

## Draft Modification Report

# CMP355 & CMP356:

## Updating the Indexation methodology used in TNUoS and Transmission Connection Asset charges for RIIO2 & Definition changes for CMP355 (CMP356)

**Overview:** Currently, Section 14 of CUSC uses the Retail Price Index (RPI) as the measure for index-linking various parts of the charging methodologies. With the RIIO2 Final Decision from Ofgem, the RPI measure of indexation has been replaced and so the CUSC needs to be revised accordingly to use the correct measure for setting TNUoS and Transmission Connection Asset (TCA) charges. CMP356 has been raised to support CMP355 by changing Section 11 to add/amend/remove definitions as needed.

## Modification process &amp; timetable



**Have 5 minutes?** Read our [Executive summary](#)

**Have 20 minutes?** Read the full [Draft Final Modification Report](#)

**Have 30 minutes?** Read the full [Draft Final Modification Report](#) and Annexes.

**Status summary:** Draft Modification Report. This Report will be submitted to the CUSC Panel for them to carry out their Recommendation Vote on whether this change should happen.

**This modification is expected to have a:**

**Medium impact** on all CUSC Users who pay TNUoS tariffs or TCA charges.

**Governance route** The CUSC Panel unanimously agreed that this modification should proceed to Code Administrator Consultation. On 23 December 2020, the Authority approved that CMP355 and CMP356 should be treated as urgent.

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## Contents

<b>Contents</b> .....	<b>2</b>
<b>Executive summary</b> .....	<b>3</b>
<b>What is the issue?</b> .....	<b>3</b>
Why change? .....	4
<b>What is the solution?</b> .....	<b>4</b>
Proposer's solution.....	4
Legal text.....	5
<b>What is the impact of this change?</b> .....	<b>5</b>
Proposer's assessment against the Applicable Objectives .....	5
Proposer's assessment against CUSC Non-Charging Objectives .....	6
<b>Code Administrator Consultation Summary</b> .....	<b>7</b>
Code Administrator consultation summary .....	<b>Error! Bookmark not defined.</b>
<b>When will this change take place?</b> .....	<b>7</b>
<b>Interactions</b> .....	<b>7</b>
<b>Acronyms, key terms and reference material</b> .....	<b>8</b>
Reference material .....	8
<b>Annexes</b> .....	<b>8</b>

## Executive summary

Section 14 of CUSC uses the Retail Price Index (RPI) as the measure for index-linking various parts of the charging methodologies. With the RII02 Final Decision from Ofgem, the RPI measure of indexation has been replaced and so the CUSC needs to be revised accordingly to use the correct measure for setting TNUoS and Transmission Connection Asset (TCA) charges.

CMP356 has been raised to support CMP355 by adding a definition of Transmission Owner Price Index (TOPI) to Section 11 of CUSC.

### What is the issue?

### What is the solution and when will it come into effect?

#### Proposer's solution:

##### CMP355 Solution:

To change the relevant parts of Section 14 so that references to RPI are revised to the indexation method as set out in the Transmission Licence.

##### CMP356 Solution:

To add a definition of Transmission Owner Price Index (TOPI) to Section 11 of CUSC to support the changes to Section 14 so that references to RPI are revised to the indexation method as set out in the Transmission Licence.

**Implementation date:** 1 April 2021

### What is the impact if this change is made?

CMP355 & CMP356 will have an impact on all CUSC Users who pay TNUoS tariffs or TCA charges.

## What is the issue?

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 part of Ofgem's final decision on the Transmission Owners RII02 price control, the measure of inflation is changing from RPI to a different measure (for example, CPI or CPIH) and so the CUSC needs to be updated to reflect this. 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 has being drafted to enact the CUSC Section 14 changes whilst CMP356 has being drafted to enact the CUSC Section 11 changes. Other elements of the CUSC also use RPI (specifically BSUoS and CUSC Section 4); however, they do not impact on setting final TNUoS tariffs or TCA charges and so are beyond the scope of this modification. They will be resolved via a separate modification ahead of April 2021.

As part of the proposal, NGENSO confirmed that in instances where different Transmission Owners (onshore or offshore) had different indexation approaches within their respective licenses, it would look to;

- For TCA charges, apply the relevant Transmission Owner indexation approach based on the ownership of the TCA charges; and
- For TNUoS charges apply the relevant indexation per Transmission Owner to the relevant Maximum Allowed Revenue (MAR).

## **Why change?**

The RIIO2 decision will use a measure of inflation which is lower than RPI. Without this modification, either:

1. TNUoS tariffs and TCA charges will continue to use the current RPI measure of indexation and so the variables used (to calculate TNUoS tariffs and TCA charges) will be inflated more than needed. This will result in charges to Users being higher than needed by ~£29.3m per annum across all Users who pay TNUoS or TCA charges, or,
2. NGENSO uses the CPIH indexation methodology that aligns with the RIIO2 decision but is not documented in CUSC. This will mean NGENSO is in breach of its licence as the methodology for setting tariffs will not align with the methodology prescribed in CUSC.

The £29.3m figure in point 1 is made up of the following which would need to be corrected in following charging years;

- Approximately £4.3m per annum (based on 2021/2 figures) from increased TCA charges as a result of overinflated Gross Asset Values (GAV) from which the TCA charges are derived.
- Approximately £25m per annum (based on 2021/2 figures) sensitivity in TNUoS charges between RPI and CPIH all of which would be recovered via the Transmission Demand Residual. There is a theoretical impact on locational charges (that will weaken locational signals); however, this impact is negligible.

