

Modification proposal:	<b>Connection and Use of System Code (CUSC) CMP364: Definition changes for CMP363 (CMP364)</b>		
Decision:	The Authority <sup>1</sup> directs that this modification be made <sup>2</sup>		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	13 December 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 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.

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.

<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/system/files/docs/2019/12/full\\_decision\\_doc\\_updated.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf)

We decided that residual charges should apply to Final Demand<sup>4</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 and transmission connected non-domestic consumers, we decided that a structure of banded fixed charges should be used for residual charges. The changes were implemented in April 2022 for distribution residual charges, and will be implemented for transmission residual charges in April 2023.<sup>5</sup>

Alongside our Decision, we issued a Direction 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. In the TCR Direction<sup>6</sup>, we directed (paragraph 33.c) that "*appropriate arrangements to develop any consequential changes that may be required in relation to residual charges for [...] consumers connected to private wires and complex sites*"<sup>7</sup>, should be made.

In November 2020, we approved CMP334 which defined 'Final Demand Site' in the CUSC. This definition is used in the Transmission Network Use of System (TNUoS) methodology as a result of our decisions to approve CMP343 and CMP340. In our decision on CMP334, we stated that sites that have a mix of Final and Non-Final Demand had not been adequately covered. At the time, we said that we expected any such modification brought forward to cover these sites should ensure that the following:

- *sites that would not be subject to the TDR under CMP334 WACM1 would not be subject to the TDR if they exist in a private wire/complex site; and*
- *any site in a private wire/complex site that has associated final demand would be liable for the TDR in a proportionate way.*

## **The modification proposal**

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<sup>4</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>5</sup> We decided in our approval of CMP343 WACM2 that there would be four residual charging bands transmission-connected users: [CMP343 Decision.pdf](#)

<sup>6</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2019/11/cusc\\_direction\\_1.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2019/11/cusc_direction_1.pdf)

<sup>7</sup> The term 'complex site' in the context of the TCR relates to sites that have a mix of Final and Non-Final Demand, and was a colloquial term used in industry and so had no formally recognised meaning, and was also not recognised by CUSC. To avoid confusion with 'Complex Site' definition in the BSC, the Workgroup agreed to use the term 'complicated sites' to avoid confusion in industry. CMP364 has introduced 'Mixed Demand Site' into CUSC to give definition to these types of sites.

NGESO (the 'Proposer') raised modification CMP364 on 10 December 2020. CMP364 proposes to alter, introduce and remove defined terms within Section 11 of the CUSC, which are necessary to give effect to CMP363. CMP363 proposes to clarify how residual charges will apply to sites with a mix of Final and Non-Final Demand. Specifically, CMP364 seeks to make the following changes:

- In the definition of 'Final Demand Site' replace "All Users" with "For Users" in accordance with Ofgem's decision on CMP334.
- Introduce the definition of 'Mixed Demand Site'.
- Move the definition of 'Declarations' to CUSC Section 14.

The Proposer expects this modification to have a positive impact against Applicable CUSC Objectives (ACOs)<sup>8</sup> (a), (b) and (d) as this Proposal would ensure that the CUSC remains fit for purpose with the implementation of CMP363. Alongside this decision, we have today approved CMP363 WACM1.

### **CUSC Panel<sup>9</sup> recommendation**

At the CUSC Panel meeting on 30 September 2022, the CUSC Panel unanimously considered that CMP364 would better facilitate the ACOs than the Baseline (ie the existing provisions of the CUSC). The Panel therefore recommended the approval of CMP364.

### **Our decision**

We have considered the issues raised by the modification proposal and the final Modification Report (FMR) dated 12 October 2022. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR<sup>10</sup>. We have concluded that:

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<sup>8</sup> As set out in Standard Condition C5(5) of Electricity Transmission Licence, see: [Electricity Transmission Standard Licence Conditions 01 04 2022 \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/standard-licence-conditions/01-04-2022)

<sup>9</sup> The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC.

<sup>10</sup> CUSC modification proposals, modification reports and representations can be viewed on NGESO's website at: <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc/modifications>

- implementation of the modification proposal would better facilitate the achievement of the ACOs;<sup>11</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>12</sup>

## **Reasons for our decision**

We consider this modification proposal would 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 on it by the Act and the Transmission Licence;***

The majority of the CUSC Panel considered CMP364 would better facilitate this objective, with one Panel Member considering it to be neutral. The Panel members highlighted that the proposal enables efficient discharge by the licensee of the obligations imposed on it and is consistent with Authority's decision on recovering the residual and therefore positive against ACO (a).

#### *Our position*

We agree with the views expressed by the Panel relating to ACO (a). The Proposal gives effect to the relevant parts of our TCR Direction related to the recovery of residual charges for sites with a mix of Final and Non-Final Demand. We therefore consider CMP364 to be positive against this objective as it supports 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 is consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;***

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<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 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 Panel members believed that CMP364 better facilitated this objective, with three Panel members considering it to be neutral against this objective. The Panel members noted that the proposal provides clarity in respect of complicated sites (ie standalone Non-Final Demand Sites and sites with a mix of Final and Non-Final Demand) to ensure a level playing field across these types of sites.

*Our position*

CMP364 is necessary for the implementation of CMP363, which we consider would better facilitate effective competition by supporting the provision of a level playing field across Non-Final Demand Sites and Mixed Demand Sites. Therefore, we agree with the views expressed by Panel and consider this proposal to be positive against this objective.

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

The majority of the CUSC Panel considered that CMP364 better facilitated this objective, with three members considering it to be neutral. The Panel members who considered the proposal to be positive against this objective highlighted that the proposal would facilitate the implementation of CMP363. One Panel member noted that the proposal removes uncertainty and therefore increases efficiency of charging arrangements.

*Our position*

We agree with the views expressed by the Panel relating to this objective and therefore consider CMP364 to be positive against this objective by facilitating implementation of the corresponding CMP363 proposal.

**Decision notice**

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that modification proposal CMP364: *Definition changes for CMP363* be made.

**Tom Kenyon Brown**

**Head of Electricity Network Charging**

Signed on behalf of the Authority and authorised for that purpose