

CMP411 – Introduction of Anticipatory Investment (AI) within Section 14 charging methodologies.

Monday 3rd April

Online Meeting via Teams

WELCOME





Modification Process

Jess Rivalland – National Grid ESO Code Administrator

Code Modification Process Overview





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

Jess Rivalland – National Grid ESO 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

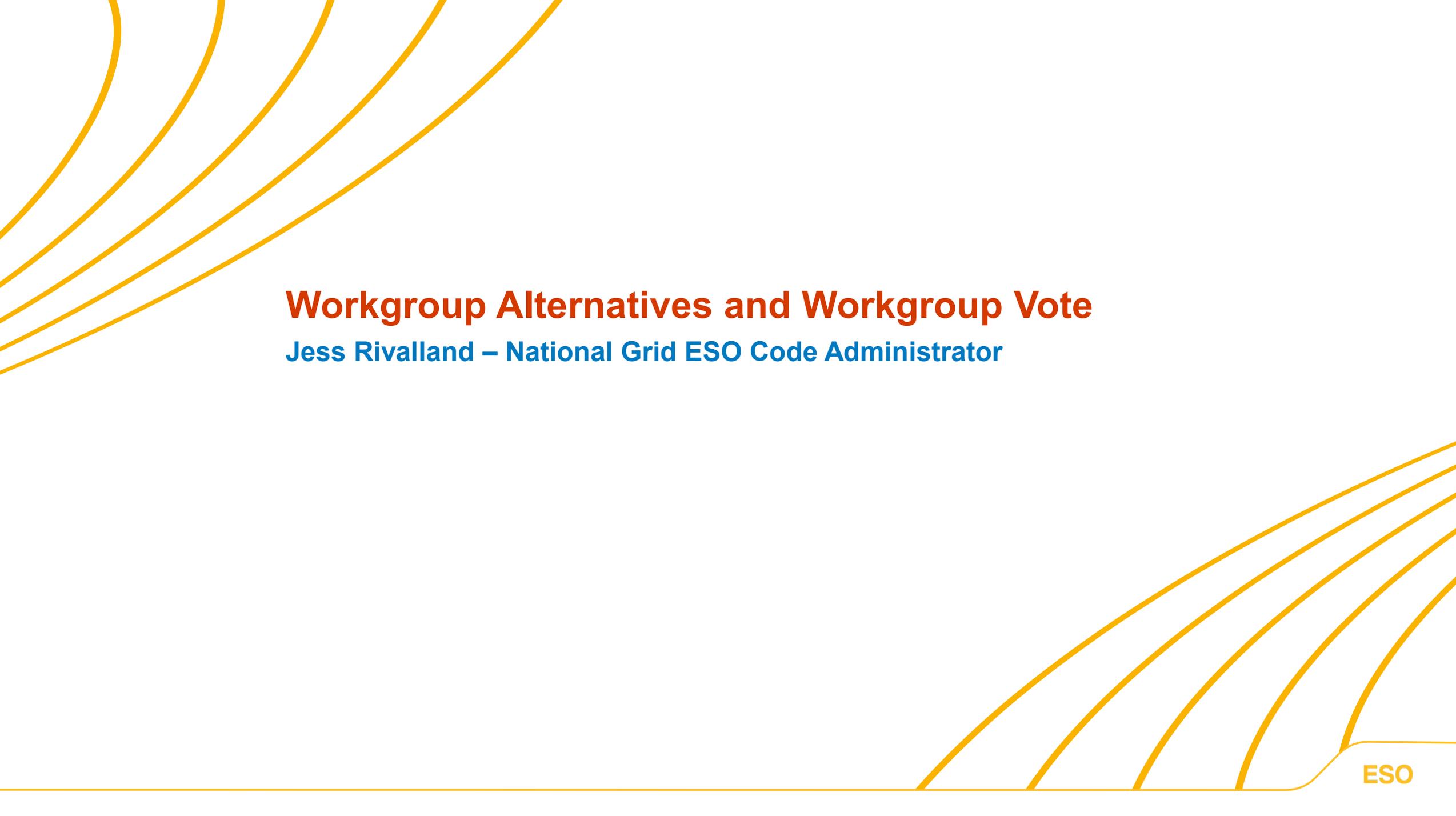
Your Roles

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 Alternatives and Workgroup Vote

Jess Rivalland – National Grid ESO Code Administrator

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

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 Workgroup Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings

Stage 2 – Workgroup Vote

- 2a) Assess the original and WACMs (if there are any) against the CUSC objectives compared to the baseline (the current CUSC)
- 2b) Vote on which of the options is best.

