CM094 - Amendment to Bi-annual estimate provisions

Workgroup 1, 06 February 2024

Online Meeting via Teams

WELCOME

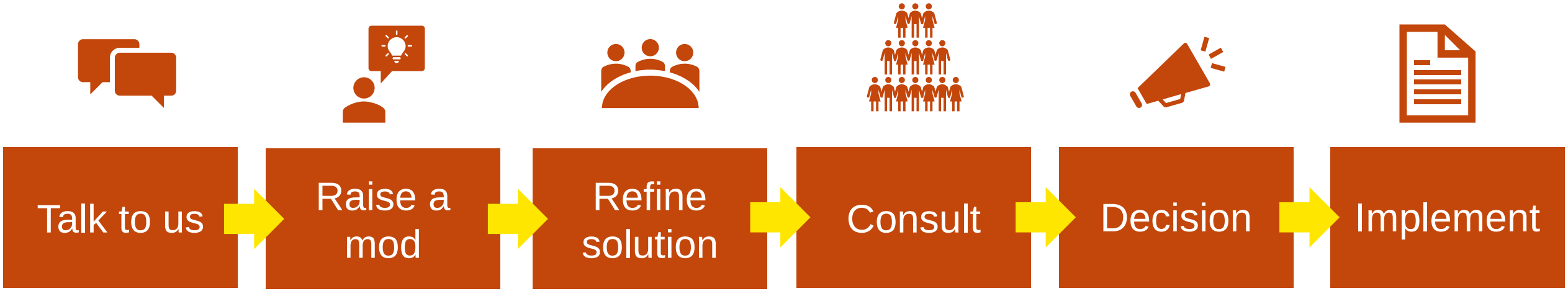
Agenda

Topics to be discussed	Lead
Introductions	Chair
Code Modification Process Overview • Workgroup Responsibilities • Workgroup Alternatives and Workgroup Vote	Chair
Objectives and Timeline • Walk-through of the timeline for the modification	Chair
Review Terms of Reference	All
Proposer presentation	Proposer
Agree Terms of Reference	All
Cross Code Impacts	All
Any Other Business	Chair
Next Steps	Chair

Modification Process

Milly Lewis – ESO Code Administrator

Code Modification Process Overview



Forums

Panels

Workgroups
(Workgroup Consultations)

Ofgem/Panel

Refine solution
Workgroups

- If the proposed solution requires further input from industry in order to develop the solution, a Workgroup will be set up.

- The Workgroup will:
  - further refine the solution, in their discussions and by holding a **Workgroup Consultation**
  - Consider other solutions, and may raise **Alternative Modifications** to be considered alongside the Original Modification
  - Have a **Workgroup Vote** so views of the Workgroup members can be expressed in the Workgroup Report which is presented to Panel

Consult

Code Administrator Consultation

- The Code Administrator runs a consultation on the **final solution(s)**, to gather final views from industry before a decision is made on the modification.

