

# CMP337/338

## Workgroup 1

Wednesday 8th April 2020



# Agenda

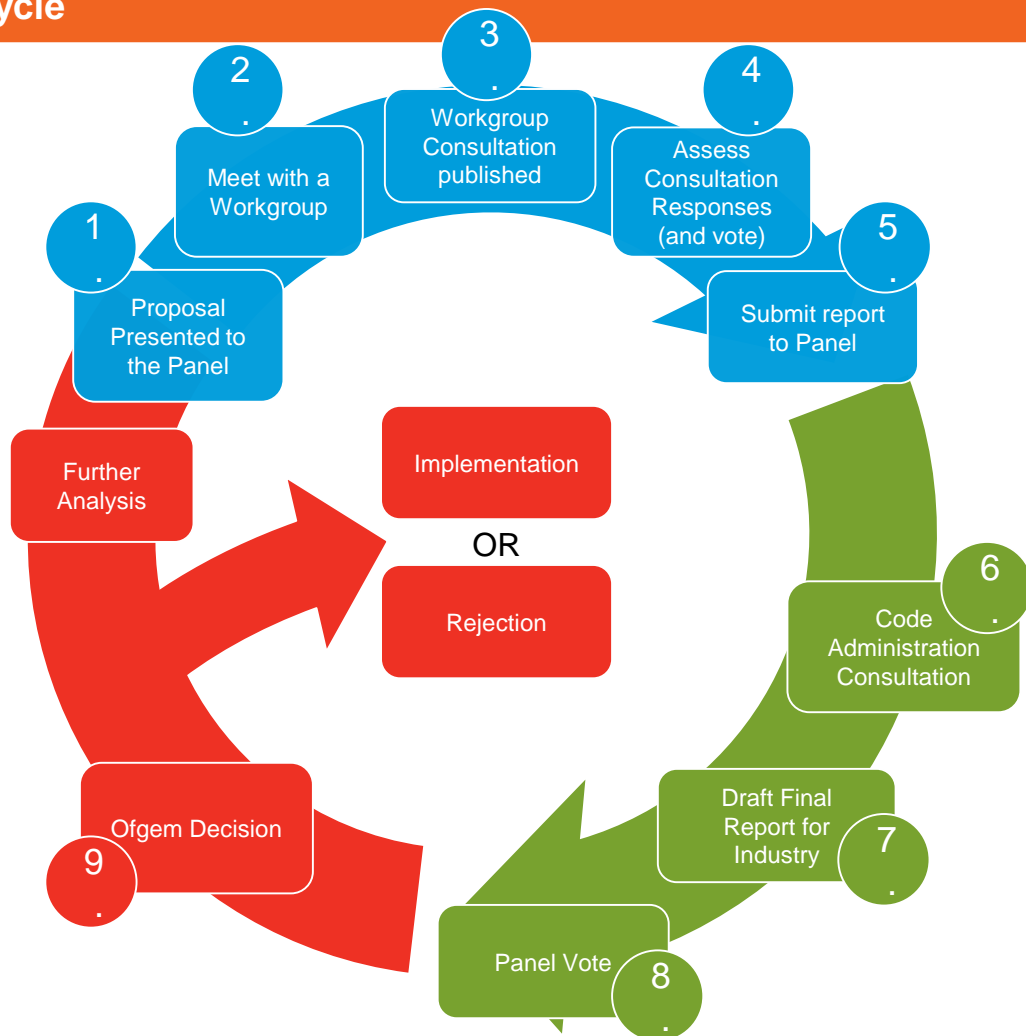
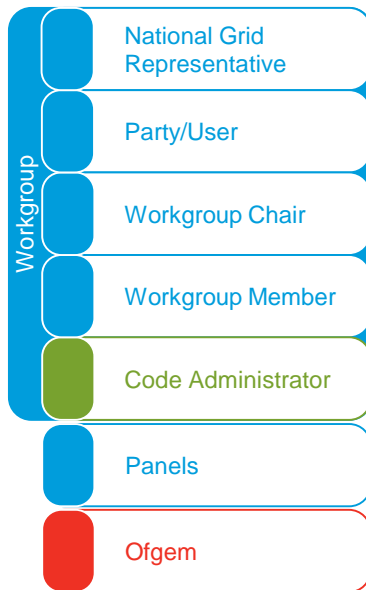
		Lead
1	Introductions and meeting objectives	SA
2	Overview modification process/review timeline on urgency	SA
3	Proposer presentation and questions	RK
4	Review Terms of Reference (TOR)	SA/Workgroup
5	Initial workgroup discussions	Workgroup
6	Lunch	
7	Further workgroup discussions	Workgroup
8	Actions	SA
9	Next steps	SA

