





Workgroup Alternative Proposal Form	At what stage is this document in the process?
<h1>CMP343:</h1> <h2>Transmission Demand Residual bandings and allocation for 1 April 2022 implementation (TCR)</h2>	<div> <div>01</div> <div>Proposed Alternative</div> </div> <div> <div>02</div> <div>Proposed Workgroup Alternative</div> </div>
<p><b>Purpose of Alternative:</b> WACM8</p> <p>In the treatment of negative locational charges, to introduce a £/site/day locational adjustment that aims to mitigate the distributional impact of flooring the locational tariff to zero.</p> <p>In the banding of sites connected directly to the transmission network.</p> <p>The direction of this modification is to deliver a solution to recover Transmission Demand Residual costs as required by the Authority TCR Direction. Ofgem has given the workgroup discretion to determine how to band sites connected directly to the transmission network. It is clear from workgroup analysis that four bands are more appropriate than one to avoid a clear distortion between small and large sites charging.</p>	
<p><b>Date submitted to Code Administrator:</b> 24/06/2020</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

In the treatment of negative locational charges, to introduce a £/site/day locational adjustment that aims to mitigate the distributional impact of flooring the locational tariff to zero. To calculate the £ per zone adjustment run the Tariff model twice, once with a floor of zero applied to the locational tariffs and then again without applying a floor to the locational tariffs, recording the revenue expected to be collected from each zone under both scenarios.

Zone number	zone name	revenue recovered (£m)		delta created by flooring locational (£m)
		floored	not floored	
1	Northern Scotland	74	33	40.6
2	Southern Scotland	163	99	64.6
3	Northern	116	98	18.5
4	North West	191	185	5.4
5	Yorkshire	173	171	2.2
6	N Wales & Mersey	121	120	1.0
7	East Midlands	215	231	-15.3
8	Midlands	198	216	-17.5
9	Eastern	314	341	-27.3
10	South Wales	82	88	-5.2
11	South East	207	224	-16.9
12	London	205	222	-16.0
13	Southern	289	311	-22.7
14	South Western	142	153	-11.4

in the above example consumers in zone 1 Northern Scotland consumers would have paid an additional £40.6million due to the application of a zero floor.

So to remove the distributional impact of flooring the locational tariff to zero without creating a perverse incentive to consume more energy over peak periods, this £40.6million should be given as a discount to consumers in Northern Scotland, applied as a £/site/day fixed charge.

Allocation of this revenue to each customer group in the region should be on the basis of that groups annual consumption as a proportion of the total consumption for the zone.

		zone	1	Northern Scotland	total adj req (£)	-40605825.7		
		Sub segment CDCM Net volume (MWh)	Number of MPANs (or sites)	sub segment proportion of regional volume	adj per segment	fixed adj per site	TCR fixed residual	overall fixed tariff
Domestic	Single Segment	3121046	785294	39.03%	-£15,848,041	-£20	£32	£12
LV NHH	1st Band	55045	30295	0.69%	-£279,507	-£9	£17	£8
	2nd Band	202878	22721	2.54%	-£1,030,173	-£45	£83	£38
	3rd Band	236068	11361	2.95%	-£1,198,706	-£106	£194	£88
	4th Band	670397	11361	8.38%	-£3,404,141	-£300	£550	£251
LV HH	1st Band	333595	3177	4.17%	-£1,693,927	-£533	£1,078	£545
	2nd Band	335700	1680	4.20%	-£1,704,617	-£1,015	£1,914	£899
	3rd Band	248242	764	3.10%	-£1,260,525	-£1,651	£2,297	£646
	4th Band	812235	1080	10.16%	-£4,124,365	-£3,818	£6,501	£2,682
HV	1st Band	86591	459	1.08%	-£439,689	-£958	£4,432	£3,474
	2nd Band	205539	142	2.57%	-£1,043,685	-£7,371	£14,332	£6,961
	3rd Band	184160	74	2.30%	-£935,128	-£12,617	£27,135	£14,518
	4th Band	473825	70	5.93%	-£2,405,989	-£34,524	£75,406	£40,882
EHV	1st Band	20954	16	0.26%	-£106,398	-£6,558	£11,614	£5,056
	2nd Band	188261	13	2.35%	-£955,952	-£73,965	£130,993	£57,028
	3rd Band	149468	5	1.87%	-£758,967	-£143,719	£254,528	£110,809
	4th Band	565236	6	7.07%	-£2,870,155	-£472,065	£836,033	£363,968
T connected	Single Segment	107500	2	1.34%	-£545,861	-£241,715	£428,080	£186,365

