Final Modification Report

CMP353:

Stabilising the Expansion Constant and non-specific Onshore Expansion Factors from 1st April 2021

Overview: To stabilise the locational signal at the start of the RIIO-2 period at the RIIO-1 value plus relevant inflation in each charging year until such time as the effect of any change in the locational signal can be better understood.

Modification process & timetable

1. **Proposal Form**
   - 29 October 2020
2. **Code Administrator Consultation**
   - 5 November 2020 (2pm) - 19 November 2020 (2pm)
3. **Draft Modification Report**
   - 20 November 2020
4. **Final Modification Report**
   - 25 November 2020
5. **Implementation**
   - 1 April 2021

Have 5 minutes? Read our Executive summary

Have 20 minutes? Read the full Final Modification Report

Have 30 minutes? Read the full Final Modification Report and annexes

Status summary: **Final Modification Report.** This Report has been submitted to the Authority for them to decide whether this change should happen.

Panel Recommendation: The Panel has recommended unanimously that the Proposer's solution is implemented.

This modification is expected to have a: high impact on all CUSC Users who pay TNUoS tariffs.

Governance route	The CUSC Panel unanimously agreed that this modification should proceed to Code Administrator Consultation. On 3 November 2020, the Authority approved that CMP353 should be treated as urgent.	
Who can I talk to about the change?	**Proposer:** Grahame Neale, National Grid ESO grahame.neale@nationalgrideso.com Phone: 07787 261 242	**Code Administrator**: Paul Mullen Paul.j.mullen@nationalgrideso.com Phone: 07794 537 028

Executive Summary

CMP353 seeks to stabilise the locational signal at the start of the RIIO-2 period at the RIIO-1 value plus relevant inflation in each charging year until such time as the effect of any change in the locational signal can be better understood.

What is the issue?

Unless action is taken there will be significant changes to the locational element of TNUoS tariffs as the Expansion Constant (EC) and some Expansion Factor (EF) values, which are based on investment costs in the previous price control will, because of the nature of those investments, be based on fewer and higher value projects than in previous price controls. This may not truly reflect the current drivers of network investment and will substantially change the locational costs for some Users.

What is the solution and when will it come into effect?

Proposer's Solution:

To change the relevant parts of Section 14 to allow the EC and non-specific Onshore EF (i.e. not HVDC or AC subsea factors) to be stabilised at the RIIO-1 value plus inflation of the EC as per the transmission licence. Further work can then take place during RIIO-2 to update the EC and relevant EF once analysis on their effects and suitability has been completed.

Implementation Date:

1 April 2021. A decision is required by 2 December 2020 to allow tariff setting processes to take place ahead of 1 April 2021 Implementation.

Panel Recommendation:

The Panel has recommended unanimously that the Proposer's solution is implemented.

What is the impact if this change is made?

This modification will have a high impact on all CUSC Users who pay TNUoS tariffs.

Interactions

CMP315[1]

CMP315 is currently in process and being assessed by a Workgroup although it has not made significant progress in 2020 due to the prioritisation of other work. Similar subject matter is considered through this proposal and CMP315. However, we do not believe that these modifications fall within with the provisions around conflicting Modification Proposals within Section 8.16.6. This change is complimentary and could allow CMP315 or another modification proposal to consider a more enduring solution, alongside any further Modification Proposals if necessary, to the potential issues in the current calculation of the EC and EF.

[1] https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp315-tnuos

Electricity Balancing Guideline (EBGL)

There is no interaction with EBGL Article 18 Terms and Conditions.

Contents

What is the issue?

Unless action is taken there will be significant changes to the locational element of TNUoS tariffs as the EC and some EF values which are based on investment costs in the previous price control will, because of the nature of those investments, be based on fewer and higher value projects than in previous price controls. This may not truly reflect the current drivers of network investment and will substantially change the locational costs for some Users.

Why change?

