Locational Charges and Regulatory Siting Levers Under Reformed National Pricing

Citizens Advice response

citizens advice

Energy Networks and Systems team

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Executive Summary

We welcome the opportunity to respond to this consultation on locational charges and regulatory siting levers under Reformed National Pricing. We are responding in our role as the statutory advocate for energy consumers, and have focused our response on the potential benefits and risks to consumers.

Citizens Advice priorities

Our overall priority in approaching this consultation is to advocate for the least-cost whole-system development, as this will deliver the lowest consumer bills. As outlined in our response to the Draft Determinations for RIIO-3[1], Ofgem should consider that rising bills could erode public trust and confidence in decarbonisation programmes.

We feel that consumer priorities could be better reflected in Ofgem's assessment criteria. We have suggested increasing the weighting for efficiency most heavily, followed by coherence and the consumer risk allocation.

Our preferred approach

The current Transmission Network Use of System (TNUoS) charge sends a fairly strong locational signal, yet constraint costs are very high and growing. Of the options Ofgem has outlined and based on the information provided at this stage, we can see the case for Option C (a system and constraints impact charge). Our initial assessment found that it has benefits for: Efficiency (as it reveals hidden constraint and balancing costs borne by consumers); Wider system value (as it can act as an administrative proxy for whole-system locational value and constraint impacts), and Coherence (due to its fit with both near-term locational CfD and connections objectives and potentially locational pricing in the longer term). Additionally, under this option, we judge that consumers would be less likely to bear disproportionate risk.

We would appreciate Ofgem sharing its own methodology and results of its initial assessment of the models.

[1] Citizens Advice, Response to RIIO-3 Draft Determinations, August 2025

Further considerations

Locational pricing

All five of Ofgem's options provide solely investment signals, not operational locational signals. While we are not advocating for DESNZ to reopen the locational pricing decision, this remains our longer-term, market-based approach preference. This should send short-run dispatch and long-run investment signals, the efficiency of which we expect would accumulate net consumer benefits over time. We recommend that any network charging design implemented in this programme is treated as a medium-term solution for the next 5-10 years, with a longer term aim of moving to a more efficient design.

Strategic Spatial Energy Plan (SSEP)

The Strategic Spatial Energy Plan (SSEP) represents an important step forward for GB, as we need strategic planning for major infrastructure in the near and long-term future. However, it cannot replace market signals. We want any reforms to be consistent with the SSEP and other policy developments. There are risks to manage for consumers, including ensuring that CfD auctions that award contracts ahead of the SSEP pathway selection support efficient constraint management.

Limiting Regulation (LR)

The Limiting Regulation (LR) is a residual regulation that sets the split between generators and demand at a 16:84 ratio. Though reform of the LR is out of scope for this call for input, we consider that, until this is changed, TNUoS modifications risk placing a higher burden on consumers than generators. We recommend that Ofgem and DESNZ publish a joint position on the future of the LR in this programme of work on RNP.

Enduring market design

Missing in this CfI is an outline of a target or stated end point for this work. Without this, it is difficult to fully assess the options provided, and the chosen option could focus solely on addressing short term issues while ultimately increasing costs in the future. We would welcome clarity from Ofgem, government and NESO on the preferred enduring market design, to help stakeholders to frame their responses.

Questions and responses

The case for change for regulatory siting levers

Q1. Do you agree with our assessment criteria for locational charging options?

We agree that the five criteria proposed by Ofgem (wider system value, efficiency, investability, enabling competition, and deliverability) are all necessary. However, we do not feel that they are sufficient for application to generation (and storage), and a further overlay is required for demand.

We are proposing three additional criteria:

- **Coherence with near-term and long-term strategies and policies**, such as locational Contracts for Difference (CfDs) and connections policy, and whether the option supports a transition to longer term market arrangements such as locational marginal pricing.
- **Adaptability while in use**. This would measure the extent to which the option can adapt over time with system or market change, without material disruption or harm to consumers, investors or other market participants.
- **Consumer risk allocation.** The extent to which the option allocates risk fairly between consumers and generators.

