



Alternative Request Proposal Form	At what stage is this document in the process?
<h1>CMP324/5:</h1> <h2>Generation Zones – changes for RIIIO-T2 and Rezoning – CMP324 expansion</h2>	<p>02 – Proposed Workgroup Alternative</p>
<p><b>Purpose of Alternative:</b> This seeks to set zones for generation TNUoS charges by fixing them as the current 27 TNUoS charging zones within the CUSC and remove the requirement of re-zoning at the start of every Transmission Price Control. This is different from the original solution to follow those zones used for Demand Charging.</p>	
<p><b>Date submitted to Code Administrator:</b> April 2020</p> <p><b>You are:</b> A Workgroup member</p> <p><b>Workgroup vote outcome:</b> Formal alternative</p>	

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## 1 Alternative proposed solution for workgroup review

This alternative proposal is to fix the current 27 generation zones for TNUoS and remove the requirement in the CUSC for zones to be reviewed at the start of every Transmission Price Control.

In addition, this alternative will also avoid the one-off tariff shock which would be caused by the Original changing the generation zones from April 2021.

## 2 Difference between this proposal and Original

This solutions differs from the original modification in that the current 27 TNUoS charging zones will be fixed, rather than changing to the 14 demand zones, and fixing these as the TNUoS charging zones.

Compared with the Original, this alternative would better address the defect by avoiding a one-off generator tariff shock from changing generation charging zones from April 2021.

Otherwise, this alternative will provide the same benefits as the Original modification in terms of improved competition and efficiency in implementation and administration.

### 3 Justification for alternative proposal against CUSC Objectives

#### 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;	<p>Better.</p> <p><b>Avoids volatility in tariffs due to re-zoning in advance of Ofgem's Access and Forward Looking Charges SCR (AFLC SCR).</b> Any re-zoning carried out before Ofgem's decision regarding the AFLC SCR risks the new zones may be inconsistent with the result of the AFLC SCR decision. This alternative would avoid the risk of either sustained inconsistent charging zones, or the uncertainty associated with a potential further re-zoning in a short space of time following the result of the AFLC SCR.</p> <p><b>Reduced developer risk margins and results in lower cost to customers</b> – Once a large transmission connected power station has been built, the operator can no longer respond to changing TNUoS price signals until the power station approaches the end of its life. Therefore volatility of TNUoS charges simply represents a volatile risk which the operator must absorb over the life of a generating station. This means that developers need to price in risk margins when making investment decisions, which results in higher costs to customers. This Alternative should result in better predictability, reduced risk margins, and lower cost to customers.</p> <p><b>Power station investment decisions are primarily driven by</b></p>

**factors other than TNUoS**

**charges.** This means that even if locational price signals were relatively less sharp, or accurate, this is still consistent with better effective competition. For renewables, the primary drivers of locational investment decisions include resource availability and planning consent (which tend to mean rural/remote, rather than urban, areas away from demand centres). For large thermal power stations, the primary drivers for investment decisions include access to cooling water, re-use of existing (brownfield) power station site for planning consent purposes, access to CCUS transport and storage of Carbon.

**Reduce the risk of an unforecastable cost crowding out signals from genuine relative economic fundamentals** - An

unpredictable charge, even if it were perfectly cost reflective, would provide a poor price signal because developers cannot respond to a charge if they don't know what it is going to be. So, even if developers did try to respond to locational TNUoS price signals, then competition would be on the basis of each developer's own forecast of future TNUoS charges over the life of their project, not the actual outturn level. This alternative would remove the uncertainty from future re-zoning and reduce the risk of "winners curse" where competition would tend to favour those developers which make the biggest forecast errors regarding future TNUoS costs. By reducing the distortion to competition caused by developer TNUoS forecast error, this would better enable effective competition based on the economic fundamentals relating to locational decisions which developers are able

	to measure and value such as those described in the paragraph above.
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;	Neutral.
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.	<p>Better.</p> <p><b>Administrative work for generators</b> – Avoids the need for generators to carry out modelling and commercial analysis regarding the potential impact of future re-zoning on business cases.</p> <p><b>Improves efficiency of tariff setting and publication</b> – ESO can provide more accurate 5 year forecasts of TNUoS tariffs without having to take account of the risk that the generation charging zones could substantially change which would make the ESO published 5 year tariffs obsolete and inaccurate.</p> <p><b>Improve efficiency of tariff setting process</b> – Avoids the need for the ESO to carry out regular re-zoning calculations to define the zones and also to inform industry of potential risks associated with potential future</p>

re-zoning.

\*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).

## 4 Impacts and Other Considerations

### Generator Impacts

The impact on generators is lower than the Original because this alternative would result in no change in the definition of zones compared with the current charges in 2020/21 and compared with National Grid ESO's latest 5 year TNUoS tariff forecast.

### Consumer Impacts

Customers will benefit from this alternative by lower pass-through costs from generators including lower TNUoS related risk margins feeding through to lower costs in other markets such as the wholesale market, Capacity Market and ancillary services.

The lower pass through costs arise because this alternative would avoid the one-off generation TNUoS tariff shock which would be caused by the Original, and the baseline and any other alternative which changes the definition of the zones. It will also avoid the regular 5 year generator tariff shock which would be caused by Baseline and potential alternatives whereby the definition of generator zones would have changed on a regular basis.

### Other impacts

No cross-code, environmental, or other impacts beyond those already described according to the applicable CUSC objectives.

## 5 Implementation

Same as the Original proposal. Ideally approval no later than October 2020 to take effect from April 2021 to avoid the detrimental disruption which would be caused by a re-zoning of generator TNUoS charging zones for charging year starting April 2021.

## 6 Legal Text

Delete clauses in the CUSC which relate to re-calculating generation charging zones such that the definition of generation charging zones would remain as they currently are for TNUoS charging year 2020/21. Details to be agreed with ESO.