

Workgroup Vote – Stage 2

CMP317 and CMP327: Workgroup Vote

Please note: To participate in any votes, Workgroup members need to have attended at least 50% of meetings.

Stage 2 - Workgroup Vote

2a) Assess the original and WACMs (if there are any) against the CUSC objectives compared to the baseline (the current CUSC).

2b) If WACMs exist, vote on whether each WACM better facilitates the Applicable CUSC Objectives better than the Original Modification Proposal.

2c) Vote on which of the options is best.

The Applicable CUSC Objectives (Charging) 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;
- 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 *; and
- e. 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).

Workgroup Vote

Stage 2a – Assessment against objectives

To assess the original and WACMs against the CUSC objectives compared to the baseline (the current CUSC).

You will also be asked to provide a statement to be added to the Workgroup Report alongside your vote to assist the reader in understanding the rationale for your vote.

Y = Yes, N = No, (-) = Neutral

ACO = Applicable CUSC Objective

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Better facilitates ACO (e)	Overall (Y/N)
John Harmer – Waters Wye Associates						
Original	N	-	-	Y	-	N
WACM 1	N	-	-	Y	N	N
WACM 2	N	-	-	Y	-	Y
WACM 3	N	-	-	Y	-	N
WACM 4	N	-	-	Y	-	N
WACM 5	N	-	-	Y	-	N
WACM 6	N	-	-	Y	N	N
WACM 7	N	-	-	Y	N	N
WACM 8	N	-	-	Y	N	N
WACM 9	N	-	-	Y	N	Y
WACM 10	N	-	-	Y	N	N
WACM 11	N	-	-	Y	N	N
WACM 12	N	-	-	Y	N	N
WACM 13	N	-	-	Y	N	N
WACM 14	N	-	-	Y	N	N
WACM 15	N	-	-	Y	N	N
WACM 16	N	-	-	Y	N	Y
WACM 17	N	-	-	Y	N	N
WACM 18	N	-	-	Y	N	N
WACM 19	N	-	-	Y	N	N
WACM 20	N	-	-	Y	N	N
WACM 21	N	-	-	Y	-	N
WACM 22	N	-	-	Y	N	N
WACM 23	N	-	-	Y	-	Y
WACM 24	N	-	-	Y	-	N
WACM 25	N	-	-	Y	-	N
WACM 26	N	-	-	Y	-	N
WACM 27	N	-	-	Y	N	N

WACM 28	N	-	-	Y	N	N
WACM 29	N	-	-	Y	N	N
WACM 30	N	-	-	Y	N	Y
WACM 31	N	-	-	Y	N	N
WACM 32	N	-	-	Y	N	N
WACM 33	N	-	-	Y	N	N
WACM 34	N	-	-	Y	N	N
WACM 35	N	-	-	Y	N	N
WACM 36	N	-	-	Y	N	N
WACM 37	N	-	-	Y	N	Y
WACM 38	N	-	-	Y	N	N
WACM 39	N	-	-	Y	N	N
WACM 40	N	-	-	Y	N	N
WACM 41	N	-	-	Y	N	N
WACM 42	N	-	N	Y	-	N
WACM 43	N	-	N	Y	N	N
WACM 44	N	-	-	Y	-	Y
WACM 45	N	-	-	Y	-	N
WACM 46	N	-	-	Y	-	N
WACM 47	N	-	-	Y	-	N
WACM 48	N	-	-	Y	N	N
WACM 49	N	-	N	Y	N	N
WACM 50	N	-	N	Y	N	N
WACM 51	N	-	-	Y	N	Y
WACM 52	N	-	-	Y	N	N
WACM 53	N	-	-	Y	N	N
WACM 54	N	-	-	Y	N	N
WACM 55	N	-	-	Y	N	N
WACM 56	N	-	N	Y	N	N
WACM 57	N	-	N	Y	N	N
WACM 58	N	-	-	Y	N	Y
WACM 59	N	-	-	Y	N	N
WACM 60	N	-	-	Y	N	N
WACM 61	N	-	-	Y	N	N
WACM 62	N	-	-	Y	N	N
WACM 63	N	-	N	Y	-	N
WACM 64	N	-	N	Y	N	N
WACM 65	N	-	-	Y	-	Y
WACM 66	N	-	-	Y	-	N
WACM 67	N	-	-	Y	-	N
WACM 68	N	-	-	Y	-	N
WACM 69	N	-	-	Y	N	N
WACM 70	N	-	N	Y	N	N
WACM 71	N	-	N	Y	N	N
WACM 72	N	-	-	Y	N	Y
WACM 73	N	-	-	Y	N	N
WACM 74	N	-	-	Y	N	N

