

# CUSC Modification Proposal Form (for Charging Methodology Proposals) CMP239

## Connection and Use of System Code (CUSC)

<b>Title of the CUSC Modification Proposal</b>
Grandfathering Arrangements for the Small Generator Discount
<b>Submission Date</b>
20 October 2014
<b>Description of the Issue or Defect that the CUSC Modification Proposal seeks to address</b>
<p>Standard Licence Condition C13 requires National Grid Electricity Transmission (NGET) to discount transmission network use of system (TNUoS) charges for “eligible generators” by a designated amount and to recover the revenue shortfall from demand users on a non-locational basis. The discount applies in effect to sub-100MW generators connected at 132kV in Scotland and in onshore waters. The level of the discount is determined by Ofgem and is based on 25% of the total generation and demand residual TNUoS tariff.</p> <p>Following its recent informal review of embedded benefits National Grid issued its conclusion on 17 April 2014 that the licence condition should be allowed to expire on 31 March 2016, with no further arrangements put in place.</p> <p>This proposal seeks to implement “grandfathering” arrangements in the CUSC on the expiry of the licence condition from 31 March 2016. The proposed arrangements would apply to those generators that currently receive the small generator discount and also to those generators that will connect by 31 March 2016 and would be eligible to receive the discount. The proposal seeks to ensure that these generators continue to receive the discount until such time that the 132kV system in Scotland is designated as distribution. It is proposed that the discount would be calculated on the same basis as currently.</p> <p>The proposal seeks to address the detrimental impacts to competition of the expiry of the discount by ensuring that the existing arrangements continue for current eligible generators and those that will be eligible to 31 March 2016.</p> <p>It would reflect that generators have made commercial decisions based on the existing arrangements and that the significant additional costs from losing the discount may in some cases threaten the feasibility of their business models. In 2014-15 this discount stands at £8.96/kW which represents a significant proportion of use of system charges. By way of example, a 50MW onshore wind farm would see an increase in TNUoS costs of £448,000/year based on the current discount.</p> <p>The proposal reflects the reasonable expectation of generators currently eligible for the</p>

discount that revised/replacement arrangements would have been put in place following the known need to address this issue. SLC C13 was clearly time-limited but the expectation was that it would be replaced by an enduring solution. Grandfathering is a much more credible assumption for investors to make than the discount being removed completely. This proposal would therefore facilitate competition through establishing a stable and predictable regulatory environment.

We also consider that to put in place the grandfathering arrangements described would better facilitate taking account of the developments in transmission licensees' transmission businesses. This is because it seeks to allow orderly change in the face of the expiry of the licence condition through maintaining the current arrangements for existing eligible generators and those connecting up to 31 March 2016.

The discount was introduced on the basis that it would create a level playing-field for those generators in Scotland that were transmission connected at 132kV but would have been distribution connected in England and Wales. National Grid concluded in its recent review that network charges faced by 132kV transmission connected generation without the small generators' discount are within the range faced by distribution connected generation and therefore there is no justification for continuing with the small generators' discount indefinitely.

The proposal is not seeking to maintain the small generator discount for all generators that meet the current criteria for the discount indefinitely but to balance the objective to ensure that the charging methodology is cost reflective with the impacts on competition if the discount is allowed to expire suddenly.

The direct consequence of implementing the proposal therefore would be to create an ongoing stable charging environment for the affected generators. It would thereby also support government renewable energy generation targets as many of the affected generators are wind generators.

A further implication is that there would continue to be a charge to demand to fund the discount, as currently.

## Description of the CUSC Modification Proposal

### SLC 13 Licence Condition

Under National Grid Electricity Transmissions Standard Licence Condition (SLC) 13 "eligible" generators are entitled to receive a discount to transmission use of system charges. An "eligible" generator:

- (a) is liable for generation transmission network use of system charges (or its equivalent) under the use of system charging methodology approved by the Authority in accordance with standard condition C4 (Charges for use of system);
- (b) is connected to the national electricity transmission system at a voltage of 132 kilovolts; and
- (c) would not, on the basis of its maximum generating capacity, be liable for generation transmission network use of system charges (or its equivalent) if it were connected to the distribution system of a licensed distributor rather than to the national electricity

transmission system.

In effect the discount applies to sub-100MW generators connected at 132kV in Scotland and in onshore waters. According to National Grid figures there are currently 25 generators connected at 132kV in Scotland with a capacity of below 100MW and five offshore wind farms with a combined capacity of 1,450MW in receipt of the small generator discount.

Based on National Grid's Ten Year Statement we estimate there are 16 new projects (with 1.2GW of capacity) that could be connected at 132kV in Scotland before the 1 April 2016.

In 2013-14 the discount was approximately £7.55/kW with an overall impact of £10.9mn, which was recovered from demand customers on a non-discriminatory and non-locational basis.

### **Review of arrangements**

The licence condition, which was introduced in 2007 following the implementation of BETTA, was initially due to expire on 31 March 2013. In October 2012 Ofgem published its decision to extend the discount by three years until 31 March 2016. This reflected its expectation that the industry would begin to work during this time to produce an enduring solution to embedded generation charging arrangements. Its reasons for extending the discount included the potential fundamental changes to electricity transmission charging being progressed under CMP213 *Project Transmit TNUoS Developments* and the impact these may have on the enduring charging baseline.

At that time it concluded an extension provided a level of regulatory certainty to affected parties, allowed sufficient time for National Grid to have developed proposals following the conclusions that may flow from CMP213, and gave the industry enough lead-time ahead of implementation to establish an enduring transmission charging baseline.