Assessment criteria weighting

Ofgem should consider weighting three of the eight criteria more strongly, due to their importance. Our suggestions are:

- **Efficiency -** we feel this is the most important factor as it would preference a least-cost whole system development and deliver the lowest customer bills,
- **Coherence -** this is significant as it would allow the reforms proposed in this consultation to complement near and long term strategies.
- **Consumer risk allocation -** the burden that falls across households (especially consumers in vulnerable circumstances), small businesses, large businesses and very large flexible demand consumers should be carefully considered. In our view, the risk allocation between producers

and consumers needs rebalancing and should change over time as a more efficient market is developed.

In relation to the other criteria, we propose the following:

- **Adaptability -** while investors seek a stable, predictable charge, attention should be paid to the possible need to adapt the design over time. This criterion interacts with investability and consumer risk allocation, requiring the design to be capable of evolution while effectively managing trade-offs.
- **Investability -** this should be complemented by the proposed Consumer Risk Allocation criterion. Ofgem should publish, against each option, who bears different risks and how those change over time, with separate scoring of investability and consumer risk allocation.

Application of the criteria to demand

The main A-E scoring matrix is focused on generation investment signals. Some further thought should be given to how criteria are applied to the demand side and storage. In particular, demand users are much more heterogeneous than generation, have different ability to respond to locational charges, and raise fairness and proportionality issues.

Demand:

- **Coherence** - RNP charging reform must align with Ofgem's other work on the Cost Allocation and Recovery Review (CARR), the standing charges review and demand connections reform.
- **Enabling competition** applies to data centres and other very large flexible loads. Charging designs that advantage some business models over others (e.g. firm vs flexible access) directly affect consumer cost.

For demand, we recommend considering additional supplementary tests

- Fairness between consumer types (as demand is not homogeneous, and a uniform locational charge could create unfair or regressive outcomes)
- Responsiveness (as a locational signal is efficient only if the user can respond)
- Interaction with demand connections policy.

Options for interzonal locational charges

Q2. Do you have a preference for any of the five options? If so, why?

Of the standalone options we prefer Option C.

Q3. For each of the options presented, what do you see as the key costs, benefits, and system-wide implications given the case for change set out in Chapter 2?

Option C - System and constraints impact charge

This is our preferred option based on current information. In theory, it has the strongest consumer-cost logic under national pricing and is the closest RNP substitute for Locational Marginal Pricing (LMP), reflecting wider system costs and structural constraints. The modelling and governance could be designed to facilitate a later transition to zonal pricing, which is justifiable if the option performs well against criteria and is to be used for a long period. However, divergence between charges and SSEP signals is possible if network build is delayed. More work is needed on the methodology to mitigate these risks.

Q4. How does each option perform against the assessment criteria set out in Chapter 2?

We would appreciate Ofgem sharing its own assessment of these options against the proposed criteria for all stakeholders to review.

Our qualitative assessment using Ofgem's criteria plus our three proposed additions (consumer risk allocation; adaptability while in use; coherence with near-term and long-term market design strategies and complementary policy instruments) is summarised below.

Q5. Are there options not considered here which we should be exploring? If so, please provide detail.

The absence of an enduring market-design target is itself the most important missing “option” in the consultation framing. Without a stated endpoint, every charging design choice risks becoming a compromise that solves for the short term.

Option A: Targeted changes to the current charging regime

Q6. What are your views on the possible changes outlined in Option A? What other alterations could be made to the current methodology to support the SSEP and deliver benefits? Please include views on: a) How far a modified transport model could be well aligned with the SSEP, and b) To what extent a modified transport model could be used to reflect spare capacity and how it could be done effectively.

We consider that replacing the current 27 generation zones with the 19 SSEP terrestrial zones is sensible and consistent with the SSEP geography.

Option B: Network utilisation impact charge

Q7. What long-run costs should NUIC reflect, particularly in the context of the growing share of network investment made anticipatorily through the CSNP rather than responding directly to the connection of new assets?

Treating the planned network largely as sunk cost would produce more predictable charges and encourage SSEP alignment, but could weaken signals for nearer-term constraint management. The trade-off should be addressed by modelling the planned network on a 3–5 year horizon so charges can periodically respond to real-world changes such as reinforcement delays. It should also take into account that costs can grow beyond projects in this area, due to the nature of Uncertainty Mechanism (UM) funding applications and the risk of cost overruns from supply chain pressures. This limits the risk of charges and SSEP signals diverging materially.

