

. Workgroup Consultation Response Proforma**CMP368 & CMP369**

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 2 July 2021**. 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 Jennifer Groome Jennifer.Groome@nationalgrideso.com or cusc.team@nationalgrideso.com

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I wish my response to be:

(Please mark the relevant box)

 Non-Confidential Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel, the Workgroup or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

CMP368**For reference the Applicable CUSC (non-charging) Objectives are:**

- The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;*
- 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;*
- Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- 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).*

CMP369**For reference the Applicable CUSC (charging) 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; and*
- e. *Promoting efficiency in the implementation and administration of the system charging methodology.*

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

CMP368 Standard Workgroup Consultation questions	
1	<p>Do you believe that the CMP368 Original Proposal better facilitates the Applicable Objectives?</p> <p>We do not believe that the CMP368 Original Proposal better facilitates the Applicable Objectives because we believe it has a negative impact on non-charging Objectives b) and c). This is because we believe that the removal from the compliance calculation of TNUoS Charges payable by TNUoS-liable Embedded (Distribution Connected) Generators (estimated by NGESO at approximately £7m for the 2022 charging year) is an incorrect application of the Limiting Regulation. This proposed change, having a negative impact versus the baseline, is more material than the other proposed change which is to remove only a small proportion of the local circuit charges from the Connection Exclusion (estimated at less than £2m for the 2022 charging year). We believe that only the volumes of TNUoS-liable Embedded Generators should be removed from the Compliance Calculation.</p> <p>We disagree with the treatment of upgrades and interconnectedness in the Connection Exclusion. Where the compliance calculation is likely to result in the €0-€2.50/MWh range being exceeded in the absence of an adjustment, we believe that as a general rule it is appropriate to underestimate rather than overestimate the charges to be excluded in order to maintain compliance.</p> <p>Whilst the changes proposed by the Original Proposal are currently of relatively low materiality, we are not able to calculate or assess the materiality of the alternatives in the absence of transparency. It is our expectation that with an expanding network, and with an increasing number of upgrades and interconnectedness, any inaccuracy in the application of the Limiting Regulation will become increasingly material.</p> <p>It is important that GB adopts a common interpretation of the Limiting Regulation with EU Member states in order to remove distortions, increase the efficiency of investment decisions by generators and level the playing field across Europe. The interpretation of the Limiting Regulation into the CUSC needs to be accurate and correctly follow the precise wording and intent in order to lead to a higher</p>

		<p>degree of predictability and certainty with respect to tariff development.</p> <p>It is important that Transmission Charges can be forecasted as accurately as possible in order to maximise investor confidence. Transmission Charges are likely to be highly material for generation asset investment decisions and the more unpredictable and uncertain they are, the higher the risk capital costs are likely to be for investors which might result in an increase in their CFD and Capacity Market bids.</p>
2	Do you support the proposed implementation approach?	<p>We do not support the proposed implementation approach.</p> <p>The Original Proposal is highly complex and will be subjective in its application to a wide range of real life scenarios, and will therefore need to be considered on a case by case basis for each network asset.</p> <p>Full transparency of each element of the calculation and its application to each local asset will be required in order to achieve a common understanding of how the principles are applied and how compliance should be calculated. We expect that this will require significant resources, both by NGENSO to calculate, and by industry to interpret, understand and therefore be able to forecast future Transmission Charges which is essential for investor confidence and to minimise risk capital costs.</p> <p>The Original Proposal does not include details of any transparency framework and does not put associated obligations on NGENSO which we believe is required to meet Section 4c) of the Workgroup Terms of Reference, namely to 'Consider the transparency of compliance with Regulation 838/2010 (the Limiting Regulation)'.</p>
3	Do you have any other comments?	We do not have any other comments.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	We note that workgroup participants intend to raise a number of Workgroup Alternative Requests, including a proposal to remove the exclusion of Embedded Generator Charges in the definition of Forecast and Actual TNUoS Charges paid by Generators. Should this Alternative Request not be raised for any reason, we would wish to raise this Alternative Request ourselves.

