Public

CMP432 Improve Locational Onshore Security Factor for TNUoS Wider Tariffs

Workgroup 3 (13 March 2025)

Online Meeting via Teams

NESO
National Energy System Operator

WELCOME

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Agenda

Topics to be discussed	Lead
Introductions	Chair
Action Log Review	Chair
Review of Workgroup Consultation Reponses	Chair
Discuss the impact on existing Generators at both ends of the country	All
Legal Text Review	Proposer
Any Other Business	Chair
Next Steps	Chair

Expectations of a Workgroup Member

- Contribute to the discussion
- Be respectful of each other's opinions
- Language and Conduct to be consistent with the values of equality and diversity
- Do not share commercially sensitive information
- Be prepared - Review Papers and Reports ahead of meetings
- Complete actions in a timely manner
- Keep to agreed scope
- Email communications to/cc'ing the .box email

Your Roles

- Help refine/develop the solution(s)
- Bring forward alternatives as early as possible
- Vote on whether or not to proceed with requests for Alternatives
- Vote on whether the solution(s) better facilitate the Code Objectives

Workgroup Membership

Role	Name	Company	Alternate
Chair	Sarah Williams	NESO	
Tech Sec	Prisca Evans	NESO	
Proposer	John Tindal	SSE	Damian Clough
Workgroup Member	Neil Dewar	NESO	
Workgroup Member	Tom Steward	RWE	Lauren Jauss
Workgroup Member	Ryan Ward	Scottish Power Renewables	Hector Eduardo Perez
Workgroup Member	Andrew Rimmer	Engie	Simon Lord
Workgroup Member	Paul Jones	Uniper	Sean Gauton
Workgroup Member	Alan Kelly	Corio Generation	Marc Smeed
Workgroup Member	Paul Youngman	Drax	Nina Sharma
Workgroup Member	Giulia Licocci	Ocean Winds	Nina Brundage
Workgroup Member	Binoy Dharsi	EDF	Hugh Boyle
Workgroup Member	Als Scrope	Northland Power	Emanuele Dentis / Grant Anderson
Workgroup Member	Chiamaka Nwajagu	Orsted	James Jackson
Observer	Kyle Murchie	Roadnight Taylor	Catherine Cleary
Observer	Sally Young	SSE	
Observer	Zahira Rafiq	NESO	
Observer	Loukas Papageorgiou	RWE	
Authority Representative	Sinan Kufeoglu	OFGEM	

What is the Alternative Request?

What is an Alternative Request? The formal starting point for a Workgroup Alternative Modification to be developed which can be raised up until the Workgroup Vote.

What do I need to include in my Alternative Request form? The requirements are the same for a Modification Proposal you need to articulate in writing:
- a description (in reasonable but not excessive detail) of the issue or defect which the proposal seeks to address compared to the current proposed solution(s);
- the reasons why the you believe that the proposed alternative request would better facilitate the Applicable Objectives compared with the current proposed solution(s) together with background information;
- where possible, an indication of those parts of the Code which would need amending in order to give effect to (and/or would otherwise be affected by) the proposed alterative request and an indication of the impacts of those amendments or effects; and
- where possible, an indication of the impact of the proposed alterative request on relevant computer systems and processes.

How do Alternative Requests become formal Workgroup Alternative Modifications? The Workgroup will carry out a Vote on Alternatives Requests. If the majority of the Workgroup members or the Workgroup Chair believe the Alternative Request will better facilitate the Applicable Objectives than the current proposed solution(s), the Workgroup will develop it as a Workgroup Alternative Modification.

Who develops the legal text for Workgroup Alternative Modifications? NESO will assist Proposers and Workgroups with the production of draft legal text once a clear solution has been developed to support discussion and understanding of the Workgroup Alternative Modifications.

