

CMP435 & CM096

Application of Gate 2 Criteria to existing contracted background

Workgroup Meeting 4, 29 May 2024
Online Meeting via Teams

WELCOME



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

Bespoke Ways of Working

- **Collaboration space**
 - This will be an area where we will share with Workgroup Members documentation which needs to be worked on together; it will include the action log and a queries log so that we can keep these reviews to a minimum during Workgroup meetings
- **Workgroup members versus observers**
 - Due to the size of membership only Workgroup members will have the ability to present, come off mic, and have access to the collaboration space
 - Observers will be able to watch Workgroup meetings
- **2 Workstreams across 2 separate codes**
 - There will be both CUSC and STC Workgroup members in the meetings that are held; when there are topics which are purely one modification or the other this will be called out ahead of time
 - There are some variations in governance rules between the two codes and that will be made clear along the way
- **Workgroup summaries**
 - These will be short captions on agreed outputs and actions alone; the detail will be included into the Workgroup consultation (and subsequent Workgroup Report) which will be shared in the collaboration space, but may be password protected at times by the Chair
- **Preparation and alternates**
 - Due to the intense timeline we will operate on the basis that all alternates have been briefed accordingly so that debate can be focused on solution refinement (this includes Proposer's, Workgroup members and Code Administrator representatives)
- **Exiting the day clean**
 - Post the Workgroup meetings we will have a smaller session which will end no later than 16:55 for those members who have been allocated actions or next steps to ensure absolute clarity on the asks
- **Cameras and transcript**
 - To save bandwidth, please keep cameras off unless you are speaking (having raised a hand to be brought into the conversation by the Chair). The Chair will also ask if the WG agree to a transcript being recorded (for note-taking purposes only)

Agenda

Topics to be discussed	Lead
Introductions	Chair
Timeline and Topics	Chair, Proposer, SME
Action Review	Chair
Terms of Reference	Chair
Confirmation of Scope Outstanding queries on Application Fees Overview of Process Financial Instruments	Proposer, SME
Any Other Business	Chair
Next Steps	Chair



Timeline and Topics

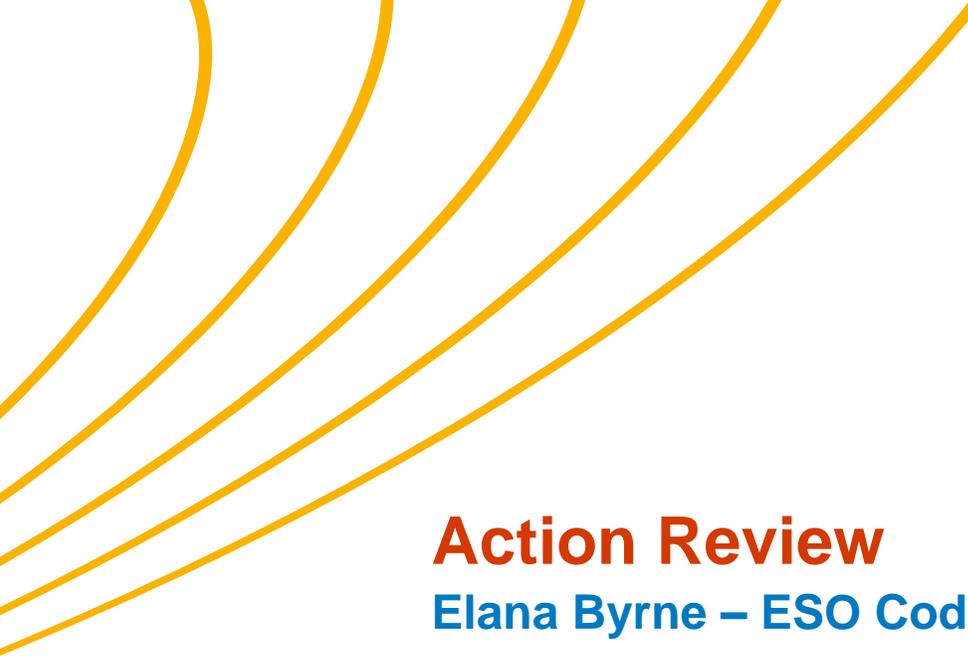
Elana Byrne – ESO Code Administrator

Timeline for CMP435 and CM096 as at 02 May 2024

Milestone	Date	Milestone	Date
Workgroup Nominations (4 Business Days)	26 April 2024 to 02 May 2024	Code Administrator Consultation (9 Business Days)	19 August 2024 to 02 September 2024
Ofgem grant Urgency	01 May 2024(5pm)	Draft Final Modification Report (DFMR) issued to Panel (3 Business Days)	09 September 2024
Assuming Ofgem have granted Urgency Workgroup meetings 1 - 6	07 May 2024 15 May 2024 23 May 2024 29 May 2024 04 June 2024 12 June 2024 14/17/19 June 2024 – provisional additional Workgroup	Panel undertake DFMR recommendation vote (Special Panel)	13 September 2024 (by 2pm)
Workgroup Consultation (8 Business Days)	25 June 2024 – 05 July 2024	Final Modification Report issued to Panel to check votes recorded correctly	13 September 2024 (by 4pm)
Workgroup meeting 7 - 11	16 July 2024 19 July 2024 23 July 2024 31 July 2024 06 August 2024	Final Modification Report issued to Ofgem	13 September 2024 (by 5pm)
Workgroup report issued to Panel (2 Business Days)	13 August 2024	Ofgem decision	06 November 2024
Special Panel sign off that Workgroup Report has met its Terms of Reference	16 August 2024	Implementation Date	01 January 2025

