nationalgrid

Stage 04: Code Administrator Consultation

Connection and Use of System Code (CUSC)

CMP222 User Commitment for Non-Generation Users Volume 1

What stage is this document at?

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

This proposal seeks to introduce enduring User Commitment arrangements for sites where there is an offtake of electricity from the Transmission System (excluding generation site supplies), namely Interconnectors, Distribution Network Grid Supply Points (GSPs), Directly Connected Loads and Pumped Storage.

Published on: 2nd April 2014

Responses by: 2nd May 2014

The Workgroup concludes:
That CMP222 WACM1 should be implemented as it better facilitates the Applicable CUSC Objectives.

High Impact:
For non-generation Users: Interconnectors, Distribution Network Grid Supply Points (GSPs) and Directly Connected Loads

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Any Questions?

Contact:
Adam Sims

Adam.sims@nationalgrid.com

01926 655292

Proposer:
Adam Sims
National Grid

About this document

The purpose of this document is to consult on CMP222 with CUSC Parties and other interested industry members. Representations received in response to this consultation document will be included in the Code Administrator's CUSC Modification Report that will be furnished to the Authority for their decision.

Document Control

Version	Date	Author	Change Reference
1.0	2nd April 2014	Code Administrator	Version to Industry

1 Summary

1.1 CMP222 was proposed by National Grid and submitted to the Modifications Panel for their consideration on 27th September 2013. A copy of the Proposal is provided in Annex 1. The Modifications Panel ('the Panel') determined that the Proposal should be considered by a Workgroup and they should report back to the Panel within four months following a period of 15 business days for the Workgroup Consultation.

1.2 CMP222 aims to introduce enduring User Commitment arrangements for non-generation users who offtake electricity from the Transmission System, namely Interconnectors, Distribution Network Grid Supply Points (GSPs), Directly Connected Loads and Pumped Storage. This follows on from CMP192 Generation User Commitment introduction. National Grid agreed temporary arrangements with Ofgem until 1st April 2015.

1.3 The Workgroup first met on 18th October 2013. A copy of the Terms of Reference is provided in Annex 2. The Workgroup considered the development of the Proposal; the issues raised by it and whether the Proposal and the options for potential Workgroup Alternative CUSC Modifications would better facilitate the Applicable CUSC Objectives.

1.4 One Workgroup Alternative CUSC Modification (WACM) was discussed by the Workgroup. The Workgroup alternative was the same as the Original Proposal, except that it would apply CUSC Section 15 User Commitment to post-commissioning interconnectors. This was an area discussed at great length by the Workgroup during their meetings.

1.5 The Workgroup Consultation closed for comment on 20th January 2014 and four responses were received. The Workgroup met to discuss the responses received and to agree on the Original Proposal and one WACM: the Original proposal but with CUSC Section 15 User Commitment applied to post-commissioning Interconnectors.

1.6 The Workgroup met on 10th March 2014 to vote on the Original and the one WACM and voted by a majority of 5 to 3 that WACM1 best facilitates the Applicable CUSC Objectives out of the options put forward and the baseline.

1.7 At the CUSC Modifications Panel meeting on 28th March 2014, the Panel agreed that the Workgroup had met the Terms of Reference and accepted the Workgroup Report. The Panel agreed for CMP222 to progress to Code Administrator Consultation for a period of 20 working days.

1.8 This Code Administrator Consultation has been prepared in accordance with the Terms of the CUSC. An electronic copy can be found on the National Grid Website, http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP222/, along with the CUSC Modification Proposal Form.

2 Background and Current Arrangements

2.1 Modification Proposal CMP192, "Arrangements for Enduring Generation User Commitment", introduced enduring User Commitment arrangements for Generators, both pre- and post-commissioning and resulted in the creation of the new Section 15 of the CUSC.