Option B alone cannot internalise the structural constraint costs that arise under national pricing. That is one reason we favour Option C.

Q8. Should the costs of network build determined by strategic planning be recovered on the same basis as the network build required by assets locating outside of the SSEP (and therefore requiring network beyond the SSEP's optimisation)?

NESO's optimisation through the SSEP/CSNP determines the efficient locational pattern and who coordinates anticipatory build; it does not remove the fact that location has a cost. Two aspects must be separated:

- The locational investment signal - where it is efficient to build - should apply to all generation, including SSEP-aligned capacity, so that competition between resources in different locations remains efficient.
- Cost recovery of the lumpy, anticipatory element of a specific reinforcement is a timing and coordination problem. A degree of socialisation is defensible to avoid penalising first movers for build that later entrants also use.

Assets locating outside the SSEP, or above its optimised capacity, depart from the planned system and so could face the strongest exposure, through deeper connection charges or sharper locational Use of System charges . We can see a case for SSEP-aligned assets facing a lower forward-looking locational signal.

In our view, socialisation should not default to demand. Demand already bears the large majority of transmission network cost and the historic basis for the small generation share has weakened. We recommend that the Generation : Demand (G:D) split ratio is reviewed.

Q9. If an LRIC-type methodology were developed for transmission network charging, how could the concepts of (a) time-to-reinforcement and (b) baseline demand projections be adapted in the context of strategic planning and anticipatory network reinforcement?

No response.

Q10. Could any other LRMC approaches be used to send a locational signal to support the SSEP or deliver wider system benefits? Please clearly indicate any relevant methodologies, including those applied in other international contexts.

No response.

Option C: System and constraints impact charge

Q11. What additional measures might be required to deliver effective locational signals using the approach in Option C?

Option C is our preferred analytical direction at this point but its effectiveness may depend on additional measures:

- Robust SSEP and CSNP that Option C can rely on. Option C anchors charges in SSEP/CSNP modelling and that anchoring is only as strong as the underlying plan.
- Constraint-exposure assessment published by DESNZ/NESO ahead of each CfD round, so the locational signal in Option C is reinforced by the support-scheme allocation process.

Q12. Are there any alternative approaches integrating SSEP outcomes to send a signal reflecting assets' wider system impact, including constraints?

No response.

Option D: Metric-based charge

Q13. To what extent could a metric- based charge act as a complementary 'top-up' signal alongside a broader charging methodology, rather than operating as a standalone approach? What challenges would this present?

No response.

Q14. What other metric-based approaches might be a suitable basis for setting charges?

No response.

Option E: Plan-based auction pricing

Q15. What interactions do you foresee between plan-based auctions for generation, government support mechanism auctions and the connection regime? What potential implementation risks and mitigations should be considered?

No response.

Q16. What design features could help ensure that auctions remain workable across zones with very different levels of project interest?

Option E could be piloted in constrained zones (zones where SSEP capacity is scarce and where free allocation would otherwise add to constraint costs) rather than rolling it out across all zones in the first instance.

Q17. Could alternative mechanisms achieve similar outcomes with fewer risks or dependencies?

The principal alternative to plan-based auctions for managing siting in constrained zones is outlined in DESNZ's connection capacity thresholds framework[2], particularly Option 3 (connection thresholds combined with locational charging/support levers). This achieves much of what plan-based auctions are intended to do, by setting zonal capacity limits above the CSNP planning line to allow deliverability attrition and competition, paired with stronger locational charges and CfD/support-scheme conditions.

Compared with plan-based auctions, this approach has lower implementation risk (builds on existing connection-queue management and CfD machinery), and is more easily reversible if early outcomes are not as expected — an important option-value consideration.

A further alternative is a network-readiness test for CfDs and connections, conditioning support or connection firmness on demonstrated export capability or on local demand/storage mitigation.

