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Making a positive difference for energy consumers

Consultation

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Response deadline:	25 January 2019	**Tel:**	020 7901 3879
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We are consulting on SSEN's derogation request for their Alternative Approach to facilitating electricity connections on Orkney. We would like views from people with an interest in renewable generation and consumer representatives. We particularly welcome responses from consumer groups and charities, generation customers, Scottish Government and National Grid. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations and will publish the non-confidential responses we receive alongside a decision on next steps on our website at **Ofgem.gov.uk/consultations**. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

Contents

Executive Summary

1.1. There is currently limited opportunity for new generation connection on Orkney as the network is operating at full capacity. While Scottish & Southern's Electricity Network[1] (SSEN) has implemented several innovative solutions, such as Active Network Management (ANM), to maximise use of available capacity, this has now been exhausted. Transmission reinforcement is now required to accommodate applications for new connections to the transmission and distribution networks and applications for additional capacity from existing connections.

The Alternative Approach

1.2. SSEN has proposed an Alternative Approach[2] (AA) to try and facilitate the transmission reinforcement. The AA comprises a technical and commercial policy solution. The technical solution is a staged approach to reinforcement: as set out in SHE Transmission's Needs Case submitted to us on 6 March 2018. We have published a separate consultation[3] on this today, so that it will be possible for stakeholders to review and respond to both consultations simultaneously. The first phase will make 220MW of capacity available for connection in 2022. SSEN intend this will provide a clear commitment to customers that transmission reinforcement will proceed and provide greater certainty around delivery dates.

1.3. The commercial policy solution is a proposed trial, with SSEN seeking commitment from customers to provide certainty that capacity will be used at the earliest opportunity. There are two distinct elements (and derogation requests) to deliver the proposed commercial arrangements, set out below.

Derogation Request – Part 1 (The ready to connect process)

1.4. The trial proposes that capacity would be allocated to those who are able to demonstrate their readiness to connect via delivery plans and progress against standard milestones. A project's progress will be monitored every six months and customers may lose their position in the connection queue if milestones are not met and the project's allocated tolerance[4] is exceeded.

1.5. These arrangements create an opportunity for projects that are ready to connect to move up the queue, where a project further up the queue faces a delay. This is a move from a "first to contract first to connect approach" to allocating initial capacity based on "readiness to connect". SSEN intends this arrangement to help ensure capacity is allocated efficiently and utilised to the fullest extent possible from the earliest date. SSEN also believe it will help developers[5] progress projects that are ready to connect and will also help network operators reduce the risk of stranded assets by ensuring any projects that are not progressing are identified.

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[1] Throughout this document, references to SSEN include both Scottish Hydro Electric Power Distribution (SHEPD), the distribution arm of the business and Scottish Hydro Electric-Transmission (SHE-Transmission), the transmission arm of the business, unless otherwise noted.
[2] https://www.ssen-transmission.co.uk/projects/orkney/
[3] https://www.ofgem.gov.uk/publications-and-updates/orkney-tranmission-project-consultation-final-needs-case-and-potential-delivery-models
[4] The tolerance gives each project an additional 12 months over the duration of the project, in recognition of the potential for events to occur that would cause unexpected delays to a project.
[5] 'Developers' in this document refers to connection customers e.g. generators trying to connect to the network.

Derogation Request – Part 2 (Temporarily adjusting liabilities)

1.6. The trial acknowledges the significant costs associated with the 53km subsea cable element of reinforcement (in comparison to new on-shore islands infrastructure and works on the mainland) on Orkney. SSEN notes the potential benefits of reduced carbon emissions and socio-economic benefits associated with the potential for renewable generation on Orkney.

1.7. The proposed AA also seeks to adjust securities for a period of nine months (July 2019 to March 2020)[6] currently required by developers in 2019, by removing costs relating to the subsea cable element[7]. SSEN propose that this will provide an opportunity for projects to progress while wider industry initiatives that are focusing on longer-term future connection charges and access rights, (e.g. ENA's Open Networks workstream and Ofgem's potential review of network access and forward-looking charge arrangements) continue to look at enduring charging arrangements. They intend for the trial to provide valuable learning for these initiatives and the development of any future universal code modifications.

Impact of Alternative Approach

SSEN view

1.8. SSEN believes the proposed AA further facilitates achievement of the relevant objectives under the electricity distribution licence and the CUSC by most notably providing developers with an opportunity to connect that does not currently exist on Orkney due to unique circumstances. It considers that the arrangements will help address current obstacles to connection, facilitate additional competition in generation, reduce carbon emissions and provide socio-economic benefits. From a network perspective, SSEN considers that they will also help demonstrate the need for reinforcement, facilitate efficient investment and further facilitate the efficient allocation of capacity.

Ofgem view

1.9. We are minded to **approve** the derogation requests relating to Part 1 of the Alternative Approach (ready to connect process) as the proposed queue management approach provides a positive impact on connection customers, by helping them to connect more quickly if they are ready to. We believe this will allow a more efficient way of managing the available capacity and connection of developers. It could also act as a trial for the wider industry (ENA) proposals on queue management.

1.10. We are minded to **reject** the derogation requests relating to Part 2 of the Alternative Approach (adjusted liabilities), as we consider these proposals place an undue risk onto consumers. We have concerns that whilst adjusted financial securities may marginally improve the prospects of Orkney developers, it may do so by transferring this risk to all GB consumers. It also provides a competitive advantage to one group of generation customers over generation customers elsewhere in Great Britain.

[6] Separately SSEN, for implementation purposes only, has also proposed that during the period from April 2019 to July 2019, securities will not be increased and will be held at same amount from the previous period until the new capacity queue is formed in July 2019 under the proposed ready to connect process.
[7] SSEN analysis states that 91% of the total costs associated with the reinforcement is considered to be unique to the subsea cable.

Your views

1.11. We are seeking stakeholder views by **25 January 2019** on our minded-to positions as outlined above, and would like to hear the views of generators, developers, customers, consumer groups and any other stakeholders, as to whether you agree with our proposed view to approve the 'ready to connect' process and to reject proposals for adjusted liabilities as this will expose consumers to unnecessary risk.

Introduction

1.12. This consultation sets out SSEN's proposed trial of their AA on Orkney. The AA consists of two parts to their derogation request (Part 1 and Part 2) which are required to implement their proposed AA trial. Both requests require a derogation from SHEPD's Distribution Licence. The relevant Licence Conditions are from Standard Licence Condition (SLC) 20: Compliance with Core Industry Documents and the Connection and Use of System Code (CUSC); and SLC 13: Charging Methodologies for Use of System and Connection.

1.13. In line with our derogation guidance[8], we assess each derogation request individually on its merits in terms of the likely effect on the following items: -

- Consumers;
- Competition;
- Sustainable development;
- Health and safety and the associated risk management measures; and
- Other parties affected by the non-compliance, including the ability of the relevant system operator or DNO to operate its system.

In our assessment we have regard to our principal objective and our statutory duties. If an affected party would gain a competitive advantage from a derogation, then a direction would not be issued without us assessing what measures might be appropriate to offset that advantage. We request each derogation to be submitted to us in writing, including sufficient information to enable us to make a decision, including a comprehensive, and where possible, quantitative assessment of the impact on the areas listed above.

We invite your views on the questions we have set out in the sections below.

1.14. SSEN note that they considered raising formal code modifications to address the issues set out in their request, but as they consider the changes to be procedural in nature, required for a limited period only (the duration of the trial), and to be tested under the trial, they do not believe a formal code modification would be appropriate. Also, as the trial relates to a specific location, they believe this would have increased complexity and potential for confusion.

1.15. SSEN believe it is more appropriate that trial arrangements are implemented through derogations to relevant industry requirements and that lessons learned from the trial would result in an informed future code modification should the benefits be proven and arrangements be taken forward into Business as Usual (BAU).

Background to SSEN's Alternative Approach (AA)

1.16. SSEN has reported that there is currently limited opportunity for new generation connections on Orkney as the distribution network there is operating at full capacity. Following our Quicker and More Efficient Connections (QMEC) work,[9] SSEN has implemented several innovative solutions, such as Active Network Management (ANM), to maximise use of available capacity, however, this has now been exhausted. Transmission reinforcement is required to accommodate applications for new connections to the transmission and

[8] https://www.ofgem.gov.uk/ofgem-publications/125007
[9] https://www.ofgem.gov.uk/publications-and-updates/quicker-and-more-efficient-distribution-connections

distribution networks and to accommodate applications for additional capacity from existing connections.

1.17. To date, transmission reinforcement has been difficult to progress for the following reasons:

- **Fixed capacity queue:** SSEN has faced fluctuating capacity commitments on Orkney. A number of projects have been cancelled or connection dates delayed based on changing timelines for key projects, which are often dependent on securing funding and may face technical challenges. Where projects are at the top of the connection queue, this can delay or stall other projects further down the queue as existing arrangements allow developers to maintain a fixed queue position, with the first to contract always being the first to connect.
- **Divided timelines for transmission investment and developers' projects:** Under existing arrangements, the connection date of the first to contract drives the need and timescales for transmission investment as they are at the front of the queue. This creates uncertainty for customers further down the queue as they are dependent on those at the top progressing. In turn, SHE-Transmission cannot provide certainty regarding connection dates, which introduces significant risk for customers and can have a detrimental impact on the economic case for their projects. This makes it difficult for them to develop projects through to planning consent, and provide the financial commitment that SHE-Transmission requires to allow network reinforcement to proceed.
- **Liabilities and securities associated with transmission works**: As a result of industry rules on the liabilities associated with projects connecting outside the Main Interconnected Transmission System (MITS), developers are required to place substantial securities (including relating to the cost of the new subsea cable required to facilitate their connection in the case of Orkney). These securities are held to protect against any risk associated with the early termination of contracts driving the need for transmission expansion. The size of these securities is reported to be acting as a barrier to customers connecting in Orkney, given the high cost.

1.18. SSEN describe this as a 'catch-22 situation', which has prevented them progressing network reinforcement on Orkney despite a reported significant potential for renewable generation and a strong underlying interest in connecting over several years. This has also had a knock-on effect on distribution connecting projects as output from renewable generation can no longer be absorbed on the local network.

