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29 January 2025

Dear NESO CUSC team,

Response to Workgroup Consultation CMP444: Introducing a cap and floor to wider generation TNUoS Charges

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 370-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.

Scottish Renewables welcomes the opportunity to respond to the National Energy System Operator's (NESO) Workgroup Consultation for CMP444: Introducing a cap and floor to wider generation TNUoS Charges.

The need to focus on Ofgem's principles

Ofgem's urgent call to address the dramatic increase and volatility of TNUoS charges via the introduction of a cap and floor mechanism is a welcome approach to reform. Scottish Renewables supports Ofgem's proposal for an intermediate cap and floor mechanism in TNUoS charging, advocating for this interim measure while awaiting enduring reform through the Review of Electricity Market Arrangements (REMA) and other CUSC modifications.

In its open letter¹ to NESO, Ofgem outlined key principles that it hopes to achieve with this intervention by proposing changes to the TNUoS charging methodology. These changes aim to reduce uncertainty, support investment, help with the delivery of Clean Power 2030 (CP30) plans, protect consumer interests and be implemented in time to be factored into bids for CfD Allocation Round 7 (AR7).

We believe that the CUSC modification process is limited in its scope to deliver on these principles and additional measures will be required by Ofgem and DESNZ in the short term

¹ [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](#)

to support the decision on CMP444. We fully acknowledge that Ofgem has explicitly stated that it has chosen this route as it felt it was the quickest route to an immediate outcome, however, this, in turn, reinforces the point that there needs to be a material outcome, this includes providing clear protections for investors and that provides certainty that commitments made in the cap and floor period will be enduring for the project lifetime. Without the appropriate support for implementing the necessary reforms, these core principles risk becoming lost or diluted within this process.

A meaningful impact and what is needed

Ofgem must apply its new approach to its net-zero and growth duty responsibilities and consider how regulatory decisions enable sustainable economic growth. We are concerned that the outputs of the CMP444 modification may not go far enough and will therefore not provide the required investor confidence for AR7 and AR8.

TNUoS charges are currently very high in the north and are set to increase exponentially by 2030. The projected tariffs are having a detrimental impact on developers' Contracts for Difference (CfD) bids, ultimately meaning that in addition to the risk of potential termination of CP30 required projects as a result of the negative impact on project feasibility, bill payers end up paying higher charges covering an inflated cost. It's essential to establish TNUoS rates for northern generators that are reasonable and not excessively high, as this would facilitate more competitive bids during AR7 in Scotland.

In its letter, Ofgem acknowledged that it *'accepts 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") or merchant investments and reinvestments.'* This, in turn, would likely lead to higher consumer costs in the long term. With this in mind, we conclude that any solution under a cap and floor must be in line with the nearer-term forecast tariffs and not allowed to escalate to 2030 levels.

The cap and floor should align closely with current tariffs rather than the forecast. There may even be a case for removing the projects that escalate the forecast otherwise developers will struggle to remain competitive when bidding into AR7 and CP30 targets will not be achieved.

The threat is that major projects like Accelerated Strategic Transmission Investment (ASTI) and Holistic Network Design (HND) will escalate TNUoS charges for northern generators before a long-term TNUoS strategy is established, effectively locking in a considerable increase in CfD costs. Northern generators would argue that the cap should ideally be based on current tariffs or at least set within the anticipated bounds of the next one or two years, before the anticipated inflation of charges driven by a surge in strategic investments.

NESO should also consider setting the cap and floor based on forecasts that remove these nationally significant, strategic network plans (e.g. ASTI, HND, etc.) as these are fundamental for delivering Clean Power 2030 power targets. This appears to be the sentiment behind Alternative Request 6, which seeks to remove the charging year 2029/30 from the forecasts used to establish the cap and floor.

In assessing the “appropriateness” of proposed designs for the cap and floor, NESO, DESNZ, Ofgem and industry stakeholders must not simply consider the minimum requirements of the development pipeline. Fundamentally, the solution must remedy the extreme value erosion existing assets for northern generators have already experienced over the past years. The extreme volatility and escalation in charges have already drastically impacted existing projects – even those that took investment decisions only a few years ago, before the scale of TNUoS escalation could have been anticipated. If this situation continues without intervention, there is a high likelihood that generation projects will be retired early. Additionally, these projects may be “cannibalised” into future initiatives in the same geographical area better positioned to account for the risks and unpredictability associated with the exponential growth in transmission charges.

