

<b>CUSC Amendment Proposal Form</b>	<b>CAP: 092</b>
<b>Title of Amendment Proposal:</b>	
<b>Consistent Generation Use of System Charge Liability Provisions for Transmission Access Products.</b>	
<b>Description of the Proposed Amendment</b> <i>(mandatory by proposer):</i>	
<p>An amendment to the existing Use of System Charge liability provisions, contained in 3.9.2 of the CUSC, to ensure that a User's total liability for charges during any Financial Year due to the granting of STTEC and/or Transmission Export Capacity (TEC) in respect of a Power Station, does not exceed the liability which would have been incurred had the relevant export capacity been provided through TEC alone.</p>	
<b>Description of Issue or Defect that Proposed Amendment seeks to Address</b> <i>(mandatory by proposer):</i>	
<p>The present Use of System Charges liability provisions in 3.9.2 of the CUSC, in connection with the Statement of the Use of System Charging Methodology, can lead to liabilities which are inconsistent. Due to the additive nature of the liabilities described in 3.9.2, Users who generate at Power Stations using STTEC over a number of STTEC Periods or using a combination of STTEC and TEC, can be liable to charges which are far higher than the User would have paid had the relevant capacity been provided using TEC alone.</p> <p>STTEC is an inferior product to TEC as it provides fewer rights to Users. For example, TEC provides rights to use the transmission system in future years at the same level of capacity, as long as the User continues to pay the relevant Use of System charges, whereas STTEC provides no such option. STTEC is only available at short notice and over short timescales. There is also a fixed non-refundable application fee associated with each STTEC period. Therefore, given its lower value, it is not clear why the present liability provisions should lead to Users paying more.</p> <p>Such inconsistency leads to Users being treated inequitably thereby preventing some Users from competing on an equivalent basis within the generation market to others. This proposal would ensure that Users are not disadvantaged as a result of using STTEC, or a combination of TEC and STTEC, compared with others who use TEC alone.</p> <p>Attached in appendix 1 is an example illustrating how the provision of the similar levels of transmission capacity can lead to different liabilities. It also shows how the provision of lower levels of access can lead to higher liabilities. It should be noted that this is not meant to illustrate all instances where this is the case, rather than to illustrate clearly the inadequacy of the present liability provisions.</p>	
<b>Impact on the CUSC</b> <i>(this should be given where possible):</i>	
<p>It is anticipated that a simple change can be made to paragraph 3.9.2 of the CUSC to correct the defect. The suggested change to the legal text is attached in Appendix 2.</p>	
<b>Impact on Core Industry Documentation</b> <i>(this should be given where possible):</i>	
<p>None anticipated.</p>	

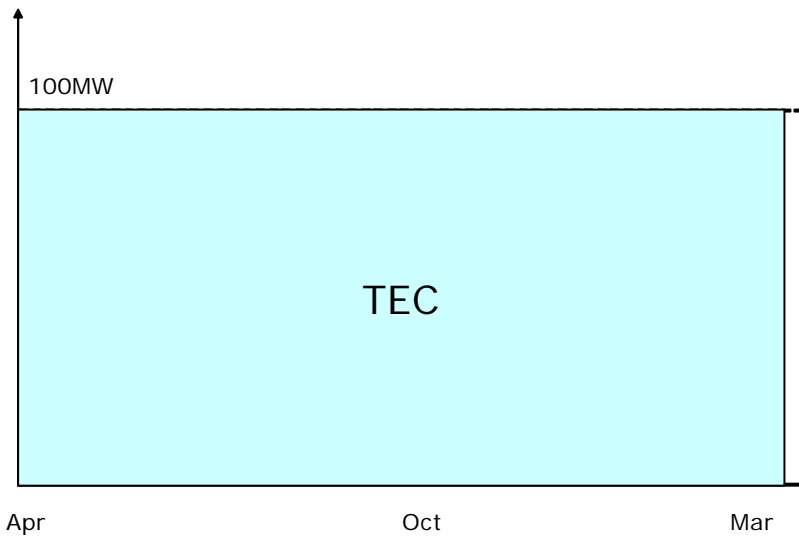
<p><b>Impact on Computer Systems and Processes used by CUSC Parties</b> <i>(this should be given where possible):</i></p> <p><b>No or minimal changes are anticipated.</b></p>
<p><b>Details of any Related Modifications to Other Industry Codes</b> <i>(where known):</i></p>
<p><b>Justification for Proposed Amendment with Reference to Applicable CUSC Objectives**</b> <i>(mandatory by proposer):</i></p> <p><i>Objective (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.</i></p> <p><b>This amendment will remove the potential for the liability provisions to act in a discriminatory manner and thereby will better facilitate effective competition in the generation of electricity.</b></p>

