

Public

## 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 [cusc.team@nationalenergyso.com](mailto:cusc.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 [cusc.team@nationalenergyso.com](mailto:cusc.team@nationalenergyso.com).

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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 Operator <input type="checkbox"/> Generator <input checked="" 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 questions 5 & 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 checked="" type="checkbox"/> D <input checked="" type="checkbox"/> E
		<p>Energy UK generally agrees that the proposal holds the potential to improve competition through enabling more low carbon energy projects to bid into the Contracts for Difference (CfD) auctions. Members are generally of the view that the proposal should go a substantial way to enabling investment in needed low carbon generation in Scotland by dampening the uncertainty over the outcome of the Review of Electricity Market Arrangements (REMA) and over a potential tripling of generator Transmission Network Use of System (TNUoS) charges.</p> <p>However, we caution the National Energy System Operator (NESO) and Ofgem that it is not guaranteed at</p>

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	<p>this point that this measure alone will be sufficient to encourage sufficient competition in the CfD auction. Should that be the case, this proposal risks achieving little north of the Scottish border while creating a distortion in the market that may send a discouraging market signal to much of the 123.8-135.7 GW of capacity still required south of the Scottish border and the B6 boundary needed to achieve <i>Clean Power by 2030</i> (CP30) <u>according to the latest public data from NESO</u>.</p> <p>Key to overcoming this is a greater depth of analysis of the presented cap and floor options and their impact on the investment needed to meet the Government's strategic energy plans. While much analysis has been done by NESO on the impact of the proposal on wider charges, members have noted that further analysis is needed on the extent to which the proposal would successfully enable participation in the upcoming CfD auctions in line with CP30 objectives. The analysis should also consider the impact of the proposal on the generation adjustment tariff under varying scenarios and what impact this could have on investment on needed technologies for CP30 south of the B6 boundary. It is especially pertinent to consider a scenario where the proposal leads to a large volume of projects bidding into the upcoming CfD auctions in regions with high uncapped generation tariffs and whether this impact might lead to a need to increase residual demand charges to make up for uncollected revenue. Such a scenario could genuinely undermine the competitiveness of large industrial consumers in Great Britain (GB) compared to other markets.</p> <p>Overall, given the significance of this intervention, Energy UK would expect a much higher level of analysis from the NESO on the impact of this proposal. This is essential to ensure the structure of TNUoS aligns with the objectives of CP30.</p> <p>A further point on competition is how the proposal will ensure a level playing field with existing generation and storage on the network as well as generators that have reached their final investment decision (FID). The modification is currently silent on how temporary arrangements will affect those who could face distortions from a lack of protection. It is essential that existing</p>
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	<p>generators and those that have reached FID are considered in these arrangements, given that existing investors are also likely to be future investors. This modification will likely have a significant negative impact on these generators and their investor confidence if it is not developed in a way that protects them and keeps them whole. Investor confidence should not just be considered in the context of incentivising new generation north of the Scottish border.</p> <p>As NESO have recognised, while the proposal itself does largely preserve the cost reflective locational signals within generation TNUoS charges, it will not preserve cost reflexivity when the cap and/or floor are hit. Therefore, while Energy UK overall support the proposal, we find it difficult to justify that it meets the objective of cost reflective charges within the strict definition of what that constitutes, in spite of clear efforts to maintain locational cost signals. NESO's own analysis and projections within the consultation document indicate that the wider generation tariff for an intermittent generator with a 45% annual load factor is expected to hit the cap from the financial year 2029/30 through to 2033/34 if located in charging zones 1 to 11.</p> <p>There is a need for this proposal to be keenly focussed on enabling the confidence for project to invest in needed generation in Scotland and participate in upcoming CfD auctions by ensuring some of the high generation TNUoS charges projected beyond 2030 will not manifest.</p> <p>We agree with NESO that the proposal has little effect on the Connection Use of System Code (CUSC) Objective concerning the license obligations of NESO and transmission operators (TOs).</p> <p>While we agree with NESO that the proposal successfully maintains the adjustment charge obligated to ensure compliance with retained European Union (EU) Regulation EC 838/2010, we note that it will blunt the impact of the negative adjustment tariff. While we support the need for some redistribution of charging incentives in order to ensure needed confidence to invest in low carbon generation north of the B6 boundary, a balanced approach must be taken to ensure incentives to invest in the 123.8-135.7 GW south of the B6 boundary are not too far diluted and that networks costs are limited through</p>
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		<p>incentivising storage and generation to locate close to demand where possible. At minimum, NESO should do an assessment of the risk and potential investment impact of the proposal for generation south of the B6 boundary, as well as those subject to residual demand TNUoS charges. Part of this analysis should consider what reduction to the adjustment charge would generators tolerate.</p> <p>We also agree that the proposal successfully preserves retained EU Regulation EC 2019/943 on giving preferential treatment to one kind of technology over another. Though, in an indirect way, the proposal does favour wind generation that will mainly seek investment north of the B6 boundary over other kinds of technologies. Many of our members feel that, while the proposal should not differentiate between generation technology types in setting transmission charges, it is appropriate to differentiate between generation and storage. We note that, as a separate initiative, storage is in the process of being classified as a separate technology category to generation for transmission charging (following the creation of this new category in the recent Energy Bill) and that is an appropriate separation of technologies which we support. We encourage Ofgem and NESO to explore the need for differing arrangements for storage regarding the proposal.</p> <p>We agree with NESO that the impact of the proposal on the complexity of administrative tasks for TNUoS charging should be modest.</p>
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Energy UK appreciate that the proposed cap and floor does not require NESO to change its TNUoS forecasting approach or timetable and is able to be implemented by April 2026. The speed required for this intervention to ensure market certainty ahead of the likely CfD Allocation Round 7 (AR7) bid submission window is essential.</p> <p>We do stress that the current approach of relying on the April 2024 5-year TNUoS forecast is questionable given</p>