## **What is the solution?**

### **Proposer's solution**

#### **CMP355 Solution**

To change the relevant parts of Section 14 (as shown in Annex 6) so that references to RPI are revised to the indexation method as set out in the Transmission Licence. Whilst revising references from RPI to specifically CPI/CPIH would also work, linking to the

Transmission Licence is believed to be a more future-proof solution if/should the measure of indexation change again in future.

### CMP356 Solution

To add a definition of Transmission Owner Price Index (TOPI) to Section 11 of CUSC (as shown in Annex 8) to support the changes to Section 14 so that references to RPI are revised to the indexation method as set out in the Transmission Licence.

### Legal text

The legal text for this change can be found in Annex 6 (CMP355) and Annex 7 (CMP356).

## What is the impact of this change?

### Proposer's assessment against the Applicable Objectives

#### **CMP355 assessment against the Applicable Charging Objectives**

<b>Proposer's Assessment against CUSC Charging Objectives</b>	
<b>Relevant Objective</b>	<b>Identified impact</b>
(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>Positive:</b> Ensures charges are not over-collected so finance can be used by industry rather than held by NGESO.
(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);	<b>Positive:</b> Keeps alignment between the CUSC and the amount of revenue required by Transmission Owners
(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;	<b>Positive:</b> Updates the CUSC for developments in the Transmission Owner's price control.
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	<b>Neutral</b>

(e) Promoting efficiency in the implementation and administration of the system charging methodology.	<b>Positive:</b> Updates the CUSC to reflect changes for RIIO2 and future proofs the CUSC should the indexation method change in future.
*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).	

### CMP356 assessment against the Applicable CUSC Objectives (Non - Charging)

<b>Proposer's assessment against CUSC Non-Charging Objectives</b>	
<b>Relevant Objective</b>	<b>Identified impact</b>
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	<b>Positive</b> Ensures the CUSC is consistent with the RIIO2 licence drafting and so NGESO is compliant with both
(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;	<b>Positive</b> Ensures charges are not over-collected so finance can be used by industry rather than held by NGESO.
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	<b>Neutral</b>
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	<b>Positive</b> Updates the CUSC to reflect changes for RIIO2 and future proofs the CUSC should the indexation method change in future.
*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).	

## Code Administrator Consultation Summary

The Code Administrator Consultation was issued on the 23 December 2020, closed on 7 January 2021 and received one response. A summary of the response can be found in the below, and the full response can be found in Annex 8.

- Supports the changes proposed in CMP355. However, the respondent would prefer the CMP356 legal text to simply state what index will be used and in which charging year and therefore be standalone from the transmission licences - if this is not possible in CMP356, the respondent asked the ESO to consider a housekeeping modification as soon as possible.
- The respondent would welcome text added to the Final Modification Report to clarify that:
  - The index used in the CUSC does not affect the total revenue each Transmission Owner collects or is entitled to, which is set by their respective price control and set out in their licence; and
  - In the case of Connection Asset revaluation for inflation, an RPI uplift would be added to the Gross Asset Values for the opening position on 1 April 2021, to reflect inflation that has occurred during 2020/21 and noting that RPI has applied throughout RIIO-T1.
- Raises a general point that referring to the Relevant Transmission Licensee's Special Conditions (that are not necessarily immediately accessible to Users) within CUSC adds unnecessary complexity or ambiguity into CUSC arrangements.

## When will this change take place?

### Implementation date:

1 April 2021

### Date decision required by:

25 January 2021 to allow tariff setting processes to take place.

### Implementation approach:

Tariff setting processes will need to change and potentially be updated.

## Interactions

- |   |  |  |                                |
|---|--|--|--------------------------------|
| <input type="checkbox"/> Grid Code              | <input type="checkbox"/> BSC                               | <input type="checkbox"/> STC                 | <input type="checkbox"/> SQSS  |
| <input type="checkbox"/> European Network Codes | <input type="checkbox"/> EBGL Article 18 T&Cs <sup>1</sup> | <input type="checkbox"/> Other modifications | <input type="checkbox"/> Other |

CMP355 and CMP356 have no interactions with other industry codes.

CMP355 and CMP356 have no impact on the Electricity Balancing Guideline (EBGL) Article 18 Terms and Conditions.

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<sup>1</sup> If the modification has an impact on Article 18 T&Cs, it will need to follow the process set out in Article 18 of the European Electricity Balancing Guideline (EBGL – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.

## Acronyms, key terms and reference material

Acronym / key term	Meaning
AGIC	Avoided GSP Infrastructure Credit
BSC	Balancing and Settlement Code
CMP	CUSC Modification Proposal
CPIH	CPIH is a new additional measure of consumer price inflation including a measure of owner occupiers' housing costs
CUSC	Connection and Use of System Code
EBGL	Electricity Balancing Guideline
GAV	Gross Asset Value
MAR	Maximum Allowed Revenue
NGESO	National Grid ESO
RPI	Retail Price Index
RIIO2	The second RIIO price control period (2021-2026)
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
T&Cs	Terms and Conditions
TNUoS	Transmission Network Use of System
TCA	Transmission Connection Asset

### Reference material

- None

## Annexes

Annex	Information
Annex 1	CMP355 Proposal form
Annex 2	CMP356 Proposal Form
Annex 3	CMP355 Urgency letter to Ofgem
Annex 4	CMP356 Urgency letter to Ofgem
Annex 5	CMP355&356 Ofgem decision on Urgency
Annex 6	CMP355 Legal Text
Annex 7	CMP356 Legal Text
Annex 8	CMP355&356 Code Administrator Consultation responses