1.19. To address this situation, SSEN has developed alternative arrangements (Part 1 and Part 2 of the alternative approach) while engaging with National Grid Electricity Transmission (NGET) in its capacity as Electricity System Operator (ESO). These proposals are stakeholder led and SSEN has proposed them to support the Needs Case it submitted under the SWW process by SHE Transmission on 6 March 2018.

1.20. Following stakeholder engagement, SSEN now proposes to trial these arrangements (the AA) on Orkney. To implement the AA, SHEPD is seeking a number of derogations in relation to the CUSC and the Connection Charging Methodology ('CCM') and to avoid inefficient outcomes for Network Licensees and Developers in the short to medium term.

We are consulting on our minded-to position for the two parts of the derogation request and would welcome views on our position.

Section 1: Derogation Request – Part 1: The Ready to Connect Process

1.21. This section of the consultation outlines the Ready to Connect Process, SSEN's impact assessment and our views of how well the proposed Ready to Connect trial will meet our derogation criteria. It outlines our minded-to decision to approve Part 1 of their derogation request.

Question 1: Do you agree that SSEN's ready to connect trial will provide valuable learning in line with the Energy Networks Association's (ENA's) proposals on interactivity and queue management?[10]

Question 2: Do you agree that the proposals (subject to all affected connection customers agreeing to sign up) allocate the available capacity in a fair and transparent way?

Question 3: Do you agree with our minded-to position that if this trial is implemented in a clear, fair and transparent way, there is no significant impact on consumers, competition, sustainable development, health and safety or other parties?

Section 2: Derogation Request – Part 2: Temporarily adjusting liabilities

1.22. This section of the consultation outlines the proposal to temporarily adjust liabilities (by removing liabilities relating to the subsea cable) for the connection customers in the trial. It also sets out SSEN's impact assessment and our views on how well this proposal will meet our derogation criteria. It outlines our minded to decision to reject Part 2 of the derogation request.

Question 4: Do you agree that the proposal to temporarily adjust liabilities will pass unnecessary risk to consumers?

Question 5: Do you agree that the proposal provides an unfair competitive advantage to those customers who would benefit from a period of adjusted liabilities?

Question 6: Do you agree with the proposed mechanism of offering adjusted liabilities (i.e. by SHE-Transmission not passing on the unique subsea costs to the ESO, who in turn does not pass them to end connection customers)?

Question 7: Do you agree with our minded-to position to reject Part 2 of the derogation request, as it imposes additional risk on all consumers and gives some connection customers an unfair advantage?

Section 3: The specific derogation requests

1.23. This section outlines the derogation requests within the two standard licence conditions and the corresponding specific sections of the CUSC and the Connection Charging Methodology. We outline our minded-to decision in for each element.

[10] Energy Networks Association's (ENA's) proposals on interactivity and queue management under their Open Networks Work Stream 2, Product 5

Context and related publications

1.24. In March 2018 SHE-Transmission submitted a Final Needs Case submission to Ofgem for its proposed Orkney project comprising a c.£260m project to connect the Orkney islands to the mainland Scotland electricity transmission network by 2022. The Final Needs Case submission is a mechanism for SHE-Transmission to seek confirmation from Ofgem that the project is needed and that an appropriate connection option has been selected. We are consulting on our assessment of the Orkney Final Needs Case alongside this document.

Consultation stages

1.25. Once we have received responses to the consultation, we will fully consider all points noted and publish all non-confidential responses. Assuming there are no further queries, we will aim to publish our final decision by **17 February 2019**.

How to respond

1.26. We want to hear from anyone interested in this consultation. Please send your response to Olivia Powis at olivia.powis@ofgem.gov.uk.

1.27. We've asked for your feedback on a number of specific questions throughout this document. Please respond to each one as fully as you can. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.28. You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.29. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.30. If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

1.31. If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

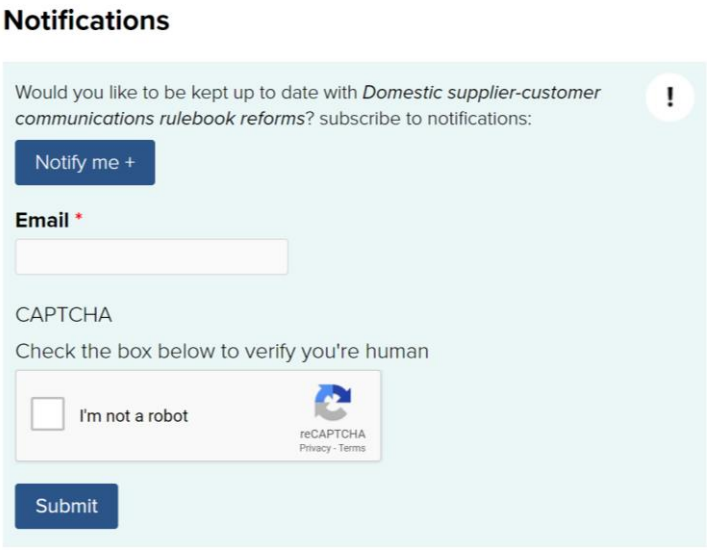
1.32. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

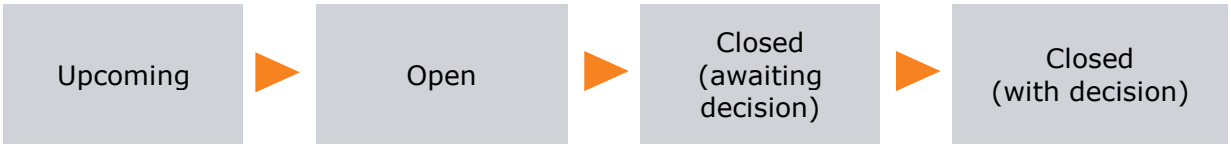
Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Ofgem.gov.uk/consultations.



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:



1. Derogation Request – Part 1: The ready to connect process

Section summary

This section outlines Part 1 of the derogation request, which is to implement a trial of the proposed Ready to Connect process (detailed fully in Appendix 2). It outlines how SSEN would implement this revised approach to queue management; by developers submitting delivery plans and working to agreed milestones. SSEN will then be able to move them up and down the queue according to their progress. We are minded-to approve this part of the derogation request as we consider it to be a more efficient way of managing available capacity and enabling developers to connect when they are ready.

Questions

Question 1: Do you agree that SSEN's ready to connect trial will provide valuable learning in line with the Energy Networks Association's (ENA's) proposals on interactivity and queue management?

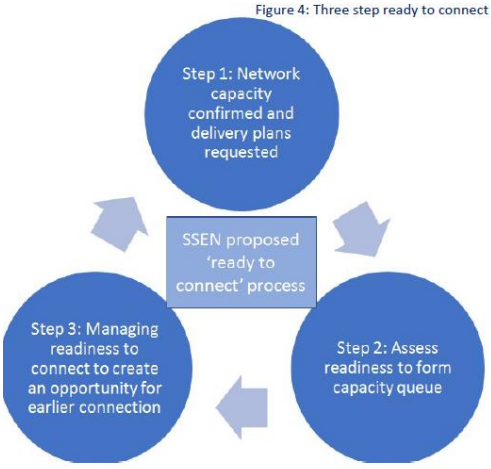
Question 2: Do you agree that the proposals (subject to all customers agreeing to sign up) allocate the available capacity in a fair and transparent way?

Question 3: Do you agree with our minded-to position that if this process is implemented in a clear, fair and transparent way, there is no significant impact on consumers, competition, sustainable development, health and safety or other parties?

1.33. Under existing connection arrangements (first to contract, first to connect approach), the first project to contract is at the front of the connection queue. If a project at the front of the queue stalls, it can, however, prevent others from moving forward. In its AA, SSEN is proposing to use a 'ready to connect approach' in place of the first to contract, first to connect approach. For example, where a project further up the queue faces a delay, projects that are ready to connect can be moved up the queue.

1.34. The trial proposes that available capacity would be allocated to those who are able to demonstrate their readiness to connect, via delivery plans and progress against standard, agreed milestones. A project's progress will be monitored against these agreed plans and milestones every six months. Customers may forfeit their existing position in the connection queue if milestones are not met and the project's allocated tolerance[11] is exceeded, dropping below projects lower in the queue which have met the relevant milestone.

Figure 4: Three step ready to connect



[11] Each project will be given an allocated tolerance of an additional 12 months over the duration of the project, in recognition of the potential for unexpected delays.

1.35. SSEN propose the Ready to Connect process to be a three-step method;

(i) **Network capacity confirmed and delivery plans requested:** Every six months SSEN will review the network for available capacity and request delivery plans from developers. A developer may also submit an alternative delivery plan for a new connection date (earlier or later).

(ii) **Assess readiness to form capacity queue**: SSEN will use the information from delivery plans and milestones to form a new capacity queue, which will be based on those who will be ready to connect.

(iii) **Managing readiness to connect to create an opportunity for earlier connection:** The delivery plans will be incorporated into developers' connection contracts. Developers who are not ready to connect will be managed and moved down the queue, creating an opportunity for those who are ready to connect earlier.

1.36. Delivery plans will include a common set of milestones (applying to both transmission and distribution customers) and associated evidence to show progression towards contracted delivery dates. Following feedback from stakeholders, SSEN made amendments to existing ENA milestones[12] to ensure they are reasonable, relevant and proportionate to the challenges on Orkney. The delivery plans provided by each developer would also include a narrative against a standard timescale for delivery of each milestone. The proposed standard timescales have been developed by SSEN through analysis of publicly available information, timescales, proposed by the ENA and responses to their consultations and stakeholder events.

1.37. Where a developer moves up or down the queue and associated works change, this could result in a change to liabilities and the securities to be provided. Developers are able to opt for fixed or variable liabilities, but under existing rules, once parties have chosen to fix liabilities they are unable to change back to variable. SSEN is proposing a derogation from the CUSC (detailed in Section 3) for the trial to allow parties to re-visit their decision and move from fixed to variable to allow their liabilities to reflect their place in the queue.

1.38. SSEN intends this arrangement to help ensure capacity is allocated efficiently and utilised to the fullest extent possible from the earliest date. They also believe it will help developers progress projects if they are ready to connect and also helps network operators reduce the risk of stranded assets (i.e. building additional infrastructure that is no longer required due to projects dropping out or being unable to connect as originally planned, and who, under the current system prevent other projects from progressing).

