Decision

Final Decision in respect of CMP444 – Introducing a cap and floor to wider generation TNUoS charges

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This Final Decision follows our minded-to decision and consultation published on 10 July 2025. We[1] have decided to reject[2] Connection and Use of System Code ("CUSC")[3] Modification Proposal 444 ("CMP444"). We consulted on our minded-to decision and received feedback from a wide range of stakeholders. Those views were taken into consideration in our Final Decision, alongside the Final Modification Report ("FMR"). The non-confidential responses we received are published alongside this document.

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[1] References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.
[2] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
[3] Unless otherwise stated, words which are capitalised carry the same definition as that provided in the CUSC

Contents

Executive Summary

In September 2024 we indicated that we saw some merit in exploring whether, and the extent to which, the introduction of different cap and floor structures could mitigate some of the uncertainty arising from unpredictable (over the longer-term) Transmission Network Use of System ("TNUoS") charges[4] (hereafter, the "Open Letter").

In October 2024, CUSC Modification Proposal CMP444: *Introducing a cap and floor to wider generation TNUoS charges*[5] (the "Proposal'') was raised. The Proposal, which comprised an 'Original' solution and seven alternative solutions proposed by the Workgroup, sought to reduce investment uncertainty for generators and developers by applying upper and lower limits to the charges faced by generators through certain TNUoS tariffs.

We have carefully considered all of the July 2025 minded-to decision consultation responses and re-evaluated our view against the Applicable Charging Objectives[6] (hereafter "ACOs"). In line with our minded-to decision consultation, we remain of the view that none of the modification proposals would better facilitate achievement of the ACOs, when compared to the existing provisions of the CUSC (the "baseline"), and that all of the proposals should therefore be rejected. Our final decision is to direct that the modification CMP444 not be made.

We do recognise that unpredictability in network charging arrangements could present investment challenges and making network charges more predictable, so they provide more effective signals to investors at the point of making investment decisions will be a key priority as part of TNUoS reform. The Government plans to publish a Reformed National Pricing Delivery Plan later this year[7], including a timeline with key activities for implementing reformed national pricing, with TNUoS reform expected to be delivered by 2029. Transitional arrangements for existing parties are a key priority within this work. Government is also seeking to introduce primary legislation at the earliest opportunity to expedite implementation of these reforms.

We intend to publish the details of the series of expert panels we aim to establish to aid in charging policy development as we work with Government to implement a reformed national pricing model as soon as possible: this publication will include a call for

[4] 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
[5] CMP444: Introducing a cap and floor to wider generation TNUoS charges
[6] Applicable Charging Objectives are defined in paragraph 4 of SLC E2 of NESO's Electricity System Operator Licence
[7] Review of electricity market arrangements (REMA) - GOV.UK

volunteers from across the sector, and will set out the draft terms of reference for the groups. We look forward to engaging with stakeholders to help shape the future of network charges.

1. Introduction

Background

1.1 Generators connected to the electricity transmission network, or those with a capacity of over 100MW connected to the distribution network, pay TNUoS charges.

1.2 There are two sets of TNUoS charges paid by generators: 'Wider' charges, and 'Local' charges. Wider TNUoS charges reflect the relative long-run marginal costs or benefits conferred to the transmission system by a generator's choice of location and relate to the Main Integrated Transmission System (the "MITS"), which constitutes the 'meshed' network shared by all electricity consumers and producers. Local TNUoS charges relate to any assets taking a generator from their locale to that meshed system: not all generators face Local charges.

1.3 In September 2024 we published the Open Letter, where we encouraged the National Energy System Operator ("NESO") to develop a CUSC modification proposal to introduce a temporary cap and floor on some parts of the Wider TNUoS charges for generation. This was in response to growing uncertainty around long-term TNUoS charges, specifically concerns driven by NESO's 10-year projections (published in 2023) showing a possible tripling of charges for generators in Northern Great Britain ("GB").

1.4 The Final Modification Report ("FMR") submitted to us for decision includes the 'Original' proposal and the seven Workgroup Alternative CUSC Modification ("WACM") proposals arising from the Workgroup's discussions.

What are we deciding?

1.5 In July 2025, we consulted on our minded-to decision to reject CMP444. We did not consider that either the original solution or any of the WACMs would better facilitate the achievement of the ACOs when compared to the baseline. In particular, we considered that the Proposal was negative in relation to the ACOs which concern cost-reflectivity and efficiency in administration of the charging methodology, and that it was no better than neutral in relation to any of the other remaining ACOs. We were therefore minded to reject CMP444.

1.6 The minded-to consultation was open for four weeks and invited stakeholders to provide views on the extent to which they agreed with our assessment of the evidence in front of us.

1.7 We do not consider that section 5A of the Utilities Act 2000 (which imposes certain obligations in relation to impact assessments) applies to this decision, since it does not appear to us that the decision is "important" within the meaning of section 5A(2). In particular, we do not consider that implementation of our decision to reject CMP444 will have a significant impact on persons engaged in the generation, transmission, distribution or supply of electricity, since the decision simply maintains the status quo (and industry participants could not have had any legitimate expectation that our consideration of CMP444 would result in approval of a change to the status quo).

2. TNUoS charges paid by generators

Charges as investment signals

2.1 TNUoS charges recover the cost of providing, maintaining, and expanding the electricity transmission network. These costs are incurred by Transmission Owners ("TOs"), the companies that own and are responsible for managing the transmission network in England, Wales, Scotland and offshore. TNUoS charges are levied by NESO, calculated on an annual basis and are applicable to transmission connected generators, distribution connected generation larger than 100MW and demand.

2.2 CMP444 solely concerns generator TNUoS charges, and so this decision describes the charges faced by TNUoS liable generators only.

2.3 Charges are intended to support the efficient use and design of the electricity network by minimising the amount of network investment required to facilitate new generation and demand connections. This is achieved through charges which aim to send locational investment and siting 'signals' to users that reflect the incremental costs and impact that their choice of location will likely confer on the transmission network.

