nationalgrid

Stage 02: Workgroup Consultation

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 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 that would be eligible to receive the small generator discount.

This document contains the discussions of the Workgroup which formed in November 2014 to develop and assess the proposal. ny interested party is able to make a response in line with the guidance set out in Section 8 of this document.

Published on: **11th February 2015**
Length of Consultation: **15 Working days**
Responses by: **4th March 2015**

High Impact:
Generators that receive small generator discount

Low Impact:
All parties liable for TNUoS charges

Contents

About this document

This document is a Workgroup consultation which seeks the views of CUSC and interested parties in relation to the issues raised by the Original CMP239 CUSC Modification Proposal which was raised by Fred. Olsen Renewables and developed by the Workgroup. Parties are requested to respond by 5pm on 4th March 2015 to cusc.team@uk.ngrid.com using the Workgroup Consultation Response Proforma which can be found on the following link: http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP239/

Document Control

Version	Date	Author	Change Reference
0.1	27/01/2015	Code Administrator	Draft version to Workgroup
0.2	11/02/2015	Code Administrator	Workgroup Consultation to Industry

Any Questions?

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1 Summary

1.1 This document describes the Original CMP239 CUSC Modification Proposal (the Proposal), summarises the deliberations of the Workgroup and sets out the options for potential Workgroup Alternative CUSC Modifications (WACMs). Prior to confirming any alternative proposals the Workgroup are seeking views on the options they have identified, what is the best solution to the defect and also any other further options that respondents may propose.

1.2 CMP239 was proposed by Fred Olsen Renewables and submitted to the CUSC Modifications Panel (the Panel) for their consideration on 31st 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. The Workgroup is required to consult on the Proposal during this period to gain views from the wider industry (this Workgroup Consultation). Following this Consultation, the Workgroup will consider any responses, vote on the best solution to the defect and report back to the Panel at the February 2015 Panel meeting.

1.3 The Workgroup first met on 1st December 2014. A copy of the Workgroup Terms of Reference is provided in Annex 2. The Workgroup have considered the issues raised by the CUSC Modification Proposal. As part of their discussions the Workgroup has noted that there are number of potential solutions to the defect CMP239 seeks to address. These potential options for change are highlighted within the Workgroup Alternatives in Section 5 of this document.

1.4 The Proposal 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 receive 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.

1.5 This Workgroup Consultation has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid Website, http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP239/, along with the 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 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. The level of the discount is determined by Ofgem and is based on 25% of the total generation and demand residual TNUoS tariff. In 2014-15 the discount was approximately £8.96/kW with an overall impact of around £13.4mn, which was recovered from demand customers on a non-discriminatory and non-locational basis.

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 16 new projects (with 1.2GW of capacity) that could be connected at 132kV in Scotland before 1 April 2016.

2.3 The Licence Condition, which was introduced in 2005 following the implementation of BETTA, was initially due to expire on 31 March 2008 pending an enduring arrangement. Due to other ongoing initiatives it was subsequently extended 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 March 2016 to allow time for a solution to CMP213 (Project TransmiT TNUoS Developments) to be determined. 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 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 Licence Condition C13, 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 15 April 2014[1] indicating its view that Licence Condition C13 should be allowed to expire on 31 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 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.

[1] http://www2.nationalgrid.com/UK/Industry-information/System-charges/Electricity-transmission/Transmission-Network-Use-of-System-Charges/Embedded-Benefit-Review/

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 March 2016. The proposed arrangements would apply to those generators that currently receive the small generator discount and to those connecting before 31 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 is designated as distribution. It is proposed that the discount would be calculated on the same basis as it is currently.

3.2 This Modification 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 C13 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 discount by ensuring that the existing arrangements continue.

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 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, 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 arrangements in the CUSC alone which are currently initiated through the licence condition.

3.5 The proposal reflects the 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 proposer suggests that the expectation was that it would be replaced by an enduring solution. Further he believes that grandfathering is a much more credible assumption for investors to make than the discount being removed completely. He 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 licence condition through maintaining the current arrangements for existing eligible generators and those connecting up to 31 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 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 government renewable energy generation targets as many of the affected generators are wind generators.