Timeline for CMP432 as of 12 March 2025

Pre-Workgroup		
Proposal raised	07/03/2024	
Proposal submitted to Panel	22/03/2024	
Workgroup Nominations	09/04/2024	
Urgency Decision Granted	21/01/2025	
Workgroups		
~~Workgroup 1~~	~~29/01/2025~~	~~Objectives and Timeline/Review and Agree Terms of Reference / Proposer presentation~~
~~Workgroup 2~~	~~05/02/2025~~	~~Solution Development / Workgroup Discussions/Legal Text~~
Workgroup 3	~~14/02/2025~~	~~Draft Legal Text/Draft Workgroup Consultation /Specific Questions~~
~~Workgroup 4~~	~~21/02/2025~~	~~Final Workgroup Consultation Review~~
~~Workgroup 5~~	~~25/02/2025~~	~~Additional Workgroup Consultation Review /Discussions~~
~~Workgroup 6~~	~~27/02/2025~~	~~Additional Workgroup for final amendments~~
Workgroup Consultation	27/02/2025 – 07/03/2025	
Workgroup 7	13/03/2025	Review of Workgroup Consultation Responses / Alternative Requests Discussion/Review Solution position
Workgroup 8	20/03/2025	TOR Discussion/Alternative Requests Presentations and Vote (if required)/
Workgroup 9	26/03/2025	Draft Legal text and WACMs Legal text (if required) review
Workgroup 10	03/04/2025	Final Workgroup Report Review / ToR Sign-off / Final Legal Text Review (WACMS legal text)

Timeline for CMP432 as of 12 March 2025

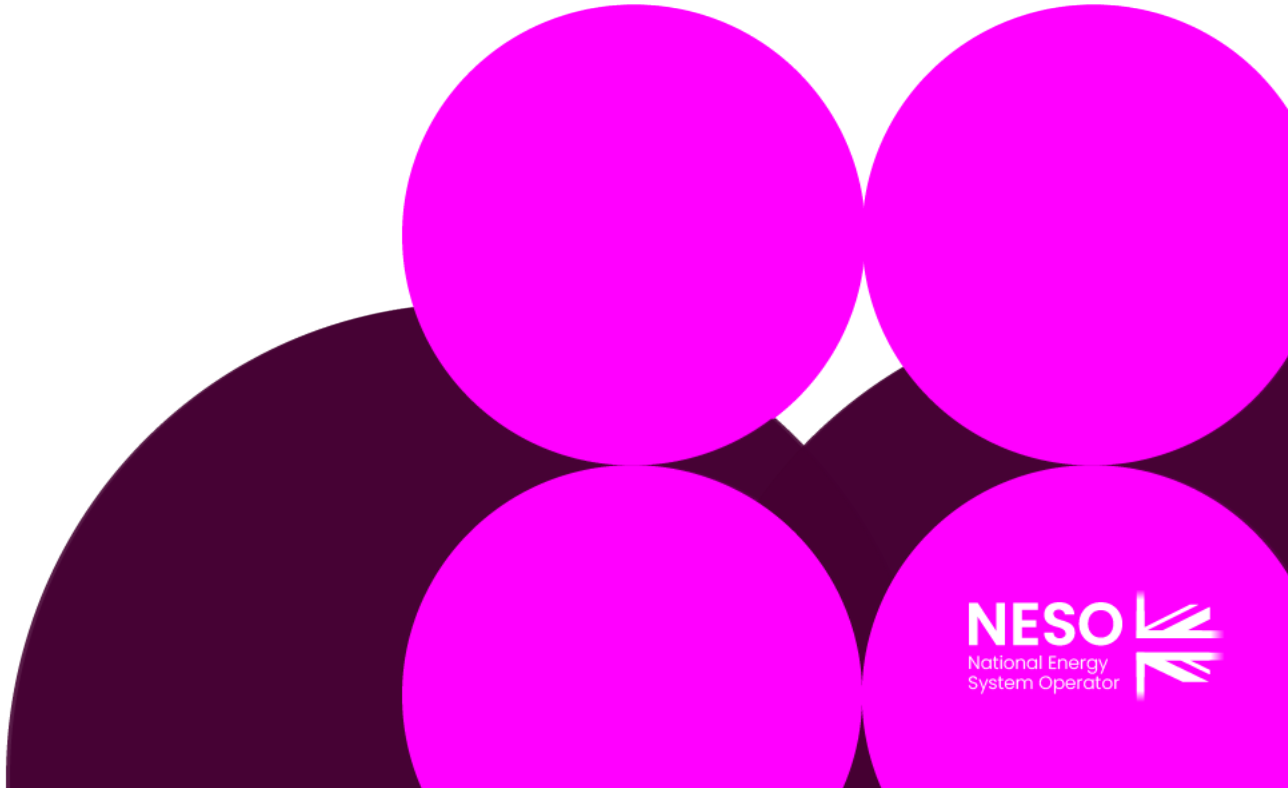
Post Workgroups		Key info
Workgroup Report submitted to Panel	14/04/2025	
Panel to agree whether ToR have been met	17/04/2025	Special Panel invites to be shared
Code Administrator Consultation	22/04/2025 – 02/05/2025	
Code Administrator Consultation Analysis and DFMR generation	02/05/2025 – 08/05/2025	
Draft Final Modification Report to Panel	09/05/2025	
Panel Recommendation Vote	15/05/2025	Special Panel
Final Modification to Ofgem	15/05/2025	
Decision Date	30/09/2025	
Implementation Date	01/04/2026	

