Final Modification Report

CMP389: Transmission Demand Residual (TDR) band boundaries updates

Overview: This modification aims to implement changes related to band boundaries as stated in paragraph 3.12 of Ofgem's recent decision on CUSC modification CMP343.

Modification process & timetable

1. **Proposal Form** — 12 April 2022
2. **Workgroup Consultation** — n/a
3. **Workgroup Report** — n/a
4. **Code Administrator Consultation** — 16 May 2022 – 13 June 2022
5. **Draft Final Modification Report** — 16 June 2022
6. **Final Modification Report** — 06 July 2022
7. **Implementation** — 01 April 2023

Have 5 minutes? Read our Executive summary
Have 20 minutes? Read the full Final Modification Report
Have 30 minutes? Read the full Final Modification Report and Annexes.

Status summary: This report has been submitted to the Authority for them to decide whether this change should happen.

Panel Recommendation: The CUSC Panel held their recommendation vote on 24 June 2022. The Panel unanimously recommended that the CMP389 Original solution should be implemented.

This modification is expected to have a: High impact on Suppliers, Transmission Connected Demand Sites and a **Low impact** on ESO.

Governance route	Standard Governance modification to proceed to Code Administrator Consultation	
Who can I talk to about the change?	**Proposer:** Grahame Neale Grahame.Neale@nationalgrideso.com 07787 261242	**Code Administrator Contact:** Paul Mullen Paul.j.mullen@nationalgrideso.com 07794 537028

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What is the issue?

On 10 March 2022, Ofgem published their decisions on the CUSC modifications (CMP335/6 and CMP340/3[1]) which implement the TNUoS Demand Residual (TDR) changes as a result of the Targeted Charging Review (TCR). As part of their decisions, Ofgem highlighted several small changes / clarifications that would be beneficial; this modification is part of a suite of CUSC modifications to implement these improvements, which includes CMP388 and other modifications that will be raised in future.

This modification looks to specifically clarify the following from Ofgem's CMP343 decision;

"3.12. In addition, following further analysis (later in the Chapter), we would ask the ESO to consider raising a modification proposal to examine the location of the band boundaries (in terms of the percentiles that the boundary falls between[29]), particularly if updated data is used for allocating users to bands. Such a review of the distribution of sites across charging bands may allow band boundaries to be drawn in such a way as to help avoid clustering of similar sites either side of a given boundary."

Why change?

The rationale for the Decision(s) made by the Authority in respect of the TCR and the related CUSC modifications can be found in the Ofgem / Gas and Electricity Markets Authority (GEMA) publications relating to the TCR and the CUSC modifications.

This modification looks to clarify to industry the percentiles which will need be in effect for transmission connected sites from April 2023. This is to ensure that similar sites are treated in a similar manner within the TDR methodology.

What is the Proposer's solution?

Following submission of CMP343 to Ofgem and its subsequent approval, additional information is available to quantify the impact on Transmission connected Final Demand Sites of various band boundaries. The analysis supporting this change is located in the annex at the end of this proposal form.

It is proposed that the CUSC is updated with the following text to revise the boundary between band 3 and 4. In practice this means reviewing the boundaries between transmission bands 3 and 4 (currently at the 85th percentile) and updating paragraphs 14.15.137 and 14.15.138 accordingly. This proposal will not affect the total amount of TNUoS revenue collected across the population of Transmission connected sites, but will affect the distribution of charges between Users.

Whilst CMP388 is also planning to make changes to these CUSC paragraphs, interactions between this proposal and CMP388 should be avoided due to the minor changes of CMP388. The above analysis is inclusive of the changes proposed in CMP388 and is consistent with previous analysis undertaken by the ESO.

[1] https://www.ofgem.gov.uk/cy/publications/decision-cmp343

Legal text

Changes are shown in red text.

14.15.137

To produce the **Transmission Demand Residual Tariffs** a set of **Charging Bands** are to be created for each of the **Residual Charging Groups** using the following methodology.