[2] DESNZ, Reformed National Pricing (RNP): delivery plan, Chapter 2, April 2026

Provisional design considerations for locational charges for demand and storage

Q18. What role should locational charges for demand play in future? Please include views on: a) What types of demand users are likely to be able to respond effectively to a locational investment signal, and why. b) Relevant international examples of demand siting decisions made in response to locational pricing signals. c) What the charging basis for the signal should be if sending locational investment signals is deemed as effective for some types of demand. d) How suitable the options for a locational charge set out above could be for demand, and whether there are other alternative charging approaches that could be applied for demand. f) Whether different charging methodologies should be used for demand and generation, and any practical considerations in doing so.

Locational charges for demand have an important but tightly defined role under RNP. They are unlikely to be an effective lever for households or smaller businesses. We caution against approaches that load further fixed costs onto domestic consumers in pursuit of locational efficiency for actors who cannot respond. We are concerned that consumers will be unable or unwilling to respond, with a lack of assurance that consumers will make meaningful savings, household factors and the perception of time-of-use tariffs as risky or complicated[3].

Locational charges are, however, important for a defined subset of very large, locationally flexible loads. This could include data centres, electrolysers and other high-load industrial users with genuine siting flexibility. The lack of a locational signal for this demand could socialise network reinforcement costs across household bills.

As noted elsewhere in this response, the current 16:84 split between generators and demand is not a principled allocation but stems from retained EU Regulation 838/2010 (the "Limiting Regulation"). Greater allocation to generation is necessary to share the cost burden fairly between industry and consumers. Ofgem and DESNZ should publish a joint position on the Limiting Regulation alongside the response to this CfI.

[3] Citizens Advice, Evidence pack: time-of-use tariffs, September 2025

Demand users and locational investment signals

As the statutory advocate for energy consumers, with a remit on domestic and small businesses, our response focuses on these users, who cannot meaningfully relocate in response to network charges. A household is highly unlikely to move far solely to secure a TNUoS reduction, even if that meant saving several hundred pounds a year. Imposing a strong locational signal on these users would be regressive with very limited behavioural effect.

Any locational charge regime for demand must distinguish between categories of users. A uniform charge will either fail to influence those who can respond (if set too low) or unfairly penalise those who cannot (if set too high).

Methodologies for demand and generation

We can see the case for the same underlying methodology being used for both demand and generation, with demand-specific banding, thresholds and exemptions overlaid. Cost causation is fundamentally symmetric: a MW of new generation and a MW of new demand have equivalent network impacts in opposite directions. Using a common model ensures internal consistency, makes the regime intelligible, and avoids the risk of arbitrage between technologies that can act as either demand or generation. ACER, the European regulatory body, recommends tariff methodologies should reflect cost causation symmetrically.[4]

Demand-specific overlays are needed, however, because demand and generation respond very differently. For instance, the threshold for applying a locational signal is much higher for demand (perhaps 50 MW for full exposure) and demand has equity dimensions that generation does not.

We recommend that Ofgem's work here is coordinated with their work on the cost allocation and recovery review (CARR).

Q19. What should be considered when designing a network charge for storage? Please include views on: a) Whether or not the TNUoS fees paid by storage should have a locational element, guiding where assets are encouraged to site, in a strategically planned system. b) Whether storage should continue to face the same charge as some forms of generation, or whether a more tailored approach should be considered. c) If a more

[4] ACER, Getting the signals right: Electricity network tariff methodologies in Europe, March 2025

tailored approach to storage charging were considered, whether or not differences in storage asset class and characteristics should be reflected. If differences should be reflected, please indicate which, with rationale. d) The extent to which the charging Options (A to E) described above might be appropriate and provide useful locational signals for storage. e) Whether network charges for storage should reflect the extent and characteristics of network constraints. f) Any possible roles for any types of flexible connections for storage assets.

Setting network charges requires taking a view on how the asset will be used. Storage developers and investors employ a wide range of operating and financing models, and the choice between them can be location-dependent. The same site can be attractive to one operating model and unfinanceable to another. Ofgem cannot observe the operating-model mix ex-ante.

Ofgem setting an ex-ante locational charge cannot see which model will respond, and responses will be heterogeneous. For instance, merchant operators will price the signal into locational optimisation, while contracted operators will largely pass it through to counterparties or absorb it as a fixed cost. The charge cannot be tuned to do both at once.

