

CMP413 – Rolling 10-year wider TNUoS generation tariffs

Thursday 11 May 10am

10am – 1pm

Online Meeting via Teams

WELCOME

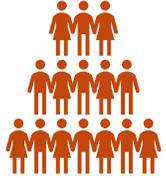




Modification Process

Claire Goult – ESO Code Administrator

Code Modification Process Overview



Talk to us

Raise a mod

Refine solution

Consult

Decision

Implement

Forums

Panels

Workgroups
(Workgroup Consultations)

Ofgem/Panel



Refine solution Workgroups



- If the proposed solution requires further input from industry in order to develop the solution, a Workgroup will be set up.
- The Workgroup will:
 - further refine the solution, in their discussions and by holding a **Workgroup Consultation**
 - Consider other solutions, and may raise **Alternative Modifications** to be considered alongside the Original Modification
 - Have a **Workgroup Vote** so views of the Workgroup members can be expressed in the Workgroup Report which is presented to Panel



Consult Code Administrator Consultation

- The Code Administrator runs a consultation on the **final solution(s)**, to gather final views from industry before a decision is made on the modification.
- After this, the modification report is voted on by Panel who also give their views on the solution.





Decision



- Dependent on the Governance Route that was decided by Panel when the modification was raised
- **Standard Governance:** Ofgem makes the decision on whether or not the modification is implemented
- **Self-Governance:** Panel makes the decision on whether or not the modification is implemented
 - an appeals window is opened for 15 days following the Final Self Governance Modification Report being published



Implement

- The Code Administrator implements the final change which was decided by the Panel / Ofgem on the agreed date.