Outline of Workgroup(s) Meeting Topics – CMP435 & CM096

WG meeting 1	<ul style="list-style-type: none"> • Set the scene, ToR, timeline, ways of working, context -why connections reform, what are the issues and solutions, what is and isn't scope, cross code impacts, who is impacted and how?
WG meeting 2	<ul style="list-style-type: none"> • Proposed solution and identifying the key issues we need to address in future Workgroups
WG meeting 3	<ul style="list-style-type: none"> • Exemptions from CMP435 • What costs will be reimbursed?
WG meeting 4	<ul style="list-style-type: none"> • Confirmation of Scope • Overview of Process • Outstanding queries on Application Fees • Financial Instruments
WG meeting 5	<ul style="list-style-type: none"> • Capital Contributions • Applying concepts agreed in CMP434 to in scope projects in CMP435
WG meeting 6	<ul style="list-style-type: none"> • Transitional arrangements including how current applications and offers are treated, securities, pre-Gate 2 contract • NESO Designation (note is a topic for CMP434 WG6 on 5 June) • Disputes (note the content is a topic for CMP434) • Identify which sections of legal text will change (Separate CUSC and STC) • Finalise WG Consultation (Separate CUSC and STC)
WG meeting 7	<ul style="list-style-type: none"> • Assess WG Consultation responses, discuss new points • Discuss potential alternatives and agree who develops these
WG meeting 8 and WG meeting 9	<ul style="list-style-type: none"> • Finalise WG Alternatives (CUSC 1st then reflect in STC) • Legal Text (Separate CUSC and STC)
WG meeting 10	<ul style="list-style-type: none"> • Finalise Legal Text (Separate CUSC and STC) • WG Alternative Vote (Separate CUSC and STC) • This is where we are re: Alternatives (Separate CUSC and STC)
WG meeting 11	<ul style="list-style-type: none"> • Workgroup Report (Separate CUSC and STC) • Workgroup Vote (Separate CUSC and STC)



Action Review

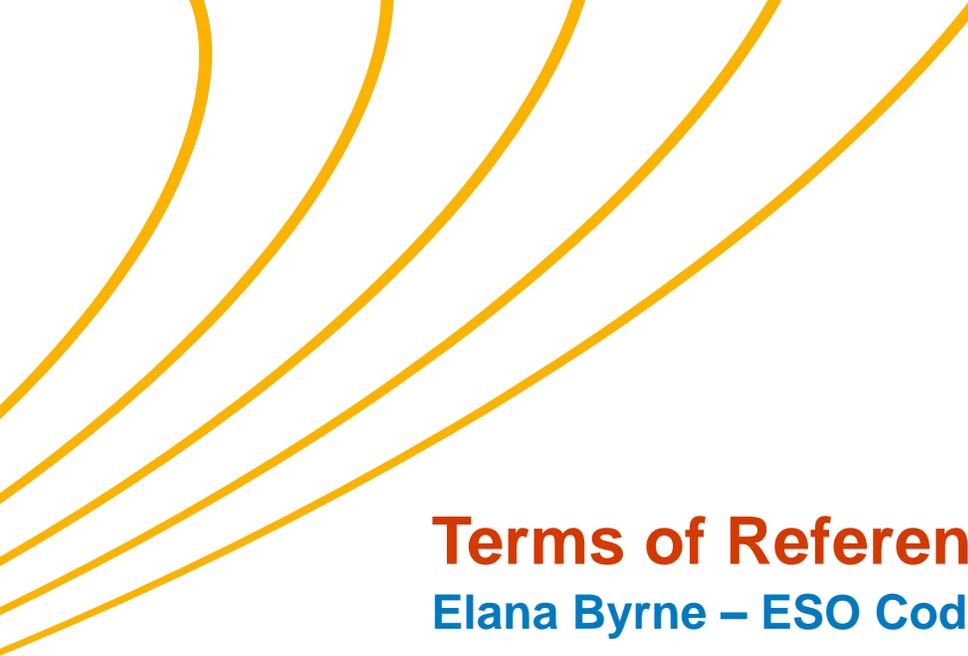
Elana Byrne – ESO Code Administrator

Actions – Application of Gate 2 Criteria to existing contracted background (CMP435 and CM096)

Action number	Workgroup Raised	Owner	Action	Comment	Due by	Status
1	WG1	AT/SB	Revise Terms of Reference based on Workgroup feedback	To submit to May Panels following discussion and changes made in WG3	WG3	Ongoing – propose to close
2	WG1	AT	Document that charging and user commitments will be out of scope for CMP435		Ongoing	Ongoing – propose to close (no change to charging meth. proposed)
5	WG1	AT	Clarification of types of projects that will be in/out of scope for CMP435	Scope to be discussed in WG4 to help clarify the situation for different project types	WG4	Open
6	WG1	EB	Workgroup to discuss the consequences of the SO:DNO contract changes on DNO contracts with other parties	Not for the CMP435 solution but WG Report	Ongoing	Open
7	WG1	Code Admin	Collaboration space – access queries to be explored with IT	Members can also explore this with their IT teams	Ongoing	Ongoing
11	WG2	AT/RW	Discuss Capital Contributions.		WG3	Ongoing – propose to close (see action 20)
12	WG2 (amended post WG3)	LH/HS	Discuss possibility of further impact assessment (RFI data)	ESO have confirmed that they will not pursue the use of consultants at this time	WG3	Ongoing