(a) For domestic **Final Demand Sites** whether connected to the **Distribution** system or **Transmission** system there will be one **Charging Band** and;

(b) For non-domestic **Final Demand Sites** connected to the **Distribution** system there will be four **Charging Bands** for each of the **Residual Charging Groups** according to the methodology introduced to Schedule 32 of the **DCUSA** via DCUSA modification DCP358 and entitled 'RESIDUAL CHARGING BANDS' with boundaries set at the 40th, 70th and 85th percentiles and;

(c) For **Final Demand Sites** directly connected to the **Transmission** system there will be four **Charging Bands** using gross **Consumption** data with boundaries set at the 40th, 70th and ~~85th~~ 93rd percentiles and;

(d) For **Unmetered Supplies** there will be one **Charging Band.**

14.15.138 These **Charging Bands** will be reviewed periodically and be implemented effective from the beginning of each **Onshore Transmission Owner** price control period.

Domestic **Final Demand Sites**	
LV No Mic	Band 1 (≤40th percentile)
	Band 2 (>40th percentile – 70th percentile)
	Band 3 (>70th percentile – 85th percentile)
	Band 4 (>85th percentile)
LV MIC	Band 1 (≤40th percentile)
	Band 2 (>40th percentile – 70th percentile)
	Band 3 (>70th percentile – 85th percentile)
	Band 4 (>85th percentile)
HV	Band 1 (≤40th percentile)
	Band 2 (>40th percentile – 70th percentile)
	Band 3 (>70th percentile – 85th percentile)
	Band 4 (>85th percentile)
EHV	Band 1 (≤40th percentile)
	Band 2 (>40th percentile – 70th percentile)
	Band 3 (>70th percentile – 85th percentile)
	Band 4 (>85th percentile)
Directly Connected Users Final Demand Sites	Band 1 (≤40th percentile)
	Band 2 (>40th percentile – 70th percentile)
	Band 3 (>70th percentile – ~~85th~~ 93rd percentile)
	Band 4 (>~~85th~~ 93rd percentile)
Unmetered Supplies	

What is the impact of this change?

Proposer's assessment against CUSC Charging Objectives	
Relevant Objective	**Identified impact**
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;	**Positive** These clarifications will better reflect similar sites paying similar charges
(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);	**Neutral**
(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;	**Neutral**
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	**Neutral**
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	**Positive** These clarifications will provide greater certainty and transparency regarding the methodology.
*The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.	

Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories	
Stakeholder / consumer benefit categories	**Identified impact**
Improved safety and reliability of the system	**Neutral**
Lower bills than would otherwise be the case	**Neutral**
Benefits for society as a whole	**Neutral**
Reduced environmental damage	**Neutral**
Improved quality of service	**Positive** Clarity will provide better visibility to Suppliers of how Final Demand Sites will be charged and so enable Suppliers to provide better service to their customers.

Code Administrator Consultation summary

The Code Administrator Consultation was issued on the 16 May 2022 closed on 13 June 2022 and received 6 non-confidential responses and 1 confidential response. A summary of the non-confidential responses can be found in Annex 3, and the full non-confidential responses can be found in Annex 4. In summary:

- 5 of the 6 non-confidential responses were supportive of the change and implementation approach and 2 of these respondents the solution was in line with Ofgem's request in their CMP343 decision. 2 of these respondents noted the need for further change to address current cliff-edges given the difference in TNUoS between Transmission Bands 3 and 4; and
- The 1 non-confidential response, who did not support the change, argued that this is detrimental to competition and noted that 15 out of the 19 parties that would be impacted by CMP389 would pay more TNUoS than under CMP343. The Proposer had also noted that CMP389 would redistribute a fixed value of charges between users located in transmission bands 3 and 4 resulting in 'winners' and 'losers'; and
- No Legal Text changes proposed.

Panel Recommendation vote

The Panel met on 24 June 2022 to carry out their recommendation vote.

They assessed whether a change should be made to the CUSC by assessing the proposed change and any alternatives against the Applicable Objectives.

Vote 1: Does the Original facilitate the objectives better than the Baseline?

Panel Member: **Andrew Enzor**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes

Voting Statement
The Original solution will, compared to the baseline, be closer to a solution which ensures similar customers pay similar charges (at least to the extent possible under a residual charging solution with step changes built in by design). So I consider the Original better facilitates ACO(a). But the need for CMP389 again highlights that any mechanism of setting charging band boundaries will not result in a cost reflective outcome, and raises the need for further reform to avoid the need for a repeat of short notice modifications such as CMP389.

