

**CUSC Workgroup Consultation Response Proforma****CMP337: 'Impact of DNO Contributions on Actual Project Costs and Expansion Factors' & CMP338: 'New Definition of Cost Adjustment'**

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.

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If you have any queries on the content of this consultation please contact Ren Walker at [lurrentia.walker@nationalgrideso.com](mailto:lurrentia.walker@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

Respondent details	Please enter your details
<b>Respondent name:</b>	Guy Nicholson
<b>Company name:</b>	Statkraft UK Limited
<b>Email address:</b>	Guy.Nicholson@statkraft.com
<b>Phone number:</b>	07824145479

**CMP337**

**For reference the applicable CUSC Charging objectives are:**

Relevant Objective
(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;
(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);
(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;
(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
(e) To promote efficiency in the implementation and administration of the CUSC arrangements

**CMP338**

For reference the applicable CUSC objectives are:

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

Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

CMP337 - Standard Workgroup Consultation questions		
1	Do you believe that the CMP337 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	Yes. The legal text changes successfully clarify the CUSC in line with SHPED's intended implementation of capital cost contributions by licenced distribution network operators to transmission projects. It is also worded in accordance with Ofgem's more general support for the principal of a licensee contributing towards another licensee's project where a benefit to demand consumers is shown.
2	Do you support the proposed implementation approach for CMP337?	Yes
3	Do you have any other comments?	<p>We welcome the analysis that has been completed by the working group assessing different charging scenarios:</p> <p><b>Scenario 1) a 'local circuit' TNUoS charge,</b>  The link related charges are reduced by the same % as the contribution/total link costs, the contribution costs are recovered fully via AAHEDC and there is no impact on the residual. This shows the rationale for the approach to</p>

	<p>implementing the DNO contribution is fully compatible with scenario 1.</p> <p><b>Scenario 2) a wider TNUoS charge as part of zone 1</b> This appears to have material unintended consequences, in absolute terms it reduces costs in zone 1 by significantly less than the other scenarios, it also effectively recovers all of those costs (and more) from an offsetting increase in the residual for other generators, and not from a subset of demand via AAHEDC as is intended. The current proposed methodology for implementing a contribution is not compatible with this charging scenario.</p> <p><b>Scenario 3) and wider TNUoS charges with Shetland as a separate zone</b> For scenario 3 a 'Shetland only TNUoS zone' would have its charges reduced by an approximately similar absolute amount as scenario 1 but there is a small impact on the residual. It is not clear however, if this effect would always be immaterial for the Shetland example modelled, or if the impact could be more significant for contributions made in other future projects. The approach to implementing DNO contribution is compatible with this scenario, but it does not work as well as for Scenario 1.</p> <p>We believe this analysis strengthens the case that local circuit charging is the most suited charging methodology for Remote Island generation TNUoS. The possibility of a MITs node being created on a Remote Island can be removed by the slight amendment to MITs definition, as set out in CMP320 (Island MITS Radial Link Security Factor) WACM 1.</p> <p>We do not think scenario 2 is cost reflective as it would result in other generators in TNUoS zone 1, subsidising the Island generators, it would breach section 14.15.42 which states nodes within zones should be within +/- £1/KW, although we understand why it has been included given the potential outcomes of CMP324 &amp; CMP325 (<i>Generation Zones – changes for RIIO-T2' &amp; 'Rezoning</i>).</p> <p>Similarly if the Remote Islands do become part of the MITs, and are charged via the wider methodology, it is important they form <i>separate</i> zones from each other. If for example they were grouped together as a single 'Remote Islands' zone, the underlying logic of the contribution methodology suggested by SHEPD that this CMP seeks</p>
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		to implement would unravel. A contribution to one link, would cross subsidise another which may not have the necessary benefits to consumers that supported the approval of contribution by the Authority in the first instance.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No
<b>CMP338 – Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP338 Original Proposal better facilitates the Applicable CUSC Objectives?	Yes – see CMP337 question 1
2	Do you support the proposed implementation approach for CMP338?	Yes
3	Do you have any other comments?	No
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No

**CUSC Workgroup Consultation Response Proforma****CMP337: 'Impact of DNO Contributions on Actual Project Costs and Expansion Factors' & CMP338: 'New Definition of Cost Adjustment'**

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Respondent details	Please enter your details
<b>Respondent name:</b>	Aaron Priest
<b>Company name:</b>	Viking Energy Wind Farm LLP (VEWF)
<b>Email address:</b>	aaron.priest@sse.com
<b>Phone number:</b>	07918 306213

**CMP337**

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Relevant Objective
(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;
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(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;
(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
(e) To promote efficiency in the implementation and administration of the CUSC arrangements

