

Modification proposal:	Connection and Use of System Code (CUSC) CMP331: Option to replace generic Annual Load Factors (ALFs) with site specific ALFs (CMP331)		
Decision:	The Authority ¹ has decided to reject ² this modification proposal		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	30 October 2023	Implementation date:	n/a

Background

The Annual Load Factor (ALF) for each individual Power Station³ is calculated using the relevant Transmission Entry Capacity (TEC) (MW) and corresponding output data. Where output data is not available for a Power Station, including for new Power Stations and emerging Power Station technologies, generic data for the appropriate generation plant type will be used. Once all five Financial Year ALFs have been calculated for the individual Power Station, they are compared, and the highest and lowest figures are discarded. The final ALF, to be used for transmission charging purposes, is calculated as the average of the remaining three ALFs. For a new site, the data required to determine the ALF does not exist and a generic ALF value is used. Where some ALF data exists, but not the minimum three-year period, the generic ALF is used to replace missing data to make up the full three years of ALF data required for Transmission Network Use of System (TNUoS) charging purposes.

The proposer highlighted that the defect identified in this modification is that applying generic ALFs results in a less cost reflective TNUoS charge as it may be materially different from the actual load factor at which the new generator is operating. This means that a new generator may incur a wider TNUoS charge over the first three years of operation that does not reflect the actual output of the site or the enduring wider TNUoS charge once the generic ALF is no longer used.

The modification proposal

CMP331 was raised by Energy Potential Ltd (the Proposer) on 28 November 2019 to seek to address the Proposer's cost reflectivity concerns of generic ALFs for new generation sites. The modification proposal's solution is that a new transmission connected generator (including "retrofit"⁴ plant) will have a choice to submit a user-provided site-specific ALF, which will be a forecast instead of the default to use the generic ALF to determine the TNUoS charges that apply to the site. The generator will exercise this choice ahead of connection (as part of the Operational Notification and Compliance Process⁵ facilitated by NGESO in respect of new generation connections) to the National Electricity Transmission System. The modification proposal states that this forecast value must be determined by an independent third party and the evidence submitted to NGESO for agreement/verification. In a situation where NGESO does not agree with the user-provided site-specific ALF, the modification proposal envisages that NGESO will provide

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ As defined in the CUSC.

⁴ Retrofit plant here is installing (new or modified parts or equipment) in something previously constructed.

⁵ See [ESO Compliance Process](#)

the reason for such rejection and the User can utilise the existing charging disputes framework to challenge that decision.

The Final Modification Report (FMR) with a proposed implementation date of 10 working days after the Authority decision reached us on 12 July 2023⁶.

CUSC Panel⁷ recommendation

At the CUSC Panel meeting on 30 June 2023, a majority of the CUSC Panel considered that CMP331 would better facilitate the Applicable CUSC Charging objectives (ACOs) than the baseline, and the Panel therefore recommended by majority its approval. However, some members highlighted significant specific concerns during the voting, in particular that there would likely be a lack of consistency as between new and existing generators, and that the generators having choice over whether to utilise the generic value or to submit a new forecast ALF would likely lead to generators choosing based on the commercial effect of the ALF, rather than necessarily what was more cost-reflective.

Our Decision

We have considered the issues raised by the modification proposal and the FMR⁸ dated 12 July 2023. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR. We have concluded that:

- implementation of the modification proposal would not better facilitate achievement of the ACOs.
- directing that the modification be made would not be consistent with our principal objective and statutory duties.⁹

Therefore, we have decided to reject this CMP331.

Reasons for our decision

The FMR identifies that some CUSC Panel members raised significant concerns related to the possible impacts of this modification proposal. We believe this modification proposal would not better facilitate CUSC objectives (a), (b) and (e), and would have a neutral impact on ACOs (c) and (d).

(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;

The modification proposal enables an “optional” approach for making use of the user-provided site-specific ALF for new sites. If the forecast is higher than the generic figure, we consider it is likely that the User will choose the generic value, or conversely will choose a forecast where it likely reduces their TNUoS liability. This could cause “cherry picking” behaviour amongst generators, and a clear difference in treatment between

⁶ [CMP331: Option to replace generic Annual Load Factors \(ALFs\) with site specific ALFs I National Grid ESO](#)

⁷ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC.

