

CUSC Modification Proposal Form		At what stage is this document in the process?												
<h1 style="color: #00a651;">CMP283:</h1> <h2 style="color: #00a651;">Consequential Changes to enable the Interconnector Cap and Floor regime</h2>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">01</td> <td style="background-color: #00a651; color: white; border: 1px solid black; border-radius: 5px; text-align: center;">Proposal Form</td> </tr> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">02</td> <td style="border: 1px solid black; border-radius: 5px; text-align: center;">Workgroup Consultation</td> </tr> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">03</td> <td style="border: 1px solid black; border-radius: 5px; text-align: center;">Workgroup Report</td> </tr> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">04</td> <td style="border: 1px solid black; border-radius: 5px; text-align: center;">Code Administrator Consultation</td> </tr> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">05</td> <td style="border: 1px solid black; border-radius: 5px; text-align: center;">Draft CUSC Modification Report</td> </tr> <tr> <td style="text-align: center; border: 1px solid black; border-radius: 5px;">06</td> <td style="border: 1px solid black; border-radius: 5px; text-align: center;">Final CUSC Modification Report</td> </tr> </table>		01	Proposal Form	02	Workgroup Consultation	03	Workgroup Report	04	Code Administrator Consultation	05	Draft CUSC Modification Report	06	Final CUSC Modification Report
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<p>Purpose of Modification: This modification aims to facilitate the Interconnector Cap and Floor regime through creating the process for data provision between Interconnectors and National Grid within the CUSC.</p>														
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> • proceed to Code Administrator Consultation <ul style="list-style-type: none"> ○ As this modification is consequential due to licence changes that have already occurred. <p>This modification was raised 22 June 2017 by National Grid and will be presented by the Proposer to the Panel on 30 June 2017. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>													
	<p>High Impact: None.</p>													
	<p>Medium Impact: This modification is consequential due to change to Interconnector Licence conditions and so there will be an impact on Interconnectors and the System Operator (SO). The new revenue streams associated with Interconnector Cap and Floor may also introduce volatility to the total allowed revenue, which may introduce further volatility of tariffs to all Users.</p>													
	<p>Low Impact: None.</p>													

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Timetable		 email address
The Code Administrator recommends the following draft timetable:		 telephone
Code Administrator consultation issued (20 WD)	31 July 2017	Proposer: Insert name
Deadline for responses	28 August 2017	 email address
Draft CUSC Modification Report issued for industry comment	1 September 2017	 telephone
Deadline for comment	8 September 2017	National Grid Representative: Insert name
Draft CUSC Modification Report issued to CUSC Panel	21 September 2017	 email address.
CUSC Panel determination vote	29 September 2017	 telephone
Appeals window open (15WD)	6 October 2017	
Appeals window closes	27 October 2017	
Decision implemented in CUSC	31 October 2017	

Proposer Details

Details of Proposer: (Organisation Name)	National Grid
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Urmi Mistry National Grid 0118 936 3382 urmi.mistry@nationalgrid.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Damian Clough National Grid 01926 656416 damian.clough@nationalgrid.com
Attachments (Yes/No): No If Yes, Title and No. of pages of each Attachment:	

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"/>
STC	<input type="checkbox"/>
Other	<input type="checkbox"/>

(Please specify)

1 Summary

Defect

The interconnector cap and floor regime was brought in to limit the monies that Interconnectors (ICs) can make by establishing a cap, and limit any losses by placing a floor. Any additional monies ICs require (to meet the floor) will come from Customers via TNUoS and excess revenue (over the cap) will also be paid via TNUoS, with the corresponding decrease in consumer bills.

The licences for ICs NGET, NEMO and IFA, including the standard licence, were updated in September 2016 to include conditions relating to the cap and floor regime. From these changes, monies payable to ICs, or to be paid from ICs to consumers, will be passed through National Grid (forming part of our Maximum Allowed Revenue) and ultimately through TNUoS tariffs to the end consumer. Therefore, processes need to be established to ensure these monies can be passed between interconnectors and National Grid, and data relating to the monies can feed into setting and forecasting tariffs. At present, these processes do not exist for Interconnectors.

