



3rd Floor North  
200 Aldersgate Street  
London EC1A 4HD  
Tel: 03000 231 231  
[citizensadvice.org.uk](https://citizensadvice.org.uk)

Harriet Harmon  
Head of Electricity Transmission Charging Policy  
Ofgem

## **Citizens Advice response to Ofgem's Call For Evidence – Transmission Network Use of System Charges**

**10 November 2021**

Dear Harriet,

As the statutory consumer advocate for GB energy consumers, Citizens Advice seeks to ensure that there is cost-efficient development of energy networks to support Net Zero and that costs are met fairly. This aligns with Ofgem's ambition to deliver Net Zero at the lowest cost to consumers. With the significant changes needed to how we generate and consume energy and system changes required to enable this, the principle of efficient development has never been more important.

We welcome the opportunity to respond to this Call for Evidence on Transmission Network Use of System (TNUoS) charges. Citizens Advice believes that it is valuable to explore where charges are not providing 'useful' signals and that there may be a good case for change where there is clear evidence. We consider that TNUoS price signals are not 'useful' if:

- They are volatile and unpredictable. This reduces investor confidence, which consumers pay for via an unnecessarily high cost of capital.
- They are inconsistent with distribution network charging signals
- Parties cannot respond to them either through energy use planning or asset investment decisions

Any improvements to the methodology or its inputs that makes it more accurate, more cost-reflective and more predictable would provide an improved and more useful signal. Broadly, we consider that industry will be better placed to suggest areas that require reform.

However, we strongly agree with Ofgem's position that they *"do not consider simply reducing TNUoS tariffs for some parties (or in some regions) to necessarily be a desirable outcome in its own right"*. While TNUoS inherently leads to tariffs that are higher in some areas and lower in others, we do not think that the role of network charging should be to provide incentives for network and generation developments above their value to consumers. Network charging should remain cost-reflective and be improved where needed. Where cost-reflective charging leads to outcomes that are inconsistent with policy goals, the role and calibration of regulation and policy should be explored more broadly.

For example, the Offshore Transmission Network Review (OTNR) and Electricity Network Planning Review (ENPR) will need to provide a view on what centralised planning provides by way of signals to effectively incentivise the high levels of renewable generation required.

Citizens Advice believes that Ofgem should consider taking a two-step approach to TNUoS reform:

1. Identify manageable steps which simplify and improve the usefulness and cost reflectivity of TNUoS price signals in the short-medium term
2. Conduct a holistic review of networking charging to provide a long term solution across networking charging and the retail market to support the development of efficiently positioned low carbon generation, with consumers realising the cost-reflective value of flex and storage that enhances network efficiency. This should consider:
  - a. Full Chain Flexibility
  - b. The role of locational signals under greater levels of onshore and offshore infrastructure coordination<sup>1</sup> where locational flexibility incentive via network charging may be reduced
  - c. Ofgem's proposal for a central planner function within the Future System Operator (FSO) could see the development of a strategic plan and holistic network design that will provide locational indicators for generation which will need to align with network charging signals and other financial arrangements such as seabed leasing and subsidies. There also needs to be consideration about how, in this centralised

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<sup>1</sup> For example the Offshore Transmission Network Review, Electricity Transmission Network Planning Review and Welsh Government's ambition for an integrated energy grid

planning model, connection signal visibility and incentives can better encourage the efficient location of demand.

- d. How Marketwide Half-hourly Settlement (MHHS) and growth in demand-side response would affect the role of TNUoS for demand
- e. How network charging could usefully provide demand signals in the retail market for domestic, community and small business customers which could lead to lower network investment costs, and mitigations to protect consumers

Splitting issues that may arise from the Call for Evidence in this way would allow for the prompt development of solutions where there are direct discernible benefits, whilst reserving the more fundamental and necessary challenges for a process that would require scope beyond TNUoS.

### **Issues under potential consideration**

As indicated above, Citizens Advice supports a review of the inputs, assumptions, complexity and calculation of the TNUoS methodology where there is evidence that they currently undermine cost reflectivity or lead to unreasonable unpredictability and volatility.

Ofgem has received representations that the foundation of the charge should be reviewed where currently this is based on the distance between sources of generation and sources of demand. We note that some consider that this does not consistently lead to charges which provide a useful signal to all users. We agree that it is valuable to explore if and how the available capacity of network assets can be reflected in the charging methodology. However, consideration should be given to any unintended consequences, such as incentive properties of charges that could change markedly before and after network reinforcement, reflecting the effect this reinforcement will have on available capacity.

It is important that when reviewing volatility and complexity in TNUoS charges that it clearly aligns with the code change and governance landscape. TNUoS has undergone many modifications in the Connection and Use of System Code (CUSC). There are also modifications

currently in progress or awaiting decisions<sup>2</sup> that will affect TNUoS, including some specifically concerning expansion constants and the volatility/predictability of tariffs. It is important that in any review, changes yet to be implemented and in-progress modifications are not duplicated and their impact as a package factored in.

### **Vehicles for change and timescales**

Although decisions on fundamental code reform have not yet been made, Citizens Advice believes that the proposed 'Strategic Direction' is essential in delivering code changes for a Net Zero energy system. We, therefore, consider that in advance of code reform decisions being made, Ofgem should provide greater direction in making code changes that are ultimately in consumers interests.

Citizens Advice considers that in adopting a 2 step process of network charging reform as suggested above, Ofgem should seek to firstly review and implement actionable decisions. In this instance, either an SCR, taskforce or some form of hybrid approach with code governance would be appropriate.

While the SCR process has less flexibility, its ability to review holistically and be robust would be helpful in this instance. As concerns about volatility and unpredictability are cited as one of the main reasons for prompting this Call for Evidence, it seems appropriate to avoid any risk of adding further volatility, unpredictability and complexity that may arise from either the standard open governance procedure or a 'Task Force' approach to provide efficient change. We hope a coordinated approach to change should support a simpler and clearer output. An SCR would also give Ofgem the ability to provide greater levels of direction to ensure changes are overall in consumers interests.

To avoid the risk of 'scope creep' we would suggest that following the outcomes of this Call for Evidence a rigid scope and time-limited process is established which seeks to implement any necessary changes to tariffs for April 2023, giving around a year to review and develop

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<sup>2</sup> [CMP315: TNUoS: Review of the expansion constant and the elements of the transmission system charged for & 375: 'Enduring Expansion Constant & Expansion Factor Review';](#)  
[CMP368 & CMP369 'Updating Charges for the Physical Assets Required for Connection, Generation Output and Generator charges for the purpose of maintaining compliance with the Limiting Regulation & Consequential changes to Section 14 of the CUSC';](#)  
[CMP317 & CMP327: Removing Generator Residual and excluding assets required for connection;](#)  
[CMP316: TNUoS Arrangements for Co-located Generation Sites;](#)  
[CMP331: Option to replace generic Annual Load Factors \(ALFs\) with site specific ALFs;](#)  
[CMP358 & CMP359 'Implementation of the Small Generation Discount into the CUSC & Definition changes for CMP358'.](#)

proposals. Citizens Advice would be concerned if the timeline meant the implementation of changes could not happen until 2024 or later given the need to develop and implement an enduring network charging solution as we suggest in the second stage of a 2-step process and which could take some time.

Please do get in contact if you have any queries about this response.

Yours sincerely,

Sam Hughes

Senior Policy Researcher, Citizens Advice

**Patron HRH The Princess Royal      Chief Executive Dame Clare Moriarty**

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England registered office: 3rd Floor North, 200 Aldersgate Street, London EC1A 4HD.