The Expansion Constant (EC) is an element of the TNUoS charging methodology that determines the £/MW/km value of 400kV Over Head Line (OHL). This then feeds into the other costs of assets within the model. The EC has a direct impact on the locational signal that Generators and Suppliers face both through establishing the cost of 400kV OHL and the corresponding Expansion Factors (EFs) that relate to other asset types. It is set at the start of each price control period where it is re-assessed based on projects built in the last ten years and then inflated each year by RPI. The EC forms an integral part of the methodology which will set draft and final TNUoS tariffs in this November and January respectively, applying to customers from April 2021.

Due to the lower number of built projects in RIIO-1 and the relatively high value of these in comparison to the projects in previous price controls, the EC and EFs have increased significantly. The RIIO-1 uplifted EC value used in the calculation of the 2020/21 tariffs was set at £14.93/MW/km, whereas based on the current data received from NGET and SPT, the RIIO-2 EC value has been calculated at £27.38/MW/km for 2021/22, an increase of 83%. This data also feeds into the process that sets the EFs used to calculate the costs of other assets within the model. **Although the overall amount of revenue collected from Users will remain the same, the locational element of the charges will be significantly affected. This will present a cost shock to certain parties with little advance notice of the effects it will have on them.**

Examples of these changes based on the current forecasted RIIO-2 EC & EFs on hypothetical customers are shown below. Note that these are a guide of the potential change, as work is ongoing with the Transmission Owners (TOs) to collate the outstanding data for the calculation and to also validate the numbers provided to date by the TOs:

Generation

- 100MW generic intermittent generator in North Scotland (zone 1) would see a 62% increase in TNUoS charges from £2.7m to £4.3m

- 100MW generic conventional carbon generator in Essex and Kent (zone 24) would see a 471% increase in their TNUoS credit payment from £127k to £730k

- 30MW generic embedded generator in Eastern (zone 9) would see a 65% increase in the embedded benefit payment from £112k to £184k

Demand - *note the ratio of impact is the same across zones for Half Hourly (HH) and Non Half Hourly (NHH) tariffs*

- 10MW HH demand in Northern Scotland (zone 1) would see their charge reduce from £150k to zero

- 5MWh NHH demand in Southern (zone 13) would see their charge increase by 10% from £340 to £374

Annex 4 includes a number of hypothetical examples showing the potential impact to customers of the current RIIO-2 EC (and EFs) per zone[2].

The table below demonstrates the minimal change between the total TNUoS revenue recovery of generation and demand in 2021-22 highlighting that this is predominantly related to the locational signal for Users.

2021-22 Forecast Revenue (£m)	**Total Demand Recovery**	**Total Generation Recovery**
RIIO-1 Uplifted	2222.2	826.4
*Current RIIO-2**	2213.9	834.7
Variance	(8.3)	8.3
Variance %	0%	1%

* Based on initial data received by TO's related to the calculation of the update EC&F as part of the RIIO-2 parameter refresh

Data received from the Transmission Owners (TOs)

In accordance with STCP (14 – 1.3.3), the ESO sent out the data request for the calculation of the EC and EF in 2019 with the intention of updating the EC and EF in the March TNUoS forecast publication for the 2021/22 tariffs.

Initial data was received from NGET and SPT in July 2019. Due to the uncertainty within a number of ongoing CUSC modifications, the timescale of RIIO-2 Draft Determinations and the lack of a full data set from the TOs, the ESO consulted the industry in January 2020 regarding the TNUoS forecast timetable for 2021/22 proposing that the RIIO-2 data items (including the EC and the EF) not be updated in the forecast until the 5 year version was produced in August 2020[3].

Following this consultation, the ESO published the timetable and confirmed that the 5 year view of TNUoS tariffs for the RIIO2 period would be published in August 2020 and we confirmed the approach in our March tariff forecast[4]. During the preparation of the 5 year view, the EC and EF was re-calculated using the data from NGET and SPT which led to the significant increase from the current value. The initial data from SHETL for the EC and

[2] Note – series '2021/22' is base case (Existing uplifted RIIO-1 EC & F's), '2021/22 Updated EC&F' is based on the current calculation (16/10/20) of the RIIO-2 EC&F's.

