

Public

CMP344

Workgroup Meeting 1
(24 February 2025)

Online Meeting via Teams

WELCOME

Workgroup Membership

Role	Name	Company	Alternate Name
Chair	Jess Rivalland	NESO	
Tech Sec	Karen Stanton-Hughes	NESO	
Code Rep/ Workgroup member	Martin Cahill	NESO	
Proposer/ Workgroup member	Tom Steward	RWE	
Workgroup Member	Joseph Dunn	Scottish Power Renewables	Ryan Ward
Workgroup Member	Garth Graham	SSE Generation	Damian Clough
Workgroup Member	Michael Holmes	Vattenfall	
Observer	Hooman Andami	Elmya Energy	
Authority Rep	Shannon Murray	OFGEM	

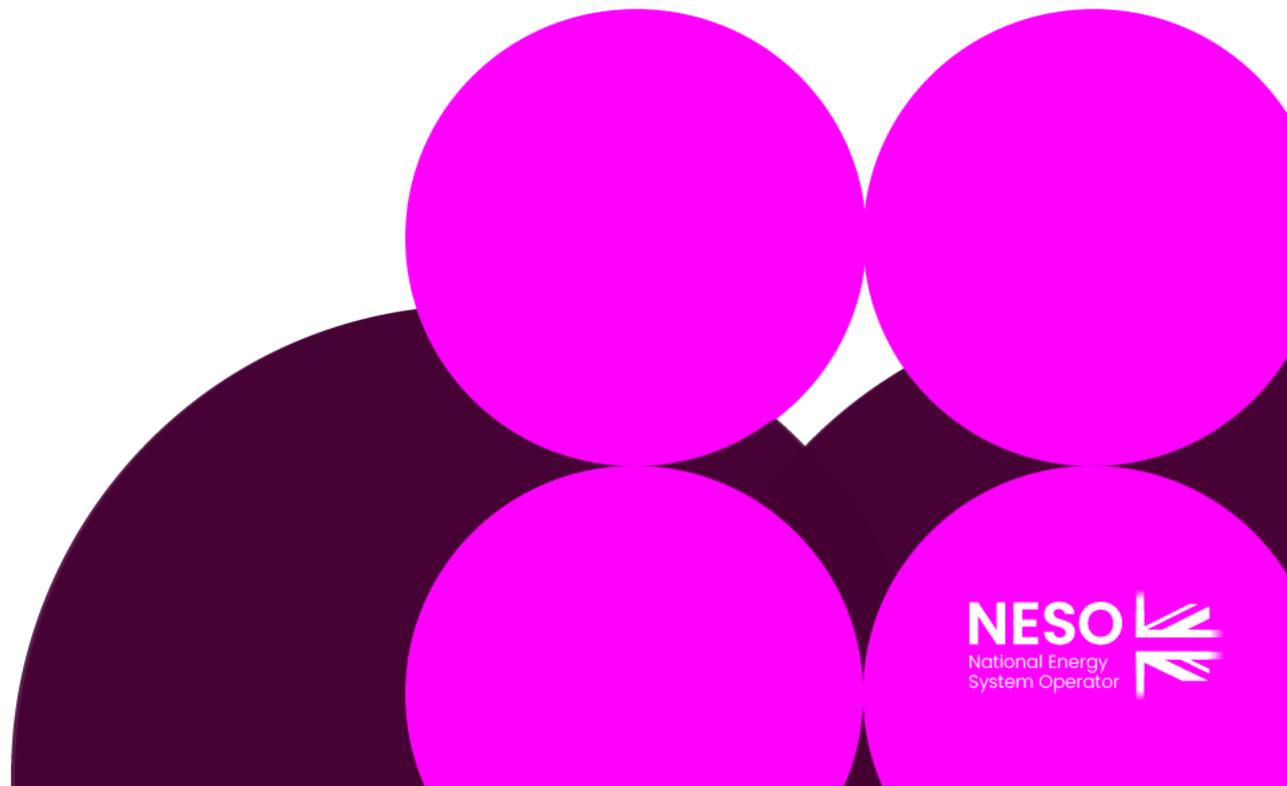
Agenda

Topics to be discussed	Lead
Welcome	Chair
Objectives and Timeline <ul style="list-style-type: none"> • Walk-through of the timeline for the modification 	Chair
Authority 2 nd send back letter <ul style="list-style-type: none"> • Required changes • Other issues 	Chair
2 nd Send back Terms of Reference	Chair
NESO Actions	NESO representative
Comparing Onshore and Offshore Charges	Proposer
Any Other Business <ul style="list-style-type: none"> • Sloy example • Legal Text 	Chair
Next Steps	Chair

