Public

Five-Year View of TNUoS Tariffs for 2025/26-2029/30 Webinar

Q&A Summary – 15/05/2024

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Purpose	To summarise the questions asked as part of the 5-Year View of TNUoS Tariffs for 2025/26-2029/30 webinar and the answers provided by the presenters.
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Introduction

A webinar was held on 15th May 2024 to outline the ESO's 5-Year View of TNUoS tariffs for 2025/26 – 2029/30.

You can download the slide deck from this webinar **HERE**
You can view a recording of this webinar **HERE**

The following questions were asked, and answers provided during the webinar Q&A session:

#	Questions	Answers
1.	What inflation values have been used in the 5-year model, where can we see these?	Many of our parameters (e.g. the Expansion Constant, AGIC and Onshore Local Substation Tariffs) are linked to TOPI inflation which uses the year on year change in average May to October CPIH. OFTO revenues and associated offshore local tariffs are slightly different as they are linked to RPI or CPI and their inflation terms are defined in the individual OFTO licences.

		All inflation types have been updated with the latest actual data (up to March 2024 actuals), and beyond that is an internal forecast of inflation from our finance department. We get this information on a quarterly basis, so we expect an update ahead of the July tariffs. TO inflation figures are forecasts taken from the published PCFM from the AIP published in January 2024 [RIIO-2 Annual Iteration Process 2023 for Transmission and Gas Distribution | Ofgem]. In terms of seeing the figures that have been applied, these can be seen in tables 39 to 41 in the 5yv 2025/26 – 29/30 report or the corresponding tables file.
2.	Why is Total Revenue 25/26-29/30 increase only expected to be the same as the 1 year change from 24/25-25/26?	Across the five years, you will see a general increase in TO Allowed Revenue based on inflation rates applied, financial parameters or business rates. For 2024/25 year the lower Allowed Revenue was offset by tax reductions for first year allowances carried forward from 2023/24 and increased ASTI charges/funding for T2 and T3 projects.
3.	Please can you give us a bit more detail on why the total revenue is due to increase by over £1b from the current year?	The reason the change between 2024/25 financial year and the 2025/26 forecast of around £1 billion is because this accounts for tax allowances by OFGEM. As advised by the National Grid TO, tax allowance forecasts are updated annually subject to a completion of AIP 2024 by OFGEM. This has the potential to reduce significantly in the November Draft and Final Tariffs once TOs update us with their new forecasts in line with STCP 24-1. For their 2024/25 forecast their revenue prior to tax is not significantly different, however, an adjustment term of around £216m lowered the Allowed Revenue, largely due to the new capital allowances being retrospectively applied to 2023/24 and 2024/25.Similarly, a cumulative tax revenue deduction of around £143m in relation to full first year allowances on capex was applied to

		2023/24 and 2024/25 for SSE and such the base revenue is significantly lower for 2024/25. In addition, SSE have accounted for significant and expected step up in capex relating to T3 ASTI projects for 2025/26 forecast – those projects are significant in size and subject to large cost increases and several costs will be incurred in the final year of T2 as construction progresses into T3.
4.	What is driving the large increase in 2025/26 revenue (i.e. within the same price control period)?	Across all three TOs in 2024/25 revenue saw an approximate £1.1bn change compared to the 2025/25 financial year. This is due to an adjustment term of around £389m. A tax trigger event which saw a tax revenue deduction in relation to full first year allowances on capex of around £355m. A high-level detailed analysis indicates this was offset by the difference in ASTI funding between 2024/25 and 2025/26 (although other factors could have also driven this). Further breakdown of the main drivers of this change is included in the published PCFM: RIIO-2 Annual Iteration Process 2023 for Transmission and Gas Distribution | Ofgem.
5.	Increases are because updated financial parameters: inflation, capital allowances and business rates, zonal locational revenue etc, but why have these changed?	OFGEM's tax relief for first year allowances saw a tax revenue deduction for 2023/24 and 2024/25 which was carried over in 2024/25. As a result, the Adjustment term reduced the Allowed Revenues to be collected in 2024/25.
6.	Sounds like ASTI projects were included in SHEPT allowed revenue forecasts. Is the same true for NGET and SPT? The five year view doc is quiet on ASTI	TO Allowed Revenues are submitted at high level detail to the team. The breakdown of what is included can be seen in the published PCFM: RIIO-2 Annual Iteration Process 2023 for Transmission and Gas Distribution | Ofgem. In the individual TO tabs the revenue for ASTI can be found in rows 51 and 52 for each financial year.
7.	Please could the reasons provided for the re-run of the TNUoS 5-year forecast be captured within the report?	A document revision history log is included at the back of the report, which details all the changes that have been made in the report/data and the reasons for the change.