CMP432 - Terms of Reference

Workgroup Term of Reference	Location in Workgroup Report (to be completed at Workgroup Report stage)
a) Consider EBR implications	
b) Consider the methodology for calculating the security factor (Locational Onshore Security Factor Section 14.15.88 – 14.15.90) and the further objectives of the Charging Methodology set out in Section 14. 14.11	
c) Consider whether reinforcement with a larger capacity circuit, compared with the previous, increases the fault condition.	
d) Consider the impact of whether reinforcement is achieved by upgrading an existing circuit to a larger capacity, therefore increasing the fault condition	
e) Consider whether some types of technology require additional MITS redundancy, e.g. large inflexible conventional such as nuclear	
f) Consider and evaluate the evidence that the current Security Factor is reflective of how TOs make network reinforcement decisions	
g) Consider the scope of work identified and whether this is achievable within the timeframe outlined in the Ofgem Urgency decision letter	

Action Log Review

Sarah Williams - NESO Code Administrator

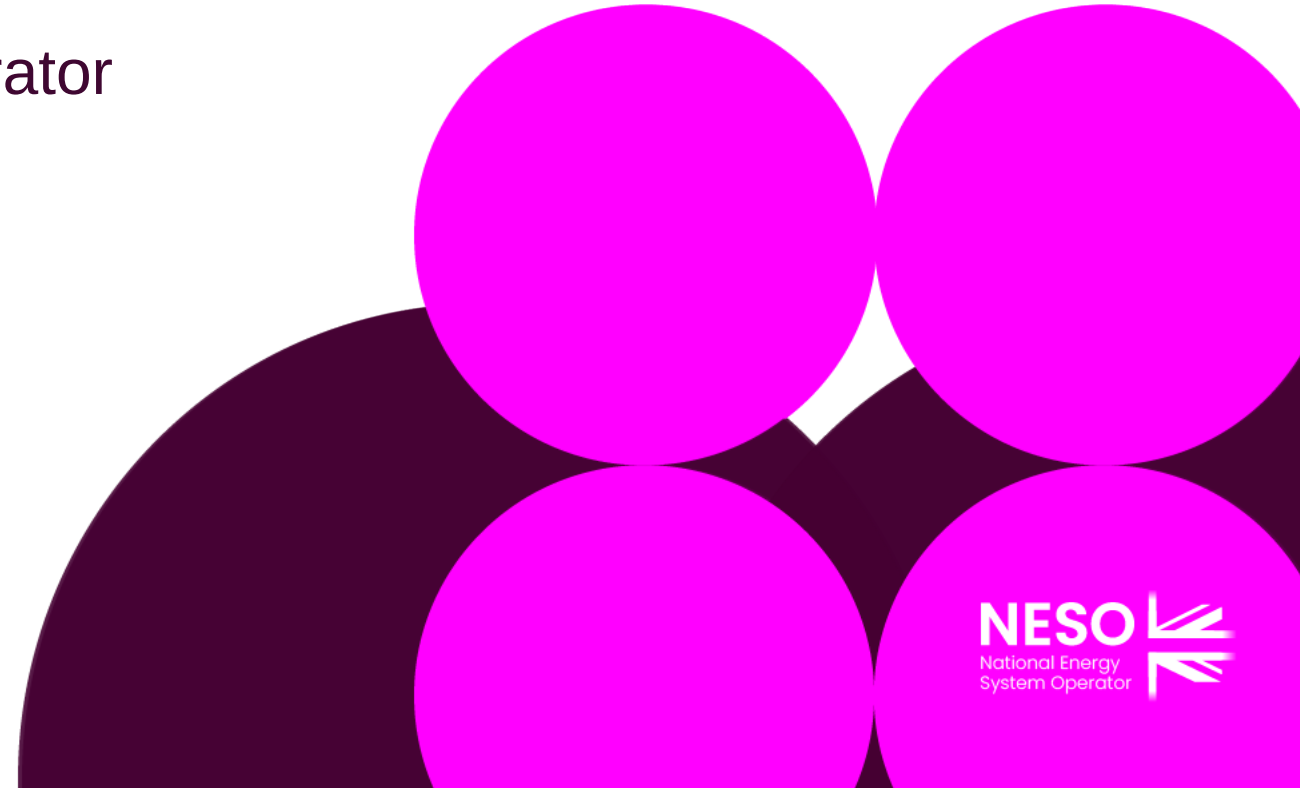


Action Log

Action	Description	Owner	Due	Status
13	Confirm internally with NESO if independent auditing is an option	ND	Ongoing	Open
15	Organise a Teach-in with a NESO SME to explain the Security Factor calculation	ND	Ongoing	Open
16	Collate the Workgroup members list of questions for NESO to provide responses to	ND	Ongoing	Open
21	Add a discussion about the impact of the proposed modification on existing Generators at both ends of the country to the agenda for the next meeting	Chair	WG 7/8	Open – propose to close

Review of Workgroup Consultation Responses

Sarah Williams – NESO Code Administrator



CMP432 Workgroup Consultation Responses Review

Number of Responses/Alternatives	
Confidential Responses	1
Non-Confidential Responses	21
Alternative Requests Raised	0

Industry Sector Representation*	
Consumer body	0
Demand	0
Distribution Network Operator	0
Generator	15
Industry body	1
Interconnector	0
Storage	0
Supplier	2
System Operator	1
Transmission Owner	1
Virtual Lead Party	0
Other	1

*Please note some responses represent a number of industry sectors and this tally does not include confidential Respondents

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CMP432 Workgroup Consultation Responses Review

Question	Number of Respondents			
	Objectives	Yes	No	N/A or No response
Do you believe that the Original Proposal better facilitates the Applicable Objectives?	A	12	1	8
	B	11	2	8
	C	7	6	8
	D	1	11	9
	E	10	2	9
Do you support the proposed implementation approach?		11	7	3
No respondents raised Workgroup Alternative Requests during the Workgroup Consultation.				
No respondents indicated that they disagreed with the Workgroup's assessment that the modification does not impact the European Electricity Balancing Regulation (EBR) Article 18 terms and conditions held within the CUSC.				

CMP432 Workgroup Consultation Responses Review

Key Points