SSEN impact assessment

1.39. To implement the AA trial and test new commercial arrangements, SSEN seeks a derogation in respect of complying with various sections of the CUSC and Charging Methodologies for Use of System and Connection for the duration of the trial; which they propose to implement from 1 January 2019 (or as soon as we have issued a decision on the

[12] http://www.energynetworks.org/news/press-releases/2016/april/ena-launches-consultation-on-new-connectionsmilestones.html

derogation) and run until phase 2 of reinforcement is complete and all capacity is allocated (expected to be 31 October 2025).

1.40. The AA trial requires customers to voluntarily agree to vary their existing connection offers to incorporate new matters such as delivery plans, milestones, the ability to monitor progress against milestones, the ability to change a project's position in the connection queue and the connection date. SSEN will need all customers to agree to these variations as the benefits of the trial cannot be delivered without full participation.

1.41. In broad terms, SSEN do not consider this derogation request to have any direct impact on consumers, for example through increased charges, the operation of the transmission or distribution networks or security of supply. There are also no other parties negatively affected by non-compliance or by the proposed changes.

1.42. However, they believe that implementation of the AA and the supporting derogations ensure more efficient allocation of capacity and reduce the risk of stranded assets, thereby facilitating competition in generation and further facilitating sustainable development. Taken together, they consider the AA to provide a level playing field and an opportunity for renewable generation development and connection on Orkney, relative to mainland developments and connections, that does not exist currently. SSEN believe the AA offers a more efficient approach to allocating capacity and managing queue positions compared to current arrangements.

Our view

1.43. We have considered this Part of the AA in line with our derogation guidance and are minded to approve Part 1 of the AA and the associated derogation requests (detailed fully in Section 3 of this document) – with reference to Part 1 only - for the reasons set out in the following section.

Customers

1.44. We consider that the proposed queue management approach provides a positive impact on connection customers, by helping them to connect more quickly if they are ready to. By voluntarily signing up to the process, we believe that the connection customers will understand the risks and potential benefits of moving up and down the queue. The approach should also make more efficient use of existing capacity, which should reduce the risk of stranded assets – and potential associated cost - to wider consumers.

Competition

1.45. We note that the milestones and timescales proposed will be standard across all affected connection customers. We understand that SSEN has consulted on these measures and taken stakeholder feedback into account when setting out the proposed framework. Provided that the trial is developed in a fair, transparent and consistent way, we do not consider the proposal to have any impact on competition. We note that the approach is a trial and the derogation is for a specific group of customers, for a limited time. However, we do not consider the queue management approach to facilitate a competitive advantage to those customers in the trial – as each will have a fair opportunity to develop their projects.

Sustainable development

1.46. We consider the proposals could have a potentially positive impact on sustainable development as they may increase the likelihood of renewable generation development and connection on Orkney.

Health and Safety and the associated risk management measures

1.47. We do not consider there to be any Health and Safety and associated risks with the queue management approach proposed.

Other parties affected by the non-compliance, including the ability of the relevant system operator or DNO to operate its system

1.48. We understand that through its significant stakeholder engagement, SSEN has not identified any other parties affected by the non-compliance. SSEN (in their role as DNO and TO) are keen to develop this approach and do not have any concerns regarding the non-compliance and their ability to operate the system. The ESO (National Grid) has been involved in the stakeholder engagement and are broadly supportive of SSEN's queue management proposals on Orkney as a trial to inform wider industry work and the potential for this to be implemented elsewhere across the transmission system.

1.49. The proposed queue management process conflicts with National Grid's interactivity process,[13] and a specific aspect of the derogation (Section 6.10.4 of the CUSC, detailed in Section 3) ensures that the ready to connect proposal is used to allocate capacity on Orkney during the trial, as a pre-cursor to the interactivity process. SSEN has proposed that interactivity and a requirement to notify customers, should only be applied in exceptional circumstances under the trial. For example, where two (or more) customers with the same connection date (e.g. 2022) accept connection offers on the same day and there is insufficient remaining capacity in Phase 1 (or Phase 2) to meet both customers' requirements. In this instance, the interactivity arrangements set out above would apply and the party who is first to accept the Bilateral Connection Agreement (BCA) from NGET (ESO) would take priority in the connection queue.

1.50. We understand stakeholders have been given an opportunity to feed into the proposals and shape the details of how the process will work in practice – and we believe SSEN has listened to the feedback and that the current proposals reflect the view of those who would be signing up to it. We are therefore minded to approve this part of the derogation request (see detail in Section 3) provided that it is delivered in a transparent and fair way and assuming that all relevant customers sign up to the process and are willing to participate in the trial.

[13]https://www.nationalgrid.com/sites/default/files/documents/Policy%20Document%20for%20Managing%20Interactive%20Offers.pdf

2. Derogation request - Part 2: Temporarily adjusting liabilities

Section summary

This section outlines Part 2 of the derogation request, (detailed fully in Appendix 3) which is to temporarily adjust the securities that developers will have to pay, by removing the liabilities relating to the subsea cable for a period of nine months. SSEN believe this will provide an opportunity for projects to progress without having to put up the high securities required to cover the cost of the subsea cable link. We are minded to reject this proposal as this could result in unnecessary costs for wider network users and ultimately for consumers if a generator cancels its project or reduces its capacity during this period (and the associated works have already begun and the capacity cannot be reused).

Questions

Question 4: Do you agree that the proposal to temporarily adjust liabilities will pass unnecessary risk to consumers?

Question 5: Do you agree that the proposal provides an unfair competitive advantage to those customers who would benefit from adjusted liabilities?

Question 6: Do you agree that the proposed mechanism of offering adjusted liabilities (i.e. by SHE-Transmission not passing on the unique subsea costs to the ESO, who in turn does not pass them to end connection customers) is inappropriate, given the implicit expectation of passing on costs in the Standard Terms of Connection?

Question 7: Do you agree with our minded to position to reject Part 2 of the derogation request, as it imposes additional risk on consumers and gives some connection customers an unfair advantage?

2.1 The AA trial acknowledges the significant costs associated with the 53km subsea cable link element of reinforcement on Orkney (in comparison to new on-shore islands infrastructure and works on the mainland).[14] SSEN note the potential benefits of reduced carbon emissions and socio-economic benefits associated with the potential for renewable generation on Orkney. SSEN have worked with stakeholders to develop arrangements to trial alternative security arrangements and test the extent to which current arrangements act as a barrier to entry.

2.2 Part 2 of the proposed AA, will adjust securities to be placed by developers in 2019, by removing the subsea cable element of liabilities from July 2019 to March 2020. Separately SSEN, for implementation purposes only, has also proposed that during the period of April 2019 to July 2019, securities will not be increased and will be held at same amount from the previous period until the new capacity queue is formed in July 2019 under the proposed ready to connect process. SSEN believe this temporary adjustment will allow them to test whether this will sufficiently address the current barrier to entry. SSEN propose that this will provide

[14] SSEN state that the liabilities for an Orkney customer are 4.5 times higher than on mainland North of Scotland.

an opportunity for projects to progress while wider industry initiatives, including the ENA's Open Networks workstream and Ofgem's proposed work to improve network access and forward-looking charging arrangements.

2.3 The purpose of securities is to demonstrate a developer is financially committed to connection and to incentivise them to continue to connect on time and use the full capacity requested, thereby avoiding or minimising inefficient investment whilst also reducing the barrier to new entrants. SSEN notes this would provide network operators with the assurance required to progress the network reinforcement for the connection. Should a developer terminate their connection offer or subsequently reduce the capacity required, securities will be used to cover any irrecoverable costs spent to date on facilitating their 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 developer.

2.4 This methodology is set out in CMP192[15], which was introduced to remove what was viewed by the industry as an unacceptable barrier associated with the previous Final Sums methodology. The purpose of changes that were brought in under CMP 192 were to incentivise developers to provide a notice of cancellation and to remove the barrier to entry for smaller Distributed Generation (DG) developers. However, SSEN state that the significant costs that Orkney customers are liable to pay do not incentivise developers to provide this notice as the costs are so high, they cannot get past the initial hurdle and therefore cause a significant barrier to entry.

2.5 The current methodology specifies that all works back to the nearest Main Integrated Transmission System (MITS) node fall solely within Attributable Works (and therefore paid by the developer). Given the fact that the nearest MITS node for Orkney developers is currently located on the Scottish mainland at Dounreay, the liabilities facing Orkney developers are considerably higher than those on the mainland as they include the length and costs associated with the subsea cable link. SSEN are keen to work with the industry to consider whether changes could be made to the calculation of liability or the MITS node methodology.[16]

2.6 However, ahead of formal industry changes in this area, SSEN are keen to test whether removal of the subsea cable element of securities (SSEN analysis states that 91% of the total costs associated with the reinforcement is considered to be unique to the subsea cable) would be sufficient to address this issue and confirm there are no unintended consequences. We note that our potential review of network access arrangements and forward-looking charges proposed to review the distribution connection charging boundary (i.e. the extent to which the connection customer should pay for any wider network reinforcement) and the extent to which locational signals could be sent via distribution network charges.[17] Alongside considering a shallower connection boundary, we proposed that our review would consider what user commitment arrangements would be appropriate. Any review would need to consider the appropriate allocation of risk and whether this might vary for different types of user. We intend to publish a decision before Christmas 2018 on whether

[15] https://www.nationalgrid.com/sites/default/files/documents/5638-CMP192%20Updated%20Guidance%20Document.pdf

[16] Once the reinforcement works are complete in October 2022, the MITS node could potentially move to Orkney (depending on what connection projects go ahead). If the extension of the transmission system to Orkney were to lead to the MITS being extended to the island, then this could lead to the creation of a new transmission generation tariff zone. We intend to publish an open letter before Christmas 2018 to generation developers that provides more information on future changes to electricity network access and charging arrangements.

[17] https://www.ofgem.gov.uk/system/files/docs/2018/07/network_access_consultation_july_2018_-_final.pdf

to launch a review of network access and forward-looking charge arrangements and, if so, the scope of that review.

