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Code Administrator Consultation Response Proforma

CMP432: Improve “Locational Onshore Security Factor” for TNUoS Wider Tariffs

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to usc.team@nationalenergygyso.com by **5pm** on **06 May 2025**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact usc.team@nationalenergygyso.com

Respondent details	Please enter your details	
Respondent name:	Emanuele Dentis	
Company name:	Northland Power	
Email address:	Emanuele.dentis@northlandpower.com	
Phone number:	Click or tap here to enter text.	
Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input checked="" type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input type="checkbox"/> System Operator <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input type="checkbox"/> Other

I wish my response to be:

(Please mark the relevant box)

☒ **Non-Confidential** (*this will be shared with industry and the Panel for further consideration*)

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☐ **Confidential** (this will be disclosed to the Authority in full but, unless specified, will not be shared with the Panel or the industry for further consideration)

For reference the Applicable CUSC (charging) Objectives are:

- d) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- e) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C11 requirements of a connect and manage connection);
- f) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses and the ISOP business*;
- g) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency **; and
- h) Promoting efficiency in the implementation and administration of the system charging methodology.

* See Electricity System Operator Licence

**The Electricity Regulation referred to in objective g) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.

For reference, (for consultation question 5) the Electricity Balancing Regulation (EBR) Article 3 Objectives and regulatory aspects are:

- a) fostering effective competition, non-discrimination and transparency in balancing markets;
- b) enhancing efficiency of balancing as well as efficiency of national balancing markets;

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- c) integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security;*
- d) contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector while facilitating the efficient and consistent functioning of day-ahead, intraday and balancing markets;*
- e) ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue market distortions;*
- f) facilitating the participation of demand response including aggregation facilities and energy storage while ensuring they compete with other balancing services at a level playing field and, where necessary, act independently when serving a single demand facility;*
- g) facilitating the participation of renewable energy sources and supporting the achievement of any target specified in an enactment for the share of energy from renewable sources.*

What is the EBR?

The Electricity Balancing Regulation (EBR) is a European Network Code introduced by the Third Energy Package European legislation in late 2017.

The EBR regulation lays down the rules for the integration of balancing markets in Europe, with the objectives of enhancing Europe's security of supply. The EBR aims to do this through harmonisation of electricity balancing rules and facilitating the exchange of balancing resources between European Transmission System Operators (TSOs). Article 18 of the EBR states that TSOs

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such as the NESO should have terms and conditions developed for balancing services, which are submitted and approved by Ofgem.

Please express your views in the right-hand side of the table below, including your rationale.

Standard Code Administrator Consultation questions			
1	Please provide your assessment for the proposed solution against the Applicable Objectives against the current baseline?	Mark the Objectives which you believe the proposed solution better facilitates than the current baseline:	
		Original	<input checked="" type="checkbox"/> d <input checked="" type="checkbox"/> e <input checked="" type="checkbox"/> f <input type="checkbox"/> g <input type="checkbox"/> h <input type="checkbox"/> none
		<p>We consider that the proposal should be implemented because it achieves more cost-reflective network charges, that are better aligned with real world network build requirements.</p> <p>Currently Northern generators are over-penalised and Southern generators over-rewarded, as the former pay for more than the network that is actually built and the latter receive proportionally greater credits. The proposal removes this distortion to investment signals for both Northern and Southern generators. This, it supports more effective competition in the generation market, including in CfD auctions, and well aligns with CUSC objective d).</p> <p>The proposal better facilitates CUSC objective e) because the Locational Security Factor (LSF) does not reflect real world network build requirements for transmission licensees and the actual cost of complying with SQSS. The LSF was only meant to be an approximation and no one ever checked if the historical buildout matched the assumption of the LSF. Thus, the LSF is not cost reflective and we see no justification for its continued presence in the charging methodology.</p>	

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		The proposal better facilitates CUSC objective f) because evolution in transmission licensees business shown in the NESO Electricity Ten Year Statements (ETYS) (as represented by the Proposer with examples of the West Coast bootstrap and other network reinforcements) highlights how the effects of the existing LSF will be amplified by the amount of network build expected, therefore its removal is a matter of urgency in our view.
2	Do you have a preferred proposed solution?	<input checked="" type="checkbox"/> Original <input type="checkbox"/> Baseline <input type="checkbox"/> No preference
		Click or tap here to enter text.
3	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		Yes, we'd support removal of references to Locational Onshore Security Factor from the CUSC.
4	Do you have any other comments?	<p>During the course of the workgroup we commissioned together with Ocean Winds and West of Orkney Wind farm a report produced by Aurora Energy Research looking at the consumer savings that could be achieved if the Original Proposal was adopted.</p> <p>Fundamentally, under the current TNUoS charging regime with a LSF of 1.76, Southern generators will be enjoying an inframarginal rent through the CfD auction. The Aurora Report</p>

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		<p>shows that TNUoS tariffs with a 1.76 LSF lead to a much higher CfD price required by Northern generators to be financially viable. Because Northern generators are required to deliver on the government's Clean Power 2030 targets, when they clear the CfD auction, Southern generators will enjoy the difference between the clearing price set by Northern generators and their own bid price, which is based on increasing TNUoS credits – unless this Proposal is implemented. Instead, this Original Proposal reduces the size of this inframarginal rent, passing the savings onto consumers.</p> <p>We attach the report to this consultation for greater detail.</p> <p>On another point, we want to stress further that, essentially, this Workgroup has demonstrated that the 1.76 LSF is:</p> <ul style="list-style-type: none"> - not cost reflective: it doesn't actually pay for the turn-out buildout of the safety requirement for the network - not really justified: NESO struggled to explain in detail why the factor has been set at 1.76 for a number of charging years - not fit for the future: we refer to the presentations in the appendix where presenters demonstrated that the current and future network upgrades (bootstraps
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		in particular) themselves provide more security to the network
5	Do you agree with the Workgroup's assessment that the modification does not impact the Electricity Balancing Regulation (EBR) Article 18 terms and conditions held within the Code?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		Click or tap here to enter text.