CMP234 'Incorporation of Biddable Indexation of OFTO revenues in TNUoS'

What stage is this document at?

01	Code Administrator Consultation
02	Draft CUSC Modification Report
03	Final CUSC Modification Report

This proposal seeks to change the indexation of local Offshore Transmission Network Use of System tariffs to match the rate applied to each Offshore Transmission Owner's (OFTOs) revenue under their licence instead of Retail Price Index (RPI).

Published on: 4th November 2014
Date of Panel Determination vote: 31st October 2014

The CUSC Panel has determined:
CMP234 should be implemented as it better facilitates Applicable CUSC Objectives (a), (b) and (c).

Implementation:
CMP234 will be implemented 1st April 2015, pending any appeals

Low Impact:
Offshore Generators

Contents

About this document

This is the Final CUSC Modification Report which contains details of the CUSC Panel's Determination in respect of CMP234, as well as any responses to the Code Administrator Consultation. This Report has been prepared and issued by National Grid as Code Administrator under the rules and procedures specified in the CUSC.

Document Control

Version	Date	Author	Change Reference
1.0	4th November 2014	Code Administrator	Version to Industry

Any Questions?

Contact:
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National Grid

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1 Summary

1.1 This document describes the CMP234 Modification Proposal and contains any responses received in response to the Code Administrator Consultation.

1.2 CMP234 was proposed by National Grid Electricity Transmission Plc (the Proposer) and was submitted to the CUSC Modifications Panel (the Panel) for their consideration on 29th August 2014. A copy of the Proposal form is provided in Annex 1 of this document. The Panel determined that CMP234 should be considered as Self-Governance and should progress directly to Code-Administrator Consultation for the standard 15 Business Days. A copy of the Self-Governance statement can be found in Annex 2.

1.3 CMP234 aims to change the indexation of local Offshore Transmission Network Use of System tariffs to match the rate applied to each Offshore Transmission Owner's (OFTOs) revenue under their licence instead of Retail Price Index (RPI).

1.4 The Code Administrator Consultation closed on 24th September and received three responses; these can be found in Annex 4, a summary of these responses can also be found in Section 7 of this report.

1.5 This Final CUSC Modification Report has been prepared in accordance with the Terms of the CUSC. An electronic copy can be found on the National Grid Website, http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Current/ , along with the CUSC Modification Proposal Form.

National Grid's Opinion

1.6 National Grid supports the implementation of CMP234 as it better facilitates Applicable Objectives (a), (b) and (c). National Grid's view is that the modification ensures that local Offshore TNUoS charges remain cost reflective by accounting for changes to the OFTO licence terms under Tender Round 3 (TR3). This in turn facilitates competition by ensuring that generators connecting to transmission assets subject to TR3 are charged on an equivalent basis to those connecting to assets subject to earlier tender rounds.

CUSC Modification Panel's Determination

1.7 At the meeting of the CUSC Modifications Panel on 31st October 2014, the Panel voted unanimously that CMP234 better facilitates Applicable CUSC Objectives (for charging) a), b) and c) and therefore should be implemented. Further details on the CUSC Panel vote can be found in Section 6.

Implementation

1.8 The 15 Working day Self-Governance appeals window commenced on 31st October and closes on 21st November 2014. Subject to any appeals, CMP234 will be implemented at the start of the next charging year on 1st April 2015.

2 Background

2.1 Under Offshore Tender Rounds 1 and 2 (TR1 and TR2), the allowed revenue of each appointed Offshore Transmission Owner (OFTO) is fully indexed annually to Retail Price Index (RPI).

2.2 Going forward (under Tender Round 3), Ofgem have introduced the option for bidders to specify the proportion of OFTO revenue that they wish to be indexed to RPI. Under these arrangements[1], OFTOs will be able to index a fixed proportion of their annual revenue to RPI and have the remaining proportion of their revenue not indexed to RPI (remaining constant).

2.3 As part of the Transmission Network Use of System (TNUoS) charging methodology, generators connecting to an offshore network pay local TNUoS charges. These are based upon the level of OFTO revenue associated with each offshore transmission asset. The charges are set upon the OFTO taking ownership of the assets and are re-evaluated at the start of each onshore price control period. In all other years, the charges are fully indexed to RPI.

