

CMP445: Pro-rating first year TNUoS for Generators

Workgroup 1, 29 April 2025
Online Meeting via Teams

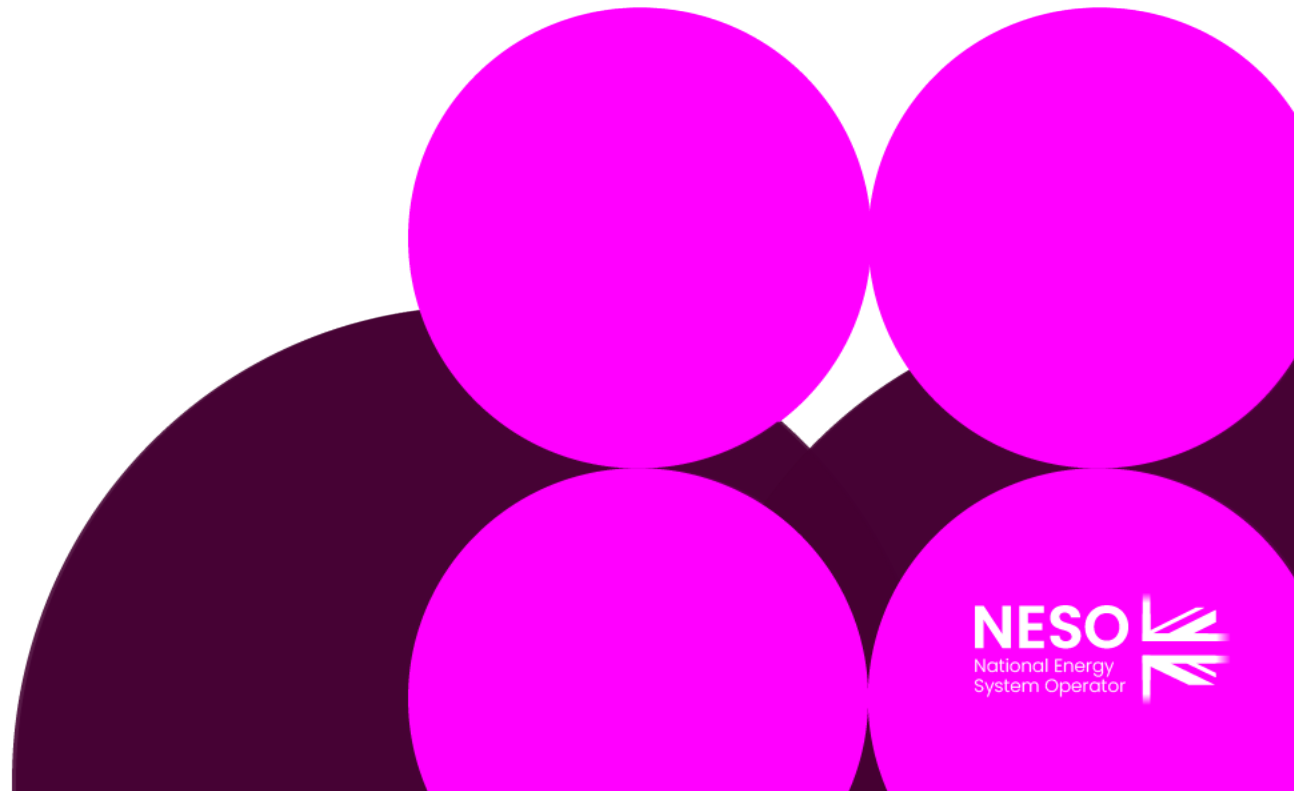
WELCOME

Agenda

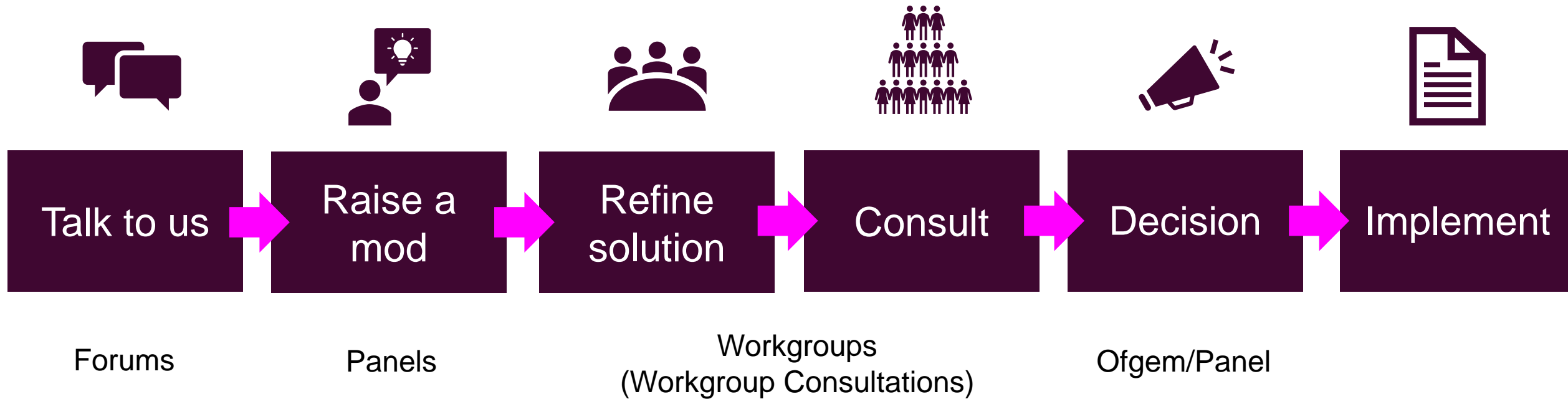
Topics to be discussed	Lead
Introductions	Chair
Code Modification Process Overview <ul style="list-style-type: none">• Workgroup Responsibilities• Workgroup Alternatives and Workgroup Vote	Chair
Objectives and Timeline <ul style="list-style-type: none">• Walk-through of the timeline for the modification	Chair
Review Terms of Reference	All
Proposer presentation	Proposer
Questions from Workgroup Members	All
Agree Terms of Reference	All
Cross Code Impacts	All
Any Other Business	Chair
Next Steps	Chair

Modification Process

Kat Higby – NESO Code Administrator



Code Modification Process Overview



Refine Solution Workgroups



- If the proposed solution requires further input from industry in order to develop the solution, a Workgroup will be set up.
- The Workgroup will:
 - further refine the solution, in their discussions and by holding a **Workgroup Consultation**
 - Consider other solutions, and may raise **Alternative Modifications** to be considered alongside the Original Modification
 - Have a **Workgroup Vote** so views of the Workgroup members can be expressed in the Workgroup Report which is presented to Panel

Consult Code Administrator Consultation

- The Code Administrator runs a consultation on the **final solution(s)**, to gather final views from industry before a decision is made on the modification.
- After this, the modification report is voted on by Panel who also give their views on the solution.



