Stage 04: Code Administrator Consultation

Connection and Use of System Code (CUSC)

CMP255

'Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap'

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

CMP255 aims to remove the requirement for the generation allocation of costs to revert back to 27% if the limits to generation charges imposed by European Commission Regulations no longer apply.

Published on: **3rd May 2016**
Length of Consultation: **15 Working Days**
Responses by: **24th May 2016**

The Workgroup concluded:
CMP255, with majority that the Proposers solution better facilitates the Applicable CUSC Objectives with note of support for WACM1 and WACM2.

High Impact:
All parties liable for TNUoS

Contents

About this document

The purpose of this document is to consult on CMP255 with CUSC Parties and other interested industry members. Representations received in response to this consultation document will be included in the Code Administrator's CUSC Modification Report that will be provided to the CUSC Panel for their decision. Parties are requested to respond by **5pm** on **24th May 2016** to cusc.team@nationalgrid.com using the Code Administrator Consultation Response Pro-forma which can be found via the following link: http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP255/

Document Control

Version	Date	Author	Change Reference
1.0	**3 May 2016**	Code Administrator	Code Administrator Consultation

Any Questions?

Contact:
Ryan Place

Code Administrator

ryan.place@nationalgrid.com

01926 653591

Proposer:
Bill Reed
RWE Supply and Trading GmbH
01789 3893835
Bill.Reed@rwe.com

1 Summary

1.1 CMP255 was proposed by RWE Supply and Trading GmbH and was submitted to the CUSC Modifications Panel for their consideration on 27 November 2015. A copy of this Proposal is provided within Annex 1. The Panel approved that the proposal should progress to Code Administrator Consultation for a period of 15 business days then report back to the Panel.

1.2 CMP255 aims to remove the requirement for the generation allocation of TNUoS costs in GB to revert back to 27% if the limits to the average annual generation charges imposed by European Commission Regulation (EU) No 838/2010 Part B no longer apply.

1.3 Following the Workgroup discussions, as summarised in this report, six further proposals were raised for consideration as WACMs:

In the event of the limit imposed by European Commission Regulation No 838/2010 no longer applying:

1) Fix at the generation percentage last used to set transmission tariffs;
2) A phased return to 27% for the generation percentage;
3) A phased change to generation charges equal zero;
4) A phased move to the generation percentage being an average of all other European member states figures;
5) A phased change to *average* Generation charges equal zero;
6) Fix at the generation percentages as forecast (as in the latest five-year forecast / quarterly updated), and fix at the last one.

1.4 It was noted that proposals 3, 4, and 5 were all raised in response to the view of many workgroup members that any options other than the solution provided by the Proposer are out of scope of the modification.

1.5 The Workgroup voted, by majority, that none of these proposals should become WACMs. Proposals 1, 2, and 6 were saved by the Workgroup Chair in order to provide a range of solutions which better facilitate the Applicable CUSC Objectives than the current version of the CUSC text in line with the Authority's steer, becoming WACM1, WACM2 and WACM3 respectively.

1.6 This Code Administrator 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/CMP255/ along with the Modification Proposal Form.

Workgroup Conclusion

1.7 At the final Workgroup meeting, Workgroup members voted on the Original Proposal and the 3 WACMs (Options 1, 2 and 6 above): five of the Workgroup member voted that Original solution better facilitated the CUSC objectives, three Workgroup members voted for WACM1 and one Workgroup member voted for WACM2.

1.8 This Code Administrator 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/CMP255/ along with the Modification Proposal Form.

2 Workgroup Discussions

Background and the defect

2.1 Commission Regulation (EU) No 838/2010 Part B restricts annual average transmission charges paid by electricity generators in Great Britain to the range of €0/MWh to €2.50/MWh. The methodology for generation transmission charges in Great Britain is defined in Section 14 of the CUSC. Therefore, to ensure compliance of Great Britain with the above regulation, CUSC modification CMP224[1] Cap on the total TNUoS target revenue to be recovered from generation users" was raised and, subsequently, approved by Ofgem on 8th October 2014[2].

2.2 Under CMP224, and as now codified in the CUSC[3] the proportion of the total annual average TNUoS revenue paid by generation is the lower of 27% or a factor to ensure that the upper €2.50/MWh limit in the Regulation is not breached. To calculate this factor the €2.50/MWh figure is converted to pound sterling using the OBR Spring Forecast €/£ Exchange Rate in Charging Year n-1. The MWh is considered by using Forecast GB Generation Output for generation liable for Transmission charges (i.e. energy injected into the transmission network in MWh) for Charging Year n. In addition an error margin is applied to the €2.50/MWh figure to account for difference in one year ahead forecast and outturn values for Forecast TO Maximum Allowed Revenue (£) and Generation Output (MWh), based on previous years error at the time of calculating the error for Charging Year n.

2.3 The calculation from the January 2016 final tariffs for Charging Year 2016/17 is shown in Table 1. The result of the €2.50/MWh cap is to limit the amount of the total TNUoS revenue that can be recovered from generation (the generation percentage) to 16.7% equivalent to £453M of the total TNUoS revenue of £2.7bn.

		2016/17
CAP_{EC}	Limit on generation tariff (€/MWh)	2.50
y	Error Margin	8.20%
ER	Exchange Rate (€/£)	1.36
MAR	Total Revenue (£m)	2708.7
GO	Generation Output (TWh)	268.7
G	% of revenue from generation	16.7%
D	% of revenue from demand	83.3%
G.R	Revenue recovered from generation (£m)	453.4
D.R	Revenue recovered from demand (£m)	2255.2

Table 1: Example of the application of the €2.50/MWh cap being applied to final tariffs for 2016/17 under the current methodology.

2.4 As implemented by CMP224, to calculate the percentage of the total TNUoS to be recovered from generation, the upper limit to generation charges has been implemented through a variable described as "CAPec". This is defined as the "*Upper limit of the range specified by Commission Regulation (EU) No 838/2010 Part B paragraph 3 (or any subsequent regulation specifying such a limit) on annual average transmission charge payable by generation*" [4].

2.5 The Proposer of CMP255 raised the defect that if the EU Regulation implementing the €2.50/MWh cap were removed, then the percentage paid by generator would 'snap-back' to

[1] http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP224/

[2] Implementation took place on 22nd October 2014

[3] The CUSC, Section 14 – Charging Methodologies, 14.14.5 (v)

[4] The CUSC, Section 14 – Charging Methodologies, 14.14.5 (v)

27% in the next set of TNUoS tariffs for GB. Thus, if the €2.50/MWh cap were removed in Charging Year 2016/17 then the generator percentage would snap-back from 16.7% to 27% for the next Charging Year (2017/18). The potential for snap-back is having a detrimental impact on competition in generation, and it is causing uncertainty in how to price a bid price for the Capacity Market auction and Contracts for Difference arrangements in the GB generation market. This may be leading to additional risk being added to generation prices, ultimately causing a greater cost to the end consumer than if the risk of snap-back were removed. The Capacity Market interaction is explored in more detail in paragraph 2.18 below.

2.6 The Proposer noted that he did not have an issue with the way the €2.50/MWh cap was being applied currently, and that the defect was related only to the potential for snap-back to 27%, and not for what should be the long term solution if the €2.50/MWh cap were removed. Moreover, the future forecasts produced by National Grid are already based on the €2.50/MWh meaning the market is aware of this figure.

2.7 The Workgroup noted that CMP227 had recently looked at alternatives to 27%, specifically 5% and 15% - so that these figures would apply instead of 27% in the Charging Methodology. Importantly, these would (had CMP227 been approved – which it was not) have replaced the 27% and so would have been applied as the lower limit now and also acted as the snap-back figure. In the Authority CMP227 decision letter[5], in which the modification was rejected, it was noted that *"… the direction of travel in respect of future tariff harmonisation at the European level is not clear at this stage*". The Proposer cited this as a reason for specifying the CMP255 defect as only removing the potential snap-back, rather than addressing any issues as to the appropriate level or principals for the GB split of TNUoS tariffs in the future.

Historic and future forecast split in TNUoS recovered from generation and demand

2.8 To quantify the impact of a snap-back the historic and future forecast split in TNUoS recovered from generation and demand was considered by the Workgroup. This is typically called the "G/D split".

2.9 Prior to Charging Year 2015/16 the €2.50/MWh cap for average annual generation transmission charges in GB introduced in Commission Regulation (EU) No 838/2010 Part B 'did not bite'; that is to say, the generation percentage was fixed as 27% of TNUoS revenue and this automatically lead to tariffs which were consistent with the Regulation; i.e. the annual average GB generation tariffs were within the range €0 to €2.50/MWh.

2.10 In Charging Year 2015/16 the cap took effect for the first time, reducing the generation percentage to 23.2% (from 27%) of TNUoS revenue. The cap is expected to continue to bite for the foreseeable future and the trend is for a decreasing generation percentage due to the cap. The decrease in generation percentage is a function of two key factors – that the allowed revenue continue to increase over time combined with the €2.50/MWh not being index linked, and that the amount of energy produced in GB by transmission connected generation is also projected to decrease due to the growth of embedded generation.

2.11 The historic and forecasted future G:D split is detailed in Table 2 (as well as this, average tariffs for generation, HH demand and NHH demand are shown). Figure 1 illustrates the projected generation percentages until Charging Year 2019/20 using the current €2.50/MWh cap. The data is based on historic tariffs[6] for 2015/16, the January 2016 final tariffs[7] for 2016/17, and the Five Year Forecast[8] published in February 2016.

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5 https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/cmp227_d_0.pdf

6 http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=43163

7 http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=45149

8 http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=45336

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
G:D split						
Energy produced by Transmission Generation (TWh)	319.63	268.70	262.67	250.54	232.62	217.20
Error Rate	6.4%	8.2%	8.2%	8.2%	8.2%	8.2%
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30	2.30	2.30	2.30	2.30
TNUoS Revenue (£m)	2636.69	2708.70	2735.00	2983.10	3174.70	3789.50
Exchange Rate (€/£)	1.22	1.36	1.34	1.33	1.31	1.31
G %	**23.3%**	**16.7%**	**16.4%**	**14.5%**	**12.8%**	**10.0%**
D %	76.7%	83.3%	83.6%	85.5%	87.2%	90.0%
Generator Revenue (£m)	613.06	453.43	449.90	432.30	407.50	380.60
Demand Revenue (£m)	2023.63	2255.20	2285.10	2550.80	2767.20	3408.90

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	6.68	6.27	5.91	5.49
HH Demand Tariff (£/kW)	38.62	45.29	46.35	52.92	58.13	72.07
NHH Demand Tariff (p/kWh)	5.27	6.37	6.62	7.60	8.43	10.58

Table 2: Historic and forecast G:D Split and Average TNUoS Tariffs using current (baseline) methodology

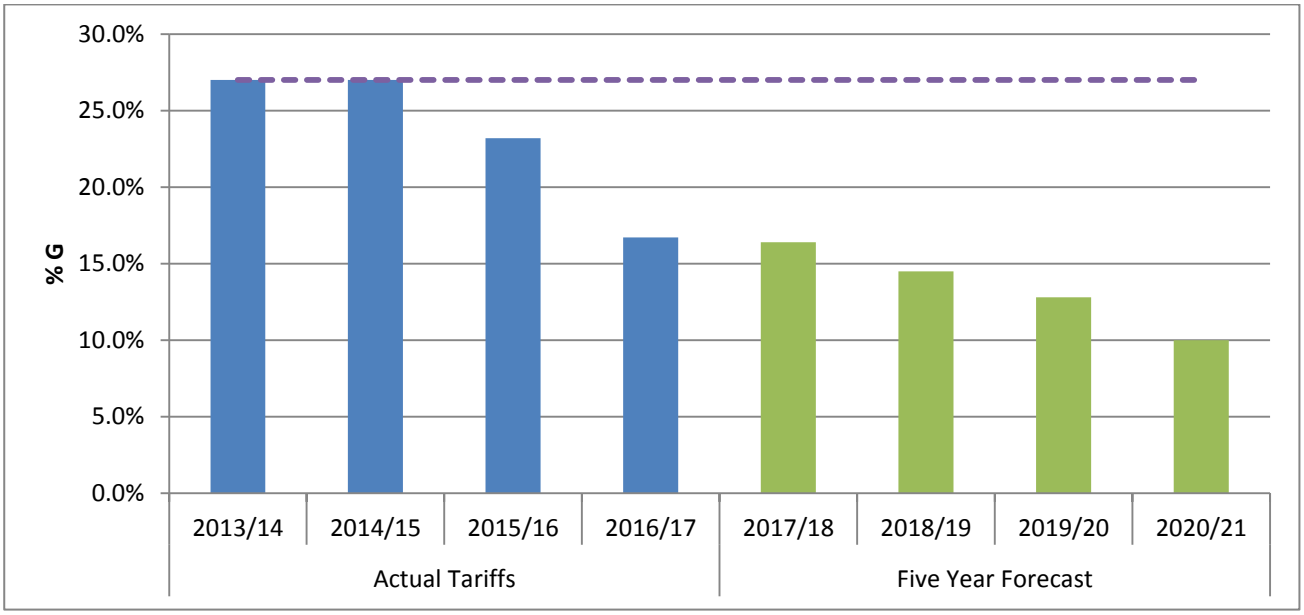

Figure 1*:* Historic and future forecast generation percentage of TNUoS revenue

Effect of a Snap-back on Average Tariffs

2.12 The transmission tariffs shown in Table 2 assume that the current cap caused by the €2.50/MWh limit continues to prevail. Table 3 illustrates average transmission tariffs and the change in those tariffs compared to the baseline if there were a snap-back to 27% for the generation percentage.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue						
G %	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**
Generator Revenue (£m)	711.91	731.35	738.45	805.44	857.17	1023.17
Demand Revenue (£m)	1924.78	1977.35	1996.55	2177.66	2317.53	2766.34
Swing from Demand to Generation compared to using €2.50/MWh cap (£m)	**98.85**	**277.92**	**288.55**	**373.14**	**449.67**	**642.57**
Average Tariffs						
Generation Tariff (£/kW)	9.96	11.64	10.97	11.67	12.44	14.76
HH Demand Tariff (£/kW)	36.73	39.71	40.50	45.18	48.69	58.48
NHH Demand Tariff (p/kWh)	5.01	5.58	5.79	6.49	7.06	8.58
Change in Tariffs						
Generation Tariff (£/kW)	1.38	4.42	4.29	5.41	6.53	9.27
HH Demand Tariff (£/kW)	-1.89	-5.58	-5.85	-7.74	-9.45	-13.58
NHH Demand Tariff (p/kWh)	-0.26	-0.78	-0.84	-1.11	-1.37	-1.99

Table 3: Historic and forecast G:D Split and Average Tariffs if 27% had been used to calculate G/D split instead of €2.50/MWh

2.13 The change in transmission tariffs arising from the snap-back is due to a change in the residual and would be applied to all zonal generation and HH demand tariffs equally. The value of the change in the NHH tariff will be different in each zone depending on the split of HH and NHH demand. In Annex 5, the full set of transmission tariffs is detailed using the current 16.7% and snap-back 27% for Charging Year 2016/17 to illustrate the difference for each category in each zone.

2.14 The effect of a snap-back in Charging Year 2020/21 is that an additional £643M of revenue would be recovered from generation bringing the generation total to £1,023M, up from £380M if the snap-back did not occur (and the €2.50/MWh applied). A snap-back would cause the demand residual to fall by £13.58/kW (causing a reduction of 1.99 p/kWh for the NHH tariff), and the generator residual to rise by £9.27 – leading to a near trebling of the average generation transmission tariff in GB compared to if €2.50/MWh cap applied.

2.15 Figure 2 illustrates how the average transmission tariffs change over time using the current €2.50/MWh cap and if the 27% snap-back for the generation percentage were used. It is worth noting that after Charging Year 2016/17 the generation charging base is forecast to increase, so all other things being equal this would cause the generation transmission tariffs to fall as the revenue to be recovered from generation is spread over a greater quantity of generation. Meanwhile, the demand charging base is decreasing (for both HH and NHH) and this causes the demand transmission tariffs, all other things being equal, to increase.

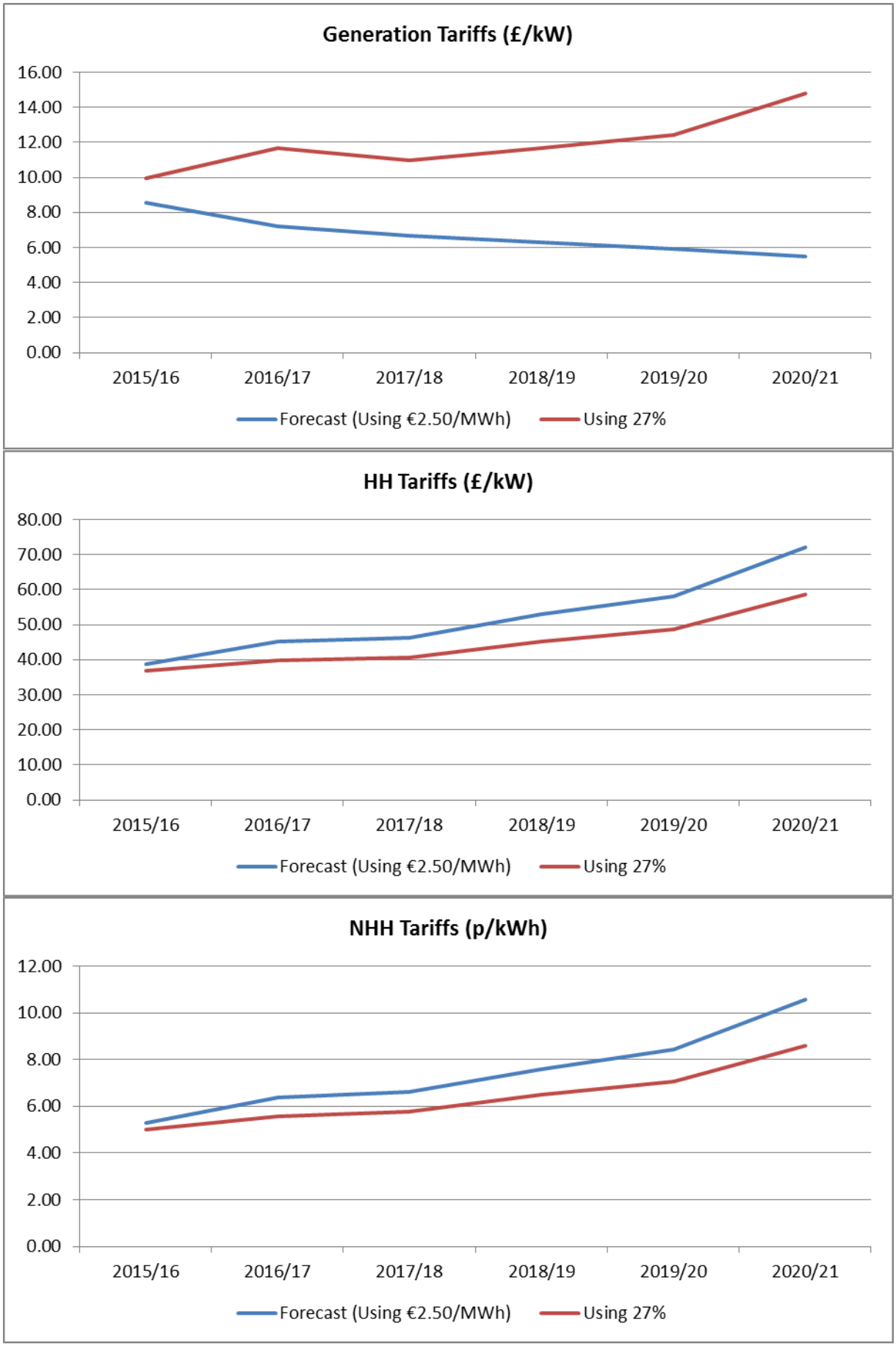

Figure 2: Historic and future forecast TNUoS tariffs using current €2.50/MWh methodology (blue) and if there were a snap-back to 27% (red)

2.16 Further, Table 4 and Figure 3 illustrate the total amount of TNUoS to be recovered from generation and each category of demand for each of the Charging Years shown.

Revenue per category (£m)	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
With €2.50/MWh						
Generation	613.06	453.43	449.90	432.30	407.50	380.60
HH Demand	579.28	593.24	755.52	841.45	912.71	1124.29
NHH Demand	1444.34	1661.96	1529.58	1709.35	1854.49	2284.61
With 27%						
Generation	711.91	731.35	738.45	805.44	857.17	1023.17
HH Demand	550.99	520.15	660.12	718.36	764.40	912.36
NHH Demand	1373.79	1457.20	1336.43	1459.31	1553.14	1853.97
Difference with 27% rather than €2.50/MWh						
Generation	98.85	277.92	288.55	373.14	449.67	642.57
HH Demand	-28.30	-73.09	-95.40	-123.09	-148.32	-211.92
NHH Demand	-70.55	-204.76	-193.15	-250.05	-301.35	-430.64

Table 4: Revenue recovery per chargeable category if a snap-back to 27% had been used to calculate G:D split instead of €2.50/MWh

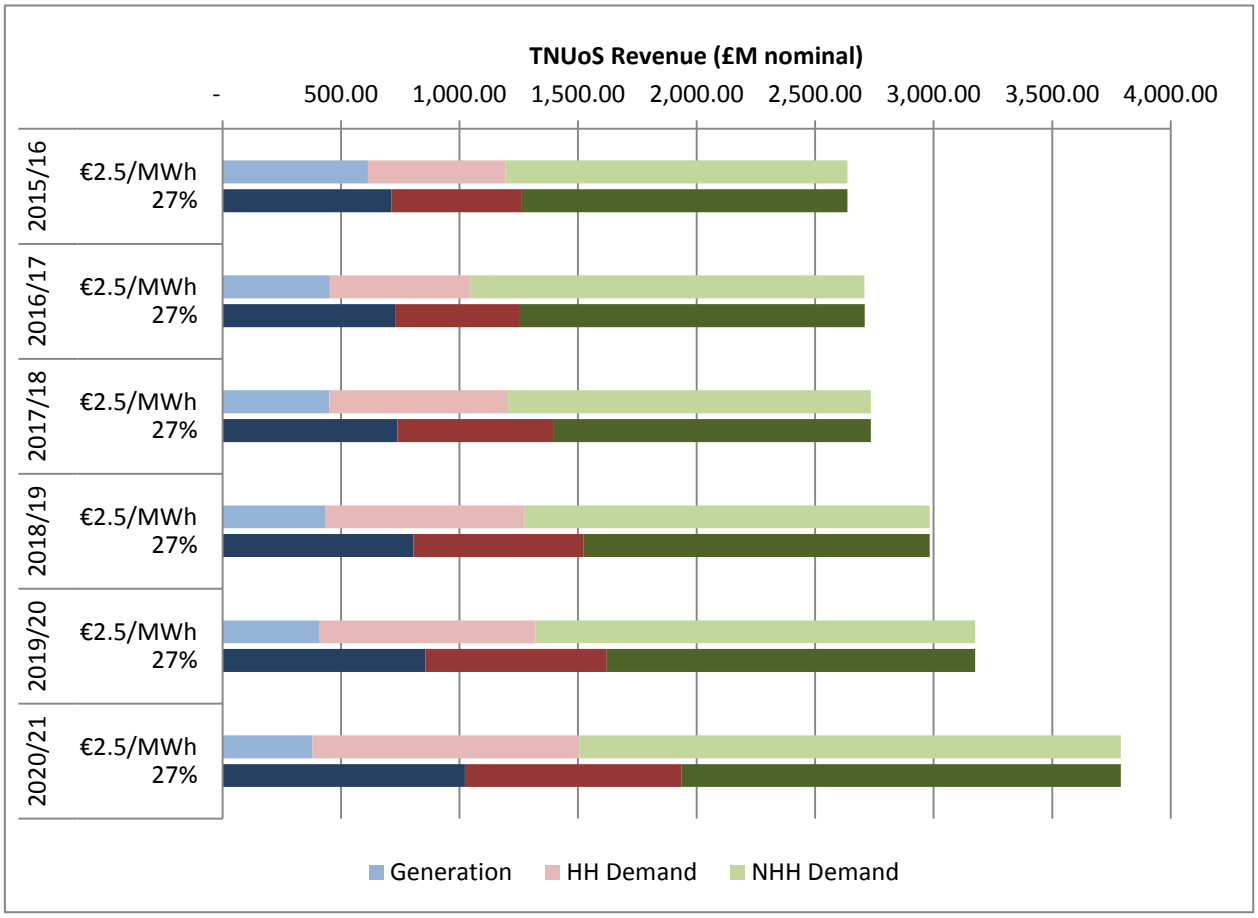

Figure 3: Historic and future forecast £M TNUoS revenue to be recovered from generation and HH and NHH demand, under €2.50/MWh and under a 27% snap-back.

