

Workgroup Consultation Response Proforma**CMP413: Rolling 10-year wider TNUoS generation tariffs**

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@nationalgrideso.com by **5pm on 02 October 2023**. 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@nationalgrideso.com

Respondent details	Please enter your details	
Respondent name:	Giulia Licocci	
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Phone number:	+44 7733827480	
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 checked="" type="checkbox"/> Other

I wish my response to be:

(Please mark the relevant box)

☒ Non-Confidential

☐ Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

For reference the Applicable CUSC (charging) Objectives are:

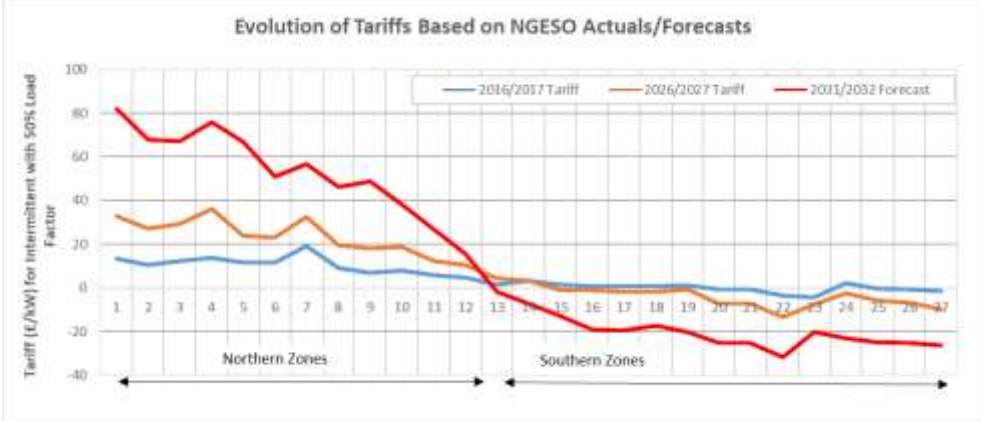
- a. *That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;*
- b. *That compliance with the use of 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 C26 requirements of a connect and manage connection);*

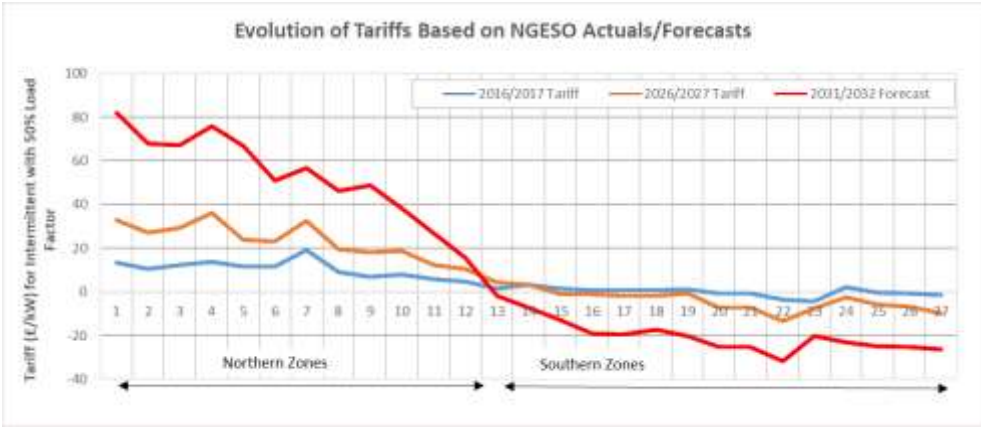
- c. *That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;*
- d. *Compliance with the Electricity Regulation and any relevant 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.*