WACM 75	N	-	-	Y	N	N
WACM 76	N	-	-	Y	N	N
WACM 77	N	-	N	Y	N	N
WACM 78	N	-	N	Y	N	N
WACM 79	N	-	-	Y	N	Y
WACM 80	N	-	-	Y	N	N
WACM 81	N	-	-	Y	N	N
WACM 82	N	-	-	Y	N	N
WACM 83	N	-	-	Y	N	N

Voting Statement:

Objective (d) of the CUSC is a binary requirement. Either there is compliance or there is not. Unfortunately the text in the Limiting Regulation is ambiguous. This has already been amply demonstrated by Ofgem's decision on CMP261, the subsequent appeal, and the lack of consensus in the Workgroup in reaching an agreed definition of terms which Ofgem used in that appeal process but is apparently unable to define itself. All the hours of discussion within the Workgroup over what the text in the Limiting Regulation actually means was ultimately inconclusive, and this leads to uncertainty as to whether any of the three definitions tabled by the Workgroup is actually the correct legal interpretation. All do however attempt to be better than the Baseline.

It is clear to me that the Original and all alternatives fail objective (a) to a greater or lesser extent. Cross border trade has already, and will more so in future, become highly material to the GB power market and market price formation, owing to the increase in interconnection since the Limiting Regulation was put in place. In most Continental European countries Generators pay nothing towards electricity transmission. This is a matter of fact. I totally disagree with Ofgem (in its March 2020 Workshop presentation concerning the change to the Reference Node) that €2.50/MWh (baseload equivalent) remains an acceptable differential now for competitive purposes. This statement appears to be made without reference to the historical context or tone of the Impact Assessment accompanying the Limiting Regulation, which appeared to encourage national regulation to move towards zero cost for generators across Europe over the medium term. Based on this document I have consistently said that €0/MWh should be the target and as the Workgroup has progressed my view on this has been reinforced. I can see no case on objective (a) grounds for setting the target higher. The worst case on objective (a) grounds is the Original.

The advent of CMP327, with a requirement to set TGR to zero subject only to compliance with the Limiting Regulation, in my view rules out all targets other than €0/MWh. The need to consider a target was set by the CUSC Panel within the Terms of Reference for CMP317. I now believe CMP327 supersedes this instruction from the Panel. I belatedly concur with the ESO that a target requires an arbitrary adjustment and the intent of CMP327 is to remove such an adjustment, so any other target does not address the defect of CMP327. An acceptable alternative for CMP327 could be a minimal adjustment to bring the average G charges within the limiting range as proposed in the Original.

A target of €0/MWh is achievable via a change in the Reference Node in the transport model that starts the process of setting locational charges, with only a de minimus adjustment potentially required to achieve compliance with the Limiting Regulation. This solution has been ruled out of scope of this mod by Ofgem, but I am clear that this subsequent change if made

could achieve a target of €0/MWh consistently and sustainably. An adjustment factor to bring Gaverage charges to €0/MWh is consequently a necessary requirement of this mod but this is potentially temporary if Ofgem concludes that a change to the Reference Node is appropriate. An adjustment factor is explicitly allowed within the terms of the Ofgem Direction giving rise to CMP327 if it is required for legal compliance with the Limiting Directive. Given all the other issues considered by the Workgroup which impact on the legal compliance of the outcome, I believe setting a maximum range to capture the uncertainty of those and this further justifies the selection of a target of €0/MWh.