Workgroup Responsibilities

Claire Goult – ESO Code Administrator

Expectations of a Workgroup Member

Contribute to the discussion

Be respectful of each other's opinions

Language and Conduct to be consistent with the values of equality and diversity

Do not share commercially sensitive information

Be prepared - Review Papers and Reports ahead of meetings

Complete actions in a timely manner

Keep to agreed scope

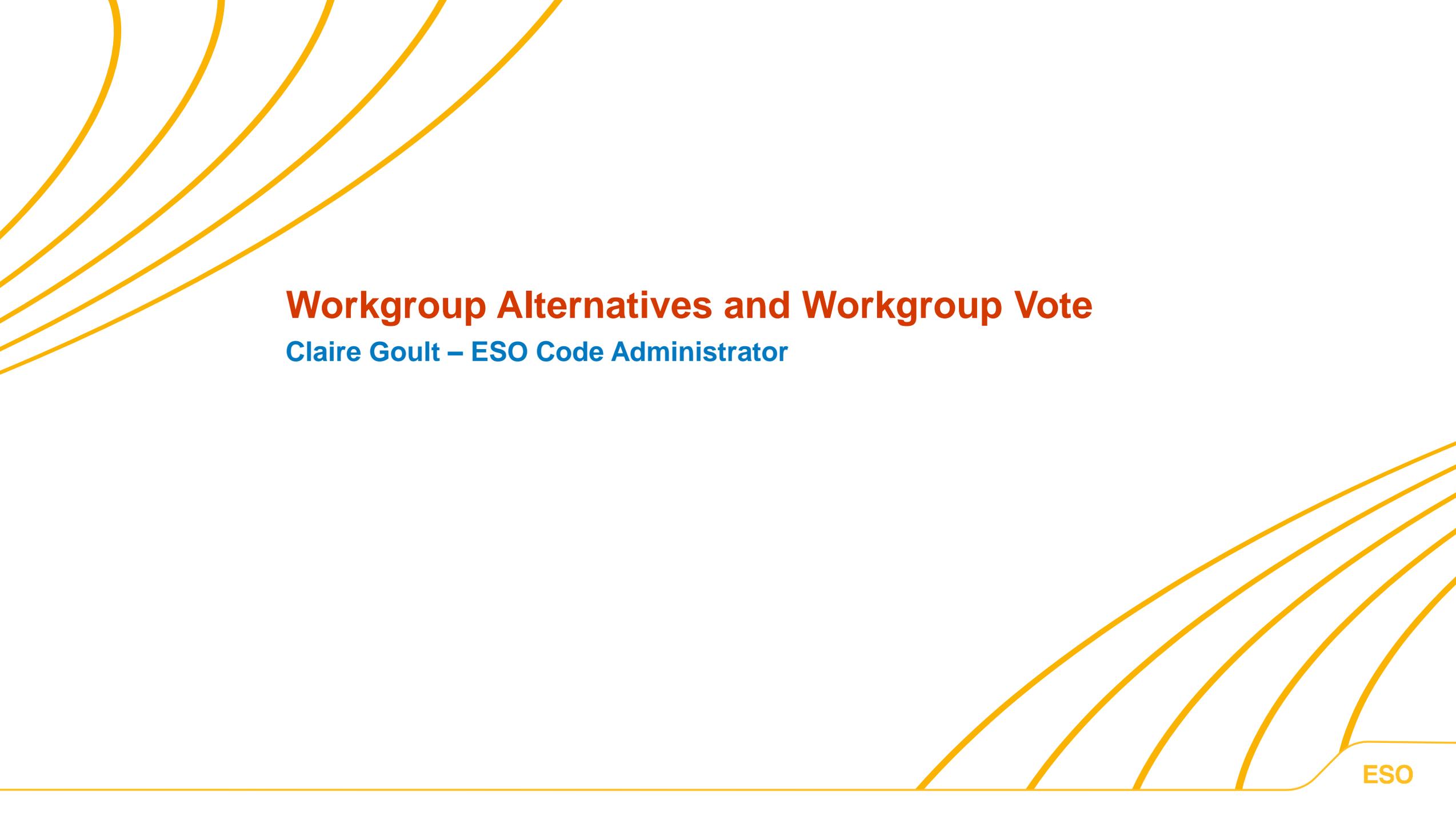
Your Roles

Help refine/develop the solution(s)

Bring forward alternatives as early as possible

Vote on whether or not to proceed with requests for Alternatives

Vote on whether the solution(s) better facilitate the Code Objectives



Workgroup Alternatives and Workgroup Vote

Claire Goult – ESO Code Administrator

Can I vote? and What is the Alternative Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings

Stage 1 – Alternative Vote

- Vote on whether Workgroup Alternative Requests should become Workgroup Alternative CUSC Modifications.
- The Alternative vote is carried out to identify the level of Workgroup support there is for any potential alternative options that have been brought forward by either any member of the Workgroup OR an Industry Participant as part of the Workgroup Consultation.
- **Should the majority of the Workgroup OR the Chair believe that the potential alternative solution may better facilitate the CUSC objectives than the Original then the potential alternative will be fully developed by the Workgroup with legal text to form a Workgroup Alternative CUSC modification (WACM) and submitted to the Panel and Authority alongside the Original solution for the Panel Recommendation vote and the Authority decision.**

Can I vote? and What is the Workgroup Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings

Stage 2 – Workgroup Vote

- 2a) Assess the original and WACMs (if there are any) against the CUSC objectives compared to the baseline (the current CUSC)
- 2b) Vote on which of the options is best.



Objectives and Timeline

Claire Goult – ESO Code Administrator

Timeline for CMP413 – Proposed Timeline as at 11 May 2023

Milestone	Date	Milestone	Date
Modification presented to Panel	31 March 2023	Panel sign off that Workgroup Report has met its Terms of Reference	24 November 2023
Workgroup Nominations (15 Working Days)	3 April 2023 to 26 April 2023	Code Administrator Consultation (15 working days)	27 November 2023 to 18 December 2023 (5pm)
Workgroup 1- Setting the scene – understand Modification process, roles and responsibilities, agree Terms of Reference and timeline, understand the proposed change and agree next steps	11 May 2023	Draft Final Modification Report (DFMR) issued to Panel (5 working days)	18 January 2024
Workgroups 2 to 5 - review current / additional analysis, discuss cap/collar ranges, discuss number of years the TNUoS tariffs are fixed for, identify alternative solutions, draft legal text, draft Workgroup Consultation and questions	31 May 2023, 21 June 2023, 11 July 2023 and 1 August 2023	Panel undertake DFMR recommendation vote	26 January 2024
Workgroup 6 – finalise Workgroup Consultation	23 August 2023	Final Modification Report issued to Panel to check votes recorded correctly	29 January 2024
Workgroup Consultation (15 working days)	30 August 2023 to 20 September 2023 (5pm)	Final Modification Report issued to Ofgem	6 February 2024
Workgroups 7 to 9 - <i>Review Workgroup Consultation Responses and proposed alternatives, Alternative Vote, Finalise solutions and legal text, Agree that Terms of Reference have been met and Workgroup Vote</i>	2 October 2023, 23 October 2023 and 13 November 2023	Ofgem decision	TBC
Workgroup report issued to Panel (5 working days)	16 November 2023	Implementation Date	TBC