2.7 Securities normally apply from acceptance and are updated and issued on a six-monthly basis by the ESO, based on figures received from the Transmission Owner (TO). Within the trial period, SSEN are proposing that SHE-Transmission does not pass on the unique subsea costs (approximately 91% of the costs) to the ESO, and in turn, the end connection customers for a period of nine months from July 2019 to March 2020, but all other costs (e.g. transmission works to connect Orkney to the mainland which are not considered unique and any onshore island transmission reinforcement and transmission connection assets) will be treated in the usual way and will be secured. Separately SSEN, for implementation purposes only, has proposed that during the period of April 2019 to July 2019, securities will not be increased and will be held at the same amount from the previous period until the new capacity queue is formed in July 2019 under the proposed ready to connect process. SSEN consider that this will retain strong locational pricing signals, as all other aspects of connection charging policies will be maintained.

2.8 SSEN propose for this trial period of adjusted liabilities to be at the beginning of the projects to allow renewable projects to progress and develop to a point where standard industry security arrangements can be resumed. Under current arrangements, the level of security required to underwrite potential liabilities falls as the project becomes more viable and the perceived risk of termination reduces (i.e. when the project gains planning consent and moves closer to their connection date).

2.9 By doing this, SSEN argue that 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 potential review of network access and forward-looking charge arrangements, or other workstreams, to allow more effective security arrangements to be defined and operated.

SSEN Impact Assessment

2.10 SSEN believes the proposed AA and the above derogations further facilitate achievement of the relevant objectives under the electricity distribution licence and the CUSC by most notably providing developers with an opportunity to connect that does not currently exist on Orkney due to unique circumstances. The arrangements they have proposed, they intend, will help to address current obstacles to connection, facilitate additional competition in generation, reduce carbon emissions and provide socio-economic benefits. From a network perspective, they will also help demonstrate the need for reinforcement, facilitate efficient investment and further facilitate the efficient allocation of capacity.

2.11 SSEN propose the trial will also provide valuable learning which will help inform wider industry developments, including the ENA's Open Networks workstream, Ofgem's potential review of network access and forward-looking charging arrangements and the development of any future universal code modifications.

2.12 In the event of a developer terminating their connection agreement during the period of paying reduced securities, the 'ready to connect' process would be activated and those most able to place securities (with most progressed projects) would be moved up the queue.

2.13 However, if the queue management process did not find another customer to fill the place, then SSEN has proposed that the inefficient expenditure would be reported against

SHE-Transmission's ultimate cost allowance for the Orkney transmission project. SHE-Transmission's expenditure on the Orkney project is allocated to regulatory categories:

(i) SWW pre-construction expenditure (as specified in SHE-T's licence at the start of RIIO-T1); and

(ii) Allowed construction expenditure (will be specified in SHE-T's licence following completion of a formal ex-ante cost assessment).

2.14 SSEN note that if developers were to terminate their connection agreements and there was a shortfall on recovered securities and incurred expenditure, then that net expenditure would be reported against these categories.

2.15 Ofgem would have the opportunity to seek to ensure that all costs were efficiently incurred as part of ongoing monitoring. Normal arrangements would resume from April 2020, any variance between incurred costs and the amount that can be recovered from contingent customers would be in line with existing standard industry practice.

2.16 Overall, SHE-Transmission has considered the risk associated with the adjusted liabilities proposal and has a view that this is unlikely to occur due to the ready to connect process and securities proposal. SHE-Transmission believes there are sufficient industry and regulatory protections in place to ensure wider customers are not exposed to inefficiently incurred project costs.

2.17 Given the procedural nature of the derogation requests, SSEN do not consider there to be any wider impact on consumers, consumer charges, security of supply or operation of the network. They consider their proposals to be proportionate and supported by a broad range of stakeholders.

Our view

2.18 When a developer applies to connect to the transmission system or to increase its existing capacity, TOs undertake the required reinforcement works to the electricity network to accommodate its needs. However, the developer may decide to cancel its project or reduce its capacity. Where the associated works have already begun and the capacity cannot be reused, this can result in unnecessary costs for wider network users and ultimately for consumers. Similarly, where an existing generator is reducing its capacity or closing, if the TO does not get sufficient notice it may incur costs that could otherwise have been avoided. User commitment places liabilities on users in order to financially secure the cost of investment works or ensure otherwise avoidable costs are not incurred.

2.19 We consider that any proposed changes to these arrangements on the grounds of levels of user-commitment for island generators, could have far-reaching implications for developers in other remote areas, and are therefore best dealt with through existing processes, such as by raising a code modification.

Customers

2.20 Whilst we note that the ready to connect proposals will go some way to mitigating the risk of SHE-Transmission incurring inefficient expenditure, we consider the shortfall of securities in a worst case scenario (of a, or a number of, developers terminating their connection agreements and no-one being able to take their place in the queue) to be

significant In the event that this risk eventuates, this risk will ultimately be held by SHE-Transmission, which intends to recover these costs through the mechanisms outlined in paragraph 2.13 above.

2.21 We do not agree that it is appropriate to utilise either the pre-construction expenditure nor the Allowed Expenditure mechanisms for SWW to absorb this risk, which would be ultimately passed to consumers. SSEN has proposed that any inefficient costs would be assessed either under an ex-post review or a re-opener but we do not consider that it would be appropriate to rely upon this to assess the risk of the AA.

Competition

2.22 Whilst we recognise the high costs of securities incurred by developers on Orkney compared to on the mainland, we believe this to be reflective of the costs of carrying out the necessary expansion and to be consistent with the costs faced by other developers wishing to connect on remote islands and other remote areas requiring underground cables. We therefore have concerns that this trial and specifically, the proposal to offer a period of reduced securities to a specific group of customers, would give these customers an unfair advantage over other developers elsewhere in Orkney and GB.

Sustainable development

2.23 The proposals in Part 2 do not have any significant impact on sustainable development. It is possible that by temporarily adjusting the liabilities, some more renewable projects might be connected, thus potentially contributing to sustainable development, however, we do not consider this impact to justify the increased cost risk to consumers.

Health and Safety and the associated risk management measures

2.24 We do not consider the proposals in Part 2 to have any significant impact on Health and Safety and the associated risk management measures.

Other parties affected by the non-compliance, including the ability of the relevant system operator or DNO to operate its system

2.25 SSEN is proposing to adjust attributable liabilities by [SHE-Transmission] by not passing through elements of the attributable cost estimates associated with the subsea element to the ESO. This means that in turn, the ESO will be using a lower attributable works value in the calculation of developers' liabilities (whether they have opted for fixed or variable liabilities). This will therefore reduce the securities paid by developers.

2.26 The requirements for calculating attributable work costs and attributable works capital costs are set out in multiple sections of the CUSC. In line with the definition as set out in the CUSC, SSEN do not consider this approach to require a derogation as the Standard Terms of Connection (STC) under section 12.1 of Schedule 9 allows SHE-Transmission to provide the ESO with the attributable works information in a form agreed by SHE-Transmission and the ESO. SHE-Transmission is proposing to have an agreement with the ESO outlining the AA for transmission liabilities and the window in which liabilities will be adjusted. This would also be reflected in a separate agreement with SHEPD to ensure there was a consistency of approach for transmission and distribution customers.

2.27 In order to implement the adjusted liabilities proposal of the AA, there is an implicit expectation that the costs passed through from SHE-Transmission for the attributable works costs are the actual costs incurred. We are minded to consider that this is a significant deviation from the intent of the STC and it also requires the ESO to be complicit in this arrangement.

2.28 We understand the ESO has concerns about Part 2 of the proposal, given the additional risk this would be placing on consumers and the commercial advantage it would give to these projects benefitting from the window of adjusted liabilities. We are therefore minded to not approve using this mechanism to deliver the trial proposed.

3. The specific derogation requests

Derogation from SLC 20: Compliance with Core Industry Documents and the Connection and Use of System Code (CUSC)

3.1 In order to implement the proposed AA trial, SHEPD has requested a derogation ('a direction') from the Gas and Electricity Markets Authority (the Authority) relieving it from its obligation to comply with licence conditions in its Electricity Distribution Licence. Standard Licence Condition 20.18 of the electricity distribution licence requires licencees to comply with Core Industry Documents including; (b) the CUSC.

3.2 In certain circumstances, under Section 20.7, the Authority may give a direction ("a derogation") to the licensee that relieves it of its obligations under any Core Industry Document in respect of such parts of that document, to such extent, for such a period of time, and subject to such conditions as may be specified in the direction.

3.3 The table below (Table 1), sets out the sections of the CUSC that SHEPD is requesting a derogation from and non-compliance with SLC 20.7 (b). Given that the changes are only procedural in nature we have outlined our minded-to views in the tables below.

3.4 In line with our reasoning in Section 1 of this document we are minded-to approve the derogation request in relation to Part 1: The Ready to Connect Process, of the AA, for the period of the trial and only for these purposes.

3.5 In line with our reasoning in Section 2 of this document, we are minded-to reject the derogation request from compliance with SLC 20.7 (b) in relation to Part 2 of the AA: Temporarily adjusting liabilities.

