

CMP402: Introductory of Anticipatory Investment (AI) principles within the user commitment arrangements

3 August 2023

12pm

Online Meeting via Teams

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Objectives

Deborah Spencer – National Grid ESO Code Administrator



Objectives

- Review and agree the updated timeline
- Proposer to present the updated solution
- Finalise the solution and discuss possible alternatives
- AOB & next steps



Review Timeline

Deborah Spencer – National Grid ESO Code Administrator

Timeline for CMP402 – Updated 17 July

Milestone	Date	Milestone	Date
Modification presented to Panel	25 November 2022	Workgroup report issued to Panel (5 working days)	17 August 2023 (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	25 August 2023 (CUSC Panel)
Workgroup 1 - Understanding of overall OTNR landscape, Modification process, Workgroup responsibilities, issue, scope and proposed solution, agree timeline and terms of reference	23 January 2023	Code Administrator Consultation (15 working days)	1 September – 22 September
Workgroups 2, 3 and 4 – Agree the principles of Anticipatory Investment, consider possible solutions, identify alternatives	6 March 2023, 29 March 2023, 20 April	Draft Final Modification Report (DFMR) issued to Panel (5 working days)	19 October 2023 (CUSC Panel Papers Day)
Workgroup 5 – Consider draft legal text and consider Workgroup Consultation comments and questions.	10 May 2023	Panel undertake DFMR recommendation vote	27 October 2023 (CUSC Panel)
Workgroup 6 – Finalise Workgroup Consultation	22 May 2023	Final Modification Report issued to Panel to check votes recorded correctly (5WD)	1 November 2023
Workgroup Consultation (15 working days)	24 May 2023 to 21 June 2023 (extended)	Final Modification Report issued to Ofgem	9 November 2023
Workgroup 7 - Review Workgroup Consultation responses, consider new points, review solution and any alternatives	3 August 2023	Ofgem decision	By 30 November 2023
Workgroup 8 - Finalise solution, agree ToR and Workgroup vote	11 August 2023	Implementation Date	5 January 2024



Solution Update

David Witherspoon – National Grid ESO

CMP402 proposal Workgroup Meeting 7



August 2023

Confidential



CMP402 Consultation Responses and Revised Pre – FID Liability Proposals

Summary of the 4 non-confidential responses

Do you believe that CMP402 Original Proposal better facilitates the Applicable Objectives?

- All respondents agreed the proposal better facilitates Objective A, one respondent agreed for Objective B, three respondents agreed for Objective D and no respondents believe the proposal facilitates Objective C.
- Two respondents felt the direction from Ofgem to introduce AI was positively achieved, two respondents supported defining AI in CUSC to prevent confusion, and two were concerned the proposed level of liability pre-FID will act as a barrier to coordination in its current form.
- One respondent felt the proposed level of liability pre-FID might mean developers would be unable to make commitments ahead of reaching key milestones.
- Three respondents felt the proposal may lead to higher consumer costs as developers account for associated risks and two respondents highlighted the greater risks on the second generator.

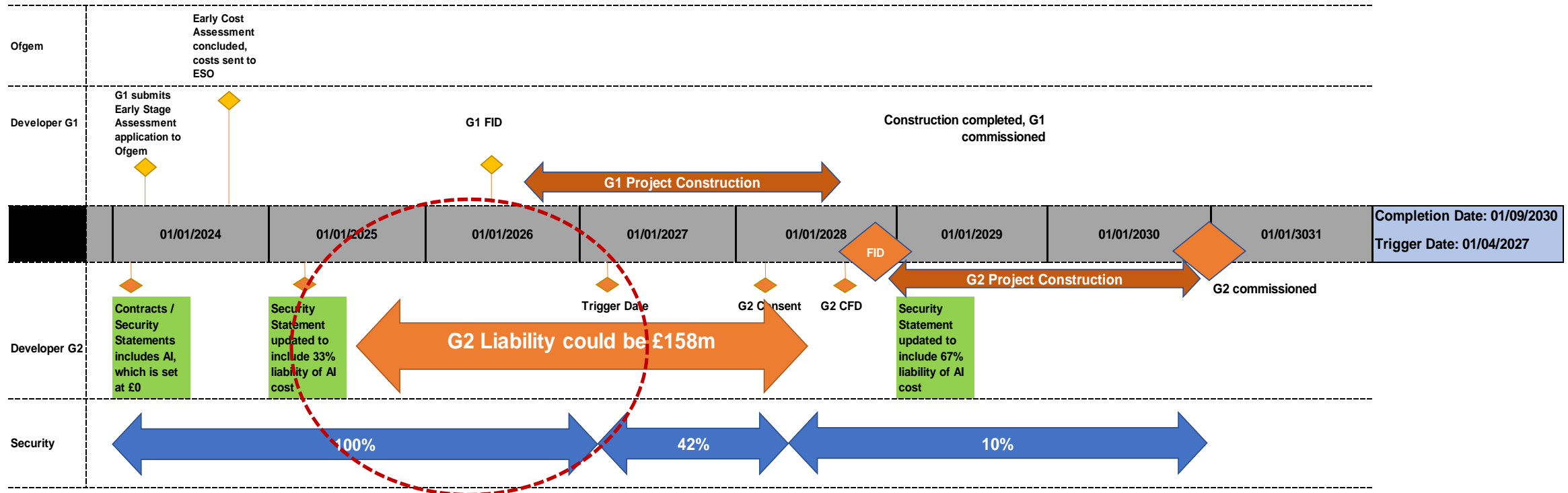
What proportion of the AI cost liability should the later user be liable for pre and post Financial Investment Decision (FID)?

