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CUSC Alternative Form - Charging

CMP444 Alternative Request 1:

Overview: Alternative Proposal name: Deciles TNUoS Cap & Floor.

Similar to Original Solution, this proposal seeks to introduce caps and floor for each of the individual Peak Tariff, Shared Year Round Tariff, and Not Shared Year Round tariffs. However, in this Alternative Proposal the percentiles are set at the 10% and 90% levels, as opposed to the 2.5% and 97.5% levels in the Updated Proposal. This Alternative Proposal therefore sets, for the 2025-2026 year, the cap as the 9th decile of the 2024 5-year 2025-2029 TNUoS projections and the floor as the 1st decile of the same projections. Caps and Floors for following years are calculated with indexation from the 2025-2026 year, in line with the Original Solution.

Proposer: Emanuele Dentis, Northland Power.

☒ I/We confirm that this Alternative Request proposes to modify the charging section of the CUSC only

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Guidance for Alternative Proposers

Who can raise an Alternative? Any CUSC or BSC Party, or Citizens Advice can raise an Alternative Request in response to the Workgroup Consultation.

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 CUSC Modification Proposal, the Workgroup will develop it as a Workgroup Alternative Modification.

Who develops the legal text for Alternatives? ESO will develop the Legal text for all Workgroup Alternative Modifications and will liaise with the Alternative Proposer to do so.

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Table of Contents

1. What is the proposed alternative solution?	4
2. What is the difference between this and the Original Proposal?	4
Purpose	4
Original Proposal – Issue – Calculation	4
Original Proposal – Issue – Implications	7
Alternative Proposal – Calculation	8
Alternative Proposal – Example Wider Tariff	11
Alternative Proposal – Ofgem Open Letter.....	12
3. What is the impact of this change?.....	13
4. Acronyms, key terms and reference material	15
Key Terms.....	15
References	15
Figures	15

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1. What is the proposed alternative solution?

Similarly to the Original Solution, this Alternative Proposal seeks to introduce caps and floor for each of the individual Peak Tariff, Shared Year Round Tariff, and Not Shared Year Round tariffs (together referred as the “Tariffs”). This Alternative Proposal seeks to set the cap for the 25-26 year as the 9th decile of the 2024 5-year TNUoS projections and the floor for the 25-26 year as the 1st decile of the same projections. Caps and Floors for following years are calculated with indexation from the 25-26 year, in line with the Original Solution.

2. What is the difference between this and the Original Proposal?

Purpose

This Alternative Proposal has the same goal as the Original Proposal, namely to introduce caps and floors for each of the individual components of the TNUoS Wider Tariffs.

Original Proposal – Issue – Calculation

This Alternative Proposal Argues that a 2.5% percentile floor and a 97.5% percentile cap in the Updated Proposal are not “appropriate” lower and upper limits for the TNUoS Tariffs.

In the Updated Proposal, the 2.5% and 97.5% percentiles split TNUoS tariffs from 2025 to 2029 in 20 parts and exclude the bottom 1/20 and the top 1/20 of the data points. With 135 data points made up of 5 years of data and 27 regions, this means that **top and bottom 4 zone-year Tariffs data point are excluded** to set the cap and the floor, respectively. As a result, there are **some years in the 2025-2029 projections where there is effectively no cap or floor**.

Tables 1 and 2 show which Year Round Shared and which Year Round Not Shared Tariffs in real 2025-2026 terms, respectively, are greater than the cap (highlighted in red) or lower than the floor (highlighted in blue).

This underlying issue in the calculation has **significant implications** – please refer to the **next section**.

