

CMP344 Workgroup 2 – Post Send Back

31 October 2022

Online Meeting via Teams

WELCOME



nationalgridESO



Objectives and Timeline

Paul Mullen - National Grid ESO Code Administrator

Timeline for CMP344 V11 as at 13 October 2022

Milestone	Date	Milestone	Date
Workgroup 1 – clarity from Ofgem on expectations, agree timeline, review terms of reference, agree what is an Income Adjusting Event and agree next steps	9 September 2021	Panel undertake DFMR recommendation vote	27 January 2023
Workgroup 2 – finalise Legal Text, impact analysis, review output and ensure we have addressed all terms of reference	31 October 2022	Final Modification Report issued to Panel to check votes recorded correctly (5 working days)	31 January 2023
Update on how we have addressed the Terms of Reference to Panel	25 November 2022 (Papers – 17 November 2022)	Final Modification Report issued to Ofgem	8 February 2023
Code Administrator Consultation (15 Working Days)	28 November 2022 – 5pm on 19 December 2022	Ofgem decision	TBC
Draft Final Modification Report (DFMR) issued to Panel	19 January 2023	Implementation Date	1 April 2024?

Reminder - What did Ofgem say?

Paul Mullen – National Grid ESO Code Administrator

Ofgem's Send Back Decision – 5 May 2021

Deficiencies of Final Modification Report

“The submitted FMR has the following deficiencies, which means that we are unable to form an opinion:

- a. It is not clear from the FMR which OFTO costs the Proposal applies to;*
- b. It is not clear from the legal text which OFTO costs the Proposal applies to; and*
- c. There is therefore no quantitative information regarding how the change impacts each set of network users”*

Ofgem's Expectations

“We therefore direct that further work is undertaken to address these deficiencies, including:

- 1. The costs and/or events affected by this Proposal clearly set out, with reasoning;*
- 2. Analysis of the impact of the reforms on affected parties – to the extent that this Proposal represents a policy change, some indication of the magnitude of change should be presented once the parameters in (1.) above have been set; and*
- 3. Legal text which clearly sets out the exact methodology the ESO should follow – in our view the current iteration of the legal text is not capable of being implemented as it is particularly unclear when ESO would be required to move costs into the demand residual. We also expect to see improved consistency between the legal text and FMR.”*

“We require the revised FMR to be very clear about what changes are being made, to explain the impacts on all affected parties and to ensure that the FMR and legal text are consistent”

Ofgem's Send Back Decision – 5 May 2021

Interaction with Offshore Transmission Network Review

“We would like to make it clear that consideration will be given to the offshore regime in the Summer of this year in the Offshore Transmission Network Review being carried out by us and BEIS. This work will consider what changes, if any, are needed to reach the increased target of 40GW of offshore wind by 2030, as set out in the Prime Minister’s Ten Point Plan. We suggest that the Workgroup considers whether this review might provide a better forum to propose any changes to the charging arrangements for participants in the OFTO regime.”

The slide features several decorative yellow lines. In the top left, there are several thin, curved lines that sweep across the upper portion of the slide. In the bottom right, there are three thick, parallel diagonal lines that extend from the bottom left towards the top right. The background is a solid light blue.

Reminder - What is the ask on the Workgroup?

Paul Mullen – National Grid ESO Code Administrator

CMP344 – Governance Rules for Send-Backs and Panel Asks

8.23.12 If the **Authority** determines that the **CUSC Modification Report** is such that the **Authority** cannot properly form an opinion on the **CUSC Modification Proposal** and any **Workgroup Alternative CUSC Modification(s)**, or where the **CUSC Modification Proposal** and/or any **Workgroup Alternative CUSC Modification(s)** constitutes an **EBGL Amendment** where the **Authority** requires an amendment to **CUSC Modification Proposal** and/or any **Workgroup Alternative CUSC Modification(s)** in order to approve it, it may issue a direction to the **CUSC Modifications Panel**:

- (a) specifying the additional steps (including drafting or amending existing drafting associated with the **CUSC Modification Proposal** and any **Workgroup Alternative CUSC Modification(s)**), revision (including revision to the timetable), analysis or information that it requires in order to form such an opinion; and
- (b) requiring the **CUSC Modification Report** to be revised and to be re-submitted.