2.4 The actual charges paid by individual generators will depend on their specific location and their technology type.

2.5 For charging purposes, three different classifications of generator exist: **Intermittent** (e.g. Wind, Tidal, Solar), **Conventional Low Carbon** (e.g. Nuclear, Hydro) and **Conventional Carbon** (e.g. Coal, Combined Cycle Gas Turbine, Biomass, Pumped Storage, Batteries). Wider charges are comprised of up to four individual component tariffs:

- **Peak** tariffs relate to the long-run transmission costs driven by conventional generation in a scenario where they are the only generators meeting peak demand;
- There are two tariffs falling under the description of **Year-Round** (herein, "collective Year-Round tariffs"): these tariffs relate to the costs driven by a mix of conventional and intermittent generation meeting peak demand:
  - **Year-Round Not Shared**, a tariff reflecting that intermittent generation (such as wind) is likely less able to share transmission assets, and applies in zones where more than 50% of total generation is intermittent; and
  - **Year-Round Shared**, which applies in zones where 50% or less of total generation is intermittent, and reflects that diverse generation technologies are more likely to be able to share transmission assets; and
- **Adjustment** tariff, which is a flat-rate, £/kW tariff applied to the total of Peak and Year-Round tariffs (irrespective of the generator's technology type and location) to ensure compliance with the Limiting Regulation as described below. At present the Adjustment Tariff is negative, i.e. it is a credit payable to generators.

2.6 The Peak and collective Year-Round tariffs reflect that different types of generators impose different costs on the network. This means that only conventional generators are charged the Peak tariff, because they are the only generators modelled to be utilising the system in the relevant scenario, but all generators are subject to Year-Round tariffs. Further information can be found in CUSC Section 14.

2.7 Tariffs change annually, and are calculated by NESO. Tariffs are published on 31 January each year and apply from the following 1 April until 31 March.

The Limiting Regulation

2.8 Part B of the Annex to European Commission Regulation 838/2010 as assimilated ("the Limiting Regulation") sets out a requirement for the annual

average transmission charges paid by generators in GB to fall within the range of €0-2.50/MWh (the "Permitted Range").

2.9 Section 14 of the CUSC contains the methodology by which TNUoS charges are calculated, including provisions relating to the implementation of the Limiting Regulation. The NESO sets annual TNUoS tariffs on an ex-ante basis and does so in a manner intended to ensure compliance with the Limiting Regulation. If the anticipated revenues from the relevant charges would exceed the upper value of the range (in aggregate terms), a non-locational flat-rate negative generation Adjustment tariff is applied to all Wider charges to bring charges back within the Permitted Range.

2.10 In the event that anticipated revenues fall below the lower end of the range, a positive flat-rate Adjustment tariff would then be applied instead to bring charges up to the bottom of the Permitted Range. The CUSC at paragraph 14.17.36 sets out that each year NESO shall perform an ex-post review of whether relevant charges in the preceding charging year have fallen within the Permitted Range and shall reconcile them where they have not.

2.11 In practice, since 2017, the NESO has each year applied a negative adjustment i.e. a credit, payable to all TNUoS-liable generators, reflecting that average relevant transmission charges would otherwise be likely to exceed the upper limit of the Permitted Range. As the total values to be recovered through TNUoS are set per the Price Control[8] process, sums paid to one set of network users are necessarily charged to others to ensure that TO revenues are recovered. This means that, in practice, the credits paid to generators via the Adjustment tariff, to bring charges within the Permitted Range, are paid for by an equal and opposite charge to consumers.

2.12 CMP444 proposes to place upper and lower limits on the absolute £/kW Peak; Year-Round Shared and Year-Round Not Shared tariffs. The Adjustment tariff would, for the purposes of supporting ex ante compliance with the Limiting Regulation, continue to vary each year as necessary after the application of any cap and floor to the other elements of TNUoS charges.

[8] The electricity transmission network price control framework is known as RIIO (Revenue = Incentives + Innovation + Outputs)

3. The CUSC Modification Procedure, and CMP444

The CUSC Modification Procedure

3.1 In accordance with the provisions of Standard Condition E2 of the Electricity System Operator Licence granted to NESO[9], Section 8 of the CUSC provides a mechanism for parties to propose changes to better facilitate the achievement of the ACOs.

3.2 The proposals and any alternatives are reviewed by industry participants through a consultation process, including workgroups, and the process is overseen by the CUSC Modification Panel (the "CUSC Panel"). CUSC modification proposals, other than modifications following the self-governance or fast track processes, can only be implemented upon approval by the Authority.

3.3 In accordance with paragraph 7(a) of condition E2.23 of NESO's licence, the Authority may approve a CUSC Modification Proposal contained in an FMR, if the Authority is of the opinion that the proposal would, as compared with the then existing provisions of the CUSC and any alternative modifications set out in such report, better facilitate achieving the ACOs. If the Authority considers that neither the CUSC Modification Proposal nor any WACMs would better facilitate achievement of the ACOs, then neither the proposal nor any of the WACMs will be approved. See paragraph 8.23.7 of the CUSC.

The modification proposal

3.4 On 21 October 2024, NESO raised CMP444: Introducing a cap and floor to wider generation TNUoS charges.

3.5 Initially, CMP444 resulted in 15 different solutions that were proposed and discussed by industry as Alternative Requests. Following the open governance process via a Workgroup vote, seven of these 15 became WACMs, i.e. formal proposals, which require to be assessed alongside the NESO's initial proposal ("the Original"). The other eight options discussed in the Workgroup but not brought forward as WACMs are not relevant to this assessment.

[9] Ofgem: NESO Complete Licensing Direction and Licence Terms and Conditions

3.6 Each of the proposals before us would place upper and lower limits on the absolute levels of the tariffs comprising Wider charges. However, the Original and each WACM differ in the way they derive the absolute levels of the cap and floor:

- Geographic application: Some options would result in a single, GB-wide cap and a single GB-wide floor for each individual tariff, whereas others would create semi-locational upper and lower limits;
- Data used: The specific NESO tariff publications proposed to be utilised differ between the options. The different options would rely on one or more of: the NESO forecast of tariffs from 2025/26 – 2029/30 published in April 2024; a mixture of final tariff data between 2023/24 - 2024/25 and forecast tariffs for 2025/26 – 2028/29; and the actual tariffs charged during the 2025/26 year;
- Methodology to derive the cap/floor: Taking the data from the relevant tariff publications, the proposed methodologies applied to the refinement or averaging of the data include the use of percentiles; use of different statistical approaches (for example, standard deviation); and the selection of a single charging year's data to be used to set the limits; and
- Indexation: Some options would adjust the upper and lower limits for inflation, while others would not.

Table 1 below sets out the different approaches proposed.

Table 1: Overview of the differences between each Proposal

Proposal	Geographic Application	Data used to derive Cap and Floor	Methodology to derive the Cap and Floor values	Indexation
Original	Single GB wide	5-year NESO forecast (published April 2024)	97.5th and 2.5th percentiles	TOPI[10]
WACM1	Single GB wide	Same as original	90th and 10th percentiles	TOPI
WACM2	Single GB wide	4-year NESO forecast (2024/25 2028/29)	Same as original	TOPI

[10] Transmission Owner Price Index (TOPI), the price index adjustment method as described in Part F of Special Condition 2.1 of the Relevant Transmission Licensee's Transmission License.