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		<p>that it predates the CP30 plan and, even accounting for that, there remains some uncertainty regarding the precise level of new generation capacity and their location. This means the generation background might differ, potentially leading to more changes in the adjustment tariffs for the 2025 five-year tariff to align with the approved cap and floor values.</p> <p>Nonetheless, Energy UK appreciates that NESO decided to change to a decile approach for calculating the cap and floor which is a pragmatic one when using multiple years of tariff data and accounting for various uncertainties in said calculation.</p> <p>Given that the principle aim of the intervention is to remove investment uncertainty from high generation TNUoS charges expected to emerge in the early 2030s, we feel that NESO have taken a balanced approach by using a calculation method that won't impact most regions in a manner that is overly distortive until 2029/30.</p>
3	Do you have any other comments?	<p>One of the key issues this proposal aims to alleviate is with respect to how uncertainty regarding potentially large increases in TNUoS generation charges may be priced into CfD bids in the upcoming AR7 auction. At the same time, may members agree with the need for the proposal to maintain a sufficient degree of locational signalling to encourage project development close to demand both where possible and aligned with wider strategic planning in order to limit transmission build out costs.</p> <p>One member has suggested that NESO might consider, in the interest of meeting both objectives, having the cap on TNUoS generation charges awarded to those with CfDs, Capacity Market (CM) contracts, or other projects looking to apply for time-limited support mechanisms be time limited until the expiry of the support mechanism's term. In this way, a sufficient degree of certainty would be established for vital projects going into upcoming</p>



