Public

CMP440: Re-introduction of Demand TNUoS locational signals by removal of the zero price floor

Workgroup 9 (27 August 2025)

Online Meeting via Teams

NESO
National Energy System Operator

WELCOME

NESO
National Energy System Operator

Agenda

Topics to be discussed	Lead
Welcome	Chair
Action Log Review	Chair
Review Terms of Reference	All
Review of Workgroup Consultation Responses	All
Alternative presentation - EDF	Binoy Dharsi
Any Other Business	Chair
Next Steps	Chair

Expectations of a Workgroup Member

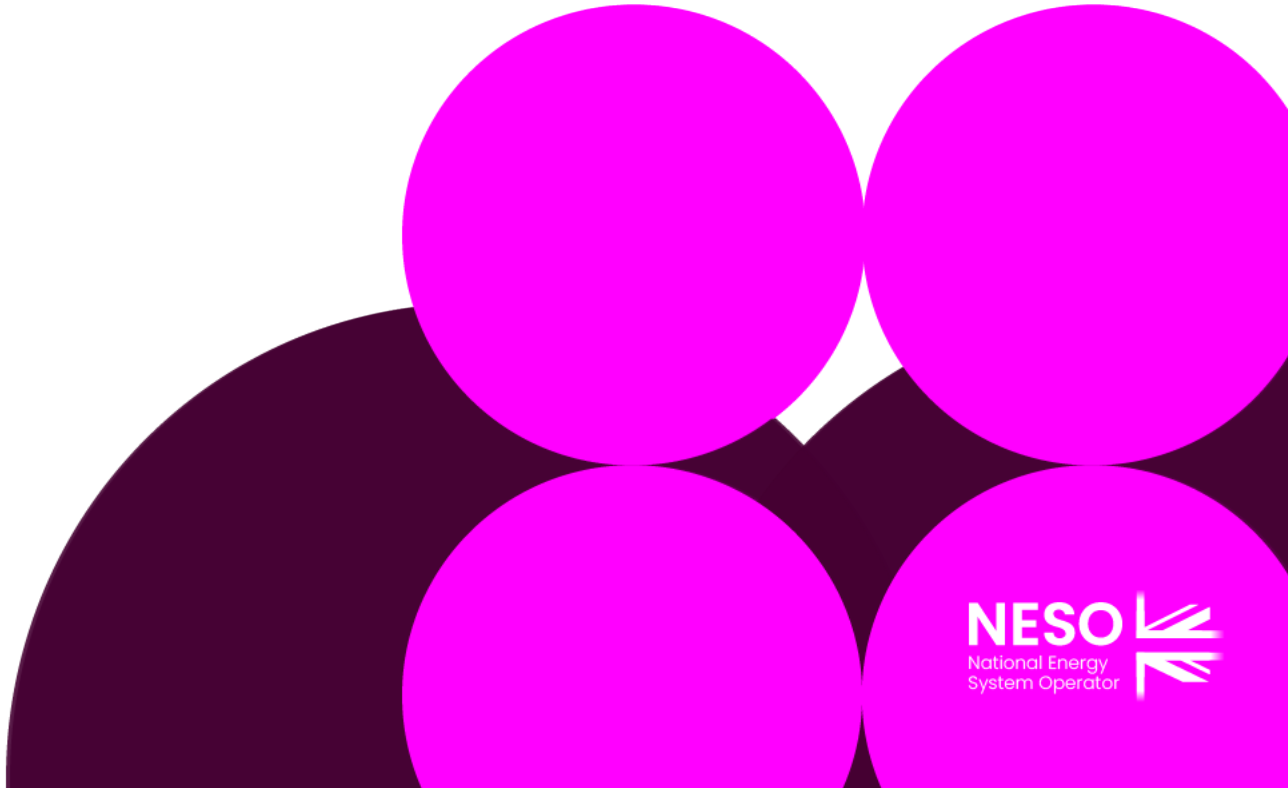
- Contribute to the discussion
- Be respectful of each other's opinions
- Language and Conduct to be consistent with the values of equality and diversity
- Do not share commercially sensitive information
- Be prepared – Review Papers and Reports ahead of meetings
- Complete actions in a timely manner
- Keep to agreed scope
- Email communications to/cc'ing the .box email