2.2 Following CMP192, Generator User Commitment liabilities are calculated using two terms:
1) a Cancellation Amount for pre-commissioning Power Stations that takes account of transmission investment for Attributable and Wider Works; and

2) a Cancellation Amount for post-commissioning Power Stations that takes account of the investment for Wider Works.

2.3 Currently, pre-commissioning non-generation Users provide security through either the interim Final Sums arrangements set out in their Construction Agreement, or the Interim Generic User Commitment Methodology (IGUCM). Final Sums are the costs of abortive transmission investments undertaken on behalf of a User. The interim Final Sums process only requires users to secure local works. IGUCM is a generic methodology that uses a multiple of TNUoS as a proxy for the cost of transmission investment for individual Users.

2.4 Currently, post commissioning non-generation Users have requirements under the CUSC to provide 28 days notice to the NETSO of their intention to close, but no formal financial commitments are in place beyond this.

2.5 Interim Final Sums and IGUCM were intended as short-term solutions whilst enduring arrangements were developed. National Grid received a letter of comfort from Ofgem which requires enduring arrangements to be in place for 1st April 2015. With the introduction of the enduring generation User Commitment arrangements in April 2013, it is therefore timely to develop an enduring approach for non-generation Users.

3 Original Proposed Modification

3.1 This Proposal intends to introduce User Commitment arrangements for sites where there is an offtake of electricity from the Transmission System (excluding generation site supplies), namely Interconnectors, Distribution Network Grid Supply Points (GSPs) and Directly Connected Loads.

3.2 Table 1 below summarises the proposed User Commitment arrangements of Original CMP 222:

	Pre-Commissioning	**Post-Commissioning**
Interconnectors	CUSC Section 15 (using higher of import/export capacity)	None
Distribution Network GSPs	Final Sums (Local)	None
Directly Connected Demand	Final Sums (Local)	None
Pumped Storage	CUSC Section 15	CUSC Section 15

Table 1 – Original Proposed User Commitment arrangements under CMP222

Interconnectors

3.3 Pre-commissioning Interconnector developments pose similar risks, and impacts on the Transmission System as generators of equivalent size. It is therefore proposed to apply the principles of CUSC Section 15 to pre-commissioning Interconnectors, using the higher of their import and export capacities (MW).

3.4 Although not currently allowed for by National Grid Electricity Transmission's licence, Ofgem's ITPR (Integrated Transmission Planning and Regulation) review is considering whether Interconnectors may be identified and developed by a central body such as the System Operator. In this situation the appropriateness of User Commitment could be questioned, as the System Operator would have control of the risk itself. CUSC proposals are developed and assessed against the existing arrangements and therefore do not consider future ITPR proposals.

3.5 The Proposer considers that post-commissioning Interconnectors have a much smaller risk profile than a generator of equivalent size, therefore considers that there is no requirement to introduce additional User Commitment for post-commissioning Interconnectors.

Distribution Network GSPs

3.6 It is proposed, with CMP222, to continue with Final Sums limited to local works for pre-commissioning DNO GSPs, as the Proposer perceives that DNO GSPs present a low risk profile to transmission investment plans. For the avoidance of doubt, this does not affect the liability passed to the DNO for an Embedded Generator through the existing Section 15 arrangements.

3.7 The Proposer considers that there is no requirement to introduce any additional User Commitment for post-commissioning DNO GSPs as they present a low risk profile to transmission investment plans. A possible exception to this is where the GSP is mainly associated with export onto the Transmission System. The Proposer suggested that this was an area for discussion during the Workgroup.

Directly Connected Demand

3.8 It is proposed to continue with Final Sums limited to local works for pre-commissioning directly connected demand. Pre-commissioning directly connected demand presents, in the view of the Proposer, a low risk to transmission investment plans. In addition, sites are small in size and number and therefore have a limited impact on wider investments on the Transmission System.

3.9 No security from post-commissioning directly connected demand is proposed as post-commissioning directly connected demand present a low risk to transmission investment plans. The majority of directly connected demand is with the rail network, a regulated monopoly industry with predictable investment plans that are agreed with a regulatory authority.

