CUSC Modification Proposal Form	At what stage is this document in the process?
# CMP280: ## Creation of a New Generator TNUoS Demand Tariff which Removes Liability for TNUoS Demand Residual Charges from Generation and Storage Users	01 Proposal Form 02 Workgroup Consultation 03 Workgroup Report 04 Code Administrator Consultation 05 Draft CUSC Modification Report 06 Final CUSC Modification Report

Purpose of Modification: The Modification aims to remove liability from Generator and Storage Parties for the Demand Residual element of the TNUoS tariff.

The Proposer recommends that this modification should be:

- assessed by a Workgroup

This modification was raised on **22 June 2017** by **Scottish Power** and will be presented by the Proposer to the Panel on **30 June 2017.** The Panel will consider the Proposer's recommendation and determine the appropriate route.

High Impact: None.

Medium Impact: None.

Low Impact: Suppliers: Any reduction in TNUoS Demand Residual charges paid by generators and storage operators will be recovered from the balance of parties liable to Demand TNUoS. However, the demand from generators and storage operators is small as a proportion of the total and most such parties can currently avoid Demand TNUoS charges by avoiding import at Triad; the impact is therefore expected to be minimal.

Generators. Due to the €2.50/MWh cap applied by ER 838/2010 there should be no impact on Generator parties.

National Grid. Changes will be required to the TNUoS billing systems to ensure that the new Generator TNUoS Demand tariff is applied to generator and storage parties.

Contents

Timetable

The Code Administrator recommends the following draft timetable:	
Initial consideration by Workgroup	w/c 24 July 2017
Workgroup Consultation issued to the Industry (15WD)	9 October 2017
Modification concluded by Workgroup	4 December 2017
Workgroup Report presented to Panel	15 December2017
Code Administration Consultation Report issued to the Industry (20 WD)	15 December2017
Draft Final Modification Report presented to Panel	18 January 2018
Modification Panel decision	26 January 2018
Final Modification Report issued the Authority	19 February 2018
Decision implemented in CUSC	2 April 2018

Any questions?

Contact:
Code Administrator

email address

telephone

Proposer: Rupert Steele

email address:
Rupert.Steele@ScottishPower.com

telephone:
0141 614 2012

National Grid Representative:
Insert name

email address.

telephone

Proposer Details

Details of Proposer: (Organisation Name)	ScottishPower Energy Management Limited
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:	 Rupert Steele ScottishPower 0141 614 2012 rupert.steele@scottishpower.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	 James Anderson ScottishPower Energy Management Limited 0141 614 3006 james.anderson@scottishpower.com
Attachments (~~Yes~~/No): **If Yes, Title and No. of pages of each Attachment:**	

Impact on Core Industry Documentation.

Please mark the relevant boxes with an "x" and provide any supporting information

BSC	
Grid Code	
STC	
Other	

We do not anticipate that there will be any impact on other industry Codes as a result of this proposal.

1 Summary

Defect

Under the current Charging Methodology, generator and storage parties contribute to both the Generation and Demand TNUoS Residual tariff elements; these parties are therefore contributing more towards the residual cost of the network when compared with other users. Storage users in particular, who compete with generators in the provision of ancillary services, may therefore be at a competitive disadvantage due to their much higher exposure to TNUoS Demand Residual tariff elements.[1]

Generators and electricity storage operators generally should be able to avoid exposure to Demand TNUoS charges by minimising demand at times of peak system demand (Triad) through generating at these times in order to help balance the system. However, should they import over the Triad (e.g. due to plant outage or instruction to store energy from the System Operator) or should changes in the charging of Demand Residual make it harder to avoid incurring the costs, they would be exposed to potentially significant Demand TNUoS charges.

What

CUSC 14.17 states that Parties with a Bilateral Connection Agreement (BCA) shall be liable for demand charges.

CUSC 14.17.10 states that The Chargeable Demand Capacity for a Power Station with a Bilateral Connection Agreement (BCA) or Licensable Generation with a Bilateral Embedded Generation Agreement (BEGA) will be based on the average of the net import over each Triad leg of the BM Units associated with the Power station (in Appendix C of its BCA or BEGA, including metered additional load) during the Triad.

CUSC 14.17.11 states that the Chargeable Demand for Exemptible generation and Derogated Distributed interconnectors with a BEGA will be based on the average of the metered volume of each BM Unit specified in Appendix C of the BEGA during the Triad.

It is proposed to amend the TNUoS Charging methodology (CUSC Section 14) so that parties who hold TEC during the charging year (generator parties and storage operators) and who import over the Triad periods would be liable for the proposed Generator Demand TNUoS tariff.

The Generator Demand TNUoS tariff would be defined as the locational element of the Demand TNUoS tariff as currently calculated, subject to flooring at zero. The locational element of demand TNUoS would be retained as this element is cost-reflective and reflects the marginal impact of increasing demand at times of system peak demand. The locational element would be floored at zero to prevent a perverse incentive on

[1] Because in the case of storage, imports typically exceed exports, whereas for generators imports are typically a small proportion of exports.

generators or storage parties in locations with a negative demand locational tariff charge to import during periods of peak demand.

Why

The locational element of the Demand TNUoS tariff provides a cost reflective signal of the impact on the transmission system of increasing demand at a particular location of the transmission system.

The TNUoS Demand Residual tariff element is not intended to be cost-reflective and serves to ensure that the Total Allowed Revenue is recovered from parties. As outlined in Ofgem's Targeted Charging Review consultation[2], Residual charges should be recovered on a basis which: reduces distortions, is fair and is proportional and practical in its application.

