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17 December 2024

Dear Catia,

Re: Urgency request CMP432: Improve “Locational Onshore Security Factor” for TNUoS Wider Tariffs

As proposer, I would like to request urgent status for CMP432.

CMP432 now requires an urgent timeline for an imminent issue

Urgency is now required due to a new imminent issue, which has emerged. At the time this modification was raised, a normal timescale was sufficient. However, recent developments have combined to increase the importance of reaching an early decision, while the prospect of timely progress under the normal industry process has substantially worsened. This has now created an impasse that can only be resolved by awarding urgent status.

This modification should be given urgent status because it would have a substantial impact on the value of tariffs and materially impact imminent commercial decisions with substantial implications for existing generators and new investment in generation and demand for the GB energy system.

Urgency was not initially required for CMP432 when it was raised on 7th March 2024. This is because it was raised with sufficient time for it to be assessed by Industry and the Authority and for a decision to be made in time for the impacts of the modification to be able to be included in bid prices for CfD AR7 in 2025 and Final Investment Decision's to deliver what is now the Clean Power 30 target (CP30).

Recent developments have increased the importance of a timely resolution of this modification to deliver new government policy objectives of Clean Power 2030 Action Plan¹ including expansion of CfD AR7 in 2025 announced last week on 13th December 2024, as well as the

¹ Clean Power 2030 Action Plan: A new era of clean electricity: [Clean Power 2030 Action Plan: A new era of clean electricity](#)

SSEP², CSNP³ and tCSNP⁴, details of which were also published last week on 9th December 2024. This modification also needs to be resolved within REMA timescales, with government announcing last week on 13th December 2024⁵ that policy development will be concluded around mid-2025. The interdependence with REMA is that this modification provides an important solution for a Reformed National Market design as an alternative to Zonal pricing, as well as providing a potential benchmark for grandfathering within the REMA process.

It is in customers' best interest that the result of this modification is resolved in time for key FID points to reduce risk to investors to reduce cost of capital, reduce risk margins and reduce support payments to reduce the cost to customers support schemes, or other market prices relevant for investors.

The impact of this modification on locational generator tariffs has a strong interaction with the outcome of CMP444 "Cap and Floor" modification, CMP423 "Reference Node" modification and CMP442 "Fixed generator TNUoS Charges". It is therefore essential that this modification is progressed urgently in line with, or ahead of the other three modifications, , so that Ofgem is able to make a decision on all four at the same time in a joined-up way.

Unfortunately, due to Connection Reform all other workgroup modifications were put on hold. Now that CUSC workgroups are able to resume, the timeline to achieve a timely decision, which was previously sufficient via the normal process, now requires an urgent timeline.

As Industry looks to recommence Workgroups on other modifications, other than Connection reform, a number of other modifications have subsequently been raised and deemed by the CUSC Panel to be more important than CMP432. The CUSC Panel prioritised this modification as "Medium"⁶ which would now not enable it to be implemented in time critical industry dates for CfD AR7 to deliver CP30.

Significant impact

We understand the need to progress Industry mods in a manner which best utilises limited resources. However, we are now facing what we consider:

"a significant commercial impact on parties, consumers or other stakeholder(s);"

Significant impact on consumers

The modification will materially impact the value and relative locational signal for any new demand investments which are part of government's targets to decarbonise the energy system.

² Strategic Spatial Energy Plan Draft methodology: [download](#)

³ Centralised Strategic Network Plan (CSNP) High-level methodology principles: [download](#)

⁴ Transitional Centralised Strategic Network Plan 2 Refresh Methodology: [download](#)

⁵ Review of Electricity Market Arrangements Autumn Update: [REMA Autumn update 2024](#)

This will include new demand for the electrification of heat, transport, and other forms of commercial and industrial demand.

In Ofgem's open letter⁷, they correctly recognised that customers benefit from reducing uncertainty for generation investors:

“Seeking industry action to develop a temporary intervention to protect the interests of consumers by reducing the uncertainty associated with projected future TNUoS charges”

The modification should be considered high importance because it's impact is large as it would substantially change the value of wider locational tariffs and relative locational signals for both generation and demand.

