

Proposers Presentation – CMP268



Agenda

- Introduction and meeting objectives JM
- Proposers Presentation JT
- Terms of Reference HC
- Options for WACMS All
- Next Steps HC



CMP268:

**Recognition of sharing by
Conventional Carbon
plant of Not-Shared Year-
Round circuits**



Description of the defect

Different network sharing characteristics of different plant is not recognised.

Different plant cause different transmission network investment costs due to different sharing characteristics e.g. CCGTs compared to Nuclear

Currently - When the penetration of Low Carbon generators increases beyond 50%, the degree of sharing of Year Round circuits is assumed to linearly reduce for all classes of generation (including Conventional Carbon)

However...

Conventional Carbon plant fully shares all Year Round circuit costs - Even in circumstances when the proportion of plant which is Low Carbon exceeds 50%.

Consequence – Conventional Carbon plant currently over charged

Definition of “Conventional Carbon”

Existing definitions used by the charging methodology

		Technology type by bid price	
		“Carbon” (Low cost BM bid price)	“Low carbon” (High cost BM bid price)
Technology type by dispatchability	“Conventional” (Firm dispatch, so pays Peak Security tariff)	CCGT, OCGT, Coal, pumped storage, CHP, biomass	Nuclear, hydro
	“Intermittent” (Not firm dispatch, so does not pay Peak Security tariff)	No technologies identified	Wind, PV, tidal, wave

Definition of “Conventional Carbon”

		Technology type by bid price	
		“Carbon” (Low cost BM bid price)	“Low carbon” (High cost BM bid price)
Technology type by dispatchability	“Conventional” (Firm dispatch, so pays Peak Security tariff)	"Conventional Carbon"	"Conventional Low Carbon"
	“Intermittent” (Not firm dispatch, so does not pay Peak Security tariff)	"Intermittent Carbon"	"Intermittent Low Carbon"

Definition of “Conventional Carbon”

Consequence for application of sharing to tariff formula – Two types of plant (Conventional and Intermittent) replaced by 3:

1. Conventional Carbon
2. Conventional Low Carbon
3. Intermittent

Economic rationale

- **Incremental cost of network** - Is proportional to the incremental cost of constraints
- **Incremental cost of constraints** – Driven by the elements below

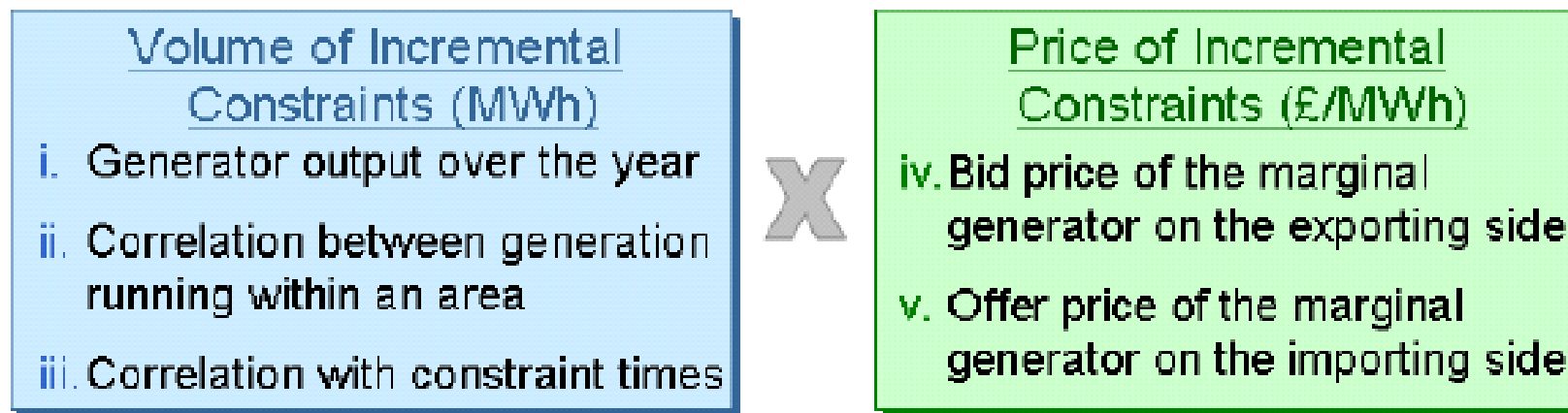


figure 5 of the CMP213 Workgroup report

Economic rationale

Presence of Conventional Carbon does not cause reduced sharing

...Absence of Conventional Carbon causes reduced sharing

“4.22 The linear relationship between load factor and incremental constraint costs breaks down when bids cannot be taken from plant at close to wholesale marginal price, and are taken from low-carbon plant instead.”
[emphasis added]

