Public

CMP442

Workgroup Meeting 1
(16 December 2024)
Online Meeting via Teams

NESO
National Energy System Operator

WELCOME

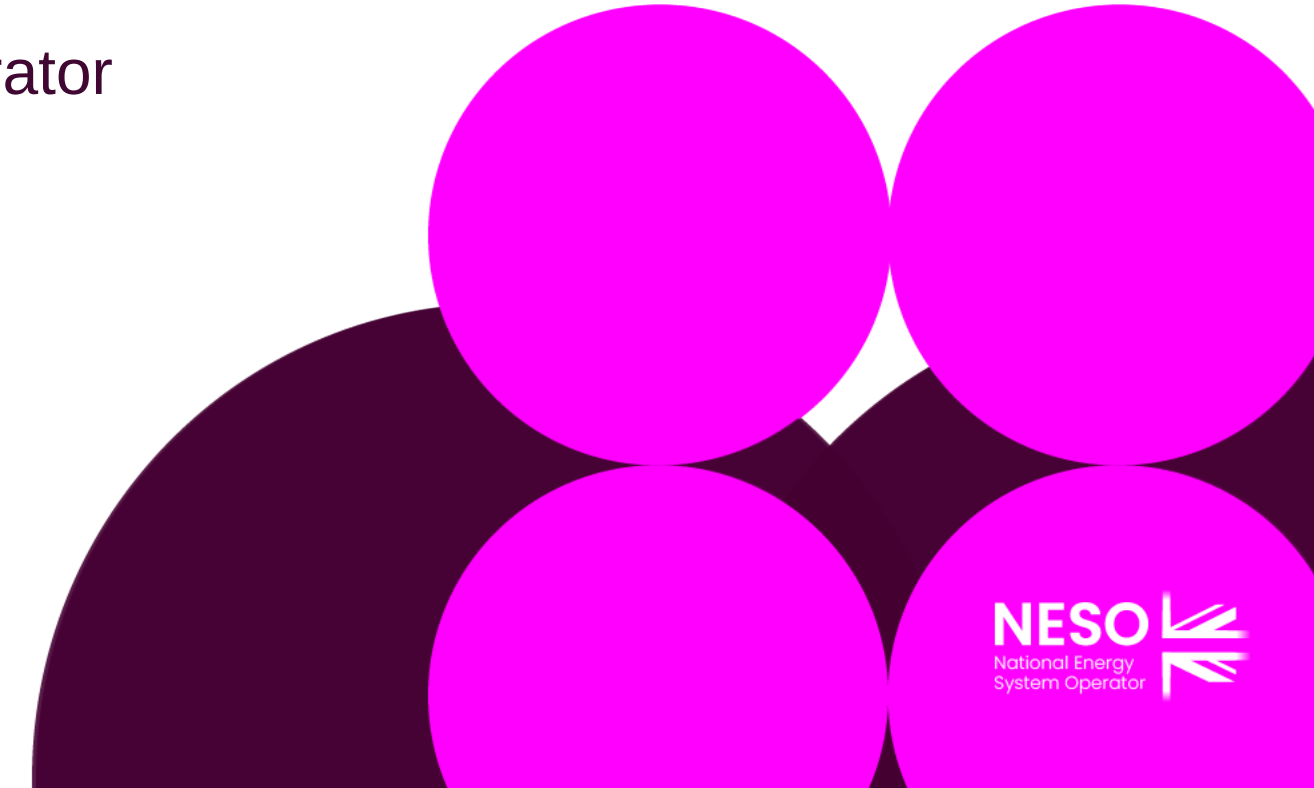
NESO
National Energy System Operator

Agenda

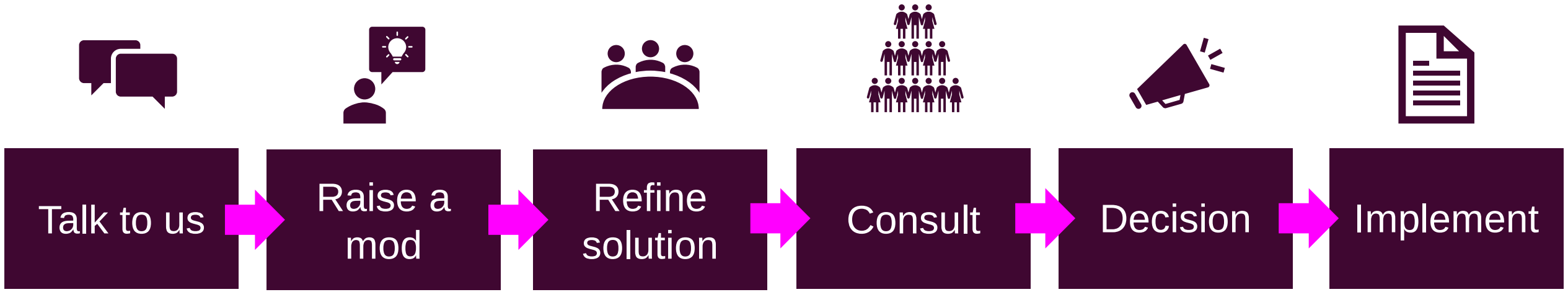
Topics to be discussed	Lead
Introductions	Chair
Code Modification Process Overview • Workgroup Responsibilities • Workgroup Alternatives and Workgroup Vote	Chair
Objectives and Timeline • Walk-through of the timeline for the modification	Chair
Review Terms of Reference	All
Proposer presentation	Proposer
Questions from Workgroup Members	All
Agree Terms of Reference	All
Cross Code Impacts	All
Any Other Business	Chair
Next Steps	Chair

Modification Process

Jess Rivalland – NESO Code Administrator



Code Modification Process Overview



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.