1	Do you believe that the CMP369 Original Proposal better facilitates the Applicable Objectives?	We do not support the Original Proposal due to the negative impact of the changes in the definitions on the compliance calculation on charging objectives a, d, and e.
2	Do you support the proposed implementation approach?	We do not support the proposed implementation approach. In our view the compliance calculation needs to be widened to include Transmission Charges as defined in the Limiting Regulation, rather than TNUoS Charges alone.
3	Do you have any other comments?	We do not have any other comments.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	We would raise any Alternative Request in line with any Alternative Request we raised under CMP368.
CMP368 & CMP369 Modification Specific Workgroup Consultation questions		
5	The Proposer is proposing that the both the volumes <u>and</u> charges of Large Distributed Generators are excluded in the compliance calculation, whereas the potential alternative proposes that only the volumes are excluded. Which option do you support and why?	<p>There is no distinction made between Distribution Connected (i.e. Embedded) Generators and Transmission Connected Generators in the definition of 'producers' used in relevant EU Regulations and Directives which is 'a natural or legal person generating electricity'. ACER does not make a distinction between Transmission Connected and Distribution Connected Generators in its Practice Report on Transmission Tariff Methodologies of December 2019, and recognises that both types of Generator may be contributing towards Transmission Tariff Charges. The report also defines 'Network user' to mean 'a natural or legal person connected to the transmission or distribution network'.</p> <p>Therefore, in our view it is clear that where the Limiting Regulation refers to 'transmission tariff charges' and 'energy injected into the transmission system', it is directly aligned with the definition of the GB transmission network and associated charges as described in the CUSC. Therefore, in our view, to comply with the Limiting Regulation, the Transmission Tariff Charges paid by Large Distributed Generators should not be excluded from the calculation. Meanwhile, the contribution by Large Distributed Generators to the 'total measured energy injected annually by producers to the transmission system' is zero, and therefore</p>

		<p>their production volumes should be excluded from the calculation.</p> <p>Therefore, we support the Alternative Proposal because we believe that the volumes of Large Distributed Generators should be excluded from the calculation, but not the charges. In our view, the calculation to date has been incorrect and it may be appropriate to make a retrospective adjustment.</p>
6	<p>Station demand charges (TNUoS Triad charges on power station demand) would, with the original, be excluded, however the potential alternative would include them. Which option do you support and why?</p>	<p>We support including station demand charges into the compliance calculation. The Limiting Regulation does not make a distinction between charges paid by producers for imports or for exports, and for the reasons outlined in our response to Question 1 above, we believe it is important to follow the precise wording as far as possible. Therefore, we would support the Alternative rather than the Original Proposal.</p>
7	<p>Station demand charges (TNUoS Triad charges on power station demand) would, with the original, be excluded, however the potential alternative would include them. Which option do you support and why?</p>	N/A
8	<p>The Original proposal would not change the current treatment of transmission charges or the associated volumes relating to storage when assessing compliance with the Limiting Regulation. Do you agree with this approach, and if so why?</p>	<p>We note that the definition of storage in the CUSC (in which storage also is defined as generation), is identical to that in EU Directive 2019/944 except for the first part of the EU definition that “energy storage’ means, in the electricity system, deferring the final use of electricity to a moment later than when it was generated’. However, we do not think this first part of the EU definition is inconsistent with the definition of storage being generation in the CUSC since we agree that the final use of this electrical energy is indeed deferred.</p> <p>Therefore, we believe that storage should not be treated any differently from any other form of generation in the calculation.</p>
9	<p>Do you believe that both generation charges and volumes of storage assets should be included in the compliance calculation (page</p>	<p>We believe that for transmission connected storage assets, both the transmission charges and the volumes injected onto the transmission system should be included in the calculation. However, whilst the transmission charges of large distribution</p>