Your Roles

- Help refine/develop the solution(s)
- Bring forward alternatives as early as possible
- Vote on whether or not to proceed with requests for Alternatives
- Vote on whether the solution(s) better facilitate the Code Objectives

Timeline

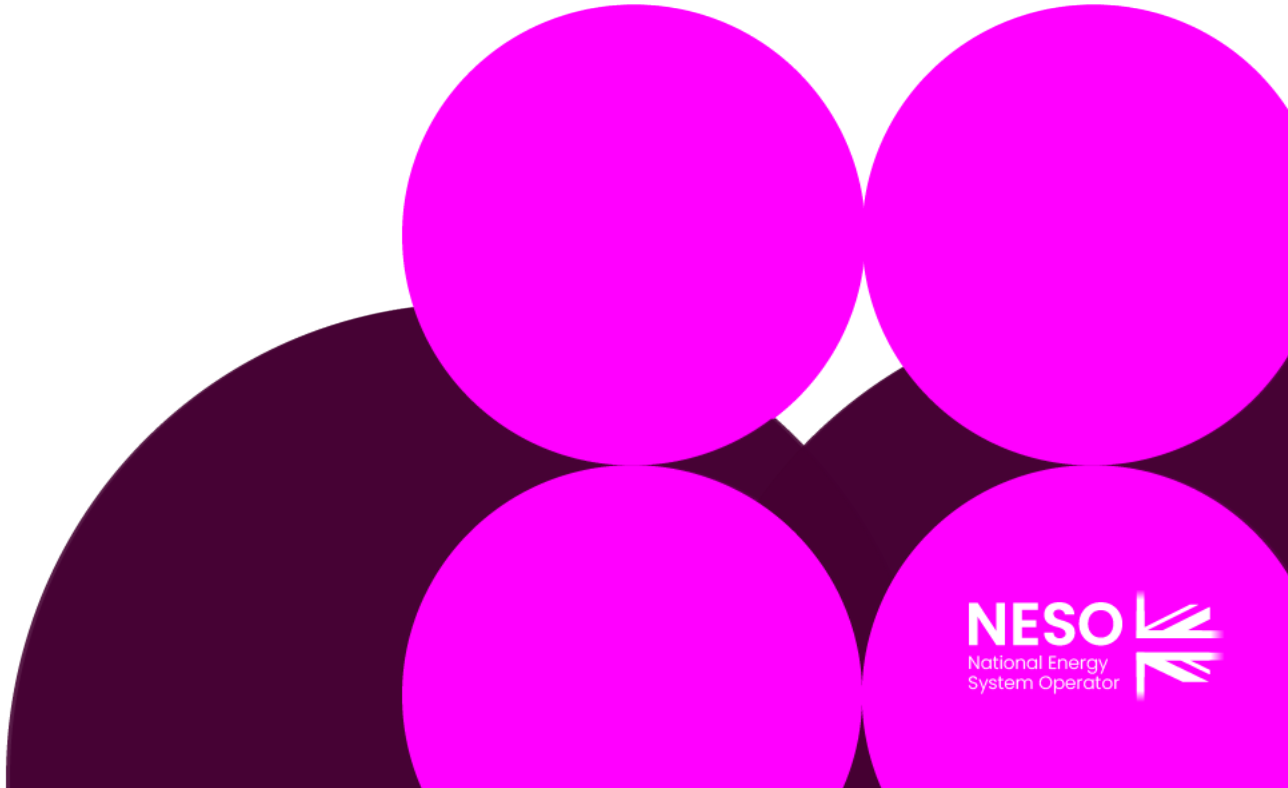
Robert Hughes – Workgroup Chair



Milestone	Date	Milestone	Date
Modification presented to Panel	27 September 2024	Workgroup 12	08 October
Workgroup Nominations (15 business Days) 15 clear business days minimum	04 October 2024 to 01 November 2024	Workgroup 13	22 October
Workgroup 1	08 January 2025	Workgroup 14	05 November
Workgroup 2	23 January 2025	Workgroup report issued to Panel (5 business days) 5 clear business days minimum	21 November
Workgroup 3	27 February 2025	Panel sign off that Workgroup Report has met its Terms of Reference	28 Nov Panel
Workgroup 4	21 March 2025	Code Administrator Consultation	05 Dec- 30 Dec
Workgroup 5	07 May 2025	Draft Final Modification Report (DFMR) issued to Panel (5 business days) 5 clear business days minimum	22 January 2026
Workgroup 6	04 June 2025	Panel undertake DFMR recommendation vote	30 January 2026
Workgroup 7	19 June 2025	Final Modification Report issued to Panel to check votes recorded correctly Ideally issued within 2 business days of Panel's DFMR recommendation vote. They have 5 clear business days to check.	06 Feb 2026
Workgroup 8 (contingency)	01 July 2025	Final Modification Report issued to Ofgem This is clear 5 business days after Final Modification Report is issued to Panel to check votes recorded correctly	10 Feb 2026
Workgroup Consultation (15 business days)	08 July 2025 - 30 July 2025	Ofgem decision (X business days) Typically, TBC or decision requested/needed by DD Month Year	TBC
Workgroup 9	27 August	Implementation Date Typically, 1 April date if a CUSC charging change; 10 business days after Ofgem decision for anything else. There are exceptions depending on the change itself.	01 April 2027
Workgroup 10	10 September		
Workgroup 11	24 September		