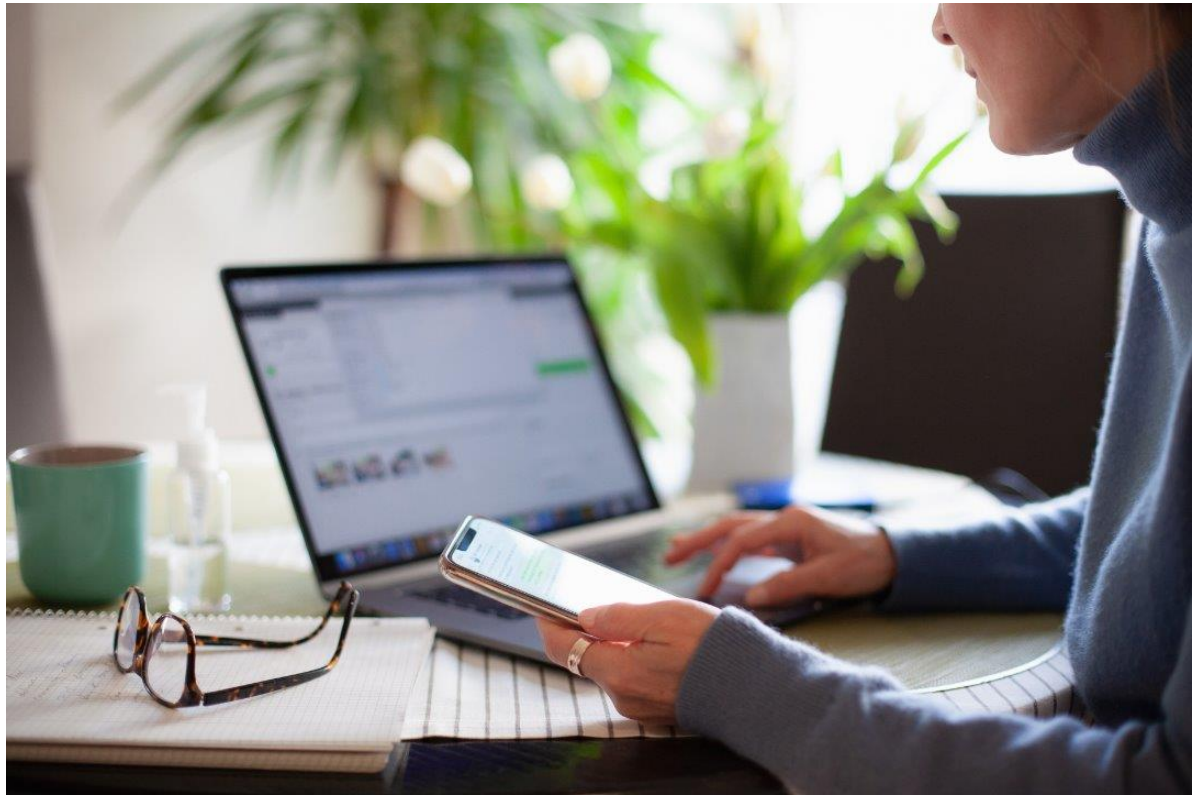
- After this, the modification report is voted on by Panel who also give their views on the solution.

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

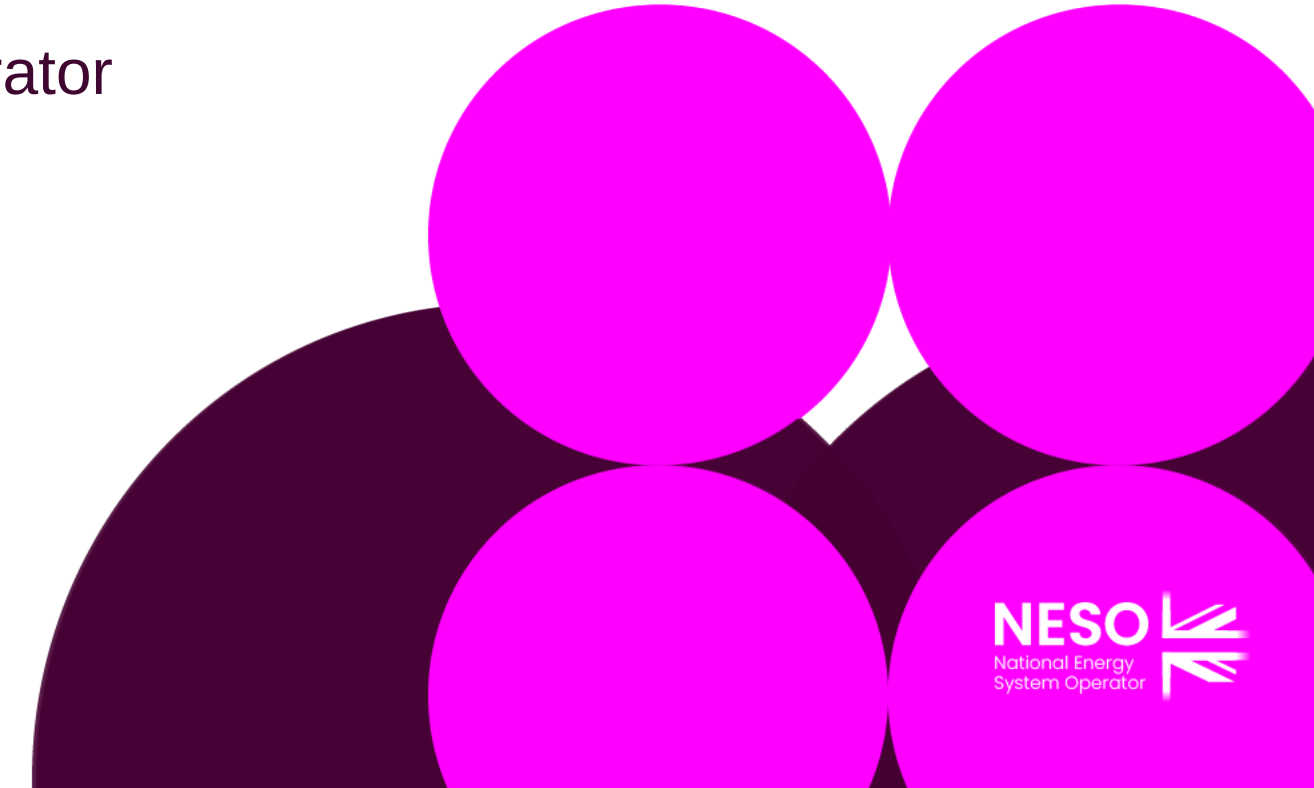
Implement

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



Workgroup Responsibilities and Membership

Jess Rivalland – NESO 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
- Email communications to/cc'ing the .box email