2.17 National Grid confirmed that a snap-back would in general occur for the next Charging Year for which transmission tariffs have not yet been set. If that tariffs had already been set for a given Charging Year, then they would only be revised (via a mid-year tariff change) if this were needed to ensure compliance with EU law, and legal advice would need to be sought at such a time to ensure the appropriate approach.

Note on the Capacity Market[9]

2.18 To quantify the impact of a snap-back in TNUoS tariffs caused by a snap-back to a generation percentage of 27% on the Capacity Market, the T-4 Auction completed in December 2015 has been considered by the Workgroup. This last capacity market auction has a clearing price of £18/kW for capacity in 2019/20. Based on the Forecast TNUoS tariffs from 2016/17 to 2019/20 published10 in January 2015 (the latest available at the time of the auction), the G% was forecast to be 18.8%, and a snap-back to 27% would have caused a change of £2.56/kW in the average generation tariff.

2.19 The latest five-year forecast has revised the forecast for 2019/20, and results in a generation percentage of 12.8% based on latest estimates. A snap-back would then cause an increase in average generation tariffs of £6.53 /kW. This potential snap-back was not known at the time of the capacity market auction.

2.20 Figure 4, taken from the EMR Delivery Body report[11], shows the analysis of the Capacity Market exit bids, which results in the 46GW of capacity clearing at a pay-as-cleared price of £18/kW/year.

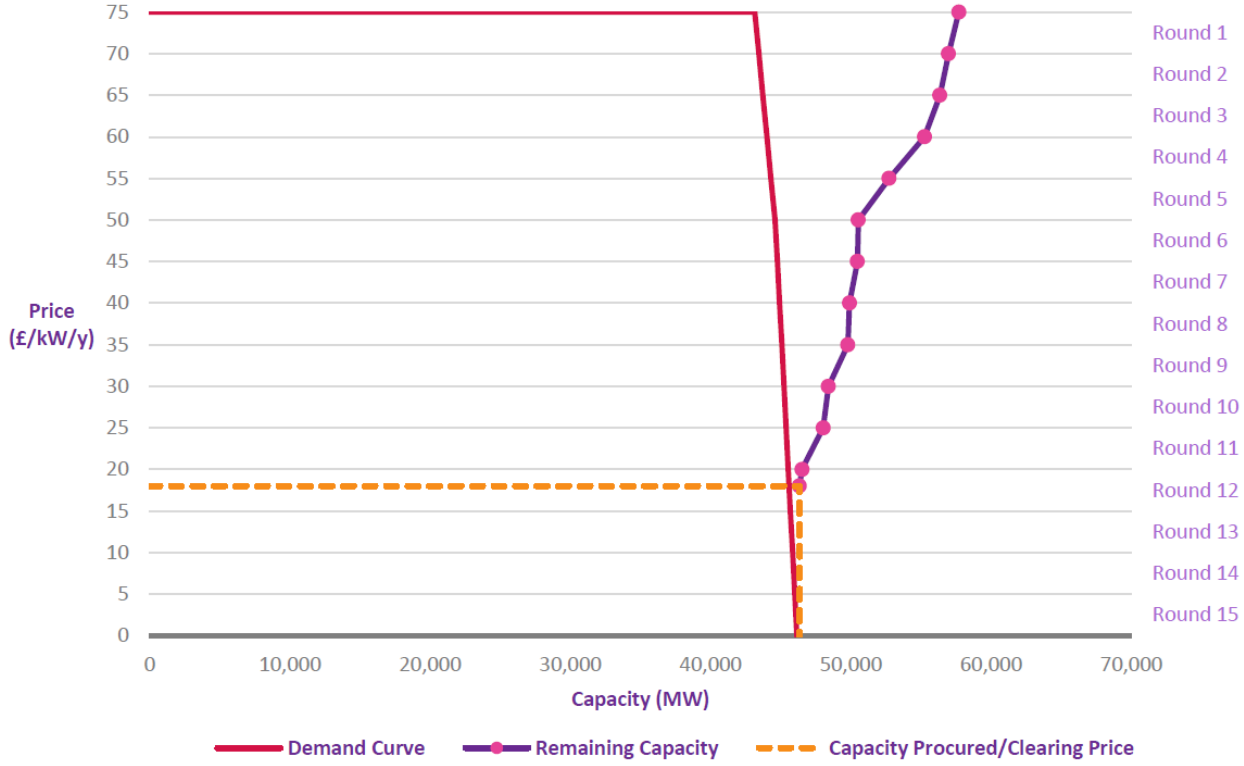

Figure 4: Taken from the T-4 Auction Report, demand curve, and clearing price of £18/kW/year.

2.21 From this £18/kW/year figure, it can be estimated what quantity of Capacity Market Units exited the auction at each round (representing a £5/kW spread). However, individual exit bids are not known as they are commercially sensitive. Also no data is published about the exit bids for capacity about the clearing price, so any analysis can only be assumed as indicative from the £18/kW/year figure.

2.22 Based on the figure, there is around 2GW of capacity with an exit price between the clearing price (£18/kW/year) and the £25/kW/year price. Assuming a similar gradient to the supply curve below and above the clearing price, this would suggest around 2GW of capacity would become unprofitable if TNUoS tariffs were to rise by c.£5/kW. That said all provided would be affected, as if TNUoS tariffs were expected to be say £5/kW higher, the

[9] The analysis in this section has been updated since the Workgroup Consultation Report, where it was incorrectly assumed that the market had access to the five-year forecast TNUoS tariffs published in February 2016, when undertaking the auction in December 2015. The analysis has been updated to reflect the published forecast TNUoS tariffs for 19/20 available at the time of the auction.

[10] http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=39315

[11] https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/T-4%20Final%20Results%202015.pdf

supply curve would have shifted, ultimately causing a higher clearing price to reflect the higher TNUoS paid by generation in GB.

2.23 In broad terms it is generally true that the marginal capacity provider will be impacted more significantly than those capacity providers who are more greatly 'in merit'. However, any cost increases will still reduce the 'in merit' capacity providers' returns and potentially prevent additional investment in capacity. So ultimately, a snap-back will impact everyone - just to differing degrees of materiality. Overall the Capacity Market for 2019/20 has cleared around 46GW x £2.50/kW = £115M lower than if a higher generation TNUoS rate (based on a snap-back to 27%) were included which is money potentially missing from the market if there were a snap-back.

Illustration of the effect of a Snap-back on parties with varying levels of vertical integration.

2.24 The effect of a snap-back to a generation percentage of 27% is modelled in 2017/18, for a 'notational impact' on parties with varying level of vertical integration. The effect on tariffs is that generation increase by £4.29/kW, and Demand decrease by £5.85/kW for HH demand and decrease by 0.84p/kWh for NHH (see Table 3)

2.25 The effect on parties with varying levels of vertical integration is considered, i.e. a percentage of demand for a supplier is met from generation from a company within the same group.

2.26 The model assumes domestic customer base of 250,000 customers, with annual usage of 3,300kWh, of which 16% is chargeable[12] (100% NHH). This results in needing a generation of TEC 157MW; based on a load factor of 60%. Alternatively, this generator could produce all 157MW at peak to satisfy a Triad HH demand of 157MW (100% HH) or a mid-case with 125,000 domestic customers and 78.5MW of HH demand (50% HH, 50% NHH).

2.27 In this table negative is a gain for a party as a result of a snap-back; a positive numbers is the additional charge due to the snap-back.

[12] 16% is in line with the definition of profile classes 1 to 4 from Elexon.

		100% NHH	50% NHH, 50% HH	100% HH	Implied Size of Generation Portfolio (MW)
		250,000 domestic consumers, 0MW HH	125,000 domestic consumers, 78.5MW HH	0 domestic consumers, 157MW HH	
Pure Supplier		-1,103,828	-1,011,424	-919,021	
Percentage of Demand covered by own generation	10%	-1,036,535	-944,123	-851,712	16
	20%	-969,242	-876,822	-784,403	31
	30%	-901,948	-809,521	-717,094	47
	40%	-834,655	-742,220	-649,785	63
	50%	-767,361	-674,919	-582,476	78
	60%	-700,068	-607,617	-515,167	94
	70%	-632,775	-540,316	-447,858	110
	80%	-565,481	-473,015	-380,549	126
	90%	-498,188	-405,714	-313,239	141
	100%	-430,895	-338,413	-245,930	157
	110%	-363,601	-271,111	-178,621	173
	120%	-296,308	-203,810	-111,312	188
	130%	-229,015	-136,509	-44,003	204
	140%	-161,721	-69,208	23,306	220
	150%	-94,428	-1,907	90,615	235
	160%	-27,135	65,395	157,924	251
	170%	40,159	132,696	225,233	267
	180%	107,452	199,997	292,542	283
	190%	174,745	267,298	359,851	298
	200%	242,039	334,599	427,160	314
Pure Generator		673,012	673,012	673,012	

Table 5: Net effect on parties with varying levels of within-group generation

2.28 This data is plotted in Figure 1 below.

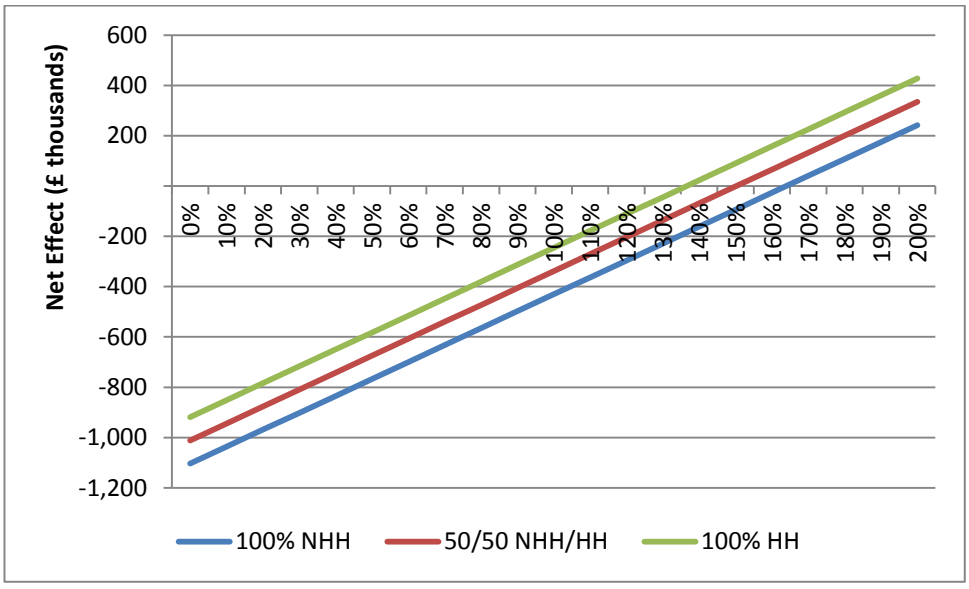

Figure 5*:* Net effect on parties with varying levels of within-group generation

2.29 Although vertically integrated companies may have generation and supply businesses which aggregate at the group financial level, each separate business (e.g. generation and supply) may be affected independently by any Change in Tariffs compared to baseline, as there is a prohibition on cross-subsidy between licenced businesses of this nature.

European Context

2.30 It is worth noting the current direction of travel in the European context of electricity transmission tariffs structures, particularly in light of the recent Authority decision[13] on 15 September 2015 to reject CMP227 which noted that "*Further, the direction of travel in respect of future changes to harmonise charges at the European level is unclear*."

2.31 The European landscape for potential harmonisation of transmission charges is outlined in the Third Energy Package, specifically Regulation (EU) 714/2009[14]. This outlines that a number of Network Codes shall be prepared including (Article 8(6)(k)):-

> *"….rules regarding harmonised transmission tariff structures including locational signals and inter-transmission system operator compensation rules;…"*

2.32 Having due regard for Regulation (EC) No 714/2009, Commission Regulation (EU) No 838/2010[15] was introduced to provide a common regulatory approach to transmission charging across all the Member States. This Regulation introduced the band of €0 - €2.50/MWh for average annual transmission charges for generator in GB in Part B of the Regulation, entitled "Guidelines for a Common Regulatory Approach to Transmission Charging". Importantly, in this Regulation ACER (The Agency) were tasked with monitoring the appropriateness of the range of allowed transmission charges, and to report, by 1 January 2014, on the charges for the period after 1 January 2015.

2.33 In ACER's opinion No 09/2014[16], it was concluded that:

> *"Different levels of power-based G-charges (€/MW) or of lump-sum G-charges, as long as they reflect the costs of providing transmission infrastructure services to generators, can be used to give appropriate and harmonised locational signals for efficient investments in generation, e.g. to promote locations close to load centers or where the existing grid can accommodate the additional generation capacity with no or minimal additional investments."*
>
> *"The Agency therefore considers it unnecessary to propose restrictions on cost reflective power-based G-charges and on lump-sum G-charges."*

The effect of this opinion (if it had been adopted by the Commission) would have been to remove the range in Part B of Commission Regulation (EU) No 838/2010, and allow Member States to set generation transmission tariffs without being constrained to the various caps set out in Part B. If this opinion were to have been implemented and nothing else were to have change in EU or GB law, this would have caused a snap-back to 27% for generation TNUoS in GB based on the current arrangements set out in the CUSC.

2.34 It is worth noting that despite the requirement for ACER to review the ranges in Commission Regulation (EU) No 838/2010 that apply "after 1 January 2015", the European Commission have not implemented any changes to the Regulation at present. As a result, until an appropriate instrument is brought forward by the Commission to replace, amend or repeal Commission Regulation (EU) No 838/2010 the current ranges (€0-€2.50/MWh for GB) will stand as European Law.

2.35 In December 2014, ACER started a scoping activity following Commission Decision 2014/713/EU (the Commission's priority list for 2015) to consider the harmonisation of electricity transmission tariff structures across the Union. ACER concluded[17] in December 2015 that, at this time, the case for a Framework Guideline of a Network Code is not evidenced, and that implementing ACER opinion 09/2014 (effectively removing the range in

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13 https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/cmp227_d_0.pdf

14 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF

15 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:250:0005:0011:EN:PDF

16 http://www.acer.europa.eu/official_documents/acts_of_the_agency/opinions/opinions/acer%20opinion%2009-2014.pdf

17 http://www.acer.europa.eu/Electricity/FG_and_network_codes/Documents/Scoping%20conclusions%20for%20harmonised%20Transmission%20Tariff%20Structures%20in%20Electricity.pdf

Commission Regulation (EU) No 838/2010) would be "*sufficient to prevent potential negative effects from any lack of harmonisation in electricity transmission tariff structures*".

2.36 ACER also noted in their conclusion on their scoping report that ACER "*will commence work on establishing a common set of transmission tariff principles in order to build a common understanding and facilitate the sharing of best practices*".

2.37 Therefore, there is still a lack of clarity of both the short-term and longer-term direction of tariff harmonisation in Europe. In the short-term, ACER's view is that the various caps for generation transmission tariffs across the Member States should be removed, but this needs to be implemented by the Commission and they have not yet shown any intent to do so. In particular, the Commission's work programme (Commission Implementing Decision (EU) 2015/1960[18]) for 2016 references that rules for harmonised transmission tariff structures will be taken forward "…*depending on the results of ACER's scoping activity and decisions taken as part of the energy market design initiative*", but it does not explicitly reference the various Member State caps (such as the €0-€2.50/MWh for GB).

2.38 In the longer term there remains the potential for a more significant change to the transmission tariff arrangements as a result of any framework guidelines and subsequent Network Code (or Guideline) on harmonised electricity transmission tariff structures across the Union. These changes may require notable changes to the electricity charging methodologies currently used across the Union as many Member States charge in significantly different ways than, for example, GB. However, there is no visibility of these at the potential changes at this moment in time.

2.39 As and when there is any indication from the Commission and/or ACER on the future direction of electricity tariff harmonisation; and whether, for example, the various caps, such as the €2.50/MWh limit in GB, is to be removed, and what if anything comes next; in order to ensure compliance with applicable CUSC charging objective[19] (d) it may be appropriate at that time to consider the future G:D split of TNUoS tariffs in GB and associated issues.

2.40 The Authority representative on the CMP255 Workgroup noted that, based on their understanding of the direction of travel in Europe there may be a period between when the €2.50/MWh cap is removed (as per ACER's opinion) and before the future principles of harmonised transmission charging are established and implemented. This could leave a period when only the GB rules would apply and that they would have a preference for the Workgroup to explore options for this not to be a €2.50/MWh cap.

Original Proposal

2.41 The Original proposal advocates the removal of the reference to the G element of the G:D split being 27% and it being replaced by reference to the European Regulation in 14.14.5 of the CUSC only. The result of this is that generation transmission tariffs would continue to be set using the €2.50/MWh upper level even if Commission Regulation (EU) No 838/2010 no longer applied in GB. This change would remove the snap-back and leaves transmission charges set on the current basis until a further change were made to the Charging Methodology in due course by a separate Modification (at that future date).

[18] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015D1960&from=EN

[19] "(d) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency." 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).

2.42 The legal text changes included by the proposer in the proposal form are as follows:

14.14.5 …

v.) The application of a Transmission Network Use of System Revenue split between generation and demand where the proportion of the total revenue paid by generation, for the purposes of tariff setting, ~~is the lower of 0.27 or~~ x times the total revenue, where x for a charging year n is calculated as:

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

Where;

Cap_{EC} = €2.50/MWh or such lower number as may be specified in a European Commission Regulation that sets an upper limit on the annual average tranmssion charge payable by generation that is expressed in €/MWh~~Upper limit of the range specified by European Commission Regulation 838/2010 Part B paragraph 3 (or any subsequent regulation specifying such a limit) on annual average transmission charge payable by generation~~

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

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

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

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

2.43 The Proposer noted that the Original proposal had been drafted in this manner due to his interpretation of the Authority's decision letter for CMP227. In particular that "… *the direction of travel in respect of future tariff harmonisation at the European level is not clear at this stage*". In the view of the Proposer, this should therefore limit the scope of the CMP255 change to just addressing the snap-back and it precludes the Workgroup from setting a longer term view of how TNUoS should be split between generation and demand.

2.44 One of the key benefits of the proposal is that it ensures that the market is able to use the current forecasts of TNUoS produced by National Grid at regular intervals when making future decisions, as these forecasts are already based on the €2.50/MWh cap continuing.

2.45 There was broad support for the Original proposal from the Workgroup members. However, the Authority representative noted, given their understanding of the direction of travel in the EU (see paragraph 2.40) that there may be an alternative to staying at €2.50/MWh cap and those other alternatives should be explored. Given a preference for stable and predictable tariffs, the Authority representative noted that a cap not specified in Euros may be preferable. However, the Workgroup noted that they are constrained by the need to only consider Alternatives that address the defect identified in CMP255.

Potential issues with a cap specified in €/MWh

2.46 The proposer reiterated that, in his view, the defect was to deal with the potential of snap-back to 27% if the Commission Regulation (EU) No 838/2010 Part B were repealed and *not* what should apply after any such a repeal. The proposer noted that under this approach that €2.50/MWh would continue to apply until such time as the Charging Methodology were updated using the appropriate governance process through a future CUSC modification (rather than this CMP255 proposal).

2.47 Workgroup members, in general, agreed with the proposer's statement of the defect. The National Grid representative noted that he had received advice against trying to specify now, what might be the right way to split the generation and demand elements of TNUoS, and that such a decision would need to be taken by the industry, if and when the European Regulation were removed, repealed or replaced. This view is consistent with removing the

potential for snap-back, but noting that a likely next-step following any change to the Regulation (such as the removal of the need for GB to set generation TNUoS based on a €2.50/MWh upper limit) would be a further CUSC modification to decide on the longer term approach to the G:D split at that time.

2.48 Notwithstanding the views among Workgroup members that the defect was to address the potential for snap-back, a number of potential problems of a long-term cap specified as a €/MWh figure were also discussed:

(a) The €2.50/MWh figure is implemented through European Law, and in the absence of EU law a cap expressed in this manner may not be the choice of GB;

(b) A level of uncertainty remains, as the calculation is dependent on the £ to € exchange rate, which is variable;

(c) A forecast is still required to convert the energy based charge (expressed in MWh) to a capacity based charge for TEC (expressed in MW) which is used when applying TNUoS to generation in GB;

(d) When setting the various levels in Regulation 238/2010 Part B for Member States in 2010 it was decided not to index link those figures (such as the €2.50/MWh for GB), so all other things being equal, this will lead to a decrease in the transmission charges paid by generators across the Union over time.

Potential other methods for specifying a G:D split

2.49 The Workgroup held a discussion about whether other options for addressing the defect should be considered, in particular those that (i) remove the reference to 27% and then went further to (ii) specify a different (to €2.50/MWh) way of splitting G and D in GB.

2.50 The proposer was clear that further options should not be explored, as part (ii) was explicitly beyond the scope of the CMP255 defect which deals only with the potential for a snap-back, and the removal of the return to a G:D split of 27% for generation (which is what is currently set out in the CUSC). The majority of Workgroup members agreed with this view. However, it was noted by the Authority representative that, in their view, there are other ways of specifying the G:D split that are within the scope of the CMP255 defect and could therefore be raised by the Workgroup as alternative solutions to the defect. The Authority representative also noted that regardless of the scope of the modification, it was up to Workgroup members to raise and vote on alternative modification proposals.

2.51 In this vein, the Workgroup identified the following examples of possible criteria (no preference is implied by the ordering shown below) for how the G:D split could be based, in the event of the €2.50/MWh cap no longer applying to generation transmission charges in GB, and not being replaced by anything equivalent by the European Commission:

(a) Fix at the generation percentage last used to set transmission tariffs;

(b) Fix at the generation percentages as forecast (such as in the latest five-year forecast), and fix at the last one;

(c) A phased return to 27% for the generation percentage;

(d) A snap-back to a different generation percentage value (less than 27%);

(e) A phased return to a different generation percentage value (less than 27%);

(f) Convert the last €/MWh cap to a £ per energy (£/MWh) cap to apply for generation TNUoS going forward;

(g) Set a new £/MWh cap for generation TNUoS;

(h) Convert the last €/MWh cap to a £ per capacity (£/MW) cap to apply for generation TNUoS going forward;

(i) Set a new £/MW cap for generation TNUoS.

2.52 Although in theory, the generation percentage value could exceed 27%, the Workgroup agreed that for the consideration of these examples it would be limited to not exceeding the present upper limit 27%.

2.53 The Workgroup noted that the list is *not* exhaustive of all the possible ways to split G:D charges. Annex 6 summarises illustrative example of the average transmission tariffs for generation and demand in the event of a split determined otherwise than via €2.50 / MWh using the criteria (a) to (i) above. In addition Table 17 in Annex 6 summarises the pros and cons for these examples.

2.54 The view of the proposer and the majority of the Workgroup is to not consider these criteria any further as they believe they are beyond the scope the of the CMP255 defect. Feedback was sought from the industry consultation being cognisant of the view of the Authority representative's and at least one workgroup member, for completeness, as a record of the discussion and to seek industry views. See Section **Error! Reference source ot found.** for further information.

