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

Respondent details	Please enter your details
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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 We believe CMP315 better facilitates the above objectives compared with the baseline (introduced by CMP353 Stabilising the Expansion Constant)
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 We do not support CMP375
3	Do you support the proposed implementation approach?	☐Yes ☐No **Based on our current knowledge and understanding of the proposal, we support the implementation approach for CMP315**. However, we are not yet sure whether the proposed basket of works and calculation methodology are representative of the appropriate combination of types of existing, recent and future network reinforcement, and to what extent these differ. We are concerned that CMP315 might underestimate relevant network reinforcement and build costs required to achieve Net Zero.. **We do not support the implementation approach for CMP375**. In our view this is a significant departure from the current TNUoS model, and the new concept has not been properly explained or justified by the proposer or explored by the workgroup. We think the conceptual model that CMP375 introduces is probably flawed and that the approach is likely to seriously underestimate appropriate network costs and hence EC/EFs. We think that the objective of TNUoS charges is to broadly reflect each network user's total relative impact on network investment costs, and that this is achieved by basing TNUoS charges on impact on depreciation costs. Depreciation is the normal way to account for investment costs. Using standard accounting practices, depreciation is frequently adjusted by

		re-valuing assets based on current or “fair-value”. We think this is the basis for the recalculation of the EC/EFs: that it is a revaluation of depreciating network assets that is charged to users. Changing which assets themselves are included in the re-valuation, as CMP375 proposes, is a completely different exercise and concept. As an example of how we understand the current TNUoS model to work, consider that a circuit is required to be built at the beginning of a generator’s life to accommodate its output. We think the correct treatment would be to charge the depreciation cost of that circuit to the generator over its life, which would normally be at least 25-30 years. Once the generator is decommissioned, we expect that it would be replaced by another that would have required a similar circuit to be built had it not already existed. Hence, the depreciation cost is taken up by the new generator. The future 25-year depreciation cost charge on the first generator is taken into account when the decision to invest and build the first generator is being taken. Hence, there does not appear to be any logic for removing and replacing assets included in the depreciation cost basket every 10 years or so, especially where existing network assets are still being used and would need to be replaced had they not already existed. This is why we believe the concept presented by CMP375 is flawed. If a deeper connection charging approach was used, we think there could be an argument to shorten the depreciation period to the life of the generator which triggered the works, but this would double the annual depreciation cost and is different to changing the basket of works every 10 years. In order to be consistent with the model and example above, we think the EC/EFs need to provide a fair reflection of the depreciation cost of the full replacement value of the whole network. It is not clear to what degree recent network reinforcement costs are similar to the existing network. It appears that network reinforcement that has occurred since the 10 years prior to the price control review has only kept pace with delivery of the FES Steady Progression scenario which will not deliver Net Zero on target. We are concerned that this more recent network reinforcement has only delivered the very cheap “low hanging fruit”. Critically, we think it is important to recognise that the TNUoS cost signal that is used for network users’ asset investment and closure decisions is almost exclusively a

