



Scottish & Southern
Electricity Networks



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Trisha McAuley
c/o the CUSC Panel Secretary
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09 March 2020

Dear Trisha,

Request for urgent treatment of CMP 337 and 338

Scottish Hydro Electric Power Distribution plc (“SHEPD”), part of Scottish and Southern Electricity Networks (“SSEN”), formally seeks a recommendation from the CUSC Panel to the Authority that the Modification Proposals set out in CMP 337 and 338 are treated as urgent, further to the provisions for such treatment under CUSC governance, and the guidance on relevant considerations for the Authority when determining such a request.

Background

SHEPD submitted CUSC Modification Proposals 337 and 338 on 16 January 2020, requesting an Authority decision on the modifications by 12 May 2020. This followed the requirement set out by the Authority to SHEPD in its December 2019 decision on the island contribution proposals to address the potential risk of misunderstanding over the term “actual project costs” within the CUSC in terms of contributions made by SHEPD towards transmission links to Shetland, the Western Isles and Orkney.¹

The CUSC Panel, at its January and February meetings, has not accepted SHEPD’s requested progression steps (namely to proceed to Code Administrator Consultation) in order to meet this date and / or agreed an Authority decision by this date. Given the timescales for a typical process incorporating Workgroup, coupled with the Tranche 1 prioritisation for various existing CUSC Modification Proposals, it is SHEPD’s understanding that neither CMP337 or CMP338 will be with the Authority for a decision in the timescales required for a decision in mid-May 2020,

¹ [Decision on Scottish Hydro Electric Power Distribution’s proposals to contribute towards proposed electricity transmission links to Shetland, Western Isles and Orkney](#), 17 December 2019

in line with SHEPD's requested implementation steps. NGESO has confirmed that this is the case, providing a timeline which indicates that it will not be possible for a decision to be made by the Authority until August 2020 at the earliest. The indicative timelines for both the fast-tracked and Workgroup-based processes are included in the attached appendix.

In response, in seeking to ensure an Authority decision by 12 May 2020, SHEPD is formally seeking urgent treatment for these two Modification Proposals, based on the following justifications.

Basis for need for urgency against the criteria

1. *There is a very real likelihood of significant commercial impact upon the Transmission Company, industry parties, and customers if the Modification Proposals are not treated as urgent*

The anchor project for the Shetland transmission link has a contracted connection date of 2024. The TO and the developer's programmes are defined and are being executed in order to meet this contracted date. The necessary contract placement and associated governance are required to be finalised in early summer 2020 to achieve this.

Authority conditionality: The Authority is expected to require developer commitment to be confirmed as a pre-requisite to its approval of the Shetland link Needs Case. Developers require an appropriate degree of confidence in their TNUoS charges before confirming their investment. Therefore, timely progress to create the implementation route for the contribution decision that the Authority has already made is at the core of maintaining the developer and TO commercial programmes.

Relevant industry timelines: The developer's governance process to finalise its commitment would need to commence by 12 May 2020 in order to facilitate a timely decision by the Authority on the Needs Case, which is necessary to achieve a 2024 connection date. If the proposed modifications CMP 337 and 338 are not resolved by 12 May 2020, Shetland developers will not have confirmation of the effect of the contribution upon their TNUoS charges at the point at which their final governance processes take place. If developer commitment cannot be confirmed because the CUSC modifications remain uncertain, the Authority's requirement for the TO to demonstrate developer commitment as part of the Needs Case will remain unmet, and the Authority can be expected to be unable to make its decision to approve the Shetland link Needs Case.

Transmission network impact: If the Authority does not approve the Shetland link Needs Case by June 2020, the TO has confirmed that its programme for delivery by April 2024 is at risk. Any further delay in progress of the Needs Case decision triggers programme delays through missed contract placement, cable manufacturing and construction windows, which in turn will drive delays to the planned energisation date (and additional, potentially substantial costs). Ultimately this will negatively impact all parties which are relying on the link. The relevant commercial impacts are described below.

Progression of the anchor project is at the core of the Needs Case to secure a link to Shetland. As the anchor project's progression is a pre-requisite of Authority approval of the Needs Case, delay or failure in this part will have serious ramifications for the other transmission generation developments which also have contracted capacity on the transmission link, SHEPD's requirements for security of supply and lower costs of service for Shetland, and will likely impact upon the decarbonisation agenda of the Shetland oil and gas industry² and the wider decarbonisation ambitions of Shetland Islands Council, taking in the islands as a whole, discussed further below.

