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| Workgroup Consultation | | | |
| **CM094 - Amendment to Bi-annual estimate provisions**  **Overview:**  This modification seeks to allow TOs not to pass on costs associated with strategic transmission reinforcements that have received regulatory approval | | **Modification process & timetable**    **Workgroup Consultation**  09 February 2024 - 13 February 2024  **Proposal Form**  16 January 2024  **Workgroup Report**  23 February 2024  **Code Administrator Consultation**  29 February 2024 - 06 March 2024  **Draft Modification Report**  12 March 2024  **Final Modification Report**  15 March 2024  **Implementation**  28 March 2024  **1**  **2**  **3**  **4**  **5**  **6**  **7** | |
| **Have 5 minutes?** Read our [Executive summary](#_Executive_summary_1)  **Have 20 minutes?** Read the full [Workgroup Consultation](#_Why_change?)  **Have 30 minutes?** Read the full Workgroup Consultation and Annexes. | | | |
| **Status summary:** The Workgroup are seeking your views on the work completed to date to form the final solution(s) to the issue raised. | | | |
| **This modification is expected to have a: High impact:** Generators, Demand Users. | | | |
| **Governance route** | Urgent modification to proceeding under a timetable agreed by the Authority | | |
| **Who can I talk to about the change?** | **Proposer:**  Neil Bennet  Neil.bennett@sse.com  07437176084 | | **Code Administrator** **Chair**:  Milly Lewis  Milly.Lewis@nationalgrid.eso.com  Phone: 07811036380 |
| **How do I respond?** | Send your response proforma to [stcteam@nationalgrideso.com](mailto:stcteam@nationalgrideso.com) **by 5pm on 13 February 2024** | | |

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# Executive summary

The requirement for securities to be required when network infrastructure already has regulatory approval is negatively impacting the connection of viable low carbon generation. This modification allows Transmission Owners (TOs) not to pass on costs associated with strategic transmission reinforcements that have received regulatory approval.

What is the issue?

Securities associated with large strategic transmission reinforcement works are acting as a barrier to Users, who are often required to place substantial securities against early termination of their contracts.

What is the solution and when will it come into effect?

**Proposer’s solution:** Where the Authority[[1]](#footnote-2) has approved the need for strategic transmission reinforcement works via the price control framework, then customers should no longer securitise for those specific works. Customers securities would only be released at the point that the reinforcement is approved. Customers will continue to secure up to this point and will still be required to securitise against any connection assets, sole use works, as well as any wider work securities.

**Implementation date:** 28 March 2024

What is the impact if this change is made?

It is expected to have a high impact on Generators and Demand Users as the number of securities that will be required to be provided by these Users could be significantly reduced.

Interactions

The Workgroup believes there is interaction between [CMP428: User Commitment liabilities for Onshore Transmission circuits in the Holistic Network Design](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp428-user-commitment-liabilities-onshore-transmission-circuits-holistic-network-design) and CM094.

What is the issue?

The Proposer has received feedback from a range of their customers; generation and demand, transmission and distribution connected; that the current securities regime is acting as a barrier due to the high costs of these. One recurring issue is that securities associated with large strategic transmission reinforcement works are acting as a barrier to Users, who are often required to place substantial securities against early termination of their contracts.

This is deemed to be inappropriate in circumstances where regulatory approval has been granted.

## Why change?

By acting now to address the issue, it will:

* Minimise further delay to construction works for regulatory approved investments, ensuring supply chain can be locked in in a timely manner.
* Facilitate the creation of significant socioeconomic benefit to communities.
* Help meet net zero targets of both the Scottish and UK government by enabling additional renewable development and unlocking the potential for future development of marine energy technologies.
* progressing with reform now will ensure that the securities regime is fit for purpose to support timely connection to projects associated with Accelerated Strategic Transmission Investment (ASTI) and future Centralised Strategic Network Plan (CSNP) works

What is the solution?

## Proposer’s solution

In order to accelerate the connection of viable customer connections, the proposal through changes to Section 9 will allow TOs not to pass on costs associated with strategic transmission reinforcements that have received regulatory approval.

That is where the Authority has approved the need for strategic transmission reinforcement works via the price control framework, then customers should no longer securitise for those specific works.

