Public

CMP402 Introduction of Anticipatory Investment (AI) principles within the User Commitment Arrangements

Workgroup 14
Thursday 13 February 2025
Online Meeting via Teams

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

WELCOME

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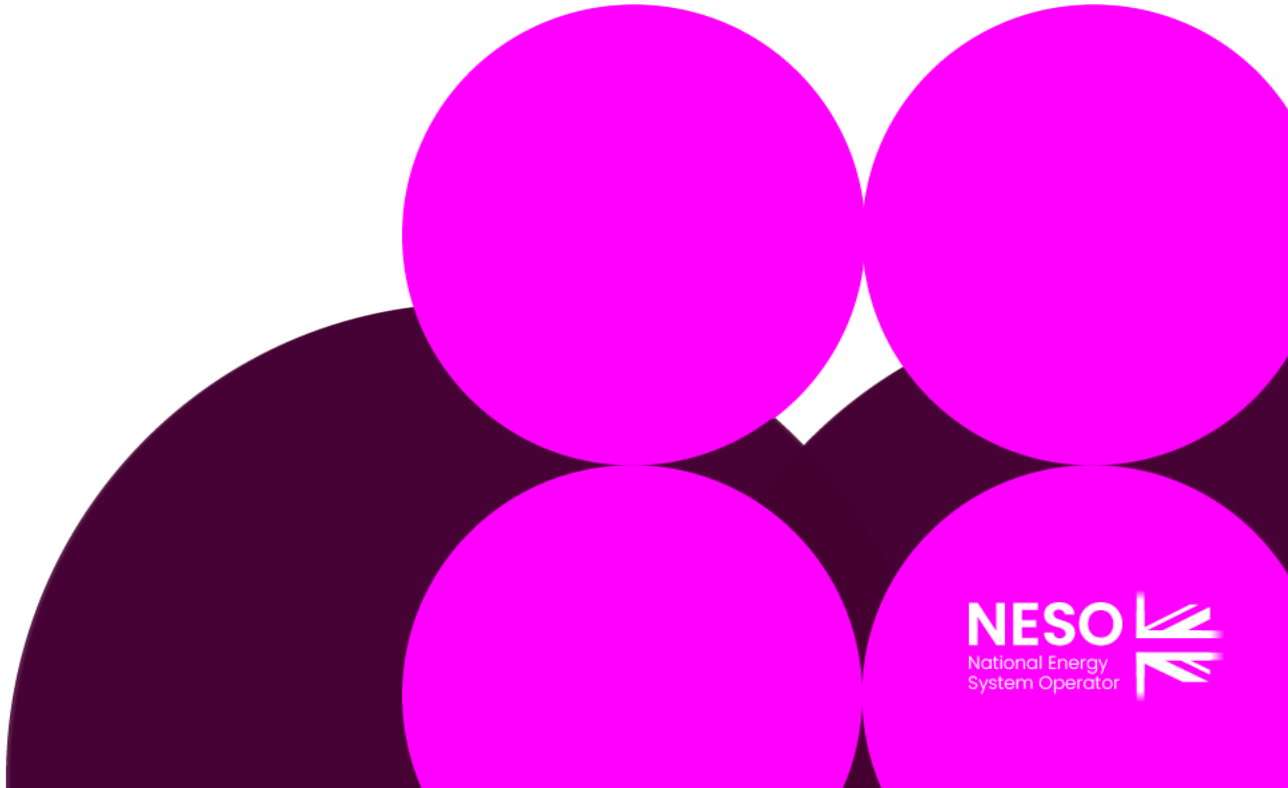
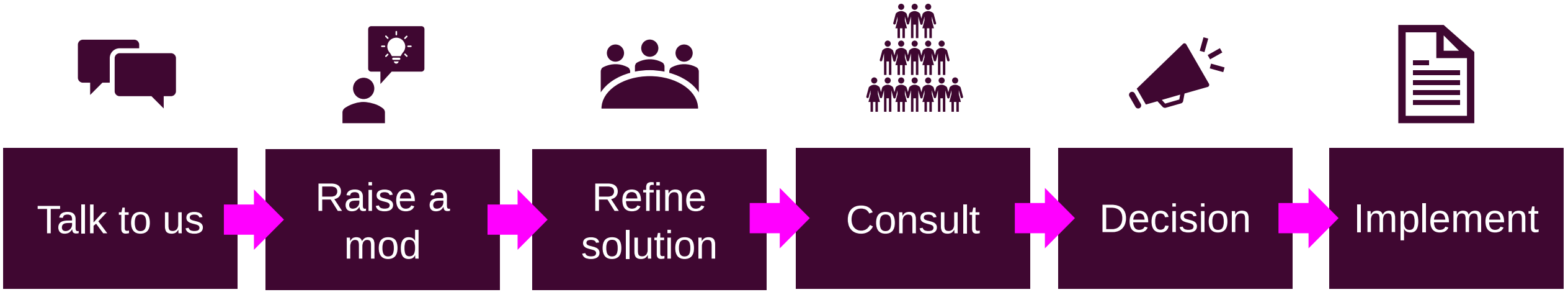
Modification Process

