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CUSC Modification Proposal Form

CMP445: Pro-rating first year TNUoS for Generators

Overview: The CUSC should be amended to ensure that Generators only pay TNUoS (Transmission Network Use of System) charges on a pro-rated basis from their Charging Date, during the first year of connection.

Modification process & timetable



Status summary: The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

This modification is expected to have a: High impact

Generators, Transmission System Operators, Transmission Owners

Proposer's recommendation of governance route

Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)

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<p>Who can I talk to about the change?</p>	<p>Proposer: Angus Armstrong angus.armstrong@oceanwinds.com</p>	<p>Code Administrator Contact: <u>Cusc.team@nationalenergyso.com</u></p>
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What is the issue?

The Connection and Use of System Code (CUSC) is not clear on the payment of Transmission Network Use of System (TNUoS) during the Generator’s first year of connection (i.e. the charging year in which the Charging Date occurs under the Bilateral Connection Agreement (BCA)). In absence of clarity around treatment of TNUoS during the first charging year, working industry assumption is that TNUoS is paid for the whole year, irrespective of when in the year the Charging Date occurs. This means that a Generator will pay the same TNUoS for the first year, regardless of whether it is connected at the beginning of the charging year or the end of the charging year.

Generators should not be subject to TNUoS charges during times when they are not connected to the grid. Additionally, in scenarios where a Generator’s assumed Charging Date is delayed for factors outside of its control, such as a Transmission Owner (TO) delivery delay, the resulting impacts are particularly unjust and illogical.

The CUSC must be amended to clarify how TNUoS charges are applied during the first year of connection to ensure Generators are fairly and logically charged for their use of the grid on a pro-rated basis.

Why change?

There are several reasons to introduce the pro-rating of TNUoS charges in a Generator’s first year of connection, from a commercial and policy standpoint.

The commercial impact of being liable for TNUoS charges for periods prior to grid connection can be very severe, particularly on larger Generators and those in areas of high TNUoS tariffs. By contrast, this provides an uplift to those Generators in negative TNUoS zones who will receive a payment reflecting periods prior to their Charging Date.

The current position incentivises Generators to request connection dates near the start of the charging year. This places undue pressure on the TOs and makes it increasingly difficult to deliver on-time connections. This means that connections are being delivered inefficiently and unreliably for system needs due to disproportionate TNUoS charges altering Generator behaviour. The current position also risks generators in positive TNUoS zones pricing additional TNUoS

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costs into their business cases when it should not be required. This could ultimately result in competition distortion and inflated Contract for Difference (CfD) bids in future Allocation Rounds.

Significant transformation of the energy system is required between now and 2030, and the delivery of connections and generation must be done strategically and at-pace to achieve clean power by the turn of the decade. This instance of ambiguity in the CUSC poses a material and logistical problem that will result in connections-related bottlenecks and CfD distortions that will only continue to worsen if left unaddressed expeditiously.

The proposal will also ensure that TOs and the National Energy System Operator (NESO) are adequately incentivised to deliver much needed renewable energy connections on time to ensure that they recover TNUoS in line with their forecast and business plans.

This change needs to be implemented as soon as possible to send the necessary investment signals to those Generators in the process of connection discussions and to mitigate the significant commercial impact of those Generators connecting during the 2024/2025 charging year. Furthermore, there is an opportunity to ensure that this change is considered as part of the RIIO-3 business plan process which is well underway.

What is the proposer’s solution?

The CUSC is not explicit on the treatment of TNUoS charges during a generator’s first year of connection. The CUSC must therefore be amended to both provide certainty and reflect the principle that TNUoS should only be paid in respect of the part of the year that the generator enjoys use of the transmission system i.e. the annual value should be pro-rated from the Charging Date to the end of the relevant charging year.

Clause 5 of the standard BCA states that Use of System Charges shall be payable by the User from the Charging Date. As a principle, TNUoS should only be payable from the Charging Date, not for the full charging year during which a Generator’s Charging Date occurs.