Proposal	Geographic Application	Data used to derive Cap and Floor	Methodology to derive the Cap and Floor values	Indexation
		(published April 2024)		
WACM3	Single GB wide	2025/26 final tariff	Cap and floor set at maximum/minimum value of all years and zones from 2025/26 final tariff.	No indexation
WACM4	Two-step	Same as original	1 standard deviation	No indexation
WACM5	Single GB wide	Same as WACM2	Sets a maximum range between highest and lowest zonal tariffs and explicit maximum cap for each of the tariff components.	TOPI
WACM6	Single GB wide	NESO charging years 2023/24 – 2027/28	Applies same methodology as Original proposal, but uses two years of final tariffs from 2023/24 to 2024/25, combined with 3 years of NESO forecast 2025/26 to 2027/28	TOPI
WACM7	Single GB wide	Same as original	Sets the cap and floor using the highest and lowest value from the 2029/30 charging year for each tariff component	No indexation

Workgroup and Code Administrator Consultations

Workgroup Consultation

3.7 The Workgroup Consultation was held between 23 January 2025 and 29 January 2025 and received 25 non-confidential responses and 5 confidential responses.

3.8 Eighteen of the non-confidential responses were supportive of a cap and floor as an interim measure, provided the cap was set at a level that supported investment certainty, and a floor did not limit investment incentives in the south of GB. Six respondents did not support a cap and floor, with some citing lack of information at the point of consultation, and one respondent provided no view.

Code Administrator Consultation ("CAC")

3.9 The CAC was held between 24 March 2025 and 28 March 2025 and received 27 non-confidential responses and 2 confidential responses.

3.10 Table 2 below sets out the ACOs against which stakeholders assessed the proposals, and Table 3 indicates the number of respondents who believed each of the proposed solutions better facilitated the ACOs:

Table 2: Applicable CUSC Objectives[11]:

ACO	Stated objective
(d)	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;
(e)	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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C11 (Requirements of a Connect and Manage Connection);
(f)	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 and the ISOP business;[12]
(g)	Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency;[13] and
(h)	Promoting efficiency in the implementation and administration of the system charging methodology.

Table 3: Non-confidential CAC respondent votes on which solutions better facilitate the ACOs.

Proposed Solution	ACO (d)	ACO (e)	ACO (f)	ACO (g)	ACO (h)
Original	15	5	2	1	5
WACM1	18	7	5	1	8
WACM2	18	7	3	1	6
WACM3	18	7	2	1	6

[11] The ACOs against which the Original Proposal and the WACMs are to be assessed are set out in paragraph 4 of Standard Licence Condition ('SLC') E2 of NESO's licence

[12] Electricity System Operator Licence

[13] The Electricity Regulation referred to in objective (g) 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 had effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006

WACM4	12	4	2	1	2
WACM5	5	3	2	1	1
WACM6	17	7	3	2	6
WACM7	9	3	2	1	3

3.11 Table 3 sets out how many CAC respondents (out of the 27 non-confidential responses) believed that each ACO was better facilitated by each solution. When respondents were asked for their preferred solution, 15 of the respondents stated that WACM1 was their preferred solution, four respondents chose WACM7, and the baseline was preferred by two respondents. WACM3, WACM4 and WACM5 were each the preferred options of 3 respondents.

3.12 The Original Proposal, WACM2 and WACM6 received no support as preferred options. Two respondents had no preference, and one respondent did not indicate a preference.

3.13 A majority of the 27 non-confidential respondents to the CAC were generally supportive of the proposals. There were 3 respondents not in favour, and 1 respondent who provided no view.

3.14 We have considered both the Workgroup consultation and CAC responses, and additional evidence, in further detail in Section 4 below.

CUSC Panel recommendation

3.15 At the CUSC Panel meeting on the 28 March 2025, a majority of the CUSC Panel voted that WACM1 and WACM2 better facilitated the ACOs than the baseline (i.e. the existing provisions in the CUSC).

However, the Panel did not reach an overall majority view as to the 'best' single option.

3.16 Out of 9 votes, 4 voted for the baseline, 2 voted for WACM2 and 1 voted for each of WACM1, WACM5 and WACM7. Further details on the views of the Panel members are set out in the FMR, and Table 4 below sets out Panel's assessment against the ACOs.

Table 4: CUSC Panel assessment against the ACOs. CUSC Panel were asked "Which objectives does this option better facilitate?" (If baseline, N/A)

Option	Best Option?	(d)	(e)	(f)	(g)	(h)	Overall
Baseline	4 votes	N/A	N/A	N/A	N/A	N/A	N/A
Original	0 votes	4	0	0	0	1	4
WACM1	1 vote	5	1	0	0	1	5
WACM2	2 votes	5	1	0	0	1	5
WACM3	0 votes	5	0	0	0	1	4
WACM4	0 votes	5	2	0	0	1	3
WACM5	1 vote	3	1	0	0	0	3
WACM6	0 votes	4	0	0	0	1	4
WACM7	1 vote	3	0	0	0	1	4

4. Our decision

Summary

4.1 We have considered the July minded-to decision consultation responses, to inform our assessment of the proposals against the ACOs. In line with our minded-to decision, we remain of the view that none of the modification proposals would better facilitate achievement of the ACOs, and that all of the proposals should therefore be rejected. Our final decision is to direct that the modification CMP444 not be made.

The July consultation

4.2 Our 10 July minded-to decision consultation, open for four weeks, sought views as to the extent to which stakeholders agreed or disagreed with our assessment of the evidence before us. We also sought clear reasoning and evidence to support respondents' views as to the impacts which the proposals would have on the various ACOs. The minded-to consultation questions are

not repeated in this document, which is limited to our views and final decision.

4.3 We received a total of 25 responses to our consultation, including four confidential responses. Eight respondents agreed with our minded-to decision to reject CMP444, four respondents did not give an explicit view, and 13 disagreed with our position to reject the modifications. We are very grateful to all parties who submitted responses. Our final decision also builds on our consideration of the issues raised by the modification proposals and the FMR dated 28 March 2025, taking into account the responses to the Workgroup Consultation and Code Administrator Consultation as well as our minded-to decision consultation. We have also taken into account the votes of the Workgroup and CUSC Panel on CMP444. The fact that a specific consultation response is not expressly referred to in this document does not mean that it has not been taken into account.

