

Stage 03: Workgroup Report

Connection and Use of System Code
(CUSC)

CMP248

Enabling capital contributions for transmission connection assets during commercial operation

CMP248 seeks to introduce arrangements into the CUSC that would enable Users that have existing arrangements to pay annual charges for transmission connection assets the opportunity to make capital contributions against the transmission connection assets.

Published on: 19 November 2015

This document contains the discussion of the Workgroup which formed in August 2015 to develop and assess the proposal.

The Workgroup concludes:

That CMP248 better meets the Applicable CUSC Objectives and so should be implemented.



High Impact:

Parties paying connection charges who wish to pay capital contributions during commercial operation



Low Impact:

Transmission Owners

01	Initial Written Assessment
02	Workgroup Consultation
03	Workgroup Report
04	Code Administrator Consultation
05	Draft CUSC Modification Report
06	Final CUSC Modification Report



Any Questions?

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About this document

This is the final Workgroup Report, which includes the deliberations of the Workgroup, responses from the Workgroup Consultation and the final conclusions of the Workgroup.

Document Control

Version	Date	Author	Change Reference
1.0	19-11-15	Code Administrator	Workgroup Report to CUSC Panel

1. Summary

- 1.1 CMP248 was proposed on behalf of LZN Ltd by Nigel McManus, Eneco UK and was submitted to the CUSC Modifications Panel for their consideration on 23rd July 2015. It was agreed by the Panel to treat the modification as self-governance; the self-governance statement is included in Annex 3.
- 1.2 CMP248 aims to introduce arrangements into the CUSC that would enable Users that have existing arrangements to pay annual charges for transmission connection assets the opportunity to make capital contributions against the transmission connection assets. This would enable them to reduce ongoing annual charges and related post operational securities.
- 1.3 The Workgroup met twice, and at their second meeting voted that the Original Proposal better facilitated the CUSC objectives and should be implemented.
- 1.4 This Workgroup Consultation has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid Website.

2. Background

- 2.1 Currently parties connecting to the transmission network can choose at commissioning whether they wish to make a contribution towards the capital component of the transmission connection assets, outright or in part, or to effectively lease the asset on the basis of RPI indexation and straight line depreciation over typically 40 years.
- 2.2 The current requirements are defined in Section 14 of the CUSC, and state that “a capital contribution based on the allocated GAV [Gross Asset Value] at the time of commissioning will reduce capital” (CUSC 14.3.10).
- 2.3 Clause 14.3.22 sets out the User choice of making 100% capital contribution towards its allocation of a connection asset in which no capital charge will be payable (and the residual connection charge is then based on the non-capital components, the site specific running costs and maintenance costs); and Clause 14.3.23 sets out the arrangements for a partial contribution.
- 2.4 There are currently no explicit arrangements in the CUSC that would enable Users to make decisions with regard to capital contributions after commissioning.
- 2.5 This proposal would provide Users the option of making additional capital contributions after commissioning, referred in the proposal and in the Report as being made during commercial operation. This payment would reduce the annual cost of ‘leasing’ the assets. This proposal therefore extends the choice that a User has prior to commissioning to the period of ‘commercial operation’ post commissioning.
- 2.6 The Proposer stated that if a modification to the CUSC resulting from CMP248 was successful, it would better facilitate effective competition by removing a barrier to responding appropriately to changing circumstances, as it would enable Users to have greater choice and flexibility concerning how they manage these costs effectively.

How connection charges currently apply

- 2.7 The basic connection charge, as defined in the CUSC, has two components. A *capital component* based on the Gross Asset Value (GAV) and the Net Asset Value (NAV), and the *non-capital component* covering charges for Maintenance and Transmission Running Costs. The non-capital component is unaffected by this modification.
- 2.8 The value of GAV and NAV vary over time through the life of the asset based on 40 year depreciation. Figure 1 illustrates an asset with initial value £1M, depreciated over 40 years disregarding inflation. For comparison, the same data with annual inflation of 2% is shown in Figure 2.

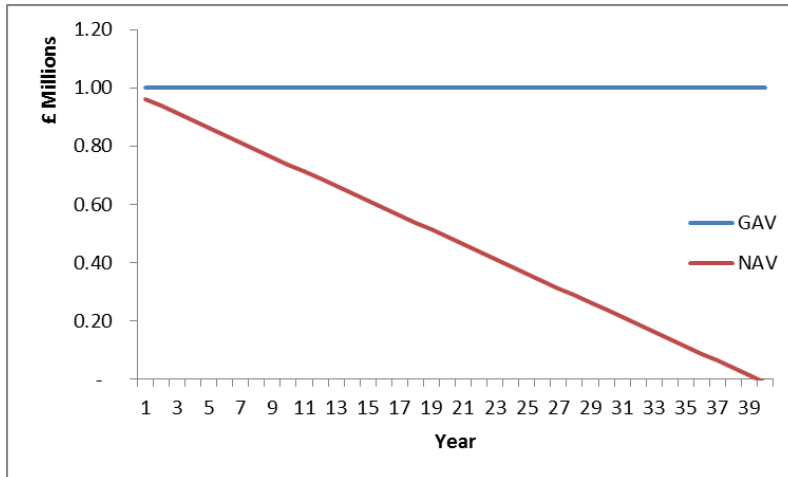


Figure 1: How the Gross Asset Value (GAV) and Net Asset Value (NAV) vary over time for a connection asset with initial GAV of £1M ignoring inflation, highlighting the straight line depreciation of the NAV over the 40 year depreciation period.

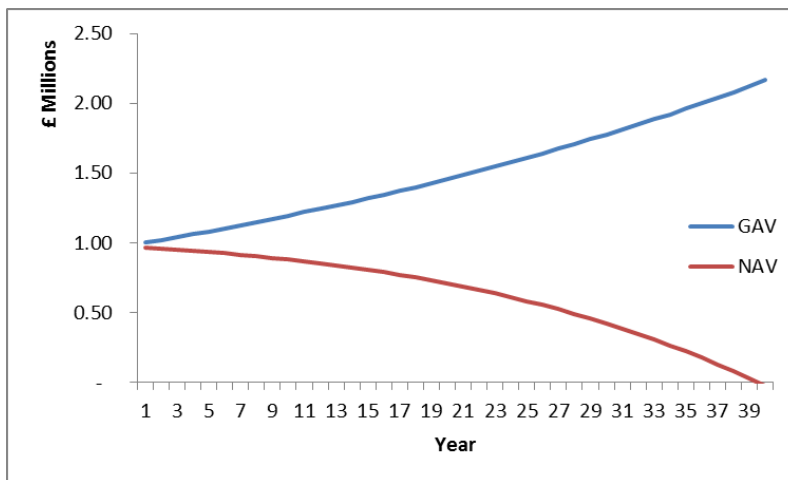


Figure 2: How the GAV and NAV vary over time for a connection asset with initial GAV £1M with constant inflation of 2%.

2.9 The basic annual connection charge formula (CUSC 14.3.20) is used to calculate the annual connection charge for a User with connection assets. Assuming, an initial GAV of £1M and inflation of 2% (as above), the indicative annual charges without any capital contributions are shown in Figure 3 (unless an asset replacement takes place). After the forty year depreciation period there is no capital charge.

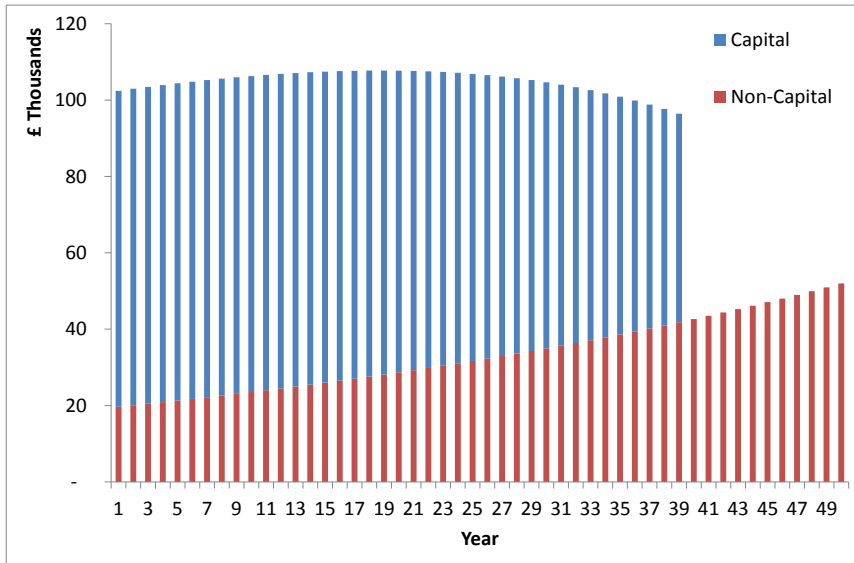


Figure 3: Value of the connection charge without any capital contribution.

2.10 The effect of a capital contribution is to reduce the amount paid for the capital component of the connection charge. Figure 4 illustrates the example of making a 75% capital contribution in Year 15 (as would be permitted under this modification). Notice that the capital component of the connection charge (in blue) is reduced; however, the non-capital component (in red) is unchanged.

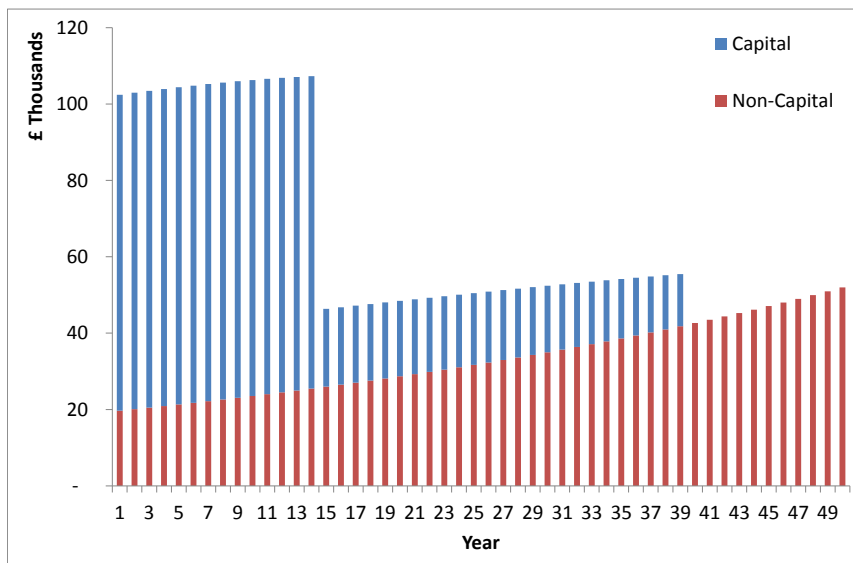


Figure 4: Value of the connection charge with a 75% partial capital contribution at Year 15.