2.4 For an OFTO whose revenue is fully indexed to RPI, the local TNUoS charges associated with their assets should reflect the associated revenue year-on-year as both are indexed in the same manner. However, for an OFTO whose revenue is only partially linked to RPI, the indexation of the local TNUoS charges by RPI will result in charges to the generator that increase more rapidly than the associated revenue.

[1] http://www.ofgem.gov.uk/ofgem-publications/86475/decisionlettertr3licence.pdf

3 Modification Proposal

3.1 CMP234 aims to adjust the indexation of Local TNUoS charges relating to Offshore transmission assets within the TNUoS charging methodology to match that applied to the revenue of the associated OFTO. This would ensure that the link between OFTO revenue and TNUoS charges established for offshore projects forming part of Tender Rounds 1 and 2 would be maintained for those under Tender Round 3.

3.2 For Local Substation tariffs, the solution would be to simply change the existing reference to RPI indexation of the tariff to refer to the rate of indexation applied to the OFTO's revenue under the terms of their Licence.

3.3 For Local Circuit tariffs, the solution is slightly more complex. For each generator connecting to Local Offshore assets the Local Circuit tariff is currently calculated as follows;

Local Circuit Tariff = Marginal MWkm * Expansion Constant * Local Security Factor * Expansion Factor

Marginal MWkm:	the additional amount of network required to facilitate an additional 1MW of generation from the site concerned (in MWkm);
Expansion Constant:	the unit cost of 400kV overhead line (in £/MWkm);
Local Security Factor:	a number representing the additional amount of capacity installed on the local network to provide additional security (a number up to 1.8); and
Expansion Factor:	the ratio of the unit cost of a circuit to the unit cost of 400kV overhead line.

3.4 The tariff is effectively indexed to RPI through the indexation of the expansion constant. As this is a global variable that is used in the calculation of all Local Circuit and Wider Zonal tariffs, it is not possible to apply a different indexation rate direct to this variable without affecting the calculation of other tariffs. Instead, it is proposed that the indexation is adjusted through the expansion factor.

3.5 The first step would be to divide the expansion factor by the indexation rate that has been applied to the expansion constant to effectively undo the RPI indexation. The second step is to index the result by the indexation rate applied to the OFTO's revenue under the terms of its licence.

3.6 The level of indexation applied to each OFTO's revenue (and hence tariffs under the Proposal) will be published as part of their Statement of Basis of Transmission Charges. This document is published under the terms of each OFTO's licence and states parameters used to calculate their annual revenue, including annual indexation rates. In addition, to ensure that such information can be found in a single location, National Grid has indicated that it intends to publish this information as part of its charging documentation (although such publication does not form part of the Proposal).

4 Proposed Implementation and Transition

4.1 It is proposed that if CMP234 is approved for implementation by the CUSC Panel, there will be a 15 day appeals window commencing on 31st October 2014 and closing on 21st November 2014. Subject to any appeals, CMP234 will be implemented at the start of the following charging period on 1st April 2015.

5 Impacts

Impact on the CUSC

5.1 CMP234 seeks to change CUSC Section 14, paragraphs;

- 14.15.63
- 14.15.87

5.2 The CMP234 draft legal text can be found in Annex 3.

Impact on Greenhouse Gas Emissions

5.3 None identified.

Impact on Core Industry Documents

5.4 None identified.

Impact on other Industry Documents

5.5 None identified.

Costs

Industry Costs	
Resource costs	£2, 723 - 1 Consultation • 1.5 man days effort per consultation response • 3 consultation respondents
Total Industry costs	£2,723

6 The Case for Change

Assessment against the Applicable CUSC Objectives

6.1 For reference, the Applicable CUSC Objectives, as defined in the Transmission Licence are:

(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;

(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);

(c) That, so far is as 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.

(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

National Grid's Opinion

6.2 National Grid supports the implementation of CMP234 as it meets Applicable CUSC Objective (a), (b) and (c).

6.3 The proposed changes will maintain the link between local TNUoS charges for offshore assets and the associated OFTO revenues following the introduction of biddable indexation. As the OFTO revenue is linked to asset value and associated costs such as financing and maintenance costs, the proposal will maintain cost reflectivity of the associated charges, better achieving applicable objective (b).

6.4 In addition, this change will facilitate competition by ensuring that local TNUoS charges for offshore generation associated with tender round 3 reflect the associated OFTO revenues in an equivalent manner to those under tender rounds 1 & 2. This better facilitates applicable objective (a).

