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for energy consumers

To interested parties

Eleanor Warburton  
Director, Energy Systems Management and Security

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## **Open letter regarding prioritisation of electricity transmission network charging reforms**

In November 2022, we<sup>1</sup> published an [open letter](#) setting out our prioritisation of activities on electricity network charging during the winter, detailing the areas of focus we considered most likely to protect consumers and provide the most value. In April 2023, we published an [update](#) on our position, outlining how our near-term activities would be coordinated in the context of longer-term initiatives such as our Strategic Transmission Charging programme and the government-led Review of Electricity Market Arrangements (REMA).

**Over the last year, we have seen a considerable number of code modification proposals and increasing numbers of urgency requests raised by industry. This letter sets out our prioritisation of activities for the remainder of 2024, on electricity transmission network charging reforms, and our view on the most appropriate vehicles for these reforms.**

Over the next decade, electricity transmission network charges will recover the costs of the significant onshore and offshore network expansion needed to meet Great Britain's (GB) net zero decarbonisation targets. To support reaching these targets, we have delivered several programme milestones since the publication of our open letter in April 2023.

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<sup>1</sup> "we", "our", and "us" may refer interchangeably to either the Gas and Electricity Markets Authority or to Ofgem as the context requires.

We have taken decisions on several code modification proposals by industry and developed our thinking on the future role and design of electricity transmission network charging. We have also engaged with a wide range of industry and interested parties to progress near-term reform, largely supported and coordinated by the Transmission Network Use of System (“TNUoS”) Task Force. On longer-term reform, in the context of the future role of charging and the proposed changes as part of REMA, we have welcomed industry engagement via the publication of our Strategic Transmission Charging Reform open letter<sup>2</sup> and also as part of the relaunch of the Charging Futures Forum<sup>3</sup>.

### **In respect of Use of System Charges:**

Over the coming months, we will continue our focus on the following transmission network charging workstreams where we consider there is most value:

1. The **TNUoS Task Force** is addressing the issues of unpredictability and cost-reflectivity in current charging arrangements. If industry wishes to progress changes to the current model used to calculate the locational element of TNUoS, we consider it appropriate to raise these issues via the Task Force to discuss the case for change and potential solutions, prior to any code modification proposal being formally raised.
2. We asked the Electricity System Operator (“ESO”) to launch a **Storage TNUoS Sub-Group**. The overall purpose of the sub-group is to work in parallel with the TNUoS Task Force, but specifically consider what infrastructure costs storage drives on the network, and to what extent such costs can be reflected in locational signals within TNUoS charges for storage technologies. We consider that any issues relating to storage charging should be brought forward via this specific sub-group in the first instance.
3. Reforms to **Balancing Services Use of System (“BSUoS”)** charges were introduced in April 2023, with subsequent code modification proposals<sup>4</sup> being raised by industry seeking to change both the notice and fixed price period used for BSUoS tariff setting. These proposals have significant interactions with the working capital facility required by the ESO to manage risks associated with BSUoS costs. We are currently awaiting a decision from HM Government on the

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<sup>2</sup> [Open letter on strategic transmission charging reform | Ofgem](#)

<sup>3</sup> [Charging Futures Forum webpage](#)

<sup>4</sup> ‘CMP408: Allowing consideration of a different notice period for BSUoS tariff settings’ and ‘CMP415: Amending the Fixed Price Period from 6 to 12 months.’

future size and funding mechanism available to the ESO. Once this decision has been made, we will seek to progress decisions on these proposals and expect the BSUoS Sub-group<sup>5</sup> meetings to be reinstated.

4. Over recent months we have been working with the Department for Energy Security and Net Zero (“DESNZ”) to consider the future role of TNUoS charges, in the context of wholesale market reform options being considered under **REMA**. In line with the framework detailed in our Strategic Transmission Charging Reform open letter, we will continue to develop a shortlist of options feeding into the wider REMA process to ensure the suitability and compatibility of locational investment signals delivered via TNUoS charges with the range of REMA designs. We consider that any proposed reforms to TNUoS charges which seek to replicate or replace any of the (charging or market signal) options being examined under REMA should be discussed with us prior to submission: we are keen to avoid duplication of effort across the REMA programme and the open governance process.