Objectives and Timeline

Jess Rivalland

NESO Code Administrator



Timeline for CMP344

Milestone	Date
Modification presented to Panel	21 May 2020
Workgroup 1	24 February 2025 – Review Authority send back actions
Code Administrator Consultation issued to Panel (ToR sign off)	28 March 2025
Code Administrator Consultation	07 April 2025 to 29 April 2025
Draft Final Modification Report (DFMR) issued to Panel (5 business days)	15 May 2025
Panel undertake DFMR recommendation vote	23 May 2025
Final Modification Report issued to Panel to check votes recorded correctly (5 business days to check)	27 May 2025 to 03 June 2025
Final Modification Report issued to Ofgem	04 June 2025
Ofgem decision needed by	As soon as possible
Implementation Date	10 Working days after Authority decision

Authority 2nd send back letter

Jess Rivalland

NESO Code Administrator

Required changes

1. Clearly set out the charging arrangements which are considered to be the onshore equivalent to cost recovery of IAEs and the justification for that position.
2. Sufficiently explain, and evidence by reference to the CUSC, the charging methodology which the ESO currently follows for the cost recovery of IAE events and the equivalent onshore comparator, e.g. unforeseeable events for additional expenditure to address deficiencies with Onshore Local Assets (i.e. how such sums are recovered via Onshore Local Charges, or otherwise). Our understanding is that the current arrangements in respect of (i) cost recovery of IAEs; and (ii) unforeseen costs for additional expenditure to address deficiencies with Onshore Local Assets are not explicitly codified in full and we therefore expect the ESO to provide the Workgroup with an explanation of the exact charging methodology which it currently follows in its operational practice in a form that can accurately be relied upon as forming the basis of the Proposal and the assessment thereof.
3. Explain, with reference to relevant sections of licences, the CUSC and/or the ESO's explanation as to the current approach where applicable, the existing inconsistent treatment (such as it exists) and if considered appropriate, an explanation as to which aspects of onshore and offshore charging arrangements the Proposer considers should be aligned and how that will be achieved.

