

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 approval by the Authority under the price control mechanisms/under the transmission licence of the needs case for specific Transmission Construction Works which are not or are no longer dependent upon connection of any given party

Modification process & timetable



Have 5 minutes? Read our [Executive summary](#)

Have 60 minutes? Read the full [Workgroup Consultation](#)

Have 90 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.
Low Transmission Owners

Governance route Urgent modification to proceeding under a timetable agreed by the Authority

Who can I talk to about the change?	Proposer: Neil Bennett Neil.Bennett@sse.com 07437176084	Code Administrator Chair: Milly Lewis Milly.Lewis@nationalgrideso.com Phone: 07811036380

How do I respond? Send your response proforma to stcteam@nationalgrideso.com by **5pm on 14 February 2024**

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Executive summary

The requirement for securities when network infrastructure already has Authority 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 Authority 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 Authority¹ 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 post the reinforcement needs case being approved by the Authority. 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 that are not approved by the Authority.

Implementation date: ASAP

What is the impact if this change is made?

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

It is expected to have a low impact to TOs based on procedural changes to Bi-annual Estimate submission.

Interactions

The Workgroup believes there is interaction between [CMP428: User Commitment liabilities for Onshore Transmission circuits in the Holistic Network Design](#) and CM094.

¹ The Authority referred to within this document is Ofgem, the Office of Gas and Electricity Markets

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 securing these works. 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 by the Proposer to be inappropriate in circumstances where Authority approval of the network need has been granted.

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.

Why change?

By acting now to address the issue, it will:

- minimise further delay to construction works for Authority 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 Governments 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 and any other works which are approved by the Authority

What is the solution?

Proposer's solution

In order to accelerate the connection of viable customer connections, the proposal through changes to Section 9 and Section J of the STC will allow TOs not to pass on costs associated with strategic transmission reinforcements that have received Authority approval. In these instances, the TO also waives the right to recover these costs on termination of the TO Construction Agreement.

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. The Proposal refers to this approval as a:

“Construction Approval” ²The approval by the Authority pursuant to a Transmission Licence of the needs case for specific Transmission Construction Works which are not or are no longer dependent upon connection of any given party

² For simplicity this proposed new defined term will be used throughout the Workgroup Consultation

Customers securities would only be released in the next security period, where reasonable, after the Construction Approval has been received. 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 that are not approved by the Authority.

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

Below captures the key discussion points of the two Workgroup meetings, further detail is available on the [CM094 modification page](#).

Which Works are Captured under 'Construction Approval'

The Proposer confirmed that the modification does not differentiate on size of reinforcement it is only where a needs case has been approved by the Authority and there are no dependencies on any conditions, excluding the highly unlikely event of a significant change to the needs case.

When initially considering the type of approval required by the Authority, the Workgroup discussed whether funding was appropriate and the differences between pre-construction and construction funding. However, the Workgroup agreed the Construction Approval definition should be based on the needs case approval would be more beneficial as it is earlier in the process than funding approval, whilst still being low risk to the TO.

Workgroup Consultation question 5: Do you agree that the Construction Approval should be based on the needs case approval rather than funding approval? (Y/N)

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 by the TO. This protects consumers and TOs from having to cover the cost.

The Workgroup agreed that customers should securitise to protect consumers and TOs. However 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 approved the need for strategic transmission reinforcement works via the price control framework, customers should no longer securitise for those specific works. In these instances, the TO also waives the right to recover these costs on termination of the TO Construction Agreement.

Customers securities would only be released at the point that the reinforcement is approved by the Authority. 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 that are not approved by the Authority.

The Workgroup discussed whether there would be any advantages or disadvantages to a customer based on when they contracted because of the CMP094 proposed changes to the STC.

Where works have not been approved by the Authority any customers contracted at those early stages would need to securitise the works. Customers who contracted after the Construction Approval would not have to securitise against the same works.

The estimated amounts required by the customer to secure prior to Construction Approval would be relatively low because of the TO's economic and efficient spend ahead of the needs case being met. As the securities for the specific works would no longer be required by existing customers post Construction Approval, alongside the advantages gained by being higher in the queue the Workgroup deemed the order in which customers were contracted to be not material.

Workgroup Consultation question 6: Do you agree that it's non-material when customers contract? (Y/N)

Final Sums versus Attributable Works

For Final Sums the TO provides all the reinforcement works that are, or will be, under construction and their associated costs that have been incurred so far. Construction Works may be attributable to some customers but not others.

The Workgroup considered whether the definition of Attributable Works needed to be amended. Whilst the Attributable Works definition is not proposed to be changed, the estimate of Attributable Works Capital Cost within the provisions of Attributable Works by the TO (Section 9 within Annex 1) proposes to exclude any Attributable Works that have received a Construction Approval.

A Workgroup member proposed that for there to be consistency across all types of works, Wider Works securities should also be included within the solution. Larger strategic schemes would be more likely to have the majority of investment upstream of the existing MITS Nodes, with such works being Non-Attributable Works and otherwise uplifting the Wider Cancellation Charge.

