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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 [usc.team@nationalenergyso.com](mailto:usc.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 [usc.team@nationalenergyso.com](mailto:usc.team@nationalenergyso.com).

Respondent details	Please enter your details	
<b>Respondent name:</b>	Niall Coyle	
<b>Company name:</b>	NESO	
<b>Email address:</b>	Niall.coyle@nationalenergyso.com	
<b>Phone number:</b>	Click or tap here to enter text.	
<b>Which best describes your organisation?</b>	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input checked="" 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)

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### For reference the Applicable CUSC (charging) Objectives are:

- 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 questions 5 & 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.*

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### What is the EBR?

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?	Mark the Objectives which you believe each solution better facilitates:					
		Original	<input checked="" type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
		<p>NESO has proposed CMP444 to address the uncertainty in long term TNUoS changes highlighted in Ofgem’s open letter of September 2024. This uncertainty risks driving up consumer costs through higher CfD bids, and wholesale/balancing market costs, and may potentially deter new investment required to meet HM Governments ambition of Clean Power by 2030.</p> <p>Against objective A, our proposal is positive as it 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. 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.</p> <p>Objective B is neutral, with the change structured so that cost reflective locational signals are largely preserved, though slightly blunted should the caps and/or floors be hit.</p> <p>Objective C is neutral, as no relevant developments apply.</p>					

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		<p>Objective D is neutral, as compliance with EC 838/2010 is maintained through the generation adjustment tariff. The proposed solution avoids undue discrimination between technology types, which EC 2019/943 prohibits.</p> <p>Objective E is neutral, with only minor changes to the tariff setting process required to apply the cap and floor.</p>
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>We support the proposed implementation approach. 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.</p>
3	Do you have any other comments?	<p>Click or tap here to enter text.</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>NESO is the proposer of this modification and Alternative Request 7. We do not wish to raise another Alternative Request at this time.</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>Defining the initial cap/floor levels in the CUSC with an appropriate indexation methodology gives parties full visibility of the cap levels to maximise certainty for investors.</p> <p>The draft text introduces the concept of a 'Restricted Transport Tariff', calculated by applying the cap and floor levels to the already defined 'Initial Transport Tariff'</p>

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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  Click or tap here to enter text.
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## 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 type="checkbox"/> Yes <input checked="" type="checkbox"/> No  NESO's intention for the original proposal is for the cap and floor to remain in place until the market reforms through REMA, and any associated network charging reforms, are implemented.  However, due to the uncertainty around the final policy decision and implementation approach for REMA, we feel it is appropriate to not define an end date through this CMP444 modification solution, but to raise a separate modification at a later date once the implementation approach to REMA is clear.
8	What level of certainty would be required from this modification to best support investment decisions? Please justify any additional protection required (for example grandfathering rights or any other levels of protection).	<input type="checkbox"/> Yes <input type="checkbox"/> No  We are keen to hear from stakeholders on whether the proposal presented provides developers sufficient certainty to be able to make a final investment decision, and if not, what would be necessary for them to do so.
9	Does the Original proposal with no specific end date	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

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	provide Developers with sufficient confidence to make an investment decision? Please justify.	<p>Of the 3 options discussed by the workgroup, we believe that option 3 (to not define an end date) would provide most certainty for parties. Defining an exact date/trigger that would likely need amending once the policy direction and implementation approach for REMA has been decided upon would introduce more uncertainty for parties.</p> <p>We would seek to raise a separate modification later to define an appropriate end date for the intervention, and any necessary transitional arrangements, once there is sufficient clarity around REMA.</p>
10	Do the Original Proposal and any of the Alternatives raised achieve the objectives of the Ofgem letter?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>We believe that the Original Proposal and Alternative Requests 1,6 and 7 achieve the objectives of Ofgem's open letter.</p> <p>These four proposals seek to implement a single GB-wide cap and floor to each of the three components of the wider generation charge and will all decrease the cost and uncertainty for generation, particularly in Northern GB, to varying extents.</p> <p>While alternatives 2,3 &amp; 5 will also decrease TNUoS costs for generators in Northern GB, in our view they do not satisfy the principles for the intervention set out by Ofgem in the open letter.</p> <p>Alternative Requests 2 &amp; 3 implement more than one cap per component, rather than applying a single GB-wide cap and floor. In our view this would introduce additional uncertainty for parties in Scotland who may be anticipating zoning changes under CMP419 (if approved). Whilst the possibility of a future zoning change shouldn't necessarily hinder the development of a solution that relies on the current zones, we believe it is appropriate to attempt to future proof the cap and floor intervention to minimise uncertainty and the requirement for future changes.</p>

