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Code Administrator 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 14 March 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:	Chiamaka Nwajagu	
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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 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 Panel or the industry for further consideration)

For reference the Applicable CUSC (charging) Objectives are:

- 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;*
- 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*

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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.

Please express your views in the right-hand side of the table below, including your rationale.

Standard Code Administrator Consultation questions		
1	Please provide your assessment for the proposed solutions against the Applicable Objectives?	Mark the Objectives which you believe the proposed solutions better facilitates:
		Original <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WACM1 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WACM2 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WACM3 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WACM4 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WACM5 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WACM6 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WACM7 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
<p>The proposed solutions fail to effectively support the CUSC objectives or adequately address the problem statement, posing significant risks to the energy market's integrity and consumer interests. Below is an assessment against the applicable CUSC objectives:</p>		

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		<p>Objective A: The proposed solutions do not enhance effective competition; they are discriminatory, favouring Scottish generators by making them more commercially competitive while disadvantaging other network users by disproportionately raising their costs. This approach risks distorting overall competition by socialising TNUoS charges, potentially hindering projects south of the Scottish border (B6 boundary). Such redistribution of risk does not adhere to well-established principles, which could damage competition, increase regulatory uncertainty, and reduce investor confidence. Furthermore, these solutions could lead to increased CfD bids from other generators to offset higher TNUoS liabilities due to the cap and floor imposition and result in higher Capacity Market clearing prices that consumers ultimately bear.</p> <p>Objective B: The proposals, including the original and WACMs, inadequately reflect the expected investment costs for network development planned from 2030. They significantly reduce cost reflectivity and excessively dilute locational signals within TNUoS, which are crucial for efficient network investment and generation siting. This blunting of locational signals can increase consumer bills, particularly if it displaces generation investments necessary for efficient system operation, leading to greater curtailment and constraint costs. The setting of cap and floor levels weakens cost reflectivity, shielding Scottish generators from appropriate network costs. Until comprehensive enduring TNUoS reform is achieved, maintaining cost reflectivity remains a core CUSC objective and TNUoS principle which should be adhered to.</p> <p>Objective C: While some solutions are neutral, others, such as WACM 2, 3, and 6, fail to facilitate this objective. These alternatives do not account for inevitable and required transmission business developments and investments necessitated by increasing generation capacity in Northern GB, thereby leading to disproportionate cost recovery from non-Scottish generators to cover necessary cost gaps.</p>
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		<p>Objective E: The solutions are likely to add complexity to the implementation and administration of system charges.</p> <p>Overall, the solutions primarily focus on offering significant discounts rather than establishing necessary guardrails, which could be detrimental to generators. To note, solutions that attempt to balance guardrails with cost reflectivity and minimal impact on other generators were not advanced, leaving the energy industry vulnerable to inefficiencies brought about by compromised TNUoS principles, and increased costs for consumers. We encourage the Regulator to reconsider these proposals to ensure they align with CUSC objectives and promote a fair, competitive, and efficient energy system and market.</p>
2	Do you have a preferred proposed solution?	<p> <input type="checkbox"/> Original <input type="checkbox"/> WACM1 <input type="checkbox"/> WACM2 <input type="checkbox"/> WACM3 <input type="checkbox"/> WACM4 <input type="checkbox"/> WACM5 <input type="checkbox"/> WACM6 <input type="checkbox"/> WACM7 <input type="checkbox"/> Baseline <input type="checkbox"/> No preference </p> <p>None of the proposed solutions adequately address the concerns related to the baseline, which reflects 10-year predictions that are unlikely to materialise due to changes in connection arrangements and potential TNUoS modifications. These proposed solutions risk potential market distortions, leading to misguided generation investment and siting decisions. To mitigate these risks and better provide the industry with certainty and necessary guardrails, it is crucial to consider alternatives that offer a balanced approach.</p> <p>Alternatives 12 and 13, which were not advanced by the workgroup, present viable options that establish guardrails in a less distortive manner. These alternatives are designed to accommodate</p>

