

# Stage 03: Workgroup Report

## Connection and Use of System Code (CUSC)

# CMP239

## 'Grandfathering Arrangements for the Small Generator Discount'

What stage is this document at?

01	Initial Written Assessment
02	Workgroup Consultation
03	Workgroup Report
04	Code Administrator Consultation
05	Draft CUSC Modification Report
06	Final CUSC Modification Report

CMP239 seeks to implement 'grandfathering' arrangements in the CUSC from the expiry of Licence Condition C13 on 31<sup>st</sup> March 2016. The proposed arrangements would apply to those generators that currently receive the small generator discount and also to those generators that will connect by 31<sup>st</sup> March 2016 that would be eligible to receive the small generator discount.

This document contains the discussions and conclusions of the Workgroup which formed in November 2014 to develop and assess the proposal.

Published on: **16<sup>th</sup> April 2015**



### ***The Workgroup concludes:***

Half of the Workgroup concluded that WACM3 better facilitates the CUSC Objectives and should be implemented. Half of the Workgroup concluded that the baseline better facilitates the CUSC Objectives.



### ***High Impact:***

Generators that receive small generator discount



**Any Questions?**

Contact:

**Jade Clarke**

Code Administrator



[Jade.clarke@nationalgrid.com](mailto:Jade.clarke@nationalgrid.com)



01926 653328

Proposer:

Graeme Cooper

Fred.Olsen Renewables

[graeme.cooper@fredolsen.com](mailto:graeme.cooper@fredolsen.com)

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About this document

This is the Workgroup Report which includes the deliberations of the Workgroup, responses from the Workgroup Consultation and the final conclusions of the Workgroup.

Document Control

Version	Date	Author	Change Reference
0.1	2 <sup>nd</sup> April 2015	Code Administrator	Draft to Workgroup
0.2	16 <sup>th</sup> April 2015	Workgroup	Final Workgroup Report to CUSC Panel

## 1 Summary

- 1.1 This document describes the CMP239 Modification Proposal, gives a record of the Workgroup discussions, summarises responses to the Workgroup Consultation and contains the Workgroup's conclusions.
- 1.2 CMP239 seeks to implement 'grandfathering' arrangements in the CUSC from the expiry of Licence Condition C13 on 31<sup>st</sup> March 2016. The proposed arrangements would apply to those generators that currently receive the small generator discount and also to those generators that will connect by 31<sup>st</sup> March 2016 that would be eligible to receive the small generator discount.
- 1.3 CMP239 was proposed by Fred Olsen Renewables and submitted to the CUSC Modifications Panel (the Panel) for their consideration on 31<sup>st</sup> October 2014. A copy of this Proposal is provided in Annex 1. The Panel decided to send the Proposal to a Workgroup to be developed and assessed against the CUSC Applicable Objectives.
- 1.4 The Workgroup first met on 1<sup>st</sup> December 2014. The Workgroup considered the issues raised by the CUSC Modification Proposal. As part of their discussions the Workgroup noted that there are number of potential solutions to the defect CMP239 seeks to address.
- 1.5 The Workgroup met on the 13<sup>th</sup> March 2015 to discuss the 12 responses received to the Workgroup Consultation. Three Workgroup alternatives were progressed alongside the Original Proposal. Out of those Workgroup members who voted, half voted for the baseline and half voted for Workgroup Alternative CUSC Modification three (WACM3) when determining which option best facilitates the Applicable CUSC Objectives.
- 1.6 This Workgroup Report has been prepared in accordance with the Terms of the CUSC. An electronic copy can be found on the National Grid Website, [www.nationalgrid.com/uk/Electricity/Codes/](http://www.nationalgrid.com/uk/Electricity/Codes/) along with the CUSC Modification Proposal Form.

## 2 Background

- 2.1 Standard Licence Condition C13 requires National Grid Electricity Transmission (NGET) to discount Transmission Network Use of System (TNUoS) charges for eligible generators by a designated amount and to recover the shortfall this creates from demand users on a non-locational basis. This discount applies to sub-100MW generators connected at 132kV in Scotland and in offshore waters. The discount was introduced by the UK Government, at the time of BETTA in 2005, on the basis that it would create a level playing-field for those generators in Scotland and offshore that were transmission connected at 132kV but would have been classified as distribution connected in England and Wales; where 132kV is classified as 'distribution'. The level of the discount was determined by Ofgem and is based on 25% of the total generation and demand residual TNUoS tariff in a given charging year. In 2014-15 the discount was approximately £8.96/kW with an overall impact of around £13.4mn, which was recovered from demand customers across GB on a non-discriminatory and non-locational basis. The small generator discount figure for 2015/16<sup>1</sup> is approximately £10.11/kW with an overall impact of around £18.39M.
- 2.2 There are currently 29 generating stations in receipt of the small generator discount with a total capacity of around 1.5GW. Based on National Grid's Ten Year Statement, it is estimated that there are an additional 16 new projects (with 1.2GW of additional capacity) that could be connected at 132kV in Scotland before 1 April 2016.
- 2.3 The Standard Licence Condition C13 (SLC13), which was introduced into NGET's Transmission Licence in 2005 following the implementation of BETTA, was initially due to expire on 31<sup>st</sup> March 2008 pending an enduring arrangement. Due to other ongoing initiatives it was subsequently extended, by Ofgem, on several occasions. The most recent of these was in October 2012, when Ofgem published its decision to extend the discount by three years until 31<sup>st</sup> March 2016 to allow time for a solution to CMP213 (the Project TransmiT TNUoS Developments) to be determined. This reflected Ofgem's expectation that the industry would begin to work during this time to produce an enduring solution to embedded generation charging arrangements, including further consideration of the small generator discount. Its reasons for extending the discount at this time related to the potential fundamental changes to electricity transmission charging being progressed under CMP213 and the impact these may have on the enduring charging baseline.
- 2.4 National Grid initiated its recent informal review of transmission charging arrangements for embedded generation in April 2013 prompted by the April 2016 expiry date of SLC13, whilst also considering the options in respect of a broader review of transmission charging arrangements for embedded generation.
- 2.5 National Grid issued its conclusion to this informal review on 15th April 2014<sup>2</sup> indicating its view that SLC13 should be allowed to expire on 31<sup>st</sup> March 2016, with no further arrangements put in place. National Grid concluded that evidence provided by stakeholders now indicated that network charges faced by 132kV transmission connected generation without the small generators' discount were within the range faced by distribution connected generation and

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<sup>1</sup> Paragraph 5.3 of the Final TNUoS Tariffs for 2015/15, 30<sup>th</sup> January 2015

<http://www2.nationalgrid.com/UK/Industry-information/System-charges/Electricity-transmission/Approval-conditions/Condition-5/>

<sup>2</sup> <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Electricity-transmission/Transmission-Network-Use-of-System-Charges/Embedded-Benefit-Review/>

that, from a charging perspective, all 132kV generators in GB compete on a relatively level playing field, and all received locational signals for the cost of transmission. National Grid noted that, under open governance arrangements, another party could take forwards a formal proposal in this area if it believed it had evidence to support their proposal.

### 3 Modification Proposal

- 3.1 CMP239 seeks to amend the CUSC to implement grandfathering arrangements for the small generator discount on the expiry of the SLC13 Licence Condition from 31<sup>st</sup> March 2016. The proposed arrangements would apply to those generators that currently receive the small generator discount and to those connecting before 31<sup>st</sup> March 2016 that would be eligible. The proposal seeks to ensure that these generators continue to receive the discount until such time that the 132kV system in Scotland (and offshore) is designated as distribution (as it already is in England and Wales). It is proposed that the discount would be calculated on the same basis as it is currently<sup>3</sup>.
- 3.2 This will avoid a situation where current eligible generators and other generators shortly due to connect to the NETS are faced with very significant increases to TNUoS charges when the SLC13 licence condition expires in the absence of any other enduring arrangements being implemented. CMP239 also seeks to address the detrimental impacts to competition of the expiry of the small generator discount by ensuring that the existing arrangements continue until such time as the charging arrangements for 132kV connected generation in GB is on a 'like for like' basis; i.e. both are treated as 'distribution' connected.
- 3.3 The Modification would also take into account that generators have made commercial decisions based on the existing arrangements and that the significant costs from losing the small generator discount may in some cases threaten the feasibility of their business models. In 2014-15 this discount stands at £8.96/kW<sup>4</sup> which represents a significant proportion of transmission use of system charges that those generators face. By way of example, the Proposer has postulated that a 50MW onshore wind farm would see an increase in TNUoS costs of £448,000/year based on the current discount.
- 3.4 The proposal would seek to replicate the current SLC13 licence condition arrangements in the CUSC alone.
- 3.5 The proposal reflects the expectation of generators currently eligible for the discount that an enduring arrangement would have been put in place following the known need to address the issue of the difference in treatment (for the purposes of charging) between a 132kV connected generator in Scotland (or offshore) and one in England & Wales. It was noted that SLC C13 was clearly time-limited but the Proposer suggests that the legitimate expectation was that it would be replaced by an enduring solution. Further the Proposer believes that grandfathering is a much more credible assumption for investors to make than the small generator discount being removed completely. The Proposer therefore argues that this proposal would better facilitate competition through establishing a predictable regulatory environment.
- 3.6 The Proposer also considers that to put in place the grandfathering arrangements described would better facilitate taking account of the developments in transmission licensees' transmission businesses. This is because it seeks to allow orderly change in the face of the expiry of the SLC13 licence condition through maintaining the current arrangements for existing eligible generators and those connecting up to 31<sup>st</sup> March 2016.
- 3.7 The proposal is not seeking to maintain the small generator discount for all generators that meet the current criteria for the discount indefinitely but to balance the objective to ensure that the charging methodology is cost

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<sup>3</sup> See paragraph [2.1] for further details.

<sup>4</sup> The figure, for charging year 2015/16, now stands at approximately £10.11/kW.

reflective with the impacts on competition if the discount is allowed to expire suddenly.

3.8 The Proposer believes that the direct consequence of implementing the proposal therefore would be to create an ongoing stable charging environment for the affected generators. It would thereby also support the UK Government and Scottish Government renewable energy generation targets as many of the affected generators are renewable generators.

3.9 A further implication is that there would continue to be a charge to demand to fund the small generator discount, as currently.

3.10 On the 13<sup>th</sup> March 2015, in Workgroup meeting three, the Proposer made some amendments to the Original Proposal. These changes can be found in Section 4 and 5 of this report.

## 4 Workgroup discussions

### Presentation of Original Proposal

- 4.1 At the first Workgroup meeting, the Proposer presented the background and reasons for raising CMP239. The Original Proposal form can be found in Annex 1 and the supporting presentation can be found on the National Grid website.
- 4.2 At the final Workgroup meeting on the 13<sup>th</sup> March 2015, the Proposer's alternate clarified and amended the Original Proposal. He informed the Workgroup that the end date for the CMP239 discount would be 25 years from the 1<sup>st</sup> April 2016 (i.e. 31<sup>st</sup> March 2041). This would be for new generators connecting ahead of this date. For existing generators currently in receipt of the small generator discount this would be maintained for 25 years from their plant commissioning date. The discount would continue to be calculated as it is today as 25 percent of the total residual for the applicable charging year and the Original Proposal excludes any re-powering undertaken at the eligible generator site(s).
- 4.3 The Proposer stated that CMP239 aims to amend the CUSC to introduce grandfathering arrangements for existing eligible generators and for new generation connecting before 31<sup>st</sup> March 2016. The Proposer's view is that the small generator discount should continue in order to avoid a situation where eligible generators are faced with a sudden significant increase in their charges. The Proposer advised that the loss of this discount would completely change the cost profile of some wind farms which have had the same financial model for the past few years. The Proposer noted that the parties had considered there to have been expectation of an enduring arrangement being put in place before the expiry of SLC13.
- 4.4 The Proposer initially intended that the CMP239 arrangements would stay in place until the 132kV system in Scotland and offshore is designated as distribution, and that generators connecting post-March 2016 would not be included in these grandfathering arrangements. It was suggested that there are not necessarily any plans to re-designate the 132kV system in Scotland from transmission to distribution in the future and noted that this Modification is therefore potentially proposing changing something which would last until the end of the lifespan of connected eligible generators. The reclassification of 132kV in Scotland from transmission to distribution was taken out of the Original Proposal at the third Workgroup meeting and was then put forward as WACM2 and part of WACM3 (please see section 5).
- 4.5 One Workgroup member noted that the small generator discount has always been a time limited arrangement and that it would be worth looking back at the decision to why it was time limited in the first place and whether there was any assumption to whether another change would come into place.
- 4.6 One Workgroup member advised the Workgroup that small generators are not necessarily obligated to connect at 132kV in Scotland; the Proposer agreed, however stated that due to the scarcity of the network in Scotland, there is little choice for generators when connecting and it is likely that 132kV will be the only feasible option. The same Workgroup member questioned with whom the small generator discount aims to provide a level playing field with; the Proposer noted that this would be generation connected to the 132kV system in England and Wales which are not subject to TNUoS charges due to the different classification of the 132kV system as transmission in Scotland (but distribution in England & Wales). The



Proposer also noted that generators connected to the 132kV system in Scotland would have had the option to connect to the distribution system in England and Wales in order to avoid these charges.

- 4.7 The Proposer noted that this 25% discount in TNUoS charges was established during the introduction of the British Electricity Trading and Transmission Arrangements (BETTA) with the SLC13 licence condition. The Proposer advised that SLC13 expires in March 2016 and so far no alternative solution has been proposed for enduring arrangements on the expiry of SLC13.
- 4.8 A Workgroup member clarified that the small generator discount currently applies to both generators under 100MW in Scotland and also offshore generators connected at 132kV throughout GB. The Workgroup member asked the Proposer if he was intending to deal with offshore generation under CMP239 as this had not been outlined within the Original Proposal form. The Proposer noted that he had approached this modification considering only projects of onshore wind and was open to suggestions from the Workgroup on how to deal with offshore generation. At the second workgroup meeting the Proposer confirmed that he was considering all currently eligible generation with this proposal not just that connecting in Scotland; i.e. all 132kV connected generation in Scotland and 132kV connected offshore generation in GB.
- 4.9 The Proposer noted that there is an element of acceptance that the market doesn't stay the same as the price of energy fluctuates, however there is also an element of looking ahead by forecasting and planning. The Proposer considered this can be very difficult when the small generator discount is simply removed as there was an assumption that there would be appropriate changes made to the SLC13 discount rather than it being removed. The Chair actioned the Workgroup to find correspondence or publications that indicated that there would be some other arrangements introduced at the expiry of SLC13.
- 4.10 It was suggested that this Modification could be seen as unfair for those connecting just after the expiry of SCC13 in March 2016. One Workgroup member suggested that if this Modification was to be approved by the Authority, it should be clear what the pre-qualification for grandfathering should be as there may be some alternatives suggested to this.
- 4.11 One Workgroup member stated that it could be treated similarly to Contracts for Difference (CfDs) under the Electricity Market Reform (EMR) and based on when the final investment decision is made. Another Workgroup member agreed that this would be a sensible approach, noting that EMR gives a structured timeline of final investment decision and then gives a timeline for connection (subject to National Grid delay).

#### **Scope of Modification and clarification of defect**

- 4.12 The Workgroup thought that it was important to clarify the scope of CMP239 for the Workgroup Consultation. It was felt that it was relevant to discuss the need; value and impact of the small generator discount to understand the implications of grandfathering but agreed that any change to the small generator discount, or analysis on the need for the discount would be out of scope for the Workgroup.
- 4.13 The Proposer clarified the defect for CMP239 and noted that it was only announced in 2014 that there wouldn't be any enduring arrangements for the small generator discount, which only gives generators two years notice. This change would entirely change the balance sheets of some generators which increases risk and uncertainty and therefore is not appropriate. If a

change was to be made to completely change the assumptions which are used to predict years of cash flow, there would need to be valid reasoning for this, of which there seems not to be.

- 4.14 The Proposer clarified that this Modification is not about determining the right level for the small generator discount; it is looking to protect generators that have only been given two years notice for a major change by using grandfathering arrangements. It was noted that there was already an imbalance of treatment, which was why the discount was introduced. This modification is not trying to assess any imbalance of treatment that may or may not still exist; it is attempting to keep the status quo to protect generators from changes to their forecasted cash flows. The Proposer noted that it is irrelevant to this modification what the value of the discount is or whether it should still be in place due to discrepancy of different generation.
- 4.15 It was noted that CUSC modifications require the identification of a defect which the proposal seeks to improve in relation to the applicable CUSC objectives. Whilst potential options to improve a defect can be suggested by stakeholders, the defect cannot be broadened.

### **Value and impact of the Small Generator Discount**

- 4.16 One Workgroup member noted that there are a number of generators highlighted in the Proposer presentation as having received this discount and that it would be worthwhile calculating the total value of the small generator discount and what impact on the residual it has. The National Grid representative has subsequently confirmed that the discount in the 2014/15 charging year was approximately £8.96/kW<sup>5</sup> and the total value of the discount was around £13.4M.
- 4.17 Another Workgroup member questioned whether there is any impact on suppliers. The National Grid representative stated that the small generator discount is based on the summated generation and demand residuals of the TNUoS charge and is simply added to the revenue to be recovered from Suppliers. Therefore, removing this discount would reduce the supplier's demand charges. One Workgroup member noted that there was additional information on this published within the five year forecast published in October 2014<sup>6</sup>.
- 4.18 One Workgroup member questioned whether there is a current methodology to calculate the discount of 25% and that it would be useful if the Workgroup could have sight of this so that they can see how the value may have changed since it was introduced. It was also asked whether the Proposer suggests freezing the value of the discount either in real terms or at current values.
- 4.19 In the second Workgroup meeting, the National Grid representative presented tables comparing TNUoS charges from the charging years 2005/06 when BETTA was introduced to those in 2013/14, 2014/15 and a forecast for 2015/16 on a common price base. These are shown below in tables 1 and 2. Table 1 shows this for the impact for onshore generation only whilst the second table includes offshore generation as well. All prices are shown in 2013/14 charging year values

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<sup>5</sup> The figure, for charging year 2015/16, now stands at approximately £10.11/kW

<sup>6</sup> <http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=33228>

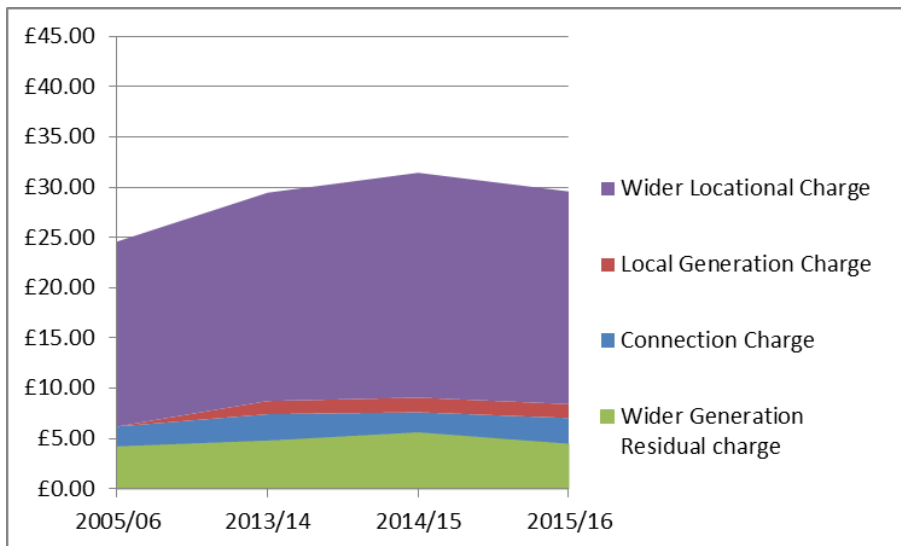
TNUoS Charges for 132 kV Connected Qualifying Small Generators (onshore only)												
£/kW	2005/06 BETTA			2013/14			2014/15			2015/16		
	Max	Average	Min	Max	Average	Min	Max	Average	Min	Max	Average	Min
Connection Charge	£4.24	£1.97	£0.00	£13.73	£2.62	£0.00	£13.67	£1.99	£0.00	£13.29	£2.55	£0.00
Local Generation Charge	£0.00	£0.00	£0.00	£4.90	£1.31	-£0.87	£6.17	£1.46	£0.17	£6.16	£1.39	-£0.87
Wider locational charge	£22.93	£18.39	£13.23	£25.44	£20.71	£8.03	£27.12	£22.36	£8.12	£22.72	£21.15	£8.08
Wider Generation Residual charge	£4.23	£4.23	£4.23	£4.81	£4.81	£4.81	£5.63	£5.63	£5.63	£4.49	£4.49	£4.49
Small generators discount	-£4.69	-£4.69	-£4.69	-£7.55	-£7.55	-£7.55	-£8.68	-£8.68	-£8.68	-£9.30	-£9.30	-£9.30
Totals	£3.79	£1.52	-£0.45	£15.89	£1.19	-£3.61	£16.79	£0.39	-£2.89	£14.64	-£0.87	-£5.67
Total without Discount	£8.48	£6.20	£4.23	£23.44	£8.74	£3.94	£25.47	£9.08	£5.80	£23.94	£8.43	£3.63

**Table 1 – TNUoS charges for onshore 132kV connected qualifying small generators**

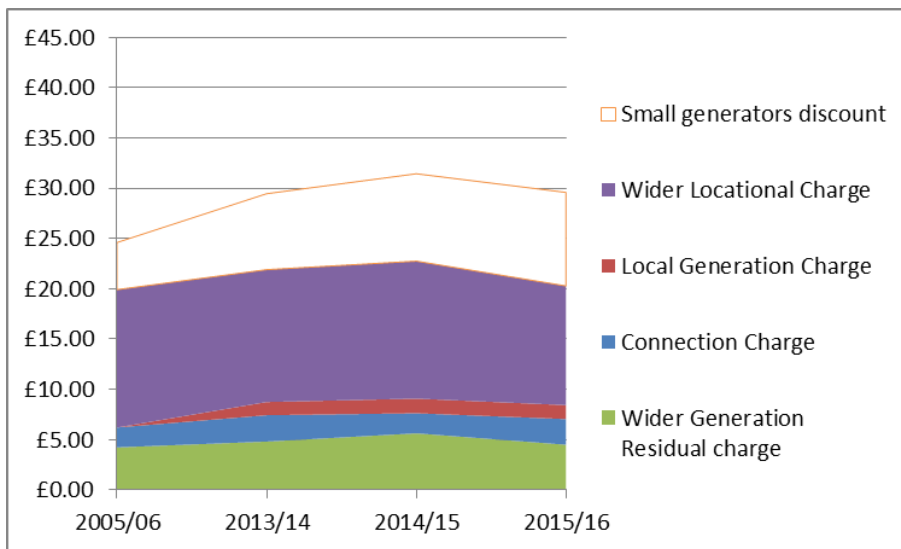
TNUoS Charges for 132 kV Connected Qualifying Small Generators (inc. Offshore)												
£/kW	2005/06 BETTA			2013/14			2014/15			2015/16		
	Max	Average	Min	Max	Average	Min	Max	Average	Min	Max	Average	Min
Connection Charge	£4.24	£1.97	£0.00	£13.73	£2.62	£0.00	£13.67	£1.41	£0.00	£13.29	£1.78	£0.00
Local Charge	£0.00	£0.00	£0.00	£4.90	£1.31	-£0.87	£50.63	£9.86	-£0.39	£50.58	£10.07	-£1.43
Wider locational charge	£22.93	£18.39	£13.23	£25.44	£20.71	£8.03	£27.12	£25.42	-£2.19	£22.72	£24.63	-£2.57
Wider generation residual charge	£4.23	£4.23	£4.23	£4.81	£4.81	£4.81	£5.63	£5.63	£5.63	£4.49	£4.49	£4.49
Small generators discount	-£4.69	-£4.69	-£4.69	-£7.55	-£7.55	-£7.55	-£8.68	-£8.68	-£8.68	-£9.30	-£9.30	-£9.30
Totals	£3.79	£1.52	-£0.45	£15.89	£1.19	-£3.61	£61.25	£8.21	-£3.45	£59.06	£7.04	-£6.23
Total without Discount	£8.48	£6.20	£4.23	£23.44	£8.74	£3.94	£69.93	£16.89	£5.23	£68.36	£16.34	£3.07

**Table 2 - TNUoS charges for all 132kV connected qualifying small generators**

4.20 The National Grid representative also showed graphically the impact of the small generator discount on eligible generators. Figure 1 shows the average charges paid by those eligible generators if the small generator discount had not existed, and Figure 2 shows the charges after the application of the small generator discount. The National Grid representative noted that the graph shows an increase in small generator discount compared to little or no increase in other transmission charge elements.