8.	Implied interconnector capacity (modelled TEC less chargeable TEC) looks very low compared to existing 2024/25 capacity, is this definitely correct?	There is one project that had been expected to connect during 2024/25 that has been delayed to 2028/29 in the Interconnector register, which causes a reduction to the total interconnector capacity in the interim years. Additionally, when calculating final tariffs we use the contracted information as per the Interconnector register rather than a best view, this means that any projects that include a completion date that is before or during 2024/25 but have not yet completed would have been included in the contracted position for the 2024/25 Final Tariffs, whereas for the 5YV they may have been delayed as part of the modelled best view if a delay is expected.
9.	The interconnector list has reduced from 21GW in 2025 Apr 23 forecast, to 12GW in Apr 24 forecast. Why such a big change?	6 projects that were expected before or during 2025/26 have been delayed in the Interconnector Register and are no longer expected within that year. Additionally, for our Five-year View we use a best view of when the interconnectors connect, and we align it to the FES view that we are provided with so this may also have had a further impact.
10.	From the provided list of Interconnector TEC, is an adjustment made to get a "modelled best view" of when interconnectors are actually connected?	For our Five-year View we use a best view of when the interconnectors connect, and we also align it to the FES view that we are provided.
11.	To what extent are the considerations in the Connections Reform work reflected in the modelled and/or chargeable TEC, if at all?	At this stage, we don't know how individual projects may be affected by Connections Reform. Until the impact is known, the modelled best view of TEC takes into account information that our Customer Contract Managers provide based on recent discussions and an understanding of what stage a project is at.
12.	Could you comment on the difference between the 2029/30 tariffs in this publication vs the 2029/30 tariffs in the 10-year projection published last September?	The 10-year projection was provided on the understanding that it was not intended to show the exact tariffs; but instead, the general trend using existing methodology. Important input data, e.g. revenue, could not be provided and so internal forecasting had to be completed using forecast

		inflation figures and the published HND and ASTI costs, which is beyond our usual process. All input data has been revised for this Five-Year View, in-line with our usual processes.
13.	Which HVDC links have been included in each year?	There are two additional HVDC links that have been included within the Five-Year View: Eastern Green Link 1 and Eastern Green Link 2. Their project websites indicate that they are expected to Commission in 2029, and consequently they have both been modelled as connecting in the final year of the forecast.
14.	Are both eastern HVDC links included in the tariff forecast modelled to only commission from April 2029?	Yes, both Eastern Green Link 1 & 2 are included in the 5th year only, as signalled by the expected commissioning dates on their websites.
15.	Is the full HND network build included in these forecasts or are some upgrade/investments excluded?	We checked with our HND colleagues whilst we were working on the forecast to see which projects were expected within the five years and each of those that they mentioned are accounted for in the contracted view, as per the TEC register.
16.	Will the latest T&T models be circulated soon?	T&T models to be circulated by the end of May.
17.	To what extent does the 5 year view provide insight into planned future build expected charges and the upcoming new price control?	The 5-year view uses our internal best view of projects that will connect over the next five years. It is not possible to forecast the charging parameters that must be reset for the next price control as the data required will not be available until various points across next year, also some are reliant on ongoing CUSC modifications. Similarly, TOs provide us with their best view in line with STCP 24-1. As a part of the forecast is across a price control period, this is subject to change dependent on the parameters that are set by OFGEM in the next Price Control.
18.	Please can we get an updated 5y view when the new	We will be looking at timings of our publications next year and specifically whether we can take advantage

	information on the new price control is known so we don't have to wait for the regular schedule occurrence?	of the latest information as it becomes available, whether that be price control parameters, Transmission Owner supplied information or internal ESO data, but these things can be difficult to predict so a pragmatic approach may also be needed. Ideally, we would plan the timings of our publications next year to try and incorporate elements such as the price control and charging methodology decisions when the information becomes available. However, in previous years with a price control reset we have had to delay the publication of the 5-year view as there was limited information available. We are tied to STCP deadlines for TO data that feeds into all of our parameters. Additionally, there will be information that comes out of the OFGEM determinations for price control, which previously haven't come out until July of the year ahead of the price control, with final determinations not until November or December. So, we will incorporate indicative values when we can, but we can't do much ahead of the actual price control. As ever, we will keep the industry updated with any proposed changes in the timings of our tariff publications.
19.	Is FES data in 5YTF last year's FES or an early view of 2024 FES? Is it worth moving the timing of the 5YTF if not the latter?	A challenge that we encountered was that the timings that FES were able to provide data to us were not the same as last year. Last year, we were given an updated view ahead of their publication. This year they were unable to provide information until after our publication date, so the information used is based on last year's FES. Moving the timings of the 5-year view is something that we can consider ahead of next year, particularly with respect to the availability of information needed for the reset of price control linked parameters.