[3] https://www.nationalgrideso.com/document/162406/download

[4] https://www.nationalgrideso.com/document/166761/download

EF calculation was received on the 23 October 2020. Data validation processes are still being progressed with SHETL at this time, but the initial analysis based on all three onshore TOs' data suggests a similar level or even further increase in EC and EF compared to the RIIO-1 values.

The ESO took this issue to the Transmission Charging Methodology Forum (TCMF) in September 2020[5] where they received substantial feedback on the unwelcome volatility that using the approach to setting the current EC would create. The ESO agreed with TCMF to consider obtaining different/revised data from the TOs; however, that process has to date not led to a significant difference in the outcome of the EC and EF calculations.

Discussions with Ofgem and the industry suggest that it is not certain that this effect on the locational signal is appropriate and that more time to analyse it and determine whether to implement it would be beneficial. Therefore, the ESO considers that continuing with the current EC value whilst allowing further work to be done to review and potentially change it if necessary in RIIO-2 is an appropriate way forward. For clarity, this modification is not looking to change the intent of the EC but to provide a temporary solution until an appropriate EC for RIIO-2 can be calculated and applied.

What is the solution?

Proposer's solution:

Allow the EC and non-specific Onshore EF (i.e. not HVDC or AC subsea factors) to be stabilised at the RIIO-1 value plus inflation of the EC as per the transmission licence.

Further work can then take place during RIIO-2 to update the EC and relevant EF once analysis on their effects and suitability has been completed.

Legal text

The legal text for this change can be found below. 2 new paragraphs will be inserted:

- 14.15.69A Notwithstanding Paragraph 14.15.69 from the first year of (and during) the T2 price control (which starts on 1st April 2021), until a further change is made, the Expansion Constant will be that used in the 2020/21 charging year inflated in accordance with RPI as per paragraph 14.15.69; and plus inflation as defined in the Transmission Licence for each subsequent year of the T2 price control.

- **Onshore Expansion Factors in RIIO-T2**
  14.15.79A Notwithstanding Paragraph 14.15.69, the previous paragraphs and following the same intent as adopted at Paragraph 14.15.69A, from the first year of (and during) the T2 price control (which starts on 1st April 2021), until a further change is made, the Onshore expansion factors (being the Onshore local circuit factors and the Onshore wider circuit expansion factors, except those used for HVDC circuits and sub-sea AC cable) will be the value used in the 2020/21 charging

[5] https://www.nationalgrideso.com/document/176141/download

year. For clarity HVDC circuits and sub-sea AC cable will continue to be calculated in accordance with 14.15.75.

What is the impact of this change?

Impact of the modification on the stakeholder / consumer benefit categories Proposer's assessment:	
Stakeholder / consumer benefit categories	**Identified impact**
Improved safety and reliability of the system	**Positive:** Cost shocks to certain Generators may lead to closure reducing margin and potentially affecting system operation.
Lower bills than would otherwise be the case	**Positive:** Uncertainty in TNUoS tariffs may cause Generators to apply risk premia in their contracts with Suppliers. Reducing this should lead to lower costs to consumers.
Benefits for society as a whole	**None**
Reduced environmental damage	**None**
Improved quality of service	**None**

Code Administrator Consultation Summary

The Code Administrator Consultation was issued on the 5 November 2020 and closed at 2pm on 19 November 2020. 25 responses were received with all of these being non-confidential. A summary of these responses can be found in Annex 5 and the full responses can be found in Annex 6. In summary:

- 23 out of 25 respondents are supportive of CMP353.
- There were concerns expressed on the amount of change to TNUoS and the piecemeal nature of such change and a general plea for a wider review of the methodology.
- Respondents noted concerns with the current Transmission Owner to ESO data provision process (content and timing) and the short notice to industry of the outcome following application of these processes.
- Respondents highlighted a general concern on the detrimental impact on renewable developers particularly in Scotland (and the resulting impact on net zero) if CMP353 is not approved and the wider methodology reviewed.
- 2 respondents proposed changes to the legal text. These are:
    - There is a minor typographical error within the legal text where EC was used in the proposal instead of the full Expansion Constant term that will be needed for the legal text to be inserted into the CUSC **(ESO);** and
    - Believe that the "inflation wording in 14.15.69 could be made clearer" and current wording "suggests a double inflation adjustment **(Statkraft).** The

respondent suggested wording to provide this clarity. Rather than adopting this wording, ESO proposed a semi-colon to make the distinction.