For example, if a Generator is able to connect for only 6 months of the charging year, the Generator should only be responsible to pay half of the TNUoS tariff for

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that charging year. This solution ensures that Generators do not pay TNUoS charges for periods prior to their Charging Date or (in the case of those in negative TNUoS zones) receive TNUoS payments prior to their Charging Date.

Draft legal text

Drafting proposal can, at Section 14.18.19 of the CUSC, utilise equivalent drafting for Connection Charges (see Section 14.5.10) already in the CUSC:

“The Transmission Network Use of System Generation Charges in the Financial Year in which the Charging Date occurs shall be apportioned as follows:- For each complete calendar month from the Charging Date to the end of the Financial Year in which the Charging Date occurs the User shall be liable to pay one twelfth of the annual Transmission Network Use of System Generation Charges and for each part of a calendar month the User shall be liable to pay to The Company one twelfth of the Transmission Network Use of System Generation Charges, prorated by a factor determined by the number of days for which the User is liable divided by the total number of days in such calendar month.”

What is the impact of this change?

Proposer’s assessment against CUSC Charging Objectives	
Relevant Objective	Identified impact
(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;	Positive Ensures that generators only pay use of system charges in the first year of connection, for the period that they enjoy the use of system. This will ensure that: (i) generator bids in competitive CfD auctions are not distorted by (a) those in positive TNUoS zones including unnecessary provision for extra periods of TNUoS

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	<p>that cannot be recovered through generation and/or (b) those in negative TNUoS zones receiving an unjustified benefit during such periods, which in turn should drive down competitive pricing; and (ii) generators competing for grid connections request the most appropriate dates of connection, not dates driven by the TNUoS charging year (which distorts the market).</p> <p>Competition is better facilitated in the generation, supply, sale, distribution and purchase of electricity because generators will have more realistic TNUoS profiles which are based on actual connection dates, removing the potential distortion to competition outlined above.</p>
<p>(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</p>	<p>Positive</p> <p>Ensures that transmission licensees only receive use of system charges once the generator receives use of system, thereby not unnecessarily increasing the value recovered from TNUoS in the first year of connection.</p>

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<p>requirements of a connect and manage connection);</p>	
<p>(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;</p>	<p>Positive</p> <p>This proposal takes account of developments in transmission licensees' transmission businesses in the following ways.</p> <p>Accurate forecasting of connection dates by NESO will ensure that TOs recover all necessary charges. The implementation of this change will remove the issue referred to above (i.e. Generators seeking connection dates to align with the charging year). Generators will (if this change is implemented) seek, and NESO/TOs will offer, connection dates more appropriately aligned with Generators' programmes and the optimum timing for the system. This will mean that NESO and the TOs will be better resourced and prepared for delivering connections, as they will not all be condensed into April (which inevitably leads to issues with deliverability and resource). This is particularly important given the number of very large developers seeking connections in Northern Scotland following the ScotWind process where we understand the most optimum connection timing for</p>

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	<p>the TO's is following the summer outage programme – not April.</p> <p>Furthermore, it is recognised that TOs will be submitting RIIO-3 Business Plans imminently and so it is important that a decision is reached on this proposal as soon as possible.</p>
<p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and</p>	<p>Neutral</p>
<p>(e) Promoting efficiency in the implementation and administration of the system charging methodology.</p>	<p>Positive</p> <p>Encourages the most efficient connection dates for generation, ensuring that: (i) generation licensees are able to deliver power for the most efficient price (without the need for consideration of additional charges for periods where they are unable to generate and recover those costs); and (ii) provides transmission licensees with a more realistic (less condensed) connection profile across each charging year, whilst also encouraging transmission licensees to deliver on time in order to recover TNUoS in line with forecast.</p>

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	<p>Furthermore, this proposal would provide much needed clarity in the administration of the CUSC. Ambiguity is damaging to investor certainty.</p> <p>Certainty on this point, and a change to ensure that generators do not pay more TNUoS than is necessary or fair will lead to greater efficiency. With less room for disagreement and dispute, the implementation and administration of CUSC arrangements will be more efficient.</p> <p>Certainty on this topic will, in turn, serve to increase investor certainty in the area of TNUoS charging.</p>
<p>**The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.</p>	

Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories	
Stakeholder / consumer benefit categories	Identified impact
Improved safety and reliability of the system	<p>Positive</p> <p>This proposal would likely result in connections becoming more reliable and deliverable. As</p>

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	<p>noted above, there is a significant distortion caused to the connections market by generators seeking connections in line with the most optimum point of the charging year (April), rather than realistic connection date. This creates significant pressures for the TOs to deliver. This is not necessarily the most safe and reliable time of the year to deliver connections as many of the outages required to deliver such connections must be taken over the winter months where reliability is paramount. If generators were to seek connections at the time best suited to them, or NESO were to offer connections at the time best suited to safety and reliability of the overall system – this would significantly smooth the demand on NESO and also ensure that projects were connected at the most optimum time for safety and reliability and at optimum cost for the consumers. This proposal will facilitate that objective.</p>
<p>Lower bills than would otherwise be the case</p>	<p>Positive</p> <p>As noted above, without this change, generators will pay more TNUoS in the year in which their Charging Date occurs (in some cases, far more). This will be the case for the vast majority of Generators and will only not be the case if connection occurs on 1 April. Where delay to connection is due to the TO, this risk sits entirely with the generator and TO delays are becoming commonplace. If this is not corrected, Generators will price this significant risk into their business cases. In turn, this will result in higher CfD clearing prices and higher bills for the</p>

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	<p>consumer. This proposal will most likely result in lower bills for the consumer.</p> <p>Furthermore, those generators based in negative TNUoS zones will receive an additional benefit. They will be paid for periods where they are adding no benefit to the generation mix in GB. Without this proposal, this will continue to have an adverse effect on consumer bills.</p>
Benefits for society as a whole	<p>Positive</p> <p>Increased investor certainty and decreased additional risk premium in forthcoming CfD bids will result in higher volumes of lower cost green electricity.</p> <p>A “smoother” connection profile will result in connections that are more optimally timed and therefore are better for system security, and therefore society as a whole.</p>
Reduced environmental damage	<p>Positive</p> <p>With the potential for reduced CfD pricing, increased investor certainty and enhancement of the connection process, this will better facilitate offshore wind targets and net zero goals – in turn producing a positive environmental effect.</p>
Improved quality of service	<p>Positive</p> <p>For Generators this is likely to result in an improved quality of service. For the reasons stated above, it is most likely to result in requested/offered connection dates which are more in line with generator requirements, TO</p>

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	<p>resourcing plans, and system security. For that reason, it will make connection dates more deliverable as resourcing will be less focussed on April connections. Furthermore, it will provide the TOs and NESO with incentivisation to deliver on time to ensure that TNUoS is recovered in line with forecast during any given charging year.</p>
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When will this change take place?

Implementation date

During 24/25 charging year.

Date decision required by

During 24/25 charging year.

Implementation approach

An amendment to Section 14 of the CUSC in line with the legal text proposed.

Proposer's justification for governance route

Governance route: Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)

This proposal is recommended as being taken forward as Urgent for the following reasons:

- If the proposal does not proceed urgently, it will have a significant commercial impact on Generators connecting in charging year 2024/2025. It has a significant determinantal commercial impact on Moray West, a large offshore wind farm based in a high TNUoS zone 1, which has had a significant TO related delay to its connection. An implementation date during the 2024/2025 charging year is imperative to ensure that this determinantal impact is mitigated. Whilst we do not have full visibility, we

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assume that other generators will be similarly impacted in this charging year.