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Generation Tariffs		Shared Year Round Tariff					97.5% perc	2.5% perc
Zone	Zone Name	(£/kW)	(£/kW)	(£/kW)	(£/kW)	(£/kW)		
1	North Scotland	24.1	21.5	24.2	27.8	36.5	26.9	-8.8
2	East Aberdeenshire	14.0	12.9	13.4	6.9	16.9		
3	Western Highlands	21.9	20.3	21.4	20.8	29.4		
4	Skye and Lochalsh	21.9	20.3	21.4	20.8	29.4		
5	Eastern Grampian and Tayside	17.0	16.3	18.2	17.7	25.2		
6	Central Grampian	17.4	16.2	18.1	17.6	24.5		
7	Argyll	15.2	14.3	16.4	16.1	22.3		
8	The Trossachs	15.2	14.3	16.4	16.1	22.3		
9	Stirlingshire and Fife	14.8	14.3	16.2	15.1	21.7		
10	South West Scotlands	14.2	13.8	16.0	15.7	20.6		
11	Lothian and Borders	14.2	13.8	16.0	15.7	20.6	26.9	-8.8
12	Solway and Cheviot	9.5	9.8	11.4	11.5	14.7		
13	North East England	7.0	7.0	7.6	7.9	7.3		
14	North Lancashire and The Lakes	7.0	7.0	7.6	7.9	7.3		
15	South Lancashire, Yorkshire and Humber	2.9	3.2	3.1	3.7	2.3		
16	North Midlands and North Wales	1.2	2.1	1.8	2.4	1.7		
17	South Lincolnshire and North Norfolk	0.5	-0.2	-0.5	-0.2	-1.8		
18	Mid Wales and The Midlands	1.3	0.8	0.4	0.4	-0.9		
19	Anglesey and Snowdon	0.7	3.1	3.0	3.6	2.5		
20	Pembrokeshire	-8.5	-7.1	-7.6	-7.3	-8.9		
21	South Wales & Gloucester	-8.3	-7.7	-7.3	-6.9	-8.8		
22	Cotswold	2.9	1.7	1.9	0.8	-0.1		
23	Central London	2.9	1.7	1.9	0.8	-0.1		
24	Essex and Kent	2.9	1.7	1.9	0.8	-0.1		
25	Oxfordshire, Surrey and Sussex	-4.0	-4.3	-4.0	-4.1	-5.9		
26	Somerset and Wessex	-5.2	-5.9	-3.8	-3.4	-5.4		
27	West Devon and Cornwall	-12.1	-12.3	-7.3	-6.8	-8.9		

Table 1. Year Round Shared Tariff in real 2025-2026 terms, relative to 97.5% percentile cap and 2.5% percentile floor, under the Updated Proposal.

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		25/26 prices	25/26 prices	25/26 prices	25/26 prices	25/26 prices		
Generation Tariffs		Not Shared Year Round Tariff					97.5% perc	2.5% perc
Zone	Zone Name	(£/kW)	(£/kW)	(£/kW)	(£/kW)	(£/kW)		
1	North Scotland	18.3	19.6	19.5	26.2	32.0	27.7	-6.8
2	East Aberdeenshire	18.3	19.6	19.5	26.2	32.0		
3	Western Highlands	17.2	18.8	17.0	18.4	23.7		
4	Skye and Lochalsh	19.0	27.9	26.1	27.4	31.9		
5	Eastern Grampian and Tayside	14.0	15.4	13.4	14.4	20.0		
6	Central Grampian	14.5	15.2	13.3	14.2	19.2		
7	Argyll	21.1	24.0	19.0	18.7	24.0		
8	The Trossachs	11.9	12.7	10.8	11.5	16.5		
9	Stirlingshire and Fife	11.7	12.7	10.6	10.5	16.0		
10	South West Scotlands	11.4	12.4	10.4	10.9	15.4		
11	Lothian and Borders	5.8	7.3	4.5	5.3	10.9		
12	Solway and Cheviot	6.8	8.0	6.6	7.0	10.3		
13	North East England	4.3	4.5	3.0	3.2	3.5		
14	North Lancashire and The Lakes	1.5	2.1	1.0	1.2	3.5		
15	South Lancashire, Yorkshire and Humber	0.3	0.2	0.1	0.2	0.1		
16	North Midlands and North Wales	-	-0.0	-	-	-		
17	South Lincolnshire and North Norfolk	-	-0.0	-	-	-		
18	Mid Wales and The Midlands	-	-0.0	-	-	-		
19	Anglesey and Snowdon	-	-0.0	-	-	-		
20	Pembrokeshire	-	-	-	-	-		
21	South Wales & Gloucester	-	-	-	-	-		
22	Cotswold	-10.7	-9.1	-7.9	-6.6	-7.0		
23	Central London	-3.4	-3.1	-3.5	-3.6	-3.3		
24	Essex and Kent	-	-	-	-	-		
25	Oxfordshire, Surrey and Sussex	-	-	-	-	-		
26	Somerset and Wessex	-	-	-	-	-		
27	West Devon and Cornwall	-	-	-	-	-		

Table 2. Year Round Not Shared Tariff in real 2025-2026 terms, relative to 97.5% percentile cap and 2.5% percentile floor, under the Updated Proposal.

