

Code Administrator 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 18 March 2024**. 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:	Sam Hughes	
Company name:	Citizens Advice	
Email address:	sam.hughes@citizensadvice.org.uk	
Phone number:	Click or tap here to enter text.	
Which best describes your organisation?	<input checked="" type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input 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)

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 Code Administrator Consultation questions						
1	Please provide your assessment for the proposed solution(s) against the Applicable Objectives?	Mark the Objectives which you believe the proposed solution(s) better facilitates:				
		<table border="1"> <tr> <td>Original</td> <td><input type="checkbox"/>A <input type="checkbox"/>B <input type="checkbox"/>C <input type="checkbox"/>D <input type="checkbox"/>E</td> </tr> <tr> <td>WACM1</td> <td><input type="checkbox"/>A <input type="checkbox"/>B <input type="checkbox"/>C <input type="checkbox"/>D <input type="checkbox"/>E</td> </tr> </table>	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
		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			
<p>We do not believe the Original or WACM1 are positive against any of the charging objectives.</p> <p>Both modifications are:</p> <p>Negative against (a). There is a risk that fixing tariffs in the way proposed could lead to windfall gains or losses for existing generators who have already priced in risk premia to their prices for CfDs or other bids.</p> <p>Negative against (b). Both modifications represent a significant trade off of cost reflectivity in favour of predictability. At present no party, including the ESO, appears to be highly confident that an accurate 10 year TNUoS forecast can be produced by the ESO and therefore tariffs are less likely to be cost reflective.</p> <p>The Original is also negative against (b) because by socialising costs that fall outside the cap and collar to demand customers, generators would not face the fully cost reflective locational signals that the tariffs are intended to deliver.</p>						

	<p>The modifications would seem to provide the greatest value to generators and consumers if forecasts are accurate, provide certainty and accurate siting/investment signals, and do not result in additional costs being faced by demand consumers and suppliers if tariffs exceed the cap and collar.</p> <p>However, without confidence that an accurate 10 year forecast can be produced there is a risk of inefficient investment decisions if forecasts are not cost reflective. This is further impacted by locking in known defects to tariff methodologies if the modification is implemented before other changes are made that might improve both predictability and cost reflectivity.</p> <p>We also note that the caps and collars, unlike forecasted tariffs, would not be indexed to reflect inflation and are, again, less cost reflective. Assuming positive inflation this has the effect of narrowing the caps and collars around the forecasted tariffs to a greater extent than shown. We do not think it is fair that demand customers would be exposed to this inflation and generators are shielded from it (in the case of the Original).</p> <p>Negative against (c). If important improvements to tariff methodologies cannot take effect until year 11 (following the fixed 10 year period) the charging methodology cannot properly take account of the developments in transmission licensees' transmission businesses. Furthermore, if necessary changes are made to tariffs by reopening them or through code modifications this will erode the benefit to generators from predictability. Given work by the TNUoS Taskforce and proposals still under consideration by REMA, this seems a plausible risk.</p> <p>Negative against (e). Delivering the core intended benefits of both modifications relies on longer term predictability. However, if this means implementing changes to tariff methodologies after a 10 year fixed period this represents an inefficient implementation and administration of the system charging methodology by creating barriers to implementing improvements to the methodology. It could also create step changes to tariffs if changes accumulate over as long a time period as 10 years.</p>
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2	Do you have a preferred proposed solution?	<input type="checkbox"/> Original <input type="checkbox"/> WACM1 <input checked="" type="checkbox"/> Baseline <input type="checkbox"/> No preference
		<p>We believe the baseline represents the best solution given the need to first address underlying methodology defects that cause unpredictability.</p> <p>The benefits intended by the modification rely on accuracy of the 10 year forecast. In the absence of confidence in the ability for this to be delivered, the baseline is the preferred solution.</p> <p>We consider WACM1 a better solution than the Original as it would ensure charges are more cost reflective. For clarity though, the baseline remains our preferred solution.</p>
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?	<p>We understand and support the need for predictable and cost reflective TNUoS tariffs and their contribution to developing an efficient energy system. However, at this stage we do not think the Original or WACM1 could deliver the reduction in uncertainty as intended. Without this the benefits (and size of the benefits) to consumers through reduced risk premia associated with generators are not certain.</p> <p>We also do not think it is appropriate for locational cost reflective charges that are intended to drive efficient siting and investment decisions by generators to be a cost that demand customers partially face, except where the limiting regulation applies (as in the Original). This would be a cross-subsidy rather than a residual charge. WACM1 represents a better solution than the Original for this reason although, for clarity, the baseline is our preferred option.</p> <p>The widening cap and collar values (+/-£0.25/kW to +/-£2.50/kW), as proposed, do not appear to have a clear justification for the precise range of values chosen. As the range is fixed it would also have the effect of shielding generators from inflationary effects, instead passing this</p>

	<p>cost and exposure to demand customers (in the case of the Original). We do not believe predictability is a suitable justification for this and think it is reasonable for inflationary effects to be a business as usual matter.</p> <p>It will be important in Ofgem's impact assessment and decision making process to seek objective evidence of the effect unpredictability has on generators. The size of the connections queue may be a useful reference point as will confidential submissions.</p> <p>Ofgem should also ensure that appropriate counterfactuals are used. It would be too narrow to assess the Original and WACM1 against only a 'do nothing' counterfactual given the level of activity underway to improve predictability and cost reflectivity. We suggest Ofgem will need to be able to assess the benefits and costs against additional scenarios.</p>
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