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Workgroup Consultation Response Proforma

CMP444: Introducing a cap and floor to wider generation TNUoS Charges

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@nationalenergyso.com by **5pm** on **29 January 2025**. 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@nationalenergyso.com.

Respondent details	Please enter your details	
Respondent name:	Matthew Dowds	
Company name:	Muirhall Energy	
Email address:	md@muirhallenergy.co.uk	
Phone number:	01501 643405	
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 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 Workgroup, Panel or the industry for further consideration*)

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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 C11 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 and the ISOP business*;*
- 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.*

* See Electricity System Operator Licence

**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.

For reference, (for consultation question 6) the Electricity Balancing Regulation (EBR) Article 3 Objectives and regulatory aspects are:

- a) *fostering effective competition, non-discrimination and transparency in balancing markets;*
- b) *enhancing efficiency of balancing as well as efficiency of national balancing markets;*
- c) *integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security;*
- d) *contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector while facilitating the efficient and consistent functioning of day-ahead, intraday and balancing markets;*
- e) *ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue market distortions;*

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- f) *facilitating the participation of demand response including aggregation facilities and energy storage while ensuring they compete with other balancing services at a level playing field and, where necessary, act independently when serving a single demand facility;*
- g) *facilitating the participation of renewable energy sources and supporting the achievement of any target specified in an enactment for the share of energy from renewable sources.*

What is the EBR?

The Electricity Balancing Regulation (EBR) is a European Network Code introduced by the Third Energy Package European legislation in late 2017.

The EBR regulation lays down the rules for the integration of balancing markets in Europe, with the objectives of enhancing Europe's security of supply. The EBR aims to do this through harmonisation of electricity balancing rules and facilitating the exchange of balancing resources between European Transmission System Operators (TSOs). Article 18 of the EBR states that TSOs such as the ESO should have terms and conditions developed for balancing services, which are submitted and approved by Ofgem.

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?	Mark the Objectives which you believe each solution better facilitates:
		Original <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		The proposal reduces the risk of extreme variability and unpredictability in TNUoS charges, thereby supporting the development of generation, which boosts investor confidence and enhances competition for projects.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		The CMP should be concluded before Allocation Round 7 of the Contracts for Difference. The proposed

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		implementation date is acceptable. Muirhall Energy believes it is best not to define an exact end date for the intervention, allowing it to remain in place until another modification is raised to amend the charging methodology.
3	Do you have any other comments?	<p>Muirhall Energy agree with the need to introduce a cap and floor for TNUoS. The current methodology fails to provide an effective locational signal. For years, it has acted as a subsidy or bonus in renewable development regions with lower natural resources, more challenging planning processes, and limited land availability. This has led to exponentially increasing TNUoS charges, which undermine projects in high resource areas. This approach is ineffective and will hinder the achievement of Net Zero targets.</p> <p>Instead of a defined cap, Muirhall Energy advocates for the principle that no projects should receive credits for using the transmission network, setting the floor price at £0/kW. This approach would mitigate unpredictability and volatility by removing TNUoS credits, addressing the extreme pricing issues. We recommend considering this as an alternative proposal.</p> <p>Alternatively, a TNUoS arrangement similar to CMP192 security profiles, which allows projects to choose between Fixed or Actual profiles, could also protect generators from TNUoS volatility. However, this would add administrative burden to NESO to manage this system, therefore making the previous £0/kW floor proposal the preferred option.</p> <p>In addition, the 'Proposers Solution' suggests that a CPI-H inflation will apply to the cap and floor, Muirhall Energy understood that inflation was already applied to TNUoS. Therefore please confirm this is not being double counted.</p>

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		Please note that the 5-year forecast used in the data projections to determine the cap and floors, will need to be updated following the outcome of CP2030 and Connections Reform.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes (the request form can be found in the Workgroup Consultation Section) <input checked="" type="checkbox"/> No N/A
5	Does the draft legal text satisfy the intent of the modification?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No N/A
6	Do you agree with the Workgroup's assessment that the modification does not impact the Electricity Balancing Regulation (EBR) Article 18 terms and conditions held within the Code?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No N/A

