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for energy consumers

To interested parties

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## **Open Letter: Seeking industry action to develop a temporary intervention to protect the interests of consumers by reducing the uncertainty associated with projected future TNUoS charges**

This open letter is our response to the developing uncertainty around long-term Transmission Network Use of System (“TNUoS”) charges, particularly concerns driven by last year’s 10-year projections of significant charge increases for generators in the North of Great Britain (“GB”). We outline our concerns about how this could impact investment decisions and consumer costs, particularly in the context of His Majesty’s Government (“HMG”) Clean Power 2030<sup>1</sup>, and our policy thinking on a suitable temporary cap and floor intervention to mitigate these risks and protect consumers.

We encourage National Grid Electricity System Operator (“NGESO”) to raise a code modification proposal, aligned with the views provided in this letter, to be brought to the CUSC Panel in October.

### **Previous industry engagement and HMG priorities have helped shape our policy thinking**

On 11 September 2023, we published an Open Letter on Strategic Transmission Charging Reform<sup>2</sup> (“the September 2023 letter”) that set out our initial thinking on the long-term case for significant reform of TNUoS charges and options for its future role and design in the context of HMG’s Review of Electricity Market Arrangements (“REMA”)<sup>3</sup>. As we expect unprecedented levels of transmission network build (and associated costs) in the next decade, charges for generators located in the North of GB are expected to continue rising while credits are projected to increase in the South<sup>4</sup>. In this context, we emphasised that TNUoS charges should send efficient locational, long-run investment signals, and that cost-reflectivity will remain a core aspect of the transmission charging regime. We invited commentary from industry on how these aims can be met in a REMA context.

Responses from industry overwhelmingly agreed with the need to improve the predictability of TNUoS charges and ensure that the locational signals conveyed by these charges are consistent with other market rules and signals, including those related to

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<sup>1</sup> [Chris Stark to lead Mission Control to deliver clean power by 2030 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/chris-stark-to-lead-mission-control-to-deliver-clean-power-by-2030)

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

<sup>3</sup> [Review of electricity market arrangements \(REMA\): second consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/review-of-electricity-market-arrangements-rema-second-consultation)

<sup>4</sup> Wider generation TNUoS charges are calculated using the ‘transport model’, a locational cost model. Generators located in remote parts of GB, such as Northern Scotland, pay higher charges than those relatively close to demand centres, which receive credits. As a result, investment in new transmission assets results in increases to TNUoS charges for generators located further from demand, and credits for those closer.

strategic network planning<sup>5</sup>. Stakeholders have been clear that these factors are key in reducing uncertainties affecting low-carbon investments, and minimising the total costs faced by consumers in relation to the transition to a clean power system.

Further, HMG recently announced its ambition to accelerate the transition to clean, homegrown energy, and to achieve a clean power system by 2030. This announcement makes it important that we consider how best to ensure the transmission charging regime does not unduly hinder low carbon investment to meet the expedited target<sup>6</sup>.

Our work in this area therefore focuses on how best to balance:

- Retaining a cost-reflective locational long-run investment signal that complements other market arrangements; and
- Minimising system costs for consumers while reducing uncertainty to investors to deliver Clean Power 2030, in a context of uncertainty around the outcomes of REMA's broader market reforms.

We think this balance will be best achieved by reducing uncertainty around the future range of TNUoS charges, particularly in Northern GB where projected charge increases published by NGEN last year were particularly high and not necessarily aligned with our long-term TNUoS policy direction.

### **We want to enable the required pace and timing of investments to reach a clean power system by 2030**

The next decade will see unprecedented levels of investment in expanding the transmission network, including to increase the capacity for transporting renewable power from the North to demand centres in the South. As a result, TNUoS charges are projected to increase significantly during this period, creating challenges for critical investment and reinvestment decisions being made in the next few years to reach a clean power system by 2030.