**Fig.1. – Average charge faced by eligible generation if small generator discount has not applied.**



**Fig.2 – Impact of small generator discount on average charge for eligible generation**

- 4.21 The National Grid representative advised that it was difficult to obtain the information needed for similar analysis on distribution charges and therefore none had been produced (see also paragraph 4.25).
- 4.22 Another Workgroup member asked whether there was a methodology behind the 25% discount and why it was set at this. The National Grid representative noted that it seems that the 25% discount was originally proposed as this was in line with the G:D Split at the time of BETTA. Ofgem used a model to derive this figure as outlined in Ofgem’s ‘BETTA ‘minded-to’ statement on the interim discount for small transmission connected generators and impact assessment’<sup>7</sup>.
- 4.23 With proposed changes to the G:D split agreed by the Authority (CMP224) and in progress (CMP227), the Workgroup considered what impact a changing G:D split would have on the Small Generator Discount. It was suggested that as the revenue to fund the small generator discount is recovered from suppliers then there should be no overall impact to the end consumer bills. However as the G:D split reduces, then the small generator discount will relatively increase in comparison to the average TNUoS charge paid by a transmission connected generator.
- 4.24 The Workgroup discussed the possible cost per home of CMP239 and it was suggested that if charges took a separate path to the consumer, there should be no difference to the overall contribution to domestic bills. The National Grid representative noted that they do not publish a method for determining the average impact per home; however it may be estimated by taking the impact of the discount on the NHH tariffs and multiplying this by an estimated level of metered demand. This would equate to roughly 40.1p per home per year in charging year 2014/15.
- 4.25 The Workgroup discussed the possible cost per home of CMP239 again at the final Workgroup. The Workgroup discussed that a few Consultation respondents had come to differing conclusions on the amount and as such wanted to give the Authority a firm figure. The Group worked through the figures and came to the amount of 17p per home based on the charging year 2014/15 figures. This was derived by starting with the £13.4M total cost figure for the small generator discount being allocated to suppliers,

<sup>7</sup> BETTA ‘minded-to’ statement on the interim discount for small transmission connected generators and impact assessment <https://www.ofgem.gov.uk/ofgem-publications/54833/9127-28204.pdf>

approximately one third of which is domestic. This gives £4.47M total cost to domestic properties. With approximately 27.4M homes in the UK this gives a final annual cost per home of around £0.17.

4.26 Based on this result, the National Grid representative reviewed his calculation and circulated a revised calculation including the working out. He concluded that he had used a spreadsheet that worked out the Domestic NHH proportion and divided it across 25,000,000 domestic properties using the draft tariffs model. This gave him the annual figure of 38p per home. He then provided his calculations using the final tariff of 0.0479 p/kWh (this applies to the approximate metered demand per household). This resulted in a household annual impact of 27p. The spreadsheet detailing the calculation used can be found at Annex 3.

4.27 It was suggested by a Workgroup member that the small generator discount is broken down into technologies which should be available from the Transmission Entry Capacity (TEC) Register. Prior to the second Workgroup meeting, National Grid circulated this information to the Workgroup and this is shown below in Table 3.

Charge Party	Power Station	Gen Zone ID	JAN TEC	Tech
AN SUIDHE WIND FARM LIMITED	An Suidhe	7	20.7	Wind Onshore
BARROW OFFSHORE WIND LTD	Barrow	14	90	Wind Offshore
E.ON CLIMATE AND RENEWABLES UK ROBIN RIGG EAST LTD	Robin Rigg East	12	92	Wind Offshore
E.ON CLIMATE AND RENEWABLES UK ROBIN RIGG WEST LTD	Robin Rigg West	12	92	Wind Offshore
FARR WINDFARM LIMITED	Farr Windfarm	1	92	Wind Onshore
GREENPOWER (CARRAIG GHEAL) LTD	Carraig Gheal	7	46	Wind Onshore
GUNFLEET SANDS LTD	Gunfleet Sands I	18	99.9	Wind Offshore
GUNFLEET SANDS II LTD	Gunfleet Sands II	18	64	Wind Offshore
LZN LIMITED	Lochluichart	1	69	Wind Onshore
MILLENNIUM WIND ENERGY LTD	Millennium Wind	3	65	Wind Onshore
SCOTTISHPOWER RENEWABLES (UK) LTD	Dunlaw Extension	11	29.75	Wind Onshore
SSE GENERATION LTD	Aigas	1	20	Hydro
SSE GENERATION LTD	Clunie	5	61.2	Hydro
SSE GENERATION LTD	Culligran	1	19.1	Hydro
SSE GENERATION LTD	Deanie	1	38	Hydro
SSE GENERATION LTD	Errochty	5	75	Hydro
SSE GENERATION LTD	Fasnakyle G1 & G3	3	46	Hydro
SSE GENERATION LTD	Finlarig	6	16.5	Hydro
SSE GENERATION LTD	Glendoe	3	99.9	Hydro
SSE GENERATION LTD	Glenmoriston	3	37	Hydro
SSE GENERATION LTD	Invergarry	3	20	Hydro
SSE GENERATION LTD	Kilmorack	1	20	Hydro
SSE GENERATION LTD	Lochay	6	47	Hydro
SSE GENERATION LTD	Luichart	1	34	Hydro
SSE GENERATION LTD	Mossford	1	18.66	Hydro
SSE GENERATION LTD	Nant	7	15	Hydro
SSE GENERATION LTD	Orrin	1	18	Hydro
SSE GENERATION LTD	Sloy G2 & G3	8	80	Hydro
SSE TODDLERBURN LIMITED	Toddleburn	11	27.6	Wind Onshore
VATTENFALL WIND POWER LTD	Edinbane Wind	4	41.4	Wind Onshore

**Table 3 – Details of all generating stations in receipt of small generator discount in 2014/15**

### The need for the Small Generator Discount and drivers for extensions

4.28 One Workgroup member was interested in why the small generator discount was introduced.

4.29 Another Workgroup member stated that when the small generator discount was originally introduced, there were questions around discrimination of treatment as like generators (connected at 132kV) were treated differently and that the 25% was put in as a placeholder until evidence was provided that there was a genuine case for this discount. The evidence provided by

National Grid as part of their informal review of transmission charging arrangements for embedded generation indicated there was no continued justification for the small generator discount.

- 4.30 The Workgroup discussed this evidence and whilst some supported its conclusions others believed a larger sample of distribution generators should have been used. It was noted that National Grid had consulted with industry through this process to gather information and that it was unclear how additional information could be made available.
- 4.31 Another Workgroup member considered it useful for the Workgroup to have a timeline of SLC13 to understand why it was extended on several occasions, why Ofgem felt it should be extended and what was their reasoning for doing so. The National Grid representative noted that the original expiry date for the small generator discount was 31st March 2008 with anticipation of enduring arrangements for distributed generation charging being in place by then. This expiry date has since been extended three times due to (i) the Transmission Arrangements for Distributed Generation (TADG) review<sup>8</sup>, then (ii) the Transmission Access Review (TAR)<sup>9</sup> and finally (iii) the Project TransmiT review<sup>10</sup> and currently is set as 31<sup>st</sup> March 2016. These extensions were given due to the need of an enduring transmission charging regime to be based on a stable market.
- 4.32 One Workgroup member asked when the final extension to 31<sup>st</sup> March 2016 was granted, so as to understand the sight and notice developers would have had on this expiry date. The National Grid representative advised that this latest extension (to 31<sup>st</sup> March 2016) was given in October 2012.
- 4.33 A Workgroup member suggested that those generators connecting at the time of BETTA would have thought that the issue that gave rise to the need for the small generator discount would have been resolved with the enduring arrangements, and that any uncertainty on this appeared a few years later.
- 4.34 It was noted that CMP213 had also significantly altered generation TNUoS tariffs and that the industry had been given notice of this determination in July 2014 for an implementation in April 2016. It was further noted that the majority of the eligible generators for the small generator discount would receive significant reductions in their TNUoS charge through the implementation of CMP213, and it was postulated that this may reduce the justification. The National Grid representative provided evidence to the Workgroup of the likely impact on eligible generation both with and without the discount. This is shown in Annex 4 of this report and provides the movement in tariffs between the draft 2015/16 charging year tariffs for eligible generation and the Condition 5 forecast of those tariffs in charging years 2016/17 (following CMP213 implementation) and 2017/18 (following the planned introduction of the Western HVDC 'bootstrap'). Cases with and without continuation of the small generator discount are shown.
- 4.35 One Workgroup member questioned whether the distribution system had evolved in terms of charging up to a point where it is on a level playing field with transmission connected generation.
- 4.36 The National Grid representative noted that National Grid held an informal review of transmission charging arrangements for distributed generation in 2013 considered such broader issues of embedded generation with an industry focus group. It was noted that the SLC13 issue formed an element

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<sup>8</sup> <https://www.ofgem.gov.uk/ofgem-publications/55746/small-generator-document.pdf>

<sup>9</sup> <https://www.ofgem.gov.uk/ofgem-publications/55732/small-generators.pdf>

<sup>10</sup> <https://www.ofgem.gov.uk/ofgem-publications/52471/101810small-gen-open-letter-publisheda.pdf>

of this review and that National Grid undertook analysis to compare the types of charges a 132kV connected generator connected in England and Wales would face compared to a similar generator in Scotland. National Grid consulted to ask for further data to allow more extensive analysis and revised their analysis based on the data received. Based on their analysis, National Grid concluded that the charges faced by both generators are within a range which did not provide sufficient justification for continuation of the discount<sup>11</sup>.

- 4.37 It was questioned whether any DNOs provided data for this analysis and whether any respondents were 132kV connected in England and Wales. Prior to the second Workgroup meeting, National Grid circulated this information to the Workgroup. The Workgroup noted that there did not seem to be many respondents to the embedded review and the Ofgem representative questioned if the Workgroup could request additional data. It was advised that there could be a request within the Workgroup Consultation for data however the Workgroup agreed that this fell out of scope of CMP239.
- 4.38 The Proposer clarified that CMP239 is not about determining whether the small generator discount is still required, it is about suddenly removing arrangements under which generators have made significant financial decisions and investments. The Proposer noted that this analysis is relevant for this Modification but not fundamental for its development. They clarified that the proposed grandfathering arrangements would only apply to generators that have already connected and for those connecting before the expiry of SLC13 on 31<sup>st</sup> March 2016. The Modification is purely to continue arrangements for generators that have factored this into their financial business plans.

#### **Interactions with subsidy regimes**

- 4.39 The Workgroup were asked to consider the possible interactions with subsidy regimes, specifically Contracts for Difference (CfDs).
- 4.40 The Proposer noted that the Renewable Obligation (RO) process finishes one year after the expiry of the SLC13 discount and therefore considered it unlikely that any potentially eligible generation fall into the CfD regime. One Workgroup member noted this is unknown and there would be an extent of making assumptions about businesses commercial decisions as there is not another CfD round until 2015. Another Workgroup member clarified that because of the amount of time it takes to build a project, those sufficiently progressed to be bidding into the CfD round for 1<sup>st</sup> April 2016 connection would have almost certainly already been registered under the RO.
- 4.41 Another Workgroup member questioned whether there would be any other technologies that have a shorter build time than wind that could possibly bid into the CfD and then be connected before 31<sup>st</sup> March 2016. It was suggested that solar technologies may fall into this category.
- 4.42 The Proposer suggested that out of the sixteen projects identified by National Grid as planning to consent before 31<sup>st</sup> March 2016, all are likely to enter into the RO. It was suggested that the CfD process is still uncertain and generators would rather go for an option which is certain such as the RO. The National Grid representative noted that the first allocation round for CfDs will be held in February 2015 and that this is for contracts starting between 1<sup>st</sup> April 2015 and 31<sup>st</sup> March 2019. The National Grid

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<sup>11</sup> <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Electricity-transmission/Transmission-Network-Use-of-System-Charges/Embedded-Benefit-Review/>

representative believed that it is possible for generators that would be eligible for the small generator discount to have been allocated a contract that could start in April 2016.

- 4.43 The National Grid representative noted that it was a similar case for the Capacity Market and stated that the first round of auctions is complete for capacity to be in place in 2018/19. The National Grid representative confirmed that there were no prospective eligible generators of below 100MW capacity connecting to the 132kV system.

#### **Grandfathering arrangements**

- 4.44 The Workgroup were asked to consider both grandfathering in relation to the small generator discount and the possible precedent and implications of grandfathering arrangements.
- 4.45 The Workgroup discussed the similarities in terms of impact with CMP213 'Project TransmiT TNUoS Developments' and agreed to look back on discussions to see why grandfathering arrangements were not introduced as part of CMP213. In the second Workgroup meeting it was noted that within the CMP213 Final CUSC Modification Report, there is a paragraph which focuses on the discussion on 'optional grandfathering' which stated "*Some Workgroup members felt that optional grandfathering arrangements were potentially discriminatory as it involves treating new generation Users differently to existing Users of the transmission system. There was also concern that it would set a precedent to grandfathering arrangements for other changes to the charging methodology in the future*". Within the CMP213 Workgroup, the potential option of 'optional grandfathering' was not taken forward as it did not receive majority support.
- 4.46 One Workgroup member considered that there could be unwelcome precedents set if grandfathering arrangements were introduced.
- 4.47 Another Workgroup member stated that he understood that grandfathering may be reasonably new to the CUSC, however, elsewhere in the industry it is an established principle and that the industry understands grandfathering and why it is used. It was noted that grandfathering arrangements are currently being used for Renewable Obligations Certificates (ROCs), even though these will no longer be available to new entrants once Contracts for Difference (CfDs) are introduced.
- 4.48 One Workgroup member advised that there should be a sensible reason for grandfathering and in this case it would be whether there is a difference in the treatment of 132kv connected generation (where classed as transmission connected) and 132 kV distribution connected generation. However it was agreed that this discussion of whether there is a difference in treatment was out of scope for this modification.
- 4.49 A Workgroup member suggested that there could possibly be discrimination of new generation by only allowing those connected before a certain date to continue to receive the small generator discount. Another Workgroup member noted that this is a principle of grandfathering as it extends existing arrangements for those currently receiving the benefit. It was questioned why certain generation should receive the benefit of the discount simply because they connected 6 months before another generator.
- 4.50 The Proposer questioned what has changed in terms of the treatment of 132kV connected generation in Scotland (and offshore) in order to justify removing the small generator discount when it was right to apply it for eleven years (from 2005 to 2016). Another Workgroup member referred to the analysis provided by National Grid's 2013 informal review of transmission



charging arrangements for embedded generation which shows the discrepancy between generator charges narrowing over time, noting that it looks like there is no longer a discrepancy. Another Workgroup member stated that this analysis was taken at a certain point in time from a limited set of data and therefore is not an accurate representation of the differences in charges. The Proposer expressed a concern of the Workgroup discussing whether there is a need for the small generator discount and whether it should have been applied in the first place as this may result in retrospective changes. It was clarified that this Modification would not be assessing whether there was / is a need for the small generator discount and will focus on grandfathering arrangements; however the Workgroup noted the relevance of the discount to the Modification Proposal.

- 4.51 It was noted that there may be an instance where a generator in England & Wales originally connected as distribution but because of an upgrade to a 132kV distribution system they are now transmission connected (at 275kV or 400kV) and the Workgroup member questioned whether this generator would be given grandfathering arrangements for its connection. An example of where this is possible was cited as the 132kV network upgrade in Cumbria and it was asked whether this would affect any parties currently connected to this part of the system. The National Grid representative indicated that, as far as National Grid was concerned, only one generator was currently connected to this 132kV distribution network and he believed that they would remain distribution connected at 132kV in the event that the system in the area was upgraded to a transmission voltage.
- 4.52 The Workgroup member also noted that there could be an instance where a generator in Scotland or offshore is connected at 132kV as transmission which is then upgraded to 275kV or 400kV and questioned whether this generator would then lose their small generator discount as they then have a similar connection to other transmission connected generation within GB. One Workgroup member advised that there should be lower charges for this generator if this was to happen, as there would be a reduction in the wider charge from the upgrade.
- 4.53 It was advised that Transmission Owners are required to build an economic and efficient transmission system and if the economic build for that area of the network is 275 kV or 400kV, they will upgrade the system from 132kV. In such cases a generator which had been eligible for the small generator discount may argue to keep a 132kV connection regardless of the overall efficiency saving in order to allow the generator to keep receiving their TNUoS discount. However the relevant Transmission Owner could only justify such a retention if it is the economic solution.
- 4.54 There was a mixed view within the Workgroup on whether there would be any precedential implications of grandfathering. One Workgroup member noted that there should be no precedent set as there needs to be a valid reason for grandfathering and this should be assessed on a case by case basis. On this basis grandfathering could be seen as a positive change for the CUSC.
- 4.55 It was also noted that grandfathering arrangements increase the complexity of a charging methodology and would discriminate against new users in Scotland and offshore connecting to the system at 132 kV after a potential cut-off date until such time as an enduring arrangement was put in place to treat 132kV connected generation in GB (onshore and offshore) the same for charging purposes.

## **Workgroup Consultation responses**

- 4.56 The Workgroup met on the 13<sup>th</sup> March 2015 to discuss the Workgroup Consultation responses. The Workgroup noted that there were different views in the responses on the cost per household that CMP239 would have if implemented (Workgroup discussions on this are recorded in paragraph 4.25). The Workgroup thanked all of the parties for taking the time to respond to the Workgroup Consultation.
- 4.57 The Workgroup noted that some respondents provided examples of grandfathering arrangements within the Grid Code and the EHV Distribution Charging Methodology (EDCM). The Workgroup also discussed the fact that some of the respondents felt that grandfathering would set a precedent and that they would not be comfortable with this.
- 4.58 A Workgroup member spoke about the different charging treatment of two generators, in different locations<sup>12</sup> both connected at 132kV and questioned whether this should be correct. He suggested that you should have 'like for like' treatment and again questioned why charging should be different. Another Workgroup member questioned whether they are indeed 'like for like' as one would be Transmission and one Distribution. The Workgroup member reiterated his point that both would be connected at 132kV. This Workgroup member, in addition, suggested that this could be seen as discriminatory for these generators.
- 4.59 The Workgroup discussed whether there should be a broader modification brought forward on embedded generation separate to CMP239, however the Workgroup decided that this was out of scope.
- 4.60 One Workgroup member spoke about the eligibility criteria and suggested that the Requirements for Generators (RfG) Network Code wording could be used for the CMP239 legal text should CMP239 be implemented.
- 4.61 A Workgroup member was concerned that a 'broad review' of the need for the SLC13 small generator discount has not been done. He suggested that the 'interim' arrangements should continue until such time as the enduring arrangement is in place (which was the reason that the small generator discount was introduced in 2005, and maintained for eleven years). The Workgroup member also suggested that this modification does not constitute as grandfathering per se as it would fall away if and when the enduring arrangement was in place. In addition he suggested that the 2013 informal review, in his opinion, had not been complete, and that the enduring solution had not been reached. The Workgroup then discussed the timing of the 2013 informal review and that it was completed ahead of the EDCM and the Workgroup member questioned the data used for that review as to whether it was comparing like with like as the MW size of the plants in receipt of the small generator discount (see Table 3) was significantly greater than the sample MW size for the plants used for the informal review analysis. However another Workgroup member stated that the best data that was available at the time was used to complete the National Grid review. The original Workgroup member went on to state that the distribution charges are now vastly different and that the Authority may request the data from the Distribution Networks (DNOs) as part of any Impact Assessment they may undertake for CMP239. The National Grid representative also stated that the review they carried out was informal as it was not a CUSC modification. The Workgroup member went onto say that one could argue that the data was not complete and also that it was not focused on the small generator discount issue of CMP239 as it looked at the wider issue of embedded generation.