	11)? Does this depend on whether the storage is transmission or distribution connected? Please provide your rationale.	connected storage assets should still be included, the volumes should be excluded from the calculation since they are not injected onto the transmission system.
10	<p>What do you think is the appropriate time stamp for defining whether a network asset is “pre-existing” (page 11)? E.g. when a generator wished to connect, was the network asset:</p> <ul style="list-style-type: none"> a. Already planned to be built b. Already committed to be built c. Already under construction d. Finished construction e. Commissioned and fully operational 	<p>We believe a network asset should be considered “pre-existing” when it is already committed to be built (Option b). It is common practice that the construction contracts for any network assets required for connection are signed at exactly the same time in conjunction with the relevant BCA or BEGA. If the construction contracts for a network asset are already signed and committed to be built, it is very unlikely to be in order to connect a generator whose BCA or BEGA is yet to be signed.</p> <p>It will be necessary for NGESO to publish asset investment decision dates for the purposes of transparency to demonstrate compliance with the Limiting Regulation.</p>
11	Do you consider there to be any specific changes to a BCA that may trigger the reclassification of assets? If so, please provide your rationale.	<p>We believe it would be appropriate to reclassify the Physical Assets Required for Connection where a relevant generator has decommissioned an existing generation asset and invested in a new asset. We believe it is important that the decision on reclassification is codified so that it is objective and not subjective. We recognise that it may be difficult to establish an appropriate trigger and it may be necessary to specify a number of different triggers, any of which could cause a reclassification of assets. For instance, site disconnection may be one such trigger, but this will not capture all scenarios, for example where a phased approach is taken to the decommissioning and replacement of assets so that a given site never actually disconnects or reduces its TEC.</p> <p>We believe that the trigger for reclassification of assets is a complex issue and it needs further consideration. We believe that the solution requires a conservative estimate of the Connection Exclusion to be confident of compliance with the Limiting Regulation.</p>
12	Do you think an obligation should be placed on the ESO to publish the outturn value	We agree the ESO should publish the outturn value and transparently show the working for calculating the average transmission charge,

	<p>and transparently show the working for calculating the average transmission charge paid by generators (page 15)? Please explain your rationale.</p>	<p>including the Connection Exclusion so that generation owners and investors can better forecast their Transmission Charges. The more complex the calculation is, the more important it is to publish the full details. A higher level of transparency would foster a common understanding of the interpretation and application of the business rules (which may otherwise vary between parties) helping to reduce uncertainty in Transmission charges. The Connection Exclusion illustrations in Figures 1-5 in the Workgroup Report do not adequately demonstrate the proposed methodology. In particular, Figure 2 presents the possibility of thermal uprating of an LC1 but the report does not address this scenario and explain how the Connection Exclusion is calculated in this case. Hence in our view the report does not explain how pre-existing circuit redundancy is treated, which is a critical part of the Original Proposal. The examples also do not illustrate whether or how the charges in the Connection Exclusion vary from the actual generators' charges, what might cause the local tariff charges to change, or how the Security Factor or Scaling Factors might affect the Connection Exclusion.</p> <p>We understand that the obligation previously fell to Ofgem to report and demonstrate compliance to the European Commission and ACER. We think it is important that compliance continues to be demonstrated through full transparency.</p>
13	<p>How should charges be treated relating to upgrades to local assets? Please explain your rationale.</p> <ol style="list-style-type: none"> Only exclude charges for new upgrades that are paid by a new generator. Exclude charges paid for the new upgrades that are paid by both existing and new generators. Do not exclude any cost related to new upgrades because the upgrade to 	<p>We support Option C. This is because it is entirely possible that generators will share all the available transmission capacity. A renewable generator, a battery and a CCGT for example are highly likely to be generating over entirely different periods. Therefore, the definition of what is required for physical connection is very subjective in our view. We note that Scaling Factors are used in the TNUoS Charging Methodology, but are not mentioned at all in the report which instead uses upgrades and reinforcements justified by using the full TEC in its examples. Due to the connect and manage approach, we understand that there is no minimum local circuit capacity defined for a new generator to connect. This same principle should be reflected in the Connection Exclusion</p>

