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Workgroup Consultation Response Proforma

CMP444: Introducing a cap and floor to wider generation TNUoS Charges

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@nationalenergyso.com by **5pm** on **29 January 2025**. 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@nationalenergyso.com.

Respondent details	Please enter your details	
Respondent name:	Grahame Neale	
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Phone number:	07741 158 820	
Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input checked="" type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input type="checkbox"/> System Operator <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input type="checkbox"/> Other

I wish my response to be:

(Please mark the relevant box)

☒ **Non-Confidential** (this will be shared with industry and the Panel for further consideration)

☐ **Confidential** (this will be disclosed to the Authority in full but, unless specified, will not be shared with the Workgroup, Panel or the industry for further consideration)

For reference the Applicable CUSC (charging) Objectives are:

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- 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;*
- 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);*
- 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*;*
- 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.*

* 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.

For reference, (for consultation question 6) the Electricity Balancing Regulation (EBR) Article 3 Objectives and regulatory aspects are:

- a) *fostering effective competition, non-discrimination and transparency in balancing markets;*
- b) *enhancing efficiency of balancing as well as efficiency of national balancing markets;*
- c) *integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security;*
- d) *contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector while facilitating the efficient and consistent functioning of day-ahead, intraday and balancing markets;*
- e) *ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue market distortions;*
- f) *facilitating the participation of demand response including aggregation facilities and energy storage while ensuring they compete with other balancing services at a level playing field and, where necessary, act independently when serving a single demand facility;*
- g) *facilitating the participation of renewable energy sources and supporting the achievement of any target specified in an enactment for the share of energy from renewable sources.*

What is the EBR?

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The Electricity Balancing Regulation (EBR) is a European Network Code introduced by the Third Energy Package European legislation in late 2017.

The EBR regulation lays down the rules for the integration of balancing markets in Europe, with the objectives of enhancing Europe's security of supply. The EBR aims to do this through harmonisation of electricity balancing rules and facilitating the exchange of balancing resources between European Transmission System Operators (TSOs). Article 18 of the EBR states that TSOs such as the ESO should have terms and conditions developed for balancing services, which are submitted and approved by Ofgem.

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 each solution better facilitates:</p> <table border="1"> <tr> <td>Original</td> <td><input checked="" type="checkbox"/>A</td> <td><input type="checkbox"/>B</td> <td><input type="checkbox"/>C</td> <td><input type="checkbox"/>D</td> <td><input type="checkbox"/>E</td> </tr> </table> <p>We believe this proposal is almost neutral across all CUSC objectives. We agree with the proposer on Applicable CUSC Objectives B, C, D and E however we believe it is more mixed on CUSC Objectives A and only slightly positive.</p> <p>Whilst we agree with the proposer's commentary on Applicable CUSC Objective A and reducing risk to generators, we do believe there is a significant risk of the cap/floor also inadvertently affecting the market by effectively redistributing TNUoS charges from generators with 'extreme' tariffs to those with less extreme tariffs. Whilst this may be beneficial in the short-term, we would hope this proposal is strictly time-limited to minimise these market distortions.</p>	Original	<input checked="" type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
Original	<input checked="" type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E			
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/>Yes</p> <p><input type="checkbox"/>No</p> <p>Given current timings, we do not believe it's feasible to implement the proposal for April 2025 and so April 2026 is a sensible solution which gives industry sufficient time to respond after an Ofgem decision.</p>						

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3	Do you have any other comments?	<p>We would like to highlight this modification could set a precedent and industry's expectations on the purpose and strength of locational signals within the TNUoS methodology.</p> <p>Whilst we note that Ofgem have been clear that this is a temporary solution and location signals still 'serve a purpose', we believe it would be helpful if NESO and Ofgem provided more clarity on the long-term strategy for locational signals in the context of the planned changes to the market and network planning. This would have been beneficial if Ofgem's open letter more clearly explained what their concerns were and if it the proposal was targeted at specific parts of the generation community (who experience tariff extremes) or general support to TNUoS payers, our interpretation is the former.</p> <p>Finally, we are supportive of options which socialise the costs of the cap/floor mechanism from the demand residual tariff as opposed to the generation adjustment tariff. The reasons for this are (i) it will reduce the market distortion of the cap/floor as those generators who do not benefit from the cap/floor will also be paying for the TNUoS shortfall as a result of the cap/floor and (ii) other adjustments (e.g. as a result exceeding of the Limiting Regulation – see CUSC 14.17.23) can be socialised via the demand residual.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p><input type="checkbox"/> Yes (the request form can be found in the Workgroup Consultation Section)</p> <p><input checked="" type="checkbox"/> No</p> <p>Despite what we have raised in Q11, we do not wish to propose this as a formal alternative request currently.</p>
5	Does the draft legal text satisfy the intent of the modification?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Broadly yes, we believe the legal text does satisfy the intent of the modification and clearly explains the cap/floor values in the tariff. However, we believe the legal text can be improved by.</p> <ul style="list-style-type: none"> • Addition of text to clarify when the cap will be applicable from and until – linked to Q7. • A summary paragraph explaining how the cap/floor was calculated and reference to a detailed explanation being located outside of the CUSC (charging statement or separate document). • Paragraph referencing should be reviewed to ensure the same paragraph numbers are not used.

