

## CUSC Modification Proposal Form

# CMP358: Implementation of the Small Generation Discount into the CUSC

**Overview:** The Small Generator Discount (SGD) is currently contained in the NGENSO licence. The SGD expires on 1/4/21. Given the ongoing uncertainty over the Forward Looking and Access SCR, it is proposed that the SGD is put into the CUSC.

## Modification process & timetable



**Status summary:** The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

### This modification is expected to have a: Medium impact

Generators currently receiving the Small Generators Discount (SGD) and other parties that would benefit from the distortion in competition if the SGD was removed as currently planned. NGENSO would have to re-calculate its tariffs, so they would also be impacted. The revenue associated with the SGD is currently recovered from demand customers so they could also be impacted should this recovery mechanism be retained.

### Proposer's recommendation of governance route

This modification should be treated as Urgent and proceed straight to Code Administrator Consultation under a timetable agreed by the Authority (with an Authority decision). The Proposer considers that this is an imminent issue, with a significant commercial impact, that if not addressed will cause a material impact on renewable generation, thereby undermining the Government's ambitions for a significant growth in renewable generation. This therefore meets Ofgem's Urgency Criteria (a). Timing is driven by the need to have a decision to allow NGENSO to set TNUoS tariffs from the end of January 2021 to be implemented on 1 April 2021.

<b>Who can I talk to about the change?</b>	<b>Proposer:</b> David Bruce <a href="mailto:David.bruce@redrockpower.co.uk">David.bruce@redrockpower.co.uk</a> Owner of Afton Wind Farm Ltd 0131 557 7101	<b>Code Administrator Contact:</b> Paul Mullen <a href="mailto:Paul.j.mullen@nationalgrideso.com">Paul.j.mullen@nationalgrideso.com</a> 07794537028 [Code Admin Use]
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## What is the issue?

**The defect is that the changes made to the charging regime, with the removal of the SGD from the licence, places the generators connected at 132kV in Scotland at a significant commercial disadvantage, distorting competition. This reinstates a problem the SGD was specifically put in place to address at BETTA.**

The Small Generator Discount (SGD) was introduced in 2004 as part of the BETTA arrangements. The issue that the SGD was seeking to address was the difference in transmission charging arrangements between generators connected at 132kV, which are treated as distribution in England and Wales, and classified as transmission in Scotland. This created a competitive disadvantage for 132kV-connected generators in Scotland. As such, the SGD was introduced to ensure a level playing field for generators connected in Scotland.

The SGD is contained in the Transmission licence of National Grid ESO (ESO). The licence condition C13 specifies that the SGD comes to an end on 31 March 2021, and to this end, the condition is to be removed from the licence.

The CUSC is almost silent on the SGD, merely referring to the relevant licence condition (C13) in CUSC 14.14.12, 14.17.16 and 14.18.19. With the expiry of the licence condition, that lack of reference to the SGD in the Code will create significant uncertainty for generators to whom SGD applies, given that Ofgem is reviewing both forward-looking and residual charges as part of wider Significant Code Reviews.

The review into Access and Forward Looking Charges<sup>1</sup> appears to be running late. The loss of the discount in 2021 followed by as-now unknown further changes when any TCR changes are introduced makes for significant regulatory uncertainty, and this is damaging to achieving effective competition between generators.

Given the likely impact on renewable generation investment, it would be in the interest of customers, and in line with wider Government policy, to maintain effective competition by retaining the discount until the ongoing review of Access and Forward Looking Charges has been resolved in full.

## **Why change?**

The original rationale for the SGD was to adjust for the fact that transmission charges created an embedded benefit for generators connected at 132kV in England and Wales, which was not available to generators connected at 132kV in Scotland, due to 132kV being defined as transmission in Scotland. The conclusion of various Ofgem reviews into embedded benefits has led to the main embedded benefits being abolished and that, in Ofgem's view as contained in its decision letter<sup>2</sup>, there is therefore no rationale to continue the SGD. The last review was the Targeted Charging Review (TCR) which is due for implementation on 1 April 2021.

