

Code Administrator Meeting Summary

CMP413 - Workgroup 8 - Rolling 10-year wider TNUoS generation tariffs.

Date: 09/10/2023

Contact Details

Chair: Claire Goult, ESO Code Administrator claire.goult@nationalgrideso.com

Proposer: Binoy Dharsi – EDF Energy binoy.dharsi@edfenergy.com

Objectives/Timeline

Details of the current timeline were shared with Workgroup members. The Chair declared there are only two more Workgroups before the Workgroup Report is due to be submitted to Panel and advised the timeline would be revisited at the end of the meeting.

The objectives of the meeting were to review both the Consultation responses and Alternative requests.

Review Workgroup Consultation Responses

The Chair shared a high-level summary of the thirteen non-confidential responses with the Workgroup stating no confidential responses were received. One Alternative Request and one Alternative suggestion had been raised. The Chair reiterated to the Workgroup that this would have an impact on the timeline.

Responses to the five Workgroup specific consultation questions were discussed in detail with Workgroup members:

Question - Do you feel it is appropriate to limit the maximum variance by £2.50/kW per charging zone?

Four respondents agreed this was an appropriate level. One Workgroup member observed that the 10-year projection came out towards the end of the consultation period and not all respondents may have had time to digest it before responding to the consultation.

Another Workgroup member requested the Proposer share further understanding on how they got to £2.50/kW to contextualise comments made in the consultation describing the number as arbitrary. Ofgem's representative advised the Workgroup that anything that is a number being hard coded into the process requires a truly clear justification. The Authority is not able to approve anything that is arbitrary or where the rationale is unclear especially where there are implications for consumer bills.

The Chair questioned if the analysis the Proposer had previously shared with developers could be shared with the Workgroup. The Proposer advised they would share non-confidential analysis with Workgroup members and share the confidential part with the Authority. Ofgem's representative reiterated to the Workgroup that any confidential submissions can be made to them directly.

A Workgroup member referenced the tolerance range and described how it would be different in fifteen years' time also pointing out it will be narrower if not adjusted to take into consideration CPI. Another point made referenced the tolerance being set on the year minus 10 like the original forecast for 10 years in the future. Rather than being a narrowing cone of tolerance on successive years (minus 9, minus 8) as it gets closer to the charging year in question it is a quite different outcome.

Question - Is a 10-year period to fix tariffs between the pre-defined Cap and Collar ranges appropriate. Is there an alternative length of time that would need to be considered?

Eight respondents to the consultation agreed 10 years was an appropriate length of time. One Workgroup member expressed concern regarding the accuracy of a 10-year projection stating how the ESO are the authority of how strong it is and that the ESO representative has already stated it comes with many caveats. The member went on to say, if industry/developers do not believe that the cap and collar will hold, or there is a possibility a future modification might change it, or the forecast is inaccurate then they will not have the confidence to base their investment on it anyway. It is as much about whether the industry will have faith in the accuracy than the accuracy of the forecast itself.

The ESO representative raised a similar point to the previous member and clarified that it is a projection not a forecast on tariffs and confirmed there are a lot of uncertainties as it is a very new process. This is something that needs to be considered alongside the question around whether 10 year is an appropriate period for investment costs. Workgroup members must also consider how it links to data the ESO must base the projection off, as well as looking at the process going forward.

Ofgem's representative reiterated the points made by the ESO representative and went on to say it had been made noticeably clear that it was a projection and not a forecast. There are material gaps in the data set that precluded it from being a 10-year forecast and it had been made clear that this was a one-off exercise. The Ofgem representative advised there is a question in relation to the modification now as it is reliant on a 10-year forecast and whether the ESO can perform a 10-year forecast. It has taken six to seven months to do a 10-year projection and the ESO are at present unable to do a 10 forecast with any certainty which is an issue for this modification.

A Workgroup member asked if it is an implementation issue for the ESO or is it too hard to accomplish a 10-year forecast. The ESO representative advised they will pull together something to highlight the difference between a forecast and a projection to give a clearer understanding to the Workgroup.

Question - The proposal apportions the Cap and Collar by the proportion of revenue collected for each component. Is there an alternative methodology that could be used?

Four respondents agreed with the methodology. A Workgroup member suggested that the methodology needs to be explained further and believed anyone outside this Workgroup would struggle to understand it. They felt that the solution was valid but also extremely complicated and the Workgroup needed to be clear what the criteria is for judging the most suitable methodology.

Question - Should there be a provision to trigger a re-opener in tariffs to reflect the considerable amount of reform planned both through Open Governance and via the TNUoS Task Force?

