



Making a positive difference  
for energy consumers

To parties with an interest in electricity network charging

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## **Open Letter: Outlining our approach to prioritisation of electricity transmission network charging modifications**

This open letter sets out our<sup>1</sup> approach to the prioritisation and sequencing of decisions in respect of current in-progress proposals to modify the sections of the Connection and Use of System Code ("CUSC") that relate to Transmission Network Use of System ("TNUoS") charges. There continues to be a significant number of CUSC Modification Proposals ("CMPs") in this area, with several of those proposals being either dependent on, or materially affected by, each other. We consider it appropriate to adapt our decision-making timelines to ensure effective sequencing of our decisions in respect of these changes, and we will work with the CUSC Panel<sup>2</sup> on the prioritisation of proposals still in the industry-led process, ideally based in part on the degree to which those proposals interact with each other. We believe that proper sequencing of our decisions will support: i) stability in the charging regime; ii) the retention of locational investment signals; and iii) predictability in charges themselves.

In respect of proposals that have not yet been raised, but which may be brought forward by industry, this letter sets out in general terms how we will approach decision timelines so as to manage the expectations of those stakeholders planning to raise new proposals in the coming weeks or months.

### **A proposed temporary cap and floor on Wider TNUoS Charges**

On 30 September 2024, we published an open letter<sup>3</sup> calling on industry to develop a temporary intervention seeking to reduce the uncertainty around projected future TNUoS charges<sup>4</sup>, through exploring whether a cap and floor on TNUoS charges might be in the interests of consumers. Our detailed rationale can be found in that September open

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<sup>1</sup> References to the "Authority," "Ofgem", "we", and "our" are used interchangeable 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.

<sup>2</sup> The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC.

<sup>3</sup> [Seeking industry action to mitigate the investment impacts of very high projected TNUoS charges | Ofgem](#)

<sup>4</sup> In particular the Peak, Year Round Shared, Year Round Not Shared and Adjustment Tariffs paid by generators which, for the purposes of this letter are collectively referred to as Wider TNUoS charges

letter but in summary we consider that consumers could benefit through lower subsidy payments through the Contracts for Difference ("CfD") scheme, and that the market may benefit from increased surety as to the maximum value of TNUoS charges.

NESO raised CMP444 on 21 October 2024 accordingly. This proposal is, at the time of writing, still in the Workgroup phase of the change process. A decision is currently expected by 01 July 2025. If approved, CMP444 would place upper and lower limits on the £/kW Wider TNUoS tariffs paid by generators from 01 April 2026. Those limits are currently proposed to be set by reference to NESO's forecast of future Wider TNUoS charges, which will change where we approve changes to the prevailing TNUoS charging methodology. Whilst no decisions have been taken in respect of CMP444, there is a clear interaction between it and other code modification proposals and so, we consider it sensible to be transparent as to how best we consider such linkages might be managed in terms of sequencing of our decisions. Linkages between proposed changes are common, but the extent of the interaction between multiple current or undecided proposals is significant at this point in time. We also note that HMG's Review of Electricity Markets Arrangements ("REMA")<sup>5</sup> programme continues at pace and that decisions as to the role and structure of network charging in that context are pending. We intend to share our thoughts on the general direction of travel, which (amongst other options) may include a consultation on launching a Significant Code Review if we consider it necessary, shortly after HMG's REMA decision expected this summer.

### **Interactions between CMP444 and other live TNUoS change proposals**

There is a significant number of proposals with potentially material interactions with the Wider TNUoS charges paid by generators. Ideally, we would have been able to receive a package of proposals on which to make decisions in the round. However, owing to factors including REMA being yet to conclude, and the 'hiatus' on charging modification proposal progression enacted by the CUSC Panel<sup>6</sup> for most of the 2024/25 charging year, not all proposals are (or will be) sufficiently developed to be with us for decision at the same time, ahead of CfD Allocation Round 7 ("AR7"). The urgent timeline for CMP444 expects a final decision from Ofgem before the AR7 bidding window opens to reduce industry uncertainty about the maximum level of TNUoS charges they will face. If there is merit to the cap and floor proposals, the timing would help deliver consumer benefits linked to that Allocation Round. We recognise that in a scenario where CMP444 is approved, the effect of some other proposals may be materially different than was anticipated, for example if the expected benefits differed as compared the change to the applicable baseline. This limiting effect would occur if, for instance, a proposal would otherwise have caused Wider TNUoS charges 'capped' or 'floored' to exceed the upper or lower limits of the CMP444 solution: in that case, the parties affected by a proposal are limited to those whose charges fall within the bounds of the CMP444 solution, not all parties.