<p><b>Details of Proposer:</b> Organisation's Name:</p>	<p><b>Paul Jones</b> <b>E.ON UK plc</b></p>
<p><b>Capacity in which the Amendment is being proposed:</b> (i.e. CUSC Party, BSC Party or "energywatch")</p>	<p><b>CUSC Party</b></p>
<p><b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:</p>	<p>Paul Jones E.ON UK plc 024 7642 4829 paul.jones@eon-uk.com</p>
<p><b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:</p>	<p>Neil Smith E.ON UK plc 024 7642 4369 neil.c.smith@eon-uk.com</p>
<p><b>Attachments: Yes</b></p> <p><b>Title and No. of pages of each Attachment:</b></p> <p><b>Appendix 1 – Examples of the inconsistent and discriminatory nature of present Use of System liability provisions (4 pages)</b></p> <p><b>Appendix 2 – Proposed change to the legal text (1 page)</b></p>	

**Appendix 1 – Examples of the inconsistent and discriminatory nature of present Use of System liability provisions**

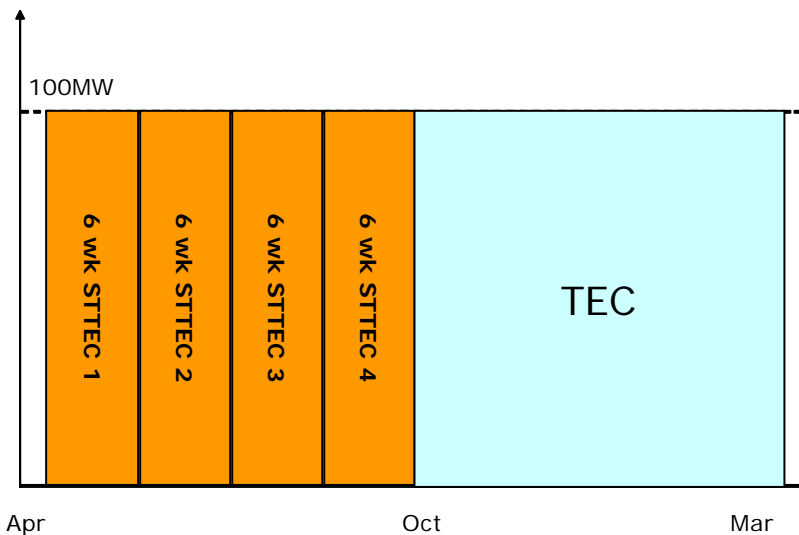
Paragraph 3.9.2 states that Users will be liable to pay both Transmission Network Use of System charges (TNUoS) and STTEC charges, where appropriate. In certain circumstances where STTEC is used to provide an additional short term increase in capacity over a base level of TEC, this requirement to pay both charges is necessary to ensure that the correct level of capacity is paid for. However, in other circumstances it results in a liability disproportionately higher than would accrue using TEC alone.

The following example illustrates how this can happen. Imagine a generator wants 100MW of capacity for the period of one charging year. In one scenario it is granted the TEC from the beginning of the year, as shown in Fig 1 below.



