Modification proposal:	**Connection and Use of System Code (CUSC) CMP425: Billing Demand Transmission Residual By Site**		
Decision:	The Authority[1] directs that this modification 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:	13 December 2023	Implementation date:	00:30AM 01 April 2023

Background

National Grid Electricity System Operator Limited (NGESO) is required under its licence to maintain and operate the Connection and Use of System Code (CUSC). The CUSC constitutes the contractual framework for connection to, and use of, the electricity transmission network in Great Britain. The CUSC also contains the Transmission Network Use of System (TNUoS) tariff model which defines the transmission charges that recover the Transmission Owners' (TO) cost of installing and maintaining the transmission system in Great Britain and Offshore.

TNUoS charges are payable by the Lead Party of a Supplier Balancing Mechanism (BM) Unit, Power Stations with a Bilateral Connection Agreement, and Parties with a Bilateral Embedded Generation Agreement.[3] For Supplier BM Units, charges are the sum of its energy, demand locational, Transmission Demand Residual (TDR), and embedded export liabilities.

Most Transmission-connected demand sites are only assigned to one Supplier BM Unit. Even where there are multiple Customers connected through a shared Supplier BM Unit,

[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] s.14.17.13 Supplier BM Unit Code - CUSC

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they are effectively charged one TDR across the site as it passes through from the Lead Party. This charging arrangement aligns with the Targeted Charging Review (TCR)[4], which established our expectation that TDR charges should be levied on a "per site" basis.

The TNUoS is silent regarding the levying of TDR charges outside of the above arrangement. To date, NGESO has not levied TDR charges outside of the connection arrangement defined in TNUoS.

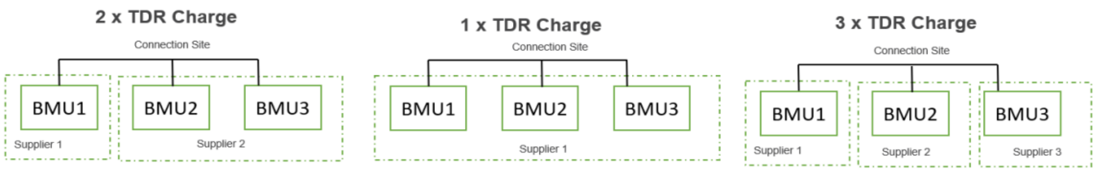

Figure 1: NGESO currently expects to levy the TDR across Supplier rather than Connection Site

Under NGESO's current interpretation, where there is more than one Supplier BM Unit sharing a Transmission connected demand site, a TDR charge will be levied upon each of the Suppliers. Above (Figure 1) shows the different ways that NGESO expects to levy TDR charges under different arrangements of BM Units with separate or shared Suppliers.

The modification proposal

Nissan Motor Manufacturing (UK) Limited (the 'Proposer') raised the CUSC Modification Proposal CMP425[5] on 24 October 2023. The stated aim of the modification is to "*provide clarity within the CUSC on how the residual demand charges should be divided between multiple Suppliers at one Connection Site*" something the Proposer considers will better enable customers using the same connection capacity to choose different Suppliers with different Supplier BMUs.[6] The Proposer requested urgency for the modification to provide clarity around the TDR charges Nissan and their partner AESC may face ahead of imminent and significant commercial investment decisions.[7] We granted the request for urgency on 2 November 2023.[8]

The proposed modification would clarify that a single TDR charge is payable per connection regardless of the number of Supplier BM Units, ensuring "per site" charges as per the TCR decision. It would enable that site's TDR band to be set on the total

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[4] Targeted Charging Review: Decision and Impact Assessment, published 18 December 2019
[5] CMP425: Proposal Form
[6] s14.17.13 Supplier BM Unit code - CUSC
[7] CMP425: Urgency Request Letter; CMP425: Proposal Form
[8] CMP425: Urgency Decision Letter

consumption across all Supplier BM Units sharing that connection, and codify that the resulting charge shall be split proportionally on the consumption for each Supplier.

The Proposer believes the modification offers benefits to four of the five Applicable Code Objectives (ACOs) when compared to the existing CUSC provisions and this is discussed further below.[9]

The Workgroup met four times to discuss and develop the modification proposal. The Workgroup unanimously concluded that the modification would be an improvement on the existing CUSC settings. Most Workgroup members agreed that ACO (a, b, and e) would benefit from the modification, while half of the members anticipated benefits to ACO(c). There were no Workgroup Alternative CUSC Modifications (WACM) proposed.

