





| Alternative Request Proposal Form | At what stage is this document in the process? |
|---|---|
| <h1>CMP343:</h1> <h2>Transmission Demand Residual bandings and allocation for 1 April 2022 implementation (TCR)</h2> | <div> <div>01</div> <div>Proposed Alternative</div> </div> <div> <div>02</div> <div>Proposed Workgroup Alternative</div> </div> |
| <p>Purpose of Alternative:</p> <p>In the treatment of negative locational charges, to introduce a £/site/day locational adjustment that aims to mitigate the distributional impact of flooring the locational tariff to zero.</p> <p>In the banding of sites connected directly to the transmission network.</p> <p>The direction of this modification is to deliver a solution to recover Transmission Demand Residual costs as required by the Authority TCR Direction. Ofgem has given the workgroup discretion to determine how to band sites connected directly to the transmission network. It is clear from workgroup analysis that two bands are more appropriate than one to avoid a clear distortion between small and large sites charging.</p> | |
| <p>Date submitted to Code Administrator: 24/06/2020</p> <p>You are: A Workgroup member</p> <p>Workgroup vote outcome: Formal alternative/not alternative</p> <p><i>(Should your potential alternative become a formal alternative it will be allocated a reference)</i></p> | |

| Contents | |  Any questions? |
|----------|--|--|
| 1 | Alternative proposed solution for workgroup review | 2 |
| 2 | Difference between this proposal and Original | 4 |
| 3 | Justification for alternative proposal against CUSC Objectives | 5 |
| 4 | Impacts and Other Considerations | 6 |
| 5 | Implementation | 6 |
| 6 | Legal Text | 6 |
| | | Contact: Code Administrator |
| | |  email address |
| | |  telephone |
| | | Alternative Proposer(s): Simon Vicary |
| | |  simon.vicary@edfenergy.com |
| | | |

1 Alternative proposed solution for workgroup review

In the treatment of negative locational charges, to introduce a £/site/day locational adjustment that aims to mitigate the distributional impact of flooring the locational tariff to zero. To calculate the £ per zone adjustment run the Tariff model twice, once with a floor of zero applied to the locational tariffs and then again without applying a floor to the locational tariffs, recording the revenue expected to be collected from each zone under both scenarios.

| Zone number | zone name | revenue recovered (£m) | | delta created by flooring locational (£m) |
|-------------|-------------------|------------------------|-------------|---|
| | | floored | not floored | |
| 1 | Northern Scotland | 74 | 33 | 40.6 |
| 2 | Southern Scotland | 163 | 99 | 64.6 |
| 3 | Northern | 116 | 98 | 18.5 |
| 4 | North West | 191 | 185 | 5.4 |
| 5 | Yorkshire | 173 | 171 | 2.2 |
| 6 | N Wales & Mersey | 121 | 120 | 1.0 |
| 7 | East Midlands | 215 | 231 | -15.3 |
| 8 | Midlands | 198 | 216 | -17.5 |
| 9 | Eastern | 314 | 341 | -27.3 |
| 10 | South Wales | 82 | 88 | -5.2 |
| 11 | South East | 207 | 224 | -16.9 |
| 12 | London | 205 | 222 | -16.0 |
| 13 | Southern | 289 | 311 | -22.7 |
| 14 | South Western | 142 | 153 | -11.4 |

in the above example consumers in zone 1 Northern Scotland consumers would have paid an additional £40.6million due to the application of a zero floor.

So to remove the distributional impact of flooring the locational tariff to zero without creating a perverse incentive to consume more energy over peak periods, this £40.6million should be given as a discount to consumers in Northern Scotland, applied as a £/site/day fixed charge.

Allocation of this revenue to each customer group in the region should be on the basis of that groups annual consumption as a proportion of the total consumption for the zone.