“4.38 ...As the percentage of low carbon plant increases above 50% the cost of bids significantly increases. It follows in these circumstances that incremental low carbon plant increases constraint costs whilst incremental carbon plant reduces incremental constraint costs. This latter effect is because the volume of low carbon plant that runs provides cheaper bids than previously available in that transmission charging zone; i.e. the slope in that zone was previously steeper.” [emphasis added]

CMP213 Workgroup report

Types of harm

1. **Non cost reflective economic disadvantage** - For Conventional Carbon generators which are located in zones with a high proportion of low Carbon generation.
2. **Inefficient investment/closure decisions** – Higher cost to customers
3. **Locational security of supply risk** – “Death spiral” for low load factor peaking plant.

Description of Modification proposal

Recognise Conventional Carbon fully shares even with high proportion of non-carbon plant

Conventional Carbon plant, apply the ALF to both tariff elements:

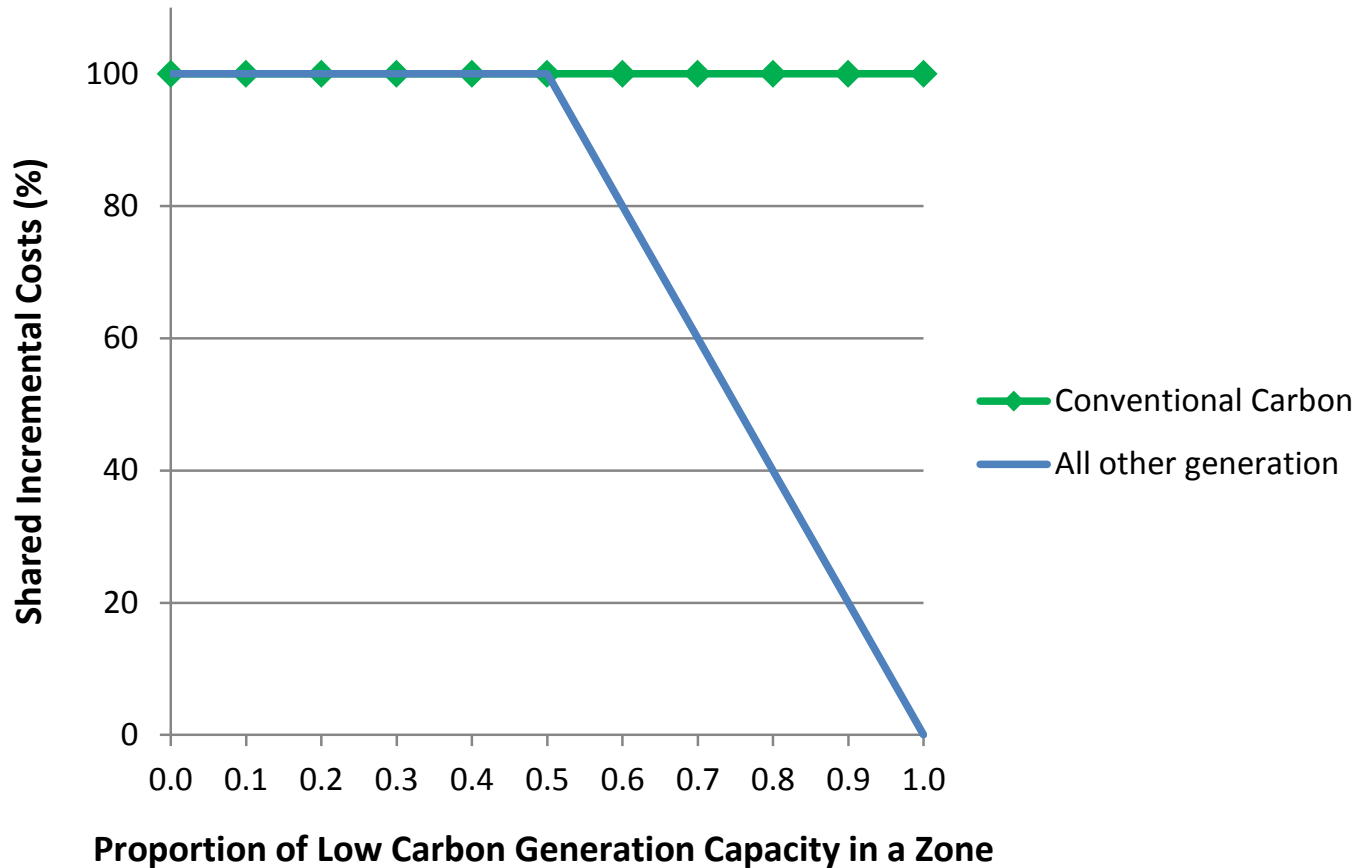
- Not-Shared Year Round and...
- Shared Year Round

This maintains recognition of continued sharing of transmission network by Conventional Carbon plant.