There are a number of justifications for an extension of the SGD:

1. The rationale for the SGD was related to the residual element of transmission charges. This has been addressed by the TCR. However, the consequence of the TCR is a significant rise in generation transmission charges in Scotland since the

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<sup>1</sup> <https://www.ofgem.gov.uk/electricity/transmission-networks/charging/reform-network-access-and-forward-looking-charges>

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/01/sgd\\_decision\\_letter\\_final.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/01/sgd_decision_letter_final.pdf)

Transmission Generation Residual charge was negative. The removal of the Transmission Generation Residual has therefore increased charges to all generators. Thus, the average transmission charge in 2020/21 was £5.299849/kW<sup>3</sup> whereas the average transmission charge in 2021/22 is £11.351149/kW<sup>4</sup>. This average impact hides the true impact on generators in Scotland where the highest generation charge is over £30/kW. For the proposer, this represents a 1200% increase in charges from around £80,000 in 2020/21 to over £1,000,000 in 2021/22. Removal of the SGD coupled with the increase in transmission charges represents a double impact for 132kV connected generation. It is somewhat ironic that the establishment of the level playing field has resulted in a significant increase in the cost of the playing field.

2. While the TCR has concluded, the Access and Forward Looking Charges review is continuing. It is scheduled for implementation in 2023, but it is possible that elements of this review slip into 2024 given the delay in Ofgem's "minded to" consultation (due last year and delayed to this year). There is much discussion in the Charging Futures Forum about the differences in charging between transmission and distribution connected generation. For example, in its November 2020 webinar<sup>5</sup>, Ofgem says it is considering the existing differential between access rights for transmission connected generation versus distribution connected generation, including extending transmission charges to some distribution connected generation. Given the fixed sum nature of overall transmission price controlled revenue, any extension of the charging base would affect all users.

We note that the value of the SGD is around £35m<sup>6</sup>, and the imposition of TNUoS charges on embedded generation would, in Scotland, lead to an increase of around £37m<sup>7</sup> for renewable generators, i.e. in the same ballpark as the SGD. Thus, 132kV connected generators, seeing their charges rise dramatically, could see those charges fall in 2023 or 2024, possibly significantly.

The point here is that the overall transmission charging regime is not yet stable. The embedded benefits element – the original rationale for the SGD – may have been largely addressed. However, significant uncertainty exists as to the future transmission charging regime. Retention of the SGD would be a way of ameliorating such uncertainty for a period of time while the full charging regime review is finalised, particularly given the massive increase in charges.

3. One of the reasons for pausing removal of the SGD is to get greater clarity on the Access and Forward Looking Charges review. This would give time for Ofgem to check that new proposals for DNO charges align with the charges faced by

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<sup>3</sup> Table 6 of the 2020/21 TNUoS statement:

<https://www.nationalgrideso.com/document/162431/download>

<sup>4</sup> Table 1 of the draft 2021/22 TNUoS statement:

<https://www.nationalgrideso.com/document/181866/download>

<sup>5</sup> <http://www.chargingfutures.com/media/1491/9-november-20-cg-and-dg-slidespptx.pdf>

<sup>6</sup> Table 19 of the 2020/21 TNUoS statement

<sup>7</sup> Slide 10 of November slide pack

<http://www.chargingfutures.com/media/1491/9-november-20-cg-and-dg-slidespptx.pdf>

generators connected at 132kV in Scotland; it is total monopoly charges that need to be non-discriminatory if competition is to be effective.

The reason for this urgent change request is that all of the relevant charging mods had not been approved in time for the generators to assess the total charges they are likely to face (with the last draft tariffs from NGENSO issued before the CMP317 change was approved on 17/12/20). The volume and timing of the charging changes have made it very difficult for impacted generators, who are often smaller parties, to understand the scale of the changes for April 2021.