Claire Goult

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

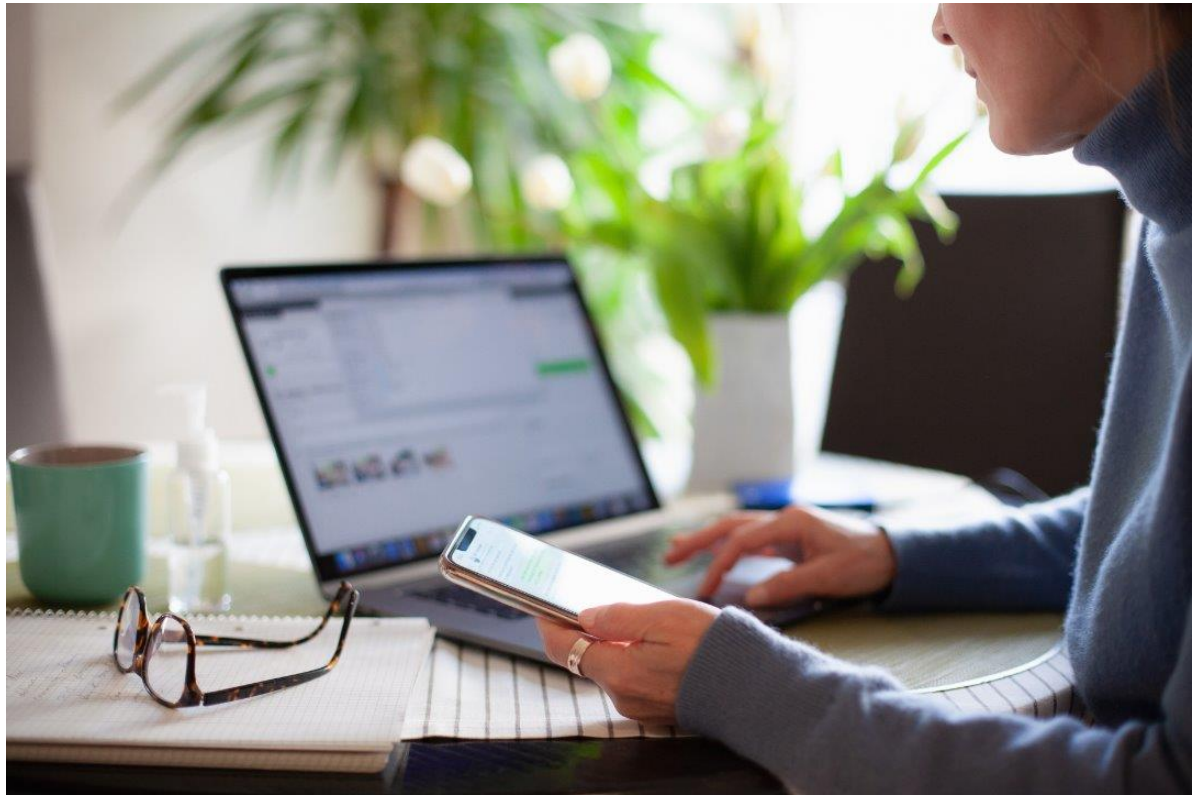
- **Standard Governance:** Ofgem makes the decision on whether or not the modification is implemented