Significant impact on parties

The modification should receive urgent consideration because it would substantially change the absolute value and the relative value of locational signals for the large capacity of generation projects expected to bid into CfD allocation rounds from 2025 onwards.

This Security Factor modification CMP432 more appropriately and sustainably addresses the long-underlying cause of investor uncertainty, which complements the short-term nature of CMP444 “Cap and Floor” modification. By contrast, CMP444 only addresses the symptoms of uncertain tariffs in the short-term rather than the underlying cause of TNUoS charge uncertainty over the long-term.

The importance of addressing the issue of uncertainty is described by Ofgem in their open letter as:

“This open letter is our response to the developing uncertainty around long-term Transmission Network Use of System (“TNUoS”) charges, particularly concerns driven by last year's 10-year projections of significant charge increases for generators in the North of Great Britain (“GB”).”

By reducing those large values of northern TNUoS charges through improving the Security Factor, industry will naturally reduce the defect and variability thus reducing the need for the cap and floor mechanism.

A concern is of increasing costs to the end consumer unnecessarily. It appears that the current Security Factor applied does not reflect the actual redundancy and Security which TO's build to comply with the SQSS. This locks in tariffs which do not reflect actual reinforcement.

⁷ [Open Letter: Seeking industry action to develop a temporary intervention to protect the interests of consumers by reducing the uncertainty associated with projected future TNUoS charges](#)

In addition, a decision on this modification should be made before applying any fixed price TNUoS charges such as through modification CMP442. This is because CMP442 proposes to offer an option of fixing tariffs based on a NESO forecast of future tariffs, so this Security Factor modification is essential to avoid fixing tariffs at the current excessive and non-cost reflective level.

Any delays to this modification would materially distort the outcome of CfD allocation rounds for a large capacity of projects that are essential to deliver government low carbon targets. If a change to the Security Factor were to be made at a later date after mods like the cap and floor, fixed price TNUoS, as well strike prices have already been set and fixed will result in the end consumer paying unnecessarily increased and otherwise avoidable costs for the foreseeable future.

Practical to complete in urgent timescale

This modification is relatively simple to implement because it does not require any changes to processes, does not require any new data streams, does not require changes to any other codes, and does not change the structure of tariff structures. It would only change the value of existing tariff elements.

The implementation of this modification is not directly contingent on any other modification, and no other modification is directly contingent in it.

Request better transparency from NESO and TOs to progress mod more quickly

We understand that Industry resource is limited. However, industry progress is currently being hampered by insufficient transparency from NESO and TOs regarding the way TNUoS charges are calculated and the network is designed.

Irrespective of whether, or not, urgency is granted, then better transparency will help Industry to more quickly and efficiently progress changes in the background as a more efficient use of industry resources. Better transparency should include:

Firstly, the purpose of network charges is to reflect the cost of building network, so the current limitations to transparency substantially hampers improvements in charging signals, because the cost of building network is not transparent, or clearly understood by industry. We request the workgroup, ideally supported by Ofgem, invites NESO and TOs to present to the workgroup, how network investment decisions are made. In particular, this should include the relationship between the incremental network capacity that is built versus the incremental increase in boundary transfer capacity that can be delivered by that incremental network. This should include network design with regards to incremental redundant network required for security, when building new network for both demand security purposes, as well as for economy purposes.

Secondly, industry access to the VBA in the DCLF Model is still restricted and we request that this be made available to industry. This current lack of transparency results in code modifications being extremely reliant on the NESO modelling to progress. Potential future changes cannot therefore be tested by Industry before becoming code modifications, and ongoing code modifications tend to reach an impasse caused by resource constraint of NESO. There seems no logical reason why this cannot be shared with Industry especially considering the change of ownership of the NESO.

