

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>WACM 1 Better facilitates the Applicable CUSC Objectives compared to the baseline arrangements. It updates and secures the benefits of the current methodology by applying indexation of the +/- £1 differential to +/- £2.25. This maintains a cost reflective basis to zonal charges and ensures that zones are able to flex and adapt on an enduring basis.</p> <p>A – Positive - WACM 1 maintains the cost reflective approach to zonal charging. Cost reflectivity is a key tenet of effective competition and WACM 1 is the only modification that retains this principle from the existing baseline arrangements. WACM 1 goes further than the baseline by resetting and future proofing the differential through indexation. This is positive as it ensures that zones can reflect changes in the network whilst maintaining zonal stability. This should enhance competition by ensuring that charges are reflective of the costs imposed on the network and reduce distortive outcomes between sites within zones.</p> <p>The Original proposal and WACM 2 and WACM 3 fix charges geographically and reduce the cost reflectivity of zones. The reduced cost reflectivity distorts the true economic benefit/disbenefit of any subsequent sale, distribution or purchase of electricity. Due to this impact on competition we assess these options as Negative against applicable Objective A when compared to the baseline and WACM1. The report also provides evidence that there is no competition benefit in terms of Generation (or demand) located in distribution networks. Paragraph 3.17 states that the Original proposal <i>‘Does not create equal and opposite signals for demand and generation.’</i></p> <p>B – Positive – WACM 1 in maintaining a cost reflective basis to zonal charging is positive against the baseline, which if applied without any change would lead to over 40 zones. Resetting and indexation of the differential leads to an optimum outcome in that the cost reflective nature of zonal</p>

charges is maintained and that the administration of the zones by the ESO remains proportionate. As highlighted above maintaining cost reflective zones should be beneficial to competition and ultimately lead to improved outcomes for consumers.

The Original proposal and WACM 3 (which initially sets zones to 27 and then transitions to the original proposal) use DN geographical boundaries as the method of zoning. This would materially reduce cost reflectivity from the setting of the zones and would restrict future changes. WACM2 also fixes zones but as the current 27 zones. There is scant justification provided to support either alignment with DN zones or fixing the current zones as an appropriate and enduring way forward that would lead to improved outcomes for consumers. As such we consider these options are **negative against applicable objective B** when compared with baseline and WACM 1

C- Positive- WACM 1 in updating the existing methodology WACM1 enables the ESO to adapt its models appropriately and maintain developments in its business. WACM1 is also future proof. The differential value would be reset and would inflate appropriately through this and future price controls.

We consider the original proposal, WACM 2 and WACM3 are all **negative against applicable objective C**. Although superficially being simple geographic 'fixes' these proposals allow for no subsequent change to boundaries. If implemented each proposal over time would lead to larger within zone differentials. This would ultimately lead to further modifications to either reset the fixes or reintroduce a cost reflective basis to zoning in the future.

		<p>D – Neutral - WACM1 maintains and does not dilute cost reflectivity. It is therefore compliant with Art18(1) of regulation 2019/943.¹ This article contains provision that charges shall be cost-reflective and transparent.</p> <p>In contrast the original proposal, WACM2 and WACM3 reduce the cost reflectivity of zones and zonal charges and in our view run counter to Art18(1) of regulation 2019/943. Therefore, these are Negative against applicable objective D.</p> <p>E – Neutral – WACM1 is adaptive providing for indexation of the differential used to set zones. It should not require revisiting and should also be able to accommodate changes in network topography including new connections.</p> <p>The Original WACM2 and WACM 3 by contrast fix the zones. We believe all three options would be Negative to applicable objective E. The design of these modifications does not allow for future changes except by modification of the CUSC. We feel the fixing of the zones is arbitrary and would not enable the charging methodology and associated CUSC arrangements to evolve to reflect changes to the transmission system without further CUSC modifications. We do not believe this is efficient.</p>
2	Do you support the proposed implementation approach?	<p>We acknowledge that 1 April 2021 is the effective date for a change to coincide with the start of RIIO-2 price control.</p> <p>However, the implementation approach is not clear for either the original or alternatives. We note from the Code administrator consultation the following</p> <p><i>“Implementation approach:</i> <i>5.1 NGENSO are still to complete a full impact assessment of the system changes required for this modification. It is foreseen that there may be potential changes to charging and billing systems.”</i></p>

¹ https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3AL%3A2019%3A158%3ATOC&uri=uriserv%3AOJ.L_.2019.158.01.0054.01.ENG

		<p>In our view it is not a satisfactory position to be in at the FMR stage where an impact assessment has not been conducted by the ESO. We cannot therefore pass comment on the efficacy of any implementation approach as no options have been developed.</p>
3	Do you have any other comments?	<p>In our Workgroup consultation response, we appealed to the ESO to alter its position and adopt a cost reflective approach so a consensus could be formed that supported the applicable objectives. The ESO decided not to alter its original proposal at all which is disappointing particularly given the detrimental impacts on cost reflectivity and competition highlighted below from the workgroup report.</p> <p>To provide context, the workgroup assessed each option against stability, practicality, cost-reflectivity, electrical proximity and distributional effects. The workgroup majority agreed that WACM 1 was the best option supported by five workgroup members. The ESO original proposal was supported by only four workgroup members.</p> <p>Charging equivalence between transmission and distribution connection</p> <p>In contrast to earlier assertions by the NGESO and some of the responses to the workgroup consultation, the modelling and analysis in the report found that the outcome of the Original proposal would not be charging equivalence between transmission and distribution connection:</p> <p><i>“3.17 It was noted by the Workgroup that this method of zoning does not create equal and opposite signals for demand and generation due to the assumptions used in the ESO’s Transport Model (such as using net GSP demand, not gross GSP demand). Moreover, if the generation residual is set to zero, there could be further distortion in signals. “</i></p> <p><i>3.26 The ESO’s Transport Model was used to understand the impact of the ESO’s proposed solution. The Workgroup hypothesised that aligning Demand and Generation zones should help create equal and opposite price signals. The model showed that in most zones this was not the case and</i></p>

	<p><i>generation tariffs were greater in magnitude than demand tariffs. This is because the nodal prices are averaged across the zone, and generally generation is connected in more expensive nodes within the zone. The Workgroup noted that averaging would have the impact of reducing tariff prices in more expensive nodes within a given zone, but making currently cheaper nodes more expensive to connect in.</i></p> <p>Cost Reflectivity and competition</p> <p>We also note that the report acknowledges that if the original proposal is implemented then charging changes will not be cost reflective</p> <p><i>“3.22 Under the original proposal this would not be a consequence of any individual sites costs increasing or decreasing on the network, rather the impact of moving from a cost reflective method of charging zonally to a purely geographic method of charging not related to cost.”</i></p> <p><i>“3.20 ...noted that the stability of zones would have a positive benefit on competition. Other workgroup members noted that there was no evidence of this. Indeed, the assumption should be that fewer zones with more generators per zone would tend to lead to a larger differential between individual generation nodes in a zone. “</i></p>
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