6.5 Finally, the proposed solution aims to take account of changes implemented to the manner in which OFTO revenues are calculated under the terms of their licence, properly taking account of these developments in OFTO's transmission businesses, better facilitating applicable objective (c).

CUSC Modifications Panel's view

6.6 At the CUSC Modifications Panel on 31st October 2014, the Panel unanimously agreed that CMP234 better facilitates Applicable CUSC Objectives (for charging) a), b) and c) by remaining cost reflective, enhances competition and takes into account the new charging regime. The Panel therefore agreed CMP234 should be implemented. Details of the Panel vote can be found below;

Panel Member	(a)	(b)	(c)	(d)	Overall
Garth Graham	Yes	Yes	Yes	Neutral	Yes
Bob Brown	Yes	Yes	Yes	Neutral	Yes
Michael Dodd	Yes	Yes	Yes	Neutral	Yes
Paul Jones	Yes	Yes	Yes	Neutral	Yes
Ian Pashley	Yes	Yes	Yes	Neutral	Yes
Paul Mott	Yes	Yes	Yes	Neutral	Yes
Simon Lord	Yes	Yes	Yes	Neutral	Yes
James Anderson	Yes	Yes	Yes	Neutral	Yes

6.7 A 15 day appeals window commenced on 31st October 2014 and closes on 21st November 2014. Subject to any appeals, CMP234 will be implemented at the start of the next charging year on 1st April 2015.

7 Code Administrator Consultation Responses

7.1 Three responses were received to the Code Administrator Consultation. The following table provides an overview of the responses received. The full responses can be found in Annex 4.

Company name	Do you believe CMP234 better facilitates the Applicable CUSC Objectives?	Do you support the proposed implementation approach	Do you agree with the decision to progress CMP234 through the Self-Governance route?	Any other comments?
E.ON	Yes, the proposal better facilitates objectives (a), (b) and (c), and is neutral against (d).	Yes	Yes – Would have welcomed more information on how the tariffs would be calculated for a partially indexed OFTO revenue requirement.	No
Scottish Power Renewables	Yes, the proposal better facilitates objectives (a), (b) and (c), and is neutral against (d).	Yes	Yes	SPR would recommend a review of the outcome (as soon as practicable following implementation and available information) of the appetite and use of biddable indexation and the proportion of fixed (non-indexed) versus not.
SSE	Yes, the proposal better facilitates objectives (a), (b) and (c).	Yes	Yes	Applaud the decision by National Grid to publish the information on individual Round 3 tender levels of indexation in a single location as part of its charging documentation.

7.2 At the CUSC Modification's Panel on 31st October 2014 it was noted that Scottish Power Renewables' response strongly recommends 'a review of the outcome (as soon as practicable following implementation and available information) of the appetite and use of 'biddable indexation' and the proportion of fixed (non-indexed) versus not and how this compares with the current status quo over the lifetime of the assets'. It was agreed that there would be a presentation to the CUSC Panel three months following implementation of CMP234 to provide an update on the outcome of this modification.

Annex 1 – CMP234 CUSC Modification Proposal Form

CUSC Modification Proposal Form (for Charging Methodology Proposals) CMP234

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal

Incorporation of Biddable Indexation of OFTO revenues in TNUoS

Submission Date

19th August 2014

Description of the Issue or Defect that the CUSC Modification Proposal seeks to address

Under Offshore Tender Rounds 1 and 2, the allowed revenue of each appointed OFTO (Offshore Transmission Owner) is fully indexed annually to RPI (Retail Price Index). Going forward (under Tender Round 3), Ofgem have introduced the option for bidders to specify the proportion of OFTO revenue that they wish to be indexed to RPI (https://www.ofgem.gov.uk/ofgem-publications/86475/decisionlettertr3licence.pdf). Under these arrangements, OFTOs will be able to index a fixed proportion of their annual revenue to RPI and have a proportion that is not indexed to RPI (remaining constant).

As part of the TNUoS (Transmission Network Use of System) charging methodology, generators connecting to an offshore network pay Local TNUoS charges. These are based upon the level of OFTO revenue associated with each offshore transmission asset. The charges are set upon the OFTO taking ownership of the assets and re-evaluated at the start of each onshore price control period. In all other years, the charges are fully indexed to RPI.

