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Dear Trisha,

CMP353 'Stabilising the Expansion Constant and non-specific Onshore Expansion Factors from 1st April 2021' – decision on urgency

On 29 October 2020, National Grid Electricity System Operator (NGESO) (the 'Proposer') raised Connection and Use of System Code (CUSC) Modification Proposal CMP353.¹ This Proposal concerns the expansion constant, one of the inputs to the charging model which produces the locational element of Transmission Network Use of System (TNUoS) charges. The expansion constant is set at the start of each Price Control period, based on projects built over the preceding period. CMP353 seeks to stabilise the expansion constant at the start of the RIIO-2 period, at the RIIO-1 value plus inflation.

The CUSC Modifications Panel (the 'Panel') considered the Proposer's urgency request at its meeting on 30 October 2020. The Panel agreed unanimously that CMP353 does meet the Code Modification Urgency Criteria and so recommend that CMP353 should be treated as an Urgent CUSC Modification Proposal. Following the Panel meeting, we received the request that CMP353 be treated as an Urgent Modification Proposal.²

¹ <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp353-stabilising>

² References to the "Authority", "Ofgem", "we", and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

We have considered both the Panel's and the Proposer's arguments. We have decided that CMP353 should be progressed on an urgent basis. We have set out our reasoning below.

Background

Generators and demand users pay for the ongoing costs of the transmission network via Transmission Network Use of System (TNUoS) charges. These charges are a combination of cost-reflective charges and residual charges. Cost-reflective TNUoS charges are designed to reflect the different costs of demand and generation at various locations on the transmission network, to incentivise the efficient use of the system.

The expansion constant is an input to the TNUoS charging methodology. It reflects the annuitized £/MW/km cost of 400kV overhead line and acts as a multiplier to the 'nodal' TNUoS prices (the relative costs of adding 1MW of generation at each point on the network, or 'node'). The expansion constant directly affects the locational signal that users face. This month NGESO will publish its latest forecast of TNUoS tariffs for the period starting in April 2021. Final tariffs will be published in January 2021.

The expansion constant is set at the start of each Price Control period and is then re-assessed based on projects built in the previous price control period; within each year of the Price Control period, the expansion constant is adjusted for inflation. The expansion constant for the next Price Control period has been calculated and, due to a lower number of built projects in RIIO-1 and the relatively high cost of these in comparison to the projects in previous periods, will increase significantly. The RIIO-1 expansion constant value used in the calculation of the 2020/21 tariffs was set at £14.93/MW/km, whereas the RIIO-2 expansion constant value has increased by 83% to £27.38/MW/km.

The proposal

The Proposer has requested to change the relevant parts of Section 14 of the CUSC, to allow the expansion constant and non-specific onshore expansion factors³ to be stabilised at the RIIO-1 value (plus relevant inflation) of the expansion constant. The Proposer has stated that this would provide NGESO with time to conduct a review of the underlying methodology that creates the expansion constant, with the aim of ensuring that it is still appropriate and cost reflective.

³ Certain (specific) expansion factors are calculated based on the specific costs of the individual projects, for instance HVDC projects.

In its urgency request, the Proposer explained why it was requesting urgency, highlighting one of the three urgency criteria: (a) a significant commercial impact on parties, consumers or other stakeholders. The Proposer considers that the 'significant commercial impact' arises for all CUSC users who pay TNUoS tariffs as they could not have forecast or expected the large changes in locational tariffs and prepared for the effects. If the proposal was not treated as urgent, there would be insufficient time left to complete and approve it prior to the tariff setting process in December and January.

Panel View

The Panel considered the request for urgency by reference to Ofgem's Guidance on Code Modification Urgency.³ At the Panel meeting on 30 October 2020, the Panel unanimously agreed to recommend to Ofgem that CMP353 should be progressed as an Urgent Modification Proposal. The full arguments for and against urgent treatment are set out in the letter from the panel.

The Panel agreed with the Proposer's view that using the current data provided by the Transmission Owners will have a significant commercial impact on market participants due to the large changes in locational tariffs. The Panel also agreed that it is sensible to consider putting a temporary solution in place (as proposed by CMP353) given the need for a quick resolution of the material uncertainties on post-April tariffs that now exist for CUSC parties.

The Panel agreed an appropriate urgent timetable for CMP353 and agreed with the Proposer's recommendation that CMP353 would need to be implemented by 2 December 2020 (if approved) to allow the RIIO-1 plus inflation expansion constant to be factored into the final TNUoS tariffs published in January 2021.

Our decision

In reaching our decision on urgency we have considered the details within the Proposal, the justification for urgency, the views of the Panel and we have also assessed the request against the urgency criteria set out in our published guidance.⁴

We are satisfied that the progression of this modification proposal is related to an imminent issue that if not urgently addressed may cause a significant commercial impact on parties, consumers, or other stakeholder(s). We therefore accept this modification proposal being

⁴ Ofgem (2016) [Ofgem Guidance on Code Modification Urgency Criteria](#)

treated as urgent and agree that the modification should follow the urgent timetable set out in the Panel's letter.

We have considered the timeline presented by the Panel in their letter. We agree with the proposed timeline, given that the Proposer has stated a decision is needed before 2 December, due to the timing of tariff calculation.

For the avoidance of doubt, in granting the request for urgency, we have made no assessment of the merits of the Proposal and nothing in this letter in any way fetters our discretion in respect of the Proposal.

If you have any comments or questions about this letter, please contact Eleanor Wood at Eleanor.wood@ofgem.gov.uk

Yours sincerely,

Andrew Self
Deputy Director, Electricity Access and Charging – Energy Systems Management and Security

Duly authorised on behalf of the Authority