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Dear Mike

Authority decision to direct that the modification report on CUSC modification proposal CMP268 'Recognition of sharing by Conventional Carbon plant of Not-Shared Year-Round circuits' be revised and resubmitted

On 26 July 2016, for SSE (the 'Proposer') raised Connection and Use of System Code (CUSC) modification proposal CUSC Modification Proposal (CMP) 268, 'Recognition of sharing by Conventional Carbon plant of Not-Shared Year-Round circuits', requesting that it be treated as an Urgent CUSC Modification Proposal. On 2 August 2016, the CUSC Modifications Panel (the 'Panel') wrote to inform us of its majority view that CMP268 should not be treated as urgent because the proposal did not relate to an imminent issue, would require careful consideration and was potentially more complex than envisaged by the Proposer.

In addition to the Panel's letter, we received information from the Proposer which was commercially sensitive and confidential, and was therefore not submitted to the Panel. We considered both the Panel's and the Proposer's arguments, and on 23 August 2016 published a letter confirming CMP268 could be progressed on an urgent basis. Our letter made clear that we expected a sufficient level of analysis and stakeholder engagement to have been undertaken demonstrating that the proposal better facilitates the CUSC Relevant Objectives.

On 23 November 2016, the CUSC Panel submitted a Final Modification Report (FMR) for CMP268 to the Authority. We have decided that we cannot form an opinion on CMP268 based on the information submitted and we therefore direct that the FMR is revised and resubmitted. We recognise the work carried out through the industry process to date to assess the evidence for the defect that CMP268 describes and the proposed solution. However, we consider that there are areas that can be further addressed through additional industry assessment that are necessary to inform our decision on the modification.

Issues to address

The modification suggests that the current system of charging for conventional generation is not cost-reflective and places an unreasonable level of charges on Conventional carbon generators. The modification proposal suggests that different types of conventional generation lead to different needs for investment in areas of high renewable penetration and so different costs, and aims to better recognise this in the methodology. The modification proposes that for conventional carbon generators the Not-Shared Year-Round element of the tariff is scaled by the generator's annual load factor.

We have identified the following reasons why we cannot make a decision without further consideration by the workgroup, the Panel and industry –

1. The proposer has set out a theoretical basis for their suggested defect, and provided some evidence to support this. Other workgroup members and respondents to the consultation have provided some evidence and arguments to the contrary. However, in our view there has ultimately not proved to have been sufficient time within the urgency process in this case for industry, the workgroup and the panel to thoroughly consider and submit the robust evidence required in order for us to make a fully informed decision on the merits of the proposal.
2. Given the constraints of the urgency process it has not ultimately been possible in this case for the FMR to provide sufficient analysis or discussion of the potential future impacts of making this change.

We therefore direct that additional steps are undertaken (including sending the proposal back to the CMP268 working group for further consideration and/or undertaking further consultation if it considers this appropriate) to address these concerns.–

1. We consider that the workgroup should be reconvened to further consider the evidence submitted so far and to consider whether any further evidence is required to allow the Panel and us to properly consider the merits of the proposal.
2. The FMR should consider in more depth the potential impacts of the proposed solution, as compared to retaining the current system.
3. The workgroup should consider whether further consultation on the proposals and evidence is appropriate (following completion of steps 1. and 2.)

We note that the analysis for CMP268 was largely from the CMP213 documents and work associated with the process, and as such is several years old. We accept that this was necessary given the limited timescales, though we think that more up-to-date analysis is required.

It would also be helpful to ensure that all evidence has been made available to workgroup and industry parties at the same time and that the workgroup discussions resulting from all evidence can be reflected in the FMR. For instance, significant new evidence should be provided before consultations, rather than as part of a consultation response, to allow for more productive workgroup discussions.

Further, we recognise that under the urgent process there was not time to consider if any alternative proposals to address the defect could be developed by the industry. We consider this is a matter that the work group could consider further. We expect the industry timetable for developing any alternative proposals (if appropriate) should ensure that we are in a position to make a decision on such proposals together.

After addressing the issues discussed above, and revising the FMR accordingly, the CUSC Panel should re-submit it to us for decision as soon as practicable.

Yours sincerely

Andrew Self

Head of Electricity Network Charging, Energy Systems

Signed on behalf of the Authority and authorised for that purpose