- **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

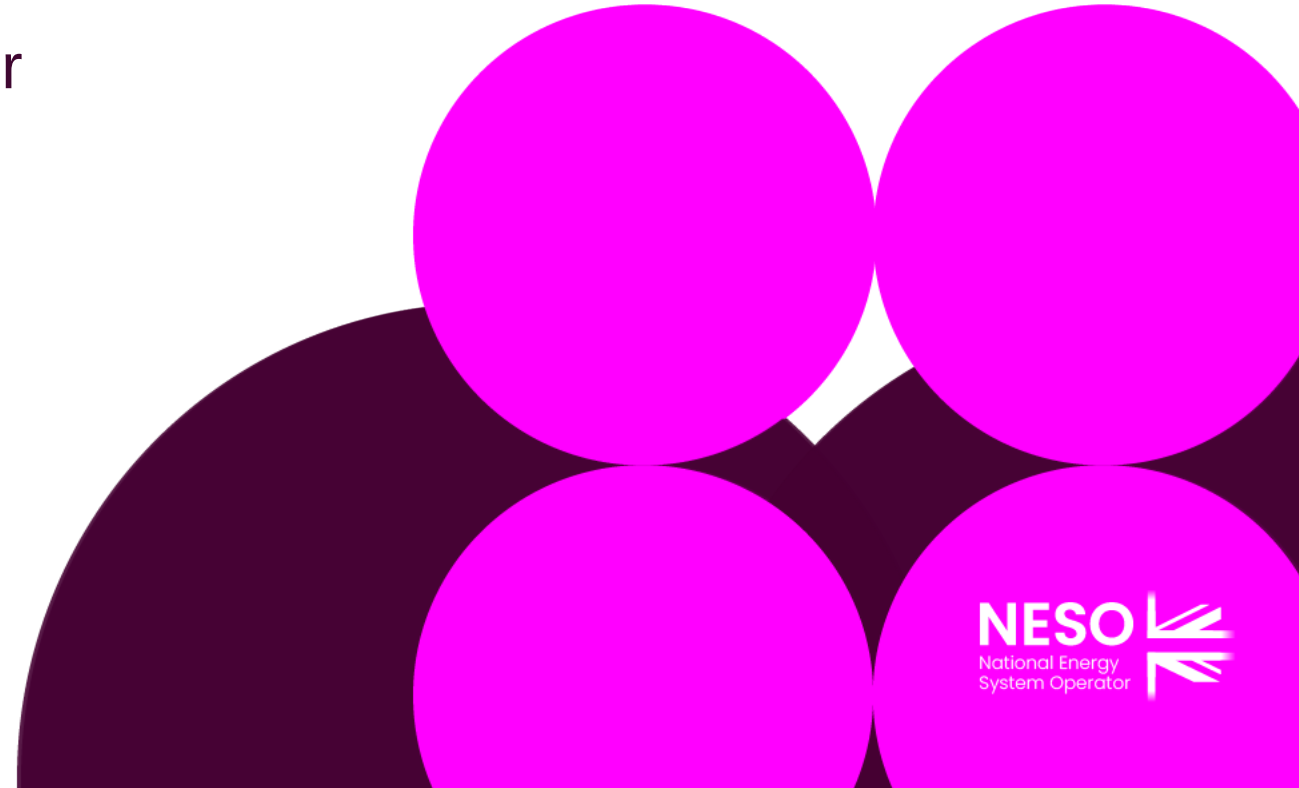
Implement

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



Workgroup Responsibilities and Membership

Claire Goult – 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
Proposer	Alice Taylor	NESO
Workgroup Member	Jonathon Hoggarth	EDF
Workgroup Member	Claire Hynes	RWE Renewables Ltd
Workgroup Member	Matthew Paige-Stimson	NGET
Workgroup Member	Faiva Wadawasina	Bellrock Offshore Windfarms Ltd and Broadshore Offshore Windfarms Ltd
Workgroup Member	Umer Ameen	BP
Workgroup Member	Ryan Ward	Scottish Power Renewables
Workgroup Member	Øyvind Bergvoll	Equinor New Energy Limited
Workgroup Member	Damian Clough	SSE Generation
Observer	Josh Henderson	SSEN Transmission
Observer	Angeles Sandoval Romero	SSE Generation
Observer	James Jackson	Orsted
Observer	Joel Matthews	Diamond Transmission UK Limited
Authority Representative	Christopher Patrick	Ofgem

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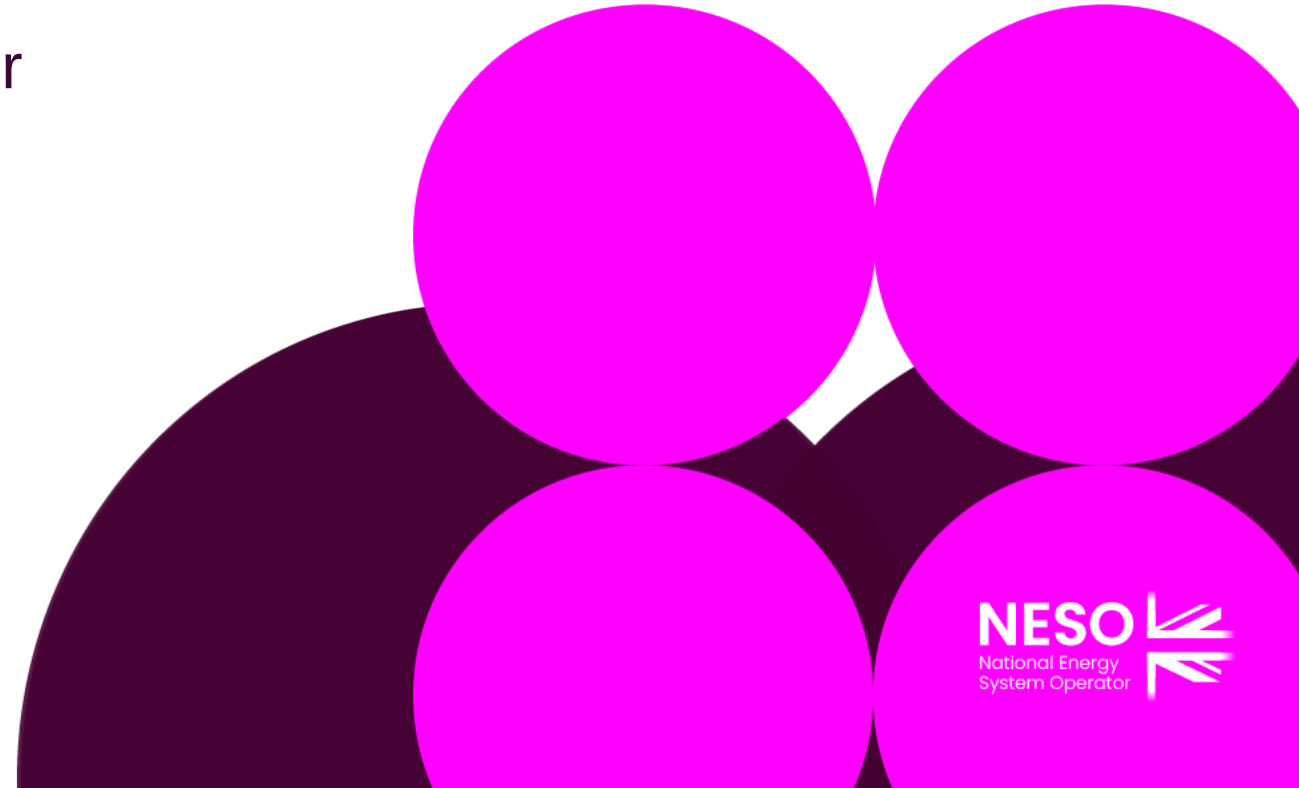
Workgroup Alternatives and Workgroup Vote

Claire Goult – 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? ESO 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