Actions – Application of Gate 2 Criteria to existing contracted background (CMP435 and CM096)

Action number	Workgroup Raised	Owner	Action	Comment	Due by	Status
14	WG2	AT/PM	Update WG topics	Following WG3 discussion	WG4	Open
15	WG2	AT/RW	Clarify process (WG2 slide 2 particularly the yellow box)		WG4	Open
16	WG2	LH	Look into securities for offers		June 2024	Ongoing
19	WG3	PM, MO	Clarification on mod apps where CMP435/CM096 are applicable		WG4	Open
20	WG3	RW, AT	TOs and ESO meeting needed to discuss data available to review capital contributions for 2024	Information to be brought back to the WG and discussed in context of transitional arrangements	WG5	Open
21	WG3	LH, AC	When considering transitional arrangements, include guidance for staged projects		WG6	Open
22	WG3	EB, LC	Confirmation sought from the Authority on the DESNZ position on government designation exemption for projects	This option will be out of scope for CMP435/96 - confirmation received 23.05.24 that DESNZ will not pursue government designation exemption for projects	WG4	Open – propose to close
23	WG3	MO	ESO to check the process to avoid both DNO and ESO assessing evidence for Gate progression		WG4	Open



Terms of Reference

Elana Byrne – ESO Code Administrator

Terms of reference – CMP435 (subject to Panel approval)

Workgroup Term of Reference

- a) Consider [Electricity Balancing Regulation](#) implications.
- b) Consider the scope of work identified and whether this is achievable within the timeframe outlined in the Ofgem Urgency decision letter.
- c) ~~Consider extending the Gate 2 concept to apply to existing connection contracts.~~ Consider what types of existing contracts that CMP435 should apply to, and what exemptions are required (if any).
- d) Consider changes to the contractual arrangements for those existing contracted parties that have not met the Gate 2 criteria by the Go-Live Date of 1 January 2025.
- e) Review the transitional arrangements in relation to changes to the contractual arrangements [and any associated costs. Associated costs may include, and are not limited to, capital contributions already paid for transmission and/or distribution works, interest on payments already made, costs incurred in the provision of securities aligned to transmission contracts to date\), third party costs such as surveys, OEM costs, design costs](#).
- f) Consider the application of the User Commitment methodology to projects in Gate 1 and Gate 2 and the transitional arrangements that may be required for existing connections contracts.
- g) Consider how any new financial instruments associated with connections are cost reflective and predictable.
- h) Consider how the solution(s) conforms with the statutory rights [in with respect to of terms and conditions for connection. \(e.g. to 'Bilateral Connection Agreements \(BCA\), Construction Agreement, CUSC Accession and Transmission Related Agreement \(TRA\) terms and conditions' \)](#).
- i) ~~Consider how to ensure that the impact of NESO designation of Gate 2 status, and ways to make this non-discriminatory. is not discriminatory.~~
- j) ~~Consider what criteria will apply to the NESO designation of Gate 2 status.~~

The cross Code impacts this modification has, in particular the STC and distribution arrangements (e.g. DCUSA)
- k) Consider the relevant content of Annex B of the [Ofgem Open letter on connections reform publication](#).

Terms of reference – CM096 (subject to Panel approval)

Workgroup Term of Reference

a) Consider Electricity Balancing Regulation implications.

b) Consider the scope of work identified and whether this is achievable within the timeframe outlined in the Ofgem Urgency decision letter.

c) Consider what types of existing contracts that CM096 should apply to, and what exemptions are required (if any).

d) Consider changes to the contractual arrangements for those existing contracted parties that have not met the Gate 2 criteria by the Go-Live Date of 1 January 2025.

e) Review the transitional arrangements in relation to changes to the contractual arrangements and any associated costs.

f) Consider the application of the User Commitment methodology to projects in Gate 1 and Gate 2 and the transitional arrangements that may be required for existing connections contracts.

g) Consider how any new financial instruments associated with connections are cost reflective and predictable.

h) Consider how the solution(s) conform(s) with the statutory rights in respect of terms and conditions for connection.

i) Consider the impact of NESO designation of Gate 2 status, and ways to make this non-discriminatory.

j) The cross Code impacts this modification has, in particular the CUSC and distribution arrangements (e.g. DCUSA).

k) Consider the relevant content of Annex B of the Ofgem [Open letter on connections reform publication](#).