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

4 Summary of Workgroup Discussions

Presentation of Original Proposal

4.1 At the first Workgroup meeting, the Proposer presented the background and reasons for raising CMP239 to the Workgroup. The Original Proposal form can be found in Annex 1 and the supporting presentation can be found on the National Grid Website[2]. The Proposer noted that CMP239 is being proposed by Fred Olsen Renewables however is being supported by a number of independent generators.

4.2 The Proposer noted that small generators in Scotland connected at 132kV currently receive a discount of 25% of their Transmission Network Use of System (TNUoS) charges, which is intended to provide a level playing field for generators who are obligated to connect at 132kV.

4.3 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 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 Transmission System. 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.

4.4 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 Licence Condition C13. The Proposer advised that C13 expires in March 2016 and so far no alternative solution has been proposed for enduring arrangements on the expiry of C13.

4.5 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 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 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 clarified that CMP239 intends for these arrangements to stay in place until the 132kV system in Scotland is designated as Distribution, and that generators connecting post-March 2016 would not be included in these grandfathering arrangements.

4.6 It was suggested that there are not necessarily any plans to re-designate the 132kV system in Scotland to distribution in the future and noted that this Modification is therefore proposing changing something which would last until the end of the lifespan of connected eligible generators. The Proposer noted that the industry had considered there to have been enduring arrangements put in place before the expiry of C13.

4.7 One Workgroup member noted that the discount has always been a time limited arrangement and there it would be worth looking back at the decision to why it was time

[2] CMP237 Workgroup Information on National Grid website http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP239/

limited in the first place and whether there was any assumption to whether another change would come into place.

4.8 A Workgroup member clarified that the discount currently applies to both generators under 100MW in Scotland and also offshore generators connected at 132kV. 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 eligible generation with this proposal not just that connecting in Scotland.

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 very difficult when the discount is simply removed as there was an assumption that there would be appropriate changes made to the C13 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 C13.

4.10 It was suggested that this Modification could be seen as unfair for those connecting just after the expiry of C13 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 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 2014/15 was approximately £8.96/kW 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[3].

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 charges from 2005/2006 during BETTA to those in 2013/2014, 2014/2015 and a forecast for 2015/2016 on a common price base. These are shown below in tables 1&2. Table 1 shows this for the impact for onshore generation only whilst the second table includes offshore generation. All prices are shown in 2013/14 values.

TNUoS Charges for 132 kV Connected Qualifying Small Generators (onshore only)

	2005/06 BETTA			2013/14			2014/15			2015/16		
£/kW	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)

	2005/06 BETTA			2013/14			2014/15			2015/16		
£/kW	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

[3] http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=33228

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 Fig. 2 shows the charges after discounting. 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.

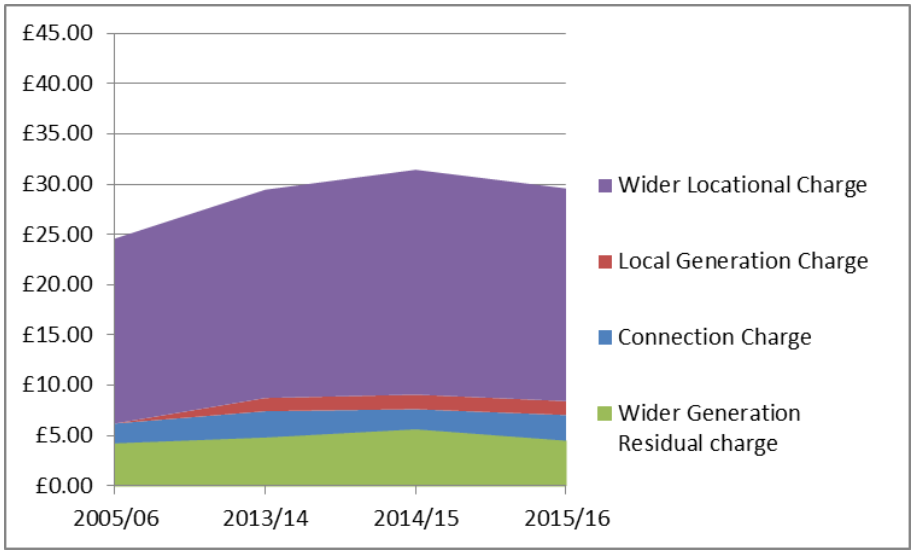

Fig.1. – Average charge faced by eligible generation if small generator discount has not applied.

