Public

CMP444

Workgroup Meeting 7
(04 February 2025)

Online Meeting via Teams

NESO
National Energy System Operator

WELCOME

Agenda

Topics to be discussed	Lead
Action Update	Chair/Proposer
Workgroup Consultation Responses Review	All
Alternative Requests 8,9,10 and 11	All
Any Other Business	All

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Action Update

Chair Catia Gomes/ Proposer Niall Coyle - NESO

Action Updates – CMP444

Action	Description	Owner	Status
4	What major infrastructure assets are included in the 5-year forecast	Proposer	Open
5	Explain the degree of alignment with CP30 that is included into the forecast	Proposer	Open
6	Consider additional modelling	Proposer	Open
9	Create a diagrammatic explanation of the methodology for the potential alternative solution.	Proposer	Open

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Workgroup Consultation Responses Review

All

CMP444 Workgroup Consultation Responses Review

Number of Responses/Alternatives	
Confidential Responses	5
Non-Confidential Responses	25
Alternative Requests Raised	2

Industry Sector Representation*	
Consumer body	0
Demand	0
Distribution Network Operator	0
Generator	20
Industry body	2
Interconnector	0
Storage	0
Supplier	2
System Operator	1
Transmission Owner	1
Virtual Lead Party	0
Other	0

*Please note some responses represent a number of industry sectors and this tally does not include confidential Respondents

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CMP444 Workgroup Consultation Responses Review

Question	Number of Respondents			
	Objectives	Yes	No	N/A
Do you believe that the Original Proposal better facilitates the Applicable Objectives?	A	19	5	
	B	8	4	
	C	4	4	
	D	5	4	
	E	6	4	
				1
Do you support the proposed implementation approach?		17	7	1
Does the draft legal text satisfy the intent of the modification?		17	2	6
Do you believe the cap and floor should have an end date? If so, how long or what is the appropriate trigger.		6	19	0
Does the Original proposal with no specific end date provide Developers with sufficient confidence to make an investment decision? Please justify.		12	11	2
Do you agree with the data set proposed for the calculation of the cap and floor? If not, what data set would you propose? What is your view on the use of NESO's 5-year forecast of April 2024?		13	9	3

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Implementation Approach

Several respondents provided feedback on the proposed implementation approach for CMP444.

- One respondent was supportive of implementation approach and believes that an Authority decision by Summer 2025, prior to the Contracts for Difference (CfD) Allocation Round 7 (AR7) bidding window, would allow for developers to factor the impact of the intervention into their auction bids
- Another respondent believes CMP444 should conclude before AR7, finding the proposed implementation date acceptable.
- A different respondent supports introducing a cap and floor on wider charges starting April 2026 but doubts it will sufficiently reduce charges in Northern GB.
- One respondent opposes the approach due to inappropriate cap and floor values.
- Concerns were raised about investor confidence and the need for robust evidence and justification for change, despite a speedy process. Improved coordination between Workgroups, NESO, and Ofgem was also recommended.

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Original Solution

- One respondent believes the Original Solution reduces uncertainty in the trajectory of future generation charges by limiting the significant escalation in charges signalled in the 10-year projection published by NESO in 2023.
- Some respondents believe the modification could facilitate enhanced competition in generation by decreasing uncertainty for projects, allowing them to proceed at competitive costs, whether CfD-supported or not.
- One respondent supports the modification as an interim solution, but noted that generators should not be penalised for locating in areas which are best suited to enable the 2030 clean power objectives.
- One respondent believes that the Original Proposal does not go far enough, and without amendments by Alternatives, the outcome would be a short-term marginal reduction in some tariffs. This would result in Northern Scottish projects being unfairly disadvantaged and unable to compete in CfD round
- Concerns were raised about the Original Proposal not setting appropriate upper and lower limits, with the cap being insufficient for northern generators and the floor being too low compared to 10-year projections, leading to continued subsidization of southern zones.

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Original Solution

- One respondent shared concerns that the Original proposal might not be sufficient to encourage competition in the CfD auction and could create market distortions, discouraging investment south of the Scottish border.
- One respondent believes that while the proposal largely preserves cost reflective locational signals, it fails to maintain cost reflexivity when the cap and/or floor are hit.
- One respondent pointed that the 'Proposers Solution' suggests that a CPIH inflation will apply to the cap and floor, and the Respondent understood that inflation was already applied to TNUoS. Therefore, can confirmation be given that this is not being double counted.
- One respondent supports the Original to introduce a cap and floor on wider charges starting April 2026. However, it may not adequately reduce charges in Northern GB to boost investor confidence for achieving CP30.
- One Respondent feels that only the Original Proposal is acceptable.