#### *CMPs 423 and 432 – Task Force proposals:*

Two live proposals which would, if approved, significantly alter Wider TNUoS charges stem from the TNUoS Task Force<sup>7</sup>:

- CMP423<sup>8</sup> seeks to change the way in which the incremental effect of generation capacity installed at a particular location is modelled in the charging methodology

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<sup>5</sup> REMA is a long-term review of electricity markets, of which one component is changes to network charges. A Decision by government is expected in 2025. [Review of electricity market arrangements \(REMA\): autumn update, 2024 - GOV.UK](#)

<sup>6</sup> [Headline Report](#), page 2.

<sup>7</sup> [Task Forces | National Energy System Operator](#)

<sup>8</sup> [CMP423: Generation Weighted Reference Node | National Energy System Operator](#)

- CMP432<sup>9</sup> looks to review how 'redundancy' on the transmission network is charged for through Wider TNUoS charges

We recently approved urgency to CMP432<sup>10</sup>, but were not reassured that CMP423 could be robustly evaluated by a Workgroup in the timeframes proposed so as to enable us to take a decision on that proposal and CMP444 at or around the same time.

We currently intend to make a decision on both CMP444 and CMP432 in a manner that ensures, if CMP432 is approved, its effect on Wider TNUoS charges can inform industry considerations in the cap and floor ahead of Ofgem's final decision (thus, ahead of AR7).

If CMP444 is approved, we will need to consider carefully what the practical effect of any implementation of CMP423 during the period within which the cap and floor was in effect (under CMP444) would be, in particular with regard to the prospects of charges in some areas hitting the cap or the floor.

*CMPs 315 and 375 – the expansion constant and factors:*

We consider that proposals raised in relation to the 'expansion constant' and 'expansion factors' could materially alter the prospects of the charges paid by generators, in multiple zones, hitting any cap in positive zones from as early as 01 April 2026, if CMP444 is approved. In practice, this change would almost entirely remove locational signals, and generators in positive zones would be subject to the maximum values of capped TNUoS from the start of the next charging year until REMA. Both CMPs 315<sup>11</sup> and 375<sup>12</sup> examine the question of which network assets should be reflected in the calculation of the extent the network needs to 'stretch' to accommodate incremental load. There are three options before us for decision, and each proposal would substantially alter the absolute £/kW charges paid through locational charges for both demand and generation.

We believe that the decisions on CMPs 315 and 375 cannot reasonably be taken at present, particularly as we will make a decision on CMP444 ahead of AR7. However, even if CMP444 had not been raised, or in the event it is not implemented, there would have still been uncertainty around the implementation of REMA and the role of network charges within it. The baseline arrangements, against which any assessment of these proposals today would be made, are subject to material change pending the outcome of REMA.

We expect that the pending decision on REMA may lead to significant changes to the charging methodologies, perhaps a Significant Code Review. We believe it would likely be detrimental to market stability to make a decision on CMP315 or CMP375 options before us now and then need to revisit that decision shortly thereafter once the outcome of REMA is understood.

We are therefore reserving judgment on CMPs 315 and 375. No 'expected decision date' will be published for these proposals, but we will update industry on our plans in respect

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<sup>9</sup> [CMP432: Improve "Locational Onshore Security Factor" for TNUoS Wider Tariffs | National Energy System Operator](#)

<sup>10</sup> [Urgency granted for CUSC Code modification proposal CMP432: Improve "Locational Onshore Security Factor" for TNUoS Wider Tariffs | Ofgem](#)  
[CMP423: Authority Decision on urgency | Ofgem](#)

[Urgency granted for CMP444: Introducing a cap and floor to wider generation TNUoS charges | Ofgem](#)

<sup>11</sup> [CMP315: TNUoS: Review of the expansion constant and the elements of the transmission system charged for | National Energy System Operator](#)

<sup>12</sup> [CMP375: Enduring Expansion Constant & Expansion Factor Review | National Energy System Operator](#)

of these proposals and any others with us for decision once HMG's decisions in respect of REMA have been taken and published.