National Grid initiated its recent review in April 2013 prompted by expiry of the C13 licence condition, but also considering the options in respect of a broader review of distributed generation charging arrangements. It concluded that there is no justification for continuing with the small generators' discount indefinitely, and that SLC C13 should be allowed to lapse from April 2016. It noted that although this does not require a formal CUSC modification proposal, there will be a requirement for non-material changes to section 14 of the CUSC at a future date to clarify arrangements from April 2016.

It also noted that any grandfathering arrangements would require a CUSC proposal although it did not intend to take forward such a proposal itself.

### **Proposal**

The proposal would amend the CUSC to include grandfathering arrangements a) for those generators who currently receive the discount and b) for those generators who connect by 31 March 2016. The existing arrangements would therefore continue for these generators until such time that the 132kV system in Scotland is re-designated as distribution.

The modification will therefore avoid a situation where current "eligible" generators and other generators shortly due to connect are faced with very significant increases to charges when the C13 licence condition expires in the absence of any other enduring arrangements being implemented.

It seeks to recognise appropriately that no enduring arrangements have in fact been developed.

The proposal would seek to replicate the current arrangements in the CUSC alone which are currently initiated through the licence condition. One issue that the workgroup may consider is that SLC13 requires the small generator discount to be revenue neutral for National Grid over

the period of its operation so that the net effect on revenue of the licence condition is neutral. This means that any under/over recovery is managed separately from the main revenue recovery.

### Impact on the CUSC

The proposal would impact CUSC Section 14 *Charging Methodologies Part 2 The Statement of the Use of System Charging Methodology*

New text would be required to implement the arrangements under the proposal which would become independent of the current related licence condition.

Impacts could include the following sections of the CUSC:

14.15.102 In accordance with Standard Licence Condition C13 generation directly connected to the NETS 132kV transmission network which would normally be subject to generation TNUoS charges but would not, on the basis of generating capacity, be liable for changes if it were connected to a licensed distribution network qualifies for a reduction in transmission charges by a designated sum, determined by the Authority. Any shortfall in recovery will result in a unit amount increase in demand charges to compensate for the deficit. Further information is provided by the Statement on Use of System Charges.

14.17.12 In accordance with Standard Licence Condition C13, any under-recovery from the MAR arising from the small generators discount will result in a unit amount of increase to all GB demand tariffs.

(National Grid has noted in its review conclusions the need for non material changes to the CUSC to clarify the situation post 31 March 2016 which may also impact these clauses.)

### Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes / No

No

### Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information

BSC

Grid Code

STC

Other   
(please specify)

This proposal would not impact other codes.

<b>Urgency Recommended: Yes / No</b>
No
<b>Justification for Urgency Recommendation</b>
N/A
<b>Self-Governance Recommended: Yes / No</b>
No
<b>Justification for Self-Governance Recommendation</b>
N/A
<b>Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?</b>
The proposal does not interact with any ongoing SCR.
<b>Impact on Computer Systems and Processes used by CUSC Parties:</b>
The calculation process of the small generator discount and its funding would not change, only the assessment of which generators were eligible to receive the discount after 31 March 2016.
<b>Details of any Related Modification to Other Industry Codes</b>
There are no directly related modifications. However, the proposal may be impacted by <i>CMP224 Cap on the Total TNUoS Target Revenue to be Recovered from Generation Users</i> or <i>CMP227 Reduce the G:D Split of TNUoS Charges, for Example to 15:85</i> , if approved.
This is because TNUoS charges to generators may become relatively lower if either one is approved, as generators' share of TNUoS is decreased. However, the total small generator discount would not change, as it is calculated to be 25% of the combined generator and demand residual.
<b>Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives for Charging:</b>
<b>Please tick the relevant boxes and provide justification for each of the Charging Methodologies affected.</b>

## Use of System Charging Methodology

- (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;
- (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a 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.
- (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.

*Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

## Full justification:

The modification would facilitate objective a) as it would reflect that generators have made commercial arrangements based on the existing arrangements and that the significant additional costs from losing the discount, when no other enduring arrangements are planned to be put in place, may act as a detriment to competition.

The modification would facilitate objective c) as it seeks to allow orderly change in the face of the expiry of the licence condition through maintaining the current arrangements for existing eligible generators and those connecting up to 31 March 2016.

## Connection Charging Methodology

- (a) that compliance with the connection 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;
- (b) that compliance with the connection 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 in accordance with the STC)

incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);

- (c) that, so far as is consistent with sub-paragraphs (a) and (b), the connection charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;
- (d) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.
- (e) 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.

*Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

**Full justification:**

## Additional details

<b>Details of Proposer:</b> (Organisation Name)	Fred. Olsen Renewables
<b>Capacity in which the CUSC Modification Proposal is being proposed:</b> (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Graeme Cooper Fred. Olsen Renewables 0207 931 0975 Graeme.cooper@fredolsen.co.uk
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Christopher Granby Infinis 01604 662450 christopher.granby@infinis.com

**Attachments (Yes/No):**  
**If Yes, Title and No. of pages of each Attachment:**

## Contact Us

If you have any questions or need any advice on how to fill in this form please contact the Panel Secretary:

E-mail [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com)

Phone: 01926 653606

For examples of recent CUSC Modifications Proposals that have been raised please visit the National Grid Website at <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Current/>

## Submitting the Proposal

Once you have completed this form, please return to the Panel Secretary, either by email to [jade.clarke@nationalgrid.com](mailto:jade.clarke@nationalgrid.com) and copied to [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com), or by post to:

Jade Clarke  
CUSC Modifications Panel Secretary, TNS  
National Grid Electricity Transmission plc  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

If no more information is required, we will contact you with a Modification Proposal number and the date the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, the Proposal can be rejected. You will be informed of the rejection and the Panel will discuss the issue at the next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform you.