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Original Proposal – Issue – Implications

Effectively, **the Updated Solution does not deliver a floor to TNUoS projections**. This is self-apparent when considering the Example Wider Tariff for a 45% intermittent generator:

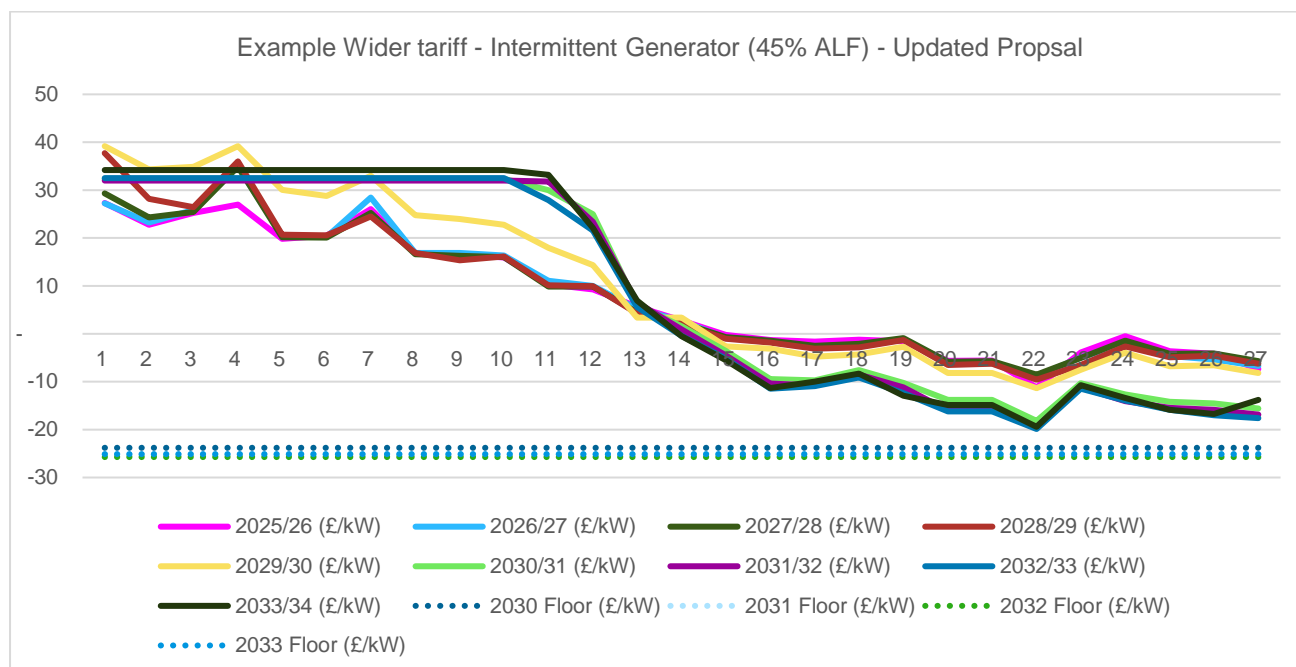


Figure 1. Example Wider Tariff for a 45% ALF Intermittent Generator under the Updated Proposal.

Whilst the Alternative Proposal does effectively deliver a cap, it still falls short of delivering a floor. The calculated **Floor Example Wider Tariff (dashed lines)** using individual Tariffs floors from the Updated Proposal for years 2030-2033 **fall below the Example Wider Tariff for the same years in all zones** (solid lines).

This Alternative Proposal does recognise that the Ofgem Open Letter (Mills, 2024) recommends “individual” limits on each of the Year Round Shared, Year Round not Shared, and Peak Tariffs rather than a limit on the overall Wider Tariff. Nonetheless, the same Open Letter also calls for consumers not to bear the burden of increasingly greater credits to Southern Generators (“unadulterated tariff”). Within the Terms of References of this CMP, **the only way to stop consumers subsidising increasingly greater credits is for there to be an effective floor to the Wider Tariff**. This is not achieved by the Updated Proposal.

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Alternative Proposal – Calculation

Given the number of data points in the 5 year projections (27 zones along 5 years = 135 data points), this Alternative Proposal maintains **deciles are much better suited at calculating caps and floors**, so that:

- A floor for the 2025-2026 year is calculated as the 1st decile of the 2024 5-year projections; and
- A cap for the 2025-2026 year is calculated as the 9th decile of the 2024 5-year projections.

It is proposed that the floor and cap values for followings years is derived by inflating the 2025-2026 cap & floor values by the appropriate CPI-H indexation measure, as per the Original Proposal.