Table 1

Section of CUSC and purpose	**Proposed change**	**Part 1 or Part 2**	**Our minded-to view**
Section 6.10.4 - interactivity process Outlines National Grid's interactivity process	Ensure the ready to connect proposal is used to allocate capacity on Orkney during the trail, as a pre-cursor to the interactivity process.	Part 1	Approve

[18] https://epr.ofgem.gov.uk//Content/Documents/Electricity%20Distribution%20Consolidated%20Standard%20Licence%20Conditions%20-%20Current%20Version.pdf

Section 15, Part 2, Paragraph 6.2 – switch from fixed to variable Prevents customers from switching from fixed to variable securities	To allow customers who have currently elected for fixed securities to switch to variable so the benefits of reduced securities for a fixed period can be passed on, and to allow variations to queue positions through queue management to be reflected on an ongoing basis.	Part 1 Part 2	Approve Reject
Section 15 Part 2, Paragraph 2.2(a) - trigger date delay	To delay the Trigger Date for Orkney customers by 3 months, to allow variations to contracts to be issued and new queue positions and securities to be determined. The Trigger Date for 2022 connections would be July 2019, rather than April 2019.	Part 2	Reject
Section 15, Part 2, Paragraph 2.4.3 – Changes to Construction Date	Where there is a delay to the Completion Date and the Trigger Date has passed, and one party is unable to meet their connection date and someone else is ready to connect, the party that is ready to connect would take the other party's place and the works and Cancellation Charge for both parties would be amended to reflect this.	Part 1	Approve
Section 2.21.2 – Bi-annual statements Requirement to issue a bi-annual statement outlining security requirements and references specific months.	To implement the AA in the required timescales, three rather than two security statements are required in the first year. An additional date is required for implementation.	Part 2	Reject
Section 1.3.4(b) This provides that each and every Bilateral Agreement, Mandatory Services Agreement and Construction Agreement entered into by a User and in force from time to time shall constitute a separate agreement governed by the terms of the CUSC and will be read and construed accordingly.	To allow the Bilateral Connection Agreements and Construction Agreements between NGET and SHEPD in relation to the Alternative Approach to be governed by, read and construed in accordance with the CUSC as modified by the derogations proposed.	Part 1 Part 2	Approve Reject

Derogation from SLC 13: Charging Methodologies for Use of System and Connection

3.6 SHEPD are also requesting our consent to derogate from SLC 13: Charging Methodologies for Use of System and Connection. The licence condition requires the licensee to at all times have in force:

Part A: Requirements for Charging Methodology
(a) a Use of System Charging Methodology which the Authority has approved on the basis that it achieves the Relevant Objectives; and
(b) a Connection Charging Methodology (which, if the licensee is a Distribution Services Provider, must include the Common Connection Charging Methodology ("the CCCM") as set out in the Distribution Connection and Use of System Agreement ("the DCUSA") and as amended in accordance with the DCUSA) approved by the Authority on the basis that it achieves the Relevant Objectives (each, separately, "the Charging Methodology"),
The licence condition states that; except with the consent of the Authority, the licensee must comply with the Charging Methodology as modified from time to time in accordance with this condition.

3.7 The table below (Table 2), sets out the sections of the Charging Methodology that SHEPD is requesting our consent to derogate from through non-compliance with SLC 13. With regard to our reasoning in Section 1 of this document, we are minded-to approve/consent the derogation request in relation to Part 1: The Ready to Connect Process, of the AA, for the period of the trial and only for these purposes.

3.8 In line with our reasoning in Section 2 of this document, we are minded-to reject/not consent the derogation request from compliance with SLC 13 in relation to Part 2 of the AA: Temporarily adjusting liabilities.

Table 2

Section of Charging Methodology and Purpose	**Proposed Change**	**Part 1 or Part 2**	**Our minded-to view**
Section 4.2 of the Connection Charging Methodology This sets out that the period for acceptance for a Connection Offer or POC Offer is 90 days	To make variations to customers' Connection Offers. To ensure the variations are made in sufficient time to allow new queue positions and securities to be reflected in contracts, SHEPD will require customers to accept their revised Connection Offer within 30 days.	Part 1 Part 2	Accept/Consent Reject/not consent

Appendices

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Appendix 1 - Detailed Derogation request (as submitted by SSEN)

1.Relevant sections of the CUSC

The derogations to the CUSC are procedural in nature; they do not relate to changes to operational arrangements or impact on consumers' charges. The derogations are required to facilitate implementation of the AA trial on Orkney for a fixed period only and to ensure it is implemented as transparently and efficiently as possible. A number relate to transitional arrangements only to implement the trial.

(i) Section 6.10 – General provisions concerning modifications and new connection sites

Current CUSC provisions
Section 6.10.4 states that if at the time of making an Offer or a Modification Offer or Connection Offer there is an outstanding Modification Offer(s) or Connection Offer(s) to another User(s) which if accepted would affect the terms of the Second Offer, the Company (ESO) shall at the time of making the Second Offer inform the recipients of both the First Offer(s) and Second Offer(s) in writing that there is another Offer outstanding which might affect them. It also confirms the Company is entitled to make the First Offer(s) and Second Offer(s) conditional upon other outstanding Offers not having been or being accepted and shall be entitled to vary the terms of either Offer if the other Offer is accepted first. This is known as interactivity whereby two (or more) Offers become dependent or interactive with one another in relation to transmission works. Under standard arrangements the Company makes the new offer assuming the open offer is not accepted and reserves the right to vary the new offer should the open offer be accepted.

Proposed changes
Given the approach proposed as part of the technical solution under the AA, where the Needs Case looks to secure approval for reinforcement to provide capacity of 220MW in the first phase, these interactivity arrangements are unlikely to be relevant to Orkney under the trial. Queue positions and capacity allocations will be notified and managed in a transparent way through bilateral agreements with Developers, as set out in the "ready to connect" process in SSEN's attached proposal paper. These arrangements and this level of detail is not captured in the CUSC or other industry codes. Thus, it is proposed interactivity and a requirement to notify customers as set out above should only be applied in exceptional circumstances under the trial, where two (or more) customers with the same connection date (e.g. 2022) accept connection offers on the same day and there is insufficient remaining capacity in Phase 1 (or Phase 2) to meet both customers' requirements. In this case the interactivity arrangements set out above would apply and the party who is first to accept the BCA from NGET (ESO) would take priority in the connection queue. This process is not defined in the CUSC but NGET has published an interactivity note which provides for this.

This derogation is required for Part 1 of the proposal.

SHEPD Impact assessment
This derogation request has no direct or indirect impact on consumers, for example through increased charges, the operation of the transmission or distribution networks or security of supply. There are also no other parties negatively affected by non-compliance or by the proposed changes. Implementation of the AA and this supporting derogation does, however, ensure more efficient allocation of capacity and reduces the

risk of stranded assets, thereby facilitating competition in generation and further facilitating sustainable development. Taken together, the AA provides a level playing field and an opportunity for renewable generation development and connection on Orkney, relative to mainland developments and connections, that does not exist currently. We believe the AA offers a more efficient approach to allocating capacity and managing queue positions compared to current arrangements.

(ii) Section 15, Part 2, Paragraph 6.2 – User Commitment Methodology – Calculation of cancellation charge

Current CUSC provision
This section in the CUSC states that once a User has elected for the Fixed Cancellation Charge, the Pre-Trigger Amount, Attributable Works Amount and Cancellation Charge Profile to be fixed as that set in the Notification of Fixed Cancellation Charge the User cannot revert to the Actual Attributable Works Cancellation Charge. A key part of the AA is to trial alternative security arrangements (i) with adjusted security amounts and (ii) arrangements which could move a Developer up or down the connection queue – this could result in moving from one phase of reinforcement to another, which will have different works and therefore security amounts associated with them. Where Developers have previously chosen to fix their liabilities before the development of the proposed AA this will be at odds with the proposed approach and may act as a barrier to implementation, as the Developer will not be able to realise the full benefits of the trial.

Proposed changes
A derogation from this section of the CUSC is required to allow Developers who have a Fixed Cancellation Charge to revisit their decision and revert to Actual Attributable Works Cancellation Charge in order that we can trial new security arrangements and Developers can benefit from adjusted security amounts. It should be noted that as with current arrangements, we are not proposing to change arrangements to require customers to revert to variable arrangements for the duration of the trial. Following stakeholder engagement there was support for retaining customer choice as fixed liabilities provide the Developer with confidence around their project's economics.

This derogation is required for Parts 1 and 2 of the proposal.

SHEPD Impact assessment
This derogation does not have a direct or indirect impact on consumers, for example through increased charges, the operation of the transmission or distribution networks or security of supply. Proposals are simply required to facilitate implementation of commercial arrangements for the duration of the trial to reflect proposals to trial reduced security amounts and to help facilitate efficient operation of queue management arrangements. As set out above, this trial is expected to provide significant learning to inform wider industry developments in this area.

(iii) Section 15, Part 2, Paragraph 2.2(a) – Completion Date and Trigger Date

Current CUSC provisions
This section in the CUSC currently states the Trigger Date will be the 1 April which is 3 Financial Years prior to the start of the Financial Year in which the Charging Date occurs. SSEN, as agreed with the ESO, has set out a proposed timeline for implementing the AA (see accompanying proposal document for further detail) which is based on variations to existing connection offers being issued in April 2019, following Ofgem approval of derogations. This is the earliest date by which variations could be issued. However, under existing arrangements Developers are required to post securities by 15 February for the period running from April 2019 to September 2019 (inclusive). This creates a conflict as the Trigger Date of 1 April 2019 will rely on statements being issued by the ESO in January

2019. They will be based on current arrangements and queue positions. Current timescales in the CUSC mean changes in queue positions and liabilities could not be reflected in arrangements until the next 6-month cycle, commencing October 2019.

Proposed changes
To reflect new queue positions and associated liabilities as soon as possible, we are seeking a derogation to the CUSC to allow a delay in the Trigger Date from April 2019 to July 2019. We believe this is justified as it would be unreasonable, inefficient and confusing to ask Developers to post securities in February based on their conventional queue position while at the same time asking them to provide updated delivery plans and approve variations to connection offers that could potentially reflect a different queue position. Without this change securities and queue positions would become misaligned. The proposal for implementation helps ensure agreements, queue positions, liabilities and securities are aligned at the earliest possible time to maximise delivery of benefits associated with the AA. It also ensures Developers will have the necessary information to make an informed decision on variations to connection offers. By this date Developers will have:

- An updated contract with milestones and connection date, along with an update of their queue position;
- Liabilities which reflect their new queue position and works; and
- Confirmation on Ofgem decision on the Orkney Needs Case and Project Assessment.

It should be noted this change is required even if it subsequently transpires that not all customers agree to proposed variations to connection offers and the trial is cancelled.
This derogation is required for Part 2 of the proposal.

SHEPD Impact assessment
As above, this derogation is procedural in nature and required to ensure timely and efficient implementation of the AA. There is no direct impact on consumers, consumers' charges, security of supply, network operation etc. associated with implementation of this derogation but there are significant indirect benefits associated with implementation of the AA as set out above and in the accompanying proposal document.

(iv) Section 15, Part 2, Paragraph 2.4.3 (ii) - Changes to Completion Date

Current CUSC provisions
This section in the CUSC currently sets out that where there is a delay to the Completion Date at the User's request and the Trigger Date has passed, the Trigger Date will not be revised and the Cancellation Charge will not be adjusted downwards but will be held at that level and will increase from that level in line with any new Construction Programme.

