

## CUSC Workgroup Consultation Response Proforma

### CMP306 'Align annual connection charge rate of return at CUSC 14.3.21 to price control cost of capital'

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **16 May 2019** to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Rachel Hinsley at [rachel.hinsley1@nationalgrideso.com](mailto:rachel.hinsley1@nationalgrideso.com)

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

<b>Respondent:</b>	<i>Tim Collins, Business Development and Regulatory Manager, SIMEC, 07718 490977, <a href="mailto:tim.collins@simec.com">tim.collins@simec.com</a></i>
<b>Company Name:</b>	SIMEC International (UK) Limited
Please express your views regarding the Workgroup Consultation, including rationale.  (Please include any issues, suggestions or queries)	<p><b>For reference, the Applicable CUSC Objectives for the Use of System Charging Methodology are:</b></p> <p>(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;</p> <p>(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 accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);</p> <p>(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;</p> <p>(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*; and</p> <p>(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.</p>

	<p>*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).</p>
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#### Standard Workgroup consultation questions

Q	Question	Response
1	<p><b>Do you believe that CMP306 Original proposal, better facilitates the Applicable CUSC Objectives?</b></p>	<p>Yes.</p> <p>The allowed return on Connection Assets set out in the CUSC (6% real for RPI linked assets and 7.5% real for MEAV linked assets) has not been reviewed for many years and over time has become increasingly out of step with the Weighted Average Cost of Capital (WACC) Ofgem allows the TOs via price controls. As such, the return on Connection Assets is both non-cost reflective (because it exceeds the efficient cost of financing TO activities set by Ofgem, i.e. WACC) and detrimental to competition (because users that are liable for Connection Charges are paying excessive amounts to use Connection Assets, thereby disadvantaging them versus competitors).</p> <p>CMP306 facilitates:</p> <ul style="list-style-type: none"> <li>- CUSC objective (a) because it ends the undue competitive disadvantage faced by parties whose Connection Charges exceed cost reflective levels;</li> <li>- CUSC objective (b), because Connection Charges will be based on Ofgem's view of efficient TO financing costs (i.e. WACC), instead of an increasingly arbitrary 6% (or 7.5%) real.</li> <li>- CUSC objective (c), because the allowed return on Connection Charges in the use of system charging methodology will automatically adjust to reflect future changes in WACC.</li> </ul> <p>CMP306 offers clear benefits to the CUSC objectives and consumers and should therefore be implemented.</p>

<b>Q</b>	<b>Question</b>	<b>Response</b>
2	<b>Do you support the proposed implementation approach?</b>	Yes.  We agree that the proposal should be implemented 10 working days after an Authority decision and applied from the following 1st April charging year, which, on expected timings, would be April 2020.
3	<b>Do you have any other comments?</b>	No.
4	<b>Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?</b>	No.

#### Specific questions for CMP306

<b>Q</b>	<b>Question</b>	<b>Response</b>
5	<b>Do you agree with the approach proposed by CMP306 to the MEA uplift?</b>	Yes.
6	<b>Do you think that the TOs should publish their individual WACC's/rate of return for MEA assets? If so, do STC modifications need to be raised to achieve this?</b>	We believe TOs should be transparent about all their charges and make them intelligible to their customers. We are content that the TOs and ESO take a view about the need for a STC modification to codify any information exchanges.
7	<b>Do you agree with the approach to use regional TO WACC's? If not, do you think that the average model is better, or do you have any other suggestions?</b>	Yes.  When Ofgem's price controls set different WACCs for the regional TOs, Ofgem has effectively determined that the efficient cost of financing each TO differs slightly. It is logical and cost reflective that any such differences are reflected in allowed returns on each TO's Connection Assets. We would add that the purpose of CMP306 is to align the Connection Charge rate of return to WACC, so any approach that maintains a discrepancy between an individual TO's Connection Charge return and its WACC would be inconsistent with CMP306's purpose.