CUSC Modification Proposal Form

CMP411:

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

Overview: Changes to the CUSC will be required to implement Ofgem's decision in relation to Anticipatory Investment (AI). This modification seeks to introduce AI and a mechanism for the recovery of AI costs within the Section 14 charging methodologies subject to Ofgem's final policy decision.

Modification process & timetable

1. **Proposal Form**
   09 February 2023
2. **Workgroup Consultation**
   30 May 2023 - 20 June 2023
3. **Workgroup Report**
   17 August 2023
4. **Code Administrator Consultation**
   29 August 2023 – 19 September 2023
5. **Draft Final Modification Report**
   21 September 2023
6. **Final Modification Report**
   11 October 2023
7. **Implementation**
   01 April 2025

Status summary: The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

This modification is expected to have a: High impact

ESO, Offshore Generators, Offshore Transmission Owners, Demand customers

Proposer's recommendation of governance route	Standard Governance modification with assessment by a Workgroup

Who can I talk to about the change?	**Proposer:** Nitin Prajapati Nitin.Prajapati@nationalgrideso.com 07790970158	**Code Administrator Contact:** Paul Mullen Paul.j.mullen@nationalgrideso.com 07794537028

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What is the issue?

When two or more offshore generators are connected to the National Electricity Transmission System (NETS) at the same time and share the same offshore transmission assets, Section 14 of the Connection and Use of System Code (CUSC) methodology sets out how local charges (both offshore local circuit and offshore local substation) are apportioned between the two offshore generators.

Where offshore generators share the same offshore transmission assets but connect at different times, Anticipatory Investment (AI) may be made by the initial offshore generator under a developer build scenario. This is the investment that goes beyond the needs of the initial generator, to build assets needed for a known future offshore generation project to then allow them to connect at a later point in time. 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.

Why change?

Under the current charging regime, the initial offshore generator may be liable for Transmission Network use of System (TNUoS) charges associated with both the AI element and the non-AI element prior to the subsequent generator connecting. This approach to AI results in the initial generator paying higher TNUoS charges than it would otherwise have done had it not made the AI. This is considered to act as a disincentive for the initial generator to make the AI for future generation and is viewed as the largest barrier to greater coordination of offshore projects.

Ofgem have now reached a policy decision (Decision on Anticipatory Investment and Implementation of Policy Changes") on how AI will be shared between generators and consumers. The aim being to address this barrier to entry and enable generators to undertake AI to deliver beneficial coordination between projects, while managing and mitigating the allocation of AI risk to consumers.

What is the proposer's solution?

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.

Recovery of 'Non-AI' and 'AI' values

Ofgem's decision on AI (published 18 October 2022), introduces an early-stage assessment process for projects incurring any AI expenditure. This would split the capital costs of offshore assets (utilised by both the initial and subsequent generators) into a 'non-AI' and 'AI' value.

Diagram 1 explains this point further with an illustrative example.

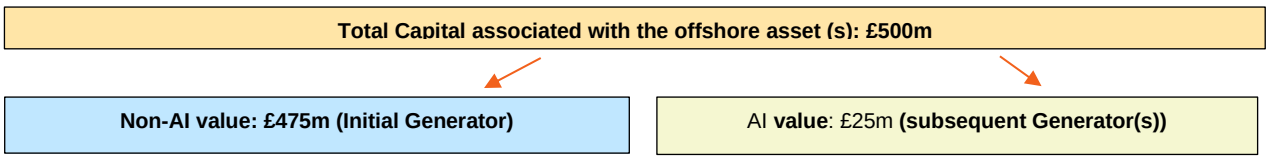

Diagram 1: *Example split of AI and Non-AI costs*

As detailed above, the total capital costs associated with the offshore assets is £500m. Under the current proposed early-stage assessment design, it is determined by Ofgem that

£475m represents the 'non-AI' cost and the remaining £25m represents the 'AI' costs, with those values being apportioned to the initial and subsequent generator respectively.

- It is proposed that the 'non- AI' value provided by Ofgem will be recovered by the initial generator using the current offshore charging methodology detailed within 14.15.93 for offshore local circuit tariffs and 14.15.134 for the offshore local substation tariffs within CUSC.
- 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.
- Prior to which the 'AI' will be recovered via the Transmission Demand Residual (TDR). This will ensure both the initial and subsequent generators pay for assets which they are utilising.

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.

Recovery of the 'AI Cost Gap' value

There will be a period between the shared offshore assets being transferred to the Offshore Transmission Owner (OFTO) and the point in time the subsequent generator connects to the NETS. 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 to the OFTO. However, this element of the offshore generator TNUoS tariff cannot be recovered from the subsequent generator as they are not connected to the NETS yet. The difference between what is payable to the OFTO by the subsequent generator and cannot be recovered from them is referred to as the 'AI Cost Gap'.

