Workgroup 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 **17 May 2022**. 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 Paul Mullen Paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com

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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:

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 *; and*

e. *Promoting efficiency in the implementation and administration 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 Workgroup Consultation questions		
1	Do you believe that the CMP315 Original Proposal better facilitates the Applicable Objectives?	Mark the Objectives which you believe each solution better facilitates: Original ☐A ☐B ☐C ☐D ☒E Principle of adding different network interventions is welcome, but this implementation causes problematic signals.
2	Do you believe that the CMP375 Original Proposal better facilitates the Applicable Objectives?	Mark the Objectives which you believe each solution better facilitates: Original ☒A ☒B ☒C ☒D ☒E Better – more forward-looking than 315. Improves on status quo. "Proxy circuit" element is a flaw however. Data inputs can still be improved to better mitigate step-change risk. LCP "variant" superior to the Original.
3	Do you support the proposed implementation approach?	☐Yes ☒No So much detail yet to be developed, hard to say yes or no here. Data inputs need more development, to mitigate risk of step-changes (ref CMP353 decision). Proxy circuit approach flawed, must be changed. LCP approach expected to develop into WACM.
4	Do you have any other comments?	Support "LCP approach" (expect it will be absorbed into Original or developed into WACM) and "weighted basket of technologies" concept. Support approving some form of CMP375 very soon, to undo the economic harm of continuing with a methodology which assumes that all new network capacity is exclusively new-build circuit (although TNUoS under structural review and Task Forces, they are on longer timeframe, not guaranteed to make change). Data inputs need more development, to mitigate risk of step-changes.

		Proxy circuit approach flawed, must be changed. (in keeping with supporting the "weighted basket" averaging approach) – we support the decision to generally *avoid* circuit-specific expansion factors, as per the rationale in the consultation.
5	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	☐Yes ☒No
		Click or tap here to enter text.
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Specific Workgroup Consultation questions		
6	Do you agree with the CMP315 and CMP375 Proposers' conclusions that the Expansion Constant should also include circuit reinforcement, non-circuit works and life extension works in addition to new circuit build. Are there any other reinforcement types that should be included? Please provide justification for your response.	Yes, agree should include other interventions. Note detailed proposal of "life extensions" treatment yet to be developed. As a principle, life extensions challenge the original assumptions of amortisation – put illustratively, if you knew that half of assets would run to 60y instead of 50y, you might have used an average 55y term in the first place. So we welcome acknowledgement that some form of discount to account for life extension work is appropriate. "Smart" and "non-TO" should also be included on principle, however, but agree to omit initially due to limited data, noting can be added in future. Disagree with ESO on p8 – that Smart should be omitted because "not physically firm capacity" and disagree on p9 that non-TO should be omitted because "costs... covered by BSUoS and so not impact TNUoS and therefore including them would be double-counting". Locational TNUoS signal is not cost recovery, it is a signal to usefully influence users' decisions based on their impact (to add or subtract MW from NETS). If a user's decision causes long-term BSUoS costs in place of network investment, on a long-term basis this becomes equivalent to LRMC signal in practice, it

		replaces investment in physical assets, and so it is fully appropriate to reflect this development by including it in the locational signal, while actual transmission cost recovery is trued up in the Residual charge. Counterfactual (for this example) is that locational TNUoS signal continued to be priced on assumption of per-km physical transmission investment, which will become unreflective of reality.
7	CMP315 and CMP375 have different proportions of each reinforcement type in the basket for the calculation of the Expansion Constant because the Proposers have different interpretations as to what the Expansion Constant should represent. Which one of these interpretations do you agree with or do you have a different approach? Please provide justification for your response.	375 – Growth of NETS. Because provides more *useful* signal of a user's impact (in deciding to add or remove MW at any location).
8	A Workgroup Member has also suggested an alternative approach to establish the forward-looking marginal cost over a realistic 5–10-year time horizon. Do you agree with this interpretation or would you suggest a different approach? Please provide justification for your response.	Agree. More Forward-looking. Also better aligns charge with when the investments are made. "Basket" concept appears practical to implement too, as per proposed text for CUSC (we make the assumption there would also be an accompanying guidance note on implementation, outside of CUSC and with examples, which will evolve with time).
9	CMP315 and CMP375 Originals propose using the last 10 years historical data when calculating the Expansion Constant/Expansion Factors. Do you agree with this approach or are there alternative approaches to consider? Please provide justification for your response.	Disagree. It is a reasonable starting point, however it does: • Not make the charges more forward-looking, nor better align charges with period in which the elated investments are made (improved with the LCP approach • Not give any mitigation for potential step-increases at start of each price control, identified as problem in CMP353 decision.

		Our starting point would be to explore the forward-looking approach of LCP, for ideally LCP to subsequently provide a view on the robustness of the outcomes once they had been able to develop their proposal with relevant data. If it is proved that certain network interventions have problematic data paucity – then we see a case for expanding the cost input history (without changing the basket weighting), as set out on p15 ("Cost data inputs versus Reinforcement Type data inputs").
10	Do you agree with the list of data items, the ESO require from Transmission Owners to calculate the Expansion Constant. Please provide justification for your response.	Without detail of implementation (Originals, nor others), impossible to usefully comment at this stage. Note LCP approach seems to require less, which seems beneficial.
11	In their analysis, Lane Clark and Peacock (LCP) have provided an alternative implementation approach proposing non-circuit build to be allocated to existing circuits and thereby included within the EFs rather than creating proxy circuits (as proposed by the CMP315 and CMP375 Original). Do you have any thoughts on this and do you agree with LCP's proposal for reinforcement factors? Please provide justification for your response.	Agree with LCP approach. More forward-looking, and cost signal data better aligns with the period for which people are charged. LCP "allocation" approach to non-circuit is a superior approach. Imperfect, but much better than "proxy circuit" approach which is flawed. Principally, proxy circuit approach *always additive*, so the TNUoS signal will contain a circuit (new/refurb) cost in addition to substation investment cost. This overstates the costs for when TOs invest in substations *in place* of circuit investment. Example: ETYS 2021: "The current boundary capability [6.4GW] is limited to 6.1GW due to a thermal constraint on an SGT at Harker substation" – i.e. that investment at the substation can release 300MW of capacity on neighbouring circuits; the proxy circuit approach does not allow for this and falsely would make the locational signal too strong. There is also the arbitrary distance associated with the proxy signal approach. Proxy approach cannot be supported. Allocation approach is not perfect, and therefore there is a valid argument to exclude non-circuit interventions from the calculation entirely. However, of the two approaches "Allocation" is not so flawed and LCP has shown it is practically deliverable.
12	To achieve implementation by 1 April 2023, the Workgroup understand that	Expect sensitivity study of possible tariffs published by ESO as early as reasonably practical. Understand and

	it will not be possible under the current timeline to include the new EC/EFs in the draft TNUoS tariffs for 2023/2024. Do you support this and, if so, in the absence of draft TNUoS tariffs for 2023/2024, what detail will you need ahead of final TNUoS tariffs being published?	accept this may not align with the standard publication timeline. In general, support earlier implementation to mitigate the harm of continuing with poorer existing methodology. It is possible to practically implement by April 2023. Nonetheless, draft tariffs will be informative, to see what kind of changes industry may be facing as a result, which may influence the final decision on implementation timelines.