Pumped Storage

3.10 The Proposer considers that Pumped Storage sites are considered to be generators and as such provide User Commitment through the arrangements set out in CUSC Section 15 on the basis of the TEC they hold.

4 Summary of Workgroup Discussions

Terms of Reference

4.1 The Terms of Reference were agreed by the Workgroup, subject to a few minor amendments.

4.2 It was suggested that the workgroup should note the proposed European arrangements and the impact they may have on the market if implemented, in particular in relation to merchant Interconnector arrangements in the GB regime. Whilst this is a very important factor to consider, it was proposed that the Workgroup focuses on the current arrangements as European arrangements are still in draft form at this stage. It was noted that in another place (the Grid Code) National Grid had raised the proposed European arrangements as a reason why certain changes did need to be considered now, which seemed to be at odds with what was being suggested here with CMP222. It was confirmed that CUSC Modification Proposals must be assessed against the current CUSC baseline and that CUSC change processes were different to those in the Grid Code.

4.3 It was also suggested that the Workgroup consider the application of the proposed solution to the potential Irish joint projects[1]; which could see dedicated transmission assets being built to dedicated generation sites located in Ireland to transfer electricity into the GB Transmission System. These transmission assets are defined as "Interconnectors" in GB law and therefore are likely to be licensed as Interconnectors, however the workgroup noted that at present they were being progressed as generator connections.

Interconnectors

Preamble on Interconnectors

4.4 In this section the workgroup considered possible future arrangements under which Interconnectors may be regulated i.e. a merchant Interconnector or a regulated Interconnector. Within the current regulatory regime, this distinction is not made but may arise out of ITPR (the Integrated Transmission Planning and Regulation) review. For pre-commissioning Interconnectors, there is an argument, explored in Section 4.5 – 4.29 which discusses whether a regulated Interconnector should be exposed to pre-commissioning securities (assuming that a merchant Interconnector would be). In terms of post-commissioning Interconnectors, the workgroup touched on the issue of differentiating between regulated and non-regulated Interconnectors, however the discussion in this section focuses on pre-ITPR discussions, where all Interconnectors are considered the same. The workgroup did not agree whether merchant Interconnectors should be exposed to post-commissioning User Commitment and therefore this is likely to form part of the post-consultation discussion on an alternative.

[1] April 2009 European Union Directive 2009/28/EC set renewable energy targets and outlines three cooperation mechanisms (statistical transfers, joint project and joint support schemes) Directive 2009/28/EC, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0016:0062:en:PDF (April 2009)

Pre-Commissioning Interconnectors

4.5 It is proposed to apply the principles of CUSC Section 15 to pre-commissioning Interconnectors; this would be done using the higher of their import and export capacities (rather than TEC).

4.6 The Proposer presented data which showed that of the ten Interconnector projects which applied for connection since privatisation, three were commissioned, one terminated their agreement and six applications lapsed. The Proposer considered that this dataset, whilst not large, indicated that there was a material risk of pre-commissioning Interconnector projects not proceeding.

4.7 The Proposer presented a data set of current [2]pre-commissioning Interconnector projects (Figure 1 – Current and Future Interconnector Projects to GB). For clarification, this excludes distribution connected Interconnectors. The Proposer noted that future projects tended to be for connection to markets which have existing Interconnectors between them already or to neighbouring markets, and increased interconnection would tend to bring market prices closer together. Therefore as more Interconnectors connect to the same market, the economics of future Interconnectors to that market becomes less attractive, and hence there is an increased risk that they terminate their connection agreements prior to commissioning. This would not be the case with those Interconnectors planned and funded via the System Operator however this is not how Interconnector projects are currently planned or delivered, and is dependent on the outcome of ITPR. It was also noted that the proposed projects were all in the range 1-1.4GW, which was comparable with a large generator.