**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 Workgroup Consultation questions

1	Do you believe that the Original Proposal better facilitate the Applicable Objectives?	<p>Mark the Objectives which you believe the Original solution better facilitates:</p> <p>Original <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E</p> <p>While the Proposal Form states that this modification provides a route to achieve the objectives of the Task Force, this is incorrect. We recognize that the Proposer aims to enhance predictability in charges over the long term to address the 'predictability' issue under TNUoS. However, this should not be pursued at the expense of cost-reflectivity. This Proposal would impede the achievement of CUSC Objectives (b) and (c), as fixing the charges within a pre-defined range at a time where the methodology is defective would fix charges that <u>do not</u> reflect the costs incurred by transmission licensees.</p> <p>The Original Proposal would also negatively impact competition (CUSC Objective (a)) given that, as shown in the graph below, the locational signal delta as a competitive differential is staggering and fixing such tariffs would not facilitate a level playing field.</p>  <p>In light of the 10-year projection published by the ESO, the Original Proposal would also negatively impact compliance with the EU Limiting Regulation of €2.50 /MWh for generation tariffs (CUSC Objective (d)). The overall residual to be collected from demand would go up to £/-21.7989/kW in 2031/2032 which would massively inflate consumer costs, which is to be considered in addition to the impact on CfD prices (see response to Q9)</p>
2	Do you support the proposed implementation approach?	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Ocean Winds does not support the proposed implementation approach (see answers to Q 1,3,8,9,10)</p>
3	Do you have any other comments?	<p>It is widely recognised across industry that the current TNUoS methodology is inappropriate and requires urgent regulatory intervention. This is demonstrated by Ofgem's establishment of the TNUoS Task Force and the recently published Open Letter on Strategic Transmission Charging Reform.</p>

		<p>Furthermore, when looking at the first 10-year projection published by the ESO in September 2023, it can be clearly seen that the Original Proposal is seeking to effectively fix levels of tariffs that could go up to £80/kW in zone 1 (2031/32, equivalent to around £20/MWh) within a maximum variance of maximum variance by £2.50/kW. If this was to materialise, it would effectively send closure signals to operational projects who cannot respond to the signals and will completely deter renewable deployment in the north of GB (where (i) resources are most plentiful and (ii) the majority of the renewable pipeline 28+GW is due to be deployed). This is not only completely at odds with policy goals (HND, ASTI), but it impacts consumers above all, who will bear the cost of charging signals which flow into the cost-of-energy of projects and inflate CfD prices (see answer to question 9)</p> 
4	<p>Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>Click or tap here to enter text.</p>	

Specific Workgroup Consultation questions

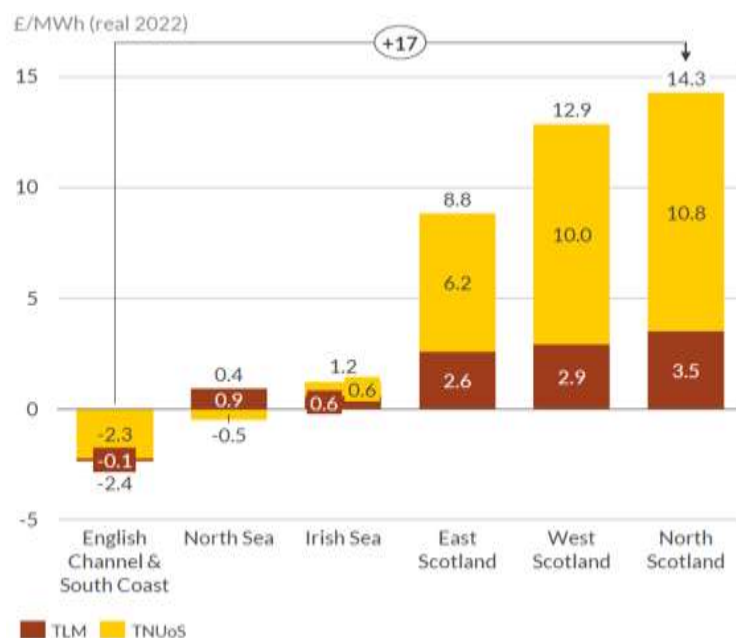
5	The Original proposal is to limit the maximum variance by £2.50/kW per charging zone. Do you feel this is an appropriate level?	We believe the maximum variance by £2.50/kW per charging zone would lock in extremely high charges for northern zones, while securing long term windfall gains for Southern TNUoS zones. Furthermore, the cap and collar value seem rather arbitrary and, should the Original Proposal be taken forward, we ask that a clear rationale is provided for this value.
6	The Original proposal deems a 10-year period to fix tariffs between the pre-defined Cap and Collar ranges	Subject to our response to the rest of the questions under this Consultation, we believe that fixing the tariffs within a pre-defined range for 10 years would provide long-term investment stability, but the tariff should be fixed at a time where (i) its defects have been addressed (ii) where the risk of