If the impacts on existing assets are not adequately remedied, investors will see Scotland as an unduly risky market to enter, and one without the long-term certainty necessary to support future developments. The delivery of ScotWind projects, which are required to meet clean power 2030 targets, is at stake. NESO, Ofgem and the industry must define an “appropriate” cap that results in a TNUoS charge per kW that enables delivery of future Scottish projects and ensures existing projects do not face closure or “cannibalisation”.

Any Cap and Floor mechanism that does not address value erosion already experienced by existing projects (that have no means to respond to locational signals; and have no control over, or responsibility for, subsequent strategic grid upgrade investments) will be inadequate.

Importance of timing

We are concerned about possible delay to the implementation of this proposal; the risk of delay has contributed to more uncertainty among developers and the broader industry. There is a pressing need for urgency in this matter, which was highlighted by Ofgem in its letter from September 2024 where the CUSC modification route was preferred as an alternative Significant Code Review approach was unfeasible under the current timelines. This is of particular importance concerning meeting AR7 and ensuring investor protection.

Our understanding is that the Final Modification Report will be sent to Ofgem by the end of March, and they will need to make a decision by July 1, 2025, for implementation by April 1, 2026. This has been set out to align with AR7/REMA determinations, however, this gives very little time for AR7 developers to factor these outcomes into their bids.

Northern generation is telling us that TNUoS charges pose an existential threat to projects in the north and have concerns with existing generation and future investment

The current forecasted TNUoS charges for Scottish generation are discouraging investment and, in some instances, signalling the need for existing generation to close. Significant renewable projects that had made a Final Investment Decision (FID) based on earlier TNUoS projections are now struggling to manage the rapidly increasing charges.

As a result, these projects, which are essential for achieving the UK's clean power 2030 targets, may be forced to shut down due to extreme and unpredictable TNUoS costs. This continued deterioration of investments will dampen investor interest in future projects and potentially result in the cannibalisation of existing projects by future projects in the same geography that are better placed to price-in the risk/vagaries of exponential growth in transmission charges. This cannibalisation risk will inevitably get priced into new ventures.

Additionally, the uncertainty surrounding the extent of these charges creates further barriers to investment. All these factors are compelling projects to account for higher forecasted TNUoS costs and to factor in risk premiums to address uncertainty, which, in turn, raises bids in CfD. This increase ultimately harms consumers.

No end date unless a clear alternative

Scottish Renewables does not think a specific end date should be included in the modification. Given the timing of this modification with ongoing REMA development, specific and accurate timings will be hard to predict. If a new mechanism is being introduced to provide certainty, there is a need to ensure a smooth transition; this cannot simply lead to a sudden end in 2029 or 2030 when a new approach, such as the REMA, is implemented. There is a need to offer that long-term certainty. This allows for more flexibility based on REMA development.

Consumer cost inflating CfD's artificially – The impacts that need to be considered

The predicted exponential rise in TNUoS charges gives rise to unintended consequences including impacts on cost of capital as well as artificial inflation of CfD clearing prices, and subsequent CfD uplift for southern generators, which is paid for by electricity customers. Recent analysis completed by Aurora Energy Research² found that TNUoS charges, coupled with transmission loss multipliers (TLMs), are artificially inflating CfD prices, resulting in a strike price differential of up to £20/MWh for offshore wind generation between the north and

² Aurora Energy Research (2024). *The cost of locational signals in network charges to the consumer.*

south of GB in 2025. This ultimately impacts consumers' bills to the tune of £550m per year, totalling £7.9b in additional consumer costs between 2025-2050.

A cap must be set at the near-term level of TNUoS, or risk including super-inflationary increases linked to the delivery of strategic infrastructure, risking making CfDs uncompetitive and risking Northern generation necessary for meeting CP30

The Ofgem letter states that the *'increases [to TNUoS] 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") framework, and the Holistic Network Design ("HND") that requires offshore network infrastructure at an estimated cost of £32 billion,'*

These significant increases driven by the large-scale infrastructure investments are detrimental to a developer's ability to participate in CfD support or submit competitive bids. While we agree with this point, we believe a cap should be established at tariff values prior to the conclusion of strategic investment. We support this proposal, but it must be set before strategic planning begins. This timing is crucial, as we are referring to strategic investment, which is the primary driver, rather than the 10-year projection.

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

Yours sincerely,

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