

CMP413 – Rolling 10-year wider TNUoS generation tariffs

Monday 15 January 1.30pm

Online Meeting via Teams



Objectives

- Timeline Update
- Actions Update
- WACM2 Update
- Legal Text Review
- AOB
- Next steps



Timeline Update

Claire Goult – ESO Code Administrator

Timeline for CMP413 – 11 January 2024

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Actions Update

Action Owners

30	WG11	TS	WACM2 Proposer to consider non-Charging mods in relation to their WACM	WG12
31	WG11	HB	Proposer to share confidential analysis to provide justification for proposed values with Ofgem	TBC
32	WG12	MC	ESO to produce a starter for ten in text to be included into the Original and WACMs (following on from action 28)	WG13
33	WG12	TS	Update WACM2 Proposal	WG13
34	WG12	PJ	Update from TNUoS Task Force if appropriate regarding CMP413	WG13

Discussion of CMP413 WACM at TNUoS Taskforce (Action 34)

Paul Jones

Objective of discussion:

For taskforce to make a recommendation as to whether the RWE WACM for CMP413 should be raised as a modification proposal in its own right.

Discussion points:

- Forecast is key. Need to codify how the forecast is undertaken, including transparency of the process, consultation and peer review with the industry.
- Question about the ESO's ability to provide a meaningful forecast for 15 years ahead.
- Contractual arrangements needed for this solution different from CMP413 original.
- Some concern about disrupting the timescales for CMP413 if progressed as WACM.
- Would a deep connection charge approach allow the tariff to be protected from future CUSC changes?

Task force recommendations to CMP413 workgroup:

1. Taskforce recommend the WACM can be raised as a separate modification.
2. Believe that the WACM and CMP413 Original are not mutually exclusive and could both be implemented in theory.
3. If the WACM is raised as its own modification, the Taskforce will scope analysis to be carried out by Frontier as part of the signal's subgroup work.

ESO 10 Year Projection (Action 32)

Martin Cahill

Workgroup Report Considerations section

ESO provided a 10 year projection of tariffs in September 2023 and have received positive feedback from Industry despite the limitations of the process. While predicting tariffs so far in advance will inevitably have lots of uncertainty, ESO believe that the process can be improved with additional resource and through iterative improvement. A fit for purpose forecast is a key element for the original solution and WACMs.

While a full plan to improve inputs to the model will be developed, possible target areas for improvement include:

- **Reduction of Scenario based inputs** - The 10 Year Projection relied on FES for inputs to the Generation & Demand Background. FES is intended as a scenarios based process, and does not produce forecasts. Further exploration needed to identify work that can be done to produce forecasted inputs
- **DNO Data** - Input data from DNOs is key to an accurate model. An STC modification is envisaged to obligate the provision of longer term data from the DNOs
- **CSNP** - Identify which data will feed in from this and frequency of update
- **Other** - Further assessment of enhancements that can be made to process via in depth review with SMEs

ESO would likely look to combine with existing processes for efficiency i.e. the 5 year forecast publication, and assess the most suitable time of year to fit around other publications.

ESO 10 Year Projection (Action 32)

Martin Cahill

Workgroup Report Solution section

The workgroup recognises that the forecast produced by ESO will need to be improved over time to reduce the risk of inaccurate forecasts impacting on cost reflectivity. The first forecast to be produced for an implementation year of 2025 (therefore based off a forecast in 2024) would still retain many of the significant uncertainties that were present in the 10 year projection publication, largely due to data inputs which aren't available currently and lack of time to develop.

The forecast will be an evolutionary process. While a full plan to improve inputs to the model is being developed, possible target areas for improvement include:

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This modification does not seek to codify any of the forecasting process, due to the fact it will need to change over time.

ESO 10 Year Projection (Action 32)

Martin Cahill

Prob not for workgroup report but for info: STC Timelines

Examples of recent STC mods and how long there has been between raising and sending to Ofgem.

Date raised	Panel Vote	Sent to Ofgem / Appeals Window	Ofgem Decision Received
15/03/2021	25/05/2022	07/06/2022	TBC
04/10/2021	28/11/2023	11/12/2023	TBC
08/12/2021	28/09/2022	11/10/2022	07/07/2023
11/07/2022	30/11/2022 and 28/06/2023	13/12/2022 and 10/07/2023	31/03/2023 and TBC
29/11/2022	TBC	TBC	TBC
29/11/2022	20/02/2024	26/03/2024	TBC
07/02/2023	30/08/2023	12/09/2023	TBC
15/05/2023	31/08/2023	13/09/2023	TBC
21/11/2023	28/08/2024	05/09/2024	TBC



WACM 2 Update

Proposer – Tom Steward RWE



RWE Fixing TNUoS Proposal

Latest thinking & further points for discussion
(CMP413 - WACM 2)

Tom Steward, Senior Regulatory Affairs Manager

Why have we raised a WACM?

- Agree with the principle underlying original that ESO is better placed to forecast evolution of network and costs than individual developers, and that the unpredictability adds avoidable risk (and therefore cost) to the system.

However...