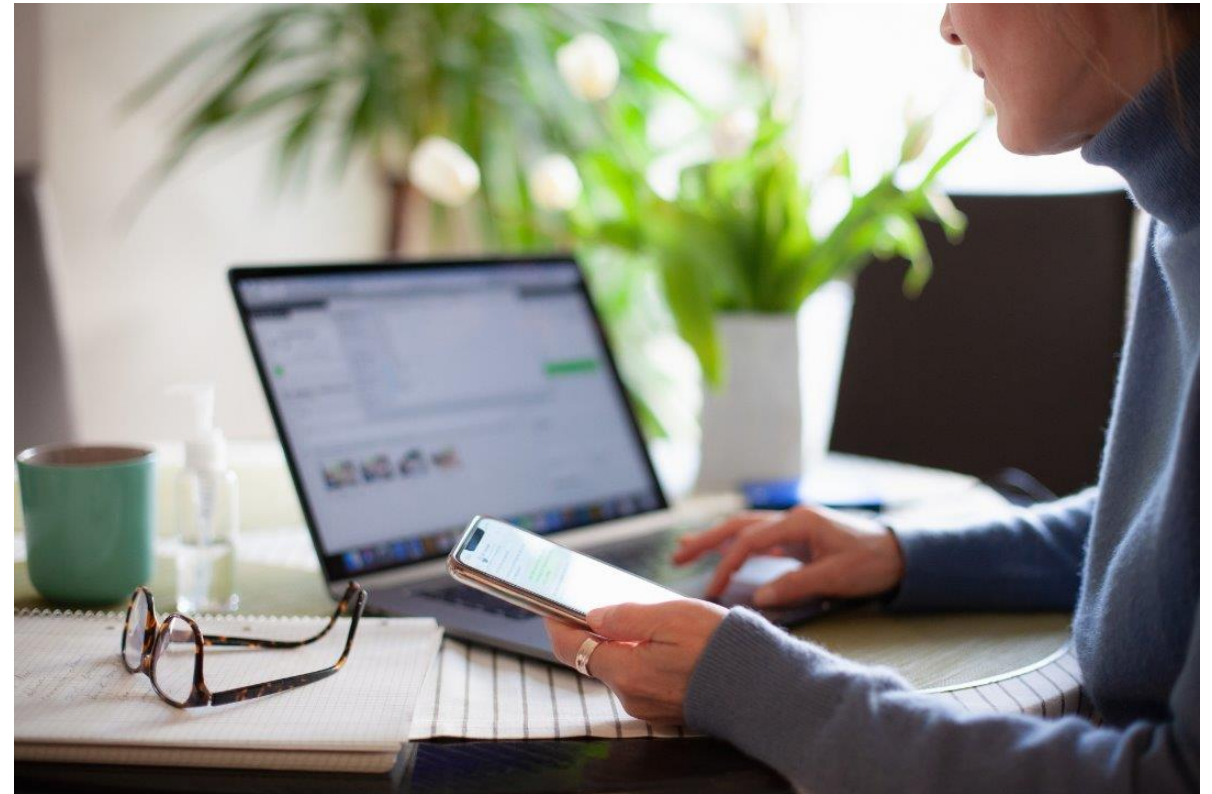
Decision



- Dependent on the Governance Route that was decided by Panel when the modification was raised
- **Standard Governance:** Ofgem makes the decision on whether or not the modification is implemented
- **Self-Governance:** Panel makes the decision on whether or not the modification is implemented
 - an appeals window is opened for 15 days following the Final Self Governance Modification Report being published

