CMP413: Rolling 10-year wider TNUoS generation tariffs

11th April 2023

Background to CMP413

An unprecedented level on network investment is scheduled to take place over the next decade

This modification seeks to introduce an obligation on the ESO to publish generation tariffs for a rolling 10-year duration and provide the clarity to Users and developers on commercial decisions to support delivery of low carbon infrastructure (across generation and network) at least cost for consumers.

This proposal builds on the ESO's Holistic Network Design published in July 2022 that created a blue print for the network needed to connect up to 50GW of offshore wind by 2030.

Task Force

Ofgem has asked the ESO to facilitate a forum to deliver recommendations on "How do we make TNUoS a better investment signal to investors"

It has also published a letter on 3 March 2023 asking workgroup members to consider work undertaken by the ESO during the Task Force hiatus "to support members in considering further the issue of how to improve predictability in arrangements"

The Task Force resumed on the 26th April 2023 and Ofgem asked that CMP413 proceed in parallel.

Defect

TNUoS charges are designed to give long-term siting signals to generators to support the economic development of the transmission network. With the unprecedented scale of transmission investment this decade, and beyond, and the generally long development timeframes for low carbon generation, the current TNUoS methodology, in the view of the Proposer, fails to meet this objective.

Proposer's solution

ESO to publish a wider generation tariff for each generation zone (currently 27) for a rolling 10-year period, effective from 1st April 2024. A set of cap and collars will be included to allow the tariff to be changed year on year:

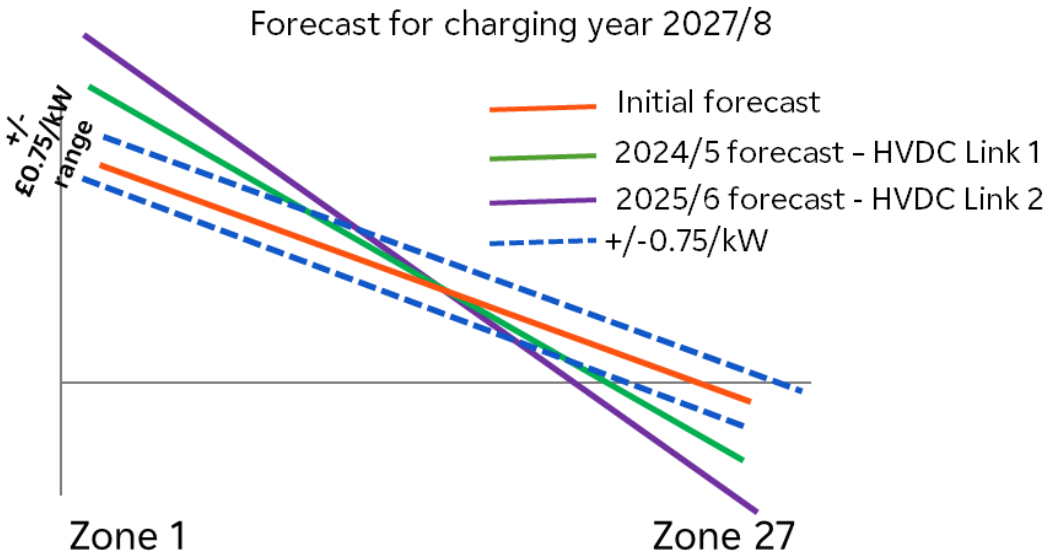
Limit for the Forecast Year	Cap / Collar range
Year 1 and Year 2	N/A
Year 3 and Year 4	+/-£0.25/kW
Year 5 and Year 6	+/-£0.75/kW
Year 7 and Year 8	+/-£1.25/kW
Year 9 and Year 10	+/-£2.50/kW

In any given year:

If a subsequent forecast is within the cap and collar limit set then generation tariffs are adjusted.

If a subsequent forecast falls outside of the cap and collar limit, the maximum adjustment is made and the net amount is recovered through demand tariffs.

Illustration of how the mechanism works:



Considerations

The proposal aims to strike an appropriate balance of risk between different Users who contribute towards TNUoS.

1) We have not applied a cap and collar in Year 1 and Year 2 to of the initial and subsequent tariff publications. This is to protect demand users from short term risk that a supplier / customer may need to manage.
2) The proposal increases the level of risk [to generators] as the forecast moves to Year 10 reflecting the increasing uncertainty
3) The timescales for development, construction and operation of low carbon generation is much longer than 10 years. While the proposal leaves uncertainty for year 11 onwards, in the proposer's view, this strikes the right balance as a further year of tariffs will become known year after year as the project is developed, 10 years in advance. These tariffs are then protected, in subsequent years, by the cap and collar mechanism.
4) Business as Usual CUSC charging modifications feed through into the year on year tariff updates but their impacts will be subject to the cap and collars
5) Tariffs will always comply to EC838/2010

Task Force = review and apply recommendations to inputs and methodology in the ESO TNUoS charging model

CMP413 = to provide a better signal to investors by fixing the output

Applicable Objectives

Relevant Objective	Identified impact
(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;	**Positive** Providing assurances to Users of the transmission system on their future TNUoS liability is essential. It is inconceivable that existing and potential Users are faced with an uncertain cost projection on the TNUoS liability. Providing a centralised forecast will better facilitate competition and ensure a level playing field for all Users.
(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 C26 requirements of a connect and manage connection);	**Positive** Networks charges would align with / be based on transmission owner's investment plans
(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;	**Positive** The ESO has a responsibility to ensure that Users TNUoS contributions reflect the use of system charging methodology and the licence conditions of the Transmission businesses. Providing longer term tariffs will reflect expected developments on the transmission system.
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	**Neutral**
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	**Positive** Users need 'useful' signals as identified within the scope of the 2022 TNUoS Task Force scope set out by Ofgem. Providing a longer-term central forecast of TNUoS tariffs will be more efficient for Users.

Implementation

We would like to aim for a 1st April 2024 implementation date subject to confirmation from the ESO on any issues identified that would prohibit this.