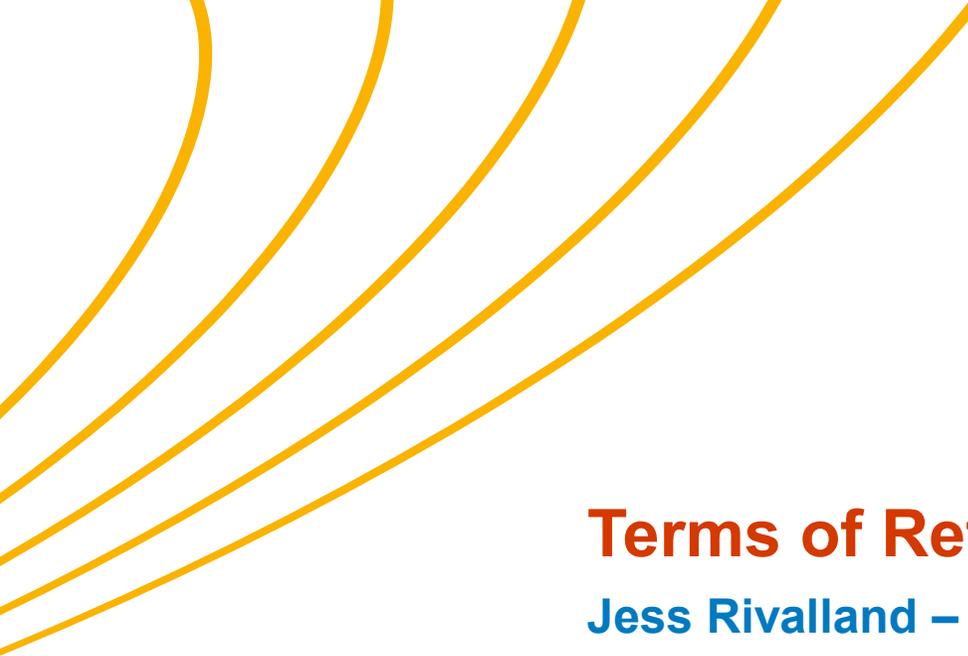


Objectives and Timeline

Jess Rivalland – National Grid ESO Code Administrator

Proposed Timeline for CMP411 as at 3rd April 2023

Milestone	Date	Milestone	Date
Modification presented to Panel	24 February 2023	Code Administrator Consultation (15 working days)	29 August 2023 to 19 September 2023
Workgroup Nominations (15 Working Days)	27 February 2023 to 20 March 2023 (5pm)	Draft Final Modification Report (DFMR) issued to Panel (5 working days)	21 September 2023
Workgroups 1 – 3 – process and mod understanding including scope, agree timeline and terms of reference (Workgroup 1) and step through terms of reference, analysis and develop Workgroup Consultation (Workgroups 2 and 3)	3 April 2023, 24 April 2023 and 16 May 2023	Panel undertake DFMR recommendation vote	29 September 2023
Workgroup Consultation (15 working days)	30 May 2023 to 20 June 2023 (5pm)	Final Modification Report issued to Panel to check votes recorded correctly	3 October 2023
Workgroups 4 - 6 – review Workgroup Consultation responses, finalise solution(s) and legal text (including alternatives), finalise Workgroup Report and ensure Terms of reference met, hold Workgroup Vote	3 July 2023, 24 July 2023 and 11 August 2023	Final Modification Report issued to Ofgem	11 October 2023
Workgroup report issued to Panel (5 working days)	17 August 2023	Ofgem decision	Requested by 31 March 2014
Panel sign off that Workgroup Report has met its Terms of Reference	25 August 2023	Implementation Date	1 April 2025