For an OFTO whose revenue is fully indexed to RPI, the local TNUoS charges associated with their assets should reflect the associated revenue year-on-year as both are indexed in the same manner. However, for an OFTO whose revenue is only partially linked to RPI, the indexation of the local TNUoS charges by RPI will result in charges to the generator that increase more rapidly than the associated revenue.

Description of the CUSC Modification Proposal

The modification would adjust the indexation of Local TNUoS charges relating to Offshore transmission assets within the TNUoS charging methodology to match that applied to the revenue of the associated OFTO. This would ensure that the link between OFTO revenue and charges established for offshore projects forming part of tender rounds 1 and 2 would be

maintained for those under tender round 3.

For Local Substation tariffs, the solution would be to simply change the existing reference to RPI indexation of the tariff to refer to the rate of indexation applied to the OFTO's revenue under the terms of their Licence.

For Local Circuit tariffs, the solution is slightly more complex. For each generator connecting to Local Offshore assets the Local Circuit tariff is calculated as follows

Local Circuit Tariff = Marginal MWkm * Expansion Constant * Local Security Factor * Expansion Factor

where:

- Marginal MWkm is the additional amount of network required to facilitate an additional 1MW of generation from the site concerned (in MWkm);
- Expansion Constant is the unit cost of 400kV overhead line (in £/MWkm);
- Local Security Factor is a number representing the additional amount of capacity installed on the local network to provide additional security (a number up to 1.8); and
- Expansion Factor is the ratio of the unit cost of a circuit to the unit cost of 400kV overhead line.

The tariff is effectively indexed to RPI through the indexation of the expansion constant. As this is a global variable that is used in the calculation of all Local Circuit and Wider Zonal tariffs, it is not possible to apply a different indexation rate direct to this variable without affecting the calculation of other tariffs. Instead, it is proposed that the indexation is adjusted through the expansion factor.

The first step would be to divide the expansion factor by the indexation rate that has been applied to the expansion constant to effectively undo the RPI indexation. The second step is to index the result by the indexation rate applied to the OFTO's revenue under the terms of its licence.

The attached document provides suggested legal text for the modification.

Impact on the CUSC

Changes to paragraphs 14.15.63 and 14.15.87. (Suggested legal text attached).

Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes / No

No.

Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information

BSC ☐

Grid Code ☐

STC ☐

Other ☐
(please specify)

None.

Urgency Recommended: Yes / No

No.

Justification for Urgency Recommendation

N/A

Self-Governance Recommended: Yes / No

Yes

Justification for Self-Governance Recommendation

This proposal has been raised as a result of OFTO licence changes which allow biddable indexation of OFTO revenues under tender round 3 (which have already been approved). The purpose of the proposal is to reflect these changes in the calculation of Local charges related to offshore assets, whilst preserving the existing principle of directly linking TNUoS charges for Offshore assets to the associated OFTO revenue.

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?

Yes.

Impact on Computer Systems and Processes used by CUSC Parties:

No significant impact.

Details of any Related Modification to Other Industry Codes

None.

Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives for Charging:

Please tick the relevant boxes and provide justification for each of the Charging Methodologies affected.

Use of System Charging Methodology

☒ (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;

☒ (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);

☒ (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.

☐ (d) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1.

Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Full justification:

The proposed changes will maintain the link between local TNUoS charges for offshore assets and the associated OFTO revenues following the introduction of biddable indexation. As the OFTO revenue is linked to asset value and associated costs such as financing and maintenance costs, the proposal will maintain cost reflectivity of the associated charges, better achieving applicable objective (b).

In addition, this change will facilitate competition by ensuring that local TNUoS charges for offshore generation associated with tender round 3 reflect the associated OFTO revenues in an equivalent manner to those under tender rounds 1 & 2. This better facilitates applicable object

(a). Finally, the proposed solution aims to take account of changes implemented to the manner in which OFTO revenues are calculated under the terms of their licence, properly taking account of these developments in OFTOs' transmission businesses (better facilitating applicable objective (c).