	appropriate. Is there an alternative length of time that would need to be considered?	closure signals for existing assets is neutralised on the long-term.
7	The Proposer has provided a mechanism by which components that feed into the wider tariff is allocated. The proposal apportions the Cap and Collar by the proportion of revenue collected for each component. Is there an alternative methodology that could be used?	We agree with the methodology to apportion the Cap and Collar by the proportion of revenue collected for each component.
8	Should there be a provision to trigger a re-opener in tariffs to reflect the considerable amount of reform planned both through Open Governance and via the TNUoS Task Force?	<p>The TNUoS Task Force has so far recognised at least 8 defects in the current methodology and established working groups to consider solutions and raise modifications accordingly:</p> <ul style="list-style-type: none"> • Backgrounds • Signals • Data Inputs • Reference Node • Absolute vs Relative • Technology Type • Sharing (YRNS/YRS) • Distributed Generation <p>It would be fully counterproductive to fix a rolling 10 years TNUoS tariff at a point where the industry is coming together to attempt to address the methodology shortcomings. Ocean Winds strongly believe that, should the Original Proposal be taken forward, there should be a provision to trigger a re-opener in tariffs to reflect the considerable amount of reform planned through (i) Open Governance, (ii) via the TNUoS Task Force, as well as any related future reform related to (iii) CfD and (IV) related to Ofgem's long-term TNUoS reform as laid out in the September 2023 Open Letter.</p>
9	The Original proposal aims to protect Generators from un-	The Original Proposal suggests that an inaccurate bid into a CfD auction, due to unpredictable TNUoS charges, can either lead to a windfall gain or loss for that generator. The

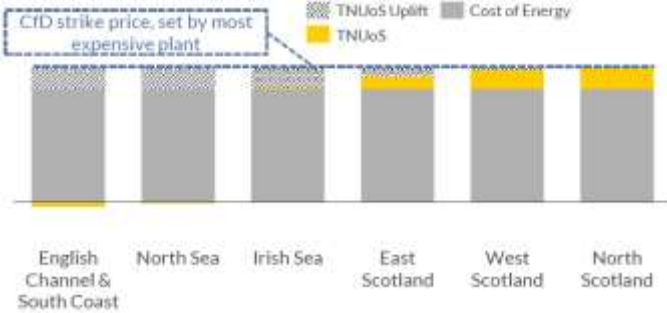
predictable tariffs as the rational is that inefficient costs could ultimately cost consumers more. A breach to the Cap and Collar is socialised to Demand Users. Do you think this is appropriate?

Proposer assessment is that if generators are protected from unpredictable tariffs, bid prices will be more accurate and thus windfall gains and losses would not materialise for generators or consumers. This assessment is incorrect. Ocean Winds commissioned a study from Aurora Energy research to analyse the consumer cost of TNUoS. The study found that:

- Southern Projects face up to £17/MWh head start under the cover of very strong locational signals (TNUoS and network loss costs(TLM)), which are only faced by northern generators



- Because Scottish wind farms are the most expensive due to locational charges, they are expected to continue to set the strike price.
- The rise of TNUoS compared to 2017 levels leads to an increase of the annual costs of CfD-backed offshore wind generation to consumers by £220m on average and up to £390m in 2025-2050. This corresponds to £5.6bn of cumulative additional cost to consumers in 2025–2050.
- A large share of these costs, 28% on average in 2030-2050 are due to wind farms South of GB being “cleared up” and receiving a strike price set by wind farms in Scotland (“TNUoS Uplift”)
- The Aurora study does not include the 10-year projection published by NGESO and does not represent a worst-case scenario. If using the projection, the impact on consumer is much larger.

		 <ul style="list-style-type: none"> It is important to highlight that the Aurora study does not currently include the 10-year projection published by the ESO and does not represent a worst-case scenario. If using the projection, the impact on consumer is much larger. It is essential that when considering consumer cost within CMP 413, the impact on consumers is not limited to the assessment of the “residual” resulting from a breach to the £2.50/kW cap and collar and socialised to demand users, but on the practical impact on CfD mechanics.
10	<p>Please provide any evidence to support the merit of greater predictability over cost reflectivity (Clearly mark your response confidential if you wish this to be directed straight to Ofgem).</p>	<p>At a time where substantial renewable deployment is required in the GB to achieve Government Net-Zero targets, long-term stability and predictability to inform investment decisions is essential. However, if a rolling TNUoS generation tariff was to be locked in at a time of widely acknowledged uncertainty over the methodology, the immediate effect would be (i) closure signals sent to newly built operational projects who cannot respond to the signals and risk becoming stranded assets and (ii) will completely deter renewable deployment in the north of GB (where wind resources are most plentiful and where Crown Estate Leases were granted).</p>