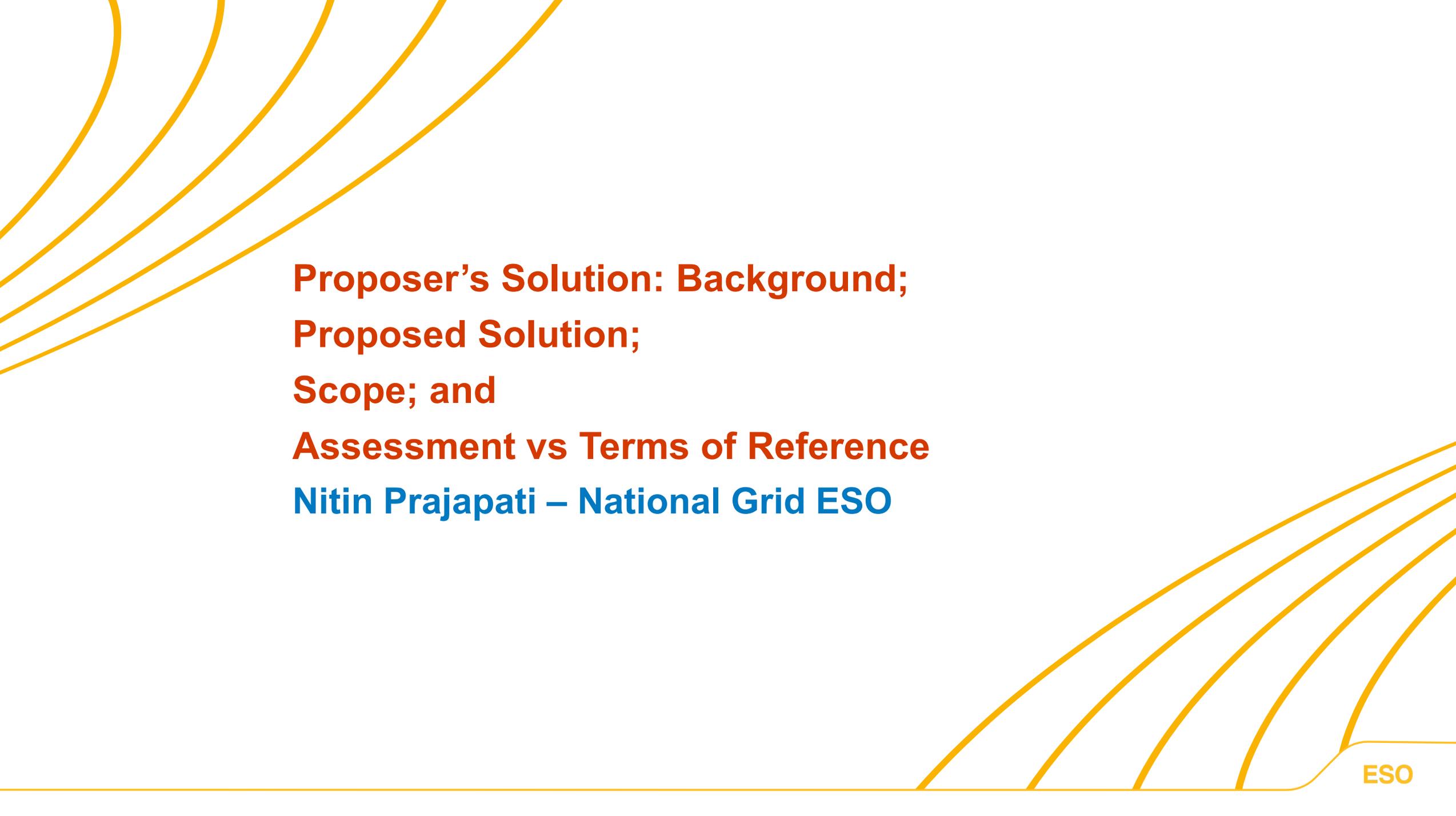


Terms of Reference

Jess Rivalland – National Grid ESO Code Administrator

CMP411 – Terms of Reference

Workgroup Term of Reference	Location in Workgroup Report (to be completed at Workgroup Report stage)
a) Consider EBR implications	
b) Consider Ofgem’s decision on Anticipatory Investment (AI) (published 18 October 2022) and any further decisions/policy	
c) Consider application of the solution to the Holistic Network Design (HND) and Early Opportunities Projects to ensure principles can be applied to actual designs/offshore windfarm projects	
<p>d) Consider how the AI Cost Gap* is recovered prior to and post the subsequent generator(s) connecting to the National Electricity Transmission System</p> <p><i>*The difference between what is payable to the OFTO by the subsequent generator(s) and cannot be recovered from them is referred to as the ‘AI Cost Gap’.</i></p>	
e) Consider how ‘non-AI’ and ‘AI’ values (determined by the early-stage assessment process for projects incurring any AI expenditure) would be recovered from both the initial and subsequent generator(s).	
f) Consider how stakeholders would get visibility of how the AI Cost Gaps get calculated and early visibility of the value.	
g) Consider the application of inflation and interest to relevant parties in terms of the cost to consumers and the cost to subsequent generator(s).	
h) Consider the potential duration of the AI Cost Gap.	
i) Consider the understanding of “known” as per Ofgem’s policy decision.	
j) Consider the impact on consumers including if subsequent generator(s) don’t connect to the National Electricity Transmission System.	