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		<ul style="list-style-type: none"> We would urge the NESO to review all of CUSC Section 14 and review all instances of where a tariff is stated and if this should be replaced with the Restricted Transport Tariff. For example, in calculation of the TNUoS Embedded Export Tariff,
6	Do you agree with the Workgroup's assessment that the modification does not impact the Electricity Balancing Regulation (EBR) Article 18 terms and conditions held within the Code?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		Yes, we agree with the workgroup in this regard.

Specific Workgroup Consultation questions

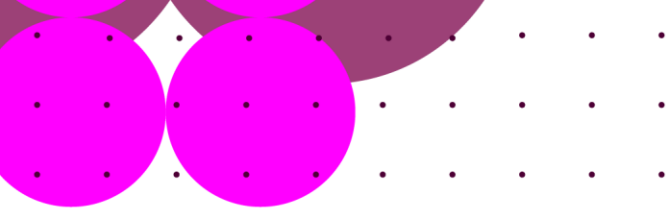
7	Do you believe the cap and floor should have an end date? If so, how long or what is the appropriate trigger.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		<p>Whilst we understand that the long-term solution for the defect will be resolved by TNUoS reform and/or REMA and the timescales for these are uncertain, we believe a defined and documented end date should be included in the solution.</p> <p>A defined end date based on the currently expected date for these reforms will provide certainty to industry that any cap/floor will persist for a minimum amount of time whilst signalling clearly that it is temporary. Revisions this deadline (if needed) can then be made via subsequent code modifications such as CMP401 for Market Wide Half Hourly Settlement.</p>
8	What level of certainty would be required from this modification to best support investment	<input type="checkbox"/> Yes <input type="checkbox"/> No

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	decisions? Please justify any additional protection required (for example grandfathering rights or any other levels of protection).	<p>We believe the key parameters the proposal will need to satisfy to provide investment certainty are the following.</p> <ol style="list-style-type: none"> 1. The cap/floor need to be at values which reflect their intended purpose – either protecting specific sectors (technologies, locations etc) or more general protection for the broader generation sector. 2. The cap/floor need to be predictable in both how it is calculated, how it will change over time and when it will stop. 3. Ideally, it would also reduce volatility in the calculation of the TNUoS tariff. Due to the nature of a cap/floor, this volatility will only be reduced to those projects who would be over the cap or under the floor. <p>We believe grandfathering arrangements should be avoided as it creates a distortion in the market which will be more difficult to resolve later with TNUoS Reform and REMA.</p>
9	Does the Original proposal with no specific end date provide Developers with sufficient confidence to make an investment decision? Please justify.	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Whilst the lack on an end date is not ideal, the principle of providing a cap/floor to TNUoS charges does improve confidence of investment in the short-term.</p> <p>Over a longer timeframe, this benefit diminishes and, we believe, becomes a disbenefit until there is greater certainty on TNUoS Reform, REMA and Connections Reform.</p>
10	Does the Original Proposal and any of the Alternatives raised achieve the objectives of the Ofgem letter?	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Our understanding of Ofgem's letter was that the following three challenges were manifesting in the TNUoS methodology due to the amount of transmission system reinforcement needed.</p> <ol style="list-style-type: none"> 1. The expected future vales of TNUoS as predicted by the 10-year forecast. 2. Intra-year volatility in the charges. 3. Larger regional disparity in charges between northern and southern generators. <p>We do not believe that any of the solutions in this proposal solve all three of these challenges as they are beyond the scope of the proposal – the TNUoS Taskforce's remit is to</p>

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		solve these. The proposals do, in various ways, address challenges 2 or 3 in part.
11	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?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>We believe an approach which bases the cap/floor value off the actual tariffs for 2025/26 may have some merit. Whilst we understand the intent of using TNUoS forecasts as the basis of setting the cap/floor (to provide a more 'forward looking' perspective for the cap/floor), we believe doing so introduces additional forecasting risk into the calculation of the cap/floor for negligible benefit.</p> <p>If a 'forward looking' data source was to be used however, we believe the 5-year TNUoS forecast is the best data source for this purpose.</p>
12	Please provide your assessment of the Original Solution and the 7 Alternative Requests discussed by the Workgroup (additionally, please indicate your preferred solution with associated justification):	
Alternative Request		Assessment
Original Solution		Broadly supportive of this option.
Alternative Request 1		Broadly supportive of this option.
Alternative Request 2		Do not support this option as we do not believe a 2-tier cap/floor solution would be beneficial. Also using 1 standard deviation to calculate the cap/floor make the range of tariffs too narrow and so have significant market impact by providing general protection rather targeted protection.
Alternative Request 3		As per Alternative Request 2, however we do support the financial risk of the cap/floor being socialised via the TNUoS demand residual.
Alternative Request 4		N/A
Alternative Request 5		Believe the cap/floor will make the range of tariffs too narrow and so have significant market impact by providing general protection rather targeted protection. As such, we do not support this option.
Alternative Request 6		We are supportive of this option and would be one of our preferred options.
Alternative Request 7		Broadly supportive of this option.



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