CUSC Modification Proposal Form (for Charging Methodology proposals)

CMP214

Title of the CUSC Modification Proposal: *(mandatory by proposer)*

Implementation of TNUoS charging parameter updates following a price control review

Submission Date *(mandatory by Proposer)*

25th October 2012

Description of the CUSC Modification Proposal: *(mandatory by proposer)*
There are a number of charging parameters used in the calculation of TNUoS tariffs which are reviewed and, if required, updated at the start of each price control period. This proposal seeks to alter the implementation date for any updates to these parameters to the start of the charging year after the commencement of a new price control period. For example, changes to parameters for the RIIO-T1 price control period (commencing in April 2013) will not take effect until 1st April 2014.

It is proposed that the publication of revised parameters would continue to be by the start of the price control period, i.e. unchanged from the current CUSC baseline.

For the avoidance of doubt, this proposal is limited to those charging parameters which are reviewed at the start of a new price control period, including the review of generation zones which is dependent on the outcome of the charging parameter review.

Description of Issue or Defect that the CUSC Modification Proposal seeks to Address: *(mandatory by proposer)*

A number of parameters used to derive the locational component of generation and demand TNUoS tariffs are fixed or have inflationary updates between price control reviews. The purpose of this is to provide stability and predictability of tariffs. At the start of each new price control period these charging parameters must be reviewed and updated. The scope of the review includes:

- the expansion constant and expansion factors, which reflect the cost of investing in the transmission network;
- the charging parameters making up the expansion constant, namely the annuity factor (comprised of the weighted average cost of capital, and asset life), the overhead factor, and the capital costs;
- the locational security factor that reflects the cost of an integrated transmission network; and
- the generation charging zone boundaries which is dependent on the outcome of the charging parameter review.

Given the time that elapses between price control reviews (eight years going forwards), there are likely to be significant changes to at least some of the input parameters, which can have a significant impact on TNUoS charges paid by generators and suppliers. In the case of the RIIO-T1 price control review, the potential impact on charges is illustrated in Annex 1.

The review of these charging parameters is dependent on two data sources;

1. network data, such as information to allow review of expansion factors as well as generation and demand backgrounds. Expansion factor information from external transmission owners is only finalised from the October ahead of the start of the new price control period.
2. financial information from the price control such as efficiency assumptions, operating costs, and the cost of capital. This can only be confirmed once final proposals for the RIIO-T1 price controls are announced. In the case of RIIO-T1 for NGET these are anticipated in mid-December, approximately 15 weeks before the proposed start of the new price control period.

The following table indicates the dependencies of the charging parameters on these two data

sources.

	Network Data Dependent	Financial Data Dependent
Expansion Constant	No	Yes
Expansion Factors	No	Yes
Security Factor	Yes	No
Generator Zones	Yes	Yes

Additionally, the review of the generation charging zone boundaries is dependent on having first finalised any update to charging parameters including the expansion constant, expansion factors and locational security factor.

In summary, the full impact on TNUoS tariffs and generation charging zones cannot be understood and communicated in draft form to customers until at least late December prior to the start of the new price control period. This is only three months before the start of the new charging year when it is required these changes to be implemented to TNUoS charges.

Paragraph 14.14.10 of Section 14 of the CUSC requires that National Grid publish final TNUoS tariffs by the end of January prior to the new charging year. Whilst the above timeline allows these tariffs to be produced, it also presents a potentially considerable amount of volatility to TNUoS tariffs only three months ahead of their introduction.

In the case of RIIO-T1, this potential volatility, including possible changes to the composition of generation charging zones, was presented to industry at the September Transmission Charging Methodologies Forum (TCMF) and is attached for reference in Annex 1 of this proposal.

The purpose of this CUSC modification proposal is to reduce this potential volatility in TNUoS charges through delay to the implementation of any required changes to charging parameters until the start of the charging year after the commencement of a new price control period. This will provide customers with additional notice of any parameter changes, improving the predictability of TNUoS charges, and allowing them to efficiently incorporate the changes into their pricing structures.