Other issues

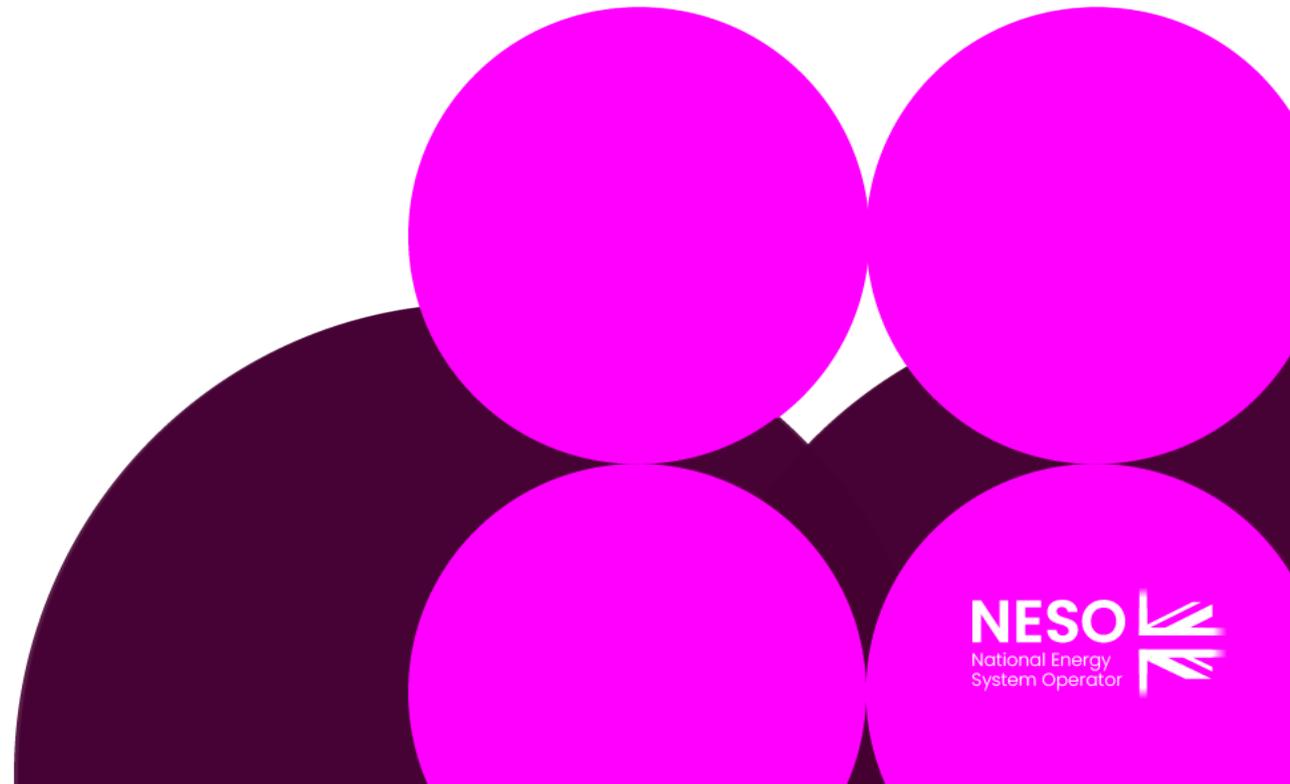
Notwithstanding that we have been unable to form a view of the Proposal, based on the information available, we have considered the quantitative analysis provided in the second FMR. Our initial view is that the analysis does not provide a well-rounded view of the impacts of CMP344, with respect to existing generators with CfD contracts. If it is the case that generators price risk premia into their CfD bids to financially mitigate against the risk of IAEs occurring, on that logic – the removal of the financial risk covered by that risk premium via the approval of CMP344 would result in a windfall gain for those generators that already have contracts in place. Therefore, by not quantifying the value of this windfall gain in the analysis, we consider it does not provide a balanced assessment. We would encourage the Workgroup to consider whether the analysis could be adapted or supplemented to provide a more holistic view of the potential impacts.

When assessing the second FMR, we noted that there were missing formulae in CUSC Section 14 (see 14.15.81 and 14.15.91).⁸ The ESO amended this error on 7 February 2024. We consider that this amendment will aid in further discussions for the Proposal in relation to the current charging arrangements for both onshore and offshore generation.

