Code Administrator Consultation Response Proforma

CMP357 ' To improve the accuracy of the TNUoS Locational Onshore Security Factor for the RIIO2 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 by **5pm** on **19 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 Panel.

If you have any queries on the content of this consultation, please contact Paul Mullen Paul.J.Mullen @nationalgrideso.com or cusc.team@nationalgrideso.com

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CMP357

For reference the Applicable CUSC (charging) Objectives are:

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;*

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);*

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;*

d. *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*

e. *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 in the right-hand side of the table below, including your rationale.

CMP357 Standard Consultation questions		
1	Do you believe that the CMP357 Original Proposal, WACM1 or WACM2 better facilitates the Applicable (Charging) Objectives?	**Original 8 D.P.:** NGESO believe the original proposal of 8 D.P. to be negative against objective A implementing a change to the security factor from April 21 could have a negative impact on effective competition as some companies will have made decisions for this year based on a security factor of 1 DP, his was identified by certain parties through the consultation the ESO ran when reviewing this issue in 2020. NGESO believe the original is arguably positive against objective B, focusing purely on the number rather than how it is calculated, any movement beyond 1 D.P. would could be considered more cost reflective (please see Annex 1), however, we are unable to gather any quantitative data to prove a benefits case either way, this is purely a qualitative assumption that the more DP's in place the more reflective the number is of the actual cost. NGESO believes the original is neutral against Objective D, after reviewing we identified the SOGL article 9 and EBGL article 8 as having some potential relevance, however it was difficult to argue strongly either way on the cost reflectivity of any option against them either way, so we have decided to leave it as neutral, we have noted the articles and sections below: Article 9. *"1. The costs borne by system operators subject to network tariff regulation and stemming from the obligations laid down in this Regulation shall be assessed by the relevant regulatory authorities. Costs assessed as reasonable, efficient and proportionate shall be recovered through network tariffs or other appropriate mechanisms."* And EBGL Article 8 ***"Recovery of costs*** *1. Costs related to the obligations imposed on system operators or assigned third entities in accordance with this Regulation shall be assessed by the relevant regulatory authorities in accordance with Article 37 of Directive 2009/72/EC.*

		2. Costs considered as reasonable, efficient, and proportionate by the relevant regulatory authority shall be recovered through network tariffs or other appropriate mechanisms as determined by the relevant regulatory authorities. *3. If requested by the relevant regulatory authorities, system operators or assigned entities shall, within three months of the request, provide the information necessary to facilitate the assessment of the costs incurred.* *4. Any costs incurred by market participants in meeting the requirements of this Regulation shall be borne by those market participants."* NGESO believe that original is Neutral as from an efficiency stand point as the process is simple to accommodate any outcome. Overall we believe the original is not better than the current baseline due to the potentially negative effect on parties implementing in April 2021, through our consultation (a letter to which can be found here) we assessed any change in D.P's to the security factor against: • cost reflectivity • tariff predictability • tariff stability We found that making a change to 2 D.P. from April 2022 would be the best option when considering these criteria. We also have not seen any detailed benefits case that would highlight a change being bought in April 2021 would be beneficial. **WACM 1, 1 D.P:** NGESO believe this to be negative against objective A and B, this is based around the 1 D.P. being locked in for the full price control period, we believe that the argument of moving to at least 1 further D.P. could be valid from a cost reflectivity stand point and we also thinking locking it in at 1 D.B. when the data says moving to 2 could be more cost reflective limits competition in the other direction to the original and WACM 2 NGESO believe WACM 1 to be neutral against objective D, citing the same cost reflectivity argument against the same European articles detailed in the original section of the voting statement.

		NGESO believe that WACM 1 is Neutral as from an efficiency stand point as the process is simple to accommodate any outcome. Overall we believe WACM 1 is not better than the current baseline through our consultation (a letter to which can be found here) we assessed any change in D.Ps to the security factor against: • cost reflectivity • tariff predictability • tariff stability We found that making a change to 2 D.P. from April 2022 would be the best option when considering these criteria. **WACM 2, 2 D.P:** NGESO believe the WACM 2 proposal of 2 D.P. to be negative against objective A implementing a change to the security factor from April 21 could have a negative impact on effective competition as some companies will have made decisions for this year based on a security factor of 1 DP, this was identified by certain parties through the consultation the ESO ran when reviewing this issue in 2020. NGESO believe that WACM 2 is arguably positive against objective B, focusing purely on the number rather than how it is calculated, any movement beyond 1 D.P. would could be considered more cost reflective, however, we are unable to gather any quantitative data to prove a benefits case either way, this is purely a qualitative assumption that the more DP's in place the more reflective the number is of the actual cost. NGESO believe WACM 2 to be positive against neutral D, citing the same cost reflectivity argument against the same European articles detailed in the original section of the voting statement. NGESO believe that WACM 2 is Neutral as from an efficiency stand point as the process is simple to accommodate any outcome. As with the original proposal, overall we believe WACM 2 is not better than the current baseline due to the potentially negative effect on parties implementing in April 2021, through our consultation (a letter to which can be found here) we assessed any change in D.P's to the security factor against:

		• cost reflectivity • tariff predictability • tariff stability We found that making a change to 2 D.P. from April 2022 would be the best option when considering these criteria. We also have not seen any detailed benefits case that would highlight a change being bought in April 2021 would be beneficial.
2	Do you support the proposed implementation approach?	No, as mentioned above we believe that implementing and change from 1 D.P. this year could have a negative effect on some generators as they will have made plans and entered into contracts based on that number. We also feel that locking in 1 D.P for the entire price control period could have a negative effect on parties who would benefit from the potential greater cost reflectivity being advocated in P357. We believe a two phased approach of staying at 1 D.P. for this year and moving to 2 D.P. from April 2022 for the remainder of the price control offers the best balance to both parties.
3	Do you have any other comments?	See Annex 1

ANNEX 1

	wider liability (£k per year)	1d.p.	2d.p.	3d.p.	4d.p.	5d.p.	6d.p.	7d.p.	8d.p.
assuming	a 100MW WF in gen zone 1	2745	2687	2680	2680	2680	2680	2680	2680
40% ALF	a 100MW WF in gen zone 22	-726	-707	-705	-705	-705	-705	-705	-705
	a 100MW demand in dem zone 1	2063	2145	2156	2155	2155	2155	2155	2155
	a 100MW demand in dem zone 14	6301	6289	6288	6288	6288	6288	6288	6288