System Peak Tariff	
Cap	Floor
4.395566	- 1.321148

Shared Year Round Tariff	
Cap	Floor
21.474544	- 6.853637

Not Shared Year Round Tariff	
Cap	Floor
19.602601	- 0.010481

Table 3. Caps and Floors for the components of the Wider Tariff under this Alternative Proposal.

As a result, in the Year Round Shared and Year Round not Shared, there is **at least one zone that is affected by both the cap (in red) and the floor (in blue) in every year of the 5 year projections**, as shown in Tables 3 and 4 for the Year, respectively:

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Zone	Zone Name	(£/kW)	(£/kW)	(£/kW)	(£/kW)	(£/kW)	decile cap	decile floor
1	North Scotland	24.1	21.5	24.2	27.8	36.5	21.5	-6.9
2	East Aberdeenshire	14.0	12.9	13.4	6.9	16.9		
3	Western Highlands	21.9	20.3	21.4	20.8	29.4		
4	Skye and Lochalsh	21.9	20.3	21.4	20.8	29.4		
5	Eastern Grampian and Tayside	17.0	16.3	18.2	17.7	25.2		
6	Central Grampian	17.4	16.2	18.1	17.6	24.5		
7	Argyll	15.2	14.3	16.4	16.1	22.3		
8	The Trossachs	15.2	14.3	16.4	16.1	22.3		
9	Stirlingshire and Fife	14.8	14.3	16.2	15.1	21.7		
10	South West Scotlands	14.2	13.8	16.0	15.7	20.6		
11	Lothian and Borders	14.2	13.8	16.0	15.7	20.6		
12	Solway and Cheviot	9.5	9.8	11.4	11.5	14.7		
13	North East England	7.0	7.0	7.6	7.9	7.3		
14	North Lancashire and The Lakes	7.0	7.0	7.6	7.9	7.3		
15	South Lancashire, Yorkshire and Humber	2.9	3.2	3.1	3.7	2.3		
16	North Midlands and North Wales	1.2	2.1	1.8	2.4	1.7		
17	South Lincolnshire and North Norfolk	0.5	-0.2	-0.5	-0.2	-1.8		
18	Mid Wales and The Midlands	1.3	0.8	0.4	0.4	-0.9		
19	Anglesey and Snowdon	0.7	3.1	3.0	3.6	2.5		
20	Pembrokeshire	-8.5	-7.1	-7.6	-7.3	-8.9		
21	South Wales & Gloucester	-8.3	-7.7	-7.3	-6.9	-8.8		
22	Cotswold	2.9	1.7	1.9	0.8	-0.1		
23	Central London	2.9	1.7	1.9	0.8	-0.1		
24	Essex and Kent	2.9	1.7	1.9	0.8	-0.1		
25	Oxfordshire, Surrey and Sussex	-4.0	-4.3	-4.0	-4.1	-5.9		
26	Somerset and Wessex	-5.2	-5.9	-3.8	-3.4	-5.4		
27	West Devon and Cornwall	-12.1	-12.3	-7.3	-6.8	-8.9		

Table 4. Year Round Shared Tariff in real 2025-2026 terms, relative to decile cap floor, under this Alternative Proposal.

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Generation Tariffs		Not Shared Year Round Tariff					decile cap	decile floor
Zone	Zone Name	(£/kW)	(£/kW)	(£/kW)	(£/kW)	(£/kW)		
1	North Scotland	18.3	19.6	19.5	26.2	32.0	19.6	-0.0
2	East Aberdeenshire	18.3	19.6	19.5	26.2	32.0		
3	Western Highlands	17.2	18.8	17.0	18.4	23.7		
4	Skye and Lochalsh	19.0	27.9	26.1	27.4	31.9		
5	Eastern Grampian and Tayside	14.0	15.4	13.4	14.4	20.0		
6	Central Grampian	14.5	15.2	13.3	14.2	19.2		
7	Argyll	21.1	24.0	19.0	18.7	24.0		
8	The Trossachs	11.9	12.7	10.8	11.5	16.5		
9	Stirlingshire and Fife	11.7	12.7	10.6	10.5	16.0		
10	South West Scotlands	11.4	12.4	10.4	10.9	15.4		
11	Lothian and Borders	5.8	7.3	4.5	5.3	10.9	19.6	-0.0
12	Solway and Cheviot	6.8	8.0	6.6	7.0	10.3		
13	North East England	4.3	4.5	3.0	3.2	3.5		
14	North Lancashire and The Lakes	1.5	2.1	1.0	1.2	3.5		
15	South Lancashire, Yorkshire and Humber	0.3	0.2	0.1	0.2	0.1		
16	North Midlands and North Wales	-	-0.0	-	-	-		
17	South Lincolnshire and North Norfolk	-	-0.0	-	-	-		
18	Mid Wales and The Midlands	-	-0.0	-	-	-		
19	Anglesey and Snowdon	-	-0.0	-	-	-		
20	Pembrokeshire	-	-	-	-	-		
21	South Wales & Gloucester	-	-	-	-	-		
22	Cotswold	-10.7	-9.1	-7.9	-6.6	-7.0		
23	Central London	-3.4	-3.1	-3.5	-3.6	-3.3		
24	Essex and Kent	-	-	-	-	-		
25	Oxfordshire, Surrey and Sussex	-	-	-	-	-		
26	Somerset and Wessex	-	-	-	-	-		
27	West Devon and Cornwall	-	-	-	-	-		