⁸ CUSC modification proposals, modification reports and representations can be viewed on NGESO’s website at: <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc/modifications>

⁹ The Authority’s statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

existing sites, sites currently mid-way through their first three years post-connection and brand-new sites. We do not consider that three different calculations of one data input depending on the age of the Power Station promotes effective competition, and we note that in practice where new Power Stations are charged on the basis of an ALF lower than the generic ALF, it is consumers who will make up the shortfall in Transmission Owner revenues, without sufficient assurance that that lower ALF has been calculated appropriately or is reflective of that Power Station's actual output pattern. Therefore, we consider that this modification proposal would not better facilitate ACO a).

(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);

We consider that this modification proposal is likely to result in charges that are, for some sites more, and for some sites, less cost-reflective than those levied under the baseline, but that overall it is likely that this modification proposal might be negative on various occasions against, and would not better facilitate, ACO b). As with our assessment against ACO a), we are mindful that the concept of User choice may well give rise to the likelihood of, "cherry-picking" behaviour whereby new generating stations seek to reduce their TNUoS charges in their first few years of operation, meaning that such stations face charges which may well be less cost-reflective than today's charges because they are likely to be based on an ALF which could differ substantially from reality. The lack of methodology by which the forecast ALF would be determined by a third party further means that charges could be less cost-reflective were this modification proposal to be approved, because each appointed third party may choose a calculation that differs from that used by a transmission licensee, in particular that used by NGESO today.

(e) Promoting efficiency in the implementation and administration of the system charging methodology.

We consider that implementation of this modification proposal would be detrimental to the facilitation of, and therefore not better facilitate, ACO (e), partly because of the process it creates and partly because of the legal text provided within the FMR.

We believe that it is likely that the modification proposal would, if implemented, create a more complex charging arrangement as compared to the baseline. The generator choice being exercised would lead to two parallel processes within TNUoS arrangements: one for sites utilising the generic ALF, and one utilising a forecast ALF. The methodology in which such forecast ALFs should be determined is not clear in the proposed legal text, nor is the expected qualification or fitness-for-purpose of the proposed third parties to determine such ALF forecasts. We consider this is therefore likely to lead to additional disputes between NGESO and generators who seek to rely on a forecast ALF where the methodology used to determine that forecast ALF is opaque.

In addition, we note that the legal text provided creates 14.15.114a, which is a sub-clause of 14.15.114 where that latter clause speaks solely of new and emerging generation plant types. We do not consider that the provisions around how NGESO derives new generic ALFs for new generation plant types, and the provisions around how to determine ALFs (generic or user-provided) for any new plant connecting to the system, are interrelated. It is unclear to us therefore how in practice the modification proposal is capable of implementation without at least a housekeeping amendment to change the numbering conventions to decouple these two provisions.

Further considerations

Whilst retaining discretion to consider each modification proposal on its own merits, we set out below some considerations for any potential future modification proposal on this matter. The below considerations should be not considered as an exhaustive or prescriptive list, and we would consider any subsequent modification proposal on its own merits.

We believe that the methodology for forecasting user-provided site-specific ALFs could be clearly defined for users and shared on the ESO's website publicly. A standardised ALF assessment form would be of benefit for consistency and ensuring critical information is provided. A list of acceptable credible independent third parties who will do the forecast could also be listed and shared publicly by the ESO.

Should these (or other similar) considerations be incorporated in a future modification proposal(s), it may be possible that the modification would better facilitate achievement of the ACOs. However, any subsequent modification proposal would of course be considered on its own merits.

Decision notice

In accordance with Standard Condition C10 of the Transmission Licence, the Authority has decided that modification proposal CMP331: Option to replace generic Annual Load Factors (ALFs) with site specific ALFs should not be made.

Harriet Harmon

Head of Electricity Transmission Charging

Signed on behalf of the Authority and authorised for that purpose