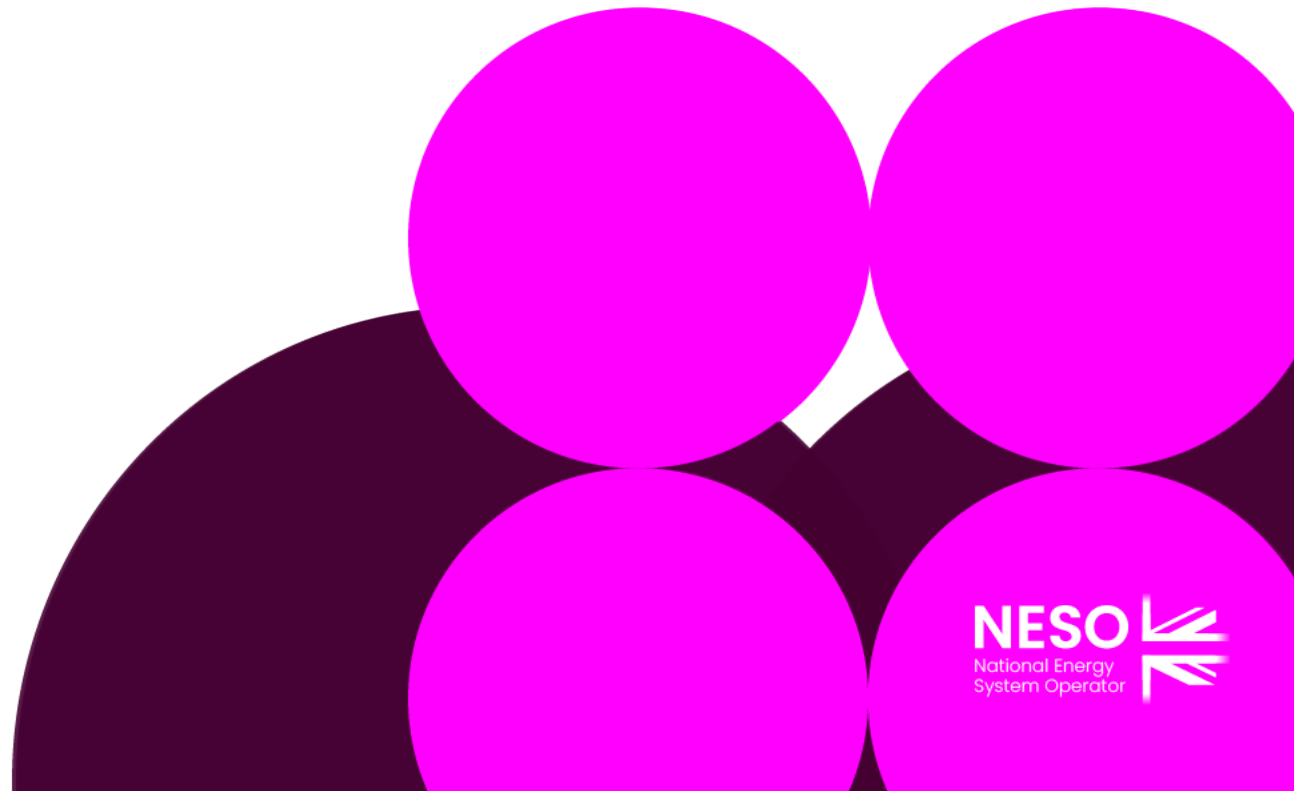
Implement

- The Code Administrator implements the final change which was decided by the Panel / Ofgem on the agreed date.



Workgroup Responsibilities and Membership

Kat Higby – NESO Code Administrator



Expectations of a Workgroup Member

Contribute to the discussion

Be respectful of each other's opinions

Language and Conduct to be consistent with the values of equality and diversity

Do not share commercially sensitive information

Be prepared - Review Papers and Reports ahead of meetings

Complete actions in a timely manner

Keep to agreed scope

Email communications to/cc'ing the .box email

Your Roles

Help refine/develop the solution(s)

Bring forward alternatives as early as possible

Vote on whether or not to proceed with requests for Alternatives

Vote on whether the solution(s) better facilitate the Code Objectives

Workgroup Membership

Role	Name	Company
Proposer	Angus Armstrong	Ocean Winds
Workgroup Member	Sean Nugent	NESO
Workgroup Member	Stephen Dale	NESO
Workgroup Member	Graham Pannell	BayWa r.e.
Workgroup Member	Thibaut Cheret	Offshore Energy UK
Workgroup Member	Ryan Ward	ScottishPower Renewables
Workgroup Member	Garth Graham	SSE Generation
Workgroup Member	Archie Campbell	Zenobe Energy Limited
Workgroup Member	Alan Kelly	Corio Generation
Authority Representative	Louis Sandiford	Ofgem

Workgroup Alternatives and Workgroup Vote

Kat Higby – NESO Code Administrator

What is the Alternative Request?

What is an Alternative Request? The formal starting point for a Workgroup Alternative Modification to be developed which can be raised up until the Workgroup Vote.

What do I need to include in my Alternative Request form? The requirements are the same for a Modification Proposal you need to articulate in writing:

- a description (in reasonable but not excessive detail) of the issue or defect which the proposal seeks to address compared to the current proposed solution(s);
- the reasons why you believe that the proposed alternative request would better facilitate the Applicable Objectives compared with the current proposed solution(s) together with background information;
- where possible, an indication of those parts of the Code which would need amending in order to give effect to (and/or would otherwise be affected by) the proposed alternative request and an indication of the impacts of those amendments or effects; and
- where possible, an indication of the impact of the proposed alternative request on relevant computer systems and processes.

How do Alternative Requests become formal Workgroup Alternative Modifications? The Workgroup will carry out a Vote on Alternatives Requests. If the majority of the Workgroup members or the Workgroup Chair believe the Alternative Request will better facilitate the Applicable Objectives than the current proposed solution(s), the Workgroup will develop it as a Workgroup Alternative Modification.

Who develops the legal text for Workgroup Alternative Modifications? NESO will assist Proposers and Workgroups with the production of draft legal text once a clear solution has been developed to support discussion and understanding of the Workgroup Alternative Modifications.

Can I vote? And What is the Alternative Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person or by teleconference)

Stage 1 – Alternative Vote

- Vote on whether Workgroup Alternative Requests should become Workgroup Alternative CUSC modifications.
- The Alternative vote is carried out to identify the level of Workgroup support there is for any potential alternative options that have been brought forward by either any member of the Workgroup OR an Industry Participant as part of the Workgroup Consultation.
- **Should the majority of the Workgroup OR the Chair believe that the potential alternative solution may better facilitate the CUSC objectives than the Original then the potential alternative will be fully developed by the Workgroup with legal text to form a Workgroup Alternative CUSC modification (WACM) and submitted to the Panel and Authority alongside the Original solution for the Panel Recommendation vote and the Authority decision.**

Can I vote? And What is the Alternative Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person or by teleconference)