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		<p>the evolving energy landscape while maintaining fairness and stability in the market.</p> <p>For instance, RWE's alternative 12 presents a more balanced approach by deriving the cap based on the highest value for each tariff component in the 5-year TNUoS forecast published in April 2024, with a fixed £/kW increase per charging year up to 2033/34. This method aims to set a cap reflecting credible network expansion plans without significantly truncating charges, thereby avoiding undue risk redistribution across other generators due to regulatory changes. RWE's proposal offers a better alternative to the baseline, original proposal, and WACMs by preventing extreme tariffs forecasted for the early 2030s while ensuring cost reflectivity and certainty in wider tariffs.</p> <p>When paired with ongoing CMP 442, RWE's approach could further address TNUoS tariff unpredictability. Unfortunately, the workgroup did not progress RWE's alternative as a WACM, despite its potential to balance new generation incentives with the sustainability of existing investments.</p> <p>Adopting this alternative ensures that the energy system/market remains competitive and efficient, avoiding the pitfalls of over-reliance on potentially inaccurate long-term projections. It would provide a more stable and predictable framework for the industry, aligning with the need for adaptability in the face of changing connection arrangements and TNUoS structures. We urge the Regulator to reconsider this alternative to foster a resilient and equitable energy market that supports both current and future investments.</p>
3	Do you support the proposed implementation approach?	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>None of the proposed solutions set appropriate caps to the Year-Round Shared, Year-Round Not Shared, and Peak Tariffs and significantly undermine cost reflectivity in the TNUoS methodology. This change threatens investor confidence and increases regulatory risks in the medium to long term. Additionally, existing generators and those with recent CfD contracts face unforeseen costs, as</p>

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		these changes were not anticipated when their contracts were agreed upon.
4	Do you have any other comments?	<p>The proposed solutions inadequately address Ofgem's problem statement, which aims to establish guardrails against extreme tariffs in 2033, particularly in Northern GB. These solutions primarily offer discounts to northern generators, resulting in a disproportionate cost recovery burden on other generators, risking distortion of competition by socialising TNUoS charges and increasing costs for non-Scottish generators.</p> <p>While incentivising new generation in Northern GB is part of the CP30 objective, it is crucial to consider CP30 comprehensively, including necessary investments for a decarbonised electricity system and energy security at an affordable cost. The current proposals prioritise Northern GB generation, altering charge trajectories for non-Scottish regions, potentially impacting investment decisions and increasing consumer costs. They fail to account for the negative impact on ongoing projects, which could hinder progress towards CP30 ambitions, damage investor confidence, and affect repowering, life-extending assets, and new generation outside Scotland. A balanced approach is vital to support both new generation and the sustainability of existing assets/investments.</p> <p>We note that the development of the cap and floor does not fully represent the entire industry. An observation of the composition of the workgroup shows an imbalance of industry representation. the workgroup appears to emphasise Scottish generators or those with projects in Scotland, which is perceived to have influenced the development of solutions that do not provide a comprehensive and balanced industry perspective. This focus has led to proposed solutions which inadequately consider the impact on non-Scottish existing and new generators. It has led to proposed cap and floor values that result in significant TNUoS charge reductions for northern GB generators, contradicting TNUoS charging principles and providing unforecasted financial gains to existing projects in Scotland. Conversely, generators south of the Scottish boundary face unforeseen financial costs, negatively</p>

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		<p>impacting existing generators, projects with recent CfD contracts and investment decisions, overall affecting investor confidence.</p> <p>To ensure balanced decision-making, any cap and floor application must strike a balance between encouraging new generation and sustaining existing investments. The original proposal and WACMs do not achieve this balance, requiring existing assets to undermine their business cases to subsidise future northern GB generators. Protecting the viability of existing investments while facilitating new generation deployment should be a guiding principle.</p> <p>Furthermore, NESO's analysis shows wider tariffs changing to reflect the cap and floor from the 2028/29 charging year, with reductions for Scottish generators and notable increases for Southern regions. By 2033/34, tariffs for Scottish generators fall below pre-2029/30 forecasted values, even below finalised 2025/26 tariffs in some solutions, representing excessive distortion to cost reflectivity and charge allocation. Introducing a cap and floor that shields generators to such a distortive level is unjustified, especially as these generators necessitate network investments increasing TNUoS costs.</p> <p>It is important to highlight that the urgent timeline for this modification has compromised the appropriate development of such a high-impact change, leading to insufficient consideration of impacts and exploration of suitable solutions. This presents a risk of potential legal challenges from negatively impacted parties due to the retrospective impact on existing investments and projects recently awarded CfD contracts, undermining investment signals. Generators recognise that TNUoS tariffs are subject to changes to reflect locational signals and deployment needs. However, they could not have anticipated a contradictory, high-impact short-term cap and floor intervention that may also conflict with the medium-term goals of REMA, ultimately increasing uncertainty.</p> <p>We therefore strongly urge the Regulator to reconsider these proposed solutions to ensure a fair,</p>
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		competitive, and efficient energy system/market that aligns with CUSC objectives. A balanced approach to this short-term intervention is essential to support both new generation and the sustainability of existing investments.
5	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.
		Click or tap here to enter text.