3. Summary of Workgroup Discussions

- 3.1 The Workgroup considered a number of areas relating to this proposal and the impact that it might have. These are summarised in the following sections:
- (a) Impact of the proposal on Users
 - (b) Should full or partial capital contributions be permitted
 - (c) Level of partial contributions
 - (d) Quantity of charges and number of affected Users
 - (e) Interaction with the STC and the Statements of the Basis for Transmission Owner Charges
 - (f) Process for making a capital contribution
 - (g) Other Areas

(a) Impact of the proposal on Users

- 3.2 The modification was raised by an existing generator, who chose, for commercial reasons, not to make any capital contribution at the time of commissioning. Therefore, it now needs to provide a security for the future value of the repayment of the assets, and to pay the charges for those assets each year as defined in the CUSC.
- 3.3 The Proposer would like Users to have the option of making a capital contribution towards its connection assets now their power station has been operational for some years.
- 3.4 This modification seeks to provide a more flexible approach during the commercial operation to allow all Users to make capital contributions in addition to other operational costs. A Workgroup member noted that some projects may be unable to make payments initially but may be able to do so following a period of profitable commercial operation and/or financial restructuring and so Users should have the option to make a capital contribution if they wish to do so after they have commissioned their plant.
- 3.5 The Workgroup noted that under this proposal, allowing capital contributions during commercial operation would not affect any other existing Users who did not wish to change their payment terms, but would provide the choice afforded to Users pre-commissioning to those Users who wishes to exercise this option post-commissioning.
- 3.6 The advantage of allowing this flexibility is that it allows the Users to respond to the market and financing conditions that they currently find themselves in over the life of their project (and not just at the pre-commissioning stage).
- 3.7 The Proposer confirmed that the intention of the Original Proposal was for a 'one-way' option of paying additional capital contributions to reduce annual costs. There is no intention of letting Users reverse the process by allowing them, in an appropriate manner, to remove capital at a later date. The Workgroup agreed that this one way approach was appropriate.

(b) Should full or partial capital contributions be permitted

- 3.8 The current methodology for pre-commissioning capital contributions allows for either a full or partial capital contribution to be made by the User to reduce their future payment costs.
- 3.9 In the case of the full capital contribution, the User would then pay only the non-capital element of the connection charge covering the Site Specific Maintenance Charges (SSMC) and Transmission Running Costs (TRC). In the case of partial contribution, in addition to the SSMC and the TRC the User would pay a reduced cost for the lease of the assets adjusted by a factor to account for the capital contribution made at the pre-commissioning stage.
- 3.10 The Workgroup discussed whether (with the CMP248 solution) a User should be able to make only (i) a single full (i.e. 100%) contribution or (ii) a full and/or one (or more) partial contribution(s) toward the connection asset during commercial operation. The Workgroup felt that allowing both full and partial contributions during commercial operation would provide the most flexibility to the Users as is most consistent with the choice currently afforded to Users at the pre-commissioning stage. The Workgroup sought views from the industry through the Workgroup Consultation (Question 5).
- 3.11 All of the five respondents to the Workgroup Consultation agreed that (ii) full or partial capital contributions towards connection assets should be permitted during commercial operation. It was agreed by the Workgroup and the Proposer to include this in the Original Proposal.

(c) Level of partial contributions

- 3.12 The Workgroup held a discussion around whether there should be a minimum level of partial contribution that was permitted to be made by the User. The reason for considering this was to reduce administrative burden on the System Operator (SO) and the Transmission Owners (TOs) of having to potentially process a number of partial capital contributions for small amounts.
- 3.13 It was noted that there is currently no minimum level of partial capital contributions permitted at the point of commissioning. One Workgroup member noted that as the User would have to make a positive decision to make a capital contribution it is unlikely to do this for a small amount of capital, which would have only a small impact on its remaining annual charge.
- 3.14 Several options were proposed by the Workgroup
- (a) Set no minimum level for partial contributions;
 - (b) Allow payments only in increments of, say 10%, of the remaining value;
 - (c) Set a value in GBP for a minimum capital contribution, possible linked to the materiality threshold in the CUSC (which is currently £10,000).
- 3.15 Option (a) is consistent with pre-commissioning capital contributions. A challenge under Option (b) would be in determining and justifying the value of the chosen percentage threshold(s). Option (c) avoids the need to define a percentage and uses an existing concept from the CUSC although it was questioned whether this was appropriate in the context of connection charges, where the average GAV for a site in Northern Scotland is £4.72 million; £2.76 million in Southern Scotland and £14.06 million in England & Wales.

- 3.16 One Workgroup member cautioned against specifying a minimum level in such a way that it would prohibit a User from paying off the final part of its connection charge. It was noted that a full contribution (i.e. paying off the value in total) should always be possible.
- 3.17 The Workgroup agreed to seek views from the industry through the Consultation (Question 6). Of the five respondents, two supported no minimum level and three supported a minimum level, with proposals of 10% of NAV, £10,000 (CUSC materiality threshold), and £50,000 (acknowledging the choice was, in part, arbitrary).
- 3.18 On further discussion, in light of the Consultation responses, the Workgroup agreed to specify a minimum level for a partial capital contribution during operational life. The Workgroup agreed on 10% of NAV as at 31 March, as this avoided needing to specify a £ figure, which may have a detrimental impact on some parties, but would limit very small capital contributions and the overhead of processing these.

(d) Quantity of charges and number of affected Users

- 3.19 In order to put in context the total value of affected assets and number of Users, the following data was provided by the SO. Figure 5 illustrates the total value of the GAV, NAV and connection charges by onshore TO area. Figure 6 averages this data over the number of sites to provide *illustrative* data for a User.

Value of GAV, NAV and connection charges by TO	Number of sites	2015/16 £ million		
		Sum of GAV	Sum of NAV	Sum of annual connection charges
National Grid	221	3,108.36	1,224.36	167.85
Scottish Power Transmission	99	272.95	153.09	16.32
SHE Transmission	121	571.38	164.24	25.39
Total	441	3,952.70	1,541.69	209.56

Figure 5: Breakdown of the GAV and NAV summed across all sites with connection charges, by onshore TO area.

Average GAV, NAV and connection charge per site	2015/16 £ million		
	Average GAV	Average NAV	Average annual connection charge
National Grid	14.06	5.54	0.76
Scottish Power Transmission	2.76	1.55	0.16
SHE Transmission	4.72	1.36	0.21

Figure 6: The average site GAV, NAV and connection charge per site.

- 3.20 In general, the majority of connection charges in England and Wales (National Grid) are in respect of DNOs and other directly connected demand customers. In Scotland, although

there are connection charges for DNOs and other directly connected demand customers, connection charges for generators make up a larger proportion of connection charges.

- 3.21 Although this modification has been proposed by a Generator, the Workgroup agreed that the choice would apply to any User with connection assets and connection charges.

(e) Interaction with the STC and the Statements of the Basis for Transmission Owner Charges

- 3.22 The contractual relationship between the User with the connection assets, regardless of where they are located in GB, is between National Grid and the User via the CUSC. The CUSC defines the basis of charges to the Users. This modification seeks to provide additional choice for Users in the Section 14 of the CUSC.
- 3.23 The relationship between SO and the other TOs, who will build the connection assets in their geographic regions, is defined through the System Operator Transmission Owner Code (STC). In addition all TOs are required to produce Statements of the Basis for Transmission Owner Charges^{1,2} (referred to as *Statements*) which states how charges will be made between the TOs and National Grid.
- 3.24 Therefore, there is a need to ensure that the requirements of the CUSC and the Statements are consistent, to avoid a mismatch in cash flow received from the Users and paid to the TOs, and the risk that National Grid is left financially exposed due to customers choosing to make a capital contribution during commercial operation at a time that does not align with the above cash flow process.
- 3.25 At present, the connection assets exist only in respect of connection to the existing onshore TOs (National Grid and the Scottish TOs - Scottish Hydro Electricity Transmission and Scottish Power Transmission). There are currently no offshore connection assets, so at present this change does not directly affect Offshore TOs. However, this modification must not preclude Users with connection assets from current or future offshore or offshore TOs from making capital contributions in the same way as those Users connected to the existing onshore TOs.
- 3.26 The current versions of the Statements for each Scottish TO do not permit capital contributions during commercial operation as they are aligned to the current provisions of CUSC. However, the Workgroup members representing the two Scottish TOs confirmed they would be content to update their Statements to reflect the changes in the CUSC arising from this modification if its approved and implemented.

(f) Process for making a capital contribution

- 3.27 The Workgroup considered what would be an appropriate process and timescale for Users making a capital contribution in the context of this modification.
- 3.28 The Workgroup agreed that there should be a once per annum window for Users to make capital contributions, rather than an ad-hoc process throughout the year. This will allow the TOs and the SO to include this in their work plan and revenue forecasts, whilst providing a

¹ SHET: <https://www.ssepd.co.uk/WorkArea/DownloadAsset.aspx?id=6332>

² SPT:

https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/spt_transmission_charging_statement_2015_16_p_re_approval_0.pdf

transparent process to the User as to what they need to do and by when (if they wish to make a capital contribution).

3.29 The Workgroup held a discussion around a suitable process for Users when requesting and initiating a capital contribution. The main points of discussion covered were:

- (a) **RPI figure.** In calculating the following year's charges the May to October RPI figure will be needed, which is only available in November when its published by the Office for National Statistics. It was, however; felt that there was only a small amount of risk in not knowing this figure for the generator in deciding at an appropriate point in the year, say September whether to make a capital contribution.
- (b) **TO Forecasts for revenue associated with connection assets.** The TOs need to be notified in sufficient time to allow changes in revenue from capital contributions to be reflected in their revenue forecasts. Current revenue forecasts associated with connection charges need to be provided by the TOs to NGET by 1st November, and finalised by the following 25th January. The TOs noted the need for sufficient time for their internal sign off of these forecasts, suggesting early September as being the most appropriate date for Users to confirm (to the SO) that they wished to make a capital contribution for the following charging year.
- (c) **Comparison to TEC reductions.** It was noted that TEC reductions need only be given with notice of 1 financial year and 5 Working Days' in order to avoid a cancellation charge and otherwise a minimum notice of 5 Working Days notice is required. As CMP248 is of lesser impact to the TO(s), Workgroup members would expect a shorter lead time is required in this case.
- (d) **Double charges and security.** There is a need to ensure that the User does not have a significant overlap in having to make (i) a capital contribution, (ii) provide security and (iii) pay charges relating to the pre-capital contribution value.

