

Email to:

[georgina.mills@ofgem.gov.uk](mailto:georgina.mills@ofgem.gov.uk)

22 October 2024

Dear Georgina Mills,

**Response to Ofgem's view to develop a temporary cap and floor on wider TNUoS charges for generation**

*Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs and social benefits and reduce the carbon emissions which cause climate change. Our 360-plus members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.*

Current TNUoS charges are unpredictable, volatile and are impeding the development and future operation of Scottish renewable generation that inherently underpins Government's Clean Power by 2030 (CP30) targets. As such, all measures to limit this impediment and provide greater investor confidence are welcome. Scottish Renewables has long advocated for reform of the Transmission Network Use of System (TNUoS) charging methodology and thus, supports Ofgem's view to introduce an intermediate cap and floor mechanism as an interim measure pending enduring reform which could be delivered through or alongside the Review of Electricity Market Arrangements (REMA) decisions and additional CUSC modification proposals under consideration.

The current scale of forecasted TNUoS charges for Scottish generation is not only sufficient to discourage investment, but in some cases, is sending closure signals to existing wind farms. Sizeable renewable projects that achieved Final Investment Decision (FID) based on earlier TNUoS projections are unable to account for or respond to ever-escalating charges. As a result, while integral to achieving the UK's clean power targets, such projects may face closure due to extreme and volatile TNUoS costs. Moreover, the uncertainty associated with the scale of such charges is posing an additional barrier to investment. Collectively, these impacts are forcing projects to finance higher forecast TNUoS costs and include risk premia to cover uncertainty, driving up Contracts for Difference (CfD) bids to the detriment of consumers.

We agree that a simple cap and floor on the maximum/minimum wider TNUoS tariff could provide an interim mechanism to limit charges to Scottish generators, but this must be accompanied with a broader package of improvements to TNUoS in order to deliver Ofgem's objective of improving investor confidence.

If formulated correctly, a cap and floor mechanism could render Scottish projects more competitive in upcoming CfD Allocation Rounds 7 and 8 by capping the cost of TNUoS ahead of future enduring mitigation. Ofgem's letter recognises the urgency and importance of delivering Scottish projects while simultaneously minimising cost for the consumer of the energy transition.

However, as voiced by our members in the recent Transmission Charging Methodologies Forum (TCMF) that took place on October 3, NESO's immediate proposal for the cap and floor mechanism would fail to deliver its intended effect. NESO must revisit its initial methodology to more accurately reflect Ofgem's instruction and to be appropriately effective, any cap and floor must include the following features.

Firstly, the cap must cover all relevant elements of tariffs, including both 'not-shared', as well as 'shared' elements of the TNUoS Year Round tariff. NESO's initial proposal to only address one of three critical elements that materially impact generators' TNUoS charges, namely the Year-Round Shared (YRS) element of TNUoS charges, is unnecessarily limited in its scope and inherently flawed. To ensure that investment continues in a way that supports delivery of CP30 that Ofgem is seeking to achieve, a methodology must consider peak, YRS *and* Year-Round Not Shared (YRNS) to create a single cap and floor for each of the principally recognised technologies that investors can rely on.

Secondly, the cap should be set to a reasonable level that offers a material impact in both the short- and long term. NESO should calculate a cap and floor set at a lower reasonable limit that substantively improves the ability to provide clear investment signals to developers in north GB. As noted, beyond managing uncertainty, total TNUoS charges need to be limited to a level, which can be developed in the modification workgroup, that can be absorbed within project business cases. Determining an average based on the upcoming five-year forecast, as initially proposed by NESO, would encompass unprecedented, costly transmission network build out, opposing Ofgem's repeated affirmation<sup>1</sup> that charges should be consistent with other market signals, such as strategic network planning.

Furthermore, the proposed approach does not adequately address the disproportionate burden placed on existing projects. If applied post-FID, TNUoS does not act as an efficient locational signal, especially in cases where existing projects bear the costs of transmission required to connect new projects. To better address the impact of TNUoS faced by existing generators, NESO's model should consider adopting an average that encompasses previous rates of charge before current levels. In so doing, the average baseline would align more closely with rates that informed existing projects' original decisions. Projects that made earlier investment decisions would thus be better insulated against TNUoS and investor confidence instilled in projects to ensure the capital remains available to deliver CP30 goals.

Thirdly, the cap and floor must provide enduring long-term certainty as investors need confidence that, irrespective of the outcome of REMA, locational signals will not be permitted to breach the cap and will not return to the levels indicated in the NESO 10-year projection. The use of indexation, as employed for local substation charges, could be used to complement this approach to maintain levels of cost-reflectivity by avoiding TNUoS charges contracting over time in real terms. To tangibly improve investor certainty, the mechanism needs to have a sufficiently significant impact on forecast TNUoS charges over the full economic lifetime of a generation investment.

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<sup>1</sup> [Open letter on strategic transmission charging reform: a summary of responses | Ofgem](#)

Finally, it is essential to recognise that any cap and floor is only an interim measure, and that industry should urgently develop a broader package of TNUoS reforms. Wider reform must provide more fundamental improvements and enduring solutions that are more congruent with government energy targets and NESO's new approach to strategic planning of the energy system. These enduring reforms must reflect the logic that has led to Ofgem proposing the temporary measure. For example, reforms coming through REMA and associated workstreams must acknowledge the damage that locational TNUoS differentials, at their current levels, would cause Scottish renewable development.

The methodology must align with Ofgem's goal to substantively reduce charges to enable sufficient investment to achieve CP30, while acknowledging the need for further efforts to reassure investors in the longer term. For the mechanism to be effective in setting clear expectations, it must offer longer-term certainty and endure beyond the outcomes of REMA and other TNUoS reforms.

Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

*Stephen McKellar*

Stephen McKellar

**Head of Grid & Networks  
Scottish Renewables**