

# Transmission Charging Methodologies Forum and CUSC Issues Steering Group

Meeting 104

7 May 2020



# Agenda

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1	Introduction, meeting objectives	<b>Jon Wisdom NGESO</b>	10.30 – 10.35
2	Code admin update	<b>Paul Mullen NGESO</b>	10.35 – 10.45
3	Clarification of Transmission Licensee revenue recovery - draft modification	<b>Bill Reed RWE</b>	10.45 – 11:00
4	Clarification of VAT for Securities - draft modification	<b>Nick George NGESO</b>	11:00 – 11:15
5	Targeted Charging Review (TCR) update	<b>To be confirmed NGESO</b>	11:15 – 11.25
6	AOB	<b>Jon Wisdom NGESO</b>	11.25 – 11.30

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# Introduction and meeting objectives



# Code Administrator Update

Paul Mullen

7 May 2020

National Grid ESO



# Authority Decisions/Implementations Summary (as at 6 May 2020)

**No Authority decisions since last TCMF**

- Agreed at April Panel that CMP334, CMP335/336 will not be progressed on an Urgent Timeline
- Also agreed that CMP339 and CMP340 no longer require Urgency

**Decisions expected imminently on CMP306, CMP281 and CMP319**

- CMP280 to be decided on alongside CMP334 (which supercedes CMP280)

**CMP320 and CMP303 decisions expected at same time as CMP337/338**

- CMP337/338 due to be sent to Ofgem 2 June for decision by 9 June

**Update on timing of CMP292 decision expected summer 2020**

**CMP323 Final Modificaton Report sent to Ofgem 6 May 2020**

- To be implemented by 25 June 2020

# Modifications with Authority for decision (as at 6 May 2020)

Modification Number	What is this Modification doing	Implementation Date
CMP280, CMP281 and CMP319	Remove the liability from storage facilities to the TNUoS Demand Residual tariff element (CMP280) and BSUoS charges on imports (CMP281). CMP319 raised to carry out changes to the CUSC definitions as a result of CMP280 and CMP281.	Implementation 1 April 2021
CMP306	Align the rate of return applied to the net asset value of connection points in the calculation of annual connection charges to the pre-tax cost of capital in the price control of the Relevant Transmission Licensee (plus a margin of 1.5 percentage points in the case of MEA-linked assets).	Implementation 1 April 2021
CMP303	To make part of the TNUoS charge more cost-reflective through removal of additional costs from local circuit expansion factors that are incurred beyond the connected, or to-be-connected, generation developers' need.	Implementation 1 April 2021
CMP320	Islands that have a MITS Node but are served by a single circuit radial link are exposed to non-cost reflective charging of a 1.8 Security Factor rather than the application of a 1.0 Security Factor. This proposal will apply a 1.0 Security Factor in that situation.	Implementation 1 April 2021

# Modifications with Authority for decision (as at 6 May 2020)

Modification Number	What is this Modification doing	Decision/ Implementation
CMP292	Looking to ensure that the charging methodologies are fixed in advance of the relevant Charging Year to Electricity System Operator to appropriately set and forecast charges.	Implementation 1 April 2021
CMP323	Updating the CUSC governance process to ensure we capture the EBGL change process for Article 18 Terms and Conditions (T&Cs)	Implementation 25 June 2020



# Panel Update

## April

- No new Modifications or Workgroup Reports
- CMP323 Draft Final Modification presented for Panel recommendation vote – Panel recommended by majority that the Original was better than Baseline.

## May Special Panel – 20 May

- Panel to sign off that CMP337/338 has met its Terms of Reference



# Panel Update

## May Normal Panel – 29 May

- **3 new Modifications** likely to be raised:
  - Replacement for CMP332 (ESO)
  - Clarification of VAT for Securities in the CUSC (ESO)
  - Clarification of Transmission Licensee revenue recovery and the treatment of revenue adjustments in the Charging Methodology (RWE)
- **2 Workgroup Reports** being presented to Panel to sign off that Workgroup has met its Terms of Reference
  - CMP324/325 and CMP334
- **2 Draft Final Modification Reports** being presented to Panel for Panel recommendation vote
  - CMP333 and CMP337/338