Other ongoing pertinent modifications

2.55 There are three ongoing modifications addressing topics in a similar section of the CUSC, specifically:

(a) CMP251 aims to consider "Removing the error margin in the cap on total TNUoS recovered by generation and introducing a new charging element to TNUoS to ensure compliance with European Commission Regulation 838/2010"

(b) CMP261 'Ensuring the TNUoS paid by Generators in GB in Charging Year 2015/16 is in compliance with the €2.5/MWh annual average limit set in EU Regulation 838/2010 Part B (3)'

2.56 CMP261 and CMP251 deal with the perceived non-compliance and the potential of non-compliance with European Regulation 838/2010 by removing the error margin introduced by CMP224 and by introducing a new charging element to the calculation of TNUoS.

2.57 Although this modification, CMP255, and CMP251/CMP261 are in the same section of the CUSC the defects are sufficiently different – in particular, this CMP255 modification deals with the situation if the €2.50/MWh cap were removed rather than how we ensure compliance in 2015/16 and future years.

3 Consultation Responses

3.1 Twelve responses were received to the Workgroup Consultation. The detailed responses are contained in Annex 4 of this report, and summarised in the tables below.

3.2 The key points from the Consultation Responses considered by the Workgroup were as follows:

(a) Q1: 9 respondents supported the original proposal in better meeting the applicable objectives. 3 respondents did not, as they believed that 27% was a longer established principle, and the case for a lower G charge (and thus higher D charge) was not proven.

(b) Q2: 8 respondents supported the implementation approach and 4 did not. Three as they did not support the Original Proposal, and one as they were concerned about the potential for a mid-year tariff change.

(c) On the specific questions, the Workgroup sought views on whether parties believed the scope was wide or narrow. 10 respondents said the scope was narrow, but some would prefer a different fix to €2.50/MWh (the last percentage, convert to a £/MWh cap, or a solution "that brings more stability"). 2 respondents said the scope was wider.

(d) On the question of which of the options could be considered by the Workgroup (q6), the summary of results was as follows:

Options		**Respondents who believe should be considered by Workgroup**
(a)	Fix at the generation percentage last used to set transmission tariffs;	2
(b)	Fix at the generation percentages as forecast (such as in the latest five-year forecast), and fix at the last one;	4
(c)	A phased return to 27% for the generation percentage;	1
(d)	A snap-back to a different generation percentage value (less than 27%);	0
(e)	A phased return to a different generation percentage value (less than 27%);	0
(f)	Convert the last €/MWh cap to a £ per energy (£/MWh) cap to apply for generation TNUoS going forward;	4
(g)	Set a new £/MWh cap for generation TNUoS;	1
(h)	Convert the last €/MWh cap to a £ per capacity (£/MW) cap to apply for generation TNUoS going forward;	0
(i)	Set a new £/MW cap for generation TNUoS.	0

Table 6: Summary of Consultation Responses for Question 6

3.3 The following table provides an overview of the Standard Workgroup question responses received;

	Do you believe that CMP255 Original proposal, or any potential alternatives for change that you wish to suggest, better facilitates the Applicable CUSC Objectives?	Do you support the proposed implementation approach?	Do you have any other comments?	Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?
EDF Energy	Yes. It better meets objective (a).	Yes.	Yes (Comments can be found in Annex 4).	Yes (Comments can be found in Annex 4).
Scottish Power	We believe that by removing the considerable uncertainty associated with a potential "snap-back" of the generator proportion of generator TNUoS charges to 27% would enable both generators and suppliers to better forecast the TNUoS costs thus better facilitating competition and better facilitates applicable CUSC objective (a).	We support the proposed implementation approach which ensures that uncertainty over future TNUoS charges is removed at the earliest opportunity.	No.	No.
EON	Yes. At this stage we think the Original Proposal better facilitates Objective (a) as it improves the stability of transmission charges by removing direct reference to external legislation should that legislation no longer apply.	Yes.	No.	No.
VPI	Yes, we believe that the proposal better facilitates the applicable CUSC objective (a) in that it improves competition between generators by removing uncertainty.	Yes.	No.	No.
SSE	Yes. We believe that CMP255 will better facilitate Applicable Objective (a) as the current baseline has a 'snap-back' to 27%, which presents significant uncertainty and risk to both generators and suppliers; leading to higher costs to consumers.	We note the proposed implementation approach set out in section 5 of the Workgroup consultation document. We do not support this approach as we believe that the 'snapback' could (under the current baseline) occur at any time if the €2.5MWh upper limit were removed.	No.	No.
British Gas	Overall, we believe the Proposal will have a negative impact on Applicable CUSC Objectives (a), (b) and (c) and would have no impact on Applicable CUSC Objective (d).	We do not support the Proposal.	Yes (Comments can be found in Annex 4).	No.
First Utility	No (Comments can be found in Annex 4)	We do not support the proposed implementation approach.	No.	No.

	Do you believe that CMP255 Original proposal, or any potential alternatives for change that you wish to suggest, better facilitates the Applicable CUSC Objectives?	Do you support the proposed implementation approach?	Do you have any other comments?	Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?
Drax	CMP255 will better facilitate Applicable CUSC Objective (ACO) (a).	Yes.	No.	No.
Vattenfall	Yes. It better facilitates effective competition in the generation and supply of electricity by reducing uncertainty in future transmission charges and therefore allows more competitive bid prices for the Capacity and CfD auctions and provides more stable framework for investment in new generation capacity in GB.	Yes.	No.	No.
Smartest Energy	No, we do not believe that the CMP Original Proposal better facilitates any of the Applicable CUSC Objectives.	No.	No.	No.
UK Power Reserve	Yes, we believe that the original proposal to maintain a cap of EUR 2.50 on average annual generation transmission charges better facilitates CUSC objectives.	We are in support of the proposed implementation approach.	No.	No.
RWE	We continue to believe that CMP255 will better meet CUSC Objective (a).	Yes.	No.	No.

3.4 The following table provides an overview of the CMP255 Specific Workgroup question responses received;

	Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)- (i) of paragraph 2.43?	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**
EDF Energy	No. Whilst we believe that the defect itself is quite specific, we do believe that there is merit in exploring a solution to the defect which also can bring about more stability to TNUoS charging.	We think the workgroup should consider the following options: (a) Fix at the generation percentage last used to set transmission tariffs; (b) Fix at the generation percentages as forecast (such as in the latest five-year forecast), and fix at the last one; (f) Convert the last €/MWh cap to a £ per energy (£/MWh) cap to apply for generation TNUoS going forward;
Scottish Power	We believe and are comfortable that the Proposer has intentionally narrowed the scope of the defect to dealing with the issue of a potential "snap-back" to a 27% generation proportion particularly in the light of uncertainty over the TNUoS costs to be factored-in when bidding in forthcoming Capacity Mechanism actions.	Notwithstanding our views at (5) above, we would support option (b) (fixing the generation percentage at the values in the latest five year forecast and fix at the percentage forecast in the last year).
EON	Should Regulation 838/2010 no longer apply and in the absence of any new legislation determining how transmission charges should be calculated it is no longer necessary to continue with the €2.50/MWh limit, with some of the additional uncertainties associated with that calculation. The CMP255 defect in essence is the removal of certainty over the G:D split element of calculating TNUoS tariffs in the event that 838/2010 should no longer apply. We would therefore support option (a) as described in paragraph 2.43 as this would be the last G/D split percentage that would have applied prior to 838/2010 being removed.	We would consider option (b) in that this utilises forecast changes to the G/D split that market participants may have factored in to their working assumptions prior to the change in legislation, so provides some certainty over further changes to the G/D split in future years, then frozen at the level in the final year of that last forecast, in absence of any new legislation determining how transmission charges should be calculated or a new Modification Proposal advocating a new G/D split. In our view any other options, option (c) onwards, would effectively be determining a new G/D split and/or revised charging methodology, which outside of options (a) or (b), and as described in our response to question 5, is outside the scope of the defect of CMP255 and should be subject to a separate new Modification Proposal following any relevant change in legislation.
VPI	We think that the scope of the modification is limited, i.e. that it maintains the €2.50/MWh cap should the European legislation no longer be in force. We believe that any further scope does not address the wider issues as a result of the defect.	Should the scope of the defect be extended, we would suggest that (f) and (g) would be the appropriate options to take forward to ensure certainty.
SSE	We note the deliberations of the Workgroup set out in paragraphs 2.42-2.49 of the consultation document. At this time we are minded to agree with the majority of the Workgroup that the defect set out in the CMP255 proposal limits the potential solution(s) to one(s) that simple removed the 'snap-back' to 27%.	Without prejudice to our answer to Question 5 above, if the scope of the CMP255 defect were to be considered to be wider then of the options listed in (a) to (i) we would, at this moment in time be minded to support option (a) as this, in our view, will have the least (if any) effect on cross border trade.

	Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)- (i) of paragraph 2.43?	Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?
British Gas	Overall, we believe the Proposal will have a negative impact on Applicable CUSC Objectives (a), (b) and (c) and would have no impact on Applicable CUSC Objective (d).	The working group needs to clarify the defect. It seems to us that the defect may be either: i. should EU Regulation 838/2010 no longer apply the G split would return to 27% *without an appropriate lead time*; or, ii. should EU Regulation 838/2010 no longer apply the the G split would return to 27% *at all*.
First Utility	The Proposer has insisted that a narrow view be taken of the Original Proposal, as a precautionary response to a specific set of circumstances that may arise in the future by way of changes to the Regulation. Ultimately, however, it seems to us that it only makes sense to raise the issues raised by the Original Proposal if one considers that the 27/73 split is flawed and the G/D split produced by the €2.50 cap is superior.	We think all of the alternatives should be considered and assessed for adverse distributional impacts on market participants of varying levels of vertical integration.
Drax	The former. The current defect does not allow scope to consider the examples shown in paragraph 2.44 of the workgroup report. If these options are to be explored, then another modification should be raised if and when the €2.50/MWh cap is removed. The scope of the CMP255 defect only deals with the potential for snap-back.	We do not believe the scope of the defect covers the issues addressed by paragraph 2.44.
Vattenfall	Although we would not rule out any alternative to the original proposal, any alternative must achieve the same objective in order to better facilitate effective competition in the medium term (i.e. five year period).	As described above, we believe that example F (establishing an equivalent £/MWh cap) merit further consideration because of the removal of currency exchange volatility. We do not have any additional proposals since we believe it would be more appropriate to consider any changes to enduring arrangements only in the event that the EU cap is removed.
Smartest Energy	We think that the defect set out in the modification proposal limits potential solutions to those that simply remove the snapback. We therefore do not agree that the scope of the CMP "defect" is wider.	No.
UK Power Reserve	We share the view of the proposer in that further options should not be explored, and that the best way to maintain certainty is maintaining the same arrangements of a EUR 2.50 cap.	If the defect were considered wider, we would be in favour of a converting the last EUR 2.50 cap to be expressed in GBP.

	Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)- (i) of paragraph 2.43?	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**
RWE	We remain of the view that the scope of CMP255 relates to the risks associated with "*reversion to the 27% allocation of transmission costs to generators which would result in a material increase in costs attributed to generation without any Appropriate lead time*" (as stated in the Modification Proposal Form).	As noted in the Workgroup Consultation Document the Authority CMP227 decision letter, stated that *"… the direction of travel in respect of future tariff harmonisation at the European level is not clear at this stage*". Consequently we do not believe that any of the options described in (a) –(i) of paragraph 2.43 of the Workgroup Consultation Document should be considered by the Workgroup since there is no clear objective justification for any of the options.

4 Workgroup Alternatives

4.1 Section 2 of this report highlights the main areas of the Workgroup discussion that could lead to possible alternatives. Throughout the Workgroup process the Authority provided a steer that the Workgroup should consider other possible alternative to resolve the defect other than that suggested by the Proposer.

4.2 The Original Proposal aims to remove the requirement for the generation allocation of TNUoS costs in GB to revert back to 27% if the limits to the average annual generation charges imposed by Commission Regulation (EU) No 838/2010 Part B no longer apply.

4.3 The Proposer has made it abundantly clear throughout the Workgroup process that the defect is solely aiming to remove the reference of the 27% G:D split from the CUSC, and that any other alternatives do not resolve the defect.

4.4 The discussion of the Workgroup in light of the responses received to the Workgroup consultation centred on whether any of the Options discussed previously should be proposed as potential WACMs:

(a) A Workgroup member proposed that Option A which sees the G:D split being fixed at the current level in the eventuality of the Regulation being removed resolved the defect (*Proposal 1*). The reasoning behind why this proposal would resolve the defect is because it provides a certainty on costs whilst also accepting that another industry modification would need to be convened should the Regulation be removed, but it does not removed the long established principle of their being a generation charge percentage.

(b) A further Workgroup member proposed that Option C would also resolve the defect because this would address the defect of an immediate snapback to 27% and rather create a glide path back to the long established principle (*Proposal 2*).

(c) Another Workgroup member who agreed with the Proposer believed that all other options are out of scope of the defect. If the options provided in Annex 6 are to be considered in scope than any other potential solutions should also be in scope, so raised a proposal of Generation = 0 via a phased approach akin of Option C and also that an average of all other members European member states should be adopted (*Proposal 3* and *Proposal 4*).

(d) Due to a Workgroup member feeling G=0 is out of the scope of the modification and too far beyond the scope of the defect another proposal was raised for a G = 0 average (*Proposal 5*) however an impact assessment would be required and advocating asking the Panel for a 12 month review period to assess.

(e) Finally another Workgroup member supporting the raising of option B as a proposal (*Proposal 6*) because fixing at a percentage is the main concern of the modification and option B would provide certainty in the Capacity Market based on the data that has already been published to the market.

4.5 The purpose of providing further proposals is a result of the Authority providing a steer those other options would be useful when coming to a decision. The Workgroup member who raised Proposals 3 and 4 reiterated that if you believe further options are in scope of the modification then G=0 would also provide certainty and hence the reason for raising. A further Workgroup member also felt that if a Workgroup alternative is progressed then further analysis needs to complete on the impact of the options. They felt that it was difficult to reflect any further options as cost reflective.

4.6 The National Grid representation noted the concern that proposals 3, 4 and 5 are well beyond the scope of the defect which was dealing with the immediate potential for a snap-back not the longer-term direction of tariffs.

4.7 Following a Workgroup vote the majority of the Workgroup voted that none of the proposals better facilitate the CUSC objectives than the original proposal and so should not become WACMs. As mentioned in 2.50, the Authorities steer placed an onus on a range of options for the Authority to choose from rather than just the Proposer solution. As a result of the Authority steer on the scope of the defect and the chair's view on the WACM's better facilitating the Applicable CUSC Objectives than the current version of the CUSC text, the chair saved proposals 1, 2 and 6 above as formal WACMs;

(a) **WACM1:** Fix at the generation percentage last used to set transmission tariffs;

(b) **WACM2:** A phased return to 27% for the generation percentage;

(c) **WACM3:** Fix at the generation percentages as forecast (as in the latest five-year forecast / quarterly updated), and fix at the last one.

4.8 For WACM2, the proposer Jeremy Guard provided the following explanation: Under WACM2 we would adopt the principle that the €2.50 cap is always left in place regardless of an EU decision to remove it and is applied forward to the year of the "last CM auction that occurred while the EU legislative cap was in place". For example, at the time of the EU decision to remove the cap, if the last capacity auction that had taken place was for the years 2019/2020, then the cap stays in place up to and including that year, after which the phase back commences bringing the G% back to 27% over 3 years by an equal percentage. This would have the effect of giving generators complete certainty that the removal of the cap would have no impact on TNUOS charges for all CM auctions being bid for.

4.9 The effect of a snapback in Charging Year 2016/17 and 2016/17 under each the baseline, the Original Proposal and each of the WACMs is summarised in Annex 8.

4.10 The Workgroup then voted against the Original Proposal, and the three WACM's. These votes are summarised in Section 7.

5 Impact and Assessment

Impact on the CUSC

5.1 Changes to Section 14 – Charging Methodologies – specifically 14.14.5 - Part 2 The Statement of the Use of System Charging Methodology

Impact on Greenhouse Gas Emissions

5.2 None identified.

Impact on Core Industry Documents

5.3 None identified.

Impact on other Industry Documents

5.4 None identified.

6 Proposed Implementation and Transition

6.1 The Workgroup discussed implementation in light of the consultation responses. It was agreed to avoid the potential for a mid-year tariff change by ensuring implementation as soon as practicable, i.e. 10 working days after approval.

7 Workgroup Vote

7.1 The Workgroup believes that the Terms of Reference have been met and that CMP255 has been fully considered.

7.2 For reference the CUSC objectives are:

(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 License under Standard Condition C10, paragraph 1.).

7.3 The Workgroup met on 17th March 2016 and voted on the Original Proposal and the three Workgroup Alternative CUSC Modifications. Five Workgroup members voted that the Original Proposal best facilitates the Applicable CUSC objectives; three workgroup members voted for WACM1 and one workgroup member voted for WACM2.

7.4 The votes received are as follows:

National Grid's View

7.5 National Grid considered that CMP255 WACM1 would better facilitate the Applicable CUSC objectives.

Workgroup Member	Applicable CUSC Objectives				
Paul Wakeley	(a)	(b)	(c)	(d)	Overall
Vote 1 (proposal vs baseline)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Yes
WACM2	Yes	Neutral	Neutral	Neutral	Yes
WACM3	Yes	Neutral	Neutral	Neutral	Yes
Vote 2 (Each WACM vs original)					
WACM1	Yes	Neutral	Neutral	Neutral	Yes
WACM2	Neutral	Neutral	Neutral	Neutral	Neutral
WACM3	Yes	Neutral	Neutral	Neutral	Yes
Vote 3 (Which best meets applicable CUSC objectives)					
Original					
WACM1	Yes	Neutral	Neutral	Neutral	Yes
WACM2					
WACM3					

The Workgroup Views

Workgroup Member	Applicable CUSC Objectives				
Bill Reed	(a)	(b)	(c)	(d)	Overall
Vote 1 (proposal vs baseline)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1	No	No	No	No	No
WACM2	No	No	No	No	No
WACM3	No	No	No	No	No
Vote 2 (Each WACM vs original)					
WACM1	No	No	No	No	No
WACM2	No	No	No	No	No
WACM3	No	No	No	No	No
Vote 3 (Which option best facilitates CUSC objectives)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1					
WACM2					
WACM3					

The following reasoning was provided:

- WACM 1 - Creates the same problem albeit it at a different level (the split will be arbitrary and also won't be in line with the original proposal.
- WACM 2 - Creates another version of the defect by going back to 27%.
- WACM 3 - Creates another arbitrary split.

Workgroup Member	Applicable CUSC Objectives				
Garth Graham	(a)	(b)	(c)	(d)	Overall
Vote 1 (proposal vs baseline)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1	No	No	No	No	No
WACM2	No	No	No	No	No
WACM3	No	No	No	No	No
Vote 2 (Each WACM vs original)					
WACM1	No	No	No	No	No
WACM2	No	No	No	No	No
WACM3	No	No	No	No	No
Vote 3 (Which option best facilitates CUSC objectives)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1					
WACM2					
WACM3					

Workgroup Member	Applicable CUSC Objectives				
Guy Phillips	(a)	(b)	(c)	(d)	Overall
Vote 1 (proposal vs baseline)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Yes
WACM2	No	Neutral	Neutral	Neutral	No
WACM3	Yes	Neutral	Neutral	Neutral	Yes
Vote 2 (Each WACM vs original)					
WACM1	Yes	Neutral	Neutral	Neutral	Yes
WACM2	No	Neutral	Neutral	Neutral	No
WACM3	Yes	Neutral	Neutral	Neutral	Yes
Vote 3 (Which option best facilitates CUSC objectives)					
Original					
WACM1	Yes	Neutral	Neutral	Neutral	Yes
WACM2					
WACM3					

Workgroup Member	Applicable CUSC Objectives				
Jeremy Guard	(a)	(b)	(c)	(d)	Overall
Vote 1 (proposal vs baseline)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Yes
WACM2	Yes	Neutral	Neutral	Neutral	Yes
WACM3	Yes	Neutral	Neutral	Neutral	Yes
Vote 2 (Each WACM vs original)					
WACM1	No	Neutral	Neutral	Neutral	Yes
WACM2	Yes	Neutral	Neutral	Neutral	Yes
WACM3	No	Neutral	Neutral	Neutral	No
Vote 3 (Which option best facilitates CUSC objectives)					
Original					
WACM1					
WACM2	Yes	Neutral	Neutral	Neutral	Yes
WACM3					

The following reasoning was provided:

WACM2 is our preferred solution as it substantially removes the risk associated with the so called "snap-back" defect, yet at the same time retains the 27% G% that in our view should not be removed without (i) consideration of any guidance provided by Europe (for example if the cap is removed), and; (ii) more detailed analysis has been performed.

Workgroup Member	Applicable CUSC Objectives				
James Anderson	(a)	(b)	(c)	(a)	Overall
Vote 1 (proposal vs baseline)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1	No	No	No	No	No
WACM2	No	No	No	No	No
WACM3	No	No	No	No	No
Vote 2 (Each WACM vs original)					
WACM1	No	No	No	No	No
WACM2	No	No	No	No	No
WACM3	No	No	No	No	No
Vote 3 (Which option best facilitates CUSC objectives)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1					
WACM2					
WACM3					

Workgroup Member	Applicable CUSC Objectives				
Joe Underwood*	(a)	(b)	(c)	(d)	Overall
Vote 1 (proposal vs baseline)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1	No	No	No	No	No
WACM2	No	No	No	No	No
WACM3	No	No	No	No	No
Vote 2 (Each WACM vs original)					
WACM1	No	No	No	No	No
WACM2	No	No	No	No	No
WACM3	No	No	No	No	No
Vote 3 (Which option best facilitates CUSC objectives)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1					
WACM2					
WACM3					

*Joe Underwood is an Alternate for Cem Suleyman.

The following reasoning was provided:

I believe the defect to be narrow as emphasised by the proposer. I therefore consider the Original to be the best option as all WACMs do not properly address the defect.
If the Authority were to consider a broader defect, causing WACMs 1, 2, and 3 to be valid alternatives, the Original still best meet the Applicable CUSC Objectives (ACOs). Putting lasting arrangements into the CUSC which will take effect if or when the reference to €2.50/MWh is removed cannot be done with certainty as we cannot foresee what the energy landscape will be like at any given time in the future meaning any lasting arrangement could be seen as arbitrary.
This being said, WACM3, despite being inferior to the Original, could be considered to be better with respect to the baseline as industry participants will have factored these values into their business models, Capacity Market bids, etc. WACM1 could also be considered an improvement on the baseline. WACM2 however, while removing the snapback to 27%, is inferior to the Original and WACMs1 and 3. As highlighted in workgroup discussions, a potential return to 27% will add uncertainty to generators applying for long term Capacity Market bids resulting in a potential a risk premium being factored into bidding prices. Further, the G:D split in Europe, on average is considerably lower than 27:73 and therefore a return to 27% will make GB generation significantly less competitive with respect to their European counterparts.

Workgroup Member	Applicable CUSC Objectives				
Karl Mayron	(a)	(b)	(c)	(d)	Overall
Vote 1 (proposal vs baseline)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1	No	No	No	No	No
WACM2	No	No	No	No	No
WACM3	No	No	No	No	No
Vote 2 (Each WACM vs original)					
WACM1	No	No	No	No	No
WACM2	No	No	No	No	No
WACM3	No	No	No	No	No
Vote 3 (Which option best facilitates CUSC objectives)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1					
WACM2					
WACM3					

Workgroup Member	Applicable CUSC Objectives				
Binoy Dharsi	(a)	(b)	(c)	(d)	Overall
Vote 1 (proposal vs baseline)					
Original	Yes	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Yes	Yes
WACM2	No	Neutral	Neutral	No	No
WACM3	Yes	Neutral	Neutral	No	Neutral
Vote 2 (Each WACM vs original)					
WACM1	Yes	Neutral	Neutral	Neutral	Yes
WACM2	No	Neutral	Neutral	Neutral	No
WACM3	No	Neutral	Neutral	Neutral	No
Vote 3 (Which option best facilitates CUSC objectives)					
Original					
WACM1	Yes	Neutral	Neutral	Neutral	Yes
WACM2					
WACM3					

Annex 1 – CMP255 CUSC Modification Proposal Form

CUSC Modification Proposal Form (for Charging Methodology Proposals) CMP255

nationalgrid

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal

Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

Submission Date

16th November 2015

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

On 8th October 2014 Ofgem approved CUSC Modification Proposal CMP224. This adjusts the G:D Split each year to mitigate the potential risk of exceeding the upper limit on average generation charges established under European Commission Regulation (EU) No. 838/2010 (the Regulation). The Regulation restricts average transmission charges paid by electricity generators in the EU to 0-2.5 Euros/MWh.

