

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)'



CUSC Panel – 20 June 2016
Heena Chauhan – National Grid

Background

- CMP261 was raised by SSE and was submitted to the CUSC Modifications Panel for their consideration on 9 March 2016.
- CMP261 seeks to ensure that there is an ex post reconciliation of the TNUoS paid by GB Generators during charging year 2015/16 which will take place in Spring 2016 with any amount in excess of the €2.5/MWh upper limit being paid back, via a negative Generator residual levied on all GB Generators who have paid TNUoS during the period 1st April 2015 to 31st March 2016 inclusive.
- CMP261 was sent back by the Authority in February 2017 to carry out further work which has now been concluded.

Workgroup Consultation

- No workgroup consultation was conducted following sendback.

WACMS

- The 3 WACM's originally submitted as part of the FMR in November 2016 have been changed to the following:

| Proposal Numbers | Generation Adjustment Mechanism | Generator Rebate Year | Demand Adjustment Mechanism | Supplier Charge Year | Cancellation Charge (£) | Cancellation Capacity (MW) | Rebate £/kW | Interest on credit/debits | Owner |
|------------------|---|-----------------------|---|----------------------|-----------------------------------|--|-------------------------------------|--|--------------------------------|
| Original | Rebate – one off lump sum | ASAP | Recovery via 12 monthly debit invoices. KW/KW(h) demand recovery rate calculated using forecast of HH and NHH volumes charged in relevant year based on standard Demand charging processes. This will be reconciled at the end of the relevant year with under/over recovery fed through to new Demand recovery rates calculated using forecast of HH and NHH volumes for the following Charging Year. The final Demand reconciliation process 'trues up' any remaining cost of the principle amount. | T+1 | Included in calculation of rebate | Included in calculation of £/kW rebate | £1.66/kW | Not applicable | Garth Graham – SSE |
| WACM1 | Rebate – one off lump sum | ASAP | Recovery via 12 monthly debit invoices. KW/KW(h) demand recovery rate calculated using forecast of HH and NHH volumes charged in relevant year based on standard Demand charging processes. This will be reconciled at the end of the relevant year with under/over recovery fed through to new Demand recovery rates calculated using forecast of HH and NHH volumes for the following Charging Year. The final Demand reconciliation process 'trues up' any remaining cost of the principle amount. | T+2 | Included in calculation of rebate | Included in calculation of £/kW rebate | £1.66/kW | Not applicable | Joe Underwood – Drax |
| WACM2 | Rebate via one off lump sum using 2015/2016 TEC | ASAP | Recovery via 12 monthly debit invoices. KW/KW(h) demand recovery rate calculated using forecast of HH and NHH volumes charged in relevant year based on standard Demand charging processes. This will be reconciled at the end of the relevant year with under/over recovery fed through to new Demand recovery rates calculated using forecast of HH and NHH volumes for the following Charging Year. The final Demand reconciliation process 'trues up' any remaining cost of the principle amount. | T+1 | Excluded in calculation of rebate | Not applicable | £1.45/kW plus interest | Interest at base rate +2% or such other level, if appropriate, set by Ofgem and paid by the party or parties determined by Ofgem, if appropriate, in due course. | Louise Schmitz – National Grid |
| WACM3 | Generation residual at Tariff setting | T+2 | Demand residual at Tariff setting | T+2 | Included in calculation of rebate | Not applicable | Equivalent to £119.5m / 2018/19 TEC | | George Moran – British Gas |

Workgroup Conclusions

- Terms of Reference have been met;

| | Evidence in Workgroup Report |
|--|--------------------------------------|
| <i>a) Implementation</i> | Section 4 |
| <i>b) Review draft legal text (agreed by the Workgroup)</i> | Annex 19 |
| <i>c) Consider the legality of breaching the regulation then reconciling the difference the following year</i> | Section 2, Section 10 and Section 11 |
| <i>d) Assess Impact on Competition</i> | Section 2, Section 10 and Section 11 |
| <i>e) Assess the impact on Suppliers</i> | Section 2, Section 10 and Section 11 |
| <i>f) Assess the Impact on the Consumer</i> | Section 2, Section 10 and Section 11 |
| <i>g) Consider any impact with related CUSC modification Proposal</i> | Section 2 |
| <i>h) Consider when €2.50 is to be calculated</i> | Section 2 |
| <i>i) Consider 2 year delay in the transfer of funds between Generators and Suppliers</i> | Section 4 and Section 11 |