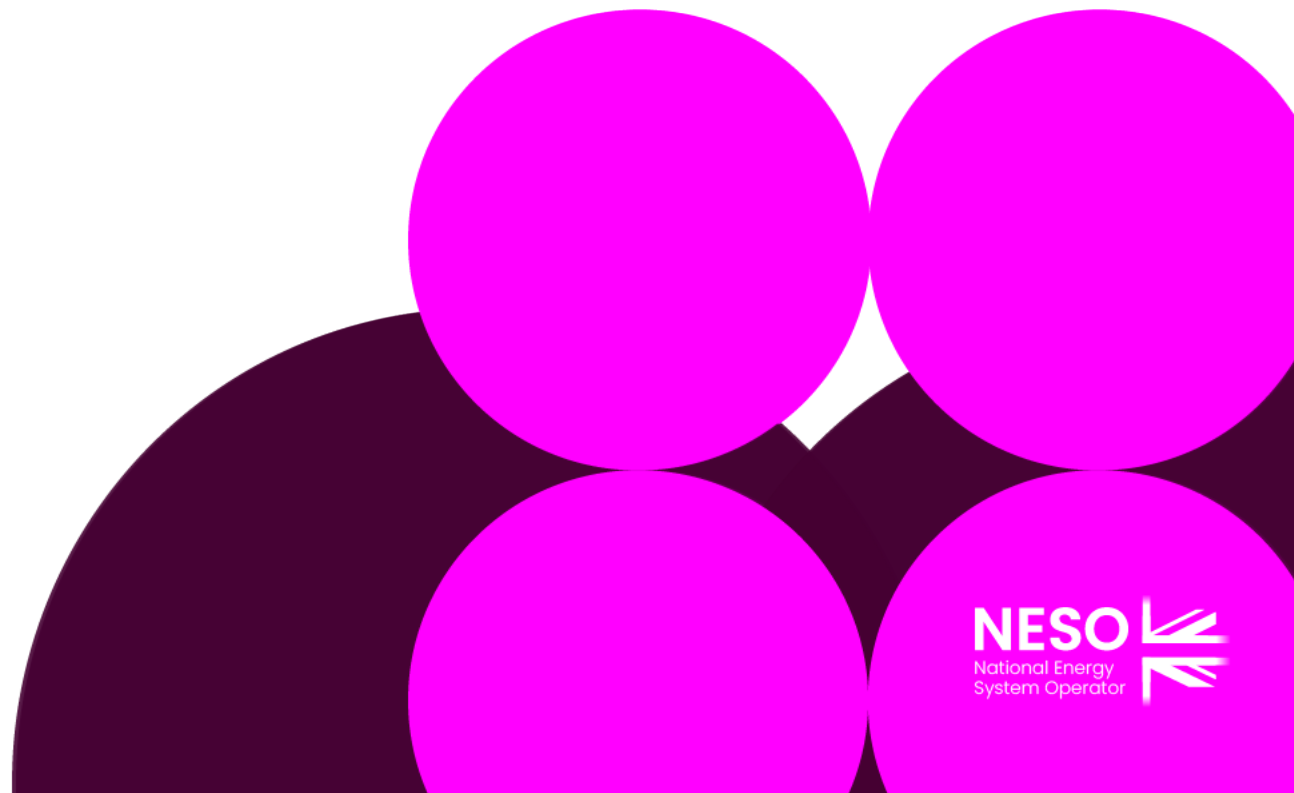
Stage 2 – Workgroup Vote

- 2a) Assess the original and Workgroup Alternative (if there are any) against the relevant Applicable Objectives compared to the baseline (the current code)
- 2b) Vote on which of the options is best.

Alternate Requests cannot be raised after the Stage 2 – Workgroup Vote

Objectives and Timeline

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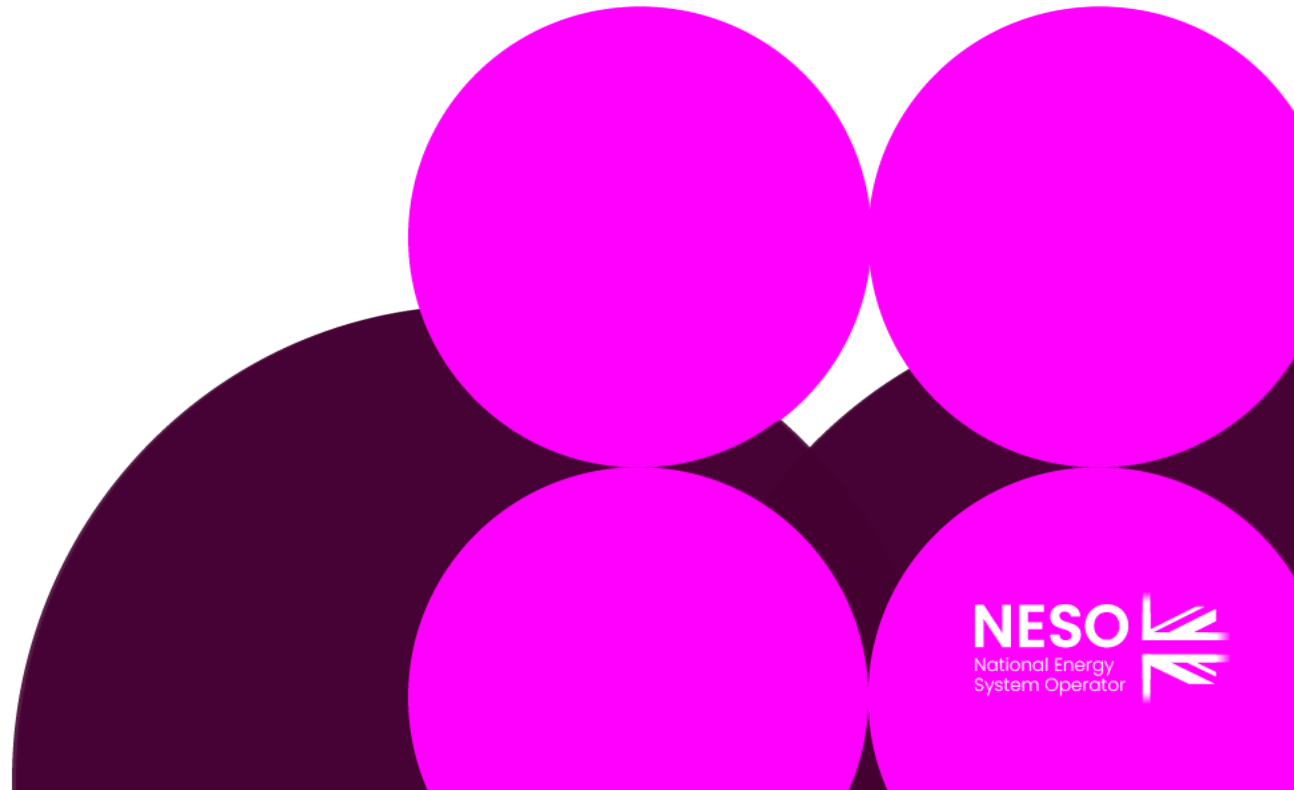
Timeline for CMP445 as of 29 April 2025