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		<p>auctions, certainty about the length of support would be clearly time limited and synchronised with the already priced-in risk from the termination of the CfD or CM support mechanism and the distortion of locational signals for other projects (especially those south of the B6 boundary) would not be open ended. We encourage NESO and Ofgem to consider and explore adding this condition to the proposal in a future modification.</p> <p>Fundamentally, Energy UK feels that this proposal needs consideration in line with wider efforts to harmonise TNUoS charges with CP30 and the Strategic Spatial Energy Plan (SSEP). The harmonisation of connections reform with emerging spatial plans for energy is expected to provide a strong location signal to the market. However, ensuring this signal is effective means ensuring TNUoS charges, as the currently most dominant locational signal the regulator and NESO have control over, is harmonised with strategic planning. Energy UK believe this proposal is need as a temporary intervention, but we encourage Ofgem and NESO to undertake a wider review of TNUoS charging in line with strategic planning and in doing so consider this proposal in line with said review.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p><input type="checkbox"/> Yes (the request form can be found in the Workgroup Consultation Section)</p> <p><input checked="" type="checkbox"/> No</p> <p>Click or tap here to enter text.</p>
5	Does the draft legal text satisfy the intent of the modification?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>The proposed legal modification to Section 14 of the CUSC appears appropriate to achieve to implement the proposed modification as it stands.</p>



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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
		<p>Energy UK agrees generally that the proposed modification does not impact the Electricity Balancing Regulation (EBR) Article 18.</p> <p>However, we do note a risk that the cap and floor attract excessive investment in generation north of the B6 boundary and thus would necessitate inefficient transmission network reinforcement. It will be important to ensure the pragmatic implementation of the regional 'technology buckets' outlined as part of <u>ongoing work on connections reform</u> to ensure that such excessive investment and reinforcement does not occur.</p>

## 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 checked="" type="checkbox"/> Yes  <input type="checkbox"/> No
		<p>Energy UK agrees that the generation TNUoS cap and floor should not be open ended and should have an end date. This is necessary to ensure the redistributive effect of this modification, which favours northern generators in Scotland over those in the rest of GB, is not completely open ended. In this way, the intention of this proposal to be a temporary intervention to ensure sufficient participation in the upcoming CfD auctions will be maintained and the objective of cost reflexivity will only be temporarily blunted.</p> <p>We appreciate that it is difficult at this stage to decide on a set end or wind-down date and timeline for this proposal given that REMA currently remains at a conceptual stage. It is for this reason we propose that Ofgem and NESO commit to review the cap and floor on generation TNUoS five years following approval of the modification by Ofgem. We also encourage Ofgem and NESO to explore the possibility of linking the length of</p>

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		the cap on charges to the length of support mechanisms like CfDs and CM contracts. In this way, investment certainty can be established for key technologies needed to achieve CP30 north of the B6 boundary without leaving the proposed cap as an open-ended intervention.
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).	<p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Members note that a guarantee that generation TNUoS charges will be capped at using to a decile approach is a pragmatic one when using multiple years of tariff data to calculate the cap and floor values. This alone adds significant certainty to the market.</p> <p>However, further certainty is required regarding the trigger and process for winding down the cap and floor once greater certainty regarding REMA is established. Energy UK appreciates that REMA remains for now at a conceptual stage and so identifying an appropriate sunset clause at this time is difficult. We therefore propose that Ofgem and NESO commit to review the cap and floor on generation TNUoS charges 5 years following approval by Ofgem to examine needed changes in light of market and regulatory developments.</p> <p>Regarding grandfathering, Energy UK believes that full grandfathering is essential for all existing assets and committed investments where investment decisions were made based on national pricing and lacked certainty regarding the final REMA reform package. The Government must promptly clarify the process of grandfathering to uphold investor confidence. This should first involve detailed consultation and analysis to inform decision-making and mitigate negative market impacts and uneven competition between projects.</p> <p>The principal objective of grandfathering and commercial protection required here should ensure</p>