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<sup>12</sup> The two example locations noted were Lockerbie and Carlisle

- 4.62 The Workgroup went onto discuss whether there should be an alternative for consideration if a prospective generator has made the decision to invest but cannot connect ahead of the 1<sup>st</sup> April 2016. This was referred to as a 'significant investment decision'. The Workgroup went onto developing WACM1 (see section 5 also).
- 4.64 Another member of the Workgroup questioned what happens where a generator invested in the refurbishment of their plant and when the decision to refurbish would have been made as this could have been many years ago. This was taken into account when developing the WACMs.
- 4.65 One Workgroup member questioned the relevance of when transmission at 132kV is reclassified as distribution in Scotland and offshore. Another member of the Workgroup stated that if this were to happen then broader framework change would be required

### **Potential options for change**

- 4.66 The Workgroup considered whether there were any alternative options for change other than the Original Proposal before the Workgroup Consultation. The Proposer clarified the Original Proposal as applying grandfathering arrangements to generators connected on or before 31<sup>st</sup> March 2016, keeping the small generator discount at 25% until a time when the 132kv system in Scotland and in offshore waters is reclassified from transmission to distribution. However, in the final Workgroup meeting the Original Proposal was amended such that the grandfathering arrangements would apply up to 25 years from 1<sup>st</sup> April 2016 (to 31<sup>st</sup> March 2041) for any generators connecting ahead of this date. Existing generators would have 25 years from their power station commissioning date. The discount was re-confirmed as 25% of the total generation and demand residual TNUoS tariff in a given charging year.
- 4.67 To identify possible alternatives, the Chair asked the Workgroup three questions to determine if there would be any changes based on the Original, these were;
- a) When is the cut-off date for grandfathering arrangements to start?
- 4.68 Some Workgroup members felt that rather than applying grandfathering arrangements to generators that connect before 31<sup>st</sup> March 2016, a similar method to CfDs should be applied whereby a generator should have made their final investment decision to invest in the power station by this time in order to qualify. One Workgroup member noted that if this was to be considered as a formal alternative, it should be clearly defined within the legal text what a final investment decision is and how this information will be provided.
- b) What value should the small generator discount be after this point?
- 4.69 Some Workgroup members felt that a possible option would be to fix the value of the discount at what it is in charging year 2015/16. The small generator discount figure for 2015/16<sup>13</sup> is £10.11/kW. Another Workgroup member suggested that there could be a similar option to have it fixed at this value but increase it by RPI going forward.

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<sup>13</sup> Paragraph 5.3 of the Final TNUoS Tariffs for 2015/15, 30<sup>th</sup> January 2015

4.70 One Workgroup member advised that sometimes with CUSC Modifications there are transitional arrangements and there could potentially be an option where the value of the small generator discount is tapered and would gradually reduce to £zero over a certain number of years; which was suggested as being 25 years from 1<sup>st</sup> April 2016. In other words the small generator discount would be, in Year 1 (2016/17), £10.11/kW and, in Year 25 (2041/42), end up as £0.00/kW. The figure in Year 1 (£10.11/kW) would taper down, in a straight line, to the figure in Year 25 (£0.00/kW).

c) How long would the grandfathering arrangements last?

4.71 One Workgroup member suggested that the grandfathering arrangements should last as long as the life of the plant, whereas others suggested that they should remain in place until the end of other arrangements such as the RO or CfDs (March 2031).

These potential alternatives are summarised in the table below, and were included within the Workgroup Consultation. The Workgroup reviewed these options within the final Workgroup meeting before formalising any Workgroup Alternative CUSC Modifications (WACMs).

Cut-off date?	Value of discount?	How long?
Connect before 31 <sup>st</sup> March 2016 (Original)	25% (Original)	Until 132kv reclassified (Original)
Final Investment decision before 31 <sup>st</sup> March 2016	Fix at 2015/2016 value (£10.11/kW)	For the life of the plant
	Fix at 2015/2016 value (£10.11/kW) + RPI	March 2031
	Taper	

4.72 At the final Workgroup meeting the Workgroup discussed whether any of these options should be taken forward and proposed as Formal WACMs. Four alternatives were brought forward and three of these were agreed to be formal WACMs, these were outlined as follows:

Option	Cut-off date	Value of discount	How long	WACM?
Original solution	Connect before 31 <sup>st</sup> March 2016 (Original) Existing generators 25 years from the power station commissioning date (Original)	25% (Original)	25 years from 1 <sup>st</sup> April 2016 to 31 <sup>st</sup> March 2041 (Original)	<b>Original</b>
Potential Option 1	As Original plus Independent Technical Expert (ITE) report provided by generator to National Grid verifying significant investment decision. This would be the start of the 25 years.	25%	25 years from the date when the Significant Investment decision was made by the generator.	<b>WACM1</b>

	Refurbishment date ahead of 1 <sup>st</sup> April 2016.			
Potential Option 2	Connect before 31 <sup>st</sup> March 2016. Existing generators 25 years from commissioning date	25%	As per the Original or until 132kv is reclassified as distribution for Scotland and offshore – whichever soonest	<b>WACM2</b>
Potential option 3	As Original plus Independent Technical Expert (ITE) report verifying significant investment decision. This would be the start of the 25 years. Refurbishment date ahead of 1 <sup>st</sup> April 2016.	25%	25 years from when the Significant Investment decision was made by the generator or until such time when 132kv is reclassified as distribution for Scotland and offshore.	<b>WACM3</b>
Potential option 4	Connect before 31 <sup>st</sup> March 2016. Existing generators 25 years from their power station commissioning date	Freeze and have on a sliding scale from 1 <sup>st</sup> April 2016 (£10.11/kW) down to £0.00/kW from 1 <sup>st</sup> April 2041.	25 years from 1 <sup>st</sup> April 2016	<b>Not taken forward as a WACM</b>

The Proposer's final Original solution and the three formalised WACMs are outlined within Section 5 of this report

### Implementation approach

- 4.73 The Workgroup briefly discussed the implementation approach and agreed that ideally a decision would need to be made by Ofgem on CMP239 before December 2015 in order to give notice to market participants for the 2016/17 transmission charges.
- 4.74 The Workgroup discussed implementation at the final Workgroup meeting. Out of those Workgroup members that voted, half voted in favour of WACM3 being better than the current CUSC baseline. This WACM requires there to be an Independent Technical Expert (ITE) appointed. The ITE would have to assess a number of submissions from generators and the generators, in addition, would require time to get their evidence together and submit their reports to the ITE. As a result the Workgroup want to emphasise that they recommend that, should WACM3 be implemented, that they would seek an Implementation date as soon as practically possible.

## 5 Workgroup Alternatives

- 5.1 After considering the responses to the Workgroup Consultation, the Workgroup revisited the potential options for change set out in Section 4 of this report and agreed what should be taken forward as formal Workgroup Alternative CUSC Modifications (WACMs).
- 5.2 Four potential alternatives were brought forward by the Workgroup. Three alternatives were then agreed to be formal WACMs. The table below sets out the high level principles of each WACM;

	Description
<b>Original</b>	<p>End date of 25 years from 1<sup>st</sup> April 2016. This is for new generators connecting ahead of this date.</p> <p>For existing generators the end date would be 25 years from their commissioning date.</p> <p>Small generator discount as it is, 25% of the total residual for the applicable charging year.</p> <p>Excludes re-powering.</p>
<b>WACM1</b>	<p>As per the Original plus an Independent Technical Expert (ITE) would validate that the generator had made a 'significant investment decision' and this will be the start of the 25 years. Refurbishment date ahead of 1<sup>st</sup> April 2016.</p>
<b>WACM2</b>	<p>As per the Original plus if 132kv gets classified as Distribution in Scotland (and offshore waters) ahead of the 25 years then the small generator discount would stop.</p>
<b>WACM3</b>	<p>This is a combination of the two WACMs above. There would be an ITE validating the significant investment decision' and should 132kv get classified in Scotland (and offshore waters) as Distribution the small generator discount would stop.</p>

- 5.3 The Workgroup discussed the criteria for existing generators and the Proposer informed the group that the date the power station becomes Operational would be the date for the beginning of the 25 year period.
- 5.4 One Workgroup member stated that some longstanding hydro plants may have had significant recent refurbishment, such as for the purposes of the Renewables Obligation (Scotland), and that this would be a similar investment decision to that made by a new generator. On this basis that Workgroup member suggested an alternative catering for such refurbishments noting that sixteen of the twenty five qualifying generators in Scotland in receipt of the small generator discount are hydro. This was then voted through as WACM1 and part of WACM3.

### Impact on the CUSC

- 6.1 CMP239 requires amendments to the following parts of the CUSC:
  - Section 14 – Charging Methodology
- 6.2 The text required to give effect to this proposal is contained in Annex 7 of this document.

### Impact on Greenhouse Gas Emissions

- 6.3 Neither the Proposer nor the Workgroup identified any material impacts on Greenhouse gas Emissions.

### Impact on Core Industry Documents

- 6.4 Neither the Proposer nor the Workgroup identified any impacts on Core Industry Documents.

### Impact on other Industry Documents

- 6.5 Neither the Proposer nor the Workgroup identified any impacts on other Industry Documents.

- 7.1 It is proposed that CMP239 should be implemented as soon as possible and that the Authority should make a decision as to when this should be done. The Workgroup have suggested that there should be sufficient time allowed between the decision and the 1<sup>st</sup> December 2015 so that generators can gather their evidence to submit to the Independent Technical Expert.



## 8 Workgroup Consultation Responses

8.1 Twelve responses were received to the Workgroup Consultation. These responses are contained within Annex 6 of this report. The following table provides an overview of the responses received.

Company	Views against Applicable CUSC Objectives (ACO's)	Support Implementation approach?	Other comments
Drax	No objectives are better facilitated by the CMP239 proposals.	Yes	ACO (b) explicitly states that modifications should attempt to make charging accurately reflect the costs incurred by transmission licensees and therefore the decisions above fundamentally goes against ACO (b).
Eneco	Yes. The original modification will facilitate applicable objective (a) and (c).	No. Would like there to be an earlier implementation to allow maximum notice ahead of National Grid issuing draft tariffs	Removal of discount without an enduring framework damages competition on generators.
Fred Olsen	Yes. The original modification will facilitate applicable objective (a) and (c).	No. Would like there to be an earlier implementation to allow maximum notice ahead of National Grid issuing draft tariffs.	No.
ESB International	No objectives are better facilitated by the CMP239 proposals. Goes against objective (b).	No comment due to views on the modification.	Grandfathering sought through this modification is sufficiently different to other grandfathering that may have been put in place elsewhere. Very little impact on demand customers.
Scottish Power	No objectives are better facilitated by the CMP239 proposals.	Do not support the modification but implementation is logical.	They believe that the principle of grandfathering would set a difficult precedent.
H and I	Yes. HIE believes that all of the options presented in CMP239 better facilitate CUSC Objective (b) and (a).	There does not appear to be a single proposed implementation approach, support the original proposal approach.	Agrees with the point made by the Proposer that there is a significant amount of generation which has made financial decisions based on the inclusion of the Small Generator's Discount and that the complete removal of this could have a negative impact on financial business plans of affected generators.
EON	No.	Yes	EDCM example given for grandfathering.
Vattenfall	Yes. The original modification will facilitate applicable objective (a) and (c).	No. Would like there to be an earlier implementation to allow maximum notice ahead of National Grid issuing draft tariffs.	They do not see any convincing rationale for the potential alternative options put forward, except possibly the use of a final investment decision as the cut-off date, which is worth further consideration.
EDF	No. The expiry of the discount isn't an unexpected, or new,	The more notice that can be given, after approval of the	Feel that grandfathering can be potentially discriminatory so was not used in the CMP213

Company	Views against Applicable CUSC Objectives (ACO's)	Support Implementation approach?	Other comments
	development.	modification the better to CUSC parties – customers or their Suppliers, on whom it will impact.	Workgroup.
Renewable UK	Yes, it better facilitates CUSC Objective (a)	Yes	They suggest an early decision be made, and that there be greater clarity on the 31st March 2016 cut-off. This would include a grace period, as with support scheme deadlines, where a project connection is delayed owing to circumstances outside of their control, such as grid delays
RWE	Yes, it better facilitates CUSC Objective (a)	Yes. Suggest as a minimum, all projects that made FID before 11th April 2014 should be eligible.	The renewables obligation given as example of grandfathering and CHPQA for CHP plants.
SSE	Yes. SSE believe that all of the options presented in CMP239 better facilitate CUSC Objective (a), (b) and (d). Neutral on (c).	Yes	SSE believe that a 'broad review' has not been completed. They propose the wording used in the RfG Network Code to be used for Legal text if required for a formal Investment decision.

8.2 The Workgroup discussed the Workgroup Consultation responses in some detail in order to agree on the best options for WACMs to be provided to the Authority alongside the Original Proposal. The Workgroup discussions based on the Workgroup Consultation Responses can be found within Section 4 of this report.

### Workgroup view

- 9.1 The Workgroup believes that the Terms of Reference, which can be found in Annex 2, have been fulfilled and that CMP239 has been fully considered. On 13<sup>th</sup> March 2015, the Workgroup voted fifty percent for WACM3 and fifty percent for the baseline.
- 9.2 For reference the CUSC Objectives for the Use of System Charging Methodology 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.

### Workgroup Vote

- 9.4 The Workgroup met on 13<sup>th</sup> March 2015 and voted on the Original Proposal and three WACMs agreed by the Workgroup. Out of those Workgroup members that voted, half voted that WACM3 better facilitates the Applicable CUSC Objectives and should be implemented, as set out in the table below. The other half of the Workgroup members voted that the baseline was the best option.

**Vote 1 Original compared against Baseline for better facilitating the CUSC Objectives**

WG Member	(a)	(b)	(c)	(d)	Overall
Robert Longden alternate for proposer	Yes	Neutral	Neutral	Yes	Yes
Robert Longden	Yes	Neutral	Neutral	Yes	Yes
Dave Corby	No	Neutral	Neutral	Neutral	No
James Anderson alternate for Guy Phillips	No	No	No	Neutral	No
Michael Dodd, alternate for William Chilvers	No	No	Neutral	Neutral	No
Christopher Granby	Yes	Neutral	Neutral	Yes	Yes
Garth Graham	Yes	Yes	Neutral	Yes	Yes
James Anderson	No	No	Neutral	Neutral	No

**WACM1 compared against baseline**

WG Member	(a)	(b)	(c)	(d)	Overall
Robert Longden alternate for proposer	Yes	Neutral	Neutral	Yes	Yes
Robert Longden	Yes	Neutral	Neutral	Yes	Yes
Dave Corby	No	Neutral	Neutral	Neutral	No
James Anderson alternate for Guy Phillips	No	No	No	Neutral	No
Michael Dodd, alternate for William Chilvers	No	No	Neutral	Neutral	No
Christopher Granby	Yes	Neutral	Neutral	Yes	Yes
Garth Graham	Yes	Yes	Neutral	Yes	Yes
James Anderson	No	No	Neutral	Neutral	No

**WACM2 compared against baseline**

WG Member	(a)	(b)	(c)	(d)	Overall
Robert Longden alternate for proposer	Yes	Neutral	Neutral	Yes	Yes
Robert Longden	Yes	Neutral	Neutral	Yes	Yes
Dave Corby	No	Neutral	Neutral	Neutral	No
James Anderson alternate for Guy Phillips	No	No	No	Neutral	No
Michael Dodd, alternate for	No	No	Neutral	Neutral	No

William Chilvers					
Christopher Granby	Yes	Neutral	Neutral	Yes	Yes
Garth Graham	Yes	Yes	Neutral	Yes	Yes
James Anderson	No	No	Neutral	Neutral	No

### WACM3 compared against baseline

WG Member	(a)	(b)	(c)	(d)	Overall
Robert Longden alternate for proposer	Yes	Neutral	Neutral	Yes	Yes
Robert Longden	Yes	Neutral	Neutral	Yes	Yes
Dave Corby	No	Neutral	Neutral	Neutral	No
James Anderson alternate for Guy Phillips	No	No	No	Neutral	No
Michael Dodd, alternate for William Chilvers	No	No	Neutral	Neutral	No
Christopher Granby	Yes	Neutral	Neutral	Yes	Yes
Garth Graham	Yes	Yes	Neutral	Yes	Yes
James Anderson	No	No	Neutral	Neutral	No

### Vote 2: Each WACM compared against the Original Proposal for better facilitating the CUSC Objectives

WG Member	WACM1	WACM2	WACM3
Robert Longden alternate for proposer	Yes	Yes	Yes
Robert Longden	Yes	Yes	Yes
Dave Corby	Yes	No	No
James Anderson alternate for Guy Phillips	No	No	No
Michael Dodd, alternate for William Chilvers	No	No	No
Christopher Granby	Yes	Yes	Yes
Garth Graham	Yes	Yes	Yes
James Anderson	No	Yes	No

### Vote 3: Best option for better facilitating the CUSC Objectives

WG Member	Best Option
Robert Longden alternate for Graeme Cooper	WACM3
Robert Longden	WACM3
Dave Corby	Baseline
James Anderson	Baseline

alternate for Guy Phillips	
Michael Dodd, alternate for William Chilvers	Baseline
Christopher Granby	WACM3
Garth Graham	WACM3
James Anderson	Baseline

The Workgroup were asked to provide reasoning for their votes; any comments received are below:

**James Anderson** - The Original Proposal and each of the Alternatives do not better meet Applicable Objective (a) as they preserve the different treatment of one class of generator from another without objective justification and therefore they do not better facilitate competition. Sufficient notice of the expiry of the Small Generators' Discount was given as Licence Condition C13 has always been subject to a time limit. Similarly the Original and each of the Alternatives do not better facilitate cost reflectivity, Objective (b), as there has been no justification as to why those currently benefitting from the Discount impose less cost upon the transmission system.

The proposals are neutral against Objectives (c) and (d) and overall do not better meet the Applicable Objectives than the Baseline.



## Connection and Use of System Code (CUSC)

### Title of the CUSC Modification Proposal

Grandfathering Arrangements for the Small Generator Discount

### Submission Date

20 October 2014

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

Standard Licence Condition C13 requires National Grid Electricity Transmission (NGET) to discount transmission network use of system (TNUoS) charges for “eligible generators” by a designated amount and to recover the revenue shortfall from demand users on a non-locational basis. The discount applies in effect to sub-100MW generators connected at 132kV in Scotland and in onshore waters. The level of the discount is determined by Ofgem and is based on 25% of the total generation and demand residual TNUoS tariff.

Following its recent informal review of embedded benefits National Grid issued its conclusion on 17 April 2014 that the licence condition should be allowed to expire on 31 March 2016, with no further arrangements put in place.

This proposal seeks to implement “grandfathering” arrangements in the CUSC on the expiry of the licence condition from 31 March 2016. The proposed arrangements would apply to those generators that currently receive the small generator discount and also to those generators that will connect by 31 March 2016 and would be eligible to receive the discount. The proposal seeks to ensure that these generators continue to receive the discount until such time that the 132kV system in Scotland is designated as distribution. It is proposed that the discount would be calculated on the same basis as currently.

The proposal seeks to address the detrimental impacts to competition of the expiry of the discount by ensuring that the existing arrangements continue for current eligible generators and those that will be eligible to 31 March 2016.

It would reflect that generators have made commercial decisions based on the existing arrangements and that the significant additional costs from losing the discount may in some cases threaten the feasibility of their business models. In 2014-15 this discount stands at £8.96/kW which represents a significant proportion of use of system charges. By way of example, a 50MW onshore wind farm would see an increase in TNUoS costs of £448,000/year based on the current discount.

The proposal reflects the reasonable expectation of generators currently eligible for the



discount that revised/replacement arrangements would have been put in place following the known need to address this issue. SLC C13 was clearly time-limited but the expectation was that it would be replaced by an enduring solution. Grandfathering is a much more credible assumption for investors to make than the discount being removed completely. This proposal would therefore facilitate competition through establishing a stable and predictable regulatory environment.

We also consider that to put in place the grandfathering arrangements described would better facilitate taking account of the developments in transmission licensees' transmission businesses. This is because it seeks to allow orderly change in the face of the expiry of the licence condition through maintaining the current arrangements for existing eligible generators and those connecting up to 31 March 2016.

The discount was introduced on the basis that it would create a level playing-field for those generators in Scotland that were transmission connected at 132kV but would have been distribution connected in England and Wales. National Grid concluded in its recent review that network charges faced by 132kV transmission connected generation without the small generators' discount are within the range faced by distribution connected generation and therefore there is no justification for continuing with the small generators' discount indefinitely.

The proposal is not seeking to maintain the small generator discount for all generators that meet the current criteria for the discount indefinitely but to balance the objective to ensure that the charging methodology is cost reflective with the impacts on competition if the discount is allowed to expire suddenly.

The direct consequence of implementing the proposal therefore would be to create an ongoing stable charging environment for the affected generators. It would thereby also support government renewable energy generation targets as many of the affected generators are wind generators.

A further implication is that there would continue to be a charge to demand to fund the discount, as currently.

## Description of the CUSC Modification Proposal

### SLC 13 Licence Condition

Under National Grid Electricity Transmissions Standard Licence Condition (SLC) 13 "eligible" generators are entitled to receive a discount to transmission use of system charges. An "eligible" generator:

- (a) is liable for generation transmission network use of system charges (or its equivalent) under the use of system charging methodology approved by the Authority in accordance with standard condition C4 (Charges for use of system);
- (b) is connected to the national electricity transmission system at a voltage of 132 kilovolts; and
- (c) would not, on the basis of its maximum generating capacity, be liable for generation transmission network use of system charges (or its equivalent) if it were connected to the distribution system of a licensed distributor rather than to the national electricity

transmission system.

In effect the discount applies to sub-100MW generators connected at 132kV in Scotland and in onshore waters. According to National Grid figures there are currently 25 generators connected at 132kV in Scotland with a capacity of below 100MW and five offshore wind farms with a combined capacity of 1,450MW in receipt of the small generator discount.

Based on National Grid's Ten Year Statement we estimate there are 16 new projects (with 1.2GW of capacity) that could be connected at 132kV in Scotland before the 1 April 2016.

In 2013-14 the discount was approximately £7.55/kW with an overall impact of £10.9mn, which was recovered from demand customers on a non-discriminatory and non-locational basis.

### **Review of arrangements**

The licence condition, which was introduced in 2007 following the implementation of BETTA, was initially due to expire on 31 March 2013. In October 2012 Ofgem published its decision to extend the discount by three years until 31 March 2016. This reflected its expectation that the industry would begin to work during this time to produce an enduring solution to embedded generation charging arrangements. Its reasons for extending the discount included the potential fundamental changes to electricity transmission charging being progressed under CMP213 *Project Transmit TNUoS Developments* and the impact these may have on the enduring charging baseline.