Additional details

Details of Proposer: (Organisation Name)	Wayne Mullins National Grid Electricity Transmission Plc
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	 Wayne Mullins National Grid Electricity Transmission Plc 01926 653999 wayne.mullins@nationalgrid.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	 Andrew Wainwright National Grid Electricity Transmission Plc 01926 655944 andrew.wainwright@nationalgrid.com
Attachments (Yes/No): Yes **If Yes, Title and No. of pages of each Attachment: Suggested Legal Text (2 Pages)**	

Contact Us

If you have any questions or need any advice on how to fill in this form please contact the Panel Secretary:

E-mail cusc.team@nationalgrid.com

Phone: 01926 653606

For examples of recent CUSC Modifications Proposals that have been raised please visit the National Grid Website at http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Current/

Submitting the Proposal

Once you have completed this form, please return to the Panel Secretary, either by email to jade.clarke@nationalgrid.com and copied to cusc.team@nationalgrid.com, or by post to:

Jade Clarke
CUSC Modifications Panel Secretary, TNS
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

If no more information is required, we will contact you with a Modification Proposal number and the date the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, the Proposal can be rejected. You will be informed of the rejection and the Panel will discuss the issue at the next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform you.

CMP234 – Proposed legal text (numbering based upon pre-CMP213 baseline

Offshore Circuit Expansion Factors

14.15.59 Offshore expansion factors (£/MWkm) are derived from information provided by Offshore Transmission Owners for each offshore circuit. Offshore expansion factors are Offshore Transmission Owner and circuit specific. Each Offshore Transmission Owner will periodically provide, via the STC, information to derive an annual circuit revenue requirement. The offshore circuit revenue shall include revenues associated with the Offshore Transmission Owner's reactive compensation equipment, harmonic filtering equipment, asset spares and HVDC converter stations.

14.15.60 In the first year of connection, the offshore circuit expansion factor would be calculated as follows:

$$\frac{CRevOFTO1}{L \times CircRat} \div Onshore\ 400kV\ \ OHL\ Expansion\ Constant$$

Where:

CRevOFTO1	=	The offshore circuit revenue in £ for Year 1
L	=	The total circuit length in km of the offshore circuit
CircRat	=	The continuous rating of the offshore circuit

14.15.61 In all subsequent years, the offshore circuit expansion factor would be calculated as follows:

$$\frac{AvCRevOFTO}{L \times CircRat} \div Onshore\ 400kV\ \ OHL\ Expansion\ Constant$$

Where:

AvCRevOFTO	=	The annual offshore circuit revenue averaged over the remaining years of the onshore National Electricity Transmission System Operator (NETSO) price control
L	=	The total circuit length in km of the offshore circuit
CircRat	=	The continuous rating of the offshore circuit

14.15.62 For the avoidance of doubt, the offshore circuit revenue values, $CRevOFTO1$ and $AvCRevOFTO$ shall be determined using asset values after the removal of any One-Off Charges.

14.15.63 Prevailing OFFSHORE TRANSMISSION OWNER specific expansion factors will be published in this statement. ~~These shall be re-calculated at the start of each price control when the onshore expansion constants are revisited.~~ These shall be recalculated at the start of each price control period using the formula in paragraph 14.15.61. For each subsequent year within the price control period, these expansion factors will be adjusted by the annual Offshore Transmission Owner specific indexation factor, *OFTOInd*, calculated as follows;

$$OFTOInd_{t,f} = \frac{OFTO\,\mathrm{Re}\,vInd_{t,f}}{RPI_t}$$

Comment [j1]: New formula

where:

$OFTOInd_{t,f}$	=	the indexation factor for Offshore Transmission Owner *f* in respect of charging year *t*;
$OFTORevInd_{t,f}$	=	the indexation rate applied to the revenue of Offshore Transmission Owner *f* under the terms of its Transmission Licence in respect of charging year *t*; and
RPI_t	=	the indexation rate applied to the expansion constant in respect of charging year *t*.

Offshore substation local tariff

14.15.83 All offshore chargeable generation is subject to an offshore substation tariff. The offshore substation tariff shall be the sum of transformer, switchgear and platform components.

14.15.84 Each tariff component, expressed in £/kW, shall be the ratio of the Offshore Transmission Owner revenue (£) and rating associated with the transformers, switchgear or platform (kW) at each offshore substation. The Offshore Transmission Owner revenue of each tariff component shall include that associated with asset spares. In the case of the platform component, the relevant rating shall be the lower of the transformer or switchgear ratings. As with the offshore circuit expansion factors, the Offshore Transmission Owner revenue associated with each tariff component shall be averaged over the remaining years of the NETSO price control.

