

Modification proposal:	Connection and Use of System Code (CUSC) Modification Proposal (CMP) 389: Transmission Demand Residual (TDR) band boundaries updates		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	15 December 2022	Implementation date:	1 April 2023

Background

In November 2019, we published our Decision (and associated Direction) on the Targeted Charging Review (TCR) Significant Code Review.³ Once the Decision is implemented, the costs of operating, maintaining and upgrading the electricity grid will be spread more fairly and, through reducing harmful distortions, will save consumers approximately £300m per year, with anticipated £4bn-5bn consumer savings in total over the period to 2040.

The TCR included a review of how residual network charges are set and recovered. The aim of the TCR is to ensure that these charges are recovered from network users in a way that meets the TCR Principles:

- reducing harmful distortions;
- fairness; and
- proportionality and practical considerations.

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 https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf

We decided that residual charges should apply to Final Demand⁴ consumers and that residual charges will be fixed charges. For domestic consumers, we decided that there will be a single transmission residual charge, and a single distribution residual charge within each of the 14 distribution licensed areas. For distribution and transmission connected non-domestic consumers, we decided that a structure of banded fixed charges should be used for residual charges. The changes were implemented in April 2022 for distribution residual charges, and will be implemented for transmission residual charges in April 2023⁵.

Alongside our TCR Decision, we issued a Direction⁶ to National Grid Electricity System Operator (NGESO) (the 'TCR Direction'), to bring forward proposals to modify the Connection and Use of System Code (CUSC) in relation to residual charges, to give effect to the terms of the TCR Decision.

On 10 March 2022, we approved CUSC modifications (CMP335, CMP336, CMP340 and CMP343)⁷ which implement the TNUoS Demand Residual (TDR) changes. These changes created a methodology by which the residual element of demand Transmission Network Use of System (TNUoS) tariffs can be apportioned to Half Hourly (HH) and Non Half-Hourly (NHH) demand, and a separate methodology to determine the 'Bands' against which the residual element of demand TNUoS is levied. This in effect introduced a process for allocating transmission connected sites into four Charging Bands with boundaries set at the 40th, 70th and 85th percentiles based on the site consumption data.

We highlighted within paragraph 3.12 of our CMP343 decision:

"3.12. In addition, following further analysis (later in the Chapter), we would ask the ESO to consider raising a modification proposal to examine the location of the band boundaries (in terms of the percentiles that the boundary falls between), particularly if updated data is used for allocating users to bands. Such a review of the distribution of sites across charging bands may allow band boundaries to be drawn in such a way as to help avoid clustering of similar sites either side of a given boundary."

⁴ Final Demand is defined as "electricity which is consumed other than for the purposes of generation or export onto the electricity network". The CUSC modification CMP334 defined this term and other relevant terms. We approved CMP334 on 30 November 2020, though it will not have any effect until CMP343 is implemented.

⁵ We decided in our approval of CMP343 WACM2 that there would be four residual charging bands transmission connected users: [CMP343 Decision.pdf](#)

⁶ https://www.ofgem.gov.uk/sites/default/files/docs/2019/11/cusc_direction_1.pdf

⁷

The modification proposal

NGESO (the 'Proposer') raised modification CMP389 ('the Proposal') on 6 July 2022 to address the comments made in paragraph 3.12 of our CMP343 decision.

As a result of CMP336, transmission connected sites were allocated to bands based on the mean average of the latest 24 months consumption data. The analysis to support the Proposal plots this consumption data and ranks them 1 to 65 (where rank 1 is the transmission connected site with the smallest consumption and rank 65 is the transmission connected site with the largest consumption). The resulting consumption pattern demonstrates that at the 85th percentile, the current band boundary between charging Band 3 and charging Band 4, there is a clustering of transmission connected sites with similar consumption patterns. This results in the risk that transmission connected sites of similar consumption receive significantly different TDR charges. The supporting analysis demonstrates that using the 93rd percentile as the boundary between band 3 and band 4 will take advantage of a natural break in the consumption data around the 200,000MWh mark (between the 60th and 61st site ranks).

CMP389 is intended to amend the location of band boundaries for transmission connected sites (ie the percentiles where the distinction between bands is delineated), from when banded charges take effect in April 2023. This is to ensure that similar sites are treated in a similar manner within the TDR methodology and avoid clustering of similar sites either side of a given boundary. CMP389 proposes updates to paragraphs 14.15.137 and 14.15.138 of the CUSC, to revise the boundary between transmission bands 3 and 4, currently at the 85th percentile, to the 93rd percentile.

