

**CUSC Workgroup Consultation Response Proforma****CMP337: 'Impact of DNO Contributions on Actual Project Costs and Expansion Factors' & CMP338: 'New Definition of Cost Adjustment'**

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

Please send your responses to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) by **9am on 11 May 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation please contact Ren Walker at [lurrentia.walker@nationalgrideso.com](mailto:lurrentia.walker@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

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**CMP337**

**For reference the applicable CUSC Charging objectives are:**

Relevant Objective
(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;
(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 requirements of a connect and manage connection);
(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;
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 *; and
(e) To promote efficiency in the implementation and administration of the CUSC arrangements

**CMP338**

**For reference the applicable CUSC objectives are:**

<b>Relevant Objective</b>
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;
(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;
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.
*Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

**Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.**

<b>CMP337 - Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP337 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	No. The modification would distort the marginal cost of investing in the network in this area. Regardless of whether or not a DNO is part funding some of the cost of the investment, it doesn't change the actual marginal cost of this element of the network. Given that the point of the locational charge is to signal this cost so that generators make the correct investment decisions, then it should be fully reflected. Therefore, it reduces cost reflectivity and frustrates competition, working against objectives b) and a) respectively. However, we note that Ofgem has effectively already approved this modification given the comments it made in its decision letter on allowing SHEPD to pay part of the costs of SHETL's transmission assets.
2	Do you support the proposed implementation approach for CMP337?	Yes.
3	Do you have any other comments?	Please see our comments on the definition under CMP338.

4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No thank you.
<b>CMP338 – Standard Workgroup Consultation questions</b>		
1	Do you believe that the CMP338 Original Proposal better facilitates the Applicable CUSC Objectives?	Please see our response to CMP337.
2	Do you support the proposed implementation approach for CMP338?	Please see our response to CMP337.
3	Do you have any other comments?	<p>Yes. The definition of “Cost Adjustment” in the legal text should be tightened up to reflect the intention of the modification properly.</p> <p>Firstly, it should explicitly refer to “Transmission infrastructure investment” rather than just “infrastructure investment”. The modification has been raised to cover a very specific context where Remote Island links will effectively be cross-subsidised by GB consumers through the AAHEDC tariff, via payments made by SHEPD to SHETL. We are not aware of any non-transmission infrastructure being subsidised in this manner.</p> <p>Secondly, and similarly, the words “a different Licensed Distribution Network Operator or” should be removed from the definition. It has not been explained why this arrangement would cover a Distribution Network Operator’s costs or why these would be recovered through TNUoS.</p> <p>The legal text is also light on the process that would be undertaken to ascertain the level of “Cost Adjustment”. We believe there should be an industry consultation to ensure full transparency of the process. Similarly, the CUSC should specify that any agreed level will be reported in National Grid ESO’s annual charging statement, particularly as it is being subsidised by GB consumers.</p>

		<p>We also believe thought to be given to how subsequent additional infrastructure connecting the mainland to a Remote Island would be handled. For instance, if a “first phase” link is subsidised to 20% of the total cost, it does not necessarily mean that a second phase would be subsidised to the same extent or even at all. How would the methodology deal with this?</p>
4	<p>Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?</p>	<p>No thank you.</p>