

Code Administrator Meeting Summary

CMP413 - Workgroup 5 (Rolling 10-year wider TNUoS generation tariffs)

Date: 23/08/2023

Contact Details

Chair: Claire Goult, ESO Code Administrator Claire.goult@nationalgrideso.com

Proposer: Binoy Dharsi – EDF Energy binoy.dharsi@edfenergy.com

Objectives/Timeline

The Chair shared the updated timeline explaining the objectives for the additional Workgroups going forward and set out the objectives for today highlighting expectations for this Workgroup.

Feedback on Methodology Variation Examples

The new Proposer introduced themselves to Workgroup members clarifying they would be taking over as the previous Proposer will be moving to another role.

There had been previous Workgroup discussions on how the wider tariff would be calculated to satisfy the cap/collars. There was a further request to demonstrate the financial impact on demand and generation Users. Both were demonstrated in two spreadsheets that were shared with the Group. Using the most recent ESO 5-year tariff forecast the Proposer explained that a proportional approach would be to apply the cap/collar by the revenue collected in each of the Peak Security, Shared and Not Shared elements.

A Workgroup member had a question around the smearing of the categories (Shared/Not Shared) asking does the spreadsheet imply that some generators face a different level of variation on their tariff compared to others. The Proposer responded advising it was a good challenge and that they had considered various permutations before deciding in proportion over revenue would be the fairest way to recover and not discriminate against any one particular type of generator.

Members went on to have a detailed discussion and raising questions to the Proposer who responded. The majority of questions aimed to test the logic the Proposer had used and if an alternative approach could be developed.

Action was taken by the Proposer to come back with more scenarios that would breach a cap/collar to understand the level of financial impact to Users (both generators and demand).

The Proposer moved onto the next stage of the spreadsheet sharing an illustration of:

If revenue recovered from location tariffs changes because of how CMP413 works, what are the knock-on impacts does that have on the generation adjustment tariff or the demand residual tariff.

The Proposer confirmed this was just an illustration to show how it could work in different ways.

They then moved onto the Sensitivity 2 tab that showed how the revenue is recovered from the location tariffs and explained the rationale of this section. Sensitivity 4 tab was also explained to the Workgroup.

A summary was shared with the Workgroup of the Limiting Regulation Floating Range showing simple numbers and how the cap would work. There was agreement that the Limiting Regulation was not a target and the mechanism explained in the spreadsheet was deemed to work effectively.

A Workgroup member mentioned that in the pack shared with the group there was a document that related to sensitivity 4, taking it further to work out what the worst-case scenario was in term of demand impact. Their ask to the Proposer was, could this be covered here today, and the Proposer was happy to talk go through this giving an explanation. This was described as the most unlikely scenario in which the variance to the ESO's initial forecast varied by the full extent of the revenue collected by generators. It was interesting to note however this was a highly unlikely outcome.

A Workgroup member noted that they would be very uncomfortable assuming that as part of this modification all future structural changes would be bound to this cap and collar. Presumably most of those future changes are likely to be making improvements and holding them within the cap and collar set by this modification feels like we are denying ourselves the opportunity to make improvements further on. We need to be careful as ultimately it will be up to the authority to make those decisions. The Proposer agreed with the member although stated that the purpose of this modification was to provide predictability and it was all a question of timing on when reforms were implemented.

A Workgroup member shared their thoughts in relation to future mods having to consider interactions with this one and wondered if it might be useful to spend some time discussing how they might interact and adding a paragraph in the Workgroup consultation might be helpful.

The members also asked if re-zoning doesn't get implemented for 10 years what happens where new zones are required, thinking particularly the offshore work going on now.

The Proposer responded saying the defect for CMP413 is clear, we can go through lots of permutations of what could happen but not sure if they would add value to this modification. They did however agree putting in a sentence or two explaining how charging implications of this mod would feed through and be adjusted to cap and collar. A structural mod means that it gets stopped until year 11, and if this is not clear we will need to ensure it is.

In relation to the zoning question the Proposer responded saying it stays as it is until there is an opportunity to change it.

A Workgroup member suggested a question to consider for the consultation. If the constrained forecast of tariffs is subject to further change because of a future modification, what benefit do they provide from an investment decision perspective. It would be good to get others view on this.

The Proposer agreed this was a fair question and added they has spoken to developers before raising the mod to get their view on a suitable risk, which is where the current figure came from.

A question was raised to the ESO representative regarding the tariff publication that is due out at the end of August, requesting if this has been confirm, ESO responded to say there may be a bit of a delay and if this is the case, there will be a communication sent out to industry to confirm a new date.

A Workgroup member asked to return to the question referenced by Ofgem regarding implementation and what it does to future mods, as this was discussed earlier in the meeting. It was agreed this would be picked up after a short break.

At the re start of the session the Proposer outlined that the modification was output driven although the inputs may change the outputs are fixed outputs, if was good to hear from Ofgem to get confirmation that they have that understanding.

