

| | |
|---|---------------|
| CUSC Modification Proposal Form | CMP192 |
| Title of the CUSC Modification Proposal: Arrangements for Enduring Generation User Commitment | |
| Submission Date: 17/2/2011 | |
| Description of the CUSC Modification Proposal <i>(mandatory by Proposer)</i> | |
| <p>This Modification Proposal seeks to add a new section to the CUSC defining the principles of User Commitment as they pertain to electricity Generators. This section will detail the methodology that will be used to determine individual Generators' liabilities and the level of securities required against these liabilities.</p> <p>As adding or removing generation from the system has an equal and opposite effect on the need for network capacity, it is clear that both pre- and post-commissioning power stations affect decisions on new transmission investment. Whilst the cancellation of a pre-commissioning power station could affect local and wider investment decisions, the closure of a post-commissioning power station will only affect new wider investment decisions. Therefore it is proposed that the Generator User Commitment liabilities are calculated using two terms; 1), a Cancellation Amount for pre-commissioning power stations that takes account of transmission investment for local and wider works; and 2) a Closure Amount for post-commissioning power stations that takes account of the investment for wider works.</p> <p>National Grid is proposing eight main aspects that the enduring solution must take into account in determining the nature and level of Cancellation and Closure liabilities and the reasonable level of securities required against these liabilities:</p> <ol style="list-style-type: none"> 1. Protecting the end consumer from undue risk 2. Minimum notice period required to alter TO investment before significant costs are incurred 3. Profile of TO investment costs 4. Likelihood of power stations either cancelling or closing 5. Total Value at Risk (VAR) 6. Level of transmission capacity sharing between power stations 7. Proportion of TO investment not at risk due to Connect & Manage regime 8. Level of transmission asset reuse <p>The consequence of a power station cancelling or closing is that Transmission Owner (TO) investment could be spent unnecessarily, with insufficient time to allow the TO to take action to avoid the new investment. The current and interim arrangements for User Commitment assume that a user's liability is proportional to the cost of this unnecessary investment (or a generic proxy for the cost), however it may be that changing this proportion still affords an acceptable risk for end consumers whilst reducing the financing barrier for new power stations connections.</p> <p>The determination of the level of liabilities and the securities required against these liabilities must also be considered separately for both local and wider works in the context of end consumers accepting a reasonable level of risk. This determination must not be unduly discriminatory or prevent promotion of competition, and should seek to provide a secure and stable business environment. In order to provide values for Cancellation and Closure Amounts that effectively account for all potential Generators, it is proposed that the definitions of local and wider works in the context of User Commitment are based on Sections 2 and 4 of the National Electricity Transmission System Security & Quality of Supply Standards (SQSS) as defined in the Transmission Licence.</p> <p>One of the aims of this proposal is to provide the right incentive so that TOs receive accurate and timely information to aid efficient and economic investment decisions, allowing the efficient discharge of TOs obligations under the Act and Licence. It is therefore proposed that the time period within which a Generator has a liability to the TO is based on the notice period that TOs reasonably require</p> | |

to change investment plans with the lowest practicable cost impact. It is recognised that there must be a balance between Generators providing TOs with as much notice as possible of their intentions whilst not imposing an onerous and unmanageable requirement on Generators to guarantee a level of information that they practically do not have, which would impact upon effective competition. National Grid has determined from historic investment spend profiles that this optimum notice period is, on average, four years.

This Modification Proposal will replace the current interim Final Sums (Local Works Only) and Interim Generic User Commitment Methodology (IGUCM) arrangements for identifying Generators' liabilities and associated level of securities for pre-commissioning Generators and the Full TEC Reduction Notice Period and TEC Reduction Charge for post-commissioning Generators.

We recognise that the DECC and Ofgem fundamental reviews of both the market and charging arrangements (Electricity Market Reform and Project TransmiT) may interact with this proposal. However we believe there is significant merit in progressing this particular issue in parallel. This will ensure the timely implementation of a new regime which is intended to remove uncertainty for developers and thus better enable the achievement of the common objectives of these reviews.

Description of Issue or Defect that CUSC Modification Proposal seeks to Address: *(mandatory by Proposer)*

When a Generator terminates they are liable for Final Sums and therefore have to provide security against the company's estimate of this liability. They represent a financial commitment from pre-commissioning Generators which falls away and is replaced with Use of System charges once a power station is connected. These "final sums" are based on the costs incurred by TOs in undertaking the transmission works to provide the connection to use of system required by that user, which turn out to be unnecessary in the event of termination.

These costs are uncertain because although estimates are provided, the exact cost due on termination will not be known until after termination. The level of these costs also varies, generally increasing in significant steps during the construction programme as TOs progress the works. There are also issues in associating and sharing specific transmission construction works (and therefore the costs associated with these) to a particular user or group of users. This could result in a Generator, due to the timing of its application or Completion Date and the amount of transmission construction works now generally required to accommodate the level of requested capacity on the transmission system, becoming liable for significant amounts compared with the size and cost of its own development. The level of liability is also subject to change as the transmission construction works alter, and this can be significantly affected by the decisions of other Generators.

In order to address the above issues, National Grid introduced the Interim Generic User Commitment Methodology (IGUCM) which set the level of Generators' liabilities and associated securities based on a multiple of their TNUoS tariff. In conjunction with these arrangements, National Grid reviewed User Commitment for New and Existing Generators under CUSC Amendment Proposal 131, which sought to introduce a generic User Commitment methodology on an enduring basis. This was rejected by the Authority as it considered there was insufficient justification put forward for the different treatment between pre- and post-commissioning power stations. Following the Transmission Access Review and further industry consultation and discussions with Ofgem ([April 2010 Final Sums Liabilities consultation](#)), it was agreed that National Grid would implement a further interim solution where liabilities and therefore the security required for wider transmission investment works are not sought. This agreement on the two interim arrangements was time-limited to 31st March 2011 (recently extended to 31st March 2012), and therefore National Grid is seeking to develop and introduce an enduring regime before this date.