Under CMP224, the upper limit to Generation charges has been implemented as a variable described as "CAPec". This is defined as the "*Upper limit of the range specified by European Commission Regulation 838/2010 Part B paragraph 3 (or any subsequent regulation specifying such a limit) on annual average transmission charge payable by generation*".

There is guidance published by ACER in April 2014 (Opinion no. 09/2014) which, if adopted, could mean that the limit specified in European Commission Regulation 838/2010 would no longer apply. If this were to happen CMP224 is designed so that the proportion of charges paid by generators would revert back to 27%.

This situation has created uncertainty about the level of charges that will apply under the CUSC. Since the outcome depends on external influences, namely decisions and actions of the European Commission, it is difficult to anticipate what changes may be implemented or when it will happen.

A reversion to the 27% allocation of transmission costs to generation in TNUoS charges would result in a material increase in costs attributed to generation without any appropriate lead time.

This poses a particular problem to generators who are making assumptions about the cost of TNUoS charges in future years in order to determine a bid price for the capacity market auction and contracts for difference.

Description of the CUSC Modification Proposal

It is proposed that, if limits to generation charges imposed by European Commission Regulations no longer apply, the requirement for generation allocation of costs to revert to 27% should be removed. Instead the current limit of 2.5 Euros/MWh should remain until a new limit can be agreed and implemented by means of a CUSC modification. This will ensure that whatever limit succeeds the current CAPec value is appropriate at the time, is agreed by all affected parties and has a suitable implementation period. It will reduce the risk to generators of a large increase in costs, caused by external influences at short notice.

The revised wording to implement this change could be as follows:

"*CAPec means 2.5 Euros/MWh or such lower number as may be specified in a European Commission Regulation that sets an upper limit on the annual average transmission charge payable by generation that is expressed in euros/MWh~~Upper limit of the range specified by European Commission Regulation 838/2010 Part B paragraph 3 (or any subsequent regulation specifying such a limit) on annual average transmission charge payable by generation~~*".

In addition, it is proposed that the reference to 27% allocation of costs to generation is removed from the text.

"v). The application of a Transmission Network Use of System Revenue split between generation and demand where the proportion of the total revenue paid by generation, for the purposes of tariff setting, is ~~the lower of 0.27 or~~ x times the total revenue, where x for a charging year n is calculated as"

The consequence of this change is that volatility in Generation charges would be better managed, particularly in the circumstances where the European Commission Regulation was to be revoked or significantly modified.

Impact on the CUSC

This modification aims to change Section 14 – Charging Methodologies as described above.

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

No

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

BSC ☐

Grid Code ☐

STC ☐

Other ☐
(please specify)

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

Urgency Recommended: Yes / No

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?

N/A

Impact on Computer Systems and Processes used by CUSC Parties:

N/A

Details of any Related Modification to Other Industry Codes

N/A

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

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

Use of System Charging Methodology

☒ (a) that compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;

☐ (b) that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);

☐ (c) that, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses.

☐ (d) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1.

Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Full justification:

Objective (a): The current legal drafting of CMP224 creates uncertainty associated with the level of cost recovery associated with Generation charges. In particular the linkage to European Commission Regulation (EU) No. 838/2010 (the Regulation) or “any subsequent regulation” creates uncertainty and risk in the CUSC about the level of generation charges. The proposed modification will improve stability of generation charges, ensure that any future change to the generation charges cap will be subject to a further modification and will result in generation charges that are not conditional on external circumstances. Overall the proposed modification will reduce risk for generators and costs for customers. Consequently the modification would better meet Objective (a).

Additional details

Details of Proposer: (Organisation Name)	Bill Reed RWE Supply and Trading GmbH 017893893835 **Bill.Reed@rwe.com**
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	 Bill Reed RWE Supply and Trading GmbH 017893893835 Bill.Reed@rwe.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	 Raoul Thulin RWE Supply and Trading GmbH 01793892167 Raoul.Thulin@rwe.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 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 – CMP255 Terms of Reference

nationalgrid

Workgroup Terms of Reference and Membership
TERMS OF REFERENCE FOR CMP255 WORKGROUP

CMP255 aims to remove the requirement for the generation allocation of costs to revert to 27% if the limits to generation charges imposed by European Commission Regulations no longer apply.

Responsibilities

1. The Workgroup is responsible for assisting the CUSC Modifications Panel in the evaluation of CUSC Modification Proposal **255 'Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap'** tabled by RWE at the CUSC Modifications Panel meeting on 27th November 2015.

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) *Implementation*
   b) *Review draft 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 10th March 2016 for circulation to Panel Members. The final report conclusions will be presented to the CUSC Modifications Panel meeting on 18th March 2016.

Membership

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

Role	Name	Representing
Chairman	John Martin	Code Administrator
*National Grid Representative**	Paul Wakeley	National Grid
*Industry Representatives**	Bill Reed (Proposer)	RWE
	Christopher Granby	Infinis
	Garth Graham	SSE
	Binoy Dharsi	EDF Energy
	Karl Mayron	Haven Power
	Cem Suleyman	Drax Power
	James Anderson	Scottish Power
	Guy Phillips	Eon
	Jeremy Guard	First Utility
Authority Representatives	Donald Smith	Ofgem
Technical secretary	Ryan Place	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 CMP255 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 CMP255

4th December 2015	Deadline for comments on Terms of Reference / nominations for Workgroup membership
14th December 2015	Workgroup meeting 1
11th January 2016	Workgroup meeting 2
22nd January 2016	Workgroup Consultation issued for 1 week Workgroup comment
5th February 2016	Deadline for comment
12th February 2016	Workgroup Consultation published
4th March 2016	Deadline for responses
14th March 2016	Workgroup meeting 3
17th March 2016	Workgroup meeting 4
25th March 2016	Circulate draft Workgroup Report
1st April 2016	Deadline for comment
21st April 2016	Submit final Workgroup Report to Panel
29th April 2016	Present Workgroup Report at CUSC Modifications Panel

Post Workgroup modification process

3rd May 2016	Code-Administrator Consultation published
24th May 2016	Deadline for responses
26th May 2016	Draft FMR published
31st May 2016	Deadline for comments
16th June 2016	Draft FMR issued to CUSC Panel
24th June 2016	CUSC Panel Recommendation vote
29th June 2016	Final CUSC Modification Report submitted to Authority

Annex 3 – Workgroup attendance register

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

Name	Organisation	Role	14/12/15	11/01/16	09/02/16 [2]	14/03/16	17/03/16
John Martin	National Grid	Chair	A	A	D	A	A
Ryan Place	National Grid	Technical Secretary	A	A	D	A	A
Bill Reed	RWE	Proposer	A	A	D	A	A
Donald Smith	Ofgem	Authority Representative	D	A	D	D	D
Paul Wakeley	National Grid	Workgroup member	A	A	D	A	A
Garth Graham	SSE	Workgroup member	D	A	D	D	X
Christopher Granby	Infinis	Workgroup member	X	X	D	X	X
Cem Suleyman	Drax Power	Workgroup member	X	A	X	X	X
Joe Underwood		Workgroup alternate	O	-	O, D	O	O
Binoy Dharsi	EDF	Workgroup member	A	A	D	X	D
Karl Mayron	Haven Power	Workgroup member	A	A	X	A	A
James Anderson	Scottish Power	Workgroup member	A	A	D	D	X
Jeremy Guard	First Utility	Workgroup member	[1]	A	D	A	A
Guy Phillips	E.On	Workgroup member	[1]	A	D	A	A
Joshua Bates	National Grid	Observer	A	A	D	X	X

[1] Workgroup members joined the Workgroup after the first meeting.
[2] The Workgroup on 09/02/16 was held by teleconference.

Annex 4 – Consultation Responses

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **4th March 2016** to cusc.team@nationalgrid.com Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Binoy Dharsi; binoy.dharsi@edfenergy.com*
Company Name:	*EDF Energy*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes. It better meets objective (a). If the EC abolished EC838/2010 before the next Charging Year (2017/18) the revenue adjustment between Generators and Suppliers would be £289m or over 10%. This adjustment increases to £643m by 2020/21. This snapback creates significant uncertainty in TNUoS.
2	**Do you support the proposed implementation approach?**	Yes. We support that the implementation approach as outlined in the workgroup modification consultation report. An implementation by the 2017/18 Charging Year is favoured.
3	**Do you have any other comments?**	ACER has stated on two separate occasions that it supports the removal of EC838/2010 for GB generators. Therefore we feel that this modification needs fast processing once it is with Ofgem for determination; we would like to see it approved as soon as possible, to remove uncertainty.

Q	Question	Response
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	Yes. We would like the workgroup to consider the following Workgroup Consultation Alternatives, so that both can be before Ofgem for determination: 1) Fix the percentage split of TNUoS revenues that are recovered from Generation and Demand (often called the G:D split) at the level that was prevailing at time the EC decide to remove the regulation or is no longer binding on GB – this would mean that future changes in total TNUoS recovered revenue would be split between generation and demand in the same % as the existing split or 2) Convert the cap on annual average generation TNUoS from €/MWh to £/MWh, to remove an exposure to exchange rates that seems to lack ongoing grounding/justification if the European instrument EC838/2010 is disapplied in Britain as per ACER's advice; this seems to represent a marked improvement on the original.

Specific questions for CMP255

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	No. Whilst we believe that the defect itself is quite specific, we do believe that there is merit in exploring a solution to the defect which also can bring about more stability to TNUoS charging.

Q	Question	Response
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	We think the workgroup should consider the following options: (a) Fix at the generation percentage last used to set transmission tariffs; (b) Fix at the generation percentages as forecast (such as in the latest five-year forecast), and fix at the last one; (f) Convert the last €/MWh cap to a £ per energy (£/MWh) cap to apply for generation TNUoS going forward;

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

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Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*James Anderson* *James.anderson@scottishpower.com*
Company Name:	*ScottishPower Energy Management Limited*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	We believe that by removing the considerable uncertainty associated with a potential “snap-back” of the generator proportion of generator TNUoS charges to 27% would enable both generators and suppliers to better forecast the TNUoS costs thus better facilitating competition and better facilitates applicable CUSC objective (a). We believe the proposal is neutral against the other CUSC objectives and overall better meets the objectives than the current baseline.
2	**Do you support the proposed implementation approach?**	We support the proposed implementation approach which ensures that uncertainty over future TNUoS charges is removed at the earliest opportunity.
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No.*

Specific questions for CMP255

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.44?**	We believe and are comfortable that the Proposer has intentionally narrowed the scope of the defect to dealing with the issue of a potential "snap-back" to a 27% generation proportion particularly in the light of uncertainty over the TNUoS costs to be factored-in when bidding in forthcoming Capacity Mechanism actions. Presenting a remedy to this narrow defect does not preclude a CUSC Party from proposing a Modification at a future date to provide further certainty over the future direction of the generator proportion of TNUoS charges. It may be appropriate for such a modification to be brought forward once there is a clearer direction of travel on European tariff harmonisation.
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	Notwithstanding our views at (5) above, we would support option (b) (fixing the generation percentage at the values in the latest five year forecast and fix at the percentage forecast in the last year). Suppliers often enter contracts with a duration significantly greater than the Current Year and this would provide certainty over the TNUoS charges to be factored into such contracts and enable them to be priced more accurately. Generator investment /closure/ mothballing decisions are taken over a longer time period than a single Charging Year. In particular, generator participation in the Capacity Mechanism auction requires taking a view of charges 4 years ahead and therefore it would significantly reduce the uncertainty facing auction participants if they knew that the generator proportions used in the latest forecast would be those used in the actual charges. Again removal of such uncertainty should enable generators to reflect costs more accurately when bidding in the Capacity Mechanism and pricing longer term energy contracts. The same positive argument applies to CfD bidding and a developer's ability to keep forecast costs as low as possible through a lower risk of volatility in TNUoS costs.

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

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Please send your responses by **4th March 2016** to cusc.team@nationalgrid.com Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Guy Phillips*
Company Name:	*E.ON Group, including Uniper.*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes. At this stage we think the Original Proposal better facilitates Objective (a) as it improves the stability of transmission charges by removing direct reference to external legislation should that legislation no longer apply.
2	**Do you support the proposed implementation approach?**	Yes.
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website[1], and return to the CUSC inbox at cusc.team@nationalgrid.com* No.

Specific questions for CMP255

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

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	It is understood that the historic G:D split of 25/75 and subsequently 27/73, since April 2005 following BETTA, has been a somewhat arbitrarily derived division of proportion of revenue to be recovered from TNUoS charge payers. Regulation 838/2010 has rendered that historic division redundant. Should Regulation 838/2010 no longer apply and in the absence of any new legislation determining how transmission charges should be calculated it is no longer necessary to continue with the €2.50/MWh limit, with some of the additional uncertainties associated with that calculation. The CMP255 defect in essence is the removal of certainty over the G:D split element of calculating TNUoS tariffs in the event that 838/2010 should no longer apply. What is important in the context of the G:D split is that market participants, both generators and suppliers, have certainty over what the G:D split would be in the event that 838/2010 no longer applies. We would therefore support option (a) as described in paragraph 2.43 as this would be the last G/D split percentage that would have applied prior to 838/2010 being removed. For ease of reference it may be preferable to round the values up to the nearest whole percentage. Whilst this is no more or less arbitrary than any other G:D split ratio, it would be the one applied by the market prior to the change in legislation. We think that it would then be necessary to raise a subsequent Modification Proposal, to either set the 'correct' G/D split going forward or in response to new legislation that determined how Transmission charges should be calculated following the removal of Regulation 838/2010. We do agree that any of the other potential options presented in paragraph 2.43 that would set an alternative G/D split, accepting our subsequent comments on option (b) in response to question 6 below, are outside of the defect of CMP255.

Q	Question	Response
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	We would consider option (b) in that this utilises forecast changes to the G/D split that market participants may have factored in to their working assumptions prior to the change in legislation, so provides some certainty over further changes to the G/D split in future years, then frozen at the level in the final year of that last forecast, in absence of any new legislation determining how transmission charges should be calculated or a new Modification Proposal advocating a new G/D split. In our view any other options, option (c) onwards, would effectively be determining a new G/D split and/or revised charging methodology, which outside of options (a) or (b), and as described in our response to question 5, is outside the scope of the defect of CMP255 and should be subject to a separate new Modification Proposal following any relevant change in legislation.

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **4th March 2016** to cusc.team@nationalgrid.com Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Mary Teuton (mteuton@vpi-i.com; 0207 312 4469)*
Company Name:	*VPI Immingham*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes, we believe that the proposal better facilitates the applicable CUSC objective (a) in that it improves competition between generators by removing uncertainty.
2	**Do you support the proposed implementation approach?**	Yes
3	**Do you have any other comments?**	We have no further comments
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Specific questions for CMP255

Q	Question	Response

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	We think that the scope of the modification is limited, i.e. that it maintains the €2.50/MWh cap should the European legislation no longer be in force. We believe that any further scope does not address the wider issues as a result of the defect.
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	Should the scope of the defect be extended, we would suggest that (f) and (g) would be the appropriate options to take forward to ensure certainty.

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

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Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Garth Graham (garth.graham@sse.com)*
Company Name:	*SSE*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes. We believe that CMP255 will better facilitate Applicable Objective (a) as the current baseline has a 'snap-back' to 27%, which presents significant uncertainty and risk to both generators and suppliers; leading to higher costs to consumers. The significance of the issue is evidenced in the Workgroup consultation document by, for example, considering the five year figures for 'G%' in Table 2 together with the £m 'Swing' in Table 3. CMP255, by allowing time for more detailed (future) deliberations around any, eventual, return to 27% (or some other figure) should the current GB upper level figure of €2.5/MWh for the annual average charge faced by generators be removed (noting that it is not a given that it will) should help to substantially reduce the risk and uncertainty faced by GB generators and suppliers; leading to lower costs for consumers.
2	**Do you support the proposed implementation approach?**	We note the proposed implementation approach set out in section 5 of the Workgroup consultation document. We do not support this approach as we believe that the 'snap-back' could (under the current baseline) occur at any time if the €2.5MWh upper limit were removed. Thus, for example, if this were to happen during 2016/17 then a mid-year tariff change could (would?) occur. This CMP255 proposed change could (and in our view should) be implemented into the CUSC within ten Business Days of an Authority decision. In this way GB parties have the certainty that should, subsequent to that time, but prior to 1st April 2017, the €2.5MWh upper limit be removed that there is no possibility of a 'snap-back' (with an associated mid-year tariff change).

Q	Question	Response
3	**Do you have any other comments?**	We have nothing further to add at this time beyond our answers to the questions posed in this consultation response.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No.*

Specific questions for CMP255

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	We note the deliberations of the Workgroup set out in paragraphs 2.42-2.49 of the consultation document. At this time we are minded to agree with the majority of the Workgroup that the defect set out in the CMP255 proposal limits the potential solution(s) to one(s) that simple removed the 'snap-back' to 27%.

Q	Question	Response
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	Without prejudice to our answer to Question 5 above, if the scope of the CMP255 defect were to be considered to be wider then of the options listed in (a) to (i) we would, at this moment in time (whilst being mindful that the Workgroup consultation document does not contain sufficient analysis of the impacts etc., of the options for us to come to a definitive conclusion) be minded to support option (a) as this, in our view, will have the least (if any) affect on cross border trade. In respect of the various options that seeks to remove a link to the € we note that, going forward, there will be increasing cross-border trade and transactions based on the € (such as via the forthcoming Balancing Network Code) and therefore removing this link may only have an artificial, rather than a practical, effect.

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

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Respondent:	*Andy Manning* *andy.manning@britishgas.co.uk*
Company Name:	*British Gas*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions

Q	Question	Response

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	Overall, we believe the Proposal will have a negative impact on Applicable CUSC Objectives (a), (b) and (c) and would have no impact on Applicable CUSC Objective (d). **Applicable CUSC Objective (a)** A Generation share of TNUoS based on an arbitrary €2.50/MWh cap is likely to lead to less stable and less predictable tariffs for both Generation and Supply, noting the difficulties inherent in forecasting exchange rates and generation output. By comparison, a fixed 27% share of TNUoS being recovered by Generation (i.e. the status quo in the absence of EU Reg 838/2010) is likely to produce more stable and predictable tariffs in the long run and facilitate more effective competition. As appears to have been acknowledged by the Workgroup (para. 2.40), a generation share of TNUoS based on a €2.50/MWh cap would be baseless in the absence of EU Reg 838/2010. The acknowledged requirement for a more objective split, means a further, as yet unspecified, methodology change would be necessary. This creates more long term uncertainty compared to the status quo situation where Market Participants know that the split would return the long established G:D split of 27%:73%. Whilst the Proposal may reduce the *short term* risk/uncertainty associated with an immediate return to 27% if the EU Regulation were repealed, we believe the adverse *long term* impacts above outweigh this. We also consider the removal of the G:D split, without replacement, that the Proposal seeks to effect makes the Proposal incapable of approval. **Applicable CUSC Objective (b)** The principles underpinning the TNUoS charging methodology, including the default proportion of revenue to be recovered from generators (27%), are approved as cost reflective. Therefore, any change to this established G:D split would need to be objectively justified and be shown to better reflect costs. As has been acknowledged by the Workgroup in paragraph 2.41, there would be a number of problems with capping the G split at €2.50/MWh in the event that EU Reg 838/2010 was repealed. Such an arbitrary basis for setting the G:D split is not objectively justified and so has detrimental impact on cost reflectivity. We consider the proposal has a negative impact on facilitation of CUSC objective (b).

Q	Question	Response
		Applicable CUSC Objective (c) The Proposal seeks to avoid the impact of potential change in EU Regulations. It therefore seems to be self evident that the Proposal seeks to put into place arrangements in the CUSC which are explicitly designed to ***not*** take account of developments in transmission licensees' transmission businesses. Therefore we believe that the Proposal has a negative impact on Applicable CUSC Objectives (c). The 27% Generation split is a long standing principle of the TNUoS charging methodology. It was only modified *in effect,* and only to the extent that was deemed necessary, to manage compliance with the €2.50/MWh cap introduced by EU Regulation 838/2010. In the event that EU Regulation 838/2010 is repealed, we believe that taking 'proper' account of such a development would require the removal of the €2.50/MWh cap, rather than, as is being proposed here, putting into place arrangements which are designed to ***not*** take account of the development.
2	**Do you support the proposed implementation approach?**	We do not support the Proposal.

Q	Question	Response
3	**Do you have any other comments?**	We have the following additional comments which we would like the Workgroup to consider: **(1) The Proposal doesn't appear to achieve what the Proposer sets out to achieve.** The Proposer states in paragraph 2.39 of the consultation that *"the defect was to deal with the potential of snapback to 27% if the Commission Regulation (EU) No 838/2010 Part B were repealed and not what should apply after any such a repeal*". Our interpretation of this is that should EU Regulation 838/2010 be repealed the Proposer is seeking to avoid the return to a G split of 27% without an appropriate lead time ('snapback'), but they are also not seeking to specify what G:D split should apply after such a repeal. However the solution proposed does not achieve this since it clearly does specify the G:D split that would apply after such a repeal by removing the existing split of 27% of revenue and replacing it with €2.50/MWh (subject to an error margin). The expectation of the Proposer or Workgroup that there may be a further (unspecified) modification raised at some point in the future to deal with an enduring G:D split does not and cannot change the fact that the effect of this modification *is* to set out the G split that what would apply in the scenario that EU Reg 838/2010 was repealed. It is therefore not entirely clear to us whether we have correctly interpreted the defect. It seems that the defect may be either: i. should EU Regulation 838/2010 no longer apply the G split would return to 27% **without an appropriate lead time**; or, ii. should EU Regulation 838/2010 no longer apply the the G split would return to 27% **at all.** It is important to be clear about the defect in order to understand the potential options that should be explored to correct it. The ambiguity may be caused because the Proposer and Workgroup have not defined what is meant by the term 'snapback'. An intuitive interpretation of the term 'snapback' would imply that the defect is the *lack of an appropriate lead time* before the return to 27%. However, the solution proposed does not seek to correct such a defect. Instead the solution proposed seeks to remove the 27% altogether which implies that the defect is the return to 27% *at all*, regardless of any lead time.

Q	Question	Response
		This would be a much more fundamental change to the methodology since it is clearly and unambiguously a change the G:D split. The Proposer and Workgroup need to provide a clear description of the defect. If the defect is the lack of lead time before the G split returns to 27% then it needs to be recognised that the Original solution does not address this defect. We believe the only option which satisfies a defect defined as the immediate return to 27% if the Commission Regulation (EU) No 838/2010 Part B were repealed and which does <u>not</u> deal with what should apply after any such a repeal is option C presented paragraph 2.43 (a phased return to 27% for the generation percentage). If however, if the defect is the return to 27% *at all*, then the workgroup needs to recognise that this is a change to the G:D split. Any change to the G:D split would need to be objectively justified. **(2) The G:D split** Any change to the long established TNUoS Principle that 27% of TNUoS revenues should be recovered from Generation would need to be objectively justified. CMP 224 did not change this long established principle, but simply modified the text of the methodology only to the extent that was considered necessary to continue to satisfy the obligation to remain compliant with EU Reg 838/2010 (although we would contend it went further than was necessary). It is almost inconceivable that if the industry were to consider an alternative G:D split that the objectively justified alternative would be (as proposed here): • A self imposed €/MWh cap • With no indexation • Using outdated forecasts of exchange rates • Including an 'error margin' to guard against '*breach*' of such a self imposed cap. The Workgroup recognises (in paragraph 2.40), that a likely next-step following any change to the Regulation would be a further CUSC modification to decide on the longer term approach to the G:D split.