- The Original means much of the 10 year period may have elapsed between CfD bid / FID being taken on a site, and the site beginning commercial operation.
- The Original 10 year rolling fix is out of step with investment cycles - all generators are fixed for a rolling 10 year period – likely to be too long for some generators, and too short for others.
- Changes to methodology or network design which were not expected in ‘year 1’ take 10 years to feature in charges – challenging cost reflectivity - potentially leading to distorted locational signals.

WACM 2 Proposal – Overview (1)

- Principle objective: minimise unnecessary TNUoS risk in order to minimise costs to the consumer.
- Proposal to have an option to fix a profile for the majority* of a generator's wider TNUoS charges for a period against a forecast profile produced by the ESO, this would be refreshed annually. This means each fix is based on the best information at the time.
- This would be open to all generators, and fixes could be for any number of whole years, from 1 to 15 (or up to a maximum length of the ESO's forecast, whichever is shorter).
- TNUoS charges would be on a fixed profile – ie. could go up and down over this period, however these fluctuations would be known in advance.
- For new projects, liability would begin at the point of TEC start. For existing projects, from the following year.
- Towards the end of a fixed period, a site would have the option of fixing again, or moving onto a variable TNUoS tariff (akin to today's arrangements).
- Generators opting into a fix would not be able to opt out again mid-way through, however if a site closes it will not be obligated to pay for its remaining fixed period.

*There is a European Regulation, the “€2.50 cap” which applies a negative adjustment to all generators, this would continue to operate independent of the fix. In 2023/24 it reduced all generators TNUoS charges by £0.93/kW. This proposal would also not affect a generator's local tariffs including OFTO charges.

WACM 2 Proposal – Overview (2)

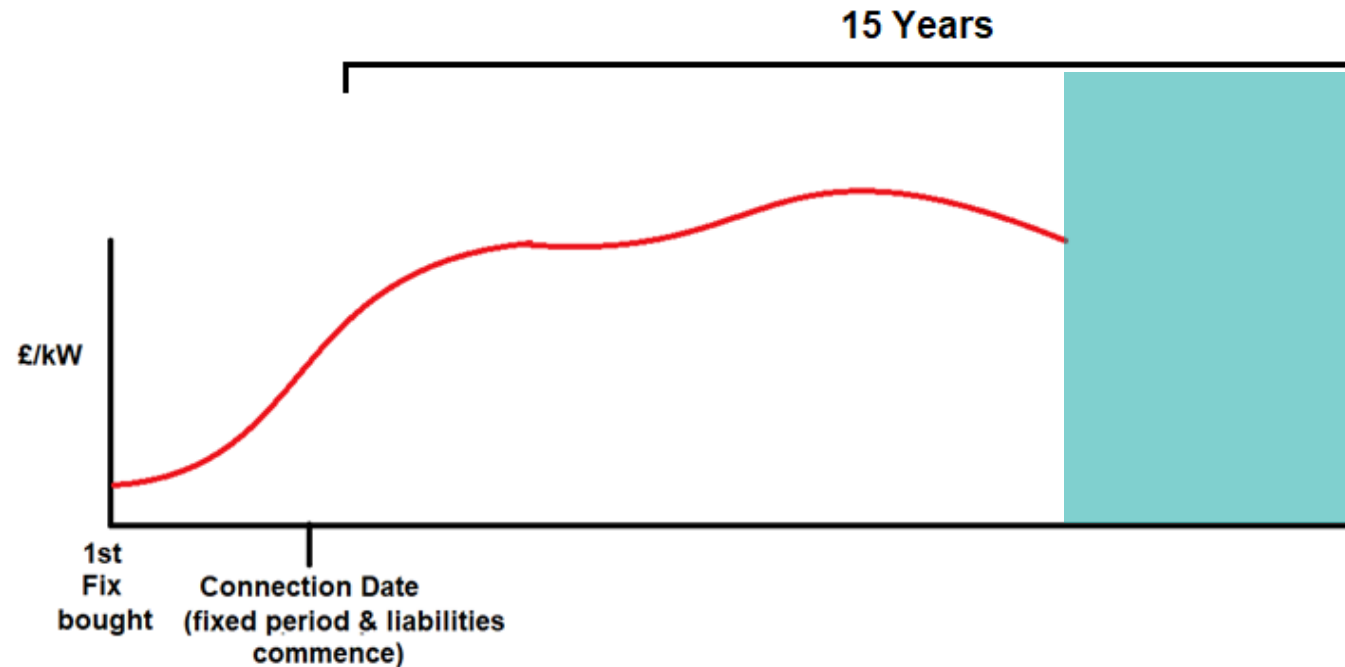
- It is not possible for a modification to truly protect a generator from future modifications. It would therefore be possible for a future modification to change the TNUoS charges of a generator with a fix. It is a matter for OFGEM how future modifications are applied, and to manage any impacts on investor certainty.
- A generator is not required to fix its entire TEC, but can elect to subdivide its TEC – again to allow consideration of future investment plans.