**CMP338****For reference the applicable CUSC objectives are:**

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

**Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.**

<b>CMP337 - Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP337 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	<p>Yes, the CMP337 Original does better facilitate the applicable CUSC objectives.</p> <p><b>Original – Better than Baseline</b></p> <p>Yes, VEWf believes that the CMP337 Original Proposal does better facilitate the Applicable CUSC Charging Objectives. We have provided further explanation below:</p> <p><u>Objective a “effective competition”</u></p> <p>Better. VEWf believes that if, as proposed in CMP337, a DNO makes an approved contribution towards the cost of a transmission asset, this is a more cost-reflective arrangement, better enabling objective (a) in more effectively facilitating competition in the generation and supply of electricity. The CMP337 Original Proposal will provide greater clarity on Transmission Licensees’ actual project costs by removing ambiguity, thereby making resulting TNUoS charges to generators more cost reflective.</p> <p><u>Objective b “cost reflectivity”</u></p> <p>Better. The CMP337 Original Proposal is more cost reflective. This is because it will provide greater clarity on</p>

	<p>Transmission Licensees' actual project costs by removing ambiguity, thereby making resulting TNUoS charges to generators more cost reflective. Resulting TNUoS charges will reflect the net costs incurred by transmission licensees, after any DNO contribution has been netted off; in a way which maintains the integrity of the existing pro-rating of costs between local and wider charge elements.</p> <p><u>Objective c "developments in transmission licensees' transmission businesses"</u></p> <p>Better. The CMP337 Original Proposal better takes account of the developments in transmission licensees' transmission businesses, because it implements the Authority's 17 December 2019 decision to approve a contribution by a DNO towards the costs of a transmission licensee's project.</p> <p><u>Objective d "Compliance with the Electricity Regulation"</u></p> <p>Better. The CMP337 Original Proposal is consistent with the intentions of the <b>EU Renewable Energy Directive (2009/28/EC)</b></p> <p>We would suggest that CMP337 (and CMP338) are particularly relevant to remote islands and renewables. The EU Renewables Energy Directive 2009, which, according to the European Union (Withdrawal) Act 2018, will continue to apply post-Brexit, states:</p> <p><i>"7. Member States shall ensure that the charging of transmission and distribution tariffs does not discriminate against electricity from renewable energy sources, including in particular electricity from renewable energy sources produced in peripheral regions, such as island regions, and in regions of low population density."</i></p> <p><u>Objective e "efficiency in the implementation and administration"</u></p> <p>The CMP337 Original Proposal seeks to efficiently enact the Authority's 17 December 2019 decision. CMP 337 will remove ambiguity in the interpretation of 14.15.75 and 14.15.76 of the CUSC with specific regard to the impact of DNO contributions on a transmission licensee's "actual project costs", avoiding future requirements for the CUSC administrative process to revisit this question.</p>
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2	Do you support the proposed implementation approach for CMP337?	Yes, as stated above, CMP337 provides an effective and efficient way to enact the Authority's 17 December 2019 decision, in a way which maintains the existing pro-rating of costs between local and wider charge elements.
3	Do you have any other comments?	VEWF can confirm that a decision on CMP337 and CMP338 is needed by June 2020.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No
<b>CMP338 – Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP338 Original Proposal better facilitates the Applicable CUSC Objectives?	Yes, for the reasons set out in the answers on CMP337, as presented above.
2	Do you support the proposed implementation approach for CMP338?	Yes, CMP338 is an efficient mechanism to facilitate the effective delivery and implementation of CMP337.
3	Do you have any other comments?	VEWF can confirm that a decision on CMP337 and CMP338 is needed by June 2020.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No



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Respondent details	Please enter your details
<b>Respondent name:</b>	Sweyn Johnston, Strategic Projects Director
<b>Company name:</b>	Orkney Islands Council
<b>Email address:</b>	Sweyn.johnston@orkney.gov.uk
<b>Phone number:</b>	07935872813

**CMP337**

**For reference the applicable CUSC Charging objectives are:**

Relevant Objective
(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;
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(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;
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<b>Relevant Objective</b>
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;
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<b>CMP337 - Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP337 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	Yes
2	Do you support the proposed implementation approach for CMP337?	Yes
3	Do you have any other comments?	<p>We generally support the aims of CMP337/8 as we understand that there are benefits to various types of island links.</p> <p>We understand that the modification makes no changes to the charging methodology but allows for netting off between the TO/DNO and Ofgem to be reflected in the TNUoS of generators on the link.</p> <p>We generally support the modification as it stands but request that renewal of an existing 33kV sub-sea cable to Orkney, which is due within a similar</p>

		timeframe to the new transmission link, is considered in a similar way to the Shetland model described in the Workgroup consultation.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No
<b>CMP338 – Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP338 Original Proposal better facilitates the Applicable CUSC Objectives?	Yes
2	Do you support the proposed implementation approach for CMP338?	Yes
3	Do you have any other comments?	See above
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No

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Respondent details	Please enter your details
<b>Respondent name:</b>	Lizzie Foot
<b>Company name:</b>	Hoolan Energy Ltd
<b>Email address:</b>	Lizzie@hoolanenergy.com
<b>Phone number:</b>	0131 344 4598

**CMP337**

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<b>CMP337 - Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP337 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	Yes
2	Do you support the proposed implementation approach for CMP337?	Yes
3	Do you have any other comments?	N/A
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No
<b>CMP338 – Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP338 Original Proposal better	Yes

	facilitates the Applicable CUSC Objectives?	
2	Do you support the proposed implementation approach for CMP338?	Yes
3	Do you have any other comments?	N/A
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No