Your Roles

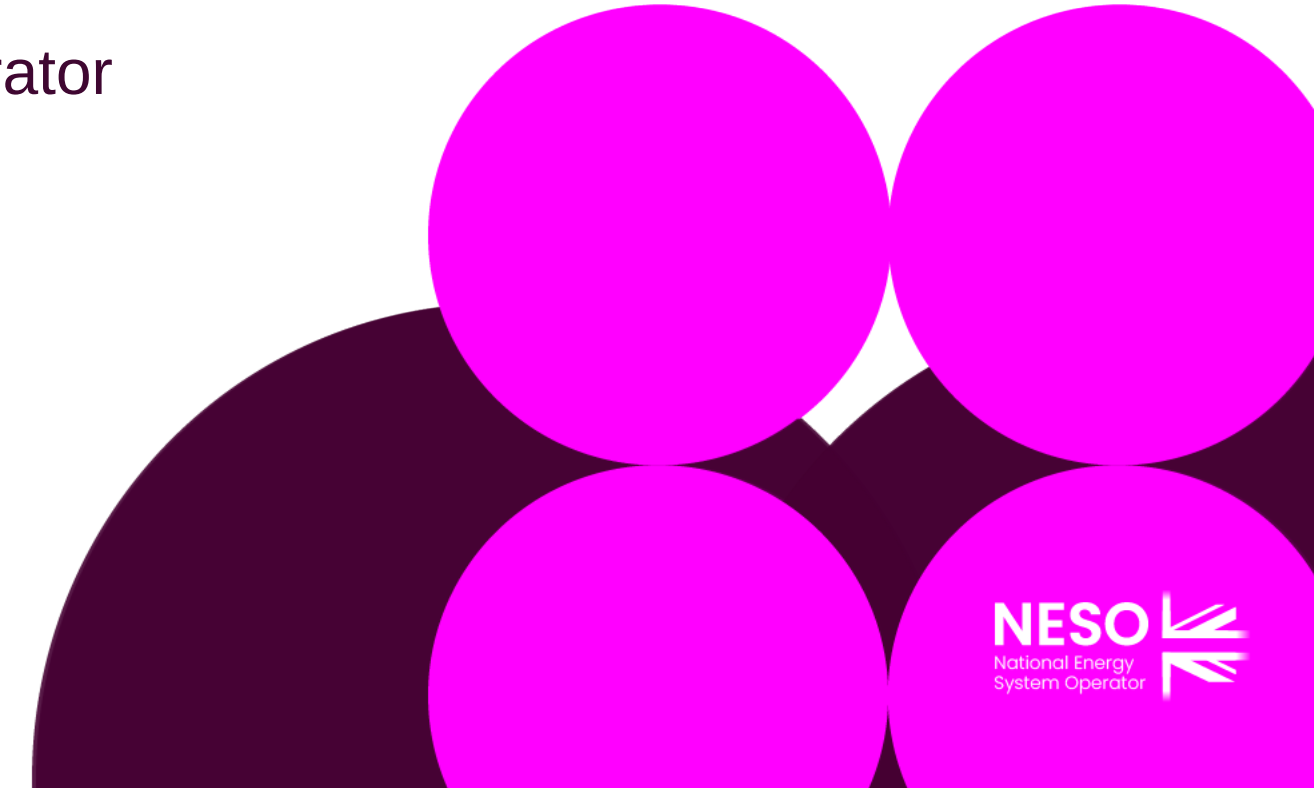
- Help refine/develop the solution(s)
- Bring forward alternatives as early as possible
- Vote on whether or not to proceed with requests for Alternatives
- Vote on whether the solution(s) better facilitate the Code Objectives

Workgroup Membership

Role	Name	Company	Alternate	Name
Chair	Jess Rivalland	NESO Code Administrator		
Tech Sec	Kat Higby	NESO		
Proposer	Tom Steward	RWE		
Workgroup Member	Ryan Ward	ScottishPower Renewables	Alternate	Hector Perez
Workgroup Member	Alan Kelly	Corio Generation	Alternate	Varun Mittal
Workgroup Member	William Maidment	Nadara	Alternate	Mark Canterbury
Workgroup Member	Chiamaka Nwajagu	Orsted	Alternate	David Wellard
Workgroup Member	Paul Jones	Uniper UK Ltd	Alternate	Sean Gauton
Workgroup Member	Hooman Andami	Elmya Energy	Alternate	
Workgroup Member	Caitlin Butchart	Intergen	Alternate	Robin Dunne
Workgroup Member	James Knight	Centrica	Alternate	Gregory Edwards
Workgroup Member	Caoimhe McCusker	Ocean Winds	Alternate	Helen White
Workgroup Member	Calum Duff	Thistle Wind Partners	Alternate	E Lian Diong

Workgroup Alternatives and Workgroup Vote

Jess Rivalland – NESO Code Administrator



What is the Alternative Request?

What is an Alternative Request? The formal starting point for a Workgroup Alternative Modification to be developed which can be raised up until the Workgroup Vote.

What do I need to include in my Alternative Request form? The requirements are the same for a Modification Proposal you need to articulate in writing:
- a description (in reasonable but not excessive detail) of the issue or defect which the proposal seeks to address compared to the current proposed solution(s);
- the reasons why the you believe that the proposed alternative request would better facilitate the Applicable Objectives compared with the current proposed solution(s) together with background information;
- where possible, an indication of those parts of the Code which would need amending in order to give effect to (and/or would otherwise be affected by) the proposed alterative request and an indication of the impacts of those amendments or effects; and
- where possible, an indication of the impact of the proposed alterative request on relevant computer systems and processes.

How do Alternative Requests become formal Workgroup Alternative Modifications? The Workgroup will carry out a Vote on Alternatives Requests. If the majority of the Workgroup members or the Workgroup Chair believe the Alternative Request will better facilitate the Applicable Objectives than the current proposed solution(s), the Workgroup will develop it as a Workgroup Alternative Modification.

Who develops the legal text for Workgroup Alternative Modifications? NESO will assist Proposers and Workgroups with the production of draft legal text once a clear solution has been developed to support discussion and understanding of the Workgroup Alternative Modifications.

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. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person or by teleconference)

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 Alternative Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person or by teleconference)