Addressing changes to a site mid-way through a fixed period (current thinking – not tested at workgroup)

- High level principle: A TNUoS fix shouldn't be the reason to make changes to a site, nor the reason not to make changes a site.
- If a site reduces its TEC, its liabilities decrease as per today.
- If a site increases its TEC, the new TEC is charged at the latest forecast rates (and the generator may choose to fix that part of its TEC).
- If a site changes technology during the life of a fix (ie. moves from intermittent to conventional carbon by adding storage), the life of the fix continues, but at the rate that would have been charged at the point the fix was initially taken.

Challenge: Tail end of fixed period

- If a generator is bidding on a 15 year contract (e.g. CfD, CM, DPA), it will likely be a number of years between making that bid (and presumably securing the fix alongside it) and the fixed period beginning. If ESO carries out a 15 year forecast, this will leave an unfixed/unforecasted period at the end (shaded area below).
- Therefore, we propose asking ESO what the longest fix it could do would be to minimise the size of the shaded area.

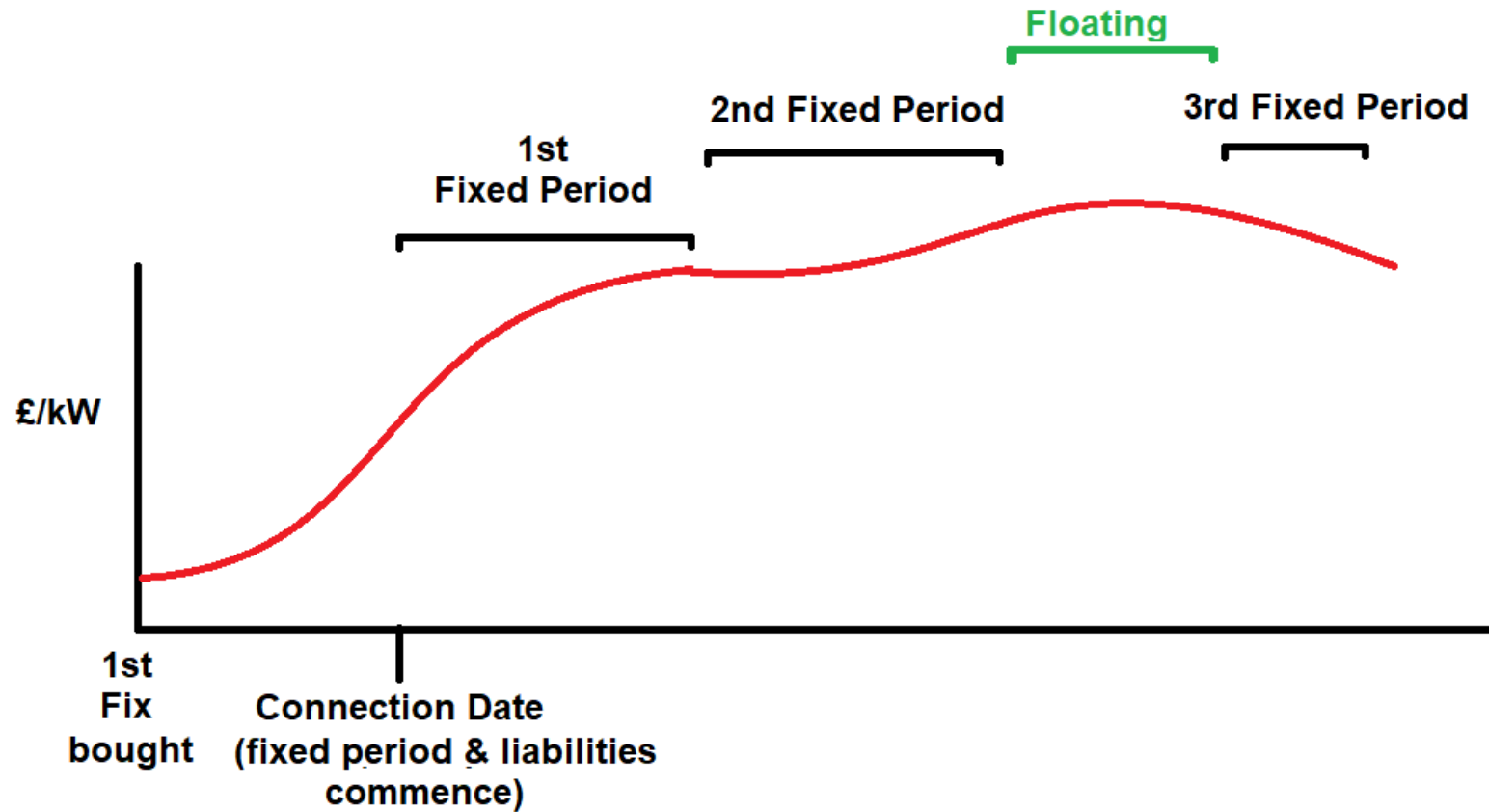


Open question

How long in advance of the end of an existing fix is the choice taken for a new fix?
Timelines need to align for publication of tariffs, CfD, CM, DPA, etc.

Should this continue as a WACM or be a mod in its own right?

When to start the fixed period (new sites)...





Legal Text Review

ALL



AOB

Claire Goult – ESO Code Administrator



Next Steps

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