4.4 Several respondents made reference to a report published by the consultancy Aurora. This report was not submitted alongside consultation responses but given that it was referenced, and relates in part to CMP444, we have also considered its content. We observe:

i. the proposed cap and floor was intended as a temporary intervention, ahead of the UK Government REMA announcement and implementation. However, the Aurora analysis assumes the cap and floor benefits are monetised for the entire length of the CfD contracts. The consumer benefits presented in this report were not, in our view, based on a reasonable assumption in the context of CMP444, and were likely therefore materially overstated;

ii. the utility of the report was limited by significant uncertainties in its assumptions around CfD Allocation Round (AR) 7 and AR8 parameters, both undecided at the time of the report, and individual investor decision behaviours.

iii. the extent of the effect of the simplifying assumptions made and of the key uncertainties within the Aurora report mean that we do not consider it appropriate to place significant weight on the analysis to inform our decision in the context of the proposals.

Our assessment against the Applicable Code Objectives

4.5 We remain of the view that all modification proposals presented to us are negative against ACO (e); slightly negative against ACO (h); and neutral against the other ACOs. We therefore consider each of the modification proposals to be negative against the ACOs as a whole.

4.6 We set out our assessment against each of the individual ACOs below. However, given our assessment of cost reflectivity under ACO (e) has interactions with elements of competition under ACO (d), we set out our assessment of ACO (e) first.

Assessment of ACO (e)

'*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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C11 requirements of a connect and manage connection).'*

Summary of work group consultation and code administrator consultation responses

4.7 Some respondents expressed the view that the proposals are neutral with regards to cost reflectivity, but a large proportion of these provided no explanation as to why. Some suggested that a loss of cost reflectivity (i.e. 'blunting' of locational signals) would be acceptable in the context of improved certainty of TNUoS charges, but that is not a reason for concluding that the proposals are neutral with regard to cost reflectivity.

4.8 Where respondents gave a reason for believing the proposals would improve cost reflectivity, it was generally on the basis that they considered that the credits currently received by a proportion of southern generators are not cost reflective, and that the proposals would reduce such credits.

4.9 Other respondents considered that applying limits to TNUoS tariffs may reduce the effectiveness of cost reflective locational signals which are used to inform investment decisions, and that this would lead to inefficient siting of generation and sub-optimal network development and an increase to consumer bills. It was also said that all solutions dilute cost reflective signals as they offer discounts to, and transfer of costs from, generators in capped zones, leading to a significant and unanticipated cost (i.e. a reduction in credits) on existing generators in other zones.

4.10 Some respondents also stated that by definition a cap and floor would be inconsistent with a cost-reflective methodology.

Summary of Panel views

4.11 Some Panel members expressed the view that all solutions compromise on cost reflectivity to an unnecessary degree, drawing attention to the NESO tariff impact modelling which showed most solutions completely erode locational signals and cost reflectivity, particularly for projects in the north. It was also said that setting the tariffs at or below those forecast for 2029/30 would be too low to be reflective of anticipated future network investment and charges post this period.

4.12 One Panel member considered some of the proposals to be better against ACO (e), although no explanation was provided.

Summary of our minded-to decision in respect of this ACO (e)

4.13 We previously consulted on our minded-to decision position, in which we stated:

i. A core principle of the methodology underpinning TNUoS charges is cost-reflectivity. The charging methodology aims to achieve cost reflectivity via the use of relative locational TNUoS charges. Wider charges are intended to reflect the incremental costs that a particular type of generator in a particular part of the country would likely confer to the system as compared to a generator connecting in a part of the country where the TO would incur no additional cost.

ii. Wider charges are therefore cost-reflective in a relative but not absolute sense (i.e., a charge of £20/kW levied on a generator does not mean that that generator confers exactly £20/kW of cost to the transmission system). We consider that long-run investment signals should support the efficient siting of generation, as well as use and design of the electricity network, and that users today face charges which are broadly representative of the costs they likely confer to the TOs.

iii. Ultimately, well designed, cost reflective charges, combined with other market signals, should lead to efficient siting of assets, and reduce system cost and network reinforcement by doing so. This should

ultimately lead to lower bills for consumers than would have otherwise been the case.

4.14 The analysis provided by the NESO[14] showed that the tariffs currently forecast to be paid by generators would breach either the cap or floor or both under each option. The likely effect of all of the proposals would therefore be to prevent the charging of the tariffs which would apply under the status quo, which is intended to be cost-reflective. We were therefore minded to conclude that all options would reduce cost-reflectivity, and therefore be negative in respect of ACO (e).

Summary of minded-to consultation responses

4.15 Many of the consultation responses we received appeared to restate the arguments made at previous consultation stages (as set out above), without introducing additional evidence supporting those arguments. All non-confidential responses will be published on our website, but beyond the restatement of the arguments previously made as set out above, responses principally reflected the following issues (which we address in 'our decision'):

Not all respondents agreed with how we assessed cost reflectivity

4.16 Where respondents expressed a view that they did not agree with our minded-to assessment of ACO (e), it was generally on the basis that they believed our assessment of cost reflectivity was too narrow.

4.17 Those respondents believed we should consider a wider interpretation, considering cost reflectivity in light of large-scale strategic planning, such as the Strategic Spatial Energy Plan ("SSEP")[15] and the Centralised Strategic Network Plan ("CSNP")[16].

4.18 These responses did not expand on how we should factor in the SSEP or CSNP into our assessment. We discuss this point further below.

Some respondents stated they believe that the baseline methodology is not cost-reflective

[14] The FMR (Annex 6) assessed this using both the 5-year forecast period 2025/26 to 2029/30 as well as the period 2030/31 to 2033/34 within the 10-year projection.
[15] Strategic Spatial Energy Planning (SSEP) | National Energy System Operator
[16] Centralised Strategic Network Plan (CSNP) | National Energy System Operator

4.19 Several respondents expressed the view that the current charging methodology is not cost reflective and some highlighted perceived defects in the status quo by way of referencing in-flight modifications.

4.20 Our attention was drawn by respondents specifically to two existing proposals: CMP423: *Generation-weighted Reference Node*[17] and a modification for which we received the FMR on 15 May 2025, CMP432: *Improve "Locational Onshore Security Factor" for TNUoS Wider Tariffs*.[18] Two respondents argued that our assessment of CMP444 was erroneous, based on the perceived defect stated in the CMP432 proposal, which posits that Wider charges are not cost-reflective because those tariffs charge for a greater level of network security than is provided.

4.21 No Authority decisions have been issued in respect of either proposal, and no FMR has yet been provided to us in respect of CMP423. On that basis, neither proposal is a feature of the baseline and at no time have we expressed an expectation that either proposal will be approved.

