



# National Grid

## CONSULTATION DOCUMENT

***CAP004***

***Cost Benefit Analysis***

**The purpose of this document is to  
consult on Amendment Proposal CAP004  
with CUSC Parties and other interested  
Industry members**

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**I DOCUMENT CONTROL****a National Grid Document Control**

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0.1	25/2/02	National Grid	Initial Draft for internal comment
1.0	27/2/02	National Grid	Formal version for release

**b Document Location**

National Grid Website:

[http://www.nationalgridinfo.co.uk/cusc/mn\\_consultation\\_index.html](http://www.nationalgridinfo.co.uk/cusc/mn_consultation_index.html)

**c Distribution**

Name	Organisation
CUSC Parties	Various
Panel Members	Various
Interested Parties	Various
Core Industry Document Owners	Various
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## 1.0 Executive Summary

- 1.1 British Energy, with support from other Parties (as detailed in the Amendment Proposal form), submitted CUSC Amendment Proposal CAP004 to the Amendments Panel for consideration at their 9<sup>th</sup> November 2001 meeting. The Amendments Panel determined that CAP004 should be evaluated further by a Working Group and set Terms of Reference to review the Amendment Proposal and report back to the 22<sup>nd</sup> February 2002 meeting.
- 1.2 CAP004 proposes to introduce the requirement for Cost Benefit Analysis to be undertaken as part of the consideration of amendment proposals.
- 1.3 The Governance Amendments Working Group (GAWG) evaluated the Amendment Proposal against the applicable CUSC objectives but could not reach a unanimous recommendation. In general the principle was supported by the majority of the Working Group, but there were strong opposing views. The Working Group formulated some alternative draft text, which the majority of the Group agreed better facilitated the applicable CUSC objectives and this was presented as an Alternative Amendment.
- 1.4 The Working Group delivered its Report to the Panel Secretary on 8<sup>th</sup> February 2002 in preparation for the February Panel meeting. The Amendments Panel acknowledged the work undertaken by the Working Group and agreed that they had satisfied the Terms of Reference and that National Grid should undertake wider Industry consultation.
- 1.5 This document initiates the wider industry consultation process and invites views on CUSC Amendment Proposal CAP004. The consultation closing date is **26<sup>th</sup> March 2002**.

## 2.0 Introduction

- 2.1 This consultation document is issued by National Grid under the procedures specified in the Connection and Use of System Code (CUSC). It addresses issues associated with the Proposed Amendment to include provision in Section 8 of the CUSC to undertake Cost Benefit Analysis in the consideration of amendment proposals.
- 2.2 Further to the submission of Amendment Proposal CAP004, and the subsequent evaluation by the CUSC Governance Working Group, this document seeks views from industry members relating to the Amendment Proposal and Alternative Amendment.
- 2.3 This document outlines the discussions held by the Working Group and the nature of the CUSC changes that are proposed. Representations received in response to this consultation document will be included in National Grid's Amendment Report that will be furnished to the Authority for their decision.
- 2.4 This consultation document has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid website, at <http://www.nationalgrid.com/uk/indinfo/cusc>, along with the Working Group Report for CAP004 and the Amendment Proposal form.

### **3.0 The Amendment Proposal**

- 3.1 CAP004 proposes to introduce the requirement for Cost Benefit Analysis to be undertaken as part of the consideration of amendment proposals.
- 3.2 The Proposer considers that such an amendment would bring the CUSC amendment process into line with best regulatory practice of carrying out an assessment of the cost and benefit of proposed amendments where applicable. This would enable a full and proper assessment of any amendment proposal to take place before reaching a decision. The draft text included by the Proposer to give effect to CAP004 is contained in Part A of Annex 1.

### **4.0 Working Group Discussions**

- 4.1 The Governance Amendments Working Group could not reach a unanimous recommendation on CAP004. There were diverse and opposing views between the principle of the introduction of cost benefit analysis and whether the CUSC already contains sufficient scope for such analysis to be undertaken where necessary.
- 4.2 The majority of Working Group members supported the Proposed Amendment and felt that the explicit requirement in the CUSC to carry out Cost Benefit Analysis could only improve the evaluation of amendment proposals. However, some members felt that the requirement to undertake such analysis was already implicit in the CUSC and that where appropriate the CUSC Panel would require it to be carried out. It was argued that if the requirement was made explicit, it may be viewed as a barrier to smaller players putting forward amendment proposals.
- 4.3 An explicit requirement to carry out Cost Benefit Analysis would also provide additional workload to both National Grid and the industry, which in some situations may be unnecessary. It was also noted that if National Grid were to undertake such analysis as part of the process, it would only be of value if all Users were also obligated to quantify and provide their costs and benefits. The additional workload would also have an impact on the process timescales of amendment proposals and introduce unwelcome and possibly detrimental rigidities to the process.
- 4.4 The Working Group noted that they were required by the CUSC Panel to consider an appropriate definition of Cost Benefit Analysis in order to avoid ambiguity in the requirements. The majority of Group members concluded and agreed that it was not feasible or appropriate to define the term or to place a requirement to undertake such analysis, which has differing technical interpretations. On this basis consideration was given to an Alternative Amendment.

