

CUSC Modification Proposal Form

CMP355: Updating the Indexation methodology used in TNUoS and Transmission Connection Asset charges for RIIO2

Overview: Currently, Section 14 of CUSC uses the Retail Price Index (RPI) as the measure for index-linking various parts of the charging methodologies. With the RIIO2 Final Decision from Ofgem, the RPI measure of indexation has been replaced and so the CUSC needs to be revised accordingly to use the correct measure for setting TNUoS and Transmission Connection Asset (TCA) charges.

Modification process & timetable

1	<ul style="list-style-type: none"> • Proposal form • 17 December 2020
2	<ul style="list-style-type: none"> • Workgroup Consultation • n/a
3	<ul style="list-style-type: none"> • Workgroup Report • n/a
4	<ul style="list-style-type: none"> • Code Administrator Consultation • 22 December 2020 - 7 January 2021
5	<ul style="list-style-type: none"> • Draft Code Modification Report • 11 January 2021
6	<ul style="list-style-type: none"> • Final Code Modification Report • 15 January 2021
7	<ul style="list-style-type: none"> • Implementation • 1 April 2021

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: **Medium impact on all CUSC Users who pay TNUoS tariffs or TCA charges.**

Proposer's recommendation of governance route

This modification should be treated as urgent and will proceed straight to Code Administrator Consultation under a timetable agreed with the Authority, who will make the decision on whether it should be implemented.

The Proposer considers that this is 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) and therefore meets Ofgem's Urgency Criteria (a). This is due to incorrectly calculated network tariffs requiring revision. To avoid this, CMP355 requires approval in time to allow NGENSO to set tariffs at the end of January 2021.

The Proposer also considers that this is an imminent issue or a current issue that if not urgently addressed may cause a party to be in breach of any relevant legal requirements (i.e. compliance with CUSC if

	NGESO just use the revised indexation approach without updating CUSC) and therefore meets Ofgem's Urgency Criteria (c). If the proposal was not treated as Urgent it would not have time to complete and be approved prior to the tariff setting process being completed. If this were to happen, NGESO will be non-compliant with CUSC and so its licence.	
Who can I talk to about the change?	Proposer: Grahame Neale, National Grid ESO Grahame.Neale@nationalgrideso.com Phone: 07787 261 242	Code Administrator Chair: Paul Mullen Paul.j.mullen1@nationalgrideso.com Phone: 07794 537 028

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What is the issue?

Currently, the CUSC uses numerous references to the Retail Price Index (RPI) for various parts of the Transmission Network Use of System (TNUoS) and Transmission Connection Asset (TCA) charging methodologies, specifically;

- Annual indexation of Gross Asset Values (GAV) – TCA Charges;
- Annual revisions (during a price control) to the Expansion Constant and Expansion Factors for onshore generic factors and offshore specific factors – TNUoS;
- Annual revisions (during a price control) to the Local Substation Tariff – TNUoS;
- Index linking the Avoided GSP Infrastructure Credit (AGIC) – TNUoS; and
- Other administrative references in respect of the TNUoS methodology.

As part of Ofgem's final decision on the Transmission Owners RII02 price control, the measure of inflation is changing from RPI to a different measure (for example, CPI or CPIH) and so the CUSC needs to be updated to reflect this. These changes need to be approved in time for consideration within the January 2021 tariff setting process to be effective for April 2021 tariffs.

CMP355 has being drafted to enact the CUSC Section 14 changes whilst CMP356 has being drafted to enact the CUSC Section 11 changes. Other elements of the CUSC also use RPI (specifically BSUoS and CUSC Section 4); however, they do not impact on setting final TNUoS tariffs or TCA charges and so are beyond the scope of this modification. They will be resolved via a separate modification ahead of April 2021.

Why change?

The RIIO2 decision will use a measure of inflation which is lower than RPI. Without this modification, either:

1. TNUoS tariffs and TCA charges will continue to use the current RPI measure of indexation and so the variables used (to calculate TNUoS tariffs and TCA charges) will be inflated more than needed. This will result in charges to Users being higher than needed by ~£29.3m per annum across all Users who pay TNUoS or TCA charges, or,
2. NGENO uses the CPIH indexation methodology that aligns with the RIIO2 decision but is not documented in CUSC. This will mean NGENO is in breach of its licence as the methodology for setting tariffs will not align with the methodology prescribed in CUSC.

The £29.3m figure in point 1 is made up of the following which would need to be corrected in following charging years;

- Approximately £4.3m per annum (based on 2021/2 figures) from increased TCA charges as a result of overinflated Gross Asset Values (GAV) from which the TCA charges are derived.
- Approximately £25m per annum (based on 2021/2 figures) from increased TNUoS charges as a result of overinflated Maximum Allowed Revenue (MAR), all of which will be recovered via the Transmission Demand Residual. There is a theoretical impact on locational charges (that will weaken locational signals); however, this impact is negligible.

What is the proposer's solution?

To change the relevant parts of Section 14 (as shown in Annex 1) so that references to RPI are revised to the indexation method as listed the transmission licence. Whilst revising references from RPI to specifically CPI/CPIH would also work, linking to the Transmission Licence is believed to be a more future-proof solution if/should the measure of indexation change again in future.

Draft legal text

See Annex 1.

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 charges are not over-collected so finance can be used by industry rather than held by NGESO.
(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);	Positive: Keeps alignment between the CUSC and the amount of revenue required by Transmission Owners
(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;	Positive: Updates the CUSC for developments in the Transmission Owner's price control.
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	Neutral
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	Positive: Updates the CUSC to reflect changes for RII02 and future proofs the CUSC should the indexation method change in future.

*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Impact of the modification on the stakeholder / consumer benefit categories	
Proposer's assessment:	
Stakeholder / consumer benefit categories	Identified impact
Improved safety and reliability of the system	None
Lower bills than would otherwise be the case	Positive: Avoids the need to over-recover TNUoS and TCA charges to reconcile later.
Benefits for society as a whole	None
Reduced environmental damage	None
Improved quality of service	None

When will this change take place?

Implementation date:

1st April 2021

Date decision required by:

25th January 2021 to allow tariff setting processes to take place.

Implementation approach:

Tariff setting processes will need to change and potentially be updated.

Interactions

None

Acronyms, key terms and reference material

Acronym / key term	Meaning
AGIC	Avoided GSP Infrastructure Credit
CPIH	CPIH is a new additional measure of consumer price inflation including a measure of owner occupiers' housing costs
GAV	Gross Asset Value
NGESO	National Grid ESO
RPI	Retail Price Index
RIIO2	The second RIIO price control period (2021-2026)
TNUoS	Transmission Network Use of System
TCA	Transmission Connection Asset

Reference material:

None