Terms of Reference

Claire Goult – ESO Code Administrator

CMP413 - Terms of Reference

Workgroup Term of Reference

a) Consider EBR implications

b) Consider the length of time the TNUoS Generation tariffs are fixed for

c) The proposal is for charges to be capped/floored at a pre-defined range for that generation zone for each charging year. Consider the requirement for a cap and collar and consider what the pre-defined range should be?

d) Consider whether criteria need to be set to allow for the cap and collar to be waived in certain circumstances (e.g. for material changes to the TNUoS methodology)

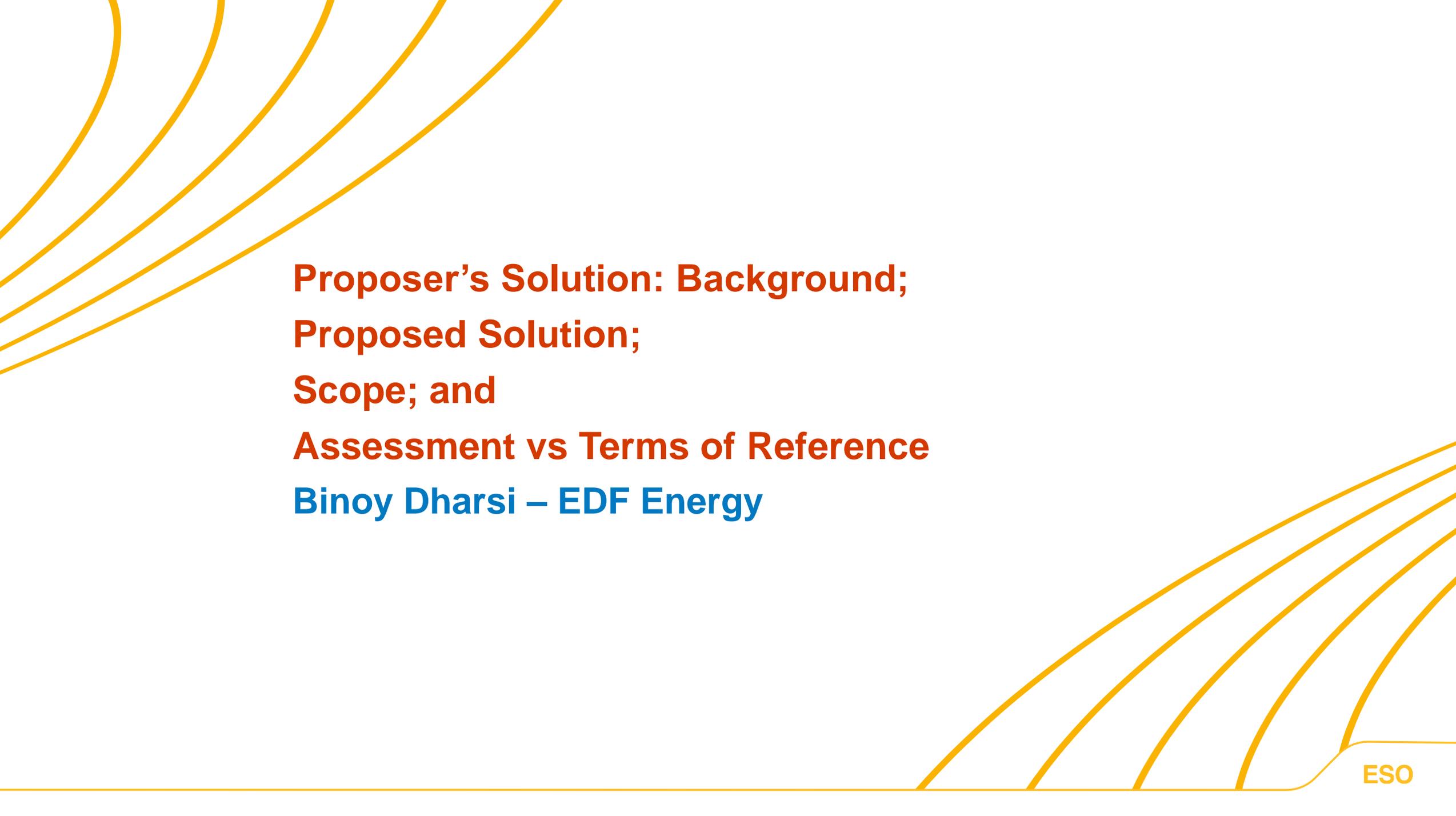
e) Consider interaction between the Generation TNUoS charges falling outside the “pre-defined” range and ensuring that EC838/2010 (“Limiting Regulation”) is not breached.