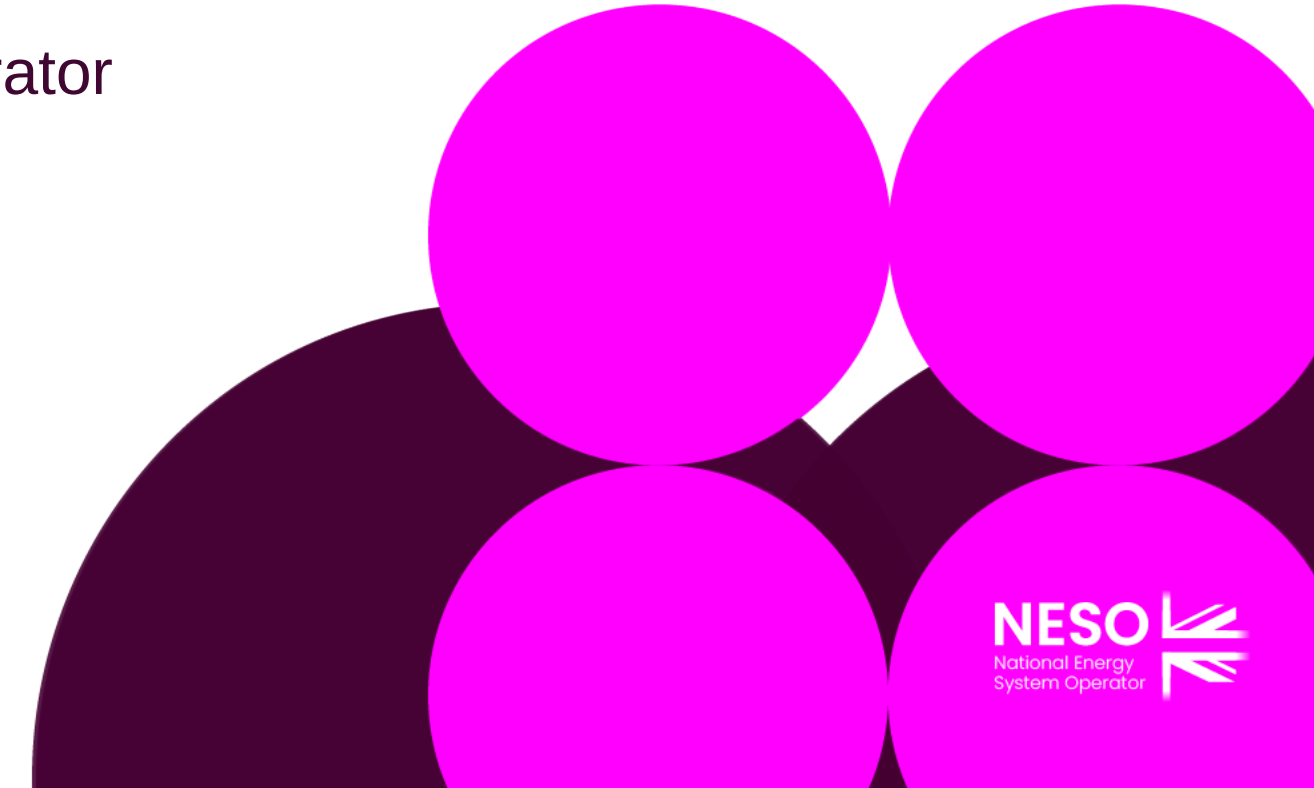
Stage 2 – Workgroup Vote

- 2a) Assess the original and Workgroup Alternative (if there are any) against the relevant Applicable Objectives compared to the baseline (the current code)
- 2b) Vote on which of the options is best.

Alternate Requests cannot be raised after the Stage 2 – Workgroup Vote

Objectives and Timeline

Jess Rivalland – NESO Code Administrator

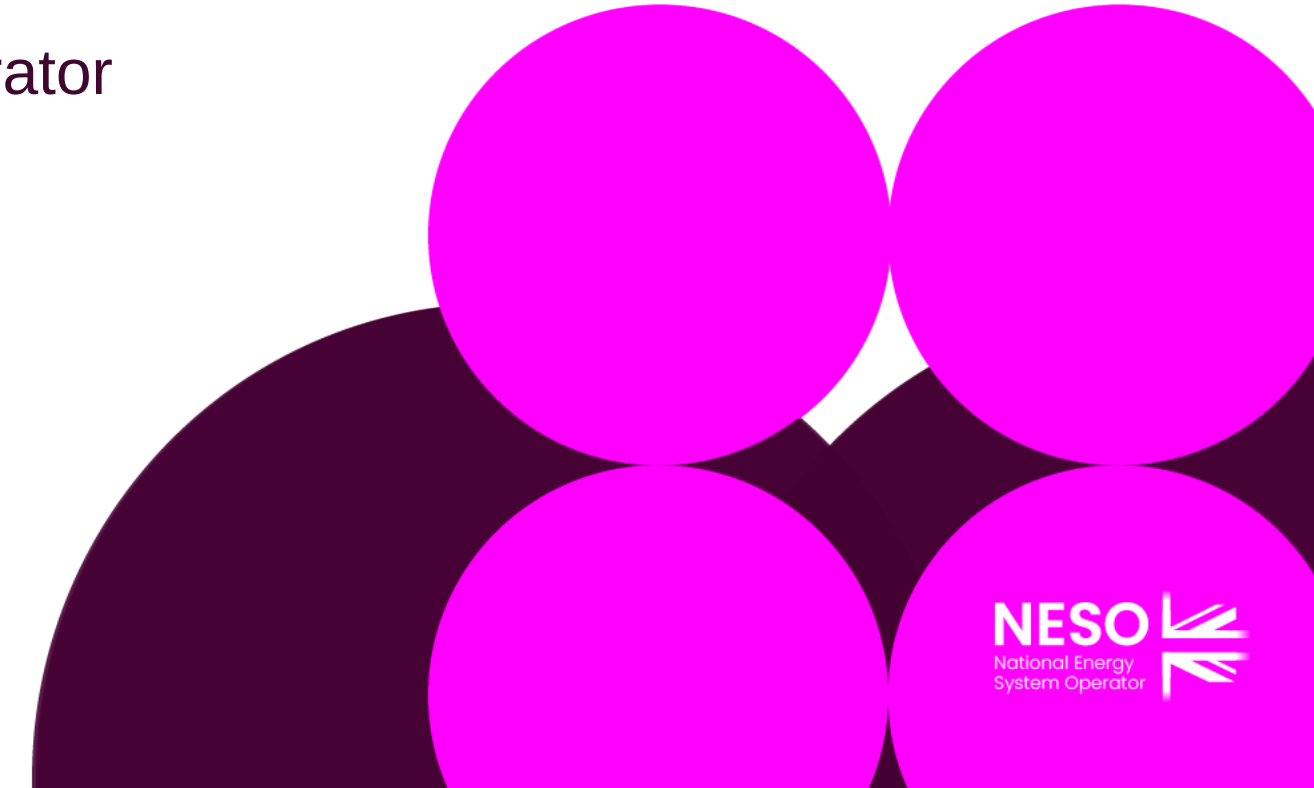


Timeline for CMP442 as at 16 December 2024

Milestone	Date	Milestone	Date
Modification presented to Panel	25 October 2024	Code Administrator Consultation	06 May 2025 to 28 May 2025
Workgroup Nominations (15 business days)	28 October 2024 to 18 November 2024	Draft Final Modification Report (DFMR) issued to Panel (5 business days)	19 June 2025
Workgroup 1 to 3	16 December 2024 – Initial discussion 15 January 2025 – Consider Legal Text 12 February 2025 – Discuss Workgroup Report and check ToR met	Panel undertake DFMR recommendation vote	27 June 2025
Workgroup Consultation (15 business days)	17 February 2025 to 10 March 2025	Final Modification Report issued to Panel to check votes recorded correctly (5 business days to check)	30 June 2025 to 07 July 2025
Workgroup 5-6	20 March 2025 – Review Workgroup Consultation feedback 14 April 2025 – Review Final Workgroup Report and Legal Text	Final Modification Report issued to Ofgem This is clear 5 business days after Final Modification Report is issued to Panel to check votes recorded correctly	14 July 2025
Workgroup report issued to Panel (5 business days)	24 April 2025	Ofgem decision needed by	30 September 2025
Panel sign off that Workgroup Report has met its Terms of Reference	02 May 2025	Implementation Date	01 April 2026