# Overview Modification Process



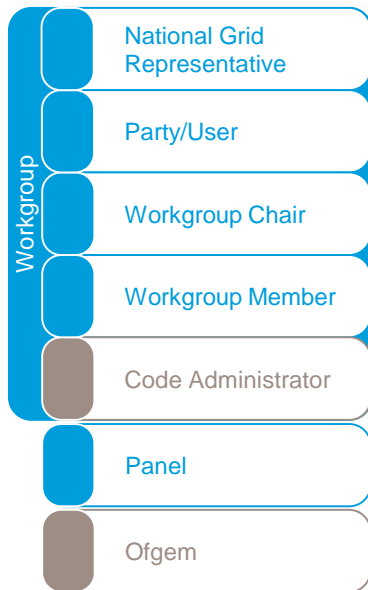
# High Level Mod Lifecycle

## Who is involved?



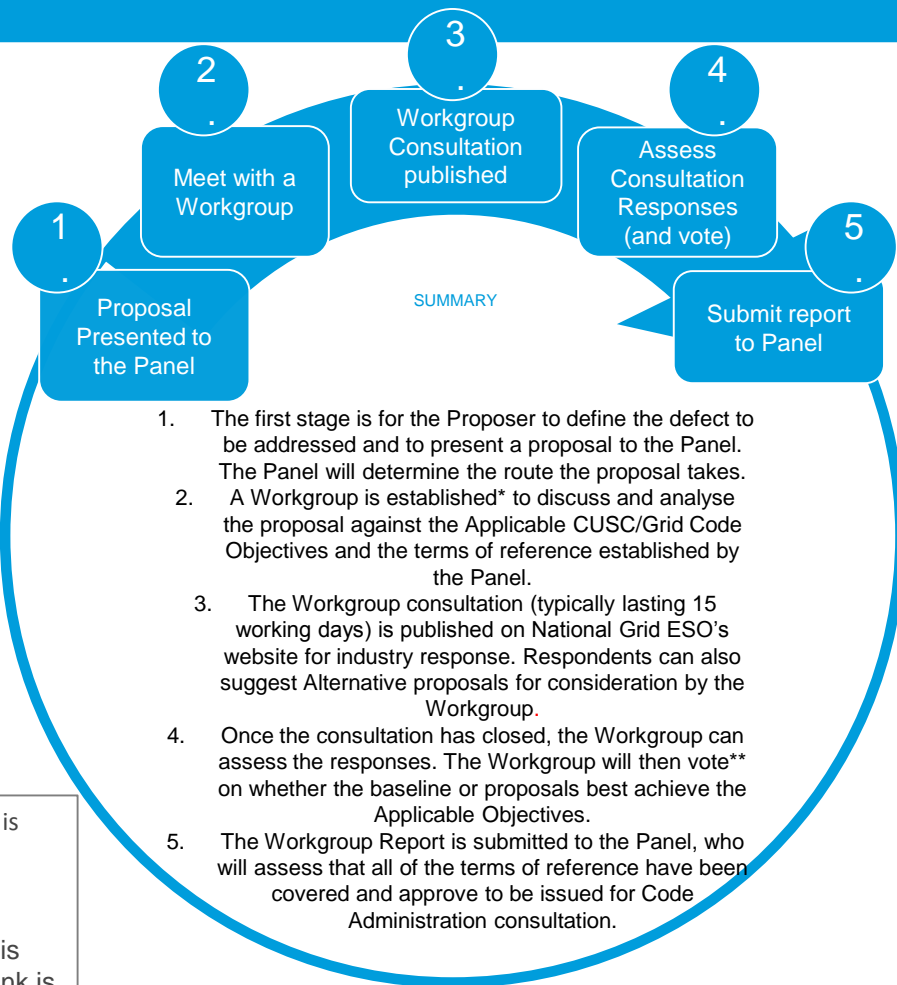
# Workgroup

## Who is involved?

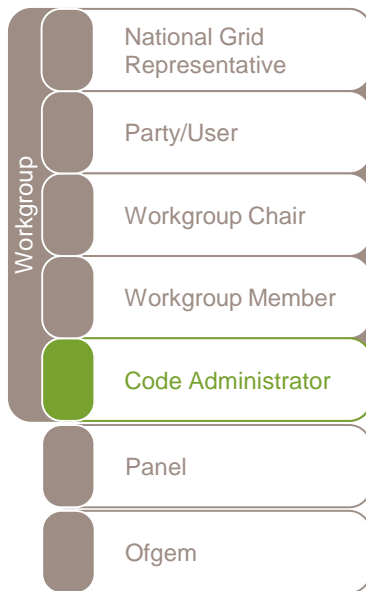


\*Steps 2-5 only apply if Panel determine that a Workgroup is needed

\*\*For any alternative proposals the WG will vote on a) whether it is better than the baseline and b) whether it is better than the Original before voting on option they think is best



## Who is involved?



## SUMMARY

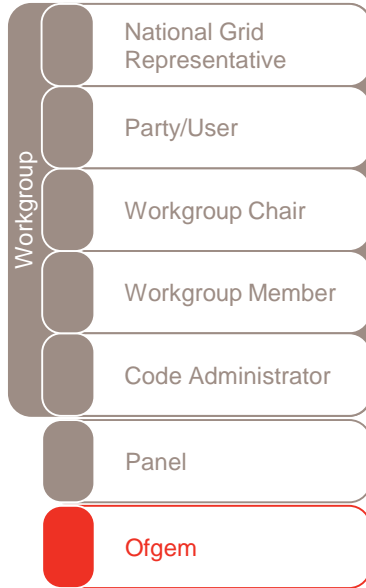
6. At this stage the Code Administrator gathers views and data from the wider industry on the final proposal and alternatives. Typically lasting 15 working days.