Customers securities would only be released at the point that the reinforcement is approved. Customers will continue to secure up to this point and will still be required to securitise against any connection assets, sole use works, as well as any wider work securities.

Workgroup considerations

The Workgroup convened 2 times to discuss the perceived issue, detail the scope of the proposed defect, devise potential solutions and assess the proposal in terms of the Applicable Code Objectives.

**Consideration of the proposer’s solution**

At the first Workgroup, the Proposer delivered a presentation giving an overview of the proposal for CM094; highlighting that the intent was to allow Transmission Owners not to pass on costs associated with strategic transmission reinforcements that have received regulatory approval. The Workgroup discussed and amended the proposed draft legal text detailing the Provision of Bi-annual Estimate within STC Schedule 9 sections (6.5 and 7.5).

**Explanation of Securities**

The purpose of securities is that if a developer terminates their connection offer or reduces capacity, then that security will be used to cover any irrecoverable costs spent to date on facilitating their connection. This protects consumers and TOs from having to cover the cost.

The Workgroup were in agreement that customers should securitise to protect consumers and TOs, at the point where the Authority has approved the need for reinforcement works then the risk of construction not proceeding is greatly reduced. It is highly unlikely that a customer’s cancelled connection would stop the reinforcement proceeding.

The Proposer’s solution means that where the Authority has unconditionally approved the need for strategic transmission reinforcement works via the price control framework, customers should no longer securitise for those specific works.

Customers securities would only be released at the point that the reinforcement is approved. Customers will continue to secure up to this point and will still be required to securitise against any connection assets, sole use works, as well as any wider work securities.

The Workgroup considered if there would be any potential impacts on customers dependent on when they were to gain a connections (advantageous or disadvantageous) due to CM094 and considered the risk to be low. Securities increase over time as the cost of transmission works spend profile increases. So for a first user, who may drive initially conditional transmission reinforcement, the early liability for securities is low and assuming Authority unconditional funding approval is fairly fast, relative to the material spend timing in the works, then the first user would have the cost of those works waived from the securities amount.[need to include the rational of this, first comer versus second comer]

**Risk to Consumers**

The Proposer believes that the risk to consumers is minimal as Customers will still be required to securitise against any connection assets, sole use works, and wider work securities and will continue to securitise against large transmission reinforcement works until regulatory approval is in place. Up until this point, costs spent on the reinforcement works will only be pre-construction development spend. For T2 reinforcements, this amounted to c.2.6% of project costs.

On the receipt of received regulatory approval for reinforcements it is extremely unlikely that TOs will not progress.

The Proposer believes that the solution will deliver material benefit to customers; as within SSEN Transmission T2 LOTI projects alone, over 80 customers would benefit from this change helping to facilitate the connection of 33.5GW of renewable generation.

The Workgroup agreed that this strikes an appropriate balance between ensuring that developers are liable should they cancel their project whilst reducing the overall scale of those securities to ensure that reinforcements do not pose a barrier to connections proceeding.

**Interaction with ongoing Connection Reform**

The Proposer attended the Connections Process Advisory Group (CPAG) in advance of raising the modification as they believe securities reform should be a key priority within the Connections Action Plan (CAP). As they see the current securities regime as acting as a barrier to viable customer projects and the modification would facilitate the delivery of faster connection.

There was no challenge to the Proposer’s suggestion that taking into consideration with newly introduced reforms which will improve certainty of customer progression, the modification would facilitate timely connection of viable renewables projects by reducing the overall financial burden on customers. Which in turn will help to reduce the backlog in the queue and result in improved certainty for TOs delivering network investments.

**Notifying the Authority and ESO when Securities have been removed**

The Workgroup discussed the time period for notifying the Authority prior to the TO waiving their right to include costs in the works. As the Proposer had feedback previously that this would be required to provide clarity. An Authority Representative stated that there was no clear need for a notification to be sent to them as the impact of the approval would only impact the data flow between the TOs and the ESO.

Following Workgroup discussion it was agreed that 20 Business Days (as defined in the STC) would be allow sufficient time for checks on expenditure and liaising with National Grid ESO.

**What is captured under ‘unconditional’ approvals**

The Proposer confirmed that the modification does not differentiate on size of funding/ connection/ reinforcement it is only where the Authority have granted an ‘unconditional approval’. Whilst there was agreement that the definition was essentially Authority approved funding without conditions attached, the Workgroup agreed that the definition of ‘unconditional’ approvals needed to be clear to all parties.

