

CUSC Code Administrator Consultation Response Proforma**CMP343 & CMP340 - Transmission Demand Bandings and allocation (TCR)**

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 22 September 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Panel.

If you have any queries on the content of this consultation, please contact paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com.

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CMP343**For reference the applicable CUSC Charging 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 use of system charging methodology.*

**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).*

CMP340**For reference the applicable CUSC non-charging objectives are:**

- a) *The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;*
- b) *Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;*
- c) *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- d) *Promoting efficiency in the implementation and administration of the CUSC arrangements.*

**Objective (c) 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 in the right-hand side of the table below, including your rationale.

CMP343 - Standard Code Administrator Consultation questions		
1	Do you believe that the CMP343 Original solution, WACM1, WACM2, WACM3, WACM4, WACM5, WACM6, WACM7, WACM8 or WACM9 better facilitates the Applicable CUSC Charging Objectives?	<p>Original, WACM1, WACM3, WACM6, WACM7, WACM9 – No. None of these better facilitate any of the ACOs. They are negative against a), b) and c) and neutral against d) and e).</p> <p>Specifically, each of these solutions:</p> <ul style="list-style-type: none"> impose disproportionate charges on smaller users of the Transmission system for the benefit of larger users, resulting in a negative impact on competition; result in user charges that do not reflect the impact a user has on transmission licensees; and do not allow the transmission businesses to better develop their networks let alone do so in way that is consistent with licensees' plans to support the transition to net zero. <p>WACM2, WACM5, WACM8 – Yes. These are the only options that do not result in disproportionate discriminatory charges for smaller transmission-connected demand users and are more 'cost-reflective' (in the sense described above), and thus better facilitate ACOs a) and b).</p>

2	Do you support the proposed implementation approach for CMP343?	No comment
3	Do you have any other comments for CMP343?	<p>In effect, all of the Original, WACM1, WACM3, WACM6, WACM7 and WACM9 solutions result in a cost transfer (aka cross-subsidy) from smaller units for the benefit of larger users and do not reflect the intention of the TCR principles. They impose disproportionate costs on smaller users, effectively creating harmful distortions that prevent and actively discourage smaller users from developing innovative and more efficient ways to use the transmission system in a way that would support the UK's transition to net zero – such as through the deployment of innovative transmission-connected EV charging hubs for cars and buses.</p> <p>Creating subsidies for larger transmission connected users at the expense of smaller users was not the policy driver behind the TCR. The stated purpose of the TCR was to reduce harmful distortions in the use of embedded generation to avoid residual charges that lead to unfair redistribution of residual charges onto other users. As such, implementation of the TCR should not put smaller transmission users into the same band as significantly larger users (via 1- or 2-band solutions) as that would effectively result in larger users shifting their fair share of the residual charges (aka redistributing charges) onto smaller transmission-connected users.</p> <p>That users should face a redistribution of residual costs (relative to what they currently pay) should be seen as an appropriate correction (if not a desirable outcome of the TCR) that ensures all users contribute to residual charges in a way that is proportionate to their use of the system.</p> <p>In Ofgem's TCR decision, the TCR principle of 'fairness' includes striking a balance between equity (that charges are proportionate) and equality (that similar users should face similar/the same charges). Equality in the proposed 1 or 2-band</p>

solutions only leads to a fair outcome if all users within a band are similar. However, from the proceedings of the Workgroup, it is clear that this is not the case for transmission users and there is a huge difference between the size and consumption pattern of different transmission connected users. Therefore, neither equity nor equality are better served by any of the 1 or 2- band proposals.

By its nature, banded solutions will always lead to sub-optimal outcomes in terms of achieving equity. As such, banded solutions should really only be considered as a transitional measure until data is made available to enable a more equitable solution.

In our view, equity for transmission-connected users would be best served by basing TDR charges for transmission connected users on a linear capacity charge – an option which Ofgem itself acknowledged would increase equity (See Table 5 of the final TCR decision). Given the stated TCR principles, that Ofgem ultimately ranked the linear charging option (which increases equity) below their final preferred option of fixed banded charges implies a policy decision to effectively provide a cross-subsidy to large users by minimising distributional impacts. That does not appear to be in keeping with the purpose of the TCR. Redistribution of (current) TDR charges should be seen as a natural consequence achieving equity via the TCR, rather than a consequence that TCR implementation should try to avoid.

As the closest that the CMP343 proposals get to a linear charge is the 4-banded consumption-based solutions (WACM2/5/8), we consider these to be the better solutions amongst the CMP343 proposals (although we still consider a linear charge option to be the best).

In the workgroup consultation, concerns were raised that the magnitude of TDR charges resulting from 2- or 4-banded solutions could lead to large transmission connected users disconnecting from the transmission network in favour of a distribution level connection. This in turn was said to result in unfair reallocation of TDR charges onto the

		<p>remaining transmission-connected users. The risk that banding motivates a user to implement measures to change into another band is an inherent feature of the banded solution. If a large user were to shift bands by disconnecting from the transmission network to join the distribution network, the TDR calculation methodology should ensure that the volume (MWh) of electricity associated with that large user is moved from the transmission segment/band that the user was in, to the relevant segment/band that the user moves to. This should ensure that the calculation of the TDR for each segment/band keeps up to date with movements between bands (as is bound to occur), so as to ensure that TDR charges remain fair and proportionate.</p>
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CMP340 - Standard Code Administrator Consultation questions

1	Do you believe that the CMP340 Original solution, WACM1 or WACM2 better facilitates the Applicable CUSC Objectives?	No comment
2	Do you support the proposed implementation approach for CMP340?	No comment
3	Do you have any other comments for CMP340?	No comment