Action Log Review

Robert Hughes – Workgroup Chair

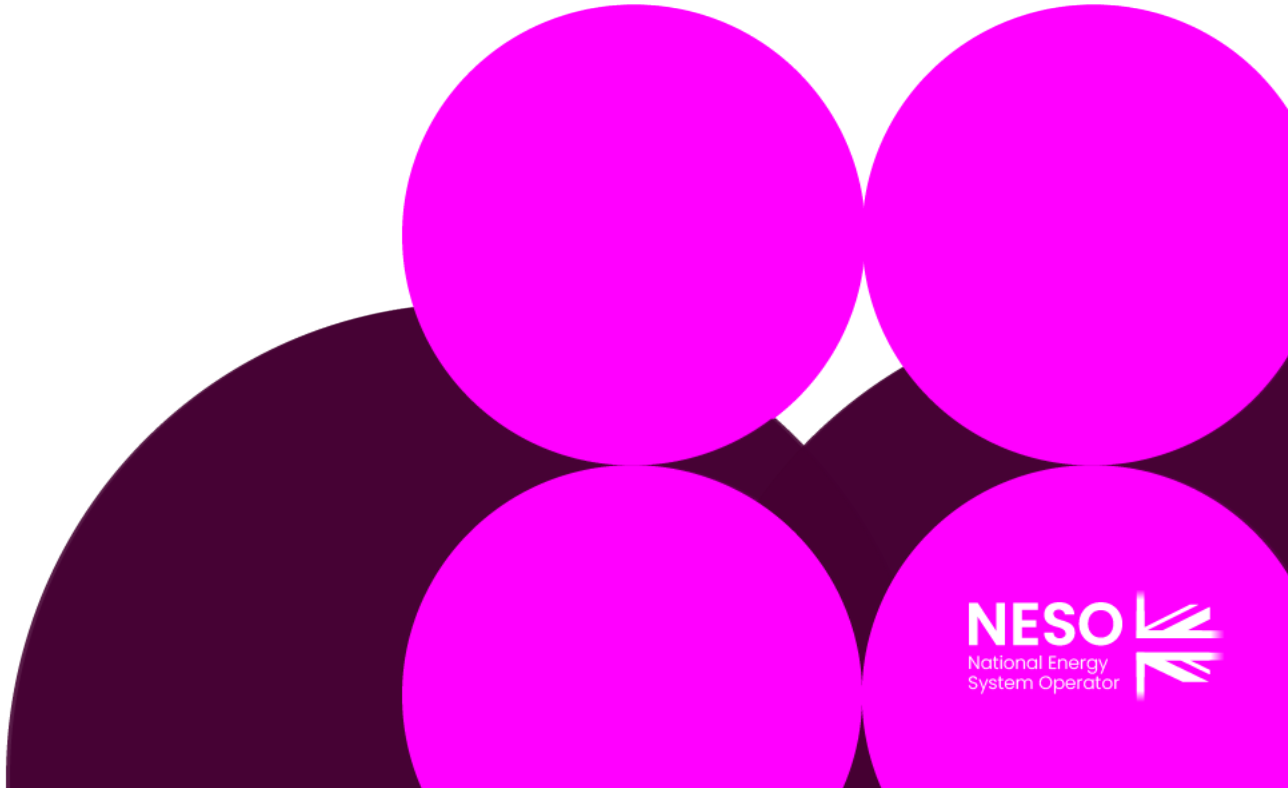


Actions Log

Action number	Workgroup Raised	Owner	Action	Comment	Due by	Status
18	WG6	LJ/PM	Develop the legal text on the current CUSC section 14 baseline		Ongoing	Open