# In Flight Modification Updates



# In flight Modifications

## 1 open Workgroup Consultation

- CMP337/338 to close 9am on 11 May 2020
- CMP335/336 planned to be opened on 7 May 2020

## 1 open Code Administrator Consultation

- CMP333 closes 15 May 2020
- CMP337/338 to open 20 May 2020

## 9 CUSC Workgroups held in April

- 11 held across CUSC and Grid Code
- 10 to be held across CUSC (6 CUSC) and Grid Code in May

For updates on all “live” Modifications please visit “Modification Tracker” at:  
<https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc>

# Prioritisation Stack

**Tranche 1** - TCR Modifications (CMP317/327, CMP333, CMP334, CMP335/336, CMP339 and CMP340) and High Priority Modifications (CMP324/325 and CMP337/338)



**Tranche 2** – Modifications to be progressed in Q1/Q2 2020 where gaps arise (CMP311, CMP326, CMP316, CMP304)



**Tranche 3** – Modifications to be progressed from June 2020 – *Panel to prioritise at May's Panel (29 May 2020) and Code Admin to contact all Proposers in this group during May*

# Tranche 1 Modifications - Indicative Timelines

Modification Number	Workgroup Report presented at Panel	Draft Final Modification Report presented at Panel
The replacement for “ <b>CMP332</b> ” and <b>CMP340</b>	August Special Panel (12 August)	September
<b>CMP334</b>	May	July
<b>CMP335/CMP336</b>	August Special Panel (12 August)	September
<b>CMP317/327</b>	June	July
<b>CMP339</b>	June	July
<b>CMP333</b>	Already presented to March Panel	May
<b>CMP324/325</b>	May	July
<b>CMP337/338</b>	May Special Panel (20 May)	May

## 2020 Dates

Note correction  
to May's Papers  
Day date and  
New  
Modification  
Proposal  
Submission  
Date



## CUSC 2020 Workgroups and Panel dates

CUSC - Workgroups	1	2	3	4
March	6	12	20	26
April	3	9	15	23
May	8	14	22	28
June	5	10	15	25
July	10	16	24	30
August	7	13	21	27
September	4	10	18	24
October	9	14	23	29
November	6	11	16	23
December	30/11	7	17	21

CUSC	Panel Dates	Papers Day	Modification Submission Date	TCMF
January	31	23	16	9
February	28	20	13	6
March	27	19	12	5
April	24	16	7	2
May	29	<b>20</b>	<b>13</b>	7
June	26	18	11	4
July	31	23	16	9
August	28	20	13	6
September	25	17	10	3
October	30	22	15	8
November	27	19	12	5
December	18	10	3	26/11



# Clarification of Transmission Licensee revenue recovery and the treatment of revenue adjustments in the Charging Methodology

Draft CUSC Modification Proposal

Bill Reed

# Introduction



This modification has been raised to address the CUSC charging arrangements in two important areas:

## Recovery of “Maximum Allowed Revenue” (MAR)

- The recovery of “maximum allowed revenue” for transmission owners (TOs) associated with each onshore price control period and for onshore transmission licensees and at the point of asset transfer for offshore TOs (OFTOs).

## Treatment of revenue associated with unforeseen or unforeseeable events

- Revenue adjustments associated with actual costs incurred and costs saved for a Transmission Licensee that occur within price control periods from unforeseen or unforeseeable events, including Income Adjusting Events (IAEs),

**This modification has been raised to clarify the CUSC charging arrangements.**

**It sets out the basis for the arrangements to ensure efficient cost recovery for transmission licensees and users**

# The Defect

The defect in the current CUSC arrangements is as follows:

## Recovery of “Maximum Allowed Revenue” (MAR)

- Section 14.14.1 sets out the nature of the cost to be recovered from Users.
- Section 14.14.2 specifies that Transmission Network Use of System Charges (TNUoS) are set to recover the Maximum Allowed Revenue (MAR)<sup>1</sup>
- **While it is clear that the intent of Section 14 is to recover the MAR of onshore and offshore transmission owners this is not set out explicitly in the CUSC – this modification will address this defect**

## Treatment of revenue associated with unforeseen or unforeseeable events

- Section 14 of the CUSC does not set out the basis on which revenue adjustments associated with actual costs incurred and costs saved for a Transmission Licensee that occur within price control periods are treated. Within price control revenue adjustments can occur as a result of, for example, Income Adjusting Events (IAEs).
- **This modification proposal will set out the treatment of revenue adjustments related to unforeseen or unforeseeable events during a period subject to a price control.**

1. Onshore MAR is subject to allowing for any Kt adjustment for under or over recovery in a previous year net of the income recovered through pre-vesting connection charges).

