

EXT || NGESO consultation on Security Factor

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Rebecca,

Further to your consultation letter of 16th November 2020 concerning the “TNUoS Locational Onshore Security Factor for RIIO2 Period” we’d like to provide the following feedback.

We welcome this opportunity to set out our views about how the ESO should fulfil the obligation to reset the value of the Security Factor for each price control.

We consider that the ESO should adopt the third option that you present in the letter (“Increase the accuracy by rounding up the value to eight decimal places at 1.75547656, to align with the approach on the offshore expansion factors”).

This reset will, as you have outlined, increase the accuracy of the Security Factor, and as such clearly increase the accuracy of the transmission charges that result from the methodology where the tariffs are delivered using values to eight decimal places.

We see no reason why you should pursue the first option. There is no valid reason to round the number to one decimal place. Multiple decimal places are used elsewhere within the TNUoS methodology. As you outline in your characterisation of the options, using one decimal place is the least accurate of the three you have outlined.

We see no valid reason for adopting the second approach as it is less accurate than the third, and there is no good administrative reason for the use of two decimal places rather than eight given that there are many other numbers that are involved in the TNUoS methodology that are expressed in values including eight decimal places.

As you may recall it was suggested at the recent TCMF meeting that this change to the Security Factor needed to be seen in the context of CMP353 (in terms of changes to the Expansion Constant) as in ‘*you can’t change one without changing the other and vice versa you can’t not change one without not changing the other*’.

However, there is a difference of substance in terms of the linking of the Security Factor and the Expansion Constant.

As Ofgem’s CMP353 decision letter this week has confirmed: in the case of the Expansion Constant there is a lack of confidence in the process and the input data used to derive it (which is not the case with the Security Factor):

*“Whilst the new value of the expansion constant has been derived using the relevant project costs, we do not have sufficient evidence that the individual projects used in the calculation reflect the generality of transmission investments. **We therefore cannot be confident that the resultant expansion constant value is reflective of the generality of costs of transporting 1MW over 1km.**”* [emphasis added]

That fundamental lack of confidence on the part of Ofgem (as well as NGESO as proposer of CMP353 and other stakeholders) as to whether the baseline Expansion Constant (if left unchanged via CMP353) is cost reflective or not (and in approving CMP353 over the Baseline, Ofgem says ‘not’) does not exist with respect to the Security Factor – there is no known equivalent fundamental lack of confidence in terms of the process or the input data

that has been used to calculate the Security Factor (or will be used in the forthcoming price control) nor any suggestion made publicly that we are aware of.

Rather this is about resetting the Security Factor (which the ESO has to do each price control).

To ensure that the value to be applied is more accurate, then the use of eight decimal places is the correct way to proceed as this ensures that more accurate charging occurs as a result and, as has been widely accepted by the all concerned, this is in the best interest of both competition and end consumers.

As the information detailed in the Appendix to your letter shows, changing to a more representative figure for the Security Factor; by adopting the option 3 approach of eight (rather than the current one) decimal places; results in the most accurate tariffs for generators and demand (consumers) alike.

Regards

Garth

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