

Modification proposal:	Connection and Use of System Code (CUSC) CMP337: Impact of DNO Contributions on Actual Project Costs (CMP337) and CMP338: New Definition of Cost Adjustment (CMP338)		
Decision:	The Authority ¹ directs that these modifications be made ²		
Target audience:	National Grid Electricity System Owner (NGESO), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	03 July 2020	Implementation date:	01 April 2024

Background

Generators and demand users pay for the ongoing costs of the transmission network via Transmission Network Use of System (TNUoS) charges. TNUoS charges take account of costs for different types of circuits. These include onshore circuits, offshore circuits alternating current (AC) subsea and high-voltage direct current (HVDC) circuits.

NGESO models circuits to set the locational TNUoS tariffs. Starting from a standard circuit tariff, the 'expansion factor' is used to calculate tariffs for different types and costs of circuits. Mainland onshore circuits use a set of standard expansion factors. CUSC modification CMP213 introduced specific expansion factors for HVDC circuits and AC subsea circuits to recognise their significantly different costs compared with other onshore circuits.³

In December 2019, we published our decision in principle on proposals by Scottish Hydro Electricity Power Distribution (SHEPD) to contribute financially towards a proposed electricity transmission link to Shetland.⁴ In this decision, we confirmed that, if we approve the Final Needs Case for the proposed Shetland transmission project, we will approve SHEPD's contribution proposal, subject to it being implemented through an appropriate CUSC modification following the standard processes (and modifications to both SHEPD's distribution licence and the transmission owner's (TO) licence).

On 16 January 2020, SHEPD (the 'Proposer') raised Connection and Use of System Code (CUSC) Modification Proposals CMP337: *Impact of DNO Contributions on Actual Project Costs* and CMP338: *New Definition of Cost Adjustment*. The Panel decided that the proposals should proceed to workgroup, partly to explore the implications of the proposals if the Main Integrated Transmission System (MITS) node moved to Shetland,

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ CMP213: 'Project TransmiT TNUoS Developments' <https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/cmp213-project-transmit-tnuos-developments>

⁴ https://www.ofgem.gov.uk/system/files/docs/2019/12/20191217_shepd_contribution_decision_accessible.pdf

which would affect the extent to which charges faced by connecting generators would be local circuit or wider locational charges.⁵

Following this decision, the Proposer resubmitted CMPs 337 and 338 as Urgent CUSC Modification Proposals. On 23 March 2020, the Panel wrote to inform us of its unanimous view that CMPs 337 and 338 should be treated as urgent.

On 1 April 2020, we issued our decision that the proposals should be progressed on an urgent basis as the issue raised, if not urgently addressed, may cause a significant commercial impact on parties, consumers or other stakeholder(s).⁶

Alongside this decision to approve CMPs 337 and 338, we are publishing another decision on a proposed CUSC modification related to network charges for remote islands.⁷

The modification proposal

SHEPD raised CMPs 337 and 338 in response to our December 2019 decision. The proposals would allow distribution network operators (DNOs) to contribute to the cost of new AC subsea and HVDC circuits, and to allow this contribution to be netted off from costs faced by the generators connecting to these circuits. The proposal prescribes the mechanism for how any such contribution would affect charges faced by generators; the contribution value itself would be for the Authority to determine, when we set the final cost allowance for the project at the "Project Assessment" stage. The proposed legal text of CMP337 aims to affect charges in a way which maintains the exact pro-rating of costs between local circuit and wider locational charges for the connecting generators after the DNO contribution has been removed or 'netted off' from the total amount. CMP338 proposes a new definition of "Cost Adjustment" to give effect to CMP337.

In its assessment, the workgroup considered the impact of the proposed modifications on charges under three different scenarios, using the example of Shetland:

- i. if Shetland was not part of the MITS;
- ii. if a MITS node was created on the island and Shetland became part of the existing Zone 1 generation zone; and
- iii. if a MITS node was created on the island and Shetland became its own generation zone.

The workgroup concluded that, in all scenarios, the proposed modifications would not change the baseline charging methodology. The numerical effects on each tariff element are the same where a link cost is £500m net of a contribution (the assumption used by the workgroup), or £500m where no contribution has been applied.

For CMP337, the Proposer considered that the proposed modification would ensure charges reflected the net costs incurred by transmission licensees, implement the

⁵ A MITS node is one with either (i) more than four Transmission Circuits; or (ii) two or more Transmission Circuits and a Grid Supply Point.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/cmp337-and-cmp338-authority-decision-urgency>

⁷ CMP303: *Improving local circuit charge cost-reflectivity*, see: <https://www.ofgem.gov.uk/licences-industry-codes-and-standards/industry-codes/electricity-codes/connection-and-use-system-code-cusc>

Authority's December decision and removes ambiguity in the CUSC. Therefore, it considered CMP337 would better meet CUSC charging objectives (a), (b), (c) and (e) in comparison with the current baseline.⁸

For CMP338, the Proposer considered that the proposed modification, in facilitating the correct implementation of CMP337, would better meet CUSC objectives (a), (b) and (d).⁹

CUSC Panel¹⁰ recommendation

At the CUSC Panel meeting on 29 May 2020, a majority of the CUSC Panel considered that CMP337 and CMP338 would better facilitate the CUSC objectives and the Panel therefore recommended their approval.