Scope (Continued)
Mike Oxenham, ESO

Prospective Primary Process Project Types (For Information)

Project Type	Included in Primary Process under CMP434
New Directly Connected Generation (and Significant Changes)	Yes
New Directly Connected Demand (and Significant Changes)	Yes
New Interconnectors (and Offshore Hybrid Assets) (and Significant Changes)	Yes
New Relevant Embedded Small and Medium Power Stations (via the DNO or IDNO) (and Significant Changes) <i>(This includes those who elect to have a BEGA)</i>	Yes
New Embedded Large Power Stations (e.g. BEGA and BELLA) (and Significant Changes)	Yes

Retrospective Process Project Types (CMP435)

By 31st December 2024 what will need to provide evidence of having met Gate 2, and confirm if interested in potential connection date advancement?
(Note: does not consider the transitional arrangements)

ESO Gate 2 Evidence Checks

- Directly connected generation projects with a connection date in relation to future capacity, whether for an entirely new connection, a future stage of capacity* or a capacity increase*
- Interconnector and Offshore Hybrid Asset projects with a connection date in relation to future capacity, whether for an entirely new connection, a future stage of capacity* or a capacity increase*
- Directly connected demand projects with a connection date in relation to future capacity, whether for an entirely new connection, a future stage of capacity* or a capacity increase*
- Large-embedded generation projects with a connection date in relation to future capacity, whether for an entirely new connection, a future stage of capacity* or a capacity increase* and regardless of whether they have a BEGA or a BELLA, and/or whether they are connected to a DNO or an IDNO

IDNO/DNO Gate 2 Evidence Checks

- Relevant small and medium embedded generation projects within an ESO contract with the IDNO/DNO (e.g. Appendix G) with a connection date in relation to future capacity, whether or not they have a BEGA and whether for an entirely new connection, a future stage of capacity* or a capacity increase*

*Note that in relation to future stages of connection and capacity increases, the Gate 2 evidence will only be in relation to the capacity increment(s) and not to any capacity already connected by 31st December 2024.

Combined Table – CMP434/CMP435 Scope

To support a common WG understanding and not proposed to be CUSC s11 definitions

Terminology:

Connected: Where the project (in full or in part) is Energised.

Contracted: An accepted offer for a project, but where the project is not yet Connected.

New: A new application for a project, which is independent of any Contracted or Connected project(s).

Connectee Type	CMP434	CMP435
<ul style="list-style-type: none"> • Directly Connected Generation • Directly Connected Interconnectors and Offshore Hybrid Assets • Directly Connected Demand • Large Embedded Generators <ul style="list-style-type: none"> ○ Whether a BELLA or a BEGA (via the ESO) ○ Whether embedded within in a DNO or an IDNO network. • Relevant Small and Medium Embedded Generators <ul style="list-style-type: none"> ○ Via DNOs/IDNOs and included in ESO/DNO (or ESO/IDNO) contracts (e.g. Appendix G) ○ Includes such projects opting for a BEGA (via the ESO) 	New	Contracted and Connected (but only in relation to any project stages which are yet to be Energised)
'Significant' Modification Applications (in relation to the above)	Contracted and Connected	N/A

The above applies from Go-Live, noting that in respect of CMP435 Transitional Arrangements (and the impact on the above, if any) remains to be discussed.

For the avoidance of doubt, new substations (e.g. new Grid Supply Points) and Embedded Demand are not in scope for CMP434 or CMP435.



Application Fees

Paul Mullen, ESO

Application Fees

Principles

- As application fees are a sunk cost (i.e. the cost related to the reasonable costs of the ESO and TOs in processing an application), applying Gate 2 to the Whole Queue will not result in any refund/rebate of application fees paid historically; reconciliations where not undertaken by go-live would however still be undertaken.

Application Fee scenarios

In relation to go-live:

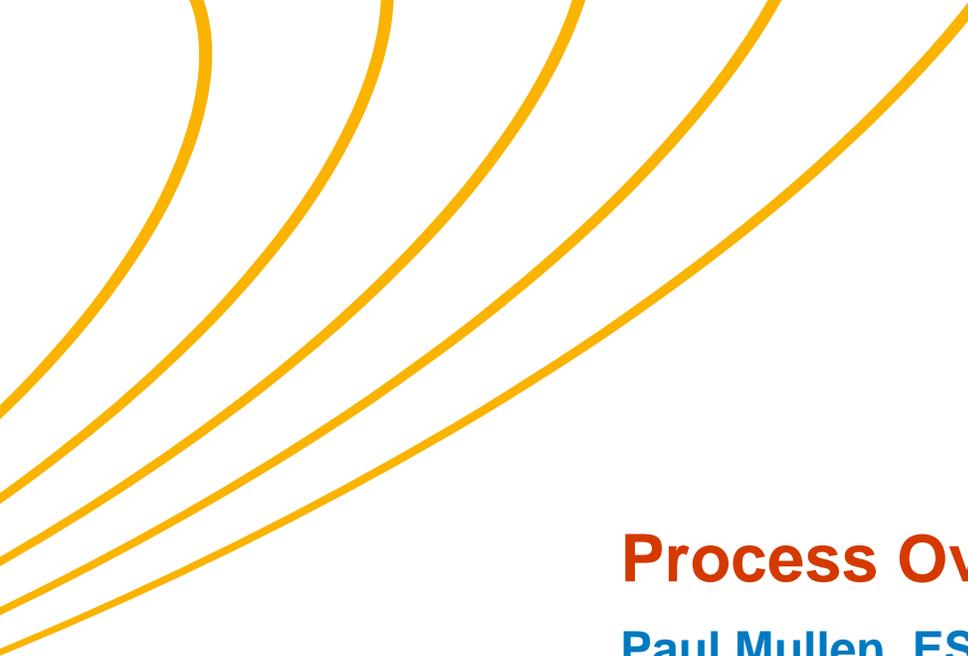
- **Projects which do not meet Gate 2 at go live** and therefore need to apply via a Gate 2 window/batch in future will need to pay the prevailing application fee for that process.
- **For those which submit evidence as part of go-live to demonstrate they have met Gate 2 and wish to remain with their contracted connection date** there will be no application fee.
- **For those which submit evidence as part of go-live to demonstrate they have met Gate 2 and wish to advance their connection date** there is the possibility of an application fee, but this remains under consideration and we would welcome views.

