

*[Working Group Alternative A1 + B1]*

## **USER COMMITMENT PRINCIPLES**

### **Introduction**

**This section describes the methodology and principles used to calculate the Cancellation Charge and Capacity Reduction Charge associated with User Commitment.**

#### **1. CANCELLATION CHARGE**

Where a **Construction Agreement** between **The Company** and a **TEC User** is terminated such **User** shall be liable under the terms of that **Construction Agreement** to pay to **The Company** the **Cancellation Charge**. In addition a **TEC User** will be liable for final sums (as defined in the **Construction Agreement**) in respect of any **One Off Works** in such **Construction Agreement**.

The **Cancellation Charge** to be payable by the **User** in such circumstances shall be calculated in accordance with principles set out in this Section of the CUSC.

For the avoidance of doubt on termination of a **Construction Agreement** between **The Company** and a **Non TEC User** such **User's** liability is based on payment of **Final Sums** (as provided for in the **Construction Agreement**) rather than **Cancellation Charge**.

The **Cancellation Charge** will be the applicable **User Commitment Amount** in the event that the **Construction Agreement** is terminated prior to the **Trigger Date** or the applicable **Cancellation Amount** in the event that the **Construction Agreement** is terminated on or after the **Trigger Date**. The liability for the **Cancellation Charge** falls away in the event that the **Construction Agreement** is not terminated prior to or on the **Completion Date** in the **Construction Agreement**. The amounts and profile of the **User Commitment Amount** and **Cancellation Amount** throughout the term of the **Construction Agreement** will be specified in a **User's Construction Agreement**.

#### **User Commitment Amount**

Where the **Completion Date** in the **Construction Agreement** is more than seven full years after signature of the **Construction Agreement** (which will be assumed for these purposes to be the last day of the period for accepting the **Offer**) the **User Commitment Amount** will be £0 on termination any time prior to the date seven years before the **Completion Date**.

Where the **Completion Date** in the **Construction Agreement** is more than four full years but less than seven full years after signature of the

**Construction Agreement** the total **User Commitment Amount** will be £1/KW on termination for the first full 12-month period, and will increase by £1/KW increments for each following 12-month period until the **Trigger Date** subject to a cap of £3/KW.

**Value Added Tax** will be payable on the **User Commitment Amount** in each **Cancellation Period**.

### **Cancellation Amount**

The **Cancellation Amount** shall apply for each 12-month period up to a maximum of 4 years before the Completion Date and will be calculated on the following basis:

$$\text{Cancellation Amount}_t = \text{TEC} * \text{Generation TNUoS}_z * X * T_t$$

Where:

- *Cancellation Amount<sub>t</sub>* is the liability due on termination of a **Construction Agreement** in the full relevant year
- *TEC* is the **Transmission Entry Capacity** requested (in KW)
- *Generation TNUoS<sub>z</sub>* is either the zonal Generation TNUoS tariff (subject to a minimum £3/KW) applicable to the generation project and published in the **Statement of Use of System Charges** or where a generation TNUoS zone does not exist for a given offshore or island location at the time of the **User's** application, the tariff which will be consistent with the Transmission Network Use of System Charging Methodology will be provided by **The Company** to the **User** in the **Offer**).
- *X* is a multiplier and is established by **The Company** at the beginning of each Transmission Price Control Period. For **Offers** made during the period April 2007 to April 2012 it will be six.
- *T<sub>t</sub>* is a fraction which varies according to the number of full years from the **Completion Date** to the **Trigger Date**. In the full 12-month period(t) prior to the **Completion Date** T is equal to 1. In the full 12-month period prior to year t (t-1) T is equal to 75%. In the full 12-month period prior to t-1 (t-2) T is equal to 50%. In the full 12-month period prior to t-2 (t-3) T is equal to 25%.