7. The Code Administrator Consultation responses are added to the Workgroup report, which is then published.
8. The Panel will vote on whether the proposal and any alternatives better facilitate the objectives compared to baseline. The proposal will then be recommended for submission to Ofgem.

6  
Code  
Administration  
Consultation

7  
Draft Final  
Report for  
Industry

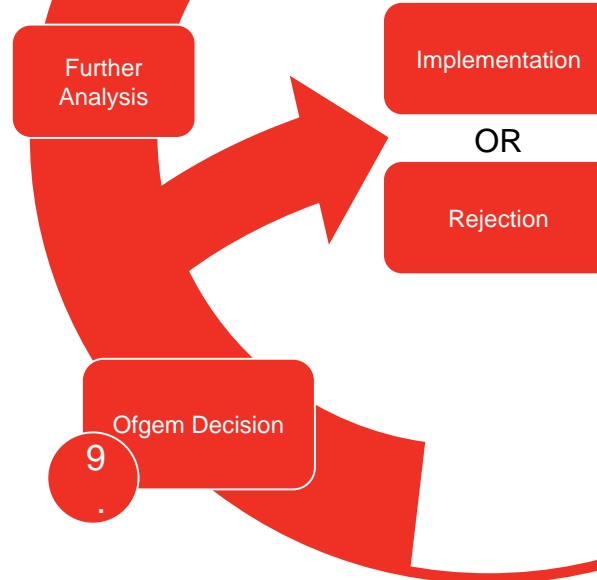
8  
Panel Vote

## Who is involved?



## SUMMARY

9. At this stage Ofgem determines whether the proposed change to the CUSC or Grid Code is implemented, rejected or sent back to the Workgroup for further analysis. If the modification is Self-Governance the Panel will decide whether to implement the modification.