In the example above Domestic sites consume 39% of the volume so 39% of the £40.6 million or £15.8million should be returned to domestic sites.

To calculate the fixed adjustment per domestic site the £15.8million is divided by the number of domestic sites in the region in this case 3121046 to give annual £/site/year adjustment for that consumer type.

This is done for each zone and will create a locational adjustment to apply to each of the consumer groups created for the TCR national fixed charge in each zone to ensure that the revenue collected from each zone is not impacted by flooring the locational £/MWh tariff to zero.

In the banding of sites connected directly to the transmission network.

The direction of this modification is to deliver a solution to recover residual costs. Ofgem has given the workgroup discretion to determine how to band sites connected directly to the transmission network.

It is clear from workgroup analysis that four bands are more appropriate than just one to avoid a clear distortion between small and large sites charging.

The sites connected directly to the transmission network will be split at the 40th, 70th, and 85th percentile point which aligns with the approach taken for the distribution bands for each voltage level.

It is also proposed that if the number of sites in a transmission network band is less than two then the total import consumption and total count of sites in that band will be combined with the equivalent information for the transmission network band(s) above that band to calculate the residual fixed charge. If that band is the highest transmission network band, it will be combined with the equivalent information for the transmission network band(s) below that band to calculate the residual fixed charge. The residual fixed charge would therefore be the same for all sites in the relevant transmission network bands. This is aligned with the approach for all other voltage levels in DCP361.

## 2 Difference between this proposal and Original

In the treatment of negative locational charges.

The difference to the original is that there will be two £/site/day tariffs under this alternative one national residual tariffs which is the same as the original and a second which is applied in the same manner as the national residual but that varies by zone.

In the banding of sites connected directly to the transmission network.

- 1) This alternative is different to the Original in that it proposes four bands for sites connected directly to the transmission network instead of just one.

### 3 Justification for alternative proposal against CUSC Objectives

*Mandatory for the Alternative Proposer to complete.*

#### 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;	neutral
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;	Positive as the Authority have given the SCR TCR direction.
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.	neutral
*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).	

The Authority has directed this modification to be raised and implemented to enact their SCR TCR Decision.

## 4 Impacts and Other Considerations

In the treatment of negative locational charges.

System impacts vary from the original in that this creates an additional £/site/day charge that is different by region in addition to the residual £/site/day charge which is the same across GB.

### Consumer Impacts

In the treatment of negative locational charges.

The intent of this alternative modification is to ensure that the locational signal created by the tariff and transport model is retained in terms of revenue collected from each zone. And would remove the distributional impact created by the original proposal which would lead to consumers in the north of GB paying an additional circa £130 million per year compared to the status quo.

In the banding of sites connected directly to the transmission network.

Ofgem has given the workgroup discretion to determine how to band sites connected directly to the transmission network. It is clear from workgroup analysis that four bands are more appropriate than one to avoid a clear distortion between small and large sites charging.

## 5 Implementation

This modification needs to be implemented by April 2022 to allow ESO to comply with the Direction letter published by The Authority on the 21<sup>st</sup> November 2019 and revised in the letter of 31<sup>st</sup> March 2020.

## 6 Legal Text

In the treatment of negative locational charges.

To be agreed with the ESO

In the banding of sites connected directly to the transmission network.

1) 14.15.137 (new section) to be agreed with the ESO