- Two respondents suggested the pre-FID percentage should be set lower to ensure resulting monetary liabilities are more in line with levels seen in onshore user commitments.
- Both respondents were less concerned about the percentage of liabilities associated with the post-FID time horizon and considered the approach of an equal split of financial risk between the consumer and the later user is fair.
- Two respondents saw potential of a tapered arrangement one based on overall AI value, one based on number of years before connection.
- Two respondents suggested that proportion of AI cost liability should be reviewed on a case-by-case basis (part of Early Cost Assessment).

Example - Potential Liabilities as presented by Work Group member

One of the work group members presented an example:

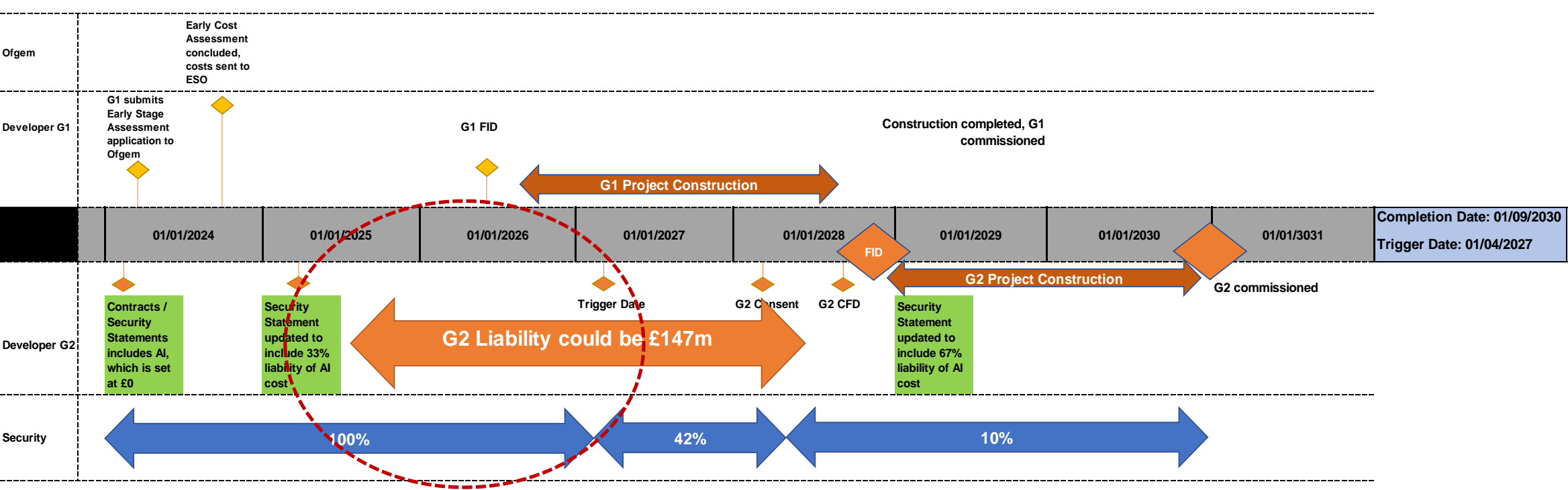
The assumption based on a previous OFTO tender round used a typical 1200MW HVDC design with a total cost in the region of £960m. The AI proportion assumed was 50%



Example - Potential Liabilities - HNFDUE Costings

Using HNDFUE:

Assumption of 1GW DC connection at 320kV would mean that based on current proposal, Later Developer liabilities would still be significant



Proposed new options for Pre - FID

- Capped but not at a pre determined percentage. Wording would need to be drafted into the User Commitment methodology and the capping would be determined at the point of conclusion of the Early Stage Cost Assessment process.