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		<p>investors can recover an amount of revenue comparable to the range they could have reasonably expected based on the fundamental structure of market arrangements when they made their investment. Overall, the following principles for grandfathering should be considered:</p> <p>a) The provisions for grandfathering set out in the second REMA consultation, i.e. “the legal minimum”, would be insufficient for maintaining investor confidence.</p> <p>b) Grandfathering should come into effect for existing and committed investments where a government decision was not taken on REMA. In other words, grandfathering should apply where Final Investment Decision was taken before the Government announced a decision to change the market design with clear details of its implementation, as projects revenue will be sensitive to the design of the zonal market. Some members believe that grandfathering should apply from the point of policy implementation.</p> <p>c) Grandfathering should apply to CfDs, CM agreements, Renewable Obligation (RO)-supported generation and the “merchant tail” of CfD-supported generation. Further thought should be given to the merchant market. It will be necessary to work out the right technology- and contract- specific solution in each case.</p> <p>d) Maintaining investor confidence in the transition to zonal pricing means that grandfathering arrangements will need to meet the reasonable expectations of investors at the time of investment. In general, members believe that grandfathering will need to apply for the economic life of the asset. Other members also believe that while this is the case for some assets, other assets will only need relief to for the length of contractual arrangements.</p>
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		<p>The duration of grandfathering should be aligned to the return period that was used to inform Final Investment Decision as this will have been informed by the reasonable expectation of asset life for that technology at the time of investment. This may require DESNZ to pick a certain number of years for each technology class.</p> <p>Determining the mechanism to deliver grandfathering relief is also essential. For example, whether this an explicit calculation of loss that is then paid to the generator (and funded from somewhere) or whether it is delivered through the adjustment of an existing market mechanism. Grandfathering relief could be calculated <i>ex ante</i> and paid based on expected costs (with or without any true up) or it could be calculated and paid <i>ex post</i>.</p>
9	Does the Original proposal with no specific end date provide Developers with sufficient confidence to make an investment decision? Please justify.	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>The original proposal does provide sufficient assurance for now regarding the impact of large potential increases in generation TNUoS charges, even without a specific end date (with a minority of members even preferring the lack of an end date).</p> <p>However, uncertainty that may be costed into upcoming CfD bids will persist unless Ofgem and NESO provide greater certainty on an end date as soon as is feasible.</p> <p>Further, confidence from this proposal could be swiftly eroded depending on the direction and outcome of REMA.</p>
10	Does the Original Proposal and any of the Alternatives raised achieve the objectives of the Ofgem letter?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Energy UK feels the proposal and the majority of the alternative proposals mostly succeed in meeting the objectives of Ofgem's open letter. For one, the proposals would not require NESO to change its TNUoS</p>

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		<p>forecasting approach or timetable and the limits of generator TNUoS charges mandated by retained EU Regulation 838/2010 would be maintained.</p> <p>However, while the proposal, in the first instance maintains locational differentials in TNUoS charges for generators, it would undoubtedly lead to a distortive redistribution of incentives in favour of generators locating north of the B6 boundary over those locating south of said boundary. While we feel this intervention is justified given the urgent need for investment certainty to achieve the Government's CP30 objectives, it does involve some distortion of locational signals. Indeed, Energy UK strongly opposes Alternate Proposal 5 as it would result in the floor for the wider TNUoS generation charges being set at or more likely just above £0/kW, something which members note would seriously disincentivise investment close to demand south of the B6 boundary. Special care must be taken by Ofgem and NESO to ensure such a distortion does not adversely affect the needed investment south of the B6 boundary.</p> <p>Overall, the original proposal and all Alternative Proposals besides Alternative 5 appear to meet the open letter's objective of "appropriate, individual, upper and lower limits on the £/kW charges paid by generators". However, this view is only based on opinion-based feedback from most members. There has been a serious lack of analysis to justify the level at which the cap and floor is set. It is therefore difficult to objectively endorse the level the cap and floor has been set at. Ofgem and NESO must undertake analysis as soon as possible to rectify this shortcoming.</p>
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	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>As members have noted and NESO themselves have admitted in workgroups, the accuracy of generation TNUoS charges from the April 2024 5-year TNUoS</p>