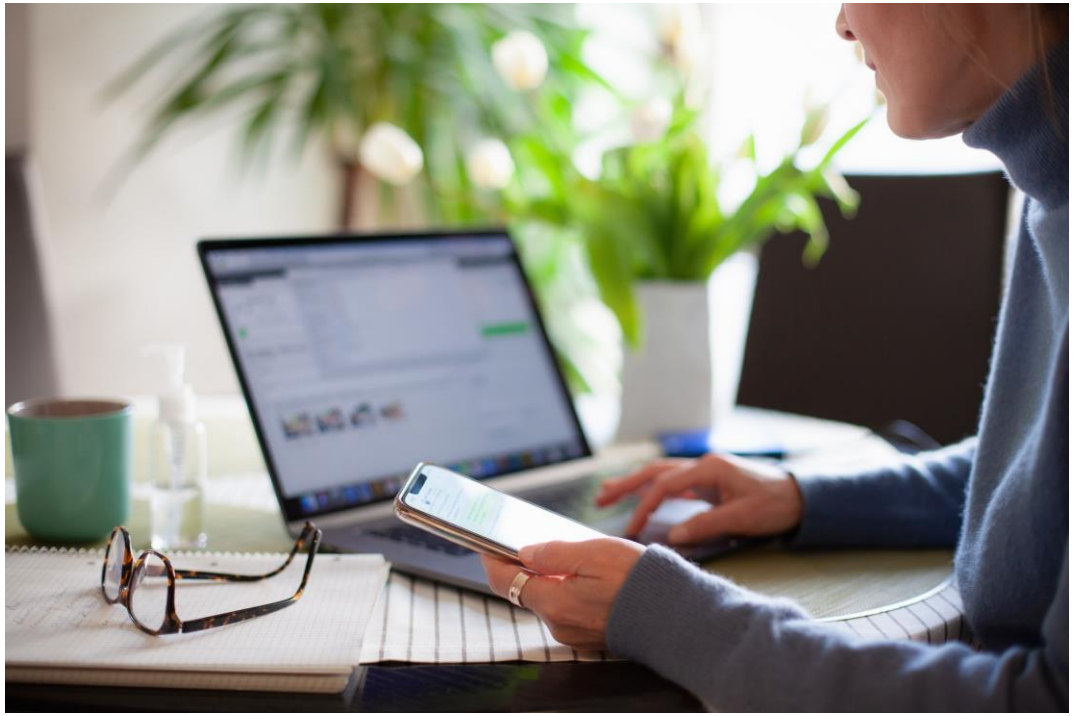
- After this, the modification report is voted on by Panel who also give their views on the solution.

Decision

- Dependent on the Governance Route that was decided by Panel when the modification was raised
- **Standard Governance:** Ofgem makes the decision on whether or not the modification is implemented
- **Self-Governance:** Panel makes the decision on whether or not the modification is implemented
  - an appeals window is opened for 15 days following the Final Self Governance Modification Report being published

Implement

- The Code Administrator implements the final change which was decided by the Panel / Ofgem on the agreed date.



Workgroup Responsibilities

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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 Alternatives and Workgroup Vote

Milly Lewis – ESO Code Administrator

Can I vote? and What is the Alternative Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings

Stage 1 – Alternative Vote

- Vote on whether Workgroup Alternative Requests should become Workgroup Alternative STC Modifications.
- The Alternative vote is carried out to identify the level of Workgroup support there is for any potential alternative options that have been brought forward by either any member of the Workgroup OR an Industry Participant as part of the Workgroup Consultation.
- **Should the majority of the Workgroup OR the Chair believe that the potential alternative solution may better facilitate the STC objectives than the Original then the potential alternative will be fully developed by the Workgroup with legal text to form a Workgroup Alternative STC modification (WASTM)** and submitted to the Panel and Authority alongside the Original solution for the Panel Recommendation vote and the Authority decision.

Can I vote? and What is the Workgroup Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings

Stage 2 – Workgroup Vote

- 2a) Assess the original and Workgroup Alternative (if there are any) against the relevant Applicable Objectives compared to the baseline (the current code)
- 2b) Vote on which of the options is best.

Workgroup Membership

Role	Name	Company
Proposer	Neil Bennett	Scottish and Southern Electricity Networks Transmission
Workgroup Member	David Halford	ESO
Workgroup Member	Matthew Paige-Stimson	National Grid Electricity Transmission
Workgroup Member	Gareth Williams	Scottish Power Transmission
Observer	Ruth Matthew	ESO
Authority Representative	Christopher Patrick	Ofgem

