CUSC Modification Proposal Form

CMP357: To improve the accuracy of the TNUoS Locational Onshore Security Factor for the RIIO2 Period

Overview: The TNUoS Locational Onshore Security Factor is required to be reviewed before the start of the next RIIO-T2 price control period in April 2021. The Proposer is seeking to improve the accuracy of the TNUoS charges parameter by ensuring that the calculated security factor is applied using eight decimal places.

Modification process & timetable

1. **Proposal Form**
   22 December 2020
2. **Workgroup Consultation**
   Not Applicable
3. **Workgroup Report**
   Not Applicable
4. **Code Administrator Consultation**
   tbc
5. **Draft Final Modification Report**
   tbc
6. **Final Modification Report**
   tbc
7. **Implementation**
   01 April 2021

Status summary: The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

This modification is expected to have a: Medium impact

On all CUSC Users who pay TNUoS tariffs.

Proposer's recommendation of governance route	This modification should be treated as urgent and will proceed straight to Code Administrator Consultation under a timetable agreed with the Authority, who will make the decision on whether it should be implemented. The Proposer considers that this is an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholder(s) and therefore meets Ofgem's Urgency Criteria (a). This is due to inaccurately calculated network tariffs requiring revision. To avoid this, CMP357 requires approval in time to allow NGESO to set tariffs at the end of January 2021.

Who can I talk to about the change?	Proposer:	Code Administrator Contact:
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What is the issue?

The TNUoS wider tariffs, calculated by the ESO, consist of two parts: the locational tariffs, which sends investment signals; and the non-locational (residual) tariffs, which ensures recovery of the revenue.

TNUoS locational tariffs are derived on a purely unconstrained network with all circuits in service. After calculating the locational prices on the unconstrained network, the ESO then "stretch" the locational tariffs by the Locational Onshore Security Factor to reflect the extra capacity in the transmission network. After multiplying locational prices by the security factor, the ESO set the wider (zonal) tariff by applying weighted average to the "stretched" locational prices at relevant sites within that zone.

Therefore, all generator and demand users are affected by the value of the security factor. The security factor was set as 1.8 for the charging years 2013/14 to 2020/21. In advance of the start of RIIO-T2, the ESO has been consulting industry about its review of the Locational Onshore Security Factor. This process highlighted that the number of decimal places to which the security factor is applied can have a material impact on the TNUoS liability of network users. The CUSC is currently silent on the number of decimal places that should be used when applying the calculated security factor.

Why change?

The ESO's recent review[1] of the 'TNUoS Locational Onshore Security Factor for RIIO2 Period' has brought to light that the number of decimal places used in determining the security factor value that is used to set tariffs can have a material impact on the accuracy of this parameter, and hence cost-reflectivity of TNUoS tariffs. This proposal is seeking to address the defect in the manner in which the security factor is applied. The materiality is shown in detail in Tables 1-3 (for generation) and 4-6 (for demand) in the Appendix to the review.

The details show that the TNUoS liability can change by up to £0.65/kW for a renewable generator, by up to £0.86/kW for a conventional low carbon generator, and by £0.76/kW for a conventional carbon generator, depending on whether one or eight decimal places are applied to the security factor (in some generation zones, the difference is an increase, in others it is a decrease of the locational charge).

Therefore, we are raising this simple proposal to codify, in order to clarify, that eight decimal places are to be used when applying the calculated TNUoS Locational Onshore Security Factor for the calculation of the final 2021/22 tariffs, to be published by 31st January 2021, and that this is applied for the duration of the RIIO-T2 price control period.

The ESO's conclusion[2] of its recent review was published late on the afternoon of 21st December 2020 (and this proposal was submitted mid-afternoon on 22nd December 2020). It identified that "*The majority of responses favour increasing the number of decimal places from 1d.p. to 8d.p as the most cost reflective option*" but, nevertheless, the ESO proposed to:

(i) adopt a less accurate approach of using just two decimal places; and

[1] https://www.nationalgrideso.com/document/180741/download
[2] https://www.nationalgrideso.com/document/183471/download

(ii) adopt a timing option 2(b)[3] which was not consulted upon and which would seek to amend a 'price control fixed' factor during the course of a price control period (from one decimal place in 2021/22 to two decimal places for the remainder of the price control) in contravention of 14.15.90 of the CUSC which states that "*The security factor is reviewed for each price control period and fixed for the duration.*" [emphasis added]. Given this wording, we cannot see how, in complying with the CUSC, the ESO can, nevertheless, undertake a 'mid-price control' change of the nature suggested with this option 2(b).

The proposer considers that the use of eight decimal places (shown in the ESO's review as being 1.75547656) from the start of (and for the whole duration of) the forthcoming RIIO-T2 price control is the correct way to proceed as this ensures that more accurate charging occurs as a result and that this is in the best interest of both competition and end consumers.