Unconditional Approval

The approval of transmission price controlled funding by the Authority in respect of specific Transmission Construction Works whereby the funding approval is not or is no longer dependent upon connection of any given party.

[insert definition – potential that this might need to be workgroup consultation as to whether it need to be a defined term or not]

**Final Sums versus Attributable Works**

The Workgroup considered interactions between bi-annual estimates and attributable works. A Workgroup Member was of the opinion that there is a risk that a reduction in one leads to a reduction in the other.

[insert output of STC investigation including 5 year capex/ TORI flow Schedule H and M]

**Interactions with other codes**  
The Workgroup discussed interactions with CUSC modifications specifically referenced in the Workgroup Terms of Reference (ToR), Annex 3.

The Workgroup agreed that there was no interaction with [CMP417: Extending principles of CUSC Section 15 to all Users](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp417-extending-principles-cusc-section-15-all-users) and [CM093: Extending the principles of the User Commitment Methodology to Final Sums Methodology as a consequence of CUSC Modification – CMP417](https://www.nationalgrideso.com/industry-information/codes/stc/modifications/cm093-extending-principles-user-commitment-methodology-final-sums-methodology-consequence-cusc-modification-cmp417) as the modifications seek to move Demand customers who currently use the Final Sums Methodology as the basis of securities, to the principles of the User Commitment Methodology which Generation customers use for the purpose of securities. The CM094 proposal would impact both Generation and Demand customers regardless of the methodology that is used for securities.

Or

"adjust the value of the Final Sums amount from TO to SO but not change the process or structure of securities, and so would feed both existing and proposed CUSC securities processes without conflicting."

[insert rational].

The Workgroup was of the opinion is that there is interaction with [CMP428: User Commitment liabilities for Onshore Transmission circuits in the Holistic Network Design](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp428-user-commitment-liabilities-onshore-transmission-circuits-holistic-network-design).

As both modifications seek to resolve the defect around securities, where CM094 would have a broader impact CMP428 seeks to resolve for circuits classified as onshore transmission within the HND via Attributable Works. [need to doublecheck rationale].

The Workgroup does not believe that CM094 impacts any other industry codes or modifications, to ensure Generator and Demand Users feedback is captured all future industry communication on the modification will be shared with the CUSC and Grid Code mailing lists held by the ESO Code Administrator.

**Consideration of other options**

The Proposer detailed that ahead of raising the modification they had considered several other options, however they opted for the STC modification as a pragmatic solution that could see reforms implemented within months, due to not altering any of the charging methodologies which would be a more complex modification to deliver.

**Workgroup consultation question: Xxxxx?**

## Draft legal text

The draft legal text for this change can be found in Annex 1 – Schedule 9.

What is the impact of this change?

Using only SSEN T2 LOTI projects as an example up to 33.5GW of renewable generation, across over 80 customers, would see a benefit in reduced securities. The impact on individual customers will vary however across all customers this would result in an overall reduction in securities of c.£3bn.

Without a resolution to the current issue by Q1 2024, viable projects in Shetland and Orkney will be put at serious risk.

## Proposer’s assessment against Code Objectives

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| Proposer’s assessment against STC Objectives | |
| **Relevant Objective** | **Identified impact** |
| (a)efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act | Neutral |
| (b) development, maintenance, and operation of an efficient, economical and coordinated system of electricity transmission | Neutral |
| (c) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the distribution of electricity | Neutral |
| (d) protection of the security and quality of supply and safe operation of the national electricity transmission system insofar as it relates to interactions between transmission licensees | Neutral |
| (e) promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC | Neutral |
| (f) facilitation of access to the national electricity transmission system for generation not yet connected to the national electricity transmission system or distribution system; | Positive  This modification will accelerate the connection of viable customer connections by reducing the number of unnecessary securities being required by Generators/demand customers. |
| (g) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. | Neutral |

