











CUSC Modification Proposal Form	At what stage is this document in the process?
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CMP302: Extend the small generator discount until an enduring solution acknowledging the discrepancy between England & Wales and Scotland is implemented.

01	Proposal Form
02	Workgroup Consultation
03	Workgroup Report
04	Code Administrator Consultation
05	Draft CUSC Modification Report
06	Final CUSC Modification Report

Purpose of Modification: This proposal seeks to extend the small generator discount that is currently due to expire on 31 March 2019 until an enduring solution that acknowledges the discrepancy between sub-100MW plant connected in England and Wales at 132kV versus the same connected in Scotland is implemented. It proposes to achieve this by introducing the arrangements for the discount into the CUSC. An enduring solution may come forward through Ofgem’s Targeted Charging Review, as it affects forward-looking and residual charges. This modification seeks to maintain the status quo until an enduring solution is established.

	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> assessed by a Workgroup <p>This modification was raised 23 August 2018 and will be presented by the Proposer to the Panel on 31 August 2018. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>
	<p>High Impact: 132kV transmission-connected generators in Scotland and offshore with a capacity of under 100MW</p>
	<p>Medium Impact Suppliers; HH and NHH customers</p>
	<p>Low Impact None</p>

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Timetable			
The Code Administrator to recommend timetable at August CUSC Panel Meeting.			 020 7486 5400
			National Grid Representative: Urmi Mistry
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Proposer Details

Details of Proposer: (Organisation Name)	Millennium Wind Energy Ltd
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	BSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Richard Dibley Falck Renewables Wind Ltd 020 7486 5400 richard.dibley@falckgroup.eu
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Robert Reed Falck Renewables Wind Ltd 020 7486 5400 robert.reed@falckgroup.eu
Attachments (Yes/No): If Yes, Title and No. of pages of each Attachment:	

Impact on Core Industry Documentation.
Please mark the relevant boxes with an "x" and provide any supporting information

BSC	<input type="checkbox"/>
Grid Code	<input type="checkbox"/>
STC	<input type="checkbox"/>
Other	<input type="checkbox"/>

(Please specify)

There is no impact on other codes. Forecast TNUoS charges will need to be amended.

1 Summary

Defect

The arrangements for the small generator discount are set out in SLC13 of the electricity transmission licence which requires National Grid Electricity Transmission to discount TNUoS charges by 25% of the combined generator and demand residual charge for sub-100MW transmission connected generators in Scotland and offshore.

The expiry date in SLC13 is 31 March 2019. This will be effective unless Ofgem decides to extend the date or unless Ofgem approves the implementation of charging arrangements into the CUSC which incorporate the small generator discount arrangements.

The defect is that, without an extension, there will be significant uncertainty for generators to whom the discount applies, given that Ofgem is reviewing both forward-looking and residual charges as part of its Targeted Charging Review (TCR). They may experience loss of the discount in April 2019 followed by as-now unknown further changes when any TCR changes are introduced. This makes for significant regulatory uncertainty, and this is damaging to achieving effective competition between generators.

In addition, seasonal and locational TLMs have now also been put in place which is compounding costs for Scottish generators affected by this proposal. This comes on top of a range of measures that have eroded the value of onshore wind projects of this type (reduction in RO value, removal of LECs and the impact of recent changes in zonal losses, for example). Taken together this has a significant cumulative impact on investor confidence.

What

The proposal would insert legal text into Section 14 of the CUSC setting out the small generator discount arrangement. Currently the small generator discount is effective through SCL13 only. The arrangements would specify that the small generator discount will endure until any changes being explored under the TCR are implemented and deliver an enduring solution addressing the additional costs that Scottish sites face.

Why

If no action is taken, generators that are currently eligible for the discount will see the discount removed in April 2019 but could see further changes to their charges soon afterwards as a result of the outcome of Ofgem's TCR. This creates significant uncertainty for these generators. Continuing the discount until the enduring arrangements are put in place would mean one set of changes rather than two. This would be less disruptive and provide greater certainty. It would therefore also more appropriately reflect developments in the transmission businesses, namely the current charging reviews, by providing stability throughout them and until a solution is reached.

A precedent has been set with Ofgem extending the small generator discount a number of times due to the lack of an enduring solution; this is still the case today. The recent introduction of seasonal locational transmission losses also compounds changes at Scottish sites that along with the TCR create significant uncertainty. Ofgem should

remain consistent in its approach to the discount following the extension in 2015 when no robust and enduring arrangements were delivered.

Ofgem has indicated that it expects decisions from the Significant Code Review that is examining changes to residual charges to be implemented from 2020-21 onwards. The implementation timetable for decisions on forward-looking charges is expected to be part of its decision on the way forward in late 2018. Therefore, it is possible that further changes to the current TNUoS methodology could be implemented from 2020 onwards. However, it is unclear at this stage, what the nature of those changes will be.