We recommend that Ofgem retains the locational element of TNUoS. Ofgem should also recognise that (1) the signal will be coarse relative to the precision of operating-model and siting decisions developers are actually making and (2) the wider regime should aim to be coherent across operating models and avoid creating arbitrary advantages.

A technology-neutral methodology is the right starting principle to reward outcomes rather than technology classes or business models. We caution Ofgem against attempting to differentiate the charge by business model, even though business model is the variable that most directly drives, for instance, storage siting.

We support expanded use of flexible connections for storage in principle. Storage absorbs non-firm access with much less value loss than generation, and connection delays are currently a binding constraint on storage deployment. But flexible connections must be designed as part of a coherent access-rights framework.

We consider that design principles for competitively neutral flexible connections could include:

1) Flexible connections being priced differently from firm. TNUoS should reflect the difference in access rights.
2) The route from flexible to firm being transparent and rules-based.
3) The flexible/firm framework being consistent across asset types, not developed separately for storage, generation and demand.
4) Equity within the queue, ensuring that flexible connections can be used equally by developers and community-scale or local flexibility projects.

Approaches for intrazonal locational charges

Q20. What role, if any, should there be for an intrazonal locational charge? Please include views on: a) How effective an intrazonal locational charge might be in directing siting within SSEP zones. b) The relative costs, benefits and complexity of such a charge.

In principle there should be a role, subject to proportionality. Constraint costs impact consumer bills, so a more accurate intrazonal signal has consumer value if achievable without disproportionate administrative cost.

Q21. What role, if any, do you see for deeper connection charges as a tool to influence intrazonal siting decisions? Please include views on: a) Whether deeper connection charges could complement or conflict with any of the previously listed interzonal locational charging options. b) Whether and how issues of fairness could be resolved through a sharing-based connection charge or similar mechanism. c) The impact of deeper connection charges on investor confidence or the timing of FID.

Deeper connection charges shift cost from socialised (consumer-paid via TNUoS residual) to user-paid (developer/asset). On consumer cost grounds, this is broadly positive. The fairness issue that the CfI flags - where earlier users fund reinforcement that later users free-ride on - could be resolved through a sharing-and-refund mechanism. We support deeper connection charges where the cost is clearly attributable to the connecting asset, with the sharing mechanism to address the timing inequity.

Q22. How should local circuit costs be recovered in the future? Please include views on: a) The impact of local circuit charges on overall predictability of charges. b) Whether local circuit costs should be recovered through connection charges. c) Any alternative changes we could make to the recovery of these costs.

No response.

Q23. Would you expect the benefit of a more efficient locational siting incentive to justify the complexity of introducing an intrazonal use of system charge?

This is fundamentally a consumer cost-benefit question: a more accurate locational signal can reduce constraint costs and consumer bills, but more administrative burden raises overhead that consumers ultimately fund. The answer is genuinely uncertain and depends on whether the intrazonal signal can be cleanly integrated with the interzonal one. We support exploration but caution against duplicating administrative structures.

Q24. Which, if any, of the charging reform options discussed in Chapter 3 could be suitable to provide an intrazonal charge, and why?

No response.

Q25. What is the appropriate balance between connection charges and ongoing use of system charges in achieving efficient investment and siting decisions within SSEP zones?

Shifting weight toward connection charges has the advantages noted in Q21: better cost causation, and reduced TNUoS pass-through to demand. Our concerns remain with the EU Limiting Regulation that restricts cost allocation to generation. Costs could be reweighted to generation to strengthen locational charging signals.

Wider design considerations

Q26. How can charges be applied to improve the long-term stability and predictability of transmission charges, while ensuring charges appropriately reflect underlying system costs and a fair risk allocation for consumers?

We consider the objective of this design choice is to allocate risk efficiently and fairly between generation and consumers. The current model socialises too much risk onto consumers, particularly locational and curtailment risk. Some of this risk could be transferred to generation while preserving an appropriate level of investor predictability.

