









CUSC Modification Proposal Form		At what stage is this document in the process?												
<h1 style="color: #00a651;">CMP338:</h1> <p><b>Mod Title:</b> Impact of DNO Contributions on Actual Project Costs and Expansion Factors – New Definition of “Cost Adjustment”</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">01</td> <td style="background-color: #00a651; color: white; text-align: center; border: 1px solid black; border-radius: 5px;">Proposal Form</td> </tr> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">02</td> <td style="border: 1px solid black; border-radius: 5px;">Workgroup Consultation</td> </tr> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">03</td> <td style="border: 1px solid black; border-radius: 5px;">Workgroup Report</td> </tr> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">04</td> <td style="border: 1px solid black; border-radius: 5px;">Code Administrator Consultation</td> </tr> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">05</td> <td style="border: 1px solid black; border-radius: 5px;">Draft CUSC Modification Report</td> </tr> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">06</td> <td style="border: 1px solid black; border-radius: 5px;">Final CUSC Modification Report</td> </tr> </table>		01	Proposal Form	02	Workgroup Consultation	03	Workgroup Report	04	Code Administrator Consultation	05	Draft CUSC Modification Report	06	Final CUSC Modification Report
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<p><b>Purpose of Modification:</b></p> <p>This modification seeks to implement that decision through the addition of the definition of the contribution from a Distribution Network Operator (DNO) as a “Cost Adjustment” as is required by the proposed modification of CUSC 14.15.75 and 14.15.76 as set out in the accompanying CUSC mod CMP337. This modification should be considered in conjunction with CUSC mod CMP337 - both CUSC modifications should be progressed and approved simultaneously.</p>														
	<p><b>The Proposer recommends that this modification should be:</b></p> <ul style="list-style-type: none"> <li>following review of Legal Text by NGESO, proceed to Code Administrator Consultation, further to the Authority’s 17 December 2019 decision on SHEPD’s Recommendation on island transmission link contributions; and</li> <li>progress to approval by the Authority.</li> </ul> <p>This modification was raised 16 January 2020 and will be presented by the Proposer to the Panel on 31 January 2020. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>													
	<p><b>Low Impact</b> – NGESO, all Users who pay Generation TNUoS</p> <p><b>Medium Impact</b> – Distribution Network Operators, Transmission Owners, Remote Island Generators (Shetland, Western Isles and Orkney)</p>													

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Timetable		<b>National Grid ESO Representative: Jon Wisdom</b>
<b>The Code Administrator recommends the following timetable:</b>		
Code Administrator Consultation issued to the Industry	14 February 2020	 <b>jon.wisdom@nationa lgrideso.com</b>
Code Administrator Consultation closes	6 March 2020	
Draft Final Modification Report presented to Panel	19 March 2020	 <b>07929 375010</b>
Modification Panel decision	27 March 2020	
Final Modification Report issued to the Authority	7 April 2020	
Decision implemented in CUSC	1 April 2024	

**Proposer Details**

<b>Details of Proposer:</b> (Organisation Name)	Rachel Kettles, SHEPD
Capacity in which the CUSC Modification Proposal is being proposed: (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:	Rachel Kettles SSEN (SHEPD) +44 (0)1738 512023 rachel.kettles@sse.com
<b>Details of Representative's Alternate:</b>  Name: Organisation: Telephone Number: Email Address:	Michael Ferguson SSEN  <a href="mailto:michael.ferguson@sse.com">michael.ferguson@sse.com</a>
<b>Attachments (Yes/No):</b>  <b>If Yes, Title and No. of pages of each Attachment:</b> SHEPD CUSC Modification Proposal 1 - Impact of DNO Contributions on Actual Project Costs and Expansion Factors; SHEPD CUSC Modification Proposals 1 and 2 - Impact of DNO Contributions on Actual Project Costs and Expansion Factors - Appendix - TCMF queries; <a href="#">Authority Decision on Scottish Hydro Electric Power Distribution's proposals to contribute towards proposed electricity transmission links to Shetland, Western Isles and Orkney</a> , specifically <a href="#">Authority Contribution Decision</a> (13 pages), <a href="#">SHEPD Shetland DSO Recommendation – December 2019 Addendum</a> (16 pages)	

**Impact on Core Industry Documentation.**

*Please mark the relevant boxes with an "x" and provide any supporting information*

<b>BSC</b>	<input type="checkbox"/>
<b>Grid Code</b>	<input type="checkbox"/>
<b>STC</b>	<input type="checkbox"/>

Other	<input type="checkbox"/>
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(Please specify)

*This is an optional section. You should select any Codes or state Industry Documents which may be affected by this Proposal and, where possible, how they will be affected.*

## 1 Summary

### Defect

Further to SHEPD's proposed modification set out in CMP337, the value of the contribution (approved by the Authority, defined in SHEPD's modification proposal as a "Cost Adjustment") would be netted off the "actual project costs" of the transmission asset. The purpose of this modification proposal is to introduce this definition into the CUSC at the most appropriate section, to be confirmed by NGENSO.

