ESO

Code Administrator Meeting Summary

CMP413 - Workgroup 12 - Rolling 10-year wider TNUoS generation tariffs.

Date: 05/12/2023

Contact Details

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

Proposer: Hugh Boyle – EDF Energy hugh.boyle@edfenergy.com

Timeline Update

The Chair highlighted to members additional meetings had been inserted to enable the Workgroup to discuss and develop the Original and WACM2 solutions.

Action Update

Action 31 - Proposer to share confidential analysis to provide justification for proposed values with Ofgem.

- The Proposer requested the action remain open as the confidential analysis is to be finalised prior to submitting to Ofgem but emphasised it would not impact the timeline. A meeting with Ofgem is to be arranged following the Workgroup to discuss the action.

Action 28 - ESO to investigate how their Alternative Request could sit within the Original and WACM1 and WACM2.

- The ESO Representative requested input from the Workgroup to move the action forward. It was explained to members, the ESO had some high-level focus areas to be looked at in order to move the 10-year projection more towards being a forecast and the revenue team requires more time to develop the solution as resources are currently stretched. The ESO Representative went on to say, initial focus areas were evolving, and these could be put into text as an interim measure then an action plan and text could be provided to Workgroup members in the new year.

Action 29 – WACM2 Proposer to update feedback into their WACM and share details at next Workgroup.

The Proposer of WACM2 presented the latest thinking and further points he would like Workgroup members to consider.

WACM2 Presentation

The Proposer of WACM2 posed the question 'Should generators be obligated to pay for the life of their fix?' highlighting possible benefits and drawbacks to Workgroup members. The Proposer felt it would add complication, but a Workgroup member felt text was needed to make sure they know they are on the hook for it and to ensure there are no glaring loopholes.

The Proposer discussed whether it was distortive if different identical generators in the same location pay different prices. He went on to say, there is a balance to be struck between creating a useful signal, supporting competition, and supporting cost reflectivity. A Workgroup member asked the Proposer to clarify if someone could fix at any point in time. The Proposer agreed this was his thinking, but the member expressed concern it might be discriminatory. The Proposer reassured this would not be the case as all generators would have the same freedom and a different in price, was down to the choices made and not something that is built in systemically into the methodology.

One member questioned when the fix could be made. The Proposer of WACM2 responded by saying when each fix comes to an end there would be the opportunity to fix again and shared a sketch diagram of one possible approach. One member felt there was not a strong rationale for limiting when the decision to fix could be made. Another member enquired if the illustration could represent a step change to reflect year-on-year changes. The

Proposer agreed mechanics were required around when the forecast is received, when can the fix be chosen, and when the opportunity to fix been missed but had not got around to including that level of detail.

The ESO Representative suggested if parties could fix at any time, it could introduce further risk around gaming and future modifications. The Representative explained how a party could pre-emptively fix ahead of implementation and suggested drawing out scenarios of future changes and impact when viewed alongside WACM2. The Proposer of the Alternative felt it was not radically different to the Original and went on to say it is a trade-off between certainty and cost reflectivity considering the industry is in a perpetual state of raising modifications to improve TNUoS methodology. The Proposer confirmed the intention of WACM2 is different to the Original because as generators roll off one fix at a time there is the opportunity for things to be trued up.

A member pointed out the there is a different truing up which is the €2.50 every year and in the TNUoS Task Force the idea you fix your wider charges and adjustment charges were discussed. Another member suggested the solution would be to choose a continuous period of time i.e., a fixed period. A second Workgroup member agreed this was a good solution.

A question was put to the ESO Representative on what sensitivities were included in the 5-year forecast such as what things are going to look like, impact of future modifications and will there be a rush to fix or not fix. The Representative agreed this was a potential scenario. The Original proposer pointed out it feels like a commercial decision where there is no certainty that a future modification would be approved and if it had been approved then it would be in the forecast. The WACM2 Proposer responded, if it was yet to be approved, a decision is being made on the basis of the information in front of you and lies at the centre of balance in cost reflectivity and predictability. One Workgroup member pointed out this is common across the modification as a whole and even if written into the CUSC, any future modification could overwrite CMP413 and negate fixed rights. The whole interaction of how long and how robust is the fix is something to consider but not unique to the WACM. The WACM2 Proposer explained when a CM or CfD bid is being made when multiple modifications are on the table, having the option to fix allows informed investment decisions to take place even if the fixed prices are high. The member agreed this is a benefit but argued what would happen when you get subsequent methodology changes.

