Email to:

tnuosreform@ofgem.gov.uk

August 11, 2025

Dear David,

Response to consultation for the minded to decision in respect of CMP444

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 380-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 Ofgem's 'minded to' decision regarding CMP444, though we are disappointed by the proposal to reject the Cap and Floor mechanism.

Scottish Renewables has consistently advocated for reform of Transmission Network Use of System (TNUoS) charges, which are unpredictable and volatile. These charges hinder the development and continued operation of renewable energy generation in Scotland and jeopardise the UK Government's Clean Power by 2030 (CP30) targets.

We welcomed the development of an interim Cap and Floor mechanism as a necessary step to address investor uncertainty and boost confidence. The National Energy System Operator (NESO) projections[1] from September 2023 reveal significant disparities in charges between northern Scotland and southern England, emphasising the need for intervention. Ofgem's Open Letter[2] from September 30, 2024, states that higher charges in northern Scotland could hinder renewable investment in this region, instructing NESO to introduce a temporary Cap and Floor on broader TNUoS charges. Ofgem's minded to decision to reject the Cap and Floor proposal is a policy error that risks undermining CP30 goals and delaying critical renewable projects, particularly in northern Scotland.

[1] 5 Year Projection 2029-30 to 2033-34

[2] 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

Immediate intervention is still needed

The trends in TNUoS charges are very concerning, and immediate intervention is still necessary to enhance investor confidence. The level and volatility of TNUoS charges not only undermines the business case for future projects in the North but also threaten the continued operation of existing projects, which lack the ability to respond to increasing charges. Although Ofgem's analytical approach aims to maintain the integrity of the charging methodology, it does not resolve the investment uncertainty that led to Ofgem's initial call for intervention. The decision further prioritises theoretical cost-reflectivity over actual investment certainty at a critical stage of the energy transition, potentially undermining the market efficiency that Ofgem aims to protect.

The projected tripling of TNUoS charges in Northern Scotland by 2033 threatens the growth of renewable projects in the region, especially as global competition increases for supply chain resources. The CP30 Action Plan targets 43–50 GW of offshore wind and 27–29 GW of onshore wind. Ofgem's 'minded to' reject decision conflicts with this national goal, creating investment uncertainty that will delay project development across all renewable technologies. This threatens the success of projects aiming for upcoming CfD rounds, which are vital for meeting 2030 targets, and unfairly disadvantages renewable generation in northern areas despite the region's abundant renewable resource potential.

Concern for existing projects

TNUoS, which is intended to be a locational investment signal, is already stripping value from assets, which are only a few years into their operational life. Intended to be a long-run, cost-reflective investment signal, TNUoS is on the brink of sending operational closure signals to Northern Generators. There is now a real and immediate risk that Scottish generators will not be able to compete in future CfD rounds. This scenario may mean projects required for CP30 would be terminated, harming the interests of UK consumers. CP30 and the subsequent Strategic Spatial Energy Plan (SSEP) require the successful delivery of the ScotWind leasing round. Without the stabilisation of TNUoS, these targets and Scotland's transition to a renewable energy-based system are at risk. These challenges threaten the UK's energy security, economic growth, a just transition and community investment.

Although arguably a blunt instrument, a Cap and Floor instrument could help prevent further material devaluation of the operational Scottish energy fleet, while longer-term efforts to reform the signal can be developed.

Questioning Cost Reflectivity

Ofgem's minded to decision to reject the Cap and Floor proposals is founded on the assumption that *"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".* However, we would argue that the status quo charges are not cost reflective, specifically for existing projects.

In the 'minded-to' decision, Ofgem states: *"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."*

How can cost reflectivity be maintained when identical TNUoS charges are applied to both older and newer assets of the same type and capacity within the same zone? Older assets should not have to bear the same costs as new assets that require additional network capacity to connect. Therefore, existing operational generation projects are being unfairly burdened with paying for a new network that is needed to connect future generations. Furthermore, they are unable to reliably predict or reduce these costs. This is fundamentally not cost reflective.