In its conclusion of the review, the ESO used three assessment criteria which did not form part of the ESO's November consultation[4] but which were derived by the ESO from the consultation responses: cost-reflectivity, tariff predictability and tariff stability. The ESO concluded that any increase in decimal points would improve the security factor's cost-reflectivity.

With regard to stability and predictability, the ESO concluded that applying any increase of decimal points to the security factor from the start of the RIIO-T2 period could not have been foreseen by stakeholders. In contrast, the proposer considers that the industry's discussions throughout autumn 2020[5] on the pre-RIIO-T2 review of the security factor would have alerted industry parties to the fact that the accuracy of the security factor to be used for RIIO-T2 tariffs was potentially subject to a change from RIIO-T1. (Similarly, industry parties are also aware that there are a number of other parameters still being reviewed and adjusted for the RIIO-T2 price control.)

Therefore, stakeholders could not have had a specific expectation on this matter until 21st December 2020, because:

(i) The ESO's discussion of this matter in the September TCMF identified that a single decimal place would not be the most accurate (and therefore not the most cost-reflective) approach to the security factor assessment; and
(ii) highlighted that the CUSC was not specific on the matter of decimal points to be use when applying the security factor;
(iii) the ESO's consultation, issued on 16th November 2020 (which would have been undertaken without any preconception of the outcome) clearly set out the difference between the use of one decimal place and eight decimal places; and
(iv) the ESO's decision letter was issued as recently as 21st December 2020.

In summary, from the earliest point where the results of the ESO's reassessment of the security factor for RIIO-T2 have been shared with industry, it has been clear that there was uncertainty around what the security factor will be for the period of the next price

[3] "*Option 2b - maintaining 1.8 for the 2021/22 tariffs and raising a CUSC modification proposal to clarify 2 d.p. for security factor and applying 1.76 for the 2022/23 - 2025/26 tariffs*."
[4] Neither the word 'stability' or 'predictability' appear in the ESO's 16th November 2020 consultation document (or, for that matter, in the ESO's very recent RIIO-T2 proposals CMP355 and CMP356).
[5] At, for example, the TCMF meetings in September, October and November.

control. From this time until the ESO's decision of late on the 21st December 2021 there was no valid indication that any particular number of decimal places had a greater likelihood of being implemented. In this regard we would note the minutes from the TCMF meetings in September[6] (see, for example, paragraphs 15-18) October[7] (paragraphs 5-9) and November[8] (paragraphs 48-52).

What is the proposer's solution?

The proposer is seeking to amend the CUSC, section 14.15[9], to simply insert that the security factor for the purpose of calculating TNUoS tariffs will use the result of the assessment expressed to eight decimal places.

Draft legal text

The proposed legal text (shown in red text) for this proposal would amend CUSC section 14.15, as per the recent revisions following the Panel's approval of self-governance modification CMP346.

14.15.90 For the purposes of 14.15.88 the locational onshore security factor, derived in accordance with paragraphs 14.15.88 and 14.15.89, is based on an average from a number of studies conducted by The Company to account for future network developments. The security factor is reviewed for each price control period and fixed for the duration. The locational onshore security factor, expressed to eight decimal places, which is currently applicable, is detailed in The Company's **Statement of Use of System Charges**, which is available from the **Charging website**.

14.15.91 Local onshore security factors are generator specific and are applied to a generator's local onshore circuits. If the loss of any one of the local circuits prevents the export of power from the generator to the MITS then a local security factor of 1.0 is applied. For generation with circuit redundancy, a local security factor is applied that is equal to the locational security factor, derived in accordance with paragraphs 14.15.88 and 14.15.90, which is expressed to eight decimal places.

14.15.94 The offshore local security factor for single circuits with a single cable will be 1.0 and for multiple circuit connections will be capped at the locational onshore security factor expressed to eight decimal places, derived in accordance with 14.15.88-14.15..

14.15.95 The offshore local security factor for configurations with one or more Offshore Interlinks is updated so that the offshore circuit tariff will include the proportion of revenue associated with the Offshore Interlink(s). The

[6] https://www.nationalgrideso.com/document/176636/download
[7] https://www.nationalgrideso.com/document/179006/download
[8] https://www.nationalgrideso.com/document/181781/download
[9] https://www.nationalgrideso.com/document/91411/download

specific offshore local security factor for configurations involving an Offshore Interlink, which may be greater than the locational onshore security factor expressed to eight decimal places, will be calculated for each offshore connection using the following methodology:

What is the impact of this change?

