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Workgroup 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 07 March 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:	Alan Kelly	
Company name:	OWPL	
Email address:	Alan.kelly@westoforkney.com	
Phone number:	07720160328	
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 Workgroup, Panel or the industry for further consideration*)

For reference the Applicable CUSC (charging) Objectives are:

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- a) *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;*
- b) *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);*
- c) *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*;*
- d) *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency **; and*
- e) *Promoting efficiency in the implementation and administration of the system charging methodology.*

* See Electricity System Operator Licence

**The Electricity Regulation referred to in objective (d) 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.

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

Standard Workgroup Consultation questions		
1	Do you believe that the Original Proposal and better facilitates the Applicable Objectives?	Mark the Objectives which you believe the Original solution better facilitates:
		Original <input checked="" type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E
		<p>The proposal better facilitates objective a) because the current scaling factor multiplies the cost differential across GB for generators sending an inappropriate locational signal.</p> <p>It unreasonably acts to penalise more northern generators with higher costs which are then passed through to more southern generators acting as a subsidy. This creates an unreasonable differential that is not cost reflective. This impacts all market participants most notably on CfD strike prices which</p>

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		<p>undermines competition and ultimately increases energy costs for consumers.</p> <p>The proposal better facilitates objective b) because the scaling factor does not reflect the actual infrastructure design and build and therefore cost undertaken by TO's to achieve compliance with SQSS security standards. The LSF is therefore not cost reflective.</p> <p>The proposal better facilitates objective e) because the calculation of LSF currently at 1.76 is not clearly supported with an evidenced based calculation. The SECULF model used by NESO to calculate the LSF could not be explained or justified by NESO through the work group process. Removing or setting the LSF to 1.0 avoids distorting the charging methodology with an unsubstantiated parameter.</p>
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Click or tap here to enter text.</p>
3	Do you have any other comments?	<p>The 10-year TNUoS projections published by NESO highlight the significant increase in tariffs for northern generators; The scale of increase is such there is an existential threat to existing operational generation and the potential for developers will not be able to secure investment. We do not believe the TNUoS methodology is sending an appropriate investment signal that support s deliver of CP30 goals and the contribution of the location scaling factor is a major factor in the calculation of these high tariffs. We believe it is not cost reflective and should be set to 1.0 or removed from the CUSC altogether.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p><input type="checkbox"/> Yes (the request form can be found in the Workgroup Consultation Section)</p> <p><input checked="" type="checkbox"/> No</p> <p>Click or tap here to enter text.</p>
5	Do you agree with the Workgroup's assessment that the modification does not	<p>yes</p>

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	impact the Electricity Balancing Regulation (EBR) Article 18 terms and conditions held within the Code?	
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Specific Workgroup Consultation questions

6	Do you think there are any other approaches to reflecting the cost of security or is there a value other than 1 or 1.76 that is more appropriate. If you have any supporting evidence, please provide this?	<p>There is supporting evidence provided in Annex 5 by a January 2025 study by Trident economics that proposes a value of 0.7 for the security factor. The basis for this value is that it would reflect the apparent level of investment into transmission in response to incremental wind capacity, which would seem to be an appropriate factor to consider in an investment cost related pricing approach.</p> <p>The conclusion of the report and proposal for setting a value of 0.7 supports the original proposal to set the value 1.0 as a conservative measure and is a positive first step at least until further analysis can be undertaken.</p>
7	Do you believe price signals should reflect average existing cost, incremental cost, a combination of the 2, or something else?	Price signals should reflect the incremental cost associated with providing incremental security. The current methodology does not achieve this or reflect the actual design approach to achieve SQSS security compliance across the GB network.
8	Do you have a view on whether the SECULF model is appropriate? Is enough information available to market participants?	<p>We are not aware of any clear explanation to support the existing methodology of calculating the locational security factor, or that the SECULF model is calculating an appropriate security factor. The value of 1.76 being applied just now is not supported by clear rationale or evidence. There is, however, unmistakable evidence (e.g. NESO 10-year projections) that TNUoS wider tariffs are escalating to unaffordable levels for northern generators, and detrimental to consumers. The application of a locational security factor greater than 1.0 needs to be fully justified by NESO if it is to continue to be applied. NESO have been unable to do this as part of this work group.</p>

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