f) The proposal is that the net difference in the TNUoS Generation tariff (if it breaches the pre-defined range) across all generation zones would be recovered through demand TNUoS. Consider the impact on demand TNUoS tariffs.

g) Consider the impact on the Transmission Demand Residual and consumers.

h) Consider interactions with wider potential TNUoS developments e.g. TNUoS Taskforce and Review of Electricity Market Arrangements (REMA).

i) Consider the trade-off between cost-reflectivity and certainty/predictability.



**Proposer's Solution: Background;
Proposed Solution;
Scope; and
Assessment vs Terms of Reference**
Binoy Dharsi – EDF Energy

CMP413: Rolling 10-year wider TNUoS generation tariffs

11th May 2023

An unprecedented level on network investment is scheduled to take place over the next decade

This modification seeks to introduce an obligation on the ESO to publish generation tariffs for a rolling 10-year duration and provide the clarity to Users and developers on commercial decisions to support delivery of low carbon infrastructure (across generation and network) at least cost for consumers.

This proposal builds on the ESO's Holistic Network Design published in July 2022 that created a blue print for the network needed to connect up to 50GW of offshore wind by 2030.

Task Force

Ofgem has asked the ESO to facilitate a forum to deliver recommendations on “How do we make TNUoS a better investment signal to investors”

It has also published a letter on 3 March 2023 asking workgroup members to consider work undertaken by the ESO during the Task Force hiatus “to support members in considering further the issue of how to improve predictability in arrangements”

The Task Force resumed on the 26th April 2023 and Ofgem asked that CMP413 proceed in parallel.

Defect

TNUoS charges are designed to give long-term siting signals to generators to support the economic development of the transmission network. With the unprecedented scale of transmission investment this decade, and beyond, and the generally long development timeframes for low carbon generation, the current TNUoS methodology, in the view of the Proposer, fails to meet this objective.

Proposer's solution



ESO to publish a wider generation tariff for each generation zone (currently 27) for a rolling 10-year period, effective from 1st April 2024. A set of cap and collars will be included to allow the tariff to be changed year on year:

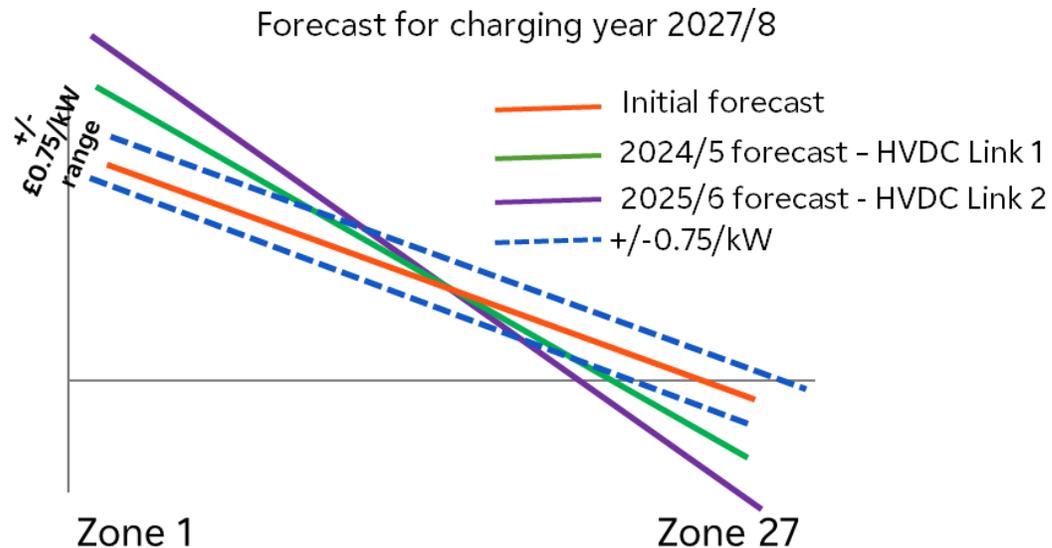
Limit for the Forecast Year	Cap / Collar range
Year 1 and Year 2	N/A
Year 3 and Year 4	+/-£0.25/kW
Year 5 and Year 6	+/-£0.75/kW
Year 7 and Year 8	+/-£1.25/kW
Year 9 and Year 10	+/-£2.50/kW

In any given year:

If a subsequent forecast is within the cap and collar limit set then generation tariffs are adjusted.

If a subsequent forecast falls outside of the cap and collar limit, the maximum adjustment is made and the net amount is recovered through demand tariffs.

Illustration of how the mechanism works:



The proposal aims to strike an appropriate balance of risk between different Users who contribute towards TNUoS.

- 1) We have not applied a cap and collar in Year 1 and Year 2 to of the initial and subsequent tariff publications. This is to protect demand users from short term risk that a supplier / customer may need to manage.
- 2) The proposal increases the level of risk [to generators] as the forecast moves to Year 10 reflecting the increasing uncertainty
- 3) The timescales for development, construction and operation of low carbon generation is much longer than 10 years. While the proposal leaves uncertainty for year 11 onwards, in the proposer's view, this strikes the right balance as a further year of tariffs will become known year after year as the project is developed, 10 years in advance. These tariffs are then protected, in subsequent years, by the cap and collar mechanism.
- 4) Business as Usual CUSC charging modifications feed through into the year on year tariff updates but their impacts will be subject to the cap and collars
- 5) Tariffs will always comply to EC838/2010

Task Force = review and apply recommendations to inputs and methodology in the ESO TNUoS charging model

CMP413 = to provide a better signal to investors by fixing the output

Applicable Objectives



Relevant Objective	Identified impact
<p>(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;</p>	<p>Positive</p> <p>Providing assurances to Users of the transmission system on their future TNUoS liability is essential. It is inconceivable that existing and potential Users are faced with an uncertain cost projection on the TNUoS liability. Providing a centralised forecast will better facilitate competition and ensure a level playing field for all Users.</p>
<p>(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);</p>	<p>Positive</p> <p>Networks charges would align with / be based on transmission owner's investment plans</p>
<p>(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;</p>	<p>Positive</p> <p>The ESO has a responsibility to ensure that Users TNUoS contributions reflect the use of system charging methodology and the licence conditions of the Transmission businesses. Providing longer term tariffs will reflect expected developments on the transmission system.</p>
<p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and</p>	<p>Neutral</p>
<p>(e) Promoting efficiency in the implementation and administration of the system charging methodology.</p>	<p>Positive</p> <p>Users need 'useful' signals as identified within the scope of the 2022 TNUoS Task Force scope set out by Ofgem. Providing a longer-term central forecast of TNUoS tariffs will be more efficient for Users.</p>

