

Workgroup Consultation Response Proforma**CMP413: Rolling 10-year wider TNUoS generation tariffs**

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@nationalgrideso.com by **5pm on 02 October 2023**. 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@nationalgrideso.com

Respondent details	Please enter your details	
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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 checked="" type="checkbox"/> Storage <input checked="" 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☐ Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

For reference the Applicable CUSC (charging) Objectives are:

- 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;*
- 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);*

- 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;*
- 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.*

**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.*

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 the Original solution better facilitates:
		<div>Original <input checked="" type="checkbox"/>A <input checked="" type="checkbox"/>B <input checked="" type="checkbox"/>C <input type="checkbox"/>D <input checked="" type="checkbox"/>E</div> <p>This modification better facilitates CUSC Objective A: 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. This position has been further highlighted by the recent ESO 10-year TNUoS projection publication. The scale of changes to TNUoS highlighted are completely unexpected and unforecastable by the industry. This materially impacts effective competition between generators due to locality and technology.</p> <p>B: Networks charges would align with / be based on transmission owner's investment plans.</p> <p>C: 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.</p> <p>Providing longer term tariffs will reflect expected developments on the transmission system.</p> <p>E: 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.</p>
2	Do you support the proposed implementation approach?	<div><input checked="" type="checkbox"/>Yes <input type="checkbox"/>No</div> <p>Yes. There is an urgent requirement to provide certainty and predictability of future TNUoS liabilities, especially to generators that are developing projects now in order to support the Government's objective to decarbonise the power system by 2035 and, in the longer term, to meet Government's Net Zero target.</p>

		There is a separate programme of activity that Ofgem is taking forward that considers other reforms that, whilst maybe with merit, will deliver solutions at some undefined point in the future. The bulk of the investment in low carbon generation is required now and in fact has already been undertaken with a considerable amount of risk.
3	Do you have any other comments?	Click or tap here to enter text.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>The Workgroup debated at length whether there were other valid ways to achieve a solution for the CMP413 defect but no alternative was developed further. Therefore, we consider that our Original proposal is the best option to address the defect identified in CMP413.</p>

Specific Workgroup Consultation questions

5	The Original proposal is to limit the maximum variance by £2.50/kW per charging zone. Do you feel this is an appropriate level?	<p>Yes. The Consultation sets out that there needs to be a fair balance of risk between generators and demand Users.</p> <p>We have carried out some analysis on the planned additional HVDC links (as detailed in the most recent 5-year TNUoS forecast published by NG ESO).</p> <p>To model this, we looked at all three backgrounds (Conventional Carbon, Conventional Low Carbon and Intermittent) for each of the 27 generation charging zones and how Wider Tariffs for these 81 combinations change in different scenarios.</p> <p>Two scenarios were modelled to demonstrate the impact on Generation tariffs and their impact to a cap/collar.</p> <p>We used a Cap/Collar of £2.50/kW for this modelling.</p> <ol style="list-style-type: none"> 1) In a situation where this HVDC cable was delayed, i.e. removed from the Transport and Tariff model for that charging year, 26 of the 81 tariff combinations breached the collar of £2.50/kW. 2) In a situation where this HVDC cable added an additional link, for that charging year, 27/81 of the tariff combinations would breach the cap of £2.50/kW. <p>While not every tariff combination will impact a current or proposed generator (i.e. some zones do not have and may never have a conventional low carbon power</p>
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		<p>station) this broadly shows how much impact a cap and collar mechanism has at £2.50/kW.</p> <p>Setting a much higher maximum variance would only provide predictability for relatively few generators/zones, leaving most generators/developers exposed to a high amount of risk. Conversely, a much lower maximum variance would feel overly rigid, essentially fully fixing tariffs 10-years ahead of delivery. Maximum variance of £2.5/kW in the longer-term, declining closer to delivery, strikes the balance between predictability and allowing for some cost reflectivity.</p> <p>This modelling (spreadsheet shared alongside Workgroup Consultation) provides a quantitative real-life scenario of changes that could occur and the impact under CMP413 original proposal. It adjusts tariffs proportionally to allow risks to be taken by generators and demand Users.</p> <p>The impact to Demand Users will vary but against such a massive charging base the impact on consumers would be very small.</p>
6	The Original proposal deems a 10-year period to fix tariffs between the pre-defined Cap and Collar ranges appropriate. Is there an alternative length of time that would need to be considered?	No. The Workgroup Consultation cites a planned timescale required by renewables investors in the Irish market and this is consistent with information we gathered for similar investment in GB. It shows that the length of time can extend to circa 10 years and therefore the 10-year period to fix tariffs is appropriate. This also broadly coincides with number of years of network investment required to meet targets to connect Renewable energy.
7	The Proposer has provided a mechanism by which components that feed into the wider tariff is allocated. The proposal apportions the Cap and Collar by the proportion of revenue collected for each component. Is there an alternative methodology that could be used?	No. This is a reasonable and relatively straightforward methodology to allocate the cap and collar.
8	Should there be a provision to trigger a re-opener in tariffs to	No. The proposal seeks to provide greater predictability for a 10-year duration to mitigate the risks from unprecedented changes to the transmission system and