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	<p>your view on the use of NESO's 5-year forecast of April 2024?</p>	<p>forecast is questionable given that it predates the CP30 plan and, even with the CP30 plan, there remains some uncertainty regarding the precise level of new generation capacity and their location.</p> <p>Nonetheless, members note that there are various statistical methods to derive the cap and floor values, but that this is a secondary issue. It is important that NESO decided to change to a decile approach for calculating the cap and floor which is a pragmatic one when using multiple years of tariff data and accounting for various uncertainties in said calculation.</p> <p>Given that the principle aim of the intervention is to remove investment uncertainty from high generation TNUoS charges expected to emerge in the early 2030s, we feel that NESO have taken a balanced approach by using a calculation method that won't impact most regions in a manner that is overly distortive until 2029/30.</p> <p>While the accuracy of the projections is something NESO should aim to fine tune ahead of implementation and the AR7 CfD auction, it matters less whether the April 2024 5-year projection from 2025/26 to 2029/30 is used or the 10-Year Projection covering 2024/25 to 2033/34. What matters more is that confidence and direction is given to essential investments needed to achieve the Government's CP30 objectives.</p>
12	<p>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):</p>	
<b>Alternative Request</b>		<b>Assessment</b>
Original Solution		<p>Energy UK overall agrees with the original solutions. However, as noted in our answers to previous questions, Energy UK would expect a much higher level of analysis from the NESO on the impact of this proposal.</p>

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	<p>Further, NESO and Ofgem should consider a different treatment of the cap and floor between generation and storage projects, in line with wider reforms to change the structure of TNUoS charges on energy storage.</p> <p>Guaranteeing the cap for the length of a CfD contract should also be considered.</p> <p>Consideration of this proposal does currently align with wider CP30 objectives, though this should be reviewed as part of a wider effort to align network charging with strategic planning.</p> <p>The proposed intervention should be reviewed 5 years following approval by Ofgem to ensure appropriateness and give shape to a phase-out date once more policy detail on REMA is established.</p> <p>Finally, grandfathering for projects that make investments while the cap and floor is active will need to be considered. This is especially true for projects that secure government support mechanisms like CfDs, CM agreements or RO support.</p>
Alternative Request 1	<p>Energy UK would support in principle a decile approach to the cap and floor to ensure that there is an effective floor on generation TNUoS charges. The alternative would also cap many of the costs in zones 5-9 in Scotland where a lot of new transmission and substation upgrades are expected to meet CP30 objectives.</p> <p>However, we are wary of fully supporting it, as the proposal, while not eliminating needed TNUoS credit incentives in southern regions for intermittent generators, would have potentially larger disincentivising impacts on projects connecting across southern regions. This is especially the case for the Cotswolds, Essex, Kent and London.</p> <p>Given that most energy storage and generation will be needed north of this region, Energy UK are minded supporting this alternative. However, more analysis is</p>



## Public

	<p>required to understand the impact on investment in the Cotswolds and the Southeast of England of this proposal. This is especially because, under CP30, if one exempts Scotland and Northern England, the Southeast of England will need the highest capacity of storage development in order to manage the network close to the largest source of demand.</p>
Alternative Request 2	<p>Energy UK appreciate the logic of applying a lower cap to zones 8 to 12, closer to the B6 boundary given the amount of needed reinforcement investment in that region under CP30 and the fact that those zones will not see their generation TNUoS capped.</p> <p>However, most of the needed investment under CP30 is needed prior to 2030 and is, according to Ofgem, expected to be complete prior to then. Meanwhile, this alternative request would not have a meaningful impact on the cap compared to the original proposal until after 2030 according to NESO's projections. After that point, the proposal would reduce the cap for zones 8-12 in Scotland, though assumedly only after the CP30 objective was met.</p> <p>At the same time, this alternate proposal would result in a steep decrease in generation TNUoS credits for southern regions, though especially for zones 13 to 18 covering most of North England, Wales and the Midlands. This could potentially seriously weaken incentives to invest in these regions for key needed technology types under CP30. As stated before, more keen analysis is needed by NESO to understand the extent of this impact.</p> <p>Consequently, while we appreciate the logic of the alternate request, especially in light of the large amounts of generation expected to connect in Scotland after 2030, we find the case for this request to be weaker than other proposals.</p>