We acknowledge that a Cap and Floor mechanism does not change the charging methodology to structurally enhance the cost reflectivity of TNUoS charges. However, we would argue that the resulting dampening of charges increases the relative value of TNUoS charges in terms of cost reflection, particularly for existing projects. Since the Cap and Floor mechanism is clearly not the preferred approach by Ofgem, other proposals that seek to improve cost reflectivity within the charging methodology – such as CMP432 – should be duly considered by Ofgem to help deliver immediate relief to existing projects which are already unfairly burdened by costs associated with new projects connecting. As highlighted by Ofgem in their September 2024[3] open letter, projects need certainty urgently. It is now crucial that the other near-term intervention, CMP432, be promptly considered and decided upon while long-term reforms are developed over the coming years as part of the broader suite of market reforms.

We welcome that many of the core arguments outlined above are included in Ofgem's open letter[4] on reforming network charging signals of July 21, 2025. However, existing projects that

[3] 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

[4] Open Letter: Reforming network charging signals to align with the Government's decision on the future design of Great Britain's electricity system

made investment decisions in good faith years ago should not be penalised until more comprehensive charging reform can be devised.

Continued Uncertainty

The recent Open Letter further states that wholesale charging reform will be introduced in 2029: *"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."*

This establishes another period of increased uncertainty until that milestone is reached, which reinforces the need to implement the Cap and Floor proposal that would provide a 'guiderail' for investors ahead of the 2029 watershed.

Consumer savings consideration

Additionally, there are significant system benefits and subsequent consumer savings on the table that should be duly considered by Ofgem in making a final decision on this modification. In analysis[5] conducted by Aurora Energy Research (2025), the Cap and Floor proposals accounted for savings of up to £16 billion for consumers between 2026 and 2050.

Inconsistencies in Ofgem's Representations

We address the key questions in the consultation below, but at a high level, we have significant concerns with the outcome as it is our view that Ofgem's representations appear contradictory and confusing, in this minded to decision and other associated representations. Ofgem's basis for rejection of all the proposals is inconsistent with its own representations in the letter calling for the Cap and Floor. Not only does this create uncertainty in a critical transitional period where coherence across separate policy reform workstreams is necessary, but it also appears to be acting contrary to wider government policy and Ofgem's own stated objectives, even in this policy workstream. We also outline below our view that, in the current industry context in which this code modification is derived, the interpretation and application of cost reflectivity as the main criteria to reject the proposals should be reviewed and revised.

We have outlined more detail below, but we also note Ofgem's statutory duty under the Energy Act 2023[6], which requires Ofgem to consider how its decisions may assist the Secretary of

[5] Consumer savings under TNUoS reform proposals - Aurora report
[6] Ofgem welcomes Energy Act getting Royal Assent | Ofgem

State in meeting the government's net-zero target, and we ask Ofgem to provide further context on how this statutory duty is addressed through this minded to decision.

Please find our response to the consultation questions below. Scottish Renewables welcomes the opportunity to respond and would be keen to engage further with this agenda. We would be happy to discuss our response in more detail.

Yours sincerely,

Stephen McKellar

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Consultation Questions:

1. **To what extent do you agree with our assessment of the impacts of CMP444 options on ACO (e) (cost reflectivity)? Please provide your detailed rationale and any supporting evidence.**

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).'*

We disagree with Ofgem's assessment that CMP444 proposals are negative against ACO (e). We think that Ofgem should revisit their interpretation of ACO(e) and their assessment of the proposals.

Ofgem's minded to decision to reject the Cap and Floor proposals is founded on the assumption that *"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".* However, we would argue that the status quo charges are <u>not</u> cost reflective, particularly for existing projects. Ofgem's assessment erroneously assumes that the methodology applied in the calculation of the wider tariff is cost reflective. The method they are applying does not represent the actual cost of transmission infrastructure build, as it over-charges for system security and does not accommodate the network build through strategic planning.

In the minded to decision of CMP444, Ofgem states: *"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."*

How can cost reflectivity be maintained when identical TNUoS charges are applied to both older and newer assets of the same type and capacity within the same zone? Older assets cannot incur the same costs as new assets that require additional network capacity to connect. Therefore, existing operational generation projects are, in effect, unfairly burdened with paying for a new network that is necessary to connect future generation, without being able to reliably predict or mitigate these costs. This is fundamentally not cost reflective.

Ofgem's interpretation of cost reflectivity, as applied, is based on regulatory assumptions and circumstances that have fundamentally changed. The current technology mix and market

circumstances, combined with the required unprecedented level of network investment, demand a more appropriate interpretation and application.