This recognises that reduced network investment is required for Conventional Carbon plant even at high penetration of Low Carbon generation.

Description of Modification proposal

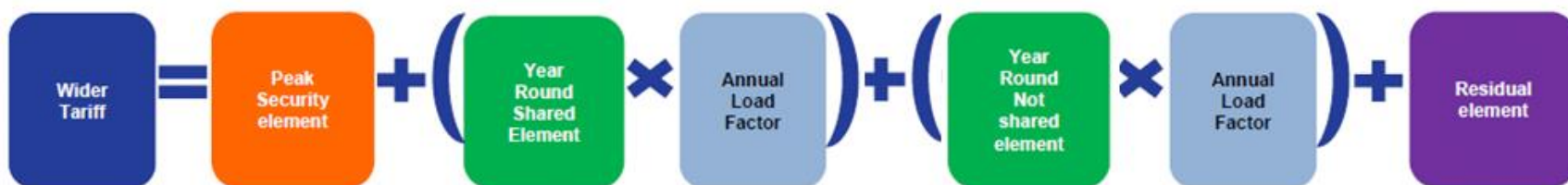
Change to TNUoS tariff formula



Description of Modification proposal

Change to TNUoS tariff formula

1. Adjusted tariff formula: “Conventional Generator – Carbon”



2. Unchanged tariff formula: “Conventional Generator – Low carbon”



Applicable CUSC objectives

- a) **Effective competition** – More level playing field by correcting defect to remove economic disadvantage for Conventional Carbon generators in a zone with a high share of low carbon generation.
- a) **Cost reflectivity** - Improve the cost reflectivity of Generation TNUoS charges.

Need for urgency

Next Capacity Auctions

- Start of December 2016 for 2020/21 T-4 auction
- End of January for 2017/18 T-1 auction

Decision is required by:

- **Ideally - Important to have decision by middle September 2016 -**
Price maker memorandum
- **Certainly - No later than end November 2016**

Terms of Reference



Heena Chauhan – Code Administrator

Terms of Reference

- a. Reviewing CMP213
- b. Distribution impacts
- c. HVDC implications and links

Use of System Charging Methodology (CUSC Objectives)

- (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.

in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.

Option 2- Proposed Urgent timeline (1/2)

(10 day consultations; 4 WG meeting and 7WD for Ofgem decision)

27 July 2016	CUSC Modification Proposal and request for Urgency submitted
29 July 2016	CUSC Panel meeting to consider proposal and urgency request
2 August 2016	Panel's view on urgency submitted to Ofgem for consultation
29 July 2016	Request for Workgroup members (5 Working days) (responses by 25 July 2016)
23 August 2016	Ofgem's view on urgency provided (15 Working days)
31 August 2016	Workgroup meeting 1
5 September 2016	Workgroup meeting 2
9 September 2016	Workgroup Consultation issued (10 days)
23 September 2016	Deadline for responses
28 September 2016	Workgroup meeting 3
3 October 2016	Workgroup meeting 4 (agree WACMs and Vote)
7 October 2016	Workgroup report issued to CUSC Panel
11 October 2016	Special CUSC Panel meeting to approve WG Report

Option 2- Proposed Urgent timeline (2/2)

(10 day consultations; 4 WG meeting and 7WD for Ofgem decision)

13 October 2016	Code Administrator Consultation issued (10 Working days)
27 October 2016	Deadline for responses
1 November 2016	Draft FMR published for industry comment (3 Working Days)
4 November 2016	Deadline for Industry comments
1 November 2016	Draft FMR circulated to Panel
8 November 2016	Special CUSC Panel meeting for Panel recommendation vote
10 November 2016	FMR circulated for Panel comment (2 Working day)
14 November 2016	Deadline for Panel comment
16 November 2016	Final report sent to Authority for decision
25 November 2016	Indicative Authority Decision due (7 working days)
30 November 2016	Implementation date