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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 cusc.team@nationalenergyso.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 cusc.team@nationalenergyso.com

Respondent details	Please enter your details	
Respondent name:	Giulia Licocci	
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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*)

☐ **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*)

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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;*
- 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;*

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- 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 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	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 checked="" type="checkbox"/> g <input checked="" type="checkbox"/> h <input type="checkbox"/> none

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	<p>against the Applicable Objectives against the current baseline?</p>	<p>Objective (d): <i>Facilitating effective competition in the generation and supply of electricity and, where consistent, in its sale, distribution, and purchase.</i></p> <p>The current 1.76 security factor methodology was designed to charge for sunk security costs rather than actual system needs. This undermines effective competition by exponentially increasing volatile locational charges—particularly in regions such as Scotland, where strategic transmission expansion is already underway. These artificial cost burdens distort investment signals and act as a barrier to entry for new market participants. Setting the factor to 1 removes this distortion and volatility, that must otherwise be priced into CfDs, enabling a level playing field across regions and technologies.</p> <p>The change also enhances competition in CfD auctions by reducing unjustified regional disparities in bid pricing and reducing related, artificially created, upward pressure on CfD auction clearing prices, which ultimately fall on electricity customers' bills. In recent analysis by Aurora Energy Research¹, they found that TNUoS leads to a CfD bid price differential of up to £21/MWh for offshore wind generation between the North and South of GB in 2025. By reducing this disparity, this proposal supports more efficient and competitive auction outcomes, benefiting both developers and consumers.</p> <p>The security factor of 1.76 is inherently anticompetitive. By acting as a multiplier, it significantly inflates locational charges, placing a disproportionate financial burden on generators in</p>
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¹ <https://www.scottishrenewables.com/publications/1929-consumer-savings-under-tnuos-reform-proposals-report>

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		<p>the north of Scotland. These generators are effectively paying for the perceived security of the entire GB network, despite that security already being built into the system design for all users. As a result, the security factor distorts market signals and undermines fair competition across regions.</p> <p>Objective (e): <i>Charging methodology should reflect, as far as reasonably practicable, the costs incurred by transmission licensees and comply with connect and manage obligations.</i></p> <p>The current factor of 1.76 is not cost-reflective. It assumes a linear relationship between additional capacity and security investment needs, which does not align with how the transmission network is actually planned and reinforced. The SQSS already ensures sufficient redundancy (e.g. N-2 criteria), meaning that most network expansions do not require additional security measures. A factor of 1 more accurately reflects these planning realities and avoids charging for reinforcements that are not needed or built.</p> <p>A security factor of 1 provides a more credible, fair, and transparent basis for cost allocation.</p> <p>Objective (f): <i>Charging methodology should reflect developments in the transmission businesses, including the ISOP.</i></p> <p>Major transmission projects such as ASTI are designed with built-in security measures and reflect long-term system planning. Applying an inflated security factor to such projects double-counts these investments, directly inflating charges for both generators and consumers. Reducing the factor to 1 properly accounts for how transmission licensees already design their systems to meet long-term needs and maintain operational security.</p>
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		<p>Objective (g): <i>Compliance with relevant European regulations and binding decisions.</i></p> <p>EU Regulation 2019/943 (Article 18) requires network charges to be cost-reflective and transparent. The 1.76 security factor fails this test. It imposes charges based on outdated assumptions rather than actual system requirements. The transmission system has already been designed and built with sufficient security to ensure that generation can reliably reach demand under a range of credible scenarios. Applying a separate 'security factor' on top of the security already embedded in system design is not cost-reflective—it results in double-counting the same security provision and inflating charges beyond the actual cost of delivering reliable transmission.. In contrast, a factor of 1 aligns with the regulation by reflecting actual system build and investment needs, thereby avoiding unjustified network charges.</p> <p>Objective (h): <i>Promoting efficiency in implementation and administration of the charging methodology.</i></p> <p>Simplifying the security factor to 1 improves the clarity and administrative efficiency of the methodology. It eliminates the need for opaque modelling assumptions and improves access and understanding to the CUSC methodology to all stakeholders. The current complexity adds cost and risk, while a factor of 1 is simpler, more predictable, and easier to administer.</p>
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2	Do you have a preferred proposed solution?	<div> <input checked="" type="checkbox"/>Original <input type="checkbox"/>Baseline <input type="checkbox"/>No preference </div> <p>Beyond the substantial consumer benefits resulting from (i) the reduction of inflated network charges and (ii) the resulting downward pressure on CfD bid and clearing prices, the CMP432 Original proposal addresses a fundamental inconsistency in the current TNUoS methodology by aligning security-related charges with the actual design and operation of the transmission system. The network is built with embedded security, and incremental generation does not generally necessitate proportional additional reinforcement. Charging for security that is already built, or not needed, inflates costs and misrepresents system needs.</p> <p>We therefore support the implementation of CMP432 Original. A security factor of 1 is more cost-reflective, transparent, pro-competitive, and consistent with regulatory obligations—ultimately delivering better outcomes for consumers, investors, and the electricity system as a whole.</p>
3	Do you support the proposed implementation approach?	<div> <input checked="" type="checkbox"/>Yes <input type="checkbox"/>No </div> <p>Click or tap here to enter text.</p>

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4	Do you have any other comments?	<p>Consumer Impact</p> <p>During the workgroup process, a report by Aurora Energy Research—commissioned by Ocean Winds, the West of Orkney Windfarm, and Spiorad na Mara—was prepared to illustrate the consumer impact of CMP432 related to CfD prices.</p> <p>The report finds that implementing CMP432 Original could reduce CfD bid prices for Scottish offshore wind and deliver £11.1 billion in consumer savings between 2028 and 2050. These benefits arise from correcting the distortion created by inflated locational charges, which currently lead to higher clearing prices in CfD auctions and undermine efficient market outcomes (report available here: Consumer savings under TNUoS reform proposals report)</p> <p>While the report focuses on offshore wind, it is important to note that broader consumer benefits would likely arise if similar considerations were extended to onshore wind and other low-carbon technologies affected by the same charging distortions.</p>
5	Do you agree with the Workgroup's assessment that the modification does not	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>

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	<p>impact the Electricity Balancing Regulation (EBR) Article 18 terms and conditions held within the Code?</p>	<p>While this modification does not directly impact the implementation of the Electricity Balancing Regulation, it is important to note that a security factor of 1 would be far more consistent with its core objectives.</p> <p>Specifically, the proposed change would align with the EBR's emphasis on:</p> <ul style="list-style-type: none"> • <u>Fostering effective competition</u> by removing unjustified locational barriers that disadvantage generators in certain regions (EBR Article 3(a)); • <u>Enhancing the efficiency</u> of national electricity markets by ensuring that price signals reflect actual system needs rather than theoretical or outdated assumptions (Article 3(b)); • <u>Contributing to the efficient long-term development</u> of the transmission system by enabling more accurate and transparent cost signals (Article 3(d)); • <u>Facilitating the participation of renewable energy sources</u>, including in CfD auctions, by correcting structural cost distortions impacting key areas like Scotland (Article 3(g)).
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