- There were mixed views from respondents as to whether the Original Proposal better facilitates the CUSC charging objectives and whether they support the implementation approach.
- Some respondents noted they did not support the modification.
- Some respondents indicated concern that the work required for this modification may not be possible within the current urgent timeline.
- There are concerns about the time needed to properly assess the role of the SECULF model.
- Some respondents believe that removing the Security Factor would enhance competition, improve cost reflectivity, support climate goals, and streamline the charging methodology.
- Some respondents provided arguments for increasing the security factor above 1.76.
- Some respondents believe that the Proposal addresses the steep gradient of charges between the North and South of GB, promoting fairer competition and better CfD strike prices for consumers.
- There are concerns about the complexity and volatility in TNUoS charging, and some believe the proposal will remove this complexity and reduce the volatility and uncertainty in TNUoS charging.
- Some respondents believe that the proposal will better align with how transmission capacity is planned and added in the near and medium term.
- A Respondent suggested a workbook of impacts should be provided for all code modification consultations to enable proper assessment
- A concern was raised about the significant increase in tariffs for northern generators in the 10-year TNUoS projections by NESO, which threatens existing generators and hinders investment
- A Respondent noted they do not support the current charging methodology, as they believe it disincentivises locational signals and is both inefficient and inappropriate

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CMP432 Workgroup Consultation Responses Review

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?

- Several respondents supported setting the security factor to 1.0 as a conservative measure until further analysis can be conducted
- Some respondents found the Trident analysis compelling, which suggests a value closer to 0.7
- A few respondents believed that a value of 1 for the Security Factor is appropriate
- Some respondents raised concerns about the appropriateness of the current security factor of 1.76, suggesting it may need to be higher
- A number of respondents believed that the current approach does not account for all facets of security and highlighted the increased risk associated with sub-sea HVDC cables
- Several respondents suggested that the Locational Security Factor should be reduced or removed from the charging formula altogether
- Some respondents believed that the necessary information has not been made available to replicate the current calculation and suggested addressing confidentiality issues through an NDA

CMP432 Workgroup Consultation Responses Review

Do you believe price signals should reflect average cost, incremental cost, a combination of the 2, or something else?