4. Ofgem is considering, as part of the Access and Forward Looking Charges Review, differentiating charges by GSP depending on whether there is import or export at that GSP. There is no analysis as to what that might mean for existing and prospective generators.
5. Ofgem is undertaking a full review of distribution charges which might, or might not, lead to changes in the red / amber / green regime on the distribution system. It is not clear how this will change the flows on the 132kV system. Other changes being mooted by Ofgem include trading of capacity and a greater definition of access rights. It is not clear how this would impact the operation of wind farms connected at 132kV. Until Ofgem has had time to review the full gambit of charges removal of the SGD is premature given its detrimental impact on the wider policy goals set out by BEIS.
6. Since Ofgem started on these charging reviews, there has been a significant shift in the policy context, as set out in the Energy White Paper published shortly before the end of 2020. This reflects Government's desire to achieve net zero carbon by 2050 and seeks to set a roadmap to that end. Part of this is a significant increase in the amount of renewable generation. Removal of the SGD, particularly in the light of the uncertainties given the stage of the Access and Forward Looking Charges review, would not be detrimental to the major increase in investment in and operation of renewable generation called for in the White Paper. The scale of increase in charges that is shown above shows that a partial implementation of charging review is causing a significant impact on the economics of wind farms, which will impact the ability of the industry to deliver the Government's ambitions.

Ofgem's primary duties to protect customers by promoting competition and to reduce emissions of greenhouses will not be met by allowing the SGD to fall away at the current time. The generators most impacted are renewable generators and we therefore believe that maintaining the competitive position of these plants, until the full impact of the reviews into transmission and distribution charges is known, would be consistent with Ofgem's duties.

Further, given the impact on renewable generation (see the impact outlined above in terms of the increase in charges), the removal of the SGD is inconsistent with wider Government policy as set out in the Ten Point Plan and Energy White Paper, published late last year.

## What is the proposer's solution?

The proposal seeks to introduce the SGD into the CUSC (Section 14). It is proposed that the level of the SGD be set at £11.55/kW, the level of the SGD in 2020/21.

### Draft legal text

The proposer suggests that the text (struck out in red) in paragraph 14.18.19 is deleted

#### **“Small Generators Charges**

##### **14.18.19**

~~Eligible small generators' tariffs are subject to a discount of a designated sum defined by Licence Condition C13 as 25% of the combined residual charge for generation and demand. The calculation for small generators charges is not part of the methodology however, for information the designated sum is included in The Statement of Use of System Charges”.~~

and replaced with the following next text (shown in red):

~~“Generators connected at 132kV in Scotland are eligible for a Small Generators Discount. For 2020/21, this is a discount of £11.55/kW. This value will be increased annually by CPI (as defined in NGENSO's price control).”~~

The CUSC refers to NGENSO's licence condition C13 in a number of other places (14.14.12 and 14.17.16). They should also cross reference the new 14.18.19 or be deleted.

The SGD should also become a defined term, as should CPI – this will be covered by a separate Modification.

## What is the impact of this change?

### Proposer's assessment against CUSC Charging Objectives

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><b>Positive</b></p> <p>Small generators connected at 132kV are seeing disproportionate increases in charges now, with dramatic uncertainty over future changes arising from the access review. This is particularly the case in Scotland. Uncertainty of this nature will deter future investment. Creating a stability bridge to the new charging regime will allow effective competition to continue and develop.</p>
(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	<p><b>Neutral</b></p> <p>[Please provide your rationale]</p>

<p>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);</p>	
<p><b>Positive</b></p> <p>There remain significant uncertainties in the future of the transmission and distribution charging regime as the Access and Forward Looking Charges review. Extending the SGD to 2024 would allow existing and prospective generators a degree of certainty until Ofgem concludes its review. The removal of the SGD now, with no certainty as to the future regime, does not allow proper account to be taken of developments in the transmission business.</p>	
<p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and</p>	<p><b>Neutral</b></p> <p>[Please provide your rationale]</p>
<p>(e) Promoting efficiency in the implementation and administration of the system charging methodology.</p>	<p><b>Neutral</b></p> <p>[Please provide your rationale]</p>
<p>*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).</p>	

