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Date: 23 December 2020

Dear Trisha,

CMP355 “Updating the Indexation methodology used in TNUoS and Transmission Connection Asset charges for RII02” and CMP356 “Definition changes for CMP355” – decisions on urgency

On 17 December 2020, National Grid Electricity System Operator (NGESO) (the ‘Proposer’) raised Connection and Use of System Code (CUSC) Modification Proposals CMP355 and CMP356.¹ Currently, Section 14 of CUSC uses the Retail Price Index (RPI) as the measure for index-linking various parts of the charging methodologies. As set out in our recent RII0-2 Final Decision, the RPI measure of indexation is being replaced by CPI/CPIH² and so the CUSC needs to be revised accordingly to use the correct measure for setting TNUoS and Transmission Connection Asset (TCA) charges.

These changes need to be approved in time for consideration within the January 2021 tariff setting process to be effective for April 2021 tariffs. CMP355 aims to enact the CUSC Section 14 changes whilst CMP356 aims to enact the CUSC Section 11 changes.

¹ <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp355-cmp356>

² https://www.ofgem.gov.uk/system/files/docs/2020/12/final_determinations_-_finance_annex.pdf, Para 1.7

The CUSC Modifications Panel (the 'Panel') considered the Proposer's urgency requests at its meeting on 18 December 2020. The Panel agreed unanimously that CMP355 and CMP356 do meet the Code Modification Urgency Criteria and so recommended that CMP355 and CMP356 should both be treated as Urgent CUSC Modification Proposals. Following the Panel meeting, we received the request that CMP355 and CMP356 each be treated as an Urgent Modification Proposal.³

We have considered both the Panel's and the Proposer's arguments. We have decided that CMP355 and CMP356 should be progressed on an urgent basis. We have set out our reasoning below.

Background

Consistent with the inflation indexation method applied in the current electricity transmission owner licenses, currently the CUSC uses numerous references to the Retail Price Index (RPI) for various parts of the Transmission Network Use of System (TNUoS) and Transmission Connection Asset (TCA) charging methodologies, specifically:

- Annual indexation of Gross Asset Values (GAV) – TCA Charges;
- Annual revisions (during a price control) to the Expansion Constant and Expansion Factors for onshore generic factors and offshore specific factors – TNUoS;
- Annual revisions (during a price control) to the Local Substation Tariff – TNUoS;
- Index linking the Avoided GSP Infrastructure Credit (AGIC) – TNUoS; and
- Other administrative references in respect of the TNUoS methodology.

As set out in our RIIO-2 Final Determination, from 1 April 2021 RPI indexation will be replaced by CPIH indexation in electricity transmission owner licenses. Historically, CPIH inflation has been around 1% pa lower than RPI inflation.

In the Proposer's view that there would be a significant commercial impact on parties, consumers or other stakeholder(s) if the indexation method was not updated to be consistent with the RIIO-2 framework.

Panel View

The majority of Panel agreed with the Proposer's view that, if the ESO used the revised indexation approach without updating CUSC, the ESO would be non-compliant with CUSC and so its licence.

³ References to the "Authority", "Ofgem", "we", and "our" are used interchangeable 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.

The Panel considered the requests for urgency with reference to Ofgem Guidance on Code Modification Urgency Criteria. The unanimous view of the Panel is that CMP355 and CMP356 do meet Ofgem's Urgency criteria⁴. Therefore, CMP355 and CMP356 should each be treated as an Urgent CUSC Modification Proposal. The full arguments for and against urgent treatment are set out in the letter from the panel.

Our decision

In reaching our decision on urgency we have considered the details within the Proposals, the justification for urgency, the views of the Panel and we have also assessed the request against the urgency criteria set out in our published guidance.

We understand that to implement these changes alongside the RIIO2 licence conditions in April 2021, a decision on these change proposals is required by 25 January 2021, which is not possible under either the standard code modification or the self-governance processes. Should the proposal be approved, it would align the charging arrangements with the RIIO determinations to ensure that our policy decision is fully reflected in the CUSC for the first year of the price control period. If this proposal was not developed under an urgent timeline, it would not be the case. We therefore accept these modification proposals being treated as urgent and agree that the modification should follow the urgent timetable set out in the Panel's letters.

For the avoidance of doubt, in granting the requests for urgency, we have made no assessment of the merits of the Proposals and nothing in this letter in any way fetters our discretion in respect of the Proposals.

If you have any comments or questions about this letter, please contact Andrew Ryan at Andrew.Ryan@ofgem.gov.uk

Yours sincerely,

Andrew Self
Deputy Director, Electricity Access and Charging – Energy Systems Management and Security
Duly authorised on behalf of the Authority

⁴ Ofgem (2016) [Ofgem Guidance on Code Modification Urgency Criteria](#)