

PM0113:

Update to STCP14-1 ‘Data exchange of charge setting’ to reflect CUSC Modification CMP306 ‘Align annual connection charge rate of return at CUSC 14.2.21 to price control cost of capital’.

01

STCP
Modification
Proposal
Form

Purpose of Modification: This proposal seeks to align STCP14-1 with CUSC modification CMP306. It requires the Onshore TOs to confirm their respective pre-tax Weighted Average Cost of Capital (WACC), used as the basis of their Rate of Return. The TO Rate of Return is applied to Transmission Connection Assets as part of the annual charge setting process. This is as well as stating the pre-tax WACC and the calculation methodology in the TO’s respective Statement of the basis of transmission owner charges document.



The Proposer recommends that this modification should be:

- implemented following Panel approval.
- This modification was raised 9 July 2020 and will be presented by the Proposer to the Panel on 29 July 2020. The Panel will consider the Proposer’s recommendation and determine the appropriate route.



High Impact: Onshore Transmission Owners, National Grid ESO

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Any questions?

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Timetable

The Code Administrator recommends the following timetable:

Proposal Form Submitted to Code Administrator for review	09 July 2020
Proposal form submitted to STC Panel Secretary	14 July 2020
STCP's are presented and approved by the Panel	29 July 2020
Sign off	05 August 2020
Implementation	30 October 2020

Impact on Core Industry Documentation.

Please mark the relevant boxes with an "x" and provide any supporting information

BSC	<input type="checkbox"/>
Grid Code	<input type="checkbox"/>
CUSC	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

This STCP is a consequential Modification as a result of CMP306. This proposal is not expected to affect any other core industry documents.

1 Summary

Defect

- As a consequence of the potential implementation of CMP306, NGENSO is required to apply Onshore TO specific pre-tax WACC to customer's Connection Asset Charges.
- At present, there is no formal mechanism for TOs to notify NGENSO of the pre-tax WACC to be applied and for industry to be aware of what these rates are for each Onshore TO.

What

A common, consistent methodology should be agreed between NGENSO and Onshore TOs for calculating pre-tax WACC to be applied to Transmission Connection Assets, and this methodology to be stated in a publicly accessible document.

Why

Codification will ensure both transparency and common application of the methodology and ensure NGENSO can comply with the new requirements introduced by CMP306.

How

Prior to submission, a series of discussions have been held with NGET, SPT and SHET to develop a common methodology and ensure the TOs input was fed in to CMP306 as it was developed. It was agreed that the CUSC methodology for calculating pre-tax WACC was acceptable and that this methodology, along with the resulting figure, would be documented in each annual statement of the basis of transmission owner charges from each TO for transparency. This figure would also be communicated from TOs to NGENSO each year as part of the annual charge setting process; therefore STCP 14-1 should be updated to reflect this.

2 Governance

Section B 7.3 states amendments for an STCP need approval from the STC Modification Panel. The Proposer recommends that this modification should be approved and implemented at a future STC Panel meeting.

3 Why Change?

Prior to CMP306, the methodology in CUSC (which NGENSO use to charge Users) was to apply a single 6% pre-tax WACC to Transmission Connection Asset Charges whilst the TOs charge NGENSO based on what's agreed as per their price control. No explicit requirement is currently codified within STC procedural requirements for the TOs to communicate their pre-tax WACC.

Pre-CMP306 / Prior to this proposed STC modification



CMP306 was raised to revise CUSC so that NGENSO applied the TO specific pre-tax WACC to Transmission Connection Charges as per the diagram below.

Post-CMP306 / Prior to this proposed STC modification



Currently under the STC and associated STCPs, there is no formal mechanism for the TO to confirm to NGENSO what the TO specific pre-tax WACC will be. This proposal therefore looks to amend STCP 14-1 to;

1. document the methodology by which each TO is obliged to derive its pre-tax WACC, and,
2. provide transparency to industry by obliging TOs to clearly state in their Statement of the basis of transmission owner charges document the methodology used for calculating their pre-tax WACC and what pre-tax WACC figures are applicable, and
3. oblige each TO to confirm to NGENSO at charge setting the applicable pre-tax WACC to be applied during the next charging year, both for initial connection charging setting during the 1st-31st October and following Price Control Financial Model updates by 25th January during final charge setting for the charging year ahead.

