

SSEN points of clarification – the AA and wider learning

Wider industry change: Lessons to be learned from the Alternative Approach

As outlined in our main proposal document, SSEN has proposed a trial with defined parameters for implementation through derogations rather than enduring code modifications (see page 24 of our proposal document). This is because we believe that the new and innovative nature of the Alternative Approach (AA) should be trialled first to ensure it efficiently addresses the specific obstacles identified and to ensure there are no unintended consequences. As outlined in the 'Why an AA' section of our proposal document (page 11) we have explained how proposals for the trial have been informed by previous industry work streams.

We believe the trial will also allow wider lessons to be learned and feed into GB industry developments and where relevant wider code modifications. The two specific industry work streams that we believe would most benefit from feedback from the trial and that are identified in our proposal document are:

1. The ENA's Open Networks Work Stream 2, Product 5, focusing on Interactivity and Queue Management
2. Ofgem's Future Connection Charges and Access Arrangements

Further details of expected learning are set out below.

Ready to Connect proposal

- **Access Rights:** The ready to connect process under the AA focuses on the initial allocation of capacity. The current capacity queue is formed in order of those who have accepted their connection offer. The AA will re-assess the capacity queue and allocate capacity based on a developer's readiness to connect as demonstrated by the submission of delivery plans. Overall this approach will ensure that capacity is allocated in the most efficient manner. This aligns with Ofgem's view on initial allocation of capacity in their most recent publication '*Getting more out of the electricity networks...*'. Lessons that can be learned from the trial relate to how well the alternative arrangements work in allocating and maximising use of available capacity. Any administrative or operational issues can also be identified and addressed before being rolled out on a GB basis.
- **Applying industry change to existing contracted parties:** Assessing readiness to connect and resetting a capacity queue on a trial basis will allow lessons to be learned as to how any commercial changes to connection offers, bilateral connection agreements and construction agreements can be applied to existing contracted parties (Transmission Network Operators, the System Operator, Distribution Network Operators and Developers) rather than solely through new contractual arrangements.
- **Interactivity:** The ready to connection process and allocation of capacity will act as a precursor to interactivity of connection offers by allocating capacity based on delivery plan information, reducing the likelihood of interactivity occurring. The trial will allow lessons to be learned to improve the efficiency of the connection offer process through having less interactive offers being processed.

- **Delivery plans:** Milestones and timescales have been developed in line with industry improvements but modified based on specific stakeholder feedback from recent consultation to more realistically demonstrate a developer's commitment and ability to connect on time and utilise capacity. Lessons can be learned as to how relevant and realistic these milestones and timescales are, and whether further modification may be required before being implemented on a GB wide basis.
- **Queue management:** Effective queue management does not currently exist across T and D. Under current arrangements, particularly at Transmission level, if a party delays their connection they can potentially delay reinforcement works associated with their connection as well as others further down the queue, regardless of their readiness to connect. Applying queue management to the capacity queue in Orkney will allow lessons to be learned regarding how queue management will work in practice alongside the delivery and co-ordination of physical works. It will also allow interactions with liabilities to be monitored to identify whether these can be transferred dynamically as the capacity queue changes.
- **Whole system approach:** The current connection process involves a number of parties: developers, DNO, ESO and TO. In order to implement queue management and ensure that all parties connecting, regardless of whether they are distribution or transmission connected, are treated on an equivalent basis, queue management must work across the whole system. In previous industry work streams, focussing on queue management there was difficulty implementing across GB, and hypothetical examples were used. The trial will allow additional valuable lessons to be learned as to how this can be applied on a whole system basis before being progressed across the GB system.

Adjustment to liabilities proposal

- **Risk allocation and user commitment:** As set out under CMP 192, the purpose of securities is to demonstrate a User is financially committed to connection and to incentivise them to continue to connect on time and use the full capacity requested and thereby avoid or minimise inefficient investment while also reducing the barrier to new entrants. This in turn provides network operators with the assurance required to progress the network reinforcement for the connection. For wider works, industry arrangements specify that the risk is shared between users (50%) and consumers (50%), but for attributable works the risk lies with the User. While CPM 192 was introduced to remove what was viewed by the industry as an unacceptable barrier associated with the previous Final Sums methodology, given the definition of MITS and the unique nature of reinforcement required for islands (and in this case Orkney, particularly given the length of and costs associated with the sub-sea cable link) the liabilities facing Orkney customers have been shown to be 4.5 times greater than those faced by equivalent customers on the mainland. This is primarily because the current methodology specifies that all works back to the nearest MITS node fall solely within attributable works. This presents a significant barrier for any island connection but particularly for Orkney. This issue was recognised in the Ofgem Impact Assessment published in February 2012 where Ofgem stated that in principle they did not consider there to be anything wrong with an appropriate portion of liabilities for local work being shared with demand but they were concerned that the alternative proposed at that time was too broad. These unintended consequences for the ~~islands, islands~~ were not subsequently addressed. We are keen to work with the industry to try to address this long-standing issue as well as the MITS node methodology, as noted in Ofgem's publication of '*Getting more out of the electricity networks...*'. However, ahead of progressing formal industry changes we are keen to test whether removal of the subsea cable element of securities would indeed be

sufficient to address this issue and to confirm there would be no unintended consequences. The trial proposed under the AA looks to reduce the risk faced by generators to bring it in line with those faced by customers on the mainland and as intended under CPM 192, ensure there are no unreasonable barriers to entry. Within this period SHE-Transmission will not pass on the subsea costs to the ESO but all other costs will be treated in the usual way and will be secured. The trial will allow lessons to be learned in terms of better understanding of whether the subsea cable element is a real barrier to entry in order to confirm appropriate enduring solutions that could be applied in relation to all island connections. These lessons could then be fed into the Charging Futures Forum or other groups to allow more effective security arrangements to be defined and operated.

- **Misalignment of timescales:** The timescales for progressing transmission reinforcement and developers placing securities does not align. Network infrastructure projects can take up to 5 years due to factors such as the regulatory process, planning and construction. In comparison renewable project timelines can be 2 to 3 years. The trial seeks to better align timelines by providing a period of adjusted liabilities for developers initially (limited to 12 months under the trial). This gives an opportunity to allow lessons to be learned around the extent to which the scale of securities is a blocker for developers and whether reducing that barrier temporarily allows projects to be developed to a point where standard industry security arrangements can be resumed. This would then inform any future GB developments and changes to security arrangements to ensure there is an appropriate balance of risk across all parties.