Transmission Charging Methodologies Forum and CUSC Issues Steering Group

Meeting 102

3 March 2020

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Agenda

1	Introduction, meeting objectives	**Jon Wisdom NGESO**	10.30 – 10.35
2	Code admin update	**Paul Mullen NGESO**	10.35 – 10.45
3	TCR 1 – Transmission Demand Residual (TDR)	**Grahame Neale NGESO**	10.45 – 10.55
4	TCR 2 – BSUoS Gross Demand	**Jenny Doherty NGESO**	10.55 – 11.05
5	TCR 3 – 2nd BSUoS Taskforce Update	**Grace March Sembcorp**	11.05 – 11.10
6	Potential modifications update	**Sarah Chleboun NGESO**	11.10 – 11.30
7	AOB	**Jon Wisdom NGESO**	11.30 – 11.35

Introduction and meeting objectives

No open actions

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Code Administrator Update

Paul Mullen

3 March 2020

National Grid ESO

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Authority Decisions/Implementations (as at 3 March)

Panel sought all the TCR Modifications to proceed on “Urgent” timeline

- On 6 February 2020, Ofgem rejected Panel’s request for Urgency on CMP317/CMP327, CMP332 and CMP333.

- On 19 February 2020, Ofgem approved Panel’s request for Urgency on CMP334, CMP335 and CMP336.

Authority Decisions – Pending (as at 3 March)

Modification Number	What is this Modification doing	Decision/ Implementation
CMP280, CMP281 and CMP319	Remove the liability from storage facilities to the TNUoS Demand Residual tariff element (CMP280) and BSUoS charges on imports (CMP281). CMP319 raised to carry out changes to the CUSC definitions as a result of CMP280 and CMP281.	Implementation 1 April 2021: CMP281 and CMP319 decision by end March 2020; CMP280 decision Q2 2020
CMP292	Looking to ensure that the charging methodologies are fixed in advance of the relevant Charging Year to Electricity System Operator to appropriately set and forecast charges.	Implementation 1 April 2021: Decision expected summer 2020
CMP303	To make part of the TNUoS charge more cost-reflective through removal of additional costs from local circuit expansion factors that are incurred beyond the connected, or to-be-connected, generation developers' need.	Implementation 1 April 2021: Decision expected June 2020

Authority Decisions – Pending (as at 3 March)

Modification Number	What is this Modification doing	Decision/ Implementation
CMP306	Align the rate of return applied to the net asset value of connection points in the calculation of annual connection charges to the pre-tax cost of capital in the price control of the Relevant Transmission Licensee (plus a margin of 1.5 percentage points in the case of MEA-linked assets).	Implementation 1 April 2021: Decision expected by end March 2020
CMP320	Islands that have a MITS Node but are served by a single circuit radial link are exposed to non-cost reflective charging of a 1.8 Security Factor rather than the application of a 1.0 Security Factor. This proposal will apply a 1.0 Security Factor in that situation.	Implementation 1 April 2021: Decision expected June 2020

New Modifications (raised at January Panel and discussed at February Panel)

Modification Number	What is this Modification doing	Panel Decision
CMP337 / CMP338	CMP337 seeks to allow Distribution Network Operators to contribute to the cost of new transmission assets, and allow this contribution to be netted off from the Transmission Owner's actual project costs in a way which maintains the exact pro-rating of costs between local and wider TNUoS charge elements as is currently in place. CMP338 introduces a new definition of "Cost Adjustment" to give effect to CMP337.	Panel asked for clarity on a number of issues (notably the impact on wider TNUoS) before determining whether this should proceed to Workgroup or Code Administrator Consultation. **At February 2020 Panel meeting, Panel determined that CMP337/338 should proceed to Workgroup and agreed the Terms of Reference for the Workgroup**.

In Flight Modification Updates

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In flight Modifications

For updates on all “live” Modifications please visit “Modification Tracker” at:
https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc

2020 Dates

Note change to April Modification Submission Date from 9 to 7 April 2020

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CUSC 2020 Workgroups and Panel dates

CUSC - Workgroups	1	2	3	4
March	6	12	20	26
April	3	9	15	23
May	8	14	22	28
June	5	10	15	25
July	10	16	24	30
August	7	13	21	27
September	4	10	18	24
October	9	14	23	29
November	6	11	16	23
December	30/11	7	17	21

CUSC	Panel Dates	Papers Day	Modification Submission Date	TCMF
January	31	23	16	9
February	28	20	13	6
March	27	19	12	5
April	24	16	**7**	2
May	29	21	14	7
June	26	18	11	4
July	31	23	16	9
August	28	20	13	6
September	25	17	10	3
October	30	22	15	8
November	27	19	12	5
December	18	10	3	26/11

Update - Targeted Charging Review (TCR)

March 2020

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Ofgem's TCR Decision

Ofgem's decision on TCR released on 21st November

- Full details can be found here - Link to Ofgem's website
- Key points are;
  - Major reform of TNUoS Demand Residual (TDR). Make the TDR unavoidable and remove any behavioural signals by charging on a £/site/day basis.
  - TNUoS Generation Residual (TGR) to be set at £0 (subject to compliance with EU Regulation No 838/2010 as being progressed via CMP317)
  - BSUoS to Suppliers to be based on gross demand as measured at the GSP
  - 2nd BSUoS taskforce to determine who should pay BSUoS and on what basis

