

Workgroup Consultation Response Proforma**CMP411: Introduction of Anticipatory Investment (AI) within the Section 14 charging methodologies.**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@nationalgrideso.com by **5pm** on **7 July 2023**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact cusc.team@nationalgrideso.com

Respondent details	Please enter your details	
Respondent name:	Øyvind Bergvoll	
Company name:	Equinor ASA	
Email address:	oyberg@equinor.com	
Phone number:	+47 90696461	
Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network <input type="checkbox"/> Operator <input checked="" type="checkbox"/> Generator <input type="checkbox"/> Industry body	<input type="checkbox"/> Interconnector <input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input type="checkbox"/> Other

I wish my response to be:

(Please mark the relevant box)

☒ Non-Confidential☐ Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

For reference the Applicable CUSC (charging) Objectives are:

- a. *That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;*
- b. *That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);*

- c. *That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;*
- d. *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- e. *Promoting efficiency in the implementation and administration of the system charging methodology.*

**The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.*

Please express your views in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions		
1	Do you believe that the Original Proposal better facilitate the Applicable Objectives?	<p>Mark the Objectives which you believe the Original better facilitates:</p> <p>Original <input checked="" type="checkbox"/>A <input type="checkbox"/>B <input checked="" type="checkbox"/>C <input type="checkbox"/>D <input checked="" type="checkbox"/>E</p> <p>A: Positive. Currently, the CUSC does not specify how the charges associated with offshore assets related to AI should be recovered and therefore a change to Section 14 of the charging methodologies is required.</p> <p>We note however that the Original is dependent on the following statement from the proposer.</p> <p><i>Note: it is assumed that the 'AI' value will be calculated (by Ofgem) in such a way that a portion of costs associated with shared assets (utilised by both the initial and subsequent generators) will already be incorporated within the 'AI' value and a portion of the shared costs incorporated into the non-AI value.</i></p> <p>We note that in Ofgem's decision on AI (1.10.2022) the AI Cost Gap is defined as "The recovery of the AI element of the offshore generator TNUoS tariff ...". When we read the decision, we do not find any indications on how the cost of the non-AI assets shall be shared between the initial and later user(s).</p> <p>Until the proposer's view has been formally confirmed by Ofgem we query whether the Original is feasible. This is also discussed in our answer to Q3 below.</p> <p>B: Neutral</p> <p>C: Positive. With the same comment as for A.</p> <p>D: Neutral</p>

		E: Positive. With the same comment as for A.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Click or tap here to enter text.
3	Do you have any other comments?	<p>Reference is made to the Proposer's solution describing the basis for recovery of AI within the Section 14 charging methodologies as set-out on page 5:</p> <p>a) "It is proposed that the 'non- AI' value provided by Ofgem will be recovered by the initial generator using the current offshore charging methodology."</p> <p>b) "The 'AI' value provided by Ofgem will then be recovered (applying the same methodology) from the subsequent generator over the Tender Revenue Stream (TRS) period for the later user(s) at the point they connect to the NETS."</p> <p>c) "Note: it is assumed that the 'AI' value will be calculated (by Ofgem) in such a way that a portion of costs associated with shared assets (utilised by both the initial and subsequent generators) will already be incorporated within the 'AI' value and a portion of the shared costs incorporated into the non-AI value."</p> <p>From discussions with Ofgem and NG ESO, it is understood that 'AI cost' or 'AI value' will be determined via the Early-Stage Assessment for Anticipatory Investment. In this the AI cost would be the amount over-invested in the transmission infrastructure by the initial user to accommodate an identified later user. This amount, as per workgroup consultation CMP402 would be used to determine the User Commitment liability.</p> <p>As it is understood that this 'AI cost' or 'AI value' is only the over-investment and would not include a portion of costs associated with shared assets, we would like to challenge the premise of point c. above. For example, it may only cost 60% more transmission capex to build out a 100% larger transmission capacity. In case both initial- and later user would use this total capacity in equal proportion, i.e. both users have the same TEC, then determining the offshore charging methodology based on 'Non-AI' and 'AI' values would be incorrect. It seems that using the ratio of the individual TEC between the users as a basis for the offshore charging methodology would be correct.</p>

4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Click or tap here to enter text.
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Specific Workgroup Consultation questions

5	Consider recovery of the AI cost gap if the subsequent generator connects at a much later point in time e.g., 15-20 years later.	The relation of the AI policy and the GCC clause is not described in this consultation. One can assume that when projects rely on the AI policy, and if a disconnect in project timelines does occur, that the DESNZ would be minded to grant an individual licence exemption from the requirement to hold a transmission licence; 'GCC exemption'. How long such an exemption would be granted for is unclear. At some point an OFTO transaction would need to take place, whether with or without the later user connected to the transmission system. Similarly, the User Commitment liability as determined subject to the decision following workgroup consultation CMP402, could be payable after a determined period to recover the AI cost gap. Such period would need to be regulated to provide developers the clarity to decide to rely on the AI policy.
6	Consider the options for applying inflation, e.g., should it be CPI or RPI linked?	Not assessed.
7	If a local circuit changes to a wider circuit, should the subsequent generator still pay for the AI cost gap and AI, or should this be filtered through the wider tariff?	If the local circuit a later stage changes status to a wider circuit (part of the wider network) and this happens before the subsequent generator connects, we believe that the subsequent generator should not pay for the AI cost gap. A follow up question could be if the initial and the subsequent generator then both should be compensated for their payment towards the local circuit at the time when it changes status.
8	Does your answer to Q7 change if the majority of the AI was built specifically for a specific local generator but may be utilised by the wider system during certain periods?	No.

9	Are there any other comments in relation to Q7 and Q8 on a broader perspective?	Not assessed
10	Consider the impact on consumers if the subsequent generator(s) don't connect to the National Electricity Transmission System.	According to Ofgem's AI policy this risk is for the consumers to bear. The impact is minimised through the User Commitments paid by the generator failing to connect. See also our response to Q5 above.