

CMP265 Gross charging of TNUoS for HH demand where embedded generation is in Capacity Market

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Context

- It is important that costs are allocated fairly as the generation mix evolves. The current TNUoS arrangements will distort the development of an economic generation mix and transmission system, distort the capacity market and continue to provide a cross subsidy between customer groups. We support a review of these arrangements.
- There is a pressing issue related to the next capacity market tender (December 2016) which means that a modification is needed which is narrow and focussed, to allow the modification to be considered and determined ahead of this auction.
- We recognise that further changes may be needed to the TNUoS arrangements which are important but less time critical.
- half hourly metered (HH) demand for TNUoS purposes is currently charged net of embedded generation. The TNUoS charge can be considered as being made up of two elements :
- A locational element reflecting the unit cost of transmission investment at a point on the GB system. At a simplified level the locational elements for generation and demand users can be considered broadly equal and opposite. Through its netting, an embedded generator can be considered to have an implicit value equal but opposite to the demand signal, and therefore broadly equivalent to the signal received by a transmission connected generator. Given this, netting off the volume is reasonable.
- A residual element added on a capacity basis (£/kW, irrespective of location) to ensure TNUoS charges recover the correct revenue. This element does not reflect cost.

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Residual vs Locational

- Charging demand on a net basis means that some of the gross HH demand will not pay the residual, and neither will the embedded generation that nets off that demand.
- The effect of the net demand charging basis is thus that the value of the demand residual charge element is credited to the embedded generation, where there is an association with an embedded generator as part of that Supplier's portfolio in that GSP group. This is not cost-reflective, as there is no logical reason for that credit, which is growing, to be given.

Distortion

- Netting-off the output of embedded generation for the purpose of calculating these HH demand charges, is causing a distortion in the generation market; to the extent that they run at peak charging times, embedded generators are given an artificial advantage over others, which among other effects, distorts the outcome of the capacity market tenders.
- This is most strongly apparent for controllable embedded generators that run at peak times due to the structure of the TNUoS charge. These generators are most likely to secure the majority of the avoided residual charge. It is these controllable embedded generators that are also able to compete in the Capacity Market and run at similar times. Correcting this defect needs to be addressed urgently in advance of the next CM auction (December 2016).

Defect

- The defect therefore lies in this unwarranted distortion of capacity market tenders. The charging treatment of these generators is not reasonably reflecting transmission network costs and therefore fails against the objectives of the charging methodology. The implication of this is that it distorts competition in generation.

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Proposal

- It is proposed that half hourly demand residual TNUoS charges on each Supplier in the relevant GSP Group, should be levied according to gross half hourly metered demand, without the volume from embedded generation that is in the capacity mechanism being netted-off. The scope of the modification is limited to only embedded generation with capacity market contracts. Volume associated with embedded generation that does not have capacity market contracts will continue to be netted.
- As to implementation, we do not propose “grandfathering” which adds complexity and dilutes the effect of a change. We suggest that this change would take effect from 1st April 2020, for all such generators. It is likely that a new data flow to National Grid is needed to facilitate this; we are proposing to raise a BSC Modification (possibly preceded by a BSC issues group to identify the best solution) to ensure that this flow exists.

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Urgency

- This Modification Proposal is linked to an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholder(s). The next capacity market auction (for winter 2020/21) takes place in December; the present arrangements give an artificial advantage to embedded generators, distorting the capacity market. We therefore propose a full but expedited process that ensures that the issues are carefully considered by industry and workgroup, but that the modification proposal reaches Ofgem for decision in September.

Self-Governance is not recommended

There are **no** relevant SCRs (Significant Code Reviews)

Objectives

- The modification would better facilitate competition between transmission-connected and embedded generators with particular reference to the Capacity Market. It would remove an artificial distortion that does not reflect the costs of the transmission business and currently gives extra value to embedded generators. The present arrangements are not cost-reflective as there is no logic to netting-off the output of embedded generators from HH demand as far as the demand residual charge element is concerned. As to developments in transmission licensees' transmission businesses – there has been a marked growth in the amount of embedded generation impacting the ways the system is developed and operated – this distortion may have been a contributory factor to that.
- Hence better facilitates charging objectives a, b, and c.

Modification timetable – CMP265



Heena Chauhan – Code Administrator

Code Administrator - Proposed Progression

- The Panel is asked to agree:
 - whether CMP265 should be progressed using either;
 - A Standard timetable
 - An Urgent timetable

Urgency Criteria

- Ofgem's current view 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**.

Proposed timeline – standard timetable

26 May 2016	CUSC Modification Proposal submitted
27 May 2016	CUSC Modification tabled at Panel meeting
27 May 2016	Request for Workgroup members (7 Working days)
W/C 13 June 2016	Workgroup meeting 1
W/C 27 June 2016	Workgroup meeting 2
1 August 2016	Workgroup Consultation issued (15 Working days)
22 August 2016	Deadline for responses
30 August 2016	Workgroup meeting 3
22 September 2016	Workgroup report issued to CUSC Panel
30 September 2016	CUSC Panel meeting to discuss Workgroup Report

Proposed timeline – standard timetable

4 October 2016	Code Administrator Consultation issued (15 Working days)
25 October 2016	Deadline for responses
31 October 2016	Draft FMR published for industry comment (5 Working days)
7 November 2016	Deadline for comments
17 November 2016	Draft FMR circulated to Panel
25 November 2016	CUSC Panel Recommendation vote
30 November 2016	FMR circulated for Panel comment (5 Working days)
7 December 2016	Deadline for Panel comment
13 December 2016	Final report sent to Authority for decision
20 January 2017	Indicative Authority Decision due (25 Working days)
3 February 2017	Implementation date (10 Working days later)

Proposed timeline – Urgent timetable

26 May 2016	CUSC Modification Proposal submitted
27 May 2016	CUSC Modification tabled at Panel meeting
27 May 2016	Request for Workgroup members (7 Working days)
W/C 13 June 2016	Workgroup meeting 1
W/C 27 June 2016	Workgroup meeting 2
4 July 2016	Workgroup Consultation issued (10 Working days)
18 July 2016	Deadline for responses
21 July 2016	Workgroup meeting 3
1 August 2016	Workgroup report issued to CUSC Panel
8 August 2016	Special CUSC Panel meeting to discuss Workgroup Report

Proposed timeline – Urgent timetable

10 August 2016	Code Administrator Consultation issued (5 Working days)
17 August 2016	Deadline for responses
19 August 2016	Draft FMR published for industry comment (3 Working days)
24 August 2016	Deadline for comments
19 August 2016 (v1) 25 August 2016 (v2)	Draft FMR circulated to Panel
26 August 2016	CUSC Panel Recommendation vote
29 August 2016	FMR circulated for Panel comment (3 Working days)
1 September 2016	Deadline for Panel comment
5 September 2016	Final report sent to Authority for decision
19 September 2016	Indicative Authority Decision due (10 Working days)
3 October 2016	Implementation date (10 Working days later)