All of the above to be implemented by April 2021 for Transmission (April 2022 for Distribution)

Transmission Demand Residual (TDR)

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BSUoS Gross Demand

Jenny Doherty, NGESO

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2nd BSUoS Taskforce Update

Grace March, BSUoS Task Force

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Deliverable 1: Qualitative Analysis of Market Distortion

- The ESOs forecast is frequently wrong (and usually underestimates the BSUoS price)
- Conclusions of Task Force (TF) quantitative analysis are sensitive to the WACC assumptions for generators vs suppliers and the forecast horizon.
- European Comparisons: GB generators pay far more in Balancing Services charges than their European counterparts.
- CMP250: referenced and will be expanded on.
- Decarbonisation: There would likely be a neutral impact on decarbonisation were Suppliers to pay the whole cost
  - Largely based on TCR Impact Analysis of removing BSUoS Embedded Benefit
- Interconnector Investment Efficiency: to be reviewed
- Ofgem confirmed that under current legislative frameworks it is not possible to charge interconnectors for BSUoS.

Deliverable 1 Initial Conclusions

- In principle, levying BSUoS on both suppliers and generators creates more transactional costs than if the costs were levied on suppliers alone.
- The TF hypothesised that two risk premiums on a smaller BSUoS value would place a greater cost of risk onto end consumers than one risk premium on a larger BSUoS value.
- To remove distortions created by BSUoS the TF agreed that the charge should ideally be levied either on suppliers only or on all users of the GB electricity network (suppliers, Tx generators, Dx generators, BtM, foreign generators accessing the GB market over the interconnectors etc.)
- Getting the implementation approach right is crucial to avoid major losses or windfalls to industry parties. This will be a key part of the recommendation the TF submits to Ofgem.
- All this considered the preliminary conclusions of TF2-M1 are suggesting that there is compelling evidence for suppliers to pay all the costs of balancing services.
- As far as this deliverable can go without discussion on Deliverable 2.

Deliverable 2

- Have also heard from Ofgem and ESO Finance around credit and cashflow implications
  - Discussion around who can/should bear risk around BSUoS

- The intention is to table all possible methods of cost recovery and evaluate individually
- Mix of charging to Final Demand and charging Generation
- Some based on TDR methodology, some remain volumetric
- Mix of ex-post and ex-ante, over varying timescales

- Task Force is currently assessing suggestions against the 3 TCR principles:
  - reducing harmful distortions,
  - fairness, and
  - proportionality and practical

Timescales going forward

- All meeting material and summaries (written and podcasts) is available at chargingfutures.com
- The interim report and consultation will be in April 2020, with final report due in June 2020.
- There will be webinars in April and June, as well stakeholder engagement throughout the process.

Potential CMPs: Tidy up for Price Control Updates & Offshore Tariffs

Sarah Chleboun, NGESO

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Potential CMP: Price Control Updates in CUSC Sec. 14

Background

- A number of key parameters that are used to calculate tariffs require to be reset in preparation for a price control, these are described in CUSC section 14.
- These parameters are currently being calculated in preparation for RIIO-2, to apply from 1 April 2021.

Problem

- Many of the parameters described in section 14 have out of date values included in the text, for example:

Ref	Parameter	Quote
14.3.19-20	TRC Factor	2010/11 value is quoted and the example calculation given
14.15.37	Generation zones	“The number of generation zones set for 2010/11 is 20”.
14.15.65	Annuity Factor	“These assumptions provide a current annuity factor of 0.066”
14.15.66	Overhead Factor	“The overhead factor used in the calculation of the expansion constant for 2009/10 is 1.8%.”
14.15.69	Expansion Constant	“The expansion constant for 2010/11 is 10.633”
14.15.77	TO specific onshore circuit expansion factors	Values given are for 2008/9
14.15.79	Local circuit expansion factors	It states factors but does not say for which year
14.15.91	Local Security Factor	“currently 1.8”; later referred to in 14.15.94 as the value “for 2010/11”
14.15.131	Onshore civil engineering discount	“For 2010/11 a discount of £0.345590/kW”

Potential CMP: Price Control Updates in CUSC Sec. 14

Potential Solutions:

- Update the parameters and dates to the RIIO-2 values, once calculated (and consulted on, if applicable); or
- Update to remove parameter values and direct the reader to the charging statement for current values

Your views?

- We'd appreciate your feedback on whether to proceed with drafting this modification and potential solutions.

Potential CMP: Offshore Tariffs Tidy-up in CUSC Sec.14

Background

- There are 3 Offshore Local Tariffs described in CUSC section 14 (Local Circuit, Local Substation & ETUoS), each are calculated in the same way – i.e. based a proportion of the OFTO's revenue using capital costs of the assets that are transferred to the OFTO.
- Tariffs are set once within a price control (at the start of the price control or at asset transfer, if later) and subsequently inflated in line with the associated OFTO's revenue for each subsequent year.