	<p>pre-existing assets was not required to connect the new generator.</p> <p>d. Other</p>	<p>methodology, by recognising that in GB, the requirement for upgrades is always subjective.</p> <p>Options A and B would give an overestimate of the appropriate level of the Connection Exclusion, and as outlined in our response to Question 1, we do not think an overestimate is appropriate to maintain compliance with the Limiting Regulation.</p>
14	<p>Four different options are given on pages 22 of the Workgroup Consultation, two of which demonstrate different interpretations of “interconnectedness”. that the CMA identified. Figures 8-11 provide simple examples to help define what network assets should have their charges captured within the Connection Exclusion. Which of the two options (1 or 2) for “sufficient interconnectedness” do you agree with, and why?</p>	<p>We support Option 1 to only exclude charges for transmission assets that are new and form a part of a single user GOS. We note that the Workgroup Consultation document highlights that Option 2 is highly subjective and arbitrary and we do not believe that Option 2 is appropriate because this degree of subjectivity will make it increasingly difficult for investors to make a forecast of any Generation TNUoS adjustment that is required to be compliant with the Limiting Regulation.</p> <p>We are concerned that the classification of charges into Local Circuit Charges or Wider Network Charges is to some degree arbitrary and that different types of assets are sometimes moved between classifications.</p> <p>Therefore, in the absence of a clear methodology to determine sufficient interconnectedness, and to be consistent with the principle of avoiding an overestimate of the Connection Exclusion, as described in our response to Question 1, we support Option 1.</p>
15	<p>Option 3 (page 22) notes that the CMA says there may be other relevant factors - do you think any other factors should be taken into account, and if so, what?</p>	<p>We are not aware of any other factors that we believe should be taken into account.</p>
16	<p>The Proposer is considering a potential alternative to utilise data that already exists within the onshore TOs’ Price Control Finance Models (PCFM) (page 25-26), attached in Annex 5. This based on the assumption that a portion of total onshore local charges is associated</p>	<p>We do not support the potential alternative PCFM approach. We are not entirely familiar with the Generation connections volume driver calculations; however, we are concerned that the alternative option is based on an assumption of the proportion of NPEAs. The fact that a high level assumption would be made indicates a low level of accuracy and a significant degree of subjectivity which is not consistent with our expectation that the Original</p>

	with non pre-existing assets, and that this portion can be derived by comparing the Generation Connections Volume Driver with the total revenue across all three onshore TOs. Do you support this option? Why?	Proposal would need to be considered on a case by case basis, asset by asset.
17	Do you agree with the proposed definitions of non pre-existing assets 'NPEA' and pre-existing assets 'PEA'?	<p>We do not agree with the proposed definitions. We believe that in the NPEA definition the term 'were required to be built' needs to be more accurately defined in order to remove any subjectivity.</p> <p>We believe that PEAs should be redefined so that 'local assets that existed' is replaced by 'local assets for which an investment decision has been made'.</p>
18	Do you agree that the legal definitions in the Original Proposal should be limited to TNUoS charges only or include all transmission charges?	<p>We believe that the legal definitions should include all transmission charges minus Physical Assets Required for Connection and minus the element of BSUoS related to ancillary services, but for the avoidance of doubt should include BSUoS related to congestion management and energy balancing.</p> <p>We note that in ACER's 2019 Practice Report on Transmission Tariff Methodologies, 'costs of congestion management' is defined as a major cost category of transmission costs alongside 'cost of ancillary services and system balancing (energy)'. The report also quotes the "G-Charge", whose annual average value is capped by [the Limiting Regulation] and refers to transmission charges paid by producers, excluding connection charges, charges related to ancillary services and specific system loss charges'. There is no mention of the exclusion of congestion charges (i.e. congestion related BSUoS charges) in the G-Charge definition and therefore it is relatively clear in our view that at least some element of BSUoS should be included in the compliance calculation. Further, we note that of the major cost category 'ancillary services and system balancing', only the ancillary services element is excluded from the G-Charge, so it may be appropriate to include balancing costs from BSUoS in the G-Charge also.</p>

		<p>Further, the cost of transmission is directly inversely proportional to the cost of congestion, and hence the split between these charges is entirely dependent on the network capacity management strategy.</p> <p>We note that Ofgem's own web page on network charging explains that 'users of the transmission system are subject to three types of transmission charges: Connection charges, Transmission Network Use of System (TNUoS) charges and Balancing Services Use of System (BSUoS) charges.</p>
19	Do you agree that the legal text delivers the intent of the Original Proposal?	We agree that the legal text delivers the intent of the Original Proposal save for the clarification of "pre-existing" outlined in our response to Question 10 above, and the definition of "Physical Assets Required for Connection" needs further consideration to achieve a more specific definition.