Four respondents agreed there should be a provision to trigger a re-opener. A Workgroup member stated that there is no point saying there cannot be a re-opener as a subsequent CUSC modification could rewrite the methodology anyway.

Ofgem's representative advised that question around code change is particularly important, and the Workgroup Report and Final Modification Report will need to be clear on this point. It sounds now as though the entire open governance process for CUSC in respect of section 14 would be rendered mute because nothing would be implemented. If this is not the case, it would be beneficial to clarify and if it is the case then it would be a by-product of this proposal and would need to be justified.

ESO's representative advised they struggled with this question. They did not find either situation desirable, adding they did not want to see a 10-year lag before an important change is implemented but also another modification coming in and overriding tariffs that have previously been locked in brings no benefit. A Workgroup member suggested something should be included in the proposal to say there may be circumstances under the Authority's direction that these tariffs can be re-opened or adjusted, making it clearer in CUSC.

Question - A breach to the Cap and Collar is socialised to Demand Users. Do you think this is appropriate?

Eight respondents agreed a breach to the Cap and Collar is socialised to Demand Users.

Question - Provide any evidence to support the merit of greater predictability over cost reflectivity.

Seven respondents commented on the merit of greater predictability over cost reflectivity. There were some points raised in the consultation around the timing of the modification. A Workgroup member said that although they thought the timing was not great the modification had been raised and should be addressed accordingly.

Review Alternative Request/Suggestion

Alternative Request

The Proposer for the Alternative Request was not on the call, but a colleague attended the session to talk through the solution. One member asked if a non-locational adjustment is the same as the adjustment tariff. Another member questioned if cross subsidy is the correct word as the charges are cost reflective, but they are not in themselves at a pre-defined level. The Workgroup member went on to say you are not taking from one to give to another it is just the amount of cost reflectivity that goes through is limited and therefore felt cross subsidy is not the correct term. The Chair suggested members share any further questions or comments so these could be forwarded to the Proposer of the Alternative request to respond.

Alternative Suggestion

The Chair shared the three Alternative suggestions made a non CUSC party member who was not at the meeting but had requested the Workgroup take these into consideration. One Workgroup member suggested that the Proposer of the Alternative Request might consider incorporating any points made in the suggestion into the Alternative Request. One Workgroup member felt that point three was out of scope for this modification and other members advised that these suggestions, although interesting, were addressing a separate set of problems.

AOB

The Chair expressed concern regarding the current timeline advising the Workgroup the implementation date of April 2024 is very unlikely considering the amount of work still required on the Original and the Alternative Request and the need for Ofgem to do their own impact assessment. The Chair invited the Proposer to discuss post meeting whether timeline is still achievable. A Workgroup member agreed there was a risk to the current timeline stating if further analysis is required then this will also create additional pressure on the ESO revenue team.

Next Steps

- Chair and Proposer to discuss concerns regarding the timeline and implementation date.

Actions

For the full action log, [click here](#).

Action number	Workgroup Raised	Owner	Action	Comment	Due by	Status
16	WG8	Proposer	Share non-confidential analysis (previously shared with developers) with the Workgroup and confidential analysis with Ofgem to provide justification for proposed values	NA	WG9	Open

17	WG8	JK	Add more detail to the Alternative Request based on feedback	NA	WG9	Open
18	WG8	MC	To share information highlighting the difference between a forecast and a projection to give the Workgroup a clearer understanding	NA	WG9	Open

Attendees

Name	Initial	Company	Role
Binoy Dharsi	BD	EDF	Proposer
Hugh Boyle	HB	EDF	Proposer
Claire Goult	CG	Code Administrator, ESO	Chair
Deborah Spencer	DB	Code Administrator, ESO	Tec Sec
Allen Kelly	AK	Coriogeneration	Observer
Callum Duff	CF	Thistle Wind Partners	Observer
Chiamaka Nwajagu	CN	Orsted Wind Power	Observer
Damian Clough	DC	SSE Generation	Workgroup Member
Giulia Licocci	GL	Ocean Winds	Observer
Grace March	GM	Sembcorp	Workgroup Member
Harriet Harmon	HH	Ofgem	Authority Representative
James Cunningham	JC	Cornwall Insight	Observer
James Knight	JK	Centrica	Alternate
Martin Cahill	MC	ESO	Workgroup Member
Matthew Paige Stimson	MPS	NGET	Workgroup Member
Nick Everitt	NE	ESO	Subject Matter Expert
Paul Jones	PJ	Uniper Energy	Workgroup Member
Ruby Pellington	RP	ESO	Observer
Ryan Ward	RW	Scottish Power Renewables	Alternate
Simon Vicary	SV	EDF	Alternate
Tom Steward	TS	RWE Renewables Ltd	Workgroup Member