

Minutes

Meeting name	CUSC Modifications Panel
Meeting number	198
Date of meeting	15 November 2016
Location	National Grid House, Warwick

Attendees

Name	Initials	Position
Mike Toms	MT	Panel Chair
Ryan Place	RP	Panel Secretary
John Martin	JM	Code Administrator
Nikki Jamieson	NJ	National Grid Panel Member
James Anderson	JA	Users' Panel Member
Garth Graham	GG	Users' Panel Member
Paul Mott	PM	Users' Panel Member
Paul Jones	PJ	Users' Panel Member
Simon Lord	SL	Users' Panel Member
Nadir Hafeez	NH	Authority Representative

1 Apologies

Apologies were provided from Heena Chauhan (HC), Cem Suleyman (CS), Kyle Martin (KM), and Nicholas Rubin (NR) for the conference call.

All presentations given at this CUSC Modifications Panel meeting can be found in the CUSC Panel area on the National Grid website:

<http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Panel-information/>

2 Introductions

5833. Introductions were made around the group. Ryan Place (RP) joined the Panel as the alternate for Heena Chauhan (HC), Cem Suleyman (CS) passed his vote onto James Anderson (JA) and Kyle Martin (KM) passed his voted onto Garth Graham (GG).

4 Workgroups / Standing Groups

5834. **CMP267 'Defer the recovery of BSUoS costs, after they have exceeded £30m, arising from any Income Adjusting Events raised in a given charging year, over the subsequent two charging years'**. CMP267 aims to defer unforeseen increase in BSUoS costs arising from an Income Adjusting Event (IAE) by two years. This proposal only applies to IAE's which, in their total in any given charging year, have a combined effect on "raw BSUoS" of over £30m.
5835. JM presented slides to the Panel providing an overview of the modification. BB added a point of clarification that following a review of the Workgroup Report, on page 41 it states that 2

Workgroup members supported the Alternative. As a result the presentation slides will need to update to reflect this.

ACTION: Review Mary’s response for CMP267 and update the presentation plus report if required.

5836. BB also wished to flag that in the Proposers response to the Code Administrator Consultation it states that National Grid has charged for the extra costs for Black Start to market participants. BB stated that National Grid made a commitment at previous CUSC Panel that it would consult with industry before charging for any extra costs.

5837. NJ responded that the industry was consulted with at least twice once the additional black start costs were identified. The first time was at an operations forum where it was discussed with industry about recovering costs in the last portion of the year, and the parties who attended the operations forum were contacted again before the NGET update letter was sent to industry.

5838. The CUSC Panel voted on CMP267 against the Applicable CUSC Objectives as follows:

Vote 1 – does the Original Proposal facilitate the Objectives better than the Baseline?

Panel Member	Better facilitates ACO (a)	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
James Anderson						
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Neutral	Yes
	<p>Voting Statement: Both the Original proposal and the Working Group Alternative better meet Applicable Charging Objective (ACO) (a), competition. Both are neutral against ACOs (b), (c) and (d) and overall better meet the ACOs than the current baseline. An Income Adjusting Event (IAE) is by definition an event not reasonably foreseen by the System Operator and therefore not reasonably foreseeable by market participants. An IAE is also of a scale that it will have a material impact upon the BSUoS charges applied to Generators and Suppliers and is unlikely to recoverable by them in the Charging Year in which the IAE costs are incurred. CMP267 limits the impact of such unforeseen charges, removing uncertainty and improving transparency and predictability by allowing a longer period for cost recovery. This is likely to reduce the need for suppliers and generators to apply larger risk premia when forecasting BSUoS costs. Although the Original Proposal could leave the possibility of large BSUoS charges arising due to an IAE late in the Charging Year, the Alternative (WACM1) introduces more complexity and less certainty over of the total potential impact of IAEs in any particular Charging Year. Therefore, the Original proposal better meets the ACOs due to its less complex implementation.</p>					
Bob Brown						
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	No	Neutral	Neutral	Neutral	Neutral	No
	<p>Voting Statement: Original better than Baseline as it assists competition by softening unforeseeable price shocks. WACM is not better than Baseline as it adds significant extra complexity.</p>					
Kyle Martin						
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Neutral	Yes