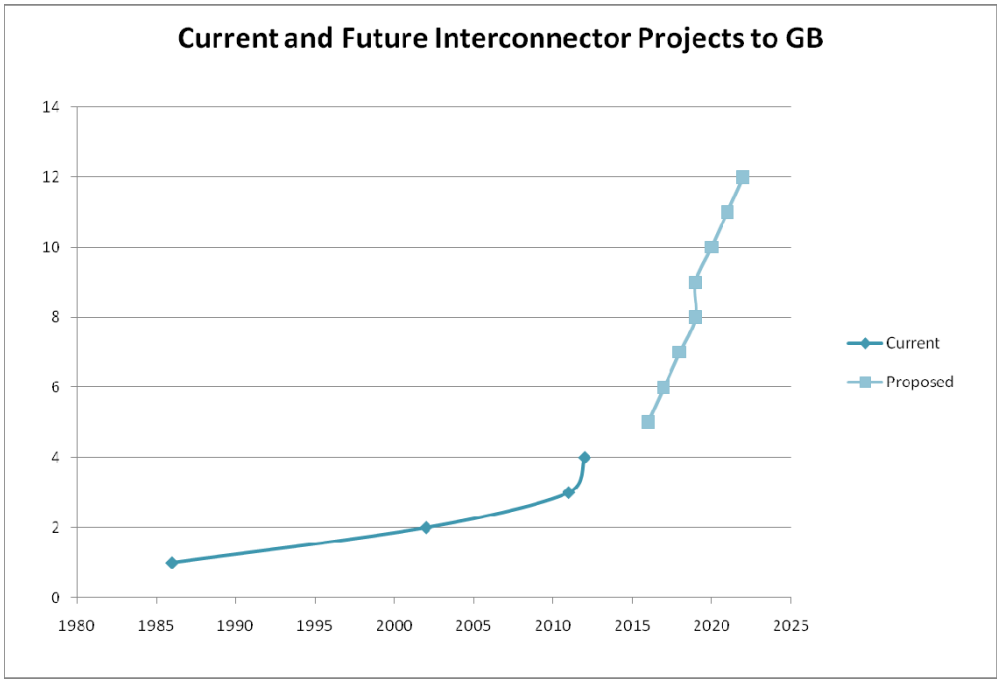

Figure 1 – Current and Future Interconnector Projects to GB

4.8 The Proposer considered that these two arguments demonstrated that there was a similar risk profile to pre-commissioning Interconnectors as generation (i.e. some may be speculative), and therefore similar User Commitment arrangements should apply.

[2] Interconnector Register 22-10-2013

4.9 It was noted that there were certain projects that may be treated as Interconnectors (i.e. generation in Ireland isolated from the Irish transmission system and connecting to the GB Transmission System through subsea cables) and the importance of considering such projects in the Workgroup discussions and report as they may have a different risk profile compared with other Interconnectors. The Workgroup noted that the regulatory treatment of this sort of project was not yet clear (Ofgem's consultation on the matter was issued 18th November[3]), and that there are currently 10.5GW of connection agreements being progressed through generator connection agreements. The Workgroup also noted that such projects would exhibit very similar characteristics as an offshore wind farm connected via a subsea cable to the GB Transmission System. The Workgroup also noted the need to take account of those offshore wind farms located in GB waters whose connection, to the GB Transmission System, may be changed if their connection is 'upgraded' or linked to an Interconnector in the future.

4.10 The National Grid representative explained the anticipated impact of Integrated Transmission Planning and Regulation (ITPR) review on Interconnector projects, specifically around how they are identified and delivered. It was noted that there are two types of regulatory approaches to Interconnectors under the existing GB regulatory arrangements: a merchant Interconnector whose revenue is not regulated and who is subject to commercial market conditions, and an Interconnector whose revenue is regulated by the Authority and underwritten by customers. Interconnectors with regulated revenue streams underwritten by customers are insulated to some extent from extremes of the commercial market. It was noted that there are currently two post-commissioning Interconnectors linked to GB which have unregulated revenue streams in GB, namely IFA (the 2000MW link between England and France) and BritNed (the 1000MW link between England and Netherlands).

