

**CMP 251:  
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**

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# Background to CMP 251

- EC Regulation 838/2010 requires average annual generation transmission charges to remain within a range of 0 - 2.5 €/MWh.
- CMP 224 'Cap on the total TNUoS target revenue to be recovered from generation users', sought to ensure that average annual transmission charges payable by generators always stayed within the range. CMP 224 was approved by Ofgem in October 2014.
- Current methodology sets generation revenue target at 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.**
- The error margin included with the CMP 224 methodology places a greater burden on demand customers than necessary to comply with the regulation
  - 2015/16 TNUoS tariffs set at a level of €2.34/MWh for generation
  - excessively distorts the default principles of the methodology (27:73 G:D split)
  - risk that transfer of costs to demand has a negative impact on consumers
- Experience of the first year under the CMP 224 methodology has demonstrated it does not remove the risk of non-compliance.

# Compliance with EC Regulation 838/2010

## CMP 224 does not remove risk of non-compliance

There remains a risk that annual charges may exceed the 2.5 €/MWh cap currently specified by the regulation. For instance:

### **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

A further methodology change is necessary to ensure that compliance with the regulation in future is not dependent on the accuracy of forecasts.

# CMP 251 Proposal

## (1) Remove the error margin from the derivation of the generation cap

## (2) Introduce a new TNUoS charging element for generation

- a single adjustment which guaranteed compliance with the regulation
- calculated shortly after the end of the charging year
- set at an amount to ensure that the average amount charged to GB generators would be equal to the lesser of 27% or the absolute cap allowed by the regulation (currently 2.50 €/MWh)
- adjustment could be either a charge or a credit to generators
- treated by National Grid 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.

# CMP 251 Proposal - benefits

- Provides certainty that the regulation will be complied with
- Minimises the impact on the principles underpinning the TNUoS tariffs (G:D split)
- Minimises the required transfer of costs from generators to consumers
  - Ofgem were clear in the CMP 224 decision that there was a risk that the transfer of costs from generation to demand has a negative impact on 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)
- Removes the risk of changes in the 'error margin' e.g. see National Grid July Quarterly Forecast.

# CMP 251

## Assessment against the applicable CUSC objectives

The proposal meets objectives (b) and (c)

(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.

(c) The European Commission Regulation 838/2010 is legally binding for all Transmission licensees across Europe. We believe 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, meeting objective (c).

# CMP 251

## Justification for Urgent Status

- 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.
- It is necessary to expedite this change to allow for implementation for the TNUoS charges applicable from 2016/17.

Ofgem guidance is that an urgent modification should:

*Be linked to an imminent issue or a current issue that if not urgently addressed may cause:*

- a. A significant commercial impact on parties, consumers or other stakeholder(s); or*
- b. A significant impact on the safety and security of the electricity and/or gas systems; or*
- c. A party to be in breach of any relevant legal requirements.*

We consider that this modification requires urgent status as, without it, National Grid may be in breach of EC Regulation 838/2010.

# CMP251 Progression

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- The Panel is asked to agree:
  - Whether urgency should be requested for CMP251
  - How to progress CMP251
    - Workgroup
    - Code Administrator Consultation



## CMP251 Indicative timetable (Workgroup)

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<b>4<sup>th</sup> September 2015</b>	Deadline for comments on Terms of Reference / nominations for Workgroup membership
<b>W/C 7<sup>th</sup> September 2015</b>	Workgroup meeting 1
<b>W/C 14<sup>th</sup> September 2015</b>	Workgroup meeting 2
<b>21<sup>st</sup> September 2015</b>	Workgroup consultation issued for Workgroup comment
<b>23<sup>rd</sup> September 2015</b>	Deadline for comment
<b>25<sup>th</sup> September 2015</b>	Workgroup Consultation published (10 Working days)
<b>9<sup>th</sup> October 2015</b>	Deadline for responses
<b>14<sup>th</sup> October 2015</b>	Workgroup meeting 3
<b>16<sup>th</sup> October 2015</b>	Circulate draft Workgroup Report
<b>21<sup>st</sup> October 2015</b>	Deadline for comment
<b>26<sup>th</sup> October 2015</b>	Submit final Workgroup Report to Panel
<b>30<sup>th</sup> October 2015</b>	Present Workgroup Report at CUSC Modifications Panel

## CMP251 Indicative timetable (Workgroup)

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<b>2<sup>nd</sup> November 2015</b>	Code Administrator Consultation issued (10 Working days)
<b>16<sup>th</sup> November 2015</b>	Deadline for responses
<b>18<sup>th</sup> November 2015</b>	Draft CUSC Modification Report issued for Industry comment (2 Working days)
<b>20<sup>th</sup> November 2015</b>	Deadline for comment
<b>23<sup>rd</sup> November 2015</b>	Draft CUSC Modification Report issued to CUSC Panel
<b>27<sup>th</sup> November 2015</b>	CUSC Panel recommendation vote
<b>27<sup>th</sup> November 2015</b>	Draft FMR circulated for comment
<b>1<sup>st</sup> December 2015</b>	Deadline for responses
<b>3<sup>rd</sup> December 2015</b>	Final CUSC Modification Report sent to Authority
<b>11<sup>th</sup> December 2015</b>	CMP251 Implemented (if approved)