

CUSC Workgroup Consultation Response Proforma**CMP324 and CMP325: Generation Zones – changes for RIIO-T2 and Rezoning – CMP324 expansion**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@nationalgrideso.com by **5pm on 18 March 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation please contact Joseph Henry joseph.henry2@nationalgrideso.com or cusc.team@nationalgrideso.com.

Respondent details	Please enter your details
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For reference the applicable CUSC objectives are:

- 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;*
- 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);*
- 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;*
- 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*
- Promoting efficiency in the implementation and administration of the CUSC arrangements.*

**Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions

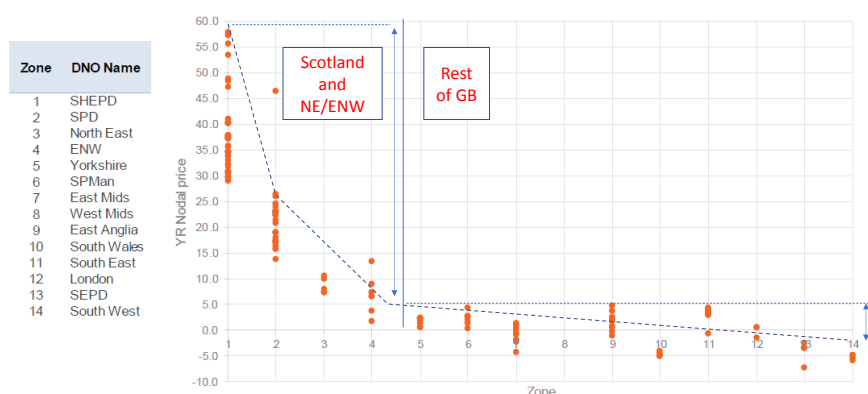
1 Do you believe that the CMP324 and CMP325 Original Proposal better facilitates the Applicable CUSC Objectives?

Based on the information provided, we do not believe the key CUSC objectives are better facilitated by the proposal to align TNUoS Charge zones to GSP Groups.

We consider the preferred solution ‘negatively’ impacts upon applicable objectives (a), (b) and (c) when compared to the baseline.

The modelling presented in Workgroup Meeting 4 shows that the proposed solution materially reduces price signals in all but Scotland and northern England.

DNO Zones



With very limited differences in prices across almost all other GSP Group zones in England and Wales, the proposed solution removes effective price signals for the bulk of England and Wales, contrary to objective (b) and (c). This could lead to inefficient generation siting decisions, contrary to objective (a) and therefore sub-optimum network investment, contrary to objective (c).

Arbitrarily aligning charging zones to GSP Groups, that were defined solely by historic ownership, does not meet CUSC Objectives because they do not reflect investment drivers.

While fixing the zones would increase price stability, which in isolation would improve competition, other solutions considered by the Working Group (coupled with only updating zones once a price control) provide a better balance between stability and cost reflectivity.

Objective (d) we believe is neutral/no effect.

Objective (e) we consider is not met by the proposed solution.

Further analysis is needed by the Working Group to quantify the administration savings. However, given the low frequency of the zone boundary updates, this is unlikely to outweigh the negative consequences of diminished price signals.

Standard Workgroup Consultation questions

2 Do you support the proposed implementation approach?

While we have concerns about the proposed solution, we support the proposed timetable to seek approval of the amendment in October, as this would give Users as much notice as possible of the tariff changes that may occur for 2020/21.

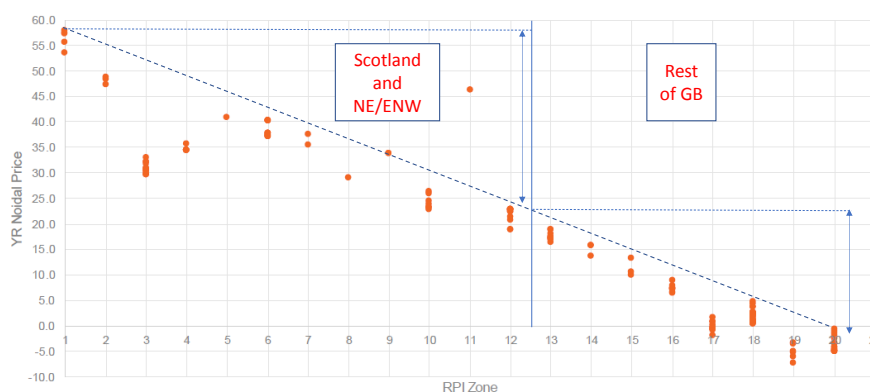
If there is information that NGET could provide the ESO to support any tariff forecasts, we would welcome a discussion to determine how best we support this work.

3 Do you have any other comments?

Managing volatility

Volatility in charges is in part a necessary feature of cost reflectivity, as the cost of reinforcing the network varies depending on how the capacity and location of generation (and demand) varies over time. Volatility can be managed by increasing the predictability of charges by (a) the information provided to users; and (b) updating parameters at price control.

The RPI indexed approach considered by the Working Group maintains and further enhances this, resulting in a broader range of price differentiation across Great Britain (compared to the proposed solution). We note that when BETTA was introduced in 2005 there were 21 generation zones, the same that would be derived based on the +/- £2.25 criteria (as shown below).

RPI Zones (+/- £2.25)**Consistency with SCR**

Ofgem has recently published its shortlisted policy options for network access and forward-looking charges. One area that is within scope are reforms “to have distribution connected generation pay similar or identical locational transmission charges”. Against this background, the Working Group should consider whether the proposed solution cuts across this workstream and runs counter to the more locational cost reflectivity seen as desirable within distribution charging.

Standard Workgroup Consultation questions

4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Yes – we believe the Working Group should consider an alternative that adjusts the +/- £1/kW nodal price spread by inflation across the price control period.
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Specific CMP324 and CMP325 Workgroup Consultation questions

5	<p>What are your views on the potential solutions discussed in the report?</p> <p>Please provide any evidence or rationale for your preferred solution.</p>	<p>We do not support the DNO, ETYS or Fix27 approaches because they all have in common fixed zone boundaries and, as stated above, we believe the charging methodology should retain the ability to flex zone boundaries, as the pattern of generation and demand evolves.</p> <p>As noted in the consultation, provision can be made for the RPI indexed zone approach, to have larger adjustments to zone increments as needed in order to sensible limit the number of generation zones.</p>
6	<p>What are your views on the distributional effects of the potential solutions outlined?</p> <p>Please provide your rationale.</p>	<p>The Working Group Meeting 4's analysis shows that the preferred GSP Group zone solution reduces granularity and consequently causes more distributional effects across generators changing zones.</p> <p>The alternative RPI indexed zone model, based on actual generation location and capacity, shows considerably reduced distributional effects.</p>