

CUSC Modification Proposal Form (for Charging Methodology Proposals) CMP251

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal

Removing the error margin in the cap on total TNUoS recovered by generation and introducing a new charging element to TNUoS to ensure compliance with European Commission Regulation 838/2010.

Submission Date

19th August 2015

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

European Commission Regulation 838/2010 states a range of 0 - 2.5 €/MWh that average annual transmission charges payable by generators in GB must remain within. If in any given year the average annual generation transmission charges do not fall within this range, National Grid risks being non-compliant with the regulation.

In order to combat this risk, National Grid raised a modification (CMP 224) in September 2013. CMP 224 was approved by Ofgem and implemented in October 2014.

Under the current charging methodology, as amended by CMP 224, TNUoS tariffs are set to result in the overall revenue received from GB generation being the lesser of:

- 27% of the total revenue to be recovered from GB Users via TNUoS tariffs; or
- such a value that results in generation tariffs not exceeding the upper limit specified under the EC Regulation (currently €2.5 /MWh), **after an adjustment for an 'error margin' to deal with forecast error.**

Whilst CMP 224 reduces the risk of non-compliance with the EC regulation, it does not remove it entirely since TNUoS charges are set ahead of the charging year based on forecast variables which can be difficult to accurately predict.

There remains a risk that annual charges may exceed the 2.5 €/MWh cap currently specified by the regulation. For instance, if the Euro/pound exchange rate remains at the level observed since April 2015 (an average of 1.38 for the period 1 April to 30 June) then the cap would be exceeded in 2015/16 (holding all other assumptions constant), as demonstrated below:

National Grid 2015/16 Tariff Setting Assumptions:

Total TNUoS Revenue for 2015/16: £2,637m

Generation Revenue Recovery for 2015/16: £612m

Forecast generation: 319.6 GWh

Assumed Euro/pound exchange rate: 1.22

Assumed Generator €/MWh: $(612 * 1.22) / 319.6 = \underline{2.34}$ €/MWh

TNUoS charge level adjusted for current exchange rate:

Current (April 15 - June 15) Euro/pound exchange rate: 1.38

Latest forecast Generator €/MWh: $(612 * 1.38) / 319.6 = \underline{2.65}$ €/MWh

It can be seen that whilst the methodology implemented by CMP 224 uses reasonable endeavours to comply with European Commission Regulation 838/2010, there remains a risk that average annual transmission charges may exceed 2.50 €/MWh in some circumstances. There is a need for a further methodology change to ensure that compliance with the regulation in future is not dependent on the accuracy of forecasts.

The only purpose of CMP224 was to manage compliance with European Commission Regulation. The result of CMP224 was to alter the charges that would otherwise have resulted from the application of charging methodology. The underpinning principles of the charging methodology, including the default split of revenue between generators and demand users, were not affected by CMP224. Therefore, the application of a cap distorts the principles of the charging methodology. By removing the error margin, our proposed solution will therefore also reduce the distortive effect on charges of the 2.50 €/MWh cap.

In practice the distortive impact on the G:D split is to transfer costs from generation to demand. In the CMP224 decision, Ofgem was clear that there was a risk that the transfer of costs from generation to demand has a negative impact on consumers. By removing the error margin our proposed solution will reduce this risk.

Description of the CUSC Modification Proposal

As specified in the EC regulation, the value for average annual transmission charges payable by generators is calculated by dividing the total revenue collected from generation users through Transmission Network Use of System (TNUoS) charges by the total measured energy injected into the Transmission Network or simply the total demand for that year.

CUSC Section 14 Part – 2 specifies that the total Transmission Network Use of System (TNUoS) revenue recovered from generators will be the lower of:

- 27%, or
- A percentage (x) calculated as

$$x_n = \frac{(Cap_{EC} * (1 - y)) * GO}{MAR * ER}$$

Where:

CapEC = Upper limit of the range specified by European Commission Regulation 838/2010 Part B paragraph 3 (or any subsequent regulation specifying such a limit) on annual average transmission charge payable by generation

y = Error margin built in to adjust CapEC to account for difference in one year ahead forecast and outturn values for MAR and GO, based on previous years error at the time of calculating the error for charging year n

GO = Forecast GB Generation Output for generation liable for Transmission charges (i.e. energy injected into the transmission network in MWh) for charging year n

MAR = Forecast TO Maximum Allowed Revenue (£) for charging year n

ER = OBR Spring Forecast €/£ Exchange Rate in charging year n-1

The proposal aims to ensure that the risk of non-compliance is removed with least impact on GB consumers.

