

# Energy UK response to Ofgem's Call for Evidence on TNUoS Reform

12 November 2021

## About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering nearly 80% of the UK's power generation and over 95% of the energy supply for the 28 million UK homes as well as many businesses.

The energy industry invests £13bn annually, delivers nearly £30bn in gross value added on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors, and supports over 700,000 jobs in every corner of the country.

We welcome the opportunity to respond to the Ofgem Call for Evidence (CfE) – Transmission Network Use of System Charges (TNUoS).

Energy UK welcomes the CfE and believes that a broader review of TNUoS is necessary to review areas missed, as well as linkages between, the recent Significant Code Reviews (SCRs) and the Offshore Transmission Network Review (OTNR). However, there are concerns about Ofgem and industry resourcing which will be expressed in the below response.

One key priority area for review should be to understand the volatility and predictability of the TNUoS charges industry participants face. To properly hedge a position, industry participants often buy or sell significant portions of power seasons in advance. However, TNUoS tariffs are finalised just two months ahead of each charging year. There are a number of forecasts leading up to the two month notice period but there can still be a significant deviation between the previous forecast and the final tariff (average of £0.708/kW for generation and £1.01/kW for HH demand between draft tariffs in November and final 2021/22 tariffs. Compared to the initial forecast in March, there was up to £10.946/kW variation for HH demand)<sup>1</sup>. Unpredictable and volatile TNUoS tariffs result in greater risk for TNUoS rate payers, which can potentially lead to a risk premia being included in their wholesale prices.

Another key area for review is TNUoS's compatibility with Net Zero. The UK must reach net zero by 2050 and the energy system must be decarbonised by 2035. It is therefore vital that TNUoS arrangements are compatible with these targets. There is no clear single view of what Net Zero may look like, and TNUoS arrangements should not either influence the industry toward a particular solution nor should it present a barrier to technologies and solutions that may be required for least-cost Net Zero.

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<sup>1</sup> Figures taken from <https://www.nationalgrideso.com/document/186181/download>

Changes for Wider Generation Tariffs between draft and final tariffs 2021/22 were between -£0.166/kW and -£1.417/kW. For HH demand, the difference between draft and final tariffs were between -£0.255/kW and £1.331/kW.

Between the initial forecast in March and the final tariffs, the average change was £4.419/kW for generation and £6.632/kW for HH demand

As outlined in our response<sup>2</sup> to the Ofgem consultation regarding the demand-weighted distributed reference node (DDRN), Energy UK supports reviewing the DDRN and encourage Ofgem to commit this to a thorough Impact Assessment.

We highlight that individual member organisations have their own views on other priority areas and we encourage Ofgem to see individual member responses for more information.

Once Ofgem have determined the remit of this work stream, clear communication and engagement with industry is key, in particular:

- A clearly defined remit, principles and metrics for success will be vital to ensure an effective change process.
- To minimise disruption to investor confidence, Ofgem must ensure clear and realistic work plan and timings are signalled and adhered to.
- There needs to be clarity on what assumptions Ofgem makes and how these were arrived at. This is to ensure they are able to be challenged and justified.
- Ofgem must maintain engagements with the industry through the work stream, whether that be during an SCR, Task Force, or Code modification working groups. Energy UK note that Ofgem resource has been stretched of late and active engagement, particularly in working groups, has slipped.
- Ofgem must be aware of resource constraints both internally and of industry. This is a busy time for the industry, particularly in this area of change. We also note that there has been significant staff turnover within Ofgem since the launch of the first charging SCR. Engagement is vital to ensure the full utilisation of industry's expertise and knowledge.

Energy UK note that Ofgem has previously signalled a review of DUoS charging. We would welcome clarity on when this work stream is due to launch and whether this will run alongside this review of TNUoS arrangements. Energy UK envisages that these reviews will be similar in nature and as such the principles and approach should be similarly applied to both. Any deviation should be justified.

Should you have any questions regarding our response, please do get in touch.

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<sup>2</sup> <https://www.energy-uk.org.uk/publication.html?task=file.download&id=7487>