Problem

We have noticed that there are several inconsistencies with the text around the 2 offshore local tariffs:

- The Offshore local circuit tariff does not say it requires reset for the new price control.
- ETUoS Tariff: 14.18.28 states "in terms of applicable transitional offshore generation projects the ETUoS payment profile will be consistent with the recovery of Offshore Transmission Owner revenue stream"- is this sufficient?
  - Inflation for Offshore Local Circuit/Substation tariffs are described but nothing is referenced for the ETUoS Tariff.
  - ETUoS tariff does not say it requires reset for the new price control.
- 14.15.84 states that OFTO specific expansion factors shall be recalculated at the start of each price control period using the formula in paragraph 14.15.71, there is no formula in this paragraph so this reference needs updating.

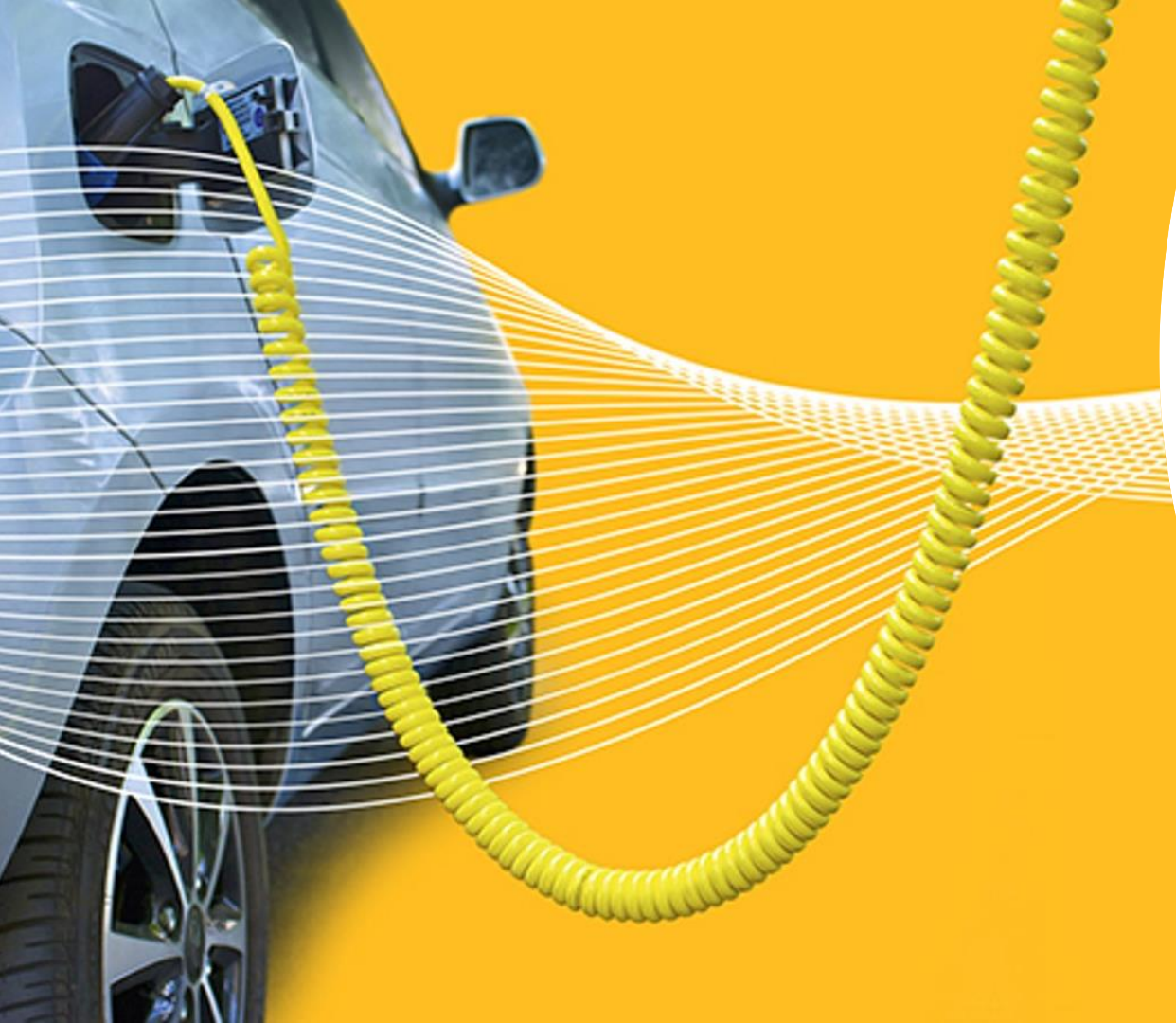
Potential CMP: Offshore Tariffs Tidy-up in CUSC Sec.14

Potential Solutions:

- Update these paragraphs in CUSC to reflect the updates that should happen each year (inflation and price control reset), ensuring the treatment for the 3 offshore local tariffs are consistent with each other.

Your views?

- We'd appreciate your feedback on whether to proceed with drafting this modification and potential solutions.



Questions & AOB

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