The options presented in CMP444 represent a different approach to cost reflectivity - one that balances locational signalling with other industry considerations to prioritise system-wide efficiency. Transmission Operator (TO) costs assessed within the context of strategically planned reinforcements will be more cost reflective than those based on imprecise and unreliable locational signalling.

Any Cap and Floor must 'bite' to be effective, and this affects the cost reflectivity of those tariffs. The fact that a solution is effective should not be used as an argument to support its rejection on cost reflectivity grounds, as it is precisely this form of intervention that was requested by Ofgem in the September 2024 Open Letter. Ofgem's representations through its September 2023 letter[7], September 2024 letter and the July 2025 Minded-to decision are inconsistent, contradictory and confusing. Ofgem's ambition is articulated in their September 2024 Open Letter, where it indicates that the intervention should accommodate the balance between:

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

Ofgem's minded to decision does not reflect a balance but instead applies a rigid application of a narrow interpretation of cost reflectivity to the exclusion of all other strategic considerations. We appeal to Ofgem to revert to the wording of ACO(e) and consider whether the narrow interpretation being applied is a correct interpretation of the Objective, and whether TO costs might more realistically be reflected in a costs assessment modelling approach that accommodates strategic network planning.

We are also confused by Ofgem's inconsistent statements regarding the timing of the proposals. Ofgem's September 2024 letter and NESO's CMP444 Proposal[8] explicitly called for a temporary mechanism, and this was reinforced by Ofgem's representations through the CMP444 workgroup. Ofgem's 21 July 2025 letter on reforming network charging signals references CMP444, outlining that '*After careful consideration, we published our minded to decision to reject the proposals on 10 July. We do not consider that a Cap and Floor on network*

[7] Open letter on strategic transmission charging reform
[8] download

charges is an enduring solution to improving the predictability and effectiveness of network charges.' Although published amid ongoing reform, this appears to provide another reason for rejecting CMP444, claiming it does not represent an enduring solution. However, as previously explained, the CMP444 proposal was never intended as a permanent solution, so it cannot be rejected on that basis.

2. **Do you agree with our assessment of the impacts of CMP444 options against ACO (d) (competition between generators)?** *Please provide your rationale. If you have contemporaneous documents and/or data to support your assessment of the interactions between CMP444 options and competition in generation we would encourage you to share it with us alongside this consultation response, clearly marking any confidential data.*

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.'*

We disagree with Ofgem's neutral assessment and think that CMP444 proposals would better facilitate competition.

Ofgem's analysis underestimates the competitive effects of TNUoS uncertainty across all renewable technologies. The current situation, along with the projected increase in charges, creates barriers to entry for renewable projects in higher TNUoS regions, such as Northern zones, which reduces competitive tension in CfD auctions across all technologies.

The proposed changes to AR7, which aim to set a maximum for the fixed-bottom offshore wind fund, do not adequately address the TNUoS disparity between the North and South and do not include adjustments for other technology types. There is significant variability in the projected TNUoS costs across zones 1-13, yet the maximum is applied uniformly to projects in the north. These proposed changes still evaluate the merit order stack based on costs, meaning Scottish projects will always rank higher as TNUoS costs substantially increase the achievable strike price. Consequently, developments in northern regions continue to face a disproportionate competitive disadvantage, despite offering optimal renewable resource potential and strategic importance for national energy security.

Implementation of one of the CMP444 proposals would improve this position and increase effective competition to varying degrees and ensure investment in North Scotland projects.

Ofgem's decision does not include an assessment of how the current status quo TNUoS charges impact competition. Current TNUoS levels, combined with the risk of volatile charges, negatively impact competition because generators located in high and low charging zones face

significantly greater cost exposure than those in middle TNUoS zones. This represents a barrier to market entry for projects in certain geographies and passes increased risks and costs through to consumers via the Contracts for Difference (CfD).

While the recent announcement by the Department for Energy Security and Net Zero (DESNZ) to introduce separate clearing prices for Scottish projects is an attempt to reduce consumer harm due to TNUoS-driven CfD dynamics, it does nothing to address the underlying defects causing this problem. Additionally, the difference in TNUoS charges within Scotland (TNUoS zones 1-12) is still significant and will allow this consumer impact to persist.