		TNUoS forecast. We think that the methodology proposed by CMP375 will provide an unnecessarily sharp, volatile and unpredictable cost signal that will make forecasting TNUoS much more difficult for investors. Using such a short period to determine the nature of network reinforcement to be included in the calculation basket does not help when many investors are attempting to forecast TNUoS tariffs up to 35 years into the future, and are not representative now of the depreciation cost impact from assets more than 12 or so years old anyway. We are not entirely clear of the calculation methodology in CMP315, but we think it is probably more representative of the depreciation cost impact of existing assets today and more enduring because it is likely to be more representative of the replacement costs of the whole of the future network. We think that the replacement cost of the current network is likely to be a more reasonable representation of the scale and nature of future network build than recent reinforcement alone. We think it is essential that the EC/EFs properly reflect the scale of the cost of network expansion to achieve an economically efficient Net Zero. It is likely that the TNUoS Taskforce will recommend improved arrangements for storage and potentially for Final Demand which will allow for the removal of the current locational demand TNUoS price floor. Consumers in Scotland and Northern England would then benefit from significantly more favourable TNUoS charges, but these consumer benefits will not be fully realised via the TNUoS charging arrangements if the EC/EFs are underestimated.
4	Do you have any other comments?	The lack of data in the consultation makes it extremely difficult for members to assess the impact of the proposed changes. We also have concerns that without this data, OFGEM will be unable to make an informed decision on this code modification. Indeed OFGEM chose to send back CMP344 on the grounds of insufficient quantitative analysis. Given CMP344 is likely to have significantly less financial impact on generation and demand users that CMP315 or CMP375, it is reasonable to assert that such a send-back is also probable for these current modifications without more data being provided on the impact. Without the, now overdue, ToRs for the TNUoS taskforce it is impossible to assess which (if any) aspects of this code modification may be revisited or subsumed by the TNUoS taskforces. Although we are mindful that this is not within the

		gift of the workgroup to solve, we still wish to highlight the challenge this presents.
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.
		Click or tap here to enter text.

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.	We find it difficult to comment because think that the Expansion Constant should be reflective of an enduring replacement cost of the network, and we are not sure of the extent to which each of these types of works would be representative of that. The proposers have not explained how life extensions would be treated. We think that non-circuit works should probably only be included to the extent that they add capacity over distance.
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.	We broadly agree with the interpretation of the proposer of CMP315 because we believe that the TNUoS cost signal should be broadly reflective of the relative impact an asset has on depreciation costs. The network reinforcement works that make up these depreciation costs for some generators will have occurred before the 10 years prior to the price control period. It also does not make sense to us to charge depreciation (which is annuitized over 50 years) based on a limited basket of works that changes every price control period. We do not understand the logic for excluding assets that are still depreciating and

		only retaining within the basket those network assets which are within the first 10 years of their depreciation (please also see our answer to Q3).
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.	We do not agree that TNUoS charges should be based on forward looking marginal costs. TNUoS charges should represent a current value as far as possible. This is because TNUoS is, by definition, based on the cost of depreciation. Depreciation, according to accounting standards, is only to be charged on asset carrying values which can either be historical actual cost or fair value, not future value. We note the LCP proposals to forecast based on works included in the TO's price control business plans, and would welcome seeing the full detail of such a proposal presented as a formal WACM. At present we are unclear how the TO's use of reopeners would be reconciled for inclusion in a forward-looking methodology. Similarly, how possible instances where developments within business plan are not progressed for any reason might be taken account of. Finally, we have not seen any data demonstrating that the RIIO2 business plans (ex-ante) are an accurate proxy for final investment costs (ex-post). We would ask that such evidence is essential to assessing the use of RIIO business plan data to inform the Expansion Constant.
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.	In principle, we agree with this approach. However, due to the fact that the Transmission Owners have not released any data to the workgroup, we are not in a position to make an assessment of whether the current dataset is sufficient so as to be statistically significant. It may be necessary to use additional data or appropriate assumptions if this data is insufficient. (See also response to question 4).

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.	We do not have any comments on the list of specific data items in Annex 5.
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.	We believe that the methodology of including non-circuit build to existing EFs is straightforward, however we are not sure how proxy circuits will be represented within the model, and therefore cannot comment at this stage. We believe that the workgroup need to discuss and understand the proposals for proxy circuits in more detail.
12	To achieve implementation by 1 April 2023, the Workgroup understand that 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?	We are disappointed at the lead time required to undertake calculations using data that should be readily available to the TOs given that it will be fundamental to their previous business plans. We believe that there has been an expectation from industry for several years that the EC/EFs will have been updated by April 2023 and will have already made significant commercial decisions on this basis. Hence, we think it is more important to deliver an updated set of parameters to meet the April 2023 deadline, rather than delay it simply because users will not have had a forecast over a period of months.