The first major challenge is that NGEN's *TNUoS 10-Year Projection 2024/25 to 2033/34 report*<sup>7</sup> has indicated that upcoming transmission network investments are expected to lead to large increases to certain generator charges. The most significant increases are expected in Northern Scotland, where the absolute value of generator charges is predicted to broadly triple as compared to today's charges, by 2033. These increases are primarily driven by the large-scale infrastructure investments that are required to decarbonise the electricity system. Examples of these developments include the 26 critical energy projects worth an estimated £20 billion under the Accelerated Strategic Transmission Investment ("ASTI"<sup>8</sup>) framework, and the Holistic Network Design ("HND"<sup>9</sup>) that requires offshore network infrastructure at an estimated cost of £32 billion.

Under the current TNUoS methodology, and the current information exchange processes between the Transmission Owners ("TOs") and NGEN, generators are only given three months' notice of how substantial capital expenditure investments will flow through to

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<sup>5</sup> [Open letter on strategic transmission charging reform: a summary of responses | Ofgem](#)

<sup>6</sup> The previous government target was to decarbonise the energy system by 2035. See [Plans unveiled to decarbonise UK power system by 2035 - GOV.UK \(www.gov.uk\)](#).

<sup>7</sup> In September 2023, NGEN published the [Five-Year Projection of TNUoS Tariffs for 2029/30 to 2033/34 \(nationalgrideso.com\)](#), which, alongside the routine five-year forecast created the TNUoS 10 Year Projection 2024/25 to 2033/34.

<sup>8</sup> Ofgem's Accelerated Strategic Transmission Investment (ASTI) framework is fast-tracking 26 major connection projects which will boost grid capacity and could deliver estimated savings of £1.5 billion

<sup>9</sup> The Pathway to 2030 Holistic Network Design helps to unlock the UK Government's ambition for 50 GW of offshore wind by 2030, by setting out a single, integrated approach that supports large scale delivery of electricity from offshore wind, to where it is needed across Great Britain.

their charges for a particular year. Although there is a known programme of significant transmission infrastructure investment delivering new assets over the next decade, and forecasts provide an indication of future costs, the TNUoS charges that will apply can only currently be estimated ahead of this three-month deadline<sup>10</sup>.

We also accept that the NGESO's 10-year projections are the only publicly available indication of long-term charge levels. Ofgem has publicly suggested that we do not think those projections are likely to materialise, based on in-progress and planned TNUoS reforms such as those resulting from the TNUoS Task Force. However, we are unable currently to provide an alternative set of projected tariffs, partly because of the number of CUSC Modification Proposals with us, or due in the next 12 months to be with us for decision. We acknowledge that the uncertainty of future TNUoS charges can materially impact generator investment decisions. We accept that long-term uncertainty around how charges will develop may increase costs for generators and create barriers to investment, ultimately risking the delivery of a clean power system by 2030 through Contracts for Difference ("CfDs")<sup>11</sup> or merchant investments and reinvestments. This, in turn, would likely lead to higher consumer costs in the long term.

As a second challenge, we recognise that issues with the existing charging methodology, particularly the volatility of TNUoS charges, are reportedly hindering some investment decisions. In May 2022, we established the TNUoS Task Force to work with industry to identify the changes necessary to improve locational signals, increase the stability and predictability of charges, and ensure network users' charges are reflective of their impact on the network given the changing nature of the generation mix present in today's system.

The work of the TNUoS Task Force concentrated on predictability and recognised the need for trade-offs between cost-reflectivity and predictability. While the absolute value of the charge was not in the Task Force's Terms of Reference, the resultant proposals to amend the TNUoS charging methodology could have material bearings on the charges paid by all users. We recognise however that the current 'hiatus' on Workgroup meetings being held in respect of changes to the Connection and User of System Code ("CUSC") that fall outside of the connections reform programme has delayed the progression of these Task Force proposals. If approved, some of the proposed changes may now not be capable of implementation until 2027. With key investment decisions required in the coming years to achieve Clean Power 2030, we consider it beneficial to take additional action to reduce uncertainty about future TNUoS charges.