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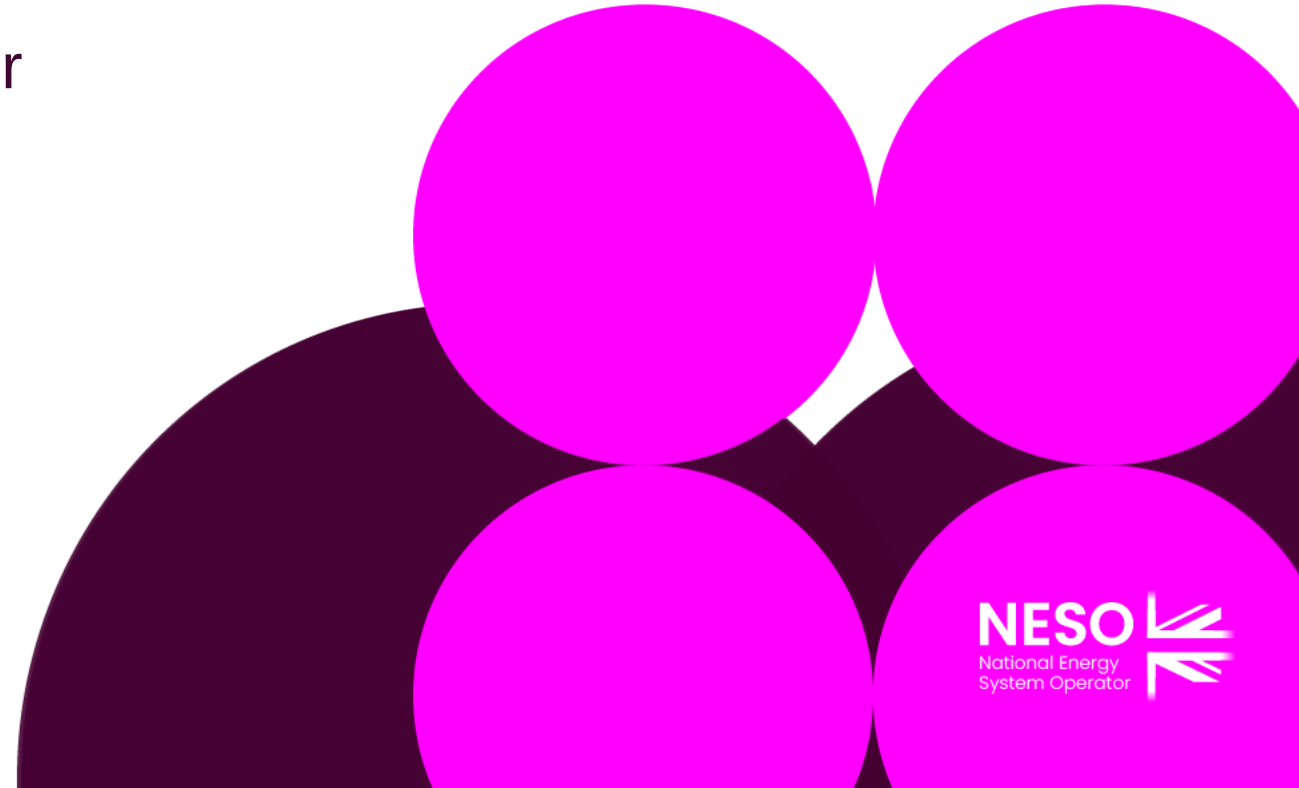
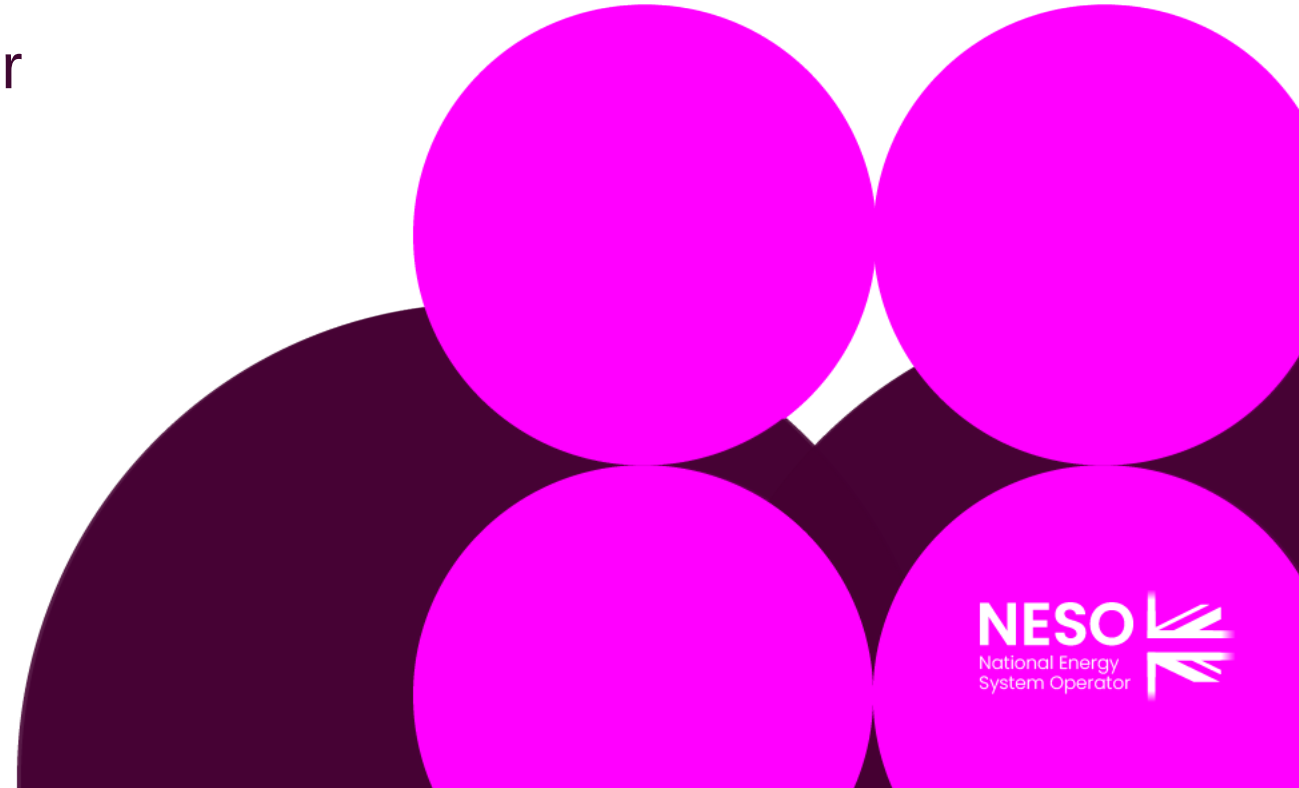