The proposal is to remove any error margin from the above equation (i.e. set the y term to zero) when setting initial TNUoS charges and also introduce a new element to the TNUoS charging methodology. The new element would be a single adjustment which guaranteed compliance with the regulation. The adjustment would be calculated shortly after the end of the charging year and would be set at an amount which would ensure that the average amount charged to GB generators would be equal to the lesser of the percentage of revenue to be recovered from generators (currently 27%) or the absolute cap allowed by the regulation (currently 2.50 €/MWh).

For the avoidance of doubt, the adjustment could be either a charge or a credit to generators depending on the out turn values for the relevant variables (i.e. revenue recovered, generation volumes, average exchange rate) compared to the assumptions used to set initial charges.

The adjustment to generators (whether a charge or a credit) would be treated as either additional or reduced (as appropriate) recovered TNUoS revenue for the charging year to which the adjustment relates and would affect the over/under recovery position, with demand customers effectively picking up the reverse of the adjustment in future years TNUoS tariffs.

We consider that this proposal:

- Provides certainty that the regulation will be complied with
- Minimises the impact on the principles underpinning the TNUoS tariffs
- Minimises the required transfer of costs from generators to consumers
- Provides predictability for generators that the average TNUoS charges will be set to recover the cap set by the regulation (currently 2.50 €/MWh), unless this would recover greater than the percentage of revenue (currently 27%) of overall TNUoS revenue
- Provides predictability to suppliers of the impact on future year tariffs (by capturing the generator adjustment within the over/under recovery position)

Impact on the CUSC

CUSC Section 14 – Part 2 – The Statement of the Use of System Charging Methodology,
Section 1 – The Statement of the Transmission Use of System Charging Methodology

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

No

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

BSC

Grid Code

STC

Other
(please specify)

This is an optional section. You should select any Codes or state Industry Documents which may be affected by this Proposal and, where possible, how they will be affected.

Urgency Recommended: Yes / No

Yes

Justification for Urgency Recommendation

As demonstrated above, whilst the current methodology uses reasonable endeavours to comply with European Commission Regulation 838/2010 there remains a real risk that average annual transmission charges may exceed 2.50 €/MWh in some circumstances. There is an urgent need for a further methodology change to ensure that compliance with the regulation in future is not dependent on the accuracy of forecasts. Therefore we consider it is necessary to expedite this change to allow for implementation for the TNUoS charges applicable from 2016/17.

Self-Governance Recommended: Yes / No

No

Justification for Self-Governance Recommendation

N/A

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

We believe that this proposal does not have any interaction with an ongoing SCR

Impact on Computer Systems and Processes used by CUSC Parties:

Unknown.

Details of any Related Modification to Other Industry Codes

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

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

Use of System Charging Methodology

- (a) that compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- (b) that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);
- (c) that, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses.
- (d) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1.

Objective (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 European Commission Regulation 838/2010 is legally binding for all Transmission licensees across Europe. We believe that this proposal ensures that National Grid remains compliant with the European legislation and properly reflects National Grid's duties in the development of its transmission business.

The principles underpinning the charging methodology, including the default proportion of revenue to be recovered from generators, are approved as meeting objective (b) above. Therefore, any unnecessary restrictions on how these principles are translated into charges are detrimental to meeting objective (b). The error margin included in the current methodology

represents an unnecessary restriction on the underlying principles of the methodology since it applies a cap which goes above and beyond the cap stated in the regulation. By minimising the impact of compliance with 838/2010 objective (b) is better met.

CMP224 also sought to ‘properly take account of developments in the transmission licensees’ transmission business’, however it has proven to be sub-optimal in two respects:

- (1) CMP 224 goes above and beyond the cap stated in the regulation to the detriment of consumers
- (2) CMP 224 does not provide sufficient assurance that the regulation will not be breached

The modification we propose here will rectify these short-comings.

Additional details

Details of Proposer: (Organisation Name)	British Gas
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or “National Consumer Council”)	CUSC Party
Details of Proposer’s Representative: Name: Organisation: Telephone Number: Email Address:	George Moran British Gas 07557 611983 George.moran@britishgas.co.uk
Details of Representative’s Alternate: Name: Organisation: Telephone Number: Email Address:	Andy Manning British Gas 07789 575 553 Andy.manning@britishgas.co.uk
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

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 copied to cusc.team@nationalgrid.com, or by post to:

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

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