Proposed changes
To implement the ready to connect process in an efficient way, if one Developer is no longer ready to connect and wishes to change their connection date (or if they fail to meet their milestones and are outside their tolerance), and another Developer is ready to connect and wishes to take their place, it is proposed this change in queue position would be processed and the works, Trigger Date and securities for each Developer would be amended and updated accordingly. The Cancellation Charge would also be updated and would result in both Developers having a Cancellation Charge for the element of the works that is associated with their connection. Under the current provisions of the CUSC this would not be the case if the Trigger Date is already passed. If there is no Developer ready to take the first Developer's place, the Cancellation Charge will not be amended.

This derogation is required for Part 1 of the proposal.

SHEPD Impact assessment
A crucial part of the AA is the ability to vary securities, and where relevant, to amend the Cancellation Charge. As set out above, if a Developer's queue position is changed (either

moving up or down) their works and liabilities may change depending on their new connection date. Without the ability to amend the Cancellation Charge after the Trigger Date to reflect the new queue position, the Developer moving down the queue would not see the benefit of the reduced Cancellation Charge, nor would the Developer moving up the queue see an increase in the Cancellation Charge. This change is required to maintain appropriate incentives and to ensure efficient operation of trial arrangements.

(v) Section 2.21.2 - Provision of Bi-annual Estimate and Secured Amount Statement

Current CUSC provisions

This requires the Company (NGET SO) to provide the relevant User with a "Bi-annual Estimate" showing the amounts of the payments required or which may be required by the User in respect of Termination amounts at specific times for periods covering 6 calendar months and commencing on 1st April or 1st October. As stated above, to implement the AA we propose to amend the Trigger Date to July 2019. This will result in 3 rather than 2 statements being issued in 2019, for the period commencing April 2019 (covering 3 months), July 2019 (covering 3 months) and then September 2019, which will bring us back to the normal 6 monthly cycle.

Proposed changes

In addition to the estimates currently provided for under CUSC, an additional statement will be issued resulting in the following:

1. A statement being issued in January 2019 (in line with the CUSC): For the 'roll-over' period for implementation covering the period between April and July (three months). This must be issued by 15th January each year.
2. In April 2019 (an **additional statement**): For the adjusted security period between July and September 2019 (three months).
3. In July 2019 (in line with the CUSC): For the Adjusted security period between October 2019 and March 2020 (six months).

This assumes that all Developers accept their varied connection offers by 30 April 2019 and the AA trial progresses. It should be noted this change is still required if one or more Developers do not accept; an additional security statement would still be required (with non-adjusted security values) in May 2019 to cover the July to September 2019 period. This would be needed to ensure Developers do not benefit from reduced securities without participating in the trial and to return all participants to the normal 6 monthly cycle.
This derogation is required for Part 2 of the proposal.

SHEPD Impact assessment

As set out above and in the accompanying document, these changes are procedural in nature and are required to facilitate implementation of the AA. There is no direct impact on the wider consumer base, consumer charges, the environment, security of supply or operation of the network associated with this derogation but there are much wider and significant benefits for Developers and ultimately consumers associated with new queue management and security arrangements proposed under the trial. Taken together, the AA provides a level playing field and an opportunity for renewable generation development and connection on Orkney, that does not exist currently. This has the potential to deliver wider environmental and socio-economic benefits. We believe the AA offers a more efficient approach to allocating capacity and managing queue positions compared to current arrangements and will provide valuable learning for wider industry developments.

(vi) Section 1.3.4b

Current CUSC provision
This provides that each and every Bilateral Agreement, Mandatory Services Agreement and Construction Agreement entered into by a User and in force from time to time shall constitute a separate agreement governed by the terms of the CUSC and will be read and construed accordingly. A further derogation is required to allow the Bilateral Connection Agreements and Construction Agreements between NGET and SHEPD in relation to the Alternative Approach to be governed by, read and construed in accordance with the CUSC, as modified by the derogations set out above.

Proposed Changes
This proposed change is procedural in nature; it is simply required to recognise and reflect changes set out above.

This derogation is required for Parts 1 and 2 of the proposal.

2. Relevant Sections of the Connection Charging Methodology

(i) Section 4.2 "The period for acceptance of a Connection Offer or a POC Offer is 90 days."

Current provision
To implement the trial in accordance with the proposed timeline (see updated proposal document for further detail), we request that the derogation would apply from implementation of the trial and would be required until all variations to connection offers have been made and a response received.

Proposed changes and justification
To implement the AA, we will issue updated Connection Offers to customers to reflect new arrangements, such as the requirement to provide delivery plans and be subject to the ready to connect process. The earliest that the variations to Connection Offers can be issued following Ofgem approval and subsequent amendment to BCAs, Construction Agreements etc., is April 2019. To allow us to fully implement the trial from July 2019 we need Developers to be signed up to the AA by 30 April 2019 (30 days). If one or more Developers do not accept then the trial will not go ahead and Developers will be informed of which security is required (under BAU arrangements if the trial does not go ahead or under the AA if the trial does go ahead- see main submission document for further detail) to cover the July to September 2019 period as referenced in CUSC derogations above. (As noted above, this change to the security period is required even if the trial does not proceed at this stage).

Without the derogation, customers would be given 90 days to accept the variations to their Connection Offers. This would mean we would not know until the end of June 2019 if the trial was to commence or not and we would have missed the window in May 2019 to request amended securities from those Developers that have accepted, reflecting new queue positions and security provisions.

This derogation is required for Parts 1 and 2 of the proposal.

SHEPD Impact assessment
This derogation will require Developers to sign up to the AA and variations to Connection Offers within 30 days. While this timescale is reduced, it relates to variations to existing

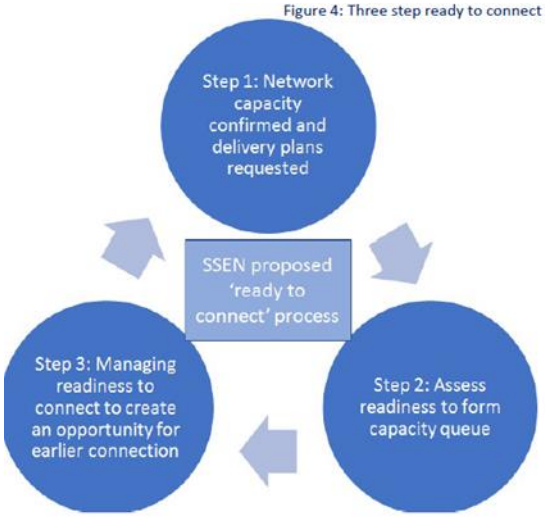
offers only, not new offers. Acceptance periods for variations to offers is not differentiated from new offers in the CCMS, this refers to new offers only. Only queue management and security provisions will change, all other arrangements will essentially remain the same. In recognition of timescales, we also plan to work with Developers in advance to ensure they are aware of proposed changes, sharing drafting of revised agreements in advance where possible. This should also be considered alongside the detailed stakeholder engagement that has been held with customers over the last year developing and explaining proposals, including two consultations. Stakeholders have been supportive of the AA and recognise the timescales involved to ultimately meet to deliver customers' proposed connection dates of October 2022.

Appendix 2: Part 1: 'Ready to Connect' Process (as submitted by SSEN)

To address obstacles to connection on Orkney, SSEN is proposing to implement a 'ready to connect' process (as demonstrated in figure 4). Following further feedback from our June 2018 consultation, our proposal remains largely unchanged with the exception of minor amendments to milestone names, milestone timescales and the amount of time associated with the tolerance allowance. The Ready to Connect proposal is detailed below; any changes as a result of stakeholder feedback are highlighted.

1**. Network capacity confirmed and delivery plans requested:** Every six months SSEN will review the network for available capacity and request delivery plans from developers.
2**. Assess readiness to form capacity queue:** SSEN will use the information from delivery plans to form a new capacity queue based on those who will be ready to connect.
3. **Managing readiness to connect to create an opportunity for earlier connection:** The delivery plans will be incorporated into developers' connection contracts. Developers who are not ready to connect will be managed and moved down the queue, creating an opportunity for those who are ready to connect earlier.

Figure 4: Three step ready to connect

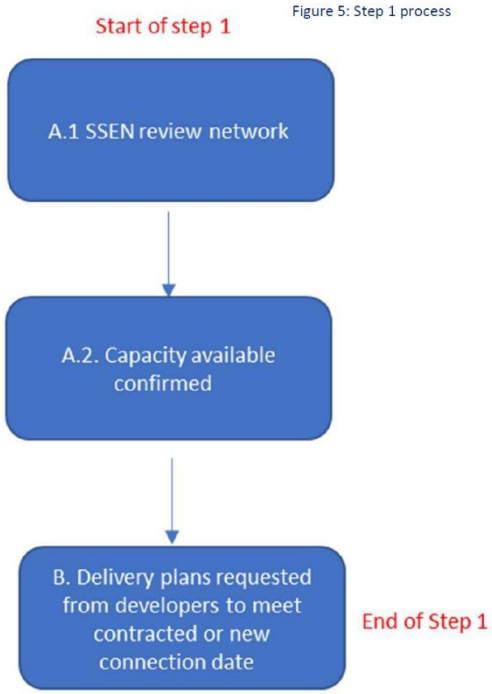


The process repeats until phases one and two of the reinforcement are complete. We have set out further details on the requirements for customers arising from each step of this process including examples in the following pages.

Step 1 - Network Capacity Confirmed and Delivery Plans Requested

2.3 Step 1 of the six-monthly process is about determining the network capacity available and requesting delivery plans from developers.

Figure 5: Step 1 process



Step 1 A: **Available network capacity confirmed**
The first stage is for SSEN to assess the current network capacity that is available internally at both a transmission and distribution level and the timing of when that capacity is available. This could include capacity made available via network reinforcement or release by those who are not ready. Network capacity allocation is based on current arrangements regarding access rights; however, this could include any future access rights arrangements including flexible connection solutions available.

Step 1 B: **Delivery plans requested**
Once available network capacity has been confirmed, SSEN needs to understand all developers'18 realistic connection dates to ensure capacity available on the network is utilised at the earliest opportunity. This information will be requested from developers in the form of delivery plans (an example can be found on page 8 of SSEN's summer consultation document).

In addition to providing a delivery plan that sets out the project's ability to meet the current contracted connection date, it is proposed that a developer will also be given an opportunity to submit an alternative delivery plan for a new connection date. This may be earlier or later than their currently contracted date.

