

CMP288 & 289:  nationalgrid

**Explicit charging arrangements for
customer delays and backfeeds &
consequential changes.**

Finding a better way

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The Issue

***Defect:** “There are currently no explicit charging arrangements to recover additional costs incurred by Transmission Owners and TNUoS liable parties as a result of transmission works undertaken early due to a User requested delay to the Completion Date of the works or backfeed”.*

- There are two types of cost that can occur:
 - Incremental costs as a direct result of the request (e.g. demobilisation/remobilisation for a delay); and
 - Financing of investment undertaken earlier than required.
- Whilst one-off charges can be utilised to recover TO costs, having more explicitly defined charges would aid transparency.
- Additional costs are borne by TNUoS paying parties (which could be passed onto consumers) as a result of a customer delay. No formal mechanism exists enabling these costs to be refunded.

Backfeeds

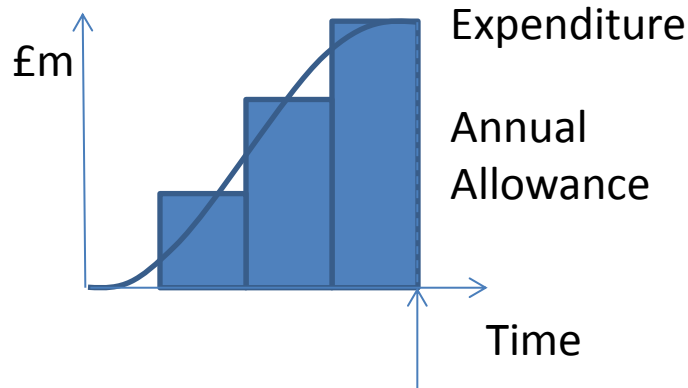
- A backfeed is the provision of a connection prior to the commissioning of the customer's project to enable site supplies. Not all customers require a backfeed prior to their connection.
- Where a backfeed is requested, a TO will be required to undertake connection works earlier than would otherwise be needed to facilitate this.
- Where only some of the works are required earlier, the TO may incur incremental costs (e.g. need to demobilise and remobilise its workforce).

Customer Initiated Delays

- A customer may modify its connection date via Modification Application up to the previous contracted Completion Date.
- Where a delay is agreed, the TO will review its programme. In some cases work will be delayed, in others work may need to continue (e.g. due to outage restrictions).
- In some cases work will be undertaken earlier than it would have had the customer applied for the revised date in its original application.
- Where work is stopped the TO may incur incremental costs (e.g. need to demobilise and remobilise its workforce).

Impact of early investment: Customer delay example

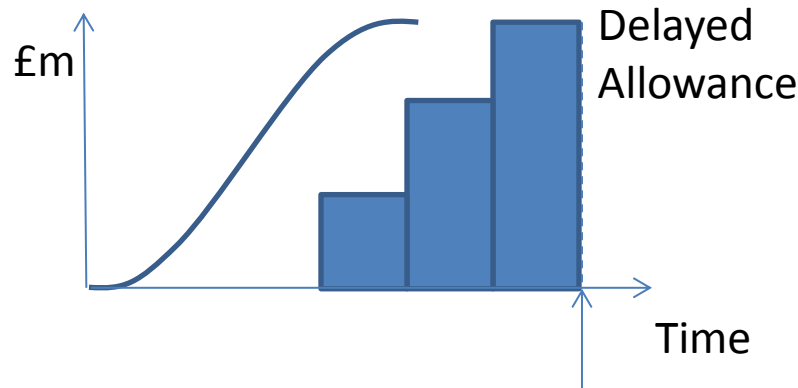
No Delay:



No Delay: Assuming total allowance equals total spend, profiling of allowance ensures TO funding and spend aligns.