Table 5. Year Round Not Shared Tariff in real 2025-2026 terms, relative to decile cap floor, under this Alternative Proposal.

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Alternative Proposal – Example Wider Tariff

For an intermittent generation with 45% ALF, this Alternative Proposal results in the following Wider Tariff:

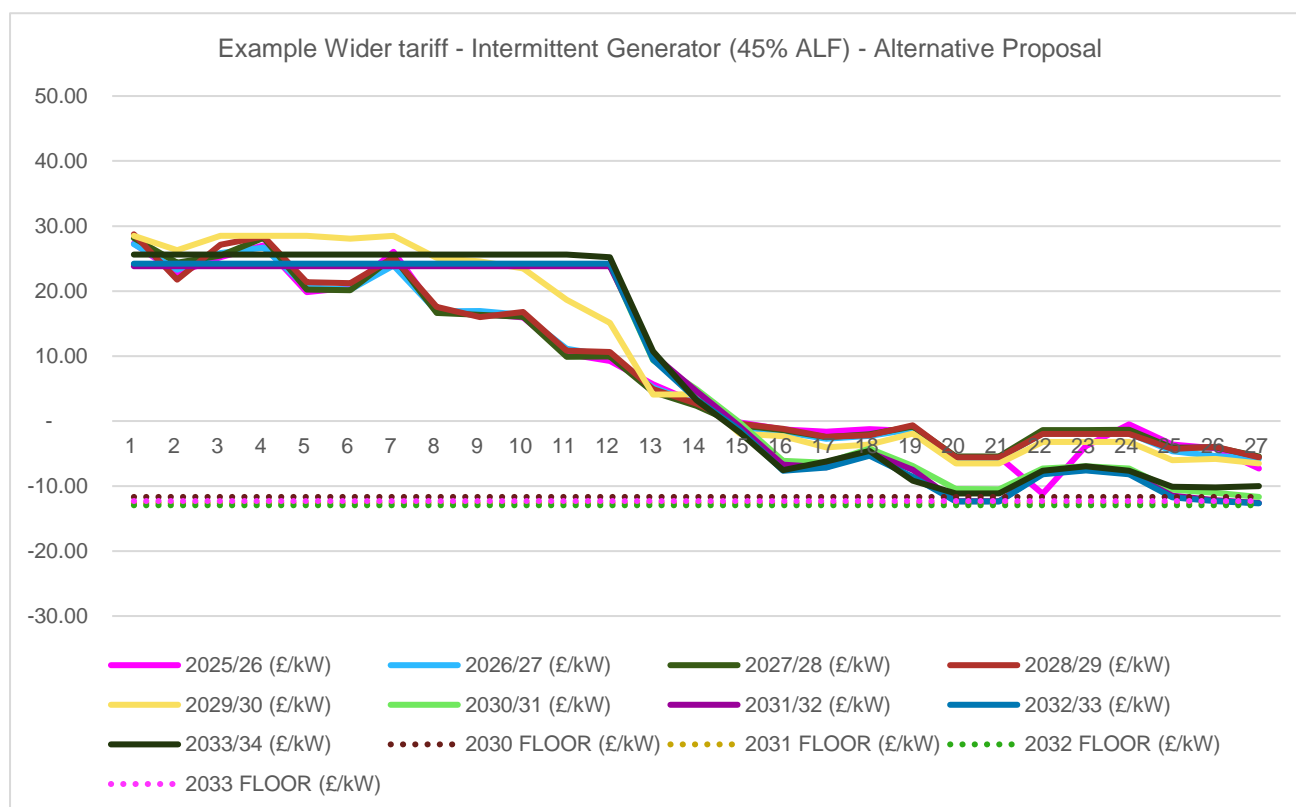


Figure 2. Example Wider Tariff for 45% ALF Intermittent Generator under this Alternative Proposal.