Transitional arrangements

- Application fees in the context of transitional arrangements will be discussed at a subsequent Workgroup.



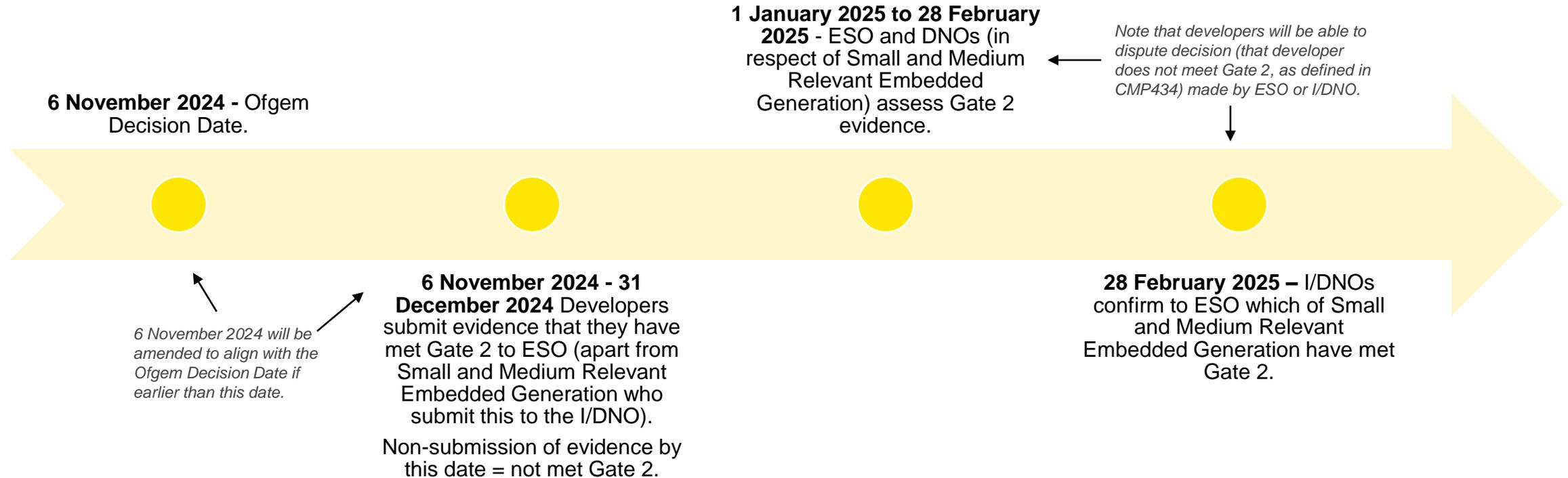
Do you have any views on our position on each of the Application Fee scenarios?



Process Overview

Paul Mullen, ESO

CMP435 Timescales (subject to Transitional Arrangement Additions)



Note timescales above and suggestion (on query log) to allow an extension to the period where developers can submit their evidence thus shortening evidence assessment period. This could have a knock on impact for later aspects of process and potentially for CMP434 go-live/programme but keen to hear views on this from Workgroup.

CMP435 Illustrative Example of Process

Let's say there are 100 projects in CMP435 scope, across Transmission and Distribution

By 31 December 2024 they will need to provide evidence they have met Gate 2 (as defined in CMP434)

50 projects meet Gate 2 criteria by 31 December 2024

- **Of these 25 want to advance, the other 25 don't**
 - 25 that want to advance
 - Signalled to ESO or I/DNO (as appropriate) by 31 December 2024
 - Assessed based on who reached Gate 2 criteria first and it's that criteria that forms the new queue
 - Possibility of an application fee, but this remains under consideration
 - They decide whether to accept, reject or refer Offer, which will include ongoing compliance requirements (as created by Gate 2 under CMP434) e.g. forward looking M1 milestones, red line boundary change restrictions
 - **25 that don't want to advance (i.e. wish to remain with their contracted connection date)**
 - No application fee payable
 - Intention is that Connection Date remains but the ongoing compliance requirements (as created by Gate 2 under CMP434) will be added.
 - We do not plan to reorder the transmission queue for those which have met Gate 2 and are not seeking advancement.

50 projects don't meet the Gate 2 criteria by 31 December 2024 (assumed that don't raise a dispute)

- Existing contract turned into a Gate 1 "contract" (and lose queue position) and disapply Queue Management Milestones and UC liabilities/securities.
- Our preference is to generically amend existing contracts through provisions in CUSC rather than amending individual contracts.
- In the above scenario, security requirement lapses from 31 March 2025 and escrow monies returned shortly thereafter
- If and when projects meet Gate 2, they can submit a Modification Application / Gate 2 Application (and pay application fee) and can request a connection date and connection point and then receive a Gate 2 Offer.