One respondent quantified their view of the risk of unpredictable TNUoS charges

4.22 One respondent stated – in respect of the question of cost-reflectivity – that unchecked TNUoS is damaging their ability to invest in GB generation. They said that the projected Wider charges (per the NESO's 10-year projection), as well as uncertainty regarding other potential reforms, will lead in their view, to the pricing in of additional risk-premia "far above any cost reflective network price signal". To support this assertion, they provided a confidential view of potential risk premia figures to account for TNUoS volatility under the NESO 10-year projection.

4.23 Unfortunately, it was only this respondent who provided such a level of information which means that its utility in assessing risk perceptions, appetites, and pricing strategies across the generality of generators is limited. We are, however, very grateful to the relevant respondent for providing this information and hope that other parties will be similarly willing to provide evidence to support their positions in future to inform our decisions, in particular in the context of broader reforms to deliver Reformed National Pricing.

[17] CMP423: Generation-weighted Reference Node | National Energy System Operator
[18] CMP432: Improve "Locational Onshore Security Factor" for TNUoS Wider Tariffs | National Energy System Operator

Our decision

4.24 We consider that our decision should be made by reference to the existing CUSC arrangements, the evidence available to us, and the relevant legal framework as it stands.

4.25 Neither the restatement of previous arguments, nor those new arguments and evidence submitted through the minded-to decision consultation, change our fundamental assessment, i.e. that the introduction of a cap and floor would reduce cost reflectivity by comparison with the existing methodology. In particular:

i. The stated aim of the CSNP is to provide an independent, coordinated and longer-term approach to wider network planning in GB. The purpose of the SSEP is to co-ordinate generation and transmission infrastructure, informing the CSNP. The SSEP and CSNP are being established under separate governance and statutory arrangements to the CUSC, and are not expected to be delivered until the end of 2026 and the end of 2027 respectively. We do not agree with those respondents who suggested that we should place significant weight on the SSEP and CSNP in our assessment of cost reflectivity, since the nature and extent of the changes to be made by the SSEP and the CSNP is not yet known. We expect those however to be considered as part of the future design of charges under the reformed national pricing package.

ii. We have received the FMR for CMP432 and intend to publish a decision shortly. CMP423 is currently still in development. We remind stakeholders that we, and they, must assess proposals against the current baseline. Neither industry nor the Authority should assume approval of a modification proposal prior to a decision being made, and the fact that other, unrelated code modification proposals have been raised to purportedly improve cost reflectivity does not itself establish that the baseline is not cost reflective.

iii. In respect of the confidential submission described at 4.22 above, we understand that the respondent considers that the degree of risk premia they may choose to add to their bids in future auctions might exceed any cost reflective price signal. In our view, however, assessing a proposal

against this ACO (e) requires consideration of whether the charges resulting from that proposal would better reflect the costs incurred by the relevant transmission licensee than the baseline arrangements, rather than the manner in which a generator's costs might be reflected elsewhere in market arrangements (such as in CfD bids).

4.26 On 1 September 2025, NESO published their 5 Year View of TNUoS Tariffs for 2026/27 to 2030/31[19]. The figures published by NESO are forecasts based on a range of factors and are subject to change. They are however, relevant to our assessment of this proposal, given that they are a recent forecast of the effect of the baseline (noting that the baseline itself is still subject to change). As such we have reviewed and considered both the updated NESO forecast values and how the current baseline operates when assessing this modification. There is a difference between the charges forecast in this 1 September 2025 publication and the forecast charges assessed in the FMR and relied upon in several proposed solutions (as set out above), but we continue to consider that CMP444 would be negative against ACO (e). The extent to which the various CMP444 options would reduce cost reflectivity would differ depending on whether assessment is against the 1 September 2025 forecast or against previous forecasts, but in either case there would be some reduction in cost reflectivity (since some charges are still forecast to be higher or lower than the limits which would be imposed by the various CMP444 options).

ACO (e) Conclusion

4.27 Our view remains that all of the proposals are negative against ACO (e) as they would all reduce the extent to which Wider tariffs are cost reflective.

Assessment of ACO (d)

'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.'

[19] August 2025 Forecast TNUoS Tariffs – Five-Year View (2026/27 to 2030/31) Report v1.1 - NESO

Summary of workgroup consultation and code administrator consultation responses

4.28 Where respondents expressed the view that any of the solutions better facilitate ACO (d) than the baseline, it was generally on the basis that decreasing projected TNUoS charges would help reduce uncertainty and volatility for projects (particularly those in northern generation zones). It was said that this would allow such projects to proceed at competitive cost on both a merchant and CfD supported basis, thereby enhancing competition.

4.29 Those respondents that expressed the view that solutions were negative against ACO (d) were mainly concerned that the proposals applied a discount (in some regions) to the NESO 2029/30 forecast tariffs, thereby distorting siting signals and harming effective competition. Some considered the proposals to be discriminatory, favouring Scottish generators while increasing costs for others which would (it was said) effectively risk distorting competition, and lead to higher CfD bids and increased CM prices, ultimately harming consumers.

Summary of Panel Views

4.30 Some Panel members expressed the view that the projected level of charges in northern GB from the NESO 10-year projection risks harming competition if not addressed and that the solutions were favourable against ACO (d) as they would provide greater certainty on the level of wider TNUoS incurred by users. It was said that this would result in a lower cost of capital allowing developers to provide lower bids into CfD auctions, thus increasing competition in the supply of electricity due to greater deployment of renewables.

4.31 Where Panel members expressed the view that the solutions were negative in regard to ACO (d), it was generally on that basis that setting a cap at a level lower, and a floor at a level higher, than the expected out-turn of credibly forecasted generation tariffs ran the risk that the proposals could be discriminatory and would therefore not better facilitate competition.

Summary of our minded-to decision in respect of ACO (d)

4.32 We previously consulted on our minded-to position, in which we stated:

i. In principle, narrowing the range of potential outturn Wider charges could help reduce the level of uncertainty in the market (specifically as regards future levels of TNUoS charges), supporting competition by either or both: i) removing or reducing a perceived barrier to entry, to

the extent that new entrants are discouraged from investing in GB owing to the perceived unpredictability of TNUoS; and ii) improving the level of information available to market participants, reducing the need to compete on the ability to predict charges that are perceived as unpredictable.

ii. However, arguments that suggest that competition could be undermined by CMP444 include:

a. unanticipated losses or gains by parties whose charges would differ substantially from predicted levels (unlevelling the playing field by benefiting some projects, and being of detriment to others, but not based on the relative merits of those projects); and

b. a reduction in cost reflectivity may distort the outcomes of competitive auctions.

iii. We were minded to conclude that the impact of the proposals on ACO (d) is neutral, given both positive and negative impacts on competition and considered that overall, these are likely to balance each other out.

