

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:	Matthew Paige-Stimson	
Company name:	National Grid Electricity Transmission plc	
Email address:	matthew.paige-stimson@nationalgrid.com	
Phone number:	Click or tap here to enter text.	
Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input type="checkbox"/> System Operator <input checked="" 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.

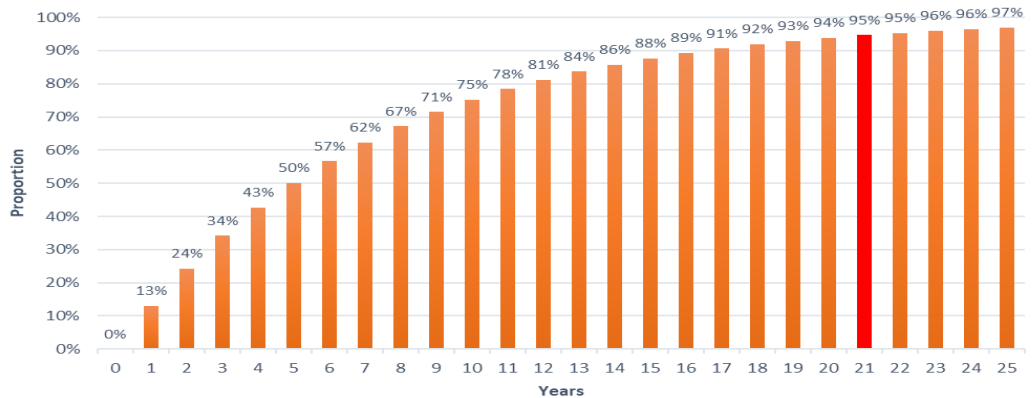
****The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.**

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 type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		We do not believe CMP315 better meets any of the objectives.
		Although the proposal to include additional types of investments that deliver incremental capacity is sound in principle, the proposal is based on historic actual costs with a significant time-lag to full inclusion of current data.
		Any benefit from including of other types of capacity delivering work (such as reconductoring and quad boosters) has been offset by the proposal being based on historic costs rather than current costs. The absence of current costs is the dominant feature of all the proposals, with additional work types that deliver capacity a secondary aspect.
		We do not see any proposal based on historic costs and with significant time delay to new data being fully included in the assessment of expansion costs as an improvement upon the current-cost based Baseline.
2	Please provide your assessment for the proposed CMP375 solutions against the Applicable Objectives?	Mark the Objectives which you believe the proposed solutions better facilitates:
		Original <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WACM2 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		We do not believe either of CMP375 or CMP375 WACM2 better meets any of the objectives for the same reasons set out in Q1.

3	Do you have a preferred proposed solution?	<input type="checkbox"/> CMP315 Original <input type="checkbox"/> CMP375 Original <input type="checkbox"/> WACM2 <input checked="" type="checkbox"/> Baseline <input type="checkbox"/> No preference
		<p><u>Historic costs in place of current costs</u></p> <p>All the proposals are based on an approach that uses actual historic cost information in the expansion constant calculation, coupled with a significant time-lag to full inclusion of current data.</p> <p>This is in clear contrast to the existing arrangements (the Baseline) which is based on 'best view current costs', which is not project-specific and is weighted by historic work type volumes (to indicate the types of reinforcements) and has no time-lagged smoothing of cost data. This means the Baseline has no delay in reflecting current cost data into the expansion constant / factors and the Baseline does not suffer from project-specific costs that can introduce volatility.</p> <p>In addition, new technologies and ways of working are likely to change materially from the types of technology used and reflected in projects' historic actual costs, whether that be reductions through innovation or increases due to enhanced environmental requirements for example.</p> <p><u>Indexation issues</u></p> <p>As noted above, all the proposals reduce cost reflectivity by virtue of using historic actual costs. The proposed use of general inflation, rather than more relevant materials/contractor inflation to reflect real price effects, cannot credibly adjust historic costs to be a cost reflective proxy of current costs, which may have changed significantly due to the aforementioned technological changes.</p> <p>In addition, the demand driven pressure on global supply chains for both resource and equipment means costs have significantly out-paced general inflation.</p> <p><u>Time Delays to current data expression in output factors/constants</u></p> <p>In the case of CMP315 and CMP375 there is a proposed 10-year dataset with time weighted smoothing of calculations.</p> <p>In the case of CMP375 WACM2, with proposed 30-year project cost basket, the age of cost data used could be up to six 5-year price controls preceding the time that the expansion constant is calculated.</p> <p>In both cases, such a long time delay before current costs appear fully into output parameters cannot be justifiably supported, as the time lag on locational signals is too great and will distort the siting decisions made by customers.</p> <p>As illustrated in the consultation's Annex 13 chart (replicated overleaf), "New" cost data will take 21 years to reach 95% inclusion in the derived factor, i.e. half the typical assets life will have passed before the factors are nearing full expression of that "New" cost data within the expansion constant.</p>

21 years until "new data" has materially flowed through to expansion factor calculation



Years	Proportion
0	0%
1	13%
2	24%
3	34%
4	43%
5	50%
6	57%
7	62%
8	67%
9	71%
10	75%
11	78%
12	81%
13	84%
14	86%
15	88%
16	89%
17	91%
18	92%
19	93%
20	94%
21	95%
22	95%
23	96%
24	96%
25	97%

Volatility concerns

We understand this proposal would help reduce volatility in TNUoS tariffs, which is a concern to many industry parties. However, the proposals have not assessed whether the trade-off with cost reflectivity has been justified.

We also note there are other amendments that are seeking to limit volatility and Ofgem is undertaking a review of TNUoS tariffs. These should be allowed to progress so that the best overall solution is progressed.

☐ Yes

☒ No

We refer to Q3

No