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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 cust.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 cust.team@nationalenergyso.com

Respondent details	Please enter your details	
Respondent name:	Lauren Jauss	
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Phone number:	07825 995497	
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)

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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.

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

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		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>We have assessed the Original and all WACMs as negative against all charging objectives.</p> <p>All proposals are expected to have biting caps and are distortive and discriminatory</p> <p>Only solutions where the cap is expected to bite have been developed by the workgroup and rescued by the chair. Therefore, none of the solutions strike a reasonable balance between cost reflectivity and predictability (as requested by Ofgem in their open letter).</p> <p>The range of WACMs is very narrow and all compromise on cost reflectivity to an unnecessary degree. There is an intention from all proposers that charges be reduced below expected levels for northerly network users. Ofgem outlined that network expansion costs and hence charges are expected to increase in the 2030s, but all solutions set the tariff caps at or below charges forecast for 2029/30. These caps are all therefore too low to be cost reflective of expected charges. This goes beyond the objective of providing certainty for developers in northerly regions, crossing into providing discounts against the cost-reflective signal.</p> <p>NESO stated during workgroup meetings that the 5 year tariff forecast is relatively robust and is a good reflection of the expected tariffs in that year and has very limited uncertainty, yet nearly all the WACMs would cap some tariffs below these forecast levels. As the Original's description of the defect states, it is the projection that is causing uncertainty, not the forecast.</p> <p>RWE raised two workgroup alternative requests that addressed the unpredictability of charges but allowed for reasonable tariff levels, reflective of expected increasing network expansion costs in the 2030s. However, both requests were rejected by the workgroup for development into WACMs and were</p>	

