











Draft Final CUSC Modification Report		At what stage is this document in the process?								
<h1 style="color: #008080;">CMP283:</h1> <h2 style="color: #008080;">Consequential Changes to enable the Interconnector Cap and Floor regime</h2>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; width: 30px;">01</td> <td style="text-align: center;">Initial Written Assessment</td> </tr> <tr> <td style="text-align: center;">02</td> <td style="text-align: center;">Code Administrator Consultation</td> </tr> <tr> <td style="text-align: center; background-color: #008080; color: white;">03</td> <td style="text-align: center; background-color: #008080; color: white;">Draft CUSC Modification Report</td> </tr> <tr> <td style="text-align: center;">04</td> <td style="text-align: center;">Final CUSC Modification Report</td> </tr> </table>		01	Initial Written Assessment	02	Code Administrator Consultation	03	Draft CUSC Modification Report	04	Final CUSC Modification Report
01	Initial Written Assessment									
02	Code Administrator Consultation									
03	Draft CUSC Modification Report									
04	Final CUSC Modification Report									
<p><b>Purpose of Modification:</b> This modification aims to facilitate the Interconnector Cap and Floor regime through creating the process for data provision between Interconnectors and National Grid within the CUSC.</p>										
	<p>This Draft Final Modification Report has been prepared in accordance with the terms of the CUSC. An electronic version of this document and all other CMP283 related documentation can be found on the National Grid website via the following link:  <a href="http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP283/">http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP283/</a></p> <p>The purpose of this document is to assist the CUSC Panel in making their recommendation on whether to implement CMP283.</p>									
	<p><b>High Impact:</b> None.</p>									
	<p><b>Medium Impact:</b> This modification is consequential due to change to Interconnector Licence conditions and so there will be an impact on Interconnectors and the System Operator (SO).</p>									
	<p><b>Low Impact:</b> None.</p>									

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Timetable		
<b>The Code Administrator recommends the following draft timetable:</b>		
Code Administrator consultation issued (20 WD)	1 August 2017	
Deadline for responses	30 August 2017	
Draft CUSC Modification Report issued for industry comment	12 September 2017	
Deadline for comment	19 September 2017	
Draft CUSC Modification Report issued to CUSC Panel	21 September 2017	
CUSC Panel Recommendation vote	29 September 2017	
Issue Final CUSC Modification report to the Authority	6 October 2017	
Authority Decision	10 November 2017	
Decision implemented in CUSC	15 November 2017	

**Proposer Details**

<b>Details of Proposer:</b> (Organisation Name)	National Grid
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or “National Consumer Council”)	CUSC Party
<b>Details of Proposer’s Representative:</b>  Name: Organisation: Telephone Number: Email Address:	Urmi Mistry National Grid 0118 936 3382 <a href="mailto:urmi.mistry@nationalgrid.com">urmi.mistry@nationalgrid.com</a>
<b>Details of Representative’s Alternate:</b>  Name: Organisation: Telephone Number: Email Address:	Damian Clough National Grid 01926 656416 <a href="mailto:damian.clough@nationalgrid.com">damian.clough@nationalgrid.com</a>
<b>Attachments (Yes/No): No</b> <b>If Yes, Title and No. of pages of each Attachment:</b>	

**Impact on Core Industry Documentation.**  
*Please mark the relevant boxes with an “x” and provide any supporting information*

<b>BSC</b>	<input type="checkbox"/>
<b>Grid Code</b>	<input type="checkbox"/>
<b>STC</b>	<input type="checkbox"/>
<b>Other</b>	<input type="checkbox"/>

(Please specify)

## 1 About this document

This document is the Draft Final CUSC Modification Report. It contains the views of Panel and contains the responses received from the Code Administrator Consultation which closed on 30 August 2017.

This modification was raised **22 June 2017** by **National Grid** and was initially presented by the Proposer to the Panel on **30 June 2017**. The Panel considered the Proposer's recommendation and agreed to treat this proposal as a standard modification to be issued out to Code Administrator consultation without forming a Workgroup as this modification is consequential due to licence changes that have already occurred. Following a review of this Proposal after this Panel meeting, the Proposer requested that the Consultation be delayed whilst they made further amendments to provide greater clarity to the Industry. The Panel approved these changes at their meeting on **28 July 2017** and agreed that this proposal could proceed to Code Administrator Consultation for 20 Working Days.

CMP283 aims to facilitate the Interconnector Cap and Floor regime through creating the process for data provision between Interconnectors and National Grid within the CUSC.

### Code Administrator Consultation Responses

Four responses were received to the Code Administrator Consultation. A summary of the responses can be found in Section 11 of this document. Overall all respondents agreed that the proposal better facilitates the applicable CUSC objectives although some respondents noted that the implementation approach could be more efficient.

### National Grid View

The purpose of this modification is to ensure that changes made to the standard interconnector license, NGET and IFA licences can be implemented. It provides a process for data provision which is line (where applicable) with current processes for transmission operators, which ensures data feeds in to the TNUoS process in a consistent and transparent way. National Grid believe this modification better facilitates the CUSC objectives and should be implemented as soon as possible to allow the benefits of the Cap and Floor regime to be realised.