	Voting Statement: Same as Garth Graham					
	Garth Graham					
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Neutral	Yes
	<p>Voting Statement: With respect to Applicable Objective (a) it is clear that the Original and WACM1 will better facilitate competition in the generation and supply of electricity. The primary reason for this is as set out in the various responses to the Code Administrator Consultation, as well as for the reasons provided in the proposal itself and within the Workgroup Report and is perhaps best summarised by the proposer, in the following terms, “An IAE by its nature is an event that is not foreseen by the System Operator. The scale of such IAEs has a material impact on BSUoS leading to unexpected costs to suppliers, generators and consumers.” Clearly if unforeseen by the SO it must also be unforeseen (and unforeseeable) by BSUoS payers who do not have access to the information, operational experience (with its foresight) that the System operator does. There are detrimental impacts on competition from such material impacts on BSUoS. With respect to Applicable Objectives (b) (c) (d) and (e) it is clear that the Original and WACM1 are both neutral.</p>					
	Nikki Jamieson					
Original	No	No	Neutral	Neutral	No	No
WACM1	No	No	Neutral	Neutral	No	No
	<p>Voting Statement: Whilst National Grid understands and acknowledges the defect the CMP267 proposal is trying to address, we note that there are significant practical issues in linking cost recovery to an IAE (which is not about cost recovery but rather impact on the SO incentive scheme). These include: 1) the fact that IAEs can be submitted after all costs have been recovered, therefore limiting the scope of the proposal and also; 2) interaction with the incentive scheme. We note that the Workgroup have had difficulty in writing and agreeing legal text for both the Original proposal and the alternative, as it was not immediately clear how the proposal should be applied under different circumstances – this has led to several examples needing to be embedded into the legal text itself. These issues mean that it would not be straight forward for industry participants to easily calculate deferred costs and this could add to complexity, therefore having a negative effect against the charging objective of facilitating competition. The impact on objective c would only be neutral if the SO is held whole and receives appropriate financing costs. This has yet to be agreed with Ofgem. Furthermore against objective e, it is not more efficient as it requires additional processes and complexity which will not be an efficient administrative process.</p>					
	Paul Jones					
Original	Yes	No	Neutral	Neutral	Neutral	Yes
WACM1	Yes	No	Neutral	Neutral	Neutral	Yes
	<p>Voting Statement: The proposal allows market participants to deal with large shocks in balancing costs more effectively. This should result in more effective competition and lower costs ultimately to customers. It would also reduce cost reflectivity, but there is little evidence that BSUoS can provide a signal that participants can respond to. Therefore, the lower cost reflectivity shouldn't drive less efficient behaviour from participants. The original proposal manages risk more appropriately for participants and therefore is the better of the two.</p>					
	Simon Lord					
Original	No	No	Neutral	Neutral	Neutral	No
WACM1	No	No	Neutral	Neutral	Neutral	No
	Voting Statement: Costs incurred by the SO should be recovered across					

	users of the system in the same time scales as the costs are incurred. This proposal effectively charges different uses for services to those who benefited from the services and is thus not cost reflective.					
	Cem Suleyman					
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Neutral	Yes
	Voting Statement: I agree that CMP267 better facilitates ACO (a) for the same reasons as provided by the Proposer. I believe that the relative simplicity of the Original proposal compared to WACM 1 makes it the better option of the two.					
	Paul Mott					
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	No	Yes (just)
	Voting Statement: The original is the best option due to greater complexity of the WACM and due to more costs falling on later years in the WACM - CMP267 Original better facilitates objective (a) i.e. it would facilitate more effective competition in the generation and supply of electricity. The way it does this is by mitigating an unforeseen BSUoS "shock" resulting from the submission of an IAE, i.e. an event not foreseen by the System Operator. The impact on BSUoS is big enough to lead to unexpected costs to suppliers, generators and consumers. Parties cannot hedge these costs, so these unhedgeable, unmanageable risks will damage effective/efficient competition - with parties likely to increase the risk premia in tariffs/products charged to customers in a competitive marketplace.					

