

# CMP417: Extending principles of CUSC Section 15 to all Users – Workgroup 1

**06 September 2023**

**Online Meeting via Teams**

# WELCOME





# Agenda

#	Topics to be discussed	Lead
1.	Introductions	Chair
2.	Code Modification Process Overview <ul style="list-style-type: none"><li>• Workgroup Responsibilities</li><li>• Workgroup Alternatives and Workgroup Vote</li></ul>	Chair
3.	Objectives and Timeline <ul style="list-style-type: none"><li>• Walk-through of the timeline for the modification</li></ul>	Chair
4.	Review and agree Terms of Reference	All
5.	Proposer Presentation and Questions	Proposer
6.	Cross Code Impacts	All
7.	Any Other Business	Chair
8.	Next Steps	Chair



# Modification Process

Lizzie Timmins – ESO Code Administrator

# Code Modification Process Overview





# **Workgroup Responsibilities**

**Lizzie Timmins – ESO Code Administrator**

## 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

## 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

Lizzie Timmins – 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 Grid Code 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 Grid Code objectives than the Original then the potential alternative will be fully developed by the Workgroup with legal text to form a Workgroup Alternative Grid Code modification (WAGCM) 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.



# Objectives and Timeline

Lizzie Timmins – ESO Code Administrator

# Timeline for CMP417

Milestone	Date	Milestone	Date
Modification presented to Panel	28 July 2023	Panel sign off that Workgroup Report has met its Terms of Reference	26 January 2024
Workgroup Nominations (15 Working Days)	01 August 2023 to 29 August 2023	Code Administrator Consultation (15 working days)	29 January 2024 to 19 February 2024
Workgroup 1 <i>Agree timeline, Terms of Reference and discuss solution</i>	06 September 2023	Draft Final Modification Report (DFMR) issued to Panel (5 working days)	14 March 2024
Workgroup 2 <i>Refine solution, discuss legal text</i>	27 September 2023	Panel undertake DFMR recommendation vote	22 March 2024
Workgroup 3 <i>Finalise legal text and review Draft Workgroup Consultation</i>	25 October 2023	Final Modification Report issued to Panel to check votes recorded correctly	26 March 2024 to 02 April 2024
Workgroup Consultation (15 working days)	30 October 2023 to 20 November 2023	Final Modification Report issued to Ofgem	03 April 2024
Workgroup 4 <i>Review Workgroup Consultation responses and any alternatives</i>	7 December 2023	Ofgem decision	June/July 2024
Workgroup 5 <i>Workgroup Vote, review Draft Workgroup Report</i>	9 January 2024	Implementation Date	10WD following Authority decision for new Users. July 2025 for existing Users.
Workgroup report issued to Panel (5 working days)	18 January 2024		



# Terms of Reference

Lizzie Timmins – ESO Code Administrator

# Terms of Reference

Workgroup Terms of Reference
a) Consider EBR implications
b) Consider the transitional arrangements





## Proposer's Solution

Alison Price – ESO

Emily Watson – ESO

## CMP417 Extending principles of CUSC section 15 “User Commitment Methodology” to all Users



## Background

- Customers are required under existing User Commitment Arrangements to financially secure a TO's spend in relation to their connection
- There are two security methodologies currently in use:
  1. CUSC Section 15 User Commitment Methodology – applicable to all generation projects including interconnectors and embedded generators  
Security is codified in the CUSC section 15.
  2. Final Sums – applicable to DNOs and directly connected Distributed and Transmission demand  
Outlined in CUSC Schedule 2, Exhibit 3, Part 2
- Security is placed by customers and is a proportion of the liability incurred in relation to the works required to facilitate a particular project. Security is returned upon connection of a project

## Context

Covers a proportion of liability; reducing rate as project passes set milestones and nears completion

CMP192, and subsequent mods worked to lower perceived barriers to new entrants and incentivise timely communication of termination.

