

Modification proposal:	Connection and Use of System Code (CUSC) CMP340: Transmission Demand Residual – Billing and consequential changes for CMP343 (TCR)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Electricity System Owner (NGESO), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	10 March 2022	Implementation date:	1 April 2023

Background

In November 2019, we published our Decision (and associated Directions) on the Targeted Charging Review (TCR) Significant Code Review.³ Once the TCR Decision is implemented, the costs of operating, maintaining and upgrading the electricity grid will be spread more fairly and, through reducing harmful distortions, will save consumers approximately £300m per year, with anticipated £4bn-£5bn consumer savings in total over the period to 2040⁴.

For the transmission network, the Transmission Owners (TO) recover their allowed revenue from their customers through transmission network use of system (TNUoS) tariffs. Under current arrangements, the forward-looking component of TNUoS charges is calculated first. The residual component is then calculated, so that the total charges recovered are equal to the allowed revenue for network companies set under the price controls.

The transmission residual charges have historically been levied on both demand and generation, through the Transmission Demand Residual (TDR) and the Transmission Generation Residual (TGR) charges.⁵

¹ References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ <https://www.ofgem.gov.uk/publications/targeted-charging-review-decision-and-impact-assessment>

⁴ See 2019 TCR final decision for full information

⁵ The TGR was removed by implementation of CMP317/327.

The TCR included a review of how residual network charges are set and recovered. The aim of the TCR was to ensure that these charges are recovered from network users in a way that meets the TCR Principles:

- reducing harmful distortions;
- fairness; and
- proportionality and practical considerations.

We decided that residual charges should apply to Final Demand⁶ consumers and that residual charges will be fixed charges. For domestic consumers, we decided that there will be a single transmission residual charge, and a single distribution residual charge within each of the 14 distribution licensed areas. For distribution-connected non-domestic consumers, we decided that there will be a charging structure that combines a fixed transmission residual charge and a banded fixed distribution residual charge. For transmission-connected consumers (all non-domestic), we directed that consideration should be given to whether a single transmission charging band or alternative banding options would be more appropriate.

Alongside our Decision, we issued a Direction to National Grid Electricity System Operator (NGESO) (the 'TCR Direction')⁷, to bring forward proposals to modify the Connection and Use of System Code (CUSC) in relation to residual charges, amongst other matters, to give effect to the terms of the TCR Decision.

The modification proposal

NGESO ('the Proposer') raised five CUSC modification proposals to implement TDR reforms in line with the TCR Direction.⁸ CMP343 proposes the methodology for TDR charges to be applied to 'Final Demand' on a 'Site'⁹ basis.

CMP340 was raised by NGESO on 12 March 2020 and proposes to alter and introduce defined terms within Section 11 of the CUSC, which are necessary to give effect to CMP343. The Proposer expects this modification to have a positive impact against Applicable CUSC

⁶ Final Demand is defined as "electricity which is consumed other than for the purposes of generation or export onto the electricity network". The CUSC modification CMP334 defined this term and other relevant terms. We approved CMP334 on 30 November 2020, though it will not have any effect until CMP343 is implemented.

⁷ [CUSC Direction \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/cusc-direction)

⁸ CMPs 334, 335, 336, 340 and 343. See <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc/modifications>

⁹ Also defined in CMP334

Objectives (ACO)¹⁰ (a) and (d) as this proposal would ensure that the CUSC remains fit for purpose with the implementation of CMP343.

We have published our final decision on CMP343 alongside this decision.¹¹ CMP343 included nine Workgroup Alternative CUSC Modifications (“WACMs”), with a full description included in our CMP343 decision.

The CMP340 Workgroup developed two WACMs alongside the Original Proposal to support the different proposals brought forward under CMP343:

- The CMP340 Original Proposal would support the CMP343 Original Proposal as well as CMP343 WACMs 1-5.
- CMP340 WACM1 would support CMP343 WACMs 6-8.
- CMP340 WACM2 would support CMP343 WACM9.

CUSC Panel¹² recommendation

At the CUSC Panel meeting on 1 October 2020, the CUSC Panel unanimously considered that the CMP340 Original Proposal, WACM1 and WACM2 would all better facilitate the ACOs when compared with the baseline, and unanimously considered the Original proposal to be the best option, although a number of Panel Members expressed support in their voting statement for implementing the WACM which corresponded to the Authority’s CMP343 decision.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 6 October 2020. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR¹³. We have concluded that:

¹⁰ As set out in Standard Condition C5(5) of Electricity Transmission Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

¹¹ For CMP343 decision letter, please see the Main document section on the Decision on CMP343 webpage.

¹² The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC.

¹³ CUSC modification proposals, modification reports and representations can be viewed on NGENSO’s website at: <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc/modifications>

- implementation of the Original Proposal will better facilitate the achievement of the applicable objectives of the CUSC;¹⁴ and
- directing that the Original modification be made is consistent with our principal objective and statutory duties.¹⁵

Reasons for our decision

We consider the Original Proposal and WACM2 would better facilitate ACOs (a), (b) and (d) and have a neutral impact on ACO (c). We consider that WACM1 would better facilitate ACOs (a) and (d) and have a neutral impact on ACOs (b) and (c).

Our decision on CMP343, published today, is to approve WACM2 with an implementation date of 1 April 2023. Our reasons for this are set out in that decision document. We are therefore approving the Original Proposal for CMP340 with the same implementation date because, in addition to better facilitating the ACOs, it is the corresponding solution to WACM2 under CMP343. The Original Proposal will add the necessary definitions to the CUSC for WACM2 of CMP343 to be effectively implemented.

(a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence

The majority of members of the CUSC Panel considered that all of the CMP340 proposals would better facilitate ACO (a). The Panel members highlighted that the proposals would better facilitate this objective by ensuring that the licensee's obligations under the TCR Direction are discharged.

Our position

We agree with the views expressed by the Panel relating to ACO (a) and therefore consider all CMP340 proposals to be positive against this objective as they would support the discharge of the licensee's obligations under the TCR Direction.

(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

¹⁴ As set out in Standard Condition C10(1) of the Electricity Transmission Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

¹⁵ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

The majority of members of the CUSC Panel considered that all of the CMP340 proposals would better facilitate ACO (b). The Panel members highlighted that the proposals would give effect to the Authority's TCR Decision, which should better facilitate competition by reducing harmful distortions caused by the current residual charging arrangements.

Our position

We agree that the CMP340 Original Proposal and WACM2 are positive against this objective as they support the CMP343 proposals that floor the locational charge at 0, an approach we consider will better facilitate effective competition. We consider WACM1 is neutral against ACO (b) as it supports the locational adjustment options for CMP343, which we consider to be neutral against the corresponding applicable CUSC charging objective.

(d) promoting efficiency in the implementation and administration of the CUSC arrangements

The majority of members of the CUSC Panel considered that all of the CMP340 proposals would better facilitate ACO (d). The Panel members highlighted that the proposals would facilitate the implementation of the associated proposals developed under CMP343.

Our position

We agree with the views expressed by the Panel relating to ACO (d) and therefore consider all CMP340 proposals to be positive against this objective by facilitating implementation of the corresponding CMP343 proposals.

Decision notice

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that the Original Modification Proposal CMP340: *Transmission Demand Residual – Consequential changes for CMP343 (TCR)* be made with an implementation date of 1 April 2023.

Andrew Malley

Head of Electricity Network Charging

Signed on behalf of the Authority and authorised for that purpose