

# **CMP411: Introduction of Anticipatory Investment (AI) within the Section 14 charging methodologies.**

**Workgroup Meeting 5**

**17 July 2023 1.30pm**

**Online Meeting via Teams**

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# Objectives

Claire Goult – ESO Code Administrator



## Objectives

- Review Workgroup Consultation Responses
- Finalise Solution
- AOB and Next Steps



# Review Workgroup Consultation Responses

ALL

# Summary of the Five Consultation Responses

QUESTION	Responses
1. Do you believe that the Original Proposal better facilitates the Applicable Objectives?	<p>A – All five respondents felt the proposal better (positive) facilitated this objective</p> <p>B – One positive/ two neutral (One felt not enough detail in the consultation to assess)</p> <p>C – Three positive/ one neutral</p> <p>D – Two neutral</p> <p>E – Three positive</p>
2. Do you support the implementation approach?	<p>Four respondents agreed with the implementation approach. One noted the implementation date of April 2025 seemed reasonable to account for 6 months for ESO to implement and a socialisation period for generators.</p> <p>One respondent supported the general approach of the concept by Ofgem but felt there was not enough detail in the consultation to comment on.</p>
3. Do you have any other comments?	<p>One respondent felt the AI cost was only the over-investment and would not include a portion of shared asset costs and therefore using the ratio of individual TEC between users as the basis for the offshore charging methodology would be correct.</p> <p>Another said apportionment of AI costs for offshore assets between G1 and G2 should be determined case by case and G1's charge should not reflect G1's element in period prior to connection. The same respondent felt G2 should have an option to pay up front or over a period of time.</p> <p>One suggested considering a wider update, including section 14.14 principles and consider the application of the methodology to onshore AI.</p>

# Summary of the Five Consultation Responses

QUESTION	Responses
4. Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p>All five responded no. One respondent stated that although a formal alternative was not being raised at the moment, requested the Workgroup consider the following:</p> <ul style="list-style-type: none"><li>• A wider update to the legal text, including section 14.14 principles</li><li>• More detailed and varied worked examples to consider different realistic timing and configuration scenarios and their implications and risks to all parties. Could also include some cancellation scenarios.</li><li>• Potential application of the methodology to future onshore AI, to enable consistency of approach.</li></ul>
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?	<p>One respondent felt when projects rely on the AI policy, if a disconnect in project timeline occurred then DESNZ would grant a GCC exemption noting the relation of the AI policy and the GCC is not in the consultation but explained the an OFTO transaction would need to take place at some point with or without the later user connected.</p> <p>One respondent felt that as AI costs are associated with assets utilised by the subsequent generator then they should pay.</p> <p>Another respondent said the approach should remain consistent with AI being recovered by the TDR.</p> <p>One respondent suggested projects be allowed to connect within a certain timescale and be subjected to a delay charge to prevent customers underwriting the cost gap for a prolonged period.</p> <p>One respondent felt it was more appropriate to ask why the AI and asset construction would be approved if not to be used for 15-20 years?</p>

# Summary of the Five Consultation Responses

QUESTION	Responses
6. Consider the options for applying inflation e.g, should it be CPI or RPI linked?	Two respondents felt the inflation term chosen should reflect the loss of value incurred by consumers when paying off the AI cost gap. Two other respondent felt it should be consistent with current approach in CUSC and onshore price controls. One felt, given the materiality associated with offshore sensitivity should be carried out to inform the debate.
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 tariff?	<p>Three respondents felt the subsequent generator should not pay. One of these offered a follow up question – Could the initial and subsequent generator be compensated for their payment towards the local circuit at the time when it changes status?</p> <p>Another respondent commented that if the change occurred prior to the subsequent generator connecting then yes up to the period when the change occurred. If it changed after connection, it should still pay the AI cost gap already calculated prior to connection to reflect costs already underwritten by consumers.</p> <p>One respondent felt this was beyond the scope of the modification as it touched on broader areas of the methodology yet to be determined.</p>

QUESTION	Responses
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?	All respondents answered no to this question. One respondent considered this question (as described in Q7) to be outside the scope of CMP411.
9. Are there any other comments in relation to Q7 and Q8 on a broader perspective?	All respondents answered no to this question.
10. Consider the impact on consumers if the subsequent generator(s) don't connect to the National Electricity Transmission System.	<p>Two respondents noted that according to Ofgem's policy decision on AI, if the subsequent generator does not connect to the NETS, the risk sits with consumers.</p> <p>Two respondents described how impact is minimised through the User Commitments paid by the generator failing to connect with one of these noting that there is always a risk of stranded assets when developing the NETS for the future.</p> <p>One respondent felt the cancellation charge should be sized accordingly to prevent customers paying unnecessary asset costs.</p> <p>One respondent suggested the Workgroup should model this complete scenario to inform CMP411 and CMP402.</p>



**Finalise Solution**

ALL



## **Any Other Business**

**Claire Goult – ESO Code Administrator**



## **Next Steps**

**Claire Goult – ESO Code Administrator**

# Timeline for CMP411 – Updated 17 July 2023

Milestone	Date	Milestone	Date
Modification presented to Panel	24 February 2023	Code Administrator Consultation (15 working days)	29 August 2023 to 19 September 2023
Workgroup Nominations (15 Working Days)	27 February 2023 to 20 March 2023 (5pm)	Draft Final Modification Report (DFMR) issued to Panel (5 working days)	21 September 2023
Workgroups 1 – 4 – process and mod understanding including scope, agree timeline and terms of reference (Workgroup 1) and step through terms of reference, analysis and develop Workgroup Consultation (Workgroups 3 and 4)	3 April 2023, 24 April 2023 and 23 May 2023 , 8 June (2.30-4.30pm)	Panel undertake DFMR recommendation vote	29 September 2023
Workgroup Consultation (15 working days)	16 June 2023 to 7 July 2023 (5pm)	Final Modification Report issued to Panel to check votes recorded correctly	3 October 2023
Workgroups 5 - 7 – review Workgroup Consultation responses, finalise solution(s) and legal text (including alternatives), finalise Workgroup Report and ensure Terms of reference met, hold Workgroup Vote	17 July 2023, 31 July 2023 and 11 August 2023	Final Modification Report issued to Ofgem	11 October 2023
Workgroup report issued to Panel (5 working days)	17 August 2023	Ofgem decision	Requested by 31 March 2024
Panel sign off that Workgroup Report has met its Terms of Reference	25 August 2023	Implementation Date	1 April 2025