

CUSC 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:	Eleanor Horn
Company name:	National Grid ESO
Email address:	Eleanor.horn@nationalgrideso.com
Phone number:	07966186088

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>We believe that CMP343 does better facilitate the applicable CUSC objectives: it ensures NGENSO's compliance with the terms of the Direction and aims to provide the benefits as described in Ofgem's decision documents. Importantly, the move to a site based charge will improve the cost reflectivity of charging as customers who have similar usage of the network pay the same tariff. Customers who can shift their consumption will no longer be able to avoid paying residual charges. This enables the 'cost recovery' element of the TNUoS charge to be borne equally between similar customers and equitably fund network development. This better facilitates ACO(c).</p> <p>We believe that the proposed implementation date of 1st April 2022 will better enable the realisation of the benefits identified in Ofgem's TCR decision than an April 2021 implementation date because it provides industry with sufficient time to prepare for the changes to the residual charging methodology.</p>
2	Do you believe that any of the CMP343 proposed alternative solutions better	<p>Multiple Transmission Bands</p> <p>The ESO recognises that segmenting Transmission connected Final Demand Sites into multiple bands may better facilitate ACO (b), especially for small</p>

<p>facilitate the Applicable CUSC Objectives? Please explain your rationale.</p>	<p>Transmission connected Final Demand Sites. Nonetheless, the policy direction from the Authority is that residual charging should not be sending behavioural signals and is to be treated as 'cost recovery' only. Therefore, the ESO's view is that the cost reflectivity charging objective is not intended to be better facilitated by the TDR charging reforms. The ESO's view is that introducing boundaries into an already small cohort creates serious problems that have a negative impact on ACO (a) and ACO (e). These views are expanded on below.</p> <p>Sites on one side of a boundary can pay annual charges three times bigger or smaller than the site immediately on the other side. These sites are similar but due to the nature of banding can end up paying distinctly different charges. This is a problem with any banding methodology and not unique to Transmission connected sites. What is specific to Transmission connected sites is that they're typically very large energy users and so the magnitude of the charge and the step change is extreme in comparison.</p> <p>Transmission connected sites, if banded, will form very small cohorts. This means that if one site changes their consumption behaviour it will have an outsized influence on the tariff faced by the whole band. In a large cohort or where the volumes in question are small, such as those seen at the distribution voltages, one individual's actions will have a much smaller impact on the tariff. This will increase the tariff volatility year on year as the consumption behaviour of each site in the band will have a large influence over the proportion of the TDR to be split between the cohort.</p> <p>These two points show the complexity and potential for volatility that is introduced through banding for Transmission connected demand sites. This makes it more difficult for a Supplier to predict the TNUoS obligations for the site over a multi-year contract or if the customer manages their own electricity supply or bears the risk on pass through contract for them to predict their TNUoS. This complexity and potential volatility act against competition in the retail market for these large energy users advantaging incumbents with an existing large customer base and therefore we consider that</p>
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		<p>multiple band solutions perform worse against ACO (a) than the Original solution.</p> <p>Banding for Transmission connected sites will necessarily use data that is not certain for a customer¹ (unlike agreed capacity which is known and fixed up front) particularly if settlement period consumption is used in banding and allocation. This creates opacity and unnecessary uncertainty in the TNUoS methodology performing worse against ACO (e) than the Original solution.</p> <p>Alternatives to Flooring the Locational Component of Demand TNUoS at £0</p> <p>The ESO has proposed flooring the demand locational tariff at £0/kW or 0p/kWh within the Original Solution in order to prevent the perverse incentive to increase consumption at times of peak demand. This incentive could be as large as £20 or £30/kW in some regions.</p> <p>The ESO believes that this is a reasonable and necessary interim measure between implementation of the TDR TCR changes in April 2022 and the expected implementation of the A&FLC conclusions in April 2023. The potential alternatives proposed by the CMP343 workgroup are either too cumbersome to be reasonable and practical for one year only or would allow the perverse incentive to remain.</p>
3	Do you support the proposed implementation approach?	Yes, the implementation date of April 1 st 2022 will better enable the realisation of the benefits identified in Ofgem's TCR decision.
4	Do you have any other comments?	Not at this time.
5	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Not at this time.
Specific CMP343 Workgroup Consultation questions		

¹ See the response to Question 7 for the ESO's view of the data options available for banding Transmission connected Final Demand Sites.