3.30 The result was a proposal detailed in the Workgroup Consultation upon which views were sought. Of the five respondents four were supportive of the approach. There were three points raised in the responses that the Workgroup consider:

- (a) The reference to "15th February" as the date to post securities should be "45 days prior to the charging year" for consistent with the rest of the CUSC.
- (b) The process did not include an obligation for the SO to pay the money to the TO – it was noted that this cannot be codified in the CUSC, but that a check of the STC would be required to make sure there were no unintended consequence. The SO confirmed that the intention was to pass on the capital contribution to the TO as appropriate.
- (c) The potential link between CMP248 and CMP244³. CMP244 is currently in the Workgroup phase and is considering moving to a longer notice period for the setting of TNUoS tariffs. It was noted that the requirements for forecasts associated with revenue for connection assets between the SO and TO are separate from the information flow associated with TNUoS, and the understanding is that currently CMP248 (or the expected future STC modification) do not intend to change the submission dates for data relating to connection assets.

³ <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP244/>

3.31 When considered together, the four discussion points above, and the results of the Workgroup Consultation, the Workgroup agreed on the following process for enabling capital contributions during commercial operation:

Capital Contribution would take effect on 1st April, i.e. at the start of a new Charging Year. Prior to that the following timetable would apply:

- (a) **By the preceding 1st September** A User wishing to make a full or partial capital contribution (with a minimum value of 10% of the 31st March NAV) for the following Charging Year must notify the SO by this date. This would be in the form of an irrevocable notification. The value of the capital contribution would be assessed against the NAV as of the end 31st March following 1st September. Upon receipt of such a notification:
 - (i) The SO would notify the appropriate Transmission Owner within 5 Working Days, to allow the Transmission Owner to adjust its revenue forecast for the following Charging Year; and
 - (ii) The SO would raise an invoice (payable by the User) for the capital contribution as part of the connection charging invoice process, and will amend any contractual paperwork for that User as appropriate.
- (b) **45 days before start of charging year** The capital contribution is to be paid by the User to National Grid, and a reduced security cover is required for the following Charging Year reflecting the lower asset Net Asset Value.
- (c) **From 1st April** The User's connection charge for the new Charging Year reflects that a capital contribution has been made by that User, is reflected in the adjusted capital component through the use of the PCCF (Partial Capital Contribution Factor) in CUSC Clause 14.3.23.

The TO would receive the additional capital contribution, through the process detailed in the STC, based on the submission they have made to the SO.

(g) Other Areas

GAV Indexation

3.32 The Proposer raised the issue of why the GAV was indexed by RPI. The Workgroup noted that this was beyond the scope of the defect, and so could not be considered by the Workgroup.

Information records

3.33 The Workgroup discussed the best place to have information recorded to show the change(s) in User's securities and capital contributions.

3.34 Suggestions included details in the STC, updating the form and then details of the Appendix B of Schedule 2, Exhibit 1 – Bilateral Connection Agreement v1-5 of the CUSC, or providing a 'side note' recording the change(s).

3.35 It was suggested that the Bilateral Connection Agreement (BCA) was the appropriate contractual document to record the underlying basis of the User's site connection charge. In order to provide clarity for the User, the BCA Appendix B should specify (i) the agreed GAV at the year of commissioning of each connection asset as listed in Appendix A and (ii) the amount and date of any capital contributions made by the User post commissioning.

- 3.36 A suggestion was also made that when the Preliminary Charging Statements are issued, it include a box at the bottom of the statement inviting parties to state if they wish to make a full or partial capital contribution which would provide the form of the irrevocable notification by the User to the SO.
- 3.37 It was noted that formal changes to any documents and procedures not detailed in Section 14 of the CUSC is beyond the scope of this Workgroup. However, if needed a consequential modification could be raised, likely after this Workgroup to avoid unnecessary delay. It was further noted that custom and practice would allow information to be included in an Appendix B of the BCA that are not detailed in the form of the Appendix in the CUSC. The Workgroup concluded that this would be beneficial in this context.

4. Original Proposal

4.1 The Original Proposal in the CUSC modification proposal stated:

The modification seeks to introduce arrangements into the CUSC that would enable Users that have existing arrangements to pay annual charges for transmission connection assets the opportunity to make capital contributions against the transmission connection assets

4.2 At the agreement of the Proposer, the Original Proposal was taken to reflect the discussions and conclusions of the Workgroup, specifically full or partial capital contributions (minimum of 10% of the NAV, or to reduce capital charges to zero) would be permitted during commercial operation. A once per year process would operate as detailed in paragraph 3.31.

5. Workgroup Alternatives

- 5.1 No alternatives were proposed by the Workgroup, or by the respondents to the Workgroup Consultation. The Workgroup considered only the Original Proposal.

6. Impact and Assessment

Impact on the CUSC

- 6.1 The relevant CUSC paragraphs are in section 14.3 of Part 1 - The Statement of the Connection Charging Methodology.

Impact on Greenhouse Gas Emissions

- 6.2 None identified.

Impact on Core Industry Documents

- 6.3 The STC codifies the relationship between National Grid as SO and the other TOs. The details of the charges between National Grid and the other TOs are detailed in the Statement Of Basis Of Transmission Owner Charges rather than in the STC itself, so the Workgroup does not envisage a change being directly required to the STC at this stage.

Impact on other Industry Documents

- 6.4 There is an expected impact on the Statement Of Basis Of Transmission Owner Charges for the Scottish TOs to ensure that the requirements in the CUSC and aligned to the National Grid / TO requirements.
- 6.5 The affected TOs will need to update these statements in accordance with Licence Condition 8C.

7. Proposed Implementation and Transition

- 7.1 It is proposed to make the amendment to the charging methodology as soon as practically possible; namely ten Working Days after the fifteen day self-governance appeal window has closed. Pending any appeals, the provision of CMP248 will be made available as soon as soon as possible.
- 7.2 The Workgroup noted that a modification to the CUSC prior to September 2016, would allow parties to make a capital contribution for the charging year starting in April 2017. Although one respondent to the consultation noted that a ten day implementation period may be too short, it was noted that as the process is annual and so should not be affected by the implementation window.
- 7.3 As this is a new provision, there are no existing affected parties, so no transitional arrangements are required.

8. Workgroup Consultation Responses

- 8.1 This Workgroup sought the views of CUSC Parties and other interested parties in the Workgroup Consultation and specifically in response to the questions highlighted:
- 8.2 In total five responses, include one late response, were received to the Consultation and considered by the Workgroup.

Standard Workgroup Consultation questions;

- Q1:** Do you believe that CMP244 Original better facilitate the Applicable CUSC Objectives?
- Q2:** Do you support the proposed implementation approach?
- Q3:** Do you have any other comments?
- Q4:** Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?.

Specific CMP248 Workgroup Consultation Questions:

- Q5:** With reference to paragraphs 2.18-2.21 do you think that (i) only full capital contribution, or (ii) full or partial capital contributions towards connection assets should be permitted during commercial operation.
- Q6:** Should there be a minimum permitted level of capital contributions? If so, what should that value be either as a £ figure or a % figure and why?
- Q7:** Do you have any views on the proposed process for a User to make a capital contribution during commercial operation?

8.3 Five responses were received to the Workgroup Consultation. The complete responses are contained within Annex 5 of this Report. The following table provides an overview of the representations received for the standard questions;

	Q1	Q2	Q3	Q4
EDF	Yes, by giving generators the choice to pay off some of their connection charge after commissioning, which is presently not permitted, they can avoid paying interest on the outstanding "asset lease purchase" (if it is viewed like that, which it can be), and make optimal use of revenues in a profitable year to invest in the business, instead of perhaps paying more tax.	Yes	Amendment is proposed to be made to the charging methodology ten Working Days after an Authority decision to so that the provisions can be used as soon as possible. Maybe 20 working days would give more time parties to become aware of the opportunity offered by the change, and enable National Grid time to consider impacts on total expected revenues across a year if this new option is taken up by a few parties.	No
RWE	Yes	Yes	We agree with the comment in paragraph 2.46 of the consultation that the BCA is the appropriate document to record the basis of a User's connection charge, including the GAV of connection assets and capital contributions made.	No
Scottish Power Renewables	SPR believes that the proposal has the potential to better facilitate objective	No. I believe more clarity is required on the need for notification periods and the resultant code changes.	With reference to 2.42, connection charges are part of a TO's excluded services and therefore do not feature in TNUoS recovery. I would consider a maximum threshold of contribution that would not adversely impact TO debt financing.	