3. **To what extent do you agree with our views on the interactions between cost-reflectivity and competition? Please provide evidence (qualitative or quantitative) supporting your answer.**

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.'*

We think that the current interpretation of cost reflectivity being applied in the assessment of the proposals is flawed. Cost-reflectivity and competition are complementary objectives that must be balanced to deliver optimal consumer outcomes. Cost reflectivity in the short term is important to competition only where it is appropriately calculated. The current charging methodology is not achieving a cost reflective outcome. We respectfully disagree with Ofgem's assumption that the existing charging methodology is fully cost reflective. In our view, this is distorting competition and unfairly disadvantaging certain generators.

In the medium-term, cost reflectivity must recognise that the unprecedented level of investment is required to catch up on the lack of historic network infrastructure investment and the achievement of a low-carbon system. Legacy charging rules are no longer fit for purpose, and appropriate cost reflective parameters need to be adopted that will support the rapid build-out that will save consumers billions.

The current approach to cost reflectivity emphasises locational marginal costs driven by network incremental costs, which was suitable for a stable system with predictable generation patterns and incremental network development. With the massive growth of intermittent and distributed generation, this no longer applies as the annual snapshots don't reflect the huge long-term strategic investments that are required to deliver the network or the capacity ambitions outlined through the SSEP and CSNP. Cost reflectivity needs to be

aligned with this strategic outlook, and the costs need to be more reflective of the capacity mix and infrastructure build to deliver an optimal network; otherwise, the signals will only act to limit effective competition. Short-term cost signals are being prioritised at the expense of the long-term investment efficiency needed for CP30. Genuinely useful cost reflectivity requires not just the consideration of static cost-reflectivity, but also dynamic investment incentives to deliver the planned capacity and network build. The applied interpretation precludes this, and therefore, rejection of the proposals introduces inefficiencies that hinder competition and investment.

We disagree with Ofgem's assertion that the current TNUoS charging regime creates, *"…a level playing field where parties face charges that reflect the outcomes of their commercial decisions to site in one location over another*". The cost exposure of changing signals in the north (and exposure to changing subsidies in the south) introduces a greater amount of risk that must be accounted for than Generators in central charging zones. Projects in zones which experience much greater volatility and must factor in the immense uncertainty of charges into CfD bids are negatively impacted by TNUoS.

4. To what extent do you agree with our assessment of CMP444 options against ACOs (f)? Please provide your detailed reasoning and any evidence in support.

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'*

We disagree that the proposals are neutral towards ACO(f), and think they better support this aim by aligning charges with strategic transmission investments. As previously outlined, acknowledging the unprecedented transmission investment needed for the Government's clean power goals demand different charging methods than traditional incremental development, especially because renewable resources are concentrated in higher TNUoS zones.

5. To what extent do you agree with our assessment of CMP444 options against ACOs (g)? PPlease provide your detailed reasoning and any evidence in support.

ACO(g): *'Compliance with the Electricity Regulation and any relevant legally binding decisions of the European Commission and/or the Agency'*

We agree the proposals are neutral concerning this objective, but note that this supports rather than undermines the case for approval. The proposals maintain compliance with the Limiting Regulation while providing greater certainty for market participants. This demonstrates that consumer protection mechanisms can be maintained while improving investment conditions for renewable energy development.

6. **To what extent do you agree with our assessment of CMP444 options against ACOs (h)? Please provide your detailed reasoning. Please provide your detailed reasoning and any evidence in support.**

ACO(h): *'Promoting efficiency in the implementation and administration of the charging methodology'*

While we agree that all options would bring slightly more complexity and administrative effort initially, our view is that the administrative burden of CMP444 is minimal compared to the systemic costs of regulatory uncertainty, and on this basis, it should be viewed as neutral. Overall, we believe that "marginally more complexity" should not be a sufficient rationale to reject this modification

Implementation costs must be considered alongside the potential costs of increased urgent modifications due to TNUoS uncertainty, which currently does, and will continue to, draw on industry and regulatory resources. Additionally, adoption of the proposals would result in a more efficient CfD auction process and ensure the timely delivery of CP30 infrastructure.

Against CUSC objectives, h) WACMs 4 & 5 do not better facilitate this objective because they add a greater degree of complexity to the charging methodology and, compared to the baseline, which is inefficient. All other WACMs and the original do a better job of facilitating this objective because they bring more certainty and reduce volatility compared to the baseline.