Timeline for CMP402 as at 13 February 2025

Milestone	Date	Milestone	Date
Modification presented to Panel	10 November 2022	Workgroup report issued to Panel (5 working days)	24 April 2025 **(CUSC Panel papers Day)**
Workgroup Nominations (15 Working Days)	28 November 2022 to 19 December 2022	Panel sign off that Workgroup Report has met its Terms of Reference	02 May 2025 **(CUSC Panel)**
Workgroup 14 - Understanding of overall OTNR landscape, Modification process, Workgroup responsibilities, issue, scope and proposed solution, agree timeline and terms of reference	13 February 2025	Code Administrator Consultation **(15 working days)**	30 April 2025 to 22 May 2025
Workgroups 15 – Agree the principles of Anticipatory Investment, consider possible solutions, identify alternatives	25 February 2025	Draft Final Modification Report (DFMR) issued to Panel (5 working days)	19 June 2025 **(CUSC Panel Papers Day)**
Second Workgroup Consultation (15 working days)	28 February 2025 to 21 March 2025	Panel undertake DFMR recommendation vote	27 June 2025 **(CUSC Panel)**
Workgroup 16 - Review Workgroup Consultation responses,	27 March 2025	Final Modification Report issued to Panel to check votes recorded correctly (**5WD)**	01 July – 08 July 2025
Workgroup 17 - consider new points, review solution and any alternatives	08 April 2025	Final Modification Report issued to Ofgem	10 July 2025
Workgroup 18 – Finalise new solution, Workgroup Consultation finalise and specific questions	15 April 2025	Ofgem decision	TBC
		Implementation Date	TBC