Demand Users were not included in these mods – general consensus at the time was that Demand users only triggered the specific assets built to connect them

### CUSC Section 15 User Commitment Methodology

CMP192 Generators  
- 2012

CMP222  
Interconnectors and  
Pumped Storage -  
2015

CMP223 Embedded Gen  
with BEGA, Distribution  
System – Connection  
Agreement with  
Distributed Gen - 2015

### Final Sums methodology

Distributed  
connected Demand

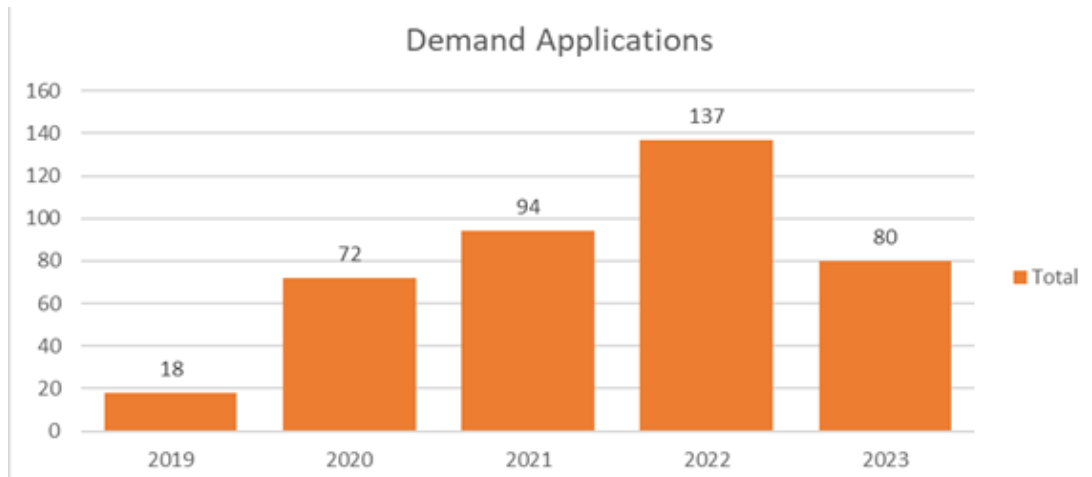
Transmission  
connected Demand

DNO not triggered  
by EG (e.g. asset  
replacement works)

User will secure all spend  
associated with their  
project as it progresses.  
No reducing factors  
applied, secures 100% of  
a TO's spend

## Why change and what is the defect?

- An increase in Demand connections over recent months and years has driven transmission works beyond the connection site – previous extension of Section 15 to other Users has been a stepped process with Demand Users out of scope of those mods due to the type of works they initiated



We are now seeing increasing Demand Connections which are driving Transmission Works beyond the Connection Site

- The principles of Final Sums methodology acts as a barrier to entry for some developers, rendering some projects untenable
- Formal complaints have been received from customers outlining the commercial impact to their businesses because of the substantial security amounts they've received in their Construction Agreements
- Improving the cost reflectivity that Users have on a TO's spend profile will help reduce uncertainty for developers whereby the security they need to secure is reflective of the transmission liabilities they actually impose.

## Why change and what is the defect?

- The significance of securities in Customer Connection Offers are creating clear barriers to entry.
- Below are some examples of the figures set out in customer agreements which they are contractually obligated to secure against. The table also shows what those figures would be if CUSC Section 15 User Commitment Methodology were to be applied to those customers:

Customer	Final Sums Security – all schemes in Construction Agreement (£m)	Approx Security after CUSC Section 15 methodology applied (£m)
#1	375	55
#2	470	38
#3	563	179
#4	824	151
#5	2,549	149
#6	294	85



## Solution

- Extend principles of Section 15 User Commitment Methodology to Users on Final Sums methodology – introducing equitable treatment between Users to accurately reflect the transmission liabilities they impose

### What is security?

Customers are required to financially secure TO spend in relation to their connection, pre connection customer will receive a statement with their initial Offer (or modification offer) which they're required to secure 30 days following signature. Once customers are in a contracted position, there are required to secure via the bi-annual security process the required security. This must be placed 45 days before the start of the next security period (with the exception of cash securities – please see CMP351).