**Proposer's Solution: Background;
Proposed Solution;
Scope; and
Assessment vs Terms of Reference**
Nitin Prajapati – National Grid ESO



**CMP411 – Introduction of
Anticipatory Investment within the
section 14 charging methodologies**

Workgroup 1
3rd April 2023

Background - OTNR

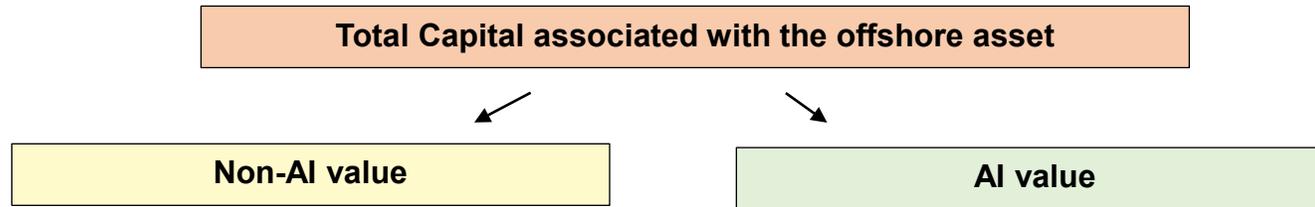
- The Offshore Transmission Network Review (OTNR) was launched in July 2020 and aimed to increase coordination in offshore transmission and interconnection whilst considering economic, environmental, and social impacts.
- The OTNR has four workstreams:
 - **Early Opportunities (EO):** inflight projects, mostly connecting before 2030
 - **Pathway to 2030 (PT2030):** primarily connecting ScotWind and The Crown Estate leasing round 4 projects for 2030 via the Holistic Network Design (HND)
 - **Enduring Regime:** a strategic and holistic framework for connections related to future seabed leasing rounds
 - **Multi-Purpose Interconnectors:** tactical changes for EO project's and for a holistic ER framework.
- As part of the OTNR, Ofgem reviewed the current approach to Anticipatory Investment (AI) for the EO and PT2030 workstream recognising the need to incentivise AI for further investment in offshore transmission and help facilitate offshore coordination.

Background – Anticipatory Investment

- When two or more offshore generators share the same offshore transmission assets and connect at different times, Anticipatory Investment (AI) is made by the initial generator under a develop build scenario.
- With the current charging regime, the initial offshore generator may be liable for TNUoS charges associated with both the AI and non-AI costs prior to the subsequent generator connecting.
 - This results in the initial generator paying higher TNUoS charges than it would otherwise if it had not made the AI , which disincentivises AI and creates a barrier for offshore coordination.
- Ofgem have published a [decision on Anticipatory Investment and Implementation of Policy changes](#) to address this barrier and confirm how AI will be shared between offshore generators and consumers.
- This modification seeks to make changes to CUSC section 14 (charging methodologies) to implement Ofgem’s policy decision on AI and the mechanism for the recovery of AI costs.

Proposed Solution

- Ofgem's decision introduces an early-stage assessment process for projects incurring AI expenditure, which would split the capital cost associated with offshore assets utilised by the offshore generators into an AI and non-AI value.