At that time it concluded an extension provided a level of regulatory certainty to affected parties, allowed sufficient time for National Grid to have developed proposals following the conclusions that may flow from CMP213, and gave the industry enough lead-time ahead of implementation to establish an enduring transmission charging baseline.

National Grid initiated its recent review in April 2013 prompted by expiry of the C13 licence condition, but also considering the options in respect of a broader review of distributed generation charging arrangements. It concluded that there is no justification for continuing with the small generators' discount indefinitely, and that SLC C13 should be allowed to lapse from April 2016. It noted that although this does not require a formal CUSC modification proposal, there will be a requirement for non-material changes to section 14 of the CUSC at a future date to clarify arrangements from April 2016.

It also noted that any grandfathering arrangements would require a CUSC proposal although it did not intend to take forward such a proposal itself.

### **Proposal**

The proposal would amend the CUSC to include grandfathering arrangements a) for those generators who currently receive the discount and b) for those generators who connect by 31 March 2016. The existing arrangements would therefore continue for these generators until such time that the 132kV system in Scotland is re-designated as distribution.

The modification will therefore avoid a situation where current "eligible" generators and other generators shortly due to connect are faced with very significant increases to charges when the C13 licence condition expires in the absence of any other enduring arrangements being implemented.

It seeks to recognise appropriately that no enduring arrangements have in fact been developed.

The proposal would seek to replicate the current arrangements in the CUSC alone which are currently initiated through the licence condition. One issue that the workgroup may consider is that SLC13 requires the small generator discount to be revenue neutral for National Grid over

the period of its operation so that the net effect on revenue of the licence condition is neutral. This means that any under/over recovery is managed separately from the main revenue recovery.

### Impact on the CUSC

The proposal would impact CUSC Section 14 *Charging Methodologies Part 2 The Statement of the Use of System Charging Methodology*

New text would be required to implement the arrangements under the proposal which would become independent of the current related licence condition.

Impacts could include the following sections of the CUSC:

14.15.102 In accordance with Standard Licence Condition C13 generation directly connected to the NETS 132kV transmission network which would normally be subject to generation TNUoS charges but would not, on the basis of generating capacity, be liable for changes if it were connected to a licensed distribution network qualifies for a reduction in transmission charges by a designated sum, determined by the Authority. Any shortfall in recovery will result in a unit amount increase in demand charges to compensate for the deficit. Further information is provided by the Statement on Use of System Charges.

14.17.12 In accordance with Standard Licence Condition C13, any under-recovery from the MAR arising from the small generators discount will result in a unit amount of increase to all GB demand tariffs.

(National Grid has noted in its review conclusions the need for non material changes to the CUSC to clarify the situation post 31 March 2016 which may also impact these clauses.)

### 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)

This proposal would not impact other codes.

<b>Urgency Recommended: Yes / No</b>
No
<b>Justification for Urgency Recommendation</b>
N/A
<b>Self-Governance Recommended: Yes / No</b>
No
<b>Justification for Self-Governance Recommendation</b>
N/A
<b>Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?</b>
The proposal does not interact with any ongoing SCR.
<b>Impact on Computer Systems and Processes used by CUSC Parties:</b>
The calculation process of the small generator discount and its funding would not change, only the assessment of which generators were eligible to receive the discount after 31 March 2016.
<b>Details of any Related Modification to Other Industry Codes</b>
There are no directly related modifications. However, the proposal may be impacted by <i>CMP224 Cap on the Total TNUoS Target Revenue to be Recovered from Generation Users</i> or <i>CMP227 Reduce the G:D Split of TNUoS Charges, for Example to 15:85</i> , if approved.
This is because TNUoS charges to generators may become relatively lower if either one is approved, as generators' share of TNUoS is decreased. However, the total small generator discount would not change, as it is calculated to be 25% of the combined generator and demand residual.
<b>Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives for Charging:</b>
<b>Please tick the relevant boxes and provide justification for each of the Charging Methodologies affected.</b>

### 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 (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:

The modification would facilitate objective a) as it would reflect that generators have made commercial arrangements based on the existing arrangements and that the significant additional costs from losing the discount, when no other enduring arrangements are planned to be put in place, may act as a detriment to competition.

The modification would facilitate objective c) as it seeks to allow orderly change in the face of the expiry of the licence condition through maintaining the current arrangements for existing eligible generators and those connecting up to 31 March 2016.

### 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:**

## Additional details

<b>Details of Proposer:</b> (Organisation Name)	Fred. Olsen Renewables
<b>Capacity in which the CUSC Modification Proposal is being proposed:</b> (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Graeme Cooper Fred. Olsen Renewables 0207 931 0975 Graeme.cooper@fredolsen.co.uk
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Christopher Granby Infinis 01604 662450 christopher.granby@infinis.com

**Attachments (Yes/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](mailto: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](mailto:jade.clarke@nationalgrid.com) and copied to [cusc.team@nationalgrid.com](mailto: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.





## Workgroup Terms of Reference and Membership

### TERMS OF REFERENCE FOR CMP239 WORKGROUP

CMP239 seeks to implement grandfathering arrangements in the CUSC from the expiry of Licence Condition C13 on 31 March 2016. The proposed arrangements would apply to those generators that currently received the small generator discount and also to those generators that will connect by 31 March 2016 that would be eligible to receive the small generator discount.

#### Responsibilities

1. The Workgroup is responsible for assisting the CUSC Modifications Panel in the evaluation of CUSC Modification Proposal **239 'Grandfathering Arrangements for the Small Generator Discount'** tabled by Fred.Olsen Renewables at the CUSC Modifications Panel meeting on 31<sup>st</sup> October 2014.
2. The proposal must be evaluated to consider whether it better facilitates achievement of the Applicable CUSC Objectives. These can be summarised as follows:

#### 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).*

3. It should be noted that additional provisions apply where it is proposed to modify the CUSC Modification provisions, and generally reference should be made to the Transmission Licence for the full definition of the term.

## Scope of work

4. The Workgroup must consider the issues raised by the Modification Proposal and consider if the proposal identified better facilitates achievement of the Applicable CUSC Objectives.
5. In addition to the overriding requirement of paragraph 4, the Workgroup shall consider and report on the following specific issues:
  - a) *Grandfathering in relation to the small generator discount;*
  - b) *The possible precedential implications of accepting the principle of grandfathering in the charging provisions in the CUSC.*
  - c) *The need for the small generator discount;*
  - d) *Interactions with Contracts for Difference;*
  - e) *The changing G:D Split's impact on the small generator discount;*
  - f) *Cost per home if CMP239 is implemented*
  - g) *Implementation*
  - h) *Review illustrative legal text*
6. The Workgroup is responsible for the formulation and evaluation of any Workgroup Alternative CUSC Modifications (WACMs) arising from Group discussions which would, as compared with the Modification Proposal or the current version of the CUSC, better facilitate achieving the Applicable CUSC Objectives in relation to the issue or defect identified.
7. The Workgroup should become conversant with the definition of Workgroup Alternative CUSC Modification which appears in Section 11 (Interpretation and Definitions) of the CUSC. The definition entitles the Group and/or an individual member of the Workgroup to put forward a WACM if the member(s) genuinely believes the WACM would better facilitate the achievement of the Applicable CUSC Objectives, as compared with the Modification Proposal or the current version of the CUSC. The extent of the support for the Modification Proposal or any WACM arising from the Workgroup's discussions should be clearly described in the final Workgroup Report to the CUSC Modifications Panel.
8. Workgroup members should be mindful of efficiency and propose the fewest number of WACMs possible.
9. All proposed WACMs should include the Proposer(s)'s details within the final Workgroup report, for the avoidance of doubt this includes WACMs which are proposed by the entire Workgroup or subset of members.
10. There is an obligation on the Workgroup to undertake a period of Consultation in accordance with CUSC 8.20. The Workgroup Consultation period shall be for a period of 3 weeks as determined by the Modifications Panel.
11. Following the Consultation period the Workgroup is required to consider all responses including any WG Consultation Alternative Requests. In undertaking an assessment of any WG Consultation Alternative Request, the Workgroup should consider whether it better facilitates the Applicable CUSC Objectives than the current version of the CUSC.

As appropriate, the Workgroup will be required to undertake any further analysis and update the original Modification Proposal and/or WACMs. All responses including any WG Consultation Alternative Requests shall be included within the final report including a summary of the Workgroup's deliberations and conclusions. The report should make it clear where and why the Workgroup chairman has exercised his right under the CUSC to progress a WG Consultation Alternative Request or a WACM against the majority views of Workgroup members. It should also be explicitly stated where, under these circumstances, the Workgroup chairman is employed by the same organisation who submitted the WG Consultation Alternative Request.

12. The Workgroup is to submit its final report to the Modifications Panel Secretary on 16<sup>th</sup> April 2015 for circulation to Panel Members. The final report conclusions will be presented to the CUSC Modifications Panel meeting on 24<sup>th</sup> April 2015.

## Membership

13. It is recommended that the Workgroup has the following members:

Role	Name	Representing
<i>Chairman</i>	Andrew Wainwright	
<i>National Grid Representative*</i>	David Corby	National Grid
<i>Industry Representatives*</i>	Graeme Cooper	Fred.Olsen Renewables
	Christopher Granby	Infinis
	Robert Longden	Eneco
	Guy Phillips	E.ON
	William Chilvers	ESB
	Garth Graham	SSE
	James Anderson	Scottish Power
	Kyle Martin	Energy UK
<i>Authority Representatives</i>	Dena Barasi	Ofgem
<i>Technical secretary</i>	Jade Clarke	Code Administrator
<i>Observers</i>		

NB: A Workgroup must comprise at least 5 members (who may be Panel Members). The roles identified with an asterisk in the table above contribute toward the required quorum, determined in accordance with paragraph 14 below.

14. The Chairman of the Workgroup and the Modifications Panel Chairman must agree a number that will be quorum for each Workgroup meeting. The agreed figure for CMP239 is that at least 5 Workgroup members must participate in a meeting for quorum to be met.
15. A vote is to take place by all eligible Workgroup members on the Modification Proposal and each WACM. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person

or by teleconference). The Workgroup chairman shall not have a vote, casting or otherwise. There may be up to three rounds of voting, as follows:

- Vote 1: whether each proposal better facilitates the Applicable CUSC Objectives;
- Vote 2: where one or more WACMs exist, whether each WACM better facilitates the Applicable CUSC Objectives than the original Modification Proposal;
- Vote 3: which option is considered to BEST facilitate achievement of the Applicable CUSC Objectives. For the avoidance of doubt, this vote should include the existing CUSC baseline as an option.

The results from the vote and the reasons for such voting shall be recorded in the Workgroup report in as much detail as practicable.

16. It is expected that Workgroup members would only abstain from voting under limited circumstances, for example where a member feels that a proposal has been insufficiently developed. Where a member has such concerns, they should raise these with the Workgroup chairman at the earliest possible opportunity and certainly before the Workgroup vote takes place. Where abstention occurs, the reason should be recorded in the Workgroup report.
17. Workgroup members or their appointed alternate are required to attend a minimum of 50% of the Workgroup meetings to be eligible to participate in the Workgroup vote.
18. The Technical Secretary shall keep an Attendance Record for the Workgroup meetings and circulate the Attendance Record with the Action Notes after each meeting. This will be attached to the final Workgroup report.
19. The Workgroup membership can be amended from time to time by the CUSC Modifications Panel.

## Appendix 1 – Indicative Workgroup Timetable

The following timetable is indicative for CMP239.

7 <sup>th</sup> November 2014	Deadline for comments on Terms of Reference / nominations for Workgroup membership
1 <sup>st</sup> December 2014	Workgroup meeting 1
W/C 5 <sup>th</sup> January 2014	Workgroup meeting 2
W/C 12 <sup>th</sup> January 2015	Workgroup meeting 3
W/C 26 <sup>th</sup> January 2015	Workgroup meeting 4
9 <sup>th</sup> February 2015	Workgroup Consultation issued for 1 week Workgroup comment
16 <sup>th</sup> February 2015	Deadline for comment
20 <sup>th</sup> February 2015	Workgroup Consultation published
13 <sup>th</sup> March 2015	Deadline for responses
W/C 23 <sup>rd</sup> March 2015	Workgroup meeting 5
2 <sup>nd</sup> April 2015	Circulate draft Workgroup Report
13 <sup>th</sup> April 2015	Deadline for comment
16 <sup>th</sup> April 2015	Submit final Workgroup Report to Panel
24 <sup>th</sup> April 2015	Present Workgroup Report at CUSC Modifications Panel

Paragraph 4.26 described two methods provided by the National Grid representative to calculate the impact of this proposal on the average domestic household. All figures are based on the 2015/16 Transport and Tariff model.

### Methodology 1:

This calculation takes account of the variation between NHH customers profiles, therefore the domestic customers take proportionately more between 4-7pm than other classes (hence the weighting of the ratio) and so are charged proportionately more.

The total Small Generator Revenue is £18,386,659

Charge Impact on household =  $Dem \times RevShare / DomProp$

Where *Dem* is the proportion of NHH demand relevant to domestic properties (this being a weighted figure developed internal to national grid for the purposes of this calculation), *RevShare* is the NHH demand share of the Small Generator Revenue as taken from the 2015/16 model and *DomProp* the number of domestic properties in Great Britain:

$$\begin{aligned} \text{Charge impact on household} &= 0.73 \times £13,127,827 / 25,000,000 \\ &= £0.38 \end{aligned}$$

### Methodology 2:

The second calculation is based on the methodology used for National Grid's current customer bills calculations. This methodology starts with the demand Small Generators Tariff (from the 2015/16 Transport and Tariff model) of 0.0479 p/kWh and applies this to the approximate metered demand per household:

Charge impact on household =  $DomDem \times MetDem \times DemTar$

Where *DomDem* is the average domestic demand (Ofgem view<sup>14</sup>), *MetDem* is the proportion of metered demand over the peak period 16:00 to 19:00 (National Grid internal view) and *DemTar* is the NHH demand tariff:

$$\begin{aligned} \text{Charge impact on household} &= 3,800\text{kWh} \times 14.8\% \times 0.0479 \text{ p/kWh} \\ &= 26.96\text{p} \end{aligned}$$

This calculation assumes that all NHH demand has the same profile or that suppliers allocate TNUoS charges to their customers by their annual volume.

This value (27p) was circulated to the workgroup and accepted as the figure going forward.

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<sup>14</sup> Ofgem Supply Market Indicator Methodology, Appendix 1

## Annex 4 - Impact on eligible generation

Paragraph 4.34 records that the National Grid representative has provided evidence of the likely impact of CMP213. This showed the resulting movement of tariffs from charging year 2015/16 to the Condition 5 forecasts for 2016/17 (including the impact of CMP213) and 2017/18 (including the impact of charges for the High Voltage Direct Current links). That evidence is reproduced below.

Figure 1 shows the tariffs, by eligible generator, including the discount:

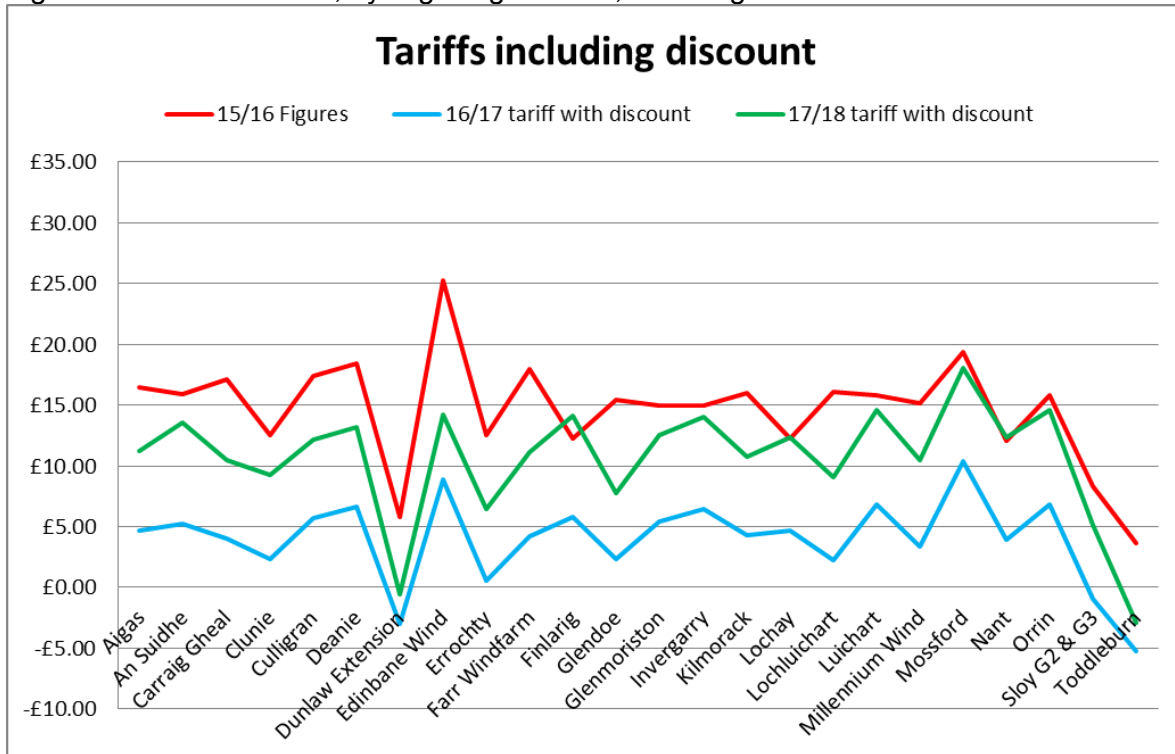


Figure 1

Figure 2 shows the tariffs, again by eligible generator, but this time with the discount removed:

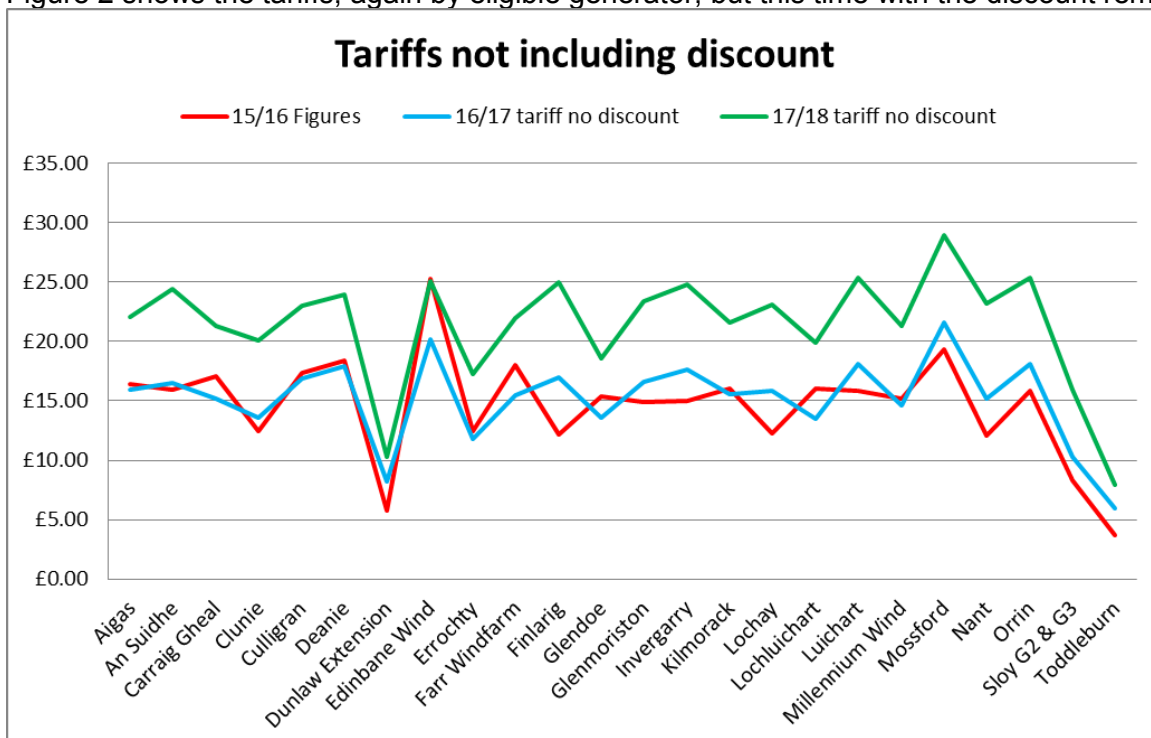


Figure 2

## Annex 5 – Workgroup Attendance Register

A – Attended  
 X – Absent  
 O – Alternate  
 D – Dial-in

Name	Organisation	Role	01/12/2014	13/01/2015	13/03/2015
Andrew Wainwright	National Grid	Chair	A	A	X
Jade Clarke	Code Administrator	Technical Secretary	A	A	O
Graeme Cooper	Fred Olsen Renewables	Proposer	A	D	A
David Corby	National Grid	Workgroup member	A	A	A
Guy Phillips	E.ON	Workgroup member	A	A	A
William Chilvers	ESB	Workgroup member	A	A	A
Christopher Granby	Infinis	Workgroup member	A	A	A
Garth Graham	SSE	Workgroup member	X	O	A
James Anderson	Scottish Power	Workgroup member	A	A	D
Robert Longden	Eneco	Workgroup member	A	A	A
Kyle Martin	Energy UK	Workgroup member	X	X	X
Dena Barasi	Ofgem	Observer	A	A	X
Donald Smith	Ofgem	Alternate	X	X	D
Michael Dodd	ESB	Alternate	X	X	A
Christine Brown	Code Administrator	Technical Secretary alternate	X	X	A
Patrick Hynes	National Grid	Chair alternate	X	X	A





## CUSC Workgroup Consultation Response Proforma

### CMP239 'Grandfathering Arrangements for the Small Generator Discount'

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 by **4<sup>th</sup> March 2015** to [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com). Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at [jade.clarke@nationalgrid.com](mailto:jade.clarke@nationalgrid.com)

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

<b>Respondent:</b>	<i>Joe Underwood – joseph.underwood@drax.com</i>
<b>Company Name:</b>	<i>Drax Power Limited</i>
<b>Please express your views regarding the Workgroup Consultation, including rationale.</b>  <b>(Please include any issues, suggestions or queries)</b>	Drax does not regard CMP239 as better facilitating the Applicable CUSC Objectives. Please see the answers below for further detail.