Proposer's assessment against CUSC Charging Objectives

Relevant Objective	Identified impact
(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;	**Positive** The proposal improves the effectiveness of competition in generation as it increases the accuracy of TNUoS charges, reducing the potential for unduly increased or reduced tariffs.
(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 C26 requirements of a connect and manage connection);	**Positive** The proposal promotes greater accuracy of the security factor and this will improve the cost-reflectivity of the value of the security factor.
(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;	**Neutral**
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	**Positive** It is a legal requirement of Directive 2009/72(EU) Recital 36 that transmission tariffs in GB "are non-discriminatory and cost-reflective" and this proposal, by ensuring more accurate transmission tariffs are in place in GB for the forthcoming Price Control period will mean the that compliance with Electricity Regulation and any relevant legally binding decision etc. (in terms of the duties placed upon the NRA – Ofgem - in Article 37(1)(a) according to Recital 36) is achieved as without accurate

	transmission tariffs there will be (i) discrimination in those tariffs (as some will pay more and some less than they should for no justified reason) and (ii) they will not be accurately cost-reflective.
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	**Neutral**
*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).	

When will this change take place?

Implementation date
1st April 2021 (the start of the RIIO-T2 price control).

Date decision required by
The same as with the two proposals raised by the ESO last Thursday[10] afternoon (CMP355[11] and CMP356) namely 25th January 2021 to allow tariff setting processes to take place..

Implementation approach
No changes to systems or processes are required.

Proposer's justification for governance route
This modification should be treated as urgent and will proceed straight to Code Administrator Consultation under a timetable agreed with the Authority, who will make the decision on whether it should be implemented. The Proposer considers that this is an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholder(s) and therefore meets Ofgem's Urgency Criteria (a). This is due to inaccurately calculated network tariffs requiring revision. To avoid this, CMP35[7] requires approval in time to allow NGESO to set tariffs at the end of January 2021.

The imminent issue is the setting of the transmission tariffs for the start of the RIIO-T2 Price Control (1st April 2021) by the end of January 2021. As the ESO's recent industry consultation has highlighted using a single decimal place for the security factor results in transmission charges that are less accurate than if eight decimal places were used. The proposer considers that the impact of this inaccuracy on transmission tariffs, annually over the forthcoming five-year Price Control period, is a significant commercial impact on the parties due to pay those transmission tariffs. In light of the imminent deadline for tariff production by the ESO we have no choice but to seek urgency for this proposal.

Guidance on governance routes

[10] 17th December 2020.
[11] https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp355-cmp356

Timescales	Route	Who makes the decision (Governance type)
Normal	Proceed to Code Administrator Consultation*	Authority (Standard Governance) or Panel (Self-Governance)
	Assessment by a Workgroup**	
Urgent	Proceed to Code Administrator Consultation	Authority (Standard Governance)
	Assessment by a Workgroup	
Fast-track	Straight to appeals window, then implementation	Panel (Self-Governance)

***** This route is for modifications which have a fully developed solution and therefore don't need to be considered by a Workgroup.
****** For modifications which need further input from industry to develop the solution.

Self-Governance Criteria

It depends on the material effect of the modification as to whether it should be subject to Standard or Self-Governance. If you are proposing that your modification should be subject to Self-Governance, you must explain how it meets the below criteria.
The modification is unlikely to discriminate between different CUSC Parties and is unlikely to have a material effect on:

- Existing or future electricity customers;
- Competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution or supply of electricity,
- The operation of the National Electricity Transmission System
- Matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies
- The CUSC Panel's governance procedures or the CUSC Panel's modification procedures

Urgency Criteria

If you are proposing that your modification is Urgent, you must explain how it meets Ofgem's Urgent criteria (below). When modifications are granted Urgency, this enables the us to shorten the standard timescales for industry consultations. Note that the we (Code Admin) must seek Authority approval for this option.
Ofgem's current guidance states that an urgent modification should be linked to an imminent issue or a current issue that if not urgently addressed may cause:

- A significant commercial impact on parties, consumers or other stakeholder(s); or
- A significant impact on the safety and security of the electricity and/or gas systems; or
- A party to be in breach of any relevant legal requirements.

Fast-Track Self-Governance Criteria

This route is for modifications which are minimal changes to the code. E.g. Typos within the codes. If you are proposing that your modification should be subject to Fast-Track Self-Governance, you must explain how it meets the below criteria.
The modification is a housekeeping modification required as a result of an error or factual change, such as:

- Updating names or addresses listed in the CUSC;
- Correcting minor typographical errors;
- Correcting formatting and consistency errors, such as paragraph numbering, or;

- Updating out of date references to other documents or paragraphs.

Interactions

☐Grid Code	☐BSC	☐STC	☐SQSS
☐European Network Codes	☐ EBGL Article 18 T&Cs[12]	☐Other modifications	☐Other

As with CMP355 and CMP356, none.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBGL	Electricity Balancing Guideline
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
T&Cs	Terms and Conditions

Reference material

- See footnotes on the relevant pages.

[12] If your modification amends any of the clauses mapped out in Exhibit Y to the CUSC, it will change the Terms & Conditions relating to Balancing Service Providers. The modification will need to follow the process set out in Article 18 of the European Electricity Balancing Guideline (EBGL – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.