Terms of Reference

Jess Rivalland

NESO Code Administrator

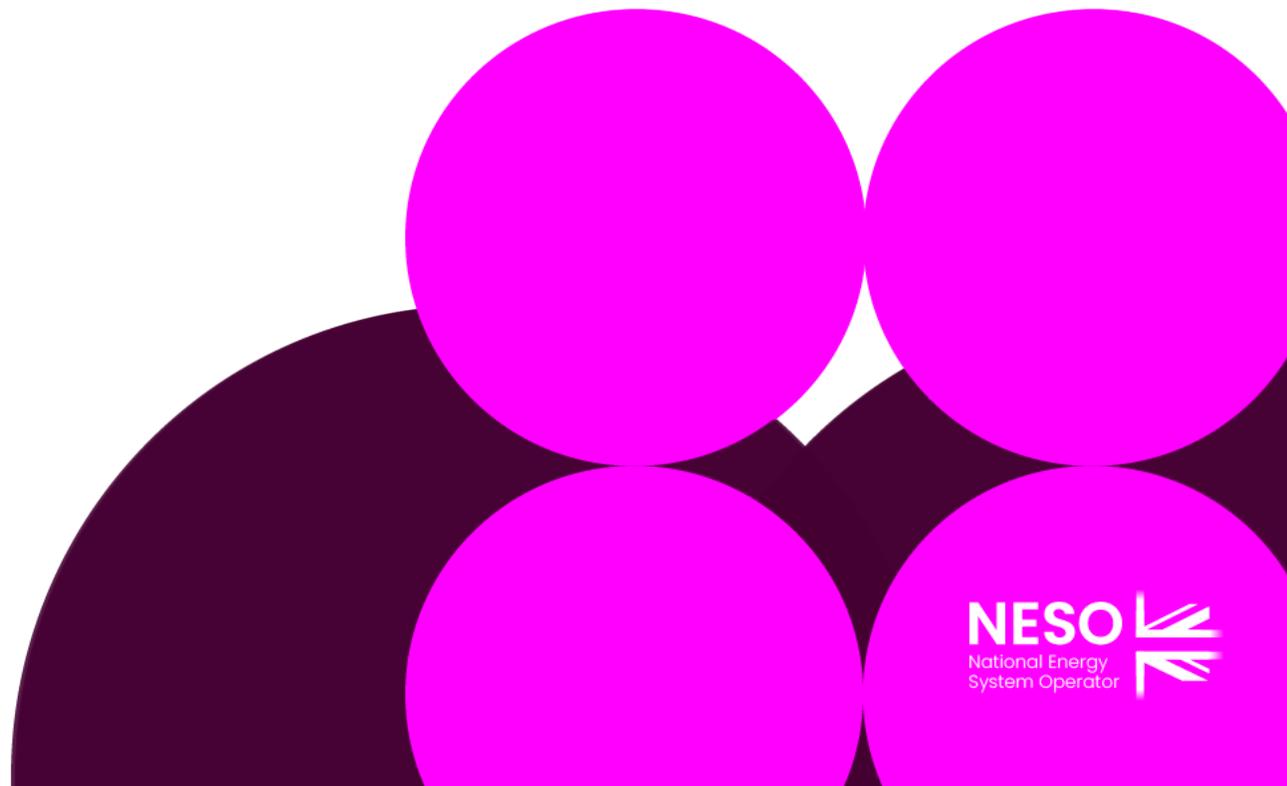


2nd Send back Terms of Reference

Workgroup Term of Reference	Location in Code Administrator Consultation
a) Provide the charging arrangements which are considered to be the onshore equivalent to cost recovery of Income Adjusting Events (IAEs) and the justification for that position.	
b) Explain and evidence the charging methodology which NESO currently follows for the cost recovery of IAE events and the equivalent onshore comparator, setting out perceived inconsistent treatment if/where evident.	
c) Consider an explanation as to which aspects of onshore and offshore charging arrangements the Proposer considers should be aligned and how that would be achieved by this modification.	
d) Consider whether the analysis, produced for the second FMR, could be adapted or supplemented to provide a more holistic view of the potential impacts	
e) Ensure that send back deficiencies on both letters have been addressed	

NESO Actions

Martin Cahill – NESO



NESO Actions

- From the Second Send back letter, Ofgem outlined the below NESO actions:
- Explain how the IAE process currently works and reference how this follows CUSC
- Identify “equivalent process” for onshore
- Explain how this equivalent process works,

What is in the licence?

- The relevant licence condition is E12–J3 from OFTO licence, which describes allowed pass-through items, as well as further details of what constitutes an IAE.

Amended Standard Condition E12–J3: Restriction of Transmission Revenue: Allowed Pass-through Items

1. The purpose of this condition is to provide for revenue adjustments to reflect certain costs that can be passed through to consumers as part of Allowed Transmission Owner Revenue (OFTO_t).
2. For the purposes of paragraph 4 of amended standard condition E12–J2 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services) the pass-through revenue adjustment term (PT_t) is derived from the following formula

$$PT_t = LF_t + RB_t + CEL_t + DC_t + IAT_t + TPD_t + TCA_t + MCA_t + CEA_t - RFG_t \quad (8)$$

What is in the CUSC?