A third point of concern is that, under the current charging methodology, the unprecedented infrastructure build required to achieve Clean Power 2030 not only results in significantly higher TNUoS charges in Northern regions, but also much higher credits in Southern regions. NGESO's 10-year projections for TNUoS generation charges in the early 2030s suggest that paying much larger credits to generators to use the system could oppose consumers' interest as they may end up paying more depending on the broader picture.

In the immediate term, we continue to believe that generation TNUoS charges should send a useful investment signal. Over the longer-term, however, we recognise that the role and purpose of TNUoS charging could change, depending on HMG decisions. We are aware that HMG is considering a range of issues as part of the REMA programme that

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<sup>10</sup> This is for a variety of reasons, including being able to account for the actual timing of transmission investments, and the expected profile of demand and generation across the system, which are key inputs in the methodology

<sup>11</sup> The Contracts for Difference (CfD) scheme is the government's main mechanism for supporting low-carbon electricity generation.

may have an impact on charging. However, we have consulted the Department of Energy Security and Net Zero and have confirmed that this approach is compatible with the reforms under consideration.

We also recognise that a new approach to system planning<sup>12</sup> needs to be reflected in the TNUoS methodology. This is important to avoid a disconnect between how the system is planned and how charges are applied. The details of the Strategic Spatial Energy Plan are still being worked through by NGENSO, and it may take some time before TNUoS implications of this approach are fully understood. However, the role of TNUoS charges that could be defined by REMA should ensure that investment signals are aligned with strategic planning, reinforcing the views we already shared in the September 2023 letter.

We are keen that the required pace and timing of generation investments to meet our 2030 goals is not compromised by the TNUoS regime, and that overall costs to consumers are kept as low as is possible.

### **Our view is that a temporary cap and floor on wider TNUoS charges for generation would offer the most efficient type of intervention**

In our view, a temporary intervention is expected to be particularly helpful to reduce investment uncertainty and protect the interests of consumers. As noted above, very high projected TNUoS levels in Northern GB is a concern for stakeholders, and whilst those stakeholders may have differing views as to how TNUoS charges should be limited, there was consistent feedback in the responses to the September 2023 letter that supports some form of intervention. Equally, during the deliberation of the TNUoS Task Force and during specific CUSC Modification Proposal ("CMP") workgroups, we have heard broad support for measures which seek to limit the £/kW charges faced by generators in various ways. In the context of HMG's 2030 aspirations and the significant degree of uncertainty faced by investors resulting from last year's very high 10-year projections, REMA, spatial planning and the outcomes of the TNUoS Task Force CMPs, we consider it may now be appropriate to create boundaries around the absolute level of TNUoS charges.

The Authority can only raise CMPs where certain limited criteria are met, as described in the transmission licence and Section 8 of the CUSC.<sup>13</sup> In the current circumstances, we consider we are unable to propose an amendment to the TNUoS charging methodology to address these issues, other than through a Significant Code Review ("SCR"). We consider that a SCR is unlikely to be a feasible option given the associated timelines and the urgency of the situation, in light of HMG's 2030 ambitions.

We therefore consider that in order for proposals to be progressed rapidly, an NGENSO-led CMP to propose changes to the TNUoS charging methodology would be an appropriate mechanism to reduce uncertainty, support investment and protect the interests of consumers. We expect this CMP will be able to progress immediately and will not to be affected by the CUSC 'hiatus'.

We will consider the detail of any final proposal once received (alongside consideration of all representations and an assessment as to its impacts). However, our current view is that a single GB cap and floor on the absolute £/kW components of the TNUoS Wider charge is likely to be most suitable. We currently consider there would be merit in a solution which:

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<sup>12</sup> See item Strategic Spatial Planning: [Strategy and policy statement for energy policy in Great Britain \(accessible webpage\)](#) - GOV.UK ([www.gov.uk](http://www.gov.uk))

<sup>13</sup> [Electricity Transmission Standard Licence Conditions 19 10 2021 \(ofgem.gov.uk\)](#) and [CUSC - SECTION 8 \(nationalgrideso.com\)](#)

- establishes appropriate, individual, upper and lower limits on the £/kW charges paid by generators through the Year-Round Shared, Year-Round Not Shared and/or Peak Tariffs;
- retains regional/locational differentials in charges and between technology types through a single GB cap and floor;
- maintains a procedure for ensuring compliance with the requirements on generator annual average transmission charges as provided for in Regulation 838/2010 (as assimilated);
- is capable of implementation without requiring NGESO to change its TNUoS forecasting approach or timetable; and
- is capable of implementation from April 2026, if approved.