14.15.85 Offshore Transmission Owner revenue associated with interest during construction and project development overheads will be attributed to the relevant asset category with which it is associated. If these or any other costs included in the Offshore Transmission Owner revenue are not readily attributable to a given asset category, they will be pro-rated across the various asset categories based on their relative cost.

14.15.86 For 2010/11 a discount of £0.345590/kW shall be provided to the offshore substation tariff to reflect the average cost of civil engineering for onshore substations. This will be inflated by RPI each year and reviewed every price control period.

14.15.87 Offshore substation tariffs shall be ~~inflated by RPI each year and reviewed every price control period.~~ reviewed at the start of every onshore price control period. For each subsequent year within the price control period, these shall be inflated in the same manner as the associated Offshore Transmission Owner Revenue.

14.15.88 The revenue from the offshore substation local tariff is calculated by:

$$SLTR = \sum_{\substack{All\ offshore \\ substations}} \left(SLT_k \times \sum_k Gen_k \right)$$

Where:

SLT_k	=	the offshore substation tariff for substation k
Gen_k	=	the generation connected to offshore substation k

Annex 2 – CMP234 Self-Governance statement

National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

Abid Sheikh
Licensing and Industry Codes
Ofgem
3rd Floor
Cornerstone
107 West Regent Street
Glasgow
G2 2BA
(By Email)

Jade Clarke
CUSC Modifications Panel
Secretary
Jade.Clarke@nationalgrid.com
Direct tel +44 (0)1926 653606

2nd September 2014
Reference: CMP234 Self-Governance Statement

www.nationalgrid.com

Dear Abid,

This is the CUSC Modifications Panel's Self-governance Statement to the Authority for CUSC Modification Proposal (CMP) 234. National Grid has prepared this Self-governance Statement on behalf of the CUSC Modifications Panel and submits it to you in accordance with CUSC Section 8.25.1.

On 29th August 2014 the CUSC Modifications Panel considered CMP234 and confirmed unanimously that it meets the Self-governance criteria.

As such, CMP234 is unlikely to discriminate between different classes of CUSC Parties and is unlikely to have a material effect on:

i) Existing or future electricity customers;
ii) Competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution or supply of electricity,
iii) The operation of the National Electricity Transmission System
iv) Matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies
v) The CUSC's governance procedures or the CUSC's modification procedures

The proposed timetable for the progression of CMP234 is as follows:

3rd September 2014	Code Administrator Consultation issued
24th September 2014	Deadline for responses
23rd October 2014	Draft FMR published with Panel papers
31st October 2014	Panel Determination Vote (appeal window opens)
12th November 2014	Deadline for Final report being published
21st November 2014	Self Governance appeal window closes
1st April 2015	Implementation date

The CMP234 form is available at
http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/currentamendmentproposals/.

If you require any further information please do not hesitate to contact me.

Yours Sincerely,

Jade Clarke
CUSC Modifications Panel Secretary.

Annex 3 – Draft Legal Text

Offshore Circuit Expansion Factors

14.15.59 Offshore expansion factors (£/MWkm) are derived from information provided by Offshore Transmission Owners for each offshore circuit. Offshore expansion factors are Offshore Transmission Owner and circuit specific. Each Offshore Transmission Owner will periodically provide, via the STC, information to derive an annual circuit revenue requirement. The offshore circuit revenue shall include revenues associated with the Offshore Transmission Owner's reactive compensation equipment, harmonic filtering equipment, asset spares and HVDC converter stations.

14.15.60 In the first year of connection, the offshore circuit expansion factor would be calculated as follows:

$$\frac{CRevOFTO1}{L \times CircRat} \div Onshore\ 400kV\ OHL\ Expansion\ Constant$$

Where:

CRevOFTO1	=	The offshore circuit revenue in £ for Year 1
L	=	The total circuit length in km of the offshore circuit
CircRat	=	The continuous rating of the offshore circuit

14.15.61 In all subsequent years, the offshore circuit expansion factor would be calculated as follows:

$$\frac{AvCRevOFTO}{L \times CircRat} \div Onshore\ 400kV\ OHL\ Expansion\ Constant$$

Where:

AvCRevOFTO	=	The annual offshore circuit revenue averaged over the remaining years of the onshore National Electricity Transmission System Operator (NETSO) price control
L	=	The total circuit length in km of the offshore circuit
CircRat	=	The continuous rating of the offshore circuit

14.15.62 For the avoidance of doubt, the offshore circuit revenue values, *CRevOFTO1* and *AvCRevOFTO* shall be determined using asset values after the removal of any One-Off Charges.