Developer commercial impact: The anchor developer has made [public reference](#) to the significance of the contribution, and has also provided the following comment on its programme and the relevance of the CUSC modification:

"A delay in determining the CUSC for the distribution contribution on Shetland is not compatible for a project of this nature which is already working very closely with the supply chain to tight timelines. If there is not certainty on the effect of the contribution on VEWf's TNUoS charges by May 2020 it is expected that VEWf would be unlikely to reach FID. Over the last few months we have seen a marked reduction in the level of interest of onshore turbine suppliers for all UK projects (OEMs are now focussing on growth markets in Asia and America). This, combined with the high level of uncertainty on the merchant value of electricity in the coming years, means that if the grid connection is not available by April 2024 we will seriously have to re-assess the viability of our project. In our engagement with stakeholders we have also been told that before making long-term investment decisions about Shetland the oil and gas majors require certainty within the next few months that long-term alternative electricity sources to decarbonise their activities would be available. For this to be the case there needs to be certainty in the short term that both the wind farm and the transmission link will be built.

"It is worth noting that VEWf have already commenced enabling works on Shetland in order to provide SHET with site access by July 2020 in accordance with obligations under the grid connection agreement."

SHEPD commercial impact: These impacts are also material to SHEPD from a commercial perspective. Risk to the progression of the wind development and the transmission link could jeopardise the security of supply solution and associated savings of c.£140m compared to the costs of an alternative solution for its distribution network customers. It would undermine the ability of SHEPD to remove from full duty its existing ageing generation arrangements in

² EnQuest, the operator of Sullom Voe Terminal, has set out its plans to shrink its generation facilities, lower and increase use of renewables [here](#), [here](#) and [here](#). The Oil and Gas Authority is currently defining its role in meeting net zero: the [UKCS Energy Integration - Interim findings](#) report published in December sets out some of this thinking. Through stakeholder engagement on Shetland SHEPD is aware that oil and gas majors are actively exploring means to decarbonise, including the option to take supply from the electricity network which would be enabled by large Shetland wind developments and transmission link. SHEPD can only share information which is available in the public domain.

2024/25 and necessitate extended running costs and capital investment until an alternative is identified.

2. *Safety and security of the network is likely to be impacted if the Modification Proposals are not treated as urgent*

SHEPD has a licence obligation to recommend to the Authority an enduring security of supply solution for the Shetland islands in recognition of the need to reduce reliance on the ageing diesel plant which currently fulfils this role. CUSC Modification Proposals 337 and 338 represent some of the last steps in implementing SHEPD's recommendation, approved by the Authority, for the long-term Shetland link-based security of supply solution.

Risk to the progression of the wind development and the transmission link could jeopardise this solution, which has been approved by the Authority as the basis and driver for the contribution arrangements, with the associated savings of c.£140m for its distribution network customers which the link represents.

3. *The Modification Proposals are linked to imminent date-related events.*

As set out at item 1, an Authority decision on the modifications is sought by 12 May 2020 in order to achieve developer commitment as a pre-requisite for Authority approval for the Shetland link Needs Case. If Authority approval can be achieved by early summer 2020, both developer and TO programmes may progress as required to meet the contracted 2024 connection date, enabling cessation of full duty operation of Lerwick Power Station in 2024/25 and providing clarity for oil and gas majors currently considering Shetland investment. It is also worth noting that Shetland Islands Council has highlighted the constraints that a delay to a link imposes upon them, setting out that that *"Shetland cannot meet Climate Change targets without a base renewable energy supply"*, that *"At this time the most significant constraint and dependency is how and when an alternative electricity grid supply solution is going to be implemented"*, and *"indecision on interconnector delays planning and development of next generation solutions...[and] dependence on remote external decision-making processes"* are highlighted as weaknesses in its ability to execute strategic energy planning. The Council has confirmed that *"resolution of the uncertainty around that would then allow a wide range of other activity to be planned with some confidence and address the wide range of very important but dependent matters"*.³

³ [Shetland Islands Council meeting, 22 January 2020](#) – *Climate Change Strategic Outline Programme*

4. *A CUSC Modification Proposal should be treated as an Urgent Modification Proposal if it could not appropriately be treated as non-urgent.*

Further to guidance from NGENO SHEPD understands that, as a consequence of the number of CUSC modifications in flight, new Modification Proposals which are required to commence from Workgroup stage, which are neither granted urgency nor prioritised, are unlikely to enter the process for Workgroup consideration until summer 2020.