Q	Question	Response
		However the Workgroup does not explore the uncertainty that this CMP 255 modification would introduce by effectively creating a void for longer term expectations of the G:D split if the Regulation was to be repealed. With the focus that the Workgroup has given to the issue of bidding into the Capacity Market and Contracts for Difference, this is a significant oversight on the part of the Workgroup. **(3) <u>National Grid forecasts should not be assumed to represent market prices.</u>** The forecasts produced by National Grid, whilst useful, should not be considered to be the TNUoS tariffs on which Market Participants make investment decisions. The best that these forecasts can achieve is to present a set of TNUoS tariffs based on a transparent set of assumptions which allows Market Participants to create their own forecast of TNUoS tariffs by overlaying their own assumptions. The Workgroup needs to make sure that it does not misrepresent National Grid's published forecasts as 'market prices'. If the Workgroup does insist in presenting National Grid forecasts as representative of the market view of TNUoS tariffs, then it follows that the Workgroup will need to correct the Capacity Market analysis set out in 2.18 to 2.22 of the consultation to take account of the fact that it has erroneously assumed that participants of the Capacity Market auction held in December 2015 had access to a National Grid forecast which was not published until February 2016. The latest forecast available at the time of the December 2015 auction was the 5 year forecast published by National Grid in January 2015 which showed a generation revenue split of £609m for 2019/20 (some £200m higher than the view included in the February 2016 forecast and used in the Workgroup's analysis). Similarly, for the 2018/19 Capacity Market auction the latest available published forecast at the time of the auction, taking account of the fact that CMP 224 had been approved by that time, would have been the CMP 224 scenario presented in National Grid's May 2014 forecast, which indicated a Generation revenue split of £601m (£169m higher than the view included in the February 2016 forecast). For the avoidance of doubt, we do not consider such '*corrected*' analysis would be any more robust for the purpose of drawing conclusions about the market view of TNUoS tariffs than the current analysis presented by the Workgroup since we do not believe that the published National Grid forecasts do represent the market view of prices.

Q	Question	Response
		The '*corrected*' analysis would however at least be consistent with a view that such forecasts do represent the market view of prices. For the reasons set out above, we do not consider that the proposal can legitimately claim, as is set out in paragraph 2.37, that "*one of the key benefits of the proposal is that it ensures that the market is able to use the current forecasts of TNUoS produced by National Grid at regular intervals when making future decisions, as these forecasts are already based on the €2.50/MWh cap continuing.*" The current forecasts published by National Grid, and any future ones if they continue in the same format, allow market participants' to make their own assumptions on the G:D split (and the actual charging models are also made available). ***(4)*** **<u>The CMP 255 process</u>** We are concerned that the Workgroup may not have given due consideration to the significant issues raised by CMP 255. The Proposal would have a fundamental impact on the methodology which is not fully recognised or explored. Despite this, the change seems to have progressed through the CUSC process at a much quicker pace than a number of simpler, and less far-reaching, modification proposals and significant issues have either been missed or not fully considered.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	Whilst we do not wish to raise an Alternative, we believe the only option which satisfies a defect defined as the return to 27% if the Commission Regulation (EU) No 838/2010 Part B were repealed and which does <u>not</u> deal with what should apply after any such a repeal is option C presented paragraph 2.43 (a phased return to 27% for the generation percentage).

Specific questions for CMP255

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	As set out above, based on our interpretation of the Proposer's statement in paragraph 2.39 of the consultation document, our interpretation of the defect is that should EU Regulation 838/2010 be repealed the G split would return to 27% without an appropriate lead time ('snapback') and also that the defect is limited so that it does not seek to specify what G:D split would apply after such a repeal. However since the proposed solution clearly ***does*** specify the G:D split that would apply after such a repeal by removing the existing split of 27% of revenue and replacing it with €2.50/MWh (subject to an error margin),the working group needs to clarify the defect. It seems to us that the defect may be either: i. should EU Regulation 838/2010 no longer apply the G split would return to 27% *without an appropriate lead time*; or, ii. should EU Regulation 838/2010 no longer apply the the G split would return to 27% *at all*. If the defect is the former then the proposed solution does not address the defect. If it is the latter, then this Proposal is clearly a change to the G:D split. **The latter interpretation of the defect must open up a wider discussion, with a full consideration of what an alternative G:D split should be.**
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	We believe the only option which satisfies a defect defined as the return to 27% (without an appropriate lead time) if the Commission Regulation (EU) No 838/2010 Part B were repealed and which does not seek to deal with what should apply after any such a repeal is option C presented paragraph 2.43 (a phased return to 27% for the generation percentage).

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **4th March 2016** to cusc.team@nationalgrid.com Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Jeremy Guard* *Jeremy.guard@first-utility.com* *07800912665*
Company Name:	*First Utility Limited*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	**A). As presented, the CMP255 Original Proposal is a solution in search of a problem: it is unnecessary** 1. As it stands, paragraph 14.14.5 sets the "G" share of charges at the lower of (i) 27%; or (ii) the upper limit of the range set [for GB] in Part B, paragraph 3 of the Annex to Regulation 838/2010 or its successor (the **EU upper limit**). 2. The existing wording: (a) automatically aligns the "G" share of GB charging with the EU upper limit; (b) does not allow GB charges below the EU upper limit. 3. The Proposer indicates that he is arguing for the adoption of Original Proposal on the basis that: (a) if Regulation 838/2010, or its €2.50 cap, were removed, the percentage paid by generator would 'snap-back' to 27% in the next set of GB TNUoS tariffs; (b) "the potential for snap-back is having a detrimental impact on competition generation"; and (c) as a result of uncertainty about future transmission charges, generators bidding into the CfD and Capacity Market auctions do not know how to price their bids, leading them potentially to price them higher. 4. The EU upper limit in its current form (as a charging limit in €/MWh) could be re-set in various ways: (a) If it were to be set at a value lower than €2.50 and higher than €0 (e.g. €1) the Original Proposal would have the same effect as the existing wording. (b) If it were to be set at €0, the "G" share would be zero. (c) If it were to be set at a value higher than €2.50, the Original Proposal would not comply with EU law, because it "hard-wires" €2.50 as the maximum "G" share. By contrast, the existing wording is more flexibly drafted and would comply with such a change. 5. However, it is also possible that the Regulation may be modified or replaced so as to constrain national charging arrangements in some way other than by reference to an "upper limit" value. For example, it might be replaced by

Q	Question	Response
		guidelines setting out principles for calculating the appropriate "G" share. In that case, neither the Original Proposal nor the existing wording would operate as an effective means of implementing the relevant EU rules (since both assume a numerical "upper limit"), and paragraph 14.14.5 would need to be modified in some different way so as to reflect the new EU rule. 6. Note that in our view it is important to distinguish between the Regulation or its replacement prescribing: (a) an express "upper limit" of €0 (as in paragraph 4(b) above, in which case the formula would yield a result of zero and the "G" share would be zero); (b) no upper limit, but providing for some other form of constraint on national freedom to set "G" shares of charges (i.e. the scenario in paragraph 5 above, when the existing wording of 14.14.5 would need to be modified, but not as in the Original Proposal); and (c) no upper limit and no form of constraint on national freedom to set "G" shares of charges. 7. In our view, there are only two possible generic scenarios in which "snap-back" could occur under the existing wording – those set out in paragraphs 4(c) and 6(c) above. 8. In our view, the scenario set out in paragraphs 5 and 6(b) above is much more likely than either of these scenarios. But in any event, we find it inconceivable that, whatever decision the EU legislator takes, there will not be a period of time before the new EU level provision comes into effect, during which national authorities will be able to adjust their own rules to comply with it. In other words, the Original Proposal is premature (as well as failing to address the paragraph 4(c) scenario). 9. Moreover, a modification predicated entirely on the scenario in paragraph 6(c), but being made before such a change is required, which is what the Original Proposal is, suffers from the defect that it cannot take account of any of the other points that may need to be dealt with as a result of the changes at EU level that may give rise to there being no upper limit on "G" shares of charges. 10. This is why we say that the Original Proposal is, at best, unnecessary. (a) It addresses a risk that may well never arise. (b) Although the Regulation is directly applicable, it would not, in the scenario envisaged here, dictate the actual amount of "G" charges, just the parameters within

Q	Question	Response
		which they can be set at a national level. (c) The new EU regime would therefore have to include an implementation period to allow national arrangements time to adjust to the new regime. In GB, this would allow time for an appropriate new CUSC modification. (d) So if the cap is removed entirely and not replaced by another provision that constrains the CUSC charging provisions, it will not disappear so quickly that there will be no scope for CUSC parties to first address and revisit the 27/73 split before "snap-back" occurs (always assuming that that is an appropriate response in all the circumstances at the time). (e) As well as addressing a (quite possibly remote) risk sooner than it needs to be addressed, the Original Proposal does so without being able to take full account of the wider context of the EU level changes giving rise to that risk. **B). Applicable CUSC Objectives** (a) Competition 11. The Proposer contends that Generators' fear of "snap-back" is causing, or could cause, them to add a risk premium to their bids in the CfD and Capacity Market (**CM**) auctions, to the detriment of consumers of electricity. 12. We do not find this a convincing argument. 13. Transmission connected generators are bidding four years ahead in CM auctions. There is no reason to suppose that "snap-back" transmission charges, if they ever occur, are especially likely to apply in 2018 or 2019. There is no evidence that transmission connected generators bidding in the CM all make similar assumptions about "snap-back" transmission charges applying in 2018 or 2019. They are competing, successfully, against smaller embedded generators who are not directly subject to such charges. 14. CM payments are one element of the revenue that relevant generators will receive from 2018. They are paid regardless of whether a generator is generating or not (except when called upon by the SO in time of system stress). Most generators will still expect to make most of their revenue out of selling power, but their ability to compete on price may be increased by the amount of CM payments they receive. In other words, higher CM prices do not necessarily result in higher overall costs to suppliers (taking account of both £/MWh rates for power and their share of supplier contributions to CM payments – if they

Q	Question	Response
		are licensed and of the requisite size to contribute to the funding of CM payments). 15. Indeed, in a competitive market, such as Ofgem and the CMA have stated exists in generation, if suppliers in 2015 estimated that the level of transmission charges to which they would be subject in 2019 would be £X higher than in 2015, one would expect that when 2019 arrived, if the amount by which charges had increased turned out to be less than £X, any supposed "windfall" gain in the form of higher than necessary CM payments would be competed away by a lowering of the wholesale power price. 16. It is true that there might be a concern if expectations of higher transmission charges were resulting in inflation of strike price bids in CfD auctions, on the basis that higher strike prices make each MWh of low carbon generation more expensive overall when market reference prices are below the strike price – and moreover this inflation would only apply to the larger, transmission connected prospective CfD projects. 17. However, all the transmission connected projects coming forward in future CfD auctions are likely to use intermittent technology (i.e. offshore wind – onshore wind having apparently been ruled out by Government and despatchable projects such as EfW CHP or ACT typically being embedded), and Government policy is – in the interests of fairer competition – moving towards making intermittent generators pay charges that more accurately reflect the costs that they impose on the system. 18. Ultimately, the Original Proposal must justify itself on the basis that a rule that ensures that the "G" share of transmission charges will be smaller than 27% is inherently more pro-competitive than one which would allow them to be 27% in certain (albeit limited) circumstances. It is not clear what evidence there is for this. It could be pointed out that competition, particularly in the retail sector, appears to have intensified in recent years, since the entry into force of the Regulation. But when the "G" share is smaller, the "D" share is correspondingly larger. Why should it be the case that suppliers are able to remain competitive when faced with a larger share of transmission charges, but generators are not? 19. The Original Proposal is in fact markedly inferior to the existing wording from the point of view of promoting competition, since it seeks to perpetuate the €2.50 cap in circumstances where it is no longer required by EU law.

Q	Question	Response
		But because the overall amount of transmission charges is expected to rise over the coming years, that would mean allocating directly to suppliers responsibility for paying a higher proportion of transmission costs, when most of the increase in those costs results from generator activity (e.g. because of the development of new renewable generating capacity in areas with inadequate existing infrastructure). Whilst there may be a case for saying that e.g. a gas-fired power station should not pay higher charges because of the costs imposed by wind farms, it is no more inherently equitable or pro-competitive to load the additional costs imposed by intermittent generators onto suppliers (b) Reflection of transmission licensees' costs (c) Reflecting developments in transmission businesses 20. As we read these two CUSC Objectives in the context of transmission charges, they are relevant to the overall quantum of charges rather than to the G/D split. As such, the Original Proposal, and the alternatives at paragraph 2.44 of the consultation paper, have no impact on these Objectives. (d) Compliance with the Electricity Regulation / binding decisions of European Commission and ACER 21. As noted in section A above, the Original Proposal does not comply with relevant EU law better than the existing wording – and in some cases, would clearly be less consistent with it.
2	**Do you support the proposed implementation approach?**	22. We do not support the proposed implementation approach. As explained in our response to question 1 above, it is at best premature and at worst misguided because it: (a) has no demonstrably beneficial impact on competition, and may adversely affect competition (b) attempts to second-guess one potential change in EU law in isolation, when it is clear that the relevant authorities at EU level may well be contemplating a range of new measures in this area – including further harmonisation of charging and/or whatever proposals emerge from the Commission's recent consultation on EU electricity market design.
3	**Do you have any other comments?**	23. No.

Q	Question	Response
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website[1], and return to the CUSC inbox at cusc.team@nationalgrid.com*

Specific questions for CMP255

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	24. The Proposer has insisted that a narrow view be taken of the Original Proposal, as a precautionary response to a specific set of circumstances that may arise in the future by way of changes to the Regulation. In line with this, we have tried to take the Original Proposal at face value in section A of our response to question 1 above. 25. Ultimately, however, it seems to us that it only makes sense to raise the issues raised by the Original Proposal if one considers that the 27/73 split is flawed and the G/D split produced by the €2.50 cap is superior. 26. We strongly disagree with this proposition; but it appears to be strongly supported by a majority of the Workgroup. In any event, it leads inevitably to consideration of other possible G/D splitting mechanisms, such as those in (a) to (i) of paragraph 2.44.
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	27. We think all of the alternatives should be considered and assessed for adverse distributional impacts on market participants of varying levels of vertical integration. 28. We note paragraph 2.5 in the consultation document that states "*This may be leading to additional risk being added to generation prices, ultimately causing a greater cost to the end consumer than if the risk of snap-back were removed."* Our view is that generation prices already have this risk priced in and that if the risk was to become reality then there would not be a significant issue for generators.

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

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **4th March 2016** to cusc.team@nationalgrid.com Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Joe Underwood – Joseph.Underwood@drax.com*
Company Name:	*Drax Power Limited*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	Drax believes that CMP255 better facilitates Applicable CUSC Objective (a). Further, the original drafting of the CMP255 defect would appear not to allow consideration of the options outlined in paragraph 2.44 of the workgroup report. These options would need to be explored under a separate modification with an appropriately defined defect. Please see the answers to the questions below for further explanation.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes. CMP255 will better facilitate Applicable CUSC Objective (ACO) (a). The drafting of CMP224 and its linkage to the €2.50/MWh creates an uncertainty in the CUSC regarding the future European generation charges caps. Should the cap be removed, the UK charging regime would mean generators would no longer be paying the €2.50/MWh cap, but instead revert back, or "snap-back" to the 27:73 G:D split. For example, in the 20/21 charging year this would equate to generation paying an additional £643m. CMP255 would remove this risk for generators thereby better facilitating ACO (a).

Q	Question	Response
2	**Do you support the proposed implementation approach?**	Yes.
3	**Do you have any other comments?**	No
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	Not at this time.

Specific questions for CMP255

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	The former. The current defect does not allow scope to consider the examples shown in paragraph 2.44 of the workgroup report. If these options are to be explored, then another modification should be raised if and when the €2.50/MWh cap is removed. The scope of the CMP255 defect only deals with the potential for snap-back.

Q	Question	Response
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	We do not believe the scope of the defect covers the issues addressed by paragraph 2.44. However, if the scope of the defect were to be considered wider, the workgroup should primarily consider option (b). Industry participants value National Grid forecasts and will have factored these figures into their business plans, therefore fixing the generation percentages as forecast will have minimal adverse competition impacts within GB market with respect to the other options that are outlined in the workgroup report. Other options hold too much risk as the landscape of the future market cannot be predicted.

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

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Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	Andy Causebrook Onshore Grid Manager Phone: +44 (0) 1434 611324 Mobile: +44 (0) 7814 903565 Email: andrew.causebrook@vattenfall.com
Company Name:	Vattenfall Wind Power
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes. It better facilitates effective competition in the generation and supply of electricity by reducing uncertainty in future transmission charges and therefore allows more competitive bid prices for the Capacity and CfD auctions and provides more stable framework for investment in new generation capacity in GB.
2	**Do you support the proposed implementation approach?**	Yes. We believe that represents a straight-forward solution to the current defect, providing greater certainty of charges in the medium term and allowing for later consideration (via a CUSC Mod) of an appropriate enduring solution if the cap is removed.
3	**Do you have any other comments?**	
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Specific questions for CMP255

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	The defect is the significant uncertainty in future charging brought about by the current snap-back arrangement. Although we would not rule out any alternative to the original proposal, any alternative must achieve the same objective in order to better facilitate effective competition in the medium term (i.e. five year period). We believe that the only rational alternative to maintaining the €2.50/MWh cap is to establish an equivalent £/MWh cap to be used going forward, thereby removing exchange rate volatility (example F). This achieves a similar outcome without the unnecessary ongoing adjustments for potentially volatile exchange rates.

Q	Question	Response
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	As described above, we believe that example F (establishing an equivalent £/MWh cap) merit further consideration because of the removal of currency exchange volatility. We do not have any additional proposals since we believe it would be more appropriate to consider any changes to enduring arrangements only in the event that the EU cap is removed.

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

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Please send your responses by **4th March 2016** to cusc.team@nationalgrid.com Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Colin Prestwich*
Company Name:	*SmartestEnergy*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	The 27% has a historic rationale which predates the random €2.50 rule. This historic rationale has not been challenged. If the European rule is lifted, as if it were never imposed, there is no reason to do anything other than to “snap back.”

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	No, we do not believe that the CMP Original Proposal better facilitates any of the Applicable CUSC Objectives. For reference, the Applicable CUSC objectives are: **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.
2	**Do you support the proposed implementation approach?**	No
3	**Do you have any other comments?**	No

Q	Question	Response
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Specific questions for CMP255

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	We think that the defect set out in the modification proposal limits potential solutions to those that simply remove the snap-back. We therefore do not agree that the scope of the CMP "defect" is wider.
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	None.

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **4th March 2016** to cusc.team@nationalgrid.com Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Please insert your name and contact details (phone number or email address)*
Company Name:	*UK Power Reserve*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes, we believe that the original proposal to maintain a cap of EUR 2.50 on average annual generation transmission charges better facilitates CUSC objectives. We take the view that this proposal will better facilitate effective competition in the generation and supply of electricity, by ensuring that there is continued certainty in the level of charges that will apply under the CUSC. We believe failure to mitigate the highlighted risk of a material increase in the level of charges borne by generators can adversely affect investor confidence in future transmission generation capacity as well as the effective market operation of existing generators, which is likely to result in a net increase in wholesale energy prices and ultimately borne by end consumers.
2	**Do you support the proposed implementation approach?**	We are in support of the proposed implementation approach, which we view as the best possible approach in removing risk and uncertainty in relation to this potential issue, and best in ensuring objective (a) of the CUSC is met. Whilst other implementation approaches are likely to achieve similar outcomes, we believe the proposed retention of the existing cap on transmission charges for generators as defined and applied under regulation 838/2010 would be the most effective approach to take.
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website[1], and return to the CUSC inbox at cusc.team@nationalgrid.com*

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

Specific questions for CMP255

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	We share the view of the proposer in that further options should not be explored, and that the best way to maintain certainty is maintaining the same arrangements of a EUR 2.50 cap.
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	If the defect were considered wider, we would be in favour of a converting the last EUR 2.50 cap to be expressed in GBP.

CUSC Workgroup Consultation Response Proforma

CMP255 – Revised definition of the upper limit of Generation Charges in the charging methodology with removal of the reference to the 27% charging cap

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **4th March 2016** to cusc.team@nationalgrid.com Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Ryan Place at ryan.place@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Bill Reed Bill.reed@rwe.com 01793 893835*
Company Name:	*RWE Supply and Trading GmbH*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that the CMP255 Original Proposal better facilitates the Applicable CUSC Objectives?**	We continue to believe that CMP255 will better meet CUSC Objective (a): The current legal drafting of CMP224 creates uncertainty associated with the level of cost recoveryassociated with Generation charges. In particular the linkage to European Commission Regulation (EU) No. 838/2010 (the Regulation) or "any subsequent regulation" creates uncertainty and risk in the CUSC about the level of generation charges. The proposed modification will improve stability of generation charges, ensure that any future change to the generation charges cap will be subject to a further modification and will result in generation charges that are not conditional on external circumstances. Overall the proposed modification will reduce risk for generators and costs for customers.
2	**Do you support the proposed implementation approach?**	We support the proposed implementation approach
3	**Do you have any other comments?**	No
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website*[1]*, and return to the CUSC inbox at* cusc.team@nationalgrid.com We do not wish to raise a WG Consultation Alternative

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

Specific questions for CMP255

Q	Question	Response
5	**Do you think that the defect set out in the modification proposal form for CMP255 (Annex 1) limits potential solutions to those that simply remove the 'snap-back' to a 27% generation proportion of revenue i.e. those options that maintain the €2.50/MWh cap? Or do you think that the scope of the CMP255 defect is wider and may include some or all examples described in (a)-(i) of paragraph 2.43?**	We remain of the view that the scope of CMP255 relates to the risks associated with "*reversion to the 27% allocation of transmission costs to generators which would result in a material increase in costs attriabuted to generation without any appropriate lead time*" (as stated in the Modification Proposal Form). The scope of the modification proposal was clearly set out in the proposal form and we did not envisage that the solution would include any further consideration of the €2.50/MWh cap. Indeed we suggested that "*the current limit of 2.5 Euros/MWh should remain until a new limit can be agreed and implemented by means of a CUSC modification*". Consequently we believe that CMP255 is restricted to the proposal "*that the reference to 27% allocation of costs to generation is removed from the text*" as set out in the proposal form.
6	**Regardless of your views in respect of question 5, if the scope of the CMP255 defect were considered wider which of the options described in (a)-(i) of paragraph 2.43 should the Workgroup consider? Are there any additional options that you believe the Workgroup should consider?**	As noted in the Workgroup Consultation Document the Authority CMP227 decision letter, stated that "*… the direction of travel in respect of future tariff harmonisation at the European level is not clear at this stage*". Consequently we do not believe that any of the options described in (a) –(i) of paragraph 2.43 of the Workgroup Consultation Document should be considered by the Workgroup since there is no clear objective justificiation for any oth the options. Furthermore, we do not believe that there are any additional options that the Workgroup should consider.