14.15.63 Prevailing OFFSHORE TRANSMISSION OWNER specific expansion factors will be published in this statement. ~~These shall be re-calculated at the start of each price control when the onshore expansion constants are revisited.~~ These shall be recalculated at the start of each price control period using the formula in paragraph 14.15.61. For each subsequent year within the price control period, these expansion factors will be adjusted by the annual Offshore Transmission Owner specific indexation factor, *OFTOInd*, calculated as follows;

$$OFTOInd_{t,f} = \frac{OFTORevInd_{t,f}}{RPI_t}$$

Comment [j1]: New formula

where:

$OFTOInd_{t,f}$	=	the indexation factor for Offshore Transmission Owner *f* in respect of charging year *t*;
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Offshore substation local tariff

14.15.83 All offshore chargeable generation is subject to an offshore substation tariff. The offshore substation tariff shall be the sum of transformer, switchgear and platform components.

14.15.84 Each tariff component, expressed in £/kW, shall be the ratio of the Offshore Transmission Owner revenue (£) and rating associated with the transformers, switchgear or platform (kW) at each offshore substation. The Offshore Transmission Owner revenue of each tariff component shall include that associated with asset spares. In the case of the platform component, the relevant rating shall be the lower of the transformer or switchgear ratings. As with the offshore circuit expansion factors, the Offshore Transmission Owner revenue associated with each tariff component shall be averaged over the remaining years of the NETSO price control.

14.15.85 Offshore Transmission Owner revenue associated with interest during construction and project development overheads will be attributed to the relevant asset category with which it is associated. If these or any other costs included in the Offshore Transmission Owner revenue are not readily attributable to a given asset category, they will be pro-rated across the various asset categories based on their relative cost.

14.15.86 For 2010/11 a discount of £0.345590/kW shall be provided to the offshore substation tariff to reflect the average cost of civil engineering for onshore substations. This will be inflated by RPI each year and reviewed every price control period.

14.15.87 Offshore substation tariffs shall be ~~inflated by RPI each year and reviewed every price control period.~~ reviewed at the start of every onshore price control period. For each subsequent year within the price control period, these shall be inflated in the same manner as the associated Offshore Transmission Owner Revenue.

14.15.88 The revenue from the offshore substation local tariff is calculated by:

$$SLTR = \sum_{\substack{All\ offshore \\ substations}} \left(SLT_k \times \sum_k Gen_k \right)$$

Where:

SLT_k	=	the offshore substation tariff for substation k
Gen_k	=	the generation connected to offshore substation k

Annex 4 – Code Administrator Consultation Responses

CMP234 - 'Incorporation of Biddable Indexation of OFTO revenues in TNUoS'

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **5pm** on **24th September 2014** to cusc.team@nationalgrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the CUSC Modifications Panel when it makes its recommendation to the Authority.

These responses will be included in the Final CUSC Modification Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Guy Phillips (guy.phillips@eon-uk.com)*
Company Name:	*E.ON*
Do you believe that the CMP234 better facilitate the Applicable CUSC Objectives? Please include your reasoning.	For reference, the Applicable CUSC objectives are: (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. *Yes, in that the Proposal is seeking to put a TR3 generators tariff's in an equivalent position to a TR1 and TR2 generator this should facilitate competition*. (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 in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection); *Yes, as the Proposal is seeking to better reflect the OFTO revenue requirement under TR3 against the related offshore specific assets and associated tariffs.* (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. *Yes, as this Proposal follows a change to the offshore transmission licence for TR3.* (d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European

	Commission and/or the Agency. *The Proposal is neutral to this objective.*
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	*Yes.*
Do you agree with the decision to progress CMP234 through the Self-Governance route?	*Whilst we would have welcomed more information in the consultation document, through a worked example of the how the tariffs would be calculated for a partially indexed OFTO revenue requirement, as this follows Ofgem's policy decision and amendment to the OFTO licence terms, we support the self-governance route.*
Do you have any other comments?	*No.*

CMP234 - 'Incorporation of Biddable Indexation of OFTO revenues in TNUoS'

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **5pm** on **24th September 2014** to cusc.team@nationalgrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the CUSC Modifications Panel when it makes its recommendation to the Authority.

