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.

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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?	Yes, we agree with the proposer's reasoning, and further highlight our views below: *(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;* The proposer sets out that the sharp increase for generators in the north is *"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".* This implies some generators will receive higher costs and others higher locational credits than is justified by the actual cost to transport energy. Artificially increasing the locational signal discriminates against remote generators in the North. *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);* We understand from the ESO that the specific combination of low volume / unusually high value projects built in RIIO 1 results in an expansion factor that does not reflect the long term historic or expected future marginal cost of reinforcement. The Expansion Constant is fundamental to TNUoS charging, this CMP proposal will provide the time necessary the industry to explore the best potential options to address the defect identified.

2	Do you support the proposed implementation approach?	Yes, but we believe the inflation wording in 14.15.69A could be made clearer. Current CUSC wording: 14.15.69 *This process of calculating the incremental cost of capacity for a 400kV OHL, along with calculating the onshore expansion factors is carried out for the first year of the price control and* ***is increased by inflation, RPI, (May–October average increase, as defined in the Transmission Licence****) each subsequent year of the price control period. The expansion constant for 2010/11 is 10.633* CMP Legal text proposal: *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 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.* The EC used in 2020/21 is *already* inflated as per 14.15.69. Current wording suggests a double inflation adjustment. This could be adjusted by either by: *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 will be that used* ***in the 2020/21 charging year plus inflation as defined in the Transmission Licence*** *for each subsequent year of the T2 price control.* Or *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 will be* ***that derived for the first year of the T1 price control*** *period 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.*

3	Do you have any other comments?	**Notice** Increasing the expansion constant by 78% with little notice will be a significant price shock to existing generators in the North which could have short term implications for system stability. TNUoS is intended as a long term prie signal and generators must give at least two years' notice to reduce their capacity. Such a sharp price increase with less than six months' notice is not commensurate with generator's ability to respond to the locational signal. **Risk premium and Volatility** It is very likely that if this CMP is not approved other modifications will be raised and any outcome would be implemented after the 2021/22 charging year, which could result in unnecessary charging volatility. Unnecessary TNUoS volatility will increase risk premiums, and may deter developers from proceeding with projects which will have a knock on impact on Net Zero goals and the ability to decarbonise the electricity network. **Complexity and interrelation** It is a complex area, that will take time to fully explore and needs to be considered in conjunction with the TCR, SCR, rezoning and CMP315. **Asset life** We think there is value in assessing the appropriateness of associated assumptions for example asset life. There are many assets in operation already older than 50 years, and no indication in the NOA that assets approaching 50 years will be decommissioned or replaced and our understanding from RIIO 2 is that there is no desire from Ofgem to allow TOs to do major replacements unless there is a very strong specific justification (not just that they have reached an arbitrary age). **Transparency** We also would like to see more transparency on how the costs associated with historic 400kV lines have been calculated, and the basis on which the overhead is calculated. We believe more information on the process (even using dummy data) could be provided without disclosing commercially sensitive information.

		Security factors We believe the current approach to security factors should be reviewed which could be relevant to consider in tandem. **Additionality** We also have concerns that the TNUoS model by design assumes generation of an additional 1 MW triggers a corresponding investment in transport capacity of 1 MW. In reality the system is not built to enable zero thermal constraints, nor is it planned to (because a constraints strategy is a cheaper alternative). A resolution to this could be built into the expansion constant methodology. **Change Process** The proposal states *"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."* Although there are obvious linkages to CMP315 an enduring solution should be investigated via a new change modification proposal (which could be later joined to CMP315 if necessary) for the following reasons: i) There has been a recent shift to a narrow interpretation of the defect in change modification proposals. The alleged defects identified in CMP315 do not explicitly cover the defect identified by the proposer in this CMP, so attempts to use CMP315 to resolve this issue could be frustrated. ii) Fundamental changes to the way expansion constants and expansion factors are derived are high impact and to a wide variety of industry participants. A new CMP would give an opportunity for interested parties to fully participate and contribute to the working group.