

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal

Reduce the G:D split of TNUoS charges, for example to 15:85

Submission Date

18th February 2014

Description of the Issue or Defect that the CUSC Modification Proposal seeks to address

Under the current structure of TNUoS charges the total amount of allowed revenue to be recovered is split between generators and suppliers in the ratio 23:73. An initial split of 25:75 was set in place at vesting, but changes to the connection/grid boundary resulted in this subsequently moving to 27:73.

This split and the share of charges borne by generators in Great Britain is significantly out of line with levels of charges for grid use paid by generators in most other jurisdictions that fall under the Single Target Market for electricity. This has a distorting impact on competition and works to the detriment of GB generators as their higher charges put them at a competitive disadvantage. The majority of European countries do not charge use of system charges to generators and, where they do, all except Ireland and Romania are at a lower level.

The proposal would change the G:D split, reducing the proportion of TNUoS charges paid by generators. It is suggested that the reduction is to a split of 15:85, which corresponds with the approach modelled under Project Transmit. However, other splits which reduce the proportion of TNUoS charges paid by generators could also be considered by the workgroup.

The direct consequence of the proposal would be to level the playing field with generators in other European countries. This would facilitate competition in generation in the wider European market through improved harmonisation of the regulated costs faced by generators in different countries. It would also be a timely move given the growing momentum towards implementing the internal energy market which is planned to be completed this year.

Not implementing the proposal will mean that GB generators are increasingly disadvantaged against their European competitors as the European market continues to develop.

The impact on suppliers and therefore consumers is expected to be neutral. Vertically integrated generators will reflect the reduced TNUoS charges in the wholesale costs borne by their retail businesses whereas an overall reduction in TNUoS charges for generators will prevent the mothballing of gas plant owned by independent generators. The continued operation of these plants will therefore support wholesale price stability, promote competition in

the generation sector and ensure security of supply.

As stated, the main purpose of the proposal is to seek a more level playing field with European generators. A further consequence is that the proposal would also improve the predictability of TNUoS charges for generators and reduce the risk of unexpected shocks.

At the zonal level TNUoS charges have proved to be very difficult to predict over recent years, with individual generators seeing significant changes in the charges they are asked to pay year-on-year. Given that the current level of the charge makes it a significant business cost, it makes planning more difficult and uncertain and also introduces an unnecessary element of risk for generators looking to enter into long-term contracts. By reducing the level of charges paid by generators as a class, the proposal would significantly reduce this impact on generators. A more predictable charging background would help facilitate investment and therefore competition.

Suppliers would bear an increased proportion of the TNUoS costs. However, suppliers are less exposed to changes to locational charges: as demand zones cover larger and different areas to the generation zones. Suppliers are also exposed to a higher proportion of their charge made up by the residual charge. Changes therefore tend to be smoothed out when compared to generation changes. Therefore the proposal should result in an overall increase in certainty of charges across generation and supply.

A further additional benefit of the modification proposal is it would address the current uncertainty over the future of the G:D split. There are two particular aspects to this uncertainty:

First, in 2012 an industry working group suggested a revised split should be implemented as part of Project Transmit largely on competition grounds owing to GB practice being out of line with virtually all of our European neighbours. On that occasion Ofgem noted the case for change but asked that the CUSC Panel keep the matter under review;

Second, National Grid has itself brought forward a change proposal, *CMP224 Cap on the Total TNUoS Target Revenue to be Recovered from Generation Users*, which is currently undergoing assessment, which could result in a limited rebalancing of charges away from generators in the event that average charge to generators expressed in €/MWh exceeded a threshold of €2.50/MWh.¹ Our proposal to reduce the share of TNUoS charges faced by generators could address in a straightforward way the issue of TNUoS generation charges remaining within the *Tarification Guidelines*, depending on the European Commission's decision following ACER's review of the current required range for generation charges.²

More generally this issue of the split has consistently been at the top of the list of issues to address compiled by National Grid from members of the Transmission Charging Methodology Forum (TCMF). If this issue is not addressed, it will continue to be a source of regulatory risk and therefore to act to the detriment of competition between generators.