Milestone	Date	Milestone	Date
Modification presented to Panel	29 November 2024	Code Administrator Consultation	9 March 2026 to 30 March 2026
Workgroup Nominations (15 business days)	1 April 2025 to 17 April 2025	Draft Final Modification Report (DFMR) issued to Panel (5 business days)	17 April 2026
Workgroups 1 to 3	<ul style="list-style-type: none"> 29 April 2025 – Initial discussion 20 May 2025 – Consider Legal Text 18 July 2025 – Discuss Workgroup Consultation and check ToR met 	Panel undertake DFMR recommendation vote	24 April 2026
Workgroup Consultation (21 business days)	25 July 2025 to 22 August 2025	Final Modification Report issued to Panel to check votes recorded correctly	24 April 2026 to 1 May 2026
Workgroups 4-8	<ul style="list-style-type: none"> 8 September 2025 – Review Workgroup Consultation feedback 6 October 2025 – Review Workgroup Report and Legal Text 3 November 2025 – Review Workgroup Report and Legal Text 1 December 2025 - Finalise Workgroup Report and Legal Text 29 December 2025 – Close off any outstanding actions and Workgroup vote 	Final Modification Report issued to Ofgem	1 May 2026
Workgroup report issued to Panel	20 February 2025	Ofgem decision needed by	30 September 2026
Panel sign off that Workgroup Report has met its Terms of Reference	27 February 2025	Implementation Date	01 April 2027

Review Terms of Reference

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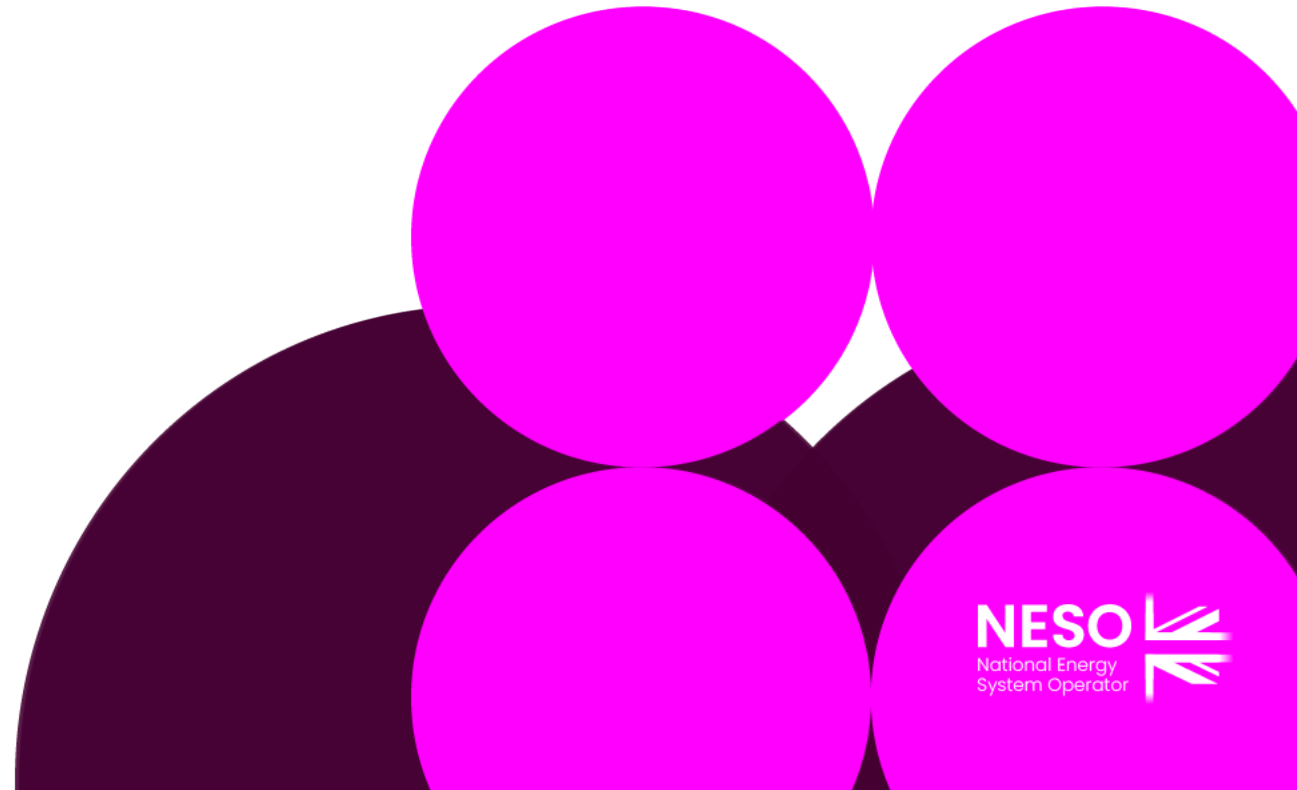
Terms of Reference

Workgroup Term of Reference

- a) Consider EBR implications
- b) Consider applicability to negative charging zones given the different charging basis for those users – ie based on actual output in months November to February
- c) Consider whether the solution should also be applied to users who reduce TEC within year, such as when closing a generating station
- d) Consider the timing of the recovery of any under-recovery in charging year $t[0]$ – is it to be recovered in charging year $t[0]$ (via a 'mid-year tariff change?) or $t[+1]$ or $t[+2]$?
- e) Consider from which class or classes of User the recovery should be made by: (i) generators only, (ii) demand only or (iii) both generation and demand

Proposer's Solution: Background; Proposed Solution; Scope; and Assessment vs Terms of Reference