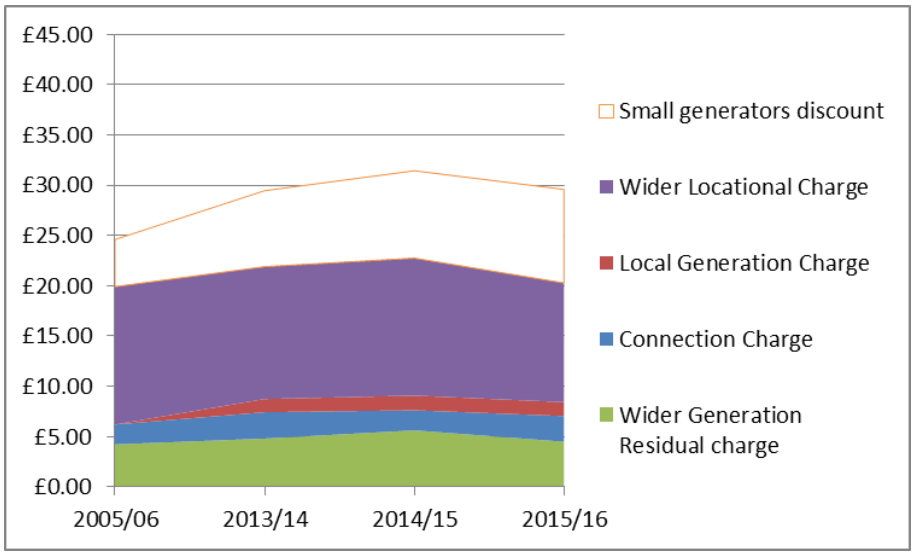

Fig.2 – Impact of small generator discount on average charge for eligible generation

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'[4].

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 National Grid does 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 2014/15.

4.25 It was suggested 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 TODDLEBURN 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

[4] 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

The need for the Small Generator Discount and drivers for extensions

4.26 One Workgroup member was interested in why the discount was introduced

4.27 Another Workgroup member stated that when the discount was originally introduced, there were questions around discrimination 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.

4.28 The workgroup discussed this evidence and whilst some supported its conclusions others believed a larger sample of distribution generators could 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.

4.29 Another Workgroup member considered it useful for the Workgroup to have a timeline of C13 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 31 March 2008 with anticipation of enduring arrangements for distributed generation charging. This expiry date has since been extended three times due to the Transmission Arrangements for Distributed Generation (TADG) review, the Transmission Access Review (TAR) and Project TransmiT and currently is set as 31 March 2016. These extensions were given due to the need of an enduring transmission charging regime to be based on a stable market.

4.30 One Workgroup member asked when the final extension to 31 March 2016 was granted, as to understand the sight and notice developers would have had on this expiry date. The National Grid representative advised that this extension was given in October 2012.

4.31 A Workgroup member suggested that those generators connecting at the time of BETTA would have thought that the small generator discount would have enduring arrangements, and that any uncertainty on this appeared a few years later.

4.32 It was noted that CMP213 had also significantly altered generation TNUoS tariffs and that 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 3 of this report and provides the movement in tariffs between draft 15/16 tariffs for eligible generation and the Condition 5 forecast of those tariffs in 2016/17 (following CMP213 implementation) and 17/18 (following introduction of Western HVDC). Cases with and without continuation of the small generator discount are shown.

4.33 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.

4.34 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 C13 issue formed an element 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[5].

4.35 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.