Our decision

We have considered the issues raised by the modification proposals and the final Modification Report (FMR) dated 3 June 2020. We have considered and taken into account the responses to the industry consultations on the modification proposals, which are attached to the FMR.¹¹ We have concluded that:

1. implementation of CMP337 will better facilitate the achievement of the relevant charging objectives of the CUSC;
2. implementation of CMP338 will better facilitate the achievement of the applicable objectives of the CUSC; and
3. directing that these modifications be made is consistent with our principal objective and statutory duties.¹²

Reasons for our decision - CMP337

We consider CMP337 will better facilitate CUSC charging objectives (b) and (e) and has a neutral impact on the other applicable objectives.

(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 in accordance with the STC) incurred by transmission licensees in their

⁸ The CUSC charging objectives are set out in Standard Condition C5(5) of the Electricity Transmission Licence: <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

⁹ The CUSC objectives are set out in Standard Condition C10(1) of the Electricity Transmission Licence: <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

¹⁰ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

¹¹ CUSC modification proposals, modification reports and representations can be viewed on NGENSO's website at <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc>

¹² The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection)

A majority of the members of the CUSC Panel agreed that CMP337 would better facilitate objective (b). Two Panel members considered that CMP337 would not better facilitate this objective.

Those Panel members that considered the proposed modification would better facilitate this objective stated that the modification would ensure that charges would reflect the costs actually incurred by the TOs. This is because the modification 'nets off' the DNO contribution to the cost of the link, so the calculation of TNUoS charges is based only on the costs incurred by TOs.

While supporting CMP337, one Panel member was concerned about potentially unintended consequences of a third party contribution on charges for other generators. For example, assuming that a MITS node is created on Shetland, the contribution apparently increases charges to be faced by all generators through an increase in the Transmission Generator Residual (TGR). But it is important to take into account both the gross cost of the link, and the net impact of the contribution. A link with no contribution would reduce the TGR. The contribution means the TGR reduces by less than it would were a link to be built without a contribution; but, with a contribution, the TGR still reduces relative to no link being built.

Two Panel members considered CMP337 would not better meet this objective. They considered that that allowing the netting off to be applied to TNUoS charges would distort the locational signal for those connecting to the link.

Our position

We consider CMP337 better facilitates objective (b). We agree with the majority of the Panel that it is more cost reflective if TNUoS charges are based on the costs incurred by the TOs. In December, we decided in principle that a DNO may contribute financially towards an electricity transmission link. This proposed modification is a cost reflective way of implementing that decision.

We note the concerns around the apparently counterintuitive impact on charges for some parties under some of the scenarios. We consider this is a consequence of focusing solely on the effect of the contribution rather than also considering the gross and net costs of any link. We consider that the modification does what it is intended to do. By way of illustration, if a link costs £Xm and the contribution is £Ym, then the net link cost is £Zm (£Xm - £Ym). Under all scenarios, the modification replicates the effects on TNUoS charging should the link cost £Zm without any contribution.

(e) promoting efficiency in the implementation and administration of the system charging methodology

A majority of the members of the CUSC Panel agreed that CM337 would better facilitate objective (e). The remaining two Panel members considered that CMP337 would be neutral against this objective.

Those Panel members that considered the proposed modification would better facilitate this objective stated that the modification would provide clarity on how a DNO contribution would affect the CUSC, following Ofgem's decision in principle that a DNO may contribute financially towards an electricity transmission link.

Our position

We consider CMP337 better facilitates objective (e). We agree that, by prescribing how a DNO contribution would be applied through the CUSC, CMP337 would promote efficiency in the implementation and efficiency of the system charging methodology. Without CMP337, the process for applying a DNO contribution would be unclear.

Reasons for our decision - CMP338

We consider CMP338 will better facilitate CUSC objective (d) and has a neutral impact on the other applicable objectives.

(d) promoting efficiency in the implementation and administration of the CUSC arrangements

A majority of the members of the CUSC Panel agreed that CMP338 would better facilitate objective (d). The remaining two Panel members considered that CMP338 would be neutral against this objective.

Those Panel members that considered the proposed modification would better facilitate this objective highlighted that it would remove ambiguity and facilitate the CUSC process by clarifying the legal text to take account of a DNO contribution.

Our position

We consider CMP338 better facilitates objective (d). We agree that, by defining a new term introduced by CMP337, CMP338 would promote efficiency in the implementation and efficiency of the CUSC arrangements. Without CMP338, the term 'Cost Adjustment' would be ambiguous.

Decision notice

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that modification proposals CMP337: *Impact of DNO Contributions on Actual Project Costs* and CMP338: *New Definition of Cost Adjustment* be made.

Andrew Self

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Signed on behalf of the Authority and authorised for that purpose