Panel Member: **Andy Pace**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes

Voting Statement
This mod will amend the band boundaries for final demand sites connecting at transmission. This overcomes the issue of sites grouping at a band boundary. We therefore believe this better meets applicable objective (a), that compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity. We understand that a further modification will be brought forward to ensure the principles behind this change are put into the CUSC at a later date.

Panel Member: **Binoy Dharsi**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	No	Neutral	Neutral	Yes	Yes

Voting Statement
This modification better facilitates competition (Applicable Objective a)). Similar sites are now paying the same cost. Against Applicable Objective b) it is judged to be negative. The banding approach to assigning demand residual charges is flawed. The large cliff edges between different bands are arbitrary. A linear approach to charging or greater number of bands would be far more reasonable. The clarity that is modification promotes greater transparency and therefore is positive against Applicable Objective e).

Panel Member: **Cem Suleyman**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Yes	Yes

Voting Statement
I believe that CMP389 better meets the Applicable CUSC Objectives for the same reasons as provided by the Proposer

Panel Member: **Garth Graham**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Yes	Yes

Voting Statement
I concur with the reasoning provided by the Proposer as to why this change better achieves the relevant Applicable Objectives.

Panel Member: **Grace March**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
Voting Statement						
This modification sets the threshold between bands 3 and 4 such that similarly sized sites do not face disproportionately different charges. This should result in suppliers facing fairer costs.						

Panel Member: **Joe Dunn**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
Voting Statement						
Positive against ACO (a) as the changes will better reflect similar sites paying similar charges enabling a more level playing field for competition.						

Panel Member: **Karen Thompson – Lilley**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Yes	Yes
Voting Statement						
I believe CMP389 is positive against the Applicable CUSC Objectives A and E (whilst being neutral against the other objectives) as; 1. These changes will ensure that similar sites are treated in a similar manner by the TNUoS Demand Residual (TDR) methodology. 2. Meets a requirement of Ofgem's decision on CMP343. 3. Ensures band boundaries are finalised and clarified for industry ahead of go-live in the TDR methodology in April 2023						

Panel Member: **Paul Jones**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
Voting Statement						
Helps to address issue where a number of similar sized sites were likely to pay very different charges due to falling either side of the initially proposed boundary, while noting that this sort of issue will never fully be avoided.						

Vote 2 – Which option is the best?

Panel Member	BEST Option?	Which objectives does this option better facilitate? (If baseline not applicable).
Andrew Enzor	Original	(a)
Andy Pace	Original	(a)
Binoy Dharsi	Original	(a) & (e)
Cem Suleyman	Original	(a) & (e)
Garth Graham	Original	(a) & (e)
Grace March	Original	(a)
Joe Dunn	Original	(a)
Karen Thompson – Lilley	Original	(a) & (e)
Paul Jones	Original	(a)

Panel conclusion

The CUSC Panel held their recommendation vote on 24 June 2022. The Panel unanimously recommended that the CMP389 original solution should be implemented.

When will this change take place?

Implementation date
1 April 2023

Date decision required by
31 December 2022 for use in publishing final tariffs for 1 April 2023; however, a decision by 1 October 2022 is preferred so it can be considered in draft tariffs for April 2023.

Implementation approach
To align with implementation of CMP343

Interactions

☐Grid Code	☐BSC	☐STC	☐SQSS
☐European Network Codes	☐ EBR Article 18 T&Cs[2]	☐Other modifications	☐Other

No impact on other industry codes is expected

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Regulation
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
T&Cs	Terms and Conditions
GEMA	Gas and Electricity Markets Authority
TCR	Targeted Charging Review
TDR	Transmission Demand Residual

Reference material

- None

Annexes

Annex	Information
Annex 1	Proposal Form
Annex 2	Supporting Analysis
Annex 3	Code Administrator Consultation Responses

[2] If your modification amends any of the clauses mapped out in Exhibit Y to the CUSC, it will change the Terms & Conditions relating to Balancing Service Providers. The modification will need to follow the process set out in Article 18 of the Electricity Balancing Guideline (EBR – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.