# The Proposal

This modification proposes the following changes to the CUSC:

## i) Changes to Section 14.14.2

- to clarify that the MAR is set for each price control period for onshore TOs and at the point of asset transfer for OFTOs. The MAR is not subject to any further modification for the duration of the Price Control Period for onshore TOs <sup>1</sup> and after the asset transfer for OFTSs.

## ii) A new section of the Charging Methodology

- to ensure that any revenue adjustments associated with unforeseen and unforeseeable events that result in actual costs incurred and costs saved for TOs and OFTOs outside the relevant price controlled periods<sup>2</sup> are recovered through adjustments to the Demand Residual<sup>3</sup>.

## iii) Further changes in Section 14

- to allow the pass through of the revenue adjustment through the demand residual.

1. Subject to allowing for any Kt adjustment for under or over recovery in a previous year net of the income recovered through pre-vesting connection charges  
2. The onshore price control period and the period from the asset transfer for the OFOs  
3. As p may be permitted in the final determination of the adjustment by the Authority (Ofgem)

# Assessment against CUSC Charging Objectives

Relevant Objective:

- **Objective (a)** - the proposal **addresses ambiguities** associated with the treatment of the MAR under the price control and recovery of revenue adjustments. It will deliver more 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
- **Objective (b)**: the proposal better results in a use of system charging methodology which reflects, as far as is reasonably practicable, **the actual costs incurred** by transmission licensees in their transmission businesses (Objective (b)).
- **Objective (d)**: the proposal ensures that to the extent possible the arrangements better meet compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency in particularly with respect to **cost reflectivity** and by addressing the potential for **discriminatory** treatment of users.
- **Objective (e)**: the proposal **improves clarity** and **promotes efficiency** in the implementation and administration of the CUSC arrangements.

# Draft modification - Clarification of VAT for Securities in the CUSC

Nick George -  
NGESO



# Clarification of VAT for Securities in the CUSC

## Current Position

- CUSC includes requirements for Users to provide security for certain charges:
  - Terminations Amounts, relating to Connection Charges (Section 2, Part III)
  - BSUOS and TNUOS Demand Charges (Section 3, Part III)
  - Cancellation Charges for generators terminating pre-connection (Section 15, Part Three)
  - Final Sums for demand customers terminating pre-connection (Schedule 2, Exhibit 3)
- The security requirements provide some financial security from Users for certain charges, reducing the financial risk on all other Users from a User defaulting on payment obligations.
- If a User defaults, VAT must still be paid to HMRC, and therefore it is important when calculating the amount a customer secures that it includes the applicable VAT

All Users carry financial risk of a User defaulting



# CMP342 - Clarification of VAT for Securities in the CUSC

## Modification Proposed

- A User has queried NGENSO's right to request security for the VAT element of the charges
- To ensure current and future parties fully understand their obligations, modification to be raised at May CUSC Panel
- Minor wording changes to sections identified on previous slide, to clarify that the secured amounts are inclusive of applicable VAT
- The modification clarifies the position on securities, allowing NGENSO to efficiently administer the securities processes and ensure all Users secure on a consistent basis, protecting other Users, and ultimately consumers
- Modification is just clarifying current practise, so is proposed to be Self-Governance

# Update - Targeted Charging Review (TCR)

NGESO



# Targeted Charging Review (TCR) Update

All modifications still progressing & updated ENA PID document due next week.

