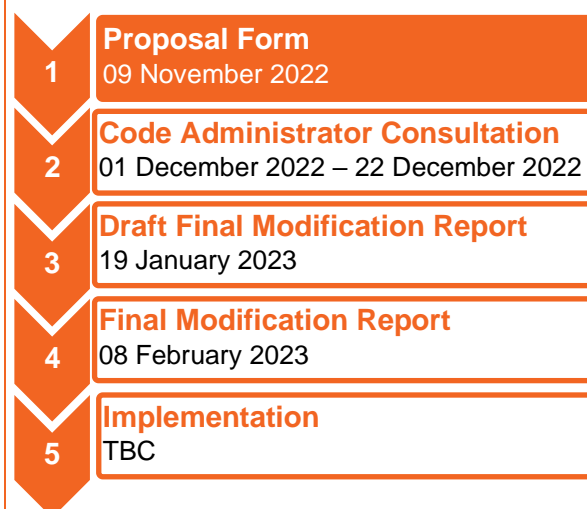


CUSC Modification Proposal Form

CMP403: Introducing Competitively Appointed Transmission Owners & Transmission Service Providers (Section 14)

Overview: This modification aims to introduce the concept of Competitively Appointed Transmission Owners and Transmission Service Providers for the purposes of introducing Early Competition for the design, build and ownership of Onshore Transmission assets.

Modification process & timetable



Status summary: The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

This modification is expected to have a: Low impact

NGESO, Transmission Owners, CATO's, Generators, Transmission System Operators

Proposer's recommendation of governance route

Standard Governance modification to proceed to Code Administrator Consultation

Who can I talk to about the change?

Proposer:

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Code Administrator Contact:

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What is the issue?

On 28 March 2022, Ofgem published its decision¹ to proceed with implementation of the Competition model for the UK's transmission network. This has been underpinned by the publication of the Energy Security Bill², which makes provision to enable competitive tenders for delivery of onshore electricity network assets. The party who wins a competition is often referred to as a Competitively Appointed Transmission Owner (CATO). The Bill will introduce powers to enable the Secretary of State to appoint a body to run tenders and to set criteria to determine a network project's eligibility to be competed. It will also extend Ofgem's power to make regulations which will set out the process by which tenders will be run.

To allow onshore electricity network competition to be implemented effectively, the competition processes, obligations, technical requirements, charges, and remuneration principles need to be embedded within the relevant codes. The Introduction of Early Competition affects SQSS, CUSC, STC(P) and Grid Code, among others. NGESO have identified the CUSC defect, therefore the intention is to progress with this modification in tandem with associated modifications during the period between Autumn 2022 and Autumn 2023.

Why change?

For the UK to reach net zero by 2050 and achieve independence from fossil fuels, the UK needs an extensive programme of development and investment in the electricity transmission network. As part of this green energy transition, it is expected that there will be a doubling in electricity demand driven in part by the electrification of heat and transport. This will require significant reinforcement for the National Electricity Transmission System, and introduction of CATO's will contribute to facilitating this.

The Department for Business, Energy and Industrial Strategy indicate that, through the introduction of competition, consumers could see savings of up to £1 billion by 2050 on projects tendered over the next ten years. Ofgem requested for NGESO to plan how competition could be included within the process of designing, building and owning onshore transmission assets in the early stages of the project lifecycle, known as 'Early Competition'. NGESO's Early Competition Plan (ECP) was published in April 2021.

Introducing the concept of CATOs to the relevant industry codes ensures the safe, secure and coordinated operation of the Transmission System by establishing both the obligations on CATOs and those entities interacting with CATO assets. The first phase of the Early Competition procurement process (the pre-tender) is set to commence in the first quarter of 2024, necessitating that the proposed modifications be raised and progressed in line with the Code Administrator proposed timetable.

Following the completion of a competitive tender, a CATO will be awarded a Transmission Licence and categorised as an Onshore Transmission Owner. CATOs will differ from incumbent TOs insofar as, for instance, they will consist of project companies funded through a Tender Revenue Stream (TRS) to deliver a specific project based on network requirements. As a Licensed TO, CATOs will be subject to broadly the same obligations and frameworks.

¹ <https://www.ofgem.gov.uk/publications/decision-early-competition-onshore-electricity-transmission-networks>

² [Energy Security Bill - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/bills-2022/energy-security-bill)

What is the proposer's solution?

The following changes (shown in red) are proposed to CUSC Section 14. To ensure that payments made through the Onshore Tender Process are recovered effectively from TNUoS and BSUoS:

Charging Methodologies:

14.14.1 Transmission Network Use of System charges reflect the cost of installing, operating and maintaining the transmission system for the Transmission Owner (TO) and Competitively Appointed Transmission Owners (CATOs) Activity function of the Transmission Businesses of each Relevant Transmission Licensee. These activities are undertaken to the standards prescribed by the Transmission Licences, to provide the capability to allow the flow of bulk transfers of power between connection sites and to provide transmission system security.