Implementation

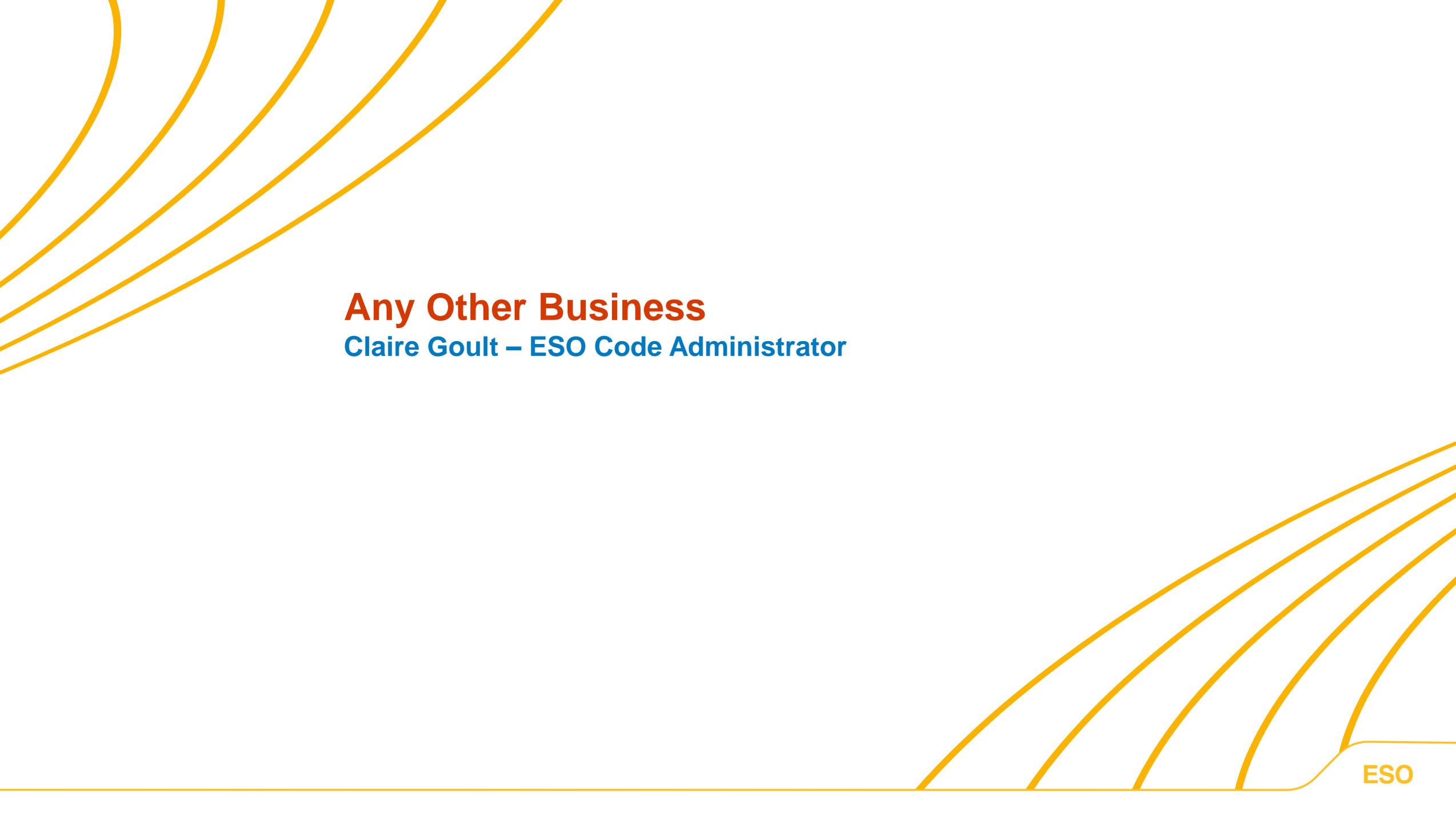


We would like to aim for a 1st April 2024 implementation date subject to confirmation from the ESO on any issues identified that would prohibit this.



Cross Code Impacts

Claire Goult – ESO Code Administrator



Any Other Business
Claire Goult – ESO Code Administrator



Next Steps

Claire Goult – ESO Code Administrator