*CMPs 419 and 426 – generation zoning and the treatment of 'bootstraps':*

In our view, which we have shared with the CUSC Panel and the Code Administrator, CMPs 419<sup>13</sup> and 426<sup>14</sup> should be progressed together, or at least any analysis for the former should include sensitivities around the effect of each option progressed under the latter.

CMP419 considers how best to establish the 'zones' used for the purposes of calculating Wider TNUoS charges used for generators, and CMP426 considers whether and how 'bootstraps' which make landfall in different regions of GB should be reflected in zonal Wider TNUoS charges. These two proposals are still in Workgroup stage and are not currently expected by the Code Administrator to be with us for decision for at least 12 months<sup>15</sup>.

There is clearly a material interaction between the proposal under REMA to move GB to a zonal wholesale market and the question of how TNUoS charging zones should be set. We currently expect that there will be an HMG decision on whether a zonal wholesale market is to be introduced in GB to be made and published well before the conclusion of CMP419. REMA may also result in the retention of a national wholesale market, in which case the role of TNUoS in providing effective locational investment signals will be critical, and the approach to zoning currently posited under CMP419 may or may not be the optimal solution. We consider that although in normal circumstances these proposals should be treated as high priority, the degree of dependency on the outcome of REMA likely limits the degree of progress that can be made in the immediate term and that that needs to be considered by the CUSC Panel when assessing prioritisation.

## **Future proposals**

*Urgency – interactions with CMP444*

We note that we have received a significant number of urgency requests over recent years, and many of these relate to one of our urgency criteria specifically: 'imminent issue or current issue that if not urgently addressed may cause a material commercial effect on parties'. Moving forward, we expect to scrutinise this criterion further and apply it more strictly. In the event that CMP444 is approved, owing to its limiting effect on the range of charges experienced by generators, we would expect fewer requests for the urgent treatment of modifications. It may also be the case that if CMP444 is approved, fewer modification proposals are granted urgency under that commercial criterion, but we will continue to assess each request on its own merits in a manner consistent with our published guidance.

*We expect REMA to drive an overall review of locational charging*

Once the outcome of REMA is understood, we expect to need to undertake a review of locational charging arrangements. We expect that any new proposals that industry might want to raise to significantly alter the charging methodologies would fall under that review, rather than being proposed as being capable of near-term implementation. Each transmission charging methodology may require significant alteration depending on the

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<sup>13</sup> [CMP419: Generation Zoning Methodology Review | National Energy System Operator](#)

<sup>14</sup> [CMP426: TNUoS charges for transmission circuits identified for the HND as onshore transmission | National Energy System Operator](#)

<sup>15</sup> [CUSC Panel Meeting - 29.11.2024 | National Energy System Operator](#), CUSC Panel Papers November 2024, pages 26-27.

outcomes of REMA and our future review. In practice that means that proposals to incrementally reform charging might be inconsistent with, or less relevant to, the long-term structure and nature of charges. Accordingly, once the outcome of REMA is known later this summer, we will prioritise matters of longer-term charging reform over changes we think are likely more incremental.

*Industry's role in raising, prioritising and assessing reforms is critical*

In the immediate term we encourage industry, ahead of raising any proposals, to consider the predictability and stability needed within the charging regime for all market participants, and to consider in particular whether – and the extent to which – the interests of consumers would be furthered by the raising of any additional proposals in the short term, given the review of TNUoS charges that will likely follow a REMA decision. In our view, it is likely that industry's time and resources, as well as our own, would be best deployed in considering the long-term transmission charging arrangements.

Accordingly, once the outcome of REMA is published, we expect the focus to shift towards long-term and more fundamental reforms to charging arrangements, and we currently expect that work to be primarily led by us. Where industry does wish to bring forward changes, we invite them to engage with us specifically prior to raising any proposals. It is currently unclear whether the Authority will propose to launch a Significant Code Review in respect of transmission charging post-REMA decision, but we would hope industry would support the efficient deployment of its and our resources in only raising those matters which align to REMA outcomes.

We will continue to engage with industry through the CUSC modification process, as well as through stakeholder events such as the Charging Futures Forum. We look forward to working collaboratively with parties on the critical reforms required to support GB's long-term ambitions and to bring about meaningful benefits to consumers.

Should you wish to discuss the content of, or respond to this letter, please contact Harriet Harmon in the first instance using the contact details above.

**Georgina Mills**

**Director**

**Energy Systems Management and Security**