



Forum

# Charging Futures Forum

October 2024



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# Opening Remarks

## Georgina Mills



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➤ 09:00 – Opening Remarks with Georgina Mills

➤ 09:15 – Connections Reform with Alasdair MacMillan

**Q&A (15 min)**

**10:00 Break**

➤ 10:15 – Transmission Charging with Harriet Harmon & Pedro Arcain

**Q&A (15 min)**

**11:00 Break**

➤ 11:15 – Distribution Charging with Andrew Malley

**Q&A (15 min)**

➤ 11:45 - Closing Remarks

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# Connections Reform

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**Connections Action Plan (CAP):** published by Ofgem in November 2023, outlined a series of priority actions to move to a ‘first ready, first connected process’



- Progress has already been made on several CAP actions:
  - ~10GW accelerated, ~22GW new capacity released + over 10GW stalled projects removed
  - **CMP376** – queue milestones introduced at Tx and **CMP427** – landowner letter of authority introduced as queue entry requirement
  - Transitional arrangements implemented from 2 September
- ESO are continuing to develop connections reform (known as TMO4+) code modifications (CMP434, CMP435, CM095, and CM096)
- However, at the current rate of growth the ESO estimate that the queue is likely to exceed **800GW** by the end of 2025.
- A connections process that delivers pipeline that is **ready *and* needed** would provide a clearer signal for enabling infrastructure to transition GB to clean power, and eventually net zero.

- **New policy environment:** The new Government has strong ambition for 2030 and is set to release the Plan for Clean Power 2030 (CP2030) later this year.
- The connections process will have a key role to play in delivering the generation and storage needed in CP2030 and subsequently the Strategic Spatial Energy Plan.
- There is an opportunity and a need to **go further on TMO4+** and accelerate this strategic alignment with system planning.
- This means:
  - Increased opportunity to align connections reform with strategic planning within the **first phase** of connections reform.
  - Opportunity for TMO4+ to be **strengthened** to align with strategic planning
  - Option to include **technical requirements** in the assessment of connections applications and making connection offers.
  - Possibility of an additional financial requirement on developers to demonstrate commitment to connect – work in progress

- We published an open letter in September 2024 setting out the proposed process to accelerate alignment with strategic planning.
- Aligning with system plans will require licence changes. We expect licence conditions to provide for transparent Methodologies on (i) queue entry criteria (Gate 2) (ii) NESO project designation criteria and (iii) Connections Network design.
- The introduction of Methodologies will enable delivery of reform as soon as possible, by allowing work to progress on the licences, codes and Methodologies in parallel. We will embed a transparent and accountable process around methodologies within the licences.
- We will consult on the policy and all proposed new and modified licence condition(s), and will support ESO on the development of the three methodologies.
- Our intention is to reach a final decision on whole package – 1) ESO-led code changes, 2) Ofgem-led licence changes and 3) ESO-led methodology documents - in early 2025.
- We then expect revised offers to begin to be issued later in 2025 under the new arrangements.
- We are fully committed to ensuring we have a connections process in place that is able to deliver the right projects, in the right places, as informed by GB need, as soon as possible



# Q and A



# Comfort Break

Back at 10:05

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# Transmission Charging

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- Introduction
- Case for change
- Cap and floor intervention
- Timelines

## **Open Letter: Seeking industry action to mitigate the investment impacts of very high projected TNUoS charges**

- On Monday, we published an open letter in response to concerns driven by **uncertainty around long-term TNUoS charges**.
- Concerns particularly driven by last year's **projections of significant increases for generators in the North of GB**
- Our view is that a **temporary cap and floor on components of the Wider TNUoS charges** for generation would offer the most efficient type of intervention to reduce uncertainty and increase consumer benefits

**We encourage NESO to bring a code mod to CUSC Panel this month proposing a cap and floor intervention**

## **We want to enable the required pace and timing of investments to reach a clean power system by 2030 while protecting consumers**

### Challenges:

- TNUoS charges are projected to increase significantly in some regions by the end of the decade, creating challenges for critical investment decisions being made in the next few years
  - Absolute value of generator charges is projected to **broadly triple in Northern Scotland by 2033** as compared to today's charges.
  - 10-year projections are the **only publicly available indication of long-term charge levels** but we can't currently provide an alternative set of projections

## **We want to enable the required pace and timing of investments to reach a clean power system by 2030 while protecting consumers**

### Challenges:

- Proposals addressing issues with existing charging methodology are **not being progressed at pace** to reduce uncertainty before key investment decisions
  - Some decisions that could have material impact on absolute value of charges will not be implemented, if approved, until 2027
- Projected increases in TNUoS credits **could oppose consumers' interest**, who may end up paying more without clear benefits

## Our work in this area therefore focuses on how best to balance:

- **Retaining a cost-reflective locational long-run investment signal** that complements other market arrangements; and
- **Minimising system costs for consumers while reducing uncertainty to investors to deliver Clean Power 2030**, in a context of uncertainty around the outcomes of REMA's broader market reforms

We think this balance will be best achieved by **reducing uncertainty around the future range of TNUoS charges** to enable pace and timing of investment and protect the interest of consumers

## **Our view is that a temporary cap and floor on wider TNUoS charges for generation would offer the most efficient type of intervention**

We currently believe that a single **GB cap and floor on the absolute £/kW components of the TNUoS Wider charge** is the most efficient intervention to reduce long-term uncertainty around the range of charges and increase consumer benefits:

- establishes appropriate, individual, upper and lower limits on the £/kW charges paid by generators through the Year-Round Shared, Year-Round Not Shared and/or Peak Tariffs
- retains regional/locational differentials in charges and between technology types through a single GB cap and floor
- maintains a procedure for ensuring compliance with the requirements on generator annual average transmission charges as provided for in Regulation 838/2010 (as assimilated)
- is capable of implementation without requiring NGENSO to change its TNUoS forecasting approach or timetable; and
- is capable of implementation from April 2026, if approved