8.23.13 If a **CUSC Modification Report** is to be revised and re-submitted in accordance with a direction issued pursuant to Paragraph 8.23.12, it shall be re-submitted as soon after the **Authority's** direction as is appropriate, (and in the case of an **EBGL Amendment** within 2 months), taking into account the complexity, importance and urgency of the **CUSC Modification Proposal** and any **Workgroup Alternative CUSC Modification(s)**. The **CUSC Modifications Panel** shall decide on the level of analysis and consultation required in order to comply with the **Authority's** direction and shall agree an appropriate timetable for meeting its obligations. Once the **CUSC Modification Report** is revised, the **CUSC Modifications Panel** shall carry out its **CUSC Modifications Panel Recommendation Vote** again in respect of the revised **CUSC Modification Report** and re-submit it to the **Authority** in compliance with Paragraphs 8.23.4 to 8.23.6.

May 2021 Panel agreed next steps following send-back on 5 May 2021:

They **NOTED** that Ofgem are asking the Final Modification Report and Legal Text to be updated

They **AGREED** that this needs to be assessed by a Workgroup

They **AGREED** Workgroup's Terms of Reference

They **AGREED** (following the assessment by the Workgroup) that a Code Administrator Consultation is needed to be run before it is re-presented to Panel for Recommendation Vote

Terms of Reference – Where we are currently

Paul Mullen – National Grid ESO Code Administrator

CMP344 – Terms of Reference

- Consider whether or not the Offshore Transmission Network Review might provide a better forum to propose any changes to the charging arrangements for participants in the OFTO regime

The Proposer was unclear in which of the Offshore Transmission Network Review (OTNR) workstreams, the issue that CMP344 seeks to resolve, would be housed in and this was echoed by some Workgroup Members. The Workgroup also noted that the scope of OTNR is wide and OTNR is still in early stages with the conclusions of the consultation not due to be published until early 2022. Ofgem's July 2021 consultation did not touch on any topic areas that would include the defect that CMP344 has identified. The Workgroup also raised concerns that adding further to the scope of OTNR at this stage would impact its overall purpose deliverability and agreed that it would be prudent for CMP344 to be progressed and considered separately and ahead of the wider OTNR

CMP344 – Terms of Reference

- Clarify in the Final Modification Report which OFTO costs that CMP344 applies to

The Workgroup agreed that the scope of CMP344 will be limited to Income Adjustment Events (IAEs).

CMP344 – Terms of Reference

- In the Legal Text a) clarify which OFTO costs that CMP344 applies to and b) clearly sets out the exact methodology the ESO should follow
 - a) *The Workgroup agreed that the scope of CMP344 will be limited to Income Adjustment Events (IAEs).*
 - b) *In CUSC 14.14.2, the ESO have removed MAR as the term is not used in any licence for example NGESO only talks about “maximum revenue”. They have also tidied up the final part of 14.14.2 that talks about Kt as it appears to be a general statement but this detail is not required here as it is the licence that determines what can be recovered and licences are clear about Kt and its treatment already. In terms of the rest of the text, ESO have updated that any IAE approved in a particular year will mean the OFTO revenue is adjusted and that is recovered via the demand residual in the following year – which would align with how the cash flows and the OFTOs get paid via the STC. There is a carveout though that says “unless otherwise approved by the Authority” which should allow some flexibility where you would get to the end of an OFTO set revenue period and an IAE were to be approved – as there isn’t a mechanism to deal with adjustments after the period has ended. The ESO Workgroup Member proposed that this risk would be picked up as part of the work on options for the end of the fixed period in which regulated revenues are paid to offshore transmission owners (rather than as part of CMP344) – see attached Ofgem consultation on this topic:
https://www.ofgem.gov.uk/sites/default/files/docs/2021/03/end_of_tender_revenue_stream_policy_consultation_march_2021.pdf*

Spoke to Tom Steward and James Stone and possible that the Legal Text needs further review.

CMP344 – Terms of Reference

- **Ensure consistency between the Final Modification Report and Legal Text**

Check once we have agreed Legal Text

CMP344 – Terms of Reference

- Provide quantitative analysis as to how CMP344 impacts each set of network users

Scope of the analysis was:

- *Impact on TNUoS tariffs vs Impact on CfD Prices (Future Bids) – i.e. the risk premia that CfD generators put in their bids to the auction – assumptions presumably? Can then compare the difference to see if overall cost to consumers is reduced*
- *Impact on cost of Capital with CMP344/without CMP344*
- *Overall forecast of potential IAEs over a defined period + potential value of these – end up with a £/MW number*
- *Scenarios based on Government targets to provide a range – 40GW by 2030 as base and then have a range of numbers – 25GW by 2030 / 30GW by 2030. Consider going beyond 2030.*

Cornwall Insight Analysis

Andrew Enzor - Cornwall Insight

Next Steps

Paul Mullen - National Grid ESO Code Administrator