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| Proposer’s assessment of the impact of the modification on the stakeholder / consumer benefit categories | |
| **Stakeholder / consumer benefit categories** | **Identified impact** |
| Improved safety and reliability of the system | Neutral |
| Lower bills than would otherwise be the case | Positive   * Facilitate the creation of significant socioeconomic benefit to communities. For example, benefit to the Orkney and Scottish economies, through enabling community-owned wind farm developments and utilising both local Orcadian and Scottish supply chain content. Currently there is a HVDC link proposed that is high cost and thus high securities to the customers there. Removing this cost removes barriers to connecting these customers which provides the socioeconomic benefits. * Help meet net zero targets of both the Scottish and UK government by enabling additional renewable development. * Progressing with reform now will ensure that the securities regime is fit for purpose to support timely connection to projects associated with ASTI and future CSNP works   : |
| Benefits for society as a whole | Neutral |
| Reduced environmental damage | Neutral |
| Improved quality of service | Neutral |

**Standard Workgroup consultation question:** Do you believe that CM094 Original proposal better facilitates the Applicable Objectives?

When will this change take place?

### Implementation date

28 March 2024

### Date decision required by

26 March 2024

### Implementation approach

Final Sums procedure [does this require system update]

**Standard Workgroup consultation question:** Do you support the implementation approach?

Interactions

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| --- | --- | --- | --- |
| ☐Grid Code | ☐BSC | ☐STC | ☐SQSS |
| ☐European Network Codes | ☐ EBR Article 18 T&Cs[[2]](#footnote-3) | ☐Other modifications | ☐Other |

How to respond

## Standard Workgroup consultation questions

1. Do you believe that the Original Proposal and/or any potential alternatives better facilitate the Applicable Objectives?
2. Do you support the proposed implementation approach?
3. Do you have any other comments?
4. Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?

## Specific Workgroup consultation questions

1. Xxxxxxxxx

The Workgroup is seeking the views of STC Users and other interested parties in relation to the issues noted in this document and specifically in response to the questions above.

Please send your response to [stcteam@nationalgrideso.com](mailto:stcteam@nationalgrideso.com) using the response pro-forma which can be found on the [CM094 modification page](https://www.nationalgrideso.com/industry-information/codes/stc/modifications/cm094-amendment-bi-annual-estimate-provisions).

In accordance with Governance Rules if you wish to raise a Workgroup Consultation Alternative Request please fill in the form which you can find at the above link.

*If you wish to submit a confidential response, mark the relevant box on your consultation proforma. Confidential responses will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel, Workgroup or the industry and may therefore not influence the debate to the same extent as a non-confidential response.*

Acronyms, key terms and reference material

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| **Acronym / key term** | **Meaning** |
| ASTI | Accelerated Strategic Transmission Investment |
| BSC | Balancing and Settlement Code |
| CAP | Connections Action Plan |
| CM | Code Modification |
| CPAG | Connections Process Advisory Group |
| CSNP | Centralised Strategic Network Plan |
| CUSC | Connection and Use of System Code |
| LOTI | Large Onshore Transmission Investment |
| STC | System Operator Transmission Owner Code |
| SQSS | Security and Quality of Supply Standards |
| T2 | RIIO-T2 period |
| TO | Transmission Owners |
| TORI | Transmission Owner Reinforcement Instruction |
| SSEN |  |
| HND |  |
| ESO |  |
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### Reference material

* [CMP417: Extending principles of CUSC Section 15 to all Users](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp417-extending-principles-cusc-section-15-all-users)
* [CM093: Extending the principles of the User Commitment Methodology to Final Sums Methodology as a consequence of CUSC Modification – CMP417](https://www.nationalgrideso.com/industry-information/codes/stc/modifications/cm093-extending-principles-user-commitment-methodology-final-sums-methodology-consequence-cusc-modification-cmp417)
* [CMP428: User Commitment liabilities for Onshore Transmission circuits in the Holistic Network Design](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp428-user-commitment-liabilities-onshore-transmission-circuits-holistic-network-design)

Annexes

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| **Annex** | **Information** |
| Annex 1 | Legal Text |
| Annex 2 | Proposal Form |
| Annex 3 | Terms of reference |
| Annex 4 | Urgency Letters |
| Annex X |  |
| Annex X |  |
| Annex X |  |
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1. The Authority referred to within this document is Ofgem, the Office of Gas and Electricity Markets [↑](#footnote-ref-2)
2. If the modification has an impact on Article 18 T&Cs, it will need to follow the process set out in Article 18 of the Electricity Balancing Regulation (EBR – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process. [↑](#footnote-ref-3)