- Several respondents believe that price signals should reflect the incremental cost of providing incremental security rather than using average existing costs. They argue that the current methodology does not achieve this and that charges should be based on incremental costs to support centralised network planning
- Some respondents agree that average costs do not send efficient investment signals, as users can only respond to incremental costs. They note that the CUSC supports this by stating charges should be based on incremental, rather than average costs
- One respondent believes that the Security Factor should be based on incremental cost and that the counter-arguments presented in the WG report are mostly irrelevant to the calculation of the Security Factor
- Some respondents raised concerns about maintaining consistency in the charging framework by reflecting both incremental and average costs. They believe that redefining the TNUoS charging model to an "incremental only" approach could lead to significant tariff volatility and that the current security factor reflects the average security requirements of the network
- One respondent believes that the current average Secure Load Flow (SECULF) model approach provides stability, but they are concerned that a more location-specific incremental cost model approach may not offer the same stability
- Another respondent believes that price signals should reflect both the average existing costs and the incremental costs of new assets to ensure fairness and promote effective competition

CMP432 Workgroup Consultation Responses Review

Do you have a view on whether the SECULF model is appropriate?

- Several respondents believe there is insufficient information to assess the appropriateness of the SECULF model
- Some respondents raised concerns about the lack of transparency and clarity in the SECULF model
- A few respondents believe the SECULF model is outdated and not suitable for calculating the Security Factor
- One respondent believes the SECULF methodology provided by NESO is satisfactory
- Another respondent believes the SECULF model is a useful approximation but acknowledges a trade-off between complexity and accuracy

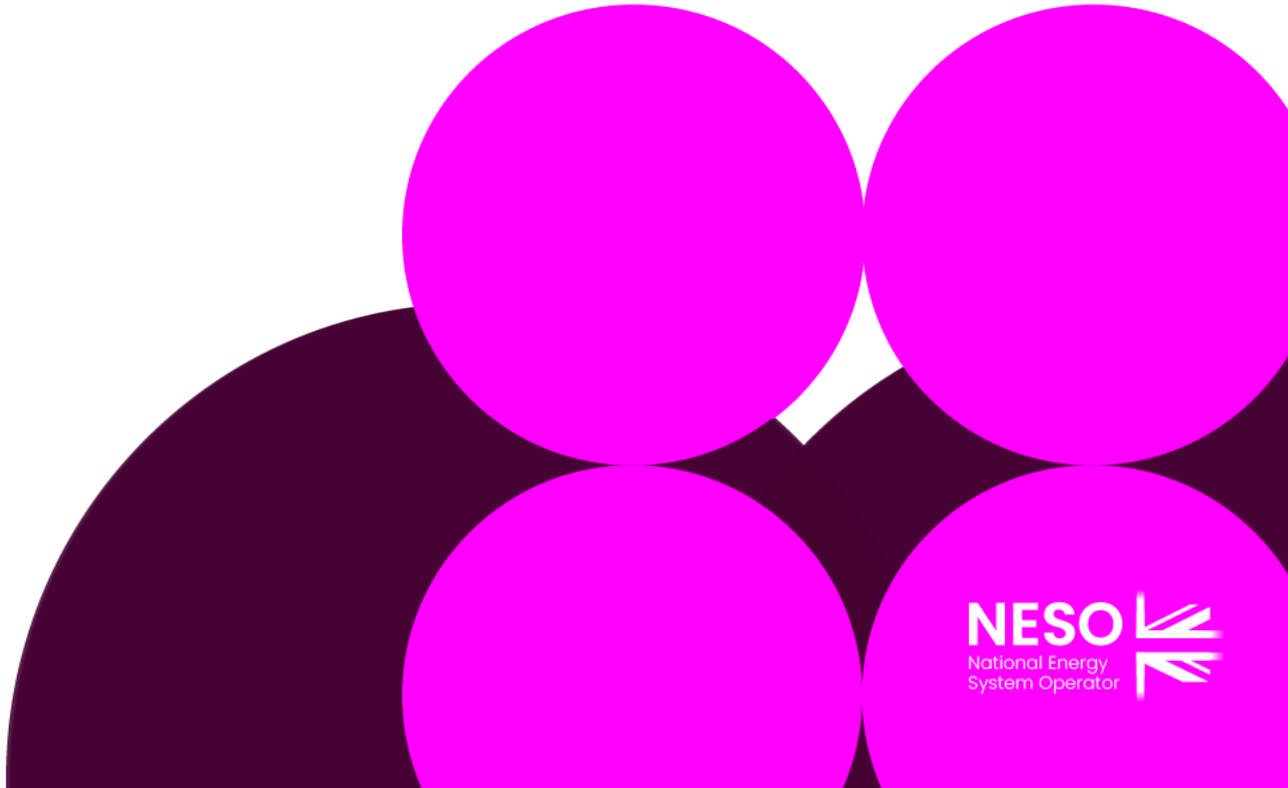
CMP432 Workgroup Consultation Responses Review