National Grid believe that the review would be best conducted in partnership with the industry through a transparent and structured governance arrangement. This will allow the industry to engage actively in the development of the enduring regime.

The Modification Proposal seeks to address the following defects in the current User Commitment regime:

1. The methodology for calculating user commitment requirements is not defined in the existing commercial framework, and as such is non-transparent to users.

2. The level and volatility of liabilities, and hence the level of security, determined through the existing methodology can represent a barrier to entry for new power stations.
3. Any difference in treatment of pre- and post-commissioning users should be objectively justified.
4. The existing arrangements do not take into account the perceived risk profile associated with cancellation and closure that changes throughout a power station's lifetime

This would address the perceived barriers to entry, provide more confidence in the firmness of capacity applications, and be equally applicable to all Generators.

Impact on the CUSC *(this should be given where possible)*

The proposal suggests the inclusion of a new section or schedule to be added to the CUSC entitled "User Commitment". The new section will bring together in one place the calculation and processes applying to the derivation of what has been previously referred to as "final sums" and IGUCM, and will define the ongoing user commitment of existing generators to incentivise early notification of reductions in capacity.

In addition to the new section of the CUSC, changes may be applicable in the following areas:

- Removal of references to "Final Sums" and new definitions as required
- CUSC Section 2.14 – Connection Charges
- CUSC Section 3.9.1 – Use of System Charges
- CUSC Section 6.6 – Payment
- CUSC Section 6.30.1 – Decrease in Transmission Entry Capacity
- CUSC Section 6.30.2 – Increase in Transmission Entry Capacity
- CUSC Schedule 2 Exhibit 1 – Bilateral Connection Agreement
- CUSC Schedule 2 Exhibit 3 – Construction Agreement and Offshore Construction Agreement

Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes

Implementation of this Modification Proposal is anticipated to reduce the barriers to connection, and as such may be expected to improve the situation for developing low carbon projects. As these are expected to replace older more carbon intensive generation this proposal, along with wider market and framework reviews, should reduce the risk of not meeting the Government's Greenhouse Gas Emissions targets.

Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information *(this should be given where possible)*

BSC

Grid Code

STC

Changing the user commitment regime is expected to provide more information that will need to be shared with TOs under the STC.

Other **Transmission Licence**
(please specify)

National Grid as NETSO secures works on behalf of all TOs. Both the arrangements in the CUSC and the revenue restrictions in the transmission licenses should be consistent with those in the CUSC and bilateral agreements. Therefore any change to the liabilities and security arrangements in the CUSC and associated agreements could have a consequential impact, and both should be reviewed.

| |
|--|
| Urgency Recommended: |
| No |
| Justification for Urgency Recommendation |
| N/A |
| Self-Governance Recommended: |
| No |
| Justification for Self-Governance Recommendation |
| N/A |
| Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews? |
| There are no ongoing SCRs that would be applicable to this CUSC Modification Proposal. |
| Impact on Computer Systems and Processes used by CUSC Parties: <i>(this should be given where possible)</i> |
| It is not anticipated that this proposal will affect the computer systems of CUSC parties. As part of the development National Grid will review the robustness of internal system for determining the liability and security requirements. |
| Details of any Related Modification to Other Industry Codes <i>(where known):</i> |
| To be confirmed, when the proposals has been fully developed. |
| Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives: <i>(mandatory by proposer)</i> |
| Please tick the relevant boxes and provide justification: |
| <input checked="" type="checkbox"/> (a) the efficient discharge by The Company of the obligations imposed upon it by the Act and the Transmission Licence |
| Given that the unexpected closure of a post-commissioning power station has the same impact on planned transmission investment as the unexpected cancellation of a pre-commissioning power station, the difference in treatment between the two could potentially have an adverse impact on competition and should be objectively and transparently justified. In introducing an enduring regime, codified under open governance, whereby all Generators are incentivised to provide information on their future connection to the system, this Modification Proposal is expected to better facilitate the development of an efficient co-ordinated and economical transmission system and also establish the applicable treatment under Licence Condition C7 – Prohibition on Discriminating Between Users. |
| This information will also allow the Transmission Owners to plan and develop the transmission system in a more effective manner, supporting main the duties under the Act and the requirements of Transmission Licence C17. |
| <input checked="" type="checkbox"/> (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity. |
| Reducing the volatility and opacity of the current arrangements for user commitment will allow users to more accurately forecast their securities and therefore increase confidence in obtaining project |

financing. This will reduce the perceived barrier to new generation connecting, and hence improve competition in the generation market. Introducing equitable treatment between pre- and post-commissioning users ensures fair competition between the two by accurately reflecting the transmission liability that they both impose.

These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1

| | |
|---|---|
| Details of Proposer: (Organisation Name) | National Grid Electricity Transmission plc |
| Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council") | CUSC Party |
| Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address: | Adam Sims National Grid Electricity Transmission plc 01926 655292 adam.sims@uk.ngrid.com |
| Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address: | Ivo Spreeuwenberg National Grid Electricity Transmission plc 01926 655897 ivo.spreeuwenberg@uk.ngrid.com |
| Attachments (Yes/No): If Yes, Title and No. of pages of each Attachment: | |