Developers may also choose to reduce or split capacity over more than one delivery date. This could include proposing initial allocation of capacity at an earlier date followed by additional release of capacity at the current planned date.

Milestones
Delivery plans include a range of milestones and associated evidence required to show progression towards contracted delivery dates. Following feedback from stakeholders, SSEN made amendments to existing Energy Network Association (ENA) milestones[19] to ensure they are reasonable, relevant and proportionate to the challenges faced on Orkney. Milestones (applying to both transmission and distribution customers, supported by stakeholders in SSEN's summer consultation), justification and any minor amendments from stakeholder feedback for each milestone are set out below:

Milestone	**Justification**
Project studies start *Project studies include identifying land owners, and agreeing contracts with consultants to carry out necessary studies.*	SSEN proposed a new milestone to provide an earlier demonstration of the customer's commitment to connect on time. Studies are critical to achieving planning permission. Feedback from stakeholders endorsed an earlier milestone for pre-planning tasks on Orkney given environmental and planning challenges. Please note, based on feedback to our summer 2018 consultation, community engagement is included within the statutory notices for planning consent (the next milestone) and has therefore been removed from this milestone.
Planning application submitted	Planning permission being submitted is a significant commitment from developers to demonstrate their readiness to connect. Feedback from our consultation endorsed this milestone, emphasising that planning permission is critical to progression. Based on feedback from our summer 2018 consultation this milestone has been re-named from 'Planning Application initiated' to 'Planning Application submitted' to avoid any confusion.
Planning permission secured	Planning permission being secured is a significant milestone in a developer's plan to meet their connection date. Feedback from stakeholders endorsed this milestone and emphasised that planning permission is key to a project's progression. We have accounted for uncertainty that can arise through planning appeals and challenges with our 'tolerance allowance' proposal
Order placed for plant* **To clarify as a result of stakeholder's feedback Plant means the main generation station i.e. wind turbine*	SSEN assessed several options for milestones which would demonstrate a project's commitment post planning permission and pre-construction and proposed that a new (non-ENA) milestone of ordering of plant would likely only follow funding being secured, irrespective of source of funding. This was supported by stakeholders.
Construction start	Construction physically starting on site is a critical milestone in the execution stage of a project, demonstrating commitment

[19] http://www.energynetworks.org/news/press-releases/2016/april/ena-launches-consultation-on-new-connectionsmilestones.html

	that the project is going ahead. Feedback from stakeholders supported this milestone as being key to a project's progression.
Connection energisation	Construction being complete and the connection being energised is the last stage in the project's connection journey. This milestone forms part of the ENA progression milestones and feedback from stakeholders supported this ENA milestone to demonstrate the connection is complete and allows the final steps to be taken (including progressing adoption agreement which forms a separate ENA milestone). To clarify, this includes the first export of the connection.

Timescales
The delivery plans provided by each developer would also include a narrative against a standard timescale for delivery for each milestone. The proposed standard timescales have been developed through analysis of publicly available information, timescales proposed by the ENA and responses to our consultations and stakeholder events. Timescales would apply across all technology types and projects. Based on feedback from our summer 2018 consultation timescales for EIA planning permission has been extended. The developer would provide a date within the standard timescales against each milestone based on their delivery plan.

The timescales associated with project development milestones, i.e. scoping and planning consent, will work forward from the connection offer acceptance date to demonstrate a project's commitment to connection. Whereas timescales associated with project execution milestones, such as starting construction and order placed for plant, will work back from the agreed connection date[20]. Each standard timescale is detailed below. Please note, some timescales have been updated to reflect stakeholder's feedback to our summer 2018 consultation:

Milestone	**Standard timescale**
Project studies start	0-4 months from connection offer acceptance (updated minimum timescale to zero as some projects may have started studies before accepting the connection offer)
Planning application submitted	**Non - Environmental Impact Assessment (Non- EIA)** - 1-12 months from offer acceptance **EIA** - 1-36 months from offer acceptance (given the amount of EIA studies required for Orkney this has been updated to a maximum of 3 years)
Planning permission secured	**Non-EIA** - 1-12 months from submission **EIA** - 1-24 months from submission
Order placed for plant	3-24 months before construction start (based on stakeholders' feedback the minimum timescales have been updated to 3 months as some projects may move quickly from ordering plant to starting construction)
Construction start	18- 36 months before connection date
Connection energisation	N/A

[20] This is in line with Ofgem's proposal from the QMEC work stream -https://www.ofgem.gov.uk/publications-andupdates/quicker-and-more-efficient-connections-update-industry-progress

Tolerance Allowance
During a project, circumstances can cause delays that are out with the developer's control. Based on feedback from our Spring 2018 consultation on the need for flexibility, we assessed several options to introduce some tolerance to milestone achievement, whilst ensuring arrangements are transparent and consistent.

In our Summer 2018 consultation we proposed that each project should have a tolerance allowance of 6 months (cumulatively) which can be used when there is a delay in meeting any milestone. The tolerance was considered to cover several potential circumstances e.g. if a planning decision was being appealed or if work became delayed on site due to weather.

Within this tolerance, a queue position will not be changed. This tolerance period could be used across any progression milestones, but can only be fully used once per project i.e. if a developer has exceeded its tolerance period and is subsequently moved down the queue, a new tolerance period would not be provided.

As a result of stakeholder feedback, we have amended this proposal to increase the tolerance period from 6 to 12 months. This additional tolerance is in response to stakeholder's feedback to allow greater flexibility to projects which could face unforeseen delays during the development phase (such as planning issues) but also unexpected delays during the construction phase. For clarity, any delays to a developer's connection dates which are caused by SSEN's delivery of reinforcement works will not impact a developer's queue position.

Step 2 - Assess readiness to form capacity queue

Step 2 of the ready to connect process was supported by stakeholders in our Summer 2018 consultation and has not been amended. Using the information provided in developers' delivery plans SSEN will assess developers' ability to meet contracted connection dates. In turn, this allows SSEN to form a connection queue which reflects each developer's readiness to connect:

- The **connection queue** will be made up of projects able to use capacity identified on the network and confirmed as part of the first step in the 'ready to connect' process. In the proposed first phase of reinforcement on Orkney this will make 220MW of capacity available.
- **The future connection queues** will be formed based on those awaiting available capacity on the network - for example where further reinforcement is required in the future. For the Orkney reinforcement, the future connection queue will include any projects awaiting capacity made available through subsequent phases on Orkney.

When submitting a delivery plan, developers will be able to request changes to their connection date and/ or connection capacity. In order to manage such requests, SSEN proposes that the following rules will apply:

- If a customer requests a later connection date, the developer will move down the queue to reflect their newly requested connection date.
- If a customer requests an earlier connection date, the developer may move up the queue (at the minimum or contracted capacity stated in their delivery plans) if:
    - o there is capacity available and;
    - o the earlier connection date is achievable from the distribution and transmission network operator's perspective i.e. all reinforcement and connection works can be completed in time.
- If **multiple projects** request the same new connection date at the same time priority will be given to each customer in order of their position in the existing queue i.e. the first in the queue will be given first opportunity to move up the queue, then the second etc.

- If the developer has chosen to **reduce or split their capacity** across multiple phases of a project an individual delivery plan will need to be provided for each phase of the connection and each phase will be given an individual queue position. The same process will then be followed for each phase.

If a different connection date has been requested (either earlier or later) or capacity has been changed (either reduced or across multiple phases) any liabilities and securities will be amended to reflect any changes to works associated with the new connection date dependent on queue management rules (see step three- managing readiness).

Step 3 - Managing readiness to create an opportunity for earlier connection

Once the new capacity queue is formed, developers will then be managed against their progression milestones on a continuous basis by contract managers. SSEN has proposed that any project not ready to connect will move down the queue. If any other project is ready to connect earlier, they will move up the queue. Feedback from our summer 2018 consultation continued to support these proposals, as such they are unchanged.

Overall the following rules will apply when managing projects against milestones.

Where a milestone is missed and another project is ready to connect earlier: In accordance with the aims of the Alternative Approach:

A project that is not ready to connect and is outside the tolerance allowance (as explained above) will move down the queue, if another project is ready to connect earlier, and move up the queue. The project that is not ready to connect will move down to a later connection date with varied works and securities (if appropriate) into the space that is created by the project moving up.

This proposal creates an opportunity for connection and capacity to be utilised at the earliest opportunity, whilst ensuring this is not to the detriment of other projects in the capacity queue who are ready to connect at their existing connection date (*the above proposal is demonstrated in Annex 2, example 1, SSEN's Summer 2018 consultation document)*

Where a milestone is missed but no other project is ready to connect earlier: SSEN considered several options and is proposing that:

the project that is not ready will be placed at the bottom of the queue that it has securitised against (see Annex 2, example 2, SSEN's summer 2018 consultation document)

This is to ensure that the same policy applies to all projects that miss their milestones regardless of whether another project is ready. The project will move down but will remain in the connection queue to ensure there is still an opportunity for connection but not to the potential detriment of other customers. Remaining in the connection queue means that all works will continue to be secured – for the individual project securities will remain the same taking into account the project's new connection date.

Securities and Queue Management

As set out above, where a developer moves up or down the queue and associated works change, this could result in a change to liabilities and the securities to be provided. This is a crucial element of the proposed AA. As it stands the current methodology allows developers to opt for fixed or variable liabilities. Fixing liabilities provides a fixed amount for the developer and therefore provides a degree of certainty. Variable liabilities expose the developer to actual spend over the biannual security period.

It is SSEN's view that variable liabilities are more aligned to active queue management. As outlined above, whether a party is moving up or down the queue this can result in varied works which variable liabilities allows to be reflected in the developer's securities. Under

existing rules once parties have chosen to fix liabilities they are unable to change back to variable liabilities. SSEN is proposing a derogation from the CUSC for the trial to allow parties to re-visit their decision as to whether they wish to fix or vary their selection (see implementing the AA section for further detail).

'Ready to Connect' Process Conclusion

SSEN's proposed 'ready to connect' process, based on stakeholder's' feedback will help align timelines for transmission investment and developers' projects by continuously reviewing the network capacity available against delivery plans to understand when developers will be ready to connect and to ensure full use is made of available capacity. Delivery plans will provide milestone dates to manage readiness and release spare capacity in a fair, transparent and consistent way. Overall the proposed approach, which has been driven by stakeholders, will break the current catch-22 and create an opportunity for connection for renewable generators on Orkney.