Review Terms of Reference

Jess Rivalland – NESO Code Administrator

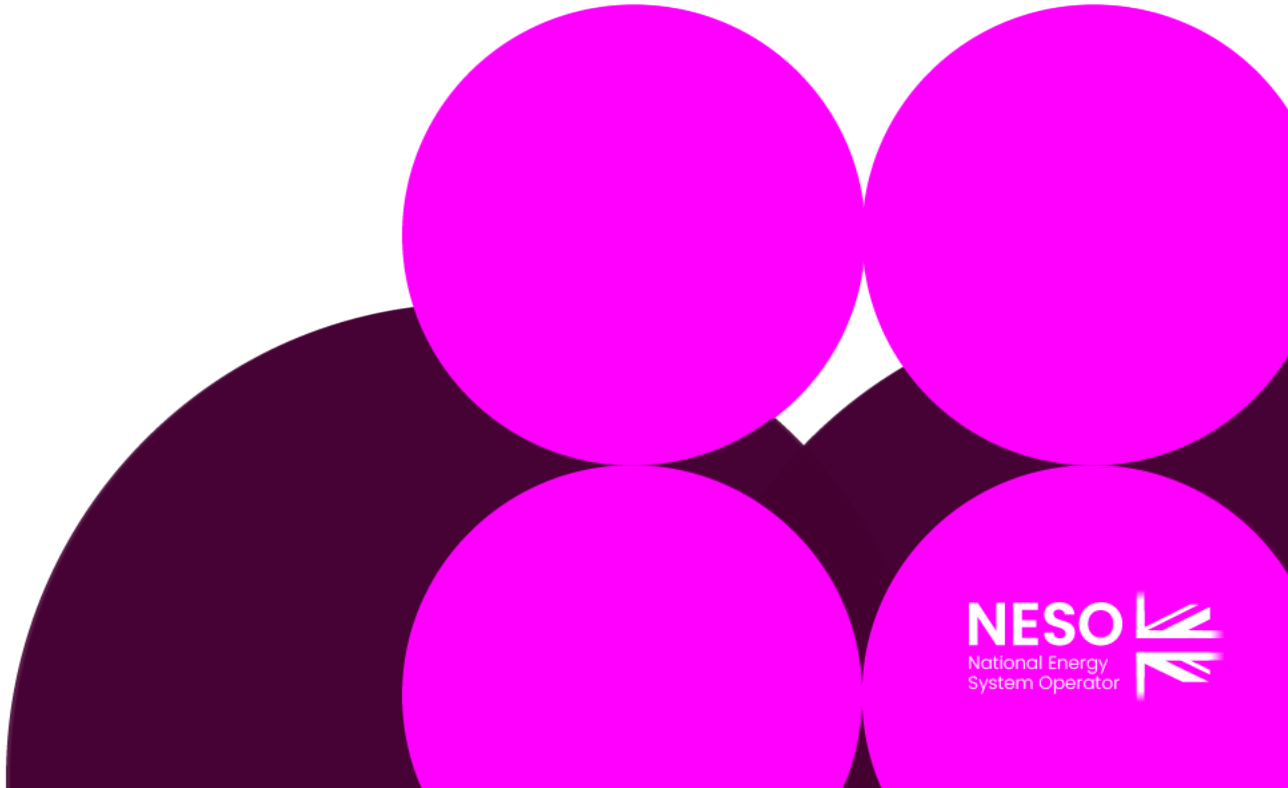


Terms of Reference

Workgroup Term of Reference	Location in Workgroup Report (to be completed at Workgroup Report stage)
a) Consider EBR implications	
b) Consider the decision letter of CMP413 and ensure CMP442 sufficiently addresses any concerns raised.	
c) Consider interactions or possible overlap with the TNUoS Cap and Floor CMP444.	
d) Consider how the arrangements can be designed to prevent users from “gaming” the system, given the significant current grid capacity shortage and the steps in connection reform.	
e) Consider the impact on the Adjustment and whether it should also be fixed, at least in the short term or until a limit of users or capacity fixed is reached.	
f) Consider whether local circuit charges could also be fixed.	
g) Consider if it is appropriate to be able to lock in negative charges.	
h) Consider the scenario of what happens to the fix if an additional technology is co-located at a site.	
i) Consider the impact on generators who do not fix their TNUoS across a range of scenarios and any distributional impact on consumers.	

Proposer's Solution: Background; Proposed Solution; Scope; and Assessment vs Terms of Reference

Tom Steward– RWE



CMP442 - Introducing the Option to Fix Generator TNUoS charges

Tom Steward, RWE Renewables

16 December 2024

High level summary of TNUoS Fix Proposal

Executive summary

- Principle objective: minimise unnecessary TNUoS risk in order to minimise costs to the consumer
- A generator would have the *option* to fix their TNUoS against a forecast produced by NESO. TNUoS charges would be on a fixed profile – ie. could go up and down over this period, however these fluctuations would be known in advance
- Our proposal is currently for a maximum fix length of 15 years, based on what NESO signalled may be possible. This predates the development of NESOs SSEP function however, which may extend timescales they are comfortable forecasting. We will seek as long a fixed period as possible
- Towards the end of a fixed period, a site would have the option of fixing again, or moving onto a variable TNUoS tariff (akin to today's arrangements)
- It is not possible for a code modification to truly protect a generator from future modifications. It would therefore be possible for a future modification to change the TNUoS charges of a generator with a fix. It is a matter for OFGEM how future modifications are applied, and to manage any impacts on investor confidence

Our proposal allows generators to tailor a fix to their investment cycles to minimise risk, whilst still preventing gaming

Which generators can fix?

- The option to fix would be open to all generators. New generators could opt to fix at the point of CfD bid or FiD and begin payments at TEC start (as today). Existing generators would begin their fix the next charging year. Generators can choose to fix all, or a portion of their TEC.

How is the fix determined?

- The fix would be against a NESO forecast profile – meaning charges can go up and down, but would be known in advance. This means the modification would not reduce volatility, but would remove the unpredictability of TNUoS during the fixed period.

Which charges can be fixed?

- At present, the proposal is limited to allowing generators to fix their TNUoS wider charges, *excluding* the adjustment element to comply with the €2.50/MWh limiting regulation (EU 838/2010).
- Discussion on how the adjustment element might be included are welcome, however it is not clear how this could be done without having a (potentially significant) distortive effect on the charges of those generators who choose not to fix.
- Local charges are also excluded from the current proposal – again discussion is welcome on this point.