These responses will be included in the Final CUSC Modification Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Joe Dunn; joseph.dunn@scottishpower.com*
Company Name:	*ScottishPower Renewables*
Do you believe that the CMP234 better facilitate the Applicable CUSC Objectives? Please include your reasoning.	For reference, the Applicable CUSC objectives are: (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. (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 in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection); (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. (d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. In terms of maintaining some consistency of the relationship between Round 3 OFTO revenues and the offshore asset local TNUoS charges to that adopted for Rounds 1 & 2, yes CMP234 better facilitates competition in the generation of electricity (objective a).

	In terms of ensuring that the local TNUoS charges for offshore assets continue to reflect the offshore asset values, financing and maintenance costs together with their associated indexation, yes, CMP234 facilitates this relationship. Furthermore, in the absence of a link between the local asset charges and the underlying costs, a divergence could occur over the lifetime of the asset's economic value. CMP234 therefore better reflects the underlying costs and better meets objective (b). CMP234 reflects the recent changes in the OFTO Tender Round 3 process (accounting for the changes in the Transmission Licenses' businesses) into the TNUoS charging methodology and therefore better meets applicable objective (c). CMP234 is neutral against objective (d).
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Yes – Assuming no change to the option for biddable indexation of Round 3 OFTO revenues being exercised before this date, this would be a sensible implementation period.
Do you agree with the decision to progress CMP234 through the Self-Governance route?	Yes - SP Renewables agree that CMP234 meets the criteria to progress through the self-governance process.
Do you have any other comments?	In relation to revenues and associated charges, it is a working assumption that Ofgem appoint preferred bidders on the overall cost efficient package and therefore best value over the lifetime of the assets. One can therefore conclude that, in relation to biddable indexation and an associated 'fixed' revenue element, initial year charges <u>may</u> be higher than previously assumed; mimicking a "fixed rate" mortgage for example. However, lifetime costs should theoretically be lower which is desirable from the standpoint of certainty and cost over asset lifetime. That said, it is unknown how much appetite there will be for use of biddable indexation and to what proportion of revenue is likely to be fixed versus not. Equally, as to how such choices would fair versus the current status quo and how this revenue could skew against index linked TNUoS. SPR would therefore strongly recommend a review of the outcome (as soon as practicable following implementation and available information) of the appetite and use of "biddable indexation" and the proportion of fixed (non-indexed) versus not and how this compares with the current status quo over the lifetime of the assets.

CMP234 - 'Incorporation of Biddable Indexation of OFTO revenues in TNUoS'

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **5pm** on **24th September 2014** to cusc.team@nationalgrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the CUSC Modifications Panel when it makes its recommendation to the Authority.

These responses will be included in the Final CUSC Modification Report which is submitted to the CUSC Modifications Panel.

Respondent:	*Garth Graham (garth.graham@sse.com)*
Company Name:	*SSE*
Do you believe that the CMP234 better facilitate the Applicable CUSC Objectives? Please include your reasoning.	For reference, the Applicable CUSC objectives are: (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. (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 in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection); (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. (d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. We agree with the National Grid initial view, as set out in paragraphs 6.2-6.5 of the consultation document, that CMP234 does better facilitates Applicable Objectives (a), (b) and (c) as CMP234 ensures that local Offshore TNUoS charges remain cost reflective by accounting for changes to the OFTO licence terms under Tender Round 3 (TR3). This in turn facilitates

	competition by ensuring that generators connecting to transmission assets subject to TR3 are charged on an equivalent basis to those connecting to assets subject to earlier tender rounds.
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	We support the proposed implementation approach, as set out in Section 4 of the consultation document, of 1st April 2015.
Do you agree with the decision to progress CMP234 through the Self-Governance route?	Yes, we agree with the CUSC Panel decision to progress CMP234 through the Self-Governance route.
Do you have any other comments?	We applaud the decision by National Grid, as set out in paragraph 3.6 of the consultation document, to publish the information on individual Round 3 tender levels of indexation in a single location as part of its charging documentation. This will ensure the maximum openness and transparency of this information and is an example of National Grid acting in a customer friendly way. It will also avoid the need for all parties; who are not familiar with individual OFTO(s) Statement of Basis of Transmission Charges; having to (a) source all these statements and (b) locate this one specific piece of information in each of those individual statements (the format / layout of which could be significantly different, making it difficult to easily source this information).