**Fig 1: Scenario 1 – TEC for the whole year**

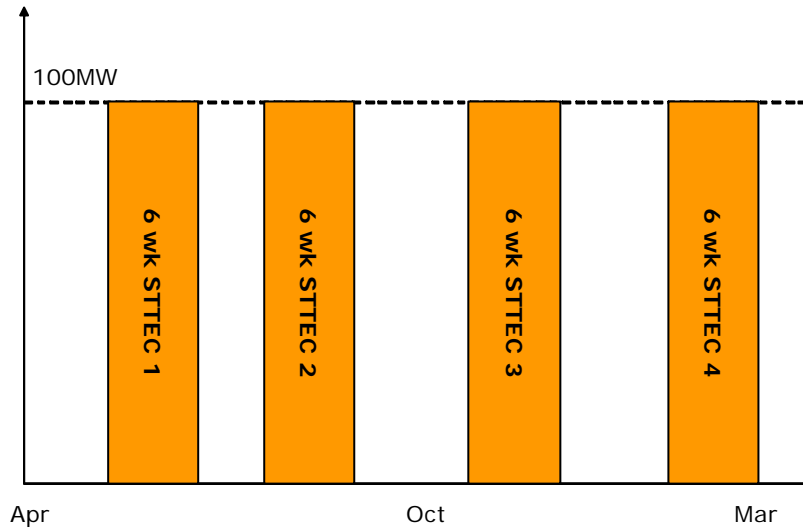
In the second scenario full TEC is not available until half of the year has expired. Thereafter, it can be accommodated. However, it is possible to accommodate the generator for some of the earlier months through the use of STTEC. This is available in 4 slots of the 6 week STTEC product as illustrated below in Fig 2 (this could alternatively be 6 slots of 4 week product).



**Fig 2: Scenario 2 – STTEC until TEC can be delivered**

Under the present charge liability provisions of the CUSC the generator in the first scenario would be liable for charges at the TNUoS rate for the relevant zone. In the second scenario the generator would be liable for 2.26 times this amount.

Imagine a third scenario where the generator cannot obtain TEC for that year at all, but is able to obtain 4 slots throughout the year as in Fig 3 below.



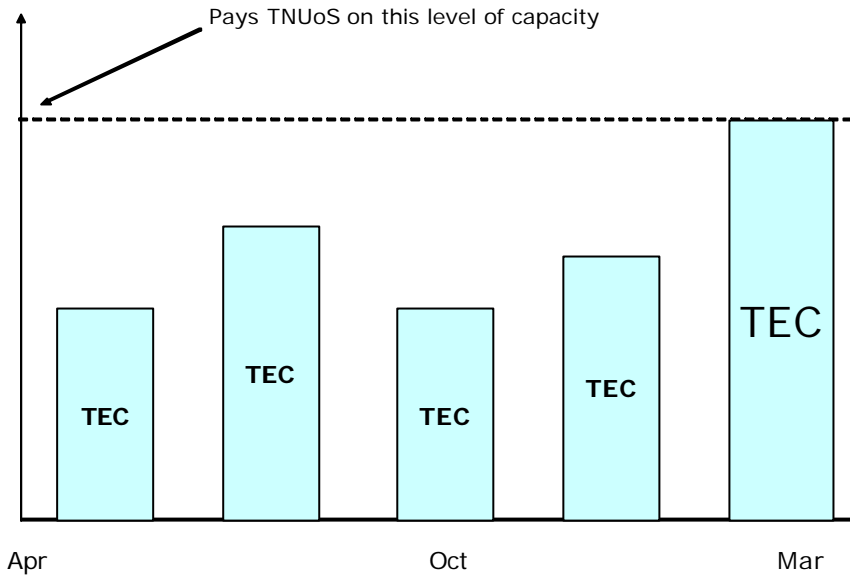
**Fig 3: Scenario 3 – STTEC only**

In this instance the generator would be liable for 1.26 times the charge in the first scenario even though it obtained less than half of the total access rights. In addition, under the first scenario the generator would have first refusal on 100MW of access rights for the next year. No such option would be available under the third scenario.

The requirement to pay far higher charges for a lower standard of access has to be discriminatory and results in some Users paying a disproportionately high level of charges. Due to the regulatory formula any instance of overpayment also results in a cross subsidy as the surplus is reallocated to all Users. The following table illustrates how much the generator would overpay on an annual basis in the second and third scenarios compared with the first scenario, based on 2004/05's charges for a range of positive charging zones (this is not an issue in negative zones who would opt for TEC to maximise income). It should be noted that the use of STTEC is most likely to be required in the higher priced zones to reflect the greater scarcity of available TEC capacity. Therefore, the potential for discrimination is higher.