	reflect the considerable amount of reform planned both through Open Governance and via the TNUoS Task Force?	<p>generation. By doing this it would also provide some degree of protection against more material reforms to the TNUoS methodology.</p> <p>There are a number of live modifications that would simply be adaptable to the CMP413 Original Proposal. We accept that structural changes would not be possible until a new forecast is produced but that then provides the certainty required by developers and investors. It is worth reiterating that investment decisions are being made now and that considerable amount of risk has already been taken.</p> <p>A number of remaining risks are being evaluated in the TNUoS Task Force and some live Open Governance modifications (most notably CMP315/375 and CMP418). In aggregation this would pose a further significant degree of uncertainty for developers and investors.</p>
9	The Original proposal aims to protect Generators from unpredictable tariffs as the rational is that inefficient costs could ultimately cost consumers more. A breach to the Cap and Collar is socialised to Demand Users. Do you think this is appropriate?	<p>Yes. The aim of the original proposal is to protect Generators from unpredictable tariffs. The cap and collar is then designed to provide a realistic range with only overall net breaches then being recovered from demand. The alternative of re-socialising breaches to the cap and collar amongst a relatively small charging base simply compounds risk to Generators. The demand charging base is significantly larger and the table on Page 9 on the Workgroup Consultation shows the impact to demand users is circa 2% of total revenue for a significant change to the implementation of a sizeable HVDC cable.</p> <p>Additionally, as elaborated in the following Q10 response, potential socialisation of TNUoS costs over Demand Users should be viewed in the context of offsetting reductions, such as the CfD Scheme. Reduced risk margins from auction participants will result in smaller CfD top-up payments to generators and so a lower CfD Supplier Levy.</p> <p>The proposal also forecasts the maximum cap / collar variation up to 4 years in advance. Therefore, this can be recovered more accurately from demand customers without the need for excessive risk premiums.</p>
10	Please provide any evidence to support the merit of greater predictability over cost reflectivity (Clearly mark your response confidential if you wish	<p>Ofgem on their website state that “<i>We work to protect energy consumers, especially vulnerable people, by ensuring they are treated fairly and benefit from a cleaner, greener environment. We are responsible for: working with government, industry and consumer groups to deliver a net-zero economy, at the lowest cost to consumers.</i>” and we believe that CMP413 will help to achieve this.</p> <p>https://www.ofgem.gov.uk/about-us/our-role-and-</p>

	<p>this to be directed straight to Ofgem).</p>	<p>responsibilities#:~:text=We%20work%20to%20protect%20energy,the%20lowest%20cost%20to%20consumers</p> <p>In network charging there are always trade-offs for greater predictability versus cost reflectivity. That said, given NGESO has developed a 10-year network delivery plan (HND) with the respective network companies and the network investments identified in the plan have now been approved by the regulator (Ofgem), arguably building a set of tariffs that reflect this is cost reflective as well as being predictable.</p> <p>In any case, CMP413 would provide assurances to Users of the transmission system on their future TNUoS liability. This is essential to provide certainty and predictability, especially to generators that are already delivering to Net Zero targets.</p> <p>Investment decisions are being made now which because of the uncertainty of TNUoS means that a risk margin is necessary which will flow through to consumers in increased strike prices for CfD auctions. The publication by the ESO of the 10-year projection has now amplified that significantly – in lots of areas of the country prices have more than doubled while in others materially reduced - putting material uncertainty in pricing for CfD auctions which will lead to consumer detriment. Therefore, it would be better to have a little less cost reflectivity to ensure that the costs to consumers are kept down, especially when affordability is a significant current issue for the energy industry.</p> <p>Renewable developers require some measure of predictability over a long enough horizon to make informed decisions. The current TNUoS framework, while cost reflective, does not provide enough predictability to encourage development of projects to help meet net-zero goals.</p> <p>The recent lack of offshore wind projects participating in the CfD AR5 auction as well as the cancellation of some AR4 projects (inc. Norfolk Boreas) and delay to some AR3 projects (inc. Muaitheabhal) highlight the requirement for a predictable, long-term signal for developers while still retaining some cost reflectivity. Although TNUoS is only one cost a developer faces and other factors will have influenced the above outcomes to a greater degree, reforming TNUoS so it helps rather than hinders renewable developments is key. Putting a greater emphasis on predictability is one immediate, controllable step that can be taken to ensure this.</p>
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