This draft Final Modification Report has been prepared in accordance with the terms of the CUSC. An electronic version of this document and all other CMP283 related documentation can be found on the National Grid website via the following link:

<http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP283/>

## 2 Summary

### Defect

The interconnector cap and floor regime was brought in to limit the monies that Interconnectors (ICs) can make by establishing a cap, and limit any losses by placing a floor. Any additional monies ICs require (to meet the floor) will come from Customers via TNUoS and excess revenue (over the cap) will also be paid via TNUoS, with the corresponding decrease in consumer bills.

The licences for ICs, NEMO and IFA, including the standard licence, were updated in September 2016 to include conditions relating to the cap and floor regime. Changes were also made to NGET's licence. From these changes, monies payable to ICs, or to be paid from ICs to consumers, will be passed through National Grid (forming part of our Maximum Allowed Revenue) and ultimately through TNUoS tariffs to the end consumer. Therefore, processes need to be established to ensure these monies can be passed between interconnectors and National Grid, and data relating to the monies can feed into setting and forecasting tariffs. At present, these processes do not exist for Interconnectors.

This modification will be applicable to the following interconnectors (as of the 31<sup>st</sup> of July):

- IFA ('Use of Revenue' framework)
- NEMO
- NSN
- FAB Link
- IFA2
- Viking
- Greenlink

Updates to this list can be found in the following location on the Ofgem website:

<https://www.ofgem.gov.uk/electricity/transmission-networks/electricity-interconnectors>

This will also be applicable to all other interconnectors that will be a part of the cap and floor regime. This is intended to reflect the standard interconnector terms that will have cap and floor arrangements included. Terms have already been added in the NEMO, and IFA licences and in the NGET licence.

### What

Condition 26 of the standard Interconnector licence has the purpose of setting out when the licensee should provide values relating to revenue adjustment to the GB System Operator and The Authority (Ofgem). It later states '...on or before the date specified in the CUSC)...'. Currently, this process or date is not stated in the CUSC.

There is already an established process for revenue recovery and the provision of data which applies to Scottish TOs and OFTOs, which is specifically defined in the STC. ICs are not signatories of the STC and so the STC requirements do not apply. Therefore, replicating this process in the CUSC, to be applicable to ICs, will ensure consistency with processes that are already in place and give practical effect to the Interconnector licence changes. This includes the provision of data for setting draft and final tariffs, provision of data for five year forecasts and the process for billing and invoicing, procedures which need to be established for interconnectors.

It is proposed to include a set of requirements in Section 9 (Interconnector) of the CUSC, to replicate the effect of STCP13, 14 and 24, based on the requirements on the standard Interconnector licence 26, and IFA special condition 2.

This will ensure that the cap and floor regime is implemented and the benefits and costs passed on to consumers where relevant. It will also create a consistent process of data provision and revenue flows for all TOs.

## Why

As mentioned previously, the standard Interconnector licence, the NGET licence, NEMO licence and the IFA licence were all updated in September 2016 to include conditions relating to the future interconnector cap and floor regime.

The new licence conditions detail the need for ICs to provide data to the System Operator (SO), but do not detail dates or a specific process. The proposal is for the process for interconnectors to be analogous to the existing process for the revenue flow from NGET to the Scottish TOs and the OFTOs, all of whose revenues are recovered from TNUoS. Also, there is a requirement to implement processes due to IFA's 'Use of Revenue' framework, which allows money to be returned to consumers from IFA through TNUoS.

If these processes are not created the benefits of IFA's 'Use of Revenue' framework - effective from 2018/19 - and the cap and floor regime will not be passed back to the Consumer in a timely manner.

## How

After taking this proposal to the Transmission Charging Methodologies Forum (TCMF), we gained some feedback to consider wider implications such as European Code changes. The cap and floor regime and any licence changes are compliant with the 'use of revenues requirements' under EU legislation. We looked wider into TSOG ((Transmission) System Operation Guideline) and deduced that this was applicable only to the operational side of the Interconnector and so out of scope of this modification proposal. We also looked into the GLDPM (Generation and Load Data Provision Methodology) and CACM (Capacity Allocation and Congestion Management). There were no links found between this proposal and GLDPM, regarding CACM, work is ongoing in this area so we are not in a position to give information on how or if at all it will be impacted at present.

Therefore it is proposed to include a set of requirements that mirror, where applicable, the STC in Section 9 of the CUSC. This will replicate the effect of STCP13, 14 and 24. This will ensure consistency across TOs. It is proposed to added information into Section 9 (Interconnectors) relating to:

- Data exchange for charge setting.
- Revenue forecast information provision.
- Invoicing and Payment.
- Use of substitute data.

This will ensure that Interconnector revenues are correctly reflected in tariffs.

In the event interconnectors adjust their 'Interconnector Adjustment Payments' after the 25th January, this would require a mid-year tariff change to add this into TNUoS for that Financial Year. This should be unlikely as by the time data is received by National Grid, it should be approved by Ofgem and more of an actual figure.

### 3 Governance

#### Justification for Self-Governance Procedures

N/A.

#### Agreed Next Steps

This modification proceeded to Code Administrator Consultation without a need to form a Workgroup. The Panel will be required to provide their recommendation vote at their Panel meeting in September 2017.

This is a consequential modification, which addresses changes that have already been made to Interconnector Licences. None of the changes being proposed are different from the status quo and so ensure there is no discrimination between CUSC parties. The materiality of this modification is unknown at this point, however this will be reflected in tariff changes and will have no differing impact on consumers from when a Scottish TO or OFTO over/under forecasts revenue.