Vote 2 – Which option is the best?

Panel Member	BEST Option?
James Anderson	Original
Bob Brown	Original
Kyle Martin	Original
Garth Graham	Original
Nikki Jamieson	Baseline
Paul Jones	Original
Simon Lord (Paul Jones)	Baseline
Cem Suleyman	Original
Paul Mott	Original

5839. **CMP268 'Recognition of sharing by Conventional Carbon plant of Not-Shared Year-Round circuits'** CMP268 proposes to change the charging methodology to more appropriately recognise that the different types of "Conventional" generation do cause different transmission network investment costs, which should be reflected in the TNUoS charges that the different types of "Conventional" generation pays ideally ahead of the December Capacity Auction.

5840. RP presented slides to the Panel providing an overview of the modification. PJ wished to add a point of clarification on the presentation, Uniper provider further analysis as part of their response and not a letter.

ACTION: amend the CMP268 presentation to reflect PJ comments.

5841. The CUSC Panel voted on CMP268 against the Applicable CUSC Objectives as follows:

Vote 1 – does the Original Proposal facilitate the Objectives better than the Baseline?

Panel Member	Better facilitates ACO (a)	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
James Anderson						
Original	No	No	Neutral	Neutral	Neutral	No
	<p>Voting Statement: Without a detailed re-examination of how and why the relationship between load factor and constraint cost (identified under CMP213) breaks down under various circumstances, including the prevalence of Low Carbon plant behind a transmission boundary, it is not clear that the proposed solution of applying the ALF to the Non-Shared Year Round tariff under CMP268 would overall be more cost reflective than the current baseline. Therefore the proposal does not better facilitate Applicable Charging Objective (ACO) (b). Cost reflective charges facilitate efficient economic decisions and thereby effective competition. As it is not clear that CMP268 will overall deliver more cost reflective charges than the baseline it will therefore not better facilitate ACO (a). The proposal is neutral against ACOs (c), (d) and (e) and overall will not better meet the ACOs than the current baseline.</p>					
Bob Brown						
Original	No	No	Neutral	Neutral	Neutral	No
	<p>Voting Statement: Insufficient time to allow an evidence based decision to be taken based on independent analysis.</p>					
Kyle Martin						
Original	No	No	Neutral	Neutral	No	No
	<p>Voting Statement: The proposed solution does not clearly show that competition or cost reflectivity would be improved as a result of CMP268 being implemented. Therefore the original does not better facilitate CUSC objectives a or b. The original is neutral against c and d. Although the additional complexity is small, this this would not facilitate objective e.</p>					
Garth Graham						
Original	Yes	Yes	Neutral	Neutral	Neutral	Yes
	<p>Voting Statement: With respect to Applicable Objective (a) it is clear that this proposal will better facilitate competition in the generation and supply of electricity. The primary reason for this is because it will ensure that the cost reflectivity of transmission charges is improved, by correcting the defect identified in the proposal. By charging cost reflectively this will ensure that all Users operate equally in the competitive market, rather than, for example, some Users facing charges which, by them not being cost reflective, are either more expensive on the one hand or (for other Users) cheaper than they should be. With respect to Applicable Objective (b) it is clear that this proposal has, at its core, the improvement of the cost reflectivity of GB transmission charges. In particular, as the proposer has identified, this will better reflect sharing characteristics; better reflect operating characteristics of different Conventional Carbon generators; better enable a negative Peak Security tariff to provide a more effective economic price signal; better reflect cost with regard to generators in negative Year-Round Not-Shared zones; and the locational tariffs of other generator types are not affected. These attributes, both individually and collectively, are beneficial improvements to the CUSC baseline in terms of cost reflectivity. With respect to Applicable Objectives (c), (d) and (e), this proposal is neutral in my view.</p>					

