

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



CUSC Panel – 29 August 2014

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Background

- Under Offshore Tender Rounds 1 & 2 (TR1 & TR2) OFTO allowed revenues are fully indexed by RPI on an annual basis.
- Ofgem have introduced the option for revenues to be partially indexed to inflation going forward.
- Bidders will be able to specify the proportion of revenue they wish to have linked to RPI.

Summary of Defect

- Local TNUoS tariffs are based upon the proportion of OFTO revenue associated with each asset.
- Under the existing arrangements these are inflated by RPI each year and reviewed at the start of each (onshore) price control period.
 - Assumes OFTO revenue is fully indexed by RPI.
- Partially delinking OFTO revenue from RPI, will result in associated local TNUoS tariffs increasing at a faster rate than the corresponding OFTO revenue

Proposed CUSC Modification

- This Proposal seeks to:
 - Modify the indexation of Local Offshore TNUoS tariffs to link to indexation in OFTO licence instead of RPI.
 - This Retains existing principle of linking Local Offshore TNUoS tariffs to OFTO revenue; and
 - Reflects changes to OFTO Licence conditions.
- Changes are proposed to paragraphs 14.15.63 (OFTO specific expansion factors) and 14.15.87 (Offshore substation tariffs).
 - Pre-CMP213 numbering.
 - Wording unaffected by CMP213.

Justification against Applicable CUSC Objectives

- Ensures that local TNUoS charges for TR3 Offshore assets are equivalent to those under TR1 and TR3.
 - Better meeting applicable objective (a) - Competition
- Maintains link between OFTO revenue and local TNUoS charges and hence cost reflectivity.
 - Better meeting applicable objective (b) - Cost reflectivity
- Accounts for changes to OFTO licence terms, by reflecting the updated revenue calculation.
 - Better meeting applicable objective (c) - Taking account of transmission business developments

Justification against Self Governance criteria

- Aim of the proposal is to:
 1. Simply reflect pre-approved OFTO Licence changes in the charging methodology.
 - Therefore is not considered a material change.
 - Indexation applied to charges will depend upon tender process.
 2. Maintain the existing link between offshore local TNUoS charges and OFTO revenues.
 - Avoids potential discrimination between different offshore generators.

CMP234 Progression

- The Panel is asked to agree:
 - whether CMP234 should be progressed through Self-governance; and
 - whether CMP234 should progress straight to Code Administrator Consultation (or alternatively to a Workgroup).

CMP234 Proposed Timetable (Self-Governance)

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| 29th August 2014 | Proposal presented to CUSC Panel |
| 3rd September 2014 | Code Administrator Consultation issued |
| 24th September 2014 | Deadline for responses |
| 2nd October 2014 | Draft FMR published for industry comment |
| 9th October 2014 | Deadline for comments |
| 23rd October 2014 | Draft FMR published with Panel Papers |
| 31st October 2014 | Panel Recommendation / Determination Vote (Objections Window opens) |
| 5th October 2014 | Final Modification Report circulated for Panel comment |
| 12th October 2014 | Final Modification Report circulated to Industry |
| 21st October 2014 | Objections Window closes |
| 5th December 2014 | Implementation |