These changes need to be made as soon as possible to allow for the benefits of the already made licence changes, to be passed on to Consumers. This is facilitated by allowing data to feed into tariff forecasts, where best forecasts for the coming year are made on 1 November, final forecasts on 25 January and set at the end of January.

#### Costs

Code administration costs	
Resource costs	<p>£0 - 0 Workgroup meetings</p> <p>£0 - Catering</p>
Total Code Administrator costs	£0

Industry costs (Standard CMP)	
Resource costs	<p>£0 - 0 Workgroup meetings</p> <p>£1,815 - 1 Consultations</p> <ul style="list-style-type: none"> <li>• 0 Workgroup meetings</li> <li>• Workgroup members</li> <li>• 1.5 man days effort per meeting</li> <li>• 1.5 man days effort per consultation response</li> <li>• 4 consultation respondents</li> </ul>
Total Code Administrator costs	£1,815
Total Industry Costs	£1,815



## 4 Why Change?

The Interconnector cap and floor regime was introduced to allow Consumers to gain more benefits through allowing the trade of energy across borders so they can lower electricity bills, improve security of supply and support decarbonisation. This regime also aimed to increase investment in Interconnectors through providing a new and more secure investment route (as described by Ofgem<sup>1</sup>).

The Interconnector Licences were changed in September 2016 to include the Interconnector cap and floor regime arrangement. The standard licence condition, which requires further changes to be made, is Standard Condition 26. This has the purpose of setting out when the licensee should provide values relating to revenue adjustment to the GB System Operator and The Authority (Ofgem):

- “5. In each TNUoS Reporting Relevant Year subsequent to the first TNUoS Reporting Relevant Year of the Regime Duration, the licensee shall on or before the **date specified in the CUSC** (or such later date as the Authority may direct), provide a statement to the Authority specifying: - (a) the values of IC<sub>Ft</sub> and IC<sub>Ft+1</sub> notified to the GB System Operator in the TNUoS Reporting Relevant Year t-1 in accordance with paragraph 2 or paragraph 3 of this condition; and (b) any revised values of IC<sub>Ft</sub> and IC<sub>Ft+1</sub> notified to the GB System Operator in the TNUoS Reporting Relevant Year t-1 in accordance with paragraph 4 of this condition.”

This condition requires information to be included in the CUSC and so these changes need to occur to allow the interconnector cap and floor regime to work and also to ensure that benefits are passed on to consumers. If this change happens sooner it will allow the data received from Interconnectors to feed into future tariffs and tariff forecasts.

Implementation of this modification will mean that processes for the notification of and receipt of revenue will be detailed in both the CUSC and the STC depending upon the party. This is due to TOs not being signatories of the CUSC and Interconnectors not being signatories of the STC. The purpose of the STC is to govern arrangements within the GB system and parties that make up that system such as TOs, where 3<sup>rd</sup> parties connect, such as ICs. The CUSC covers connections to the GB system and as ICs connect to the GB system and do not form part of it, they sign up to the CUSC and not the STC. An IC is a category of TO, however the CUSC already acknowledges different categories of user.

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<sup>1</sup> ‘Cap and floor regime: unlocking investment in electricity interconnectors’, Ofgem (May 2016), [https://www.ofgem.gov.uk/system/files/docs/2016/05/cap\\_and\\_floor\\_brochure.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/05/cap_and_floor_brochure.pdf)

## 5 Code Specific Matters

### Technical Skillsets

Understanding of the CUSC, STC and the interconnector cap and floor regime would be preferable.

### Reference Documents

None.

## 6 Solution

The solution will be to amend Section 9 – Interconnectors, to mirror what is stated in STCP 13, 14 and 24 as applicable to the Interconnector Licence changes. As Interconnectors are not signatories of the STC, by adding sections to the CUSC this will create clear guidelines for Interconnectors for them to be able remain compliant with their Licence conditions.

## 7 Impacts & Other Considerations

### **Details of any potential cross-code, consumer or environmental impacts and attach or reference any other, related work.**

This proposal will not have any cross-code or environmental impacts. There will be impacts on the consumers through benefits of the regime filtering into lower electricity bills. This will also impact tariffs as revenues from Interconnectors will flow through into these once the System Operator receives the relevant data. Internal National Grid systems will be impacted but not significantly as the data will feed into processes that are already set up.

### **Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

No.

### **Consumer Impacts**

The data received from Interconnectors will feed into TNUoS tariffs which will impact the end consumer through an increase or decrease in their bills in a timely manner. This modification deals with the process to implement the practical requirements of the cap and floor regime, and not costs and benefits of cap and floor regime.

### **Parties impacted by the Proposal**

This modification will be applicable to the following interconnectors (as of the 31<sup>st</sup> of July):

- IFA ('Use of Revenue' framework)
- NEMO
- NSN
- FAB Link
- IFA2
- Viking
- Greenlink

Updates to this list can be found in the following location on the Ofgem website:

<https://www.ofgem.gov.uk/electricity/transmission-networks/electricity-interconnectors>

In addition National Grid Electricity Transmission will need to manage and utilise the data provided through this process.

## 8 Relevant Objectives

### Impact of the modification on the Applicable CUSC Objectives (Standard):

Relevant Objective	Identified impact
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	Positive
(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;	Positive
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency; and	Neutral
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	Neutral

This change will positively impact Licensee obligations as these have already been imposed on the Interconnector, also competition through encouraging Interconnector investment.