	Q1	Q2	Q3	Q4
SHE Transmission	Neutral	In general we are supportive of the proposal but would seek to ensure CUSC obligation includes provision for any capital contributions paid by the User to the SO to be deposited with the TO prior to 1 st April each year.	No	No
SSE	This proposal has considerable merit.	The implementation approach set out in Section 5 seems reasonable and pragmatic. Consideration will need to be given to the timeframe needed to make any consequential changes to individual project Appendix B (of the BCA) documentation. That having been said a circa September 2016 practical implementation date noted in paragraph 5.2 seems both desirable and achievable.	<p>We note the comments in paragraph 2.42 and agree that the 'linkage' with respect to CMP244 should be considered.</p> <p>If a shorter notice period (of the length being suggested of 6-8 months) were to prevail then it would seem that the 1st September deadline would, broadly speaking, align (in terms of this CMP248 and CMP244).</p>	No

8.4 The following table provides an overview of the representations received for the specific CMP248 Workgroup Consultation Questions;

	Q5	Q6	Q7
EDF	<p>We consider that full or partial capital contributions towards connection assets should be permitted post-commissioning. The utility of the new choice is otherwise limited in that the User is only able to use the new provision if it has had a very good year in terms of available cash. Also, you can choose between full or partial contributions to pay off some/all of your connection cost at the pre-commissioning stage, so this mod would be replicating that freedom of choice post-commissioning. We are open to the counter-argument that it makes settlement/administration a little more complex for Grid.</p>	<p>Very small capital contributions would make a disproportionate amount of work for the SO in relation to the possible benefits to the User, so a minimum level would make sense. As the average GAV for a site in Northern Scotland is £4.72 million; £2.76 million in Southern Scotland and £14.06 million in England & Wales, the minimum level might sensibly be set at £50,000. There is no firm theoretical basis for this number, but there doesn't need to be; many of the rules in life are "arbitrary" (i.e. pragmatic and reasonable). The number that the workgroup has toyed with, £10,000, looks too low.</p> <p>Having said the above, we believe that the minimum level should NOT apply where the User's remaining connection capital is less than that, i.e. in that case the User should still be able to pay off the remainder – after all, that does surely then make life simpler for the SO in administering connection charges.</p>	<p>We agree that to make the option that is created for Users workable for the SO charging team, there should be a once per annum window for Users to make capital contributions, rather than allowing capital contributions to be made at any time throughout the year. This will allow the TOs and the SO to include this in their work plan and revenue forecasts, whilst providing a transparent process to the User as to what they need to do and by when (if they wish to make a capital contribution). The imposition of such a window makes the process more palatable to the charging team and the TOs, whilst doing little to reduce the utility of the option to those wishing to make use of it; it seems an acceptable compromise.</p>

	Q5	Q6	Q7
RWE	There does not appear to be any valid reason presented in the consultation why capital contributions should be limited to only a full capital contribution. We are therefore of the view that (ii) a full or partial capital contribution should be permitted during commercial operation.	We are is of the view that there should be a minimum level of capital contributions to ensure that contributions are not exceeded by the transaction costs incurred by National Grid in processing the contribution. We suggest this minimum level be set at the lower of the materiality threshold in the CUSC (£10,000) or 100% NAV, to enable the User to eliminate any capital charges irrespective of the NAV.	2.40 (b) of the consultation proposes that capital contributions be paid by the User to National Grid by the preceding 15th February. We would suggest that this date be defined as 45 days prior to the 31st March in order to align with the date upon which securities are required to be provided by Users under the CUSC.
Scottish Power Renewables	Assuming that the variations in revenue forecasts and depreciation rates can be managed by the transmission licencees, there should be no reason not to allow partial contributions	No - In order to provide the same flexibility as pre-commissioning site there would be no minimum threshold. This assumes the likelihood of the contribution well exceeding the cost of any administrative burden which appears to be the case from experience discussed in 2.22 and 2.23.	We would question the rationale of the timing of notification and with regards to this, seek clarity on what a TO revenue forecast includes, i.e. is the same notification period required for connection charges (versus infrastructure revenue) and associated capital contributions?
SHE Transmission	We support (ii) full or partial capital contributions towards connection assets	We believe that on the basis that Customers are endeavouring to reduce annual charges, any capital contribution is unlikely to be insignificant. Thus we do not anticipate any requirement to set a minimum contribution.	The process as drafted is silent on any obligation for the SO to pass on such Capital Contribution payments to the TO. Having adjusted its revenue forecast in the September of the previous year there is a reasonable expectation that the TO should be in receipt of such payments from the SO prior to commencement of the new charging year. It would seem appropriate to make this obligation explicit within the proposed process.

	Q5	Q6	Q7
SSE	<p>There are merits in both options (i) and (ii) as both are better than the baseline in terms of the applicable CUSC objectives.</p> <p>That having been said, the second option has all the advantages that exists with the first option with the added additional advantage that it permits those parties who cannot afford to pay a one off (full) amount to make some meaningful capital contributions over time.</p> <p>Therefore, in our view, allowing the full or partial capital contribution, as per option (ii), is best (compared to just the full capital contribution or indeed the baseline).</p>	<p>We recognise the need to keep to a minimum the administrative burden for the SO and TO(s) noted in paragraph 2.22 and it's for this reason that we believe a minimum permitted level of capital contribution is justified.</p> <p>In our view of the two options (£X or X%) that the percentage figure is the most appropriate as it ensure that all projects are treated equitably as the actual amount they have to pay will vary depending on the size etc., on their individual project.</p> <p>Fixing the figure based on a £X could result in perverse treatment. If, for example, the £X was set at, say, £1M then based on the average GAV figures shown in paragraph 2.25 it would suggest that projects in northern Scotland would make a 'minimum' capital contribution of circa 21%, those in southern Scotland an equivalent contribution of circa 36% of their project's capital whilst for those projects in England & Wales the same (£1m) figure would equate to a capital contribution of circa 7%. The minimum £X could, for smaller projects, become burdensome compared to other projects - this should be eliminated with the % figure based approach as all are treated equally.</p> <p>In terms of what the X% figure should be, it seems to us that noting the comments in paragraph 2.23 regarding the capital contribution being unlikely to be a small amount, coupled with the need to avoid unduly burdensome arrangements for the SO and TO(s) that a figure of at least 10% is both pragmatic, proportionate and reasonable in the circumstances.</p>	<p>The Workgroup deliberations with respect to the process that could be followed are very helpful. The four points (a)-(d) that they identify in paragraph 2.39 set out the elements that need to be taken into consideration. The suggested process solution, in paragraph 2.40 (a)-(c), is a very sensible way to proceed.</p>

9. Views

Workgroup View

- 9.1 The Workgroup believe that the Terms of Reference have been fully considered. No Workgroup Alternative CUSC Modifications were raised. At their meeting on 29th October 2015, the Workgroup voted unanimously that CMP248 better facilitates the Applicable CUSC Objectives.
- 9.2 For reference the CUSC (Connection Charging) Objectives are:
- the compliance with the connection charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
 - that compliance with the connection charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);
 - that, so far as is consistent with sub-paragraphs (a) and (b), the connection charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;
 - in addition, the objective, in so far as consistent with sub-paragraph (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.
 - compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

Workgroup Vote

- 9.3 The Workgroup met on 27th October 2015 and voted on the Original proposal. Details of the vote are as follows.

Vote 1: Whether each proposal better facilitates the Applicable Objectives Original Proposal

Workgroup member	Applicable CUSC Objective					Overall
	(a)	(b)	(c)	(d)	(e)	
Nigel McManus	Yes	Neutral	Neutral	Neutral	Neutral	Yes
Ian Fothergill	Yes	Neutral	Neutral	Neutral	Neutral	Yes
John Tindal (for Garth Graham)	Yes	Yes	Neutral	Neutral	Neutral	Yes
John Norbury	Yes	Neutral	Neutral	Neutral	Neutral	Yes
Paul Wakeley	Yes	Neutral	Neutral	Neutral	Neutral	Yes

As there were no Alternative proposals, Votes 2 and 3 were not required.

CUSC Modification Proposal Form (for nationalgrid Charging Methodology Proposals) CMP248

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal
Enabling capital contributions for transmission connection assets during commercial operation
Submission Date
23/07/2015
Description of the Issue or Defect that the CUSC Modification Proposal seeks to address
<p>Currently connecting parties can choose at commissioning whether they wish to make a contribution towards the capital component of the transmission connection assets, outright or in part, or to effectively lease the asset on the basis of RPI indexation and straight line depreciation over 40 years.</p> <p>In the CUSC 14.3.10, it states that "a capital contribution based on the allocated GAV [Gross Asset Value] at the time of commissioning will reduce capital".</p> <p>Clause 14.3.22 sets out the user choice of making 100% capital contribution towards its allocation of a connection asset in which no capital charge will be payable (and the residual connection charge is then based on the site specific running costs); and Clause 14.3.23 sets out the arrangements for a partial contribution.</p> <p>There are currently no arrangements in the CUSC that would enable users to make decisions with regard to capital contributions during the operational phase, not just at commissioning of a power station.</p> <p>This means that users have a lack of choice in respect of their financing arrangements for the connection assets and that the current arrangements do not reflect that company and project circumstances can change over time. Companies entering into annual charge arrangements do experience changing financial and other circumstances and may at some point in the life of the asset wish to alter the existing financial arrangement.</p> <p>This proposal therefore seeks that users should have the ability to make capital contributions towards transmission connection assets at any time and not only at commissioning.</p> <p>One area that may need to be considered is whether there is a change to revenue streams from the proposal that could impact other parties. In particular in the instance of transmission charges in Scotland, charges are collected from the customer by National Grid and paid back to the Scottish transmission owners (TOs). It may be that an indirect consequence could be that such a capital contribution could change the financing arrangements.</p>

Description of the CUSC Modification Proposal
<p>This modification seeks to introduce arrangements into the CUSC that would enable users that have existing arrangements to pay annual charges for transmission connection assets the opportunity to make capital contributions against the transmission connection assets.</p> <p>This would enable them to reduce ongoing annual charges and related post operational securities.</p> <p>The modification would facilitate effective competition by removing a barrier to responding appropriately to changing circumstances. It would enable users to have greater choice and flexibility concerning how they manage these costs effectively which would be a benefit to competition between generators.</p>
Impact on the CUSC
<p>The relevant CUSC paragraphs are in section 14.3 of Part 1 <i>The Statement of the Connection Charging Methodology</i>.</p>
Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes / No
<p>No</p>
Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information
<p>BSC <input type="checkbox"/></p> <p>Grid Code <input type="checkbox"/></p> <p>STC <input checked="" type="checkbox"/></p> <p>Other <input type="checkbox"/> (please specify)</p> <p>There is an expected impact on the STC. The modification would allow capital to be paid by the user to NGET in respect of making a capital contribution against transmission connection assets. These assets are owned and operated by the transmission owner (TO) and so the monies paid to National Grid would need to be paid back to the TO. It is for the TO to confirm that there is no reason why it should not accept the capital and that there is no impact on their financing arrangement for the assets in question.</p>
Urgency Recommended: Yes / No
<p>No</p>

Justification for Urgency Recommendation
N/A
Self-Governance Recommended: Yes / No
No
Justification for Self-Governance Recommendation
N/A
Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?
N/A - no ongoing SCRs.
Impact on Computer Systems and Processes used by CUSC Parties:
None identified at this stage
Details of any Related Modification to Other Industry Codes
None
Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives for Charging:
<p>Please tick the relevant boxes and provide justification for each of the Charging Methodologies affected.</p> <p>Use of System Charging Methodology</p> <p><input type="checkbox"/> (a) that compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;</p> <p><input type="checkbox"/> (b) that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC)</p>

incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);

- (c) that, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses.
- (d) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1.

Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Full justification:

Connection Charging Methodology

- (a) that compliance with the connection charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- (b) that compliance with the connection charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);
- (c) that, so far as is consistent with sub-paragraphs (a) and (b), the connection charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;
- (d) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.
- (e) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1.

Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Full justification:

The proposal would facilitate objective a) by removing a barrier to the ability of users to make capital contributions to the cost of connection assets during the operational phase of the power station. This would facilitate competition by enabling users to have greater choice and flexibility concerning how they manage these costs effectively.

It would also facilitate objective b) by ensuring that the charges faced by the user remain reflective of the costs faced by the transmission owner. The new arrangements introduced by this modification would introduce more choice into the arrangements but do not to change the basis on which they are derived.

Additional details

Details of Proposer: (Organisation Name)	LZN Ltd
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	Party to the CUSC
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Nigel McManus Eneco UK 01926-331224/07990-517775 Nigel.mcmanus@eneco.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Frankie Karki Eneco UK 07896-604280 Frankie.karki@eneco.com
Attachments (Yes/No): No	

Contact Us

If you have any questions or need any advice on how to fill in this form please contact the Panel Secretary:

E-mail cusc.team@nationalgrid.com

Phone: 01926 653606

For examples of recent CUSC Modifications Proposals that have been raised please visit the National Grid Website at <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Current/>

Submitting the Proposal

Once you have completed this form, please return to the Panel Secretary, either by email to jade.clarke@nationalgrid.com and copied to cusc.team@nationalgrid.com, or by post to:

Jade Clarke
CUSC Modifications Panel Secretary, TNS
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

If no more information is required, we will contact you with a Modification Proposal number and the date the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, the Proposal can be rejected. You will be informed of the rejection and the Panel will discuss the issue at the next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform you.

Workgroup Terms of Reference and Membership

CMP248 aims to enable Users that have existing arrangements to pay annual charges for transmission connection assets the opportunity to make capital contributions against the transmission connection assets.

Responsibilities

1. **The Workgroup is responsible for assisting the CUSC Modifications Panel in the evaluation of CUSC Modification Proposal 248 'Enabling capital contributions for transmission connection assets during commercial operation' tabled by LZN Ltd at the CUSC Modifications Panel meeting on 31st July 2015.**
2. **The proposal must be evaluated to consider whether it better facilitates achievement of the Applicable CUSC Objectives. These can be summarised as follows:**

Connection Charging Methodology

- (a) that compliance with the connection charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- (b) that compliance with the connection charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);
- (c) that, so far as is consistent with sub-paragraphs (a) and (b), the connection charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;
- (d) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.
- (e) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/ or the Agency.

3. **It should be noted that additional provisions apply where it is proposed to modify the CUSC Modification provisions, and generally reference should be made to the Transmission Licence for the full definition of the term.**

Scope of work

4. **The Workgroup must consider the issues raised by the Modification Proposal and consider if the proposal identified better facilitates achievement of the Applicable CUSC Objectives.**
5. **In addition to the overriding requirement of paragraph 4, the Workgroup shall consider and Report on the following specific issues:**
 - a) *Implementation*
 - b) *Review draft legal text*
 - c) *Interaction with the STC and the TO charging statement*
 - d) *Timing of when capital contributions could be made within the annual connection charge payment cycle*
 - e) *Optimum time within the year when these payments would be best*
6. The Workgroup is responsible for the formulation and evaluation of any Workgroup Alternative CUSC Modifications (WACMs) arising from Group discussions which would, as compared with the Modification Proposal or the current version of the CUSC, better facilitate achieving the Applicable CUSC Objectives in relation to the issue or defect identified.
7. **The Workgroup should become conversant with the definition of Workgroup Alternative CUSC Modification which appears in Section 11 (Interpretation and Definitions) of the CUSC. The definition entitles the Group and/or an individual member of the Workgroup to put forward a WACM if the member(s) genuinely believes the WACM would better facilitate the achievement of the Applicable CUSC Objectives, as compared with the Modification Proposal or the current version of the CUSC. The extent of the support for the Modification Proposal or any WACM arising from the Workgroup's discussions should be clearly described in the final Workgroup Report to the CUSC Modifications Panel.**
8. Workgroup members should be mindful of efficiency and propose the fewest number of WACMs possible.
9. All proposed WACMs should include the Proposer(s)'s details within the final Workgroup Report, for the avoidance of doubt this includes WACMs which are proposed by the entire Workgroup or subset of members.
10. There is an obligation on the Workgroup to undertake a period of Consultation in accordance with CUSC 8.20. The Workgroup Consultation period shall be for a period of 3 weeks as determined by the Modifications Panel.
11. Following the Consultation period the Workgroup is required to consider all responses including any WG Consultation Alternative Requests. In undertaking an assessment of any WG Consultation Alternative Request, the Workgroup should consider whether it better facilitates the Applicable CUSC Objectives than the current version of the CUSC.

As appropriate, the Workgroup will be required to undertake any further analysis and update the original Modification Proposal and/or WACMs. All responses including any

WG Consultation Alternative Requests shall be included within the final Report including a summary of the Workgroup's deliberations and conclusions. The Report should make it clear where and why the Workgroup chairman has exercised his right under the CUSC to progress a WG Consultation Alternative Request or a WACM against the majority views of Workgroup members. It should also be explicitly stated where, under these circumstances, the Workgroup chairman is employed by the same organisation who submitted the WG Consultation Alternative Request.

12. The Workgroup is to submit its final Report to the Modifications Panel Secretary on 19th November 2015 for circulation to Panel Members. The final Report conclusions will be presented to the CUSC Modifications Panel meeting on 27th November 2015.

Membership

13. It is recommended that the Workgroup has the following members:

Role	Name	Representing
<i>Chairman</i>	John Martin	Code Administrator
<i>National Grid Representative*</i>	Paul Wakeley	National Grid
<i>Industry Representatives*</i>	Nigel McManus (proposer)	Eneco
	Ian Fothergill	SHE Transmission
	Garth Graham	SSE
	John Norbury	RWE
	Deborah Macpherson	SPT
<i>Authority Representatives</i>	Dominic Green	Ofgem
<i>Technical secretary</i>	Heena Chauhan	National Grid
<i>Observers</i>		

NB: A Workgroup must comprise at least 5 members (who may be Panel Members). The roles identified with an asterisk in the table above contribute toward the required quorum, determined in accordance with paragraph 14 below.

14. The Chairman of the Workgroup and the Modifications Panel Chairman must agree a number that will be quorum for each Workgroup meeting. The agreed figure for CMP248 is that at least 5 Workgroup members must participate in a meeting for quorum to be met.
15. A vote is to take place by all eligible Workgroup members on the Modification Proposal and each WACM. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person or by teleconference). The Workgroup chairman shall not have a vote, casting or otherwise. There may be up to three rounds of voting, as follows:
- Vote 1: whether each proposal better facilitates the Applicable CUSC Objectives;
 - Vote 2: where one or more WACMs exist, whether each WACM better facilitates the Applicable CUSC Objectives than the original Modification Proposal;
 - Vote 3: which option is considered to BEST facilitate achievement of the Applicable CUSC Objectives. For the avoidance of doubt, this vote should include the existing CUSC baseline as an option.

The results from the vote and the reasons for such voting shall be recorded in the Workgroup Report in as much detail as practicable.

16. It is expected that Workgroup members would only abstain from voting under limited circumstances, for example where a member feels that a proposal has been insufficiently developed. Where a member has such concerns, they should raise these with the Workgroup chairman at the earliest possible opportunity and certainly before the Workgroup vote takes place. Where abstention occurs, the reason should be recorded in the Workgroup Report.
17. Workgroup members or their appointed alternate are required to attend a minimum of 50% of the Workgroup meetings to be eligible to participate in the Workgroup vote.
18. The Technical Secretary shall keep an Attendance Record for the Workgroup meetings and circulate the Attendance Record with the Action Notes after each meeting. This will be attached to the final Workgroup Report.
19. The Workgroup membership can be amended from time to time by the CUSC Modifications Panel.

Appendix 1 – Indicative Workgroup Timetable

The following timetable is indicative for CMP248

7 th August 2015	Deadline for comments on Terms of Reference / nominations for Workgroup membership
10 th September 2015	Workgroup meeting 1
21 st September 2015	Workgroup Consultation issued for 1 week Workgroup comment
28 th September 2015	Deadline for comment
30 th September 2015	Workgroup Consultation published
21 st October 2015	Deadline for responses
w/c 2 nd November 2015	Workgroup meeting 2
9 th November 2015	Circulate draft Workgroup Report
16 th November 2015	Deadline for comment
19 th November 2015	Submit final Workgroup Report to Panel
27 th November 2015	Present Workgroup Report at CUSC Modifications Panel

Post Workgroup modification process

2 nd December 2015	Code-Administrator Consultation published
22 nd December 2015	Deadline for responses
6 th January 2016	Draft FMR published
13 th January 2016	Deadline for comments
21 st January 2016	Draft FMR issued to CUSC Panel
29 th January 2016	CUSC Panel Recommendation vote
12 th February 2016	Implementation after appeal window (15 Working days)

Annex 3 – Self Governance Statement



National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

Abid Sheikh
Licensing and Industry Codes
Ofgem
3rd Floor
Comerstone
107 West Regent Street
Glasgow
G2 2BA
(By Email)

Jade Clarke
CUSC Modifications Panel
Secretary
Jade.Clarke@nationalgrid.com
Direct tel +44 (0)1926 653606

6th August 2015
Reference: CMP248 Self-Governance Statement

www.nationalgrid.com

Dear Abid,

This is the CUSC Modifications Panel's Self-governance Statement to the Authority for CUSC Modification Proposal (CMP) 248. National Grid has prepared this Self-governance Statement on behalf of the CUSC Modifications Panel and submits it to you in accordance with CUSC Section 8.25.1.

On 31st July 2015 the CUSC Modifications Panel considered CMP248 and confirmed unanimously that it meets the Self-governance criteria.