4.36 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. He clarified that the proposed grandfathering arrangements would only apply to generators that have already connected and for those connecting before the expiry of C13. The Modification is purely to continue arrangements for generators that have factored this into their financial business plans.

Interactions with subsidy regimes

4.37 The Workgroup were asked to consider the possible interactions with subsidy regimes, specifically Contracts for Difference (CfDs).

4.38 The Proposer noted that the Renewable Obligation (RO) process finishes one year after the expiry of the C13 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 April 2016 connection would have almost certainly already been registered under the RO.

4.39 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 March 2016. It was suggested that solar technologies may fall into this category.

4.40 The Proposer suggested that out of the sixteen projects planning to consent before 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 April 2015 and March 2019. The National Grid 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.

4.41 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 2018/2019.

[5] http://www2.nationalgrid.com/UK/Industry-information/System-charges/Electricity-transmission/Transmission-Network-Use-of-System-Charges/Embedded-Benefit-Review/

The National Grid representative confirmed that there were no prospective eligible generators of below 100MW capacity connecting to the 132kV system.

Grandfathering arrangements

4.42 The Workgroup were asked to consider both grandfathering in relation to the small generator discount and the possible precedent and implications of grandfathering arrangements.

4.43 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.

4.44 One Workgroup member considered that there could such unwelcome precedents set if grandfathering arrangements were introduced.

4.45 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.

4.46 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 (classed as transmission connected) and 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.

4.47 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.

4.48 The Proposer questioned what has changed in order to justify removing the small generator discount when it was right to apply it for eleven years. Another Workgroup member referred to the analysis provided by National Grid's 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 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.

4.49 It was noted that there may be an instance where a generator originally connected as distribution but because of an upgrade to a 132kV distribution system they are now transmission connected 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 in Cumbria and it was asked whether this would affect any parties currently connected to this system. The National Grid representative indicated that, as far as National Grid was concerned, only one generator was currently connected to this 132kV network and he believed that they would remain distribution connected at 132kV in the event that the system was upgraded to a transmission voltage.

4.50 The Workgroup member also noted that there could be an instance where a generator is connected at 132kv as transmission which is then upgraded and questioned whether this generator would then lose their small generator discount as they have a similar connection to other transmission connected generation within the UK. 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.

4.51 It was advised that the Transmission Owner is required to build an economic and efficient transmission system and if the economic build for that area is 400kv, they will upgrade the system. 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.

4.52 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.

4.53 It was also noted that grandfathering arrangements increase the complexity of a charging methodology and would discriminate new users connecting to the system after a potential cut-off date.

Potential options for change

4.54 The Workgroup considered whether there were any alternative options for change other than the Original proposal. The Proposer clarified the Original proposal as applying grandfathering arrangements to generators connected on or before 31 March 2016, keeping the small generator discount at 25% until a time when 132kv system is reclassified.

4.55 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?

4.56 Some Workgroup members felt that rather than applying grandfathering arrangements to generators that connect before 31 March 2016, a similar method to CfDs should be applied where generators should have made their final investment decision 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 draft 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?

4.57 Some Workgroup members felt that a possible option would be to fix the value of the discount at what it is in charging year 2015/2016. Another Workgroup suggested that there could be a similar option to have it fixed at this value but with RPI.

4.58 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 discount is tapered and would gradually reduce to 0 over a certain number of years.

c) How long would the grandfathering arrangements last?

4.59 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).

4.60 These potential alternatives are summarised in the table below.

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

Implementation approach

4.61 The Workgroup briefly discussed implementation approach and agreed that ideally a decision would need to be made on CMP239 before December 2015 in order to give notice for the 2016/2017 charging methodology.

5 Workgroup Alternatives

Potential options for change

5.1 When developing the CMP239 Proposal the Workgroup have also considered potential alternatives outlined in Section 4 of this report. Once the Workgroup have considered all responses to the Workgroup consultation, these may be developed into formal Workgroup Alternative CUSC Modifications.