## 9 Implementation

The CUSC needs to be modified as soon as reasonably practicable to reflect Interconnector licence changes. Ideally this would be in place before November 2017 to allow data provided by Interconnector to feed into tariff forecasts for 2018/19.

### Impact on the CUSC

Changes to Section 11 and 9

## 10 Legal Text

### Text Commentary

#### Additional Definitions in Section 11.3

“**Interconnector Adjustment Payments**” means as appropriate the **Interconnector Payments** and/or **Interconnector Cap and Floor Revenue Adjustment Payments**;

“**Interconnector Payments**” has the meaning given to that term in Special Licence Condition 2 of the licence granted under Section 6(1)(e) of the **Act** for the Interconnexion France-Angleterre (IFA) **Interconnector**;

“**Interconnector Cap and Floor Revenue Adjustment**” has the meaning given to that term in Standard Licence Condition 26 of a licence granted for a specific **Interconnector** under Section 6(1)(e) of the **Act** (and in the standard conditions in Sec G of that licence are in effect);

#### Next text added to the end of Section 9

### PART III - INTERCONNECTORS ADJUSTMENT PAYMENTS

#### 9.22 INTRODUCTION

This Part III deals with **Interconnector Payments** and the **Interconnector Cap and Floor Revenue Adjustment**. The **User** for the purposes of this Part III will therefore be the **Interconnector Owner**.

#### 9.23 Data Exchange for Charge Setting

9.23.1 This section sets out when a **User** shall provide its best estimates of (a) in the case of the Interconnexion France-Angleterre (IFA) **Interconnector**, the **Interconnector Payments** and (b) other **Interconnectors**, the **Interconnector Cap and Floor Revenue Adjustment** to **The Company** which is required so that **The Company** can calculate **Transmission Network Use of System Charges** and the date by which the **User** shall provide a statement to the **Authority** of the estimates sent to **The Company**.

9.23.2 By 1 November 2017 and then by 1 November in each subsequent **Financial Year**, each **User** will provide **The Company** with a best forecast of its **Interconnector Adjustment Payments** for that **Financial Year** and the following **Financial Year**. The **User** will update and provide a final forecast of the **Interconnector Adjustment Payments** for that and the following **Financial Year** by each 25 January.

9.23.3 On or before 25 January in 2018 and each following **Financial Year** (or such later date as the **Authority** may direct) the **User** shall provide a statement to the **Authority** of the forecast provided to **The Company** under Paragraph 9.23.2 for the previous **Financial Year**.

## 9.24 REVENUE FORECAST INFORMATION PROVISION

9.24.1 This section describes the data exchange process between **The Company** and the **User**, which is required so that **The Company** can regularly publish the forecast annual revenue used in the calculation of **Transmission Network Use of System Charges** over a five year period, so that parties that pay **Transmission Network Use of System Charges** can understand future changes.

9.24.2 Each **User** will report or forecast their **Interconnector Adjustment Payments** for the current **Financial Year** and each of the next five **Financial Years** on a nominal price basis (money of the day), and provide this data and narrative by e-mail no later than the close of the 5th business day each February and October.

9.24.3 All financial values will be supplied to the nearest £100k.

9.24.4 Each **User** will provide contact details with respect to answering any query with regards to their data.

9.24.5 Each **User** shall provide all necessary assistance in response to any reasonable query from **The Company** regarding the data submitted by that **User**.



## 9.25 USE OF SUBSTITUTE DATA

- 9.25.1 Under Paragraphs 9.23 and 9.24 where no data is provided by the **User** or the data is subject to dispute, **The Company** shall use, for the purposes of calculating or forecasting the **Transmission Network Use of System Charges**, the data that it believes to be the most accurate until **The Company** is satisfied with the data provided or any dispute has been resolved.
- 9.25.2 For the avoidance of doubt, the use of substitute data as referred to in paragraph 9.25.1 will not affect the invoicing of **The Company** by the **User**, or the **User** by **The Company**.
- 9.25.3 Where **The Company** has used substitute data, **The Company** shall notify the relevant **User**.
- 9.25.4 If applicable, once any dispute has been resolved, charges shall be revised on the basis of the appropriate data.

## 9.26 INVOICING (Payment to the User)

- 9.26.1 This section describes the process applied when **Interconnector Adjustment Payments** are made from **The Company** to the **User** in a given **Financial Year**.
- 9.26.2 The **User** shall receive payment from **The Company** for the **Interconnector Adjustment Payments** in monthly instalments. By 1 October each year **The Company** shall email the **User** requesting a forecast of their **Interconnector Adjustment Payments** for the following **Financial Year** only. The **Interconnector** shall email **The Company**, on or before 1st November each year, their forecast of the **Interconnector Adjustment Payments** for the following **Financial Year**. Revisions to the **Interconnector Adjustment Payments** can be made up to 25th January each year for the following **Financial Year**.
- 9.26.3 The amount forecast in Paragraph 9.26.2 shall be accompanied by an invoicing schedule to detail the annual and monthly amounts for **Interconnector Adjustment Payments** as defined in the **Interconnector Licences**.
- 9.26.4 The **User** shall invoice **The Company** equal amounts over the remaining months of the **Financial Year**, matching the amounts shown in the

schedule provided under Paragraph 9.26.3 and totalling the annual **Interconnector Adjustment Payments**. **The Company** shall pay the recurrent monthly **User** invoice on the later of

- (a) the 15th day following the day that the **User's** invoice was despatched; and
- (b) the 16th day of the month to which the invoiced payments relate,
- (c) unless, in such case, such payment day is not a **Business Day** in which case payment shall be made on the next **Business Day**.