Workgroup feedback on the above.
Have we missed anything?



Gate 1 Financial Instrument

Rachel Eynon, ESO

Updated Position: Gate 1 Capacity Holding Security

Based on workgroup feedback and further thinking we have updated our position on the Gate 1 Capacity Holding Payment. We are now proposing a Gate 1 Capacity Holding **Security** as below.

Which projects would this security apply to?	All directly connected projects applying for transmission or demand* capacity as well as relevant small and medium embedded generation projects with a contract with a I/DNO which have not met Gate 2. For the avoidance of doubt, it would not apply to DFTC submission from the I/DNOs. These are a forecast at Gate 1 and not attributable to specific projects.
How would it be secured?	Via cash in the (N)ESO escrow account, to be returned if and when the developer has a valid Gate 2 application.
How much would the £/MW security be? How would the security be calculated and billed?	<p>This would need to be reflective of reasonable costs incurred by TOs associated with network design and build that are not otherwise securitised through user commitment post Gate 2. A clear methodology and clear evidence would need to be provided to calculate this security i.e. to calculate the appropriate share of any anticipatory investment on the Transmission System triggered by those at Gate 1 and not being secured under User Commitment arrangements.</p> <p>Liability would accrue monthly for each month between Gate 1 and Gate 2, but security would be requested in advance through an annual cycle to minimise administrative burden. The annual cycle would also include a reconciliation process in the event of project termination within year to rebate any additional months.</p>
Would there be a maximum period i.e. with a longstop date for termination?	We do not think there should be a maximum period and that the liability/security should apply either until the project reaches Gate 2, or the project is terminated by the developer or (N)ESO (e.g. for Event of Default).
Would there be any differences in the value depending on location, technology type, developer size, etc?	We do not initially think the capacity holding security value should differ based on location or technology type or developer size and that it should be a flat value per MW.
What would happen if a developer did not comply?	A developer not providing the required security would trigger the Event of Default process which could result in termination.
What would happen to any claimed securities?	They would be returned to consumers (via network charges) by (N)ESO.

*As introducing 'Transmission Import Capacity' as a broader concept was not part of our MVP we would introduce in a limited sense solely to correctly apply the Capacity Holding Security.

Updated Position: Gate 1 Capacity Holding Security

How would this charge apply to small and medium* embedded projects with a contract with a I/DNO which has not met Gate 2?

As we are proposing a security, it' would need to be administered by the ESO because it would be an ESO calculated value in relation to transmission system.

I/DNOs could use their preferred securitisation method (rather than requiring cash into the ESO escrow).

Small and medium EG projects with BEGAs would provide their security through the I/DNO and not the ESO to avoid double counting.

The security would start from when the developer signed their I/DNO connection offer and last until the Gate 2 application is validated by the I/DNO.

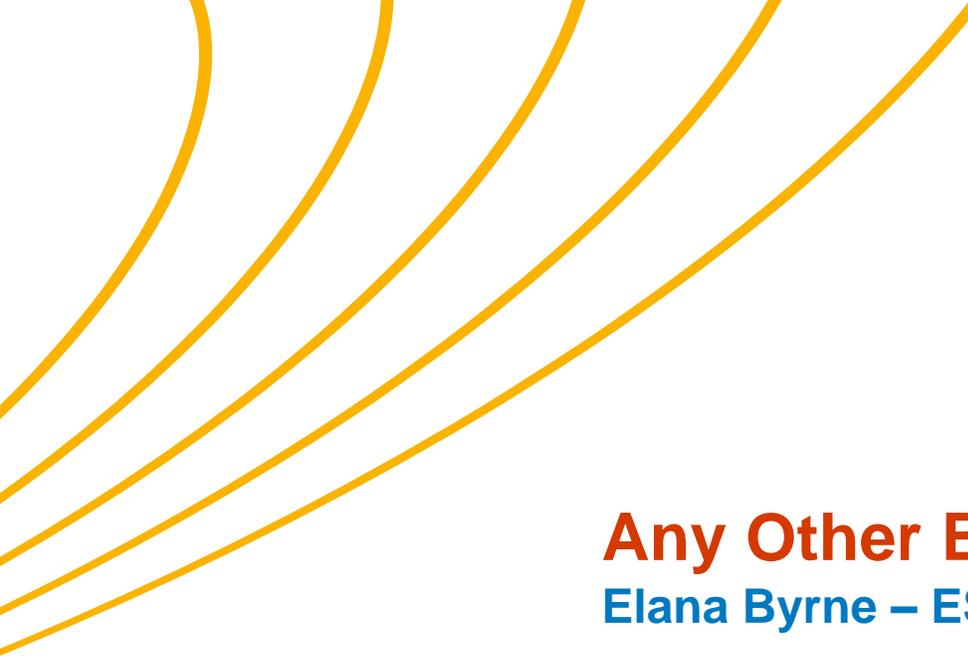
It is recognised that the options for providing security are defined in the I/DNO connection agreements with the small and medium embedded projects.

Further work is required with the I/DNOs to understand whether this can be applied retrospectively.

