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Dear Trisha,

## **Decision on CUSC Modification Panel's recommendation for CMP320 'Island MITS Radial Link Security Factor' to be treated as an Urgent CUSC Modification Proposal**

On 18 July 2019, SSE Generation Ltd (the 'Proposer') raised Connection and Use of System Code (CUSC) Modification Proposal CMP320. This proposal seeks to ensure that the Security Factor applied to a single radial<sup>1</sup> circuit connected to an island remains at 1.0 if that circuit is classified as part of the Main Integrated Transmission System (MITS).<sup>2</sup>

Following the CUSC Modifications Panel's (the 'Panel') decision that CMP320 should proceed to a workgroup, on 5 August, the Proposer resubmitted CMP320 as an Urgent CUSC Modification Proposal. The Panel considered the Proposer's urgency request at its special meeting on 13 August 2019. On 23 August 2019, the Panel wrote to inform us of its majority view that CMP320 should be treated as urgent because it considered there could be a significant commercial impact on parties, consumers or other stakeholder(s) if the proposal is not treated as urgent.

We have considered both the Panel's and the Proposer's views. We have decided that CMP320 **should not be progressed on an urgent basis**. We have set out our reasoning below.

### **The proposal**

The proposal explains that the security factor for circuits classed as "wider" in the transmission network is 1.8. This security factor is multiplied by the zonal location tariff for generators to reflect redundancy in the transmission system. The proposal adds that many islands are connected by a single radial circuit to the mainland, so there is effectively no redundancy in the transmission circuit.

The Proposer considers that the definition of MITS means that it is possible, in certain circumstances beyond the control of the user, that a MITS node may be created on an island that is served by a single radial circuit to the mainland. This would reclassify the island connection from a local circuit with a security factor of 1.0, to a wider circuit, with a security factor of 1.8, despite the redundancy on the circuit not changing. The Proposer considers that the potential increased security factor and associated increase in

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<sup>1</sup> Radial circuits are single 'spurs' that link generation and/or demand in one location to the wider interconnected transmission network.

<sup>2</sup> A MITS node is one with either (i) more than four Transmission Circuits; or (ii) two or more Transmission Circuits and a Grid Supply Point.

Transmission Network Use of System (TNUoS) charges would not be cost reflective for the generators on the island.

The Proposer's solution is to amend Section 14 of the CUSC to apply a Security Factor of 1.0 (rather than 1.8) where a MITS node is located on an island which, in turn, is connected to the mainland on a single radial subsea circuit.

The Proposer claims that urgency should be granted to address an imminent issue outside its control, which, if not urgently addressed may result in a significant commercial impact on industry parties, consumers or other stakeholders. The imminent issue is the contract acceptance stage of the current round of the Contracts for Difference (CfD) auction.

The Proposer considers that failure to reach clarity on CMP320 by the CfD contract acceptance stage would have significant detrimental commercial implications for affected parties, such as remote island wind generators, which may be considering submitting CfD bids. The impact would be realised through more expensive TNUoS charges and the cost of uncertainty at the point of signing CfD contracts regarding the likely value of TNUoS charges for these types of generators.

The Proposer considers that this modification proposal and request for urgency were raised as early as possible. It refers to an event in May 2019 during which National Grid Electricity System Operator (NGESO) flagged that it expects Shetland, and the other Scottish islands, to eventually meet the criteria to become a MITS node (instead of being classed as a local circuit), with consequential impacts on the security factor to be applied. The earliest likely impact of any reclassification would be from 2024/25.

## **Panel discussion**

The Panel considered the request for urgency by reference to Ofgem's Guidance on Code Modification Urgency Criteria.<sup>3</sup> The Panel's majority view was that CMP320 does meet these criteria and should be treated as an Urgent CUSC Modification Proposal. Of the eight Panel members casting a vote, five voted in favour of recommending urgency while three voted against urgency.

The Panel majority view was that there could be a significant commercial impact on parties, consumers or other stakeholder(s) if CMP320 is not treated as urgent.

## **Our views**

We have considered the proposal and the Panel's views on urgency. We have assessed the request against the urgency criteria set out in our published guidance, and in particular, whether the proposal is linked to an imminent issue or a current issue that, if not urgently addressed, may cause a significant commercial impact on parties, consumers or other stakeholder(s). We do not believe this modification meets these criteria.

The Proposer asserts that the impact would be realised through more expensive TNUoS charges and the cost of uncertainty at the point of accepting CfD contracts regarding the likely value of TNUoS charges for these types of generators. But the absence of an urgent decision on this proposal would not of itself result in increased TNUoS charges.

We do accept that there would be some uncertain costs, but note that the CfD sealed bid stage ended on 29 August 2019, long in advance of any clarity that a decision on this proposal could provide. The principal commercial impact of a decision on this proposal (before the contract acceptance stage) would be to reduce uncertainty in future TNUoS costs, but that decision could not affect the already submitted sealed bid.

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<sup>3</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/02/urgency\\_criteria.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/02/urgency_criteria.pdf)

In addition, the Proposer's letter to Panel supporting urgency highlighted that, absent an urgent decision on this proposal, affected parties would need to 'accept the CfD contract without a clear understanding of their full TNUoS cost exposure.' This desire for a clear understanding of full TNUoS cost exposure appears unrealistic given that the impact of this decision on charges would not be realised until 2024/25 at the earliest. While we acknowledge the potential impact of this particular proposal, given the timescales and the other uncertainties around network charging associated with the open governance process, the desired certainty five years ahead of time appears misaligned with current practice.

We note that the Panel discussion raised a number of issues that should be explored by the workgroup and we are concerned that the proposed urgent timetable would not allow for sufficient consideration of these issues.

## **Other issues**

While we acknowledge that this potential issue is one that emerged relatively recently, we feel that it could have been raised sooner. NGENSO's 'Five-year view of TNUoS tariffs for 2020/21 to 2024/25', published in March 2019, refers to scenarios where remote island links become part of the MITS if Grid Supply Points are created on the islands.<sup>4</sup>

In addition, in the interests of transparency, we would also encourage any future urgency requests from the Panel to present at least a summary of the views expressed by Panel members, particularly where there is a split in opinion.

## **Next steps**

Some Panel members commented that it may be more expedient to follow an accelerated timetable for assessing the proposal without the need for it to be formally accepted as an Urgent CUSC Modification Proposal. We note that a workgroup has already met to help meet an accelerated timetable.

While we have not granted urgency to this proposal, we understand the issue with the potential change in the security factor applied to radial circuits. We encourage the workgroup and Panel to ensure that the terms of reference of the group are met before the proposal reaches us for decision.

For the avoidance of doubt, in rejecting this 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 this proposal.

Yours sincerely,

**Andrew Self**  
**Head of TCR**

Duly authorised on behalf of the Authority

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<sup>4</sup> <https://www.nationalgrideso.com/document/140806/download>