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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>	Neil Kermode	
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<b>Phone number:</b>	01856852061	
<b>Which best describes your organisation?</b>	<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)

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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 checked="" type="checkbox"/> A <input checked="" type="checkbox"/> B <input checked="" type="checkbox"/> C <input checked="" type="checkbox"/> D <input checked="" type="checkbox"/> E
		The original retains negative charges (credits) for some zones. It is difficult to see how this properly reflects the <u>costs</u> incurred by TOs (objective B), although in this respect it is better than the baseline.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		With the caveat that the scaling approach of AR7 may (with tweaks to some parameters) provide a better way of preserving locational signals whilst providing an effective cap and floor.
3	Do you have any other comments?	Click or tap here to enter text.
4	Do you wish to raise a Workgroup Consultation	<input type="checkbox"/> Yes (the request form can be found in the Workgroup Consultation Section) <input checked="" type="checkbox"/> No

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	Alternative Request for the Workgroup to consider?	Click or tap here to enter text.
5	Does the draft legal text satisfy the intent of the modification?	<input type="checkbox"/> Yes <input type="checkbox"/> No  Not reviewed due to timescale
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 type="checkbox"/> Yes <input type="checkbox"/> No  Do not have relevant experience to comment

## 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  Do not support a cut-off date with reversion to existing uncapped methodology, but would support either a trigger based on complete overhaul of TNUoS, which is clearly not working as intended (hence this CMP), OR a review of the cap/floor after perhaps five years.
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 per Q7, a definite end date with reversion to the baseline would not give confidence for investment. A tapered transition to the next charging regime, over a period of say five years, might be acceptable.

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9	Does the Original proposal with no specific end date provide Developers with sufficient confidence to make an investment decision? Please justify.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No There is uncertainty because Ofgem requested a temporary modification, so there needs to be some indication of when things are expected to change. As per Q7, including a future review date rather than end date would help.
10	Does the Original Proposal and any of the Alternatives raised achieve the objectives of the Ofgem letter?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No To an extent. With the present TNUoS methodology, it is not really possible to achieve actual cost reflectivity, adhere to the EC limiting regulation, preserve locational signals amongst all zones and keep charges within commercially realistic bounds, given the scale of investment that is anticipated.
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 This seems to assume that charges within the five years of the forecast are broadly acceptable, although they are beginning to rise in the final year. We note that some Alternatives use just the first four years and believe this has merit.
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		Cap and floor are not very strong, leaving worryingly high values in Northern regions.
Alternative Request 1		Cap and floor are effective, but perhaps too strong for wide acceptance. Choosing a percentile between the original and this alternative might be worthwhile.
Alternative Request 2		It is not clear why two separate caps are justified
Alternative Request 3		It is not clear why two separate caps are justified
Alternative Request 4		

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Alternative Request 5	The proposed outcome is preferred but quite radical and unlikely to be an acceptable compromise for all regions.
Alternative Request 6	This improves the Original by removing the rising costs of year 5 of the data set (see response to Q11)
Alternative Request 7	This is the only proposal that preserves locational signals between adjacent zones and so seems to best match the Ofgem objectives. Charges in Northern zones are however not well capped and appreciable credits in Southern zones persist. It might be useful to explore changes to some parameters of the method, to reduce the North-South differential.