifetime of a generating station at the point they make their final investment decision. This will enable participants to make more economically efficient investment decisions. By contrast, an unpredictable charge, even if it were perfectly cost reflective, would provide a relatively poor price signal because developers cannot respond to a charge if they don't know what it is going to be. Developer uncertainty within the Baseline distorts competition because, in as far as developers may try to take account of differences in locational tariffs when competing in markets, such as the CfD auction, or capacity mechanism, then the outcome would be in part be affected by differences in the forecast error between different developers regarding what future TNUoS charges may be instead of genuine economic fundamentals.</p> <p>Even if locational price signals became less sharp, or accurate, this is still consistent with the Original being better effective competition - This is because power station investment decisions are primarily driven by factors other than TNUoS charges. For renewables, the primary drivers of locational investment decisions include resource availability and planning consent (which tend to mean rural/remote, rather than urban, areas away from demand centres). For large thermal power stations, the primary drivers for investment decisions include access to cooling water, re-use of existing (brownfield) power station site for planning consent purposes, access to CCUS transport and storage of Carbon.</p> <p>Original would better align charging signals between generation and demand – By making the definition of zones consistent, the Original would better align TNUoS price signals for transmission connected generators compared with distribution connected generators, generators located behind demand meters and with demand. The Original proposal would be a step in the right direction towards greater harmonisation, while there may be scope for even further harmonisation through the future outcome of Ofgem's Access and Forward Charges SCR.</p> <p>Original would reduced developer risk margins results in lower cost to customers – Once a large transmission connected power station has been built, the operator can no longer respond to changing TNUoS price signals until the power station approaches the end of its life. Therefore volatility of TNUoS charges simply represents a volatile risk which the operator must absorb</p>
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	<p>over the life of a generating station. Within the Baseline, developers need to price in risk margins when making investment decisions, which results in higher costs to customers. The Original should result in better predictability, reduced risk margins, so lower cost to customers.</p> <p>Original is broadly <u>similar</u> to Baseline for objective “b” cost reflectivity</p> <p>The Original averages tariffs across a larger geographical area compared with Baseline, but this averaging does not worsen the accuracy of cost reflective charges compared with Baseline. This is because the zoning criteria for Baseline is not as cost reflective as it would appear because it only takes account of Year Round nodal costs without considering Peak Security nodal costs, or the impact of the ALF on the charges which generators pay. This is a particular issue for the Baseline with regard to low load factor conventional generators and southern conventional generators which the Baseline groups by Year Round tariff, despite the Peak Security background better reflecting the costs which they cause and being the main driver of the charges which they pay.</p> <p>Original is <u>neutral</u> regarding objectives: “C” and “D”</p> <p>Original is <u>better</u> for objective “e” : Efficiency in implementation and administration</p> <p>By fixing the zones and connectivity map, this would improve:</p> <p>Administrative work for generators – Avoids the need for generators to carry out modelling and commercial analysis regarding what the potential impact of future re-zoning on business cases.</p> <p>Improves efficiency of tariff setting and publication – ESO can provide more accurate 5 year forecasts of TNUoS tariffs without having to take account of the risk that the generation charging zones could substantially change which would make the ESO published 5 year tariffs obsolete and inaccurate.</p> <p>Improve efficiency of tariff setting process – Avoids the need for the ESO to carry out regular re-zoning calculations to define the zones and also to inform</p>
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	<p>industry of potential risks associated with potential future re-zoning. This is particularly relevant since the Baseline administrative burden of re-zoning is not justified by benefits elsewhere because it is detrimental for both industry and customers. The Baseline detriment arises because the Baseline results in worse uncertainty, worse economic efficiency of developer decision making, and more expensive risk margins at higher cost to customers.</p> <p><u>WACM1: Overall not better</u></p> <p>Effective competition: not better</p> <p>WACM1 is <u>not</u> better than baseline regarding effective competition because it has the same issues of the relatively high volatility and relatively poor predictability of charges due to uncertainty related to future zoning decisions.</p> <p>Within WAMC1 and Baseline, the rules defining the re-zoning process both include a high degree of subjectivity on behalf of the ESO regarding where the zone boundaries could be drawn, so which zones a generator may fall into and how many zones there may be. For example regarding where to choose as an anchor point for beginning the assessment against the tariff range and how to apply the clauses relating to electrical and geographical proximity. This subjectivity makes it difficult, or impossible for generators to replicate, forecast, or verify the ESO's choice of zonal boundaries and potentially exposes the ESO to challenge regarding their choice of zonal boundaries.</p> <p>The volatility and uncertainty regarding choice of future zone boundaries for WACM1 makes it more difficult for generators to forecast long-term TNUoS tariffs. If generators had better certainty of future TNUoS charges over the lifetime of a generating station then this would tend to lead to lower costs for customers, because generators could price in lower risk margins when making investment decisions.</p> <p>The volatility and uncertainty regarding future zone boundaries would also distort competition in markets such as CfD auction or capacity mechanism. This is because, generators may take into account their own view of future changes in TNUoS tariffs when competing in these auctions, which would lead to the outcome partly</p>
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	<p>being driven by differences in the forecast error between different generators regarding their respectively different views of what future TNUoS charges may be instead of genuine economic fundamentals.</p> <p>Cost reflectivity: <u>Not</u> better WACM1 is <u>not</u> more cost reflective in the way it groups nodes into zones (compared with Baseline, or Original).</p> <p>This is because in WACM1 (the same as Baseline), the zoning methodology fails to take account of the value of Peak Security MWkm, which are often a more important driver of relative nodal cost for southern thermal generators and it also fails to take account of the effect of the ALF on the charges generators pay. Analysis provided to the Workgroup demonstrated that better considering the contribution to charges generators would actually pay would result in a spread of nodal costs which is broadly similar to the Original, so cost reflectivity of allocating nodes to zones would be broadly similar to the Baseline, Original and other alternatives.</p> <p>The treatment of remote island MITS nodes is not a benefit in this WACM1 alternative because if there were a desire to change the classification of remote islands as MITS, or not, then this would be better done via a specific CUSC mod with appropriate industry engagement instead.</p> <p>Practicality and proportionality: <u>Not</u> better WACM1 is <u>not</u> better than Baseline regarding practicality and proportionality because it doesn't deliver any additional benefit relative to Baseline.</p> <p>Similar to Baseline, the ESO would still need to carry out the re-zoning process with every Transmission price control.</p> <p>The ESO would not be able to provide more accurate 5-year forecasts of TNUoS tariffs than currently as there is still the risk that the generation charging zones could substantially change which would make the ESO published 5 year tariffs obsolete and inaccurate</p>
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2	Do you support the proposed implementation approach?	Yes
3	Do you have any other comments?	No