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Date: 10 June 2016

Dear Mr Toms,

CUSC Modifications Panel views on urgency for CMP265: 'Gross charging of TNUoS for HH demand where embedded generation is in the Capacity Market'

On 26 May 2016, EDF Energy (the Proposer) raised Connection and Use of System Code (CUSC) Modification Proposal CMP265.¹ CMP265 seeks to reduce the level of 'embedded benefits' available to embedded generators that win Capacity Market (CM) contracts. The Proposer requested that CMP265 be treated urgently.

Following its meeting on 27 May 2016, the CUSC Modifications Panel (the 'Panel') wrote to us requesting our decision on whether to grant urgency to CMP265. The Panel's view was that urgency should *not* be granted for CMP265, but that it should follow an accelerated timetable which would include assessment by a workgroup.

This letter confirms that we are in agreement with the Panel and do not consider that the modification proposal should be progressed on an urgent basis.

Background to the proposal

There are two types of charges levied for use of the GB transmission system. Transmission Network Use of System (TNUoS) charges² recover the costs of constructing, operating and maintaining the transmission system. Balancing Services Use of System (BSUoS) charges³ recover the costs of balancing the transmission system. System losses are accounted for by adjusting the metered output and consumption of generation and demand using transmission loss factors (TLFs). Although loss adjustment is not technically a 'charge', for the purpose of this letter we will refer to TNUoS charges, BSUoS charges and transmission loss factors jointly as 'transmission charges'.

'Embedded generation' is generation connected to a distribution network. Larger embedded generation (100MW plus) is 'licensable' and subject to generation transmission charges. Smaller embedded generation (under 100MW) normally contracts through a supplier and is

¹ The CMP265 modification proposal form is available on National Grid's website here:

<http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP265/>

² TNUoS charges are split between generation and demand and are levied on a £/kW basis and comprise a 'locational' element which reflects the long-term impact that network users have on the transmission system, and a 'residual' element which ensures that the transmission owners recover their costs in full.

³ BSUoS charges are levied on a £/MWh basis.

treated as negative demand for transmission charging purposes, including TNUoS. For example, a supplier's transmission charges for a given Grid Supply Point (GSP) group, will be based on its net demand, with the half hourly metered embedded generation being netted off the gross demand.

The CM aims to maintain sufficient levels of capacity to ensure security of electricity supply. Generators bid to win capacity contracts, under which they receive payments in return for committing to provide capacity at times of system stress.

The proposal

The Proposer considers that embedded benefits give exempt embedded generation an advantage over other generators and are distorting CM tenders and competition in the CM. The proposal seeks to reduce the level of embedded benefits available to licence exempt embedded generators who win CM contracts with the aim of reducing distortions in the CM. Specifically, it proposes that exempt embedded generators that win CM contracts would not be eligible to receive a credit in respect of the demand residual TNUoS charge. These generators would, however, still be eligible for the other elements of embedded benefits. They would not pay generation transmission charges and they would still receive negative demand transmission charges in respect of BSUoS charges and losses. Exempt embedded generators that do not hold CM contracts would not be affected.

The Proposer has also stated that, if CMP265 were approved, a BSC Modification would probably also be needed to ensure the data required to implement this change is available to National Grid Electricity Transmission Plc (NGET).

Panel Discussion

The Panel considered CMP265 and the associated request for urgency at its meeting held on 27 May 2016. The Panel then wrote to us with its recommendation on the urgency request made by the Proposer. The majority view of the Panel was that CMP265 should *not* be treated as urgent. Its view was that:

'This modification is considered complicated and cannot be addressed fully by the Workgroup using an urgent process. Following an urgent timetable holds an inherent risk of unintended consequences, which may arise due to there being insufficient time for all aspects of a Modification Proposal to be considered.'

The Panel set out, in an Appendix to its letter, a proposed accelerated timetable for development of CMP265 including a workgroup assessment. It also proposed that CMP265 could be assessed in a similar timeframe to another new CUSC modification, CMP264 'Embedded Generation Triad Avoidance Standstill'.

Our Views

In reaching our decision, we have considered the details contained within the proposal, the Proposer's justification for urgency and the views of the Panel. We have assessed the request against the criteria set out in Ofgem's published guidance⁴, in particular whether it is linked to "an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholder(s)".

We agree with the Panel that proper consideration and a timely decision prior to the next CM auction in December 2016 is best achieved through an accelerated, rather than an urgent, timetable. We also agree with the Panel that the complex nature of the modification warrants a workgroup. Therefore, we do not consider that failure to deal with this

⁴ The guidance document is available here: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

modification urgently may *cause a significant commercial impact on parties, consumers or other stakeholder(s)*.

We also note that the CUSC modification process is designed to allow sufficient opportunity for industry to consider and submit their views in respect of modification proposals. We consider this should apply in this case, albeit on an accelerated timetable as proposed by the Panel. We would encourage the workgroup to seek the participation and views of all affected parties, including embedded generators and parties involved in the CM. We also note the submission of CUSC modification proposal CMP264, which is closely related to CMP265, and consider that there would be merit in proceeding with these two modifications on a similar timetable.

For the avoidance of doubt, in not granting this request for urgency, we have made no assessment of the merits of the proposal and nothing in this letter in any way fetters the discretion of the Authority in respect of this proposal.

Yours sincerely,

Frances Warburton

Partner, Energy Systems

Duly authorised on behalf of the Authority