## Public

Alternative Request 3	<p>This alternate request, like alternate request 2, would better aid investment and reinforcement in zones around the B6 boundary constraint.</p> <p>However, Energy UK cannot support this proposal as leaving the generation adjustment tariff as it currently would cause two crucial issues.</p> <p>Firstly, it would leave consumers open to subsidising extremely high generation TNUoS credits in the future, an issue the original proposal attempts to address.</p> <p>More importantly, the lack of a reduction in the generation adjustment charge to make up for lost revenues due to the cap would mean costs would have to fall on residual demand TNUoS charges. This could have a seriously negative impact on British consumers and key businesses at a time when standing charges are already expected to rise and the UK's relatively high energy costs are already driving away investment. This includes investment in key emerging sectors like artificial intelligence (AI), as well as sectors key to decarbonisation like public transport charging hubs, electrified steel plants and carbon capture facilities.</p>
Alternative Request 4	<p>As this request was withdrawn, Energy UK do not feel it appropriate to comment on.</p>
Alternative Request 5	<p>Given the need for the generation TNUoS charges to maintain a sufficient degree of locational signals and cost reflexivity, especially to encourage investment south of the B6 boundary, Energy UK cannot support this alternative request. Setting the wider generation tariff cap and floor at 60% and 40% percentiles to the average of the April 2024 5-year TNUoS forecast respectively would mean a large share of the data of the 5-year forecast would fall outside the range of the cap and floor. This would represent a significant market distortion that would threaten much needed investment south of the B6 boundary and, if higher than expected investment north of the B6 boundary did manifest as a</p>

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	<p>result of this intervention, there is a high probability the generation adjustment tariff would insufficiently cover the cost of unrecovered revenue. This could result in costs falling in residual demand charges, significantly increasing costs for consumers and undermining the decarbonisation and international competitiveness of British businesses.</p> <p>It would appear the policy principles used to justify this alternative are based on the idea that higher charges in the north of GB are no longer fit for purpose and no longer justified under a centrally strategically planned system where generators have no choice over location. This mischaracterises the nature of NESO and the Government's current approach to strategic planning as market forces will still play a role in choosing which 'regional technology bucket' a developer will choose to apply to for a connection to the system. Therefore, locational incentives still matter.</p> <p>Furthermore, the alternative takes the Ofgem open letter's request that the intervention should reduce the disparity between northern and southern TNUoS charges for generators to an extreme. Even under a strategically planned system, there remains a need to utilise negative charges to incentivise some types of generation to locate close to demand to reduce network costs where possible.</p>
Alternative Request 6	<p>Given that this proposal is projected by NESO to noticeably limit generation TNUoS charges north of the B6 boundary while having a minimal impact on the reduction in credits in the South compared to the original proposal, Energy UK would be happy to endorse this proposal should NESO choose to do so.</p> <p>We would only note the same criticisms given with regards to the original proposal above.</p>
Alternative Request 7	<p>Energy UK agrees with this proposal's principle of implementing a cap and floor while balancing the need</p>

## Public

	<p>to preserve locational signals through introducing a maximum cap and maximum range of charges between zones.</p> <p>However, we fear the reduced impact of the generation TNUoS cap on zone 1-4 charges in Scotland in financial year 2029/30 when there are key high cost investments needed in those regions prior to 2030 mean this alternate request fails to meet the objectives of the Ofgem open letter. Potentially reduced generation TNUoS credits in South Wales also appears counterproductive to CP30 objectives when a transmission link connecting North and South Wales is needed to integrate an expected increase in renewable generation and storage across the region.</p>
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