

To all interested industry parties

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Dear Colleague,

## **Compliance with European Regulation 838/2010 Part B ‘Guidelines for A Common Regulatory Approach to Transmission Charging’**

On 4 May 2018 Ofgem issued an open letter following its decision to reject CMP261. That letter sets out Ofgem’s views following the recent decision of the Competition and Markets Authority (CMA) to uphold Ofgem’s decision to reject Connection and Use of System Code (CUSC) Modification Proposal ‘CMP261. We discuss below our views on this topic and our approach to any future changes to charging.

### **EU Regulation 838/2010 and the existing CUSC charging methodology**

The Regulation stipulates that average annual transmission charges paid by GB generators must be within the range of €0/MWh to €2.50/MWh. To implement the Regulation into the charging methodology CMP224 was approved by Ofgem in October 2014<sup>1</sup>. To maintain compliance with the Regulation the charging methodology requires us to set a target revenue amount which can be recovered from Generation transmission charges. Details on this are published in our regular forecast updates<sup>2</sup>.

### **Implications of the decision on the CUSC charging methodology**

In reaching its decision on CMP261, Ofgem has provided a concluded view as to the interpretation of the Regulation that was not previously reached in CMP224. Ofgem’s letter of 4 May 2018 explains its interpretation of the Regulation and also states “We think that it makes sense to consider and decide on any changes to the CUSC charging methodology alongside the ongoing review of residual electricity network charging.”

At the March 2018 Transmission Charging Methodologies Forum (TCMF), we explained that CUSC will remain compliant with the Regulation under its current wording and definition until around 2020 where the generation tariff may move below the lower end of the range specified. We believe that further changes will be necessary but given that changes to the Transmission

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<sup>1</sup> <https://www.ofgem.gov.uk/ofgem-publications/90665/cmp224d.pdf>

<sup>2</sup> For example, see p28

[https://www.nationalgrid.com/sites/default/files/documents/Forecast%20TNUoS%20Tariffs%20for%202019-20%20-%20Report\\_0.pdf](https://www.nationalgrid.com/sites/default/files/documents/Forecast%20TNUoS%20Tariffs%20for%202019-20%20-%20Report_0.pdf)

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Generation Residual are expected from the Targeted Charging Review bringing changes forward ahead of the Significant Code Review would not be appropriate. Without this consideration we feel that changes have the potential to lead to adverse impacts on consumers.

### **Our role and next steps**

As Electricity System Operator, we are committed to supporting competition in the energy market by playing our part as a code party to ensure charging, codes and governance frameworks are fit for purpose.

Our customers and stakeholders have told us they are seeking clarity on the impact of the CMP261 decision on their charges; we feel that changes on this topic are potentially highly complex and need to be considered alongside other changes to charging. As such we are actively considering options for change and seeking to understand the longer term impacts they may have on transmission revenue recovery and customer charges.

We encourage you to discuss with us your thoughts on this topic and invite you to meet with us. However, in line with Ofgem's views and its co-ordination guidance on changes to charging<sup>3</sup> we do not consider that now is the time to raise a CUSC modification proposal.

We will take forward changes to the charging methodology with a view to implementing change by April 2020 and aim to do this in the Autumn once we have Ofgem's minded to position on the TCR. In its Formal Opinion on our Forward Plan Ofgem has asked that we think more holistically about the strategic role we have in developing and shaping the industry framework and that we work with industry and Ofgem to propose and/or support changes to codes where this can reduce barriers to competition and drive other benefits for consumers. In this context, we believe our role as ESO makes us uniquely suited to working with all customers to develop and implement a charging methodology which maintains our compliance with EU Regulation 838/2010 and brings about fair and considered changes that promote competition and benefit consumers.

Please contact me or Jon Wisdom (07929 375010) if you wish to discuss these matters with us.

Yours sincerely



Louise Schmitz  
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<sup>3</sup> <http://www.chargingfutures.com/learn/guidance-for-raising-a-potential-change/>