6 Impact and Assessment

Impact on the CUSC

6.1 Changes to Section 14 of the CUSC.

Impact on Greenhouse Gas Emissions

6.2 None identified.

Impact on Core Industry Documents

6.3 None identified.

Impact on other Industry Documents

6.4 None identified.

7 Proposed Implementation and Transition

7.1 The Workgroup briefly discussed an implementation approach and agreed that ideally a decision would need to be made on CMP239 before December 2015 in order to give notice for the 2016/2017 charging methodology. The Workgroup suggests that CMP239 should be implemented on 1st April 2016.

8 Responses

8.1 This Workgroup is seeking the views of CUSC Parties and other interested parties in relation to the issues noted in this document and specifically in response to the questions highlighted in the report and summarised below:

Standard Workgroup Consultation questions;

Q1: Do you believe that CMP239 Original proposal or either of the potential options for change better facilitate the Applicable CUSC Objectives?

Q2: Do you support the proposed implementation approach?

Q3: Do you have any other comments?

Q4: Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider? Please see 8.3.

Specific CMP239 Workgroup Consultation questions;

Q5: Can you think of any explicit types of grandfathering within the Industry? If yes, please provide examples.

Q6: Do you feel that there will be any precedential implications of introducing grandfathering arrangements to the CUSC?

Q7: Do you feel that the small generator discount is material on demand customers? If yes, please provide details.

8.2 Please send your response using the response proforma which can be found on the National Grid website via the following link: http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP239/

8.3 In accordance with Section 8 of the CUSC, CUSC Parties, BSC Parties, the Citizens Advice and the Citizens Advice Scotland may also raise a Workgroup Consultation Alternative Request. If you wish to raise such a request, please use the relevant form available at the weblink below:

http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/

8.4 Views are invited upon the proposals outlined in this report, which should be received by **5pm** on 4th March 2015. Your formal responses may be emailed to: cusc.team@nationalgrid.com

8.5 If you wish to submit a confidential response, please note that information provided in response to this consultation will be published on National Grid's website unless the response is clearly marked "Private & Confidential", we will contact you to establish the extent of the confidentiality. A response market "Private & Confidential" will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the CUSC Modifications Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

8.6 Please note an automatic confidentiality disclaimer generated by your IT System will not in itself, mean that your response is treated as if it had been marked "Private and Confidential".

Annex 1 – CMP239 CUSC Modification Proposal Form

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 requires 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.

Urgency Recommended: Yes / No
No
Justification for Urgency Recommendation
N/A
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?
The proposal does not interact with any ongoing SCR.
Impact on Computer Systems and Processes used by CUSC Parties:
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.
Details of any Related Modification to Other Industry Codes
There are no directly related modifications. However, the proposal may be impacted by CMP224 *Cap on the Total TNUoS Target Revenue to be Recovered from Generation Users* or CMP227 *Reduce the G:D Split of TNUoS Charges, for Example to 15:85,* 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.
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

[X] (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);

[X] (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

Details of Proposer: (Organisation Name)	Fred. Olsen Renewables
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:	Graeme Cooper
Organisation:	Fred. Olsen Renewables
Telephone Number:	0207 931 0975
Email Address:	Graeme.cooper@fredolsen.co.uk
Details of Representative's Alternate:	
Name:	Christopher Granby
Organisation:	Infinis
Telephone Number:	01604 662450
Email Address:	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

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 and 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.

Annex 2 – CMP239 Terms of Reference

nationalgrid

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 31st 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 16th April 2015 for circulation to Panel Members. The final report conclusions will be presented to the CUSC Modifications Panel meeting on 24th April 2015.

Membership

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

Role	Name	Representing
Chairman	Andrew Wainwright	
*National Grid Representative**	David Corby	National Grid
*Industry Representatives**	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
Authority Representatives	Dena Barasi	Ofgem
Technical secretary	Jade Clarke	Code Administrator
Observers		

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.