### Standard Workgroup Consultation questions

Q	Question	Response
1	<b>Do you believe that CMP239 Original Proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives? Please state which ones and why.</b>	No.  Drax believes that, in principle, the introduction of grandfathering arrangements can be beneficial to competition, investment and ultimately consumers, but only when the proper justification for it is made. In particular grandfathering arrangements where change is truly unforeseeable can better incentivise investment. In the case of CMP239, the case simply hasn't been articulated. To the contrary, the proposal is detrimental to Applicable CUSC Objectives (ACO) (a), (b) and (c) (it is neutral with

		<p>regards to ACO (d)). This is for two main reasons:</p> <p>Firstly, the proposer suggests that SLC C13 (the small generators' discount or SGD) was a time limited arrangement and would be replaced with an enduring solution. Indeed in October 2012, Ofgem published its decision to extend the SGD until the end of March 2016 at which point enduring arrangements would be implemented.</p> <p>However, the proposer then goes on to state that grandfathering of the SGD was a more credible assumption for investors to make post March 2016, compared to an assumption that the SGD would be removed. No evidence is presented as to why a grandfathering solution would necessarily be adopted with regards to the SGD. It appears clear that it was only known that an enduring solution would be in place by April 2016. This may or may not have been the retention, grandfathering, removal or perhaps some other change to the SGD, not necessarily the grandfathering of the SGD. It cannot be argued that the removal of the SGD was unforeseeable which would provide some justification for grandfathering. Rather it was perfectly foreseeable that this could happen.</p> <p>We consider that a prudent generator could not have come to the conclusion that the SGD would most likely be retained in perpetuity post March 2016 via grandfathering arrangements. Planning must also have been made on the basis that the SGD could be removed or altered in some other manner. Therefore, seeking to grandfather the SGD risks rewarding imprudent generators who planned (arguably recklessly) on the basis that the SGD would be grandfathered. There is a high risk that the approval of CMP239 is likely to foster moral hazard by, in effect, insulating some generation owners from imprudent economic decision making. This can only distort future generation investment signals.</p> <p>Secondly, we agree with National Grid's assessment that following its informal review of the transmission charging arrangements for embedded generation, the evidence suggests that 132kV transmission connected generation without the SGD face charges that are within the range faced by distribution connected generation and that, as a result, all 132kV generators in GB compete on a relatively level playing field. This therefore provides justification for removing the SGD to ensure the facilitation of effective</p>
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		<p>competition between all GB generators.</p> <p>We note the Proposer’s point that CMP239 was not raised to determine whether the SGD is still required. However, we believe that this question is fundamental to determining whether grandfathering of the SGD is justified. The merits of CMP239 cannot be evaluated without answering this fundamental question.</p> <p>As indicated by National Grid’s assessment, if the SGD was to be grandfathered, this would provide an unfair competitive advantage to generators in receipt of the SGD relative to generators not subject to the SGD i.e. embedded generation, 400kV transmission connected generation and 132kV transmission connected generation of <math>\geq 100\text{MW}</math>. In addition, those sub 100MW generators connecting to the 132kV transmission network after March 2016 will similarly be at an unfair competitive disadvantage. It may also incentivise plant to connect in inefficient locations depending on the final criteria set to determine grandfathering eligibility. This will fundamentally distort competition resulting in long term detriment to end consumers, as it will be likely that less efficient forms of generation will be incentivised to stay on the network.</p> <p>Further, ACO (b) explicitly states that modifications should attempt to make charging accurately reflect the costs incurred by transmission licensees. As the National Grid analysis indicates that there is no longer justification for the SGD, this indicates that grandfathering the SGD arrangements will weaken the cost reflectivity of TNUoS charges.</p>
2	<p><b>Do you support the proposed implementation approach?</b></p>	<p>Yes.</p>
3	<p><b>Do you have any other comments?</b></p>	<p>The Proposer has stated that the decision on whether to extend the SGD should not be based on the difference in treatment of generators or its necessity. Instead the decision should only consider the impact removing the SGD would have on the small generators business plans. ACO (b) explicitly states that modifications should attempt to make charging accurately reflect the costs incurred by transmission licensees and therefore the decisions above</p>

		fundamentally goes against ACO (b).
4	<b>Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?</b>	No.

#### Specific questions for CMP239

Q	Question	Response
5	<b>Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.</b>	Examples include the RO and the CfD FiT. However, it is important to note that these support mechanisms provide for grandfathering of support ex ante of any investments being made. Investments under these schemes are not made on the basis that grandfathering of the arrangements may be provided at some point in the future.
6	<b>Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?</b>	Potentially, but we do not believe it should. Grandfathering in principle can be justified, but we do not believe that grandfathering has been justified in the case of CMP239 (for the reasons presented in answer to question 1). It is important that each modification proposal is judged on its own merit (a grandfathering proposal or not) and evaluated on a case by case basis.
7	<b>Do you feel that the small generator discount is material on demand customers? If yes, please provide details.</b>	In the short run, the costs of transmission will be borne by end consumers regardless of whether it is paid via the wholesale price or via the retail price. The important point to note is that CMP239 risks distorting generation competition which would be expected to raise the cost of generation thus negatively impacting consumer bills in the medium term.

## CUSC Workgroup Consultation Response Proforma

### CMP239 'Grandfathering Arrangements for the Small Generator Discount'

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 by **4<sup>th</sup> March 2015** to [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com). Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at [jade.clarke@nationalgrid.com](mailto:jade.clarke@nationalgrid.com)

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<b>Respondent:</b>	Paul Mott
<b>Company Name:</b>	EDF Energy
<p><b>Please express your views regarding the Workgroup Consultation, including rationale.</b></p> <p><b>(Please include any issues, suggestions or queries)</b></p>	<p>For reference, the Applicable CUSC objectives are:</p> <p><b>Use of System Charging Methodology</b></p> <p>(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;</p> <p>(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);</p> <p>(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.</p>

	(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
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### Standard Workgroup Consultation questions

Q	Question	Response
1	<b>Do you believe that CMP239 Original Proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives? Please state which ones and why.</b>	No. We do not accept the statement that “generators .. have only been given two years notice for a major change..” (proposer’s view – from the consultation document). The original LC16 discount was due to expire in 2008; it was extended twice, the final extension being to 2016. The expiry of the discount isn’t an unexpected, or new, development. The discount represents a distortion; as does the ongoing exemption from TNUoS for embedded generation (of fewer than 100 MW) in England and Wales. The principle of electrical superposition, or Kirchhoff’s law, means that extra embedded generation <i>does</i> affect flows on the transmission system – whether or not a particular GSP is exporting. Therefore it can affect transmission investments, and should be subject to TNUoS.
2	<b>Do you support the proposed implementation approach?</b>	We note that the workgroup agreed that a decision would need to be made on CMP239 before December 2015 in order to give notice for the 2016/2017 charging methodology. If it is approved, we would say that the more notice there is of this the better, as passing it would have adverse affects on all other CUSC parties – customers or their Suppliers (on whom it would impact – not other generators) would pay more than they are currently expecting to, as a result of such a decision.
3	<b>Do you have any other comments?</b>	No
4	<b>Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?</b>	No

### Specific questions for CMP239

Q	Question	Response
5	<b>Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.</b>	No
6	<b>Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?</b>	We decided in the CMP213 workgroup, not to proceed with any grandfathering arrangements. They were felt to be potentially discriminatory as they would have involved treating new generation Users differently to existing Users of the transmission system. There was also concern that it would have set a precedent for grandfathering arrangements being used whenever other changes to the charging method were made in the future.
7	<b>Do you feel that the small generator discount is material on demand customers? If yes, please provide details.</b>	<p>The effect of the discount is growing quite rapidly. In 2013/14 the discount was £7.55/kW, giving a benefit to the relevant generators of £10.9m. In 2014/15 the discount had grown £8.96/kW, giving a benefit to the relevant generators of £13.4m, all of which was recovered from demand customers (due to the overall cap on how much generators pay) on a non-locational basis via an enhancement to the demand residual. The National Grid representative at the workgroup noted that the average impact per home could perhaps be estimated by taking the impact of the discount on the NHH tariffs and multiplying this by an estimated level of metered demand. This, the workgroup noted, equates to roughly 40.1p per home p.a. in 2014/15. Our own estimation validates that this impact per home figure, is approximately correct.</p> <p>As to future growth in the current 40p per home p.a. cost if CMP239 were extended : there are currently 29 generating stations in receipt of the small generator discount with a total capacity of around 1.5GW. Based on National Grid's Electricity Ten Year Statement (ETYS), there are 16 new projects (with 1.2GW of capacity) that could be connected at 132kV in Scotland before 1<sup>st</sup> April 2016.</p>



## CUSC Workgroup Consultation Response Proforma

### CMP239 'Grandfathering Arrangements for the Small Generator Discount'

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 by **4<sup>th</sup> March 2015** to [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com). Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at [jade.clarke@nationalgrid.com](mailto:jade.clarke@nationalgrid.com)

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

<b>Respondent:</b>	<i>Nigel McManus</i>
<b>Company Name:</b>	<i>Eneco Wind UK Ltd</i>
<p><b>Please express your views regarding the Workgroup Consultation, including rationale.</b></p> <p><b>(Please include any issues, suggestions or queries)</b></p>	<p>We support this modification proposal. It reflects the view that eligible generators such as ourselves made a commercial decision in recent years based on the existing charging arrangements and on a reasonable expectation that revised or replacement arrangements would be put in place if there were ever changes to the existing arrangements. We stand to incur considerable extra costs if and when the discount is removed and it makes a significant impact on our business case. The modification will facilitate competition and should establish a stable and predictable regulatory environment.</p> <p>We believe the original proposal best meets the objective of grandfathering the current arrangements, such that eligible generators continue to receive the discount until such time as the 132kV network in Scotland is designated distribution. The different designation was the original rationale for the discount and this rationale remains to this day. We believe more consideration should be given to the cut-off date for when grandfathering arrangements are to start.</p>

## Standard Workgroup Consultation questions

Q	Question	Response
1	<p><b>Do you believe that CMP239 Original Proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives? Please state which ones and why.</b></p>	<p>The modification's objective is to preserve the small generator discount in order to avoid a situation where eligible generators such as ourselves are faced with a sudden and material increase in charges (the resolution came at the end of 2014 at the conclusion of National Grid's review of embedded generation).</p> <p>The original modification will facilitate applicable objective (a) in respect of facilitating competition since the removal of the discount will act as a detriment to competition when no other enduring arrangements have been put in place. Generators such as ourselves had a reasonable expectation that enduring arrangements would be defined when Ofgem set out its decision to extend the discount in October 2012. Indeed, the development of such arrangements was a key reason for the Regulator to extend the discount. National Grid concluded at the end of its review that there was no justification for continuing the discount whilst proposing no alternative framework and this leaves us with a sudden and material increase in our costs.</p> <p>The original proposal will facilitate objective (c) in taking proper account of developments in transmission licensees' transmission businesses by recognising that there has been no enduring solution to the embedded generation charging arrangements. It allows for orderly change in the absence of replacement arrangements having been developed.</p> <p>The duration of the discount has its rationale in the classification of 132kV in Scotland as transmission and therefore it seems appropriate that the discount should terminate when 132kV becomes reclassified as distribution.</p> <p>In terms of the value of the discount the other potential options proposed would no longer be "grandfathering" the arrangements but amending them in an arbitrary way. This moves outside the scope and objective of the original modification to preserve the current arrangements for existing eligible generators.</p>
2	<p><b>Do you support the proposed implementation approach?</b></p>	<p>The workgroup has proposed that ideally a decision would need to be made on the modification before December 2015 in order to give notice for the 2016-17 charging methodology. We prefer an early decision to allow for a maximum amount of notice before National Grid issues</p>

		draft tariffs.
3	Do you have any other comments?	No
4	Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?	N/A

### Specific questions for CMP239

Q	Question	Response
5	Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.	<p>One example is the grandfathering arrangements that are currently used for the Renewable Obligation, which provide that once a generating station is accredited and receiving support under the RO the level of support that it receives would not change for the lifetime of its support under that scheme.</p> <p>Grandfathering provides certainty and a stable regime for companies such as our own making significant investments in UK generation infrastructure. Our investors are naturally averse to subsequent decisions that might undermine the basis on which investment decisions were made. The underlying principle is relevant to this modification and as we understand it there is no particular reason why grandfathering arrangements should not be considered in the CUSC where appropriate.</p> <p>It is imperative in cases concerning grandfathering to treat all users equally with respect to the change but this needs to be considered against the legitimate expectations of specific classes of users about the longevity of arrangements that applied specifically to them. In the case of CMP239 the expectation of grandfathering arrangements being put in place is a more reasonable and justifiable assumption for our investors to make than an assumption that the discount would be removed in the absence of any other enduring solution. As stated earlier, the impact of the removal of the discount will be significantly detrimental to our business case.</p>

6	<p><b>Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?</b></p>	<p>No, there will be no precedent set as there needs to be a valid reason for grandfathering and this should be assessed on a case-by-case basis. Our view is that removal of the discount without being replaced by an enduring framework damages competition and is a rule change that will have a significant impact on a generator such as ourselves. This could not have been reasonably expected given the work undertaken by, or on behalf of Ofgem, to establish an enduring framework for embedded generation.</p>
7	<p><b>Do you feel that the small generator discount is material on demand customers? If yes, please provide details.</b></p>	<p>No. Under the C13 licence condition the value of the small generator discount is recovered from demand users on a non-locational basis. The consultation notes that the total value in 2014-15 is around £13m and this is less 1% of the revenue forecast to be recovered from demand in 2014-15.</p> <p>Furthermore, the decision by Ofgem on the means of recovery of the discount when it was first introduced arguably reflects that the discount provides value to consumers in ensuring the eligible generators did not suffer a competitive disadvantage from the networks being differently designated in Scotland.</p>

## CUSC Workgroup Consultation Response Proforma

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<b>Respondent:</b>	<i>Guy Phillips (guy.phillips@eon-uk.com)</i>
<b>Company Name:</b>	<i>E.ON</i>
<p><b>Please express your views regarding the Workgroup Consultation, including rationale.</b></p> <p><b>(Please include any issues, suggestions or queries)</b></p>	<p>For reference, the Applicable CUSC objectives are:</p> <p><b>Use of System Charging Methodology</b></p> <p>(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;</p> <p>(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);</p> <p>(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.</p>

	(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
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### Standard Workgroup Consultation questions

Q	Question	Response
1	<b>Do you believe that CMP239 Original Proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives? Please state which ones and why.</b>	At this stage we do not believe that the Original Proposal or any of the potential alternatives better facilitate the Applicable CUSC Objectives.
2	<b>Do you support the proposed implementation approach?</b>	Yes.
3	<b>Do you have any other comments?</b>	No.
4	<b>Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?</b>	No.

### Specific questions for CMP239

Q	Question	Response
5	<b>Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.</b>	Ofgem's decision on the implementation of the EDCM Charging Methodology exempted those generators that had connected before April 2005 from paying Distribution Use of System Charges for a period of 25 years from the date the generator first connected, on the basis that it had already paid for its connection and export capacity through connection charges. ( <a href="https://www.ofgem.gov.uk/ofgem-">https://www.ofgem.gov.uk/ofgem-</a>

		<p><a href="https://www.ofgem.gov.uk/publications/43902/further-decision-letter-pre-2005-exemption.pdf">publications/43902/further-decision-letter-pre-2005-exemption.pdf</a>)</p> <p>There are a number of examples within the Grid Code where new requirements apply to generators connecting after a future date. Whilst not explicitly grandfathering it does mean that existing generators are, typically, not subject to retrospective changes to the Grid Code.</p>
6	<p><b>Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?</b></p>	<p>The TNUoS charging methodology seeks to treat all parties consistently such that they are all subject to the same obligations as set out in the methodology, which facilitates competition and ensures cost recovery. There is concern that this will create a potential precedent for parties to argue that future changes to the charging methodology should not apply to them. If a grandfathering arrangement is to be introduced in to the charging methodology the conditions and reasons for the arrangement should be clearly set out in order to clearly define the basis that any precedent is set on, to minimise the basis of any future grandfathering justification.</p> <p>In this regard the Working Group could consider;</p> <ul style="list-style-type: none"> <li>i) the materiality of the discount to the affected generators and cost of continuing the discount,</li> <li>ii) the duration that the discount has applied for, 11 years by the time it is due to expire, and</li> <li>iii) that the discount has arisen as a result of a change in law, classifying 132kV as transmission voltage in Scotland and Offshore but distribution voltage onshore in England and Wales.</li> <li>iv) Whether continuing the discount for those that would be eligible to continue to receive it is detrimental to competition.</li> </ul>
7	<p><b>Do you feel that the small generator discount is material on demand customers? If yes, please provide details.</b></p>	<p>On balance no, the increase in cost to the individual generators affected is potentially greater than the £13.4m cost of the discount to demand customers in 2014/15. This is in the context of the £2.5bn annual transmission revenue that has to be recovered from those parties liable for TNUoS charges. Table 25 on page 29 of the October 2014 update to the forecast of TNUoS tariffs from 2014/15 to 2018/19 provides evidence of the affect to the Demand Residual tariff of the cost of the Small Generator Discount.</p>

### **CMP239 ‘Grandfathering Arrangements for the Small Generator Discount’**

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<b>Respondent:</b>	<i>William Chilvers, ESB</i> <i>William.chilvers@esb.ie</i>
<b>Company Name:</b>	<i>ESB</i>
<b>Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)</b>	<p>For reference, the Applicable CUSC objectives are:</p> <ul style="list-style-type: none"> <li>(a) The efficient discharge by The Company of the obligations imposed upon it by the Act and the Transmission Licence.</li> <li>(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.</li> <li>(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.</li> </ul>



## Standard Workgroup consultation questions

Q	Question	Response
1	<p><b>Do you believe that CMP239 Original proposal or either of the potential options for change better facilitates the Applicable CUSC Objectives? Please state which ones and why.</b></p>	<p>We do not believe that CMP239 or any of the alternatives better facilitates the Applicable CUSC Objectives.</p> <p>Since the introduction of the Small Generator Discount there have been significant changes to distribution charging methodologies which have gradually increased the cost of 132kV network connections in England and Wales, thus eroding the justification for the Small Generator Discount. Although based on a limited data set, this conclusion appears to be borne out by the findings of National Grid’s informal review of embedded generation charging.</p> <p>Given this, grandfathering the Small Generator Discount whilst distribution charges in England and Wales continue to rise could provide a competitive advantage to parties receiving the discount, thus being at odds with Applicable CUSC Objective (a).</p> <p>It is also interesting to note that no modification has been raised seeking the continuation of the Small Generator Discount for new generation assets, suggesting that effected parties no longer see themselves at a disadvantage to similarly connected plant in England and Wales.</p> <p>The introduction of a competitive CfD allocation process for onshore wind also raises questions around effective competition in generation as generators receiving the Small Generator Discount would be at an unfair competitive advantage in the CfD auction due to their ability to factor the Small Generator Discount income into a lower bid price. This would be particularly true under a scenario where grandfathering applied from the point of financial close rather than commissioning as construction lead times would increase the likelihood that the generator would opt for a CfD rather than the RO.</p> <p>Under Applicable CUSC Objective (b) charging should as much as possible reflect the cost of connection to and use of the transmission system. The introduction of grandfathering would fix an element of the cost at a level that has already been shown to be non-cost effective. In addition any future changes to the cost of system use would not be reflected, thus preventing National Grid from fulfilling its obligations under Objective (b).</p>

Q	Question	Response
2	<b>Do you support the proposed implementation approach?</b>	In light of our views on the modification we have no comment on implementation
3	<b>Do you have any other comments?</b>	Not at this time
4	<b>Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?</b>	<i>If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website<sup>1</sup>, and return to the CUSC inbox at <a href="mailto:cusc.team@nationalgrid.com">cusc.team@nationalgrid.com</a></i>

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<sup>1</sup> [http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms\\_guidance/](http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/)

## Specific questions for CMP239

Q	Question	Response
5	<p><b>Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.</b></p>	<p>There are existing grandfathering arrangements within industry, however we feel the circumstances in which these arrangements were put into place is sufficiently different for them to be of no relevance to the grandfathering being sought through this modification.</p> <p>The first example is the grandfathering of ROC Bandings within the RO. The RO is a renewable support mechanism with an explicit requirement to provide a stable investment environment, therefore providing predictable returns through grandfathering is a vital component of the mechanism. Transmission charging is designed to reflect the cost of connecting to and use of the transmission system, not provide a stable investment environment. Therefore parallels cannot be drawn between grandfathering of ROCs and the Small Generator Discount.</p> <p>The second example is grandfathering of DUoS arrangements for generators connected to the system pre-2005. As many of these generators had already made significant investment in complex bespoke connection agreements prior to the introduction of DUoS charging it was deemed too complex to try and unwind these contracts and calculate payments due or owed by these generators, therefore an exemption from the new charges was approved by Ofgem. Again, this differs from the situation of the Small Generator Discount. Given that the Small Generator discount was introduced and subsequently extended on a time-limited basis, we do not believe that generators can claim legitimate expectation of its continuation or replacement with a similarly favourable arrangement and that its removal would not be a complex arrangement such as was the case with pre-2005 distribution connections. Therefore grandfathering should not apply.</p>

Q	Question	Response
6	<p><b>Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?</b></p>	<p>We are not aware of any grandfathering arrangements within the CUSC as it stands, therefore its introduction could be seen as precedential.</p> <p>Given that a grandfathered clause or decision cannot be subsequently altered careful consideration would need to be given to any proposed grandfathering arrangements to ensure they do not nor would at any point in the future be at odds with any of the Applicable CUSC Objectives, as we firmly believe compliance with these should take precedence over any grandfathering considerations.</p> <p>We feel that rather than adopting grandfathering any justified derogations should be time limited and only rolled forward following thorough review, as was the case with the Small Generator discount. Adopting this approach offers the right balance between certainty and charging flexibility.</p>
7	<p><b>Do you feel that the small generator discount is material on demand customers? If yes, please provide details.</b></p>	<p>The evidence presented to the Workgroup on this issue would suggest there will be very little impact on demand customers and we have no further analysis to offer on this subject.</p>

