

Email to: [eleanor.wood@ofgem.gov.uk](mailto:eleanor.wood@ofgem.gov.uk)

5 September 2024

Dear Eleanor,

### **Urgent review of securities and liabilities within CUSC**

As the voice of Scotland's renewable energy industry, we are writing to raise the urgency of the need for a holistic review of the current grid securities and liabilities regime that is threatening to overburden and jeopardise strategic Scottish renewable generation projects.

Triggered by the recent rejection of SSE's code mod CM094 and the ambiguity surrounding securities under Connections Reform, we believe the existing approach to securities within the Connection and Use of System Code (CUSC) Section 15 (CMP192) is outdated for the current context of planned network investment. To account for the wave of strategic network plans, securities and liabilities are becoming disproportionately inflated for projects impacted by reinforcements supporting wider system needs. The urgency of a review is fuelled by the imminent trigger year on April 1, 2025, which would see high-value Scottish projects facing astronomical securities and liabilities that risk project viability.

Combined with the financial challenge of Transmission Network Use of System (TNUoS) charges and high Wider Cancellation Charges in Scotland, particularly the north, the hurdle of rising securities poses an existential threat to developing key renewable projects. We understand a range of issues were previously flagged via the 2022 code mod CMP385<sup>1</sup> that drew attention to the dated nature of the CUSC methodology, introduced in 2012, and we are looking to re-open and resolve this conversation. The 'potential for asset reuse by Transmission Owners (TOs)', one of the factors informing the CM192 methodology, has inherently changed since CM192's inception. As demand for connections soars and the risk of stranded assets diminishes, the justification for high securities and liabilities is weakened. Once operational, the measures introduced by Connections Reform, such as milestones and gated criteria, will grant greater authority to the Electricity System Operator (ESO) to manage projects at risk of delay and/or failure. Thus, the relevance of high securities is further undermined. Without a thorough review, securities will only deter viable renewable projects by driving up cost and risk, eventually leading to higher prices for consumers.

As a result of mass network expansion, the scaling up of securities, typically aligned with project development, is skewed by fluctuations arising from reinforcements undertaken early in a project's development. Securities should ideally reflect the appropriate share of the liability incurred by the network to connect a particular project. However, projects are becoming increasingly susceptible to higher costs and risks in the early stages of development as they compensate for reinforcements driven by other projects' timelines or those with predetermined regulatory approval. As such, legitimate projects are facing undue barriers to final delivery.

The risk posed by elevated securities and liabilities is exacerbated by liabilities being accrued before a project becomes eligible to participate in a Contracts for Difference (CfD) allocation round. To be eligible to participate in a CfD allocation round, a project must have a grid connection date that falls within a delivery year for that round. In CfD Allocation Round 5, three delivery years were available to onshore wind projects. However, for CfD Allocation Round 6, the latest of these delivery years has been removed. Since a project reaches its trigger date three full financial years before its completion date, this has meant that projects reach their trigger date before the CfD award. Post-trigger date, the liabilities faced by projects rapidly increase. Projects have,

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<sup>1</sup> [CMP385: Improvements to Securities and Liabilities provisions within CUSC | ESO \(nationalgrideso.com\)](#)

therefore, been incurring potentially project-jeopardising liabilities without the security of the route to market provided by winning a CfD. If a project is unsuccessful in a CfD allocation round and must wait a year to reapply, the liability faced by that project will be even higher.

Developers require sufficient justification and detail around the proposed costs when faced with increasing securities. Currently, the TOs' calculation elements are not provided in the Local Asset Reuse Factor (LARF). Therefore, it is difficult for developers to question any of the values or costs for which they become liable. Combined with incorrect securities requests, often caused by the confused assumption of enabling works as attributable works, developers lack control and means of demanding accountability. Other misunderstandings include Main Interconnected Transmission System (MITS) Substations within the Electricity Ten Year Statement (ETYS) map being frequently mistaken for MITS Nodes, leading to confused calculations around attributable works and local TNUoS. Clarity around the relevant definition of MITS Nodes could help reduce avoidable errors. In terms of minimum standards of information provided, indicative connection locations spanning broad geographical areas need to have securities amended to reflect the risk of TO spend at this stage. When TOs have not undertaken siting studies, it is unfair to expect projects to assume prohibitive levels of securities with such unknowns about project viability. Determining a minimum radius or another means of more detailed confirmation of substation location, and thus TO expenditure, should be introduced to mitigate risk to the developer. Greater transparency of cost breakdown and investment in improved understanding or simplification of securities will also be vital to avoiding unwarranted costs being placed on developers.

From broader issues to more immediate modifications in play, we firmly believe Ofgem need to work with SSE and/or other viable third parties to agree on a suitable alternative to CM094 that addresses some of the issues highlighted in this letter. While there was some overlap with CMP428, CM094 offered considerable additional benefits to the system and the safeguarding of projects that were not encompassed within CMP428. Reinforcements deemed strategically important, such as those with approved Needs Cases under Large Onshore Transmission Investments (LOTI) and Accelerated Strategic Transmission Investment (ASTI), that are now amassing considerable liabilities should be removed from individual attributable securities. Greater clarity is required around projects being secured that are already underpinned by Ofgem approval. CMP428 favours offshore over onshore generators, the latter of which are often smaller and for whom the impact of large securities associated with pre-approved network investments could be catastrophic. Furthermore, the unanswered question around whether projects will be allowed to revert from fixed sums back to attributable and potentially be eligible for exemptions must urgently be resolved for projects awaiting April 2025 trigger dates. Remote Island projects in Orkney, Shetland and the Western Isles are particularly at risk of abandoning projects if action is not taken before this time.

Although it has yet to be fully outlined, Connections Reform proposes substantive changes to the securities timing process, thus indicating the possibility and need for change. The suggestion that securities be placed only once projects reach Gate 2, i.e., when they have obtained firm land rights, would help remove the risk of adopting wider cancellation securities at an early stage of project origination. The original intention of CM192 was to encourage developers to provide notice of cancellation in a timely manner, which the ESO will now have milestones to monitor. It seems appropriate that considering direct changes to the securities process and introducing greater scrutiny on project development, a review of the CM192 methodology is prioritised prior to Connections Reform implementation. Striving for consistency of approach across onshore, offshore and between TOs aligns with the government's plans for greater industry standardisation and cohesion.

Ofgem must urgently engage with SSE and/or other viable third parties on the parameters to remove liabilities for a wider scope of projects impacted by strategically approved network reinforcements. Furthermore, a priority is addressing the issue of requiring increased flexibility regarding reverting from fixed to actual liabilities in cases

where modifications have been approved to benefit the generators. Substantive discussions must occur before the next Transmission Charging Methodologies Forum (TCMF) in October for critical decisions to be made within the tight timeframe.

As Scottish Renewables has repeatedly argued, Ofgem must examine the urgent macroeconomic reality and its net-zero obligations more closely to safeguard the UK's ambitions on climate targets.

We are keen to aid the expedition of a review of the current process and would be happy to discuss our concerns in more detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M Watson', with a long horizontal flourish extending to the right.

**Morag Watson | Director of Onshore**