As such, CMP248 is unlikely to discriminate between different classes of CUSC Parties and is unlikely to have a material effect on:

- i) Existing or future electricity customers;
- ii) Competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution or supply of electricity,
- iii) The operation of the National Electricity Transmission System
- iv) Matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies
- v) The CUSC's governance procedures or the CUSC's modification procedures

The proposed timetable for the progression of CMP248 is as follows:

7 th August 2015	Deadline for nomination for Workgroup membership
W/C 31 st August 2015	Workgroup meeting 1
11 th September 2015	Workgroup consultation issued for Workgroup comment
18 th September 2015	Deadline for comment
23 rd September 2015	Workgroup Consultation published
14 th October 2015	Deadline for responses
W/C 19 th October	Workgroup meeting 2
28 th October 2015	Circulate draft Workgroup Report
4 th November 2015	Deadline for comment
19 th November 2015	Submit final Workgroup Report to Panel
27 th November 2015	Present Workgroup Report to CUSC Modifications Panel
2 nd December 2015	Code Administrator consultation issued (15 working days)
22 nd December 2015	Deadline for responses
6 th January 2016	Draft CUSC Modification Report issued for industry comment
13 th January 2016	Deadline for comment
21 st January 2016	Draft CUSC Modification Report issued to CUSC Panel

National Grid is a trading name for:
National Grid Electricity Transmission plc
Registered Office: 1-3 Strand, London WC2N 5EH
Registered in England and Wales, No 2366977

29 th January 2016	CUSC Panel determination vote
29 th January 2016	Appeals window open
19 th February 2016	Appeals window closes
4 th March 2016	Implementation date

The CMP248 form is available at;
<http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP248/>

If you require any further information please do not hesitate to contact me.

Yours Sincerely,

Jade Clarke
CUSC Modifications Panel Secretary.

Annex 4 – Workgroup attendance register

A – Attended
 X – Absent
 O – Alternate
 D – Dial-in

Name	Organisation	Role	10/09/15	27/10/15
John Martin	National Grid	Chair	A	A
Sharon Fellows	Code Administrator	Technical Secretary	A	A
Heena Chauhan				
Nigel McManus	Eneco	Proposer	A	A
Ian Fothergill	SHE Transmission	Workgroup member	A	A
Garth Graham	SSE	Workgroup member	D	O, D (1)
John Norbury	RWE	Workgroup member	A	A
Deborah Macpherson	SPT	Workgroup member	D	X
Paul Wakeley	National Grid	Workgroup member	A	A
Dominic Green	Ofgem	Authority Representative	A	A

(1) Garth Graham was unable to attend the Workgroup on 27/10/2015. John Tindal (SSE) dialled-in on his behalf. In the Workgroup vote, John Tindal voted on behalf of Garth Graham.

Annex 5 – Workgroup Consultation Responses

CUSC Workgroup Consultation Response Proforma

CMP248 – Enabling capital contributions for transmission connection assets during commercial operation

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **5pm on 21 October 2015** to cusc.team@nationalgrid.com

Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Paul Wakeley at paul.wakeley@nationalgrid.com.

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	Paul Mott
Company Name:	EDF Energy
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	
Do you believe that the mod better facilitates the Applicable CUSC Objectives? Please include your reasoning.	<p>Yes, by giving generators the choice to pay off some of their connection charge after commissioning, which is presently not permitted, they can avoid paying interest on the outstanding "asset lease purchase" (if it is viewed like that, which it can be), and make optimal use of revenues in a profitable year to invest in the business, instead of perhaps paying more tax. At the moment generators don't have this choice post-commissioning – pre-commissioning they do have the choice to pay off their capital connection costs, leaving as ongoing costs, only the non-capital components : i.e. the "site specific running costs" and "maintenance costs".</p> <p>By extending to post-commissioning generators, the choice to pay off part or all of their capital connection costs, mod 248 would better facilitate effective competition by removing a barrier to responding appropriately to changing circumstances - it would enable users to have greater choice and flexibility concerning how they manage these costs effectively.</p>

	<p><i>For reference, the Applicable CUSC objectives are:</i></p> <ul style="list-style-type: none"> (a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity; (b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 (requirements of a connect and manage connection); (c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses; and (d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
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Standard Workgroup consultation questions

Q	Question	Response
1	Do you believe that CMP 248 Original better facilitate the Applicable CUSC Objectives?	See reply above
2	Do you support the proposed implementation approach?	Yes
3	Do you have any other comments?	We note that it is proposed to make the amendment to the charging methodology ten Working Days after an Authority decision to approve the change, so that the provisions can be used as soon as possible. That is fairly fast; we have no particular objection, but maybe 20 working days would give more time to ensure that parties have time to become aware of the opportunity offered by the change, and to give the Grid charging team time to consider the presumably modest total impacts on total expected revenues across a year if this new option is taken up by a few parties.

Q	Question	Response
4	Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No

Specific questions for CMP248

Q	Question	Response
5	With reference to paragraphs 2.18-2.21 do you think that (i) only full capital contribution, or (ii) full or partial capital contributions towards connection assets should be permitted during commercial operation.	We consider that full or partial capital contributions towards connection assets should be permitted post-commissioning. The utility of the new choice is otherwise limited in that the user is only able to use the new provision if it has had a very good year in terms of available cash. Also, you can choose between full or partial contributions to pay off some/all of your connection cost at the pre-commissioning stage, so this mod would be replicating that freedom of choice post-commissioning. We are open to the counter-argument that it makes settlement/administration a little more complex for Grid.
6	Should there be a minimum permitted level of capital contributions? If so, what should that value be either as a £ figure or a % figure and why?	<p>Very small capital contributions would make a disproportionate amount of work for the SO in relation to the possible benefits to the User, so a minimum level would make sense. As the average GAV for a site in Northern Scotland is £4.72 million; £2.76 million in Southern Scotland and £14.06 million in England & Wales, the minimum level might sensibly be set at £50,000. There is no firm theoretical basis for this number, but there doesn't need to be; many of the rules in life are "arbitrary" (i.e. pragmatic and reasonable). The number that the workgroup has toyed with, £10,000, looks too low.</p> <p>Having said the above, we believe that the minimum level should NOT apply where the user's remaining connection capital is less than that, i.e. in that case the user should still be able to pay off the remainder – after all, that does surely then make life simpler for the SO in administering connection charges.</p>

Q	Question	Response
7	Do you have any views on the proposed process for a user to make a capital contribution during commercial operation?	We agree that to make the option that is created for users workable for the SO charging team , there should be a once per annum window for users to make capital contributions, rather than allowing capital contributions to be made at any time throughout the year. This will allow the TOs and the SO to include this in their work plan and revenue forecasts, whilst providing a transparent process to the user as to what they need to do and by when (if they wish to make a capital contribution). The imposition of such a window makes the process more palatable to the charging team and the TOs, whilst doing little to reduce the utility of the option to those wishing to make use of it; it seems an acceptable compromise.

CUSC Workgroup Consultation Response Proforma

CMP248 – Enabling capital contributions for transmission connection assets during commercial operation

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **5pm on 21 October 2015** to cusc.team@nationalgrid.com

Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Paul Wakeley at paul.wakeley@nationalgrid.com.

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	John Norbury Network Connections Manager RWE Supply & Trading GmbH Windmill Hill Business Park Whitehill Way Swindon SN5 6PB T +44 (0)1793 89 2667 M +44 (0)7795 354 382 john.norbury@rwe.com
Company Name:	RWE Group of GB companies, including RWE Generation UK plc, RWE Supply & Trading GmbH and RWE Innogy UK Limited
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	<i>For reference, the Applicable CUSC objectives are:</i> (a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;

	<p>(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 (requirements of a connect and manage connection);</p> <p>(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses; and</p> <p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.</p> <p>CMP248 provides additional flexibility to Users in managing its finance arrangements for connection assets in order to minimise its costs. As such, we believe CMP248 better facilitates the CUSC objective (a) in facilitating effective competition in the generation and supply of electricity.</p>
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Standard Workgroup consultation questions

Q	Question	Response
1	Do you believe that CMP248 Original better facilitate the Applicable CUSC Objectives?	Yes
2	Do you support the proposed implementation approach?	Yes
3	Do you have any other comments?	We agree with the comment in paragraph 2.46 of the consultation that the BCA is the appropriate document to record the basis of a User's connection charge, including the GAV of connection assets and capital contributions made.
4	Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No <i>If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website¹, and return to cusc.team@nationalgrid.com</i>

¹ http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/

Specific questions for CMP248

Q	Question	Response
5	With reference to paragraphs 2.18-2.21 do you think that (i) only full capital contribution, or (ii) full or partial capital contributions towards connection assets should be permitted during commercial operation.	There does not appear to be any valid reason presented in the consultation why capital contributions should be limited to only a full capital contribution. We are therefore of the view that (ii) a full or partial capital contribution should be permitted during commercial operation.
6	Should there be a minimum permitted level of capital contributions? If so, what should that value be either as a £ figure or a % figure and why?	We are is of the view that there should be a minimum level of capital contributions to ensure that contributions are not exceeded by the transaction costs incurred by National Grid in processing the contribution. We suggest this minimum level be set at the lower of the materiality threshold in the CUSC (£10,000) or 100% NAV, to enable the User to eliminate any capital charges irrespective of the NAV.
7	Do you have any views on the proposed process for a user to make a capital contribution during commercial operation?	Paragraph 2.40 (b) of the consultation proposes that capital contributions be paid by the User to National Grid by the preceding 15 th February. We would suggest that this date be defined as 45 days prior to the 31 st March in order to align with the date upon which securities are required to be provided by Users under the CUSC.

CUSC Workgroup Consultation Response Proforma

CMP248 – Enabling capital contributions for transmission connection assets during commercial operation

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **5pm on 21 October 2015** to cusc.team@nationalgrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Paul Wakeley at paul.wakeley@nationalgrid.com.