The Code Administrator consider that the changes proposed are typographical and sought Panel agreement on 24 November 2020, under CUSC 8.23.4(i)[6], to make these changes.

The revised legal text that was presented to Panel on 24 November 2020 was:

14.15.69A Notwithstanding paragraph 14.15.69 from the first year of (and during) the T2 price control (which starts on 1st April 2021), until a further change is made, the ~~EC~~ Expansion Constant will be that used in the 2020/21 charging year inflated in accordance with RPI as per paragraph 14.15.69; and plus inflation as defined in the Transmission Licence for each subsequent year of the T2 price control.

Panel Recommendation Vote

Legal Text Changes

Prior to undertaking the Recommendation Vote, the CUSC Panel agreed that the proposed changes to the legal text were typographical and instructed the Code Administrator to make these changes.

The CUSC Panel noted that additional clarification from the ESO on the double inflation adjustment would be welcome in the Final Modification Report and the ESO confirmed the following:

- The intention of the CMP353 legal text is only calculate the Expansion Constant (and so Expansion Factor) using only a single application of RPI indexation – i.e. ESO will take the Expansion Constant for 2020/21 and add a RPI once to calculate the 2021/22 figure.
- Should the CMP353 solution also be needed to calculate the 2022/23 Expansion Constant, ESO will take the 2021/22 figure and apply RPI once. This will continue to happen until CMP353 is no longer needed.

Panel Recommendation Vote

The CUSC Panel met on 24 November 2020 to carry out their recommendation vote.

They assessed whether a change should be made to the CUSC by assessing the proposed change and any alternatives against the code objectives. The full vote can be found below.

Applicable CUSC Charging Objectives

(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; Facilitating effective competition in the generation and supply of

[6] ***CUSC 8.23.4*** *- A draft of the CUSC Modification Report shall be tabled at the Panel Meeting prior to submission of that CUSC Modification Report to the Authority as set in accordance with the timetable established pursuant to Paragraph 8.19.1 at which the Panel may consider any minor changes to the legal drafting, which may include any issues identified through the Code Administrator's consultation and:* ***(i) if the change required is a typographical error the CUSC Modifications Panel may instruct the Code Administrator to make the appropriate change and the Panel Chairman will undertake the CUSC Modifications Panel Recommendation Vote***

electricity, and (so far as consistent therewith) facilitating such 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 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).

CMP353 Vote

Vote 1: ***Does the Original facilitate the objectives better than the Baseline (the current CUSC arrangements)?***

Panel Member: Andy Pace

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Yes	Yes

Voting Statement

We are supportive of this mod, as a material increase in the expansion constant and non-specific onshore expansion factors at short notice will have a substantial impact on some industry Parties without sufficient warning. The expansion constant is a fundamental part of the charging methodology and it is important that it provides a cost reflective price signal to consumers and generators. The calculation of the expansion constant for RIIO-2 is based on a smaller number of high value schemes when compared to the calculation for the existing price control. Given the large change and impact on Parties, we think it is sensible to inflate the current values by RPI rather than move to the new values until appropriate due diligence has been undertaken on these values and the methodology used to derive them.

Although supportive of this change, we recognise that the expansion constant forms a critical component of locational TNUoS charges and provides an important forward

looking signal to demand and generation connectees. We therefore would like to see a new modification brought forward by the ESO as soon as possible to propose how the expansion constant should be derived in the future.