For the reasons set out above, if the CUSC Panel does not proceed with a process, in terms of timing, which results in an Authority decision by 12 May 2020 for CMP 337 and 338, this is expected to lead to a highly undesirable outcome for developers, the TO, SHEPD and ultimately distribution customers, as it is anticipated that transmission link construction will not be able to progress.

5. *Due consideration should be given to the complexity, importance and urgency of the Modification Proposal.*

SHEPD reflects on its own views, discussed with NGENO and the Authority over the past 6 months, that the modifications proposed are non-material and, as such, may not be strictly required. NGENO's feedback has been that, while it agrees with the straightforward nature of the modifications, it recommends the modifications are made for purposes of clarification, and avoidance of ambiguity in interpreting relevant CUSC sections.

In light of this, in its December 2019 decision the Authority confirmed, *"We would approve a contribution if: we approve the Final Needs Case for the proposed Shetland transmission project; and the contribution proposal is implemented appropriately...We therefore expect SHEPD to progress the relevant codes changes"*. This makes clear the critical nature of the modifications to Ofgem's final decision on the contribution and subsequently the Needs Case.

The proposed modifications are not complex and do not propose any change to TNUoS charging. SHEPD believes that the points raised by the Panel in January and February can very quickly be assessed and addressed by limited and swift Workgroup review thus creating no additional and unnecessary delay in the process. Reflecting upon the straightforward and non-material nature of the changes which are supported by the Authority decision, recognising that the governance process will in any case involve industry consultation, legal review and determination by the Authority, and taking into account developer and TO timescales alongside SHEPD's recommended solution outcome (in the context of the current full CUSC modification landscape), we suggest that there is no risk in granting urgency and, indeed, the benefits of granting urgency which provides an Authority decision by 12 May 2020 can be expected to be greater than the benefits delivered by a delayed and / or unnecessarily lengthy modification process.

We welcome further engagement with the CUSC Panel and the Authority as required on these matters and look forward to swift resolution of our request.



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Yours sincerely,

Colin Nicol
Managing Director, Networks

Appendix – Modification process timelines

Indicative timeline – Code Administrator Consultation-based (shared January 2020)

Indicative Timetable for both CMP337 and CMP338 (based on approval at February Panel to go to Code Administrator Consultation)

Stage gate	Date
Code Administrator Consultation	6 March 2020 to 27 March 2020
Draft Final Modification Report sent to Panel	16 April 2020
CUSC Modification Panel Recommendation Vote	24 April 2020
Circulation of Final Modification Report for Panel review ahead of submission to Authority (5 working days)	27 April 2020
Final Modification Report submitted to Authority for decision	5 May 2020
Anticipated date of decision from Authority (25 Working Days)	11 June 2020 (note Proposer has asked for decision by 12 May 2020)
Implementation date	1 April 2024

45

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Indicative timeline – Workgroup-based (shared March 2020)

Timeline for CMP337/338 (Standard Timescales – indicative dates)

Milestone	Date	Milestone	Date
Workgroup Nominations (15 working days)	6 March 2020 to 27 March 2020	Code Administrator Consultation issued (15 working days)	5 June 2020
Workgroup 1	6 April 2020	Code Administrator Consultation closes	26 June 2020
Workgroup consultation issued	14 April 2020	Draft Final Modification Report issued to Panel	23 July 2020
Workgroup consultation closes	5 May 2020	Panel undertake Draft Final Modification Report recommendation vote	31 July 2020
Workgroup 2 (to discuss Workgroup Consultation Responses and Vote)	13 May 2020	Issue Final Modification Report to Panel to check votes recorded correctly	4 August 2020
Workgroup report issued to Panel	20 May 2020	Final Modification Report issued to Ofgem	12 August 2020
Panel sign off that Workgroup Report has met its Terms of Reference	29 May 2020	Anticipated Ofgem decision (25 working days)	17 September 2020
		Implementation Date	1 April 2024