

CUSC Code Administrator Consultation Response Proforma**CMP353 'Stabilising the Expansion Constant and non-specific Onshore Expansion Factors from 1st April 2021'**

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 to cusc.team@nationalgrideso.com by **2pm on 19 November 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Panel.

If you have any queries on the content of this consultation, please contact Paul Mullen paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com.

Respondent details	Please enter your details
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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 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);*
- 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 *; and*
- e. *Promoting efficiency in the implementation and administration of the use of the system charging methodology.*

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

Please express your views in the right-hand side of the table below, including your rationale.

Standard Code Administrator Consultation questions		
1	Do you believe that CMP353 Original solution better facilitates the Applicable Objectives?	<p>Yes, we believe that the CMP353 original solution better facilitates the Applicable Objectives.</p> <p>Applicable Objective (a) – Positive</p> <p>The RIIO-2 expansion constant recently provided by the Transmission Owners (TO's) for TNUoS tariff setting is considerably more than the RIIO-1 expansion constant. Using the proposed RIIO-2 expansion constant would result in a significant and unexpected change to the 2021/22 TNUoS tariffs.</p> <p>The change would significantly increase the locational signal of TNUoS generation and demand charges, which would be beneficial to some parties and detrimental to others. This would be unforeseen, parties will not have priced this into contracts and wholesale market activity.</p> <p>CMP353 will ensure that the expansion constant proposed by the TO's isn't used to set April 2021/22 tariffs. Instead CMP353 proposes to use the RIIO-1 expansion constant adjusted for inflation which aligns with current forecasts.</p> <p>Without the implementation of CMP353, there will be a detrimental impact on competition as some parties will arbitrarily benefit over others. As such, implementing CMP353 will have a positive impact on competition.</p> <p>Applicable Objective (b) – Positive</p> <p>Compared to previous price controls, there has been an extraordinarily lower number of transmission network build projects, each with a relatively high value. This has led to the proposed RIIO-2 expansion constant being significantly greater than the RIIO-1 equivalent. We are concerned that this does not truly reflect the current drivers of network investment and costs. Using this figure to set 2021/22 TNUoS charges could result in tariffs which are not cost-reflective.</p> <p>In addition to this, some TO's are still undergoing the validation processes, to ensure the data they have provided which underpin the derivation of the expansion constant is correct. As such, there are</p>

		<p>concerns regarding the accuracy of the proposed RIIO-2 constant and the impact this could have on TNUoS tariff cost-reflectivity.</p> <p>Without more time to conduct a thorough review of the proposed RIIO-2 constant and the data used to derive it, we believe it is prudent to use the RIIO-1 expansion constant adjusted for inflation to mitigate the risk of reducing the cost reflectivity of TNUoS charges. As such, CMP353 is positive against Applicable Objective (b).</p> <p>Applicable Objective (C) – Positive</p> <p>Further work is required between the TO's and the ESO to ensure the correct expansion constant is used to set TNUoS charges for the future years of RIIO-2. This modification will allow for a thorough review to take place to ensure the expansion constant used to set future tariffs is cost reflective and properly takes account of the developments in transmission owner businesses.</p>
2	Do you support the proposed implementation approach?	Yes, implementation from April 2021 is necessary to realise the benefits of CMP353 and prevent significant unforeseeable changes to TNUoS charges.
3	Do you have any other comments?	<p>CMP353 is an urgent modification with a narrow scope, which will not be assessed in detail by a workgroup. This prevents a detailed enduring solution from being developed. Whilst CMP353 will ensure there is not a substantial change to 2021/22 TNUoS tariffs, it will not address the more fundamental underlying issues.</p> <p>There must be a review of the process to determine the expansion constant prior to the start of a new price control. It should not be necessary to raise urgent CUSC modifications to prevent TNUoS price shocks. In future this process needs to be more transparent and take place sooner, to ensure that future expansion constants can be forecasted sooner in the tariff setting process.</p> <p>An expansion constant to be used in setting tariffs for the remainder of RIIO-2 charging years needs to be established and validated. This should be done ASAP so it can be forecasted and incorporated into the April 2022/23 tariff setting process.</p>

