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Meeting Summary – Workgroup 1

Meeting name: CMP444 Introducing a cap and floor to wider generation TNUoS charges

Date: 11/11/2024

Contact Details

Chair: Catia Gomes catia.gomes@uk.nationalenergyso.com

Proposer : Niall Coyle niall.coyle@uk.nationalenergyso.com

Key areas of discussion

Modification Process

The Chair talked through key elements of the modification process and noted there was more detailed information in the slide pack if the Workgroup members wish to review it.

The Chair asked the Workgroup Members to introduced themselves and the company they represented.

The Chair reminded Workgroup members they needed to attend 50% of the meetings to be eligible for voting, adding an explanation about the Alternative Requests and its purpose.

The Chair presented the timeline and objectives, highlighting the urgent nature of this modification.

Proposers Solution

The Proposer shared slides giving the background, principles and proposed solution with Workgroup members for discussion. These can be found on the [webpage for CMP444](#).

Introduction of a cap:

- Apply a single GB cap to each of the year-round shared (YRS), year-round not shares (YRNS) and Peak Security (PS) £/kW charges.
- The £/kW cap value for each element shall be calculated as 2 standard deviations above the 5-year simple (unweighted) average (mean) of the respective tariff element across all generation zone from the latest NESO 5-year view TNUoS tariff publication.

Introduction of a Floor:

- Apply a single GB floor to each of the YRS, YRNS and PS £/kW charges.
- The £/kW floor value for each element shall be calculated as 2 standard deviations below the 5-year simple (unweighted) average (mean) of the respective tariff element across all generation zones from the latest NESO 5-year view TNUoS tariff publication.

A Workgroup member noted it was important to highlight there would be numerous deadlines impacted by this Modification, not just the Celtic Sea Bed or Contracts for Difference (CfD) auctions. A Workgroup member also questioned the reasoning for using a 5-year forecast rather than 5-year history? The Proposer advised this was to capture some of the projects coming online over the next

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few years, including those approved through the Accelerated Strategic Transmission Investment (ASTI) and Large Onshore Transmission Investment (LOTI) reopener schemes.

A Workgroup member asked if the Proposer had considered the impacts of the Connection Reform Modifications that are currently under way on CMP444? The Proposer advised impacts had not been a consideration but would take this away to review.

A Workgroup member talked about the two standard variations, asking if they were applied based on the 5-years as a single data set or individual years? Sharing concerns it would become inaccurate as time goes on. The Proposer advised it was viewed as a single data set but would review this and feedback to the Workgroup.

A Workgroup member asked if it would be possible to share worked examples, to which the Proposer agreed to circulate.

Indexation:

- Propose annual indexation of the cap/floor, by applying CPI-H inflation to stop the cap/floor contracting in real terms over time.
- We considered other measures of inflation (e.g., TOPI) but settled on CPI-H as this method is already used to uplift generator local circuit tariffs.

Which 5-year forecast to use?

- Either calculate cap/floor from the 2024 5 year-forecast available during workgroup considerations, or the 2025 forecast, utilising the latest data available at implementation.
- We are exploring the possibility of bringing forward the 2025 forecast, and identifying any additional risk that this may introduce (e.g., potential data availability).

A Workgroup member highlighted the Proposer needed to be careful not to double count inflation as the 5-year forecast already considers it - concerns were shared about the suggestion of using the 2025 forecast, as it may complicate matters. The Proposer advised it would be better to use the 2024 forecast.

Maintain Gencap compliance:

- Any under-collection in revenue because of the cap/floor will be collected via the generation adjustment tariff.
- In practice this will offset against the negative generation adjustment tariff.

Duration of the cap/floor:

- Propose for the cap/floor to be in place until reforms through the REMA programme are implemented.
- A longer cap/floor may dampen the reformed location signals put in place by REMA.
- Further protection for generators making investment division while the cap is in place/transitional arrangements to REMA may need to be considered.

A Workgroup member highlighted that the cap only had benefit if it provided the best investor confidence over the life of the asset, if the charge were only capped for a year or two, he felt this would not be useful.

A Workgroup member advised if this was a short-term fix, it did not provide investor confidence and it would be heavily based on the outcome of REMA.

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A Workgroup member asked for clarity on the calculations determining the figures for the cap and floor and the Proposer agreed to circulate this after the meeting.

Terms of Reference

The Workgroup discussed interactions between CMP444 and CMP442, It was noted that CMP442 would be added to the interactions for CMP444, but it would be made clear that they are able to proceed separately as agreed by CUSC Panel members. This will be made clear within the body of the report and will be updated should anything change as the Modifications develop.

During discussions it was agreed that TOR (g) should be updated to include consideration of what TNUoS data set should be used for the modification.

It was also agreed to add an additional term of reference to consider any additional protection required for generators who make investment decisions while the cap and floor is in place.

Next Steps

Workgroup summary to be shared with Workgroup members along with the cap and floor calculations as agreed by the Proposer.

Actions

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

Action Number	Workgroup Raised	Owner	Action	Due by	Status
1	The Proposer to share the assumptions for the analysis produced for CMP444 and clarify if there were any assessment for forecast error.	Proposer	11/11/2024	04/12/2024	Open
2	TORs to be updated at the November CUSC Panel	Chair	11/11/2024	04/12/2024	Open

Attendees

Name	Initial	Company	Role
Catia Gomes	CG	NESO Code Governance	Chair
Deborah Spencer	DS	NESO Code Governance	Tech Sec
Niall Coyle	NC	NESO	Proposer
Paul Mott	PM	NESO	Proposer Alternate

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Will Maidment	WM	Nadara	Workgroup Member
Barney Cowin	BC	Bluefloat Energy	Workgroup Member
Ryan Ward	RW	Scottish power Renewables	Workgroup Member
Graham Pannell	GP	BayWa r.e.	Workgroup Member
James Brown	JB	BayWa r.e.	Workgroup Member
Ben Adamson	BA	Low Carbon	Workgroup Member
Caitlin Butchart	CB	InterGen	Workgroup Member
Alan Kelly	AK	Corio Generation	Workgroup Member
Dan Gilbert	DG	Corio Generation	Workgroup Member
Anthony Diccico	AD	ESB	Workgroup Member
James Knight	JK	Centrica	Workgroup Member
Paul Youngman	PY	Drax	Workgroup Member
Lauren Jauss	LJ	RWE Supply & Trading GmbH	Workgroup Member
Graz McDonald	GM	Waters Wye Associates	Workgroup Member
Damien Clough	DC	SSE	Workgroup Member
John Tindal	JT	SSE	Alternate
Lambert Kleinjans	LK	Energiekontor UK Ltd	Workgroup Member
Binoy Dhari	BD	EDF	Workgroup Member
Paul Jones	PJ	Uniper	Workgroup Member
Dennis Gowland	DG	Research Relay Ltd (Nominated by European Marine Energy Centre (EMEC))	Workgroup Member
Emanuele Dentis	ED	Northland Power	Workgroup Member
Aaron Priest	AP	Ocean Winds	Alternate
Pedro Accain	PA	Ofgem	Authority Representative
Loukas Papageorgiou	LP	RWE	Observer
Mpumelelo Hlophe	MH	Fred Olsen Renewables	Observer
Chiamaka Nwajagu	CN	Orsted	Observer
Huw Morrey	HM	Savills	Observer
Martina Tully	MT	ERG UK Holding	Observer