Review Terms of Reference

Claire Goult – NESO Code Administrator

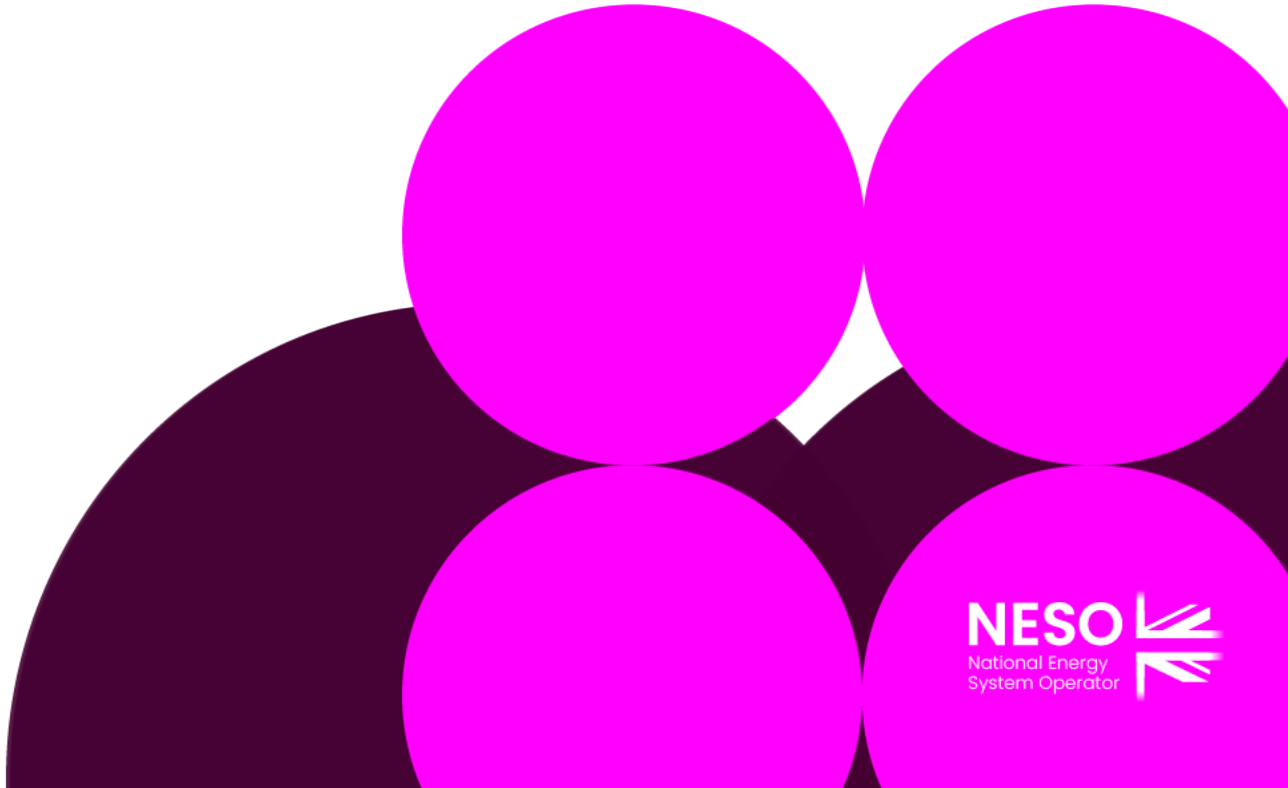


Terms of Reference

Workgroup Term of Reference
a) Consider EBR implications
b) Consider the assumptions made to support the proposed principles for the extension to the User Commitment arrangements to incorporate the Anticipatory Investment cost liability
c) Consider how the liabilities could be calculated and passed onto the later User(s) who will be benefiting from shared offshore assets that are being developed and built by the initial generator as part of a non-radial offshore connection.
d) Consider what proportion of the Anticipatory Investment cost should be secured by the later User(s) who will be benefiting from shared offshore assets that are being developed and consider the calculation for this.
e) Consider the appropriate sharing factor that should be applied to the Anticipatory Investment cost pre and post the later User's Final Investment Decision
f) Consider if and how the sharing factor will change in the event that there is more than one generator dependent upon the Anticipatory Investment being provided by the original generator
g) Consider if the current User Commitment principles for secured amounts against liability apply in the same way for Anticipatory Investment liability i.e. 100% pre-trigger date, 42% post trigger date and 10% consented?
h) Consider cross code impacts (including CUSC Modifications that may also be raised)

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

Alice Taylor – NESO



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CMP402 – Updated Solution

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CMP402 Background

- The aim of the modification is to introduce the principle of AI into the User Commitment arrangements via CUSC Section 15.
- The current approach to AI for offshore generators has been reviewed because generators have not been incentivised to undertake AI for future projects. Therefore, Ofgem has introduced a new AI concept to increase coordination between generator projects and minimise the allocation of AI cost risk to consumers.
- Ofgem has noted that “the extension of user commitment arrangements to offshore transmission assets to cover any potential later user of offshore transmission assets funded by AI is intended to demonstrate commitment from the potential later user and demonstrates seriousness of purpose.”

The Issue

- The initial reasoning for the scaling of the pre-trigger liabilities was to help reflect the relative size and costs of offshore assets compared to onshore assets.
- However, Ofgem and the Workgroup asked for clear rationale as to **why** these liabilities had been scaled this way.
- Whilst NESO performed some additional analysis to try to show the justification for the scaling of these values ultimately, NESO were unable to clearly define why the liabilities should be scaled this way compared to the onshore methodology.
- This led to the Workgroup being paused whilst NESO re-assessed their solution.

CMP402 Updated Solution

Pre-trigger Date

Pre –trigger date values, the liabilities would vary according to the financial years from the date of the construction agreement to the trigger date as s follows (as reflected in Section 15 3.9):

- up to the end of the first Financial Year [from the AI Cost Assessment Date/date of construction agreement] (i.e., t =1), a Pre Trigger Amount of (**£1/kW**)
- Where t = 2, a Pre Trigger Amount of (**£2/kW**)
- Where t ≥ 3 up to Trigger Date, a Pre Trigger Amount = (**£3/kW**)

Previously, the solution had introduced a scaled-up version of the liabilities (£2,4,6/kW), however due to a lack of clear justification for this specific increase, the solution has been amended to reflect the liabilities already in place for the onshore methodology.

Justification for this change is to have further consistency between the onshore and offshore methodology to allow for no disparity, creating fairness. It allows a level playing field for incentivising AI for further investment.

Solution Continued

Post trigger Date

Post trigger date liabilities, once the early stage assessment process is run by Ofgem the developer has a choice of either fixing their liabilities post trigger (option 1) or basing their liabilities on actual costs (option 2).

- **Option 1 Fixed**: 67% of the AI cost as determined at the early-stage assessment. If costs change, the liabilities would be fixed at 67% of the AI costs for each of the years post trigger.
- **Option 2 Actual**: based on actual costs (developer would provide actual costs to date and updated forecast costs going forward on a 6 monthly basis) based on profile outlined in CUSC Section 15 part 3.10:

  67% AI Cost =

  $AI\ Profile_t$ varies according to the number of Financial Years working back from the Charging Date to the Trigger Date:
  - In the Financial Year in which the Charging Date occurs (t=0), Cancellation Charge Profile = 1.0,
  - In the Financial Year which is 1 Financial Year prior to the Financial Year in which the Charging Date occurs (t=1), Cancellation Charge Profile = 0.75;
  - In the Financial Year which is 2 Financial Years prior to the Financial Year in which the Charging Date occurs (t=2), Cancellation Charge Profile = 0.5; and
  - In the Financial Year which is 3 Financial Years prior to the Financial Year in which the Charging Date occurs (t=3), Cancellation Charge Profile, = 0. 25.

