Targeted Charging Review (TCR) Webinar

December 2019

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Overview

Ofgem's Aims

- Remove harmful distortions in current charging methodology
- Create level playing field
- Make charging fairer for all users of the network
- Meet interests of current and future consumers
- Continue reviewing 'embedded benefits' that may distort investment or dispatch decisions

Decision Made by Ofgem - 21st November

Ofgem's TCR Decision

Reform of TNUoS Demand Residual

Removal of TNUoS Generator Residual

Reform of BSUoS charge

2nd BSUoS taskforce

To be implemented at transmission by April 2021 and distribution by April 2022

Ofgem's TCR Direction

Ofgem have directed NGESO to implement their decision

NGESO are raising the following modifications;

1. Modification to design and implement a new methodology for Transmission Demand Residual– to be raised before Christmas.
2. Set Transmission Generator Residual to £0 and align with CMP317 (CMP327).
3. Revise BSUoS methodology to be based on 'Gross' demand

   Modifications to other codes (BSC and DCUSA) also expected

The above modifications need to be raised as urgent to meet Ofgem's implementation date of April 2021

TNUoS Demand Residual (TDR)

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TNUoS Demand Residual (TDR)

Problem

- The residual charge is not designed to provide a signal
- Today some users are able to adjust their demand to avoid paying almost all residual charges

Solution

- Demand residual to be charge at a fixed rate
  - Non-domestic user charges to be banded based on voltage, capacity or demand where relevant
  - Users to remain in band for duration of price control
  - Domestic users to be charged single tariff

How the TNUoS Demand Residual (TDR) could be calculated

The potential process for determining TDR;

(A)	TO MAR (£)	-	Generation TNUoS Value (£)	+	Embedded Export Tariff (£)	=	Demand TNUoS Value (£)	
(B)*	Zonal HH tariffs (£/MW)		x	Zonal gross peak demand (MW)		=	Expected HH Zonal revenue (£)	
(C)*	Zonal HH tariffs (£/MW)		x	Zonal Triad demand (MW)		=	Recovered HH Zonal Value (£)	
(D)*	(B)	-	(C)	=	"NHH Zonal Recovery Value" (£)			
(E)*	(D)	÷	NHH Chargeable Zonal Volume (MWh)	=	NHH Locational Tariff (£/MWh)			
(F)	(A)	-	Σ(C)	-	Σ(D)	=	TDR Value (£)	
(G)	Take (F) and apply a methodology to spread value across bandings	→	8 'usage groups' 4 percentiles = ~18-21 tariff bands					

1. Domestic
2. LV no defined capacity
3. LV defined capacity
4. High Voltage
5. Extra High Voltage
6. Transmission

a. <40th percentile
b. =>40th percentile < 70th percentile
c. =>70th percentile <85th percentile
d. =>85th percentile

Convert banding values into tariffs (p/day)

* Step run for each zone

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TDR Modification

This modification will update the current methodology by;

1. Using the concepts of 'Final Demand' and 'Single Site'
2. Creating charging bands for TDR based on the methodology in Ofgem's decision
3. A new methodology to split TDR cost to these bands based on Final Demand at Single Sites
4. A process for a periodic review of the TDR methodology

- Modification is still in development but will be raised before Christmas
- Likely to be raised as urgent due to pressing timescales

TNUoS Generation Residual (TGR)

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TNUoS Generator Residual (TGR)

Problem

- The Transmission Generator Residual charge is currently negative to ensure compliance with EU Regulation 838/2010. Ofgem have directed that the TGR should be set to zero and that generators should face all applicable charges.
- The CUSC should also properly reflect the correct interpretation of the “connection exclusion”.

Solution

- Transmission generation residual charges to be set to zero
  - ESO must remain compliant with regulation 838/2010, which states TNUoS recovery from Generator Users must be in the €0-2.50/MWh range (excluding ‘assets required for connection’)
  - Must be carried out alongside current modification CMP317

We have raised a modification (CMP327) as urgent which the CUSC Panel have agreed to amalgamate with CMP317. This now awaits Ofgem confirmation.

BSUoS Reform

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BSUoS Reform

Problem

- Smaller Distributed Generation and exporting on-site generation can receive payments for reducing suppliers' liabilities for balancing service charges
  - Non-exporting on-site generators can receive these same benefits
- Smaller Distributed Generation and on-site generation does not currently pay generation balancing services charges

BSUoS Modification

Currently BSUoS to Suppliers is calculated on a 'net' basis;

$$BSUoSTOT_{ij} = \frac{BSUoSTOT_j * QMBSUoS_{ij} * TLM_{ij}}{\left\{\left|\sum^{+}(QMBSUoS_{ij} * TLM_{ij})\right| + \left|\sum^{-}(QMBSUoS_{ij} * TLM_{ij})\right|\right\}}$$

Where:

$BSUoSTOT_j$	Total BSUoS Charge applicable for Settlement Period j
$QMBSUoS_{ij}$	BM Unit Metered Volume (QM_{ij})** for BSUoS Liable BM Units
TLM_{ij}	Transmission Loss Multiplier **

$\sum^{+}$ - refers to the sum over all BM Units that are in delivering Trading Units in Settlement Period 'j'

$\sum^{-}$ - refers to the sum over all BM Units that are in offtaking Trading Units in Settlement Period 'j'

- So currently; $QMBSUoS_{ij}$ = Demand Volume – Embedded Generation Volume
- BSUoS Methodology is detailed in CUSC section 14.30

The modification will change this calculation so it is run on a 'gross' basis

BSUoS Reform

Solution

- Modification to state suppliers to be charged BSUoS on a 'gross' basis
- Set up 2nd BSUoS taskforce to look at who should pay and how

Deliverable	Date
Consideration and assessment based recommendation as to who should pay balancing services charges.	January – February 2020
Investigation and recommendation for recovering balancing services charges, including collection methodology and frequency.	February - March 2020
Produce an interim report providing detailed reasoning and any relevant analysis behind the conclusions.	April 2020
Consult on the interim report providing opportunity for stakeholder comment.	April - May 2020
Issue a final report including consideration of stakeholder consultation responses providing a final recommendation on who should pay, the design of balancing services charges and potential timescales for implementation.	June 2020

To be followed by further modification(s) as necessary

Other TCR related modifications

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Other changes required for TCR

In addition to the detailed methodology changes we expect there to be additional modifications to the CUSC for:

- Billing and reconciliation
- Credit cover and forecasting requirements
- Definitions

Changes to other codes:

- Data requirements for single site and final demand
- Alignment of banding definitions
- Appeals process for band changes within a price control

Modification timeline

Modification	When
TGR to Zero – CMP 327	Raised at November's panel
TDR CUSC methodology changes	To be raised in December
BSUoS charged on 'gross' basis	To be raised in December
BSUoS taskforce	Starting in January
Additional changes required for TCR	TBC to be aligned with DNO plan