# Urgent Timeline for CMP337/CMP338





## Proposed Urgent Timeline – CMP337/CMP338 (following Panel)

Milestone	Date
Workgroup Nominations	4 March 2020 to 25 March 2020
Workgroup 1	6 April 2020
Workgroup 2 ( <i>allowing 5 clear working days between Workgroup 1 and 2</i> )	16 April 2020
Workgroup Consultation (5 working days)	22 April 2020 to 29 April 2020
Workgroup 3 (to discuss Workgroup Consultation Responses and hold Workgroup Vote)	7 May 2020
Workgroup Report issued to Panel (3 working days)	13 May 2020
Workgroup Report presented to Panel	19 May 2020
Code Administrator Consultation (3 working days)	20 May 2020 to 22 May 2020
Draft Final Modification Report issued to Panel (3 working days)	26 May 2020
Draft Final Modification Report presented to Panel (for Vote)	29 May 2020
Final Modification Report issued to Panel (to check Votes recorded correctly) (1 working day)	1 June 2020
Final Modification Report issued to Ofgem	2 June 2020
Ofgem Decision Date ( <i>allowing 1 week for a decision</i> )	9 June 2020

# CMP 337 and 338: Impact of DNO Contributions on Actual Project Costs and Expansion Factors

**SHEPD proposals**

Workgroup 1 - 8 April 2020



**Scottish & Southern**  
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# SHEPD link contribution proposals

Key documents:

[Ofgem decision](#), published 17 December 2019

[Ofgem consultation](#), May – July 2019

[SHEPD Recommendation](#) and [Addendum](#), November 2018 (updated May and December 2019)

In summary, SHEPD recommended:

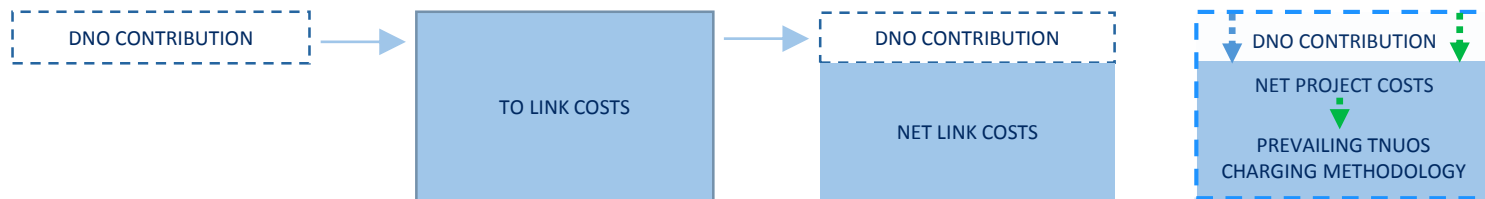
- that it contribute financially towards transmission links proposed to be built to Shetland, the Western Isles and Orkney, where these links would provide benefits for distribution system customers.
- a contribution for Shetland which represents c.£140m saving for consumers.
- specific methodologies for the calculation of the contributions, reflecting the value of the asset to distribution customers.
- that its contribution reduces the total capital cost of the transmission asset (lower RAV and Allowed Revenue), and is recognised as DNO increased RAV and Allowed Revenue.