CUSC Panel[10] recommendation

At the CUSC Panel meeting on 6 December 2023, all members of the CUSC Panel considered that CMP425 would better facilitate the CUSC charging objectives and the Panel therefore unanimously recommended its implementation.

Table 1: CUSC Panel Member Vote for CMP425 on 6 December 2023

Criteria	CUSC Panel member votes (Yes)	(Neutral)
ACO(a)	7	1
ACO(b)	4	4
ACO(c)	5	3
ACO(d)	0	8
ACO(e)	7	1
CMP425 best option	8	0

Impact assessment

A formal impact assessment has not been completed. The Authority does not consider the CMP425 proposal to meet the threshold of significance that requires an impact assessment under Section 5A of the Utilities Act 2000, as the modification is only expected to impact a small number of sites and a small portion of the total TNUoS. However, the Authority has considered (to the extent practicable) the wider potential

[9] The five Applicable Charging Objectives are detailed in our analysis below. The Proposer's ACO argument is detailed on pp.4-6 the amended modification proposal CMP425: Proposal Form v2 (Post Panel Discussion)

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

impacts, in principle, of the proposed options on market participants, NGESO, consumers, and the environment.

Workgroup discussions with NGESO suggested no current sites would be affected by this change, and so it would only impact new joiners to the network. A confidential Code Administrator Consultation response has raised the possibility that a different site could potentially be affected but under such circumstances that we believe there to be extremely limited impacts from this modification under any implementation timescale.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 06 December 2023, and have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable charging objectives of the CUSC;[11] and
- directing that the modification be made is consistent with our principal objective and statutory duties.[12]

In making our determination we have also considered and taken into account the responses to the Workgroup Consultation and the Code Administrator Consultation on the modification proposal which were attached to the FMR.[13] We have also considered the votes of the Workgroup and the CUSC Panel.

Reasons for our decision

We accept that the current mode for calculating and levying TDR charges excludes the type of Transmission connection arrangement sought by the Proposer and that this exclusion has resulted in a lack of clarity for NGESO and market participants as to how TDR should be levied when multiple Supplier BM Units are shared across multiple Suppliers on the same Transmission connected demand site.

We also recognise that current approach to the TDR as set out in Figure 1 is inconsistent with the intent of the TCR and has the potential to result in multiple fixed charges per site as well as different treatment of Customers connected in different ways to the

[11] As set out in NGESO's standard licensing conditions under Transmission License: Standard Conditions C5(5), 1 April 2022.
[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.
[13] CUSC modification proposals, modification reports and representations can be viewed on NGESO's website and those relevant to this modification are available under CMP425:Billing Demand Transmission Residual By Site

networks. We agree this treatment may discourage Customers from choosing the most suitable Suppliers and harm competition between Suppliers.

Our assessment against Applicable Charging Objectives

We consider this modification proposal will better facilitate CUSC objectives (ACO) (a and e) and has a neutral impact on the other applicable objectives (b, c, and d).

(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;

We note in general, most Workgroup participants, consultation respondents and the Panel considered this Proposal would provide competition benefits and remove a market distortion. The potential to access multiple Suppliers who could better meet specific customer demand needs was cited as a specific competition benefit.

NGESO considered the modification would be of neutral benefit against ACO(a), because of concerns around the wider potential impacts of the modification. NGESO hold particular concerns regarding whether the modification could encourage larger private networks to form in pursuit of reduced TDR charges which may distort the market. However, the potential for these issues which may be associated with single Supplier private networks or behind the meter connections were previously considered during the TCR. We have concluded that the risk is no higher than under the current settings, as did the Workgroup.

We agree that the implementation of the modification proposal will have a positive impact on ACO(a). In particular, the modification proposal should positively impact competition in supply. At present, under the current methodology, if the Customers on a single Supplier BM Unit wish to connect through separate or multiple Suppliers, each Supplier is levied a TDR charge in full. Charges of this type are typically passed through from Suppliers to their Customers. Customers who may best be served by their own Supplier or multiple Suppliers must currently decide between choosing their own Supplier and paying their own TDR charge, or maintaining a lower share of the site TDR charge but having a restricted choice of Supplier.

The proposed modification allows Customers to choose different Suppliers without additional charges, and so will provide greater flexibility for customers to choose a competitive supply arrangement. We would expect this to improve competition between Suppliers, enable greater Supplier innovation and the improvement of supply services.

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We also expect the modification to have a positive impact on investment decisions due to the increased certainty and consistency provided by codifying how the TDR should be levied and the likely reduction in customer costs for these arrangements.

