

Modification proposal:	<b>Connection and Use of System Code (CUSC) CMP335: Transmission Demand Residual – Billing and consequential changes to CUSC Section 3 and 11 (TCR)</b>		
Decision:	The Authority <sup>1</sup> directs that this modification be made <sup>2</sup>		
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 Direction) on the Targeted Charging Review (TCR) Significant Code Review.<sup>3</sup> 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 2040<sup>4</sup>.

For the transmission network, the Transmission Owners (TOs) 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.

<sup>1</sup> 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.

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

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

<sup>4</sup> See 2019 TCR final decision for full information

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.<sup>5</sup>

The TCR included a review of how residual network charges are set and recovered. The aim of the TCR is 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 Demand<sup>6</sup> 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 non-domestic consumers 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<sup>7</sup> to National Grid Electricity System Operator (NGESO) (the 'TCR Direction'), to bring forward proposals to modify the Connection and Use of System Code (CUSC) in relation to residual charges, 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.<sup>8</sup> CMP343 proposes the methodology for TDR charges to be

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<sup>5</sup> Our TCR Decision directed that the TGR be removed from 2021/22. This was implemented by the approval of CMP317/327 [CMP317 & CMP327: Excluding assets required for connection and removing Transmission Generator Residual | Ofgem](#)

<sup>6</sup> 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.

<sup>7</sup> [CUSC Direction \(ofgem.gov.uk\)](#)

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

applied to 'Final Demand' on a 'Site'<sup>9</sup> basis. We have published our final decision on CMP343 and the other related modifications alongside this decision.<sup>10</sup>

CMP335 was raised by NGENSO on 16 January 2020 and proposes to revise existing processes to account for the CMP343 methodology. In particular, CMP335 will update post-tariff creation processes, such as reconciliation, dispute resolution and security requirements. Another modification, CMP336, will address the allocation of sites to bands. The Proposer expects this modification to have a positive impact against Applicable CUSC Objectives (ACO)<sup>11</sup> (a) and (d) as this proposal would ensure that the CUSC remains fit for purpose with the implementation of the TCR Decision.

CMP335 would revise Sections 3 and 11 of the CUSC so that the following is compatible with solution developed under CMP343:

- Bill the TDR based on actual site counts rather than supplier forecasts
- Use existing processes in CUSC section 7.2 and 7.3 for dispute resolution
- Update the credit monitoring section of the CUSC
- Add, remove or update any definitions in Section 11 as required.

### **CUSC Panel<sup>12</sup> recommendation**

At the CUSC Panel meeting on 1 October 2020, the CUSC Panel unanimously considered that CMP335 would better facilitate the CUSC objectives than the baseline. The Panel were also unanimously agreed that, between the baseline and the Original Proposal, the Original Proposal was the best option. The Panel therefore recommended the approval of CMP335.

### **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

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<sup>9</sup> Also defined in CMP334

<sup>10</sup> For CMP343 decision letter, please see the Main document section on the Decision on CMP343 webpage.

<sup>11</sup> 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>

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

account the responses to the industry consultations on the modification proposal which are attached to the FMR.<sup>13</sup> We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the ACOs of the CUSC; and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>14</sup>

We have concluded that the implementation will be on 1 April 2023, in line with the reasoning included in our CMP343 decision.

### **Reasons for our decision**

We consider this modification proposal will better facilitate ACOs (a), (b) and (d) and has a neutral impact on ACO (c).

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

The members of the CUSC Panel and members of Workgroup agreed that CMP335 would better facilitate ACO (a). The Panel members highlighted that the proposed modification 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 in particular that implementation of the proposal will ensure compliance with the TCR Direction. We therefore consider CMP335 to be positive against this objective.

#### ***(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***

Three members of the CUSC Panel considered that CMP335 would better facilitate ACO (b) by facilitating effective competition. The remaining Panel members considered CMP335 to be neutral against this objective.

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<sup>13</sup> 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>

<sup>14</sup> 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.

### *Our position*

We agree that CMP335 is positive against ACO (b) as it supports the delivery of the TCR Direction, which benefits competition by reducing harmful distortions caused by the current residual charging arrangements. The TCR reforms will ensure that network costs are recovered fairly from network users and reduce harmful distortions which impact competition and the efficiency of the electricity market, principally the distortions to investment and operational decisions that arise from the installing and usage of on-site generation to reduce network charges. These distortions increase system and consumer costs.

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

The majority of members of the CUSC Panel agreed that CMP335 would better facilitate ACO (d). Two Panel members considered that CMP335 would be neutral against ACO (d). Those Panel members that considered the proposed modification would better facilitate this objective highlighted that it would ensure billing arrangements are aligned with the corresponding tariff structure. They also considered that it would support the implementation of the TCR Direction.

### *Our position*

We consider that CMP335 is positive against this objective as it helps to support the implementation of CMP343. The proposal creates a process for the efficient integration of site data in timescales consistent with the TCR Direction together with a disputes process.

### **Decision notice**

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that modification proposal CMP335: *Transmission Demand Residual – Billing and consequential changes to CUSC Section 3 and 11 (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