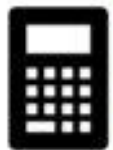
Security is placed by customers and is a proportion of the liability incurred in relation to the works required to facilitate a particular project. Security is returned upon connection of a project.

### Types of security:

- Cash
- Parent Company Guarantee (PCG)
- Letter of Credit (LoC)
- Bond
- Credit Rating

## Solution

- CMP417 introduces Attributable Works for these Users. Attributable works are specific schemes relating to or driven by a specific project. Securities associated with attributable works are based on forecast cost profiles from the relevant TO(s) for each attributable scheme within a connection contract.
- Customers are able to fix attributable liabilities and associated security. A fixed customer fixes the current TO forecast for their attributable schemes and remains with that value regardless of TO updates to scheme figures. For non-fixed customers attributable scheme cost and profiles are updated every 6 months by the relevant TO.
- Attributable Schemes are reduced by two factors;
  1. Strategic Investment Factor (SIF) – customer's share of scheme based on Capability of Scheme and Customer capacity
  2. Local Asset Reuse Factor (LARF) – what proportion of an asset can be re-used or utilised if a customer terminates



### Attributable Liability Calculation (Fixed)

Pre-Trigger =  $TEC \times (\text{£1k, £2k or £3k})$

Post-Trigger =  $100\% \text{ Fixed Value} \times (25\%, 50\%, 75\% \text{ or } 100\%)$

\*this is the total attributable liability not necessarily the secured amount.



### Attributable Liability Calculation (Actual)

Spend to Date (inc. 6 month forecast)  $\times (1-LARF) \times SIF$  e.g.

$\text{£50,000} \times (1-0.46) \times 0.5219 = \text{Attrib. Canc. Charge of } \underline{\text{£14,092.00}^*}$

\*this is the total attributable liability not necessarily the secured amount.

## Solution

- Wider Works - customers are also required to secure a proportion of wider works being progressed on the transmission system. The calculation for the wider liability is directly related to geographical location and size (MW) of the project. Any customer who passes the trigger date is required to pay security for both attributable and wider liability.



### Wider Liability Calculation

(Transmission Entry Capacity (TEC) x £/MW Wider Tariff ) x Wider profile % e.g.

(1500MW x £1798.98) x 50% = Wider Canc. Charge of £1,349,235.00

- Trigger date - three full financial years ahead of the completion date and represents the point at which a customer becomes liable to pay not only the attributable works cancellation charge but also the wider works cancellation charge upon termination of the contract. The security requirement post-trigger also changes from 100% to a lower percentage based on the connection type and consenting status of the project.



### Trigger Date Example 1

Completion Date	01/06/2021
Start of Completion Date FY	01/04/2021
Trigger Date	01/04/2018
100 % Year	01/04/2021 – 01/06/2021
75% Year	01/04/2020 – 31/03/2021
50% Year	01/04/2019 – 31/03/2020
25% Year	01/04/2018 – 31/03/2019

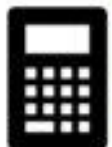
## Solution

- Total Cancellation Charge – currently under Final Sums methodology, the liability and security amount will be the same but this isn't necessarily the case under User Commitment Methodology.
- The total cancellation charge is the amount that will be invoiced if the contract is terminated within the next security period.
- If a customer is on actual securities the cancellation fee will be reconciled in the 12 months following termination
- The total cancellation charge consists of the following:



### Total Cancellation Charge

Attributable Canc. Charge + Wider Canc. Charge



### Attributable Liability Calculation (Fixed)

Pre-Trigger = TEC x (£1k, £2k or £3k)

Post-Trigger = 100% Fixed Value x (25%, 50%, 75% or 100%)

\*this is the total attributable liability not necessarily the secured amount.



### Attributable Liability Calculation (Actual)

Spend to Date (inc. 6 month forecast) x (1-LARF) x SIF e.g.