In a previous meeting, a Workgroup member had asked if a ‘sweep up’ charge would be appropriate. The Proposer of WACM2 felt it did not give additional certainty at the point of investment but only deferred the payment. The Proposer also felt it could potentially distort the open/close signal and if the ‘sweep up’ was significantly negative, it could lead a generator to stay open for longer than economically efficient or plants closing when they shouldn’t be. The member fully agreed with this summary.

The Alternative Proposer discussed an example where if a generator is bidding on a 15-year contract then it will be a number of years between the bid and the fixed period beginning. If ESO carries out a 15-year forecast, this will leave an unfixed period at the end. The Proposer talked through a number of ways the tail end of the fixed period could be addressed including the ESO offering a longer forecast, an inflation adjusted tail, a rolling fix extension or the maximum available fix shortens but felt the last point potentially limited the value of the modification. The Proposer requested the Workgroup return to this at a later date.

A Workgroup member asked if the WACM2 Proposer had considered CM and existing generators rolling over. It was explained how a new generator would have a connection date and would know when the fixed period and liabilities would commence but an existing generator putting in for a T minus 4 would not. The member suggested existing generators would want to bid and address every year cherry picking when to fix. The Proposer felt this was entirely logically and potentially could work and be consistent with investment for CM’s. The WACM2 Proposer took an action to consider this point.

The Proposer asked Workgroup members how the Alternative could account for site changes and if the new TEC would get a fix. Members discussed a number of options including the concept of a fixed TEC and a floating TEC. One member felt this was conceptionally sound but practically writing it into CUSC Appendix C could get quite complicated referencing mixed sites. Another member suggested a simpler method of treating the new TEC separately for each period.

Actions

For the full action log, click here.

Action number	Workgroup Raised	Owner	Action	Comment	Due by	Status

28	WG11	MC	ESO to investigate how their Alternative Request could sit within the Original and WACM1 and WACM2	NA	WG12	Closed
29	WG11	TS	WACM2 Proposer to update feedback into their WACM and share details at next WG	NA	WG12	Closed
30	WG11	TS	WACM2 Proposer to consider non-Charging mods in relation to their WACM	NA	WG12	Open
31	WG11	HB	Proposer to share confidential analysis to provide justification for proposed values with Ofgem	NA	TBC	Open
32	WG12	MC	ESO to produce a starter for ten in text to be included into the Original and WACMs (following on from action 28)	NA	WG13	Open
33	WG12	TS	Update WACM2 Proposal to present to the Workgroup	NA	WG13	Open
34	WG12	PJ	Update from TNUoS Task Force if appropriate regarding CMP413	NA	WG13	Open

Attendees

Name	Initial	Company	Role
Claire Goult	CG	Code Administrator, ESO	Chair
Deborah Spencer	DB	Code Administrator, ESO	Tec Sec
Alan Kelly	AK	Coriogeneration	Observer
Hugh Boyle	HB	EDF	Proposer
David Tooby	DT	Ofgem	Authority Representative
Daniel Hickman	DH	ESO	Observer
Grace March	GM	Sembcorp	Workgroup Member
James Cunningham	JC	Cornwall Insight	Observer
James Knight	JK	Centrica	Alternate
Martin Cahill	MC	ESO	ESO Representative
Nick Everitt	NE	ESO	SME
Matthew Paige Stimson	MPS	NGET	Workgroup Member
Paul Jones	PJ	Uniper Energy	Workgroup Member
Simon Vicary	SV	EDF	Alternate
Tom Steward	TS	RWE Renewables Ltd	Workgroup Member
Ryan Ward	RW	Scottish Power Renewables	Workgroup Member