This modification will be applicable to IFA, NEMO, National Grid and all other interconnectors that are part of the cap and floor regime. This is intended to reflect the standard interconnector terms that will have cap and floor arrangements included. Terms have already been added in the NEMO, NGET and IFA licences.

What

Condition 26 of the standard Interconnector licence has the purpose of setting out when the licensee should provide values relating to revenue adjustment to the GB System Operator and The Authority (Ofgem). It later states ‘...on or before the date specified in the CUSC...’ Currently, this process or date is not stated in the CUSC.

There is already an established process for revenue recovery and the provision of data which applies to Scottish TOs and OFTOs, which is specifically defined in the STC. ICs are not signatories of the STC and so the STC requirements do not apply. Therefore, replicating this process in the CUSC, to be applicable to ICs, will ensure consistency with processes that are already in place and give practical effect to the Interconnector licence changes. This includes the provision of data for setting draft and final tariffs, provision of data for five year forecasts and the process for billing and invoicing, procedures which need to be established for interconnectors.

It is proposed to include a set of requirements in Section 9 (Interconnector) of the CUSC, to replicate the effect of STCP13, 14 and 24, based on the requirements on the standard Interconnector licence 26, and IFA special condition 2.

This will ensure that the cap and floor regime is implemented and the benefits and costs passed on to consumers where relevant. It will also create a consistent process of data provision and revenue flows for all TOs.

Why

As mentioned previously, the standard Interconnector licence, the NGET licence, NEMO licence and the IFA licence were all updated in September 2016 to include conditions relating to the future interconnector cap and floor regime.

The new licence conditions detail the need for ICs to provide data to the System Operator (SO), but do not detail dates or a specific process. The proposal is for the process for interconnectors to be analogous to the existing process for the revenue flow from NGET to the Scottish TOs and the OFTOs, all of whose revenues are recovered from TNUoS. Also, there is a requirement to implement processes due to IFA's 'Use of Revenue' framework, which allows money to be returned to consumers from IFA through TNUoS.

If these processes are not created the benefits of IFA's 'Use of Revenue' framework - effective from 2018/19 - and the cap and floor regime will not be passed back to the Consumer in a timely manner.

How

After taking this proposal to the Transmission Charging Methodologies Forum (TCMF), we gained some feedback to consider wider implications such as European Code changes. The cap and floor regime and any licence changes are compliant with the 'use of revenues requirements' under EU legislation. We looked wider into TSOG ((Transmission) System Operation Guideline) and deduced that this was applicable only to the operational side of the Interconnector and so out of scope of this modification proposal. We also looked into the GLDPM (Generation and Load Data Provision Methodology) and CACM (Capacity Allocation and Congestion Management). There were no links found between this proposal and GLDPM, regarding CACM, work is ongoing in this area so we are not in a position to give information on how or if at all it will be impacted at present.

Therefore it is proposed to include a set of requirements that mirror, where applicable, the STC in Section 9 of the CUSC. This will replicate the effect of STCP13, 14 and 24. This will ensure consistency across TOs. It is proposed to added information into Section 9 (Interconnectors) relating to:

- Data exchange for charge setting.
- Revenue forecast information provision.
- Invoicing and Payment.
- Use of substitute data.

This will ensure that Interconnector revenues are correctly reflected in tariffs.

In the event interconnectors adjust their 'Interconnector Adjustment Payments' after the 25th January, this would require a mid-year tariff change to add this into TNUoS for that Financial Year. This should be unlikely as by the time data is received by National Grid, it should be approved by Ofgem and more of an actual figure.

2 Governance

Justification for Self-Governance Procedures

N/A.

Requested Next Steps

This modification should:

- Proceed to Consultation.

This is a consequential modification, which addresses changes that have already been made to Interconnector Licences. None of the changes being proposed are different from the status quo and so ensure there is no discrimination between CUSC parties. The materiality of this modification is unknown at this point, however this will be reflected in tariff changes and will have no differing impact on consumers from when a Scottish TO or OFTO over/under forecasts revenue.

These changes need to be made as soon as possible to allow for the benefits of the already made licence changes, to be passed on to Consumers. This is facilitated by allowing data to feed into tariff forecasts, where best forecasts for the coming year are made on 1 November, final forecasts on 25 January and set at the end of January.