Terms of Reference

Robert Hughes – Workgroup Chair

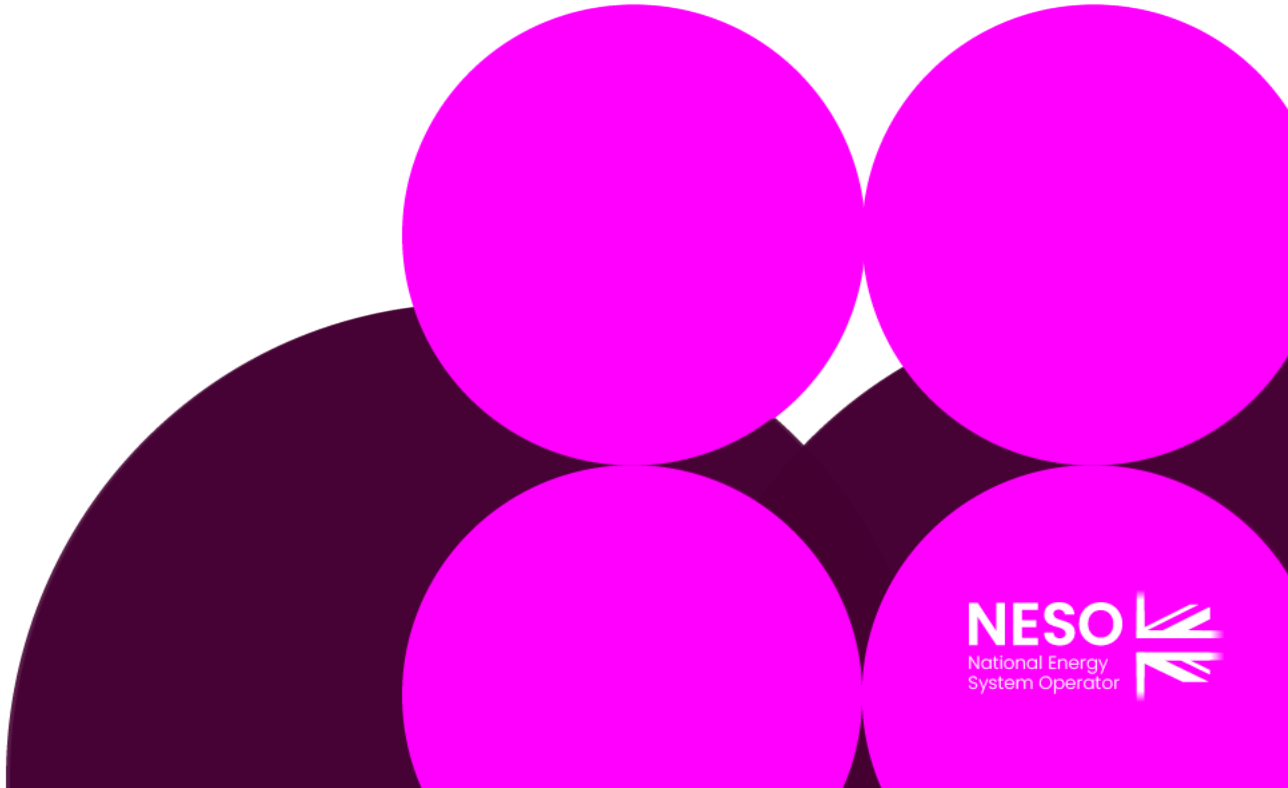


Terms of Reference

Workgroup Term of Reference
a) Consider EBR implications
b) Consider whether the peak charge should apply to winter or all year?
c) Consider whether the Year-Round charge should apply all day or just 4-7pm?
d) Consider whether positive and negative demand charges should be charged differently i.e. keep the existing methodology for positive demand charges?
e) Consider what the methodology should be for conversion from £/kW to p/kWh? (Inclusive of any practical impact on the design choices)

Review of Workgroup Consultation Responses

All



CMP440 Workgroup Consultation Responses Review

Number of Responses/Alternatives	
Confidential Responses	0
Non-Confidential Responses	4
Alternative Requests Raised	1

Industry Sector Representation*	
Consumer body	0
Demand	0
Distribution Network Operator	0
Generator	3
Industry body	0
Interconnector	0
Storage	1
Supplier	3
System Operator	1
Transmission Owner	0
Virtual Lead Party	1
Other	0

*Please note some responses represent a number of industry sectors and this tally does not include confidential Respondents

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CMP440 Workgroup Consultation Responses Review

Question	Number of Respondents			
	Objectives	Yes	No	N/A or No response
Do you believe that the Original Proposal better facilitates the Applicable Objectives?	D	3		1
	E	1		1
	F	1		1
	G	0		1
	H	1		1
Do you support the proposed implementation approach?		3	1	
Does the draft legal text satisfy the intent of the modification?		1		3
1 respondent raised Workgroup Alternative Requests during the Workgroup Consultation				

CMP440 Standard Workgroup Consultation Responses Review

Key Points

- There was no response from industry outside of Workgroup members. 4 Workgroup members submitted non-confidential responses. These were Drax; NESO, RWE; and EDF. There were no confidential responses.
- 3 respondents were supportive of the original solution
- Drax were opposed to the modification on the grounds that recent announcement regarding REMA had overtaken the need for this modification. They also felt that amongst other things, the modification does not promote effective competition
- An alternative request was submitted by EDF. Whilst supportive of the Original proposal, they believe that the scope of the modification should be widened to include non-final demand users. They believe that this is more consistent with the recent announcements regarding REMA
- 2 respondents, NESO and RWE were explicitly supportive of the scope of the Original proposal, i.e. that this is restricted to final demand only
- Respondents were generally supportive of the use of average consumer profiles to derive negative TNUoS tariffs for demand

CMP440 Specific Workgroup Consultation Responses Review

Q7 Do you agree that in negative price zones that the peak tariff element should be charged 4-7pm all year? Should the year-round tariff be charged 4-7 all year or 27/7 all year round? Or do you believe that there is a different basis for doing this?