In the coming months, should industry parties consider raising further code modification proposals related to charging or initiate new work relating to these priority areas that requires Ofgem input or a decision, we consider this is best achieved via the existing routes of engagement identified above in the first instance. This will ensure efficient use of industry time and resource and allow adequate discussion in terms of the case for change and potential solutions, prior to any code modification proposal being formally raised. Where a proposal does not sit within these workstreams, it is likely to be deferred in the short term unless there is a clear and compelling case for short-term change.

We would suggest that the relevant Code Panels and Code Administrators be mindful of the above when setting out timelines for any new change proposal. Where a proposal reaches us for decision that does not align to one of the key priority areas for reform identified above, or is not otherwise a clear near-term priority, it is likely that an Authority decision will not be taken for some time, irrespective of the proposed implementation date, to allow us to concentrate our resources and expertise on the matter most likely to be conducive to furthering consumer or broad market interests.

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<sup>5</sup> The Transmission Charging Methodologies Forum (“TCMF”) BSUoS Sub-Group was launched in March 2023 to develop the evidence base for enduring fixed-term BSUoS solutions following our decision on code modification proposals (“CMPs”) 361 & 362: ‘BSUoS Reform: Introduction of an ex ante fixed BSUoS tariff & Consequential Definition Updates’.

**Separately, in respect of the transmission network, we encourage industry to prioritise efforts to propose changes that will support two key areas:**

1. The delivery of benefits linked to the **Connections Action Plan** published by DESNZ and Ofgem in November 2023.<sup>6</sup>
2. The delivery of the **Offshore Transmission Network Review** ("OTNR") and the **Holistic Network Design** ("HND"), including the Follow-Up Exercise ("HNDFUE").

If industry intends to raise proposals addressing issues that are related to these areas, we strongly suggest these be brought to the monthly Transmission Charging Methodologies Forum ("TCMF") and/or CUSC Issues Steering Group ("CISG") for industry feedback. ESO as part of its role as Code Administrator, offers support in bringing items to the TCMF as well as throughout the code change process.

### **Quality of proposals**

More generally, we have been disappointed to note over the last few months an increase in the number of poorly drafted or incomplete modification proposals. As above, ESO can support industry parties in bringing their transmission-related proposals to any relevant fora, however we do expect that the ESO enacts its 'critical friend' assessment of proposals in a robust manner, ensuring that at an absolute minimum proposals with incomplete sentences; unclear defects; no proposed solution; or any other material omission do not make their way to the relevant Code Panel.

We consider it a poor use of Panel's, industry's and our time to work on proposals which are unclear in their defect, scope or solution: we have discussed these issues with the Code Administrator and consider that they should not submit any code modification proposal which does not meet basic checks to the relevant Panel. Further, we expect the Panel to ensure that it fully understands each individual proposal prior to agreeing the governance route: in some cases we consider the defect to be unclear to such an extent that we are unsure how Panel has been able to undertake an initial assessment of the proposal. We will continue to exercise our 'send-back' powers where we consider that we have insufficient information or clarity to enable a decision.

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<sup>6</sup> [Connections Action Plan: Speeding up connections to the electricity network across Great Britain \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

We believe this approach will enable us to continue to work at pace to support the delivery of net zero targets and focus our attention where it provides most value for consumers.

We intend to keep this prioritisation approach under review and publish further updates as required, notifying the relevant Code Panels and Code Administrators of any significant changes to resourcing that may have an impact. In the interim, please do contact Harriet should you wish to discuss any transmission charging-related matters.

Yours faithfully,

**Eleanor Warburton**

**Director**

**Energy Systems Management and Security**