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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](mailto: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](mailto:cusc.team@nationalenergyso.com).

| Respondent details                             | Please enter your details   |   |
|--|---|---|
| <b>Respondent name:</b>                        | Stephen Roberts   |   |
| <b>Company name:</b>                           | Vattenfall  |   |
| <b>Email address:</b>                          | <a href="mailto:stephen.roberts@vattenfall.com">stephen.roberts@vattenfall.com</a>  |   |
| <b>Phone number:</b>                           | Click or tap here to enter text.<br>07483 988676  |   |
| <b>Which best describes your organisation?</b> | <input type="checkbox"/> Consumer body<br><input type="checkbox"/> Demand<br><input type="checkbox"/> Distribution Network Operator<br><input checked="" type="checkbox"/> Generator<br><input type="checkbox"/> Industry body<br><input type="checkbox"/> Interconnector | <input type="checkbox"/> Storage<br><input type="checkbox"/> Supplier<br><input type="checkbox"/> System Operator<br><input type="checkbox"/> Transmission Owner<br><input type="checkbox"/> Virtual Lead Party<br><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;*
- 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;*

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- 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  |
|   |  | <a href="#">Click or tap here to enter text.</a>   |
| 2 | Do you support the proposed implementation approach?                                   | <input checked="" type="checkbox"/> Yes  |
|   |  | <input type="checkbox"/> No  |
|   |  | <p>We broadly support the introduction of a cap and floor on the wider generation TNUoS charge, however we have a number of concerns regarding: the period for which cap and floor will be introduced; its end date; and protection of projects which have made investment decisions during this time.</p> <p>We would expect full transparent workings of how the cap and floor will be implemented in the 5-year forecast and Final TNUoS Tariffs reports.</p> |
| 3 | Do you have any other comments?  | We believe that the cap and floor levels in NESO's original proposal do not provide sufficient protection from the extreme tariff projections in the NESO ten year   |

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|   |   | <p>forecast. Consequently we support the implementation of Alternative 3.</p> <p>We have responded only to the questions below where we have the information and experience to do so.</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>Click or tap here to enter text.</p> |
| 5 | Does the draft legal text satisfy the intent of the modification?   | <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Click or tap here to enter text.</p>  |
| 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? | <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Click or tap here to enter text.</p>  |

## 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. | <p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>The end date should be reviewed either after five years of implementation, or once reformed market arrangements have been introduced (whichever is first).</p> <p>Cap and floor arrangements should, however, continue beyond that period to apply to any projects that take FID during the period it is implemented. See more on grandfathering below.</p> |
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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). | <div> <input type="checkbox"/> Yes         <input type="checkbox"/> No       </div> <p>Given Ofgem's stated objective with the introduction of a cap and floor is to provide certainty to investors in the short-medium term to ensure renewable deployment between now and 2030 is sufficient, robust grandfathering rights must be put in place for any project taking FID within the cap and floor period. This should last for the lifetime of the project.</p> <p>Failure to provide this certainty means investors will have no clear view of what their grid charges and returns will or won't be, generating huge investment risk and making business cases less predictable. This will likely result in many FIDs being delayed until there is more certainty, just at the time that the ramp up of deployment is needed to meet our 2030 targets.</p> <p>It is not a reasonable expectation for an investor to take FID on a project now, with no visibility of their projected grid charges beyond a cap and floor being removed, given how significant they could potentially be.</p> |
| 9  | Does the Original proposal with no specific end date provide Developers with sufficient confidence to make an investment decision? Please justify.  | <div> <input type="checkbox"/> Yes         <input checked="" type="checkbox"/> No       </div> <p>Alternative 3, with no specific end date and with protective rights included, as discussed above, would provide sufficient investor confidence. The end date should be reviewed after five years or when reform of market implementation is implemented (whichever is first).</p>   |
| 10 | Does the Original Proposal and any of the Alternatives raised achieve the objectives of the Ofgem letter?   | <div> <input type="checkbox"/> Yes <input type="checkbox"/> Yes         <input checked="" type="checkbox"/> No       </div> <p>We believe Alternative 3 would achieve the objectives set out in the Ofgem letter. Alternative 3 would provide investor confidence, lower consumer prices and support the delivery of CP2030 targets.</p>  |

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|    |  | <p>It would deliver this by reducing volatility and improving predictability of TNUoS. This in turn would deliver a lower cost of capital and result in lower CfD bids which would be of benefit to GB consumers.</p> <p>The reduction in risk would also provide investors more confidence to accelerate project investment and enable more projects to take FID in the lead up to 2030.</p> |
| 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?         | <p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>We are happy to accept the data set that has been used in the calculation as we believe it is transparent. We would suggest in future a sensitivity analysis using a range of ALF values would be useful to perform a more detailed impact assessment.</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): |   |
|    | <b>Alternative Request</b>   | <b>Assessment</b>   |
|    | Original Solution  | The Original solution does not implement a sufficient cap or floor to encourage the necessary investor confidence to meet CP2030 targets.   |
|    | Alternative Request 1  |   |
|    | Alternative Request 2  |   |
|    | Alternative Request 3  | We would support Alternative 3, with no specific end date and with protective rights included.  |
|    | Alternative Request 4  |   |
|    | Alternative Request 5  |   |
|    | Alternative Request 6  |   |
|    | Alternative Request 7  |   |