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TNUoS Locational Onshore Security Factor for RIIO2 Period

1 December, 2020

Dear Rebecca,

Thank you for the opportunity to respond on the above issue. Uniper does not agree with the proposal to change the practice for calculating the Locational Onshore Security Factor from that which has been followed for the last 17 charging years. This would be a material change from established practice, which would result in significant value being transferred between different CUSC parties. If such a change is to be made, then it should only be in response to a modification to the CUSC text specifying this.

The Security Factor has been used in the TNUoS methodology since the charging year 2004/05. In that initial year, it was set at the value of 1.9. In the subsequent year the factor changed to 1.8 and it has been set at that value since. In the following time, the charging methodology has been moved into the main text of the CUSC, but the prevailing value of the Expansion Constant has always been quoted to 1 decimal place.

The changes which have been proposed have resulted from an opinion given at the Transmission Charging Methodologies Forum that the number should now be quoted to more than one decimal place. However, this is not the basis for making a change which can have a material change on parties' exposures to TNUoS charges. We have estimated that this change would increase our generation charges by around just under £600k per annum. We also believe that another company would benefit by over £1m per annum. Presumably, this would move the charges significantly for other parties too, some benefiting and others paying more.

We recognise that the CUSC is silent on the number of places that the factor should be calculated to. However, we consider that it is reasonable to assume that companies would have expected the practice which has been followed for the last 17 charging years would continue, when forecasting their TNUoS liabilities for next year. Similarly, it would be unrealistic for someone to claim that an assumption of an alternative practice sat behind their planning. Therefore, any change made now would entail a cost shock or windfall to parties, depending on where they sit on the network, that they could not have reasonably anticipated.

We believe that if the established practice is to be challenged and clarified, then this should happen as a result of a change to the CUSC text to specify the number of decimal places that the factor should be calculated to. As part of this process, we would expect there would be an exploration of why 1 decimal place was used originally



and whether things have changed now to merit a change from that practice. For instance, does the process followed to calculate the factor justify a number quoted to a higher number of places, or would this simply entail a spurious degree of accuracy? Indeed, were such a modification to be raised, we would expect that it would not be deemed to be suitable for the self-governance assessment process, given the potential impact on individual companies. This further calls into question the appropriateness of simply imposing such a change on parties.

Therefore, we do not believe that the current long established practice should be changed in this way, in the absence of a modification change.

Finally, we note that Ofgem in its decision letter on CUSC modifications CMP324/5 states the importance of considering the calculation of the Expansion Constant, the Expansion Factors and the generation zoning rules together, given their interaction on each other in setting locational charges. As the Security Factor also impacts the level of locational charges parties are exposed to, we believe that it would be inconsistent to change this one aspect outside of this wider process.

I hope the above views prove helpful. Please do contact me should you wish to discuss this further.

Yours sincerely

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