

**CUSC Workgroup Consultation Response Proforma****CMP357 'To improve the accuracy of the TNUoS Locational Onshore Security Factor for the RII02 Period'**

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@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) by **5pm on 8 January 2021**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation, please contact [paul.j.mullen@nationalgrideso.com](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

Respondent details	Please enter your details
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**For reference the applicable CUSC (charging) objectives are:**

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

*\*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).*

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

CMP357 - Standard Workgroup Consultation questions		
1	Do you believe that the CMP357 Original Proposal or the potential alternative options better facilitates the Applicable Objectives?	<p>Some of the numbers displayed in the ESO's guidance to tariff setting are expressed to 7 decimal places. In terms of input data used in the SECULF correlation to calculate the locational security factor, the ESO has explained to the workgroup, as is documented in the consultation, that most input data into the model is more granular than 8 decimal places. Outturn tariffs are stated to 6 decimal places. This supports using the full accuracy of the Locational Onshore Security Factor as calculated, albeit the analysis presented by the ESO proves that after application of the third decimal place, most of the accuracy is there and the loss of cost-reflectivity in truncation from there is minimal. Use of anything from 3 to 8 decimal places will prevent rounding errors of any materiality and preserve cost-reflectivity.</p> <p>The correlation between secured and unsecured marginal costs used to calculate the locational security factor is revealed in the report. The ESO presented a graph to show its derivation of the Locational Onshore Security Factor for the 2021/22 charging year. The ratio (slope) of secured marginal costs to unsecured marginal costs (based on average least squares fit method for all the nodes on the wider network) is the calculated Locational Onshore Security Factor. The plot of the data by node shows very high precision, as the dots are placed close to the interpolated least-squares-fit line, and the R squared value is remarkably high (a strong correlation) at 0.9946. The evidence in favour of using 8 DP, or at any rate 3 or more DP, is overwhelming. The idea that we should introduce a gross rounding error on the basis that that's what was done in the last price control on an undocumented basis, is quite ridiculous. The previous approach wasn't consulted on, ever, until the recent (November) consultation in which the vast majority of responses opposed rounding to 1 DP. Prior to this being flagged as an issue at TCMF this August, no market participant would have given attention to this issue as we weren't made aware of the rounding of its material effect in diluting cost-reflectivity by artificially boosting the LSF and hence</p>

		<p>the tariff slope. CUSC parties are, as must be obvious, too busy to contemplate such matters until they are brought to our attention. It having been brought to the market's attention via the sole consultation on this matter recently (16<sup>th</sup> November), the market's majority view was made clear in responses.</p> <p>As to the first CUSC charging objective (competition), CMP357 (original) does promote effective competition in generation, supply and consumption of electricity, as it increases the accuracy of TNUoS charges, reducing the potential for unduly increased or reduced tariffs. By ensuring that the locational signals are correct, global system costs will be reduced.</p> <p>As to the first CUSC charging objective (cost reflectivity), CMP357 (original) promotes greater accuracy of the security factor; rounding clearly introduces inaccuracies, and using the accurate value, bearing in mind the precision of the inputs and the calculation method, will clearly improve the cost-reflectivity of this value and hence of the resultant tariffs.</p> <p>As to potential variants discussed at the workgroup but not yet formally existent :</p> <ul style="list-style-type: none"> <li>i) One Workgroup Member stated that they were minded to raise an alternative, if it were valid, which would keep one decimal place for the duration of the next price control. The reasoning offered above in favour of the original shows why we are not in favour of this, as it would embed a material rounding error inaccuracy for no good reason, damaging cost-reflectivity.</li> <li>ii) A second Workgroup Member stated that they were minded to raise an alternative, if it were valid, which would express the Locational Onshore Security Factor to two decimal places for the duration of the price control, starting 2021/22, given the analysis shows this would have a material impact but further decimal places delivered negligible further change. Taking the case of a 100 MW wind farm in zone 1, at 1 DP (treating</li> </ul>
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		1.75547656 as 1.8) its TNUoS charge for 2021/22 would be £2745k, at 2 DP this would be £2687k and across 3 to 8 DP the charge would be £2680k (when rounded to nearest £1k). It is fair to say that 3 DP offers the same accuracy as 8 DP. It is not quite fair to say this of 2 DP, although the rounding effect is far less a 2 DP than at 1 DP. The WACM serves no particularly useful purpose, but does give most of the benefit of the original.
2	Do you support the proposed implementation approach for CMP357?	Yes, this modification has to be in by 1 <sup>st</sup> April 2021 to meet its intent.
3	Do you have any other comments?	No
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No
<b>Specific Workgroup Consultation Questions</b>		
5	Do you have any further analysis/evidence to support your conclusions under Question 1?	The analysis we refer to in the consultation document makes the points we refer to in our reply to question 1.
6	Will the CMP357 Original Proposal or the potential alternative options impact on your business. If so, how?	Our northern power stations will pay a little less TNUoS than we would have with the inappropriate rounding, which we have firmly believed to be wrong since this issue was first brought to TCMF's attention early in summer (it had never been highlighted before), and our southern power stations will pay more as their locational tariff will be less negative. We were even more confident that the rounding error would not occur in RIIO-T2 once it was consulted on, as it was clear that the majority of the market does not support such an error. On the demand side, as Supplier we will pay a little more on behalf of our northern customers, as their locational charge will be less negative (yet the TDR which offsets it and renders the net charge positive, will be about the same), and as Supplier we will pay a little less on behalf of our southern customers, as their locational charge will be less positive than before under the milder slope. We do not disclose the

		geographic disposition of our customers and have no overall analysis to share.
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