The Proposer felt we needed to put together some Consultation questions especially after the discussions had and points made my Workgroup members. Also confirming all the Terms of Reference have been met as this was a discussion point in the last Workgroup meeting.

Terms of Reference Review/ Draft Workgroup Consultation Specific Questions

The Chair shared the list of Terms of Reference reviewing each once with the Proposer to confirm if and how this had been met. Terms C and D were covered by the spreadsheet presented earlier in the

Workgroup. The Proposer advised there are clearly other ways of doing this, but the spreadsheet represented their version. It was suggested a specific consultation question could be asked for industry's view on other options: Question - Are there any other alternative ways to allocate a proportional way of cap and collar on generators?

The Chair requested the group to share any points in relation to the Terms of Reference that need answering and any further question for the Consultation.

A Workgroup member advised the Proposer that although they had previously discussed the value of the cap and collar with developers a second consultation question could be on whether industry felt this was this was an appropriate figure and if they had any evidence to make this a bit more formal rather than a discussion.

Another possible question was raised by the Proposer around making the change cost reflective and suitable, they are to put some of these questions together to be shared with the Workgroup after the session.

The remaining Terms of Reference points were discussed, and the Proposer felt that they had all been addressed but requested the Workgroup share feedback if they had any points to make or concerns.

The Ofgem Representative mentioned that they specifically look to understand the balance of cost reflectivity versus predictability and its overall benefit to Consumers/Users and its importance to unpack this and ensure it is written clearly in the Consultation.

A Workgroup member mentioned the trade-off between Terms of Reference sections I and D and they were keen to have a question around the criteria in the consultation. Another member felt that these had not been teased out enough and could possibly need further discussion. The Proposer agreed but advised they were not sure how easy it would be to do this as providing benefits could be commercially sensitive.

The Ofgem Representative raised a point not necessarily for the Consultation but for the Workgroup to work through. It was advised, in relation to Terms of Reference F and G for consumer impacts, the Workgroup will need to be clear where the benefit comes from. Once the Proposal goes to Ofgem some Cost Benefit Analysis will be done and a big part of this will be to show consumer cost verses potential theoretical benefit. The Proposer responded to say they understand this need to be done and it is something to consider.

Draft Workgroup Consultation Review

After today's discussion the Chair advised the group there was lots of detail to be added to the Consultation and they were conscious of giving members enough time to review and share feedback ahead of the next Workgroup.

It was agreed that points discussed today would be shared with the Proposers to allow them to add the necessary detail to the Workgroup consultation. This would then be shared with the Chair for them to amend and send out Tuesday 29 August giving Workgroup members enough time to review and respond.

The Ofgem Representative asked members if they had considered a question for the Consultation on whether a pound's cap or relative cap is the overall favoured approach. They went on to give rationale on why they asked the question. The Proposer advised that this had been discussed and would be in the Consultation. Another member clarified that a hard coded cap/collar would be more beneficial to developers rather than a percentage which could vary more/less.

Next Steps

Draft consultation to be shared with Workgroup members on **Tuesday 29 August 2023** for any comments/feedback ahead of Workgroup 7

Actions

For the full action log, [click here](#).

Action number	Workgroup Raised	Owner	Action	Comment	Due by	Status
14	WG5	Proposer	Scenarios that would breach a cap/collar to understand the level of financial impact to Users	N/A	WG7	Open
15	WG5	Chair	To circulate the draft consultation for review	N/A	WG7	Open

Attendees

Name	Initial	Company	Role
Binoy Dharsi	BD	EDF	Proposer
Hugh Boyle	HB	EDF	Proposer
Claire Goult	CG	Code Administrator, ESO	Chair
Deborah Spencer	DB	Code Administrator, ESO	Tec Sec
Allen Kelly	AK	Coriogeneration	Observer
Andrew Enzor	AE	Cornwall Insight	Observer
Callum Duff	CD	Thistle Wind Partners	Observer
Chiamaka Nwajagu	CN	Orsted Wind Power	Observer
Damian Jackman	DJ	Field Energy	Workgroup Member
Damian Clough	DC	SSE Generation	Workgroup Member
Daniel Hickman	DH	ESO	Observer
George Moran	GM	Centrica	Workgroup Member
Giulia Licocci	GL	Ocean Winds	Observer
Grace March	GRM	Sembcorp	Workgroup Member
Harriet Harmon	HH	Ofgem	Authority Representative
Martin Cahill	MC	ESO	Workgroup Member
Matthew Paige Stimson	MPS	NGET	Workgroup Member
Nick Everitt	NE	ESO	Subject Matter Expert
Paul Jones	PJ	Uniper Energy	Workgroup Member
Ryan Ward	RW	Scottish Power Renewables	Alternate
Simon Vicary	SV	EDF	Alternate
Tom Steward	TS	RWE Renewables Ltd	Workgroup Member
William Maidment	WM	Ventient Energy	Observer