Zone no	Zone name	Tariff £/kW	Over-payment on 100MW	
			2 <sup>nd</sup> Scenario	3 <sup>rd</sup> Scenario
3 (Highest positive zone)	Skye	23.095483	£2,910,031	£600,483
8 (Median positive zone)	Stirlingshire	12.610665	£1,588,944	£327,877
15 (Lowest positive zone)	Midlands & South East	1.322966	£166,694	£34,397

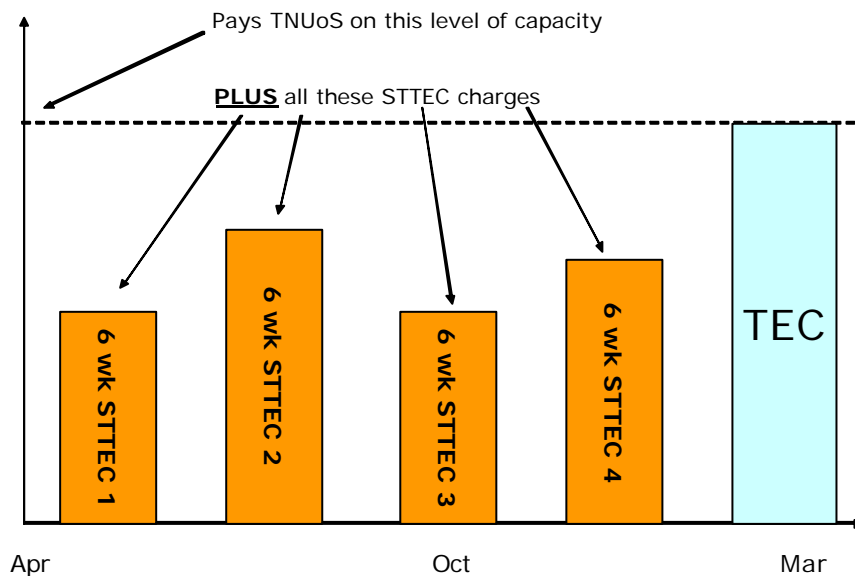
Another way to illustrate the inconsistent nature of these charges is as follows. Imagine, instead of using STTEC a generator acquired short term access rights by adjusting its TEC through the year as in Fig 4 below. Although it is unlikely that a generator would want to do something as complex as this with TEC, it serves to illustrate the point further.



**Fig 4: Intermittent capacity provided by changes in TEC**

Through the CUSC liability provisions and the TNUoS charging methodology, the generator would be liable to pay TNUoS at the maximum level of TEC provided in the year.

If instead, it acquired the same access rights through STTEC and TEC as below, the generator's liability would be completely different.



**Fig 5: The same capacity provided by STTEC and TEC**

As well as paying the same level of TNUoS for the maximum (or only in this case) value of TEC in the year, each of the individual STTEC charges would be added too, meaning yet again a higher charge for the same amount of access.

It has been claimed that having different charges for STTEC and TEC is justified because they are different products. Firstly, it should be noted that they are not radically different products. STTEC is basically allowing access to the system for a shorter period than TEC. In this way STTEC should be seen simply as a smaller quantity of access than is provided by TEC. Secondly, those differences which exist serve to make STTEC a worse product than TEC. Therefore, they are not an appropriate reason for higher charges.

### **Conclusions**

Due to the inconsistent nature of TEC and STTEC liabilities, some Users are being unduly disadvantaged by being overcharged compared with other Users who are provided a better level of access. This distorts competition in generation.

The nature of NGC's revenue recovery means that this overcharge will be smeared across other Users providing a cross subsidy. This distorts competition further.

**Appendix 2 – Proposed change to the legal text.**

- 3.9.2 Each **User** shall, as between **NGC** and that **User**, in accordance with this Part II and Paragraph 6.6, be liable to pay to **NGC** (or **NGC** shall be so liable to pay to the **User**) the **Transmission Network Use of System Charges** and (if appropriate) the **STTEC** Charge in respect of its use of the **GB Transmission System** applied and calculated in accordance with the **Statement of Use of System Charges** and **Statement of the Use of System Charging Methodology** and Standard Condition C13 of the **Transmission Licence**, provided that no **User's** aggregate liability in respect of any **Financial Year** relating to **Transmission Network Use of System Charges** and/or **STTEC Charges** at any **Power Station** shall exceed the **Transmission Network Use of System Charges** that the **User** would have been liable to pay for such **Financial Year** had the **User** been granted a **Transmission Entry Capacity** equal to the highest capacity that applied at any time during that **Financial Year** under the relevant **Bilateral Agreement** (as revised as the case may be).