

GCUSC Workgroup Consultation Response Proforma**CMP343: Transmission Demand Residual bandings and allocation for 1 April 2022 implementation (TCR)'****CMP340: Consequential changes for CMP332 (TCR)**

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 31 July 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation please contact Paul Mullen paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com.

Respondent details	Please enter your details
Respondent name:	Grace March
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For reference the CUSC (charging) objectives for CMP343 are:

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

For reference the CUSC (non-charging) objectives for CMP340 are:

- a. *The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;*
- b. *Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;*
- c. *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- d. *Promoting efficiency in the implementation and administration of the CUSC arrangements.*

**Objective (c) 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 regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

CMP343

Standard Workgroup Consultation questions CMP343		
1	Do you believe that the CMP343 Original Proposal better facilitate the Applicable CUSC Objectives? Please explain your rationale.	<p>Yes</p> <p>Removing the TDR from TNUoS charges over Triad will result in fairer cost recovery and reduce the signal to more accurately reflect the cost of the network. Making the TDR unavoidable means that consumers with the ability to avoid Triad will still pay towards cost recovery, thus enabling competition. Recovering the TDR from NHH consumers as well is more cost reflective as those consumers contribute to the cost of the network.</p>
2	Do you believe that any of the CMP343 proposed alternative solutions better facilitate the Applicable CUSC Objectives? Please explain your rationale.	<p>No</p> <p>Multiple bands create distortions between sizes of transmission connected sites that are not justified by their similar type of connections and use of the network. Please see question 7 for more detail.</p> <p>Flooring demand tariffs at £0 prevents short-term market distortion, as users go from receiving a signal to reduce demand over Triad to a signal to increase demand. This would have short-term effects on competition and erode trust in stability of price signals in the face of intervention by the Regulator. Flooring does reduce the long-term cost-reflective nature of the Demand tariff and weakens</p>

		the locational signal by setting all negative zones to £0. The flooring option is therefore less positive against ACO(b) than non-floored but removing the TDR distortion means it is still positive overall. The locational £/site adjustment creates a distortion in competition between those consumers who can change their behaviour in response to the forward-looking element and those who cannot, as they both face the same residual charge. If the residual charge varies by location, it will be sending a long-term investment signal, which is less cost reflective than other options and is direct opposition to the conclusions of the TCR.
3	Do you support the proposed implementation approach?	The proposed implementation is in line with Ofgem's direction and the delay to April 2022 was absolutely necessary. It is concerning that consumers will not be able to forecast their TDR charges with confidence because of the materiality between the different proposals. The industry would be more comfortable with the changes if there was longer between the decision confirming the details and implementation
4	Do you have any other comments?	N/A
5	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	N/A
Specific CMP343 Workgroup Consultation questions		
6	Do you agree with the proposed methodology on page 7 of the Workgroup Consultation document to calculate a volumetric p/kWh residual charge for Unmetered Supply (UMS) Demand? Please provide the rationale for your response.	Yes. Since there are no meters and therefore no site information, it is not feasible to charge UMS on any basis other than volumetric. It seems fairest and most cost reflective to use annual volume rather than peak as proposed, as that is the most equivalent to the other bands.
7	Following the CMP332 Workgroup	All Transmission connected consumers have the same level of connection, including network access,

	<p>consultation, the CMP343/340 Workgroup has developed alternative options for 2 or 4 transmission bands and has produced some analysis to show the impacts. This can be found in Annex 8. What are your views on whether there should be 1, 2 or 4 transmission bands? Please provide the rationale for your response.</p>	<p>access to the Balancing Mechanism, metering requirements and access to/benefit from Ancillary services market. The proportion of TDR to be paid is not based on flow of electricity (as the residual is not in volumetric form) and so differentiating sites that have the same type of network connection is not cost reflective and creates a distortion. The significant increase in the annual, ongoing charge between bands creates a size cut-off point and so could be sending a long-term behaviour signal to remain in a lower band in the next price control period. The step-change between bands could also send a signal to separate into multiple smaller sites (e.g. in a two band solution, if a higher band site can change enough to be two lower band sites, they could save nearly £2m a year). The proposed definition of Single Site (in CMP334) makes retroactive action unlikely, but new sites could be designed/sized to be in a lower band. If the step-change is severe enough, which a two band solution may well be, it would create a maximum capacity for new connections that would avoid the higher band.</p> <p>The small number of sites (9 sites) presents risk of annual charges being affected materially by other users' actions. Should one of the 9 sites move to a lower band (for any reason, such as scaling down their business), it will affect the remaining 8 by changing the proportion of the TDR that is to be recovered from that band. Should a site leave the higher band (either to be multiple lower band sites, or for genuine reasons), the bands will not reflect this change until the next price control period. Multiple bands also create a significant issue around assigning new connections to a band. Given the materiality of the charges, there will be significant consequences for an "incorrect" assignment on the new connecting consumers, but also across other Transmission connected users. If a new connection is placed in a lower band, based on an average across all Transmission sites, but is actually very large, it will be underpaying compared to similar sites, and so be distortive of competition. If it is reallocated when data is available, it is likely to significantly affect the charges in the higher band it enters, this affecting other users.</p>
8	The Workgroup has proposed that if there	If there are to be multiple bands, the rationale for where the cut-off point needs to be clearly explained