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Respondent details	Please enter your details
<b>Respondent name:</b>	Alisytair Gray
<b>Company name:</b>	Northwind Associates
<b>Email address:</b>	alistair@grayyca.co.uk
<b>Phone number:</b>	01856850860

**CMP337**

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<b>CMP337 - Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP337 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	YES
2	Do you support the proposed implementation approach for CMP337?	YES
3	Do you have any other comments?	NO
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	NO
<b>CMP338 – Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP338 Original Proposal better	YES

	facilitates the Applicable CUSC Objectives?	
2	Do you support the proposed implementation approach for CMP338?	YES
3	Do you have any other comments?	NO
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	NO

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Respondent details	Please enter your details
<b>Respondent name:</b>	Dennis Gowland
<b>Company name:</b>	Neven Point Wind Ltd
<b>Email address:</b>	dennis@researchrelay.com
<b>Phone number:</b>	07739392965

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<b>CMP337 - Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP337 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	The modification seeks to make some amendments to the CUSC which reflect the contribution of TO assets to a DNO on particular circuits – notably on remote Islands. This proposal enables efficient building and operating of the UK grid going forward. It also aids competition by allowing on generation in areas of very high use of system charges, which otherwise may not be connected. The efficiencies in grid design and in longer term operational savings plus security of supply also help local demand.
2	Do you support the proposed implementation approach for CMP337?	Yes
3	Do you have any other comments?	It is noted that the Shetland case is used as the particular example in the WG report. It is assumed that savings in DNO assets and longer term operational costs could be treated the same way for other Island Groups.
4	Do you wish to raise a Workgroup Consultation	No

	Alternative Request for the Workgroup to consider?	
<b>CMP338 – Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP338 Original Proposal better facilitates the Applicable CUSC Objectives?	We agree that the contribution from a DNO to a TO is best described as a “Cost Adjustment” and that it clarifies the definition of “Actual Project Costs” where DNO contributions is reflected in Generator TNUoS. Thus the Original is better than the Baseline.
2	Do you support the proposed implementation approach for CMP338?	Yes
3	Do you have any other comments?	No
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No

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If you have any queries on the content of this consultation please contact Ren Walker at [lurrentia.walker@nationalgrideso.com](mailto:lurrentia.walker@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

Respondent details	Please enter your details
<b>Respondent name:</b>	Paul Jones
<b>Company name:</b>	Uniper UK Ltd
<b>Email address:</b>	paul.jones@uniper.energy
<b>Phone number:</b>	07771 975 782

**CMP337**

**For reference the applicable CUSC Charging objectives are:**

Relevant Objective
(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;
(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);
(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;
(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
(e) To promote efficiency in the implementation and administration of the CUSC arrangements

**CMP338****For reference the applicable CUSC objectives are:**

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

**Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.**

<b>CMP337 - Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP337 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	No. The modification would distort the marginal cost of investing in the network in this area. Regardless of whether or not a DNO is part funding some of the cost of the investment, it doesn't change the actual marginal cost of this element of the network. Given that the point of the locational charge is to signal this cost so that generators make the correct investment decisions, then it should be fully reflected. Therefore, it reduces cost reflectivity and frustrates competition, working against objectives b) and a) respectively. However, we note that Ofgem has effectively already approved this modification given the comments it made in its decision letter on allowing SHEPD to pay part of the costs of SHETL's transmission assets.
2	Do you support the proposed implementation approach for CMP337?	Yes.
3	Do you have any other comments?	Please see our comments on the definition under CMP338.



4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No thank you.
<b>CMP338 – Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP338 Original Proposal better facilitates the Applicable CUSC Objectives?	Please see our response to CMP337.
2	Do you support the proposed implementation approach for CMP338?	Please see our response to CMP337.
3	Do you have any other comments?	<p>Yes. The definition of “Cost Adjustment” in the legal text should be tightened up to reflect the intention of the modification properly.</p> <p>Firstly, it should explicitly refer to “Transmission infrastructure investment” rather than just “infrastructure investment”. The modification has been raised to cover a very specific context where Remote Island links will effectively be cross-subsidised by GB consumers through the AAHEDC tariff, via payments made by SHEPD to SHETL. We are not aware of any non-transmission infrastructure being subsidised in this manner.</p> <p>Secondly, and similarly, the words “a different Licensed Distribution Network Operator or” should be removed from the definition. It has not been explained why this arrangement would cover a Distribution Network Operator’s costs or why these would be recovered through TNUoS.</p> <p>The legal text is also light on the process that would be undertaken to ascertain the level of “Cost Adjustment”. We believe there should be an industry consultation to ensure full transparency of the process. Similarly, the CUSC should specify that any agreed level will be reported in National Grid ESO’s annual charging statement, particularly as it is being subsidised by GB consumers.</p>

		We also believe thought to be given to how subsequent additional infrastructure connecting the mainland to a Remote Island would be handled. For instance, if a “first phase” link is subsidised to 20% of the total cost, it does not necessarily mean that a second phase would be subsidised to the same extent or even at all. How would the methodology deal with this?
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No thank you.