7. **To what extent do you agree with our assessment of CMP444 options against the ACOs, taken collectively? Please provide your detailed reasoning and any evidence in support.**

We think that the CMP444 proposals would better support the ACOs as a whole. While we have raised valid points regarding individual ACOs, we think it's important to consider them collectively. They should be evaluated based on their broader value in reducing investment uncertainty during this crucial transition period, in line with the original industry request for a balanced, coherent, and holistic approach.

It is essential to consider the strategic context alongside the long-term consumer benefits resulting from successful and effective renewable deployment, as well as the energy security that will also be delivered. What is crucial is that a stable investment environment is established through this intervention. Focusing narrowly on a limited interpretation of cost reflectivity, to the exclusion of broader strategic considerations, will lead to continued volatility and unpredictability — issues this regulatory intervention aims to address.

There is insufficient consideration of the TNUoS status quo, with an underlying assumption that the current charging regime is cost-reflective and benefits competition. It is essential to challenge this assumption. Without understanding and addressing flaws within the fundamental principles, this remains an inadequate baseline to evaluate change proposals.

We support the wider TNUoS reform efforts that will make up a central pillar of the UK's Reformed National Market. However, the forthcoming change, which remains years away, is insufficient to address the current insufficiencies of TNUoS for existing assets (and those looking to get away before longer-term market reforms are implemented). The UK is working towards creating a centrally planned energy system, and market signals must align with these ambitions. Allowing broken locational signals to persist and leaving existing assets exposed with no means of responding, adapting, or recovering lost value cannot be allowed to continue in the interim. This, on the whole, is harmful to the UK's energy future.

We are concerned that promoting this modification proposal may have raised industry expectations without providing the clarity investors need on TNUoS charging before AR7. This has also required significant time and effort, yet it has delivered limited certainty. Since investor confidence is crucial to achieving net-zero, we encourage Ofgem to ensure future processes provide clearer, more predictable outcomes.

8. **Do you consider that implementation of any of the proposals (if we assessed them to better facilitate achievement of the ACOs) would have particular impacts relevant to our principal objective and/or wider statutory duties? Please provide your detailed reasoning and any evidence in support.**

The Authority's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems.[9]

[9] https://www.ofgem.gov.uk/guidance/our-powers-and-duties

Approval of CMP444 proposals would significantly support Ofgem's principal objective and statutory duties. As explained above and as expressly articulated in Ofgem's September 2024 letter, approval of a Cap and Floor would 'result in higher expected consumer benefits compared to current arrangements', and that 'consumers are expected to overall benefit from reduced costs passed through to them from elsewhere e.g., from an expected reduction in costs of capital or risk premia flowing through to reduced CfD bids, wholesale prices, and balancing costs'. We believe that rejecting the proposals would run counter to its main goal, as it would result in ongoing and excessive costs for the consumer.

Following the implementation of the Energy Act in 2023 and its restatement of Ofgem's primary objective, we observe the introduction of a new duty requiring Ofgem to consider how its decisions can assist the Secretary of State in achieving the government's net-zero target[10]. Ofgem's minded-to decision does address this requirement. It is our view, for the reasons outlined above, that the minded to decision conflicts with the government's net-zero ambitions. We call on Ofgem to fulfil this statutory duty and explain how rejecting the proposals supports the government's goal of reaching its legal targets for net-zero emissions by 2050.

Regarding specific proposals, we note that a majority in the workgroup consultation were supportive of a Cap and Floor as an interim measure, and that in the code administrator consultation WACM1, WACM2, WACM3, and WACM6 broadly received the majority of the votes from industry (referencing mostly the key objective ACO(d)), and that the majority of the CUSC Panel voted that WACM1 and WACM2 better facilitated the ACOs than the baseline. We urge Ofgem to consider the strength of industry opinion in support of this modification, the arguments raised in support alongside the misalignments of Ofgem's approach with government policy and review the extent to which rejection of all proposals in the modification remains appropriate.

A temporary solution is still required until the ongoing Reform of National Pricing guarantees that projects in Scotland can attract investment and compete in future CfD Allocation Rounds. Returning to anything close to the 10-year projection levels of TNUoS is too great a burden for investors.

[10] https://www.ofgem.gov.uk/press-release/ofgem-welcomes-energy-act-getting-royal-assent