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

The Proposer's view is that ACO(b) is more effectively facilitated by the modification as it realises the intention of charging TDR by site, while allowing for the charge to be shared between customers through their Suppliers in a more cost reflective fashion.

The majority of both the Workgroup and Panel members agreed with the Proposer's view, but some members believed the modification would only have a neutral impact on ACO(b).

We do not consider that residual charges, including the TDR, are there to directly reflect costs. Instead, they are there to fairly apportion shared costs in a way that does not distort competition. For these reasons, we consider the modification to be neutral against ACO(b). We agree that there is no reason why using an additional Supplier would require additional contributions, but we think this is better captured in ACO(a), being about fair competition, rather than direct cost reflectivity.

The Authority expects the modification will remove a potential distortion and result in TDR charges that are a better reflection of stated charging policy. However, we do not consider site-specific residual charges to directly relate to a TO's costs of installing and maintaining the transmission system, and so consider ACO(b) neutral against the Baseline.

Similar sites will be treated in a consistent and practicable manner compliant with the TCR provision that charges should be calculated by site, but this is a matter for competition, rather than cost-reflectivity.

(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;

The Proposer believes the modification will better facilitate ACO(c) than the Baseline as they expect it will benefit TOs by leading to more demand being located on the transmission system.

The majority of both the Workgroup and Panel members agree that there would be benefits to ACO(c). Some members repeated the expectation that more Customers would consider TO connections following clarification of the TDR charging arrangements.

Although we acknowledge the benefits of the modification identified, we ultimately consider these arguments relate to competition benefits, and that the focus on competition in the consultation responses on this ACO supports this position. We have already applied these benefits under our assessment of ACO(a), and we are therefore of the view that this modification is neutral in terms of ACO(c).

(d) compliance with the Electricity Regulation and any relevant legally binding decisions of the European Commission and/or the Agency;

We do not consider that ACO(d) is impacted by this CUSC Modification Proposal, and that it is therefore of neutral benefit when compared to the Baseline. This position aligns with the Proposer's view and the Panel vote where the parties unanimously stated that the proposal had a neutral impact on ACO(d).

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

The Proposer believes the modification would better facilitate ACO(e) by improving the charging methodology by removing a competition distortion, but recognises that it will require system changes for NGESO.

One member of the Workgroup considered any impact on ACO(e) would be neutral. However, the majority of the Workgroup agreed with the Proposer, as the modification would introduce a more efficient and longer-term solution to administer charges compared to the Baseline.

Seven of the nine CUSC Panel members identified benefits from the modification for ACO(e). Members believed it would enhance efficiency of the charging methodology by removing scope for misinterpretation and clarifying how it should be levied. NGESO agreed that the modification would provide clarity on how TDR should be charged.

We consider that the current arrangements do not provide sufficient clarity of the charges Customers will face. We expect this modification will ensure all market participants have a clearer understanding of these charges and that they are applied consistently. We therefore consider CMP425 will better facilitate ACO(e) when compared to the Baseline.

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Implementation

We have decided that CMP425 should be retrospectively implemented with effect from 01 April 2023 (00:00-00:30 on 01-04-2023).

The Authority acknowledges NGESO's preference of an April 2025 implementation to allow sufficient time for a system update and to investigate any potential unintended consequences, including Private Networks reducing their TDR costs.

We consider a primary justification for this modification is to clarify existing and widely-understood positions on site-specific charging arrangements as set out in the TCR. As such, we consider a retrospective implementation date that matches the implementation of previous TCR CUSC modifications to be most appropriate to ensure the consistent application of TCR policy from first application.[14] We think this is particularly important as there is potential that sites completing development in the near future may be impacted before the NGESO's preferred implementation date.

The Authority has been assured that the very limited number of affected parties will have any relevant charges corrected through reconciliation.

We appreciate NGESO's willingness to offer an interim manual process for levying and potentially reconciling those who chose this transmission arrangement before NGESO's billing system update is complete. We accept that this introduces an increased risk of inaccurate billing through human error. We expect that any risk should be minimal due to the limited scope of changes, and expect NGESO to take all relevant precautions.

Decision notice

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that modification proposal CMP425: *Billing Demand Transmission Residual By Site* be made with effect from 01 April 2023 (00:00-00:30 on 01-04-2023).

Andrew Malley

Head of Distribution and Residual Charging

Signed on behalf of the Authority and authorised for that purpose

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[14] For example CMP335: Transmission Demand Residual – Billing and consequential changes to CUSC Section 3 and 11 (TCR); and CMP336: Transmission Demand Residual – Billing and consequential changes to CUSC Section 14 (TCR)

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