Panel Member: Cem Suleyman

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Yes	Yes

Voting Statement

On balance I agree that CMP353 better facilitates the Applicable CUSC Objectives for similar reasons as provided by the Proposer and the vast majority of Code Administrator Consultation respondents. That being said, the few that did not support the proposal made points that were not without merit. In particular, much of the argument for the proposal rests on the basis that the new Expansion Constant does not 'feel right' which is never a very strong argument. However, on balance I feel this can be excused in this instance as CMP353 essentially creates a 'pause' providing space for something more substantial to be proposed in its place. I just hope in the event that the Authority approves CMP353, that the industry (principally the ESO and Ofgem) make good use of the time afforded to propose a more sustainable approach to TNUoS charging, tackling issues such as the Expansion Constant, charging zones etc.

Panel Member: Garth Graham

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Yes	Yes	Yes	Yes	Yes

Voting Statement

In terms of competition; Applicable Objective (a); I am mindful of the 25 responses to the Code Administration Consultation (as well as the Original proposal) which show that where a respondent has addressed this matter that CMP353 is considered to have a positive impact in terms of facilitating competition. I'm particularly mindful that the one respondent who did not support, overall, CMP353 did, nevertheless, identify that this change would support competition between Users. I fully concur with those views – they each make powerful arguments as to why (in the view of the numerous different types of Users) those who operate in the competitive market place; that would be impacts by not approving CMP353; believe competition would be better facilitated by CMP353.

In terms of cost reflectivity; Applicable CUSC Objective (b); it is important to recognize what the ESO (in the proposal itself) and one of the TOs (in their response to the Code Administrator Consultation) have said in this regard. Using the data that arises from the status quo approach for the calculation of the Expansion Constant and Expansion

Factors (with the resulting substantial increase in the locational signal) going forward would mean relying on data that is known to be uncertain and incomplete. It would therefore be wrong to proceed with a purported 'cost reflective' charge which is known not to be cost reflective; especially where, as is the case here, the increase is so vast when compared to the historic trend that stakeholders would legitimately have expected (as they do not have access to the technical data on transmission costs) as shown in Figure 1.1 of the FTI Consulting report contained within the SSE Generation Code Administrator Consultation response. CMP353 in applying the historical inflationary approach (of the Expansion Constant et al) is continuing to ensure a cost reflective approach to the TNUoS locational signal is maintained whilst allowing time for a more in-depth examination of the underlying elements and whether they remain fit for the (net zero) future that we all aspire too. Therefore, CMP353 does better facilitate this Applicable Objective.

In terms of Applicable Objective (c), CMP353 does better facilitate this Applicable Objective as it reflects the current developments; as well as the possibility of forthcoming developments; within the transmission business arising from, in particular, the Net Zero target that the UK Government has set (and which many other public bodies, companies and other stakeholders have endorsed).

In terms of Applicable Objective (d), CMP353 does better facilitate this Applicable Objective in terms of compliance with the wider environmental and renewables obligations; contained within "the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency"; that are placed upon the ESO and Ofgem (as the relevant National Regulatory Authority).

In this regard I'm mindful that given the urgency timetable that it has not been possible for the proposer or the Panel to assess the environmental impact of CMP353 in accordance with the relevant guidance[7] issued by Ofgem to Code Panels for that purpose. That having been said the analysis produced by Baringa (contained within the SSE Generation Code Administrator Consultation response) at slide 5 shows that with the status quo approach (from 1st April 2021 onwards) that there is a substantial negative financial impact, of circa £85M, on renewable and low carbon generation with a corresponding positive impact, of circa £85M, on carbon generation. Everything else being equal, in my view, given the quantum of these annual (and reoccurring) impacts, in terms of dispatch, this means that; in accordance with paragraph 3.3(a) of the Ofgem guidance; CMP353 can be expected to reduce greenhouse gas emissions (and that this impact is likely to be material) whilst remaining with the Baseline CUSC will lead to increased greenhouse gas emissions (and that this impact is likely to be material).

In terms of Applicable Objective (e), I concur with the ESO's assessment that CMP353 does better facilitate this Applicable Objective.