Annex 5 – Chargeable Volumes

Chargeable Volumes for Calculating Average Tariffs	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Chargeable Generation (GW)	71.50	62.83	67.31	69.00	68.90	69.30
Chargeable Demand (GW)	52.40	49.80	49.30	48.20	47.60	47.30
HH Chargeable(GW)	15.00	13.10	16.30	15.90	15.70	15.60
NHH Chargeable (TWh)	27.40	26.10	23.10	22.50	22.00	21.60

Annex 6 – Example Zonal Tariffs for 2016/17 with i) €2.50/MWh and ii) 27%

Generation Tariffs		2.5€/MWh Cap		If G=27% applied		Difference	
Zone No.	Zone Name	Conventional 70%	Intermittent 30%	Conventional 70%	Intermittent 30%	Conventional 70%	Intermittent 30%
1	North Scotland	13.64	11.43	18.07	15.85	4.42	4.42
2	East Aberdeenshire	10.24	9.52	14.66	13.94	4.42	4.42
3	Western Highlands	11.74	10.49	16.16	14.91	4.42	4.42
4	Skye and Lochalsh	9.20	11.96	13.63	16.38	4.42	4.42
5	Eastern Grampian and Tayside	10.83	9.95	15.25	14.37	4.42	4.42
6	Central Grampian	13.90	10.18	18.32	14.60	4.42	4.42
7	Argyll	19.66	18.00	24.09	22.42	4.42	4.42
8	The Trossachs	10.20	7.96	14.62	12.38	4.42	4.42
9	Stirlingshire and Fife	5.40	6.42	9.83	10.84	4.42	4.42
10	South West Scotlands	8.57	7.18	12.99	11.60	4.42	4.42
11	Lothian and Borders	7.38	5.01	11.80	9.43	4.42	4.42
12	Solway and Cheviot	4.66	4.30	9.08	8.72	4.42	4.42
13	North East England	2.77	1.02	7.19	5.45	4.42	4.42
14	North Lancashire and The Lakes	4.93	2.98	9.35	7.41	4.42	4.42
15	South Lancashire, Yorkshire and Humber	5.62	1.03	10.04	5.46	4.42	4.42
16	North Midlands and North Wales	4.71	0.65	9.13	5.07	4.42	4.42
17	South Lincolnshire and North Norfolk	3.17	0.69	7.59	5.11	4.42	4.42
18	Mid Wales and The Midlands	2.35	0.60	6.77	5.03	4.42	4.42
19	Anglesey and Snowdon	6.19	0.81	10.61	5.23	4.42	4.42
20	Pembrokeshire	7.75	-0.30	12.17	4.12	4.42	4.42
21	South Wales & Gloucester	4.90	-0.29	9.32	4.13	4.42	4.42
22	Cotswold	0.13	-4.31	4.55	0.12	4.42	4.42
23	Central London	-6.40	-4.88	-1.98	-0.46	4.42	4.42
24	Essex and Kent	-0.81	1.44	3.61	5.86	4.42	4.42
25	Oxfordshire, Surrey and Sussex	-1.55	0.05	2.88	4.47	4.42	4.42
26	Somerset and Wessex	-2.36	-0.29	2.06	4.13	4.42	4.42
27	West Devon and Cornwall	-2.00	-0.68	2.42	3.74	4.42	4.42

Table 7: 2016/17 Zonal Generation Tariffs with effect of Snap-Back

Demand Tariffs		2.5€/MWh Cap		If G=27% applied		Difference	
Zone No.	Zone Name	HH Zonal Tariff (£/kW)	NHH Zonal Tariff (p/kWh)	HH Zonal Tariff (£/kW)	NHH Zonal Tariff (p/kWh)	HH Zonal Tariff (£/kW)	NHH Zonal Tariff (p/kWh)
1	Northern Scotland	40.97	5.77	35.37	4.98	-5.59	-0.79
2	Southern Scotland	40.24	6.21	34.65	5.34	-5.59	-0.86
3	Northern	42.93	6.77	37.33	5.88	-5.59	-0.88
4	North West	42.83	5.69	37.23	4.95	-5.59	-0.74
5	Yorkshire	42.49	6.54	36.90	5.68	-5.59	-0.86
6	N Wales & Mersey	42.68	6.48	37.08	5.63	-5.59	-0.85
7	East Midlands	44.72	6.38	39.13	5.58	-5.59	-0.80
8	Midlands	45.74	6.35	40.15	5.58	-5.59	-0.78
9	Eastern	46.54	6.35	40.95	5.59	-5.59	-0.76
10	South Wales	42.31	6.40	36.71	5.56	-5.59	-0.85
11	South East	49.20	6.65	43.61	5.90	-5.59	-0.76
12	London	51.87	6.51	46.28	5.81	-5.59	-0.70
13	Southern	50.08	6.49	44.48	5.76	-5.59	-0.72
14	South Western	48.58	6.88	42.99	6.09	-5.59	-0.79

Table 8: 2016/17 Zonal Demand Tariffs with effect of Snap-Back

Some minor discrepancies may exist due to rounding between the averages in Section 2 and the full tariff model used to the produce this data.

Annex 7 - Illustrative examples for setting the G:D split if not using €2.50/MWh

7.6 In all of the following examples it is assumed that the EU Regulation has stopped applying prior to the transmission tariffs for Charging Year 2017/18 being set, and therefore they are being set on a new methodology – and in a number of cases based on the values applied in Charging Year 2016/17.

7.7 There examples provide an illustrative view of the future average transmission tariffs for generation, HH demand and NHH demand if a number of different approach were taken to specifying the G:D split if €2.50/MWh (or some other value) did not apply.

7.8 **Fix at the generation percentage last used to set transmission tariffs;** In this example, for Charging Year 2017/18 onwards the Generation percentage stays the same as the Charging Year 2016/17 value of 16.7%.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue						
G %	**23.3%**	**16.7%**	**16.7%**	**16.7%**	**16.7%**	**16.7%**
Generator Revenue (£m)	613.06	452.35	456.75	498.18	530.17	632.85
Demand Revenue (£m)	2023.63	2256.35	2278.26	2484.92	2644.53	3156.65
Swing from Demand to Generation compared to using €2.50/MWh cap (£m)			**6.85**	**65.88**	**122.67**	**252.25**
Average Tariffs						
Generation Tariff (£/kW)	8.57	7.20	6.79	7.22	7.69	9.13
HH Demand Tariff (£/kW)	38.62	45.31	46.21	51.55	55.56	66.74
NHH Demand Tariff (p/kWh)	5.27	6.37	6.60	7.40	8.06	9.79
Change in Tariffs						
Generation Tariff (£/kW)			0.10	0.95	1.78	3.64
HH Demand Tariff (£/kW)			-0.14	-1.37	-2.58	-5.33
NHH Demand Tariff (p/kWh)			-0.02	-0.20	-0.37	-0.78

Table 9: Indicative values for Average Tariffs under Example A: Fix at the generation percentage last used to set transmission tariffs;

A. Fix at the generation percentages as forecast (such as in the latest five-year forecast), and fix at the last one;

7.9 In this example, the percentages would stay the same as those which have most recently been published in the National Grid TNUoS forecast. That is either in the most recent quarterly forecast or the draft tariffs for the next Charging Year (t+1) and as in the most recently published five year forecast for the following Charging Years (t+2 to t+5).

7.10 For the purposes of this illustration those figures would be the same as those shown in Table 2, except the percentage figures would be fixed, rather than variable according to changes in either the £/€ exchange rate or generation volumes.

B. A phased return to 27% for the generation percentage;

7.11 In this example, it is assumed that there is a phased return to 27% over a number of Charging Years – therefore delaying the full effect of the snap-back. There would need to be a decision about the manner of the snap-back (does it go in variable steps or fixed steps, over how many Charging Years, or does it mirror the decrease) and whether there were any delay in starting the return.

7.12 Illustrated in the example is the case of a mirror return, whereby Charging Year 2017/18 repeats the G% from 2016/17, and then 2018/19 is the same as 2015/14, before returning to 27% in 2019/20 the same as 2014/15.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue						
G %	**23.3%**	**16.7%**	**16.7%**	**23.3%**	**27.0%**	**27.0%**
Generator Revenue (£m)	613.06	453.43	456.75	693.61	857.17	1023.17
Demand Revenue (£m)	2023.63	2255.20	2278.26	2289.49	2317.53	2766.34
Swing from Demand to Generation compared to using €2.50/MWh cap (£m)			**6.85**	**261.31**	**449.67**	**642.57**
Average Tariffs						
Generation Tariff (£/kW)	8.57	7.20	6.79	10.05	12.44	14.76
HH Demand Tariff (£/kW)	38.62	45.31	46.21	47.50	48.69	58.48
NHH Demand Tariff (p/kWh)	5.27	6.37	6.60	6.82	7.06	8.58
Change in Tariffs						
Generation Tariff (£/kW)			0.10	3.79	6.53	9.27
HH Demand Tariff (£/kW)			-0.14	-5.42	-9.45	-13.58
NHH Demand Tariff (p/kWh)			-0.02	-0.78	-1.37	-1.99

Table 10: Indicative values for Average Tariffs under Example C: A phased return to 27% for the generation percentage;

C. A snap-back to a different generation percentage value (less than 27%);

7.13 In this example, it is assumed there is a snap-back to a value other than 27%. There would need to be a justification of the choice of any number. For the avoidance of doubt, the generation level would always be less than – not greater than - 27%

7.14 For this illustration, the value of 20% is used, so that the snap-back occurs immediately to 20% in Charging Year 2017/18.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue						
G %	**23.3%**	**16.7%**	**20.0%**	**20.0%**	**20.0%**	**20.0%**
Generator Revenue (£m)	613.06	452.35	547.00	596.62	634.94	757.90
Demand Revenue (£m)	2023.63	2256.35	2188.00	2386.48	2539.76	3031.60
Swing from Demand to Generation compared to using €2.50/MWh cap (£m)			**97.10**	**164.32**	**227.44**	**377.30**

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.20	8.13	8.65	9.22	10.94
HH Demand Tariff (£/kW)	38.62	45.31	44.38	49.51	53.36	64.09
NHH Demand Tariff (p/kWh)	5.27	6.37	6.34	7.11	7.74	9.41

Change in Tariffs						
Generation Tariff (£/kW)			1.44	2.38	3.30	5.44
HH Demand Tariff (£/kW)			-1.97	-3.41	-4.78	-7.98
NHH Demand Tariff (p/kWh)			-0.28	-0.49	-0.69	-1.17

Table 11: Indicative values for Average Tariffs under Example D: A snap-back to a different generation percentage value (less than 27%**);**

D. A phased return to a different generation percentage value (less than 27%);

7.15 In this example, it is assumed there is a phased return to a value other than 27%. There would need to be a justification of the choice of any number and the method of snap-back (see C above). The phased return could be a mirror of the decrease, or over a fixed numbr of years. For the avoidance of doubt, the generation level would always be less than – not greater than - 27%

7.16 For this illustration, the value of 20% is used as the snap-back over three Charging Years, and the generation percentage increases by an equal amount each year to achieve this by 2019/20.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue						
G %	**23.3%**	**16.7%**	**17.8%**	**18.9%**	**20.0%**	**20.0%**
Generator Revenue (£m)	613.06	453.43	486.83	563.81	634.94	757.90
Demand Revenue (£m)	2023.63	2255.27	2248.17	2419.29	2539.76	3031.60
Swing from Demand to Generation compared to using €2.50/MWh cap (£m)			**36.93**	**131.51**	**227.44**	**377.30**

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.20	7.23	8.17	9.22	10.94
HH Demand Tariff (£/kW)	38.62	45.31	45.60	50.19	53.36	64.09
NHH Demand Tariff (p/kWh)	5.27	6.37	6.51	7.21	7.74	9.41

Change in Tariffs						
Generation Tariff (£/kW)			0.55	1.91	3.30	5.44
HH Demand Tariff (£/kW)			-0.75	-2.73	-4.78	-7.98
NHH Demand Tariff (p/kWh)			-0.11	-0.39	-0.69	-1.17

Table 12: Indicative values for Average Tariffs under Example E: A phased return to a different generation percentage value (less than 27%**);**

E. Convert the last €/MWh cap to a £ per energy (£/MWh) cap to apply for generation TNUoS going forward;

7.17 Under this approach, the €2.50/MWh is given an equivalent £/MWh value by converting € to £ using the exchange rate used in the G:D split calculation. It is then assumed that this value of £/MWh would be used to fix the Generation % for each of the following Charging Years. This has the effect of removing the exchange rate volatility from the future calculation of transmission tariffs. There would also need to be a decision about whether to index link the value in future to avoid it reducing in real-terms.

7.18 In this illustration, the £/MWh equivalent for Charging Year 2016/17 of the €2.50/MWh cap is £1.6875 /MWh (based on an exchange rate of 1.36 €/£). This is the value that is then used for subsequent Charging Years – i.e. no indexing is applied - together with the forecast volume of energy produced by Transmission Generation to set the generation percentage.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue						
Energy produced by Transmission Generation (TWh)	319.63	268.70	262.67	250.54	232.62	217.20
Error Rate	6.4%	8.2%				
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30				
TNUoS Revenue (£m)	2636.69	2708.70				
Exchange Rate (€/£)	1.22	1.36				
Equivalent £/MWh Cap	**1.92**	**1.69**	1.69	1.69	1.69	1.69
G %	**23.3%**	**16.7%**	**16.2%**	**14.2%**	**12.4%**	**9.7%**
Generator Revenue (£m)	613.06	453.43	443.25	422.78	392.54	366.53
Demand Revenue (£m)	2023.63	2255.27	2291.75	2560.32	2782.16	3422.98
Swing from Demand to Generation compared to using €2.50/MWh cap (£m)			**-6.65**	**-9.52**	**-14.96**	**-14.08**

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.20	6.58	6.13	5.70	5.29
HH Demand Tariff (£/kW)	38.62	45.31	46.49	53.12	58.45	72.37
NHH Demand Tariff (p/kWh)	5.27	6.37	6.64	7.63	8.48	10.62

Change in Tariffs						
Generation Tariff (£/kW)			-0.10	-0.14	-0.22	-0.20
HH Demand Tariff (£/kW)			0.13	0.20	0.31	0.30
NHH Demand Tariff (p/kWh)			0.02	0.03	0.05	0.04

Table 13: Indicative values for Average Tariffs under Example F: Convert the last €/MWh cap to a £ per energy (£/MWh) cap to apply for **generation TNUoS going forward;**

F. Set a new £/MWh cap for generation TNUoS;

7.19 Under this approach, a new £/MWh cap would be chosen to apply. The £ figure chosen would need to be justified, as would whether it were index-linked or not. Depending on how far away the cap is from the actual value there may still be a snap-up or snap-back. There would also need to be a decision about whether to index link the value in future to avoid it reducing in real-terms.

7.20 In this illustration if a value of £2/MWh is chosen for Charging Year 2017/18 (entirely arbitrary and indicative), and it assumed to be indexed in future years by 3%.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue						
Energy produced by Transmission Generation (TWh)	319.63	268.70	262.67	250.54	232.62	217.20
Error Rate	6.4%	8.2%				
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30				
TNUoS Revenue (£m)	2636.69	2708.70				
Exchange Rate (€/£)	1.22	1.36				
Equivalent £/MWh Cap	1.92	1.69	2.00	2.06	2.12	2.19
G %	**23.3%**	**16.7%**	**19.2%**	**17.3%**	**15.5%**	**12.5%**
Generator Revenue (£m)	613.06	453.43	525.33	516.11	493.57	474.68
Demand Revenue (£m)	2023.63	2255.27	2209.67	2466.99	2681.13	3314.82
Swing from Demand to Generation compared to using €2.50/MWh cap (£m)			**75.43**	**83.81**	**86.07**	**94.08**

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	7.80	7.48	7.16	6.85
HH Demand Tariff (£/kW)	38.62	45.29	44.82	51.18	56.33	70.08
NHH Demand Tariff (p/kWh)	5.27	6.37	6.40	7.35	8.17	10.28

Change in Tariffs						
Generation Tariff (£/kW)			1.12	1.21	1.25	1.36
HH Demand Tariff (£/kW)			-1.53	-1.74	-1.81	-1.99
NHH Demand Tariff (p/kWh)			-0.22	-0.25	-0.26	-0.29

Table 14: Indicative values for Average Tariffs under Example G: Set a new £/MWh cap for generation TNUoS;

G. Convert the last €/MWh cap to a £ per capacity (£/MW) cap to apply for generation TNUoS going forward;

7.21 Under this approach, a £/MW cap would be established based on the prevailing value from the current methodology. This removes the need for a € to £ exchange rate, and a forecast volume of generation in future Charging Years. There would also need to be a decision about whether to index link the value in future to avoid it reducing in real-terms.

7.22 In this illustration, the £/MW equivalent for Charging Year 2016/17 of the €2.50/MWh cap is £7.11 /kW (the same as the average tariff), and this value is not index linked. This is the value that would then be used to set the maximum recoverable from generator and thus the generation percentage.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue						
Energy produced by Transmission Generation (TWh)	319.63	268.70				
Error Rate	6.4%	8.2%				
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30				
TNUoS Revenue (£m)	2636.69	2708.70				
Exchange Rate (€/£)	1.22	1.36				
Chargeable Generation (GW)	71.50	62.83	67.31	69.00	68.90	69.30
Equivalent £/kW Cap	8.57	7.22	7.22	7.22	7.22	7.22
G %	**23.3%**	**16.7%**	**17.8%**	**16.7%**	**15.7%**	**13.2%**
Generator Revenue (£m)	613.06	453.43	485.80	497.98	497.26	500.14
Demand Revenue (£m)	2023.63	2255.27	2249.20	2485.12	2677.44	3289.36
Swing from Demand to Generation compared to using €2.50/MWh cap (£m)			**35.90**	**65.68**	**89.76**	**119.54**

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	7.22	7.22	7.22	7.22
HH Demand Tariff (£/kW)	38.62	45.29	45.62	51.56	56.25	69.54
NHH Demand Tariff (p/kWh)	5.27	6.37	6.52	7.40	8.16	10.21

Change in Tariffs						
Generation Tariff (£/kW)			0.53	0.95	1.30	1.73
HH Demand Tariff (£/kW)			-0.73	-1.36	-1.89	-2.53
NHH Demand Tariff (p/kWh)			-0.10	-0.20	-0.27	-0.37

Table 15: Indicative values for Average Tariffs under Example H: Convert the last €/MWh cap to a £ per capacity (£/MW) cap to apply for **generation TNUoS going forward;**

H. Set a new £/MW cap for generation TNUoS.

7.23 Under this approach, a £/MW cap would need to be chosen to apply instead of the €2.50/MWh cap. The £ figure chosen would need to be justified, and there would also need to be a decision about whether to index link the value in future to avoid it reducing in real-terms.

7.24 In this illustration, the £/MW cap of £5/MW is chosen for Charging Year 2017/18 (entirely arbitrary and indicative), and it is indexed in future years by 3%.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue						
Energy produced by Transmission Generation (TWh)	319.63	268.70	262.67	250.54	232.62	217.20
Error Rate	6.4%	8.2%				
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30				
TNUoS Revenue (£m)	2636.69	2708.70				
Exchange Rate (€/£)	1.22	1.36				
Chargeable Generation (GW)	71.50	62.83	67.31	69.00	68.90	69.30
Equivalent £/kW Cap	8.57	7.22	5.00	5.15	5.30	5.46
G %	**23.3%**	**16.7%**	**12.3%**	**11.9%**	**11.5%**	**10.0%**
Generator Revenue (£m)	613.06	453.43	336.57	355.35	365.48	378.63
Demand Revenue (£m)	2023.63	2255.27	2398.44	2627.75	2809.22	3410.87
Swing from Demand to Generation compared to using €2.50/MWh cap (£m)			-113.34	-76.95	-42.02	-1.97
Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	5.00	5.15	5.30	5.46
HH Demand Tariff (£/kW)	38.62	45.29	48.65	54.52	59.02	72.11
NHH Demand Tariff (p/kWh)	5.27	6.37	6.95	7.83	8.56	10.58
Change in Tariffs						
Generation Tariff (£/kW)			-1.68	-1.12	-0.61	-0.03
HH Demand Tariff (£/kW)			2.30	1.60	0.88	0.04
NHH Demand Tariff (p/kWh)			0.33	0.23	0.13	0.01

Table 16: Indicative values for Average Tariffs under Example I: Set a new £/MW cap for generation TNUoS.

7.25 Table 17 illustrates some identified pros and cons of the various examples.

Option		Pros	Cons
A	Fix at the generation percentage last used to set transmission tariffs;	• Removes potential for snap-back	• Does not match the forecasts made by NGET and known to the market.
B	Fix at the generation percentages as forecast (such as in the latest five-year forecast), and fix at the last one;	• Removes potential for snap-back • Matches most closely the data published to the market	• Potential issues over when forecasts are produced and the Regulation removed that would need to be considered.
C	A phased return to 27% for the generation percentage;	• Removes potential for immediate snap-back	• Does not match the forecasts made by NGET and known to the market. • Need to justify how the phasing works (mirror, number of fixes or variable steps, delayed started etc.)

Option		Pros	Cons
D	A snap-back to a different generation percentage value (less than 27%);	• Reverts to the GB value that was established prior to European Regulation in 2010	• Does not match the forecasts made by NGET and known to the market. • Need to objectively justify the new value • Does not address defect as still leaves snap-back
E	A phased return to a different generation percentage value (less than 27%);	• Removes potential for immediate snap-back	• Does not match the forecasts made by NGET and known to the market. • Need to justify how the phasing works (mirror, number of fixes or variable steps, delayed started etc.) • Need to objectively justify the new value
F	Convert the last €/MWh cap to a £ per energy (£/MWh) cap to apply for generation TNUoS going forward;	• Removes exchange rate volatility • Removes potential for snap-back	• Does not match the forecasts made by NGET and known to the market. • MWh to MW conversation still required • Is a £/MWh cap justified or appropriate. • May need to consider if an index link is needed to avoid reduction in real-terms over time.
G	Set a new £/MWh cap for generation TNUoS;	• Removes exchange rate volatility	• Need to objectively justify the new value • May need to consider if an index link is needed to avoid reduction in real-terms over time. • Does not match the forecasts made by NGET and known to the market. • MWh to MW conversation still required • Is a £/MWh cap justified or appropriate. • Potentially a snap back to the new figure, which will be unpredicted.
H	Convert the last €/MWh cap to a £ per capacity (£/MW) cap to apply for generation TNUoS going forward;	• Remove exchange rate volatility • Removes need to forecast MWh to MW conversation • Removes potential for snap-back (addresses defect)	• May need to consider if an index link is needed to avoid reduction in real-terms over time • Does not match the forecasts made by NGET and known to the market. • Is a £/MW cap justified or appropriate.
I	Set a new £/MW cap for generation TNUoS.	• Remove exchange rate volatility • Removes need to forecast MWh to MW conversation	• Need to objectively justify the new value • May need to consider if an index link is needed to avoid reduction in real-terms over time • Does not match the forecasts made by NGET and known to the market. • Is a £/MW cap justified or appropriate. • Potentially a snap to the new figure, which will be unpredicted.

Table 17: Analysis of the different illustrative examples.

Annex 8 – Analysis of the WACMs

1. Assuming the Regulation were removed and not replaced in Charging Year 2016/17, then charges would change from Charging year 2017/18 under each scenario.

Baseline

Under the current rules there would be a snap-back to 27% with effect from 2017/18.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
G/D split						
Energy produced by Transmission Generation (TWh)	319.63	268.70				
Error Rate	6.4%	8.2%				
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30				
TNUoS Revenue (£m)	2636.69	2708.70	2735.00	2983.10	3174.70	3789.50
Exchange Rate (€/£)	1.22	1.36				
G %	**23.3%**	**16.7%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**
D %	76.7%	83.3%	73.0%	73.0%	73.0%	73.0%
Generator Revenue (£m)	613.06	453.43	738.45	805.44	857.17	1023.17
Demand Revenue (£m)	2023.63	2255.27	1996.55	2177.66	2317.53	2766.34

Components of TNUoS						
Locational Zonal Generation (£m)	47.64	191.89	266.25	305.13	325.93	329.03
Locational Zonal Demand (£m)	157.70	-2.40	0.60	-0.90	-0.06	1.97
Offshore Local C(£m)	186.58	200.58	212.91	309.22	402.92	673.73
Local Circuits (£m)	20.13	13.26	15.55	27.63	22.95	21.21
Local Substation (£m)	13.80	15.92	17.03	23.65	25.99	28.06

Residual Element of Tariffs						
Generation Residual (£/kW)	4.82	0.51	3.37	2.03	1.15	-0.42
Demand Residual (£/kW)	35.61	45.33	40.49	45.20	48.69	58.44

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	10.97	11.67	12.44	14.76
HH Demand Tariff (£/kW)	38.62	45.29	40.50	45.18	48.69	58.48
NHH Demand Tariff (p/kWh)	5.27	6.37	5.79	6.49	7.06	8.58

Table 18: Effect on tariffs under the Baseline with a change to tariffs in 2017/18

Original Proposal

Under the Original Proposal we would maintain the calculation using the €2.50/MWh cap. In this data we have used the latest version of the £/€ forecast in the OBR report.