## CUSC Workgroup Consultation Response Proforma

### CMP239 'Grandfathering Arrangements for the Small Generator Discount'

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 by **4<sup>th</sup> March 2015** to [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com). Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at [jade.clarke@nationalgrid.com](mailto:jade.clarke@nationalgrid.com)

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

<b>Respondent:</b>	<i>Graeme Cooper</i> <a href="mailto:Graeme.cooper@fredolsen.co.uk">Graeme.cooper@fredolsen.co.uk</a> 02079310975
<b>Company Name:</b>	<i>Fred.Olsen Renewables - proposer</i>
<b>Please express your views regarding the Workgroup Consultation, including rationale.</b>  <b>(Please include any issues, suggestions or queries)</b>	<p>We support this modification proposal as it reflects that eligible generators have made commercial decisions based on the existing arrangements and on a reasonable expectation that revised or replacement arrangements would have been put in place. As the situation currently stands these generators face significant additional costs from losing the discount, which may in some cases threaten their business models. The modification will facilitate competition through establishing a stable and predictable regulatory environment.</p> <p>We believe the original proposal best meets the objective of grandfathering the current arrangements, such that eligible generators continue to receive the discount until such time as the 132kV network in Scotland is designated distribution. The different designation was the original rationale for the discount and this rationale remains today. Options to change the calculation or the length of time it applies appear arbitrary in this context. However, we think it may be appropriate to give more consideration to the cut-off date for when grandfathering arrangements are to start, specifically whether a financial close option as suggested is viable.</p>

## Standard Workgroup Consultation questions

Q	Question	Response
1	<p><b>Do you believe that CMP239 Original Proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives? Please state which ones and why.</b></p>	<p>The modification's objective is to preserve the small generator discount in order to avoid a situation where eligible generators are faced with a sudden and material increase in charges that could alter their cost profile significantly and which was only resolved in 2014, at the conclusion of National Grid's review of embedded generation. It seeks to retain the current discount in order to protect generators from changes from their forecasted cashflows.</p> <p>The original modification will facilitate applicable objective (a) in respect of facilitating competition, as the removal of the discount will act as a detriment to competition when no other enduring arrangements have been put in place. Eligible generators had a reasonable expectation that enduring arrangements would be defined when Ofgem set out its decision to extend the discount in October 2012. The development of such arrangements was a key reason the regulator gave for extending the discount. The fact that National Grid concluded at the end of its recent review that there was no justification for continuing the discount but also proposed no alternative framework going forwards has left those generators in a situation they could not reasonably have predicted and with a forecast increase in costs.</p> <p>The original proposal will facilitate objective (c) in taking proper account of developments in transmission licensees' transmission businesses by recognising that there has been no enduring solution to the embedded generation charging arrangements. It allows for orderly change in the absence of replacement arrangements having been developed.</p> <p>We do not see any convincing rationale for the potential alternative options put forward, except possibly the use of a final investment decision as the cut-off date, which is worth further consideration. This could use a similar process as used for Contracts for Difference. We concur with the workgroup member who noted it should be clearly defined within the legal text what a final investment decision is and how that information will be provided.</p> <p>In particular the duration of the discount has its rationale in</p>

		<p>the classification of 132kV in Scotland as transmission and therefore it seems appropriate that the discount should terminate when 132kV becomes reclassified as distribution.</p> <p>In terms of the value of the discount the other potential options proposed would no longer be “grandfathering” the arrangements but amending them to some arbitrary number. This moves outside the scope and objective of the original modification to preserve the current arrangements for existing eligible generators.</p>
2	<b>Do you support the proposed implementation approach?</b>	The workgroup has proposed that ideally a decision would need to be made on the modification before December 2015 in order to give notice for the 2016-17 charging methodology. Clearly the earlier the decision the better in terms of maximising the notice to eligible generators. We note that National Grid plans to issue draft tariffs on 17 December and final tariffs on 29 December.
3	<b>Do you have any other comments?</b>	No
4	<b>Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?</b>	N/A

### Specific questions for CMP239

Q	Question	Response
5	<b>Can you think of any explicit types of grandfathering within the industry? If yes, please provide examples.</b>	<p>One example is the grandfathering arrangements that are currently used for the Renewable Obligation, which provide that once a generating station is accredited and receiving support under the RO the level of support that it receives would not change for the lifetime of its support under that scheme. Another example is the treatment of pre-2005 distribution connected generation where Ofgem determined that it should not pay distribution use of system charges for a period of 25 years.</p> <p>Grandfathering provides certainty and a stable regime for generators in those cases, and avoids the risk of subsequent decisions being taken that might undermine the</p>

		<p>basis on which investment decisions were made. The underlying principle is relevant to this modification and there is no particular reason why grandfathering arrangements should not be considered in the CUSC where appropriate.</p> <p>As with all considerations of grandfathering arrangements the desirability of treating all users equally with respect to change needs to be considered against the legitimate expectations of specific classes of users about the longevity of arrangements that applied specifically to them.</p> <p>In the case of CMP239 the expectation of grandfathering arrangements being put in place is a more reasonable and justifiable assumption for investors to make than an assumption that the discount would be removed in the absence of any other enduring solution. The detriment to these generators and to competition is likely to be significant if the discount is removed as currently planned.</p>
6	<b>Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?</b>	<p>No, there will be no precedent set as there needs to be a valid reason for grandfathering and this should be assessed on a case-by-case basis. In the instance addressed by this modification the case rests primarily on the damage to competition of the change to the rules which will have a significant impact on eligible generators and could not reasonably have been expected given the work undertaken at Ofgem's behest to establish an enduring framework for embedded generation.</p>
7	<b>Do you feel that the small generator discount is material on demand customers? If yes, please provide details.</b>	<p>No. Under the C13 licence condition the value of the small generator discount is recovered from demand users on a non-locational basis. The consultation notes that the total value in 2014-15 is around £13.4mn and it reflects the value of the residual generation and demand charges calculated on the basis of the charging methodology and the revenue to be collected. Although this is not an unimportant sum, it compares with the £1,808mn in revenue forecast to be recovered from demand in 2014-15 in the final TNUoS tariffs issued in January 2014.</p> <p>Furthermore, the decision by Ofgem on the means of recovery of the discount when it was first introduced arguably reflects that the discount provides value to consumers in ensuring the eligible generators did not suffer a competitive disadvantage from the networks being differently designated in Scotland.</p>



[cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com)

04 March 2015

Dear Andrew Wainwright,

**HIE response to the workgroup consultation on 'Grandfathering Arrangements for the Small Generator Discount' issued on 11 February 2015 (1427/007 CMP239 consultation response)**

Thank you for providing the opportunity to respond to this workgroup consultation on '*Grandfathering Arrangements for the Small Generator Discount*' issued on 11 February 2015. Within this document we set out our position as Highlands and Islands Enterprise (HIE).

Highlands and Islands Enterprise (HIE) is the Scottish Government's agency responsible for economic and community development across the North and West of Scotland and the islands.

HIE along with its local partners: the democratically elected local authorities covering the north of Scotland and the islands: Shetland Islands Council, Orkney Islands Council, Comhairle nan Eilean Siar, Highland Council, Argyll & Bute Council and Moray Council make representations to key participants on behalf of industry to influence the way in which grid construction is triggered, underwritten then accessed and charged for in the region.

**Our response to consultation questions**

**Question 1: Do you believe that the CMP239 Original Proposal or either of the potential options for change better facilitate the CUSC Objectives? Please state which ones and why.**

HIE believes that all of the options presented in CMP239 better facilitate CUSC Objective (b) as set out in Condition C10 of the Transmission Licence Standard Conditions as it reduces the operational costs of windfarms connected at 132kV in Scotland, thereby promoting competition in the supply of electricity. HIE also considers that CMP239 better facilitates CUSC Objective (a) as it provides continuity in the calculation of use of system charges as set out in Standard Licence Condition C13 for those projects who are already built or will be built before 31 March 2016.

**Question 2: Do you support the proposed implementation approach?**

There does not appear to be a single proposed implementation approach, and instead a range of potential options are set out in the consultation document. HIE considers that the original proposal to provide grandfathering arrangements for projects connected before 31 March 2016 using the current calculation methodology until such time as the 132kV network is reclassified as distribution to be the most straightforward and appropriate approach.

**Question 3: Do you have any other comments?**

HIE understands that licence condition C13 has been reviewed previously and that the current expiry date of 31 March 2016 was set out in 2012. Despite this, HIE would agree with the point made by the Proposer that there is a significant amount of generation which has made financial decisions based on the inclusion of the Small Generator's Discount and that the complete removal of this could have a negative impact on financial business plans of affected generators.

**Question 4: Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?**

HIE does not wish to raise an alternative request as it feels the original proposal is appropriate.

**Question 5: Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.**

HIE is not aware of any explicit types of grandfathering but believes that generators with assets that do not meet new Grid Code requirements are exempt from these requirements.

**Question 6: Do you feel there will be any precedential implications of introducing grandfathering arrangements to the CUSC?**

HIE does not consider that there will be precedential implications of introducing grandfathering arrangements to the CUSC in this case as the discount only applies to a specific set of generators and the grandfathering arrangements would be limited to those due to connect before 31 March 2016. The grandfathering arrangements in this case are being proposed to account for financial decisions that have already been made, rather than providing arrangements for new generators to benefit from.

It is clear that no enduring solution has been developed to the original problem that resulted in the introduction of the small generator discount. Therefore, this amendment proposal addresses the fact that an enduring solution has not been forthcoming. This avoids penalising generation users that developed financial models with the expectation that a resolution to the identified problem would be introduced eventually.

**Question 7: Do you feel the small generator discount is material on demand customers? If yes, please provide details.**

As the level of the small generator's discount is based on 25% of the total generation and demand residual TNUoS tariff, the discount is, in consequence, material on demand customers, however this is in our view a very small impact.

The current value of small generator discount is stated as being worth approximately £13.1M annually. This cost is shared across all demand customers in a non-

discriminatory basis. This is only a small share of the overall revenue recovered from demand of £1.808 billion in 2014/2015.

Given that the amendments that form part of this proposal do not include future generators, the level of cross-subsidy from demand tariffs will not rise disproportionately above this.

Yours sincerely,



Gavin MacKay  
Senior Development Manager, Energy Policy & Strategic Projects  
Highlands and Islands Enterprise

In partnership with:  
Shetland Islands Council  
Orkney Islands Council  
Comhairle nan Eilean Siar  
Highland Council  
Argyll & Bute Council

## CUSC Workgroup Consultation Response Proforma

### CMP239 'Grandfathering Arrangements for the Small Generator Discount'

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 by **4<sup>th</sup> March 2015** to [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com). Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at [jade.clarke@nationalgrid.com](mailto:jade.clarke@nationalgrid.com)

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

<b>Respondent:</b>	<i>Zoltan Zavody, zoltan.zavody@renewableuk.com</i>
<b>Company Name:</b>	<i>RenewableUK</i>
<b>Please express your views regarding the Workgroup Consultation, including rationale.</b>  <b>(Please include any issues, suggestions or queries)</b>	We support the proposal. Changes to charging methodology, such as removal of the small generator discount, should be considered in the context of impact on the competitive energy market and other unintended consequences at a time of uncertainty in the charging regime.

### Standard Workgroup Consultation questions

Q	Question	Response
1	<b>Do you believe that CMP239 Original Proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives? Please state which ones and why.</b>	The proposal for maintaining current arrangements for existing generators and for those that will have based their business models on these arrangements is in line, most obviously, with the CUSC objective of facilitating effective competition.
2	<b>Do you support the proposed implementation</b>	Yes we support the proposal for implementation.

	approach?	
3	Do you have any other comments?	We suggest an early decision be made, and that there be greater clarity on the 31 <sup>st</sup> March 2016 cut-off. This would include a grace period, as with support scheme deadlines, where a project connection is delayed owing to circumstances outside of their control, such as grid delays.
4	Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?	No.

#### Specific questions for CMP239

Q	Question	Response
5	Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.	Recipients of support schemes do not have this support changed halfway through the project lifetime, e.g: ROCs. Likewise there was grandfathering of existing GDUoS methodology after changes to electricity trading arrangements.
6	Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?	No, the decision is being made on the basis of analysis by a CUSC Working Group under industry governance.
7	Do you feel that the small generator discount is material on demand customers? If yes, please provide details.	No. Even with the increase in recipients of the small generator discount by March 2016, the total value would amount to £25M per year. This equates to £1 / household if it were passed on only to householders, which it is not. This cost should be compared with the value of these projects continuing to compete in the generation market.

## CUSC Workgroup Consultation Response Proforma

### CMP239 'Grandfathering Arrangements for the Small Generator Discount'

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<b>Respondent:</b>	<i>Fruzsina Kemenes,</i> <a href="mailto:Fruzsina.kemenes@rwe.com">Fruzsina.kemenes@rwe.com</a> Tel: 01793 474463
<b>Company Name:</b>	<i>RWE Innogy UK</i>
<b>Please express your views regarding the Workgroup Consultation, including rationale.</b>  <b>(Please include any issues, suggestions or queries)</b>	<p>For reference, the Applicable CUSC objectives are:</p> <p><b>Use of System Charging Methodology</b></p> <p>(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;</p> <p>(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);</p> <p>(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</p>

	<p>businesses.</p> <p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.</p>
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### Standard Workgroup Consultation questions

Q	Question	Response
1	<p><b>Do you believe that CMP239 Original Proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives? Please state which ones and why.</b></p>	<p><b>Yes – the proposal helps better facilitate the CUSC objective of facilitating effective competition in generation.</b> Generators that have made investment decisions on the reasonable assumption that the SLC C13 is to be replaced with a like- enduring solution will be placed at risk by a substantial step change in charges that may affect the economic viability of these projects in the UK generation market. The forced exit of any such renewable energy generators would lead to a decline in competition in the market.</p> <p>Due to an unstable regulatory environment, the UK’s appeal as a destination for investment in renewable energy is now at its lowest level in 12 years, according to Ernst &amp; Young. The proposal would help improve future UK energy infrastructure investor confidence and thereby increase levels of competition in generation. The expectation was set that an enduring solution would replace the temporary SLC C13, therefore a step change in charging was not expected by investors. The absence of protection for investors that committed on this basis would knock investor confidence. No grandfathering could add to the recent trends of decreased rates of new investment in UK energy generation and reduce confidence in the stability of conditions for investment.</p>
2	<p><b>Do you support the proposed implementation approach?</b></p>	<p><b>Yes,</b> the central principle of the modification that those that made FID on the basis of the discount enduring in some form should be granted grandfathering rights is supported.</p> <p>We would like to add our own views to support and inform the final form of this Modification.</p> <p><b>When is the cut-off date for grandfathering arrangements to start?</b></p> <p>We agree with the proposal that that there must be a clear cut-off date and clear qualification criteria for eligibility for</p>

the discount. It is a little unclear when this is in the consultation report. As a minimum, all projects that made FID before 11<sup>th</sup> April 2014 should be eligible. The justification for this is set out below:

The Renewables Obligation sets precedent for allowing grandfathering to protect projects that have made significant financial commitment before the announcement of a proposed policy change.

Following this principle,

14<sup>th</sup> April 2014 is a suitable cut-off date:

National Grid concluded following its review of wider embedded benefit arrangements that it did not intend to put any alternative arrangements in place to replace SLC C13. This date therefore serves as a possible justified cut off point for grandfathering eligibility as this is when it was first ruled out that an enduring solution is to be introduced in April 2016.

(By way of background, up until Ofgem's October 2012 decision paper concluded that SLC C13 should be left to simply expire in April 2016 – there was a reasonable expectation for generators making FID that while SLC C13 was time limited, the condition may be extended as it had been previously while no enduring replacement had been considered or made available to address the different charging for 132kV transmission vs 132 kV distribution assets. Ofgem's decision paper set out the end to the condition, but still maintained an expectation that the industry should seek an enduring solution. NGET's April 2014 consultation decision then set out the conclusion that no replacement policy would be introduced in 2016).

**FID definition?**

The Modification needs to be specific about the criteria for qualification. The renewables industry has worked with the DECC's definition of FID and we therefore suggest that this is adopted here:

FID criteria to demonstrate:

- Planning consent
- Signed Grid connection for before policy change decision
- Financial commitment towards turbines, ensuring delivery
- Letter from Board or Financiers confirming FID

**b) How long should the discount be grandfathered?**



		<p>We support the view that the economic lifetime of the plant from the Operational Notification of the plant would serve as the best duration for the grandfathering arrangement. An industry standard figure for the technology can be used for ease of administration. As a suggestion - 25 years has been used by DNOs in the past, as this period corresponds with the economic lives over which most plant are financed and are expected to earn a return.</p> <p>Clearly if the generators are no longer charged TNUoS the discount would not apply, therefore any changes in the definition of the 132kV network in Scotland would serve as a 'natural' end to the arrangement.</p>
3	Do you have any other comments?	
4	Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?	<i>If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website<sup>1</sup>, and return to the CUSC inbox at <a href="mailto:cusc.team@nationalgrid.com">cusc.team@nationalgrid.com</a></i>

### Specific questions for CMP239

Q	Question	Response
5	Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.	<p>The Renewables Obligation.  <a href="https://www.ofgem.gov.uk/environmental-programmes/renewables-obligation-ro">https://www.ofgem.gov.uk/environmental-programmes/renewables-obligation-ro</a></p> <p>CHPQA standards for CHP plants.  <a href="https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211917/D13_813935_CHPQA_Consultation_Government_Response.pdf">https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211917/D13_813935_CHPQA_Consultation_Government_Response.pdf</a></p>
6	Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?	

<sup>1</sup> [http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms\\_guidance/](http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/)

7	<p><b>Do you feel that the small generator discount is material on demand customers? If yes, please provide details.</b></p>	<p>- If the cut-off date for eligibility for the small generator discount is ambiguous then it leaves suppliers in a position where they cannot easily anticipate the longer term costs to be passed through to demand customers. Suppliers are concerned that without a clear cut-off on the eligibility for grandfathering being limited to those with FID ahead of the policy change there a risk that the current costs to the consumer would double.</p>

## CUSC Workgroup Consultation Response Proforma

### CMP239 'Grandfathering Arrangements for the Small Generator Discount'

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Any queries on the content of the consultation should be addressed to Jade Clarke at [jade.clarke@nationalgrid.com](mailto:jade.clarke@nationalgrid.com)

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

<b>Respondent:</b>	<i>James Anderson</i> <i>James.anderson@scotishpower.com</i>
<b>Company Name:</b>	<i>ScottishPower Energy Management</i>
<b>Please express your views regarding the Workgroup Consultation, including rationale.</b> <b>(Please include any issues, suggestions or queries)</b>	<p>For reference, the Applicable CUSC objectives are:</p> <p><b>Use of System Charging Methodology</b></p> <p>(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;</p> <p>(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);</p> <p>(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</p>

	<p>developments in transmission licensees' transmission businesses.</p> <p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.</p>
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### Standard Workgroup Consultation questions

Q	Question	Response
1	<p><b>Do you believe that CMP239 Original Proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives? Please state which ones and why.</b></p>	<p>No. The Small Generators' Discount as introduced in Licence Condition C13 has always been a temporary measure until enduring arrangements have been introduced or a formal justification for its retention is produced. Each time the Authority extended the C13 Condition, a time limit was set, the most recent being 31 March 2016.</p> <p>The aim of this Modification has not been to provide a justification for the existence or calculation methodology for the Small generators' Discount. The only justification provided is because "it has always been there" and that parties have a "reasonable expectation" that it should continue.</p> <p>In the context of TNUoS charging, the principle of grandfathering would set a difficult precedent. As the total Allowed Revenues have to be recovered from transmission users, any discount offered to one class of user must be recovered from the remaining classes, in this case demand users. If there is no robust justification which meets the Applicable Charging Objectives then such a discount would constitute unjustified discrimination against the classes of users paying the additional sums.</p> <p>For these reasons, ScottishPower does not believe that the CMP239 Original Proposal or either of the potential alternatives better facilitate the Applicable CUSC Objectives.</p>
2	<p><b>Do you support the proposed implementation approach?</b></p>	<p>Although we do not support implementation of CMP239, we agree that should implementation be direct, it would be logical for it to take place on 1 April 2016.</p>
3	<p><b>Do you have any other comments?</b></p>	<p>No.</p>

4	<b>Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?</b>	<i>No</i>

#### Specific questions for CMP239

Q	Question	Response
5	<b>Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.</b>	<p>On the 10th February 2012, the Authority published a decision document that offered an exemption from export use of system charges for generators that connected to the distribution network prior to 1st April 2005. This exemption was offered to:</p> <p>(a) Generators which had connected under pre-April 2005 connection terms; and</p> <p>(b) Generators which contracted for connection to the Distribution System under pre-April 2005 terms, but which had not connected by 31st March 2005; together "Pre 2005 Generators".</p> <p>The exemption from use of system charges applies for 25 years from the date of connection.</p>
6	<b>Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?</b>	Yes. ScottishPower believes that in the context of TNUoS charging, the principle of grandfathering would set a difficult precedent.
7	<b>Do you feel that the small generator discount is material on demand customers? If yes, please provide details.</b>	At a total cost of £13.4m recovered from demand customers in 2014/15, the small generator would not appear to be material in terms of individual household bills. However, depending on the method of calculation of the discount to be implemented and the growth of residual charges, its impact could be greater in future years.