We would see the process working as follows:

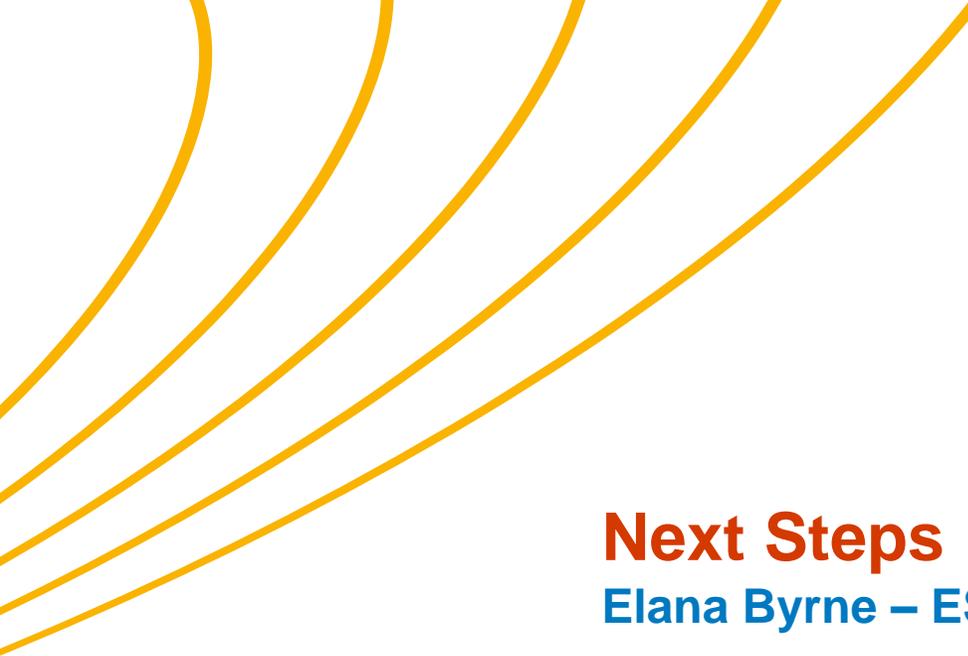
1. I/DNOs provide a list of relevant EG to ESO who have a I/DNO contract but have not yet met Gate 2.
2. The ESO requests liability/security from I/DNOs according to I/DNO data provision on an annual basis.
3. I/DNOs would in turn request corresponding liability/security from each developer for appropriate Gate 1 Capacity Holding Security values.

**Note: large embedded projects would only pay one Gate 1 Capacity Holding Security to ESO, and would not be subject to both processes.*