- NESO and RWE were generally supportive of this.
- NESO believes that the 4-7 p.m. period is inherently a slightly arbitrary choice. It believes there are some merits to the Statkraft alternative, believing that it would remove the risk of differential incentivisation of consumption at different time. They believe that the Original Proposal is closer to peak demand conditions and may generate network investment.
- RWE believes that the benefits of final demand in alleviating the need for transmission investment are greater if that demand occurs during the peaks rather than the off-peaks
- Drax did not comment on this question
- EDF were agnostic on the issue. They believe that an appropriate solution could be for negative price zones to charge the peak tariff element on a 24/7 basis all year round for all demand. This is their preferred solution.

CMP440 Specific Workgroup Consultation Responses Review

Q8 How negative can TNUoS charges be (in P/kWh) before they create a perverse incentive for Users to consume, taking into account all other electricity costs? i.e. Is the charging period 4-7pm all year a sufficient duration over which to spread negative TNUoS charges?

- Drax did not comment on this question
- NESO believes that there is a potential to create additional consumption in the 4-7 p.m. period. However, this could be offset by BSUoS and other Final Consumption levies
- RWE feels that is likely that the 4-7pm all year charging period for peak and year-round tariffs is a good duration over which to spread a negative charging signal
- However, they also believe that this should be kept under review, for example if retail prices become consistently negative
- EDF takes the view that in negative price zones the peak tariff element should be charged on a 24/7 all year-round basis for all demand to prevent any perverse incentive to consume over peak periods. However, they also believe that other costs over the 4-7 pm peak periods mean that the incentive wouldn't exist, so this is unlikely to occur

CMP440 Specific Workgroup Consultation Responses Review

Q9 Do you agree that the best approach is to use average consumer profiles to derive p/kWh negative TNUoS tariffs for demand, rather than a conservative approach to the locational incentive which assumes that consumption during the charging period is the same as the triad?

- Drax did not respond to this question
- The other 3 respondents all agreed that the use of average consumer profiles was the best approach to derive TNUoS tariffs for demand
- Neso believes this is the best estimate
- RWE believes this approach would lead to the most accurate overall outcome
- EDF believes this is the most reasonable assumption for all demand

CMP440 Specific Workgroup Consultation Responses Review

Q10 Should the charging periods in positive charging zones remain the same as the Baseline or be consistent with those proposed for negative charging zones?

- Drax did not respond to this question
- NESO believes that there could be merit in a symmetrical approach to TNUoS demand locational recovery in positive and negative priced zones. However, , they add that they believe that demand TNUoS charging is likely to be reviewed on a wider basis than the CMP440 proposal, as part of the post-REMA review of charging.
- RWE believe the arrangements in positive charging zones should not be amended as part of this modification. Their proposed modification does not seek to address any defects or improve the charging arrangements either in positive demand tariff zones or with generation charging
- EDF believe that the incentive should remain, combined to incentivise demand reduction over the peak periods in positive charging zones.

CMP440 Specific Workgroup Consultation Responses Review

Q11 What is your opinion regarding the scope of the modification proposal i.e that there should be no change to the baseline basis of recovery of demand locationals for non-final demand?

- Drax did not respond to this question
- NESO and RWE believe the scope of the modification should remain for final demand only.
- NESO feels that otherwise batteries would be incentivised to be more discharged than they otherwise would be just ahead of the 16:00 to 19:00 time band. They have been proving helpful to NESO during large infeed loss events, and they do not want them to be artificially incentivised to be discharged at any given time
- RWE believe that The proposed approach requires that consumption during the charging period be used to estimate a users' consumption during triads. This estimate would not be accurate if the same parameters are used for non-final demand users because the relationship between the charging period and triad period would be completely different
- EDF responded that they believe that the Governments recent REMA decision has highlighted a need to send the right locational signals to demand. Therefore, they believe that it doesn't seem appropriate to limit the solution only to Final Demand which would not incentivise assets such as BESS, to locate in these areas that would benefit from it doing so

CMP440 Specific Workgroup Consultation Responses Review

Q12 Do you consider that the Workgroup Alternative Request described in the report has merit? If you do, please set out why you believe this is the case. Please offer any views you may have on the other further ideas discussed at the Workgroup, if you wish?