### What

SHEPD has proposed that a DNO contribution towards a TO's project costs is defined as a "Cost Adjustment" in the CUSC modification CMP337. As the CUSC does not currently have a definition of "Cost Adjustment" this is addressed in this CUSC modification proposal:

*"Cost Adjustment": a payment whose value and timing has been approved by the Authority and which is made by a Licensed Distribution Network Operator as a contribution to the cost of an infrastructure asset made by a different Licensed Distribution Network Operator or Licensed Transmission Owner.*

### Why

The Authority has determined that distribution consumers may contribute towards transmission links where this is of value to distribution consumers (the value of the "Cost Adjustment" being a value determined separately by the Authority). As the total cost is shared with distribution customers, the "Cost Adjustment" is applied to the total cost of the asset. If this new definition is not added, there will be ambiguity as to the meaning of "Cost Adjustment" in the context of the changes proposed to be made at 14.15.75 and 14.15.76 as set out in detail in CMP 337.

### How

In conjunction with the changes proposed under CMP337, a modification is required to define "Cost Adjustment" as set out in Section 9, Legal Text, below. SHEPD has proposed the introduction of the following definition:

*"Cost Adjustment": a payment whose value and timing has been approved by the Authority and which is made by a Licensed Distribution Network Operator as a contribution to the cost of an infrastructure asset made by a different Licensed Distribution Network Operator or Licensed Transmission Owner.*

## 2 Governance

### Justification for Requested Next Steps

Please refer to the justification set out in CMP 337.

### Requested Next Steps

This modification should:

- be progressed alongside CMP337:
- be reviewed by NGESO (specifically the Legal Text); then
- be progressed to Code Administrator Consultation; and finally
- be progressed to the Authority for approval, by 12 May 2020.

## 3 Why Change?

The Authority has determined that distribution consumers may contribute towards transmission links where this is of value to distribution consumers (the value of the “Cost Adjustment” being a value determined separately by the Authority). As the total cost of the transmission asset is shared with distribution customers, the “Cost Adjustment” is applied to the total cost of the asset. If this new definition is not added, there will be ambiguity as to the meaning of “Cost Adjustment” in the context of the changes proposed to be made at 14.15.75 and 14.15.76.

## 4 Code Specific Matters

### Technical Skillsets

None

### Reference Documents

Please refer to The Authority [Decision on Scottish Hydro Electric Power Distribution’s proposals to contribute towards proposed electricity transmission links to Shetland, Western Isles and Orkney](#) dated 17 December 2019, specifically [SHEPD Contribution Decision](#) (13 pages), [SHEPD Shetland DSO Recommendation – December 2019 Addendum](#) (16 pages).

## 5 Solution

That the definition of “Cost Adjustment” is added to the CUSC, modified in line with the contents of Section 9, Legal Text, to be progressed and approved simultaneously alongside the changes proposed to 14.15.75 and 14.15.76 in CMP337.

## 6 Impacts & Other Considerations

The impacts of this change have already been considered by the Authority (including through a consultation) and are described in the Authority decision dated 17 December 2019. The modification proposed is a minor addition to define “Cost Adjustment” in relation as to the meaning of “actual project costs” of the TO, which put into effect the decision the Authority has made to permit a DNO to contribute towards the costs of a transmission asset, and for the TO to accept the contribution(s) and offset it from its costs which are recovered via transmission charging. This change is not changing any other aspect of the CUSC.

### Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

None.

### Consumer Impacts

Positive, as detailed in the Authority decision dated 17 December 2019. The impacts of not progressing the mod in a timely way risk consumer savings of £140m, as set out in Sections 2 and 8.

## 7 Relevant Objectives

### Impact of the modification on the Applicable CUSC Objectives (Standard):

Relevant Objective	Identified impact
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	N/A
(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;	N/A
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	N/A
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	N/A

\*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).

## 8 Implementation

A decision on this CUSC modification is required by 12 May 2020, in order to meet the regulatory pre-requisites detailed within mod 337. The modifications must be in effect by 1 April of TNUoS charging year 2024/25, which is expected to be the point at which the Shetland link is made available to users. This is expected to be the first island transmission link in place to which these arrangements apply. As such, this will also be the point in time at which impacted TNUoS charges will be levied on island developers.

It is critical that the modification is made in timely manner in order to ensure that consumer savings and benefits are realised, which in the case of Shetland is anticipated to deliver savings to consumers of c.£140m. Finalisation of this CUSC modification is a pre-requisite for developer commitment to the Shetland transmission link, which a pre-requisite for its approval.

The implementation timescales are therefore that this modification is completed by 12 May 2020, in order to finalise with expediency the implementation of the Authority determination set out in its 17 December 2019 decision. This period will allow for the modifications to be reviewed, consulted upon, and subsequently made in order to provide assurance for generators and other customers, enabling them to demonstrate their commitment to the transmission link, as required by the Authority as a prerequisite to the approval of the Needs Case (expected summer 2020). SHE Transmission submitted the revised Needs Case on 24 January 2020, and the Authority has committed to “consider any such revised submission as soon as possible”.

The proposed approval process for this simple change would also prevent undue delay to the many modifications to the CUSC which are understood to be in process, some of which may not have an associated Authority determination.

## 9 Legal Text

Proposed revised legal text (to be considered in the context of the changes to 14.15.75 and 14.15.76 proposed in CMP337) is the addition of new definition.

"Cost Adjustment": a payment whose value and timing has been approved by the Authority and which is made by a Licensed Distribution Network Operator as a contribution to the cost of an infrastructure investment made by a different Licensed Distribution Network Operator or Licensed Transmission Owner. that recognises the shared value to the different parties.

### Text Commentary

N/A.

## 10 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

- Agree that the proposed governance procedures apply, being the review and agreement of Legal Text with NGESO, then Code Administrator Consultation, followed by Authority approval, with the expectation that the modification is approved by the Authority by 12 May 2020 and would be fully implemented by 1 April 2024.