

Code Administrator Consultation Response Proforma**CMP315: TNUoS Review of the expansion constant and the elements of the transmission system charged for and CMP375: Enduring Expansion Constant & Expansion Factor Review**

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 **5pm** on **15 December 2023**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact Andrew Hemus Andrew.Hemus@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details	
Respondent name:	Paul Mott	
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Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network <input type="checkbox"/> Operator <input type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input checked="" type="checkbox"/> System Operator <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input type="checkbox"/> Other

I wish my response to be:

(Please mark the relevant box)

☒ Non-Confidential☐ Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

For reference the Applicable CUSC (charging) Objectives are:

- 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;*
- 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 *; and
- e. Promoting efficiency in the implementation and administration of the system charging methodology.

****The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.**

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

Standard Code Administrator Consultation questions		
1	Please provide your assessment for the proposed CMP315 solution against the Applicable Objectives?	Mark the Objectives which you believe the proposed solution better facilitates:
		Original <input checked="" type="checkbox"/> A <input checked="" type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E
		<p>NGESO agrees that the Expansion Constant calculations should be reflective of the cost of the works undertaken on the transmission system. Given the historic change in the balance of works undertaken (from new asset build to replacement/reinforcement of existing assets), we believe that changes to this balance of works should be captured.</p> <p>The expansion constant costs used in charging calculations have been frozen in real terms since 2021 as per CMP353. This means these costs are in fact based in real terms on TO circuit expansion costs across 2003-2012, gathered ahead of RIIO-T1 to set the value used across this period; CMP353 further "froze" costs in real terms. These are relatively dated costs to be using to calculate expansion-based TNUoS tariffs today, as the costs of labour and of relevant commodities have risen well above inflation since 2012, and especially since ~2018.</p> <p>NGESO does not support the inclusion of non-circuit costs in the expansion constant calculation, but nonetheless considers CMP315 to represent an improvement on baseline.</p>
		Objective (a):

CMP315 better facilitates competition than the baseline, as the baseline, has “held back” and prevented the naturally-due increase in the expansion constant due to the supra-inflationary increases in the cost of labour and materials re: new transmission builds. CMP353 was flagged as an interim solution, creating a perception that change of uncertain nature is now overdue. If CMP315 is approved, it will provide more clarity in the development of the approach to the EC and its likely direction of travel (this is also true of CMP375). This could provide more certainty to users of their costs in future years, and thereby assist the development of effective competition. Of course, as we move more rapidly towards net zero, the transmission and trading arrangements, including charging, may continue to adapt.

Objective (b):

Clarity in the development of the EC and its likely direction of travel will provide more certainty to users of their costs in future years. CMP315, whilst improving cost-reflectivity a good deal on baseline, does, like CMP375, deliberately blunt prompt cost-reflectivity in that it features smoothing-in of new data to avoid the sort of circumstance that led to the need for CMP353 being passed as a temporary measure, which has held back cost-reflectivity in relation to new TO expansion cost data, since it was passed in 2021. On the other hand, some new cost data is fed through (in smoothed form) every year, not just once every price control as under baseline (baseline uses inflation in between the start of each price control).

Objective (c):

Amending the EC via CMP315 (or, more so, CMP375) will allow the charging methodology to account for developments in the up to date costs of expanding the NETS.

Objective (d):

CMP315 is neutral, facilitating this neither better nor worse than baseline.

Objective (e):

CMP315 would implement an enduring solution. The smoothing in calculation is fairly simple. ESO do not consider it to be necessary or proportionate to (as per CMP315) try to take account of the expansion costs of non-circuit elements; that adds complexity to tariff calculation to very little net effect. Nonetheless 315 does better facilitate applicable charging objective (e).