20.	Generation Output says "the average of the four scenarios (plus the central case) in the 2023 Future Energy Scenarios". What is the central case referring to?	Central forecast is done internally for the EMR team and is the best view for the 1st 5 years.
21.	Does the sensitivity analysis done represent the largest feasible expected change? If not, why were these values for 'sensitivity' used please?	Revenue – previously haven't seen variances of larger than £500m, so we have included a £100m and £500m variance. Happy to take recommendations of variances to include for future forecasts. TDR – It is the largest realistic change that we'd expect to see, having a site of that size connecting would have the largest impact on the other tariffs. We could see larger numbers of smaller transmission demand sites connecting but the impact on tariffs would be smaller. Expansion Constant – the calculation of the Expansion Constant is reliant on too many unknowns to say what the largest feasible change would be. It requires data that we gain from the onshore TO's in the year ahead of the new price control, data from Ofgem price control determinations that will be available at various stages across next year and also it is currently subject to the conclusion of CMP315/375.
22.	The Adjustment Tariff is less negative in every year than in last year's 5 Yr forecast. What are the main reasons for this?	The adjustment tariff is responding to varying sizes of the generation revenue that we expect to collect, compared to the charging base that is expected within that year so will change accordingly depending on these factors.
23.	There is a big increase in revenue from local offshore. What may have caused this?	The offshore local revenue increases as additional offshore wind projects asset transfer to an OFTO, which is the point at which they start paying an offshore local tariff. There are quite a few projects due to connect and asset transfer over the next 5 years, which means the offshore local revenue increases accordingly.

24.	Do these large annual revenue changes make a modification like CMP286 more pressing for both consumers and suppliers?	We understand large revenue changes can be challenging for suppliers and customers, however OFGEM did reject CMP286 earlier this month, on the basis that the benefit of getting revenues to TOs to allow for new developments for the fast pace of change that we're seeing in the industry outweighs the benefits of increased notice of revenue to customers.
25.	Why has the year round tariff reduced so much in the 24 forecast, compared to Apr 23 (for all future years)?	All input data to the models has been refreshed for this five-year view which has affected the expected generation mix.
26.	Email question - Can any detail be shared on the ASTI projects that have been included in the network model and similarly the change in allowed revenue TO's business plans for these projects? I think it was mentioned on the call that maybe 4 ASTI projects had been included in SSET's business plans, it would be good to know which projects these were and what the corresponding revenue increase was (if possible to segment, I can also see that the counterfactual may be spending a different amount/more on alternative works, rather than not spending anything at all).	NGET - Details beyond what is provided within the PCFM around ASTI projects cannot be shared with industry as this information is not publicly available. SPT - The ASTI projects that have been included within the 5 year view submissions are as follows: • EGL1 - Eastern HVDC • TGDC-Eastern Subsea HVDC Link from Westfield to South Humber • DWNO-Denny to Wishaw 400kV Reinforcement • TKUP-East Coast Reinforcement Phase 2 This represents all SPT current ASTI projects with future projects identified as part of the TCSNP to be delivered through a new T3 mechanism going forward. Further details can be found in the follow documents: https://www.ofgem.gov.uk/decision/decision-accelerating-onshore-electricity-transmission-investment A Holistic Network Design for Offshore Wind | National Energy System Operator (neso.energy) In terms of revenue impacts, the 4 projects above represent about 13% of the Allowed Revenues for SPT over the 5 year forecast period (24/25 to 29/30).

27.	Email question - Is the decision to include projects in business plans / network model down to the TOs and is there any guidance followed on whether they include projects (i.e. draft/final Ofgem approval, i.e. for Eastern Green Link 1 in March?)	Allowed Revenues are published by OFGEM in the Annual PCFM. Allowed revenues are decided by OFGEM, the breakdown of projects and other license conditions are discussed between OFGEM and the onshore TOs. To see a full breakdown of what is included, see the latest available PCFM: [RIIO-2 Annual Iteration Process 2023 for Transmission and Gas Distribution | Ofgem]