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Modification proposal:	**Connection and Use of System Code (CUSC) CMP269: Potential consequential changes to the CUSC as a result of CMP264; and CMP270: Potential consequential changes to the CUSC as a result of CMP265**		
Decision:	The Authority[1] directs that this modification be made[2]		
Target audience:	National Grid Electricity Transmission PLC (NGET), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	22 June 2017	Implementation date:	01 April 2018

Background

Transmission Network Use of System (TNUoS) charges[3] recover the costs of constructing, operating and maintaining the transmission system. TNUoS charges are levied across both demand users (via suppliers) and generators. Transmission charges for generation only currently apply to generators directly connected to the transmission network or to generators connected to the distribution network[4] that are above 100MW in capacity. Generation which is below 100MW on the distribution network ("smaller EG[5]") does not pay transmission charges but is instead treated as 'negative demand' for the purposes of transmission charging. The tariffs are split into both a locational signal, which is designed to represent the forward looking costs of network reinforcement, and a residual element. The residual element is principally designed to 'top up' the locational charges to ensure allowed revenues are recovered.

Transmission charging for demand is calculated based on a suppliers net demand at particular times known as triad periods.[6] Currently this is based on net demand in a Grid Supply Point (GSP) group – net demand is the gross or total customer demand on the distribution network, less any generation output from smaller EG on the distribution network within each GSP group. Due to smaller EG being seen as 'negative demand', they are often paid by suppliers to generate at triad (and sometimes directly by National Grid), to reduce the suppliers net demand off the transmission system, and therefore reduce that suppliers TNUoS charges. The cost of these payments from suppliers (or payments from National Grid) to smaller EG is recovered from consumers.

'Embedded benefits' are the payments which smaller EG get, and the charges they do not have to pay, compared to larger (over 100MW) EG on the distribution system and transmission connected generators. 'Embedded benefits' come in the form of both payments that smaller EG receive for helping suppliers[7] to avoid transmission charges (or payments they receive directly from National Grid), and also avoided transmission generation charges that these generators do not pay. Suppliers pay embedded

1 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.
2 This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
3 TNUoS charges are split between generation and demand and are levied on a £/kW basis.
4 Referred to as distribution-connected generation, distributed generation or embedded generation.
5 Only sub-100MW "smaller EG" do not pay transmission charges. Other embedded generation is treated like transmission-connected demand. For the purposes of this document we use the term smaller EG to refer to sub-100MW generation on distribution system. Generation of this type might include onshore windfarms, diesel or gas reciprocating generation or small CHP units.
6 The three half hour periods of highest demand between November-February, separated by at least 10 days.
7 During the CMP264/5 workgroups, National Grid estimated a 7.5GW of smaller EG runs during winter peak periods. In addition, the more EG that is used to offset charges, the smaller the demand charging base, which leads to higher user charges.

generation for the role they play in reducing this charging liability. In recent years the TDR has been rising, having increased from about £10/kW to £30/kW from 2005 to 2014. It is forecast to rise to £69.59/kW by 2021/22. The TDR payment is one of a range of embedded benefits which smaller EG can receive.

Two Connection and Use of System Code (CUSC) modifications, CMP264 and CMP265, were raised by industry participants which identified two particular defects in the CUSC charging methodology. Full details of these modifications can be found on National Grid's website.[8] These modifications seek to prevent smaller EG from being able to receive payment equal to the TDR, but would allow smaller EG to retain the inverse of the transmission demand locational signal. Their key features are outlined below:

- CMP264 Original proposal **–** This modification was raised by Scottish Power and aims to prevent the output of 'new' smaller EG being netted off a supplier's gross demand, removing their ability to receive the TDR payment as an embedded benefit. Under the CMP264 Original proposal, 'new' EG is defined as those smaller embedded generators commissioned after 30 June 2017. Net charging would be retained for existing smaller EG under the original CMP264 proposal, meaning they could continue to receive the TDR payment.

- CMP265 Original proposal – This modification was raised by EDF Energy and aims to prevent the output from those generators who hold a CM agreement, from being netted off a supplier's gross demand, removing their ability to receive the TDR payment as an embedded benefit.

These modifications were considered in joint work groups, with 23 unique WACMs being raised, in addition to the two Originals, and sent to the panel for consideration. The final modification report was then submitted to us on the 28 November 2016 for approval. We carried out an impact assessment and consultation on the options available to us, which was published on 1 March 2017[9]. We have now published our final decision[10] on CMP264 and CMP265, with WACM4 being the option which best facilitates the applicable CUSC objectives and is consistent with our principal objective and statutory duties.

The modification proposals

CMP269 and CMP270 were raised on the 19 August 2016, by Scottish Power and EDF Energy respectively. Full details of these modifications can be found on National Grid's website.[11] CMP269 and CMP270 are consequential modifications to CMP264 and CMP265 which are described, in brief, above. CMP264 and CMP265 make changes to Section 14 of the CUSC (Charging Methodology). Section 14 of the CUSC, the Charging Methodologies, has its own applicable CUSC objectives specific to that section. As such, additional modifications had to be raised to make related changes outside of Section 14.

CMP269 and CMP270 propose a single change to Section 11 of the CUSC to introduce an amended definition for 'Demand Forecast' to take into account, and make it consistent with, the changes made in Section 14 under CMP264 and CMP265. The proposed change

8 http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP264/ and http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP265/.
9 https://www.ofgem.gov.uk/publications-and-updates/embedded-benefits-consultation-cmp264-and-cmp265-minded-decision-and-draft-impact-assessment
10 https://www.ofgem.gov.uk/electricity/transmission-networks/charging
11 http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP269/ and http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP270/

to Section 11 is the same under both CMP269 and CMP270. There were no WACMs raised under CMP269 or CMP270.

Our decision

We have considered the issues raised by the modification proposal and the final Modification Report (FMR) dated 28 November 2016. We have considered and taken into account the responses to the industry consultations on the modification proposal which are attached to the FMR[12]. We have concluded that:

- implementation of CMP269 and CMP270 will better facilitate the achievement of the applicable objectives of the CUSC[13]; and
- directing that the modification be made is consistent with our principal objective and statutory duties.[14]

Reasons for our decision

We consider CMP269 and CMP270 will better facilitate standard CUSC objectives (a) and (d) and are neutral against standard CUSC objectives (b) and (c).

(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;

CMP269 and CMP270 better facilitate standard CUSC objective (a) by enabling National Grid to implement the CMP264 and CMP265 approved solution of WACM4. The change of definition in Section 11 is required to take into account the amendments in Section 14 of the CUSC (the Charging Methodology), without which, the CMP264 and CMP265 approved solution would not function correctly. This will enable National Grid to discharge its obligation under the licence to comply with the CUSC.

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

By facilitating the delivery of CMP264 and CMP265 WACM4, CMP269 and CMP270 proposed solution will better facilitate applicable CUSC objective (d) and enable National Grid to implement the changes proposed in Section 14 of the CUSC and administer those changes post implementation.

Decision notice

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority, hereby directs that modifications CMP269: 'Potential consequential changes to the CUSC as a result of CMP264' and CMP270: 'Potential consequential changes to the CUSC as a result of CMP265' be made.

Frances Warburton
Partner – Energy Systems
Signed on behalf of the Authority and authorised for that purpose

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12 CUSC modification proposals, modification reports and representations can be viewed on NGET's website at: http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/

13 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

14 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.