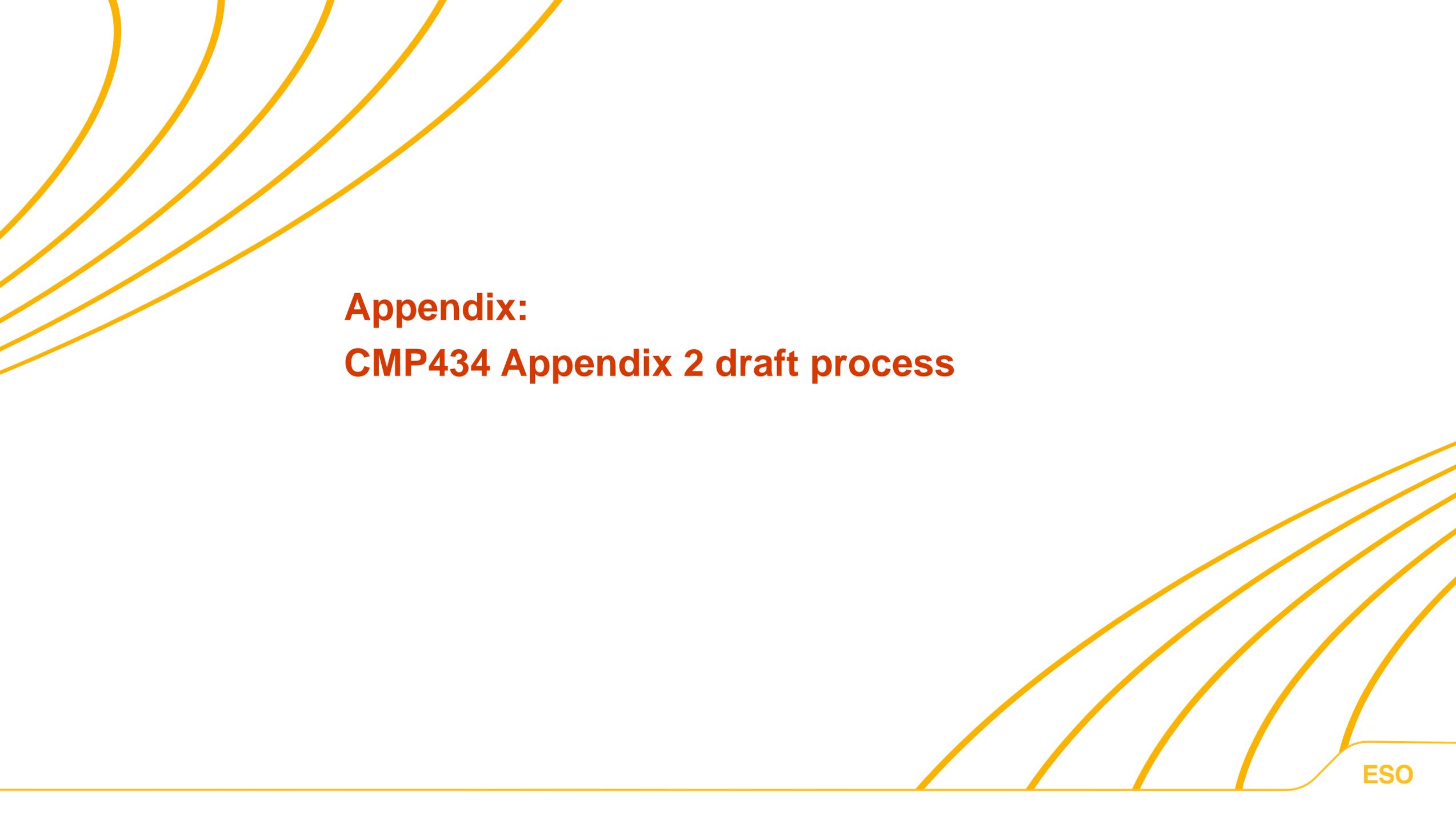
Any Other Business

Elana Byrne – ESO Code Administrator



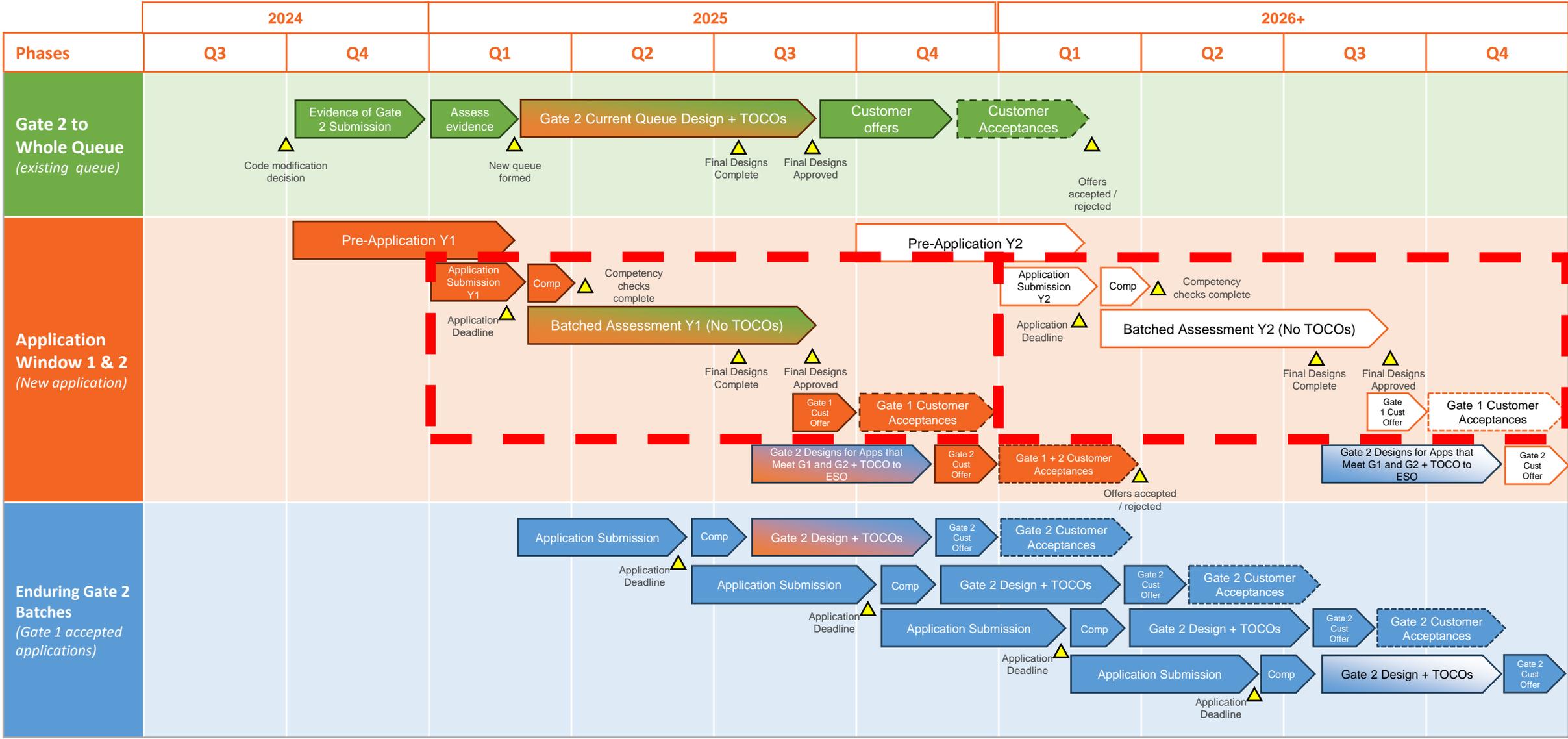
Next Steps

Elana Byrne – ESO Code Administrator



Appendix:
CMP434 Appendix 2 draft process

Gate 1 Process and Timeline



Key: Phase Interdependent activities Phase Interdependent activities Phase interdependent activities Milestone