| | | zone | 1 | Northern Scotland | total adj req (£) | -40605825.7 | | |
|-------------|----------------|-----------------------------------|----------------------------|---|-------------------|--------------------|--------------------|----------------------|
| | | Sub segment CDCM Net volume (MWh) | Number of MPANs (or sites) | sub segment proportion of regional volume | adj per segment | fixed adj per site | TCR fixed residual | overall fixed tariff |
| Domestic | Single Segment | 3121046 | 785294 | 39.03% | -£15,848,041 | -£20 | £32 | £12 |
| LV NHH | 1st Band | 55045 | 30295 | 0.69% | -£279,507 | -£9 | £17 | £8 |
| | 2nd Band | 202878 | 22721 | 2.54% | -£1,030,173 | -£45 | £83 | £38 |
| | 3rd Band | 236068 | 11361 | 2.95% | -£1,198,706 | -£106 | £194 | £88 |
| | 4th Band | 670397 | 11361 | 8.38% | -£3,404,141 | -£300 | £550 | £251 |
| LV HH | 1st Band | 333595 | 3177 | 4.17% | -£1,693,927 | -£533 | £1,078 | £545 |
| | 2nd Band | 335700 | 1680 | 4.20% | -£1,704,617 | -£1,015 | £1,914 | £899 |
| | 3rd Band | 248242 | 764 | 3.10% | -£1,260,525 | -£1,651 | £2,297 | £646 |
| | 4th Band | 812235 | 1080 | 10.16% | -£4,124,365 | -£3,818 | £6,501 | £2,682 |
| HV | 1st Band | 86591 | 459 | 1.08% | -£439,689 | -£958 | £4,432 | £3,474 |
| | 2nd Band | 205539 | 142 | 2.57% | -£1,043,685 | -£7,371 | £14,332 | £6,961 |
| | 3rd Band | 184160 | 74 | 2.30% | -£935,128 | -£12,617 | £27,135 | £14,518 |
| | 4th Band | 473825 | 70 | 5.93% | -£2,405,989 | -£34,524 | £75,406 | £40,882 |
| EHV | 1st Band | 20954 | 16 | 0.26% | -£106,398 | -£6,558 | £11,614 | £5,056 |
| | 2nd Band | 188261 | 13 | 2.35% | -£955,952 | -£73,965 | £130,993 | £57,028 |
| | 3rd Band | 149468 | 5 | 1.87% | -£758,967 | -£143,719 | £254,528 | £110,809 |
| | 4th Band | 565236 | 6 | 7.07% | -£2,870,155 | -£472,065 | £836,033 | £363,968 |
| T connected | Single Segment | 107500 | 2 | 1.34% | -£545,861 | -£241,715 | £428,080 | £186,365 |

In the example above Domestic sites consume 39% of the volume so 39% of the £40.6 million or £15.8million should be returned to domestic sites.

To calculate the fixed adjustment per domestic site the £15.8million is divided by the number of domestic sites in the region in this case 3121046 to give annual £/site/year adjustment for that consumer type.

This is done for each zone and will create a locational adjustment to apply to each of the consumer groups created for the TCR national fixed charge in each zone to ensure that the revenue collected from each zone is not impacted by flooring the locational £/MWh tariff to zero.

In the banding of sites connected directly to the transmission network.

The direction of this modification is to deliver a solution to recover residual costs. Ofgem has given the workgroup discretion to determine how to band sites connected directly to the transmission network.

It is clear from workgroup analysis that two bands are more appropriate than just one to avoid a clear distortion between small and large sites charging.

The sites connected directly to the transmission network will be split at the 85th percentile point which, based on the analysis, coincides with the point beyond which the sites are more than twice the size of the mean total consumption.

It is also proposed that if the number of sites in a transmission network band is less than two then the total import consumption and total count of sites in that band will be combined with the equivalent information for the other transmission network band to calculate the residual fixed charge. The residual fixed charge would therefore be the same for all sites in the relevant transmission network bands. This is aligned with the approach for all other voltage levels in DCP361.

2 Difference between this proposal and Original

In the treatment of negative locational charges.

The difference to the original is that there will be two £/site/day tariffs under this alternative one national residual tariffs which is the same as the original and a second which is applied in the same manner as the national residual but that varies by zone.

In the banding of sites connected directly to the transmission network.

This alternative is different to the Original in that it proposes two bands for sites connected directly to the transmission network instead of just one.

3 Justification for alternative proposal against CUSC Objectives

Mandatory for the Alternative Proposer to complete.

Impact of the modification on the Applicable CUSC Objectives (Standard):

| Relevant Objective | Identified impact |
|---|---|
| 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; | neutral |
| 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); | neutral |
| 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; | Positive as the Authority have given the SCR TCR direction. |
| 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 | neutral |
| e. Promoting efficiency in the implementation and administration of the CUSC arrangements. | neutral |
| *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). | |

The Authority has directed this modification to be raised and implemented to enact their SCR TCR Decision.

4 Impacts and Other Considerations

In the treatment of negative locational charges.

System impacts vary from the original in that this creates an additional £/site/day charge that is different by region in addition to the residual £/site/day charge which is the same across GB.

Consumer Impacts

In the treatment of negative locational charges.

The intent of this alternative modification is to ensure that the locational signal created by the tariff and transport model is retained in terms of revenue collected from each zone. And would remove the distributional impact created by the original proposal which would lead to consumers in the north of GB paying an additional circa £130 million per year compared to the status quo.

In the banding of sites connected directly to the transmission network.

Ofgem has given the workgroup discretion to determine how to band sites connected directly to the transmission network. It is clear from workgroup analysis that two bands are more appropriate than one to avoid a clear distortion between small and large sites charging.

5 Implementation

This modification needs to be implemented by April 2022 to allow ESO to comply with the Direction letter published by The Authority on the 21st November 2019 and revised in the letter of 31st March 2020.

6 Legal Text

In the treatment of negative locational charges.

To be agreed with the ESO

In the banding of sites connected directly to the transmission network.

14.15.137 (new section) to be agreed with the ESO