- Drax did not respond to this question
- NESO believes that the alternative has merit. Like the Original modification, they believe that it is also better than the baseline as it allows negative cost-reflective locational TNUoS signals to be applied to Northern demand to at least some degree, instead of being discarded via the baseline's application of a zero price "floor"
- RWE also responded that the alternative has merit. They believe that this is because the benefit of very wide charging periods (e.g. all year) is that the negative tariff is less negative than a narrower charging period. However, they provided a detailed argument, citing DESNZ analysis relating to LDES, that they believe that there is no justification that a 24-7 charging period is more appropriate than the periods set out in the Original proposal
- EDF emphasised their viewpoint set out throughout their response that they believe that in negative price zones the peak tariff element should be charged on a 24/7 all year round basis. They also responded that they believe that this should not just be for Final Demand as their belief is that there is a need to send the right locational signals to all demand

What is the Alternative Request?

What is an Alternative Request? The formal starting point for a Workgroup Alternative Modification to be developed which can be raised up until the Workgroup Vote.

What do I need to include in my Alternative Request form? The requirements are the same for a Modification Proposal you need to articulate in writing:
- a description (in reasonable but not excessive detail) of the issue or defect which the proposal seeks to address compared to the current proposed solution(s);
- the reasons why the you believe that the proposed alternative request would better facilitate the Applicable Objectives compared with the current proposed solution(s) together with background information;
- where possible, an indication of those parts of the Code which would need amending in order to give effect to (and/or would otherwise be affected by) the proposed alterative request and an indication of the impacts of those amendments or effects; and
- where possible, an indication of the impact of the proposed alterative request on relevant computer systems and processes.

How do Alternative Requests become formal Workgroup Alternative Modifications? The Workgroup will carry out a Vote on Alternatives Requests. If the majority of the Workgroup members or the Workgroup Chair believe the Alternative Request will better facilitate the Applicable Objectives than the current proposed solution(s), the Workgroup will develop it as a Workgroup Alternative Modification.

Who develops the legal text for Workgroup Alternative Modifications? NESO will assist Proposers and Workgroups with the production of draft legal text once a clear solution has been developed to support discussion and understanding of the Workgroup Alternative Modifications.

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In negative price zones the peak tariff element should be charged on a 24/7 all year-round basis for all demand

- **The original solution, addresses the defect identified.**
- **It is perceived that the term “Re-introduction of demand TNUoS locational signal” in the original proposal of the defect can be expanded to include both final and non-final demand.**
- **An effective cost signal should not be limited to a certain type of “demand User”.**
- **In Ofgem’s Open Letter in July 2025 there was a recognition of the role demand and storage projects may play in the future. Ofgem highlighted the need for demand to be rewarded to locate in certain areas if they alleviate constraints. We do not believe that solely extending the scope of demand to include non-final demand will have a material impact, but it could have the potential to marginally impact some projects viability.**