Post-CMP306 / Post implementation of this proposed STC modification



4 Impacts & Other Considerations

STC Parties' Assessments

National Grid Electricity System Operator (NGESO)

Would provide increased visibility of TO charging and support compliance with CUSC obligations.

All Transmission Owners

Would need to document the pre-tax WACC methodology applicable to Connection Assets in their Statement of the basis of transmission owner charges document and update the document annually to update the pre-tax WACC figures as well as notifying NGESO of these figures during annual charge setting processes (as per the STCP14-1 process).

Impact on STC/STCPs

Modification of STCP14-1 only.

5 Relevant Objectives

Impact of the modification on the STC Applicable Objectives and STCP Assessment Criteria:

Relevant STC Objective	Identified impact
(a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act	Positive
(b) development, maintenance and operation of an efficient, economical and coordinated system of electricity transmission	Positive
(c) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the distribution of electricity	Neutral
(d) protection of the security and quality of supply and safe operation of the national electricity transmission system insofar as it relates to interactions between transmission licensees	Neutral
(e) promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC.	Neutral
(f) facilitation of access to the national electricity transmission system for generation not yet connected to the national electricity transmission system or distribution system;	Neutral
(g) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.	Neutral

In addition, for an STCP Change, Section B 7.3.2 details that the following should be considered:

Provision	View of the Proposer
the amendment or addition does not impair, frustrate or invalidate the provisions of the Code	Agree
the amendment or addition does not impose new obligations or liabilities or restrictions of a material nature on Relevant Parties which are not subsidiary to the rights and obligations of the Relevant Parties under the Code	Agree
the amendment or addition is not inconsistent or in conflict with the Code, Transmission Licence Conditions or other relevant statutory requirements	Agree
the Relevant Party Representatives deem that the amendment or addition is appropriate to support compliance with the Code	Agree

The Proposer believes that this change will better facilitate relevant objective (a) by enabling the ESO to reflect in its connection charges the relevant TO transmission licensee's permitted rate of return, and that Section B 7.3.2 is satisfied.

6 Solution

The solution is to incorporate sufficient detail in STCP14-1 to provide a clear and consistent basis for TOs to methodologically determine, update, publish and provide their pre-tax WACC to be used in connection charges they will later submit to NGESO.

7 Implementation

The changes to STCP14-1 would be implemented in line with CMP306.

8 Legal Text

3.2.7 As part of the information provision for the charge setting process NGESO and the TOs shall agree:

a) the RPI indexation to apply to the Gross Asset Values of each Connection Asset (where applicable) and;

b) the TO's Rate of Return to apply to the Net Asset Values of all the TO's Connection Assets.

where:

Rate of Return applicable to Connection Assets subject to RPI indexation shall be the real pre-tax Weighted Average Cost of Capital for the Relevant Transmission Licensee for year n (WACC_n), and.

Rate of Return applicable to Connection Assets subject to MEA indexation shall be the real pre-tax Weighted Average Cost of Capital for the Relevant Transmission Licensee for year n (WACC_n plus 1.5 percentage points).

Where for the year n:

$WACC_n = ((\text{real post tax cost of equity} / (1 - \text{corporation tax rate})) \times (1 - \text{notional gearing \%})) + (\text{real cost of debt} \times \text{notional gearing \%})$

and the real post-tax cost of equity, notional gearing %, real cost of debt and the corporation tax rate, are as specified in the latest published Ofgem Price Control Financial Model (PCFM) relating to year n, or should Ofgem fail to publish or cease to publish a PCFM, the latest public regulatory determination(s) or decision(s) should be used.

These figures shall be calculated to two decimal places e.g. 3.37%, which is equivalent to a factor of 1.0337.

The TOs shall also document the Rate of Return and the methodology of its derivation in their respective Statement of the basis of transmission owner charges for the applicable charging year

3.2.9 Each TO is required to;

- a) provide the data requested by e-mail (along with any amendments which may be required to the list of Connection Assets) by 31st October or one month after receiving the email referred to in 3.2.8 above, and
- b) provide by 25th January any update to their Rate of Return to be applied to the Net Asset Values of all the TO's Connection Assets, as may have occurred on or before 31st December preceding the applicable charging year. The TOs will document any changes to the Rate of Return and the methodology of its derivation in their respective Statement of the basis of transmission owner charges for the applicable charging year.

9 Recommendation

The proposer recommends that PM0113 should be implemented following Panel approval.

10 References

No further references.