#### **Summary of Working Group Discussion**

- 4.5 The Working Group did not reach agreement on CAP004. The remit of the Group was to assess CAP004 against the applicable CUSC objectives. The principle of the Proposal was supported by the majority of the Group, who also felt that Cost Benefit Analysis should in some form be an integral part of the efficiency requirements of the applicable CUSC objectives and to a lesser extent would reduce market costs and improve competition. However, this

view was countered by the belief that there was already provision in the CUSC for such analysis to be undertaken where appropriate, and therefore the Proposed Amendment would not better facilitate the objectives.

- 4.6 The Working Group formulated some alternative draft text, to be presented as an Alternative Amendment to CAP004, which the majority of the Group agreed would better facilitate the applicable CUSC objectives.

## **5.0 Alternative Amendment**

- 5.1 The majority of Working Group members agreed that the indicative legal text contained in the Amendment Proposal was too prescriptive. Some less onerous text was formulated as an Alternative Amendment in order to follow the intent of the Proposal and make it more effective, thus better facilitating the CUSC objectives. The text formulated as the Alternative Amendment is contained in Part B of Annex 1.

- 5.2 It was felt that the Alternative Amendment would allow the principle of the issue to be explicit in the CUSC, but also allow the requirement and detail of the costs and benefits to be reviewed on a case by case basis by the CUSC Panel, thus reducing concern over rigidities of the process and avoiding the introduction of further barriers.

## **6.0 Initial View of Amendments Panel**

- 6.1 The view of the Amendments Panel on the way forward for CAP004 is that National Grid should initiate a period of wider consultation to seek industry views as to whether the Amendment Proposal or the Alternative Amendment better facilitate achievement of the applicable CUSC objectives.

## **7.0 Initial View of National Grid**

- 7.1 National Grid believes that Amendment Proposal CAP004 does not better meet the CUSC objectives. This is on the basis that the CUSC already contains provision for Cost Benefit Analysis to be undertaken in the amendment process where necessary. Making the requirement explicit would not better facilitate the objectives.

- 7.2 National Grid believes that the Alternative Amendment better facilitates the applicable CUSC objectives as compared with the Proposed Amendment. The Alternative Amendment recognises the need to give consideration to Costs and Benefits in the evaluation of amendment proposals where appropriate, but is not so prescriptive as to require full Cost Benefit Analysis irrespective of circumstances which may be considered to be detrimental to the CUSC Amendment Process.

## **8.0 Views Invited**

- 8.1 National Grid is seeking the views of interested parties relating to this Amendment Proposal CAP004.
- 8.2 Please send your responses to this consultation document to National Grid by no later than close of business on **26<sup>th</sup> March 2002.**

8.3 Please address all comments to the following e-mail address:

[emma.groves@uk.ngrid.com](mailto:emma.groves@uk.ngrid.com)

Or alternatively, comments may be addressed to:

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Commercial Development  
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## Annex 1 - Proposed Text to Modify CUSC

### Part A - Indicative Text by Proposer to give effect to the Proposed Amendment

#### 1. Amendment Proposal

8.15.2 A proposal made pursuant to Paragraph 8.15.1 shall be submitted in writing and shall contain the following information in relation to such proposal:

- (j) where possible, a preliminary indication of the materiality of costs and benefits, and also, without prejudice, a preliminary cost/ benefit analysis of the Amendment Proposal.

#### 2. Working Groups

8.17.8 The terms of reference of a **Working Group** must include provision in respect of the following matters:

- (...) (d) the evaluation for each and any Proposal shall where applicable contain a cost/benefit analysis of the Proposal.

#### 3. Amendment Report

8.20.2 The matters to be included in an **Amendment Report** shall be the following (in respect of the **Amendment Proposal**):

...

- (k) a cost/ benefit analysis of the impact of the **Proposed Amendment** and any **Alternative Amendment** including an assessment of all direct and indirect costs to CUSC Parties and other affected Parties.

### Part B - Text to give effect to the Alternative Amendment

#### 1. Amendment Proposal

8.15.2 A proposal made pursuant to Paragraph 8.15.1 shall be submitted in writing and shall contain the following information in relation to such proposal:

- (j) where applicable, a preliminary estimate of the costs and benefits of the proposed amendment.

8.15.3 If a proposal fails in any material respect to provide the information in Paragraph 8.15.2 (excluding Paragraphs (e), (g), ~~and~~ (h) and (j) thereof), the Panel Secretary.....

#### 2. Working Groups

8.17.8 The terms of reference of a Working Group must include provision in respect of the following matters:

- (d) the evaluation for each and any proposal shall where applicable contain an estimate of the costs and benefits of the proposal.

### 3. Amendment Report

8.20.2 The matters to be included in an Amendment Report shall be the following (in respect of the Amendment Proposal):

- (h) to the extent such information is available to NGC, an assessment of the impact, **including the costs and benefits** of the Proposed Amendment and any Alternative Amendment on CUSC Parties in general (or classes of CUSC Parties in general), **and** including the changes which are likely to be required to their internal systems and processes and **a reasonable and proportionate** estimate of the development, capital and operating costs associated with implementing the changes to the CUSC and to the Core Industry Documents;

\*\*\* It is noted that there are other Amendment Proposals being considered at this time which also propose changes to these paragraphs. The proposed text changes are therefore based on the CUSC as existing at this time.