How

The CUSC would introduce the arrangements for the small generator discount in Section 14, which details charging methodology arrangements.

2 Governance

Justification for Normal Procedures

This proposal is not considered suitable for self-governance procedures as it is a material change to CUSC Parties.

Requested Next Steps

This modification should:

- be assessed by a Workgroup

This will allow the development of the solution and appropriate legal text and allow any associated issues to be explored.

3 Why Change?

The small generator discount was introduced by the UK government in 2005 with the aim of creating a level playing field between under 100MW 132kV transmission connected generators in Scotland and offshore, and those that are distribution connected at 132kV in England and Wales. Generators connected at 132kV to the distribution system in England and Wales are called embedded generators and are treated as negative demand for the purposes of transmission charging. As a result, embedded generators do not pay generation transmission charges and they may also receive a benefit from suppliers because they reduce their demand transmission charges. Together, this is known as “embedded benefit”. Small generators connected to the 132kV network in Scotland do not receive this benefit.

The level of the small generator discount was determined by Ofgem in 2005 and is 25% of the sum of the generation and demand residual TNUoS tariffs in a given charging year. This is recovered from demand consumers.

The discount has since been extended several times, most recently in January 2016 Ofgem decided to extend it for three years to March 2019. This was in order to allow for the development of enduring charging arrangements for embedded generation.

Just prior to that, in August 2015, Ofgem rejected a CUSC proposal, CMP239, which sought to introduce grandfathering arrangements for the small generator discount.

For 2018-19 the calculation of the small generator discount has changed as a result of the changes to the transmission charging treatment of embedded generation introduced by CMP264/CMP265. The small generator discount recovery is now taken from gross half hourly demand and the residual used in the calculation of the discount is now the gross demand residual. The rate charged to half hourly demand tariffs is now charged at a gross demand level instead of net. The smaller generator discount will be £11.10/kW for 2018-19 and the total cost around £30.64mn.

This proposal is based on the concern that the elements that make up the small generator discount, the TNUoS generator and demand residual, are currently again the subject of industry change. Ofgem's Significant Code Review (SCR) is specifically considering residual charging elements and how these should be recovered. In this light, it would be pragmatic and least disruptive to continue the small generator discount until the results of the SCR are implemented, and any relevant wider changes from the TCR.

The impact on the generators affected will be to provide regulatory certainty through the period of developing the new charging arrangements.

4 Code Specific Matters

Technical Skillsets

The Working Group should consist of members with an appreciation of the TNUoS Charging Methodology in Section 14 of the CUSC and an understanding of Ofgem's Targeted Charging Review.

Reference Documents

The Electricity transmission licence

5 Solution

The solution would introduce charging arrangements for the small generator discount into Section 14 of the CUSC based on the current arrangements in the transmission licence. The workgroup would clarify the precise arrangements for when the expiry of the discount is appropriate.

6 Impacts & Other Considerations

There are not believed to be any cross code impacts. The proposal seeks to maintain an arrangement that exists currently.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

Ofgem is currently holding a Significant Code Review which includes consideration of residual network charges. This was launched in August 2017. Its main objectives are to: consider reform of residual charging for transmission and distribution, for both generation and demand, to ensure it meets the interests of consumers, both now and in future; and keep the other “embedded benefits” that may be distorting investment or dispatch decisions under review.

Any changes to TNUoS residuals as a result of the SCR could impact the small generator discount.

Consumer Impacts

Consumers currently pay the costs of the smaller generator discount, which is around £30.64mn for 2018-19. Under this proposal, consumers would continue to pay for this discount, as currently calculated, through half hourly and non-half hourly tariffs until such time as the relevant TCR changes are implemented.

It should be noted that the equivalent sub 100MW 132kV distribution sites in England & Wales pay no transmission charges but rather receive payments of embedded benefits which are paid for by consumers via suppliers. Under this proposal, sub 100MW 132kV transmission-connected sites in Scotland would also continue to pay TNUoS charges as currently, which amount to roughly £90mn.

7 Relevant Objectives

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

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;	Positive It will provide a predictable regulatory environment for generators eligible for the discount
(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	None

connect and manage connection);	
(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 The SCR and TCR create uncertainty, and the proposal would provide predictable and known arrangements, pending any further changes being known and implemented.
(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	None
(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.	None
*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).	

8 Implementation

Implementation in the CUSC is proposed to be ten days following an Authority decision. The arrangements are proposed to take effect from 1 April 2019.

9 Legal Text

The legal text will be developed by the workgroup and be provided in conjunction with the Workgroup Report to the CUSC Panel before progressing to the Code Administrator Consultation.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to agree that normal procedures shall apply and to refer this proposal to a Workgroup for assessment.