[7] https://www.ofgem.gov.uk/sites/default/files/docs/2010/07/ghg_guidance_july2010update_final_080710_0.pdf

Panel Member: Grace March

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	No	Neutral	Yes	Yes

Voting Statement

On balance, this modification does facilitate the relevant ACOs, but it is not straightforward. If recalculation of the variables had taken place earlier (for instance, throughout the price control period), the locational impacts would be signalled to a certain extent and this Modification would not be necessary. The main argument in support of this Modification seems to be that Users have not had sufficient notice of the scale of change, rather than the concept of updating the variables. I am uncomfortable with delaying a valid process because the results are surprising. However, it does seem clear the methodology was not anticipating the scale of change and users have not had sufficient notice. This solution should therefore be temporary and an enduring methodology sought, which would keep Users more informed.

For ACO(a), this modification will distort the locational signal for future developments, as areas of the TO will appear "cheaper" than the TO data suggests it is. However, it will protect existing developments from sudden changes that were not indicated when investment decisions were taken. Users should be exposed to the cost to the network due to their location, regardless of technology type, but as this solution is intended to be temporary, Users will be exposed to the appropriate costs once further analysis has been done and the calculation process reviewed. On balance, this Modification is therefore positive against ACO(a).

Some respondents to the Code Administrator Consultation seemed to believe the baseline methodology is "artificially" inflating the locational differences across the network by using data from high-value projects. Those are the costs that TO businesses have incurred as the network topology changes. It updates the mathematical model in line with real-world costs and developments and therefore reflects changes in Transmission business through to charges. This modification is asking to ignore actual cost data from the TOs when there is no evidence to suggest the data is erroneous or outlying. The EC/EFs represent the cost of expanding the network, not only transporting the power, and therefore will change as the nature of network builds change. This Modification is therefore negative against ACO(c).

It is the ESO's intention, and has clear support from industry, that the EC/EF calculation process is reviewed, as this level of sudden change is distressing. Given this review is likely to happen fairly soon, it seems inefficient to update the EC in line with new data and then change or reverse that change after review, within a price control period. Fixing the variables until that review can take place would better facilitate ACO(e).

Panel Member: Joe Dunn

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Yes	Yes

Voting Statement

Against ACO (a): Positive - Use of the current Expansion Constant and Expansion Factors would

undoubtedly lead to a detrimental effect in competition between Users due to a significant unexpected change to the locational costs faced by certain Users.

Against ACO (b): Neutral

Against ACO (c): Positive – Essentially, this mod allows further required work to be completed in this area without applying costs to Generators and Demand that may not ultimately best meet this objective.

Against ACO (d): Neutral

Against ACO (e): Positive – This is temporary and will lead to an improved efficiency in and understanding of the methodology.

Panel Member: Jon Wisdom

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Yes	Yes

Voting Statement

CMP353 better facilitates CUSC objective (a), (c) and (e). On balance it is neutral in terms of objective (b) and has no relevance with regards to objective (d).

In terms of objective (a) CMP353 will ensure that Users do not face a short term change to their prices which it was unrealistic to expect to be forecasted. Letting this change occur without sufficient notice could damage competition between generators and therefore this objective is better satisfied.

In terms of objective (b) it appears to be neutral on balance. On one hand, CMP353 could be viewed as negative as it delays the update of the Expansion Constant (EC) and so delays implementation of a cost reflective element of the methodology. On the other, the significant increase in costs between the start of RIIO1 and RIIO2 may not be an accurate reflection of the TO's expenditure. Therefore, whilst CMP353 will delay updating the EC for RIIO2, it buys time to determine whether it is actually cost reflective whilst also stopping a potentially non-cost reflective EC from being implemented and affecting locational signals.

In terms of objective (e) it will allow Users to understand the methodology clearly as applied for 21/22 charges.

Panel Member: Mark Duffield

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	No	Neutral	Neutral	No	Yes

Voting Statement

Overall I consider that the benefits of the amendment in respect of relevant objective (a) outweigh the disadvantages of the amendment when considered against relevant objectives (b) and (e) and that the amendment would better facilitate the objectives overall.

It is clearly undesirable for large and short notice changes to transmission charges to be imposed upon users. Without due notice and justification for such changes this can only decrease the predictability and therefore the efficiency of the signal they are intended to provide. It is unclear without further analysis whether the changes in tariffs being driven by the existing methodology are in fact warranted.