How long is the fixed period?

- Fixes could be for any number of whole years, from 1 to the maximum length the NESO is able to forecast (our initial proposal is for 15 years). This is intended to allow generators to fix in line with their own investment cycles. Generators **cannot** opt out of a fix mid-way through. If NESO is not comfortable with a 15 year forecast in the first year of the modification coming into effect, a shorter fixed period should be offered initially, with a commitment to steadily increase over time as NESO becomes more comfortable with forecasting and other relevant functions become more established.

There should be no impact to non-fixing generators, and positive impacts for consumers over the long term

What does this mean for consumers?

- Any over or under recovery as a result of generators fixing will be passed through to the TNUoS Demand Residual (TDR). We are not aware of any reason why this risk shouldn't be symmetrical (ie over or under recovery are equally likely) meaning there should be no net impact on consumers over the long term.
- Reduced risk premia in the CfD should lead to lower CfD clearing prices, creating a saving for consumers.

What if a generator's charges are negative?

- Generators take investment decisions based on their charges irrespective of if they are positive or negative. To prevent those with negative charges fixing would create two tiers of generators and therefore detrimental to competition.

What does this mean for other generators (who don't fix)?

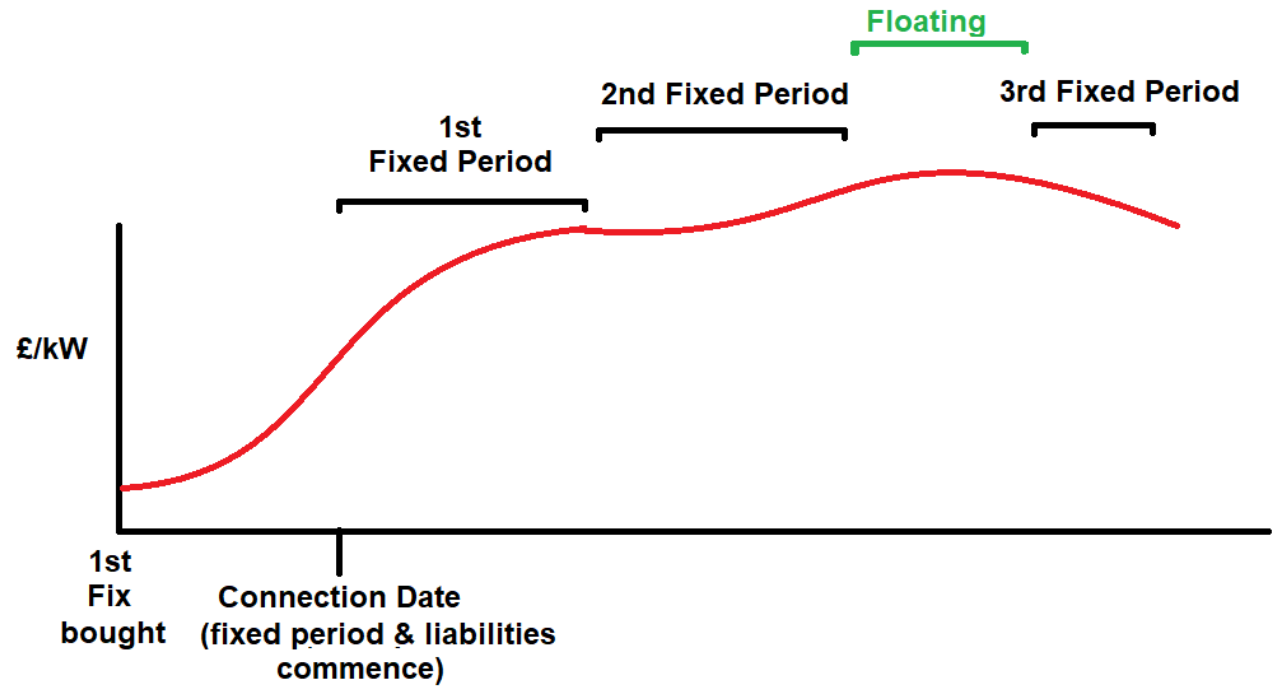
- A generator's TNUoS charge would be unaffected by another generators' decision to fix (the exception could be if the €2.50MWh cap was also included, however this is not currently part of the proposal).

How are alterations to a site during a fix addressed?

- The fundamental principle behind this modification is that a TNUoS fix shouldn't be the reason to make changes to a site, nor the reason not to make changes to a site.
- If a site reduces its TEC, its liabilities decrease as per today, if a site increases its TEC, the new TEC is charged at the latest forecast rates (and the generator may choose to fix that part of its TEC).
- A "ratchet" would apply whereby previously fixed price TEC that was reinstated during the fixed period would again attract the original charge – this is to avoid generators reducing their TEC then increasing it again to benefit from new/better rates.
- If a new technology is added, charges can be updated based on when the fix was put in place, but the life of the fix remains unchanged.