	<p>were 2 transmission bands, these would be divided at the 85th percentile (as this coincides with the point beyond which the sites are more than twice the size of the mean total consumption). Do you agree with this method? Please provide the rationale for your response?</p>	<p>in the legal text, otherwise bands at the start of the next price control could be very different and so the solution has built instability into the methodology. For instance, at the next price control, if the 85% percentile does not coincide with twice the mean consumption, which should be used as the boundary? What if the two numbers do coincide, but there are only 1 or 2 sites in the top band? It is not clear why the cut-off point has been chosen to be 85th percentile (as opposed to 70th percentile), other than the numbers fall out nicely by chance. Given the materiality of the different charges, chance is not a suitable basis for charge setting.</p> <p>Using the 85th percentile creates bands with very few sites in, which means charges could be significantly affected by other users' behaviour.</p> <p>It is worth noting that the ESO's analysis shows the distribution of consumption does not follow a clear statistical pattern, so statistical methods (such as Standard Deviation, Interquartile Range etc) should be applied with care.</p> <p>Given there is no difference between sites other than their consumption (similar terms of connection, similar market access, similar network access, exposed to the same sets of charges), any cut-off point will be essentially arbitrary.</p>
9	<p>The assumptions that underpin the analysis on transmission banding to set out illustrative charges are contained in Annex 9. Please provide any comments on these assumptions.</p>	<p>These are reasonable for modelling at this stage, but the ESO at some point will have confirm which BMUs are single sites, either by directly contacting the User or through suppliers. It would be safest for the ESO to confirm with all BMUs that their "site status" is correct, not just those that have been grouped together.</p> <p>If this is not done soon, there may need to be mid-year changes to reflect the new numbers.</p>
10	<p>Following the CMP332 workgroup consultation, the CMP343/340 Workgroup has developed options A, B and C to address the treatment of zones that have a negative locational tariff. Which of these options do</p>	<p>Not flooring the Demand tariffs inverts the signal demand users in those zones have been experiencing up until now. As the TDR has been so much greater than the zonal difference, all users have been sent a signal to reduce demand over Triad periods. If Demand tariffs are not floored, some users will suddenly receive a signal to increase demand at during Winter peak. The timing of this change is not related to network costs and will have an impact on the wholesale market and</p>

	you support? Please provide the rationale for your response.	<p>thus competition in the short term. It is, however, more cost-reflective in the long-term as it preserves the zonal differences across GB and should encourage appropriately located investment.</p> <p>The proposed £/site locational adjustment to the residual seems inappropriate – it is not cost reflective, as the forward-looking charge and the residual serve different purposes. Consumers who can change behaviour in response to the forward-looking charge, and thus lower network costs related to the peak, will also benefit from the lower residual charge. The purpose of the banding methodology of the TDR is to reflect the non-locational benefit of a GB-wide network. Making the residual charge vary by location will be sending an investment signal, when the residual charge should be sending the least signal possible.</p>
Question 11 is for those who responded to the CMP332 consultation		
11	CMP343/340 builds on the CMP332 solution. Please let us know if anything has changed in your response since the CMP332 Workgroup Consultation.	I did not agree with CMP332 Original handling of UMS. CMP343 Original is my preferred structure. Other than the UMS tariff and being able to address points more quantitatively due to the extra analysis available from the ESO, there is no significant change from my CMP332 response.

CMP340

Standard Workgroup Consultation questions CMP340		
12	Do you believe that the CMP340 Original Proposal better facilitates the Applicable (non-charging) CUSC Objectives?	Yes
13	Do you support the proposed implementation approach?	Yes
14	Do you have any other comments?	N/A
15	Do you wish to raise a Workgroup Consultation Alternative Request for	N/A

	the Workgroup to consider?	
Specific CMP340 Workgroup Consultation question		
16	Annex 11 sets out the initial thoughts on the potential changes to the CUSC Section 11 definitions that would need to change to support the CMP343 Original and other potential solutions. Do you have any comments on the proposed changes?	No