## Demand Residual Charging

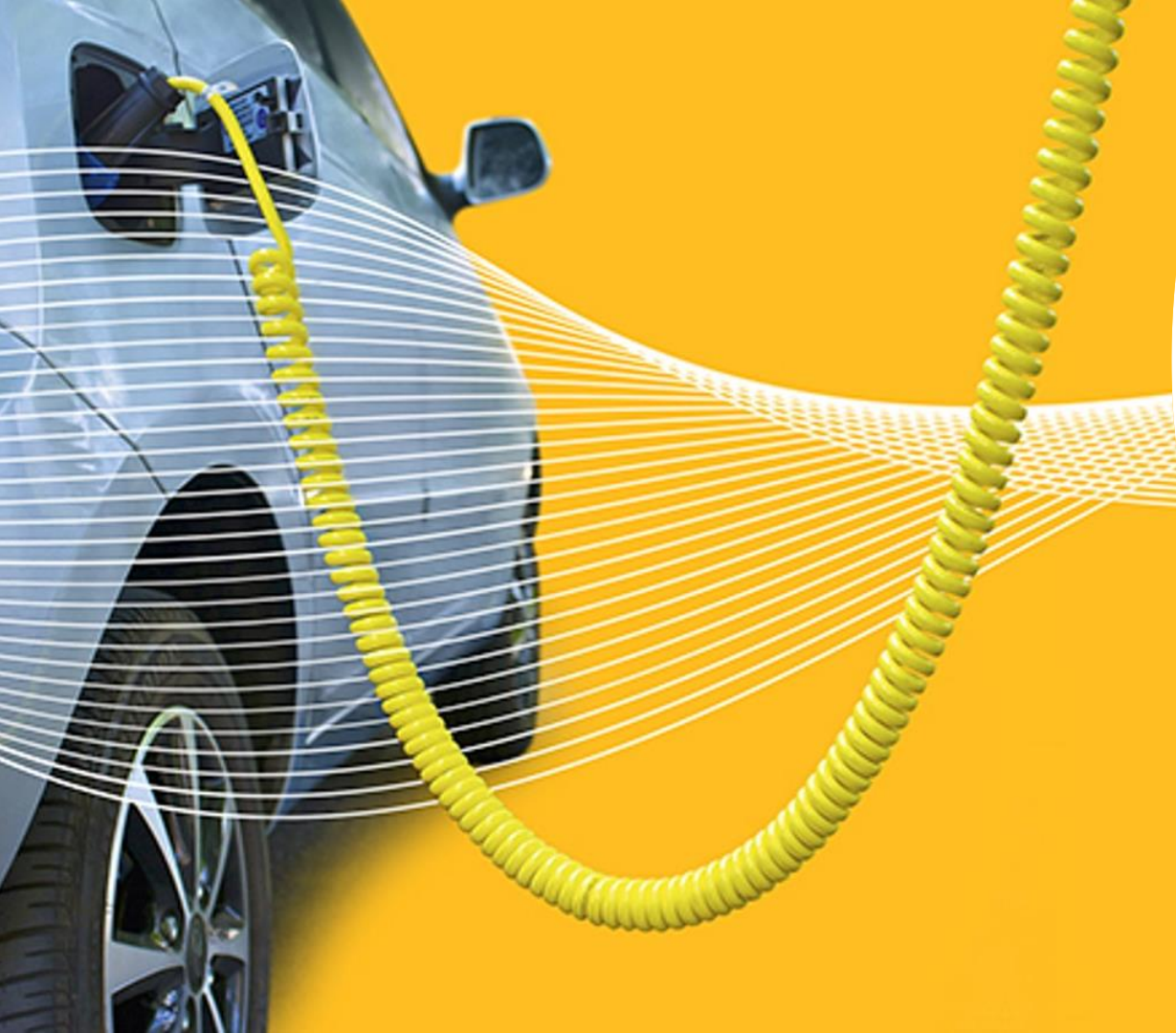
Modification	Update
DCP358/60	Consultation closed, prepping final Change Report
DCP359	Consultation closed, prepping final Change Report
DCP361	Consultation to be issued May
CMP334	Consultation closed, prepping final WG Report
CMP335/6	Consultation to be issued once ENA PID updated.
P402	In workgroup discussions
CMP332 replacement & CMP340	CMP332 replacement to be raised at May 2020 CUSC panel, CMP340 to be progressed when this is raised.

## BSUoS Update

- Out for Code Admin Consultation, closes 15<sup>th</sup> May.
- Taskforce paused until July 2020, with report due to Ofgem Sept 2020

## TGR Update

Workgroup Consultation completed and progressing through Workgroup discussions



# Questions & AOB

Jon Wisdom  
NGESO





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