

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

Workgroup Meeting 6
31 July 2023 10.00am
Online Meeting via Teams



Objectives

- Inflation Indexation - AI Cost Gap
- Legal Text Review
- Action Review
- Finalise Solution
- AOB and Next Steps



Inflation Indexation for the AI Cost Gap

Proposer



Legal Text Review

All

Draft legal text

The below is a draft working version of the legal text for CMP411:

'14.15.170 Anticipatory Investment

From the point in time that the offshore transmission system has been transferred to an OFTO, the offshore local tariffs will be calculated as per 14.15.121, except where Anticipatory Investment (AI) has been identified amongst the assets that are accounted for in a specific tariff. The early-stage cost assessment process undertaken by the Authority for a proposed Offshore Transmission System will confirm if AI has been identified and will split the OFTO revenue for that Offshore Transmission System into an AI value and non-AI value. If AI is identified the offshore local tariff calculations for each generator connected to the offshore transmission at the time of asset transfer or subsequently will utilise their individual generation connected in addition to their proportion (AI value or non-AI value) of the OFTO revenue, Network Export Capacity and asset ratings rather than those of the total project.

Any generators (initial generator(s)) connected to the Offshore Transmission System at the point of asset transfer, will become liable for Offshore local tariffs associated with the non-AI value portion of the OFTO revenue at the point of asset transfer to the OFTO. Any subsequent generator(s) will become liable for Offshore local tariffs associated with the AI value portion of the OFTO revenue at the point that they connect to the Offshore Transmission System.

Draft legal text continued

Where AI has been identified, there will be a period between the assets being transferred to the OFTO and the point in time the subsequent generator connects. During this period a portion of the AI value will be payable by The Company (owner of the subsequent generator) 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 until they are connected to the transmission system. The difference between what is payable to the OFTO but cannot be recovered from subsequent generator is referred to as the 'AI Cost Gap'

After the offshore transmission assets have been transferred to an OFTO and prior to the subsequent generator(s) connecting, the AI Cost Gap will be recovered from demand consumers in the interim via the Transmission Demand Residual part of TNUoS. Any subsequent generator (generator i) that connects after the initial generator(s) will be subject to costs associated with the AI Cost Gap once they connect.

The AI Cost Gap will be repaid to demand consumers by generator i either:

- Through the AI Cost Gap Tariff. This tariff will be applied over a period of time equal to the number of days for which generator i 's share of the AI Cost Gap was accrued, rounded up to a whole number of years, and the number of days in the charging year in which generator i connects (if it connects after the first day of a charging year).
- Or alternatively, if decided by the generator, be paid off fully in the first charging year in which generator i connects.

Draft legal text continued

Calculating the AI Cost Gap: The AI proportion of OFTO revenue associated to generator i , for each full or partial charging year prior to generator i connecting, will be identified. Each year's value will be inflated [in line with CPIH linked inflation], to ensure it is in the appropriate price base for the year the tariff becomes applicable. The total of these values will be the AI Cost Gap.

Calculating the AI Cost Gap Tariff: The AI Cost Gap Tariff for generator i (expressed in £/kW) shall be the ratio of the AI Cost Gap that generator i is liable to pay for the relevant year (£) and the Transmission Entry Capacity (kW) of generator i , i.e:

- AI Cost Gap Tariff for Generator $i = \frac{n \times \text{AI Cost Gap}}{N \times \text{TEC}_i}$
- Where:
 - TEC_i = Transmission Entry Capacity of generator i in kW
 - n = number of days remaining in the year over which the tariff is to be paid
 - N = total number of days over which the tariff is applicable

This calculation shall be used for the initial partial year in which generator i connects (if applicable) and the first full charging year. For each subsequent year that the tariff is applicable for after the year of calculation, the AI Cost Gap Tariff shall be inflated [in line with CPIH linked inflation].'

Below are some key questions to consider regarding the legal text:

1. Is section 14.15.170 an appropriate section to input the legal text?
2. Do we need to refer to Anticipatory Investment or the AI Cost Gap tariff in any other areas of CUSC section 14?
3. Are there any other comments?



Actions Review

Chair/Proposer

Actions

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

Action number	Workgroup Raised	Owner	Action	Comment	Due by	Status
8	WG5	Proposer/Ofgem	What would be included in the AI costs/non-AI costs as part of the early-stage assessment process	NA	WG6	Open
9	WG5	Proposer	Proposer to check with SME to see if it is possible to share real life examples using anonymised data/costs to make it more relatable but protect commercially sensitive information.	NA	WG6	Open
10	WG5	Chair	To reach out to respondent who requested more detail in the consultation and update the proposer	NA	WG6	Open
11	WG5	Proposer	Proposer to respond to the first point in question 5. Is more information needed.	NA	WG6	Open

Question 5 Response (Workgroup 5)

QUESTION	Responses
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?	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. - The Proposer requested to come back to this question as he would like to consider the point made



Finalise Solution

All

Terms of Reference Review

CMP411 Terms of Reference	Considerations
a) Consider EBR implications	
b) Consider Ofgem's decision on Anticipatory Investment (AI) (published 18 October 2022) and any further decisions/policy	
c) Consider application of the solution to the Holistic Network Design (HND) and Early Opportunities Projects to ensure principles can be applied to actual designs/offshore windfarm projects	
d) Consider how the AI Cost Gap* is recovered prior to and post the subsequent generator(s) connecting to the National Electricity Transmission System <i>*The difference between what is payable to the OFTO by the subsequent generator(s) and cannot be recovered from them is referred to as the 'AI Cost Gap'</i>	
e) Consider how 'non- AI' and 'AI' values (determined by the early-stage assessment process for projects incurring any AI expenditure) would be recovered from both the initial and subsequent generator(s).	
f) Consider how stakeholders would get visibility of how the AI Cost Gap gets calculated and early visibility of the value.	
g) Consider the application of inflation and interest to relevant parties in terms of the cost to consumers and the cost to subsequent generator(s)	
h) Consider the potential duration of the AI Cost Gap.	
i) Consider the understanding of "known" as per Ofgem's policy decision.	
j) Consider the impact on consumers including if subsequent generator(s) don't connect to the National Electricity Transmission System.	



AOB/Next Steps

Deborah Spencer – 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