Nikki Jamieson						
Original	No	No	Neutral	Neutral	No	No
	<p>Voting Statement: Effective competition derives from users making efficient economic decisions on their costs. It is not clear from the limited evidence provided and timescales to assess the modification that this improves the cost reflectivity for all users therefore improves on the current baseline. In relation to cost reflectivity, if Conventional Carbon does not contribute to reinforcements in areas with a lack of diversity of Generation, as implied by the defect in the modification, then Load Factor should not be applied to the Year Round Not Shared element of the tariff for Conventional Carbon. By applying Load Factor it indicates that this type of Generation does contribute to reinforcements. In zones with limited diversity the reinforcements would therefore be based on total capacity as it is under the current methodology. Therefore using Load Factor does not seem appropriate. Finally it is not clear that this modification does not create any unintended consequences which will require further modifications.</p>					
Paul Jones						
Original	No	No	Neutral	Neutral	Neutral	No
	<p>Voting Statement: The assessment of CMP213 involved a lot of work to illustrate the link between a plant's load factor and constraint costs on the system (and therefore by implication investment costs). This relationship was shown to break down in areas of low diversity. The CMP213 workgroup did not conclude that this only held for low carbon plant, as the solution developed was to reduce the ALF related asset costs for all plant. Otherwise it would have looked like CMP268. The evidence from the CMP213 report backs this up. The incentives from the current methodology reflect this. When diversity increases, the cost per kW of plant in that area is affected to reflect the increased effective sharing which can take place. Diversity does not provide a signal to close and reduce diversity as has been suggested. It may have that result in one or two circumstances, but this would be driven by the plant's position on the system and perhaps its ALF, as well as other factors such as a plant's efficiency and reliability. The diversity part of the signal is acting as intended. The proposer believes that high carbon plant will always result in low constraint costs and therefore the baseline is not correct. This is not proven and indeed in the past we have had very high constraint costs on congested borders driven by the actions of both low and high carbon plant. It also isn't what CMP213 concluded. There has been conflicting analysis about whether the baseline or CMP268 would produce results closer to those which would result from using SQSS scaling factors. That carried out using actual ALFs rather than hypothetical ones shows that the baseline is closer. It also shows that CMP268 would produce large drops in charge for a handful of stations which are far below the SQSS derived charges. This would indeed only result in a small increase in the charges for everyone else, but in relative competitiveness terms it is very significant, especially when there is an upcoming capacity market auction. There is no evidence that this change would be more cost reflective than the baseline, and indeed CMP268 appears to be worse than the baseline against objective b). Given the relative competitiveness effects as a result, this would distort competition and therefore act against objective a) too.</p>					
Simon Lord						
Original	No	No	No	Neutral	Neutral	No
	<p>Voting Statement: The non- shared element of the transmission tariff represents the minimum size of the boundary that must be built to accommodate the maximum level of sharing. The full cost of this minimum boundary size should be targeted onto users behind the boundary. This is the principle behind the sharing element of the TNUoS tariff developed as part of</p>					