Appendix 3: Part 2: Temporarily adjust liabilities to provide a window of opportunity (as submitted by SSEN)

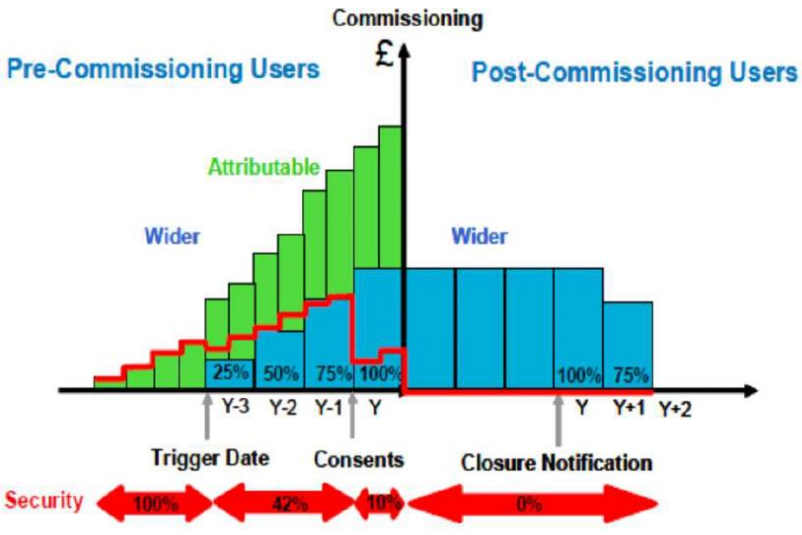
As detailed in the Understanding Obstacles to Connection section, SSEN has sought feedback on the obstacles to connecting on Orkney from local and national stakeholders. One of the significant obstacles consistently raised was transmission securities[21]. Following further consultation with stakeholders and analysis in comparison to mainland customers, SSEN believes the methodology and principles of cost targeting in this case places a significant burden on Orkney customers due to the unique location, cost and timing issues. This section outlines SSEN's proposal, which has been supported by stakeholders, to address this obstacle to connection by adjusting the costs passed through to customers as securities for a defined period of time, to redress the significant imbalance and provide them a window of opportunity to progress their project.

Transmission Liabilities and Securities Explained

When a customer applies for a connection (either at transmission or distribution[22]) which requires transmission reinforcement, they are required to provide security for any works that are directly driven by their generation connection. Should that developer terminate their connection offer or subsequently reduce the capacity required, then that security will be used to cover any irrecoverable costs spent to date on facilitating their connection.

Broadly speaking, liabilities represent the total cost of works undertaken by the Transmission Owner (TO) that are driven by a generation customer's connection. These include attributable works as well as wider works required on the system[23]. The liabilities associated with the connection increase as the works develop and the TO incurs costs. Securities are used to provide confidence to the TO that a project has a legitimate interest in progressing towards connection and to protect other customers from the costs incurred should the project fall away.

With this in mind, the level of security to underwrite potential liabilities falls as the project becomes more viable and the perceived risk of termination reduces (i.e. when the project gains planning consent and moves closer to their connection date). Securities apply from acceptance and are updated and issued on a six monthly basis by the ESO, based on figures received from the Transmission Owner. This is demonstrated in the accompanying diagram. Liabilities associated with a connection will



National Grid, CUSC Section 15, Guidance and Implementation Doc

[21] The Scottish Islands Grid Access Study commissioned by the Scottish Government and Department of Energy and Climate Change in 2014 focussed specifically on the challenge of 'underwriting' as one of four barriers to development and the Scottish and UK Governments' Joint Islands Delivery Forum identified a solution to the challenge of 'securities' as one of the key enablers to islands connections

[22] Having went through the Statement of Works or BELLA/ BEGA process as applicable

[23] As explained below and as set out in section 15 of the CUSC and schedule 9 of the STC

increase three financial years ahead of the connection date – known as the 'trigger date' (Y-3).

Why Liabilities and Securities are an Obstacle for Orkney

A key issue for Orkney customers is the methodology used for calculating attributable liabilities. These costs are designed to reflect investment that is directly driven by the connection, with 100% of the risk placed on generation and not shared with the wider customer base. For Orkney this includes infrastructure to connect to the mainland, including a sub-sea cable as well as new Transmission infrastructure on both the island and mainland to accommodate connections. As noted in the 'Why an Alternative Approach?' section of this document this was explored during the development of the CMP 192 changes and it was recognised it introduced a significant burden; however, no policy solution was agreed.

The key issues caused by the current methodology outlined in the CUSC are as follows:

Location: Attributable works are defined in the CUSC as construction works which are required to connect a power station or embedded power station from the connection point (or GSP) to the nearest suitable MITS node. This results in substantial liabilities being placed on island generators due to the infrastructure required. On Orkney the MITS node is currently located at Dounreay on the Scottish mainland (as shown in Figure 3). This is caused by the history and geography of the island's network infrastructure. Historically the Orkney network was designed to accommodate security of demand from the mainland. At the time, the renewable potential for Orkney to export onto the mainland and exceed the existing network parameters due to the growth in renewables was not known.

Cost: To accommodate new generation on Orkney transmission reinforcement is required, the costs associated with the subsea cable elements as well as new transmission on-islands infrastructure on Orkney and mainland upgrades have substantial costs. Liabilities and securities under the standard methodology is causing a barrier to entry for island customers despite the renewable potential.

Timing: Projects on Orkney have been unable to progress (for example to planning permission stage, where securities are then lowered) due to the uncertainty associated with network reinforcement. Under the current methodology, customers in Orkney who do not have planning permission will be exposed to significant liabilities for attributable works relative to mainland connections, from the 1st April 2019 as they enter into Y-3 as shown on the above diagram. The attributable works for Orkney customers will substantially increase during this time due to the costs associated with the subsea cable elements.

Adjustment to Liabilities Proposal

Following engagement with stakeholders and consideration of a number of options, responses to our summer consultation have endorsed our proposed approach. SSEN is therefore continuing to propose that SHE-Transmission temporarily adjusts the amount of expenditure which is passed through to the ESO and from the ESO onto Developers or SHEPD and where

SHEPD, that passed by it to distribution connecting customers for a one-year period, by removing the element associated with the subsea cable.

This is intended to reduce the burden for a one-year period to a comparable level to mainland customers to allow connecting projects to progress through planning and secure finance. At this point securities, will reduce and projects are likely to be in a better position to cover security requirements under the business as usual arrangements. This trials arrangements to test whether liabilities being brought to a level comparable to mainland customer would allow Orkney connection projects to progress. If this trial arrangement was proved to successfully reduce the obstacle to connection for customers, the lessons learned from the trial could inform a future code modification.

Following the feedback from stakeholders, SSEN analysed the aspects of the reinforcement which could be considered unique to islands customers[24]. Following this analysis, approximately 91% of the total costs associated with the reinforcement is considered unique to the submarine cable aspect of the reinforcement. It is proposed that the reinforcement costs associated with the unique subsea cable aspects should not be passed through from SHE-Transmission to the ESO and in turn the end connection customers for a period of one year.

SSEN agrees with the user providing commitment via a level of security however this should not cause an undue obstacle to connection which we have sought to address via our adjustment to securities proposal of the AA. It is important to note that developers would still be required to securitise elements of the transmission works to connect Orkney to the mainland which are not considered unique and any onshore island transmission reinforcement and transmission connection assets for their connection in full. This will allow Orkney customers to provide securities in line with those on the mainland and provide enough security to demonstrate financial commitment of projects progressing to connection. As demonstrated in the example above, the AA will still provide an incentive for developers to progress projects to connection on time as proposed in line with the changes brought into the CUSC under CMP 192.

It is important to note this adjustment applies to attributable transmission works securities only. This does not propose a change to connection charges. They will continue to provide strong locational signals to help drive the right behaviour.

There are 2 periods of adjustment that will allow us to assess whether this helps address the current barriers to connection:

1. **From April to July 2019**: To implement the Alternative Approach, variations will be issued to customers' contracts in April 2019 to incorporate the Ready to Connect process. Securities previously held will be extended from April to July 2019, with a new security statement issued, to fit in with the implementation timetable.
2. **From July 2019 to March 2020**: Customers will have until 1 June 2019 to post new securities, following acceptance of contract variations issued in in April 2019. July 2019 will become the Y-3 trigger period for phase 1 customers. The amount SHE-Transmission passes through to National Grid will be adjusted to remove the unique elements associated with the subsea cable.

Adjustment to Liabilities Proposal Conclusion

[24] This analysis considered that the onshore transmission reinforcement could arguably be seen as standard transmission reinforcement comparable to other projects across GB; however, the reinforcement required to connect Orkney to the MITS could be considered unique. Much of these costs are driven by the nature of the AC submarine cable connection to Orkney and specific items associated with the cable (for example directional drilling).

Following SSEN's analysis of securities facing Orkney customers and stakeholder feedback, SSEN believes that transmission securities are one of the key obstacles to connection on Orkney. To overcome this, initial barrier, provide an opportunity for connection and facilitate competition in generation, SSEN has proposed to adjust the securities for a period to allow projects to progress. This will allow Orkney customers to provide securities in line with those on the mainland whilst at the same time still providing enough security to demonstrate financial commitment of projects progressing to connection. This will create a window of opportunity to allow projects to progress to a point where transmission securities under the current industry standard arrangements projects are no longer a barrier.

However, it is important to note that the solution above will only address the securities issue for customers in Orkney. This is being implemented on a trial basis to see if this is sufficient to remove the barrier to connection and SSEN will be focussing on reviewing the trial as it develops to consider any potential for wider implementation feeding into the national debate on securities and liabilities in industry work streams which is outlined further in the following section.

Appendix 4 – Privacy notice on consultations

Delete this box when producing your document.

Instructions: Please edit the content of the generic privacy notice provided below to take account of the specifics of your consultation.

Contact the Data Protection Officer dpo@ofgem.gov.uk if you are unsure about any of the information to be provided to those responding to your consultation.

Personal data
The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer
The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

3. With whom we will be sharing your personal data
(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be a specific as possible.)

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for ***(be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. 'six months after the project is closed')***

5. Your rights
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically

- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

9. More information For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".