Summary of minded-to decision consultation responses

Some respondents considered reduced TNUoS and improvements in predictability would improve competition

4.33 Some respondents asserted that the proposed solutions would better facilitate ACO (d) and competition by reducing TNUoS, increasing confidence in tariff extremes by reducing volatility and risk premia. Whilst the majority of responses did not submit quantitative evidence, one respondent provided (confidential) quantitative evidence supporting their views around risk premia levels.

Some respondents considered there could be CfD auction benefits from CMP444

4.34 In addition to the posited benefits above, some respondents further stated that the proposed change could improve auction competitiveness for AR7 and AR8. One respondent stated that in the absence of a cap and floor, CfD bids in AR7 and AR8 will be unnecessarily inflated on the basis of the NESO 10-year projection, and reduced investor confidence would lead to a reduction in participating renewable projects.

4.35 One respondent stated that the reduction in overall generation revenue collection via all proposals would reduce the generator adjustment credit, and that this would lead to a more cost reflective tariff model. This respondent considered auctions to be increasingly uncompetitive, as in their view, the current charging arrangements inappropriately and inaccurately allocated credits to some generators, and that the proposals would bring balance to this distortion and the auctions.

Some respondents agreed with our views regarding unforeseen gains/losses

4.36 One respondent agreed with arguments set out in our minded-to decision, stating that unforeseen losses or gains are likely to be distortive to competition. However, while we concluded that CMP444 was likely neutral to competition in the round, this respondent stated that CMP444 had an overall negative impact on this objective, on the basis that the distortive competition aspects outweighed the positive impacts to the solutions developed.

4.37 One respondent agreed wholly with our assessment, that the proposals if implemented, would likely have positive and negative implications for competition, and that the impacts of CMP444 on competition is neutral.

4.38 One respondent agreed that unforeseen losses are likely distortive to competition and stated that applying any adjustment for the impact of the cap and floor via the generator adjustment tariff will create further uncertainty for generators in other zones.

One respondent believes GB wind is already uncompetitive with European projects due to "unchecked TNUoS" compounding material volatility risk premia

4.39 One respondent also provided GB project specific TNUoS figures, in addition to confidential quantitative analysis relating to earnings before interest, taxes, depreciation, and amortisation ("EBITDA") from their European portfolio, in an attempt to show GB projects' lack of international competitiveness, by illustrating simple operating margin (revenues minus operational expenditure, as a percentage of revenues) for renewable projects on an annual basis until 2032. The respondent contended that onshore Scottish wind is already the least competitive on this metric, without considering the NESO 10-year projection. This argument was not raised by other respondents.

Our decision

Potential for increased certainty for investors:

4.40 In our minded-to decision, and our Open Letter, we recognised that there were potential benefits to be derived from the Proposals in respect of the increased level of certainty about future charges that they might afford investors. We set out that uncertainty around the levels of TNUoS to be paid is generally reflected in risk premia (in particular in the cases of CfD or CM auction participants) and/or costs of capital, and that improvements in certainty could reduce these premia/costs, enabling generators to compete on matters other than their ability to predict charges that were very hard to predict. We explained that we considered however that this effect might be limited by the temporary nature of the solutions (given that in our Open Letter we had expressly set out that a cap and floor if introduced would not last indefinitely), and that a lack of clarity as to the duration of a cap or floor on charges might mean that there was only a very marginal improvement in certainty for investors. We received confidential evidence from one respondent, as set out above, regarding the levels of risk premia that might be included in future bids. As stated above they were the only generator to disclose this information, which means that it is unclear to what extent the information provided is representative of the generality of premia likely to be priced in as part of their own or other stakeholders decision making.

4.41 Absent any additional evidence from generators regarding the levels of certainty that might be afforded to them by the implementation of any of the CMP444 options, and without knowing if and to what extent such changes in the levels of certainty would manifest in changes to costs of capital and/or risk premia, we maintain the views expressed in our minded-to decision, i.e. we consider that there is a potential marginal benefit to improvements in certainty under some of the CMP444 options and that in principle, and in isolation, might be beneficial to competition. We consider other competition effects below.

Competition in the sale of electricity, and within auctions:

4.42 We are of the view that as a capacity-based charge, the absolute value of TNUoS does not influence the operational (i.e., dispatch) decisions of generators, or their ability to compete in domestic or international power markets. Wider TNUoS charges are payable irrespective of whether a generator exports, and would not therefore tend to alter a generator's ability to sell power either over interconnections to other markets or domestically.

4.43 One respondent provided economic analysis including EBITDA measures for sites in GB compared to other European markets, presenting their assessment of relative competitiveness. This seems to us to answer a different question to whether CMP444 would better facilitate competition in the sale of electricity, as it compares operating profits between generators in different markets. There are multiple, potentially material, non-TNUoS factors (such as land leasing costs, renewables support mechanisms design) that could impact the EBITDA of projects in GB in comparison to other markets. Hence, it would be difficult to attribute differences in EBITDA across different countries solely to TNUoS as there are likely to be many other factors that drive those differences.

4.44 Whilst we recognise the interaction between CfD/CM auction clearing prices and TNUoS charges (where TNUoS is an element of auction bids and therefore clearing prices), competition within those auctions is distinct from competition within the wholesale market. We received some consultation responses that asserted that any absence of the proposed solutions could create investability risks in upcoming AR7 and AR8 bidding rounds, and potentially inflate strike prices. In our minded-to decision, we said we did not – based on the evidence before us at the time - expect that any of the CMP444 options would interact with the levels of competition within the auctions. We recognised that reduced positive TNUoS charges might reduce strike prices in upcoming CfD auctions, and that reduced negative charges might reduce inframarginal rents owing to the pay-as-cleared nature of the CfD. However, we stated that we did not believe that reductions in clearing prices and/or inframarginal rents were in and of themselves beneficial to competition (or indicative of the extent of effective competition). We stated that they might rather be the *result* of improved competition (for instance if those reductions stemmed from increases in liquidity) but could also be a result of distorting factors.

4.45 Whilst we received several representations restating that reductions in the absolute values of TNUoS would improve competition, no further detail or evidence was provided. We remain therefore of the view that none of the CMP444 options would meaningfully influence the levels of competition within the CfD auctions.

4.46 In respect of the CM, we stated in our minded-to decision that we recognised that the vast majority of sites awarded a CM contract in previous auction rounds were in southern regions and in receipt of credits via Wider charges.