3 Why Change?

The Interconnector cap and floor regime was introduced to allow Consumers to gain more benefits through allowing the trade of energy across borders so they can lower electricity bills, improve security of supply and support decarbonisation. This regime also aimed to increase investment in Interconnectors through providing a new and more secure investment route (as described by Ofgem¹).

The Interconnector Licences were changed in September 2016 to include the Interconnector cap and floor regime arrangement. The standard licence condition, which requires further changes to be made, is Standard Condition 26. This has the purpose of setting out when the licensee should provide values relating to revenue adjustment to the GB System Operator and The Authority (Ofgem):

- “5. In each TNUoS Reporting Relevant Year subsequent to the first TNUoS Reporting Relevant Year of the Regime Duration, the licensee shall on or before the **date specified in the CUSC** (or such later date as the Authority may direct), provide a statement to the Authority specifying: - (a) the values of IC_{Ft} and IC_{Ft+1} notified to the GB System Operator in the TNUoS Reporting Relevant Year t-1 in accordance with paragraph 2 or paragraph 3 of this condition; and (b) any revised values of IC_{Ft} and IC_{Ft+1} notified to the GB System Operator in the TNUoS Reporting Relevant Year t-1 in accordance with paragraph 4 of this condition.”

This condition requires information to be included in the CUSC and so these changes need to occur to allow the interconnector cap and floor regime to work and also to ensure that benefits are passed on to consumers. If this change happens sooner it will allow the data received from Interconnectors to feed into future tariffs and tariff forecasts.

Implementation of this modification will mean that processes for the notification of and receipt of revenue will be detailed in both the CUSC and the STC depending upon the party. This is due to TOs not being signatories of the CUSC and Interconnectors not being signatories of the STC. The purpose of the STC is to govern arrangements within the GB system and parties that make up that system such as TOs, where 3rd parties connect, such as ICs. The CUSC covers connections to the GB system and as ICs connect to the GB system and do not form part of it, they sign up to the CUSC and not the STC. An IC is a category of TO, however the CUSC already acknowledges different categories of user.

¹ ‘Cap and floor regime: unlocking investment in electricity interconnectors’, Ofgem (May 2016), https://www.ofgem.gov.uk/system/files/docs/2016/05/cap_and_floor_brochure.pdf

4 Code Specific Matters

Technical Skillsets

Understanding of the CUSC, STC and the interconnector cap and floor regime would be preferable.

Reference Documents

None.

5 Solution

These are the details of the Code changes that are proposed, setting out specific document changes to the Code.

This section is “owned” by the proposer and will not be altered by the workgroup and so should set out the change you, as proposer, wish to see made – which you can amend later to take into account issues raised by a Workgroup.

The solution will be to amend Section 9 – Interconnectors, to mirror what is stated in STCP 13, 14 and 24 as applicable to the Interconnector Licence changes. As Interconnectors are not signatories of the STC, by adding sections to the CUSC this will create clear guidelines for Interconnectors for them to be able remain compliant with their Licence conditions.

6 Impacts & Other Considerations

Details of any potential cross-code, consumer or environmental impacts and attach or reference any other, related work.

This proposal will not have any cross-code or environmental impacts. There will be impacts on the consumers through benefits of the regime filtering into lower electricity bills. This will also impact tariffs as revenues from Interconnectors will flow through into these once the System Operator receives the relevant data. Internal National Grid systems will be impacted but not significantly as the data will feed into processes that are already set up.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No.

Consumer Impacts

The data received from Interconnectors will feed into TNUoS tariffs which will impact the end consumer through an increase or decrease in their bills in a timely manner. This modification deals with the process to implement the practical requirements of the cap and floor regime, and not costs and benefits of cap and floor regime.

7 Relevant Objectives

Impact of the modification on the Applicable CUSC Objectives (Standard):

Relevant Objective	Identified impact
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	Positive
(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;	Positive
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency; and	Neutral
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	Neutral

This change will positively impact Licensee obligations as these have already been imposed on the Interconnector, also competition through encouraging Interconnector investment.

8 Implementation

The CUSC needs to be modified as soon as reasonably practicable to reflect Interconnector licence changes. Ideally this would be in place before November 2017 to allow data provided by Interconnector to feed into tariff forecasts for 2018/19.