As a result, the Workgroup reviewed the Wider Cancellation Charge Information definition and agreed the proposed changes to ensure that securities could be removed for Wider Works that have received Construction Approval (Section J within Annex 1).

Mitigating the Risk to Consumers

The Proposer believes that 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 the next security period, where reasonable, after that Construction Approval has been received. Up until this point, costs spent on the reinforcement works will only be pre-construction development spend.

On the receipt of the Construction Approval for reinforcements it is extremely unlikely that TOs will not progress with the specified construction works.

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

ESO

those securities to ensure that reinforcements do not pose a barrier to connections proceeding.

Workgroup Consultation question 7: Do you agree that the next security period is a reasonable time for the change? (Y/N)

Workgroup Consultation question 8: Is it clear that prior to Construction Approval (needs case) that customers will still need to provide securities for construction works? (Y/N)

Notifications to ESO post Construction Approval

Ahead of Workgroup discussion the Proposer had received feedback that notifying the Authority prior to the TO waiving their right to include costs in the relevant works would be required. An Authority Representative stated that there was no clear need for a notification to be sent to them, however they did see the need for a notification from the TO to the ESO.

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

Interactions Ongoing Connection Reform with Other Modifications

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).

There was general support for the modification, and taking into account the 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. The Workgroup discussed interactions with CUSC modifications specifically referenced in the Workgroup Terms of Reference (Annex 3).

The Workgroup agreed that there was no interaction with [CMP417: Extending principles of CUSC Section 15 to all Users](#) and [CM093: Extending the principles of the User Commitment Methodology to Final Sums Methodology as a consequence of CUSC Modification – CMP417](#) as CM094 would impact both Generation and Demand customers regardless of the CUSC methodology that is used for securities which these modifications are seeking to resolve.

The Workgroup agreed that there is interaction with [CMP428: User Commitment liabilities for Onshore Transmission circuits in the Holistic Network Design](#).

Both modifications defects focus on removing security provisions where the Authority has approved works but at different points in the process.

[CMP428](#) looks to ensure that there is no liability/security for transmission works classified as onshore reinforcement under HND once they have been classified by the Authority. CM094 looks to ensure that securities are removed after the Authority has approved a needs case (i.e. a Construction Approval) for any onshore reinforcement.

The Workgroup were supportive of the Authority's request for the timelines to be coincide so that they can decide on both modifications at the same time.

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 including proposing a CUSC modification. They opted for a STC modification as a pragmatic solution that could see changes implemented within months, due to not altering any of the CUSC charging methodologies which would be a more complex modification to deliver.

Draft legal text

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

Workgroup Consultation question 9: Does the legal text satisfy the intent of the modification in improving the security process in a transparent way? (Y/N)

What is the impact of this change?

The impact of the change would be across the onshore GB transmission network so the national reduction would be well in excess of the £3bn referenced within the ‘What is the Issue?’ section at earlier in the document.

Proposer’s assessment against Code Objectives

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 It is likely that an increasing number of customer connections will be realised by reducing the number of unnecessary securities 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 <ul style="list-style-type: none"> 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

ASAP

Date decision required by

ASAP

Implementation approach

There are not believed to be any additional system requirements from the proposed changes.

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

Interactions

- | | | | |
|---|---|--|--------------------------------|
| <input type="checkbox"/> Grid Code | <input type="checkbox"/> BSC | <input type="checkbox"/> CUSC | <input type="checkbox"/> SQSS |
| <input type="checkbox"/> European Network Codes | <input type="checkbox"/> EBR Article 18 T&Cs ³ | <input type="checkbox"/> Other modifications | <input type="checkbox"/> Other |

Whilst the Workgroup have agreed there are interactions with CMP428, CM094 is progressing independently.

How to respond**Standard Workgroup consultation questions**

1. Do you believe that the Original Proposal 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

5. Do you agree that the Construction Approval should be based on the needs case approval rather than funding approval?
6. Do you agree that it's non-material when customers contract?
7. Do you agree that the next security period is a reasonable time for the change?
8. Is it clear that prior to Construction Approval (needs case) that customers will still need to provide securities for construction works?
9. Does the legal text satisfy the intent of the modification in improving the security process in a transparent way?

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 using the response proforma which can be found on the [CM094 modification page](#).

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

³ 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.

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

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
ESO	Electricity System Operator
HND	Holistic Network Design
LOTI	Large Onshore Transmission Investment
SQSS	Security and Quality of Supply Standards
SEEN	Scottish and Southern Electricity Networks Transmission
STC	System Operator Transmission Owner Code
T2	RIO-T2 period
TO	Transmission Owners
TORI	Transmission Owner Reinforcement Instruction

Reference material

- [CMP417: Extending principles of CUSC Section 15 to all Users](#)
- [CM093: Extending the principles of the User Commitment Methodology to Final Sums Methodology as a consequence of CUSC Modification – CMP417](#)
- [CMP428: User Commitment liabilities for Onshore Transmission circuits in the Holistic Network Design](#)

Annexes

Annex	Information
Annex 1	Legal Text
Annex 2	Proposal Form
Annex 3	Terms of reference
Annex 4	Urgency Letters