Pro's	Con's
Pre FID liability for Later User will likely to fall within acceptable range	The ability to demonstrate a "fair" process
As the ESA is likely to be on a case by case basis, not having a pre determined liability % would mean liabilities fall more in line with overall AI cost.	The need for Ofgem to determine the liability percentage (unless as per ESA consultation they do consult with ESO)
If new ESA required, liabilities will be updated accordingly	Would need to ensure that the end consumer does not bear majority of the risk

- A pre-determined "capped" liability.

Pro's	Con's
Pre FID liability for Later User more likely to fall within acceptable range	Later User could still have large liabilities dependent on cost from ESA
Potential for large amount of risk to not be borne by the end consumer	How would / could it be applied to User Commitment methodology within CUSC?
Deemed a more fair and consistent process	Ability to change pre determined liability % if new ESA application is processed meaning revised costs

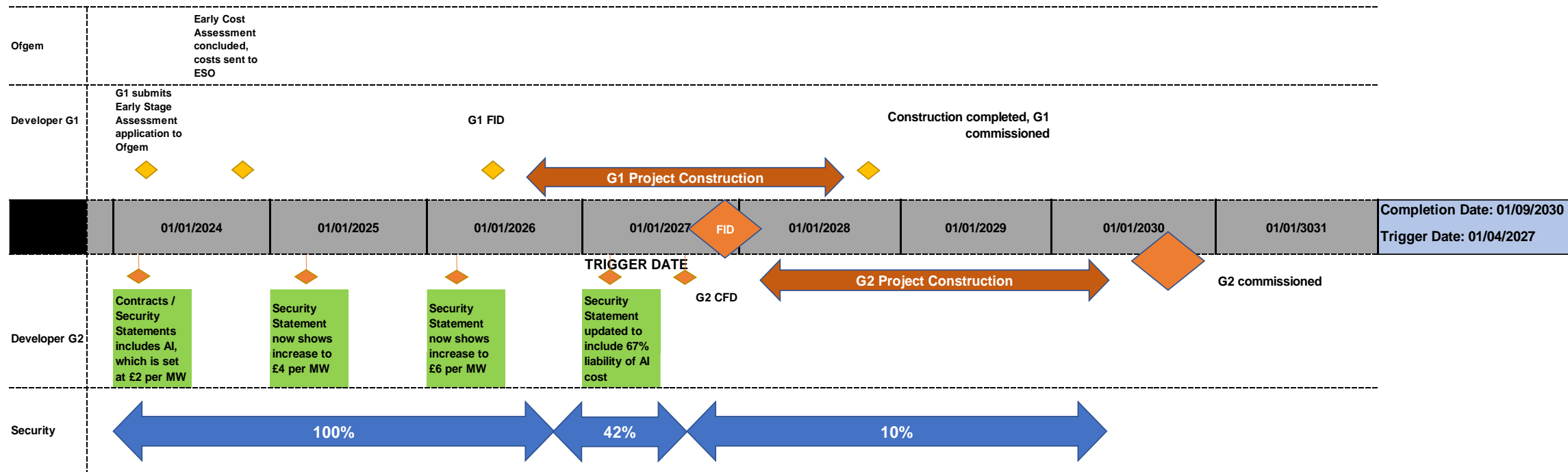
Proposed new options for Pre - FID

- Using the existing “Fixed” methodology within the current User Commitment arrangements, the Later Developer would be paying £2000 per MW up to £6000 per MW until Trigger Date. At Trigger Date, the 67% liability will be applied but security requirements will drop.
- This option could address developers feedback requesting that the liabilities pre FID can be tapered.

Pro's	Con's
Would not have to define FID within the CUSC and subsequent contracts	Still a possibility that Trigger Date will be ahead of the Later Developers FID
Liabilities will gradually build up for the Later Developer up to the “Trigger Date”	The fixed principles in the current User Commitment methodology means that the developers are fixed into all costs and liabilities at the point they have elected this option.
Security requirements will reduce at the point liabilities increase once the Trigger Date has been hit.	If the £per MW approach is used, would/could a number of Later Developers commence with liabilities at £6000 per MW in line with when the original connection agreement was signed?