Customer connection Date

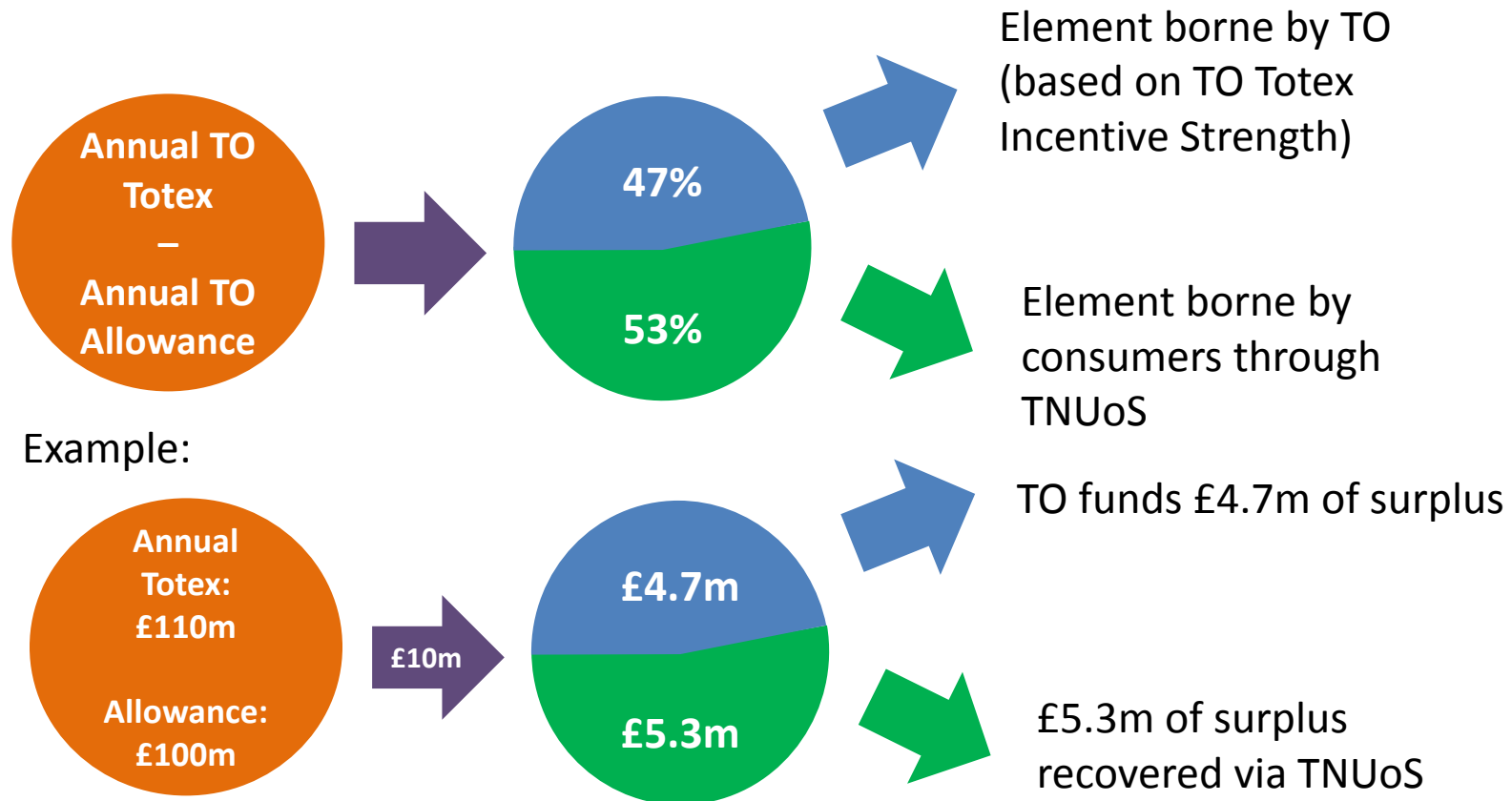
Delay:



Delay: using same assumptions, spend occurs ahead of allowance, introducing a funding requirement in addition to incremental costs.

