

Modification to NGC's Use of System Charging Methodology

UoSCM-M-05: Calculation of TNUoS Demand Charges and Allocation of Triad Benefits for Trading Units Which Contain more than One Supplier BM Unit

Ofgem has decided **not to veto** this proposed modification, therefore the modification will be implemented on **28 February 2002**

Background

On 20 September 2001 the Balancing and Settlement Code (BSC) Panel recommended that the Gas and Electricity Markets Authority (the Authority) approve the Alternative Proposed Modification P7 to the BSC.

NGC identified consequential impacts from P7 upon its Use of System Charging Methodology. As a result NGC published a paper on proposed modification UoSCM-M-03 for consultation in accordance with Condition C7A(3)(a) of NGC's transmission licence, on 21 September 2001. Users also gave their views at the Transmission Charging Methodologies Forum (TCMF) on 16 October 2001. Following its consultation NGC submitted a final report proposed modification UoSCM-M-03 to Ofgem in accordance with Condition C7A(3)(a) on 29 October 2001. In the final report NGC had specified that the implementation date would be 26 November 2001.

On 26 November 2001 the Authority vetoed UoSCM-M-03 because it was not in a position to decide whether or not to approve P7. The Authority decided it would be inappropriate to allow the charging methodology modification to precede the BSC modification. The Authority did not make a judgement on the actual merits of UoSCM-M-03.

On 28 January 2002 the Authority directed that Alternative Proposed Modification P7 should be made. In accordance with the Panel's recommendation the modification will be implemented one calendar month after the Authority's approval, 28 February 2002. In the light of these events NGC decided to resubmit UoSCM-M-03 under the revised reference UoSCM-M-05. The Authority agreed to NGC's request not to consult on UoSCM-M-05 (given the previous 28 day consultation on UoSCM-M-03) and directed NGC accordingly. NGC submitted a final report to Ofgem on 1 February 2002.

Proposed Modification UoSCM-M-05

The Alternative Proposed Modification P7 allows any number of Supplier BM units in the same GSP group, to form Trading Units with any number of embedded, Exempt Export BM Units. One of the main objectives of the modification is to allow up to the maximum level of "embedded benefits" associated with licence exempt generation (SVA or CVA registered¹), to be realised through contracts with suppliers in the same GSP group.

One of the embedded benefits is the reduction of suppliers' demand transmission network use of system (TNUoS) charges this is also known as Triad Benefit. According to NGC's Use of System Charging Methodology suppliers are liable for demand TNUoS

¹ SVA registered LEGs are included in the associated Supplier BM Unit, CVA registered LEGs are Exempt Export BM Units

charges on their Triad demand. Suppliers can offset some or all of their demand TNUoS liability by contracting licence exempt generation (LEGs) in the same Trading Unit, NGC will charge suppliers "net" of such generation.

The present charging methodology is consistent with the BSC prior to the implementation of P7, which is that a Trading Unit can only contain one Supplier BM Unit. Modification P7 will allow more than one Supplier BM Unit within a Trading Unit. NGC therefore proposed modification UoSCM-M-03 to its Use of System charging methodology to accommodate this new configuration of Trading Unit, the proposal focused on two points:

- ◆ liability for TNUoS demand charges within a Trading Unit with more than one Supplier BM Unit; and
- ◆ how to allocate Triad Benefit (from either SVA or CVA registered LEGs) between Supplier BM Units within a Trading Unit.

TNUoS demand charge liability within a Trading Unit

NGC proposes that the Lead Parties of each Supplier BM Unit will be individually liable for TNUoS demand charges associated with their own BM Unit. NGC rejected an alternative option to nominate one Lead Party to be responsible for all TNUoS demand within the Trading Unit.

Triad Trading as a Trading Unit

Triad Benefit arising from SVA registered LEGs will first be credited to the associated Supplier BM Unit, up to that BM unit's demand charge liability. The excess Triad Benefit will then be allocated amongst other Supplier BM Units within the Trading Unit.

NGC proposes that as default Supplier BM Units will be allocated Triad Benefit in proportion to their TNUoS demand charge liability. NGC rejected an alternative option to allocate Triad Benefit in equal proportion to each Supplier BM Unit.

NGC also proposes that Users within the Trading Unit may propose a preferred alternative allocation order of Triad Benefit, netting off up to all of each Suppliers TNUoS demand charge liability. NGC rejected an alternative proposal to allow Users within a Trading Unit to nominate a set of percentages for allocating the Triad Benefit.

In its final report to Ofgem NGC stated that the proposed modification UoSCM-M-03 would better achieve relevant objective set out in condition C7A(5)(a).

The proposals in UoSCM-M-05 remain unchanged from those in UoSCM-M03 except for the for notification of Triad Trading arrangements, allowing Users who re-register their Trading Unit to benefit should a Triad Leg occur on 28 February 2002.

Responses to NGC's consultation

Responses to NGC's consultation supported the proposed modification UoSCM-M-03. One respondent thought that although the modification was a step in the right direction it was not a complete solution. The respondent stated that allocation of Triad Benefit should not be constrained by metering or Trading Unit considerations. There were also concerns about the notification deadline for the Triad Trading arrangements 30 September, had passed before the new rules for Trading Units took effect.

NGC did not make any changes to proposed modification UoSCM-M-03 following responses to its consultation.

Ofgem's views

Ofgem has decided **not to veto** proposed modification UoSCM-M-05 to NGC's Use of System Charging Methodology, the modification will be implemented on **28 February 2002**.

Ofgem believes that the options NGC have chosen for TNUoS demand charge liability within a Trading Unit and allocation methods for Triad Benefit are cost reflective, transparent and simple to administer. Ofgem believes that Modification UoSCM-M-05 will help facilitate BSC Modification P7 by enabling access to the maximum level of Triad Benefit.

The new Trading Unit configurations enabled by BSC Modification P7 will increase the opportunities and choice for smaller suppliers to contract with licence exempt generation, either directly or through consolidators. Therefore Ofgem believes that Modification UoSCM-M-05 by assisting BSC Modification P7, will better achieve relevant objective C7A(5)(a) in NGC's transmission licence, that is facilitating effective competition in generation and supply of electricity.