Objectives and Timeline

Milly Lewis – ESO Code Administrator

Timeline for CM094 as at 05 February 2024

Milestone	Date	Milestone	Date
Modification presented to Panel	31 January 2024	Code Administrator Consultation (4 working days)	29 February 2024 to 06 March 2024
Workgroup Nominations (3 Working Days)	01 February 2024 to 05 February 2024	Draft Final Modification Report (DFMR) issued to Panel (2 working days)	12 March 2024
Ofgem grant Urgency	05 February 2024 (5pm)	Urgent Panel undertake DFMR recommendation vote	15 March 2024 (by 12pm)
Workgroup 1 and Workgroup 2 (assuming Ofgem have granted Urgency)	6 February 2024 8 February 2024	Final Modification Report issued to Panel to check votes recorded correctly	15 March 2024 (by 2pm -4pm)
Workgroup Consultation (3 working days)	9 February 2024 to 13 February 2024	Final Modification Report issued to Ofgem	15 March 2024 (by 5pm)
Workgroup 3 and 4	19 February 2024 21 February 2024	Ofgem decision (7 working days)	26 March 2024
Workgroup report issued to Panel (2 working days) Late submission	23 February 2024	Implementation Date	By 28 March 2024
Panel sign off that Workgroup Report has met its Terms of Reference	28 February 2024		

Review Terms of Reference

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Terms of Reference

Workgroup Term of Reference
a) Implementation
b) Review and support the legal text drafting;
c) Ensure the appropriate Industry experts or stakeholders are engaged in the Workgroup to ensure that all potentially affected stakeholders have the opportunity to be represented in the Workgroup
d) The cross Code impacts this Modification has, in particular the CMP417: Extending principles of CUSC Section 15 to all Users and CMP428: User Commitment liabilities for Onshore Transmission circuits in the Holistic Network Design

Proposer's Solution: Background;
Proposed Solution;
Scope; and
Assessment vs Terms of Reference

Neil Bennett – SSEN Transmission

Case for change

- Securities associated with large strategic transmission investments can be significant for customers and pose a barrier to development. E.g., **an 8.4MW onshore wind farm in Orkney is currently facing a charge of over £3m**. This is a small developer who will have to provide cash upfront to cover this cost.

- Without a change to the securities regime, there are several renewable projects across Shetland and Orkney that will become unviable in Q1 2024.

- To remedy this issue and accelerate the connection of viable customer connections, we are proposing an STC code modification to allow TOs not to pass on costs associated with strategic transmission reinforcements that have received regulatory approval.

Our proposal

- 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.

- While it is right that customers should securitise to protect consumers and TOs, at the point where Ofgem 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.

- **We are proposing that, where Ofgem 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.

How material is this issue?

- **This isn't unique to the north of Scotland.** We know from discussions with both TOs that this is a common problem being faced across GB.

- Using only our 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.

T2 Reinforcements	Capacity Impacted	Customers Impacted
Eastern Green Link 2	30GW	40
Argyll	2GW	11
Skye	0.7GW	11
Orkney	0.1GW	9
Shetland	0.7GW	10

What is the impact of implementing our proposal?

- Taken into consideration with newly introduced reforms which will improve certainty of customer progression, **this will facilitate timely connection of viable renewables projects** by reducing the overall financial burden on customers. This will help to reduce the backlog in the queue and result in improved certainty for TOs delivering network investments.

- **The risk to consumers is minimal**. 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. Once we have received regulatory approval for reinforcements it is extremely unlikely that we will not progress.

- 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.

Summary

- **This is a priority within CAP commitments:** we believe securities reform should be a key priority within the Connections Action Plan to facilitate the delivery of faster connections.
- **This is about acceleration**: the current securities regime is acting as a barrier to viable customer projects. Reform will speed up the delivery and connection of these projects.
- **Action is needed now**: without a resolution to the current issue by Q1 2024, viable projects in Shetland and Orkney will be put at serious risk.
- **Reform will deliver material benefit to customers**: on our T2 LOTI projects alone, over 80 customers would benefit from this change helping to facilitate the connection of 33.5GW of renewable generation.
- **Sets up customers ahead of ASTI and CSNP:** progressing reforms now will ensure that the securities regime is fit for purpose to support timely connection to ASTI and future CSNP works.
- **STC route will deliver a quick win:** alternative options will be lengthy and more complex to deliver. An STC modification is a pragmatic solution that could see reforms implemented within months.

Agree Terms of Reference

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Cross Code Impacts

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Any Other Business

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Next Steps

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