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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 usc.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:
usc.team@nationalenergyso.com

Respondent details	Please enter your details	
Respondent name:	Tony Diccico	
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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 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 checked="" type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E
		The Original Proposal, which proposes removing the Security Factor, would better facilitate effective competition (Applicable Objective a)) for both Generators and demand. It would achieve this through delivering better predictability of Wider locational TNUoS charges, for both Generators and demand, by reducing the sensitivity of charges to changes in the Expansion Constant and Expansion Factors, and the location of generation, demand and new network. The impact on charges from changes in any of these components is amplified by applying a

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		<p>multiplier of 1.76 (The Security Factor). The removal of the Security Factor would also create a more level playing field and improve international competition for Generators because the Security Factor would not inappropriately amplify the cost of network charges compared with the network charges paid by Generators in other markets.</p> <p>Removing the Security Factor would also be better for cost reflectivity for both Generator and demand charges (Applicable CUSC Objective (ACO) b)), as the change would result in Wider locational TNUoS charges that better reflect the cost of incremental network investment.</p> <p>New network investment is required to meet the UK's climate change objectives. However, it is not being built with accompanying additional surplus redundant network capacity for security purposes, but for economic reasons to increase power transport capacity. Therefore, removing the Security Factor would better meet ACO c) by ensuring that the use of system charging methodology properly takes account of the developments in the transmission licensees' transmission business.</p> <p>Removing the Security Factor calculation and its application to Wider charges would make the administration of the charging methodology more efficient (ACO e)) by removing the need for NESO to operate the Secure Load Flow model (SECULF) that is currently used to calculate the Security Factor or implement its results into the charging methodology.</p>
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>We support the proposal to remove the existing Locational Onshore Security Factor uplift from all TNUoS Wider locational tariffs for both Peak Security and Year-Round, while leaving Local charges unchanged. We would prefer OPTION 1, where references to the Locational Onshore Security Factor are removed entirely from the CUSC and all Wider charge calculations.</p>

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3	Do you have any other comments?	We note that there is a potential interaction with CMP444, but believe that charges in Northern GB post-CMP implementation would still be at a level where the Cap introduced by CMP444 would kick in.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes (the request form can be found in the Workgroup Consultation Section) <input checked="" type="checkbox"/> No Click or tap here to enter text.
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?	Yes.

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?	No, we believe that a value of 1 for the Security Factor is an appropriate value.
7	Do you believe price signals should reflect average existing cost, incremental cost, a combination of the 2, or something else?	We note that the Connection and Use of System Code (CUSC) explains that TNUoS charges should reflect incremental cost rather than average cost. Therefore, we believe price signals under the CMP432 Original should reflect incremental cost.

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		<p>This is because the current Security Factor calculated based on average existing cost is not cost reflective - it over-compensates charges as it includes sunk costs for existing security that do not vary with network expansion. We believe that an incremental price signal should only reflect the value of incremental costs and should not attempt to reflect the value of sunk costs that do not vary with network expansion. This is consistent with economic principles that efficient prices signals should reflect incremental cost, and it is consistent with the CUSC principles that charges should reflect incremental cost, as per CUSC sections 14.14.6 and 14.14.11.</p>
8	<p>Do you have a view on whether the SECULF model is appropriate? Is enough information available to market participants?</p>	<p>We agree with the Proposer that the SECULF model outputs should be disregarded for the purposes of this modification. This is because the SECULF model, which is used to calculate the Locational Security Factor does not appear to create an accurate measure of existing network security. In addition, SECULF is measuring the wrong outcome because it attempts to produce a view of average existing network security, when charging should be based on an incremental approach. We agree also that there is no historical evidence that the 1.76 Security Factor has been applied consistently in network planning, nor has NESO provided any justification for its origin. Furthermore, since the system is already secure enough to meet demand in the South of GB, the SECULF methodology is no longer relevant when the primary focus is planning for the connection of generation located in Northern GB.</p>