On the grounds that the current methodology of setting the Expansion Constant was felt to accurately reflect the costs to the transmission licensee of carrying on its transmission businesses the proposed change may negatively impact relevant objective (b).

I also do not believe that the amendment makes the existing arrangements more efficient. Rather it is a short term sticking plaster that should require further analysis and development of the existing methodology to set the expansion constant and further CUSC amendment proposals at a later date to more properly rectify the root cause of the issue.

Panel Member: Paul Jones

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes

Voting Statement

On balance, the proposal appears better than the baseline. It removes a last minute price shock which would be detrimental to competition in the wholesale and retail markets, better meeting objective a. However, there should have been some change to the Expansion Constant this year, as it was highly unlikely that the level would have remained unchanged. The indication appears to be that there should be some form of increase, but due to the lack of timely information being provided by transmission companies, with some data apparently still missing, it is difficult to know whether the CMP353 outcome is more or less cost reflective than the baseline would be. It is

concerning how the issue has arisen when it has been known for the whole RIIO period that these parameters would have to be calculated for the beginning of this price control. Given the situation, this change proposal is inevitable.

Panel Member: Paul Mott

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Yes	Yes	Neutral	Yes	Yes

Voting Statement

Without the implementation of CMP353, there will be a detrimental impact on competition as some parties will arbitrarily benefit over others from a change which wasn't anticipated or forewarned sufficiently far ahead. The updating of the EC and EFs each price control was never expected to lead to a step change like this, and the community and ESO doesn't yet have confidence the TO's data approach is consistent with that used in RIIO-T1. As such, implementing CMP353 will have a positive impact on competition. I do think it's worthwhile progressing either CMP315 and/or another mod to review the EC and EFs. Large material changes must have reasonable advance notice. Pending more time to conduct a thorough review of the proposed RIIO-2 EC and EFs and the data used to derive them, it is prudent to use the RIIO-T1 expansion constant adjusted for inflation to mitigate the risk of reducing the cost reflectivity of TNUoS charges through what may be an inaccurate approach. As such, CMP353 is positive against Applicable Objective (b). This careful review which CMP353 allows for will be able to properly "take account of the developments in transmission owner businesses" and so is better for CAO (c). Passing the mod also assists in meeting objective e, promoting efficiency in the implementation and administration of the use of system charging methodology, since it seems that baseline CUSC can have flawed consequences in these unexpected circumstances.

Vote 2 – *Which option is the best?*

Panel Member	BEST Option?
Andy Pace	Original
Cem Suleyman	Original
Garth Graham	Original
Grace March	Original
Joe Dunn	Original
Jon Wisdom	Original
Mark Duffield	Original
Paul Jones	Original
Paul Mott	Original

Panel conclusion

The Panel, unanimously recommended that the Proposer's solution should be implemented.

When will this change take place?

Implementation date:

1 April 2021

Date decision required by:

2 December 2020 to allow tariff setting processes to take place.

Implementation approach:

Tariff setting processes will need to change and potentially be updated.

Acronyms, key terms and reference material

Acronym / key term	Meaning
Baseline	The code/standard as it is currently
EBGL	Electricity Balancing Guideline
EC	Expansion Constant
EET	Embedded Export Tariffs (Embedded Generation)
EF	Expansion Factor
EFs	Expansion Factors
HH	Half Hourly
NHH	Non Half Hourly
OHL	Overhead Line
RIIO-1	The first RIIO price control period (2013-2021)
RIIO-2	The second RIIO price control period (2021-2026)
RPI	Retail Price Index
TNUoS	Transmission Network Use of System

Reference material:

None

Annexes

Annex	Information
Annex 1	CMP353 Proposal Form
Annex 2	CMP353 Urgency Letter to Ofgem
Annex 3	CMP353 Ofgem decision on Urgency
Annex 4	Hypothetical examples showing the potential impact to customers of the current RIIO-2 EC (and EFs) per zone
Annex 5	Code Administrator Consultation Summary
Annex 6	Code Administrator Consultation Responses