9.26.5 Paper invoices will be despatched by post, and supported by fax and or email, where feasible, to **The Company**. The **User's** bank account details shall be included with each monthly invoice.

9.26.6 All payments will be by BACS.

9.26.7 Only under exceptional circumstances, can **Interconnector Adjustment Payments** from **The Company** be changed after final notification on 25th January. Exceptional circumstances mean an event or circumstance that is beyond the reasonable control of the licensee and for which it should not reasonably bear the financial risk.

## **9.27 PAYMENT (Payment to the Company)**

9.27.1 This section describes the process for when **Interconnector Adjustment Payments** are made from the **User** to **The Company** in a given **Financial Year**.

9.27.2 **The Company** shall receive payment of the **Interconnector Adjustment Payments** from the **User** in monthly instalments. By 1 October each year **The Company** shall email the **User** requesting a forecast of their **Interconnector Adjustment Payments** for the following **Financial Year**. The **User** shall email **The Company**, on or before 1st November each year, their forecast of the **Interconnector Adjustment Payments** for the following **Financial Year** only. Revisions to the **Interconnector Adjustment Payments** can be made up to 25th January each year for the following **Financial Year**.

9.27.3 The amount forecast in Paragraph 9.27.2 shall be accompanied by an invoicing schedule to detail the annual and monthly amounts for **Interconnector Adjustment Payments**.

- 9.27.4 **The Company** shall invoice the **User** equal amounts over the remaining months of the **Financial Year**, matching the amounts shown in the schedule provided under Paragraph 9.27.3 and totalling the annual **Interconnector Adjustment Payments**. The **User** shall pay the recurrent monthly **Company** invoice on the later of
- (a) the 15th day following the day that **The Company's** invoice was despatched; and
  - (b) the 16th day of the month to which the invoiced payments relate,
  - (c) unless, in such case, such payment day is not a **Business Day** in which case payment shall be made on the next **Business Day**.
- 9.27.5 Paper invoices will be despatched by post, and supported by fax and or email, where feasible, to the **User**. **The Company's** bank account details shall be included with each monthly invoice.
- 9.27.6 All payments will be by BACS.
- 9.27.7 Only under exceptional circumstances, can **Interconnector Adjustment Payments** to **The Company** be changed after final notification on 25th January. Exceptional circumstances mean an event or circumstance that is beyond the reasonable control of the licensee and for which it should not reasonably bear the financial risk.

The aim of this legal text is to replicate what is in the STC as appropriate, as this is where processes are detailed for Scottish TOs and OFTOs. As Interconnectors are not signatories of the STC, the suitable place for this was agreed to be the CUSC section 9, also the CUSC is referenced within the Interconnector licence. This text describes the deadlines for data provision to the SO, when revisions can be made, how payment (revenue exceeds the cap) and invoicing (revenue fall below the floor) and the use of substitute data. This is currently a draft and may change.

## 11 Code Administrator Consultation Response Summary

The Workgroup Consultation was issued on 1 August 2017 for 20 Working Days, with a close date of 30 August 2017.

Four responses were received to the Code Administrator Consultation and are detailed in the table below

Respondent	Do you believe that CMP283 better facilitates the Applicable CUSC objectives?	Do you support the proposed implementation approach?	Do you have any other comments?
FAB Link Ltd	Yes	Yes	Overall, amendment seen as positive.
National Grid Interconnectors	<p><b>For Objective A</b> -Yes.</p> <p><b>For Objective B</b> – Neutral.</p> <p><b>For Objective C</b> - Whilst probably compliant with the Regulation we feel it maintains compliance in an inefficient manner.</p> <p><b>For Objective D</b> - Do not believe this better facilitates this objective than a more streamlined process would perhaps achieve.</p>	Would support implementation approach that would allow final process to be implemented as soon as reasonably practicable, allowing revenue adjustments to flow to consumers at the first available opportunity.	See full response.
NEMO Link Ltd	Yes. However there are key differences in the nature of the revenue streams of cap and floor interconnectors that might prompt a revised approach.	Given some concerns noted regarding the current implementation approach, would only be suitable if these concerns could be addressed. This however might require a modification to the CUSC and licence.	See full response.
Scottish Power	<p><b>For Objective A and B</b> – Yes</p> <p><b>For Objectives C and D</b> - Neutral</p>	Yes – as soon as possible to enable National Grid to receive the data required for TNUoS tariffs for 2018/19.	No

## 12 Annex 1 – Code Administrator Consultation Responses

## CUSC Code Administrator Consultation Response Proforma

### CMP283 - Consequential Changes to enable the Interconnector Cap and Floor Regime'

Industry parties are invited to respond to this Code Administrator Consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **5:00pm on 30 August 2017** to [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com). Please note that any responses received after the deadline or sent to a different email address may not be included within the Final Workgroup Report to the Authority.