## CUSC Workgroup Consultation Response Proforma

### CMP239 'Grandfathering Arrangements for the Small Generator Discount'

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 by **4<sup>th</sup> March 2015** to [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com). Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at [jade.clarke@nationalgrid.com](mailto:jade.clarke@nationalgrid.com)

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

<b>Respondent:</b>	<i>Ross Cant</i>
<b>Company Name:</b>	<i>Vattenfall</i>
<b>Please express your views regarding the Workgroup Consultation, including rationale.  (Please include any issues, suggestions or queries)</b>	<p>We support this modification proposal as it reflects that eligible generators have made commercial decisions based on the existing arrangements and on a reasonable expectation that revised or replacement arrangements would have been put in place. As the situation currently stands these generators face significant additional costs from losing the discount, which may in some cases threaten their business models. The modification will facilitate competition through establishing a stable and predictable regulatory environment.</p> <p>We believe the original proposal best meets the objective of grandfathering the current arrangements, such that eligible generators continue to receive the discount until such time as the 132kV network in Scotland is designated distribution. The different designation was the original rationale for the discount and this rationale remains today. Options to change the calculation or the length of time it applies appear arbitrary in this context.</p>

### Standard Workgroup Consultation questions

Q	Question	Response
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1	<p><b>Do you believe that CMP239 Original Proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives? Please state which ones and why.</b></p>	<p>The modification's objective is to preserve the small generator discount in order to avoid a situation where eligible generators are faced with a sudden and material increase in charges that could alter their cost profile significantly and which was only resolved in 2014, at the conclusion of National Grid's review of embedded generation. It seeks to retain the current discount in order to protect generators from changes from their forecasted cashflows.</p> <p>The original modification will facilitate applicable objective (a) in respect of facilitating competition, as the removal of the discount will act as a detriment to competition when no other enduring arrangements have been put in place. Eligible generators had a reasonable expectation that enduring arrangements would be defined when Ofgem set out its decision to extend the discount in October 2012. The development of such arrangements was a key reason the regulator gave for extending the discount. The fact that National Grid concluded at the end of its recent review that there was no justification for continuing the discount but also proposed no alternative framework going forwards has left those generators in a situation they could not reasonably have predicted and with a forecast increase in costs.</p> <p>The original proposal will facilitate objective (c) in taking proper account of developments in transmission licensees' transmission businesses by recognising that there has been no enduring solution to the embedded generation charging arrangements. It allows for orderly change in the absence of replacement arrangements having been developed.</p> <p>We do not see any convincing rationale for the potential alternative options put forward, except possibly the use of a final investment decision as the cut-off date, which is worth further consideration. This could use a similar process as used for Contracts for Difference. We concur with the workgroup member who noted it should be clearly defined within the legal text what a final investment decision is and how that information will be provided.</p> <p>In particular the duration of the discount has its rationale in the classification of 132kV in Scotland as transmission and therefore it seems appropriate that the discount should terminate when 132kV becomes reclassified as distribution.</p> <p>In terms of the value of the discount the other potential options proposed would no longer be "grandfathering" the</p>
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		arrangements but amending them to some arbitrary number. This moves outside the scope and objective of the original modification to preserve the current arrangements for existing eligible generators.
2	<b>Do you support the proposed implementation approach?</b>	The workgroup has proposed that ideally a decision would need to be made on the modification before December 2015 in order to give notice for the 2016-17 charging methodology. Clearly the earlier the decision the better in terms of maximising the notice to eligible generators. We note that National Grid plans to issue draft tariffs on 17 December and final tariffs on 29 December.
3	<b>Do you have any other comments?</b>	No
4	<b>Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?</b>	No

#### Specific questions for CMP239

Q	Question	Response
5	<b>Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.</b>	<p>One example is the grandfathering arrangements that are currently used for the Renewable Obligation, which provide that once a generating station is accredited and receiving support under the RO the level of support that it receives would not change for the lifetime of its support under that scheme. Another example is the treatment of pre-2005 distribution connected generation where Ofgem determined that it should not pay distribution use of system charges for a period of 25 years.</p> <p>Grandfathering provides certainty and a stable regime for generators in those cases, and avoids the risk of subsequent decisions being taken that might undermine the basis on which investment decisions were made. The underlying principle is relevant to this modification and there is no particular reason why grandfathering arrangements should not be considered in the CUSC where appropriate.</p> <p>As with all considerations of grandfathering arrangements</p>



		<p>the desirability of treating all users equally with respect to change needs to be considered against the legitimate expectations of specific classes of users about the longevity of arrangements that applied specifically to them.</p> <p>In the case of CMP239 the expectation of grandfathering arrangements being put in place is a more reasonable and justifiable assumption for investors to make than an assumption that the discount would be removed in the absence of any other enduring solution. The detriment to these generators and to competition is likely to be significant if the discount is removed as currently planned.</p>
6	<p><b>Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?</b></p>	<p>No, there will be no precedent set as there needs to be a valid reason for grandfathering and this should be assessed on a case-by-case basis. In the instance addressed by this modification the case rests primarily on the damage to competition of the change to the rules which will have a significant impact on eligible generators and could not reasonably have been expected given the work undertaken at Ofgem's behest to establish an enduring framework for embedded generation.</p>
7	<p><b>Do you feel that the small generator discount is material on demand customers? If yes, please provide details.</b></p>	<p>No. Under the C13 licence condition the value of the small generator discount is recovered from demand users on a non-locational basis. The consultation notes that the total value in 2014-15 is around £13.4mn and it reflects the value of the residual generation and demand charges calculated on the basis of the charging methodology and the revenue to be collected. Although this is not an unimportant sum, it compares with the £1,808mn in revenue forecast to be recovered from demand in 2014-15 in the final TNUoS tariffs issued in January 2014.</p> <p>Furthermore, the decision by Ofgem on the means of recovery of the discount when it was first introduced arguably reflects that the discount provides value to consumers in ensuring the eligible generators did not suffer a competitive disadvantage from the networks being differently designated in Scotland.</p>

## CUSC Workgroup Consultation Response Proforma

### CMP239 'Grandfathering Arrangements for the Small Generator Discount'

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 by **4<sup>th</sup> March 2015** to [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com). Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Jade Clarke at [jade.clarke@nationalgrid.com](mailto:jade.clarke@nationalgrid.com)

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

<b>Respondent:</b>	<i>Garth Graham (garth.graham@sse.com)</i>
<b>Company Name:</b>	SSE
<p><b>Please express your views regarding the Workgroup Consultation, including rationale.</b></p> <p><b>(Please include any issues, suggestions or queries)</b></p>	<p>For reference, the Applicable CUSC objectives are:</p> <p><b>Use of System Charging Methodology</b></p> <p>(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;</p> <p>(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);</p> <p>(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.</p>

	(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
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### Standard Workgroup Consultation questions

Q	Question	Response
1	<b>Do you believe that CMP239 Original Proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives? Please state which ones and why.</b>	<p>We note that the Workgroup has yet to provide its views against the Applicable CUSC Objectives.</p> <p>Our initial assessment is that CMP239 does better facilitate Applicable CUSC Objectives (a) and (c) for the reasons set out in the Proposal by the Proposer.</p> <p>In respect of Applicable Objective (c) we believe that CMP239 is neutral.</p> <p>In respect of Applicable Objective (d) we believe that CMP239 does better facilitate Applicable CUSC Objectives as it ensures that the Licensee, the Authority and the Member State complies with the Electricity Regulation; and in particular Directive 2009/72 (including Article 12 (f), Article 18 (5) and Article 32 (1)) as well as other relevant EU Law.</p>
2	<b>Do you support the proposed implementation approach?</b>	We note the Workgroup deliberation in respect of implementation (as set out in paragraph 4.61) and agree with the proposed implementation approach.
3	<b>Do you have any other comments?</b>	<p>We note the request that “The Chair actioned the Workgroup to find correspondence or publications that indicated that there would be some other arrangements introduced at the expiry of C13”<sup>1</sup> and would offer, in evidence, the statement on page 6 of the National Grid open letter of 15<sup>th</sup> April 2014 on their informal embedded generator review, namely:-</p> <p style="padding-left: 40px;">“To address concerns from users in Scotland that there was not a level playing field between these two classes of generator, it was decided that interim arrangements should be put in place <u>in advance of a broader review.</u>” [emphasis added]</p>

<sup>1</sup> 4.9

		<p>This position has been often stated prior to (and since) the publication of that open letter and, we believe, is widely accepted by all parties concerned, including the Authority. Given that the 'broad review' has not taken place we believe it is clear that when C16 was introduced and extended three times<sup>2</sup> that it would remain in place until such time as the 'broad review' had been undertaken. We await the commencement (and conclusion) of that 'broad review'.</p> <p>Given the strong body of evidence we not only agree with the proposer's view "...that the expectation was that it would be replaced by an enduring solution"<sup>3</sup> but would go further and say that the <i>legitimate</i> expectation was and is that SLC13 would be replaced by an enduring solution.</p> <p>In respect of one of the possible alternative options we note the comment that "...it should be clearly defined within the draft legal text what a final investment decision is and how this information will be provided." In this respect we would suggest the Workgroup considers the proposed wording in the RfG Network Code which has a similar issue when considering what is an 'existing' generator (and has identified a solution).</p> <p>We also note, in respect of the possible alternative options, the issue of how to treat future 132kV connected generators who connect after 31<sup>st</sup> March 2016 in terms of possibly discriminating against "new users connecting to the system after a potential cut-off date"<sup>4</sup>.</p> <p>We sympathise with the issue of discrimination and the need to avoid it (for the reasons we set out in answer to Q6) and would suggest, in respect of "When is the cut-off date for grandfathering arrangements to start"<sup>5</sup> that the answer might be 'never' as in the small generator discount would be available to all generators (existing and new) who connect at 132kV (onshore or offshore) until such time as the 'broad review' is undertaken and an 'enduring solution'; which avoid discriminatory treatment of similar generators in comparable circumstances; is implemented.</p>
4	<b>Do you wish to raise a Workgroup Consultation</b>	No.

<sup>2</sup> 4.29

<sup>3</sup> 3.5

<sup>4</sup> 4.53

<sup>5</sup> 4.56

	<b>Alternative request for the Workgroup to consider?</b>	
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**Specific questions for CMP239**

<b>Q</b>	<b>Question</b>	<b>Response</b>
5	<b>Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.</b>	<p>For the reasons we detail in Q6 below we are not certain that CMP239 does, in fact, introduce or apply 'grandfathering' into the CUSC.</p> <p>On the more general point we would observe that, for example, certain charges / costs etc., associated with or prior to 'vesting' are still some twenty years later, being applied and these might be considered as 'grandfathered'.</p> <p>We note that 'grandfathering' was introduced to the Renewables Obligation (RO) in 2009 to enable banding levels to remain unchanged for certain stations. The consultation response accompanying the decision outlined the following</p> <p style="padding-left: 40px;">"The aim of grandfathering ... is to protect investment decisions made on the information available at the time"<sup>6</sup>.</p> <p>A further example of 'grandfathering' is (as the Workgroup has already identified) the Renewables Obligation and its 2017 deadline. Power stations that are connected by the 'cut off' date will be in receipt of the RO funding 'grandfathered' for the duration of the stations' life.</p>
6	<b>Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?</b>	<p>Notwithstanding the title of the Modification we do not necessarily agree with the premise of this question in that, as we understand it, CMP239 does not offer 'grandfathering' arrangements, as in the 'status quo' arrangements (of the 25% discount) will endure for the life of the projects covered by the Modification (29 existing and 16 new power stations<sup>7</sup>).</p> <p>Rather, it is clear that "The proposal seeks to ensure that these generators continue to receive the discount <u>until such</u></p>

<sup>6</sup> "Government Response to the Statutory Consultation on the Renewable Obligation Order 2009", BERR 2008

<sup>7</sup> 2.2

		<p>time that the 132kV system in Scotland is designated as <u>distribution</u><sup>8</sup> [emphasis added] and that “The Proposer clarified that CMP239 intends for these arrangements to <u>stay in place until the 132kV system in Scotland is designated as Distribution...</u>”<sup>9</sup> [emphasis added] and therefore that once an enduring solution to the difference in treatment of 132kV connected generation in Scotland and offshore (“...the Proposer confirmed that he was considering all eligible generation with this proposal not just that connecting in Scotland”<sup>10</sup>) compared to onshore England &amp; Wales is found that this CMP239 solution will fall away.</p> <p>Therefore, on reflection, the title of the Modification should perhaps better be read as ‘<u>Maintaining Arrangements for the Small Generator Discount till an enduring solution is implemented</u>’ as that better reflects the clear intent of the Modification.</p> <p>Given this we do not foresee any precedential implications of introducing a (so called) ‘grandfathering’ arrangement in the CUSC which falls away once an enduring solution (that treats like generators alike) is implemented.</p> <p>Furthermore, we see CMP239 as ensuring that the Licensee and / or the Authority avoids (from 1<sup>st</sup> April 2016) discriminating in the treatment of like generators (identical in all respects, and especially in terms of the voltage level – 132kV – they are connected at).</p> <p>In this respect we are mindful of the body of legal precedent in UK and EU law on this matter which has, we understand, been set out in the following legal terms:-</p> <p style="text-align: center;"><i>“The prohibition of discrimination, which is one of the fundamental principles of Community law, requires that <b>comparable</b> situations are not treated differently <b>unless</b> such difference in treatment is objectively justified”<sup>11</sup> [emphasis added].</i></p> <p>In our view we have seen no objective justification for the difference in treatment between generators connecting at 132 kV in Scotland compared to those connecting at 132 kV in England and Wales that would result from removing</p>
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<sup>8</sup> 3.1

<sup>9</sup> 4.5

<sup>10</sup> 4.8

<sup>11</sup> In the Germany v Council case, 1994 (at paragraph 67) <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:61993CJ0280:EN:HTML>

		<p>the small generator discount from April 2016.</p> <p>We would go further and suggest that the existing treatment; approved by the Member State and the NRA and applied by the Licensee; which will have been in place for eleven years is clear evidence to the fact that without this small generator treatment then discrimination would, inter alia, have existed from that time (with the introduction of BETTA).</p> <p>In passing we would also suggest that an “informal review of transmission charging arrangements for embedded generation”<sup>12</sup> hardly constitutes an objective justification for the difference in treatment that arises in this case.</p> <p>In coming to this view we note, for example, that:</p> <p>(1) the ‘informal review’ was undertaken by a group from which a generating party associated with over half of the existing power stations (17 of 29) in receipt of the small generator discount was excluded – thus depriving the group of a substantial body of expertise, knowledge and experience on the matter at hand;</p> <p>(2) according to that ‘informal review’ “...it was difficult to obtain the information needed for similar analysis on distribution charges and therefore none had been produced”<sup>13</sup> and thus not all the relevant information was available to the ‘informal review’ group to enable a complete assessment to be undertaken. Given its regulatory powers it seems to us that the Authority is in a position to obtain the necessary information to undertake such a complete assessment;</p> <p>(3) “...the [SL]C13 issue formed an element of this [informal] review”<sup>14</sup> - thus the informal review was not focussed specifically on the SLC13 issue per se but rather that it was an adjunct to an informal review of a different, wider, matter; and</p> <p>(4) “It was questioned whether any DNOs provided data for this analysis and whether any respondents were 132KV connected in England and Wales. Prior to the second Workgroup meeting, National</p>
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<sup>12</sup> 2.4

<sup>13</sup> 4.21

<sup>14</sup> 4.34

		<p>Grid circulated this information to the Workgroup”.</p> <p>This information is not, as we understand it, in the public domain. That having been said, with respect to the ‘informal review’ analysis we note that what National Grid published was a summary table showing "averages". This did not provide the underlying data, or the basis on which these averages were calculated (what was included, was it simple average, or MW weighted?).</p> <p>One issue regarding averages is whether the analysis undertaken, as part of the ‘informal review’, compared ‘like with like’. In this respect we note that 132KV connected power stations in Scotland are relatively large. For example, with many of our 132kV connected hydros, the average capacity is of the order of 40MW. Therefore a comparison with 132kV connected stations in England &amp; Wales should only look at similarly large (40MW) 132kV connected stations in England &amp; Wales as well as Scotland. This is because smaller 132kV connected stations may be more likely to have a higher D cost per kW, therefore the inclusion of smaller stations in England &amp; Wales within the ‘informal review’ analysis would likely over state the D cost which could be expected for a larger Scottish station at 132kV. As the Proposer has identified, the fundamental issue that gave rise to the application of the small generator discount in 2005 still exists today and will exist from April 2016 – unless an enduring solution is found to ensure that generators which are identical in all respects, and especially in terms of the voltage level – 132KV – they are connected at are treated the same.</p>
7	<p><b>Do you feel that the small generator discount is material on demand customers? If yes, please provide details.</b></p>	<p>Given (i) the quantum of network charges recovered from demand consumers and (ii) that they currently (correctly) are the parties who the Government and Ofgem identified should pay the amount concerned we feel that the small generator discount is not material on demand customers.</p> <p>In respect of (i) we understand<sup>15</sup>, that the “...overall impact [is] of around £13.4mn, which was recovered from demand customers on a non-discriminatory and non-locational basis”. The impact, for example, per domestic consumer appears to be in the region of 18p per annum per home (£13.4Mn multiplied by 110/291 = £5.06Mn divided by 27.4</p>

<sup>15</sup> 2.1 and 4.16



		<p>million homes in GB using figures from DUKES 2014.</p> <p>It does not automatically follow that domestic customers would receive this 18p reduction in their annual electricity bill if the small generator discount were to be abolished (as might, at first glance, be suggested). This is because the suppliers concerned would not necessarily forecast the change in TNUoS tariffs arising and hence may not reduce their supply tariffs.</p> <p>Given this and noting the deliberations of the Workgroup we agree with the suggestion that "...there should be no overall impact to the end consumer bills"<sup>16</sup> from this proposal.</p>
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<sup>16</sup> 4.23



Original (as per WG)

1. Edit Paragraph 14.14.19 of CUSC Section 14 Part 2 as follows

14.14.9 For TNUoS Charges up to the period ending on 31 March 2016 Condition C13 of The Company’s Transmission Licence governs the adjustment to Use of System charges for eligible small generators. Under the condition, The Company is required to reduce generation TNUoS charges paid by eligible small generators by a designated sum, which will be determined by the Authority. The licence condition describes an adjustment to generator charges for eligible plant, and a consequential change to demand charges to recover any shortfall in revenue. The mechanism for recovery will ensure revenue neutrality over the lifetime of its operation although it does allow for effective under or over recovery within any year. For the avoidance of doubt, Condition C13 does not form part of the Use of System Charging Methodology but for TNUoS charges for the period from 1 April 2016 similar principles are expressly incorporated in this methodology.

2. Edit Paragraph 14.15.89 of CUSC Section 14 Part 2 as follows:

14.15.89 The total revenue to be recovered through TNUoS charges is determined each year with reference to the Transmission Licensees’ Price Control formulas less the costs expected to be recovered through Pre-Vesting connection charges. Hence in any given year t, a target revenue figure for TNUoS charges ( $TRR_t$ ) is set after adjusting for any under or over recovery for and including, the small generators discount is as follows:

$$TRR_t = R_t - PVC_t - SG_{t-1}$$

Where

- $TRR_t$  = TNUoS Revenue Recovery target for year t
- $R_t$  = Forecast Revenue allowed under The Company’s RPI-X Price Control Formula for year t (this term includes a number of adjustments, including for over/under recovery from the previous year). For further information, refer to Special Condition D2 of The Company’s Transmission Licence.
- $PVC_t$  = Forecast Revenue from Pre-Vesting connection charges for year t
- $SG_{t-1}$  = The proportion of the under/over recovery included within  $R_t$  which relates to the ~~operation of statement C13 of the The Company Transmission Licence small generators discount~~. Should the ~~operation of statement C13 small generators discount~~ result in an under recovery in year t – 1, the SG figure will be positive and vice versa for an over recovery.

3. Paragraph 14.15.102 of CUSC Section 14 Part 2 shall be deleted [and replaced with “not used”] [and Paragraph 14.15.103 and any cross references to it renumbered accordingly].

~~14.15.102 In accordance with Standard Licence Condition C13, generation directly connected to the NETS 132kV transmission network which would normally be subject to generation TNUoS charges but would not, on the basis of~~

~~generating capacity, be liable for charges if it were connected to a licensed distribution network qualifies for a reduction in transmission charges by a designated sum, determined by the Authority. Any shortfall in recovery will result in a unit amount increase in demand charges to compensate for the deficit. Further information is provided in the Statement of the Use of System Charges.~~

4. **Edit Paragraph 14.17.12 (Small Generators Tariffs) of CUSC Section 14 Part 2 as follows**

**Small Generators Tariffs**

14.17.12 ~~In accordance with Standard Licence Condition C13, Any~~ under recovery from the MAR arising from the application of the small generators discount to eligible small generators wider TNUoS charges will result in a unit amount of increase to all GB demand tariffs on a non-discriminatory and non-locational basis.

5. **Delete Paragraph 14.18.18 (Small Generators Charges ) of CUSC Section 14 Part 2 and replace as follows**

**Small Generators Charges**

14.18.18 ~~Eligible small generators' tariffs are subject to the small generators discount. Each Financial Year the small generators discount for that Financial Year is used to generate a £/MW number which is then applied as a discount to the wider TNUoS Tariff for that Financial Year applicable to an eligible small generator. a discount of a designated sum defined by Licence Condition C13 as 25% of the combined residual charge for generation and demand. The calculation for small generators charges is not part of the methodology however, for information the designated sum is included in **The Statement of Use of System Charges**~~

~~An existing eligible small generator shall be entitled to the benefit of the small generators discount in respect of TNUoS charges for the existing small generators discount period.~~

~~where~~

~~Eligible Small Generator means, [in respect of TNUoS charges for the period ending 31 March 2016], an "eligible generator" as defined in Standard Licence Condition C13 and, in respect of [TNUoS charges for the period beginning] the 1 April 2016, an Existing Eligible Small Generator.~~

~~Existing Eligible Small Generator means a generating station which is connected to the National Electricity Transmission System [in Scotland or Offshore] at a voltage of 132 kilovolts where the connection site is operational as at the 31 March 2016 and which, in the Financial Year in which the small generators discount is applied,;~~

~~(a) is liable for generation TNUoS charges (or its equivalent) under the use of system charging methodology; and~~

(b) \_\_\_\_\_ would not, on the basis of its maximum generating capacity, be liable for generation TNUoS charges (or its equivalent) if it were connected to a **Distribution System** of a licensed distributor rather than to the **National Electricity Transmission System**,

Existing Small Generators Discount Period means a maximum period of 25 financial years starting from [the 1 April following] the date upon which the connection site became operational] and shall not take account of any repowering of the generating station for this purpose.

Operational has the meaning prescribed in CUSC section 11

Repowering means where there has been a refurbishment or replacement in full or in part of the plant and apparatus comprising the generating station at a connection site

Small Generators Discount means a sum equal to 25% of the combined residual charge for generation and demand

**6. Edit Paragraph 14.23 (Example :Calculation of Zonal Demand Tariff) (vii) of CUSC Section 14 Part 2 as follows**

- (vii) The final demand tariff is subject to further adjustment to allow for the minimum £0/kW demand charge. The application of ~~a discount for the~~ small generators ~~discount pursuant to Licence Condition C13~~ will also affect the final demand tariff.