Thirdly, NESO uses a SECULF model to calculate the current Security Factor, but that model is not available for peer review by industry and we request that it should be published. This lack of transparency is despite repeated requests to access to this model, which have not been granted. It seems bizarre that a lot of time is spent calculating and adjusting the locational signals only for them to then be multiplied by a Security Factor number coming out of a black box that is not available for peer review. To understand the actual calculations and results from the SECULF model would be extremely useful to help industry to understand the different Security Factors for each node, how particular circuits on outage affect flows and how the Security Factor is derived. This is being denied to Industry. Industry could therefore be working on these models ahead of raising modifications making the whole process far more efficient.

This lack of transparency has been a recurring theme across many code modifications over many years. Further recent examples include that it is beyond contestation that the publication of information (held, or produced, by the NESO as a result of its actions arising from CMP434 / CM095 and CMP435) results in a better network outcome and lower costs to consumers. Accordingly, it is disappointing that the NESO, as proposer of CMP434 / CM095 and CMP435 has been unable to maximise transparency of all this connections related information arising from these Modifications.

Obligations on NESO to provide transparency includes:

RfG Article 7 (3) (b) “When applying this Regulation, [F47the regulatory authority] and system operators shall: ... (b) ensure transparency” [emphasis added]
[this wording is from the updated version, post Brexit, on the UK Legislation website, where the regulatory authority is GEMA]

In addition to this legal obligation, in terms of transparency, we are also mindful that the UK Government and Ofgem established the Energy Data Taskforce. This is an extremely important piece of work but it appears that this is not being complied with by NESO. This has been flagged up the Taskforce work during numerous Workgroup meetings, and “*The government and Ofgem have endorsed the [Energy Data Taskforce’s](#) recommendations.*”⁸

In this respect, as noted in the Introduction to the Energy Data Taskforce report:

⁸ [Modernising Energy Data - GOV.UK](#)

“At the core of the Taskforce recommendations are the principles that the sector should be Digitalising the Energy System and that in order to maximise value, Energy System Data should be Presumed Open” [emphasis added]

As the Energy Minister noted, in the Forward to the Taskforce report:

“Data is fundamental to the future of our economy, which is why it is the focus of one of the Grand Challenges in our Modern Industrial Strategy. In the power sector, it is the key to unlocking system and consumer benefits and managing the fast-approaching challenges of flexibility, resilience and costs in the most efficient way” [emphasis added]

In terms of the types of data that the NESO has access to, the Taskforce noted that:

“Energy System Data that has value to the wider system and has been generated by monopoly or consumer subsidy should be available for the benefit of the ‘system as a whole’.” [emphasis added]

In summary the Taskforce identified many benefits from data transparency, examples of which include:

Improving operation of the system,

- (i) Optimising operation of the system,*
- (ii) Optimising across energy vectors*
- (iii) Unlocking the flexibility market*
- (iv) Enabling clarity across the multiple actors in the system,*
- (v) Securing the new Energy System,*
- (vi) Regulatory oversight and risk assessment,*
- (vii) Optimising procurement and cost reduction,*
- (viii) Opening the system to new markets and better price discovery,*
- (ix) Data visibility creates opportunity for all, and*
- (x) Attracting new players to the sector.*

The Taskforce helpful also identified the detrimental effect of following the NESO’s approach of not providing full transparency, examples of which include:

- (a) Slower more expensive transformation,*
- (b) Fragmented datasets reducing efficiency,*
- (c) Increased risk to system stability, and*
- (d) Reduced innovation.*

The negative effects, from a lack of energy data transparency, was summarised by the Taskforce, in the following terms:

“The value of data is not being maximised: innovation is being stifled, the system is less efficient, and the consumer is worse off”

In light of the above, we would welcome Ofgem investigating how data can be better provided. If commercially sensitive how can this be anonymised etc. The days of hiding behind the terms of ‘Commercially sensitive’ or ‘Intellectual Property’ should be behind us.

I would be more than happy to discuss anything in this letter further if helpful.

Yours sincerely,

John Tindal

Head of Market Design