I now believe there has been a sufficient and clear example given - island links - to demonstrate that the inclusion of all Local Charges within the connection exclusion would mean too many charges are excluded when calculating Gaverage. The Workgroup has decided that an explicit definition is necessary for the connection exclusion. I disagree, but found myself a lone voice and the legal text therefore does not reflect my view. I am satisfied that the error of incorrectly including circuits like island links is in the £millions or tens of £millions at worst. The buffer for accommodating such errors in definition amounts to several hundred £millions before the limiting range is breached at its upper end assuming an initial target of €0/MWh.

Accordingly I think the approach to exclude all Local Charges, knowing this is non-compliant by itself, is acceptable provided there is an initial target of €0/MWh. Indeed this provides an implicit error margin at the bottom of the range if an ex post outcome were slightly below €0/MWh. I accept the two alternative approaches defining the connection exclusion may be more legally compliant but am not 100% assured of this. I think with these approaches there may be examples now or in the future which are not correctly taken into the account in the connection exclusion based on what I have understood the European definition of transmission system to mean (and described to the Workgroup). The alternative two approaches require more calculation, so fail objective (e) compared with those alternatives that take all Local Charges. However, with the legal text not able to capture any uncertainty, and with the need to take into account constraint costs and BSC costs when testing compliance with the Limiting Regulation (see below) I have felt driven to direct my vote on the best of the alternatives to the definition of Generator Only Spurs as defining costs in the connection exclusion.

Having heard the debate and evidence and analysis put forward within the Workgroup my view is that both the BSC Costs and constraint costs should be included within the second pass of the proposed calculation that tests compliance with the limiting range.

Ofgem gave a clear legal opinion to the Workgroup that BSC costs were to be excluded, but with no reasoning given behind this statement, and given Ofgem's openly published statement in P396 raised and debated at length by the Workgroup, it appears to me that Ofgem's opinion cannot be relied upon without further justification. The unwillingness or inability of Ofgem to satisfactorily justify its opinion in advance has caused a material inefficiency in delivery of the alternatives for the mod as the Workgroup has felt compelled to put forward inclusion of BSC costs as an option, doubling the number of WACMs (i.e. creating a further 42 alternatives).

Experienced Workgroup members tabled for me convincing arguments supported by documentary evidence that constraint costs should be included in average costs for generators when testing compliance with the Limiting Regulation. The attempt by ESO to counter these

arguments appeared deeply unsatisfactory and involved pirouetting on pinheads of slight differences in legal definitions.

The Workgroup acknowledged that this leads to huge problems in setting stable tariffs. An elegant and simple solution would be to remove these constraint costs from Generators entirely by charging BSUoS exclusively to demand. A failure to move the processes forward together (i.e. deferring a decision on BSUoS charging following the 1st BSUoS task force, then putting the 2nd BSUoS task force on hold) has led to a further inefficiency in delivery of this modification. Faced with this uncertainty, the pragmatic approach appears to be the two stage calculation which has the capability of working indefinitely but leaves a stable largely unchanged charging structure for TNUoS in place if constraint charges are removed from Generators, i.e. the first pass of the tariff calculation remains unchanged.

Meantime the magnitude of potential constraint costs is for me an absolute clinching argument for setting a target of €0/MWh. It offers a maximum tolerance range, making a decision on whether to include or exclude BSC and constraint costs practically irrelevant except in extreme circumstances. I do not foresee any secondary adjustment to tariffs except in the most extreme forecast constraint cost scenarios. When considered against objective (c) and in the context of increasing intermittent generation in remote locations (aka offshore wind), I think this issue fatally demolishes any case for variants on the Original that include constraint costs in a one pass calculation.