4.11 The Proposer considered that there were two clear possible outcomes of the ITPR review, either all Interconnector projects would continue to be progressed by third party developers; i.e. 'merchant' Interconnectors with regulated or unregulated revenue streams; or they would be identified by a central body (Figure 2). The Proposer assumed that the central body would be the NETSO, and therefore no User Commitment would be required, however it was agreed that this may not necessarily be the case.

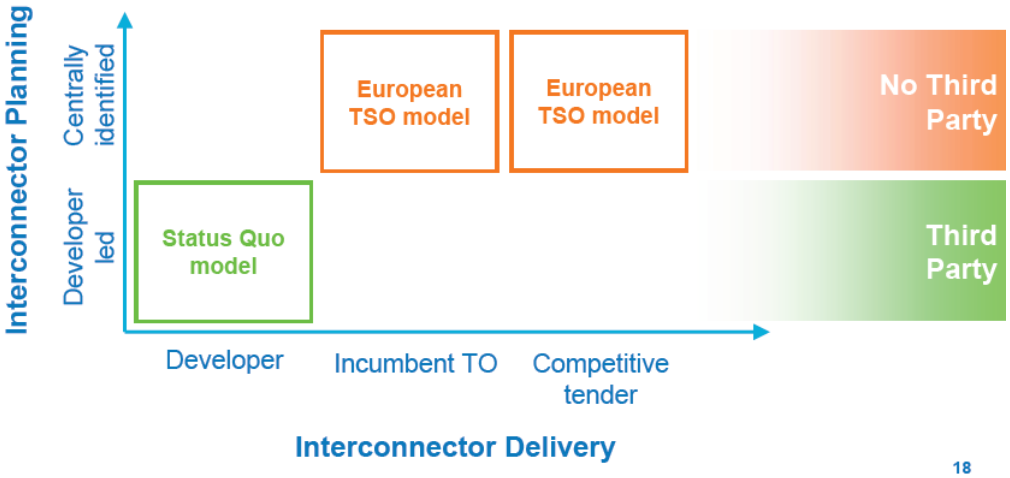

Figure 2 – Possible outcomes of ITPR review.

[3] https://www.ofgem.gov.uk/publications-and-updates/regulation-transmission-connecting-non-gb-generation-gb-transmission-system

4.12 There was discussion around the difference between a third party Interconnector, and one which was identified by a central body. A Workgroup member commented that if the central body was a NETSO then no User Commitment would be required, as the security would be provided from the NETSO to itself. In contrast, a third party Interconnector would require User Commitment, as the NETSO would have no visibility or control over the status or progression of the project, yet would retain a liability to the TOs for any abortive transmission works.

4.13 It was questioned whether this would automatically give the centrally identified (non merchant) Interconnector a competitive advantage over a merchant Interconnector. However it was suggested the financial liability to the TO that user commitment represents would still sit on the NETSO, there would just be no third party to back it off with. As regulated bodies the NETSO, the TO and the regulated Interconnector have a joint duty to be efficient and coordinate to justify their regulatory income. It was also noted that a centrally regulated Interconnector would have a rate of return reflecting this lower risk.

4.14 A Workgroup member suggested that an Interconnector project might be more likely to be abandoned (compared to an onshore power station) due to the physical challenges posed by building under the sea; i.e. due to unforeseen seabed conditions etc. However it was also noted that there were far fewer consenting and planning hurdles offshore compared to onshore, and therefore no conclusion was drawn.

4.15 There was discussion over European treatment of Interconnectors as transmission assets. It was pointed out that IFA has an unregulated revenue stream in GB, however in France RTE's revenues are reflected in the regulated price control. One member considered that this made it a regulated transmission asset – i.e. the TSOs who operate the Interconnector have to work within their own regulatory environment. It was noted that whilst it was accounted for in the French regulatory arrangements it was not necessarily directly funded by French consumers. It was generally accepted that from a GB perspective the IFA can be assumed as a 'merchant' Interconnector.