2	Please provide your assessment for the proposed CMP375 solutions against the Applicable Objectives?	<p>Mark the Objectives which you believe the proposed solutions better facilitates:</p> <table border="1"> <tr> <td data-bbox="619 264 874 309">Original</td> <td data-bbox="882 264 1465 309"><input checked="" type="checkbox"/>A <input checked="" type="checkbox"/>B <input checked="" type="checkbox"/>C <input type="checkbox"/>D <input checked="" type="checkbox"/>E</td> </tr> <tr> <td data-bbox="619 320 874 365">WACM2</td> <td data-bbox="882 320 1465 365"><input type="checkbox"/>A <input type="checkbox"/>B <input checked="" type="checkbox"/>C <input type="checkbox"/>D <input checked="" type="checkbox"/>E</td> </tr> </table> <p>We agree that the Expansion Constant calculations should be reflective of the cost of the works undertaken on the transmission system. Given the historic change in the balance of works undertaken (<i>from new asset build to replacement/reinforcement of existing assets</i>), we believe that changes to this balance of works should be captured.</p> <p>Objective (a): CMP375 better facilitates charging applicable CUSC objective (a) than the baseline, because baseline, due to CMP353, has “held back” and prevented the naturally-due increase in the expansion constant due to the supra-inflationary increases in the cost of labour and materials re: new transmission builds towards the end of the last decade. Clarity from CMP375 in the development of the EC and its likely direction of travel could provide more certainty to users of their costs in future years, and thereby assist the development of effective competition - though as we move more rapidly towards net zero, the transmission and trading arrangements, including charging, may continue to adapt. The way WACM2 builds up to 30 years of historic data being averaged into the calculation per asset class, seems likely to give unreasonable low weighting to recent changes in costs. Given that all three variants on offer, CMP315, CMP375 and CMP375_WACM2, already offer careful smoothing-in of new data to avoid the sort of circumstance that led to the need for CMP353 being passed as a temporary measure, WACM2 seems too languid. Cost-reflectivity, stability and simplicity/elegance are a “trilemma”/compromise all of their own in charging, but WACM2 deviates too far from cost reflectivity and currency of data used. WACM2 is neutral on (a) compared to baseline.</p> <p>Objective (b): Clarity in the development of the EC and its likely direction of travel from either of these mods, if passed, would provide more certainty to users of their costs in future years. The smoothing-in of the effect (on TNUoS locationals) of new TO expansion cost data in CMP375 has the same benefit as it does in CMP315. This approach can help avoid in future, the sort of circumstance that led to the need for CMP353 being passed as a temporary measure. Taking account of new expansion cost data from TOs annually rather than only once</p>	Original	<input checked="" type="checkbox"/> A <input checked="" type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E	WACM2	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E
Original	<input checked="" type="checkbox"/> A <input checked="" type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E					
WACM2	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E					

		<p>per price control further helps avoid price “shocks” causing sudden perturbations in the North/South locational TNUoS differential.</p> <p>Objective (c): Amending the EC via CMP375 or WACM2 will allow the charging methodology to better account for recent developments in the costs of expanding the NETS.</p> <p>Objective (d): CMP375 and WACM2 are neutral.</p> <p>Objective (e): The smoothing in of new TO expansion cost data per asset class, a key feature of these mods, is a fairly simple calculation for ESO to carry out, and, we hope, for Users to understand.</p>
3	Do you have a preferred proposed solution?	<p> <input type="checkbox"/> CMP315 Original <input checked="" type="checkbox"/> CMP375 Original <input type="checkbox"/> WACM2 <input type="checkbox"/> Baseline <input type="checkbox"/> No preference </p> <p>CMP 375 neatly updates the ICRP method, taking account of new TO circuit cost data on an annual basis, using soft (13% p.a.) annual smoothing-in to avoid a repeat of the pre-2021 situation. The data used is circuit cost data, which seems most appropriate, as the extent to which the cost of non-circuit elements varies with capacity is open to doubt. The “basket of works” weighting per asset class by TO business plan in WACM2, adds complexity without affecting the results very much, and WACM2, by averaging in what builds up over time to 30 years worth of historic TO project cost data as well as the same smoothing factor as 315/375 original, generates expansion constant data that would not, in the ESO’s view, be sufficiently cost-reflective; too much weighting would be given to old TO cost data.</p>
4	Do you support the proposed implementation approach?	<p> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No </p> <p>The implementation date of 1st April 2025 is sensible for both CMP315 and CMP375, giving some time ahead of the expected Ofgem decision. In any event the smoothing-in parameter ensures that in the first year of implementation, only 13% of the value of the expansion constant per asset class takes the value arising from the new calculations under these mods. The remaining 87% of the value of the expansion constant per asset class in the first year after implementation is driven, instead, by</p>

		the previous year's baseline (<i>frozen in real terms since 2021 as per CMP353, and in fact therefore based in real terms on TO expansion costs 2003-2012, gathered ahead of RIIO-T1 to set the value that CMP353 "froze" in real terms</i>) expansion constant for that asset class. This represents a very gentle form of phasing-in, which means there is no cogent case for delay ahead of implementation, even if Ofgem took a little time after receipt of FMR to, perhaps, conduct an IA and complete its analysis.
5	Do you have any other comments?	No further comments