£50,000 x (1-0.46) x 0.5219 = Attrib. Canc. Charge of **£14,092.00\***

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### Wider Liability Calculation

(Transmission Entry Capacity (TEC) x £/MW Wider Tariff ) x Wider profile % e.g.

(1500MW x £1798.98) x 50% = Wider Canc. Charge of **£1,349,235.00**

# Solution

Liability and Security are two different things and although in some cases the amounts will be the same there are other instances where this will not be the case.

- Liability - is the sum of the attributable cancellation charge and the wider cancellation charge.
- Liability - is the figure that will be invoiced for if a contract is terminated within the next security period.
- Security - is the proportion of the total liability that must be secured by the customer.
- Security - Pre-Trigger the security requirement is always 100% of the total liability. Post-Trigger the security requirement varies dependent on contract type and consenting status

Security Requirement		Transmission Connected	Distribution Connected
Pre-Trigger	Not Consented	100%	100%
	Consented	100%	100%
Post-Trigger	Not Consented	42%	45%
	Consented	10%	26%

## Solution consideration

- Within CUSC section 15, cancellation charges are payable by Users on termination of their agreement or reductions in their capacity (currently Transmission Export Capacity or Developer Capacity or Interconnector User Commitment Capacity). Consideration will need to be given by the Workgroup as to how we refer to cancellation charges for the new Users within CUSC section 15 only



## Approval and Implementation

- Approval required by the Authority by June 2024
- Implementation date:
  - Any clock started Users 10 working days from the Authority decision will be under the User Commitment Methodology
  - Existing Users on Final Sums Methodology will be under the User Commitment Methodology from July 2025
- Any solution for existing Final Sums Users will require a transitional period to facilitate change in contractual positions, in particular the Construction Agreement, changes to internal Connections processes and the Connections internal Securities Database to include remaining Users in “User Commitment Methodology”
- For awareness: STC/STCP changes are likely to be required as a result of the transitional nature of the implementation and the removal of Final Sums methodology once all Users come under User Commitment Methodology

## CUSC changes

We anticipate potential changes to the following CUSC sections:

- CUSC Section 15: User Commitment Methodology
- CUSC Section 10: Transitional Issues
- CUSC Section 11: Interpretation and Definition
- CUSC, schedule 2, exhibit 3: The Connection and Use of System Code Construction Agreement
- CUSC Section 6: General provisions

# Terms of Reference

Workgroup Terms of Reference	
a)	Consider EBR implications
b)	Consider the transitional arrangements

# Electricity Balancing Regulation (EBR)

## What is the EBR?

**The Electricity Balancing Regulation (EBR) is a European Network Code introduced by the Third Energy Package European legislation in late 2017.**

**The EBR regulation lays down the rules for the integration of balancing markets in Europe, with the objectives of enhancing Europe's security of supply. The EBR aims to do this through harmonisation of electricity balancing rules and facilitating the exchange of balancing resources between European Transmission System Operators (TSOs). Article 18 of the EBR states that TSOs such as the ESO should have terms and conditions developed for balancing services, which are submitted and approved by Ofgem.**

For reference, (for consultation questions 5 & 6) the Electricity Balancing Regulation (EBR) Article 3 Objectives and regulatory aspects are:

- a) fostering effective competition, non-discrimination and transparency in balancing markets;
- b) enhancing efficiency of balancing as well as efficiency of national balancing markets;
- c) integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security;
- d) contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector while facilitating the efficient and consistent functioning of day-ahead, intraday and balancing markets;
- e) ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue market distortions;
- f) facilitating the participation of demand response including aggregation facilities and energy storage while ensuring they compete with other balancing services at a level playing field and, where necessary, act independently when serving a single demand facility;
- g) facilitating the participation of renewable energy sources and supporting the achievement of any target specified in an enactment for the share of energy from renewable sources.



# Cross Code Impacts

## All



## **Any Other Business**

**Lizzie Timmins – ESO Code Administrator**





## Next Steps

Lizzie Timmins – ESO Code Administrator