- RII0-T3 Business Plans are due imminently and will cover the period from 2026 – 2031. There should be no delay in implementing this change, to ensure that it is captured as part of the RII0-T3 process.
- The proposal has very clear benefits to Generators, TOs, the consumer and investors. It is easy to implement, is well developed and requires very limited steps to implement it. As a result, there can be no reason to let the status quo continue for a further TNUoS charging year.
- A huge number of large, GW scale offshore wind projects, are due to connect toward the end of this decade and the start of next in areas of high TNUoS charges following Crown Estate Scotland’s Scotwind process. Connection dates have been, and are, in the process of being offered. There should be no delay in sending signals to those projects, that incentivise the most efficient grid connection dates and encourage the most optimum CfD bid strategy to ensure the lowest cost projects are developed and delivered for GB. We understand that NESO’s view is that the most efficient, safe and reliable timing for many of those project connections is in Q3 of the relevant charging year (to allow for summer outages) – not April. Any delay in implementing this proposal will lead to investor uncertainty which could potentially result in projects being delivered for a higher cost for the reasons explained above.

Guidance on governance routes		
Timescales	Route	Who makes the decision (Governance type)
Normal	Proceed to Code Administrator Consultation*	Authority (Standard Governance) or Panel (Self-Governance)
	Assessment by a Workgroup**	
Urgent	Proceed to Code Administrator Consultation	Authority (Standard Governance)
	Assessment by a Workgroup	
Fast-track	Straight to appeals window, then implementation	Panel (Self-Governance)

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* This route is for modifications which have a fully developed solution and therefore don't need to be considered by a Workgroup.

** For modifications which need further input from industry to develop the solution.

Self-Governance Criteria

It depends on the material effect of the modification as to whether it should be subject to Standard or Self-Governance. If you are proposing that your modification should be subject to Self-Governance, you must explain how it meets the below criteria.

The modification is unlikely to discriminate between different CUSC Parties and is unlikely to have a material effect on:

- Existing or future electricity customers;
- Competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution or supply of electricity,
- The operation of the National Electricity Transmission System
- Matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies
- The CUSC Panel's governance procedures or the CUSC Panel's modification procedures

Urgency Criteria

If you are proposing that your modification is Urgent, you must explain how it meets Ofgem's Urgent criteria (below). When modifications are granted Urgency, this enables the us to shorten the standard timescales for industry consultations. Note that we (Code Admin) must seek Authority approval for this option.

Ofgem's current guidance states that an urgent modification should be linked to an imminent issue or a current issue that if not urgently addressed may cause:

- A significant commercial impact on parties, consumers or other stakeholder(s); or
- A significant impact on the safety and security of the electricity and/or gas systems; or
- A party to be in breach of any relevant legal requirements.

Fast-Track Self-Governance Criteria

This route is for modifications which are minimal changes to the code. E.g. Typos within the codes. If you are proposing that your modification should be subject to Fast-Track Self-Governance, you must explain how it meets the below criteria.

The modification is a housekeeping modification required as a result of an error or factual change, such as:

- Updating names or addresses listed in the CUSC;
- Correcting minor typographical errors;
- Correcting formatting and consistency errors, such as paragraph numbering, or;
- Updating out of date references to other documents or paragraphs.

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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"/> EBR Article 18 T&Cs ¹ | <input type="checkbox"/> Other modifications | <input type="checkbox"/> Other |

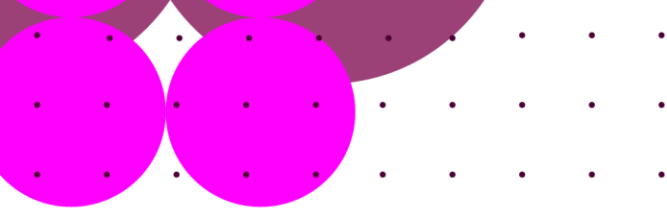
To our knowledge, this modification does not interact with other codes, industry documents, modifications or industry projects. It is standalone. This is a further reason to implement quickly, due to its simplicity in delivery.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BCA	Bilateral Connection Agreement
BSC	Balancing and Settlement Code
CFD	Contracts for Difference
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Regulation
NESO	National Energy System Operator
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
TNUoS	Transmission Network Use of System
T&Cs	Terms and Conditions
TO	Transmission Owner

Reference material

- N/A



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