Sendback

- The Workgroup consider that they have met the following sendback requirements:
 - Correct the legal text.
 - if there has been a breach, ensuring that the options submitted to Ofgem remedy it, i.e. that they reimburse the right users the right amount of the alleged overcharge.

Proposed CUSC Modification

- This Proposal seeks to amend;
 - CUSC Section 14 – Charging Methodology

Code Administrator Conclusions

- 15 responses were received to the Code Administrator Consultation.
- A variety of views were recorded.
 - 4 respondents support the original and WACM1 with particular support for WACM1 due to its delayed recovery.
 - 3 respondents supported the Original Proposal, WACM1 and WACM2 but weighted support towards WACM2 as it does not include cancellation charges, also focusing a repayment of interest as per standard reconciliation processes.
 - 3 respondents supported the original, WACM1 and WACM2 ,with one of those respondents adding that whilst WACM2 is better than baseline, they felt cancellation charges should be part of any rebate.
 - 5 respondents did not support any change to the current arrangements as any changes would have a negative impact on CUSC objectives (a), (b) and (d) because tariff changes after they have been set by National Grid could cause unexpected costs to consumers. Furthermore, the ex-ante methodology was agreed by the regulator as part of a transparent industry process.

National Grid View

As it is not clear there has been a breach of the EU regulation and, as National Grid set tariffs following the approved CUSC process put in place through CMP224 (via an industry-led approach to comply with Regulation 838/2010), we consider that the defect is yet to be established. However, it is important that a viable solution is available to remedy the alleged breach if established; it is therefore appropriate and efficient for us to effectively participate in the modification process.

Should a breach of the EU regulation be established, National Grid supports implementation of CMP261 as an effective remedy to such breach, thereby promoting efficiency in the administration of the system charging methodology.

Following the send back we consider that the Original and WACMs 1 and 2 target payment of the rebate to the correct parties as a rebate to 2015-16 generators rather than any adjustment of TNUoS tariffs. However, the exclusion of the cancellation charges paid in 2015-16 from the solution outlined in WACM 2, means WACM 2 is better in that it ensures that the correct parties receive the correct amount of money. We note that consideration of the inclusion or otherwise of cancellation charges was a point that Ofgem asked that the workgroup to consider, furthermore we do not consider the case for inclusion of the cancellation charges has been demonstrated.

National Grid further believes that time value of money is an important consideration in having an option which remedies the breach, which is again in line with the need to pay the correct amount of money in any rebate.

Late Submission

- Drax, Haven Power and Opus submitted a late consultation response which has not been included in the DFMR.

Questions before Panel Vote?



Panel Recommendation Vote

The Applicable CUSC objectives for CMP261 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 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);
- (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; and
- (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.
- (e) *to promote efficiency in the implementation and administration of the CUSC arrangements.*

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).

Proposed Timetable

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| 29 April 2016 | Workgroup report presented to CUSC Panel |
| 4 May 2016 | Code Administrator Consultation issued (10 Working days) |
| 18 May 2016 | Consultation closes |
| 19 May 2016 | Draft FMR published for industry comment (1 Working day) |
| 20 May 2016 | Deadline for comments |
| 23 May 2016 | Draft FMR issued to Panel |
| 20 June 2017 | Panel Recommendation Vote |
| 20 June 2017 | Final FMR circulated for Panel comment |
| 22 June 2017 | Deadline for Panel comment |
| 23 June 2017 | Final report sent to Authority for decision |
| 28 July 2017 | Indicative Authority Decision due |
| 4 August 2017 | Implementation Date |