

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:	Richard Warren
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For reference the CUSC (charging) objectives for CMP343 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).*

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 do not believe that the CMP343 proposal can effectively meet all the CUSC objectives set out above.</p> <p>Firstly, whilst it has been produced at the request of the Agency and should therefore meet objective C – the CMP343's continued inclusion of a proposal to floor locational charges at £0, represents a widening of the scope of the CUSC objectives. This CUSC modification is required to practically implement the outcomes of Ofgem's TCR – of which considerations around a locational charge were not part. These are instead part of Ofgem's Access and Forward Looking Charges (AFLC) SCR which is not yet complete. Industry has requested on numerous occasions that the TCR and AFLC reviews were conducted and implemented in parallel to ensure continuity between the two. This has evidently not been the approach taken and it is therefore a misuse of the Code Modification process to bring forward elements of the AFLC in this CUSC modification.</p> <p>Secondly, the banded charging proposal for transmission connected users will not lead to the efficient implementation of the CUSC and therefore runs counter to objective D above. Ofgem's original impact assessment from last year indicated a</p>
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		<p>fixed annual charge for large transmission connected users in the region of £600,000-700,000. This represented a significant increase in cost for many steel sites but it was hoped changes via the AFLC SCR would offset some of this. The CMP343 proposal for four bands would increase that charge to £2.7 million and 3.5 fold increase on figures presented in Ofgem's IA. Not only is this drastically out of line with the TCR IA and therefore represents an extremely poor consultation process, but it will lead to unintended distortions amongst transmission connected users.</p> <p>Already within the steel sector sites are making considerations for moving from transmission connections to distribution connections – indeed one steel site has done so already on the basis of the TCR proposals. In the case of this particular steel example, the move to a distribution connection will see the sites transmission residual charges 94% lower than if they had remained transmission connected and the 4-band charging option of CMP343 is implemented.</p> <p>Many other sites that are able to will make this decision will do so if the two or four band charging proposals are implemented. This would reduce the already tiny pool of 62 transmission connected end users. The impact of this will be to pile further costs on those that remain transmission connected – this is ultimately unsustainable and surely one of the original problems Ofgem was attempting to deal with via its TCR – namely consumption level on which residual charges could be levied. Ultimately this is not sustainable, industrial sites will not remain competitive and will close down, exacerbating the problem and requiring Ofgem to revisit the issue again in the not too distant future.</p>
2	Do you believe that any of the CMP343 proposed alternative solutions better facilitate the Applicable CUSC Objectives? Please explain your rationale.	We believe that 'Alternative Proposal 3' best meets the objectives of the CUSC set out above. Namely implementing a single charging band of transmission connected users and retaining the negative locational charges.
3	Do you support the proposed implementation approach?	We agree with the timelines for the implementation of this CUSC provided that the location charge element is not included within it. Considerations on reform to locational charges are part of the AFLC SCR which has not yet

		concluded, it would therefore be premature to make changes to them as part of this modification.
4	Do you have any other comments?	It should also again be stated that the Code Modification Process is extremely opaque and difficult for industrial users to follow remain up to date with. It would appear that there are no users/industry on this CUSC panel and therefore proposals have again been put forward and agreed on a highly subjective basis centred on the views of generators and suppliers.
5	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No we support alternative proposal 3.
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.	No opinion
7	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>As noted in our answer to question 1, we do not support the options for two or four bands of charging for the following reasons:</p> <ul style="list-style-type: none"> - The two and four band charging options produce costs for the largest consuming users approximately 3-4 times higher than that set out in Ofgem's TCR impact assessment last year. Such options should have been formally considered, set out in the IA and consulted on as part of the TCR not simply introduced as part of a CUSC mod. - The massive increases in costs will create significant distortions in the market. As noted above, we are already aware of the one steel production site that has switched to a distribution connection a result of the TCR changes, even before considering the massive extra costs two and four band charging will bring. We can be sure other sites will follow suit should these new proposals go ahead. - The sample size of just 62 sites is far too small to create a stable regime. There are significant demand changes from year to year and with a single site representing 11% of the

		<p>top band, site closures, or switches to distribution connection, will quickly undermine the fixed charges that have been proposed.</p> <ul style="list-style-type: none"> - Furthermore as sites close, or switch to distribution connection – the residual charge that will be levied on those remaining in the band/group will increase significantly. It is evident that it will not be long before further changes would be required and further CUSC mods.
8	The Workgroup has proposed that if there were 2 transmission bands, these would be divided at the 85 th 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?	We do not agree with the two and four band proposals. A single band as set out in Ofgem's original TCR proposal should be implemented. Neither the two or four band options meet the CUSC objectives.
9	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.	As noted previously – the bands this analysis is based on is far too small to create a stable regime. Site demand on steel sites can vary significantly from year to year. Furthermore it is more than likely that the group of 62 sites that this analysis is based on will change even by next year. Indeed one steel site has already removed itself.
10	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 you support? Please provide the rationale for your response.	We do not believe that negative locational tariffs should be changed by this modification. The review of these tariffs is already being considered within the SCR and a change here would pre-judge the outcome of that review.
Question 11 is for those who responded to the CMP332 consultation		
11	CMP343/340 builds on the CMP332 solution.	N/A

	Please let us know if anything has changed in your response since the CMP332 Workgroup Consultation.	
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CMP340

Standard Workgroup Consultation questions CMP340		
12	Do you believe that the CMP340 Original Proposal better facilitates the Applicable (non-charging) CUSC Objectives?	No view
13	Do you support the proposed implementation approach?	No view
14	Do you have any other comments?	No
15	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	N/A
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?	Click or tap here to enter text.