Where there is more than one later user relying on the same Offshore Transmission System Developer User Works (OTSDUW) (AI) the 67% AI costs will be adjusted by the sharing factor between the later users in the calculation of the AI (post trigger date) cancellation charge.

Sharing Factor = where the OTSDUW (AI) are also required for other Later Users the 67% AI Costs shall be shared prorata on a MW basis between the Later Users

Agree Terms of Reference

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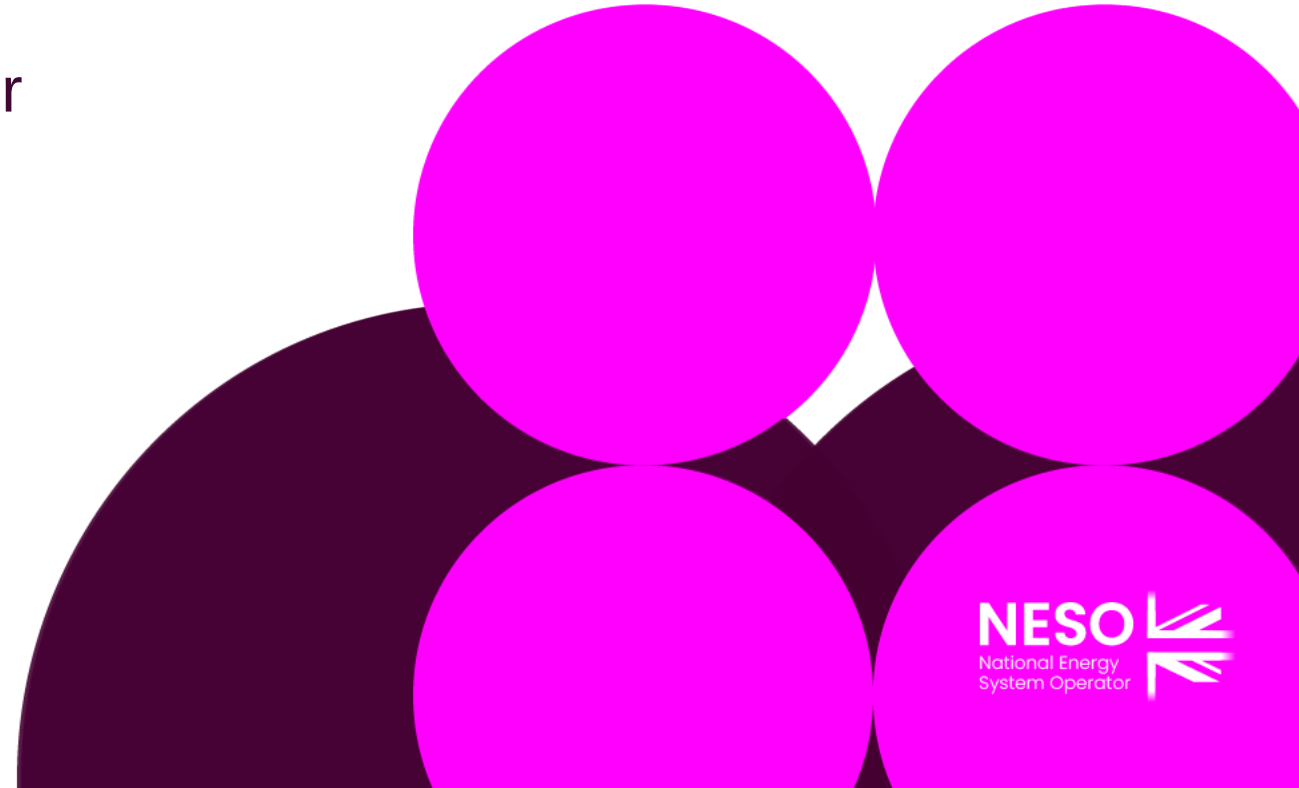