9 Legal Text

Text Commentary

Additional Definitions in Section 11.3

“**Interconnector Adjustment Payments**” means as appropriate the **Interconnector Payments** and/or **Interconnector Cap and Floor Revenue Adjustment Payments**;

“**Interconnector Payments**” has the meaning given to that term in Special Licence Condition 2 of the licence granted under Section 6(1)(e) of the **Act** for the Interconnexion France-Angleterre (IFA) **Interconnector**;

“**Interconnector Cap and Floor Revenue Adjustment**” has the meaning given to that term in Standard Licence Condition 26 of a licence granted for a specific **Interconnector** under Section 6(1)(e) of the **Act** (and in the standard conditions in Sec G of that licence are in effect);

Next text added to the end of Section 9

PART III - INTERCONNECTORS ADJUSTMENT PAYMENTS

9.22 INTRODUCTION

This Part III deals with **Interconnector Payments** and the **Interconnector Cap and Floor Revenue Adjustment**. The **User** for the purposes of this Part III will therefore be the **Interconnector Owner**.

9.23 Data Exchange for Charge Setting

9.23.1 This section sets out when a **User** shall provide its best estimates of (a) in the case of the Interconnexion France-Angleterre (IFA) **Interconnector**, the **Interconnector Payments** and (b) other **Interconnectors**, the **Interconnector Cap and Floor Revenue Adjustment** to **The Company** which is required so that **The Company** can calculate **Transmission Network Use of System Charges** and the date by which the **User** shall provide a statement to the **Authority** of the estimates sent to **The Company**.

9.23.2 By 1 November 2017 and then by 1 November in each subsequent **Financial Year**, each **User** will provide **The Company** with a best forecast of its **Interconnector Adjustment Payments** for that **Financial Year** and the following **Financial Year**. The **User** will update and provide a final forecast of the **Interconnector Adjustment Payments** for that and the following **Financial Year** by each 25 January.

9.23.3 On or before 25 January in 2018 and each following **Financial Year** (or such later date as the **Authority** may direct) the **User** shall provide a statement to the **Authority** of the forecast provided to **The Company** under Paragraph 9.23.2 for the previous **Financial Year**.

9.24 REVENUE FORECAST INFORMATION PROVISION

9.24.1 This section describes the data exchange process between **The Company** and the **User**, which is required so that **The Company** can regularly publish the forecast annual revenue used in the calculation of **Transmission Network Use of System Charges** over a five year period, so that parties that pay **Transmission Network Use of System Charges** can understand future changes.

9.24.2 Each **User** will report or forecast their **Interconnector Adjustment Payments** for the current **Financial Year** and each of the next five **Financial Years** on a nominal price basis (money of the day), and provide this data and narrative by e-mail no later than the close of the 5th business day each February and October.

9.24.3 All financial values will be supplied to the nearest £100k.

9.24.4 Each **User** will provide contact details with respect to answering any query with regards to their data.

9.24.5 Each **User** shall provide all necessary assistance in response to any reasonable query from **The Company** regarding the data submitted by that **User**.

9.25 USE OF SUBSTITUTE DATA

9.25.1 Under Paragraphs 9.23 and 9.24 where no data is provided by the **User** or the data is subject to dispute, **The Company** shall use, for the purposes of calculating or forecasting the **Transmission Network Use of System Charges**, the data that it believes to be the most accurate until **The Company** is satisfied with the data provided or any dispute has been resolved.

9.25.2 For the avoidance of doubt, the use of substitute data as referred to in paragraph 9.25.1 will not affect the invoicing of **The Company** by the **User**, or the **User** by **The Company**.

9.25.3 Where **The Company** has used substitute data, **The Company** shall notify the relevant **User**.

9.25.4 If applicable, once any dispute has been resolved, charges shall be revised on the basis of the appropriate data.

9.26 INVOICING (Payment to the User)

9.26.1 This section describes the process applied when **Interconnector Adjustment Payments** are made from **The Company** to the **User** in a given **Financial Year**.

9.26.2 The **User** shall receive payment from **The Company** for the **Interconnector Adjustment Payments** in monthly instalments. By 1 October each year **The Company** shall email the **User** requesting a forecast of their **Interconnector Adjustment Payments** for the following **Financial Year** only. The **Interconnector** shall email **The Company**, on or before 1st November each year, their forecast of the **Interconnector Adjustment Payments** for the following **Financial Year**. Revisions to the **Interconnector Adjustment Payments** can be made up to 25th January each year for the following **Financial Year**.