Is enough information available to market participants?

- The majority of respondents believe there is insufficient information available to market participants regarding the SECULF model.
- Some respondents have raised concerns about the lack of transparency and clarity in the model, stating that more information, materials, and training are needed to fully assess its appropriateness.
- Some respondents believe that NESO should provide a clear explanation of the methodology used to determine the Locational Onshore Security Factor.
- A few respondents found the SECULF model satisfactory or useful with some reservations.
- One respondent believes the SECULF model is a useful approximation but acknowledges a trade-off between complexity and accuracy.
- Overall, the majority of respondents did not agree that there is enough information available to market participants from the SECULF model.

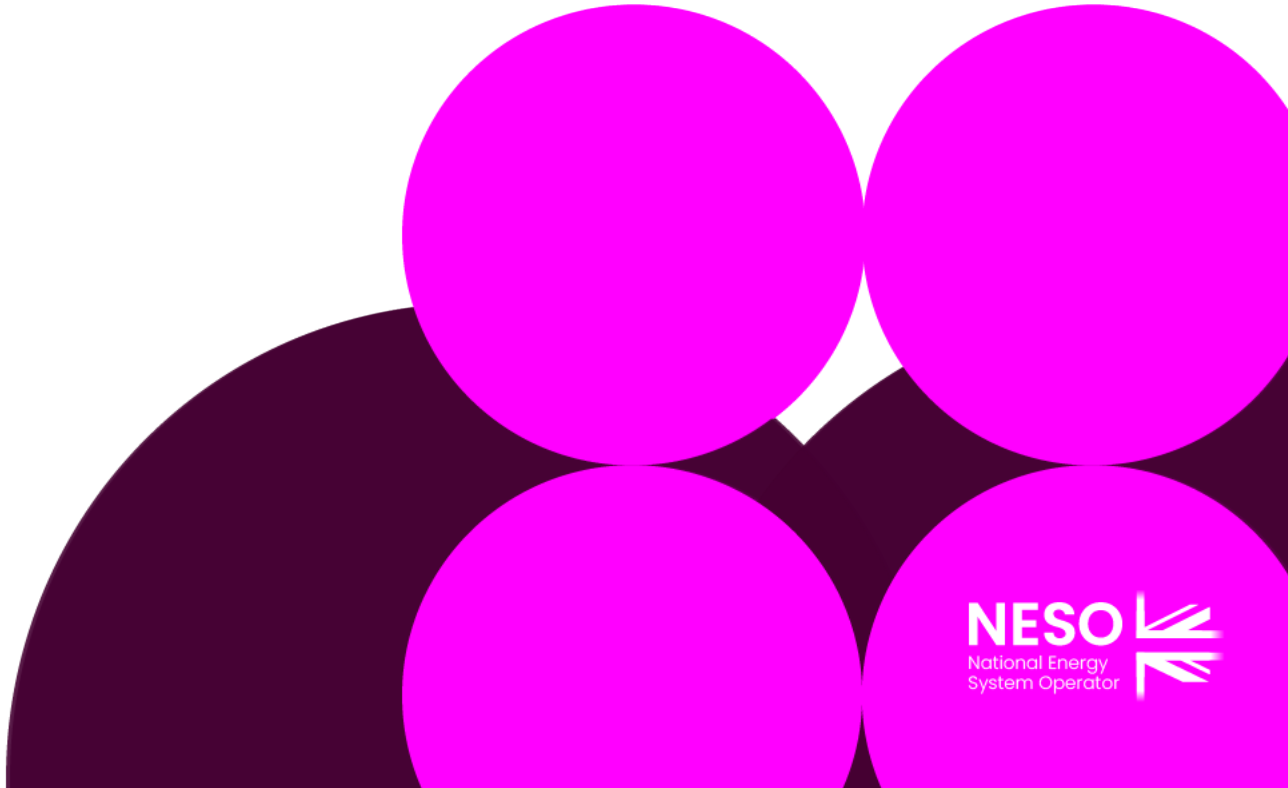
Discussion on the impact for existing Generators