The example Wider Tariff in Figure 2 uses an Adjustment Tariff calculated by NESO based on the Cap and Floor values in Table 3.

Is it self-evident that **this Alternative Proposal does deliver a floor, unlike the Updated Proposal.**

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Alternative Proposal – Ofgem Open Letter

Table 2 below summarises how this Alternative Proposal better meets Ofgem's Open Letter points, as specified in the Terms of Reference for this CMP444 (National Energy System Operator, 2024).

Ofgem's Open Letter Points. Proposal...	Updated Proposal	This Alternative Proposal
Is cost-reflective	✓	✓
Establishes appropriate individual, upper and lower limits for individual Tariffs	✗ 97.5% percentiles are not appropriate for the 135 YRS and YRNS data points	✓
Retains locational differentials	✓	✓
Complies with Regulation 838/2010	✓	✓
Can be implemented without NESO revising its TNUoS forecasting approach	✓	✓
Can be implemented from April 2026	✓	✓
Also provides a floor – "a cap without a floor would [...] result in inefficient signals" (Mills, 2024)	✗ Effectively doesn't provide a floor	✓
Reduces investment uncertainty	✓	✓
Facilitates achievement of Clean Power 2030	✓	✓
Protects the interest of consumers	✗ Consumers subsidise negative unfloored tariffs	✓
Is simple – Ofgem rejected other CMPs particularly due to "the complexity of the methodology and deliverability" (Mills, 2024)	✓	✓

Table 6. Comparison of how The Updated Proposal and This Alternative Proposal meet Ofgem's requirements for the TNUoS Cap & Floor.

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3. What is the impact of this change?

Proposer's Assessment against CUSC Charging 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;	Positive: As per the Original Proposal this change would facilitate enhanced competition in generation, by decreasing uncertainty for projects, allowing them to proceed at competitive costs, whether CfD supported or not.
(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 C11 requirements of a connect and manage connection);	Positive: This proposal retains the cost-reflective element of TNUoS charges, finding a better level of balance between cost reflectivity and ensuring project required to meet Clean Power 2030 Plan are delivered.
(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 and the ISOP business*;	Neutral: NO relevant developments apply.
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency **; and	Positive: Once an appropriate Adjustment Tariff is calculated and applied, this proposal is consistent with these regulations.

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

Positive: This proposal is easy to calculate and does not increase the admin burden for NESO significantly and no more so that the Original proposal.

*See *Electricity System Operator Licence*

**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.

When will this change take place?

Implementation date:

Same as Original Proposal, 1st April 2026.

Implementation approach:

Same as Original Proposal, only requiring a slight adjustment to how the value of the cap and floor are derived.

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4. Acronyms, key terms and reference material

Key Terms

Acronym / key term	Meaning
Deciles	A statistical measure that divides a dataset into 10 equal parts, raking data from smallest to largest. Each decile represents 10% of the data.
1 st Decile	The value below which the lowest 10% of the forecast Tariffs sit.
9 th Decile	The value below which the lowest 90% of the forecast Tariffs sit.
NESO	National Energy System Operator

References

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Mills, G., 2024. *Open Letter: Seeking industry action to develop a temporary intervention to protect the interests of consumers by reducing the uncertainty associated with projected future TNUoS charges*. [Online] Available at: https://www.ofgem.gov.uk/sites/default/files/2024-09/Open_letter_TNUoS_intervention_vF_Publications.pdf [Accessed 15 December 2024].

National Energy System Operator, 2024. *Workgroup Terms of Reference. CMP444: Introducing a cap and floor to wider generation TNUoS charges*. [Online] Available at: <https://www.neso.energy/document/346351/download> [Accessed 10 December 2024].

Newbold, P., Carlson, W. L. & Thorne, B. M., 2013. *Statistics for Economics and Business*. 8th ed. Harlow: Pearson.

Figures

Figure 1. Example Wider Tariff for a 45% ALF Intermittent Generator under the Updated Proposal. . 7

Figure 2. Example Wider Tariff for 45% ALF Intermittent Generator under this Alternative Proposal.

11