Delayed Customer Connection Date

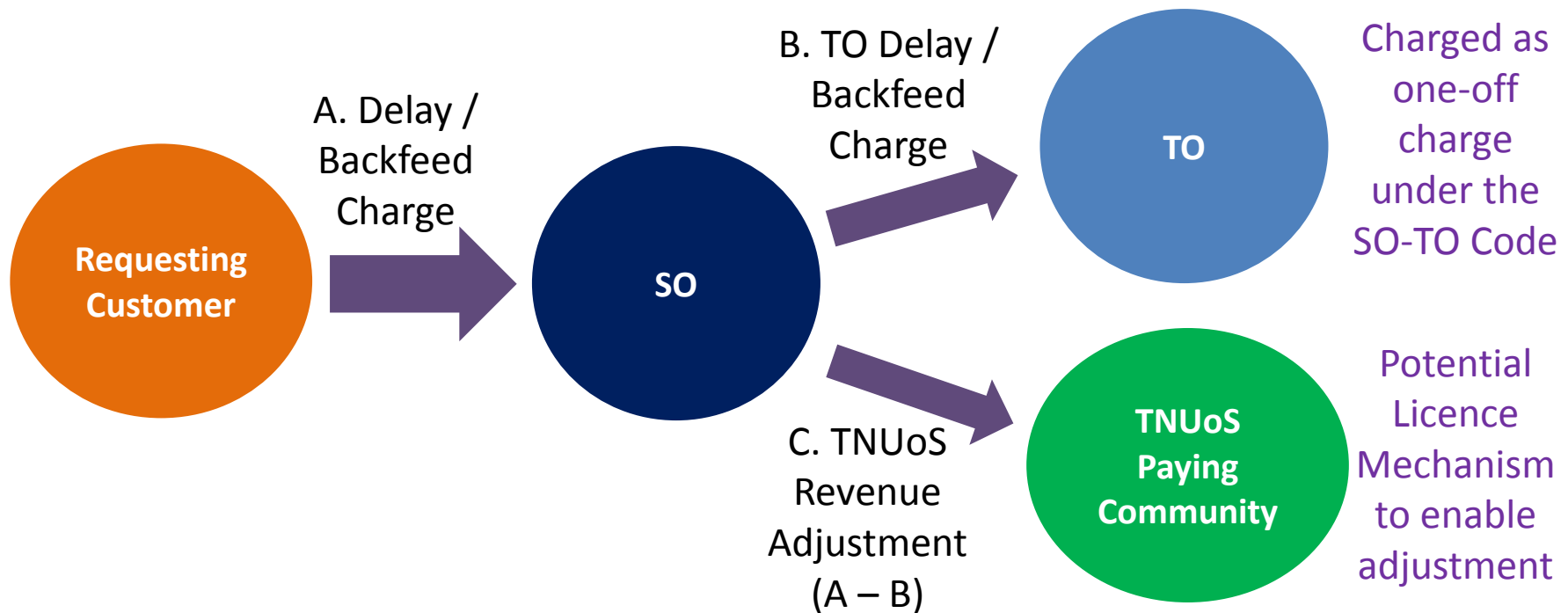
Totex Incentive Mechanism



Financing costs resulting from delays are shared between TOs and TNUoS paying parties (mainly suppliers under the existing arrangements).

Proposed Solution

- **CMP288:** Introduce explicit charges to recover incremental costs incurred by TOs as a result of a User request to delay a Completion Date or request a backfeed;
- **CMP288:** Introduce explicit charges to recover Financing costs incurred by TOs and in turn TNUoS paying parties, as a result of a User request to delay a Completion Date or request a backfeed; and
- **CMP289:** Consequential changes to the CUSC to enable the new charges (e.g. provision of information to aid understanding of potential charges).



Works subject to financing charge

- National Grid's existing methodology applies to "Enabling Works".
- Enabling Works are the minimum works required to connect a generator that ensures a certain technical, operational, and operational criteria are met. These are the works that can be affected by a customer delay or backfeed request.
- These works may include wider network reinforcements that may be subject to Network Options Assessment (NOA). This is largely based upon the Future Energy Scenarios (FES), which may assume later connections than contracted.
- For demand connections, the scope of works to which the financing element of charges apply needs to be clarified.
- The financing element of charges should be limited to infrastructure works. The cost of delay for connection works is factored into enduring connection charges.
- The financing element of charges should not apply to costs covered by advanced capital contributions or up front one-off charges.

TO Totex Capitalisation

Amount to be collected in year



Amount capitalised and added TO Regulatory Asset Value (collected gradually via TNUoS i.e. includes cost of capital)

Each TO's price control utilises an assumed **Weighted Average Cost of Capital (WACC)**, which represents their expected cost of financing.

Where TO spend occurs ahead of allowance the WACC would be representative of the associated TO cost of funding.

The WACC would also represent a good proxy for funding cost borne by the consumer, as the majority (85%) is capitalised and gradually recovered by the TO (with the TO WACC representing the funding cost).

Interaction with other charges

Cancellation Charges (Generation & Interconnectors) & Final Sums (Demand)

- Actual Attributable Works Cancellation Charges & Final Sums both include interest from the point TO costs are incurred up to the date the Cancellation Charge is invoiced.
- If a delay or backfeed charge has been issued prior to termination, there is a risk of double counting some of the financing cost.
- However, Cancellation Charges don't cover the full cost of the works, and therefore won't account for the full cost of delay.
- It therefore seems reasonable to adjust the interest charge relating to the infrastructure element of the Cancellation Charge to reflect financing already covered by delay charges.
- Final Sums cover the entire cost of works, so the required adjustment is simpler.