# Authority decision

## Decision on SHEPD contribution proposals, 17 December (see Appendix)

**Authority:** *“We confirm that we agree the principle of a DNO contributing towards a transmission link, where this is shown to be beneficial to consumers”.*

- **Contribution:** *“We confirm that if we approve the Final Needs Case for the proposed Shetland transmission project, we will approve SHEPD’s contribution proposal”.*
- **Proposed implementation:** *“The contribution [will] be transferred from SHEPD to SHE-T through the TO and DNO licences”, “We agree in principle that SHEPD’s proposed modification to the CUSC reflects the policy intent of this decision”.*
- **Authority approval is subject to appropriate implementation:** *“We therefore expect SHEPD to progress the relevant codes changes (to the CUSC...) through the prescribed industry processes”.*
- **Pan-island:** Orkney and Western Isles contribution consultations to follow; mods implement all island contributions.



# CUSC implementation (1)

## Principles and approach

- Changes implement [Authority December 2019 decision](#).
- Changes better fulfil Applicable Objectives than baseline: **more cost reflective; reflective of transmission developments; remove ambiguity.**
- Simple and minor changes - clarifications only. **NO TNUOS METHODOLOGY CHANGE.**
- **Same effect** on TNUoS methodology and charges as link cost without contribution: only change is to link cost value.
- Changes arguably not necessary to be made, as no change to methodology and for clarification only; **however, agreed with NGESO and Ofgem** to progress in order to avoid ambiguity.

# CUSC implementation (2)

## Defect and modifications to implement Authority decision

**DEFECT:** “Actual project costs” at 14.15.75, used to calculate AC subsea cable and HVDC circuit expansion factors, is undefined. It is ambiguous whether it may be a value net of a DNO contribution.

**SHEPD MODIFICATION PROPOSALS:** changes limited to removing ambiguity:

1. Add reference to DNO contribution (“Cost Adjustment”) to 14.15.75 - **to clarify** that “actual project costs” may be a value from which a contribution has been netted off.
2. Clarification to 14.15.76 - the pro-rating of costs under prevailing methodology is same whether a contribution has or has not been applied – **to clarify no change** to pro-rating.



# CUSC implementation (2)

## Legal Text

### 1. Add new definition - CMP338:

"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].

### 2. Modify elements of CUSC Section 14.15 – CMP337:

*14.15.75 AC sub-sea cable and HVDC circuit expansion factors are calculated on a case by case basis using actual project costs (Specific Circuit Expansion Factors) net of any Cost*

*14.15.76 For Calculation of HVDC circuit <sup>Adjustment.</sup> expansion factors, and AC sub-sea circuit expansion factors, shall include only: the cost of the converters (where applicable); and the cost of the cable; and a percentage of the total overhead project costs, defined as the combined costs of the cables and converters (as relevant) divided by the total capital cost of the project minus a percentage of the Cost Adjustment, defined as the combined costs of the cables, converters (as relevant) and appropriate overhead costs, as calculated above, all divided by the total capital cost of the project.*

# Impact on Applicable CUSC Objectives

Relevant Objective (Charging)	Identified impact
<b>(a) Facilitates effective competition</b>	<b>Positive</b> – facilitate more cost-reflective arrangement, more effectively facilitating competition in generation and supply of electricity.
<b>(b) Results in charges which reflect costs incurred by transmission licensees</b>	<b>Positive</b> – ensure charges reflect net costs incurred by TO after DNO contribution netted off; existing cost pro-rating maintained.
<b>(c) Use of system charging methodology takes account of developments in transmission</b>	<b>Positive</b> – implement Authority’s 17 December 2019 decision to approve contribution by DNO towards costs of TO project.
<b>(d) Compliance with Electricity Regulation / EC / Agency decisions.</b>	<b>Neutral</b>
<b>(e) Promoting efficiency in implementation / admin of CUSC arrangements.</b>	<b>Positive</b> – minor, remove ambiguity, implement Authority decision in interests of consumers. Given proposals make no change to TNUoS methodology, recommend proportionate CUSC governance process.

