

RWE

RWE Fixing TNUoS Proposal

Latest thinking & further points for discussion
(CMP413 - WACM 2)

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Why have we raised a WACM?

- Agree with the principle underlying original that ESO is better placed to forecast evolution of network and costs than individual developers, and that the unpredictability adds avoidable risk (and therefore cost) to the system.

However...

- The Original means much of the 10 year period may have elapsed between CfD bid / FID being taken on a site, and the site beginning commercial operation.
- The Original 10 year rolling fix is out of step with investment cycles - all generators are fixed for a rolling 10 year period – likely to be too long for some generators, and too short for others.
- Changes to methodology or network design which were not expected in ‘year 1’ take 10 years to feature in charges – challenging cost reflectivity - potentially leading to distorted locational signals.

WACM 2 Proposal – Overview (1)

- Principle objective: minimise unnecessary TNUoS risk in order to minimise costs to the consumer.
- Proposal to have an option to fix a profile for the majority* of a generator's wider TNUoS charges for a period against a forecast profile produced by the ESO, this would be refreshed annually. This means each fix is based on the best information at the time.
- This would be open to all generators, and fixes could be for any number of whole years, from 1 to 15 (or up to a maximum length of the ESO's forecast, whichever is shorter).
- TNUoS charges would be on a fixed profile – ie. could go up and down over this period, however these fluctuations would be known in advance.
- For new projects, liability would begin at the point of TEC start. For existing projects, from the following year.
- Towards the end of a fixed period, a site would have the option of fixing again, or moving onto a variable TNUoS tariff (akin to today's arrangements).
- Generators opting into a fix would not be able to opt out again mid-way through, however if a site closes it will not be obligated to pay for its remaining fixed period.

*There is a European Regulation, the “€2.50 cap” which applies a negative adjustment to all generators, this would continue to operate independent of the fix. In 2023/24 it reduced all generators TNUoS charges by £0.93/kW.

This proposal would also not affect a generator's local tariffs including OFTO charges.

WACM 2 Proposal – Overview (2)

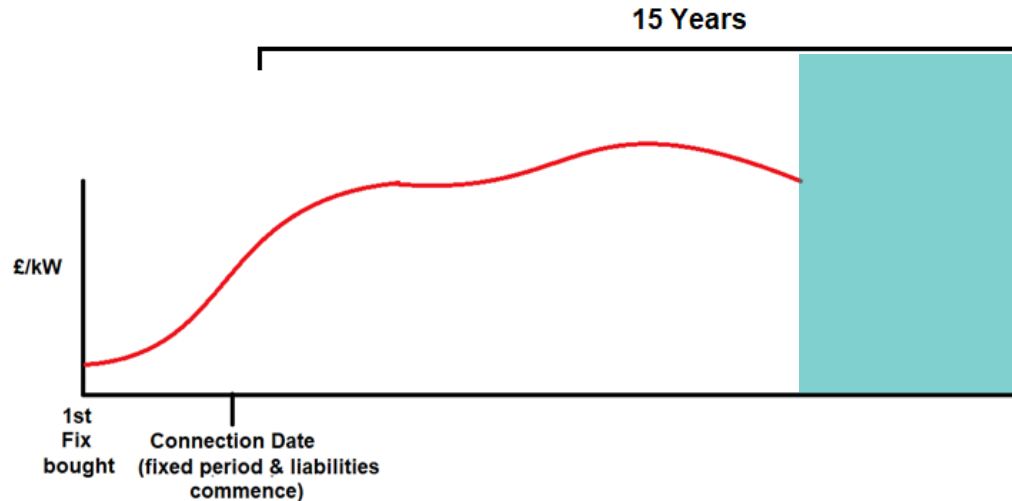
- It is not possible for a modification to truly protect a generator from future modifications. It would therefore be possible for a future modification to change the TNUoS charges of a generator with a fix. It is a matter for OFGEM how future modifications are applied, and to manage any impacts on investor certainty.
- A generator is not required to fix its entire TEC, but can elect to subdivide its TEC – again to allow consideration of future investment plans.

Addressing changes to a site mid-way through a fixed period (current thinking – not tested at workgroup)

- High level principle: A TNUoS fix shouldn't be the reason to make changes to a site, nor the reason not to make changes a site.
- If a site reduces its TEC, its liabilities decrease as per today.
- If a site increases its TEC, the new TEC is charged at the latest forecast rates (and the generator may choose to fix that part of its TEC).
- If a site changes technology during the life of a fix (ie. moves from intermittent to conventional carbon by adding storage), the life of the fix continues, but at the rate that would have been charged at the point the fix was initially taken.

Challenge: Tail end of fixed period

- If a generator is bidding on a 15 year contract (e.g. CfD, CM, DPA), it will likely be a number of years between making that bid (and presumably securing the fix alongside it) and the fixed period beginning. If ESO carries out a 15 year forecast, this will leave an unfixed/unforecasted period at the end (shaded area below).
- Therefore, we propose asking ESO what the longest fix it could do would be to minimise the size of the shaded area.



Open question

How long in advance of the end of an existing fix is the choice taken for a new fix?
Timelines need to align for publication of tariffs, CfD, CM, DPA, etc.

Should this continue as a WACM or be a mod in its own right?

When to start the fixed period (new sites)...