We can see the case for fixing charges at the point of FID in principle, because investability is a key criterion and assets are limited in their ability to relocate once committed. However, we ask Ofgem to recognise that charge fixing is a consequential decision about what to lock in. Fixing locational charges at FID for periods that may extend to 25+ years could mean locking in whatever Generation Demand split, demand-side allocation and constraint-credit framework happens to exist at the moment of fixing. If these underlying allocation choices are not principled, this risks fixing in arbitrary distributions and limits the ability to correct it later without breaching investor expectations.

Our specific concerns include:

1) **The Generation:Demand split is not yet principled**. The current 16:84 generation-to-demand allocation is a mechanical residual of the Limiting Regulation, not a cost-causation outcome. Fixing locational charges at FID before this is resolved would lock the current split into asset lifetimes that could last for 25+ years.
2) **The demand-side residual structure is not yet principled.** Citizens Advice's 2025 CARR response recommended against one-part recovery and argues for two-or-more element designs. We recommend that Ofgem ensures consistency between their work on cost allocation and recovery and their work on Reformed National Pricing.

We recommend:

1) **Sequencing the reforms.** The G:D split, the demand-side residual, the credit framework and the Limiting Regulation must be resolved before

any move to long-life charge fixing. Until then, charge fixing should be limited to relatively short periods (e.g. 5-year rolling windows aligned with SSEP/CSNP iterations) rather than asset lifetimes.

2) **Distinguish what is fixed from what is variable.** Even within a long-life framework, not every element needs to be fixed for the full period. The locational element directly responsive to siting decisions has the strongest case for fixing (as the asset cannot relocate). There is less rationale for fixing the residual element for the asset lifetime because doing so could prevent future correction of allocation choices. Ofgem could be explicit about which components are fixed and for how long.
3) **Build review triggers into any long-life fix.** Where charges are fixed for periods exceeding 5–10 years, the methodology should include explicit review triggers (for instance, material changes to SSEP. The CfI flags this at paragraph 6.7 and we support this.

Update cycle and timing of certainty

We caution against any framework that fixes charges at connection-offer stage and leaves them unchanged through the years between offer and FID. That could create an opportunity for gaming the connection queue to secure favourable charges that no longer reflect cost causation when the asset is built.

Adaptability should be an explicit principle. Whatever fixing arrangement is chosen for the enduring regime, it should be capable of evolving with markets.

Q27. What factors should be considered when determining the appropriate representation of the network from which to derive charges?

Within the choice to model the planned future network, the key factor is the time horizon. There is a trade-off:

- A near future horizon (3–5 years) preserves flexibility for charges to respond to real-world developments, including delays to planned reinforcement, and feeds back into subsequent SSEP iterations. This minimises transitional constraint costs.
- A longer future horizon reduces scope to track real-world changes but provides greater predictability, helps treat the planned network as a sunk cost, and supports stronger SSEP alignment.

Q28. How can locational charging best reflect technology-specific differences?

We support competition between technologies to reduce consumer costs.

Q29. In areas where adding generation reduces the need for additional transmission infrastructure, should network charge credits continue to apply under a reformed framework? Is it appropriate these charges are paid for by final demand?

No, not in their current form. The current credit framework is largely a residual artefact of the Limiting Regulation, rather than a principled cost-causation outcome. Demand is paying for transfers that have not been transparently justified on system value grounds. The framework should be reformed in parallel with the Generation:Demand split question and the Limiting Regulation decision.

Q30. If network charge credits were to continue in a reformed framework, how should they be used to provide an effective and proportionate locational signal?

If credits continue, the design must address:

- **Transparency.** The methodology for calculating credits must be published and transparent. The current arrangement, where credits emerge from the interaction of the transport model and the Limiting Regulation cap, lacks transparency.
- **Technology-neutral application.** Credits should be available to any asset class delivering the system-value contribution that justifies them. A reformed framework could be symmetrical, e.g. if a battery provides the same constraint relief as a generator, it should receive equivalent credit.
- **Review against actual system value delivered.** Credits paid on assumed constraint relief, but not verified against actual contribution, can pay assets for value they did not deliver. The framework should either include ex-post verification or set credits conservatively to limit misalignment risk.
- **Sunset clause aligned with Limiting Regulation resolution.** Where credits exist as residuals of the current framework, they could sunset automatically when that framework is updated.