- CUSC 14.15.80 Offshore circuit expansion factors details the allowed revenue for OFTOs for each circuit, and these are recalculated at the start of each price control.
- Due to these only being recalculated at the start of a price control, an IAE would initially be recovered through the TDR, but then adjusted at the start of the price control.

Offshore Circuit Expansion Factors

14.15.80 Offshore expansion factors (£/MWkm) are derived from information provided by Offshore Transmission Owners for each offshore circuit. Offshore expansion factors are Offshore Transmission Owner and circuit specific. Each Offshore Transmission Owner will periodically provide, via the STC, information to derive an annual circuit revenue requirement. The offshore circuit revenue shall include revenues associated with the Offshore Transmission Owner's reactive compensation equipment, harmonic filtering equipment, asset spares and HVDC converter stations.

The local circuit tariff is updated with a new local expansion factor via 14.15.121

What is in the CUSC?

- In between price controls, the yearly amount is collected via TDR:
- Offshore local circuit tariffs cannot be updated
- This means there is an increase in TNUoS Revenue Recovery Target, with TDR increasing to ensure that the TOs recover their total allowed revenues

CUSC v1.41b

The Residual Tariff

The total revenue to be recovered through TNUoS charges is determined each year with reference to the Transmission Licensees' Price Control formulas less the costs expected to be recovered through Pre-Vesting connection charges. Hence in any given year t , a target revenue figure for TNUoS charges (TRR $_t$) is set after adjusting for any under or over recovery for and including, the small generators discount is as follows:

$$TRR_t = R_t - PVC_t - SG_{t-1}$$

Where

TRR $_t$ = TNUoS Revenue Recovery target for year t
 R_t = Forecast Revenue allowed under **The Company's** Price Control for year t (this term includes a number of adjustments, including for over/under recovery from the previous year). For further information, refer to Special Condition D2 of **The Company's** Transmission Licence.

PVC $_t$ = Forecast Revenue from Pre-Vesting connection charges for year t
 SG $_{t-1}$ = The proportion of the under/over recovery included within R_t which relates to the operation of statement C13 of **The Company** Transmission Licence. Should the operation of statement C13 result in an under recovery in year $t - 1$, the SG figure will be positive and vice versa for an over recovery.

14.15.137 As a result of the factors above, in order to ensure adequate recovery of total Transmission Owner revenue, a set of non-local **Transmission Demand Residual Tariffs** are calculated, which include infrastructure substation asset costs. These tariffs are billed alongside the initial transport tariffs for demand only so that the total revenue recovery is achieved. The total amount of revenue to be recovered through **Transmission Demand Residual Tariffs** is defined as the **Transmission Demand Residual**.

$$TDR = TRR - ITRR_{DPS} - ITRR_{DYS} - ITRR_{EE} - ITRR_{GPS} - ITRR_{GYRNS} - ITRR_{GYRS} - LCRR_{GG} - AdjRevenue$$

Where

TDR = **Transmission Demand Residual**

AdjRevenue = Adjustment Revenue as per paragraph 14.14.5

Process followed

- The allowed revenue is updated by TOs to NESO and because revenue has increased (the difference between allowed revenues and locational charges increase), TDR must increase.
- Before the next price control, TOs will provide any information such as IAEs alongside multiple other parameters to NESO which will be used to recalculate local circuit charges.
- Any fluctuations in the OFTOs revenue that occurred within the previous price control are incorporated into the calculations for the new tariff. This means that the appropriate quantity is recouped from the offshore generator.
- Any additional collection in turn reduces the demand residual tariff and balances out where they had previously paid extra (or vice versa).

Equivalent Onshore Process

- The closest equivalent process for onshore would be a Cost and Output Adjusting Event and although does not work in the same way as an IAE it could lead to an increase in revenue through adjustment to the baseline through force majeure.
- As onshore local circuit charges do not target specific costs in the same way as offshore local circuit charges, there would be no update to onshore local circuit charges at the following price control following a Cost and Output Adjusting Event.
- Instead, any increase in allowed revenue would be collected via TDR, with no later adjustment.