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Cap and floor end date

- Some respondents believe that not having a defined end date would provide the most certainty for parties, as defining an exact date or trigger could introduce more uncertainty once the policy direction and implementation approach for REMA has been decided.
- Others believe that the cap and floor should have an end date, as leaving it open-ended implies it is in place indefinitely, which could send the wrong signal to potential developers.
- There are concerns that an end date does not give confidence for investment, although there needs to be an indication of when things will change permanently, as this is a temporary fix.
- Some respondents believe that by introducing an end date in the legal text, uncertainty is introduced as to what the arrangements will be thereafter. By contrast, not specifying an end date would require a further modification, allowing the industry to have input into future arrangements.
- One respondent suggested April 2030 as an appropriate time limit for the cap and floor.
- Some respondents believe that having an end date could provide more certainty for investment decisions, though codifying it will be challenging due to potential future changes.

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Cap and floor end date

- There are concerns that legal text with an enduring cap and no end date will not be interpreted as temporary and may have enduring unintended or unexpected implications for grandfathering of locational charges if granted under REMA.
- One respondent stated that the CUSC is not the right place for 'sunset clauses' since modifications can always be proposed. It is up to NESO/Ofgem and DESNEZ to evaluate the potential impacts and determine if such a clause is appropriate, as well as the level of assurance needed for investors.
- Some respondents support not having an end date or clause tied to a specific REMA milestone due to uncertainties.
- Some respondents feel that with no end date, the proposal will apply excessive limitations on location signals that are necessary with the TNUoS charging structure.
- One respondent does not believe the cap and floor should have an end date and suggests that an assessment of the market reform impact should be made to then update the implemented proposal with an end date through a new CMP.

CMP444 Workgroup Consultation Responses Review

Investors' Confidence

- Some respondents believe that the Original proposal (without an end date) would provide developers with the confidence to make investment decisions, as a cap and floor proposal with an end date would add a degree of uncertainty which does not help investment decisions.
- One respondent does not support a sunset clause and believes full grandfathering is essential for existing assets and committed investments decisions.
- Another respondent believes avoiding grandfathering arrangements is crucial to prevent market distortions that complicate future reforms.
- Some respondents emphasize the necessity of full grandfathering for existing assets and committed investments, ensuring investors can recover expected revenue based on the market structure at the time of investment.
- One respondent believes grandfathering investments' TNUoS charges that have been made under the scheme is justifiable and reasonable.
- Another respondent does not believe the Original Proposal gives developers confidence to make investment decisions but provides more certainty than what is currently in place.
- Some respondents suggest that Ofgem, NESO, and DESNZ should protect existing assets and consider grandfathering assumptions for projects to avoid unnecessary risks and costs to consumer.
- One respondent does not support grandfathering.

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Investors' Confidence

- Concerns were raised about long-term uncertainty regarding charges, which may raise costs for generators, inflate CfD prices, and hinder investment, jeopardizing the goal of a clean power system by 2030.
- Some respondents support additional protection as the lack of confidence that TNUoS charges post-2030 won't be prohibitive, contributing to a risk premium in CfD bids.
- One respondent believes a 'grandfathering clause' shouldn't be included in this CUSC modification and suggests that UK policymakers should provide clear signals to investors regarding tapering, grandfathering, or alternatives.

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Data Set

- Some respondents disagree with the data set proposed for calculating the cap and floor, suggesting that excluding forecasted large changes in charges triggered by strategically planned network delivery would better meet the objectives of the Ofgem letter.
- One respondent believes that using a four-year forecast has merit, while another considers the 5-year forecast reasonable but suggests considering alternatives that utilise the first four years.
- There are concerns about whether the 2029/30 data year should be included in the current original solution, and one respondent supports using actual tariffs for 2025/26 to set the cap and floor.
- Some respondents support the data set used for the cap and floor calculation, emphasizing the importance of avoiding uncertainty regarding large increases in TNUoS charges from network investments.
- One respondent believes the dataset does not address the impacts on existing assets that have experienced significant NPV deterioration since commissioning.
- There are suggestions to recalculate the cap and floor on a rolling annual basis by introducing an additional year's worth of forecast data each year from the new forecast.