3. Encouraging more efficient siting of demand and storage projects

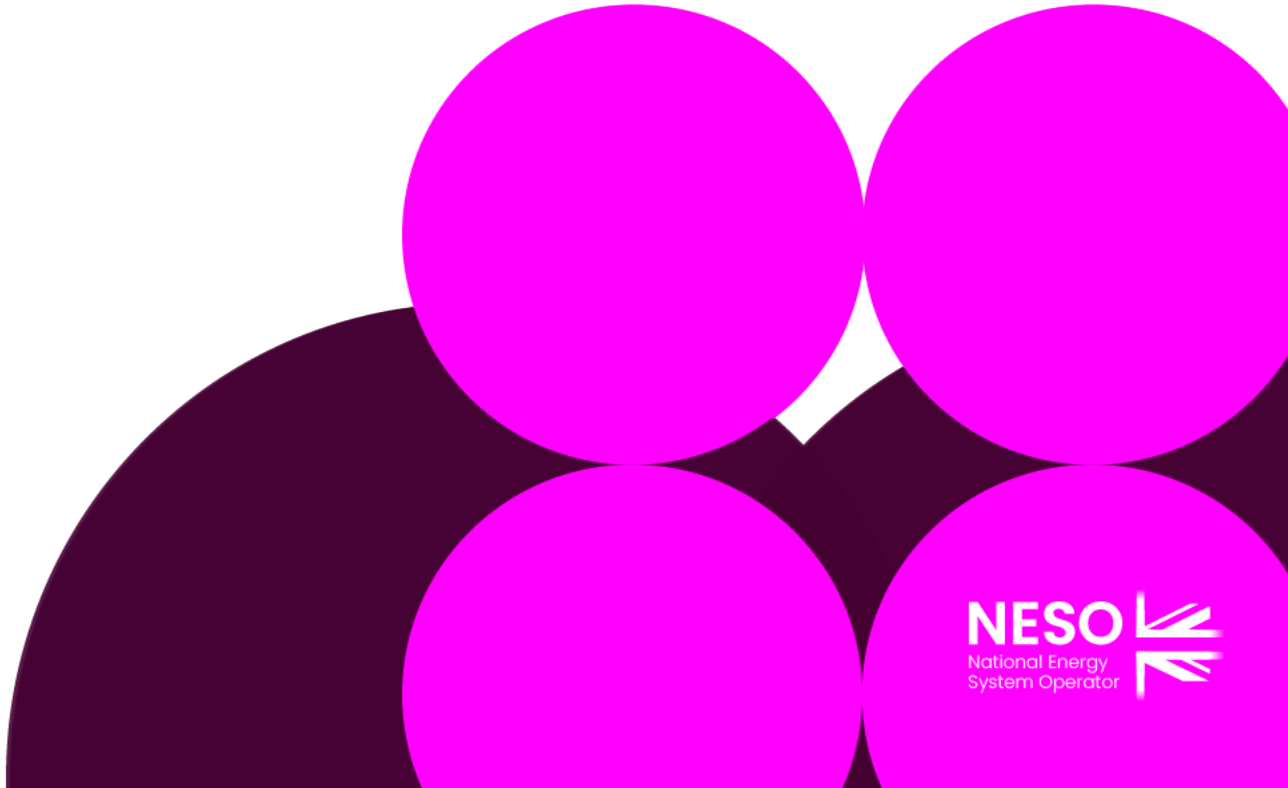
There could be benefits to sending effective locational signals to transmission-connected demand and storage projects, so that the expanded grid capacity over time is used as efficiently as possible. We will need to give some further thought to where and how we could encourage efficient siting for demand and storage projects, as (a) demand and storage are unlikely to be spatially planned in the same way as generation; and (b) their impact on the network is not the same as that of generation. Under some conditions, it may be desirable to create strong incentives for demand and storage projects to locate closer to generation to minimise the need for future grid upgrades. For instance, hydrogen electrolysers, batteries and data centres could be rewarded for locating in Scotland (where they can soak up excess wind power) rather than in the south of England. This could be done for instance through a system of transmission or connection charge premia and discounts depending on connection location.

Consideration of the proposed alternative

- **The alternative proposal tabled gives Ofgem a further option to consider, if it is allowed to be developed into a WACM.**
- **It aligns with the direction of thought Ofgem has stated in their July 2025 role of TNUoS Open Letter.**
- **There are no perceived disadvantages to include non-final demand within the scope. It is a simple concept that builds on existing work by the workgroup.**

Next Steps

Robert Hughes – Workgroup Chair



Any Other Business