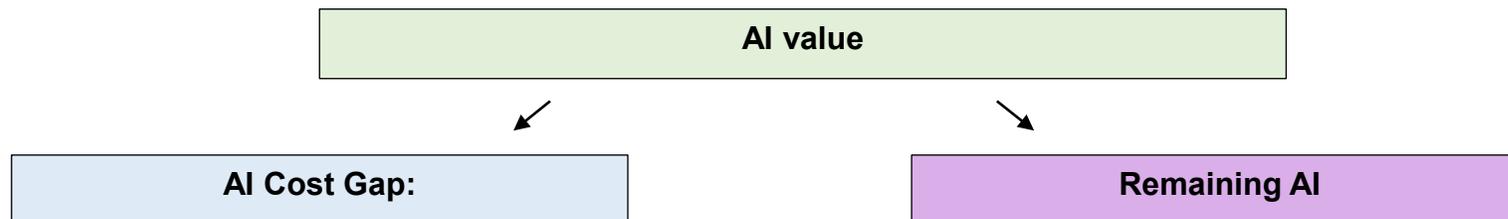


- It is assumed that the AI value will be calculated by Ofgem in such a way that a portion of the costs associated with shared assets (utilised by both generators) will already be incorporated within the AI value and portion of the shared costs incorporated into the non-AI value.
- It is proposed the non-AI value is recovered from the initial generator utilising the current methodology as outlined in 14.15.93 for the offshore local circuit tariff and 14.15.134 for the offshore local substation tariff within CUSC.
- The AI value will then be recovered (applying the same methodology) from the subsequent generator over the Tender Revenue Stream (TRS) period at the point they connect to the National Electricity Transmission System (NETS).
- This aligns to Ofgem's policy decision outlined on the previous slide.

Proposed Solution

The AI Cost Gap

- The AI Cost Gap is the AI element of the offshore generator TNUoS tariff in the period between the shared asset transfer to the OFTO and the point when the subsequent generator(s) connects to the NETS and starts using the shared assets and paying TNUoS charges.
 - *During this period a portion of the 'AI' costs will be payable to the OFTO because the costs of the infrastructure form part of the asset value, but cannot be recovered from the subsequent generator(s) as they are not connected to the NETS yet. The difference between what is payable to the OFTO and cannot be recovered from the subsequent generator is referred to as the 'AI Cost Gap'.*



- The remaining AI will be paid as per the current methodology as described on the previous slide.

Proposed Solution

Recovery of the AI Cost Gap

- The subsequent generator(s) will accrue liability of costs associated with the 'AI Cost Gap' between assets being transferred to an OFTO and the connection of the subsequent generator(s) to the NETS.
- Prior to the Subsequent generator connecting, the AI Cost Gap will be recovered by consumers via the Transmission Demand Residual (TDR).
- Once the subsequent generator(s) connects they will repay the total accrued 'AI Cost Gap' value (taking into consideration inflation) already previously met by demand customers.
 - It is proposed this will be achieved via the application of a £/kw value either as part of the relevant local charge or in addition thereto but in either case this solution will ensure demand customers are paid back in full.
- The AI Cost Gap value will be repaid over a period of time equal to the number of days for which the subsequent generator(s) share of the AI Cost Gap value was accrued, rounded up to a whole number of years.

