

Modification proposal:	<b>Connection and Use of System Code ("CUSC"): Updating the Indexation methodology used in TNUoS<sup>1</sup> and Transmission Connection Asset charges for RIIO2 (CMP355) &amp; Definition changes for CMP355 (CMP356)</b>		
Decision:	The Authority <sup>2</sup> directs that these modifications be made <sup>3</sup>		
Target audience:	National Grid Electricity System Operator plc (NGESO), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	22 January 2021	Implementation date:	1 April 2021

## Background

Currently Section 14 of CUSC uses the Retail Price Index (RPI) as the measure for index-linking various parts of the charging methodologies. As set out in our recent RIIO-2 Final Determinations<sup>4</sup>, the RPI measure of indexation is being replaced by Consumer Price Index (CPI) /Consumer Price Index including owner occupiers' housing costs (CPIH)<sup>5</sup> and so the CUSC needs to be revised accordingly to use the correct measure for setting TNUoS and Transmission Connection Asset charges.

## The modification proposals CMP355 and CMP356

On 17 December 2020, NGESO (the 'Proposer') raised Connection and Use of System Code Modification Proposals CMP355 and CMP356. CMP355 aims to enact the CUSC Section 14 changes whilst CMP356 aims to enact the CUSC Section 11 change. The proposed changes need to be approved in time for consideration within the January 2021 tariff setting process to be effective for April 2021 tariffs.

<sup>1</sup> Transmission Network Use of System Charges, as explained further here:

<https://www.nationalgrideso.com/charging/transmission-network-use-system-tnuos-charges>

<sup>2</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>3</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>4</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/12/final\\_determinations\\_-\\_finance\\_annex.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/12/final_determinations_-_finance_annex.pdf)

<sup>5</sup> Consumer Price Index (CPI) and Consumer Prices Index including owner occupiers' housing costs (CPIH) are measures of the rate at which the prices of goods and services bought by households rise and fall. Further details can be found at:

<https://www.ons.gov.uk/economy/inflationandpriceindices/methodologies/consumerpriceinflationincludesall3indicescpihcpiandrpqmi#:~:text=CPIH%20is%20defined%20as%20the,is%20known%20as%20the%20HICP.>

The CUSC Modifications Panel (the 'Panel') considered the Proposer's urgency requests at its meeting on 18 December 2020. The Panel agreed unanimously that CMP355 and CMP356 do meet the Code Modification Urgency Criteria and so recommended that CMP355 and CMP356 should both be treated as Urgent CUSC Modification Proposals. Following the Panel meeting, we received the request that CMP355 and CMP356 each be treated as an Urgent Modification Proposal. We considered both the Panel's and the Proposer's arguments, and agreed that CMP355 and CMP356 should be progressed on an urgent basis<sup>6</sup>.

### **CUSC Panel recommendation**

On 13 January 2021, the Panel voted on CMP355 against the CUSC Charging Objectives as set out in Standard Condition C5 of the Electricity Transmission Licence<sup>7</sup>, and on CMP356 against the CUSC Objectives as set out in Standard Condition C10<sup>8</sup>. All members of the Workgroup voted that the CMP355 Original Proposal and the CMP356 Original Proposal better facilitated the applicable CUSC objectives in comparison with the existing baseline.

### **Our decision**

On 18 January 2021, the Final Modification Report ("FMR")<sup>9</sup> covering the two modifications was published. We have considered the issues raised in the FMR and we have taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable CUSC objectives ; and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>10</sup>

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<sup>6</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/12/cmp355\\_and\\_cmp356\\_-\\_authority\\_decision\\_on\\_urgency\\_final.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/12/cmp355_and_cmp356_-_authority_decision_on_urgency_final.pdf)

<sup>7</sup> As set out in Standard Condition C10 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>8</sup> As set out in Standard Condition C5 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>9</sup> <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp355-cmp356>

<sup>10</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.

## Reasons for our decision

We consider the CMP355 modification proposal will better facilitate the CUSC Charging Objectives (b), (c) and (e) as set out in Standard Licence Condition C5: Use of system charging methodology, and has a neutral impact on the other CUSC Charging Objectives (a) and (d):

***(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);***

As set out in our RIIO-2 Final Determinations, we consider CPIH to be a more credible measure of inflation than RPI, and hence the use of CPIH indexation would better reflect the costs of the transmission businesses.

***(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;***

As set out in our RIIO-2 Final Determinations, we have decided to apply CPIH indexation in the calculation of the Allowed Revenue of transmission licensees, and the CUSC documents should reflect developments in the transmission licensees' transmission businesses.

***(e) promoting efficiency in the implementation and administration of the system charging methodology;***

The proposal will endure through future potential changes to the indexation method applied in the transmission licences.

We consider the CMP356 modification proposal will better facilitate the CUSC Objective (d) as set out in Standard Licence Condition C10: Connection and Use of System Code (CUSC), and has a neutral impact on the other CUSC Objectives (a), (b) and (c)<sup>11</sup>:

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

The proposal will ensure the changes to definitions, as set out in CUSC Section 11, resulting from CMP355, are enacted.

## Decision notice

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<sup>11</sup> As set out in Standard Condition C10 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>

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that modification proposal CMP355: "Updating the Indexation methodology used in TNUoS and Transmission Connection Asset charges for RII02" and modification proposal CMP356: "Definition changes for CMP355" be made.

**Simon Wilde**

**Director, Analysis and Assurance**

Signed on behalf of the Authority and authorised for that purpose