In voting for alternatives to become WACMs I voted on the misunderstanding that the alternatives were based on a single stage calculation. In excluding all alternatives that did not consider BSC and constraint charges I was voting on the basis that these were to be excluded from the first stage calculation. As the two stage calculation was developed and made clearer I have realised that this vote did not reflecting my intent. It has always been my view since the issues were raised in the Workgroup that BSC and constraint charges should be taken into account when assessing Gaverage compliance with the Limiting Regulation. I have explained why I think they should not be explicitly taken into account in tariff setting.

However ultimately it is for Ofgem to decide whether BSC costs and/or constraint costs are to be included in the calculation for compliance with the Limiting Regulation. I therefore have voted to put forward all four WACM variants in respect of these two issues, with a target of €0/MWh.

I am personally satisfied that none of the Original or any alternatives change the relative locational charges within TNUoS. The origin of charges is arbitrary based on the Reference Node in the transport model that starts the setting of locational differentials. Whether generators pay locational charges on average, or whether these are zero on average, is entirely a function of the choice of Reference Node. I do not believe there is any case made that any one of the approaches in the 84 alternatives changes cost reflectivity against each other or the baseline. Accordingly I believe the Original and all alternatives are neutral against objective (b).

In conclusion my preferred outcome is WACM72: a target of €0/MWh, with the connection exclusion defined as Generator Only Spurs, a two step calculation process, no error margin on the first pass calculation, no phasing required and with both BSC and constraint costs taken into account in the second pass calculation testing compliance with the Limiting Regulation.

Stage 2b – WACM Vote (If required)

Where one or more WACMs exist, does each WACM better facilitate the Applicable CUSC Objectives than the Original Modification Proposal?

Workgroup Member (Insert Name)	
WACM	Better than Original Yes/No
WACM 1	Y
WACM 2	Y
WACM 3	Y
WACM 4	Y
WACM 5	Y
WACM 6	Y
WACM 7	Y
WACM 8	Y
WACM 9	Y
WACM 10	Y
WACM 11	Y
WACM 12	Y
WACM 13	Y
WACM 14	Y
WACM 15	Y
WACM 16	Y
WACM 17	Y
WACM 18	Y
WACM 19	Y
WACM 20	Y
WACM 21	N
WACM 22	Y
WACM 23	Y
WACM 24	Y
WACM 25	Y
WACM 26	Y
WACM 27	Y
WACM 28	Y
WACM 29	Y
WACM 30	Y
WACM 31	Y
WACM 32	Y
WACM 33	Y

WACM 34	Y
WACM 35	Y
WACM 36	Y
WACM 37	Y
WACM 38	Y
WACM 39	Y
WACM 40	Y
WACM 41	Y
WACM 42	N
WACM 43	N
WACM 44	Y
WACM 45	Y
WACM 46	Y
WACM 47	Y
WACM 48	Y
WACM 49	Y
WACM 50	Y
WACM 51	Y
WACM 52	Y
WACM 53	Y
WACM 54	Y
WACM 55	Y
WACM 56	Y
WACM 57	Y
WACM 58	Y
WACM 59	Y
WACM 60	Y
WACM 61	Y
WACM 62	Y
WACM 63	N
WACM 64	N
WACM 65	Y
WACM 66	Y
WACM 67	Y
WACM 68	Y
WACM 69	Y
WACM 70	Y
WACM 71	Y
WACM 72	Y
WACM 73	Y
WACM 74	Y
WACM 75	Y
WACM 76	Y
WACM 77	Y

WACM 78	Y
WACM 79	Y
WACM 80	Y
WACM 81	Y
WACM 82	Y
WACM 83	Y

Stage 2c – Workgroup Vote

Which option is the best? (Baseline, Proposer solution (Original Proposal), WACM1 or WACM2)

Workgroup Member	Company	BEST Option?	Which objective(s) does the change better facilitate? (if baseline not applicable)
John Harmer	Waters Wye Associates	WACM72	d