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		<p>not rescued by the chair. The chair made clear that the decision not to rescue these proposals was because they did not cap tariffs below expected levels.</p> <p>Most proposals use arbitrary statistical approaches without adequate justification for the levels proposed.</p> <p>Unpredictability of charges is the defect</p> <p>Our interpretation of the defect described in the Original proposal (and Ofgem's letter) is that the uncertainty and unpredictability of charges is an issue, and we do agree that this is a defect. RWE's proposal CMP442 also identifies the same defect. The sole intention of this modification should be a reduction in uncertainty, and the urgency is intended to address unpredictability for AR7 bidders in particular.</p> <p>Escalating charges are not a defect they are reflective of increasing network expansion costs</p> <p>The Original also describes escalating charges for generation in the north of GB resulting in higher CFD bids with a larger risk premium. The escalating charges in themselves are cost reflective of the increasing costs of network expansion and this is not a defect in the methodology. Indeed, providing a representation of network costs so that it is possible to achieve an overall view of which projects are most economic and which are not commercially viable is exactly the function of TNUoS charges. The risk premium is a result of the wide range of uncertainty in escalating charges, and it is the fact it is a wide range that needs to be addressed.</p> <p>It is only <i>unexpected</i> charges that users should be protected from. The charges mapped out in the 10 year projection were reflective of the existing methodology, and hence could have been produced by any market participant. The assertion that the levels came as a surprise reflects only a failure to do</p>
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		<p>sufficient due diligence on the future direction of network charge development.</p> <p>The uncertainty in future charges arises from the uncertainty in when new circuits will be commissioned and become chargeable. This could be addressed by NESO publishing a best view of future network reinforcement and associated charges. The problem is that the 10-year projection is based on network reinforcement which has become now almost entirely unachievable, with no alternative forecast based on latest plans.</p> <p>Unintended consequences</p> <p>TNUoS is only one of many factors which determines the competitiveness of any project, so distorting this signal risks unintended consequences.</p> <p>For every project there is a trade-off between revenues and costs. Favourable or unfavourable wind resource, capital costs or land or lease costs compared to other projects are very important factors alongside network costs. Onshore wind resource and offshore sea bed conditions for example are both highly locally variable. Therefore, the range of competitiveness of projects on a national level is also very variable within any region. Capping charges in the north is likely to result in windfalls for some projects that were already commercially viable and increasing charges in the south is likely to make some more marginal southerly projects no longer competitive.</p> <p>If a project isn't commercially viable under current TNUoS charges even if uncertainty is reduced by capping to expected charge levels then this is a very helpful economic indicator that it should not be built.</p> <p>If the marginal price setting generator in CFD AR7 is not in a zone expected to have capped charges, then the cap and floor will have increased, not decreased, the clearing price. Unlike many modifications where the counterfactual will never be</p>
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		<p>known, this will be entirely apparent from the detailed AR7 results.</p> <p>Lack of clarity on temporary nature and a potential windfall at the expense of the consumer</p> <p>Whilst Ofgem has requested a temporary cap, it is not clear whether the solutions are temporary or not. None of the WACMs include sunset clauses – implying they are no more temporary than any other code modification.</p> <p>DESNZ has stated that there would be legacy arrangements for existing and AR7 CFD assets under a REMA zonal market. We interpret “legacy” to mean existing arrangements under the status quo will be enduring i.e. TNUoS charges will endure for those assets beyond REMA implementation. Therefore, Ofgem will need to advise what those TNUoS legacy charges are post-REMA implementation. Simply abolishing TNUoS whilst transferring CFD generators from a national to a zonal reference price would be a huge and unnecessary windfall for northerly generators at a substantial and unnecessary cost to the consumer.</p> <p>If decision makers opt for an enhanced national market, then clarity will need to be provided on those arrangements also. A cap and floor might make it more difficult for the sharper TNUoS signals, that DESNZ have said they expect, to be implemented.</p> <p>Floor on tariffs doesn’t prevent negative charges</p> <p>With regards to the floor, it is worth considering that the Wider Tariffs (Peak, Year Round) reflect the cost of network expansion whilst the Adjustment is a function of the number of network users paying those tariffs. NESO confirmed in workgroup meetings that the Wider Tariff forecast was their best view, but that the Adjustment tariff could not necessarily be relied upon. It is the Adjustment tariff that is the main reason for the very negative overall tariffs for some users in the 10-year projection, but we now know that NESO do not consider this to be</p>
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		<p>a robust forecast. Applying a floor to Wider Tariffs would make very little difference because Wider Tariffs are not expected to reduce and become more negative, they are expected to remain largely the same as they are today.</p> <p>Implementation of a floor that is expected to be biting would result in a reduction of the locational signal to generators, and a risk that generators locate somewhere else that increases network build. No justification or benefit of a floor has been identified by the workgroup.</p> <p>Risk to Clean Power 2030</p> <p>The overall result of a cap and floor will almost certainly be more renewables in the north, fewer in the south, and more constraints. It may well be that projects in the south that were expected to go ahead become economically unviable, cancelled, and together with lower actual northerly renewables load factors due to output from northerly projects being increasingly constrained off, the cap and floor risks preventing us from achieving CP2030.</p>
2	Do you have a preferred proposed solution?	<p><input type="checkbox"/> Original</p> <p><input type="checkbox"/> WACM1</p> <p><input type="checkbox"/> WACM2</p> <p><input type="checkbox"/> WACM3</p> <p><input type="checkbox"/> WACM4</p> <p><input type="checkbox"/> WACM5</p> <p><input type="checkbox"/> WACM6</p> <p><input type="checkbox"/> WACM7</p> <p><input checked="" type="checkbox"/> Baseline</p> <p><input type="checkbox"/> No preference</p>

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		Click or tap here to enter text.
3	Do you support the proposed implementation approach?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Click or tap here to enter text.
4	Do you have any other comments?	In their evaluation of the impact on CFD clearing prices and wider benefits to the consumer, Ofgem should take into account the increased regulatory risk and therefore increased cost of risk capital from a non-cost-reflective TNUoS intervention, and the potential increase in the cost of REMA legacy arrangements.
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.