

# CMP234 'Incorporation of Biddable Indexation of OFTO revenues in TNUoS'

## Summary of Modification Proposal

### Background

#### Offshore Tender Rounds

Since 2009 there have been two Offshore Tender Rounds (TR1 & TR2) to appoint the Offshore Transmission Owners. Within each of these Tender Rounds, the allowed revenue of each appointed Offshore Transmission Owner (OFTO) has been fully indexed annually to Retail Price Index (RPI).

Ofgem have recently introduced new arrangements which allow OFTOs to be able to index a chosen proportion of their annual revenue to RPI, with the remainder of their allowed revenue remaining constant, this will take effect under Tender Round 3 (TR3).

#### TNUoS charges for Offshore Generators

As part of the Transmission Network Use of System (TNUoS) charging methodology, generators connecting to an offshore transmission network are liable to pay local TNUoS charges. These local charges are based on the proportion of OFTO revenue associated with each of the offshore transmission assets. The charges are set upon the OFTO taking ownership of the assets and are re-evaluated at the start of each onshore price control period. In all other years, the current TNUoS charging methodology under the CUSC states that the charges are fully indexed to RPI.

Charges relating to offshore assets that formed part of TR1 and TR2 are currently indexed in the same manner as the OFTO's revenue. However, under the new arrangements (effective from TR3), an OFTO's allowed revenue may only be partially linked to RPI. As a result, the TNUoS tariffs will increase more rapidly than the corresponding OFTO's revenues. Therefore those generators connecting to offshore transmission assets subject to TR3 would be treated differently to those under Tender Rounds 1 & 2, whose charges are indexed at the same rate as the OFTO's revenue.

### CUSC Modification Proposal

#### Proposed Modification

CMP234 seeks to link the indexation of Local Offshore TNUoS charges to the indexation specified in each OFTO licence instead of RPI. This makes sure that the Local Offshore TNUoS charges and the OFTO allowed revenues are indexed in the same manner (as was the case in TR1 & TR2). This maintains the existing principle of linking Local Offshore TNUoS tariffs to OFTO revenue, reflecting the changes to OFTO Licence conditions under TR3.

## **Proposer's view**

National Grid Electricity Transmission plc, as Proposer, believes that this CUSC Modification better facilitates the Applicable CUSC Objectives for charging (a), (b) and (c) for the following reasons:

- CMP234 better facilitates competition by ensuring that local TNUoS charges for Tender Round 3 Offshore assets are equivalent to those under Tender Rounds 1 and 2;
- CMP234 better facilitates cost reflectivity as it maintains the link between OFTO revenue and local TNUoS charges, and;
- CMP234 better takes account of developments in the transmission business by reflecting the updated revenue calculation in the OFTO licence terms.