

Workgroup Consultation Response Proforma**CMP411: Introduction of Anticipatory Investment (AI) within the Section 14 charging methodologies.**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@nationalgrideso.com by **5pm** on **7 July 2023**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact cusc.team@nationalgrideso.com

Respondent details	Please enter your details	
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Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network <input type="checkbox"/> Operator <input type="checkbox"/> Generator <input type="checkbox"/> Industry body	<input type="checkbox"/> Interconnector <input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input checked="" type="checkbox"/> Other

I wish my response to be:

(Please mark the relevant box)

☒ Non-Confidential

☐ Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

For reference the Applicable CUSC (charging) Objectives are:

- 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;*
- 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);*

- 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;*
- d. *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- e. *Promoting efficiency in the implementation and administration of the system charging methodology.*

**The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.*

Please express your views in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions		
1	Do you believe that the Original Proposal better facilitate the Applicable Objectives?	<p>Mark the Objectives which you believe the Original better facilitates:</p> <p>Original <input checked="" type="checkbox"/>A <input type="checkbox"/>B <input checked="" type="checkbox"/>C <input type="checkbox"/>D <input checked="" type="checkbox"/>E</p> <p>We believe this original proposal better facilitates applicable objective (a) as the introduction of Anticipatory Investment (AI) principles will effectively reduce the risk of the initial generator paying higher TNUoS charges if it were to undertake AI. This in turn encourages AI, enabling the subsequent generator to connect, facilitating greater competition.</p> <p>The original proposal helps better facilitate applicable objective (c) as it looks to implement Ofgem's policy decision on AI into the section 14 charging methodology.</p> <p>Objective (e) is better facilitated as the proposed modification prescribes the calculative approach to recover AI costs whilst outlining and providing clarity on the treatment of AI to the industry.</p>
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/>Yes <input type="checkbox"/>No</p> <p>The implementation approach, particularly from a calculative perspective will enable the AI Cost Gap to be recovered by subsequent generation. The use of a new and distinct tariff will ensure the entirety of the AI Cost Gap will be recovered by the Subsequent generator which is aligned to the AI Policy decision from Ofgem.</p>
3	Do you have any other comments?	No further comments.

4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No No, we are satisfied with the CMP411 Original Proposal.
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Specific Workgroup Consultation questions

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>We believe that in principle, the AI Cost Gap should still be repaid by the subsequent generator, regardless of the period of time between the initial and subsequent generators connecting. This is because the AI costs are associated with assets that will be utilised by the subsequent generator.</p> <p>However, this scenario could be considered as 'highly' AI as generators connecting in this timeframe (i.e., 15-20 years later) are likely to be 'unknown' generators for which there is not currently a policy decision. Therefore, it falls outside the remit of this modification which only considers introducing an AI recovery mechanism for 'known' future connected generators.</p> <p>We believe that the introduction of the AI Cost Gap should also further incentivise the subsequent generator to avoid delaying their connection as the longer the AI Cost Gap period is, the higher the AI Cost Gap value they will need to pay back. So, by incentivising the subsequent generator to connect sooner, it helps to ensure consumers are paid back sooner rather than later.</p>
6	Consider the options for applying inflation, e.g., should it be CPI or RPI linked?	<p>Firstly, it's important to outline the inflation indexation that is currently in place for Offshore Transmission Owner's (OFTO) and Transmission Owner's (TO) revenue. The revenue indexation for OFTO is linked to RPI as defined in the OFTO licence. In regards to the TO revenue, CUSC section 14.3.6 defines the Transmission Owner Price Index (TOPI) which is linked to CPI.</p> <p>It's important to note though, the AI Cost Gap will be paid in the interim by consumers via the Transmission Demand Residual element of TNUoS and the subsequent generator will pay back consumers once connected. Therefore, this return is not tracking a TO's or OFTO's revenue going forward. Linking it to the current onshore TO/OFTO inflation indexation may not be appropriate, but the inflation term should be chosen to reflect the loss of value incurred by consumers when paying off the AI Cost Gap. The loss of value incurred by consumers and</p>

		consideration of the application of inflation from this perspective should be explored further in the coming Working Groups to confirm the inflation indexation applied.
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 wider tariff?	We believe questions related to changes from a local to a wider circuit are a much broader methodology consideration which is beyond the scope of this modification. This is because it touches on areas of the methodology which are yet to be determined. For example, the creation of offshore zones and the methodology around this will have interactions and may need to be established first/together before this question is considered.
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?	As per question 7, we believe this would be considered outside of the scope of the modification as it touches on broader areas of the methodology which are yet to be determined.
9	Are there any other comments in relation to Q7 and Q8 on a broader perspective?	No further comments.
10	Consider the impact on consumers if the subsequent generator(s) don't connect to the National Electricity Transmission System.	As per the policy decision on AI , if the subsequent generator(s) don't connect to the National Electricity Transmission System (NETS), this risk would sit with consumers as the costs would be covered by the Transmission Demand Residual element of Transmission charges but they would not be paid back.