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	<i>Joe Dunn</i> Joseph.dunn@scottishpower.com
Company Name:	<i>ScottishPower Renewables</i>
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	<i>For reference, the Applicable CUSC objectives are:</i> (a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity; (b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 (requirements of a connect and manage connection);

	<p>(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses; and</p> <p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.</p>
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Standard Workgroup consultation questions

Q	Question	Response
1	Do you believe that CMP 248 Original better facilitate the Applicable CUSC Objectives?	<p>SPR believes that the proposal has the potential to better facilitate objective (a) above where there is an opportunity and where it is beneficial to change from annual to capital contributions during the operational phase of the project as there is presently no flexibility to allow this.</p> <p>SPR believe that the proposal is neutral to objective (b) above</p> <p>SPR believe that the proposal should be neutral to objective (b) above.</p> <p>SPR believe that the proposal is neutral to objective (d) above</p>
2	Do you support the proposed implementation approach?	No. I believe more clarity is required on the need for notification periods and the resultant code changes. See note in 7 below also in relation to 2.39 (b)
3	Do you have any other comments?	<p>With reference to 2.42, connection charges are part of a TO's excluded services and therefore do not feature in TNUoS recovery.</p> <p>I would consider a maximum threshold of contribution that would not adversely impact TO debt financing.</p>
4	Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	<i>If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website¹, and return to cusc.team@nationalgrid.com</i>

¹ http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/

Specific questions for CMP248

Q	Question	Response
5	With reference to paragraphs 2.18-2.21 do you think that (i) only full capital contribution, or (ii) full or partial capital contributions towards connection assets should be permitted during commercial operation.	Assuming that the variations in revenue forecasts and depreciation rates can be managed by the transmission licencees, there should be no reason not to allow partial contributions.
6	Should there be a minimum permitted level of capital contributions? If so, what should that value be either as a £ figure or a % figure and why?	No - In order to provide the same flexibility as pre-commissioning site there would be no minimum threshold. This assumes the likelihood of the contribution well exceeding the cost of any administrative burden which appears to be the case from experience discussed in 2.22 and 2.23.
7	Do you have any views on the proposed process for a user to make a capital contribution during commercial operation?	We would question the rationale of the timing of notification and with regards to this, seek clarity on what a TO revenue forecast includes, i.e. is the same notification period required for connection charges (versus infrastructure revenue) and associated capital contributions?

CUSC Workgroup Consultation Response Proforma

CMP248 – Enabling capital contributions for transmission connection assets during commercial operation

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **5pm on 21 October 2015** to cusc.team@nationalgrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Paul Wakeley at paul.wakeley@nationalgrid.com.

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	<i>Kenneth Stott 01738 456335 – Kenny.Stott@sse.com</i>
Company Name:	<i>Scottish Hydro Electric Transmission plc ("SHE Transmission")</i>
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	<i>SHE Transmission is supportive of this proposal. As drafted, our view is that it affords greater flexibility for Users to manage their business according to variances in market or commercial environments.</i>
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	<i>Neutral</i>

Standard Workgroup consultation questions

Q	Question	Response
1	Do you believe that CMP248 Original better facilitate the Applicable CUSC Objectives?	<i>Neutral</i>

Q	Question	Response
2	Do you support the proposed implementation approach?	In general we are supportive of the proposal but would seek to ensure CUSC obligation includes provision for any capital contributions paid by the User to the SO to be deposited with the TO prior to 1 st April each year.
3	Do you have any other comments?	No
4	Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No

Specific questions for CMP248

Q	Question	Response
5	With reference to paragraphs 2.18-2.21 do you think that (i) only full capital contribution, or (ii) full or partial capital contributions towards connection assets should be permitted during commercial operation.	We support (ii) full or partial capital contributions towards connection assets
6	Should there be a minimum permitted level of capital contributions? If so, what should that value be either as a £ figure or a % figure and why?	We believe that on the basis that Customers are endeavouring to reduce annual charges, any capital contribution is unlikely to be insignificant. Thus we do not anticipate any requirement to set a minimum contribution.
7	Do you have any views on the proposed process for a user to make a capital contribution during commercial operation?	The process as drafted is silent on any obligation for the SO to pass on such Capital Contribution payments to the TO. Having adjusted its revenue forecast in the September of the previous year there is a reasonable expectation that the TO should be in receipt of such payments from the SO prior to commencement of the new charging year. It would seem appropriate to make this obligation explicit within the proposed process.

CUSC Workgroup Consultation Response Proforma

CMP248 – Enabling capital contributions for transmission connection assets during commercial operation

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **5pm on 21 October 2015** to cusc.team@nationalgrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Paul Wakeley at paul.wakeley@nationalgrid.com.

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	<i>Garth Graham (garth.graham@SSE.com)</i>
Company Name:	<i>SSE</i>
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	<p><i>For reference, the Applicable CUSC objectives are:</i></p> <ul style="list-style-type: none"> (a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity; (b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 (requirements of a connect and manage connection); (c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as

	<p>far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses; and</p> <p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.</p>
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Standard Workgroup consultation questions

Q	Question	Response
1	Do you believe that CMP 248 Original better facilitate the Applicable CUSC Objectives?	This proposal has considerable merit. It clearly better facilitates the Applicable CUSC Objectives, and in particular (a) and (b) for the reasons set out in the proposal form.
2	Do you support the proposed implementation approach?	The implementation approach set out in Section 5 seems reasonable and pragmatic. Consideration will need to be given to the timeframe needed to make any consequential changes to individual project Appendix B (of the BCA) documentation. That having been said a circa September 2016 practical implementation date noted in paragraph 5.2 seems both desirable and achievable.

Q	Question	Response
3	Do you have any other comments?	<p>We note the comments in paragraph 2.42 and agree that the 'linkage' with respect to CMP244 should be considered. Our current understanding is that the CMP244 solution around a 15 month notice period has been amended to be in the region of 6-8 months (but this is subject to a forthcoming workgroup consultation, and further consideration by the Proposer). If a shorter notice period (of the length being suggested of 6-8 months) were to prevail then it would seem that the 1st September deadline would, broadly speaking, align (in terms of this CMP248 and CMP244).</p> <p>We note the comments with respect to information records in paragraphs 2.44-2.49 and agree with the broad aims of the Workgroup as expressed in paragraph 2.46 (in terms of recording the information in Appendix B of the BCA) and in paragraph 2.47 (in terms of using the Preliminary Charging Statement as the notification route, for those wishing to make a capital contribution, from parties to the SO).</p> <p>We note that the Workgroup has not identified any Workgroup Alternatives - at this stage neither have we.</p> <p>We note the potential impacts set out in Section 4 and agree with the Workgroup deliberations in this area.</p>
4	Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP248

Q	Question	Response
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Q	Question	Response
5	<p>With reference to paragraphs 2.18-2.21 do you think that (i) only full capital contribution, or (ii) full or partial capital contributions towards connection assets should be permitted during commercial operation.</p>	<p>There are merits in both options (i) and (ii) as both are better than the baseline in terms of the applicable CUSC objectives.</p> <p>That having been said, the second option has all the advantages that exists with the first option with the added additional advantage that it permits those parties who cannot afford to pay a one off (full) amount to make some meaningful capital contributions over time.</p> <p>Therefore, in our view, allowing the full or partial capital contribution, as per option (ii), is best (compared to just the full capital contribution or indeed the baseline).</p>

Q	Question	Response
6	Should there be a minimum permitted level of capital contributions? If so, what should that value be either as a £ figure or a % figure and why?	<p>We recognise the need to keep to a minimum the administrative burden for the SO and TO(s) noted in paragraph 2.22 and it's for this reason that we believe a minimum permitted level of capital contribution is justified.</p> <p>In our view of the two options (£X or X%) that the percentage figure is the most appropriate as it ensure that all projects are treated equitably as the actual amount they have to pay will vary depending on the size etc., on their individual project.</p> <p>Fixing the figure based on a £X could result in perverse treatment. If, for example, the £X was set at, say, £1M then based on the average GAV figures shown in paragraph 2.25 it would suggest that projects in northern Scotland would make a 'minimum' capital contribution of circa 21%, those in southern Scotland an equivalent contribution of circa 36% of their project's capital whilst for those projects in England & Wales the same (£1m) figure would equate to a capital contribution of circa 7%. The minimum £X could, for smaller projects, become burdensome compared to other projects - this should be eliminated with the % figure based approach as all are treated equally.</p> <p>In terms of what the X% figure should be, it seems to us that noting the comments in paragraph 2.23 regarding the capital contribution being unlikely to be a small amount, coupled with the need to avoid unduly burdensome arrangements for the SO and TO(s) that a figure of at least 10% is both pragmatic, proportionate and reasonable in the circumstances.</p>

Q	Question	Response
7	Do you have any views on the proposed process for a user to make a capital contribution during commercial operation?	The Workgroup deliberations with respect to the process that could be followed are very helpful. The four points (a)-(d) that they identify in paragraph 2.39 set out the elements that need to be taken into consideration. The suggested process solution, in paragraph 2.40 (a)-(c), is a very sensible way to proceed.

14.3 The Calculation of the Basic Annual Connection Charge for an Asset

Pre and Post Vesting Connections

- 14.3.1 Post Vesting connection assets are those connection assets that have been commissioned since 30 March 1990. Pre Vesting connection assets are those that were commissioned on or before the 30 March 1990.
- 14.3.2 The basic connection charge has two components. A non-capital component, for which both pre and post vesting assets are treated in the same way and a capital component for which there are slightly different options available for pre and post vesting assets. These are detailed below.

Calculation of the Gross Asset Value (GAV)

- 14.3.3 The GAV represents the initial total cost of an asset to the transmission licensee. For a new asset it will be the costs incurred by the transmission licensee in the provision of that asset. Typically, the GAV is made up of the following components:

Construction Costs - Costs of bought in services

Engineering - Allocated equipment and direct engineering cost

Interest During Construction – Financing cost

Liquidated Damages Premiums - Premium required to cover Liquidated Damages if applicable.

Some of these elements may be optional at the User's request and are a matter of discussion and agreement at the time the connection agreement is entered into.

- 14.3.4 The GAV of an asset is re-valued each year normally using one of two methods. For ease of calculation, April is used as the base month.
- In the Modern Equivalent Asset (MEA) revaluation method, the GAV is indexed each year with reference to the prevailing price level for an asset that performs the same function as the original asset;
 - In the RPI revaluation method, the original cost of an asset is indexed each year by the Retail Price Index (RPI) formula set out in paragraph 14.3.6. For Pre Vesting connection assets commissioned on or before 30 March 1990, the original cost is the 1996/97 charging GAV (MEA re-valued from vesting). The original costs of Post Vesting assets are calculated based on historical cost information provided by the transmission licensee's.
- 14.3.5 In the MEA revaluation method, the MEA value is based on a typical asset. An MEA ratio is calculated to account for specific site conditions, as follows:
- The outturn GAV (as calculated in paragraph 14.3.4 above) is re-indexed by RPI to the April of the Financial Year the Charging Date falls within;
 - This April figure is compared with the MEA value of the asset in the Financial Year the Charging Date falls within and a ratio calculated;

- If the asset was commissioned at a Connection Site where, due to specific conditions, the asset cost more than the standard MEA value, the ratio would be greater than 1. For example, if an asset cost 10% more to construct and commission than the typical asset the MEA ratio would be 1.1. If, however, the asset was found only to cost 90% of the typical MEA value the ratio would be 0.9;
- The MEA ratio is then used in all future revaluations of the asset. The April GAV of the asset in any year is thus the current MEA value of the asset multiplied by the ratio calculated for the Financial Year the Charging Date falls within.