It should be noted that CMP389 will not affect the total amount of TNUoS residual revenue collected across the population of transmission connected sites, but will affect the distribution of charges between Users in TDR charging band 3 and band 4. The Working Group raised no alternative proposals to the Proposer's original solution.

CUSC Panel⁸ recommendation

At the CUSC Panel meeting on 24 June 2022, the CUSC Panel unanimously considered that CMP389 would better facilitate the Applicable CUSC Objectives (ACOs)⁹ than the Baseline (ie the existing provisions of the CUSC). The Panel therefore recommended the approval of CMP389.

Our decision

We have considered the issues raised by the Final Modification Report (FMR) dated 6 July 2022. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR. We have concluded that:

- The Proposal would better facilitate the achievement of the Applicable CUSC Objectives (ACOs); and
- Directing that the Proposal be made is consistent with our principle objective and statutory duties.¹⁰

Reasons for our decision

We consider that the Proposal would better facilitate ACOs (a) and have a neutral impact on the other ACOs.

(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;

The CUSC Panel members unanimously voted that the Proposal would better facilitate ACO (a), as this solution will help reduce the risk that sites with similar consumption

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

⁹ As set out in Standard Condition C5(5) of NGENSO's Transmission Licence, see: <https://epr.ofgem.gov.uk//Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

¹⁰ 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.

levels would face significantly different TDR charges as a result of where the band boundary between Bands 3 and 4 was drawn.

We note that 1 out of the 6 non-confidential Code Administrator Consultation respondents did not support this proposal, arguing that the sudden change in TNUoS TDR charges would be detrimental to competition for the 15 out of 19 parties that would pay more TNUoS with the implementation of CMP389 than under the existing arrangements. The respondent also questioned the urgency for implementing the Proposal considering the market conditions.

The Proposer had also noted that the Proposal would redistribute a fixed value of charges between users located in transmission Bands 3 and 4 which would result in 'winners' and 'losers'.

Our position

The Proposal helps facilitate our TCR reforms, which are generally expected to have a positive impact on competition. We agree that the Proposal better facilitates competition than the 'Baseline'.

Based on the analysis of the 85th and 93rd percentiles we consider that the Proposal introduces a fairer boundary between sites with similar consumption ensuring they pay similar TDR charges.

Despite these benefits, we do recognise that adjusting the band boundary between Band 3 and Band 4 in line with the Proposal will create 'winners' and 'losers' as illustrated below:

- Users remaining in Charging Band 3 will see a 24% increase in TDR charges;
- Users remaining in Charging Band 4 will see a 30% increase in TDR charges; and
- Users moving from Charging Band 4 to Band 3 will see a 58% reduction in TDR charges.

However, we consider that the charges brought about by this Proposal are proportionate because distortions that would be created as a result of site consumption clustering are avoided, creating a more level playing field for sites of a similar size. The Proposal therefore facilitates effective competition and is positive against ACO (a).

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

Four of the nine CUSC Panel members considered the Proposal to be positive against this objective, with the remaining members considering it to be neutral. The reason given was that the clarifications provided by this Proposal would provide greater transparency regarding the methodology.

Our position

We consider the Proposal to be neutral against this ACO. We note that while there may be some benefits in the allocation, and Users' understanding, of their charges through an improved banding boundary, there is not sufficient evidence to confirm that this modification would better facilitate ACO (e).

Assessment against the Authority's principal objective and statutory duties

In making a decision on this modification proposal, we have considered whether our decision would be consistent with our principal objective to protect the interests of consumers, and our other statutory duties.

Non-transmission connected consumers, and transmission connected consumers within TDR charging bands 1 and 2, will be unaffected by this proposal. Transmission connected consumers within TDR charging bands 3 and 4 will be impacted with some seeing a reduction and others seeing an increase as the band boundary is altered. We recognise the impact to those consumers that will experience increases in their TDR charges, some of which were highlighted in the Code Administrator Consultation. However, we consider that CMP389 does overall improve the allocation of TDR charges to large consumers with similar consumption.

The implementation of our CMP343 decision was delayed by 1 year to allow large Users to adjust to the changes, so we consider that the change has been well signalled. During that time, CUSC signatories have been consulted and were able to be represented throughout the modification process.

Decision notice

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that modification proposal CMP389: Transmission Demand Residual (TDR) band boundaries updates be made.

Tom Kenyon-Brown

Head of Electricity Network Charging

Signed on behalf of the Authority and authorised for that purpose