Over the lifetime of a project, multiple fixes can be taken

Sketch-graph demonstrating series of TNUoS fixes

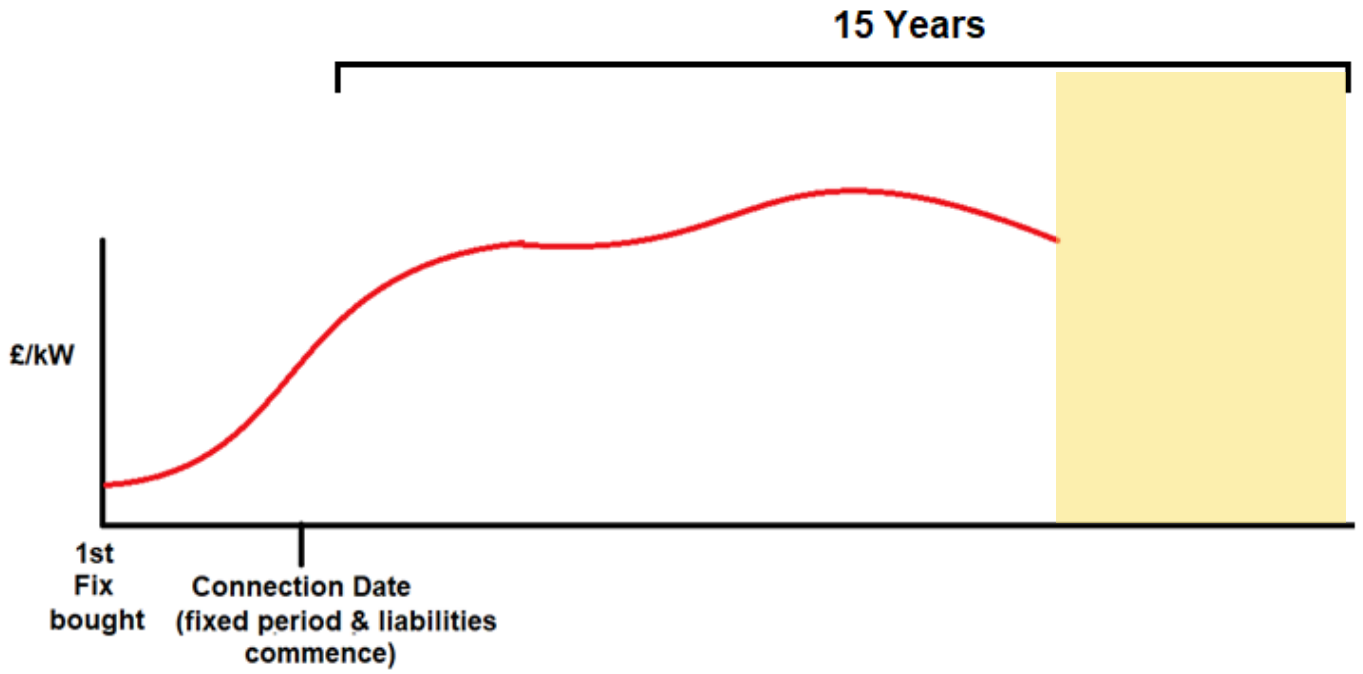


Explanation

- Fixes run for a predetermined number of years.
- Towards the end of one fixed period, a generator can opt to take another fix or move onto a ‘floating’ TNUoS tariff – as today.
- Each fix is taken against the latest forecast of the time.
- There is no limit to how many fixes a generator may take over its lifetime.

Questions remain about the mismatch between the TNUoS fix period and revenue support

Sketch-graph demonstrating mismatch of TNUoS fix and revenue support periods



Explanation

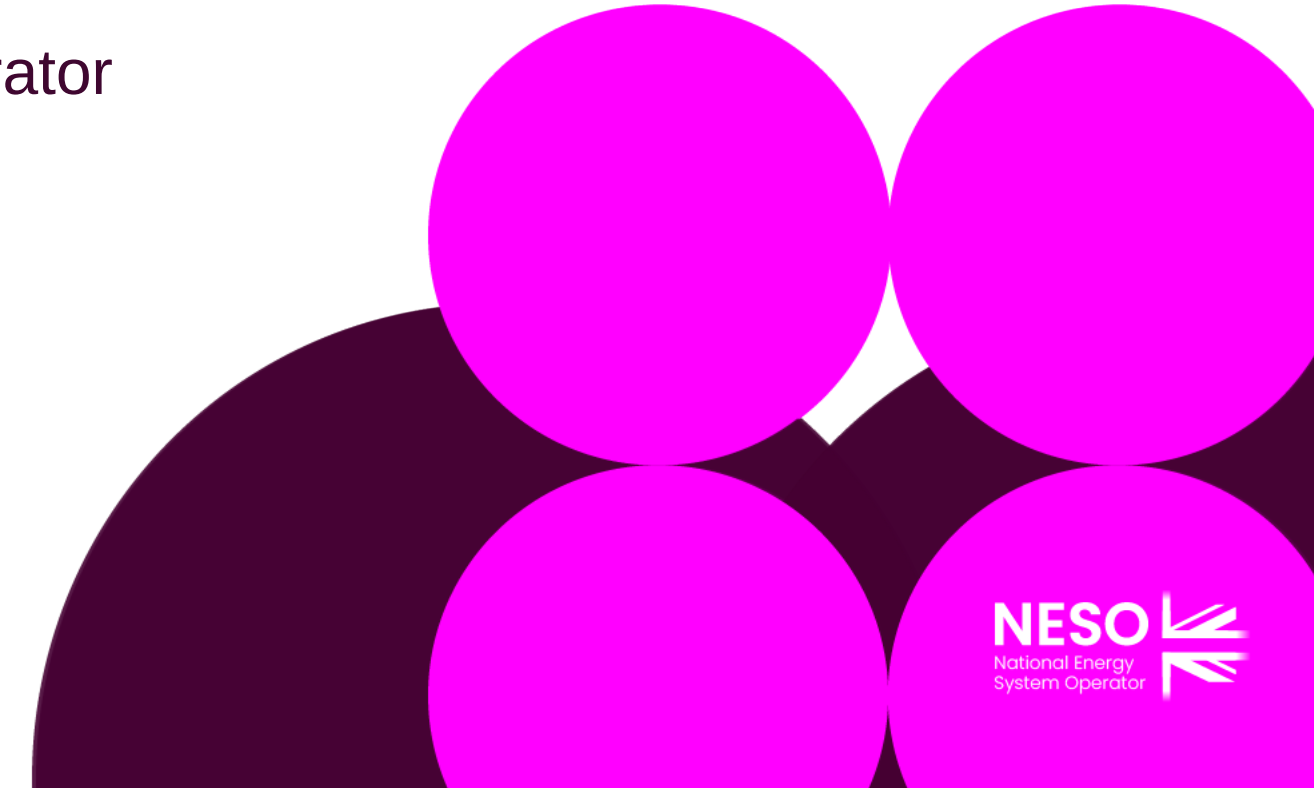
- If a generator is bidding on a 15-year contract (e.g. CfD, CM) there will likely be a number of years between making that bid (and presumably securing the fix alongside it) and the fixed period beginning.
- If NESO carries out a 15-year forecast, this will leave an unfixed/unforecasted period at the end (shaded area). This leaves an element of TNUoS risk.
- We propose asking NESO to maximise the forecast period to minimise this mismatch. Our ask is for an aim of 15 years. This predates the development of ESOs SSEP function which may extend timescales they are comfortable forecasting.

The proposal will be developed in recognition of the wider policy context (specifically: TNUoS cap and floor, REMA, and the CMP413 rejection)

- CMP442 could co-exist with the proposed cap and floor, and/or continue beyond it.
- The OFGEM decision letter on CMP413 contained pertinent information relating to use of a forecast, noted in the proposed ToRs for the workgroup as a requirement to specifically address these concerns.
- If necessary, it would be possible for OFGEM to allow generators to convert fixes under CMP442 into equivalent FTRs if REMA leads to a move to a zonal wholesale market (however this is beyond the scope of the mod).