14.3.6 The RPI revaluation method is as follows:

- The outturn GAV (as calculated in paragraph 14.3.4 above) is re-indexed by RPI to the April of the Financial Year the Charging Date falls within. This April GAV is thus known as the Base Amount;
- The Base Amount GAV is then indexed to the following April by using the RPI formula used in The Company's Price Control. April GAVs for subsequent years are found using the same process of indexing by RPI.

$$\text{i.e. } GAV_n = GAV_{n-1} * RPI_n$$

- The RPI calculation for year n is as follows:

$$RPI_n = \frac{[\text{May to October average RPI Index}]_{n-1}}{[\text{May to October average RPI Index}]_{n-2}}$$

Calculation of Net Asset Value

14.3.7 The Net Asset Value (NAV) of each asset for year n, used for charge calculation, is the average (mid year) depreciated GAV of the asset. The following formula calculates the NAV of an asset, where A_n is the age of the asset (number of completed charging years old) in year n:

$$NAV_n = GAV_n * \frac{\text{Depreciation Period} - (A_n + 0.5)}{\text{Depreciation Period}}$$

14.3.8 In constant price terms an asset with an initial GAV of £1m and a depreciation period of 40 years will normally have a NAV in the year of its commissioning of £0.9875m (i.e. a reduction of 1.25%) and in its second year of £0.9625m (i.e. a further reduction of 2.5% or one fortieth of the initial GAV). This process will continue with an annual reduction of 2.5% for each year of the asset's life.

Capital Components of the Connection charge for Post Vesting Connection Assets

14.3.9 The standard terms for a connection offer will be:

- 40 year life (with straight line depreciation);
- RPI indexation

14.3.10 In addition a number of options exist:

- a capital contribution based on the allocated GAV at the time of commissioning will reduce capital. Typically a capital contribution [made in advance of or at the time of commissioning](#) will include costs to cover the elements outlined below and charges are calculated as set out in the equations below;

- Construction costs
- Engineering costs (Engineering Charge x job hours)
- Interest During Construction (IDC)
- Return element (6%)
- Liquidated Damages Premium (LD) (if applicable)

General Formula:

Capital Contribution Charge = (Construction Costs + Engineering Charges) x (1+Return %) + IDC + LD Premium

- MEA revaluation which is combined with a 7.5% rate of return, as against 6% on the standard RPI basis;
- annual charges based on depreciation periods other than 40 years;
- annuity based charging;
- indexation of GAVs based on principles other than MEA revaluation and RPI indexation. No alternative forms of indexation have been employed to date.

14.3.11 For new connection assets, should a User wish to agree to one or more of the options detailed above, instead of the standard connection terms, the return elements charged by the transmission licensee may also vary to reflect the re-balancing of risk between the transmission licensee and the User. For example, if Users choose a different indexation method, an appropriate rate of return for such indexation method will be derived.

14.3.12 [A User can choose to make a capital contribution based on the allocated and depreciated NAV of a commissioned asset. For a capital contribution to take account at the start of charging year n, the User may, at most once per year, make a full or partial capital contribution of at least 10% of the NAV prevailing as of 31st March in year n-1. The User shall notify the Company of the capital contribution amount no later than 1st September in year n-1, and pay the capital contribution 45 days prior to the start of charging year n which will be applied to the NAV prevailing at the start of year n. As the capital component of the connection charge for year n will reduce as a result of the capital contribution, a reduced rate of return element will be payable and a lower security requirement will be required in charging year n and subsequent years.](#)

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Capital Components of the Connection charge for Pre Vesting Connection Assets

14.3.13 The basis of connection charges for GB assets commissioned on or before 30 March 1990 is broadly the same as the standard terms for connections made since 30 March 1990. Specifically charges for pre vesting connection assets are based on the following principles:

- The GAV is the 1996/97 charging GAV (MEA re-valued from vesting) subsequently indexed by the same measure of RPI as used in The Company's Price Control;

- 40 year life (with straight line depreciation);
- 6% rate of return

44.3.13 14.3.14 Pre-vesting 1996 MEA GAVs for Users' connection sites are available from The Company on request from the **Charging Team**.

Non-Capital Components - Charging for Maintenance and Transmission Running Costs

44.3.14 14.3.15 The non-capital component of the connection charge is divided into two parts, as set out below. Both of these non-capital elements will normally be identified in the charging appendices of relevant Bilateral Agreements.

Part A: Site Specific Maintenance Charges

44.3.15 14.3.16 This is a maintenance only component that recovers a proportion of the costs and overheads associated with the maintenance activities conducted on a site-specific basis for connection assets of the transmission licensees.

44.3.16 14.3.17 Site-specific maintenance charges will be calculated each year based on the forecast total site specific maintenance for NETS divided by the total GAV of the transmission licensees NETS connection assets, to arrive at a percentage of total GAV. For 2010/11 this will be 0.52%. For the avoidance of doubt, there will be no reconciliation of the site-specific maintenance charge.

Part B: Transmission Running Costs

44.3.17 14.3.18 The Transmission Running Cost (TRC) factor is calculated at the beginning of each price control to reflect the appropriate amount of other Transmission Running Costs (rates, operation, indirect overheads) incurred by the transmission licensees that should be attributed to connection assets.

44.3.18 14.3.19 The TRC factor is calculated by taking a proportion of the forecast Transmission Running Costs for the transmission licensees (based on operational expenditure figures from the latest price control) that corresponds with the proportion of the transmission licensees' total connection assets as a function of their total business GAV. This cost factor is therefore expressed as a percentage of an asset's GAV and will be fixed for the entirety of the price control period. For 2010/11 this will be 1.45%.

44.3.19 14.3.20 To illustrate the calculation, the following example uses the average operating expenditure from the published price control and the connection assets of each transmission licensee expressed as a percentage of their total system GAV to arrive at a GB TRC of 1.45%:

Example:

Connection assets as a percentage of total system GAV for each TO:

Scottish Power Transmission Ltd	15.1%
Scottish Hydro Transmission Ltd	8.6%
National Grid	12.5%

Published current price control average annual operating expenditure (£m):

Scottish Power Transmission Ltd	29.1
Scottish Hydro Transmission Ltd	11.3
National Grid	295.2

Total GB Connection GAV = £2.12bn

GB TRC Factor = (15.1% x £29.1m + 8.6% x £11.3m + 12.5% x £295.2m) / £2.12bn

GB TRC Factor = 1.99%

Net GB TRC Factor = Gross GB TRC Factor – Site Specific Maintenance Factor*

Net GB TRC Factor = 1.99% - 0.54% = 1.45%

* Note – the Site Specific Maintenance Factor used to calculate the TRC Factor is that which applies for the first year of the price control period or in this example, is the 2007/8 Site Specific Maintenance Factor of 0.54%.

The Basic Annual Connection Charge Formula

44.3.2014.3.21 The charge for each connection asset in year n can be derived from the general formula below. This is illustrated more fully by the examples in **Appendix 2: Examples of Connection Charge Calculations.**

$$\text{Annual Connection Charge}_n = D_n (GAV_n) + R_n (NAV_n) + SSF_n (RPIGAV_n) + TC_n (GAV_n)$$

Where:

For n = year to which charge relates within the Depreciation Period

n = year to which charge relates

GAV_n = GAV for year n re-valued by relevant indexation method

RPIGAV_n = GAV for year n re-valued by RPI indexation

NAV_n = NAV for year n based on re-valued GAV_n

D_n = Depreciation rate as percentage (equal to 1/Depreciation Period)
(typically 1/40 = 2.5% of GAV)

R_n = real rate of return for chosen indexation method (6% for RPI indexation, 7.5% for MEA Indexation)

SSF_n = Site Specific Factor for year n as a % (equal to the Site Specific Cost/Total Site GAV)

TC_n = Transmission Running Cost component for year n (other Transmission Owner Activity costs).

For n = year to which charge relates beyond the Depreciation Period

n = year to which charge relates

GAV_n	=	GAV for year n re-valued by relevant indexation method
$RPIGAV_n$	=	GAV for year n re-valued by RPI indexation
NAV_n	=	0
D_n	=	0
R_n	=	real rate of return for chosen indexation method (6% for RPI indexation, 7.5% for MEA Indexation)
SSF_n	=	Site Specific Factor for year n as a % (equal to the Site Specific Cost/Total Site GAV)
TC_n	=	Transmission Running cost component for year n (other Transmission Owner Activity costs).

14.3.21 14.3.22 Note that, for the purposes of deriving asset specific charges for site-specific maintenance, the RPI re-valued GAV is used. This is to ensure that the exact site charges are recovered from the assets at the site. The site costs are apportioned to the assets on the basis of the ratio of the asset GAV to total Site GAV.

Adjustment for Capital Contributions

14.3.22 14.3.23 If a User chooses to make a 100% capital contribution ([either pre-commissioning or post-commissioning](#)) to The Company towards their allocation of a connection asset then no capital charges will be payable and hence the connection charges for that asset would be calculated as follows:

$$\text{Annual Connection Charge}_n = SSF_n (RPIGAV_n) + TC_n (GAV_n)$$

14.3.23 14.3.24 If a User chooses to make a partial capital contribution(s) ([either pre-commissioning or post-commissioning](#)) to The Company towards their allocation of a connection asset, for example PCCF = 50%, then the connection charges for that asset would be calculated as follows:

$$\text{Annual Connection Charge}_n = D_n (GAV_n * PCCF) + R_n (NAV_n * PCCF) + SSF_n (RPIGAV_n) + TC_n (GAV_n)$$

PCCF = Partial Capital Contribution Factor [taking into account a capital contribution made pre-commissioning compared to the GAV \(as outlined in 14.3.10\), and any capital contributions made post-commissioning compared to the appropriate NAV \(as outlined in 14.3.12\) as appropriate.](#)

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Modification of Connection Assets

14.3.24 14.3.25 Where a modification to an existing connection occurs at the User's request or due to developments to the transmission system, their annual connection charges will reflect any additional connection assets that are necessary to meet the User's requirements. Charges will continue to be levied for existing assets that remain in service. Termination charges as described in **Chapter 5** below will be charged for any existing connection assets made redundant as a result of the modification.