# Outstanding analysis: “MITS node scenarios”

## Effect of contribution / mods in MITS node-triggered charging scenarios

“MITS node scenarios”: scenarios in which a MITS node is created on Shetland as a consequence of a specific network configuration, triggering changes to the way the costs of the link are recovered via TNUoS charges.

Analysis is required to confirm that the contribution effects TNUoS charges in these new charging scenarios in transparent and non-distortive way.

Three charging scenarios for consideration:

- Local circuit recovery
- Zone 1 Wider TNUoS recovery
- New Shetland Zone Wider TNUoS recovery

# Outstanding analysis: “MITS node scenarios”

## Effect of contribution / mods in MITS node triggered charging scenarios

SHEPD current interpretation:

- The mods correct a defect – **ambiguity** as to whether “actual project costs” may be a value which is, in certain cases, net of a DNO contribution, **where a contribution has been directed by the Authority**.
- The mods ensure contribution is **applied consistently** to HVDC / AC sub-sea circuits whether local or wider tariff recovery – they ensure the expansion factor for HVDC and AC sub-sea link circuits reflects the effect of a contribution directed by the Authority.
- The mods **hold consistently across tariff charging scenarios**. As there is only one section of the CUSC where onshore wider and local expansion factors are derived, we believe this is true whether HVDC and AC assets are recovered through local circuit tariffs or wider tariff – contribution impact is attached to the expansion factor and follows it through the charging model and through charging changes, including rezoning.
- The contribution impact is not numerically identical between local and wider tariffs. We consider - subject to NGENSO's analysis - this is consequential, because the **methodology** for attributing link costs to TNUoS charges in these charging scenarios is **agnostic to and unaffected by** a contribution.

# CUSC implementation (4)

## Principles of compatibility of SHEPD mods in charging scenarios

- 1. Local circuit recovery:** Link cost and contribution are captured for purpose of TNUoS charging at CUSC 14.15.75/76, and are targeted at connecting generators via *net* link cost value. No wider change to TNUoS methodology – prevailing methodology applies.
- 2. Zone 1 Wider TNUoS recovery:** Link cost and contribution are captured for purpose of TNUoS charging at CUSC 14.15.75/76 via *net* link cost value. No wider change to methodology – link costs and the contribution are applied appropriately by virtue of use of the net link cost value, and the prevailing TNUoS methodology.
- 3. New Shetland Zone Wider TNUoS recovery:** Link cost and contribution are captured for purpose of TNUoS charging at CUSC 14.15.75/76 via *net* link cost value. No wider change to methodology – link costs and the contribution are applied appropriately by virtue of use of the net link cost value, and the prevailing TNUoS methodology.

# CUSC implementation (5)

## Numerical impact of SHEPD contribution / mods in charging scenarios

SHEPD understanding: the specific numerical effects of net link cost on charges across the scenarios are consequential. Impact on TNUoS charges across the following scenarios of a net link cost of £450m (£700m original link cost minus £250m contribution) would be same if using a link cost of £450m to which no contribution applied.

1. **Local circuit recovery:** Through analysis carried out by NGESO for CUSC Panel (Jan-Feb), contribution effect confirmed to be transparent and non-distortive - % reduction in link costs carries through methodology to customer local circuit and non-local circuit TNUoS charges.
2. **Zone 1 Wider TNUoS recovery:** NGESO to confirm numerical effects.
3. **New Shetland Zone Wider TNUoS recovery:** NGESO to confirm numerical effects.





