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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 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.

Respondent details	Please enter your details	
Respondent name:	Dennis Gowland	
Company name:	Research Relay Ltd	
Email address:	dennis@researchrelay.com	
Phone number:	07739392965	
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 checked="" 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 checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		Click or tap here to enter text.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes
		<input type="checkbox"/> No
		Click or tap here to enter text.
3	Do you have any other comments?	There is obviously a need to allay concerns of investors following the NESO 10-year projection and the consequent decision for urgency – though the truncated timeframe leaves little time for meaningful dialogue within the industry. The Original and Alternatives seem to offer a reasonable range of options to the Authority to decide on

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		a reasonable and effective solution.
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 Click or tap here to enter text.
5	Does the draft legal text satisfy the intent of the modification?	<input type="checkbox"/> Yes <input type="checkbox"/> No Has this been circulated for all options?
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 Click or tap here to enter text.

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 Our view is that the CUSC in the wrong place for 'sunset clauses' as a mod can always be raised to amend an existing. It is a matter for those driving policy at NESO/Ofgem and DESNEZ to assess likely impacts and to decide if such a clause would be appropriate and what level of assurance would need to be given to investors given the typical investment cycles in the industry. Presumably policy makers will be focussed on the need to achieve CP2030 and the Net Zero
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		aspirations.
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).	<input type="checkbox"/> Yes <input type="checkbox"/> No <p>We don't think that this CUSC mod is the place to include a 'grandfathering clause' but it should be within the remit of UK policy makers to give sufficient signals to assure investors whether that is a taper or grandfathering or other. However it would seem self-evident that if there is sufficient reason to put forward a Cap/Floor mechanism it would need to have enough duration to allow it to make a difference.</p>
9	Does the Original proposal with no specific end date provide Developers with sufficient confidence to make an investment decision? Please justify.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>Yes, as discussed, an end date would be out of place in this mod.</p>
10	Does the Original Proposal and any of the Alternatives raised achieve the objectives of the Ofgem letter?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>The Ofgem letter is clear that TNUoS charges in the North of GB which are projected to increase very significantly in the NESO 10-year projection published in 2023, are likely to curtail investment in key areas which would be necessary to reach CP2030. Any proposal would need to include an effective Cap while at the same time also including an effective Floor which would limit increased subsidies in the south which would be a consequence of the current charging methodology which could drive costs to consumers. It is our view that the Original and most of the Alternatives (to different</p>

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		degrees) are within the scope of the Ofgem letter.
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?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No A qualified yes. Given the scope of the mod in relation to the Ofgem letter the use of the 5 –year forecast seems reasonable although the 5 th year (2029/30) contains several expensive links which are necessary to reach CP2030 goals many of which are located in Scotland. The alternates which use the first 4 years may be worthy of consideration.
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		Meets the Ofgem 'outline' and was improved by the proposer during the course of the WG process by better application of the dataset. This moved from Standard Deviation to a percentile approach, which better suited a non-normal distribution. However it is quite light touch with modest impact on Caps and Floors with, respectively, only 3 zones receiving a Cap and 2 zones subject to a Floor in YRS and 3 and 1 in YRNS. This may not fully accord with the Ofgem letter.
Alternative Request 1		This alternative seemed to choose the correct method of using the dataset from the outset (later taken up by the proposer of the original) and has modelled a wider range of application for both Cap and Floor – which seems to better accord with the Ofgem 'outline'. In this case the Cap is activated, respectively, in 7 zones and 3 zones for Floor (YRS) and 6 zones and 6 zones for YRNS. Overall we prefer this solution as it gives enough comfort to allow investment in North GB but retains

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	sufficient locational signal. It should be considered as a WACM.
Alternative Request 2	This alternative proposes a 2 –stage Cap in order to group together Zones 1 – 7 and Zones 8 -12 (and applied to Zones 8 -27). This is designed to retain a better locational signal in both groups of zones as there is less ‘smearing’. The calculation is based on the Standard Deviation method which was rejected by the Original and all but Alt 3 as not the best method when using a non-normal distribution as dataset.
Alternative Request 3	This alternative also proposes a 2 –stage Cap as above but this time calculates the Generator Adjustment pre-the Cap –which leaves this whole. Instead the reduction in generator revenue resulting from the Cap will be recovered from the Demand Residual. This would also mean that payments to all generators, wherever located, from the increasing Generator Adjustment levels would be held whole. There would be, in effect no Floor. Significant Caps in Zones 1 -12 would increase investor confidence there whilst leaving the rest of UK similar to the status quo. The burden would fall squarely on Demand and, thus, directly on the consumer. It could be argued that the Original and other alternatives could also impact with higher consumer prices but more indirectly. Would the authority countenance such an impact on the Demand Residual? Would an impact assessment be necessary?
Alternative Request 4	Not used
Alternative Request 5	This alternative is significantly different to the other solutions in that it effectively ‘squashes’ differentials between North and South GB Zones which arise from the transport model in the Charging Methodology – which is the basis of locational signals as historically and currently envisaged. The Cap in the northern zones is essentially paid for by reversing – to an extent – the

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	<p>movement of funds from North to South. While there is a consequent reduction in the Generator Adjustment (paid to all generators irrespective of location) it is still a positive number. There seems to be no impact on Demand Residuals.</p> <p>The statistical mechanism used for the dataset seems to be robust.</p> <p>One might imagine that if the Charging Methodology was dismantled and redesigned to converge with planned development of the GB grid, through such mechanisms as SSEP and CP2030, the resultant (with no Caps/Floors) would be not unlike the out turn of this alternative. It is probably unrealistic to imagine that most WG members would support this as a WACM, but the Chair could exercise prerogative to pass the WACM for further consideration by CUSC Panel and Authority. The alternative is well researched in terms of current policy documents and should therefore not be discarded out of hand in our opinion.</p>
Alternative Request 6	<p>This solution uses the Original but drops off the 5th year of the 5 year forecast (2029/30), which is the year that expensive links appear in the figures. These links are set to increase in subsequent years in order to reach the goals set for Net Zero and are strategically rather than generator led. It is for this reason according to the Ofgem letter that a Cap/Floor has been proposed as an interim measure.</p> <p>The solution has a reasonable Cap on otherwise heavy increases in TNUoS in northern zones whilst keeping the locational signals in the south for the most part (with light use of the Floor). There is an impact on the Generator Adjustment as one would expect but this is still a significantly positive number. Our view is that this solution has merit and should be forwarded for further consideration as a WACM</p>

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Alternative Request 7	<p>This alternative proposed by the author of the Original uses a scaler to the dataset for the highest and lowest and uses this factor to apply to all zones which serves to keep historic and current locational signals. It also uses only the first 4 years of the current 5 year forecast (as in Alt 6). The result leaves still high charges in zones 1 and 4 –compared to the Original while hardly using the Floor. For this reason it may not fully accord with the Ofgem ‘outline’. The proposer may well give guidance to the WG as to whether he considers this alternative better than the Original.</p>
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