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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 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.

Respondent details	Please enter your details	
Respondent name:	Binoy Dharsi	
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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 checked="" 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*)

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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 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;*

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- 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?

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 type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		<p>No, CMP444 as currently drafted does not better facilitate the Applicable Objectives because we are unable to make a clear assessment on the original solution due to a lack of information available.</p> <p>We support solutions being developed that provide more predictable generation TNUoS tariffs, especially when significant transmission network investment is being planned over such a short period of time which will cause uncertainty to those making investment decisions.</p>

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	<p>Our expectation is that reforms developed should provide the necessary predictability to investors, have a proportionate impact on other Users, not materially affect locational signals nor be discriminatory.</p> <p>CMP444 does not have sufficient information and data to be enable parties to make a clear assessment on the original solution.</p> <p>The NESO, in their 5-year forecast, published in April 2024, have confirmed these sets of tariffs are their best view and have confidence in those published tariffs out-turning. The Original proposal sets a discount to these tariffs for some regions.</p> <p>We therefore conclude that they do not better facilitate CUSC objectives a) and b).</p> <p>Ofgem have stated that whilst the NESO's <u>10-year projections</u> are the only publicly available indication of long-term charge levels it has doubts on some of the extremities not the general trajectory of tariffs.</p> <p>We would therefore expect that the original solution recognises the level of doubt when setting appropriate cap and floor values.</p> <p>The original proposal calculates that generators could face circa £8/kW adjustment to their generation adjustment tariff.</p> <p>We note that the calculation used to derive this value is based on a historical generation background. Replacing the generation background from CP2030 could increase the generation adjustment tariff even further. We urge that this analysis is undertaken to ensure that workgroup members have access to the breadth of data required to enable them to understand these sensitivities and the impact.</p> <p>The generation adjustment tariff value seems excessive if the objective of this modification is simply to protect generators with guardrails to limit the extremities of the projected TNUoS forecast. This would create a distortion to competition and not satisfy CUSC objective a).</p>
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2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>We agree that the implementation approach needs to reflect the terms as detailed by Ofgem in their Open Letter.</p> <ul style="list-style-type: none"> • establishes appropriate, individual, upper and lower limits on the £/kW charges paid by generators through the Year-Round Shared, Year-Round Not Shared and/or Peak Tariffs; • retains regional/location differential in charges and between technology types through a single GB cap and floor; • maintains a procedure for ensuring compliance with the requirements on generator annual average transmission charges as provided for in Regulation 838/2010 (as assimilated); • is capable of implementation without requiring NGE SO to change its TNUoS forecasting approach or timetable; and • is capable of implementation from April 2026
3	Do you have any other comments?	As detailed in section 1.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p><input checked="" type="checkbox"/> Yes (the request form can be found in the Workgroup Consultation Section)</p> <p><input type="checkbox"/> No</p> <p>We have submitted two workgroup consultation alternative request forms</p>

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5	Does the draft legal text satisfy the intent of the modification?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No The Legal Text satisfies the intent of the modification but is silent on the eligibility criteria which may assist Users to understand more clearly if they qualify to have protection under these arrangements.
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.

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 The proposed arrangements set out in CMP444 are temporary; these arrangements are subject to revision following an anticipated Government policy decision on Review of Electricity Market Arrangements (REMA) due in summer 2025. The Government decision in summer 2025 may lead to a requirement for further CUSC amendments. This will need to be assessed following this decision date. It is crucial that developers and investors have the necessary visibility to allow them to make investment decisions and would urge the further joined up messaging from the NESO, Ofgem and Government.
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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 As detailed in answer to Q1 and Q7.
9	Does the Original proposal with no specific end date provide Developers with sufficient confidence to make an investment decision? Please justify.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Yes, it provides a degree of confidence however the eligibility criteria are still unclear which may raise additional risks and uncertainty to investors.
10	Does the Original Proposal and any of the Alternatives raised achieve the objectives of the Ofgem letter?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No It is difficult to make an informed decision on whether the level of the cap and floor set meets the objective set out in Ofgem's Open Letter. Further analysis is required to enable stakeholders to determine this. We propose the NESO use the generation background from CP30. This will allow a more robust evaluation of the appropriateness of the cap and floors levels proposed and their impact to other Users.
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	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No No. The data set proposed for the calculation of the cap and floor is the NESO's best view on current TNUoS forecast.

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	NESO's 5-year forecast of April 2024?	<p>However, this data set will be over a year old when the cap and floor is set and we therefore expect that the NESO produces an updated 5-year TNUoS forecast, reflecting the most recent information available.</p> <p>We are not in agreement that the averaging methodology is the most appropriate way to derive the cap and floor, this provides a discount to some areas. We believe it should be based on the latest year of forecast (please see our proposed alternative requests).</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	<p>We do not support the Original Solution.</p> <p>The Ofgem Open Letter asks for a proposal to be developed that applies effective guardrails to provide some additional certainty to developers during this period of generation tariff and market reform uncertainty. This proposal appears to contest that 2029/30 tariffs will not out-turn. We do not believe that is realistic. Therefore, by averaging 5 years worth of data (including historic lower tariffs) goes beyond the suggested solutions Ofgem appear to want the NESO and industry to consider. It provides a discount to some regions.</p>
	Alternative Request 1 – Northland Pwr	<p>We do not support the Alternative Request 1.</p> <p>This solution sets a cap and floor using percentiles of 90th and 10th to set the cap and floor. This increases the likelihood of breaches against the original proposal and therefore will have a greater impact on the generation adjustment tariff.</p>
	Alternative Request 2 - SSE	<p>This proposal uses a two-tier cap which suggests that the higher cap may not be set high enough in the first instance. Again, is also provides a discount to some</p>

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	regions based on a credible forecast tariff value outcomes.
Alternative Request 3 - SSE	This solution simply changes the recovery of any breach to the cap and collar as developed under alternative request 2 to demand consumers. There is not sufficient evidence or analysis provided to determine if this would be the most cost-effective proposal.
Alternative Request 4 - Nadara	Withdrawn - no assessment made
Alternative Request 5 - Nadara	Building on the original and Alternative Request 1, this solution uses the 60 th and 40 th percentile to set the cap and floor. This again goes beyond the remit of the modification which is to set appropriate guardrails of future tariff out-turn extremities.
Alternative Request 6 – BayWa-re	This solution dismisses the credible forecast provided by the NESO on the 2029/30 tariff outcome in the 5-year NESO forecast published in April 2024. This tariff charging year includes the provision of the Eastern Green Link (EGL) 1 & 2. Given these links are in construction it would see reasonable to not dismiss this charging year simply because it causes tariffs to increase.
Alternative Request 7 - NESO	This solution also omits charging year 2029/30 which implies it is removing higher tariff outcomes to provide a lower can and floor value.