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

Annex 3 – Comparison of future TNUoS tariff movements for eligible generators

Charge Party	Powerstation	Gen Zone	Overall movement from 15/16 figures to 16/17 continuing the discount	Overall movement from 15/16 figures to 16/17 discontinuing the discount	Overall movement from 15/16 figures to 17/18 continuing the discount	Overall movement from 15/16 figures to 17/18 discontinuing the discount
SSE GENERATION LTD	Aigas	1	-£11.71	-£0.48	-£5.23	£5.62
AN SUIDHE WIND FARM LIMITED	An Suidhe	7	-£10.66	£0.57	-£2.37	£8.48
GREENPOWER (CARRAIG GHEAL) LTD	Carraig Gheal	7	-£13.10	-£1.87	-£6.66	£4.19
SSE GENERATION LTD	Clunie	5	-£10.12	£1.11	-£3.27	£7.58
SSE GENERATION LTD	Culligran	1	-£11.71	-£0.48	-£5.23	£5.62
SSE GENERATION LTD	Deanie	1	-£11.71	-£0.48	-£5.23	£5.62
SCOTTISHPOWER RENEWABLES (UK) LTD	Dunlaw Extension	11	-£8.79	£2.44	-£6.35	£4.50
VATTENFALL WIND POWER LTD	Edinbane Wind	4	-£16.36	-£5.13	-£11.06	-£0.21
SSE GENERATION LTD	Errochty	5	-£11.94	-£0.71	-£6.09	£4.76
FARR WINDFARM LIMITED	Farr Windfarm	1	-£13.74	-£2.51	-£6.83	£4.02
SSE GENERATION LTD	Finlarig	6	-£6.43	£4.80	£1.91	£12.75
SSE GENERATION LTD	Glendoe	3	-£13.01	-£1.78	-£7.63	£3.22
SSE GENERATION LTD	Glenmoriston	3	-£9.51	£1.72	-£2.42	£8.42
SSE GENERATION LTD	Invergarry	3	-£8.57	£2.66	-£1.02	£9.82
SSE GENERATION LTD	Kilmorack	1	-£11.71	-£0.48	-£5.23	£5.62
SSE GENERATION LTD	Lochay	6	-£7.60	£3.63	£0.05	£10.89
LZN LIMITED	Lochluichart	1	-£13.83	-£2.60	-£6.96	£3.89
SSE GENERATION LTD	Luichart	1	-£8.97	£2.26	-£1.29	£9.56
MILLENNIUM WIND ENERGY LTD	Millennium Wind	3	-£11.83	-£0.60	-£4.69	£6.15
SSE GENERATION LTD	Mossford	1	-£8.97	£2.26	-£1.29	£9.56
SSE GENERATION LTD	Nant	7	-£8.13	£3.10	£0.29	£11.14
SSE GENERATION LTD	Orrin	1	-£8.97	£2.26	-£1.29	£9.56
SSE GENERATION LTD	Sloy G2 & G3	8	-£9.27	£1.96	-£3.17	£7.67
SSE TODDLEBURN LIMITED	Toddleburn	11	-£8.91	£2.32	-£6.59	£4.26
Average			-£10.65	£0.58	-£4.07	£6.78
Max			-£6.43	£4.80	£1.91	£12.75
Min			-£16.36	-£5.13	-£11.06	-£0.21
BARROW OFFSHORE WIND LTD	Barrow	14	-£4.95	£6.28	-£5.10	£5.74
GUNFLEET SANDS LTD	Gunfleet Sands I	18	-£2.16	£9.07	-£3.07	£7.77
GUNFLEET SANDS II LTD	Gunfleet Sands II	18	-£2.16	£9.07	-£3.05	£7.79
E.ON CLIMATE AND RENEWABLES UK ROBIN RIGG	Robin Rigg East	12	-£6.96	£4.27	-£3.39	£7.45
E.ON CLIMATE AND RENEWABLES UK ROBIN RIGG	Robin Rigg West	12	-£6.92	£4.31	-£3.32	£7.52
Average			-£9.61	£1.62	-£3.98	£6.86
Max			-£2.16	£9.07	£1.91	£12.75
Min			-£16.36	-£5.13	-£11.06	-£0.21

Annex 4 – Workgroup attendance register

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

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