Q31. Should flexible connection offers be used to manage the possibility of connections in advance of (or in addition to) planned capacity as a complementary backstop and time-limited measure?

Yes. Time-limited flexible connection offers should be used as a complementary backstop where locational charges or other siting levers are not sufficient to align investment decisions with the SSEP. Two scenarios make the backstop case particularly clear:

1) Where connection offers exceed the chosen SSEP pathway (e.g. to promote competition or allow for attrition), flexible connection offers can mitigate the risk that additional capacity above plan drives up constraint costs for consumers. The non-firm element of access acts as a backstop until reinforcement is delivered.
2) Where connection offers are within the SSEP pathway but planned network build is delayed, flexible connection offers allow earlier connection while protecting consumers from the additional constraint costs that would otherwise arise.

Q32. If projects are, under limited circumstances, permitted to connect above the planned capacity in a zone, to what extent should deeper connection charges be used to recover any additional network reinforcement costs they may trigger?

Deeper connection charges could be applied to assets connecting above the planned capacity in a zone. This is consistent with the broader principle that risk allocation should shift progressively from consumers to generation, and that costs of network build determined by strategic planning and costs triggered by out-of-plan assets should be recovered on different bases.

The principled case

The SSEP is, in effect, a plan for who the network will be built to serve. Capacity within the plan is anticipatorily built and reasonably socialised across consumers because it serves the planned system. Capacity above the plan is, by definition, not anticipated - it is additional asset connection that triggers additional reinforcement the planning process did not provide for. The asset connecting above-plan is the proximate cause of that additional cost.

Socialising the cost of above-plan reinforcement via TNUoS would mean consumers pay twice: once for the SSEP-aligned network, and again for the unplanned network the above-plan asset has triggered. The beneficiary-pays principle requires the above-plan asset to bear the cost it has caused.

There is an important caveat. Paragraph 6.36 notes that deeper connection charges could make above-plan assets less competitive than within-plan assets, which might undermine the rationale for allowing above-plan connections. We agree this is a tension but think the consumer interest tilts toward applying deeper charges. If above-plan connection is permitted purely for competition or attrition reasons, the social value of that competition or attrition must be weighed against the cost it imposes on consumers - which is what deeper connection charges make visible.

We suggest a couple of practical design points below:

- The above-plan threshold should be transparent and tied to the published SSEP pathway and CSNP. Investors should know in advance whether they are connecting within plan or above plan, and the differential charge should be predictable.
- Coordination with the flexible-connection backstop (Q31) is important. An asset connecting above-plan should have a choice between accepting a deeper connection charge or accepting a flexible connection that defers the reinforcement requirement.

Treatment of legacy and transitional assets

Q33. Under what circumstances do you see a need for introducing LAT arrangements? Do you agree with our rationale for the potential introduction of such arrangements?

We broadly agree with the rationale but would advise caution. We recommend ensuring an appropriate balance of risk between consumers and producers.

In our view, the investment conditions in the UK are currently world-leading, evidenced by credible analyses[5] and considering the current Government's commitment to CP2030 and investment-friendly reforms. We expect thorough analysis and evidence to underpin the decision-making on LAT arrangements.

We recommend that any LAT considers the following:

1) **LAT scope should be tightly drawn.** LAT cover should default to fully commercial assets with no other consumer-paid protection. Scheme-supported assets (e.g. CfD) should be excluded unless a specific case is made that LAT cover does not duplicate existing consumer-paid protection.
2) **LAT should not lock in unprincipled allocation**. The Generation : Demand split, the demand residual structure and the credit framework are not yet principled. LAT arrangements that fix legacy assets against changes to these structures would also fix the status quo. LAT should apply to changes in the locational signal facing each asset.
3) **LAT should be time-limited**. Indefinite LAT cover would become a permanent regulatory exception. We recommend a time-limited LAT (e.g. 5–10 years from RNP commencement or to the natural end of an existing CfD/CM contract.
4) **Consumer cost should be transparent and capped.** The aggregate cost to demand of LAT arrangements should be published and capped. Demand consumers should be able to see what they are paying for LAT cover and to whom.
5) **The case for LAT must be evidenced, not assumed.** To aid assessment, the CfI's quantitative analysis of LAT scenarios should be published as part of the next stage of policy development.