	Transmit. Whilst there could be incremental changes the methodology used to allocate sharing this modification does not proposed changes to this area which would be need to be part of a wider reform package. This modification prosed to “reduce” the cost reflective signal by applying a load factor element to the non-shared element. Whilst it can be agreed that the non-shared element changes as different volumes of generation commits behind a boundary to apply a load factor element pre-judges this position and is not cost reflective. Both the theory and practical implementation of this modification are flawed and is evidenced in the working group report.					
	Cem Suleyman					
Original	No	No	Neutral	Neutral	Neutral	No
	<p>Voting Statement: Based on the evidence presented in the Modification Report, there may be incremental improvements that could be made to better incorporate the concept of 'Sharing' into the TNUoS charging method. However, the evidence presented that CMP268 does better reflect the 'Sharing' concept in the TNUoS charging method is not compelling. In particular:</p> <p>1) For the analysis based on SQSS scaling factors, It has not been explained why SQSS scaling factors are a benchmark for 'success'. As such this analysis does not appear to be relevant for the consideration of the merits of CMP268.</p> <p>2) The use of FPN data to illustrate the correlation between generation dispatch and constraints is misleading particularly where plant is run for system security reasons e.g. voltage control.</p> <p>3) the price of bids are determined by the level of competition in the BM not by the cost of service provision. As such, at times where there is a lack of conventional generation the price of bids are likely to rise reflecting the increased value of the service.</p> <p>For these reasons I am not convinced that CMP268 is more cost reflective than the Baseline. Therefore I do not believe that CMP268 better facilitates ACO (b). Effective cost reflective signals will better facilitate effective competition. As CMP268 does not better facilitate ACO (b) it therefore does not better facilitate ACO (a). For these reasons I believe the Baseline is the best option.</p>					
	Paul Mott					
Original	No	No	No	Neutral	Neutral	No
	<p>Voting Statement: There was too little time available for an evidence-based decision to be made on re-opening CMP213 and its diversity method 1 (inherent within CMP213 WACM2) - a contrast for this mod, with the depth of expertise and duration of study that was brought to bear on the review of transmission charging during Project TransmiT. The cost-reflectivity of the proposal is in doubt: at times when (asynchronously-connected, and thus lacking in inertia) wind output is high in export-constrained areas with abundant low carbon generation, there is likely to be a need to ensure that what little carbon-based generation is left, is running, due to growing concerns over the national issue of inertia and frequency management, as well as relevant local system (voltage/stability) issues. CMP268 not being cost-reflective, it will be re-distributive in a manner that is unwarranted, and thus harmful to competition.</p>					

Vote 2 – Which option is the best?

Panel Member	BEST Option?
James Anderson	Baseline
Bob Brown	Baseline
Kyle Martin	Baseline
Garth Graham	Original
Nikki Jamieson	Baseline

Paul Jones	Baseline
Simon Lord (Paul Jones)	Baseline
Cem Suleyman	Baseline
Paul Mott	Baseline

5 AOB

5842. GG had a general comment on the discussion held at the CUSC Panel at the end of October in relation to who should pay for analysis in the Workgroup process. Some Workgroup responses for CMP268 imply that some of the Proposers analysis was maybe not appropriate and that implication is that the analysis may be tainted. This makes it difficult for any party in a modification to provide any analysis for the industry to deem it independent.
5843. MT wanted to thank the Panel for taking time to prepare views in advance of the meeting.

6 Next meeting

The next meeting of the CUSC Modifications Panel will be held on 23 November 2016. A number of proposed Special CUSC Panel meetings have also agreed as noted below.

Notification of Future Meetings:

Monthly CUSC Panel Meetings (10:00 to 14:00):

- **Meeting No 200: 25 November 2016 at National Grid House, Warwick**
 - *Papers Day: 17 November 2016*
 - *Proposed Agenda Items:*
 - *CMP261 Vote*
 - *CMP266 Vote*
- **Meeting No 201: 14 December 2016 at National Grid House, Warwick**
 - *Papers Day: 6 December 2016*
 - *Proposed Agenda Items:*

Proposed Special CUSC Panel Meetings:

- **Meeting No 199: 23 November 2016 (10:00-12:00)**
 - *Papers Day: 20 October 2016*
 - *Proposed Agenda Items:*
 - *CMP264/CMP265/CMP269/CMP270 Workgroup Report*
 - *CMP261 Workgroup Report*