

**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 [usc.team@nationalgrideso.com](mailto:usc.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 [usc.team@nationalgrideso.com](mailto:usc.team@nationalgrideso.com)

Respondent details	Please enter your details	
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<b>Which best describes your organisation?</b>	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network <input type="checkbox"/> 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☐ 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 checked="" type="checkbox"/>A   <input type="checkbox"/>B   <input checked="" type="checkbox"/>C   <input type="checkbox"/>D   <input type="checkbox"/>E</p> <p>Providing more predictability in TNUoS tariffs through a longer term forecast should remove the requirement for generators to develop their own forecasts. If all generators have the same access to accurate TNUoS information, competition between generators will be improved.</p> <p>The production of a longer term TNUoS forecast will better reflect planned future investment by transmission licencees in response to changing market conditions.</p>
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/>Yes <input type="checkbox"/>No</p> <p>We support implementation at the earliest opportunity.</p>
3	Do you have any other comments?	Not all elements of the proposal, including compliance with the Limiting Regulation and treatment of the Adjustment Tariff, were clearly set out in the consultation document and we would like to understand these in more detail.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<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 consider this to be a reasonable range, which provides a balance between allowing TNUoS charges to fluctuate to ensure cost reflectivity and providing certainty to generators when taking investment decisions.
6	The Original proposal deems a 10-year period to fix tariffs between the pre-defined Cap and Collar ranges appropriate. Is there an	As set out in our response to Q10 below, we consider that there is currently insufficient certainty in TNUoS charges for generators seeking a 15 year contract in the Capacity Market or Contract for Difference auctions. A 10 year cap and collar range would provide increased certainty for the first c.6 years of project TNUoS for a new

	alternative length of time that would need to be considered?	investment with a 15 year support contract. Ideally, TNUoS certainty would be provided for the full 15 years covered by the CM or CfD contract. However, we recognise that it may not be feasible for the ESO to provide a meaningful TNUoS forecast on this timescale and that the associated cap and collar ranges would need to be very large, which may undermine the usefulness to investors. We therefore consider that a 10 year period could provide a reasonable balance between investor certainty and cost-reflective charges.
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?	This element of the proposal was not clearly explained in the consultation document and we are therefore unable to comment on it.
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?	No. The purpose of the 10 year cap and collar range is to provide certainty for generation investments. A reopener would significantly undermine that certainty and the value of this modification proposal overall.
9	The Original proposal aims to protect Generators from unpredictable tariffs as the rationale 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?	Yes. We consider that unpredictable TNUoS costs are likely to result in a risk premium which is passed through to consumers in CM and CfD auctions. This proposal could therefore reduce overall costs for consumers. We therefore think it is appropriate for breaches of the cap and collar to be socialised to Demand Users.
10	Please provide any evidence to support the merit of greater predictability over cost	Ofgem has set out its view that locational TNUoS should provide an investment signal for power generation. However, TNUoS will only provide a signal to which investors will react if it can be relied upon and will not be

<p>reflectivity (Clearly mark your response confidential if you wish this to be directed straight to Ofgem).</p>	<p>undermined once an investment decision has been taken. Predictability in TNUoS charges is therefore crucial to achieve the intended effect of locational TNUoS. As set out below, we do not consider that there is currently sufficient predictability associated with TNUoS and we therefore support proposals to improve predictability over cost reflectivity.</p> <p>A new power station investment supported by a 15 year Capacity Agreement must submit a bid in a T-4 CM auction in February c.3.5 years ahead of delivery. The available 5 Year Forecast of TNUoS at the time that bid is made is already 10 months old and would only cover the first 1-2 years of project operation. There is currently no meaningful information available to investors on the likely level of TNUoS beyond the initial 1-2 years for which TNUoS will be paid for that project. When participating in the CM, project developers are therefore having to take speculative assumptions about TNUoS charges which can outturn materially different by many millions of pounds a year over the 15 years for which their capacity market revenues have been fixed.</p> <p>This introduces an extremely high level of risk into new power station investment decisions. As TNUoS is a fixed cost, the CM is the appropriate mechanism through which to recover it, but under current arrangements participants cannot efficiently price it into their auction bids. The result of this is either that project developers will price a significant risk premium into their CM bids, which could result in increased clearing prices and costs to consumers, or that the high level of risk associated with TNUoS could reduce the likelihood of new build projects proceeding.</p> <p>Existing projects seeking a one year Capacity Agreement four years in advance do have access to a Five Year Forecast which covers the duration of the Capacity Agreement. However, experience suggests that there can be substantial fluctuations in TNUoS between forecasts and some zones, such as those at the extremities of the network, can be especially sensitive. As CCGTs approach the end of their operational lives, certainty of costs and revenues four years ahead will be crucial to decisions as to whether to make ongoing investments in the plant and will influence closure decisions.</p>
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		In the absence of any Capacity Market adjustor for changes in TNUoS tariffs, EPUKl therefore supports this proposal to set a defined range for TNUoS tariffs over a ten year period.
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