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for energy consumers

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Date: 30 December 2020

Dear Trisha,

**CMP357: 'To improve the accuracy of the TNUoS Locational Onshore Security Factor for the RII02 Period' – decision on urgency**

On 22 December 2020, SSE (the 'Proposer') raised Connection and Use of System Code (CUSC) Modification Proposal CMP357.<sup>1</sup> This Proposal concerns the Locational Onshore Security Factor ('security factor'). The security factor is set at the start of each Price Control period, based on the level of redundancy designed into the transmission network. CMP357 seeks to set the number of decimal places (d.p.) the security factor is rounded to in the charging model to eight d.p. at the start of the RII0-2 period.

The CUSC Modifications Panel (the 'Panel') considered the Proposer's urgency request at its meeting on 23 December 2020. The Panel agreed by majority that CMP357 does not meet the Code Modification Urgency Criteria criteria and so CMP357 should not be treated as an Urgent CUSC Modification Proposal.<sup>2</sup>

We have considered both the Panel's and the Proposer's arguments. We have decided that CMP357 should be progressed on an urgent basis. We have set out our reasoning below.

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<sup>1</sup> <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/improve-accuracy>

<sup>2</sup> References to the "Authority", "Ofgem", "we", and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

## Background

Generators and demand users pay for the ongoing costs of the transmission network via Transmission Network Use of System (TNUoS) charges. These charges are a combination of cost-reflective locational charges, designed to incentivise the efficient development of the system, and residual charges.

The security factor is an input to the TNUoS charging methodology. TNUoS locational tariffs are calculated on the basis of an unconstrained network with all circuits in service, and then 'stretched' by the security factor to reflect the extra capacity in the transmission network, required for network security under a 'worst contingencies' circuits fault scenario.

The security factor is reviewed by National Grid Electricity System Operator (NGESO) at the start of each Price Control period and set for its duration. In previous charging years (2013/14 – 2020/21) the security factor has been 1.8. NGESO presented its refreshed security factor calculation at the Transmission Charging Methodologies Forum (TCMF) in September 2020, and its intention to continue to round the input to one decimal place. In response to industry feedback, NGESO opened a three week consultation on whether to use one, two or eight d.p. for the security factor.<sup>3</sup> The consultation closed on 4 December 2020 and on 21 December 2020 NGESO published a letter advising that it intended to use 1 d.p. for the 2021/22 charging year, and raise a CUSC modification proposal to implement 2 d.p. for the remainder of the RIIO-2 period (2022/23 – 2025/26).<sup>4</sup>

## The proposal

The Proposer has requested to change the relevant parts of Section 14 of the CUSC, to require the security factor to be set at eight d.p. for the calculation of TNUoS charges for the RIIO-2 period. The Proposer has argued that using eight d.p. (shown in NGESO's consultation as 1.75547656) for RIIO-2 would ensure that more accurate charging occurs and that this will improve cost-reflectivity and the effectiveness of competition, reducing the potential for unduly increased or reduced charges.

In its urgency request, the Proposer explained why it was requesting urgency, highlighting one of the three urgency criteria<sup>5</sup>: (a) a significant commercial impact on parties, consumers or other stakeholders. The Proposer considers that the 'significant commercial

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<sup>3</sup> <https://www.nationalgrideso.com/document/180741/download>

<sup>4</sup> <https://www.nationalgrideso.com/document/183471/download>

<sup>5</sup> Ofgem (2016) Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

impact' arises for all users who pay TNUoS tariffs as using a less accurate number of decimal places materially impacts charges over the five-year price control period. The 'imminent' issue is the setting of TNUoS tariffs for the start of RIIO-2 by the end of January 2021. If the proposal was not treated as urgent, there would be insufficient time left to complete and approve it prior to the end of January.

## **Panel view**

The Panel considered the request for urgency by reference to Ofgem's Guidance on Code Modification Urgency. At the Panel meeting on 23 December 2020, the Panel did not recommend urgency, by majority vote. Some Panel Members who opposed urgency highlighted that 1 d.p. is what has been used for a number of years and users will assume the status quo continues. Some Panel Members also argued that the impact of the decision on urgency would be limited as changes could still take effect for future charging years without this. The full arguments for and against urgent treatment are set out in the letter from the panel.

The Panel recognised there may be alternative solutions to be assessed and the majority agreed that a Workgroup was needed. Although the majority of the Panel decided to not recommend urgency, they proposed an appropriate urgent timetable for CMP357. Under the urgent timetable the Panel agreed with the Proposer's recommendation that CMP357 would need to be decided by 25 January 2021 (if approved) to allow the 8 d.p. security factor to be factored into the final TNUoS tariffs published at the end of January.

## **Our decision**

In reaching our decision on urgency we have considered the details within the Proposal, the justification for urgency, the views of the Panel and we have also assessed the request against the urgency criteria set out in our published guidance.

We are satisfied that the progression of this modification proposal is related to an imminent issue, and if not addressed under an urgent timeline would not be able to be introduced in the 2021/22 charging year, if approved. We have therefore agreed that the modification should follow the urgent timetable set out in the Panel's letter.

We have considered the timeline presented by the Panel in their letter. We agree with the proposed timeline, given that the Proposer has stated a decision is needed by 25 January 2021, due to the timing of tariff calculation.

We emphasise that, as with any CUSC modification proposal, we will require sufficient evidence for us to properly form an opinion, based on the final modification report (FMR). In particular, we expect to see evidence of the impact of this change on different parties and that parties who may have differing views to the Proposer have had the opportunity to provide input in the FMR's assessment.

For the avoidance of doubt, in granting the request for urgency, we have made no assessment of the merits of the Proposal and nothing in this letter in any way fetters our discretion in respect of the Proposal.

If you have any comments or questions about this letter, please contact Hilary Algert at [Hilary.Algert@ofgem.gov.uk](mailto:Hilary.Algert@ofgem.gov.uk).

Yours sincerely,

**Andrew Self**

**Deputy Director, Electricity Access and Charging**

Duly authorised on behalf of the Authority