Angus Armstrong – Ocean Winds



CMP 445

Pro-rating first year TNUoS for Generators



Key Issue

- The Connection and Use of System Code is not clear on the payment of TNUoS during the Generator's first year of connection (i.e. the charging year in which the Charging Date occurs under the Bilateral Connection Agreement).
- Working industry assumption is that TNUoS is paid for the whole year, irrespective of when in the year the Charging Date occurs i.e. a generator will pay the same TNUoS irrespective of whether it connected in e.g. April 24 vs. March 25.
- This should not be the case, both because the CUSC is not clear and because it is not fair or logical.
- This is brought into sharper focus in scenarios where a Generator's assumed Charging Date is delayed for factors outside of its control i.e. a TO delay.
- The commercial impact of this can be very severe, particularly on larger generators and those in areas of high TNUoS tariffs.
- By contrast, this provides an uplift to those Generators in negative TNUoS zones, who will receive a benefit during periods prior to their Connection Date.
- The CUSC must be amended to make the treatment of TNUoS charges in the first year of connection explicit.

Proposal (1)

- The CUSC must be amended to reflect the fact that TNUoS should only be paid in respect of the part of the year that the Generator enjoys use of the system i.e. the annual value should be pro-rated from the Charging Date to the end of the relevant Charging Year.
- Clause 5 of the standard BCA states that Use of System Charges shall be payable by the User from the Charging Date.
- As a fundamental principle, TNUoS should only be payable from the Charging Date, not for the full Charging Year during which a Generator's Charging Date occurs.
- This is logical and fair and consistent with the BCA terms.
- Generators should not pay TNUoS charges for periods prior to their Charging Date.
- Generators subject to negative TNUoS charges should not receive an additional benefit for periods prior to their Charging Date.
- NESO charging team are supportive of this.

Proposal (2)

Drafting proposal to be inserted at Section 14.18.19 of the CUSC can utilise equivalent drafting for Connection Charges already in the CUSC (see Section 14.5.10 for analogous provision):

“The Transmission Network Use of System Generation Charges in the Financial Year in which the Charging Date occurs shall be apportioned as follows:- For each complete calendar month from the Charging Date to the end of the Financial Year in which the Charging Date occurs the User shall be liable to pay one twelfth of the annual Transmission Network Use of System Generation Charges and for each part of a calendar month the User shall be liable to pay to The Company one twelfth of the Transmission Network Use of System Generation Charges, prorated by a factor determined by the number of days for which the User is liable divided by the total number of days in such calendar month.”

Assessment against Applicable CUSC 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;	<p>Positive</p> <p>Ensures that:</p> <ul style="list-style-type: none"> (i) generator bids in competitive CfD auctions are not distorted by (a) those in positive TNUoS zones including unnecessary provision for extra periods of TNUoS that cannot be recovered through generation and/or (b) those in negative TNUoS zones receiving an unjustified benefit during such periods, which in turn should drive down competitive pricing; and (ii) generators competing for grid connections request the most appropriate dates of connection, not dates driven by the TNUoS charging year (which distorts the market). <p>Competition is better facilitated in the generation, supply, sale, distribution and purchase of electricity because generators will have more realistic TNUoS profiles which are based on actual connection dates, removing the potential distortion to competition outlined above.</p>
(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);	<p>Positive</p> <p>Ensures that transmission licensees only receive use of system charges once the generator receives use of system, thereby not unnecessarily increasing the value recovered from TNUoS in the first year of connection.</p>

(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;

Positive

Accurate forecasting of connection dates by NESO will ensure that TOs recover all necessary charges. Generators will (if this change is implemented) seek, and NESO/TOs will offer, connection dates more appropriately aligned with Generators' programmes and the optimum timing for the system.

This will mean that NESO and the TOs will be better resourced and prepared for delivering connections, as they will not all be condensed into April (which inevitably leads to issues with deliverability and resource).

This is particularly important given the number of very large developers seeking connections in Northern Scotland following the ScotWind process where we understand the most optimum connection timing for the TO's is following the summer outage programme – not April.

(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *

Neutral

(e) Promoting efficiency in the implementation and administration of the system charging methodology.

Positive

Encourages the most efficient connection dates for generation, ensuring that:

- (i) generation licensees are able to deliver power for the most efficient price (without the need for consideration of additional charges for periods where they are unable to generate and recover those costs); and
- (ii) provides transmission licensees with a more realistic (less condensed) connection profile across each charging year, whilst also encouraging transmission licensees to deliver on time in order to recover TNUoS in line with forecast.

Provides much needed clarity in the administration of the CUSC. Ambiguity is damaging to investor certainty.

Certainty on this point, and a change to ensure that generators do not pay more TNUoS than is necessary or fair will lead to greater efficiency. With less room for disagreement and dispute, the implementation and administration of CUSC arrangements will be more efficient.

Certainty on this topic will, in turn, serve to increase investor certainty in the area of TNUoS charging.

Assessment of the impact on stakeholder/consumer benefits

Relevant Objective	Identified impact
Improved safety and reliability of the system	<p>Positive</p> <p>This proposal would likely result in connections becoming more reliable and deliverable.</p> <p>Significant distortion caused to the connections market by generators seeking connections in line with the most optimum point of the charging year (April), rather than realistic connection date. This creates significant pressures for the TOs to deliver. This is not necessarily the most safe and reliable time of the year to deliver connections as many of the outages required to deliver such connections must be taken over the winter months where reliability is paramount.</p> <p>If generators were to seek connections at the time best suited to them, or NESO were to offer connections at the time best suited to safety and reliability of the overall system – this would significantly smooth the demand on NESO and the TOs and also ensure that projects were connected at the most optimum time for safety and reliability and at optimum cost for the consumers. This proposal will facilitate that objective.</p>
Lower bills than would otherwise be the case	<p>Positive</p> <p>Without this change, generators will pay more TNUoS in the year in which their Charging Date occurs (in some cases, far more). This will be the case for the vast majority of Generators and will only not be the case if connection occurs on 1 April.</p> <p>Where delay to connection is due to the TO, this risk sits entirely with the generator and TO delays are becoming commonplace. If this is not corrected, Generators will price this significant risk into their business cases. In turn, this will result in higher CfD clearing prices and higher bills for the consumer. This proposal will most likely result in lower bills for the consumer.</p> <p>Furthermore, those generators based in negative TNUoS zones will receive an additional benefit. They will be paid for periods where they are adding no benefit to the generation mix in GB. Without this proposal, this will continue to have an adverse effect on consumer bills.</p>

