

23 November 2020

## Response to the ESO request for feedback on TNUoS Locational Onshore Security Factor for RII02 period

Sembcorp appreciates the ESO's efforts to get industry opinion through TCMF and from a wider audience. We agree that the exact nature of the security factor is not described in the CUSC and therefore the formal Modification process is not required, but given the material differences between the options, it is appropriate that the ESO are consulting more widely than just the TCMF. The ESO have been as clear and transparent as possible when forecasting tariffs for 2021 onwards – it is unfortunately the nature of a new price control period that there are a lot of variables that are confirmed later than would be ideal. Some of the information required to confirm variables, such as the security factor, is not under the ESO's immediate control.

We agree with the general point made in September's TCMF, that consideration should be given to retaining decimal places and not "defaulting" to one decimal place.

For option 3, our understanding is that the data set used to calculate offshore expansion factors is significantly different from the data used to calculate the onshore security factor. From the ETYS, it does not appear that the data set used to calculate the onshore security factor justifies the increased accuracy. We do not therefore see any concrete gain in accuracy or strengthening of the locational signal that justifies the extra inconvenience of 8 decimal places. We do not consider option 3 to be the most practical approach and the difference to end tariffs from option 2 is much smaller than that between options 1 and 2.

Option 2 aligns the onshore security factor with the onshore expansion factors and it seems appropriate to us that a similar degree of accuracy is retained as they serve a similar purpose. The analysis provided suggests that the extra decimal place does drive a difference in the end tariffs and this extra accuracy is desirable to send a stronger signal. Given how close to 1.75 (mid-point between rounding up to 1.8 and down to 1.7) the unrounded number is, it seems likely that 1.76 will be close to the "actual" security factor at the end of RII02. If the security factor is just below 1.75 in 2025, keeping a single decimal place would be more inaccurate. Given the impact on end tariffs of the security factor, there appears to be no disadvantage to keeping 2 decimal places whereas rounding to 1 decimal place loses valuable information behind the locational signal.

We consider option 2 – increasing to 2 decimal places – to be most consistent with the relevant parts of the charging methodology and gives increased accuracy with minimal impracticalities. Our preference is option 2, but all 3 presented options are acceptable.

We hope that the ESO will be able to make a firm decision ahead of the November forecasts, as there are enough possible scenarios already. Please get in touch if you have any questions,

Kind Regards,

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