

Code Administrator Meeting Summary

Meeting name: CMP315 Workgroup 17/CMP375 Workgroup 14

Date: 8 November 2022

Contact Details

Chair: Paul Mullen

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Proposer (CMP375): Paul Mott

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Key areas of discussion

- CMP315 seeks to review how the expansion constant is determined such that it best reflects the costs and CMP375 seeks to amend the calculation of the Expansion Constant & Expansion Factors to better reflect the growth of and investment in the National Electricity Transmission System (NETS). Workgroups for these changes are jointly held but the changes have not been amalgamated.
- The primary aim of this meeting was to walk through the components and the calculations for each of the potential solutions. Once these are fully understood, clear and comparable, Workgroup can consider if any further potential alternatives. In summary:
 - ESO confirmed they are no longer pursuing the “top down” approaches” (based on using the Regulatory Asset Value included in the Transport and Tariff Model) that they proposed at the last meeting on 11 October 2022 given Workgroup’s concerns on robustness and that it is a significant departure from the current methodology.
 - The Proposers for each of the other potential solutions re-presented their latest thinking and the key components of each solution were confirmed. The key discussions centered on:
 - **Averaging of expansion constant/ Smoothing factor to be applied to mitigate volatility** with options being to apply factors of 0.13 or 0.2 (i.e. use previous year's data and apply a "smoothing" factor (13% or 20% weighting factor applied per year for new build and by implication 87% for the existing build) or use the most recent

3 Price Controls (the logic being that the data for 3 Price Controls strikes the balance between volatility and keeping an historic element) ***(Post Meeting Note: the 3 Price Controls option is not currently being taken forward as there is double counting of some years' investments which occurs)***

- **Annuitisation** – split the cost of reinforcement that creates new capacity (Incremental MW) and new additional life (Incremental life) or combine as one calculation;
 - **Data** – using historic data or forward looking data (Transmission Owner Business Plan data and potentially Network Options Assessment works with have been recommended to 'Proceed' or which have been specified as 'HND essential'); and
 - **Inclusion of substations or not** - Some of the solutions propose including substations but some don't and essentially it's a question of the additional accuracy of such granularity vs complexity and implementability.
- The Workgroup were invited (by 25 November 2022) to raise any further alternatives to those already discussed ***(Post Meeting Note – no further alternatives brought forward – see action 6)***

Actions

Action Number	Owner	Action	Due by	Status
1	LCP (Ed Smith)	Confirm weighting approach	11 November 2022	Closed - The LCP alternative will use MW-km to weight the costs of reinforcements. When calculating the representative basket of works, we propose to use km weightings as this data is already produced as part of TOs' regulatory reporting. If it were possible to obtain MW-km from the TOs in the same format, then we would consider using these in future. We have also specified that the NOA works used would be those works which have been recommended to 'Proceed' or which have been specified as 'HND essential'. Whether or not it is appropriate to include all works is not possible for us to judge without access to the data
2	ESO (Jo Zhou/Paul Mott)	Are Civil costs included in the current Methodology? If not, should they be	15 November 2022	Closed - Civil costs associated with OHL towers or underground cables are included, based on generic project profiles as described in

		and if so how would you get this data?		STCP14-1 (e.g. assuming no motorway crossing etc).
3	ESO (Jo Zhou/Paul Mott)	What is the rationale for the Overhead Factors and if an asset life is anything other than 50 years, should it be scaled accordingly?	15 November 2022	Open - The overhead factor was derived using the “whole basket” approach, rather than project-by-project. The forecast allowance associated with running and maintaining the TO assets, is compared with the Gross Asset Value (GAV) of the onshore TOs, to derive the overhead factor.
4	ESO (Jo Zhou/Paul Mott)	When are Price Controls approved?	15 November 2022	Closed - RIIO-ET2 Price Control final determination was published on 8 December 2020, ahead of ET2 (2021/22 – 2025/26). The price control financial model (containing some information derived from the business plan) was finalised on 3 February 2021 (but with potential change due to onshore TOs’ legal challenge on financial parameters).
5	ESO (Jo Zhou/Paul Mott)	When are the final annuitisation factors set?	15 November 2022	Closed - For T2 Expansion Constant calculation, as ESO raised CMP353 to continue using T1 Expansion Constant (barring inflation), the annuitisation factors were not relevant to ESO’s process. Otherwise it would have been finalised during ET2, when the legal challenge was concluded.
6	LCP (Ed Smith) and Paul Jones and any Workgroup Members	All Proposers of alternatives to send their alternative proposal to Workgroup	25 November 2022	Ongoing – None received from other WG Members; Paul Jones confirmed not raising alternatives. Only LCP raising an alternative and have provided calculation but not yet completed formal workgroup alternative paperwork.
7	ESO (Paul Mott)	Issue draft Legal Text (broken down into key components rather than each solution) to Workgroup	25 November 2022	Open
8	ESO (Jo Zhou)	Timing of tariff impact analysis - how do ESO get the data they don't yet have and when	25 November 2022	Closed - have to first change the STC, if alternative data is used (unless already in the public-domain). Introducing a one-year “lag” might be a

can ESO get this to
run the tariff impact
analysis?

solution, to get round this
issue.

Next Steps

- Meeting on 5 December 2022 will predominantly focus on understanding any changes to the proposed solutions, discussing the legal text and holding the vote on which alternatives will be taken forward