To follow on from the example above, the AI value can be further split into:

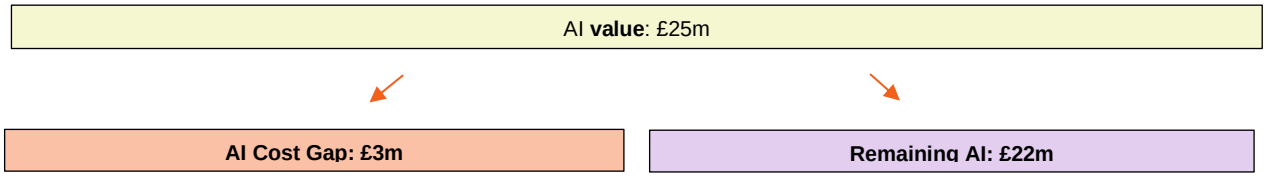

Diagram 2: Example split of AI Cost Gap and Remaining AI

To ensure consistency with Ofgem's decision on AI, it is proposed that:

- The subsequent generator(s) will accrue liability of costs associated with the 'AI Cost Gap' i.e., from the period after OFTO transfer up to the point the subsequent generator(s) connect.
- During this period, the 'AI Cost Gap' value will be recovered by the ESO through demand customers via the Transmission Demand Residual (TDR) element of TNUoS.
- Once connected the subsequent generator(s) will then be required to repay the total accrued 'AI Cost Gap' value (taking into consideration inflation) already previously met by demand customers (via the TDR). 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 by the subsequent generator 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
- 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.

Note: depending on the outcome of this modification a separate code modification may subsequently be developed to include the relevant defined terminology, such as 'AI Cost Gap', in CUSC Section 11.

Draft legal text

To be developed by the Workgroup but amendments are suggested to paragraph 14.15.93 for offshore local circuit tariff and 14.15.134 for the offshore local substation tariff.

What is the impact of this change?

Proposer's assessment against CUSC Charging Objectives	
Relevant Objective	**Identified impact**
(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;	**Positive** By introducing the principle of AI it reduces the risk allocated to the initial generator (through paying higher TNUoS charges than they otherwise would have done had it not made the AI) and improves the coordination of projects, by encouraging AI to enable a subsequent generator(s) to connect. This should have the knock on impact of improved competition.
(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);	**Neutral**
(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is	**Positive** To the extent that Ofgem's policy decisions in respect of AI are required to be

reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;	implemented by the company this modification reflects those developments.
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	**Neutral**
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	**Positive** Will provide clarity to industry on the treatment of AI and the basis of its cost recovery.
**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.	

Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories	
Stakeholder / consumer benefit categories	**Identified impact**
Improved safety and reliability of the system	**Neutral** Will not impact the operation of the transmission system.
Lower bills than would otherwise be the case	**Positive** The clarity provided (of the methodology) should provide offshore developers with greater confidence of what the applicable methodology will be and so reduce investment risk reducing overall costs to consumers.
Benefits for society as a whole	**Positive** Facilitates development of an integrated offshore network and the associated consumer benefits compared to radially connected projects.
Reduced environmental damage	**Positive** Facilitates development of an integrated offshore network and the associated benefits towards achieving Net Zero.

Improved quality of service	**Neutral** Will not directly impact the quality of service provided by the ESO and offshore generators

When will this change take place?

Implementation date
1 April 2025.

Date decision required by
ESO require a clear 6 months to implement, however, following industry feedback, we believe generators would need to have visibility of and understand the methodology for AI cost recovery as soon as possible (Q1 2024 (by 31 March 2024) if possible), to allow this to be built into their business plans and aid any investment decisions.

Implementation approach
As above

Proposer's justification for governance route
Governance route: Standard Governance modification with assessment by a Workgroup

This modification proposal has a material impact for industry parties in terms of investment decisions and associated costs, so should follow standard governance and given there may be a number of options to address the issue, a Workgroup is considered appropriate.

Interactions

☐Grid Code ☐European Network Codes	☐BSC ☐ EBR Article 18 T&Cs[1]	☐STC ☒Other modifications	☐SQSS ☒Other

This code modification may have some interaction with CMP402: Introduction of Anticipatory Investment principles within the User Commitment Arrangements.

Acronyms, key terms and reference material

Acronym / key term	Meaning
AI	Anticipatory Investment
AI Cost Gap	Anticipatory Investment Cost Gap
BSC	Balancing and Settlement Code
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Regulation
ESO	Electricity System Operator
NETS	National Electricity Transmission System
OFTO	Offshore Transmission Owner
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
T&Cs	Terms and Conditions
TNUoS	Transmission Network Use of System

Reference material

- Ofgem's Consultation "Offshore Coordination – Early Opportunities: Consultation on our Minded-to Decision on Anticipatory Investment and Implementation of Policy Changes" published in April 2022: https://www.ofgem.gov.uk/publications/offshore-coordination-early-opportunities-consultation-our-minded-decision-anticipatory-investment-and-implementation-policy-changes
- Decision on Anticipatory Investment and Implementation of Policy Changes | Ofgem

[1] If your modification amends any of the clauses mapped out in Exhibit Y to the CUSC, it will change the Terms & Conditions relating to Balancing Service Providers. The modification will need to follow the process set out in Article 18 of the Electricity Balancing Guideline (EBR – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.