Any queries on the content of the consultation should be addressed to Heena Chauhan at [heena.chauhan@nationalgrid.com](mailto:heena.chauhan@nationalgrid.com)

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<b>Respondent:</b>	<i>Richard Sidley</i> <i>richard.sidley@transmissioninvestment.com</i>
<b>Company Name:</b>	<i>FAB Link Ltd</i>
<b>Please express your views regarding the Code Administrator Consultation, including rationale. (Please include any issues, suggestions or queries)</b>	<i>For reference, the Applicable Standard CUSC objectives are:</i>  <i>(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;</i>  <i>(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;</i>  <i>(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency; and</i>  <i>(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.</i>

## Code Administrator Consultation questions

Q	Question	Response
1	<p><b>Do you believe that CMP283 better facilitates the Applicable CUSC objectives? Please include your reasoning.</b></p>	<p>Yes – Given there was no previous CUSC provision to facilitate the requirements of the associated Interconnector licence conditions.</p> <p>The changes realise an efficient and practical solution to the Cap &amp; Floor revenue flow principles between the Interconnector Licensee and NGET.</p> <p>The legal text provides sufficient flexibility for the ICF requirements of Condition 26(2) of the Electricity Interconnector License: Standard Conditions to be agreed between the Interconnector and Ofgem via individually agreed licence Special Conditions.</p> <p>As an effective part of the Cap &amp; Floor regime this addition to the CUSC does better facilitate increased competition in the electricity supply chain.</p> <p>We view the associated administration as being efficient. However, the nature of wholesale power markets makes revenue forecasting to 5 years difficult with any degree of accuracy. Current plus two years forecasted may be more realistic.</p>
2	<p><b>Do you support the proposed implementation approach?</b></p>	<p>Yes</p>
3	<p><b>Do you have any other comments?</b></p>	<p>Overall, we see this amendment as positive.</p>

## CUSC Code Administrator Consultation Response Proforma

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<b>Respondent:</b>	<i>Mark Duffield</i> <i>07795 354687</i> <a href="mailto:Mark.Duffield@nationalgrid.com">Mark.Duffield@nationalgrid.com</a>
<b>Company Name:</b>	<i>National Grid Interconnectors Limited</i>
<b>Please express your views regarding the Code Administrator Consultation, including rationale. (Please include any issues, suggestions or queries)</b>	<p>National Grid Interconnectors has an interest in a number of existing interconnectors and further interconnector projects under construction. These interconnectors' revenues are impacted by two distinct schemes, "Use of Revenues" and "Cap and Floor". Each of these regulatory schemes could give rise to the information flows proposed under CMP283 and it is in that context that we are responding to this consultation. We address three key items in our response alongside our high-level comments:</p> <ol style="list-style-type: none"> <li>1. Whether the proposed process can be simplified as it appears to bring about a lot of duplication</li> <li>2. Whether a 5 year forecast is necessary given the nature of interconnector adjustments to transmission charges</li> <li>3. Confidentiality of forecast data and restrictions on those persons in the System Operator that may access the data.</li> </ol> <p><b>High Level comments</b></p> <p>Given the nature of the requirements to adjust transmission charges we agree that following the precedents set out in the STC for onshore and offshore TOs to provide information to NGET to allow them to set accurate</p>



transmission charges is the appropriate starting point. However there are key differences in the nature of the revenue streams that might mean that a straight 'lift and shift' approach is not the most efficient.

Transmission Owner revenue streams result from an ex-ante agreement with Ofgem of an appropriate annual revenue stream over a number of future years. While there may be some variance from year to year the bulk of the revenues are known, and all of them are recovered through transmission charges.

Interconnectors' revenue streams are quite different. They are not a "one way street" with respect to transmission charges; they will in the case of Use of Revenues deals reduce transmission charges by returning a proportion of interconnectors' earnings to consumers. Cap and Floor deals may result in revenue being returned to consumers through lower charges, seek revenue through an increase in transmission charges, or leave them completely unchanged.

Interconnector's revenues are also highly variable from year to year. The Cap and Floor and Use of Revenues processes also require a regulatory assessment of revenues before adjustments can be confirmed adding to the uncertainty. Each means that accurate adjustments to transmission charges will only be possible by making adjustments after the year in which the revenues actually accrue.

It is important to bear this in mind when considering the proposed CUSC amendment.

### **Process**

The process set out in draft legal text considers two key data flows for

- (a) Data exchange for Charge setting and
- (b) Revenue Forecast Information Setting (though we note that a more accurate title would be "Forecast Adjustments Information Setting" in the context of an interconnector)

Both processes appear to require the same information, a forecast of adjustments that must be made to transmission charges. The only differences being the time span over which the information should be provided and the date on which it must be provided. Data exchange for charge setting requires data for the next two years, and must be provided on 1 November and 25 January each year. Revenue Forecast information requires information about the next 5 years charges and must be provided on the 5<sup>th</sup>

working day of October and February.

This appears to be a significant amount of duplication and a better process might combine these requirements to a single process to provide data on 5<sup>th</sup> working day of October and to update this on the following 25 January.

### **Data required**

The process within the STC that the CUSC drafting has been modelled on has been designed to identify the revenues that TOs are allowed to recover from users under the terms of their price controls. Interconnectors are not looking to recover a known ex-ante revenue stream, but rather provide adjustments to transmission charges based around their earnings from other sources. These adjustments could increase or decrease transmission charges, or leave them unchanged.

There are two regulatory schemes for interconnectors that could give rise to adjustments to transmission charges. Use of revenues schemes are effectively profit-sharing arrangements and so will always serve to lower transmission charges. Final data for these adjustments are known annually in arrears after the end of a financial reporting cycle.

Cap and Floor arrangements could see adjustments in either direction, potentially increasing or reducing transmission charges. Final data for these adjustments are normally known at the end of every 5-year reporting cycle for cap and floor, following an Ofgem assessment of the costs and revenues incurred across the reporting period. This five-year reporting cycle can be further complicated should there be any within period adjustments.