## CMP 239

### WACM1 (as per WG)

#### 1. Edit Paragraph 14.14.19 of CUSC Section 14 Part 2 as follows

14.14.9 For TNUoS Charges up to the period ending on 31 March 2016 Condition C13 of The Company's Transmission Licence governs the adjustment to Use of System charges for eligible small generators. Under the condition, The Company is required to reduce generation TNUoS charges paid by eligible small generators by a designated sum, which will be determined by the Authority. The licence condition describes an adjustment to generator charges for eligible plant, and a consequential change to demand charges to recover any shortfall in revenue. The mechanism for recovery will ensure revenue neutrality over the lifetime of its operation although it does allow for effective under or over recovery within any year. For the avoidance of doubt, Condition C13 does not form part of the Use of System Charging Methodology but for TNUoS charges for the period from 1 April 2016 similar principles are expressly incorporated in this methodology.

#### 2. Edit Paragraph 14.15.89 of CUSC Section 14 Part 2 as follows:

14.15.89 The total revenue to be recovered through TNUoS charges is determined each year with reference to the Transmission Licensees' Price Control formulas less the costs expected to be recovered through Pre-Vesting connection charges. Hence in any given year  $t$ , a target revenue figure for TNUoS charges ( $TRR_t$ ) is set after adjusting for any under or over recovery for and including, the small generators discount is as follows:

$$TRR_t = R_t - PVC_t - SG_{t-1}$$

Where

$TRR_t$  = TNUoS Revenue Recovery target for year  $t$   
 $R_t$  = Forecast Revenue allowed under The Company's RPI-X Price Control Formula for year  $t$  (this term includes a number of adjustments, including for over/under recovery from the previous year). For further information, refer to Special Condition D2 of The Company's Transmission Licence.  
 $PVC_t$  = Forecast Revenue from Pre-Vesting connection charges for year  $t$   
 $SG_{t-1}$  = The proportion of the under/over recovery included within  $R_t$  which relates to the ~~operation of statement C13 of the The Company Transmission Licence small generators discount~~. Should the ~~operation of statement C13 small generators discount~~ result in an under recovery in year  $t - 1$ , the SG figure will be positive and vice versa for an over recovery.

#### 3. Paragraph 14.15.102 of CUSC Section 14 Part 2 shall be deleted [and replaced with "not used"] [and Paragraph 14.15.103 and any cross references to it renumbered accordingly].

~~14.15.102 In accordance with Standard Licence Condition C13, generation directly connected to the NETS 132kV transmission network which would normally be subject to generation TNUoS charges but would not, on the basis of~~

~~generating capacity, be liable for charges if it were connected to a licensed distribution network qualifies for a reduction in transmission charges by a designated sum, determined by the Authority. Any shortfall in recovery will result in a unit amount increase in demand charges to compensate for the deficit. Further information is provided in the Statement of the Use of System Charges.~~

4. **Edit Paragraph 14.17.12 (Small Generators Tariffs) of CUSC Section 14 Part 2 as follows**

**Small Generators Tariffs**

14.17.12 ~~In accordance with Standard Licence Condition C13, Any~~ under recovery from the MAR arising from the application of the small generators discount to eligible small generators wider TNUoS charges will result in a unit amount of increase to all GB demand tariffs on a non-discriminatory and non-locational basis.

5. **Delete Paragraph 14.18.18 (Small Generators Charges ) of CUSC Section 14 Part 2 and replace as follows**

**Small Generators Charges**

14.18.18 ~~Eligible small generators' tariffs are subject to the small generators discount. Each Financial Year the small generators discount for that Financial Year is used to generate a £/MW number which is then applied as a discount to the wider TNUoS Tariff for that Financial Year applicable to an eligible small generator. a discount of a designated sum defined by Licence Condition C13 as 25% of the combined residual charge for generation and demand. The calculation for small generators charges is not part of the methodology however, for information the designated sum is included in **The Statement of Use of System Charges**~~

~~An existing eligible small generator shall be entitled to the benefit of the small generators discount in respect of TNUoS charges for the existing small generators discount period.~~

~~A small generator that wishes to qualify as a repowered small generator or proposed small generator shall notify The Company in writing as soon as practicable and in any event prior to 1 July 2016. Such a party shall assist and provide such information as the independent technical expert shall require in order to perform its assessment and to deliver a report to The Company verifying that the small generator qualifies as a repowered small generator or proposed new generator.~~

~~In order to confirm eligibility in the context of repowering the independent technical expert will require: evidence of the significant investment decision in respect of the repowering; evidence that the unit cost exceeds the small generator repowering unit cost, confirmation of the date on which final and binding contracts for the repowering were placed, confirmation that the~~

necessary connection agreements are in place with The Company and confirmation that any planning consent required for the repowering is in place. In order to confirm eligibility in the context of a *proposed small generator* the *independent technical expert* will require: evidence of the *significant investment decision*; evidence of the *small generator significant investment*, confirmation of the date on which major contracts for the small generating station project were placed, confirmation that the necessary connection agreements are in place with The Company and confirmation that any planning consent required for the small generating project are in place

where

*Connected Small Generator* means a small generating station which is connected to the **National Electricity Transmission System** [in Scotland or **Offshore**] at a voltage of 132 kilovolts where the connection site is [operational]] as at the 31 March 2016;

*Eligible Small Generator* means, [in respect of TNUoS charges for the period ending 31 March 2016], an “eligible generator” as defined in Standard Licence Condition C13 and, in respect of [TNUoS charges for the period beginning] the 1 April 2016, an *Existing Eligible Small Generator*;

*Existing Eligible Small Generator* means a *connected small generator*, a *repowered small generator* or a *proposed small generator* which, in the Financial Year in which the small generators discount is applied,;

- (a) is liable for generation TNUoS charges (or its equivalent) under the use of system charging methodology; and
- (b) would not, on the basis of its maximum generating capacity, be liable for generation TNUoS charges (or its equivalent) if it were connected to a **Distribution System** of a licensed distributor rather than to the **National Electricity Transmission System**;

*Existing Small Generators Discount Period* means a maximum period of 25 financial years from 1 April 2016 starting (a) in respect of an *existing eligible small generator* (other than a *repowered small generator* or a *proposed small generator*) from [the 1 April following] the date upon which the small generating station was connected to the **National Electricity Transmission system** [and the connection site became *operational*] and (b) in respect of an *existing eligible small generator* which is a *repowered small generator* or a *proposed small generator* the date of the *significant investment decision* as set out in the report of the *independent technical expert*;

*Independent Technical Expert* means an experienced technical expert appointed by The Company, at the cost of the small generator, to assess whether a small generating station qualifies as a *repowered small generator* or *proposed small generator* and if it does the date of the *significant investment decision* from which the *existing small generators discount period* will apply.

**Operational** has the meaning prescribed in CUSC section 11;

*Proposed Small Generator* means a small generating station which has not connected to the **National Electricity Transmission System** [in Scotland or **Offshore**] at a voltage of 132 kilovolts at the 31 March 2016 but (a) in respect of which a *small generator significant investment* has been made by 31 March 2016 and (b) by 31 March 2016 The Company has a report from the *Independent Technical Expert* verifying the same;



Repowered Small Generator means a small generating station where by 31 March 2016 (a) there has been a refurbishment or replacement in full or in part of the plant and apparatus comprising that small generating station at a cost of at least the *Small Generating Repowering Unit Cost* or (b) by 31 March 2016 a *significant investment decision* to repower the small generating station has been made and (c) by 31 March 2016 The Company has a report from the Independent Technical Expert verifying the same;

Significant Investment Decision means the decision of the board or officers of the small generating station have resolved to complete the proposed small generator or repowered generator project;

Small Generator Repowering Unit Cost means the figure of £125/kW in the 2014/15 financial year inflated/deflated by RPI to the month in which the Investment Decision is made;

Small Generator Significant Investment means either (a) capital expenditure has been incurred and paid in an amount at least equal to 10% of the proposed total spend on the small generating station project or (b) a significant investment decision has been made and a major contract for plant and apparatus associated with the same has been placed;

Small Generators Discount means a sum equal to 25% of the combined residual charge for generation and demand;

**6. Edit Paragraph 14.23 (Example :Calculation of Zonal Demand Tariff) (vii) of CUSC Section 14 Part 2 as follows**

- (vii) The final demand tariff is subject to further adjustment to allow for the minimum £0/kW demand charge. The application of ~~a discount for the~~ small generators ~~discount pursuant to Licence Condition C13~~ will also affect the final demand tariff.

## CMP 239

### WACM2 (as per WG)

#### 1. Edit Paragraph 14.14.19 of CUSC Section 14 Part 2 as follows

14.14.9 For TNUoS Charges up to the period ending on 31 March 2016 Condition C13 of The Company's Transmission Licence governs the adjustment to Use of System charges for eligible small generators. Under the condition, The Company is required to reduce generation TNUoS charges paid by eligible small generators by a designated sum, which will be determined by the Authority. The licence condition describes an adjustment to generator charges for eligible plant, and a consequential change to demand charges to recover any shortfall in revenue. The mechanism for recovery will ensure revenue neutrality over the lifetime of its operation although it does allow for effective under or over recovery within any year. For the avoidance of doubt, Condition C13 does not form part of the Use of System Charging Methodology but for TNUoS charges for the period from 1 April 2016 similar principles are expressly incorporated in this methodology.

#### 2. Edit Paragraph 14.15.89 of CUSC Section 14 Part 2 as follows:

14.15.89 The total revenue to be recovered through TNUoS charges is determined each year with reference to the Transmission Licensees' Price Control formulas less the costs expected to be recovered through Pre-Vesting connection charges. Hence in any given year t, a target revenue figure for TNUoS charges ( $TRR_t$ ) is set after adjusting for any under or over recovery for and including, the small generators discount is as follows:

$$TRR_t = R_t - PVC_t - SG_{t-1}$$

Where

$TRR_t$  = TNUoS Revenue Recovery target for year t  
 $R_t$  = Forecast Revenue allowed under The Company's RPI-X Price Control Formula for year t (this term includes a number of adjustments, including for over/under recovery from the previous year). For further information, refer to Special Condition D2 of The Company's Transmission Licence.  
 $PVC_t$  = Forecast Revenue from Pre-Vesting connection charges for year t  
 $SG_{t-1}$  = The proportion of the under/over recovery included within  $R_t$  which relates to the ~~operation of statement C13 of the The Company Transmission Licence small generators discount~~. Should the ~~operation of statement C13 small generators discount~~ result in an under recovery in year t – 1, the SG figure will be positive and vice versa for an over recovery.

#### 3. Paragraph 14.15.102 of CUSC Section 14 Part 2 shall be deleted [and replaced with "not used"] [and Paragraph 14.15.103 and any cross references to it renumbered accordingly].

~~14.15.102 In accordance with Standard Licence Condition C13, generation directly connected to the NETS 132kV transmission network which would normally be subject to generation TNUoS charges but would not, on the basis of~~

~~generating capacity, be liable for charges if it were connected to a licensed distribution network qualifies for a reduction in transmission charges by a designated sum, determined by the Authority. Any shortfall in recovery will result in a unit amount increase in demand charges to compensate for the deficit. Further information is provided in the Statement of the Use of System Charges.~~

4. **Edit Paragraph 14.17.12 (Small Generators Tariffs) of CUSC Section 14 Part 2 as follows**

**Small Generators Tariffs**

14.17.12 ~~In accordance with Standard Licence Condition C13, Any~~ under recovery from the MAR arising from the application of the small generators discount to eligible small generators wider TNUoS charges will result in a unit amount of increase to all GB demand tariffs on a non-discriminatory and non-locational basis.

5. **Delete Paragraph 14.18.18 (Small Generators Charges ) of CUSC Section 14 Part 2 and replace as follows**

**Small Generators Charges**

14.18.18 ~~Eligible small generators' tariffs are subject to the small generators discount. Each Financial Year the small generators discount for that Financial Year is used to generate a £/MW number which is then applied as a discount to the wider TNUoS Tariff for that Financial Year applicable to an eligible small generator. a discount of a designated sum defined by Licence Condition C13 as 25% of the combined residual charge for generation and demand. The calculation for small generators charges is not part of the methodology however, for information the designated sum is included in The Statement of Use of System Charges~~

~~An existing eligible small generator shall be entitled to the benefit of the small generators discount in respect of TNUoS charges for the existing small generators discount period.~~

~~The small generators discount shall cease to apply in its entirety in respect of TNUoS charges for any period from the 1 April after which 132kV is classified as a distribution voltage in Scotland.~~

where

Eligible Small Generator means, [in respect of TNUoS charges for the period ending 31 March 2016], an “eligible generator” as defined in Standard Licence Condition C13 and, in respect of [TNUoS charges for the period beginning] the 1 April 2016, an Existing Eligible Small Generator.

Existing Eligible Small Generator means a generating station which is connected to the **National Electricity Transmission System** [in Scotland or **Offshore**] at a voltage of 132 kilovolts where the connection site is operational as at the 31 March 2016 and which, in the Financial Year in which the small generators discount is applied,;

- (a) is liable for generation TNUoS charges (or its equivalent) under the use of system charging methodology; and
- (b) would not, on the basis of its maximum generating capacity, be liable for generation TNUoS charges (or its equivalent) if it were connected to a **Distribution System** of a licensed distributor rather than to the **National Electricity Transmission System**.

Existing Small Generators Discount Period means a maximum period of 25 financial years starting from [the 1 April following] the date upon which the connection site became operational and shall not take account of any repowering of the generating station for this purpose.

Operational has the meaning prescribed in CUSC section 11

Repowering means where there has been a refurbishment or replacement in full or in part of the plant and apparatus comprising the generating station at a connection site

Small Generators Discount means a sum equal to 25% of the combined residual charge for generation and demand

**6. Edit Paragraph 14.23 (Example :Calculation of Zonal Demand Tariff) (vii) of CUSC Section 14 Part 2 as follows**

- (vii) The final demand tariff is subject to further adjustment to allow for the minimum £0/kW demand charge. The application of ~~a discount for the~~ small generators ~~discount pursuant to Licence Condition C13~~ will also affect the final demand tariff.

## CMP 239

### WACM3 (as per WG)

#### 1. Edit Paragraph 14.14.19 of CUSC Section 14 Part 2 as follows

14.14.9 For TNUoS Charges up to the period ending on 31 March 2016 Condition C13 of The Company's Transmission Licence governs the adjustment to Use of System charges for eligible small generators. Under the condition, The Company is required to reduce generation TNUoS charges paid by eligible small generators by a designated sum, which will be determined by the Authority. The licence condition describes an adjustment to generator charges for eligible plant, and a consequential change to demand charges to recover any shortfall in revenue. The mechanism for recovery will ensure revenue neutrality over the lifetime of its operation although it does allow for effective under or over recovery within any year. For the avoidance of doubt, Condition C13 does not form part of the Use of System Charging Methodology but for TNUoS charges for the period from 1 April 2016 similar principles are expressly incorporated in this methodology.

#### 2. Edit Paragraph 14.15.89 of CUSC Section 14 Part 2 as follows:

14.15.89 The total revenue to be recovered through TNUoS charges is determined each year with reference to the Transmission Licensees' Price Control formulas less the costs expected to be recovered through Pre-Vesting connection charges. Hence in any given year t, a target revenue figure for TNUoS charges ( $TRR_t$ ) is set after adjusting for any under or over recovery for and including, the small generators discount is as follows:

$$TRR_t = R_t - PVC_t - SG_{t-1}$$

Where

- $TRR_t$  = TNUoS Revenue Recovery target for year t
- $R_t$  = Forecast Revenue allowed under The Company's RPI-X Price Control Formula for year t (this term includes a number of adjustments, including for over/under recovery from the previous year). For further information, refer to Special Condition D2 of The Company's Transmission Licence.
- $PVC_t$  = Forecast Revenue from Pre-Vesting connection charges for year t
- $SG_{t-1}$  = The proportion of the under/over recovery included within  $R_t$  which relates to the ~~operation of statement C13 of the The Company Transmission Licence small generators discount~~. Should the ~~operation of statement C13 small generators discount~~ result in an under recovery in year t – 1, the SG figure will be positive and vice versa for an over recovery.

#### 3. Paragraph 14.15.102 of CUSC Section 14 Part 2 shall be deleted [and replaced with "not used"] [and Paragraph 14.15.103 and any cross references to it renumbered accordingly].

~~14.15.102 In accordance with Standard Licence Condition C13, generation directly connected to the NETS 132kV transmission network which would normally be subject to generation TNUoS charges but would not, on the basis of~~

~~generating capacity, be liable for charges if it were connected to a licensed distribution network qualifies for a reduction in transmission charges by a designated sum, determined by the Authority. Any shortfall in recovery will result in a unit amount increase in demand charges to compensate for the deficit. Further information is provided in the Statement of the Use of System Charges.~~

4. **Edit Paragraph 14.17.12 (Small Generators Tariffs) of CUSC Section 14 Part 2 as follows**

**Small Generators Tariffs**

14.17.12 ~~In accordance with Standard Licence Condition C13, Any~~ under recovery from the MAR arising from the application of the small generators discount to eligible small generators wider TNUoS charges will result in a unit amount of increase to all GB demand tariffs on a non-discriminatory and non-locational basis.

5. **Delete Paragraph 14.18.18 (Small Generators Charges ) of CUSC Section 14 Part 2 and replace as follows**

**Small Generators Charges**

14.18.18 ~~Eligible small generators' tariffs are subject to the small generators discount. Each Financial Year the small generators discount for that Financial Year is used to generate a £/MW number which is then applied as a discount to the wider TNUoS Tariff for that Financial Year applicable to an eligible small generator. a discount of a designated sum defined by Licence Condition C13 as 25% of the combined residual charge for generation and demand. The calculation for small generators charges is not part of the methodology however, for information the designated sum is included in **The Statement of Use of System Charges**~~

~~An existing eligible small generator shall be entitled to the benefit of the small generators discount in respect of TNUoS charges for the existing small generators discount period.~~

~~A small generator that wishes to qualify as a repowered small generator or proposed small generator shall notify The Company in writing as soon as practicable and in any event prior to 1 July 2016. Such party shall assist and provide such information as the independent technical expert shall require in order to perform its assessment and to deliver a report to The Company verifying that the small generator qualifies as a repowered small generator or proposed new generator.~~

~~In order to confirm eligibility in the context of repowering the independent technical expert will require: evidence of the significant investment decision in respect of the repowering; evidence that the unit cost exceeds the small generator repowering unit cost, confirmation of the date on which final and binding contracts for the repowering were placed, confirmation that the~~

necessary connection agreements are in place with The Company and confirmation that any planning consent required for the repowering is in place. In order to confirm eligibility in the context of a *proposed small generator* the *independent technical expert* will require: evidence of the *significant investment decision*; evidence of the *small generator significant investment*, confirmation of the date on which major contracts for the small generating station project were placed, confirmation that the necessary connection agreements are in place with The Company and confirmation that any planning consent required for the small generating project are in place

The *small generators discount* shall cease to apply in its entirety in respect of TNUoS charges for any period from the 1 April after which 132kV is classified as a distribution voltage in Scotland

where

*Connected Small Generator* means a small generating station which is connected to the **National Electricity Transmission System** [in Scotland or **Offshore**] at a voltage of 132 kilovolts where the connection site is [operational]] as at the 31 March 2016;

*Eligible Small Generator* means, [in respect of TNUoS charges for the period ending 31 March 2016], an “eligible generator” as defined in Standard Licence Condition C13 and, in respect of [TNUoS charges for the period beginning] the 1 April 2016, an *Existing Eligible Small Generator*;

*Existing Eligible Small Generator* means a *connected small generator*, a *repowered small generator* or a *proposed small generator* which, in the Financial Year in which the *small generators discount* is applied:

- (a) is liable for generation TNUoS charges (or its equivalent) under the use of system charging methodology; and
- (b) would not, on the basis of its maximum generating capacity, be liable for generation TNUoS charges (or its equivalent) if it were connected to a **Distribution System** of a licensed distributor rather than to the **National Electricity Transmission System**;

*Existing Small Generators Discount Period* means a maximum period of 25 financial years from 1 April 2016 starting (a) in respect of an *existing eligible small generator* (other than a *repowered small generator* or a *proposed small generator*) from [the 1 April following] the date upon which the small generating station was connected to the **National Electricity Transmission system** [and the connection site became *operational*] and (b) in respect of an *existing eligible small generator* which is a *repowered small generator* or a *proposed small generator* the date of the *significant investment decision* as set out in the report of the *independent technical expert*;

*Independent Technical Expert* means an experienced technical expert appointed by The Company, at the cost of the small generator, to assess whether a small generating station qualifies as a *repowered small generator* or *proposed small generator* and if it does the date of the *significant investment decision* from which the *existing small generators discount period* will apply.

**Operational** has the meaning prescribed in CUSC section 11;

*Proposed Small Generator* means a small generating station which has not connected to the **National Electricity Transmission System** [in Scotland or **Offshore**] at a voltage of 132 kilovolts at the 31 March 2016 but (a) in respect of which a *small generator significant*

investment has been made by 31 March 2016 and (b) by 31 March 2016 The Company has a report from the Independent Technical Expert verifying the same;

Repowered Small Generator means a small generating station where by 31 March 2016 (a) there has been a refurbishment or replacement in full or in part of the plant and apparatus comprising that small generating station at a cost of at least the Small Generating Repowering Unit Cost or (b) by 31 March 2016 a significant investment decision to repower the small generating station has been made and (c) by 31 March 2016 The Company has a report from the Independent Technical Expert verifying the same;

Significant Investment Decision means the decision of the board or officers of the small generating station have resolved to complete the proposed small generator or repowered generator project;

Small Generator Repowering Unit Cost means the figure of £125/kW in the 2014/15 financial year inflated/deflated by RPI to the month in which the Investment Decision is made;

Small Generator Significant Investment means either (a) capital expenditure has been incurred and paid in an amount at least equal to 10% of the proposed total spend on the small generating station project or (b) a significant investment decision has been made and a major contract for plant and apparatus associated with the same has been placed;

Small Generators Discount means a sum equal to 25% of the combined residual charge for generation and demand;

**6. Edit Paragraph 14.23 (Example :Calculation of Zonal Demand Tariff) (vii) of CUSC Section 14 Part 2 as follows**

- (vii) The final demand tariff is subject to further adjustment to allow for the minimum £0/kW demand charge. The application of ~~a discount for the~~ small generators ~~discount pursuant to Licence Condition C13~~ will also affect the final demand tariff.