In effect, at present, the data follows that shown in the five year forecast, but is subject to change if the exchange rate, or energy produced by transmission generation volumes change.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
G/D split						
Energy produced by Transmission Generation (TWh)	319.63	268.70	262.67	250.54	232.62	217.20
Error Rate	6.4%	8.2%	8.2%	8.2%	8.2%	8.2%
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30	2.30	2.30	2.30	2.30
TNUoS Revenue (£m)	2636.69	2708.70	2735.00	2983.10	3174.70	3789.50
Exchange Rate (€/£)	1.22	1.36	1.34	1.33	1.31	1.31
G %	**23.3%**	**16.7%**	**16.4%**	**14.5%**	**12.8%**	**10.0%**
D %	76.7%	83.3%	83.6%	85.5%	87.2%	90.0%
Generator Revenue (£m)	613.06	453.43	449.87	432.32	407.52	380.51
Demand Revenue (£m)	2023.63	2255.27	2285.13	2550.78	2767.18	3408.99
Components of TNUoS						
Locational Zonal Generation (£m)	47.64	191.89	266.25	305.13	325.93	329.03
Locational Zonal Demand (£m)	157.70	-2.40	0.60	-0.90	-0.06	1.97
Offshore Local C(£m)	186.58	200.58	212.91	309.22	402.92	673.73
Local Circuits (£m)	20.13	13.26	15.55	27.63	22.95	21.21
Local Substation (£m)	13.80	15.92	17.03	23.65	25.99	28.06
Residual Element of Tariffs						
Generation Residual (£/kW)	4.82	0.51	-0.92	-3.38	-5.37	-9.69
Demand Residual (£/kW)	35.61	45.33	46.34	52.94	58.14	72.03
Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	6.68	6.27	5.91	5.49
HH Demand Tariff (£/kW)	38.62	45.29	46.35	52.92	58.13	72.07
NHH Demand Tariff (p/kWh)	5.27	6.37	6.62	7.60	8.43	10.58
Change in Tariffs compared to baseline						
Generation Tariff (£/kW)			-4.29	-5.41	-6.53	-9.27
HH Demand Tariff (£/kW)			5.85	7.74	9.45	13.59
NHH Demand Tariff (p/kWh)			0.84	1.11	1.37	1.99

Table 19: Effect on tariffs under the Original Proposal with a change to tariffs in 2017/18

WACM1: Fix at last set percentage

Under the Original Proposal we would fix at the percentage for G last used.

This removes any exchange rate or forecasting of Energy (TWh) risk.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
G/D split						
Energy produced by Transmission Generation (TWh)	319.63	268.70				
Error Rate	6.4%	8.2%				
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30				
TNUoS Revenue (£m)	2636.69	2708.70	2735.00	2983.10	3174.70	3789.50
Exchange Rate (€/£)	1.22	1.36				
G %	**23.3%**	**16.7%**	**16.7%**	**16.7%**	**16.7%**	**16.7%**
D %	76.7%	83.3%	83.3%	83.3%	83.3%	83.3%
Generator Revenue (£m)	613.06	452.35	456.75	498.18	530.17	632.85
Demand Revenue (£m)	2023.63	2256.35	2278.26	2484.92	2644.53	3156.65

Components of TNUoS						
Locational Zonal Generation (£m)	47.64	191.89	266.25	305.13	325.93	329.03
Locational Zonal Demand (£m)	157.70	-2.40	0.60	-0.90	-0.06	1.97
Offshore Local C(£m)	186.58	200.58	212.91	309.22	402.92	673.73
Local Circuits (£m)	20.13	13.26	15.55	27.63	22.95	21.21
Local Substation (£m)	13.80	15.92	17.03	23.65	25.99	28.06

Residual Element of Tariffs						
Generation Residual (£/kW)	4.82	0.49	-0.82	-2.43	-3.59	-6.05
Demand Residual (£/kW)	35.61	45.36	46.20	51.57	55.56	66.70

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.20	6.79	7.22	7.69	9.13
HH Demand Tariff (£/kW)	38.62	45.31	46.21	51.55	55.56	66.74
NHH Demand Tariff (p/kWh)	5.27	6.37	6.60	7.40	8.06	9.79

Change in Tariffs compared to baseline						
Generation Tariff (£/kW)			-4.19	-4.45	-4.75	-5.63
HH Demand Tariff (£/kW)			5.71	6.37	6.87	8.25
NHH Demand Tariff (p/kWh)			0.82	0.92	1.00	1.21

Table 20: Effect on tariffs under the WACM1 with a change to tariffs in 2017/18

WACM2: Phased Return to 27% after a period staying with €2.50/MWh

Under WACM2, there would be a phased return to 27% over three years, after a period of following the existing €2.50/MWh cap, so that some certainty could be provided to those bidding in to the capacity market.

If the €2.50/MWh Cap were removed before the December 2016 Capacity Market Auction auction for 2020/21 will be held, then the tariff for that year can start to be phased up, over that and the following two years to reach 27% in each steps.

It is not possible to show the tariffs after 2020/21 as forecasts are not produced beyond 2020/21, however, the resultant generation percentage curve would look something the graph below:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
G/D split						
Energy produced by Transmission Generation (TWh)	319.63	268.70	262.67	250.54	232.62	217.20
Error Rate	6.4%	8.2%	8.2%	8.2%	8.2%	8.2%
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30	2.30	2.30	2.30	2.30
TNUoS Revenue (£m)	2636.69	2708.70	2735.00	2983.10	3174.70	3789.50
Exchange Rate (€/£)	1.22	1.36	1.34	1.33	1.31	1.31
G %	**23.3%**	**16.7%**	**16.4%**	**14.5%**	**12.8%**	**17.5%**
D %	76.7%	83.3%	83.6%	85.5%	87.2%	82.5%
Generator Revenue (£m)	613.06	453.43	449.87	432.32	407.52	663.16
Demand Revenue (£m)	2023.63	2255.27	2285.13	2550.78	2767.18	3126.34

Components of TNUoS						
Locational Zonal Generation (£m)	47.64	191.89	266.25	305.13	325.93	329.03
Locational Zonal Demand (£m)	157.70	-2.40	0.60	-0.90	-0.06	1.97
Offshore Local C(£m)	186.58	200.58	212.91	309.22	402.92	673.73
Local Circuits (£m)	20.13	13.26	15.55	27.63	22.95	21.21
Local Substation (£m)	13.80	15.92	17.03	23.65	25.99	28.06

Residual Element of Tariffs						
Generation Residual (£/kW)	4.82	0.51	-0.92	-3.38	-5.37	-5.61
Demand Residual (£/kW)	35.61	45.33	46.34	52.94	58.14	66.05

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	6.68	6.27	5.91	9.57
HH Demand Tariff (£/kW)	38.62	45.29	46.35	52.92	58.13	66.10
NHH Demand Tariff (p/kWh)	5.27	6.37	6.62	7.60	8.43	9.70

Change in Tariffs compared to baseline						
Generation Tariff (£/kW)			-4.29	-5.41	-6.53	-5.19
HH Demand Tariff (£/kW)			5.85	7.74	9.45	7.61
NHH Demand Tariff (p/kWh)			0.84	1.11	1.37	1.12

Table 21: Effect on tariffs under the WACM2 with a change to tariffs in 2017/18

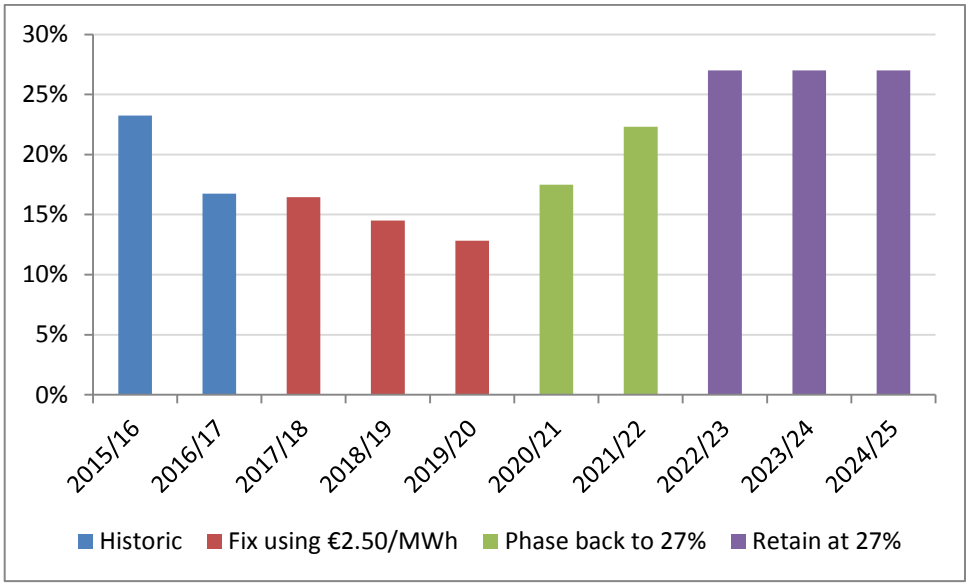


Figure 6: Generation Percentages under WACM2 with a change to EU Regulation in 2016 before the 2020/21 Capacity Auction

WACM3: Follow the five-year forecast and then fix at the last percentage

Under WACM3, the proposal would follow the five-year forecast percentages that have been published (calculated using €2.50/MWh) but fix these values.

After the data published in the five-year forecast has elapsed, we would fix at the last position.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
G/D split						
Energy produced by Transmission Generation (TWh)	319.63	268.70				
Error Rate	6.4%	8.2%				
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30				
TNUoS Revenue (£m)	2636.69	2708.70	2735.00	2983.10	3174.70	3789.50
Exchange Rate (€/£)	1.22	1.36				
G %	**23.3%**	**16.7%**	**16.4%**	**14.5%**	**12.8%**	**10.0%**
D %	76.7%	83.3%	83.6%	85.5%	87.2%	90.0%
Generator Revenue (£m)	613.06	453.43	449.90	432.30	407.50	380.60
Demand Revenue (£m)	2023.63	2255.20	2285.10	2550.80	2767.20	3408.90

Components of TNUoS						
Locational Zonal Generation (£m)	47.64	191.89	266.25	305.13	325.93	329.03
Locational Zonal Demand (£m)	157.70	-2.40	0.60	-0.90	-0.06	1.97
Offshore Local C(£m)	186.58	200.58	212.91	309.22	402.92	673.73
Local Circuits (£m)	20.13	13.26	15.55	27.63	22.95	21.21
Local Substation (£m)	13.80	15.92	17.03	23.65	25.99	28.06

Residual Element of Tariffs						
Generation Residual (£/kW)	4.82	0.51	-0.92	-3.38	-5.37	-9.69
Demand Residual (£/kW)	35.61	45.33	46.34	52.94	58.14	72.03

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	6.68	6.27	5.91	5.49
HH Demand Tariff (£/kW)	38.62	45.29	46.35	52.92	58.13	72.07
NHH Demand Tariff (p/kWh)	5.27	6.37	6.62	7.60	8.43	10.58

Change in Tariffs compared to baseline						
Generation Tariff (£/kW)			-4.29	-5.41	-6.53	-9.27
HH Demand Tariff (£/kW)			5.85	7.74	9.45	13.58
NHH Demand Tariff (p/kWh)			0.84	1.11	1.37	1.99

Table 22: Effect on tariffs under the WACM3 with a change to tariffs in 2017/18

Summary Graphs – Effect on Average Tariffs

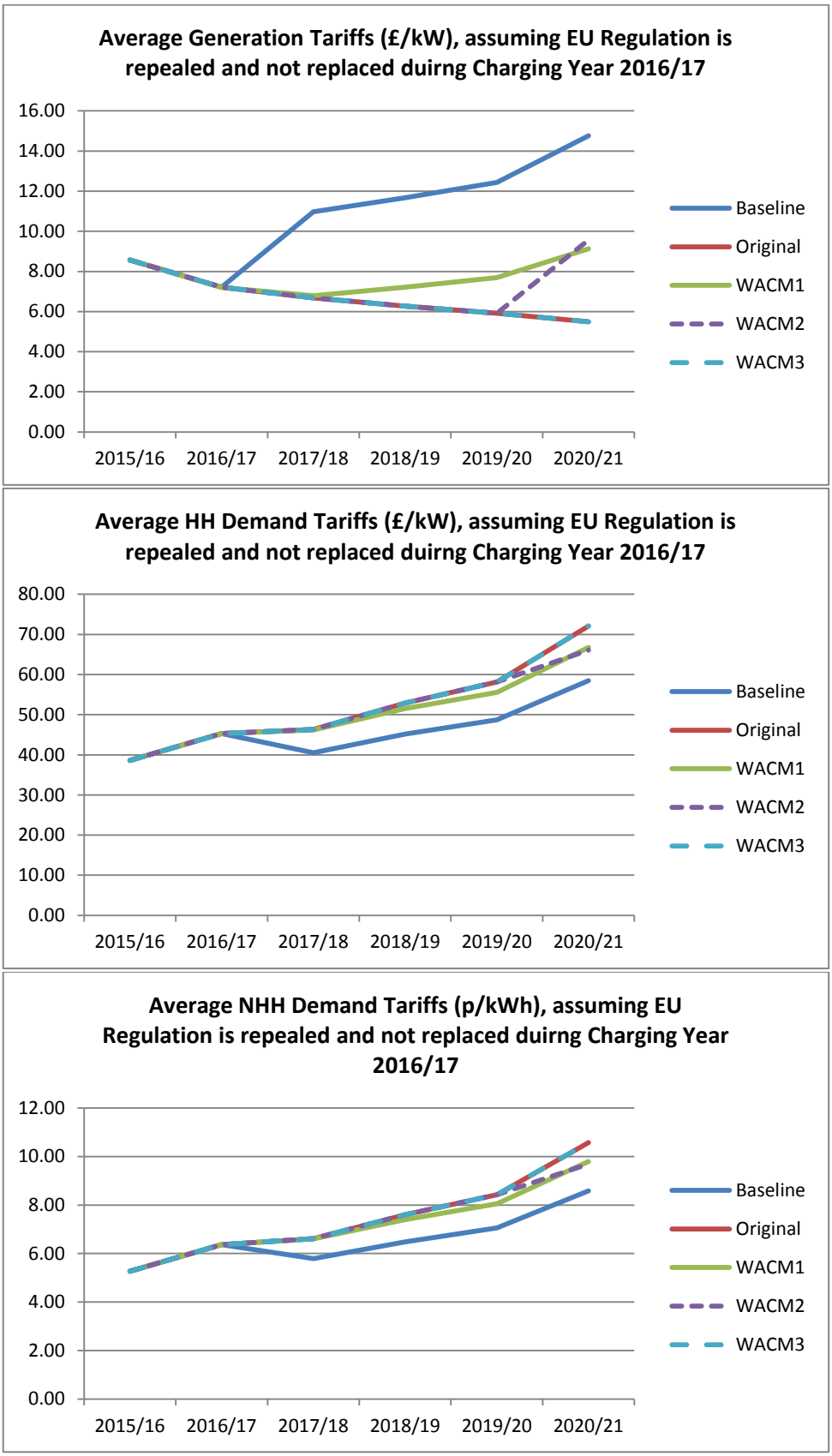


Figure 7*:* Average Tariffs showing effect of EU Regulation being removed in 2016/17 so affecting charges in 2017/18.

Summary Graphs – Effect on Residual Tariffs

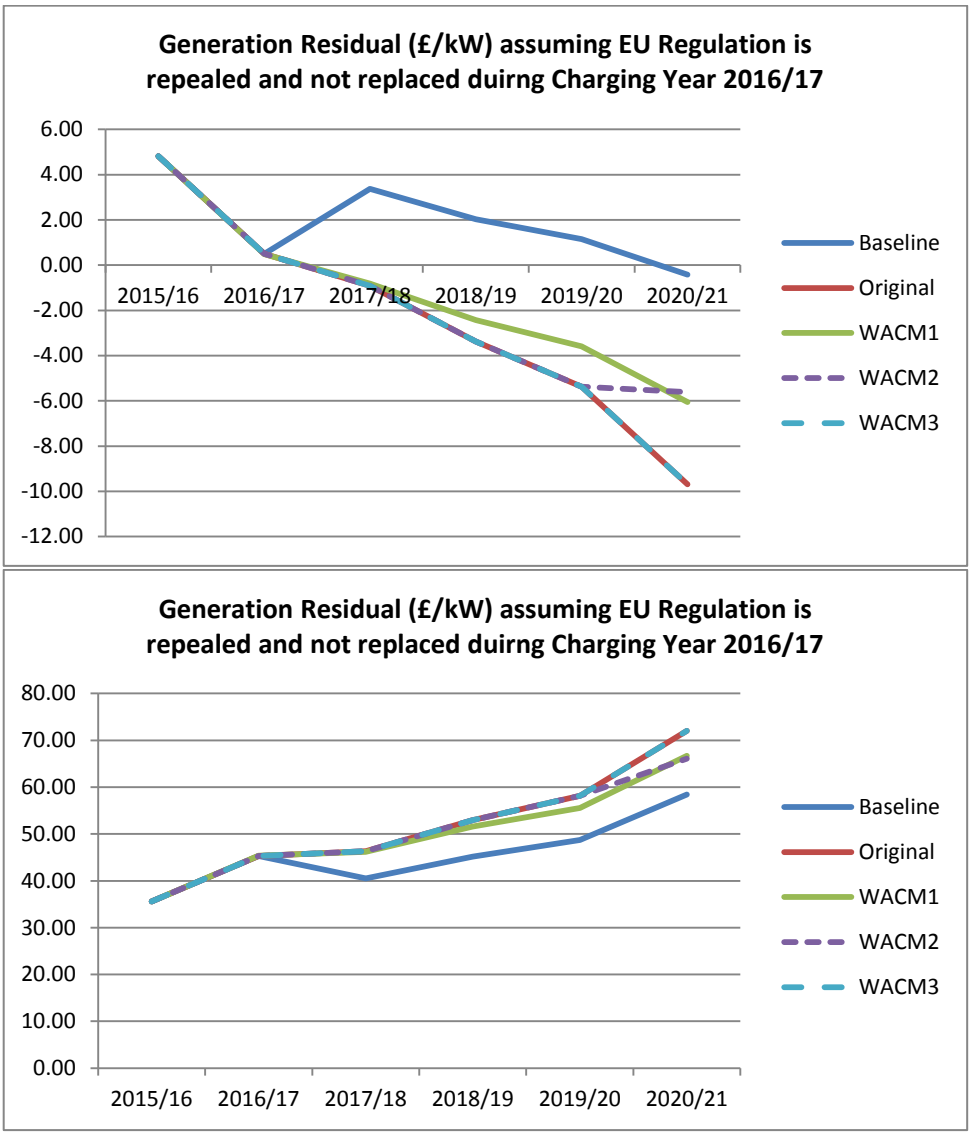


Figure 8: Residual Tariffs showing effect of EU Regulation being removed in 2016/17 so affecting charges in 2017/18.

2. Assuming the Regulation were removed and not replaced in Charging Year 2017/18, then charges would change from Charging year 2018/19 under each scenario.

Baseline

Under the current rules there would be a snap-back to 27% with effect from 2018/19.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
G/D split						
Energy produced by Transmission Generation (TWh)	319.63	268.70	262.67			
Error Rate	6.4%	8.2%	8.2%			
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30	2.30			
TNUoS Revenue (£m)	2636.69	2708.70	2735.00	2983.10	3174.70	3789.50
Exchange Rate (€/£)	1.22	1.36	1.34			
G %	**23.3%**	**16.7%**	**16.4%**	**27.0%**	**27.0%**	**27.0%**
D %	76.7%	83.3%	83.6%	73.0%	73.0%	73.0%
Generator Revenue (£m)	613.06	453.43	448.54	805.44	857.17	1023.17
Demand Revenue (£m)	2023.63	2255.27	2286.46	2177.66	2317.53	2766.34

Components of TNUoS						
Locational Zonal Generation (£m)	47.64	191.89	266.25	305.13	325.93	329.03
Locational Zonal Demand (£m)	157.70	-2.40	0.60	-0.90	-0.06	1.97
Offshore Local C(£m)	186.58	200.58	212.91	309.22	402.92	673.73
Local Circuits (£m)	20.13	13.26	15.55	27.63	22.95	21.21
Local Substation (£m)	13.80	15.92	17.03	23.65	25.99	28.06

Residual Element of Tariffs						
Generation Residual (£/kW)	4.82	0.51	-0.94	2.03	1.15	-0.42
Demand Residual (£/kW)	35.61	45.33	46.37	45.20	48.69	58.44

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	6.66	11.67	12.44	14.76
HH Demand Tariff (£/kW)	38.62	45.29	46.38	45.18	48.69	58.48
NHH Demand Tariff (p/kWh)	5.27	6.37	6.63	6.49	7.06	8.58

Table 23: Effect on tariffs under the Baseline with a change to tariffs in 2018/19

Original Proposal

Under the Original Proposal we would maintain the calculation using the €2.50/MWh cap. In this data we have used the latest version of the £/€ forecast in the OBR report.

In effect, at present, the data follows that shown in the five year forecast, but is subject to change if the exchange rate, or energy produced by transmission generation volumes change.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
G/D split						
Energy produced by Transmission Generation (TWh)	319.63	268.70	262.67	250.54	232.62	217.20
Error Rate	6.4%	8.2%	8.2%	8.2%	8.2%	8.2%
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30	2.30	2.30	2.30	2.30
TNUoS Revenue (£m)	2636.69	2708.70	2735.00	2983.10	3174.70	3789.50
Exchange Rate (€/£)	1.22	1.36	1.34	1.33	1.31	1.31
G %	**23.3%**	**16.7%**	**16.4%**	**14.5%**	**12.8%**	**10.0%**
D %	76.7%	83.3%	83.6%	85.5%	87.2%	90.0%
Generator Revenue (£m)	613.06	453.43	449.87	432.32	407.52	380.51
Demand Revenue (£m)	2023.63	2255.27	2285.13	2550.78	2767.18	3408.99
Components of TNUoS						
Locational Zonal Generation (£m)	47.64	191.89	266.25	305.13	325.93	329.03
Locational Zonal Demand (£m)	157.70	-2.40	0.60	-0.90	-0.06	1.97
Offshore Local C(£m)	186.58	200.58	212.91	309.22	402.92	673.73
Local Circuits (£m)	20.13	13.26	15.55	27.63	22.95	21.21
Local Substation (£m)	13.80	15.92	17.03	23.65	25.99	28.06
Residual Element of Tariffs						
Generation Residual (£/kW)	4.82	0.51	-0.92	-3.38	-5.37	-9.69
Demand Residual (£/kW)	35.61	45.33	46.34	52.94	58.14	72.03
Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	6.68	6.27	5.91	5.49
HH Demand Tariff (£/kW)	38.62	45.29	46.35	52.92	58.13	72.07
NHH Demand Tariff (p/kWh)	5.27	6.37	6.62	7.60	8.43	10.58
Change in Tariffs compared to baseline						
Generation Tariff (£/kW)				-5.41	-6.53	-9.27
HH Demand Tariff (£/kW)				7.74	9.45	13.59
NHH Demand Tariff (p/kWh)				1.11	1.37	1.99

Table 24: Effect on tariffs under the Original Proposal with a change to tariffs in 2018/19

WACM1: Fix at last set percentage

Under the Original Proposal we would fix at the percentage for G last used.