**Value Added Tax** will be payable on the **Cancellation Amount** in each **Cancellation Period**.

The **Cancellation Amount** will be based on the applicable Generation TNUoS tariff at the time of the **Offer**. Where the period of an Offer crosses a charging year, the applicable Generation TNUoS tariff that will be used shall be the Generation TNUoS tariff prevailing on the last day on which the Offer can be accepted.

### **Trigger Date**

In making an **Offer** to a **User** **The Company** will consider the **Construction Works** and **Construction Programme** associated with that **Offer** and taking into account the nature and programming of the **Construction Works** and the **Consents** associated with this identify a date in the **Construction Agreement** as the **Trigger Date**. **The Trigger Date** will be specified in **Appendix Q** in the **User's Construction Agreement** and will equate to when **The Company** reasonably believes it will incur significant costs in relation to the **Construction Works** associated with that **Offer**.

### **Cancellation Charge Profile**

Using the above principles **The Company** will identify a trigger date and a **Cancellation Charge** profile showing sums due by reference to termination of the **Construction Agreement** within specified periods based on the **Construction Programme** and **Construction Works** with a **User's Construction Agreement**. The profile and the TNUOS tariff will assume a start on the last day that the **User** could accept the **Offer** and will be specified in Appendix R in a **User's Construction Agreement**.

There may be circumstances where the **Trigger Date** is the date of signature of the **Offer**.

### **Changes to Construction Programme or Construction Works or TEC**

Where the **Construction Programme** or the **Construction Works** or **Transmission Entry Capacity** subsequently change from that in the original **Construction Agreement** the following principles will apply in respect of reassessing the **Trigger Date** and the **Cancellation Charge**.

Where such change is as a result of **The Company's** exercise of its rights under the **Construction Agreement** then:

- (1) The appropriateness of the **Trigger Date** (if any) against such revised **Construction Programme** or **Construction Works** and shall revise the **Trigger Date** accordingly; and
- (2) The profile of the **User Commitment Amount** (if any) revised accordingly on the basis of the number of full years from signature of the original **Construction Agreement** to the new **Trigger Date**; and
- (3) The profile of the **Cancellation Amount** revised accordingly on the basis of the number of full years from the new **Completion Date** to the new **Trigger Date**.

A revised Appendix R to a **User's Construction Agreement** will be issued by **The Company** to the **User** showing this new profile.

Where such change is as a result of the **User's** request then notwithstanding any change in the **Construction Works** or **Completion Date**:

- 1) Where the revised **Construction Programme** alters the period of full years between the date of signature of the original **Construction Agreement** and the **Trigger Date** the **User Commitment Amount** will remain at the amount at the time the user requested the change until the **Trigger Date**; or
- 2) The **Cancellation Amount** will be frozen at the prevailing level and remain at that level for the period of the slippage.

A revised Appendix R to a **User's Construction Agreement** will be issued by **The Company** to the **User** indicating the revised **Completion Date** and **Trigger Date** if applicable and liabilities due on termination of the **Construction Agreement**.

## 2. CAPACITY REDUCTION CHARGE

Where the decrease takes effect prior to the **Completion Date** in the **Construction Agreement** following which a **User** will receive an **Operational Notification** in respect of such **Transmission Entry Capacity** the **Capacity Reduction Charge** shall be calculated on the following basis:

### Pre-Trigger Date

$$\text{Capacity Reduction Charge}_t = \text{User Commitment Amount}_t - (\text{TEC}_r * \text{UCAT}_t)$$

Where;

UCAT is the User Commitment Amount Tariff and is £1/KW in the first 12-month period from signature of the **Construction Agreement**, £2/KW in the following 12-month period and £3/KW thereafter until the **Trigger Date**.

$\text{TEC}_{(r)}$  is the revised TEC following reduction of TEC.

### Post Trigger Date

$$\text{Capacity Reduction Charge}_{(t)} = \text{Cancellation Amount}_{(t)} - (\text{TEC}_{(r)} * \text{GenTNUoS}_{(z)} * X * T_{(t)})$$