Specific Workgroup Consultation questions

7	Do you believe the cap and floor should have an end date? If so, how long or what is the appropriate trigger.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Given the uncertainty regarding REMA implementation timelines, Muirhall Energy believes it is best not to define an exact end date, allowing the intervention to remain in place until another modification is raised to amend the charging methodology.
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8	What level of certainty would be required from this modification to best support investment decisions? Please justify any additional protection required (for example grandfathering rights or any other levels of protection).	<div> <input type="checkbox"/> Yes <input type="checkbox"/> No </div> <div> <p>A typical project development timeline includes:</p> <ul style="list-style-type: none"> • Site identification • Option agreement (2 years) • Grid connection application (6 months) • Grid connection (7–14 years) <p>Although connections reform could reduce these timescales, the development period still poses risks. To ensure investor confidence, projects should not become unviable over time while in the connections process due to volatile TNUoS charges. The proposals in this CMP will support investor confidence, however the level of certainty should be sufficient that the change in TNUoS costs per year is predictable and is proportional. The current TNUoS methodology is a barrier to long-term project viability.</p> <p>Muirhall Energy does not support grandfathering, as it contradicts the objectives of the CMP. In addition, projects should not be reliant on TNUoS credits to be viable.</p> </div>
9	Does the Original proposal with no specific end date provide Developers with sufficient confidence to make an investment decision? Please justify.	<div> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No </div> <div> <p>While the cap-and-floor proposal is a positive step for the industry, the Original Proposal does not provide sufficient investor confidence.</p> </div>
10	Does the Original Proposal and any of the Alternatives raised	<div> <input type="checkbox"/> Yes <input type="checkbox"/> No </div>

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	achieve the objectives of the Ofgem letter?	AR1 and 5 do achieve some the objectives of the Ofgem letter, however a £0/kW floor price is best placed to achieve the objectives.
11	Do you agree with the data set proposed for the calculation of the cap and floor? If not, what data set would you propose? What is your view on the use of NESO's 5-year forecast of April 2024?	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>As highlighted in the response to Q8 the project development timeline can take circa 15 years, therefore a 5 year forecast cannot provide meaningful investor certainty, therefore the data set should attempt to align with a typical development timeline. While it is probable that a 10 year forecast will contain errors, these concerns are still present in a 5 year forecast. It is possible to identify TNUoS trends and charges beyond 5 years, but the margin for error is likely to increase over time.</p> <p>The panel should undertake a review to compare the difference between a 5 year and 10 year forecast, before finalising this decision.</p>
12	Please provide your assessment of the Original Solution and the 7 Alternative Requests discussed by the Workgroup (additionally, please indicate your preferred solution with associated justification):	
Alternative Request		Assessment
Original Solution		<p>While the Original Solution is an improvement on the current methodology, the proposed 97.5th and 2.5th percentiles are not sufficient to make a meaningful difference to the network. The floor for is too low and would have no impact on Wider Tariff charges paid by Southern generators post 2030, which results in the continued consumers subsidy for increasingly negative charges in Southern zones.</p> <p>A floor which does not allow for TNUoS credits would be preferred.</p>

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Alternative Request 1	AR1 is improves upon the Original Solution. Although, Muirhall Energy still believe it is not appropriate that projects should receive any TNUoS credit, therefore the floor should be set at £0/kW.
Alternative Request 2	R2 does not provide any further improvement over AR1, and its details are insufficient to fully assess its impact.
Alternative Request 3	AR3 does not offer additional benefits compared to AR1 and should not be progressed.
Alternative Request 4	N/A
Alternative Request 5	This proposal improves upon AR2. However, a fairer approach would be to set the principle that no projects should receive negative TNUoS charges, rather than setting an arbitrary percentile. This approach is still locational but also addresses the unpredictability and volatility issues whilst remaining TNUoS cost neutral. CfD bid prices would also be less distorted by TNUoS.
Alternative Request 6	AR6 should not be progressed, by excluding the year 2029/30 this creates an inconsistency in the modelling approach and distorts prices. Other proposals highlighted previously in this response should be prioritised instead, such a £0/kW floor price or AR5.
Alternative Request 7	While there are benefits to AR7, the proposal adds unnecessary complexity and does not better address the challenges that the CMP aims to solve as effectively as AR5 or a £0/kW floor.