

4th December 2020

Rebecca Yang (Revenue Manager, ESO)
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Non-confidential

Dear Rebecca,

TNUoS Locational Onshore Security Factor for the RIIO-2 Period

Drax Group plc (Drax) owns and operates a portfolio of generation assets and also owns two retail businesses, Haven Power and Opus Energy, which together supply electricity and gas to over 390,000 business premises. We therefore welcome this opportunity to provide comments on the TNUoS locational onshore security factor, because any change to the well understood and long-standing approach could materially impact market participants and consumers.

In our view the locational onshore security factor should be rounded to one decimal place (1.8). This has been the approach since its inception in 2004/05. We do not support the options to round the security factor to either two (1.76) or eight (1.75547656) decimal places, as these options are a material deviation from the long-established practice.

Current ESO forecasts use a security factor of 1.8. Changing to a different rounding methodology now would result in significant and unforeseen changes to the TNUoS liability of many parties from April 2021, with some making windfall gains and others losses. Given the materiality of changing the rounding methodology, we believe this should follow the CUSC modification route to ensure a robust process is followed and a thorough assessment is made. It should not be conducted via an open letter with the ESO being the ultimate decision maker.

While we recognise that the CUSC is silent on the number of decimal places the security factor should be rounded to, the standard practise since 2004/05 has been rounding to one decimal place. When forecasting TNUoS liabilities, it's reasonable to assume parties will adopt the established rounding methodology for April 2021 tariffs, as the ESO's own forecasts have done. Moreover, parties will have already entered into fixed-price contracts with customers for the 2021/2022 period. Changing the methodology would lead to unforeseen price/cost variations which will have a detrimental impact on competition, as recognised by Ofgem in its recent decision on CMP353.

In Ofgem's decision letter to CMP353, they acknowledge "*unexpected changes in charges are, in our view, detrimental to competition*". Additionally, in the CMP324/5 decision letter, Ofgem stated the importance of considering the calculation of the Expansion Constant, the Expansion Factors and the generation zoning rules holistically, given their complex interactions. Any near-term change to the security factor methodology, that is not given full and careful consideration through the modification route, would be wholly inconsistent with a holistic approach.

In light of the foregoing, we do not believe it is appropriate to change the accepted one decimal place rounding method for use in April 2021 tariffs, and any such change for future years (beyond 2021/2022) should be progressed and determined via the CUSC modification route. For the avoidance of doubt, Drax believe any modification which proposes to change the methodology for 2021/2022 charges would be patently negative against Applicable Objective (a) - promoting competition - of the CUSC. Following the CUSC governance process would ensure that a robust assessment is made against the relevant charging objectives, with Ofgem ultimately responsible for the decision.

As a more general observation, we would expect issues such as this, as well as the defect highlighted in urgent modification CMP353, to have been foreseen and dealt with sooner via the appropriate route.

We would be happy to discuss any aspect of our response with you further if it would be helpful.

Yours sincerely,

Submitted via email

Joshua Logan
Industry Governance Officer