

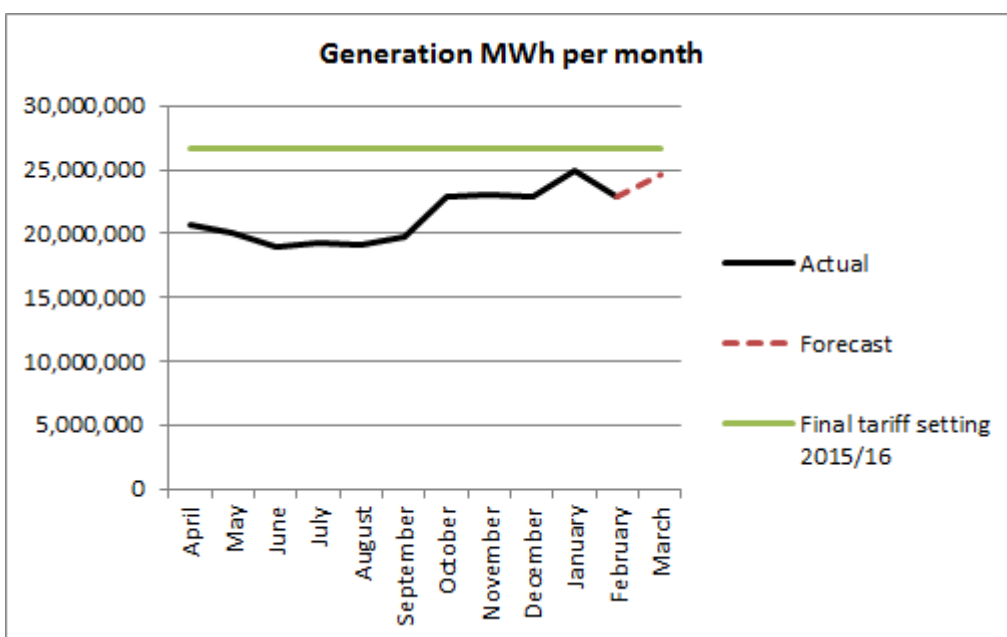
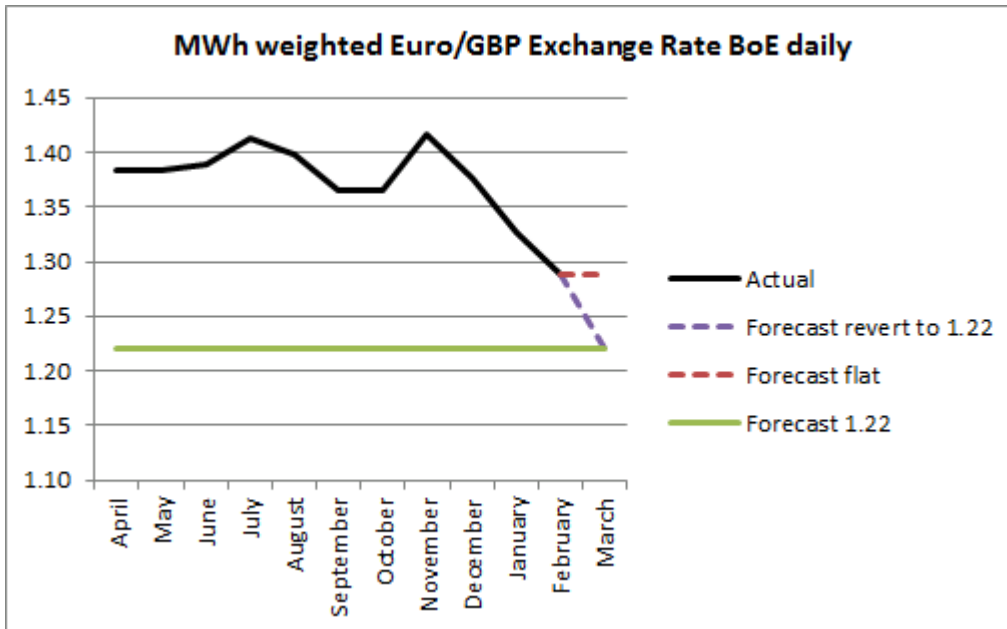
# CUSC Modification Proposal Form (for Charging Methodology Proposals) CMP261

## Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal
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).
Submission Date
8 <sup>th</sup> March 2016
Description of the Issue or Defect that the CUSC Modification Proposal seeks to address
<p>Having due regard for Regulation (EC) No 714/2009, the Commission Regulation (EU) No 838/2010<sup>1</sup> entitled "Guidelines for a Common Regulatory Approach to Transmission Charging" was introduced to provide a common regulatory approach to transmission charging across all the Member States.</p> <p>This Regulation, in Part B (paragraph 3), restricts the annual average transmission charges paid by electricity generators in Great Britain to the range of €0/MWh to €2.50/MWh.</p> <p>The methodology for generation transmission charges in Great Britain is defined in Section 14 of the CUSC.</p> <p>In order to assess the appropriate level of generation transmission charges to be paid by generators in GB in any given charging year National Grid must forecast the following:-</p> <ol style="list-style-type: none"><li>1) Total TNUoS cost in GB (£) to be recovered from Generators;</li><li>2) £/€ exchange rate for the year in question; and</li><li>3) Total MWh from generating stations which pay TNUoS</li></ol> <p>These three values allow National Grid to establish a forecast average GB generation transmission cost in €/MWh. If the upper limit of €2.50/MWh is to be exceeded, then National Grid vary the proportion of (1) - the Total TNUoS cost in GB (£) to be recovered from Generators - in order to bring the charges below the upper limit of €2.50/MWh.</p> <p>It is apparent now that deviations over time from the original (January 2015) forecast of the £/€ exchange rate and the total MWh from generating stations will be such that the average annual generation cost for GB generators in charging year 2015/16 will be substantially in excess of the €2.50/MWh upper limit set in the Regulation.</p>

<sup>1</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:250:0005:0011:EN:PDF>

The following two graphs illustrate these deviations. As can clearly be seen, at no point from the 1<sup>st</sup> April 2015 to 29<sup>th</sup> February 2016 have either of the two variables reached the levels forecast in January 2015 (when the charges for 2015/16 were set).



If this defect is not corrected, it will result in an exceedance of the upper limit set in EU Regulation 838/2010 Part B (paragraph 3) of €2.50/MWh for the average annual amount to be recovered from generators in Great Britain in charging year 2015/16.

Our indicative estimate, based on publically available information (as at the end of February) is that this exceedance could result in the average annual TNUoS charges paid by generators in GB, in charging year 2015/16, amounting to circa €3.25 /MWh, which is approximately

€0.75/MWh, or 30%, in excess of the €2.50/MWh upper limit in the Regulation.

		NG published Jan final 2015/16	March 2016 €/£ revert to 1.22	March 2016 €/£ flat
		Jan-2015	Mar-2016	Mar-2016
Cap Euro/MWh	€/MWh	2.50		
Target Euro/MWh	€/MWh	2.34		
Expected Exchange Rate	€:£	1.22		
Expected Cap Sterling	£/MWh	1.92		
Expected Output	TWh	320		
Expected Revenue	£M	613	613	613
Expected Outturn Exchange Rate	€:£		1.357	1.366
Expected Outturn Generation	TWh		259	259
Expected Revenue collected from generators	€m		832	837
Expected Outturn unit revenue	€/MWh		3.21	3.23
Excess Unit Revenue	€/MWh		0.71	0.73
Excess Revenue	€m		184	190
Generation Capacity	GW		71.5	71.5
Reduction in TNUoS generation charge	€/kW		2.58	2.66
Exchange Rate	€:£		1.360	1.360
Reduction in TNUoS generation charge	£/kW		1.89	1.95

As can be seen from the table above, if the proposal were to be taken forward and the numbers we have used here are broadly in line with the year-end outturn(s) then GB generators would, in spring 2016, receive a reconciliation payment, via the residual, in the order of £2/kW.

If there were no mechanism within the CUSC / Transmission Licence to change the TNUoS charges paid by GB generators in a given charging year once they had been set (in January of any particular year) for a charging year (starting 1<sup>st</sup> April till the following 31<sup>st</sup> March) then it would not be possible to make a reconciliation payment to generators.

However, this is not the case in GB. A 'mid-year'<sup>2</sup> tariff change mechanism does exist and has been used before - in charging year 2010/11 (with respect to costs associated with offshore transmission) – and can thus, if required, be used again.)

Given that a method exists to avoid exceeding the €2.50/MWh upper limit set out in EU law (by way of a 'mid-year' tariff change) it is appropriate to act urgently to bring about a tariff change which will ensure that the GB generation charges conform with the limits set in the Regulation.

## Description of the CUSC Modification Proposal

Based on the solution set out in the CMP251 Workgroup Consultation (dates 29<sup>th</sup> February

<sup>2</sup> Note 'mid-year' does not mean the mid-point in the charging year – a change could occur on, for example, the 2nd April or 30th March or anytime in between during the charging year.

2016) an *ex post* reconciliation of the TNUoS paid by GB generators during charging year 2015/16 would take place in spring 2016 with any amount in excess of the €2.50MWh upper limit being paid back, via a negative generator residual levied on all GB generators who have paid TNUoS during the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016 inclusive. In other words each generator would receive a credit of '£X' for each MW of TEC they held during the period in question.