<p><b>Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories</b></p>	
<p><b>Stakeholder / consumer benefit categories</b></p>	<p><b>Identified impact</b></p>
<p>Improved safety and reliability of the system</p>	<p><b>[Select impact]</b></p> <p>[Please provide your rationale.]</p> <ul style="list-style-type: none"> <li>•</li> </ul>
<p>Lower bills than would otherwise be the case</p>	<p><b>[Select impact]</b></p> <p>[Please provide your rationale.]</p> <ul style="list-style-type: none"> <li>•</li> </ul>
<p>Benefits for society as a whole</p>	<p><b>[Select impact]</b></p> <p>[Please provide your rationale.]</p>



Reduced environmental damage	<p><b>Positive</b></p> <p>[The introduction of a discount (albeit to address discrimination) would incentivise all small transmission connected generation in Scotland. To the extent that this was wind power, or other renewables, this would reduce the environmental impact of the counterfactual. Increasing transmission charges (which is the result of the removal of the SGD) does not seem likely to increase the amount of renewables that would be incentivised to connect.</p>
Improved quality of service	<p><b>[Select impact]</b></p> <p>[</p>

## When will this change take place?

### Implementation date

1 April 2021, the start of the charging year.

### Date decision required by

25 January 2021 to allow NGENSO to include this change in final tariffs for implementation by 1 April 2021.

### Implementation approach

No changes to systems or processes as far as we are aware.

### Proposer's justification for governance route

Governance route: Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision).

This modification should be treated as urgent. As such, it would proceed straight to Code Administrator Consultation under a timetable agreed with the Authority, who would make the decision as to whether it should be given urgent status. The proposer considers that this is an imminent issue that if not addressed will cause a significant commercial impact on a significant volume of renewable generation, thereby undermining the Government's ambitions for a significant growth in renewable generation. This therefore meets Ofgem's Urgency Criteria (a). Timing is driven by the need to have a decision to allow NGENSO to set tariffs from the end of January 2021.

The proposer is not suggesting a Workgroup as a) this would make an implementation date of 1 April 2021 difficult to achieve and b) it is not clear what a workgroup would need to discuss. If a workgroup was put in place, then it is likely that any conclusions would not be ready for 1 April 2021. In such circumstances, if Ofgem approved this modification, this would lead to mid-year tariff adjustment.

Parties are already expecting changes to TNUoS charges from the last indicative tariffs due to the changes that Ofgem has signed off subsequent to those being published, and we note the health warnings that NGENSO has put on its draft tariffs. We therefore do not feel that the likely scale of this change, when combined with others will have a particularly material impact on the final tariffs from 2021/22.

We note that CMP302 "to extend the small generator discount until an enduring solution acknowledging the discrepancy between England & Wales and Scotland is implemented" was raised, but was withdrawn. This shows that this has been an issue of concern for renewable generators for some time.



## Interactions

- |  |   |   |   |
|--|---|---|---|
| <input type="checkbox"/> Grid Code                 | <input type="checkbox"/> BSC                                  | <input type="checkbox"/> STC                    | <input type="checkbox"/> SQSS             |
| <input type="checkbox"/> European<br>Network Codes | <input type="checkbox"/> EBGL Article 18<br>T&Cs <sup>8</sup> | <input type="checkbox"/> Other<br>modifications | <input checked="" type="checkbox"/> Other |

We note that the condition in the CUSC arises as a result of SLC C13 of the transmission licence. This condition specifies 1 April 2021 as the end date for the SGD. It is possible that there could be an impact on the Access and Forward Looking Charges review. For example, any decision to charge distributed generators transmission charges, might impact the level of charges for transmission connected generators.

## Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBGL	Electricity Balancing Guideline
GSP	Grid Supply Point
SGD	Small Generator Discount
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
T&Cs	Terms and Conditions
TCR	Targeted Charging Review
SCR	Significant Code Review

## Reference material

- None

<sup>8</sup> If your modification amends any of the clauses mapped out in Exhibit Y to the CUSC, it will change the Terms & Conditions relating to Balancing Service Providers. The modification will need to follow the process set out in Article 18 of the European Electricity Balancing Guideline (EBGL – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.