Earnings from interconnectors are predominantly driven by the difference in market prices in the UK and the interconnected nation. Market prices and the difference between them can be very volatile meaning forward forecasts of even a year can be challenging. Forecasting further into the future is even more so.

Given the inherent uncertainty we therefore raise the question whether the 5-year forecast provides any meaningful benefit to the process. Instead the data provision could be simplified to require interconnectors to provide information on revenue adjustments for the following two year period.

### **Confidentiality**

Forecasts of revenues for interconnectors are clearly

	<p>incredibly sensitive private commercial data, and while forecasts of any required adjustments may improve the accuracy of forecasts of future transmission charges we would not wish them to be published in any form that allows the exact forecasts to be directly or indirectly revealed. This is different to Transmission Owner price control data where the final agreements for which are largely matters of public record. We would also wish to ensure that the data safeguards are maintained with NGET such that this sensitive data is kept wholly within the charge setting team and is not shared with the wider system operator or transmission owner functions, in much the same way price sensitive data provided to the EMR team within the System Operator is dealt with.</p>

**Code Administrator Consultation questions**

Q	Question	Response
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Q	Question	Response
1	<p><b>Do you believe that CMP283 better facilitates the Applicable CUSC objectives? Please include your reasoning.</b></p>	<p><i>(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;</i></p> <p>In so far as the proposed amendment mirrors existing arrangements we would say that the Amendment does better facilitate this Applicable CUSC Objective</p> <p><i>(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;</i></p> <p>We do not believe that the proposed amendment would have any effect on this particular Applicable CUSC objective and is therefore neutral towards it.</p> <p><i>(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency; and</i></p> <p>The return of revenues from Interconnectors through both Cap and Floor and Use of Revenues is a key aspect of compliance with the Electricity Regulations. We do not think that the process suggested by the amendment is as efficient as it could be. Therefore while the amendment would probably be compliant with the Regulation we feel it maintains compliance in an inefficient manner.</p> <p><i>(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.</i></p> <p>We do not think that the process suggested by the amendment is as efficient as it could be. Therefore we do not believe that it better facilitates this objective than a more streamlined process would perhaps achieve.</p>
2	<p><b>Do you support the proposed implementation approach?</b></p>	<p>We would support an implementation approach that would allow the final process to be implemented as soon as reasonably practicable, allowing revenue adjustments to flow to consumers at the first available opportunity.</p>
3	<p><b>Do you have any other comments?</b></p>	<p>See our general comments above.</p>

## CUSC Code Administrator Consultation Response Proforma

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Any queries on the content of the consultation should be addressed to Heena Chauhan at [heena.chauhan@nationalgrid.com](mailto:heena.chauhan@nationalgrid.com)

These responses will be included within the Draft CUSC Modification Report to the CUSC Panel and within the Final CUSC Modification Report to the Authority.

<b>Respondent:</b>	<i>Bert Maes</i> <a href="mailto:bert.maes@nemolink.co.uk">bert.maes@nemolink.co.uk</a> +32472406997
<b>Company Name:</b>	<i>Nemo Link Limited</i>
<b>Please express your views regarding the Code Administrator Consultation, including rationale. (Please include any issues, suggestions or queries)</b>	<p>NEMO Link is currently constructing a 1000MW link between the UK and Belgium. Its revenue is impacted by the regulatory arrangements known as "Cap and Floor". The Cap and Floor scheme will give rise to the information flows proposed under CMP283 and it is in that context that we are responding to this consultation.</p> <p>We address three key items in our response alongside our high-level comments:</p> <ol style="list-style-type: none"><li>1. Whether the proposed process can be simplified as it appears to bring about a lot of duplication</li><li>2. Whether a 5 year forecast is necessary given the nature of interconnector adjustments to transmission charges</li><li>3. Confidentiality of forecast data and restrictions on those persons in the System Operator that may access the data.</li></ol> <p><b>High Level comments</b></p> <p>Given the nature of the requirements to adjust transmission charges we agree that following the precedents set out in the STC for onshore and offshore Transmission Owners to provide information to NGET to allow them to set accurate transmission</p>

charges could be considered the appropriate starting point. However there are key differences in the nature of the revenue streams that might prompt a different approach.

Transmission Owner revenue streams result from an ex-ante agreement with Ofgem of an appropriate annual revenue stream over a number of future years. While there may be some variance from year to year the bulk of the required revenues for Transmission Owners are known in advance and all of them are recovered through transmission charges.

Interconnectors' revenue streams are quite different in nature. Interconnector's revenues are much more variable from year to year and much harder to forecast as most of the revenues are determined by the electricity market spreads over which interconnectors have no control. Also unplanned outages can have a much more material impact on interconnectors revenues given the time required to fix some problems (e.g. cable anchor damage).

Cap and Floor interconnectors may result in cap surpluses being returned to consumers through lower charges or a recovery of floor shortages from consumers through an increase in transmission charges, or might not require a consumer intervention at all.

A big difference is also that the cap surpluses and floor shortages are historical in nature compared to the transmission charges that are currently raised as these are mainly used to cover the future costs of the Transmission Owners. This means that until the cap surpluses can be settled with NGET the interconnectors owners have excess cash on their balance sheets or have to cover for floor shortages themselves.