Proposed Solution

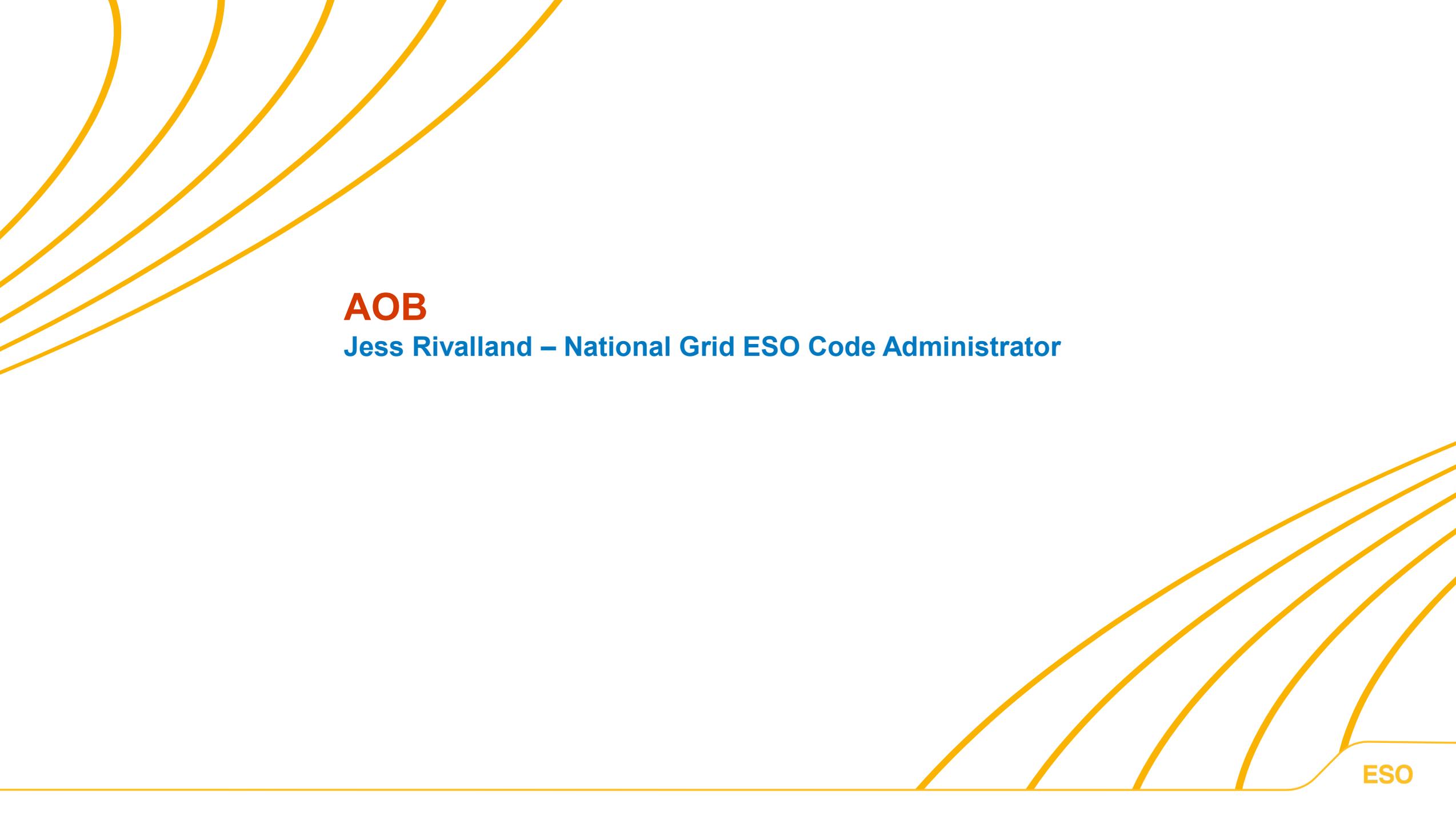
Recovery of the AI Cost Gap – continued

- The corresponding amount would then flow back to demand customers via the TDR to net off the payments demand customers previously had made during the ‘AI Cost Gap’ period.
- The proposed solution is consistent with Ofgem’s current [policy decision](#) on AI. Should there be changes in policy it is the Proposers intent to modify the solution accordingly.
- Dependent on the outcome of this modification a separate code modification may be subsequently developed to include the relevant defined terminology such as the ‘AI Cost Gap’ in CUSC section 11.



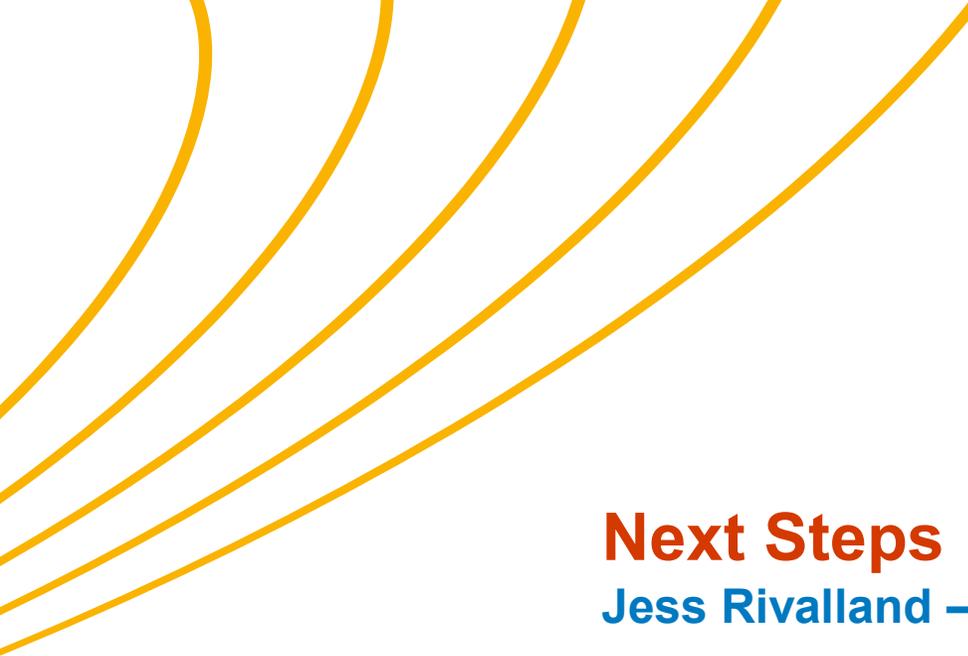
Cross Code Impacts

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AOB

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Next Steps

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