CMP444 Workgroup Consultation Responses Review

Data Set

- One respondent believes the cap and floor levels in the original proposal do not provide sufficient protection from the extreme tariff projections in the NESO ten-year forecast.
- Another respondent feels that the development timeline is 15 years, so a 5-year forecast cannot provide meaningful investor certainty. They suggest that the panel should undertake a review to compare the difference between a 5-year and 10-year forecast before finalizing the decision.
- One respondent stated that Ofgem acknowledges the NESO's 10-year projections as the only public indication of long-term charge levels but expresses scepticism about some extremes. Therefore, appropriate cap and floor values should reflect this doubt.
- One respondent stressed that relying on the April 2024 5-year forecast is questionable due to uncertainties in new generation capacity and location. However, they find NESO's decision to use a decile approach for calculating the cap and floor pragmatic.

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EBR

- One respondent believes the Original Proposal does impact the EBR. It could give CfD generators an undue advantage over other merchant generators, such as batteries in the BM. It could hinder effective competition, be discriminatory, result in a balancing service procurement that is unfair on participants and prevent a level playing field. It could facilitate a redistribution of generation that leads to a distortion that either promotes or compromises the efficiency of balancing. It could also have unintended consequences on the efficient long-term operation and development of the electricity transmission system. If the cap and floor send distorted signals, it could result in excessive generation investment in Northern GB, necessitating further and inefficient transmission network investment. It risks giving certain renewable generators an unfair advantage.

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Concerns

- One respondent suggests that until REMA has established a firm view on how locational signals will be incorporated, any temporary solution will fall short of giving developers the full confidence needed for investment decisions.
- Another respondent believes that the current code objectives do not allow for the exclusion of some or all of the network reinforcement that will be required as we progress from now to Net Zero.
- One respondent believes that without decisive action on TNUoS charges, the UK's goal of delivering clean power by 2030 is at risk, potentially forcing existing renewable generation in the north to cease operations and hindering ScotWind projects from coming to fruition34.
- One respondent stated that there was no time to review legal text.
- Another respondent believes that it is not in the remit of the CUSC to consider Clean Power 2030 and transitional arrangements for generators, and the Workgroup has not been supplied with the relevant information about CP30 from DESNZ or Ofgem.
- One respondent believes that the methodology used to derive the values should be incorporated into the legal text. Does not support the current legal text drafting that hard-codes specific cap and floor values within CUSC and then applies indexation for future years.
- One respondent believes that with the present TNUoS methodology, it is not really possible to achieve actual cost reflectivity, adhere to the EC limiting regulation, preserve locational signals amongst all zones, and keep charges within commercially realistic bounds, given the scale of investment that is anticipated.

CMP444 Workgroup Consultation Responses Review

Concerns

- Another respondent believes there is a risk that variants could reduce effective locational signals and lead to the inefficient siting of generation.
- One respondent believes that cost-reflective locational charges play an important role in ensuring network development is efficient. The less cost reflective charges become, the more likely it is that network development becomes sub-optimal.
- Another respondent believes that a fixed cap level cannot possibly be cost-reflective if it is written into the code so as to imply perpetuity.
- Several respondents ask for a thorough analysis to provide Workgroup members with necessary data and insights.
- Another respondent suggests that NESO should work with Ofgem and stakeholders to improve the accuracy of TNUoS forecasts, which would significantly improve the current arrangements and give market participants more certainty about their projected TNUoS costs.
- One respondent believes that it is crucial that work proceeds at pace to consider broader reforms to ensure network charges retain the important principle of being cost reflective and that the issue of tariff volatility is addressed.

CMP444 Workgroup Consultation Responses Review

Concerns

- Another respondent believes that the majority of the Alternatives fail to address policy defects and there is a misalignment with the outcomes and the Government's aims to deliver Clean Power 2030 at the lowest cost.
- One respondent believes that the cap and floor proposal need refinement to address systemic issues and ensure fairness for future projects, as the current approach lacks a complete evaluation of consumer costs and focuses more on process than outcome.

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Alternative Requests

	Support from Respondents
Original Solution	7
Alternative 1	10
Alternative 2	2
Alternative 3	3
Alternative 5	6
Alternative 6	13
Alternative 7	10

Alternative Requests 8,9,10 and 11

All

AOB and Next Steps

Catia Gomes