## **Our view is that a temporary cap and floor on wider TNUoS charges for generation would offer the most efficient type of intervention**

- Single GB cap and floor following these parameters to reduce uncertainty around absolute level of charges by the end of the decade
- Consumers would benefit from
  - reduction in the adjustment tariffs established by Regulation 838/2010, which they subsidise
  - reduction costs passed through to them from elsewhere e.g., from an expected reduction in costs of capital or risk premia flowing through to reduced CfD bids, wholesale prices, and balancing costs

## **We encourage NESO to raise a code modification proposal to mitigate the identified and reduce investment uncertainty**

- NESO to discuss solution tomorrow at Transmission Charging Methodology Forum (TCMF)
- NESO to bring a code modification proposal to CUSC Panel in October
- CUSC mod not subject to “hiatus”, able to progress immediately
- We aim to make a final decision by summer 2025, ahead of the CfD Allocation Round 7 bidding window

<b>Modifications with recent decisions</b>	<b>Publication Date</b>
<b>CMP424:</b> <i>Amendments to Scaling Factors used for Year-Round TNUoS charges</i>	6 September 2024
<b>CMP430:</b> <i>Adjustments to TNUoS Charging from 2025 to support the Market Wide Half Hourly Settlement (MHHS) Programme</i>	26 September 2024
<b>CMP393:</b> <i>Using Imports and Exports to Calculate Annual Load Factor for Electricity Storage</i>	30 September 2024
<b>CMP413:</b> <i>Rolling 10-year wider TNUoS generation tariffs</i>	30 September 2024
<b>CMP418:</b> <i>Refine the allocation of Dynamic Reactive Compensation Equipment (DRCE) costs at OFTO transfer</i>	30 September 2024
<b>Modifications with us for decision</b>	<b>EDDs</b>
<b>CMP316:</b> <i>TNUoS arrangements for Co-Located Generation Sites</i>	October 2024
<b>CMP408:</b> <i>Allowing consideration of a different notice period for BSUoS tariff settings</i>	October 2024
<b>CMP415:</b> <i>Amending the Fixed Price Period from 6 to 12 months</i>	October 2024
<b>CMP397:</b> <i>Consequential changes required to CUSC Exhibits B and D to reflect CMP316 (Co-Located Generation Sites)</i>	TBC
<b>CMP315:</b> <i>TNUoS: Review of the expansion constant and the elements of the transmission system charged for</i>	TBC
<b>CMP375:</b> <i>Enduring Expansion Constant &amp; Expansion Factor Review</i>	TBC



# Q and A

# Comfort Break

Back at 11:05

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# Distribution Charging

Charging Futures Forum – October 2024



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## Agenda:

- CFI – Surplus residuals in DUoS Charges
- DUoS Reform
- Cost Recovery review
- Q & A Session

Last winter we issued directions to change the EDCM (the DUoS charging methodology for EHV users) in response to DNO requests. These directions were needed to address issues DNOs encountered in the tariff setting process. We were also made aware of a similar issue in the CDCM (the charging methodology for low and high-voltage users).

Since we were made aware of the issues, we have worked with network stakeholders to establish robust and practical solutions in case similar issues arise in future years.

A Call for Input was published in July 2024 which outlined proposed options, our initial assessments and approaches to application. We received **13 responses**, including from DNOs, IDNOs Suppliers and non-network trade associations, and had broad support for our approach.

We are currently developing a Guidance Document, drawing on response to the Cfi, which outlines the approach DNOs should apply in addressing surplus residuals within the charging methodologies. **The provisional plan for publication is before the end of October 2024.**

We acknowledge calls for an enduring solution to these issues to be developed, including the possibility of a code modification and will collaborate with industry going forward.



We have continued to develop our thinking on DUoS reform. We are exploring:

- The fundamental principles and framework to form the basis of our review of DUoS charges, as set out during the Access SCR, to ensure they are suitable going forward.
- Contextual developments that influence the future of DUoS charging model design, including developments in REMA, Transmission charging and the wider sector i.e., metering capability
- Areas within DUoS that require reform and our approaches to prioritisation.

**We will continue engagement with the sector in the New Year and will seek feedback from industry on the above areas.**

### **In following Ofgem’s review of standing charges, we are conducting a broad review of how system costs are recovered from users.**

Work throughout the organisation has looked at the impact of standing charges on consumers, and we have considered whether specific changes to our approach are needed. Some of these options are covered in the Retail team's [options paper](#). In order to ensure that any potential options are considered in context, we are building a picture of all areas of cost recovery within the arrangements to ensure we are treating these issues consistently.

When we have a full picture of each area of cost recovery, we hope to be in a position to consider whether any changes are desirable and better understand the impacts and interactions. Any changes would need to balance a number of objectives, including:

- Advancing fairer outcomes for consumers,
- Ensuring industry participants are able to recover costs in an efficient way,
- Effectiveness of price signals in the market
- Impacts on strategic priorities including decarbonisation

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## **Next Steps**

- We invite brief feedback from those who could not attend today to [duos@ofgem.gov.uk](mailto:duos@ofgem.gov.uk) until 25 October 2024



# Q and A

# Closing Remarks & Next Steps



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**Ofgem is the Office of Gas and Electricity Markets. We are a non-ministerial government department and an independent National Regulatory Authority, recognised by EU Directives. Our role is to protect consumers now and in the future by working to deliver a greener, fairer energy system.**

**We do this by:**

- **working with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.**
- **stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.**
- **enabling competition and innovation, which drives down prices and results in new products and services for consumers.**