[5] Baringa, Renewables Market Scanning, October 2024

Q34. Can you provide details and/or information on how investment decisions have been made to date and what factors or assumptions regarding TNUoS charging were taken into account?

No response.

Q35. Do you agree with these principles for LAT arrangements? Are there any which we are missing?

The five principles set out by Ofgem are broadly appropriate but could be strengthened in two respects to align with the wider risk-allocation framework that should run through the RNP package:

- The principle that "consumers should not be worse off overall due to the introduction of the arrangements" should be made operational by requiring a published consumer-cost assessment for each LAT design option, with attention to how the assessment changes over time as the system evolves.
- The principle that "an appropriate level of locational investment signal should be maintained" for transitional assets should be expanded. Where a transitional asset is able to respond to locational signals, the case for full LAT treatment is weaker. The eligibility threshold should reflect this.

An additional principle we propose adding is adaptability. LAT arrangements should be reviewable at defined points (e.g. alongside SSEP/CSNP iterations or at material changes to network plans) so they can evolve as the system changes. Locking in LAT arrangements for the full life of legacy assets without review risks creating long-lived distortions if the underlying RNP regime itself changes.

Q36. Do you believe determining the scope of LAT arrangements solely based on a FID cut-off date is appropriate, or should we narrow their scope based on route to market or other differentiators?

No response.

Q37. What would be the best way, in your view, for the Authority to collect and assess evidence of FID for the purposes of determining eligibility for LAT arrangements? Would it be more appropriate to use Milestones 7 and/or 8 of the connections process as the method of determining eligibility?

No response.

Q38. Should we consider differentiating between generators that are currently receiving TNUoS credits and those liable for paying TNUoS charges in determining the scope of any LAT arrangements?

As set out in our response to Q29, the current TNUoS credit framework is largely a residual artefact of the Limiting Regulation interaction rather than a principled cost-causation outcome. Demand pays around £0.3bn per year via the Transmission Generation Residual to keep average generator charges within the €2.50/MWh cap imposed by retained EU Regulation 838/2010. A LAT arrangement that preserves credit payments to legacy generators would therefore be locking in a transfer from demand to generation that exists because of an EU regulation due for principled review, rather than because of cost causation that supports continued protection.

The legitimate-expectation argument that justifies LAT for charge-paying generators does not transfer cleanly to credit-receiving generators. A developer who invested on the basis of expected positive TNUoS charges has a recognisable reliance interest in not facing a different charge schedule than was assumed. A developer who has been receiving credits (i.e. payments from demand) has a weaker reliance interest in continued payment under arrangements that exist because of a constraint that is itself due for principled review.

Q39. Which design – parallel running, phased implementation or a fixed charging regime – could best achieve a balance of the aims for LAT arrangements?

The three design options trade off differently against the consumer cost-transfer dimension. The international evidence base is thinner than we would want for a definitive recommendation.

We would like to see Ofgem outline transparent quantitative modelling of consumer-cost impact under each design option, including how the cost-transfer changes over time. Without this modelling, the ‘in consumers' wider interests’ framing of LAT cannot be assessed.

Q40. If fixing of charges for legacy generators was deemed appropriate, which of the options described could achieve a balance of aims for the LAT arrangements? Are there other options we should consider for fixing?

Each of the three options has different implications for which asset categories benefit and which are disadvantaged. We encourage Ofgem to model the distributional consequences explicitly before selecting between them.

An additional suggestion, drawing on the broader RNP design choices flagged at Q26, is that the locational element and the residual element could be fixed on different bases. The locational element, which directly reflects the asset's siting reliance interest, has the strongest case for fixing on a year-of-FID basis. The residual element has a weaker case for asset-lifetime fixing and could be allowed to follow Ofgem's conclusions on CARR and other allocation reforms.

We do not have a strong view between year-of-FID and the other options, and recommend Ofgem publish consumer-cost modelling for each before selecting.

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