This removes any exchange rate or forecasting of Energy (TWh) risk.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
G/D split						
Energy produced by Transmission Generation (TWh)	319.63	268.70	262.67	250.54	232.62	217.20
Error Rate	6.4%	8.2%	8.2%			
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30	2.30			
TNUoS Revenue (£m)	2636.69	2708.70	2735.00	2983.10	3174.70	3789.50
Exchange Rate (€/£)	1.22	1.36	1.34			
G %	**23.3%**	**16.7%**	**16.4%**	**16.4%**	**16.4%**	**16.4%**
D %	76.7%	83.3%	83.6%	83.6%	83.6%	83.6%
Generator Revenue (£m)	613.06	452.35	448.54	489.23	520.65	621.48
Demand Revenue (£m)	2023.63	2256.35	2286.46	2493.87	2654.05	3168.02

Components of TNUoS						
Locational Zonal Generation (£m)	47.64	191.89	266.25	305.13	325.93	329.03
Locational Zonal Demand (£m)	157.70	-2.40	0.60	-0.90	-0.06	1.97
Offshore Local C(£m)	186.58	200.58	212.91	309.22	402.92	673.73
Local Circuits (£m)	20.13	13.26	15.55	27.63	22.95	21.21
Local Substation (£m)	13.80	15.92	17.03	23.65	25.99	28.06

Residual Element of Tariffs						
Generation Residual (£/kW)	4.82	0.49	-0.94	-2.56	-3.73	-6.21
Demand Residual (£/kW)	35.61	45.36	46.37	51.76	55.76	66.94

Average Tariffs						
Generation Tariff (£/kW)	8.57	7.20	6.66	7.09	7.56	8.97
HH Demand Tariff (£/kW)	38.62	45.31	46.38	51.74	55.76	66.98
NHH Demand Tariff (p/kWh)	5.27	6.37	6.63	7.43	8.08	9.83

Change in Tariffs compared to baseline						
Generation Tariff (£/kW)				-4.58	-4.88	-5.80
HH Demand Tariff (£/kW)				6.56	7.07	8.49
NHH Demand Tariff (p/kWh)				0.94	1.03	1.25

Table 25: Effect on tariffs under WACM1 with a change to tariffs in 2018/19

WACM2: Phased Return to 27% after a period staying with €2.50/MWh

Under WACM2, there would be a phased return to 27% over three years, after a period of following the existing €2.50/MWh cap, so that some certainty could be provided to those bidding in to the capacity market.

If the €2.50/MWh Cap were removed before the December 2017 Capacity Market Auction auction for 2021/22 will be held, then the tariff for that year can start to be phased up, over that and the following two years to reach 27% in each steps.

It is not possible to show the tariffs after 2020/21 as forecasts are not produced beyond 2020/21, however, the resultant generation percentage curve would look something the graph below:

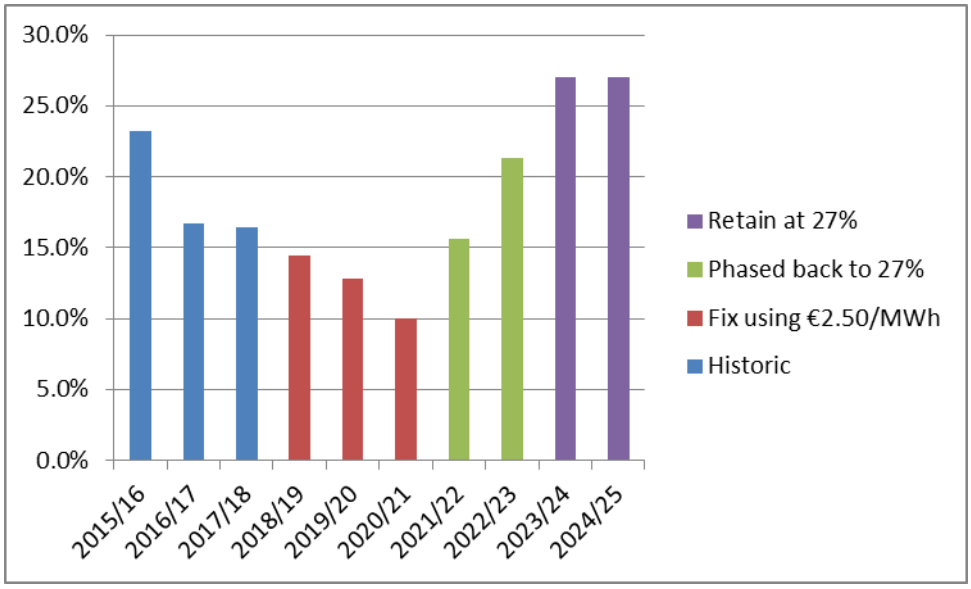


Figure 9: Generation Percentages under WACM2 with a change to EU Regulation in 2017 before the 2021/22 Capacity Auction

WACM3: Follow the five-year forecast and then fix at the last percentage

Under WACM3, the proposal would follow the five-year forecast percentages that have been published (calculated using €2.50/MWh) but fix these values.

After the data published in the five-year forecast has elapsed, we would fix at the last position.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
G/D split						
Energy produced by Transmission Generation (TWh)	319.63	268.70	262.67	250.54	232.62	217.20
Error Rate	6.4%	8.2%				
Cap to be applied, after corrected for an error rate (€/MWh)	2.34	2.30				
TNUoS Revenue (£m)	2636.69	2708.70	2735.00	2983.10	3174.70	3789.50
Exchange Rate (€/£)	1.22	1.36				
G %	**23.3%**	**16.7%**	**16.4%**	**14.5%**	**12.8%**	**10.0%**
D %	76.7%	83.3%	83.6%	85.5%	87.2%	90.0%
Generator Revenue (£m)	613.06	453.43	449.90	432.30	407.50	380.60
Demand Revenue (£m)	2023.63	2255.20	2285.10	2550.80	2767.20	3408.90

Components of TNUoS						
Locational Zonal Generation (£m)	47.64	191.89	266.25	305.13	325.93	329.03
Locational Zonal Demand (£m)	157.70	-2.40	0.60	-0.90	-0.06	1.97
Offshore Local C(£m)	186.58	200.58	212.91	309.22	402.92	673.73
Local Circuits (£m)	20.13	13.26	15.55	27.63	22.95	21.21
Local Substation (£m)	13.80	15.92	17.03	23.65	25.99	28.06

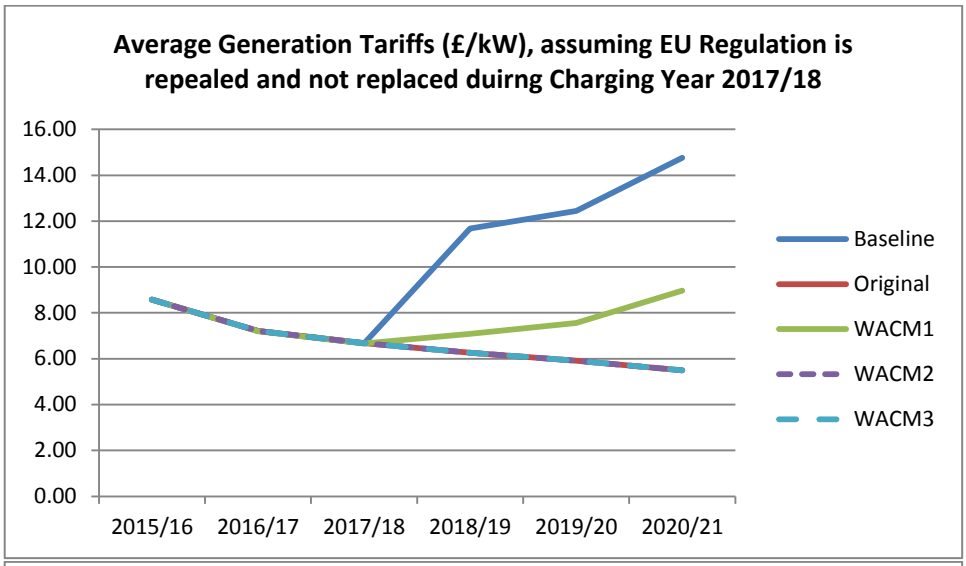
Residual Element of Tariffs						
Generation Residual (£/kW)	4.82	0.51	-0.92	-3.38	-5.37	-9.69
Demand Residual (£/kW)	35.61	45.33	46.34	52.94	58.14	72.03

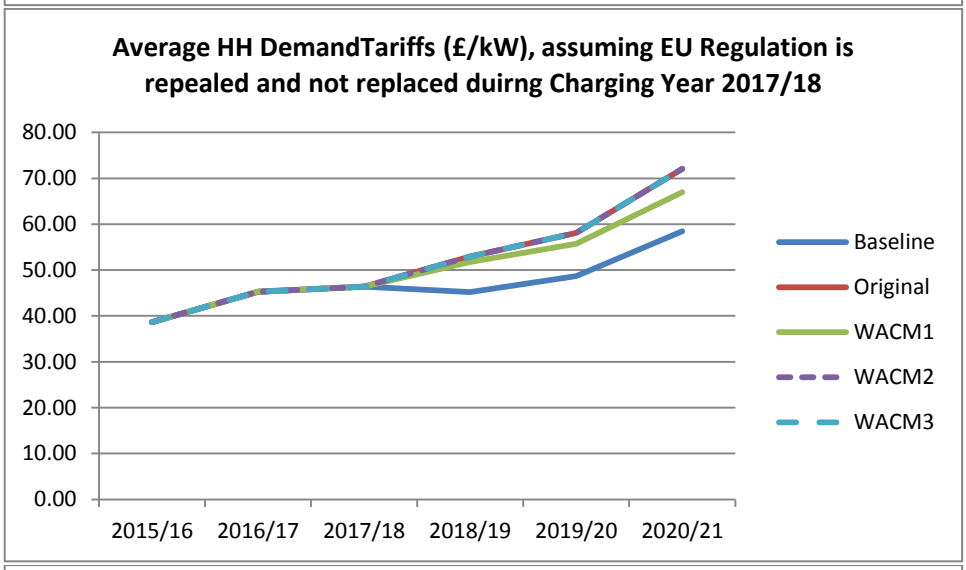
Average Tariffs						
Generation Tariff (£/kW)	8.57	7.22	6.68	6.27	5.91	5.49
HH Demand Tariff (£/kW)	38.62	45.29	46.35	52.92	58.13	72.07
NHH Demand Tariff (p/kWh)	5.27	6.37	6.62	7.60	8.43	10.58

Change in Tariffs compared to baseline						
Generation Tariff (£/kW)				-5.41	-6.53	-9.27
HH Demand Tariff (£/kW)				7.74	9.45	13.58
NHH Demand Tariff (p/kWh)				1.11	1.37	1.99

Table 26: Effect on tariffs under WACM3 with a change to tariffs in 2018/19

Summary Graphs – Effect on Average Tariffs





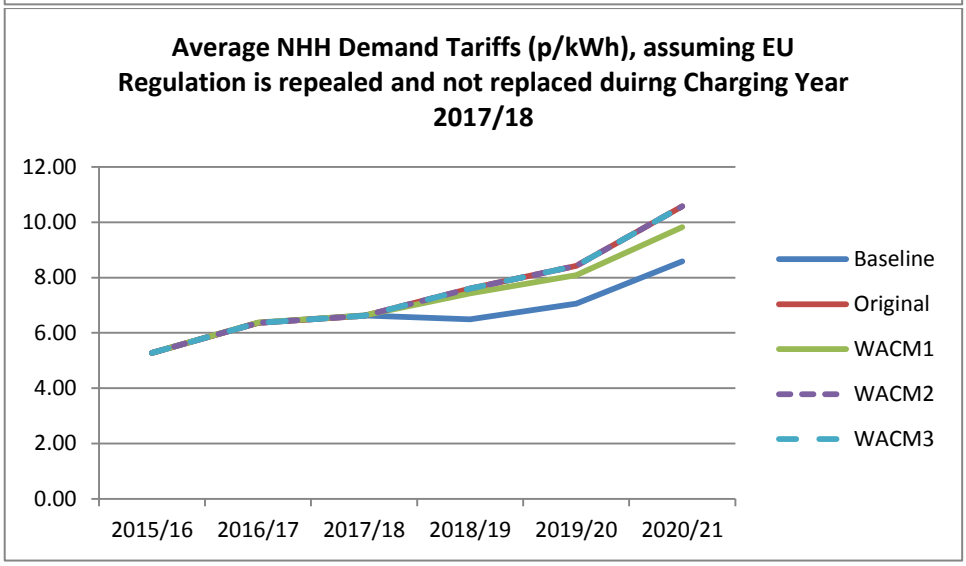
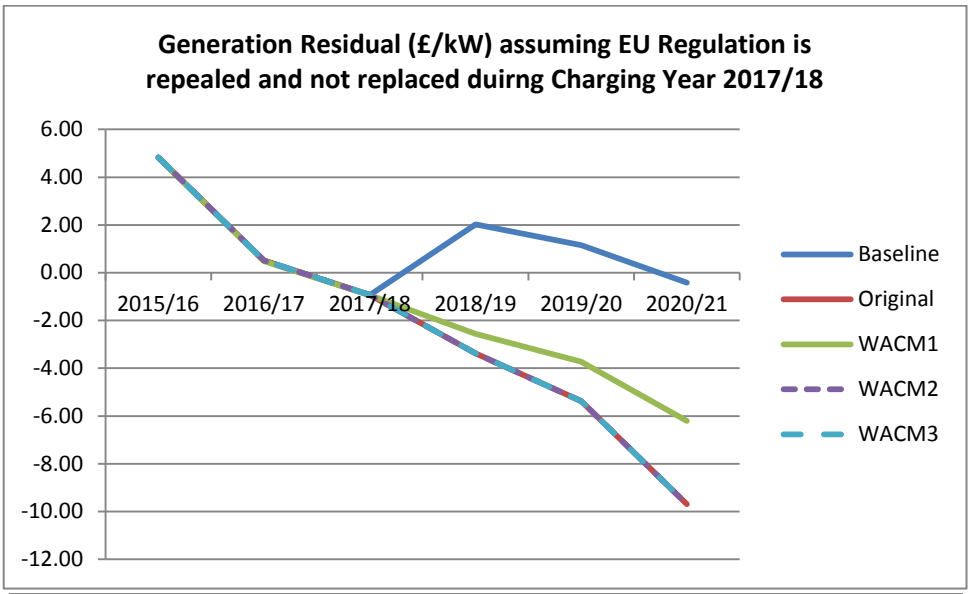


Figure 10*:* Average Tariffs showing effect of EU Regulation being removed in 2017/18 so affecting charges in 2018/19.

Summary Graphs – Effect on Residual Tariffs



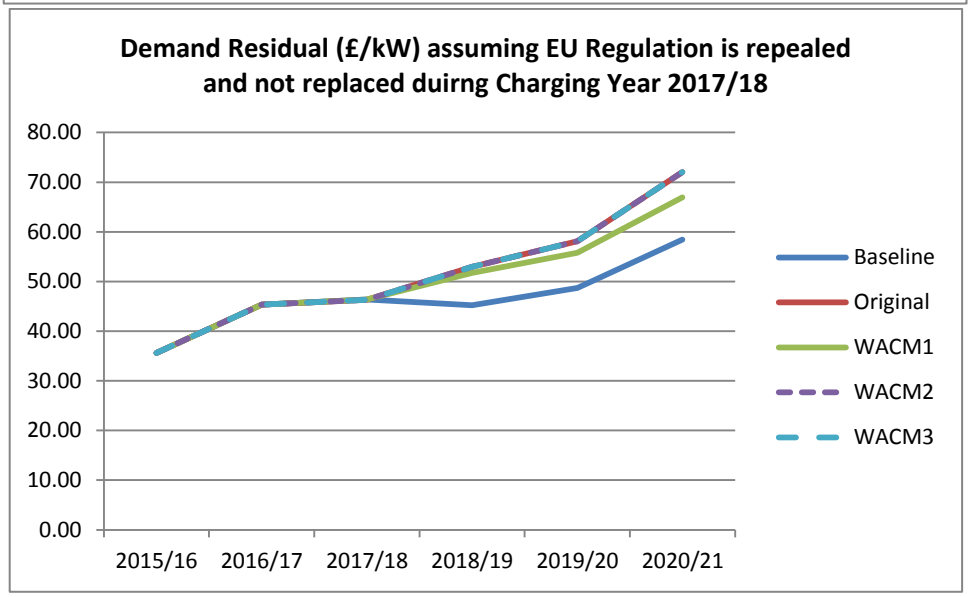


Figure 11: Residual Tariffs showing effect of EU Regulation being removed in 2017/18 so affecting charges in 2018/19.

Baseline Legal Text

14.14.5 …

v.) The application of a Transmission Network Use of System Revenue split between generation and demand where the proportion of the total revenue paid by generation, for the purposes of tariff setting, is the lower of 0.27 or x times the total revenue, where x for a charging year n is calculated as:

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

Where;

Cap_{EC}	=	Upper limit of the range specified by European Commission Regulation 838/2010 Part B paragraph 3 (or any subsequent regulation specifying such a limit) on annual average transmission charge payable by generation
Y	=	Error margin built in to adjust Cap_{EC} to account for difference in one year ahead forecast and outturn values for MAR and GO, based on previous years error at the time of calculating the error for charging year n
GO	=	Forecast GB Generation Output for generation liable for Transmission charges (i.e. energy injected into the transmission network in MWh) for charging year n
MAR	=	Forecast TO Maximum Allowed Revenue (£) for charging year n
ER	=	OBR Spring Forecast €/£ Exchange Rate in charging year n-1

Original Proposal

14.14.5 …

v.) The application of a Transmission Network Use of System Revenue split between generation and demand where the proportion of the total revenue paid by generation, for the purposes of tariff setting, is x times the total revenue, where x for a charging year n is calculated as:

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

Where;

Cap_{EC} = €2.50/MWh or such lower number as may be specified in a European Commission Regulation that sets an upper limit on the annual average tranmssion charge payable by generation that is expressed in €/MWh

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

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

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

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

WACM1: Fix at last percentage

14.14.5 …

v.) The application of a Transmission Network Use of System Revenue split between generation and demand where the proportion of the total revenue paid by generation, for the purposes of tariff setting for a charging year n, is x times the total revenue, where x is:

1. Whilst European Commission Regulation 838/2010 Part B paragraph 3 (or any subsequent regulation specifying such a limit on annual average transmission charge payable by generation) is in effect (a "Limiting Regulation") then:

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

Where;

Cap_{EC}	=	Upper limit of the range specified by a Limiting Regulation
Y	=	Error margin built in to adjust Cap_{EC} to account for difference in one year ahead forecast and outturn values for MAR and GO, based on previous years error at the time of calculating the error for charging year n
GO	=	Forecast GB Generation Output for generation liable for Transmission charges (i.e. energy injected into the transmission network in MWh) for charging year n
MAR	=	Forecast TO Maximum Allowed Revenue (£) for charging year n
ER	=	OBR Spring Forecast €/£ Exchange Rate in charging year n-1

2. Where there is no Limiting Regulation, then x for charging year n is set as the value of x used in the last charging year for which there was a Limiting Regulation.

WACM 2: Stay with €2.50/MWh due to CM Auctions and then return to 27% over 3 years

14.14.5 …

v.) The application of a Transmission Network Use of System Revenue split between generation and demand where the proportion of the total revenue paid by generation, for the purposes of tariff setting for a charging year n, is x times the total revenue, where x is:

1. Whilst European Commission Regulation 838/2010 Part B paragraph 3 (or any subsequent regulation specifying such a limit on annual average transmission charge payable by generation) is in effect (a "Limiting Regulation") then:

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

Where;

Cap_{EC}	=	Upper limit of the range specified by a Limiting Regulation
Y	=	Error margin built in to adjust Cap_{EC} to account for difference in one year ahead forecast and outturn values for MAR and GO, based on previous years error at the time of calculating the error for charging year n
GO	=	Forecast GB Generation Output for generation liable for Transmission charges (i.e. energy injected into the transmission network in MWh) for charging year n
MAR	=	Forecast TO Maximum Allowed Revenue (£) for charging year n
ER	=	OBR Spring Forecast €/£ Exchange Rate in charging year n-1

2. Where there is no Limiting Regulation, at the point the Limit Regulation is no longer in effect the first charging year for which a capacity market auction has not yet been held is termed charging year k:

    a. for charging years before charging year k, the value of x shall be calculated using the formula in (1) with Cap_{EC} being the value used in the last charging year for which there was a Limiting Regulation;
    b. for charging years k and k+1:

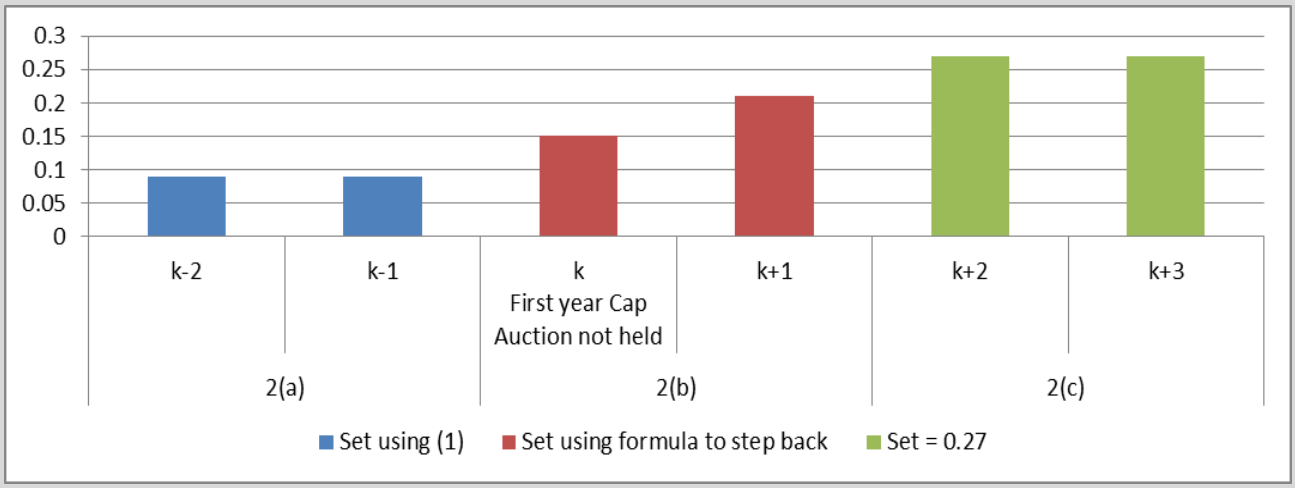
$$x_k = x_{k-1} + \frac{1}{3}(0.27 - x_{k-1}),$$

$$x_{k+1} = x_{k-1} + \frac{2}{3}(0.27 - x_{k-1});$$

    c. for charging years k+2 and thereafter x is 0.27.

NOT PART OF THE LEGAL TEXT: ILLUSTRATION FOR WACM2

Indicative Graph of how the three parts 2(a), (b) and (c) work to hold the tariff under equation €2.50/MWh cap (blue), step back over two years starting in the first year for which the capacity market auction has not been held [k,k+1] (red) and then hold at 0.27 (green)



WACM3: Follow the latest updates / five-year forecast then fix.

14.14.5 …

v.) The application of a Transmission Network Use of System Revenue split between generation and demand where the proportion of the total revenue paid by generation, for the purposes of tariff setting for a charging year n, is x times the total revenue, where x is:

1. Whilst European Commission Regulation 838/2010 Part B paragraph 3 (or any subsequent regulation specifying such a limit on annual average transmission charge payable by generation) is in effect (a "Limiting Regulation") then:

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

Where;

Cap_{EC}	=	Upper limit of the range specified by a Limiting Regulation
Y	=	Error margin built in to adjust Cap_{EC} to account for difference in one year ahead forecast and outturn values for MAR and GO, based on previous years error at the time of calculating the error for charging year n
GO	=	Forecast GB Generation Output for generation liable for Transmission charges (i.e. energy injected into the transmission network in MWh) for charging year n
MAR	=	Forecast TO Maximum Allowed Revenue (£) for charging year n
ER	=	OBR Spring Forecast €/£ Exchange Rate in charging year n-1

2. Where there is no Limiting Regulation, at the point the Limiting Regulation is no longer in effect the last charging year for which a forecast value of x has been published in the Tariff Information Paper which is produced in compliance with Condition 5 (the "Five-Year Forecast") is termed charging year k:
    a. for charging years up to and including charging year k, the value of x shall be the value most recently published, at the point the Limiting Regulation is no longer in effect, in accordance with the TNUoS Tariff Forecast Timetable or in the Five-Year Forecast;
    b. for charging years after charging year k, then x is set as the value of x used in charging year k.