Impact on the CUSC: *(this should be given where possible)*

Changes would be limited to Section 14 Part 2 of the CUSC to clarify, for each affected input parameter, the timescale for review, publication and implementation. It is proposed that this could be efficiently discharged through reference to new common paragraphs within Section 14 to explicitly state that;

- Charging parameters will be reviewed and published prior to the start of the new price control period.
- Implementation of any required changes will take place at the start of the charging year after the commencement of a new price control period.

Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes/No *(mandatory by Proposer. Assessed in accordance with Authority Guidance – see guidance notes for website link)*

No

Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information: *(this should be given where possible)*

BSC ☐

Grid Code ☐

STC ☐

Other ☐
(please specify)
None

Urgency Recommended: Yes / No *(optional by Proposer)*

Yes

Justification for Urgency Recommendation *(mandatory by Proposer if recommending progression as an Urgent Modification Proposal)*

The RIIO-T1 price control is due to be implemented for Transmission Owners from April 2013. Compliance with the current CUSC baseline would require charging parameters to be reviewed and updated in the TNUoS methodology ahead of this date with final information to undertake analysis not available until December 2012. Hence we believe that the review and update of these charging parameters;

- is an **imminent issue** as, in accordance with the CUSC, final tariffs need to be notified by 31st January 2013 and custom and practice is that draft tariffs are published before Christmas. Our proposed timetable has been attached to this submission.;

- and can have a **significant impact** on parties, as the changes could be large in magnitude and would be implemented at short notice because of the dependency of these on the outcome of the price control.

Self-Governance Recommended: Yes / No *(mandatory by Proposer)*

No

Justification for Self-Governance Recommendation *(mandatory by Proposer if recommending progression as Self-governance Modification Proposal)*

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews? *(mandatory by Proposer in order to assist the Panel in deciding whether a Modification Proposal should undergo a SCR Suitability Assessment)*

There are no ongoing Significant Code Reviews affecting this proposal.

Impact on Computer Systems and Processes used by CUSC Parties: *(this should be given where possible)*

None

Details of any Related Modifications to Other Industry Codes (including related CUSC Modification Proposals): *(where known)*

None

Justification for CUSC Modification Proposal with reference to Applicable CUSC Objectives: *(mandatory by proposer)*

Please tick the relevant boxes and provide justification for each of the Charging Methodologies affected.

Use of System Charging Methodology

☒ (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Full justification:

As part of our RIIO-T1 stakeholder engagement we have discussed transmission charges with customers, and have found that customers value charges which are transparent, predictable, and where possible stable, although predictability is paramount. In addition, Ofgem have stated in their recent consultation[1] that network charging volatility arising from the price control is one of the key issues raised by stakeholders during the current price control reviews.

On this basis, we believe that there is a strong case for implementing TNUoS changes associated with a price control in a manner which allows customers to have sufficient view to enable them to incorporate those changes into their pricing structure (i.e. to provide transparent and predictable charges). We believe that this will help facilitate competition in the electricity market by allowing suppliers and generators to efficiently incorporate transmission charges into their overall pricing structure.

Whilst we believe that, for a one year period, there will be a slight reduction in the cost reflectivity of TNUoS charges as a result of this proposal we believe that this is outweighed by the benefits for competition. Additionally, TNUoS charges provide a long term locational signal to customers of the cost of transmission. Therefore a one year delay to input parameter changes should not affect the long term behaviour of a user provided the changes are forecast and predictable.

Connection Charging Methodology

☐ (a) that compliance with the connection 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 connection charging methodology results in charges which reflect,

[1] Mitigating network charging volatility arising from the price control settlement

as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);

☐ (c) that, so far as is consistent with sub-paragraphs (a) and (b), the connection charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;

☐ (d) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.

Full justification:

Details of Proposer: (Organisation's Name)	National Grid
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party, "National Consumer Council" or Materially Affected Party)	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Andy Wainwright National Grid 01926 655944 Andy.wainwright@nationalgrid.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Adelle McGill National Grid 01926 653142 Adelle.mcgill@nationalgrid.com
Attachments (Yes/No):	