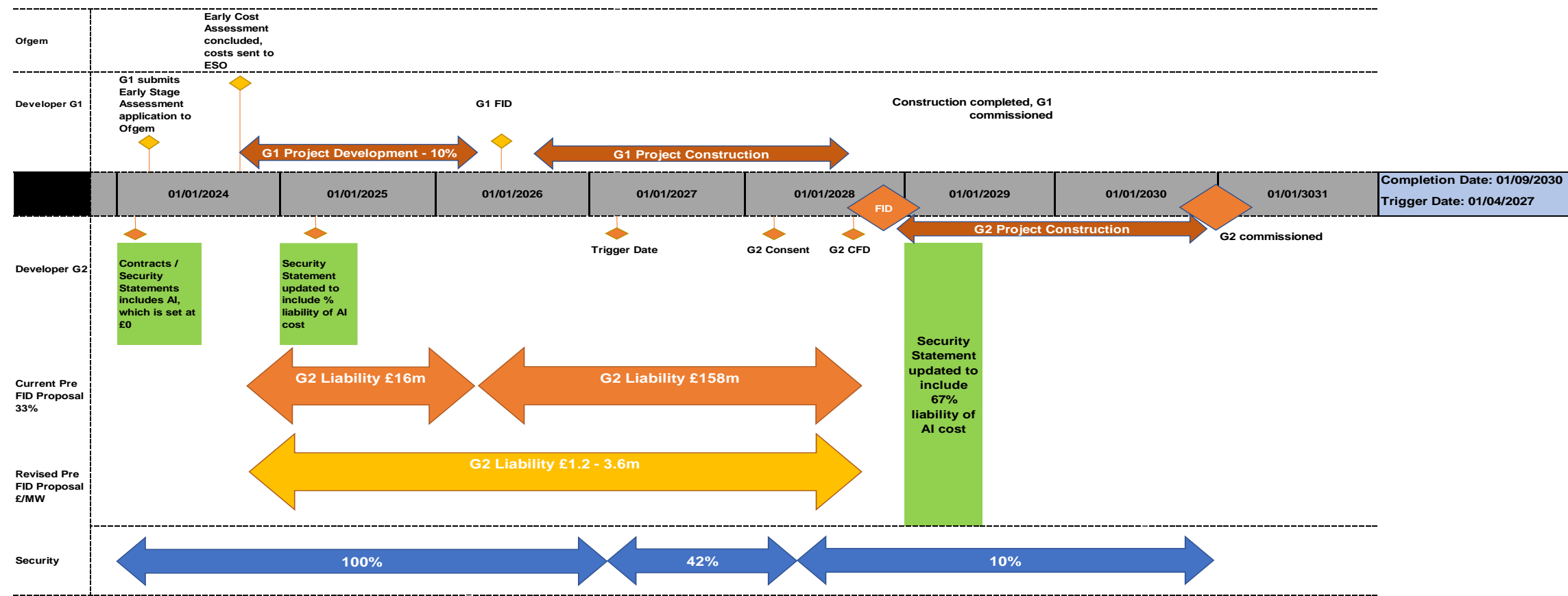
Proposed new options for Pre - FID

- Using the existing “Fixed” methodology within the current User Commitment arrangements whereby, currently a developer would be liable for and securing £1000 – £3000 per MW up until the Trigger Date and look to implement a new incremental £ pre MW up until Trigger Date.
- The new proposed steps to facilitate AI would start at £2000 per MW up until £6000 per MW until Trigger Date (or FID) is achieved. At Trigger Date the Later Developer will have 67% liability but security requirements will drop.
- General feedback from the working group suggests that FID is typically aligned to the Trigger Date and would also mean liabilities are more in line with Onshore liabilities.



Example of Revised Pre-FID V Original Proposal

- This example also assumes the build up of costs as at the point of the ESA application, the Initial Developer has not achieved FID and therefore actual costs are typically development costs, which we have assumed at 10%.
- The Later Developer liabilities using the revised Pre – FID proposals are “capped” until the Trigger Date despite the AI costs increasing as a result of the Initial Developer achieving FID.



Questions?

Do you believe that the revised Pre FID proposal addresses previous concerns?

Is it right that we addressed Pre-FID?

In line with existing principles and having the “Trigger Date” act as the point to higher liabilities, is this the right approach?



Finalise solution and discuss possible alternatives

ALL



AOB

Deborah Spencer – National Grid ESO Code Administrator



Next Steps

Deborah Spencer – National Grid ESO Code Administrator