Requiring generators and storage parties to contribute to both the Generation and Demand TNUoS Residual tariff elements gives an unfair advantage to generators (whose imports are typically a small proportion of exports) compared to storage (whose imports typically exceed exports).

The solution is to remove the liability to the TNUoS Demand Residual tariff element from these parties. Failure to do so will perpetuate the above distortion.

How

As identified above, changes are required to the TNUoS Charging Methodology within section 14 of the CUSC to reflect the fact that Generator parties and storage operators should not be liable for the TNUoS Demand Residual element of the tariff.

This will require the definition of a new tariff charge for these parties, the Generator TNUoS Demand Tariff.

[2] Ofgem, Targeted Charging Review: a consultation, 13 March 2017, 5.9

2 Governance

Justification for Normal Procedures

The proposal should follow the normal CUSC governance process and should proceed to assessment by a Working Group. This will allow the development of the solution and appropriate legal text and allow any associated issues to be explored.

Requested Next Steps

This modification should:

- be assessed by a Workgroup

We believe that this proposal should be assessed by a Working Group in order to fully develop the solution and necessary legal text.

3 Why Change?

Generators and storage operators are both liable to TNUoS Demand Residual charges. However, storage operators are potentially much more exposed to these charges because their imports typically exceed exports, whereas for generators imports are typically a small proportion of exports. This may create a competitive distortion between generators and storage, who compete with each other in the provision of ancillary services.

The TNUoS Demand Residual tariff element is not intended to be cost-reflective and serves to ensure that the Total Allowed Revenue is recovered from parties. As outlined in Ofgem's Targeted Charging Review consultation[3], residual charges should be recovered on a basis which: reduces distortions, is fair and is proportional and practical in its application. Given that storage and generators are not end users of electricity, and are connected to the network primarily for the purposes of providing flexibility and energy services, there is no rationale for them to contribute to both the generator and demand residual recovery mechanisms.

The solution is to remove the liability to the TNUoS Demand Residual tariff element from these parties. For the avoidance of doubt, both generator and storage parties would remain liable for the cost-reflective locational element of demand TNUoS to reflect the marginal impact of increasing demand at times of system peak demand.

Failure to address this issue will perpetuate a distortion to competition between generators (whose imports are typically a small proportion of exports) and storage (whose imports typically exceed exports).

[3] Ofgem, Targeted Charging Review: a consultation, 13 March 2017, 5.9

4 Code Specific Matters

Technical Skillsets

The Working Group should consist of members with a well-developed understanding of the TNUoS Charging Methodology in Section 14 of the CUSC and preferably an understanding of the direction of travel of Ofgem's Targeted Charging Review.

Reference Documents

Reference documents that need to be considered:

- The CUSC Section 14
- Targeted Charging Review: a consultation, Ofgem 13 March 2017

5 Solution

These are the details of the Code changes that are proposed, setting out specific document changes to the Code.

This section is "owned" by the proposer and will not be altered by the workgroup and so should set out the change you, as proposer, wish to see made – which you can amend later to take into account issues raised by a Workgroup.

The CUSC definition of those parties liable to TNUoS Demand charges should be amended to remove the reference to generator parties.

A new Generator Demand TNUoS tariff consisting of only the locational elements of the Demand TNUoS tariff as calculated from the TNUoS charging model (and floored at zero) should be defined within the Charging Methodology.

The Charging methodology should define those parties liable to the Generator Demand TNUoS tariff.

6 Impacts & Other Considerations

Details of any potential cross-code, consumer or environmental impacts and attach or reference any other, related work.

We do not believe that there are any cross-code impacts from this Proposal.

Significant Code Review (SCR) or other significant industry change projects

There is currently no Significant Code Review (SCR) underway which impacts transmission charging. In addition, Ofgem has stated that it thinks that reform of TNUoS Demand Residual charging for storage should be progressed by industry outside of (and ahead of) any SCR that may be launched under Ofgem's Targeted Charging Review (TCR).

Consumer Impacts

Removal of a distortion to competition should result in fairer allocation of the costs of the transmission system and stronger competition, which should in turn drive lower costs in the wholesale electricity market.

7 Relevant Objectives

Impact of the modification on the Applicable CUSC Objectives (Charging):

Relevant Objective	Identified impact
(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;	Positive. Removing a distortion in competition will better facilitate competition.
(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);	Positive/None As Residual charges are not intended to be cost reflective, this proposal will have little impact on cost reflectivity other than removing a distortion whereby some users pay a disproportionate amount of the costs.
(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*;	Positive The large increase in the Allowed Revenues due to investment in the transmission system and consequential growth in the value of the TNUoS Demand Residual element of the tariff has increased the urgency of addressing this distortion. Addressing this issue will reflect these changes in the transmission licensees' 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; and	None
(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.	None

*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).

8 Implementation

The Proposal should be implemented to coincide with the start of a Charging Year (i.e. 1 April) and should be implemented in the first practical Charging Year following a decision by the Authority.

Given the importance of promoting storage, we believe that, if at all possible, the change should be implemented in April 2018 and should be expedited accordingly.

9 Legal Text

The Proposer is welcome to put forward suggested legal text. If this is a proposed Fast Track Self-Governance modification then legal text and commentary must be provided. Otherwise the legal text will be provided in conjunction with the Workgroup Report to the CUSC Panel before progressing to the Code Administrator Consultation.

To be developed by the Working Group.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Normal governance procedures should apply, expedited in order to maximise the opportunity to bring it into effect in April 2018
- Refer this proposal to a Workgroup for assessment.