Until these differences are settled, it is anticipated that Interconnectors' cap surpluses and floor shortages will be adjusted for NPV neutrality with a relatively high cost of capital rate (the interconnector's predetermined operational cost of capital). This adjustment for cap surpluses can be considered penalizing to interconnector owners while for floor shortages this could be considered penalizing to consumers. To mitigate the negative impacts of cap surpluses and to allow faster support for floor shortages the option of Within Period Adjustments (WPAs) was introduced. However, WPAs are currently not possible for year 5 of the 5 year assessment periods.

It is currently assumed that the regulators would need to sign-off on WPAs and the 5 year assessment period surpluses/shortages before they can be settled. Given the timings involved and the

process described in the current CUSC amendment this would mean it would take at least 15 months before an end of period assessment could be settled. Given the potential negative financial consequences mentioned in the previous paragraph, this is an undesirable situation which is neither in the best interests of consumers nor cap and floor interconnectors.

A possible mitigation to this significant concern is to allow interconnectors to carry out provisional yearly settlements based on best estimates of the cap and floor shortages but fully complying with the timeline of the CUSC process. The difference between final cap and floor settlement amounts (only known after official approval by the regulators) and the best estimate could be settled the year after. Regulators may be concerned by the potential for gaming but this could be addressed by using a differential cost of capital for reconciliation purposes. This would be a win-win for all parties: consumers, cap and floor interconnectors and regulators.

Finally, instead of monthly instalments for settling cap surpluses with NGET, NEMO has a clear preference to settle the complete outstanding amount at once given the fact the cash is readily available and not being used.

It is important to bear these aspects in mind when considering the proposed CUSC amendment.

#### **Process**

The process set out in draft legal text considers two key data flows for

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Both processes appear to require the same information, a forecast of adjustments that must be made to transmission charges. The only differences being the time span over which the information should be provided and the date on which it must be provided. Data exchange for charge setting requires data for the next two years, and must be provided on 1 November and 25 January each year. Revenue Forecast information requires information about the next 5 years charges and must be provided on the 5<sup>th</sup> working day of October and February.

This appears to be a significant amount of duplication and a better process might combine these requirements to a single process to provide 5 years' worth of data on 5<sup>th</sup> working day of October and to update this on the following 25 January.

#### **Data required**

	<p>Earnings from cap and floor interconnectors are predominantly driven by the difference in market prices in the UK and the interconnected nation. Market prices and the difference between them can be very volatile meaning forward forecasts of even a year can be challenging. Forecasting further into the future is even more so.</p> <p>Given the inherent uncertainty we therefore raise the question whether the 5-year forecast provides any meaningful benefit to the process.</p> <p><b>Confidentiality</b></p> <p>Forecasts of revenues for interconnectors are sensitive private commercial data, and while forecasts may improve the accuracy of forecasts of future transmission charges we would not wish them to be published in any form that allow the exact forecasts to be directly or indirectly revealed.</p> <p>We trust that these comments are useful and we would be happy to discuss them in further detail if they require clarification in any way.</p>

### Code Administrator Consultation questions

Q	Question	Response
1	<p><b>Do you believe that CMP283 better facilitates the Applicable CUSC objectives? Please include your reasoning.</b></p>	<p>Given the nature of the requirements to adjust transmission charges we agree that following the precedents set out in the STC for onshore and offshore Transmission Owners to provide information to NGET to allow them to set accurate transmission charges could be considered the appropriate starting point. However there are key differences in the nature of the revenue streams of cap and floor interconnectors that might prompt a revised approach.</p>
2	<p><b>Do you support the proposed implementation approach?</b></p>	<p>Given some of the concerns above the current implementation approach would only be suitable if these concerns could be addressed. This however might not only require a modification to the suggested CUSC code change but could also be addressed via a limited change to the cap and floor interconnector license conditions.</p>
3	<p><b>Do you have any other comments?</b></p>	<p>See above</p>



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<b>Respondent:</b>	James Anderson james.anderson@scottishpower.com
<b>Company Name:</b>	ScottishPower Energy Management Limited
<b>Please express your views regarding the Code Administrator Consultation, including rationale. (Please include any issues, suggestions or queries)</b>	<i>For reference, the Applicable Standard CUSC objectives are:</i> <ul style="list-style-type: none"><li>(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;</li><li>(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;</li><li>(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency; and</li><li>(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.</li></ul>

## Code Administrator Consultation questions

Q	Question	Response
1	<b>Do you believe that CMP283 better facilitates the Applicable CUSC objectives? Please include your reasoning.</b>	<p>This proposal updates the CUSC to reflect the changes introduced to the licences of NGET and Interconnectors to introduce the Cap &amp; Floor arrangements in September 2016.</p> <p>By facilitating the flow of information between Interconnector operators and the System Operator, CMP283 better enables the SO to discharge the obligations placed upon it in its Transmission Licence (Applicable CUSC Objective (a)).</p> <p>Improved information flows should facilitate more accurate forecasting of TNUoS tariffs thereby facilitating competition (ACO (b)).</p> <p>The proposal is neutral against the other ACOs and should overall better meet the CUSC Objectives.</p>
2	<b>Do you support the proposed implementation approach?</b>	<p>Yes. We believe that CMP283 should be implemented as soon as possible to enable National Grid to receive the data necessary to forecast and set TNUoS tariffs for 2018/19.</p>
3	<b>Do you have any other comments?</b>	<p>No.</p>