We currently consider that a single GB cap and floor following these parameters could mitigate any inefficient locational signals that TNUoS is projected to send by the end of the decade, resulting in higher expected consumer benefits compared to current arrangements. First, the direct impact of additional costs that consumers may face as result of this cap would likely be compensated by a reduction in the adjustment tariffs established by Regulation 838/2010<sup>14</sup>, which they subsidise<sup>15</sup>. Second, consumers are expected to overall benefit from reduced costs passed through to them from elsewhere e.g., from an expected reduction in costs of capital or risk premia flowing through to reduced CfD bids, wholesale prices, and balancing costs.

Our current view is that a lower limit would also be beneficial. The introduction of an upper limit alone would likely be more expensive for consumers than an upper and lower limit, as in practice it would likely see consumers subsidising increasing negative tariffs as well as paying for the shortfall between the upper limit and the unadulterated tariff. This means that introducing a cap without a floor would likely provide greater credits to Southern generators, resulting in inefficient signals that could be avoided.

We have given significant consideration to other potential mechanisms that might serve a similar purpose, and our preliminary conclusion is that establishing single GB minimum and maximum limits in components of the Wider TNUoS Tariffs for generators is likely to best achieve our aims to: help reduce investment uncertainty; facilitate achievement of HMG's Clean Power 2030; and ultimately protect the interests of consumers. We also recently rejected CMP413<sup>16</sup>, which proposed fixing TNUoS charges by applying a cap and floor to tariff values on a rolling basis over ten years following an initial 10-year forecast. This 10-year forecast would be updated yearly, with tariffs updated based on a restricting limit using the initial forecast as a baseline. NGESO and other participants in any new proposal should give regard to the specific reasons for our rejection of CMP413, particularly the complexity of the methodology and deliverability.

### **We encourage NGESO to raise a code modification proposal to mitigate these challenges and reduce investment uncertainty**

We strongly encourage NGESO to raise a CMP to develop an intervention aligned with the emerging views presented in this letter. We suggest that a solution is developed and discussed in the monthly Transmission Charging Methodologies Forum ("TCMF") for initial industry feedback before it is formally brought to CUSC Panel in October. We also expect this CMP not to be affected by the current CUSC 'hiatus' and, subject to CUSC Panel admissibility, to be able to progress immediately.

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<sup>14</sup> <https://www.legislation.gov.uk/eur/2010/838/contents>

<sup>15</sup> Implementing a cap on the components of the Wider generation TNUoS Tariff is likely to reduce the breach to the upper limit established in Regulation 838/2010, resulting in lower adjustment tariffs. As consumers currently subsidise these adjustment tariffs, they are expected to benefit from this intervention.

<sup>16</sup> [CMP413: Rolling 10-year wider TNUoS generation tariffs | ESO \(nationalgrideso.com\)](#)

As any proposal progresses through the Workgroup process, it will be open to parties to raise Workgroup Alternative Code Modifications ('WACMs'). Should parties wish to raise WACMs, we would encourage that a clear rationale for the alternative is brought forward explaining how it would better facilitate achievement of the ACOs than the status quo *and* the proposal brought forward by NGESO, as required by the open governance procedure.

In the interests of providing clarity in the short term and, if approved, delivering an intervention quickly, we consider it critical that industry, in particular the CUSC Panel and Code Administrator, works to ensure that the Authority is furnished with sufficient information in the Final Modification Report to enable it to take a decision on the proposal and any alternatives by Summer 2025, so as to avoid the need for us to send any proposal back to the CUSC Panel for further work.

Yours faithfully,

**Georgina Mills**

**Director**

**Energy Systems Management and Security**