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		Alternative Request 5 seeks to implement a single GB-wide cap and floor, however, is calculated at a very narrow range (40 <sup>th</sup> and 60 <sup>th</sup> percentile of the 5-year forecast). A cap and floor at this level significantly erodes the locational signals in all of GB, with only two zones expected to not breach the proposed level of the cap and floor by 2030.
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 checked="" type="checkbox"/> Yes  <input type="checkbox"/> No  We believe it is appropriate to use the latest available NESO 5-year forecast dataset to determine the appropriate level for the cap and floor. The methodology employed in the Original proposal sets the boundaries of the cap and floor at the extremes of this dataset, whereby 95% of the data falls within the calculated range. By applying the cap and floor at this level we can ensure that charges do not reach the levels as published in the 10-year projection.
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):	
<b>Alternative Request</b>		<b>Assessment</b>
Original Solution		Achieves a single cap and floor as per Ofgem's open letter and sets an appropriate mitigation for the significant increase in charges signalled in the 10-year projection, by applying the cap and floor at the extremes of the 2024 5-year forecast.
Alternative Request 1		Achieves a single cap and floor as per Ofgem's open letter and will mitigate against the significant increase in charges signalled in the 10-year projection, however we believe the cap is set at a lower threshold than we feel is necessary to achieve the objectives of the open letter, therefore eroding the locational signals more than necessary.  We disagree with the proposer's criticism of the floor in the Original Solution: the floor in the Original Solution is set at the extremes of the 5-year forecast, meaning that



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	credits for generators would not increase beyond this level. This is evidenced in the floor limiting the increased credits in the Peak Security element of the charge. The floor isn't breached as frequently in the year-round charges, as the largest of the Year-Round credits in the 10-year projection are already lower than that of the 5-year forecast.
Alternative Request 2	<p>Alternative Requests 2 &amp; 3 implement more than one cap per component, rather than applying a single GB-wide cap and floor. In our view this would introduce additional uncertainty for parties in Scotland who may be anticipating zoning changes under CMP419 (if approved). Whilst the possibility of a future zoning change shouldn't necessarily hinder the development of a solution that relies on the current zones, we believe it is appropriate to attempt to future proof the cap and floor intervention to minimise uncertainty and the requirement for future changes.</p> <p>Whilst having a second tier for the cap introduces a price differential between North/South Scotland, this differential is arbitrarily calculated and is not necessarily more cost reflective. While NESO are supportive of attempting to preserve the locational differentials and cost reflectivity as much as possible, we believe this would be better achieved by the scaling methodology in the Alternative Request 7 proposal.</p>
Alternative Request 3	<p>See Alternative Request 2 above.</p> <p>This proposal also maintains an adjustment tariff that is larger than required to maintain compliance with the limiting regulation. Maintaining the unnecessarily large credits through the Generator Adjustment Tariff goes against the objectives of Ofgem's open letter, while also increasing costs for consumers through the Transmission Demand Residual charge.</p>
Alternative Request 4	Withdrawn by proposer.
Alternative Request 5	Alternative Request 5 seeks to implement a single cap and floor but with a very narrow range (40 <sup>th</sup> and 60 <sup>th</sup> percentile). There is a balance to be struck between cost



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	<p>reflectivity and predictability, however in our view this proposal would erode the locational signals significantly and therefore does not satisfy the principles set out in Ofgem’s open letter.</p>
Alternative Request 6	<p>Achieves a single cap and floor as per Ofgem’s open letter and sets an appropriate mitigation for the significant increase in charges signalled in the 10-year projection, by applying the cap and floor at the extremes of the first four years of the 2024 5-year forecast.</p>
Alternative Request 7	<p>NESO has raised Alternative Request 7 to put forward a different methodology of applying a cap and floor that better retains the relative locational signals between zones. This methodology applies a scaling factor to all charges to bring the tariffs within the range of the cap and floor. This scaling does dampen the signals slightly, but we believe this compromise has merit versus the potential flattening of locational signals in the most Northern/Southern zones under the other options raised to date. This proposal also results in equitable treatment between generators in all zones, as the scaling factor is applied to all tariffs.</p> <p>This is our preferred solution – this offers similar protection to the cap and floor of the Original Proposal, and we believe the slightly more complex methodology is a worthwhile compromise to better retain locational signals.</p>