Agree Terms of Reference

Jess Rivalland – NESO Code Administrator



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Cross Code Impacts

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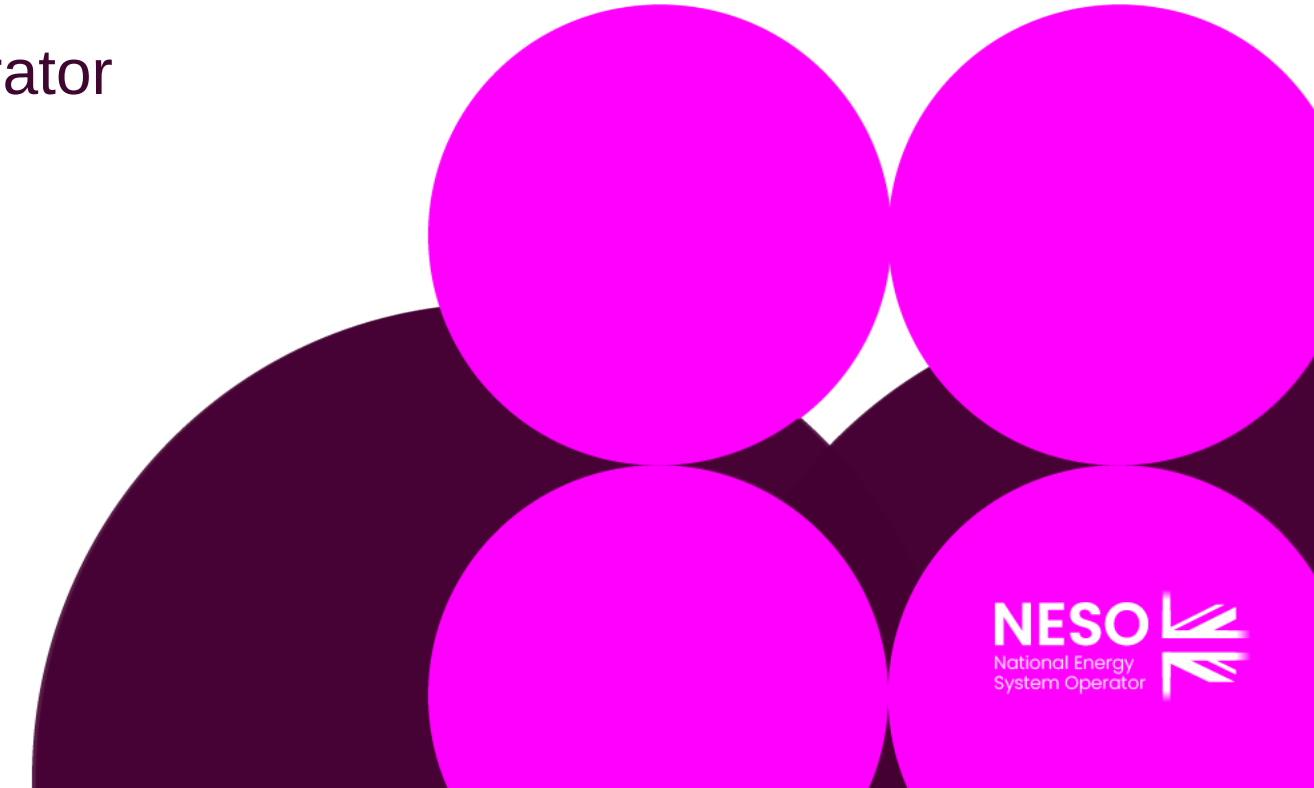
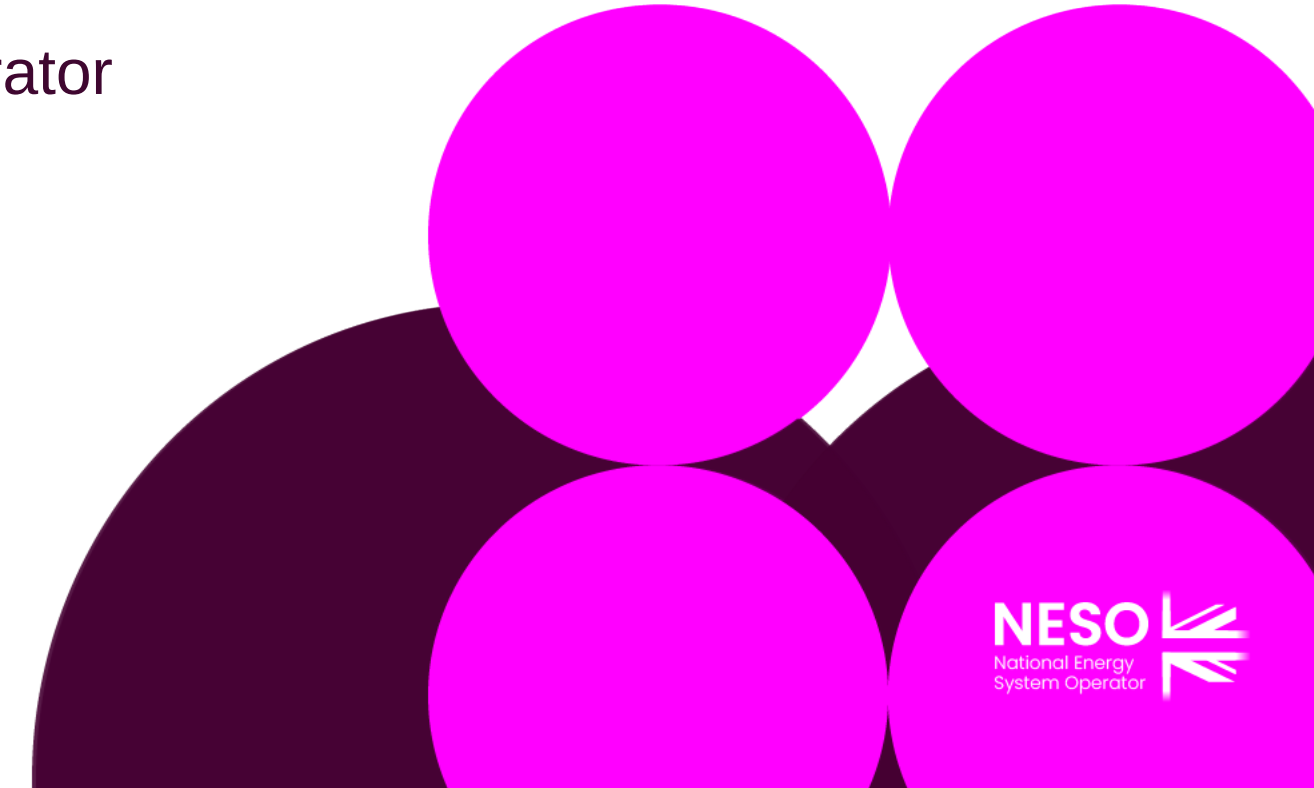


Any Other Business

Jess Rivalland – NESO Code Administrator



Next Steps

Jess Rivalland – NESO Code Administrator