Relevant Objective	Identified impact
Benefits for society as a whole	<p>Positive</p> <p>Increased investor certainty and decreased additional risk premium in forthcoming CfD bids will result in higher volumes of lower cost green electricity.</p> <p>A “smoother” connection profile will result in connections that are more optimally timed and therefore are better for system security, and therefore society as a whole.</p>
Reduced environmental damage	<p>Positive</p> <p>With the potential for reduced CfD pricing, increased investor certainty and enhancement of the connection process, this will better facilitate offshore wind targets and net zero goals – in turn producing a positive environmental effect.</p>
Improved quality of service	<p>Positive</p> <p>For Generators this is likely to result in an improved quality of service. For the reasons stated above, it is most likely to result in requested/offered connection dates which are more in line with generator requirements, TO resourcing plans, and system security. For that reason, it will make connection dates more deliverable as resourcing will be less focussed on April connections. Furthermore, it will provide the TOs and NESO with incentivisation to deliver on time to ensure that TNUoS is recovered in line with forecast during any given charging year.</p>

Workgroup Terms of Reference

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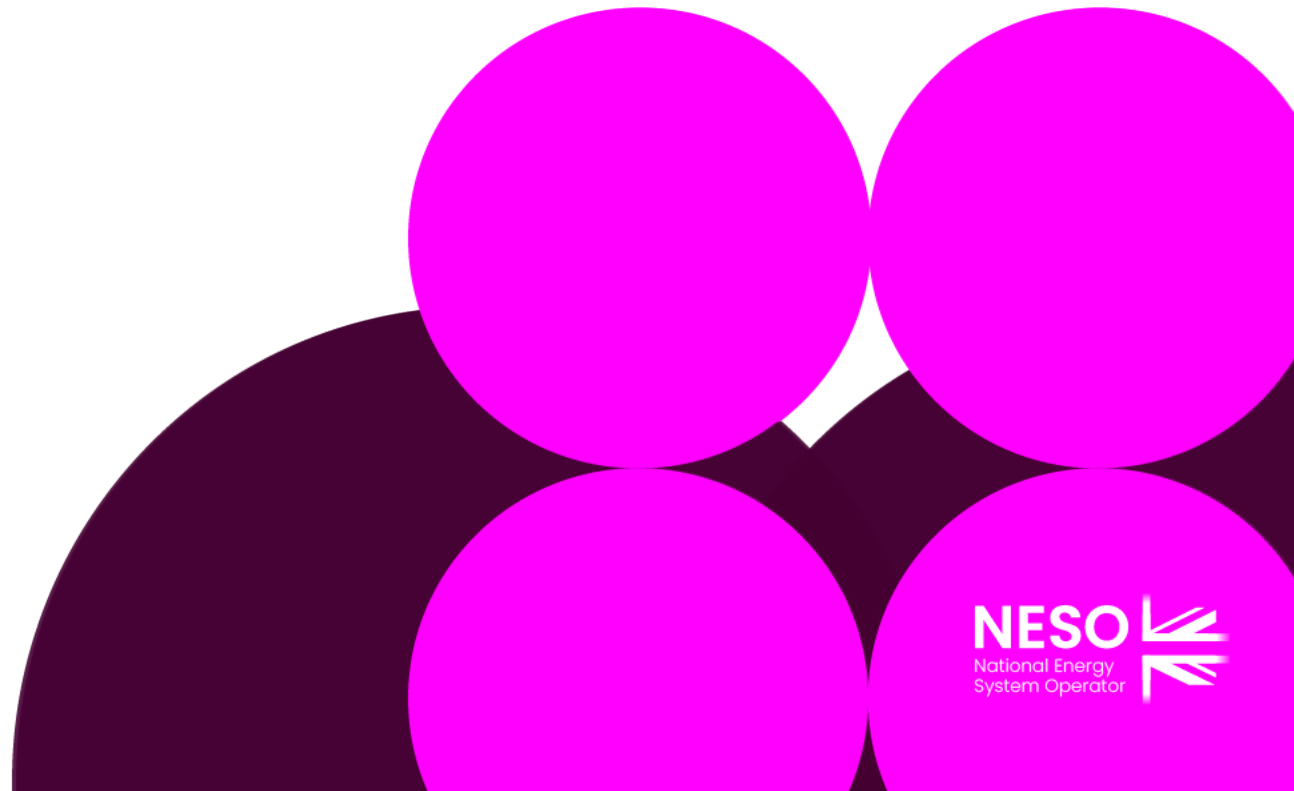
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(e) Consider from which class or classes of User the recovery should be made by: (i) generators only, (ii) demand only or (iii) both generation and demand