The high level detail for this was noted in paragraph 4.12 (of the CMP251 consultation) accordingly:-

*"In the event an ex post process was adopted, National Grid confirmed that a good enough set of data for Generator reconciliation is available at D+23 as per the existing standard metering settlement timescales. Presently a generation reconciliation process is carried out at the end of April (in t+1) to take account of power station demand and generation in negative TNUoS charging zones in the preceding Charging Year t."*

If this new proposal were to be approved then this reconciliation, for charging year 2015/16, would thus occur in a similar timeframe.

In respect of the reconciliation payments made to generators in spring 2016 (for charging year 2015/16) there would also need to be a corresponding payment made, via demand TNUoS charges, from suppliers.

The CMP251 Workgroup has considered (as set out in their February Consultation) three options (paragraphs 4.8-4.22). For the sake of brevity we do not repeat the details here – but those matters should be read as being incorporated here.

Of those three options we believe that Option 1 should apply, which means that with this proposal the generator reconciliation payments (for charging year 2015/16) are made in spring 2016 and would be recovered from suppliers (along with any financing cost, if applicable) during charging year 2017/18.

## Impact on the CUSC

CUSC Section 14 – Part 2 – The Statement of the Use of System Charging Methodology, Section 1 – The Statement of the Transmission Use of System Charging Methodology

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

Yes.

Justification for Urgency Recommendation

This proposal should be treated as urgent as it is linked to an imminent date related issue; namely that the average annual amount to be recovered from generators in Great Britain in charging year 2015/16 will exceed the €2.50/MWh limit set out in EU law (Commission Regulation (EU) No 838/2010, Part B paragraph 3) that if not urgently addressed may cause:

- 1) One or more parties to be in breach of relevant legal requirement(s); and / or
- 2) A significant commercial impact on generator parties.

If this proposal is not treated as urgent then we believe the only alternative, to ensure GB generation costs are compliance with the €2.50/MWh limit, will be for a retrospective change to the 2015/16 generator TNUoS tariffs to occur after the end of the 2015/16 charging year.

Notwithstanding that, we note that the Ofgem Urgency Criteria does permit a retrospective modification in exceptional circumstances, on a case by case basis, and including:

*“where the possibility of a retrospective action had been clearly flagged to the participants in advance, allowing the detail and process of the change to be finalised with retrospective effect”*

For the avoidance of doubt given: (i) that the €2.50/MWh upper limit has been known since the Regulation was brought into effect (in 2010); (ii) that the possibility of GB exceeding this €2.50/MWh limit during charging year 2015/16 was brought to the attention of the industry previously, such as in January 2015<sup>3</sup>, May 2015<sup>4</sup> and August 2015<sup>5</sup>; and (iii) that the possibility of corrective action being required to be taken, in the form of a ‘mid-year’ tariff change, was also highlighted (in, for example, January 2015 and May 2015 as referenced above); we believe that this current proposal (if judged as being ‘retrospective’) would fully conform with the ‘retrospective’ elements stated in the Ofgem Urgency Criteria.

<sup>3</sup> CUSC Panel minutes 4409-4411.

<sup>4</sup> CUSC Panel minutes 4597-4600.

<sup>5</sup> in the CMP251 proposal form ‘description of defect’ (dated 19<sup>th</sup> August 2015)

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?
Yes
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:
<p><b>Please tick the relevant boxes and provide justification for each of the Charging Methodologies affected.</b></p> <p><b>Use of System Charging Methodology</b></p> <p><input checked="" type="checkbox"/> (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;</p> <p><input checked="" type="checkbox"/> (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);</p>

- (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:**

In respect of (a) it (i) removes the uncertainty / risk of infraction proceedings; and (ii) it removes uncertainty / risk of changes to charges at a later date. These uncertainties / risks undermine generators/suppliers commercial positions and therefore interfere with the correct functioning of the markets in generation and supply of electricity.

In respect of (b) by ensuring that the charges are set in accordance with the regulation this will ensure they are more reflective of costs than if this change were not undertaken.

In respect of (d) Regulation (EC) No 714/2009 and Commission Regulation 838/2010 are binding for all Transmission licensees across Europe. We believe that this proposal ensures that GB remains compliant with the European legislation and properly reflects National Grid's duties in the development of its transmission business.

**Additional details**

<b>Details of Proposer:</b> (Organisation Name)	SSE
<b>Capacity in which the CUSC Modification Proposal is being proposed:</b> (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Angus MacRae SSE 01738 456000 angus.macrae@sse.com
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Garth Graham SSE 01738 456000 garth.graham@sse.com
<b>Attachments (Yes/No):</b> <b>If Yes, Title and No. of pages of each Attachment:</b>	

## 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](mailto: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](mailto:jade.clarke@nationalgrid.com) copied to [cusc.team@nationalgrid.com](mailto: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.