Description of the CUSC Modification Proposal

Background

The latest overview of European transmission tariffs by ENTSO-E issued in June 2013 demonstrates that GB is an outlier in terms of the level of transmission tariffs. Of 32 countries surveyed over half had no generator component but only two (Ireland and Romania) paid levels higher than GB. ENTSO-E's report can be found [here](#).

The G:D split of TNUoS charges was considered as part of the *Project Transmit Significant Code Review*. The initial report of the technical working group issued in September 2011 concluded that there were three potential reasons for change in this area:

- (i) the relative competitive position of GB generators based in interconnected EU markets;
- (ii) the binding EU *Tarification Guidelines* arising from the *Regulation of Cross Border Electricity Exchanges*; and
- (iii) the proportion of total transmission revenue collected from offshore generators through the local circuit.

The workgroup and Ofgem agreed there could only be a change to the current G:D split arrangements if there was convincing evidence to justify such a change and the implications had been fully considered. There was consensus that reasons (i) and (ii) were sufficient to warrant a reduction in the proportion of transmission revenue recovered from generators.

The workgroup therefore agreed that in the Project Transmit modelling scenarios the generator proportion of TNUoS tariffs would reduce to 15% to comply with *Tarification Guidelines*, and that the reduction would apply from April 2015 to March 2030. It agreed the most appropriate way of changing the split would be a single step change with sufficient notice to allow all parties time to adapt.

The Project Transmit working group report can be found [here](#).

In its conclusion document to the Project Transmit *Significant Code Review* issued in May 2012 Ofgem decided that a change to the G:D split was not necessary at that time. However, it noted that respondents were broadly split between those who believed that a decision should be taken more immediately and those that thought a change was not necessary at that point. It said respondents in this latter group believed that any proposals for change should be progressed through the normal amendment process.

The regulator noted that those disagreeing with its view gave two sets of reasons. First there was a concern that the lack of firm policy could lead to regulatory uncertainty and negatively affect the required adjustment of wholesale market contracts. Secondly, advocates of a reduction in the generator share towards zero argued that such a change would better align the UK with its European counterparts, thereby levelling the transmission charging playing field and improving the competitiveness of GB generation in Europe.

Ofgem said National Grid Electricity Transmission should keep the issue under review and make proposals for change as and when necessary through the normal amendment process. As part of this process it should consider the *EU Tarification Guidelines* and the impact on trade between Member States.

The Project Transmit SCR conclusions can be found [here](#).

The development of the *Tarification Guidelines*, which were consulted on by ERGEG which provided recommendations to the European Commission, indicates that the direction of progress is towards lower generator charges. It commented that a small generator charge was unlikely to distort competition, particularly within the European continental plate. In relation to other regions already engaged in the harmonisation process, such as the "Nordel" zone, Great

Britain and Ireland complete harmonisation could only be achieved in the long run. Different ranges for the average generator charge would be applied and the ranges re-examined at a later stage.

The comments can be found [here](#), and the explanatory note [here](#);

Proposal

This modification would change the split of total TNUoS charges between generation and supply from the current 23:73 to a lower share of charges for generators, suggested to be 15:85, although other splits could be considered by the workgroup. Once locational charges had been set as per the current methodology, the total charge to generators made good by the residual charge applied to generators would be set so that the total revenue derived from generators would be 15% of allowed revenue in any particular year.

The proposal is aimed at levelling the playing field in Europe, enabling GB generators to compete more easily by reducing or removing a charge that their competitors abroad either do not face at all, or face at much lower levels.

With the completion of the European internal energy market due this year, the proposal is very timely. Looking ahead to a more integrated European market the proposal would place GB generators in a position where they are no longer disadvantaged against their active competitors in other countries.