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Cross Code Impacts

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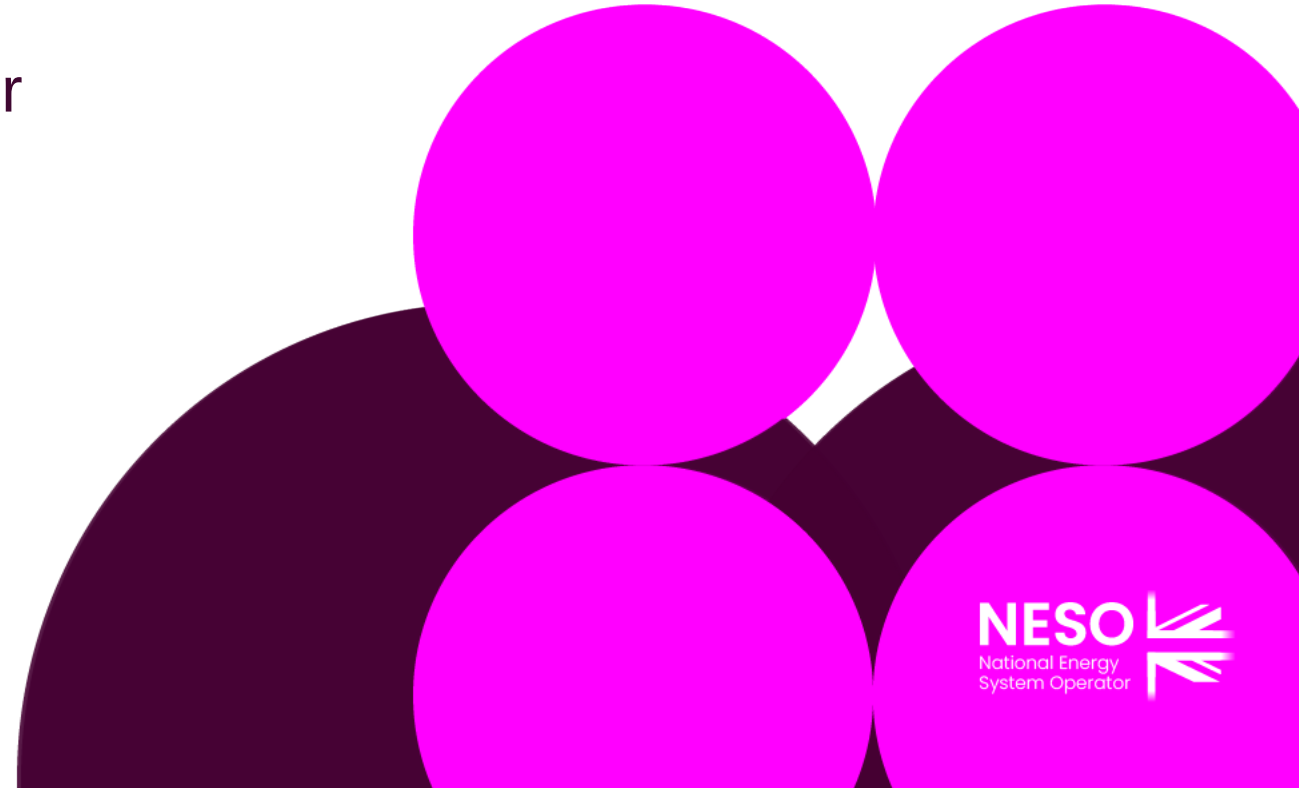

Any Other Business

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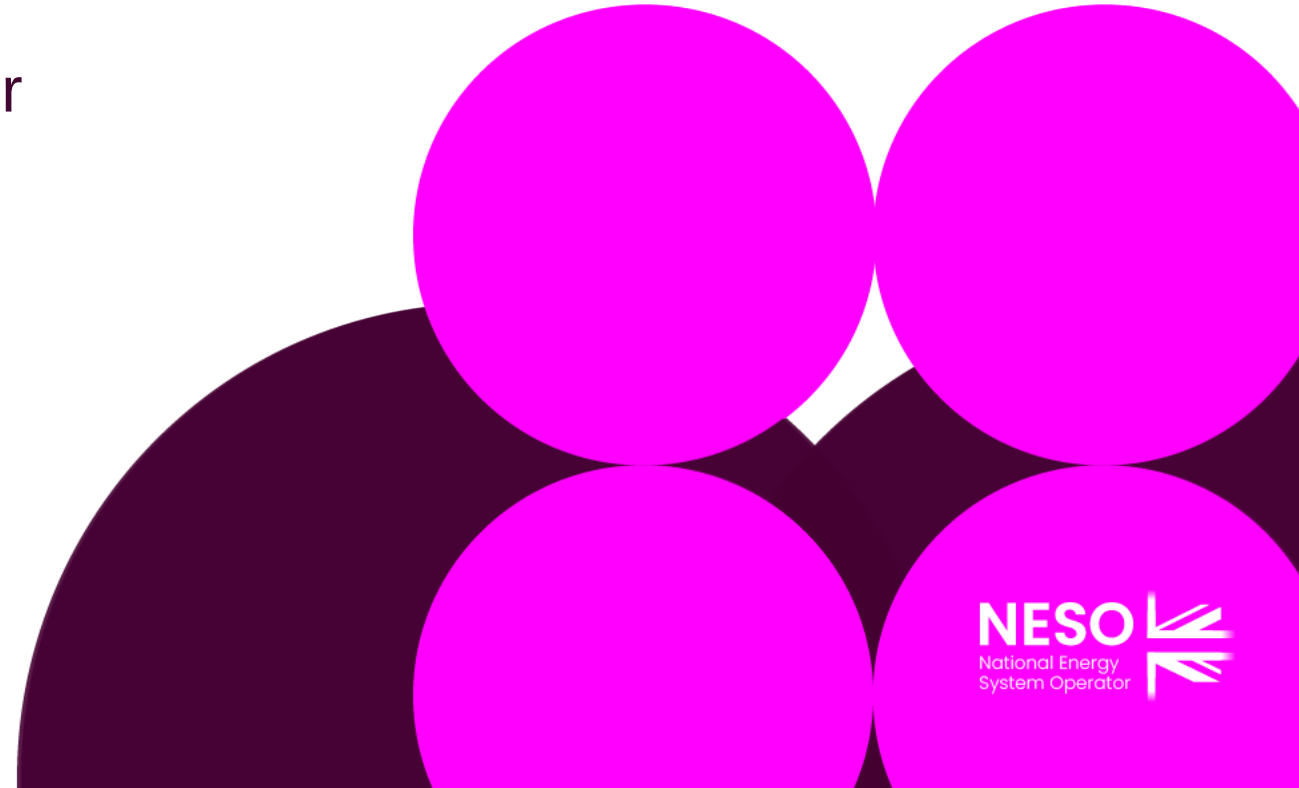

Next Steps

Claire Goult – NESO Code Administrator