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# Appendix 1 – Detail of Authority decision

## Decision on SHEPD contribution proposals, 17 December

Ofgem has agreed the principle of a DNO contributing towards the cost of a transmission link – contribution to be determined separately by Ofgem – ***“We confirm that we agree the principle of a DNO contributing towards a transmission link, where this is shown to be beneficial to consumers”.***

Ofgem has also specifically approved the following:

- **Contribution:** Approval of the Shetland contribution (£140m saving to consumers) – *“We confirm that if we approve the Final Needs Case for the proposed Shetland transmission project, we will approve SHEPD’s contribution proposal”.*
- **Methodology:** Agreement with the value methodology proposed by SHEPD – *“We confirm that, the methodology proposed by SHEPD calculates a contribution value that appropriately reflects the value of the transmission link to its distribution customers”.*
- **Value:** Subject to the above conditions being met, the Authority will set the Shetland contribution figure following Project Assessment of the Shetland transmission project (i.e. Ofgem’s determination of capital cost allowances for the transmission project).
- **Pan-Island:** Authority intends to consult on Western Isles and Orkney contributions in early 2020 – same implementation methodology.
- **Proposed implementation:** Agreement in principle with SHEPD’s proposed modification to the CUSC – *“We agree in principle that SHEPD’s proposed modification to the CUSC reflects the policy intent of this decision”.* SHEPD has proposed the netting off of contribution from “actual project costs” (14.15.75) and the pro-rating of the contribution to mirror how the existing methodologies split costs across local and wider TNUoS charges (14.15.76) -

Authority approval is subject to appropriate implementation – *“We therefore expect SHEPD to progress the relevant codes changes (to the CUSC...) through the prescribed industry processes”.*

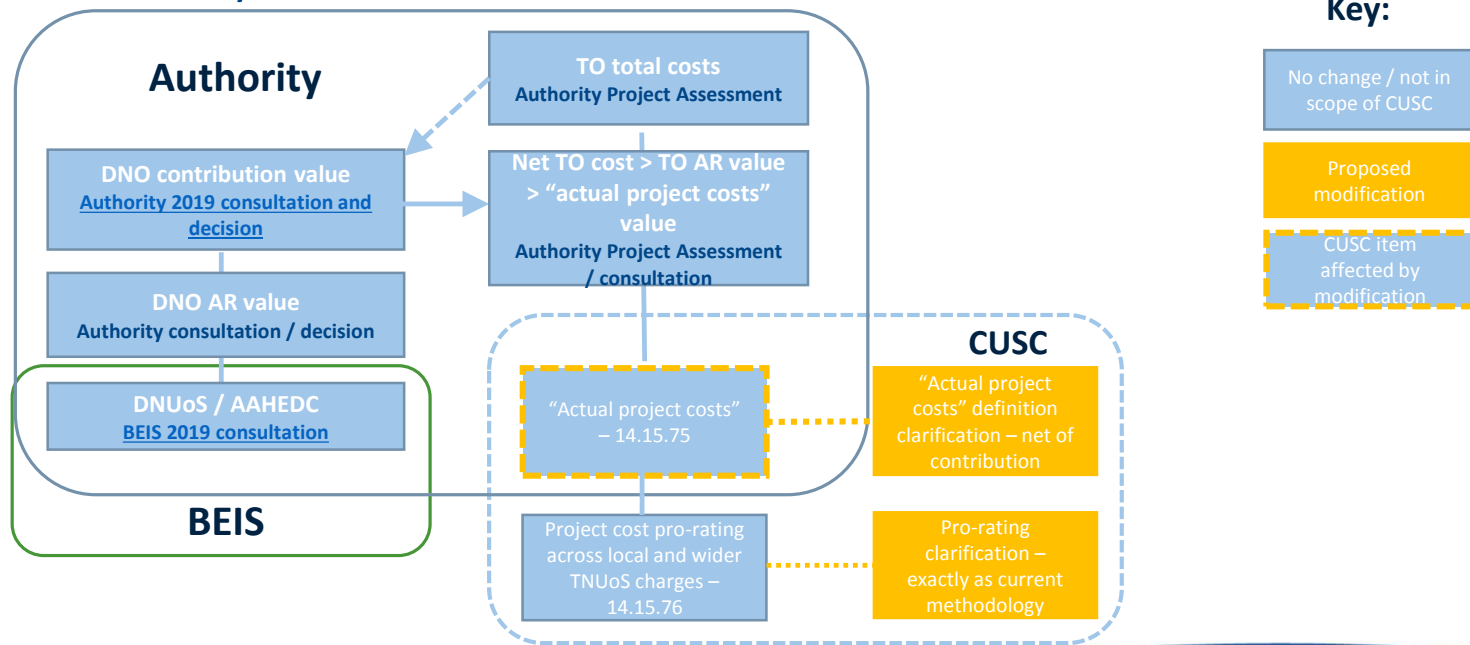
## Appendix 2 – CUSC mods in context of wider proposals