In addition the proposal would also materially address the issue of predictability of TNUoS charges overall by reducing the exposure of generators as a class, who would see a proportionately lower residual charge. The proposal would not change the predictability associated with the locational element of the charge, either under the current charging methodology or under any changes introduced under *CMP213 Project Transmit TNUoS Developments*.

The proposal would also remove the uncertainty arising from the widely perceived need to address this issue and provide an enduring approach, fixing the G:D split going forwards. Although raised in the Project Transmit process, the issue of an enduring resolution of the G:D split has not yet been addressed in the CUSC process, though National Grid has on a number of occasions flagged a need for a review to TCMF.

The ratio 15:85 has been suggested to reflect the decision of the Project Transmit technical workgroup, but other ratios which lowered the generator share could also be considered. It was noted by the group that this reduction would be sufficient to ensure no breach of Regulation 838/2010 took place before 2020 in the "worst case" assumption. This is therefore a practical solution that will materially help generators in planning their businesses and in competing on the European playing field.

Implementation

Implementation is suggested to be after not less than one full charging year after an Authority decision to allow for industry adjustment of commercial agreements or 1 April 2016 (whichever is the earlier). Given the notice provided by this change proposal, this would also provide suitable notice of change to generators in the planning, consenting or building phase.

Impact on the CUSC

The proposal would impact *Section 14 Part 2 - Section 1 The Statement of Use of System Charging Methodology*.

Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes / No

No.

Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information

- BSC
- Grid Code
- STC
- Other
(please specify)

Urgency Recommended: Yes / No

No

Justification for Urgency Recommendation

Not Applicable

Self-Governance Recommended: Yes / No

No

Justification for Self-Governance Recommendation

Not Applicable

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?

It is not believed that this proposal will interact with any ongoing SCRs.

Impact on Computer Systems and Processes used by CUSC Parties:

DCLF ICRP transport model

Details of any Related Modification to Other Industry Codes

None

Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives for Charging:

Please tick the relevant boxes and provide justification for each of the Charging Methodologies affected.

Use of System Charging Methodology

- (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

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).

Full justification:

The proposal would facilitate relevant objective a) by supporting effective competition in the wider European generation market through a reduction in the proportion of total TNUoS charges paid by generators.

It would also provide a more stable TNUoS charging environment for generators which would enable better planning and decision making and thereby enhance competition.

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The proposal would also facilitate objective c) in relation to taking proper account of developments in transmission licensees' transmission businesses.

The proposal would support objective d) by reflecting the full implementation of the European internal market due in 2014 and therefore the necessity to create a more level playing field for GB generators against European competition.

Connection Charging Methodology

- (a) that compliance with the connection 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 connection 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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);
- (c) that, so far as is consistent with sub-paragraphs (a) and (b), the connection charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;
- (d) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.
- (e) 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.

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).

Full justification:

Not applicable.

Additional details

Details of Proposers: (Organisation Name)	Intergen (possibly others, including Vitol)
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Nigel Cornwall Cornwall Energy 01603 604406 nigel@cornwallenergy.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Robert Longden Associate of Cornwall Energy tbc rcl@longdenr.wanadoo.co.uk
Attachments (Yes/No): No If Yes, Title and No. of pages of each Attachment:	

Contact Us

If you have any questions or need any advice on how to fill in this form please contact the Panel Secretary:

E-mail cusc.team@nationalgrid.com

Phone: 01926 653606

For examples of recent CUSC Modifications Proposals that have been raised please visit the National Grid Website at <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Current/>

Submitting the Proposal

Once you have completed this form, please return to the Panel Secretary, either by email to jade.clarke@nationalgrid.com and copied to cusc.team@nationalgrid.com, or by post to:

Jade Clarke
CUSC Modifications Panel Secretary, TNS
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

If no more information is required, we will contact you with a Modification Proposal number and the date the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, the Proposal can be rejected. You will be informed of the rejection and the Panel will discuss the issue at the next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform you.