9.26.3 The amount forecast in Paragraph 9.26.2 shall be accompanied by an invoicing schedule to detail the annual and monthly amounts for **Interconnector Adjustment Payments** as defined in the **Interconnector Licences**.

9.26.4 The **User** shall invoice **The Company** equal amounts over the remaining months of the **Financial Year**, matching the amounts shown in the schedule provided under Paragraph 9.26.3 and totalling the annual **Interconnector Adjustment Payments**. **The Company** shall pay the recurrent monthly **User** invoice on the later of

- (a) the 15th day following the day that the **User's** invoice was despatched; and
- (b) the 16th day of the month to which the invoiced payments relate,
- (c) unless, in such case, such payment day is not a **Business Day** in which case payment shall be made on the next **Business Day**.

9.26.5 Paper invoices will be despatched by post, and supported by fax and or email, where feasible, to **The Company**. The **User's** bank account details shall be included with each monthly invoice.

9.26.6 All payments will be by BACS.

9.26.7 Only under exceptional circumstances, can **Interconnector Adjustment Payments** from **The Company** be changed after final notification on 25th January. Exceptional circumstances mean an event or circumstance that is beyond the reasonable control of the licensee and for which it should not reasonably bear the financial risk.

9.27 PAYMENT (Payment to the Company)

9.27.1 This section describes the process for when **Interconnector Adjustment Payments** are made from the **User** to **The Company** in a given **Financial Year**.

9.27.2 **The Company** shall receive payment of the **Interconnector Adjustment Payments** from the **User** in monthly instalments. By 1 October each year **The Company** shall email the **User** requesting a forecast of their **Interconnector Adjustment Payments** for the following **Financial Year**. The **User** shall email **The Company**, on or before 1st November each year, their forecast of the **Interconnector Adjustment Payments** for the following **Financial Year** only. Revisions to the **Interconnector Adjustment Payments** can be made up to 25th January each year for the following **Financial Year**.

9.27.3 The amount forecast in Paragraph 9.27.2 shall be accompanied by an invoicing schedule to detail the annual and monthly amounts for **Interconnector Adjustment Payments**.

9.27.4 **The Company** shall invoice the **User** equal amounts over the remaining months of the **Financial Year**, matching the amounts shown in the schedule provided under Paragraph 9.27.3 and totalling the annual **Interconnector Adjustment Payments**. The **User** shall pay the recurrent monthly **Company** invoice on the later of

- (a) the 15th day following the day that **The Company's** invoice was despatched; and
- (b) the 16th day of the month to which the invoiced payments relate,
- (c) unless, in such case, such payment day is not a **Business Day** in which case payment shall be made on the next **Business Day**.

- 9.27.5 Paper invoices will be despatched by post, and supported by fax and or email, where feasible, to the **User**. **The Company's** bank account details shall be included with each monthly invoice.
- 9.27.6 All payments will be by BACS.
- 9.27.7 Only under exceptional circumstances, can **Interconnector Adjustment Payments to The Company** be changed after final notification on 25th January. Exceptional circumstances mean an event or circumstance that is beyond the reasonable control of the licensee and for which it should not reasonably bear the financial risk.

The aim of this legal text is to replicate what is in the STC as appropriate, as this is where processes are detailed for Scottish TOs and OFTOs. As Interconnectors are not signatories of the STC, the suitable place for this was agreed to be the CUSC section 9, also the CUSC is referenced within the Interconnector licence. This text describes the deadlines for data provision to the SO, when revisions can be made, how payment (revenue exceeds the cap) and invoicing (revenue fall below the floor) and the use of substitute data. This is currently a draft and may change.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to progress this proposal as:

- Issue this modification directly to Consultation

Self-Governance Criteria - The modification is unlikely to discriminate between different classes of CUSC Parties and is unlikely to have a material effect on:

- i) Existing or future electricity customers;
- ii) Competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution or supply of electricity,
- iii) The operation of the National Electricity Transmission System
- iv) Matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies
- v) The CUSC's governance procedures or the CUSC's modification procedures