We expressed a concern that although implementation of CMP444 might lead to reductions in CfD strike prices, it could lead to increases in future clearing prices for the CM. Although we did not, and do not, consider that reductions in TNUoS would meaningfully alter the levels of competition within the CfD auctions, we maintain our view that the position is different in respect of the CM. Unlike the CfD auction, the CM is open to both generators and to demand sites, and as Wider charges are only payable by generators, it seems to us that there is an increased possibility that flooring negative charges applicable to southern generators would in effect act as a cost increase for them, but not for other auction participants. This could alter closure/repowering decisions (potentially affecting liquidity) as well as the competitive position of different technologies in the auction.

4.47 We therefore conclude that CMP444 options would likely have a neutral effect on competition within the CfD auctions and wholesale market but could in principle have a negative effect on competition within the CM. We consider that the potential for harm to be derived from unanticipated gains and losses is likely of detriment to competition, and although we continue to recognise the potential for competition benefits stemming from the improved certainty that CMP444 might (albeit temporarily) afford investors, we have not received evidence that indicates that those benefits would extend to the CM or CfD regimes.

Unanticipated gains and losses:

4.48 In our minded-to decision, we set out that we considered that generators take a Final Investment Decision ("FID") based on a wide range of factors including their forecasts of likely TNUoS charges payable over the lifetime of the power station in which they are deciding whether to invest. The introduction of a cap and floor to TNUoS charges could, we said, cause parties to be in receipt of either unanticipated gains (where charges fell below the levels the generators had forecast for the purposes of their FID); or unanticipated losses (where charges exceeded the levels forecast), and we considered such gains or losses to likely be detrimental to competition.

4.49 We continue to consider that such gains or losses are likely detrimental to competition given that they would directly affect the commercial position of generators irrespective of whether those generators were, for example, the most efficient or innovative. This effect would be, in our view, distortive as it would reward or penalise generators based on factors other than their own practices. We specifically sought contemporaneous evidence from generators

in respect of the forecast values of TNUoS they made at FID: only one respondent provided (confidentially) this type of information, outlining the approximate losses they believed they might face were CMP444 options implemented. However, this evidence did not set out the assumed levels of TNUoS used to inform FIDs; rather it - at a high level - set out a portfolio-level view of potential losses.

4.50 Similarly to the evidence provided by a respondent in respect of risk premia, it is unclear to us how reflective of the generality of relevant generators the evidence provided to us in respect of losses might be. However we consider the fact that such losses have been asserted by one respondent does support our view that there may be some unanticipated losses (and therefore potentially gains) if CMP444 were approved.

4.51 For the avoidance of doubt, it is not our view that every amendment to a charging methodology would be detrimental to competition if it created a difference between forecast and actual values. Whether any particular amendment to a charging methodology would be positive or negative for competition will depend on the facts of the case. In particular, an amendment may deliver benefits to competition or cost reflectivity which outweigh any detriments associated with the creation of a difference between forecast and actual values.

Interaction between cost-reflectivity and competition

4.52 We believe that there is a clear link between cost reflectivity and competition. Cost-reflectivity is an important aspect of the current methodology: it can support competition by facilitating a level playing field where parties face charges that reflect the outcomes of their commercial decisions to site in one location over another. This enables generators to compete with one another on the basis of decisions about whether or not to locate in a place that is economically efficient. In our minded-to decision, we sought views on the relationship between cost-reflectivity and competition, in particular because our minded-to view was that as the CMP444 options would be worse for cost-reflectivity than the baseline they could tend to undermine effective competition, although we recognised there are many factors affecting competition between generators.

4.53 We sought views on how temporary increases or decreases to Wider charges brought forward might affect competition given that reduction in cost-reflectivity. Whilst we did receive responses in respect of competition and of

cost-reflectivity, (as set out above) there was limited information provided as to the interaction between them. We therefore see no reason to depart from our minded-to position in this regard.

ACO (d) Conclusion

4.54 Our view remains that CMP444 would, if implemented, be likely to have both positive and negative implications for competition. Taking into account both positive and negative factors, we conclude that the impacts on ACO (d) would be neutral.

Assessment of ACO (f)

'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 and the ISOP business'

Summary of work group consultation and code administrator consultation responses

4.55 A majority of respondents did not comment on the impacts of the proposals on this objective. Of those respondents who did comment, a majority considered the impact to be neutral, but did not provide a rationale. One respondent voted WACM1 and WACM2 to better facilitate the objective, and stated it would lead to more cost reflective and fairer recovery of costs for connection of assets to the transmission system. Another respondent stated that whilst some solutions are neutral, others such as WACM2, WACM3 and WACM6 failed to facilitate the objective as they do not account for transmission business developments and investments which have been necessitated by increasing generation capacity in Northern GB. They considered that this leads to disproportionate cost recovery from non-Scottish generators.

Summary of Panel Views

4.56 Five out of the 9 Panel members voted all options to be neutral against ACO (f). Four Panel members voted all solutions to be negative against this objective, although three of these did not provide a rationale; the one who did provide a rationale stated that all options actively prevent development in the transmission network from being reflected in TNUoS charges.

Summary of minded-to consultation responses

4.57 The majority of consultation responses that stated a view agreed with our minded-to assessment that CMP444 is neutral against ACO (f), but did not provide a rationale.

4.58 Some respondents who considered the proposal to be positive against ACO (f) stated that they believe the proposals support the CP2030 target, and transmission licensees' business plans for the next price control period have been directed towards achieving CP2030 through the SSEP and CSNP. Other respondents who disagreed stated that they believe the proposals better facilitate ACO (f) by aligning charges with strategic transmission investments.

Our decision

4.59 It is not apparent to us that there have been any developments in the businesses of transmission licensees or the NESO that are relevant to the CMP444 proposals. We have not approved the business plans of any TO in respect of the next price control, and are not due to do so until later this year. Even if we were to create specific price control obligations on transmission licensees in respect of 'Clean Power 2030', we have seen no evidence that the introduction of a temporary cap and floor on TNUoS charges would lead to increased renewables deployment and support the facilitation of such obligations.

ACO (f) Conclusion

4.60 We conclude that this modification is neutral against ACO (f). We do not consider that the proposals reflect developments in transmission licensees' transmission businesses or the ISOP business; nor do we consider that the proposals run counter to such developments.

Assessment of ACO (g)

'Compliance with the Electricity Regulation and any relevant legally binding decisions of the European Commission and/or the Agency'

Key themes/points in workgroup consultation, CAC responses and Panel views

4.61 A majority of consultation responses did not pass comment on this ACO, but of those who did, a majority stated that the proposals were neutral for all

solutions. Two consultation responses stated this objective was better facilitated by all solutions but did not provide a rationale.

4.62 In the FMR, some workgroup members said the proposals were negative against ACO (g) but no rationale was provided.

4.63 Eight out of nine Panel members voted all solutions neutral against this objective. One Panel member voted it negative against ACO (g) but did not provide a rationale.