14.14.2a The payments made to Competitively Appointed Transmission Owners (CATOs) are not set via a price control of the same form as incumbent Transmission Owners; instead, the payment to each CATO takes the form of a Tender Revenue Stream (TRS). The method for determining the TRS for a CATO will be prescribed within its licence. Transmission Network Use of System Charges are set to recover the Maximum Allowed Revenue which is determined in accordance with the terms of the CATO's licence, such Maximum Allowed Revenue may include amongst other things the TRS, adjustments for indexation and incentivisation, and other payments provided for under its licence.

14.29.5 BSUoS Charges comprise the following costs:

(i) The Total Costs of the Balancing Mechanism

(ii) Total Balancing Services Contract costs

(iii) Payments/Receipts from The Company's incentive schemes (iv) Internal costs of operating the System

(v) Costs associated with contracting for and developing Balancing Services (vi) Adjustments

(vii) Costs invoiced to The Company associated with Manifest Errors and Special Provisions.

(viii) BETTA implementation costs

(ix) Financing and administrative costs, as agreed by The Authority, associated with the management of the Covid Support Scheme in 14.30.13 and Exceptional Costs Support Scheme in 14.30.21.

(x) Total cost of the tender revenue stream associated with payments to Competitively Appointed Non-Transmission Owners (CANTSO); for clarity this is to include any cost of tender revenue stream associated with CANTSO Early Competition contracts

Draft legal text

See above

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;	Neutral Whilst a CATO type regime could facilitate competition in the distribution of electricity, this mod relates to the application of a CATO type regime only in transmission space. CUSC Main Objective (b) does not relate to the facilitation of competition in the transmission of electricity.
(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;	Positive Ofgem will be licensing new CATOs. It is assumed that there will be new licence conditions for the existing TOs to co-operate with CATOs, unless this is done via change to the STC. BEIS envisages ³ specifying and consulting on various updated licence changes as are thought necessary for the CATO regime, in early 2023.
(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

The CATO regime is to be enacted via changes to the Electricity Act plus supporting secondary legislation from the Secretary of State, and new licence conditions from Ofgem. The CUSC charging provisions have to be changed to reflect the forthcoming CATO regime

**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	Positive The CATO regime is expected to reduce costs in cases where a non-incumbent TO or non-TO alternative solution is appointed for new NETS
Benefits for society as a whole	Neutral
Reduced environmental damage	Positive Better and more innovative solutions to network boundary capacity constraints could be identified as a result of the CATO competitive process, allowing the earlier connection of more nuclear and renewable zero carbon generation, pure green hydrogen electrolyzers, EV Charger arrays and other environmentally beneficial new users
Improved quality of service	Positive Better and more secure solutions to network boundary capacity constraints or with more security for a given

	total cost could be identified as a result of the CATO competitive process, allowing the earlier connection of more secure affordable low carbon generation
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When will this change take place?

Implementation date

10 Days after an Ofgem decision, if passed.

Date decision required by

September 2023 is a prudent target so as to run well ahead of any CATO appointment and give potential CATO tenderers early visibility of the regime, giving them certainty that all code changes necessary are in place and visible.

Implementation approach

It is regarded as certain that the TRS revenues will always be known ahead of 30 January 2023 before the start of the charging year in which they are due to be paid to the CATO(s).

Proposer's justification for governance route

Governance route: Standard Governance modification to proceed to Code Administrator Consultation

ESO considers that these changes are fairly mechanistic and lacking in controversy or the need for judgement and debate. If a workgroup approach were taken, quoracy may be an issue. Any errors in the drafting or suggested improvements should be highlighted by code admin consultees in their responses.

Interactions

- | | | | |
|--|--|---|--------------------------------|
| <input type="checkbox"/> Grid Code | <input type="checkbox"/> BSC | <input type="checkbox"/> STC | <input type="checkbox"/> SQSS |
| <input type="checkbox"/> European
Network Codes | <input type="checkbox"/> EBR Article 18
T&Cs ⁴ | <input type="checkbox"/> Other
modifications | <input type="checkbox"/> Other |

No direct interactions are expected. Changes are being raised to the STC and the Grid Code that are also necessary to facilitate the CATO regime, but they are not directly interactive with this CUSC mod or its main (non-charging) “twin” CUSC mod.

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
ESO	Electricity System Operator
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
T&Cs	Terms and Conditions
TRS	Tender Revenue Stream

⁴ 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.