Comparing Onshore and Offshore Charges

Tom Steward,
RWE Offshore

Onshore



Onshore link to MITs fails



TO Undertakes Repair



Costs associated with failure of onshore network assets absorbed under Maximum Allowed Revenue (MAR) or drive uplift through reopener*



No change to local circuit charges, additional MAR recovered through demand residual



Cost of repairs recovered from **demand users**

* E.g. SHET Subsea Cable Re-opener



Offshore

Offshore link to MITs fails



OFTO undertakes repair & applies for IAE



OFGEM approves IAE



OFTO increases charges to NESO



NESO temporarily increases TDR



Offshore local circuit tariffs increased for subsequent price control period (and TDR reduced to "pay back" demand users)

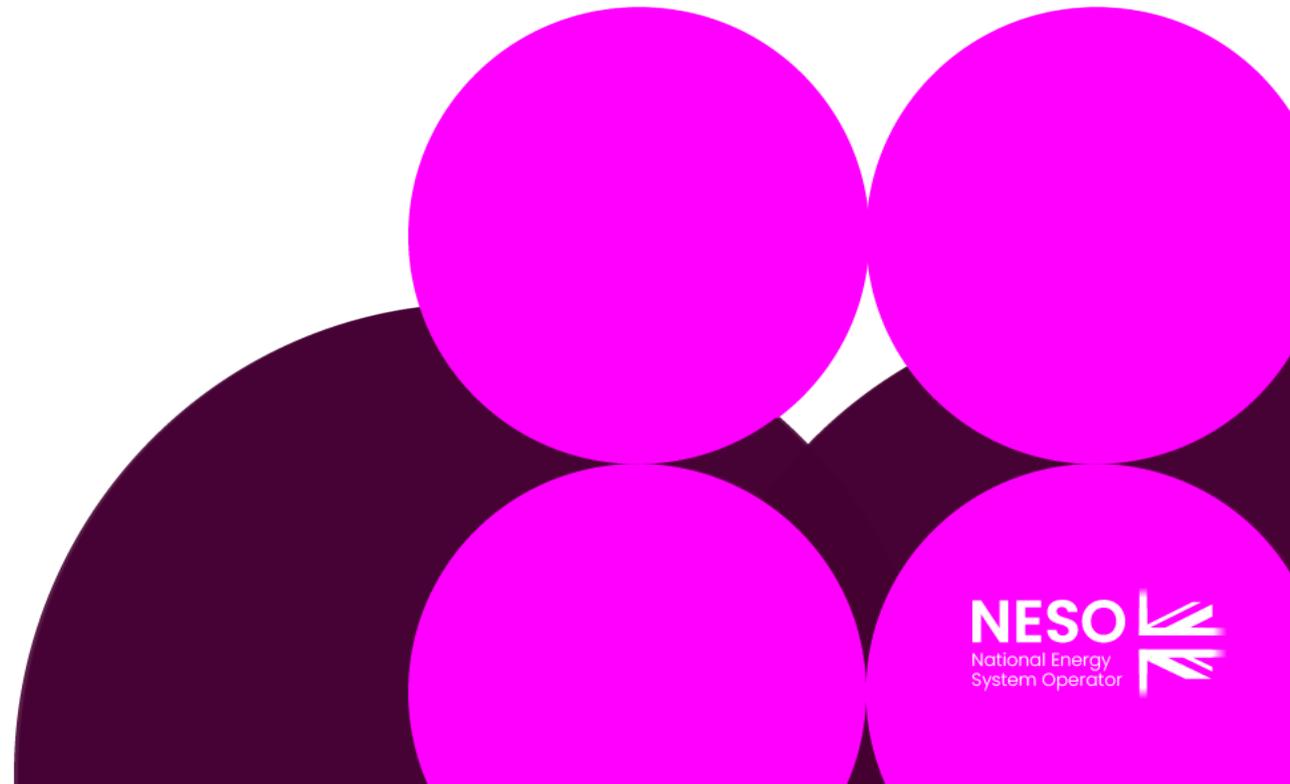


Costs of repair recovered from **generator user**

Any Other Business

Jess Rivalland

NESO Code Administrator



Next Steps

Jess Rivalland

NESO Code Administrator