Summary of minded-to decision consultation responses

4.64 All but one respondent agreed with our minded-to position that all modifications were neutral against ACO (g).

4.65 One respondent felt the proposals to better facilitate the objective, asserting that CMP444 would align with the spirit and intent of the regulation. They stated that this requires transmission tariffs to be cost-reflective, transparent and non-discriminatory while providing appropriate incentives for network users to make efficient use of the network. In their view, CMP444 would reduce existing geographic discrimination and support an internal electricity market that incentivises investment in secure, sustainable and low-carbon energy. This respondent expressed the view that CMP444 would introduce a more stable and proportionate approach that enables critical infrastructure to proceed whilst long-term reforms are considered.

ACO (g) Conclusion

4.66 Our view remains that neither approval nor rejection of CMP444 would be likely to result in non-compliance with the Electricity Regulation or other relevant legally binding decisions of the Commission and / or the Agency. Whilst one respondent expressed disagreement with our assessment of ACO (g), we do not believe the rationale advanced by this respondent (summarised above) engages this objective, as the Proposal would be unlikely to have a material impact on retained EU law obligations such as cross-border trade and interconnector access, nor does approval or rejection of the proposal constitute a change in non-discriminatory access to the market.

4.67 It is therefore our view that the impact on ACO (g) is neutral.

Assessment of ACO (h)

'Promoting efficiency in the implementation and administration of the charging methodology'

Key themes/points in workgroup consultation, CAC responses and Panel views

4.68 A majority of consultation respondents considered the proposals neutral against the objective, but did not provide a rationale. One respondent agreed with the Proposer that the impact of all proposals on the complexity of administrative tasks for the NESO relating to TNUoS charging should be modest.

4.69 Another consultation respondent expressed the view that WACM4 and WACM5 would not better facilitate the objective as they would add complexity and be inefficient when compared to the baseline. This respondent further expressed the view that all other WACMs and the Original do better facilitate this objective because they bring more certainty and reduce volatility when compared to the baseline.

4.70 The majority of Panel members voted all options except WACM5 to be neutral against this objective. The majority of Panel voted WACM5 to be negative, with one Panel member citing additional complexity and administrative effort associated with its implementation.

Summary of minded-to decision consultation responses

4.71 A majority of consultation respondents believed all options to be neutral against this objective. Those respondents who provided a rationale stated they did not believe there would be a material impact on the efficiency or administration of the charging methodology. A small number of respondents repeated views from the Workgroup consultation and CAC that WACM4 and WACM5 do not better facilitate the objective due to the greater degree of complexity and inefficiency compared to the baseline.

4.72 Some respondents agreed with our assessment in our minded-to decision, indicating that all options would introduce marginally more complexity and administrative effort versus the baseline.

ACO (h) Conclusion

4.73 We continue to consider that all options would lead to marginally more complexity and administrative effort required by the NESO to facilitate

implementation. We conclude that such effort would be inefficient as it relates to proposals that do not, based on our assessment, better facilitate the other ACOs. As explained in our minded-to decision, we believe WACM4 and WACM5 in particular would require greater ongoing administration than the other proposals.

4.74 We therefore consider that all options (and especially WACM4 and WACM5) would therefore be worse than the baseline in respect of ACO (h), albeit only by a small margin.

Conclusion on ACO assessment

4.75 For the reasons above, we conclude that: all modification proposals presented to us are (i) negative against ACO (e), marginally negative against ACO (h), and neutral against the other ACOs; and therefore (ii) negative against the ACOs taken as a whole. We therefore reject all of the modification proposals.

Our Principal Objective and Statutory Duties

4.76 Paragraph 8.23.7 of the CUSC states: "Subject to Paragraphs 8.23.9 to 8.23.13, in accordance with the NESO Licence, the Authority may approve the CUSC Modification Proposal or a Workgroup Alternative CUSC Modification(s) contained in the CUSC Modification Report. If the Authority believes that neither the CUSC Modification Proposal (nor any Workgroup Alternative CUSC Modification(s)) would better facilitate achievement of the Applicable CUSC Objectives, then there will be no approval."

4.77 Accordingly: (i) if Ofgem concludes that a proposal would better facilitate achievement of the ACOs, Ofgem has a discretion as to whether to approve the proposal (and must exercise that discretion in accordance with its principal objective and wider statutory duties); but (ii) Ofgem cannot approve a proposal which it concludes would not better facilitate achievement of the ACOs. We therefore disagree with the assertion by one respondent to the consultation that it would be open to Ofgem to approve a proposal on the basis of the principal objective alone, in circumstances where the proposal would not better facilitate achievement of the ACOs.

4.78 In any event we do not consider that it has been established that approval of any of the proposals would be consistent with our principal objective, or

required by any of our wider statutory duties[20]. In relation to potential financial impacts on consumers we note the initial assessment of the potential impact of the proposal(s) on consumers that was conducted ahead of our minded-to decision. The extent of the key uncertainties (including but not limited to upcoming auctions and market participants' behaviour) meant that the analysis did not demonstrate that approval of any of the proposals would be in the interests of consumers.

4.79 The Aurora report referred to at 4.4 above suggested that approval of any of the proposals would result in consumer benefit. However, for the reasons explained above we do not consider it appropriate to place significant weight on Aurora's analysis. We do not consider that Aurora's analysis scope is sufficient to demonstrate that approval of any of the proposals would be in the interests of consumers.

Next Steps

4.80 We recognise that the year on year variability in network charging arrangements could be perceived as challenging by investors. The Government plans to publish a Reformed National Pricing Delivery Plan later this year, including a timeline with key activities for implementing reformed national pricing, with TNUoS reform to be delivered by 2029. Transitional arrangements for existing parties are a key priority within this work. Government is also seeking to introduce primary legislation at the earliest opportunity to expedite implementation of these reforms.

4.81 We intend to publish the details of the series of expert panels we intend to establish to aid in charging policy development as we work with Government to implement a reformed national pricing model as soon as possible: this publication will include a call for volunteers from across the sector, and will set out the draft terms of reference for the groups. We look forward to engaging with stakeholders to help shape the future of network charges.

[20] The Authority's statutory duties are detailed mainly in the Electricity Act 1989 (in particular, but not limited to, section 3A) as amended.

Decision notice

In accordance with Standard Condition E2 of the Electricity System Operator Licence, the Authority has decided that modification proposal CMP444: *Introducing a cap and floor to wider generation TNUoS charges* should not be made.

Georgina Mills

Director – Energy Systems Management and Security
Signed on behalf of the Authority and authorised for that purpose