### Scope of contribution proposals in relation to proposed CUSC modifications

- **Implementation of a price control decision:** Authority will determine on costs allowed to be recovered by both DNO and TO. This value for the TO, subject to existing TNUoS methodology, is applied at “actual project costs”.
- **Final stage of implementation:** The Authority has assessed and consulted upon the proposals since November 2018, agreeing with the consumer benefit and Shetland contribution value in December 2019 – CUSC changes are last steps to implement the Authority decision.
- **The CUSC mods do not change total costs of transmission assets; nor determine how much is recovered by TO and DNO, nor which consumers pay for the DNO contribution.** The Authority has determined that TOTEX / RAV may be shared between two licensees where this benefits consumers; part paid by distribution customers; a reduced amount recovered from TNUoS customers.
- **The CUSC mods do not change allocation or pro-rating of costs across TNUoS charges.** The modification at 14.15.76 clarifies that pro-rating applicable in the methodology should remain exactly as it is.
- **The CUSC mods are for purposes of clarity only.** SHEPD’s provisional review of the CUSC suggested that no changes are strictly required, as “actual project costs” is not defined and may be interpreted as a value net of a contribution; but agreed with NGESO and Ofgem to progress mods to remove ambiguity.
- **The CUSC mods simply and only clarify that the “actual project costs” value may be net of a contribution.** The effect of a net cost applied within TNUoS is the same as with any other Authority determination on allowed recoverable cost (e.g. Project Assessment).
- **CUSC mods removal of ambiguity ensures no over-recovery by TO** – ensures net rather than gross cost recovered through TNUoS.

# Appendix 3 – CUSC implementation

## Role of Authority and CUSC



# Appendix 4 - Progress to date

## Jan - Feb CUSC Panel questions

**Q1:** “Has the Authority decided that the payments made by SHEPD should be reflected in a reduction in the forward looking signal provided in the locational charge and not in another way, such as a reduction in the residual charges paid due to the reduction in the MAR recovered by NGESO?”

**Authority:** “We agree that payments made by SHEPD should be reflected in a reduction in the forward looking signal.

**The rationale, in brief:**

- **The construction of the link is specifically dependent on generators connecting to the network on Shetland.**
- **SHEPD customers benefit from the link.**
- **Therefore, a reduction in forward looking charges to connecting generators is more cost reflective than a reduction in the residual.”**

**Q2:** “Slide 39 shows a spreadsheet and has the title “Impacts on TNUoS Charges”, but actually contains no impacts as key numbers are redacted. Therefore, it doesn’t actually illustrate anything. Would it be possible to provide an un-redacted version, perhaps using numbers contained in Ofgem’s December decision letter?”

**Q3:** “NGESO would like see a numerical example of the contribution flowing through the charging methodology compared to the counterfactual of a theoretical “actual” cost of the link.”

**Questions 2 and 3 resolved through NGESO’s local circuit-based analysis.**

Questions?



# Terms of Reference

- Consider interactions of the Proposal with the baseline charging methodology with respect to:
  - MITS Nodes on Islands; and
  - Allowing the contribution to be reflected appropriately on generators.
- Consider the impacts on Users and Consumers.

# Workgroup Discussions



Lunch



nationalgridESO



## Further Workgroup Discussions

## **Actions & Next Steps**

[nationalgrideso.com](http://nationalgrideso.com)

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