Agree Terms of Reference

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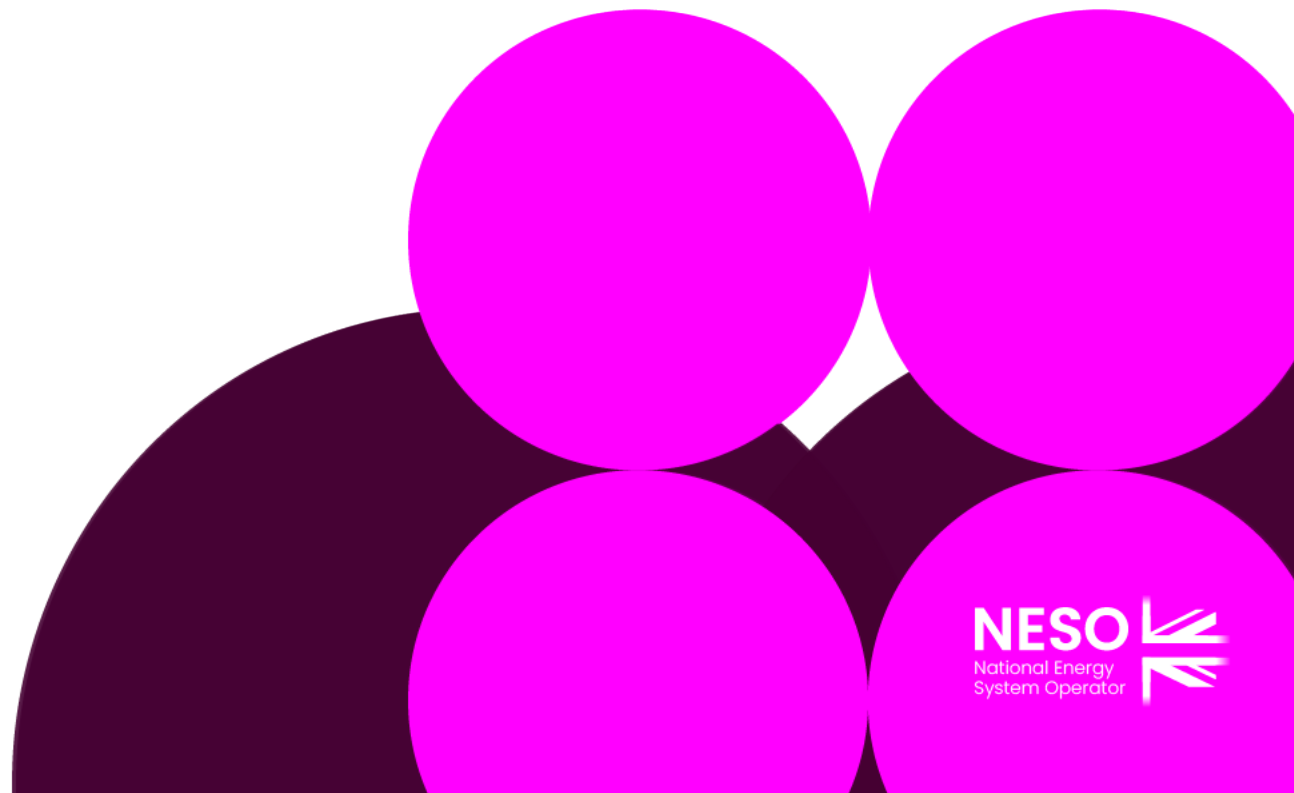
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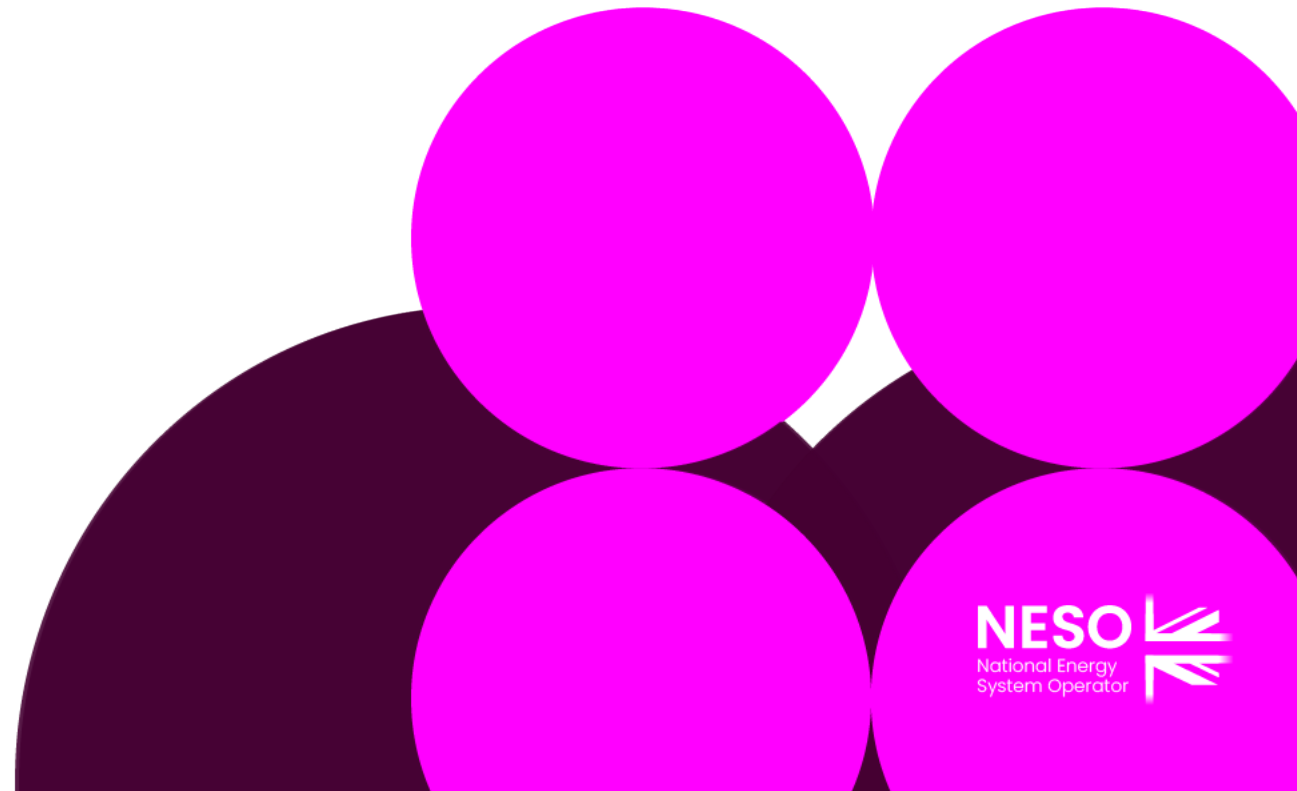
Cross Code Impacts

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Any Other Business

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Next Steps

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