All



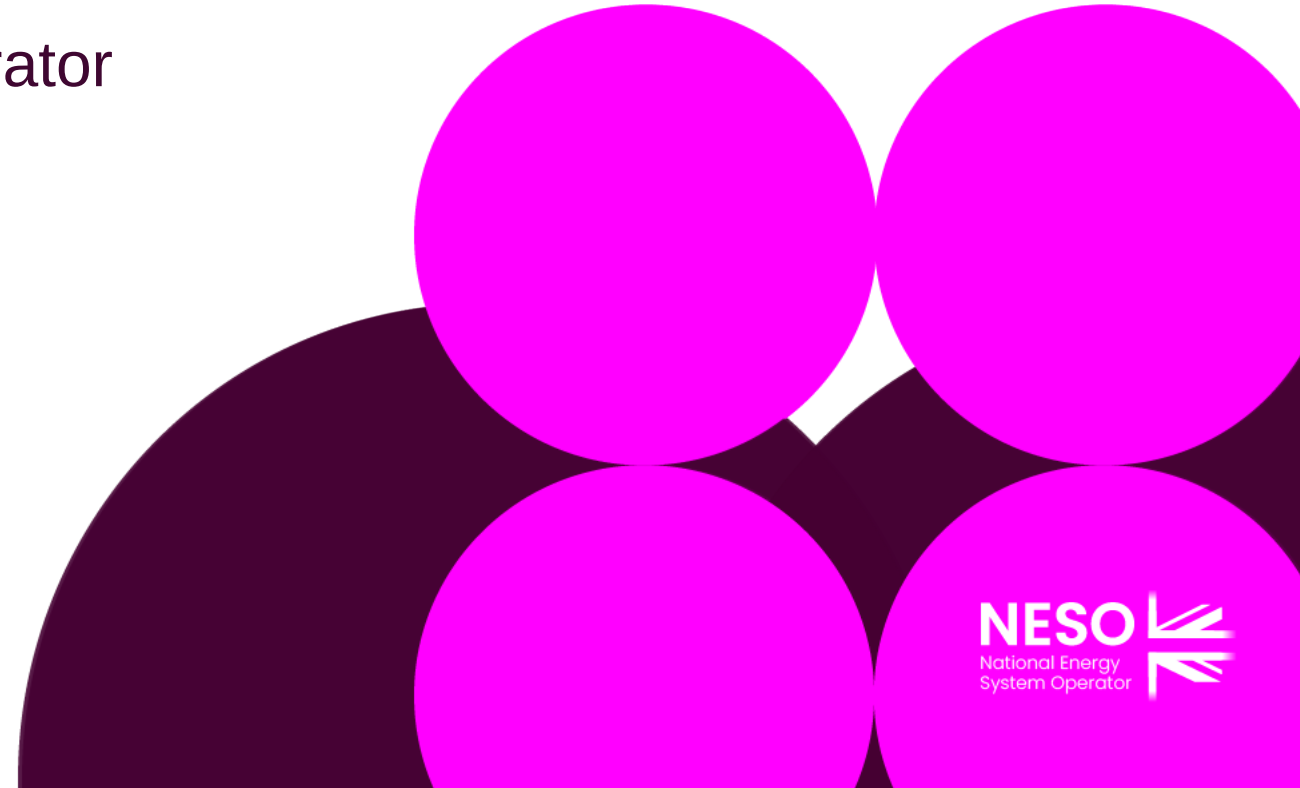
Legal Text Review

John Tindal – SSE



Any Other Business

Sarah Williams – NESO Code Administrator



Next Steps

Sarah Williams – NESO Code Administrator