6	<p>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.</p>	<p>As the proposer of this methodology we agree with it.</p>
7	<p>Following the CMP332 Workgroup 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>The ESO's view on the Multiple Transmission Bands solutions' performance against the Applicable CUSC Objectives is given in the response to Question 2.</p> <p>The ESO recognises that segmenting Transmission connected Final Demand Sites into multiple bands might provide greater cost reflectivity and therefore better facilitate ACO (b). However, the ESO's view is that introducing boundaries into an already small cohort creates serious problems that have a negative impact on ACO (a) and ACO (e).</p> <p>The proposal suggests banding on a measure of consumption volume rather than an "agreed capacity" because Transmission connected demand does not have an "agreed capacity" with the ESO. The ESO have considered whether there are proxy data items for "agreed capacity" available to the ESO for Transmission connected demand sites to most closely resemble the "MIC" used for most distribution connected sites.</p> <p>The ESO considered 6 alternative options:</p> <p>(a) Highest HH offtake.</p> <p>This is an alternative to consumption which the ESO will discuss with the CMP343 workgroup. It has broadly the same strengths and problems as the annual consumption data item.</p> <p>(b) Instantaneous MW offtake.</p> <p>This is not a commercial product like TEC/MIC and the ESO does not have historical records of these figures. This would also be more difficult for the customer to</p>

		<p>understand as they will not typically be familiar with the second by second meter reads rather working in HH intervals.</p> <p>(c) Physical connection capacity.</p> <p>Using the physical connection capacity (CEC) for a site would severely disadvantage legacy sites who had a connection set up many years ago when the requirements of the site were different. This is not a commercial product like TEC/MIC and customers would not be able to easily change their CEC to suit their business needs. Additionally, the CEC values are stepped as they correlate to standard sizings of transformer equipment.</p> <p>(d) Prospective capacity.</p> <p>When applying for a connection the customer requests an import capacity through their application. This can change as customer needs evolve but the ESO does not keep a record of these requests once the site is connected so this would not be a feasible data item to use for banding for existing sites.</p> <p>(e) ELEXON's "demand capacity" value.</p> <p>This is a seasonal product that can vary with customer needs and there are easily accessible historical records. However, the capacity is self-reported (and therefore subject to commercial 'gaming' risk) and there are no penalties for exceeding your self-reported value.</p> <p>(f) Voltage levels.</p> <p>The ESO considered whether Transmission sites could be banded based on their connection voltage into three bands 132kV, 275kV and 400kV. This would be predictable for the new customers in terms of which band they would fall into whilst successfully protecting smaller users from disproportionately high charges caused by those at the other end of the distribution. The ESO would need to further understand the impacts on tariffs from this proposal and any difference in treatment between Scotland and</p>
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		<p>England & Wales to determine whether this option has merit.</p> <p>With the exception of the voltage levels option the ESO believe that all of the other options perform worse against the ACOs than the Original. The voltage levels proposal is yet to be explored in detail with the workgroup and therefore there may be unintended consequences.</p> <p>Having a single band for Transmission connected sites is simpler to administer for industry as well as the ESO, will result in more predictable charges year on year, removes harmful distortions between similar sites as all are in the same band and as is charged on a per site basis and has no opportunities for 'gaming'.</p>
8	<p>The Workgroup has proposed that if there 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>The ESO is not in favour of banding for Transmission connected sites however we believe that the 85th percentile is not an unreasonable point at which to segment the cohort.</p> <p>The top band for a given voltage level has an infinitely long tail; the Transmission sites in the top band using this methodology (based on the analysis provided) are not any more similar to one another than they are different from sites in the lower band.</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>As producers of the analysis the ESO has no further comments to make which are not already captured in the workgroup report.</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</p>	<p>The ESO has proposed flooring the demand locational tariff at £0/kW or £0/kWh within the Original Solution (Option A) in order to prevent the perverse incentive to increase consumption at times of peak demand. This incentive could be as large as £20 or £30/kW in some regions and have a number of unintended knock on effects as industry parties change their behaviour to respond to the incentive.</p>

	of these options do you support? Please provide the rationale for your response.	<p>The ESO believes that this is a reasonable and necessary interim measure between implementation of the TDR TCR changes in April 2022 and the expected implementation of the A&FLC conclusions in April 2023.</p> <p>Option B would allow the perverse incentive to remain and incentivise consumption over peak periods whilst Option C is too cumbersome to manage for both industry and the ESO to be reasonable and practical for an interim measure. Option C would create a different TDR tariff for each Charging Band in each GSP group (totalling between 266 and 308 different tariffs depending on the number of transmission charging bands). This would require extensive billing system change for both Suppliers and the ESO for just one year's benefit which we believe is neither practical nor proportionate.</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.	Our response to the CMP332 solution highlighted the risk of April 2021 implementation as providing insufficient time for industry to prepare. As the implementation date has been moved to April 2022 we now believe that there is sufficient notice for the industry to manage the changes.

CMP340

Standard Workgroup Consultation questions CMP340		
12	Do you believe that the CMP340 Original Proposal better facilitates the Applicable (non-charging) CUSC Objectives?	CMP340 facilitates implementation of CMP343 which better facilitates the ACOs.
13	Do you support the proposed implementation approach?	Yes.
14	Do you have any other comments?	No.
15	Do you wish to raise a Workgroup	No.

	Consultation Alternative Request for 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?	As the producers of these definitions we have no further comments to make at this time. The ESO expects that these definitions will be refined as the legal text drafting is completed and is not an exhaustive list.