4.16 The Workgroup agreed that until ITPR concludes, the Workgroup can only consider User Commitment under the existing Interconnector regime, and that should the regime change to a model with a central body, this issue will need to be re-addressed.

4.17 The Workgroup discussed whether Interconnectors should be treated the same as generators under CUSC Section 15. One Workgroup member argued that Interconnectors are, for the purposes of User Commitment, the same as generators, as both are commercial investments, and they should have the same Section 15 requirements applied to them to avoid discriminatory treatment between Users. It was clarified that investment planning by TOs does not distinguish between Interconnectors and generators when considering fault conditions under the SQSS, as they have the same maximum loss limit of 1800MW. Interconnectors have a separate loss limit specified for export, however this does not affect any system reinforcements as it is lower than 1800MW. Although it was noted that Interconnectors are treated differently to generators in other areas of the SQSS (e.g. under for peak and cost benefit analysis planning).

4.18 Under the current regime, the Workgroup agreed that CUSC Section 15 should apply to pre-commissioning Interconnectors as they are commercial projects with no guarantee of income, in a similar way to power stations, and thus should receive the same User Commitment treatment. This ensures that a merchant investor has similarly

proportioned incentive to generators to provide the NETSO and TOs with investment information in a timely manner.

4.19 The Proposer talked through the aspects of CUSC Section 15 that are proposed to apply to pre-commissioning Interconnectors, and highlighted two areas that would require separate consideration for Interconnector projects:

- Aspects of CUSC Section 15:
  - Based on TEC
    - Asset Reuse Factor
    - Strategic Investment Factor
  - Attributable / Wider liabilities
  - Fixed / Actual
  - Security Percentages
  - Credit Requirements

4.20 The Workgroup agreed with most aspects of CUSC Section 15 the Proposer put forward to apply to pre-commissioning Interconnectors. There was some discussion on the two aspects highlighted, namely whether the capacity that CUSC Section 15 should be applied to should be based on TEC (MW), and what security percentages should be applied to pre-commissioning Interconnectors.

4.21 There was a discussion around whether Interconnectors have TEC (MW); one Workgroup member stated that when signing a Bilateral Connection Agreement an Interconnector would state its TEC, whilst others felt that this is no longer the case. It was confirmed that Interconnectors still have TEC although they do not pay for it through TNUoS charges. This means the option to base User Commitment securities on Interconnectors in the same way as generators do is viable, although the TEC for Interconnectors is only for importing to the GB system, not exports from the GB Transmission System.

4.22 The Proposer explained that there are three options for measuring capacity in an Interconnector's BCA that CUSC Section 15 could be applied to:

(a) Use TEC (MW); or

(b) Use the higher of import or export capacity (MW) as specified for CUSC 9.5 and 9.6; or

(c) Use the higher of the import or export capacity set out in CEC(MW).

4.23 The Workgroup discussed the options for Interconnector User Commitment capacity measurement and agreed that the second option; to use the higher of import or export capacity (MW) as specified for CUSC 9.5 and 9.6; was the most pragmatic given that it is specific and covers the case where an Interconnector is either export or import-focussed (thus avoiding under-securing, as might be the case if only the TEC figure was used). Additionally, whilst some Interconnector BCAs may have both import and export capacity figures included in their CEC, there is no requirement for this under the CUSC.

4.24 The Proposer explained that security percentages used in CUSC Section 15 for generators are based on an analysis of the number of generator

applications which terminated prior to commissioning at different points (i.e. scoping, pre-consents, and post-consents). These are 100%, 42% and 10% of a user's liability.

4.25 Similar analysis for Interconnectors gives the numbers 100%, 70% and 0%, however the Proposer noted that this is based on a very small data set of 10 Interconnector projects since privatisation, of which 3 commissioned and 7 terminated prior to gaining consent (in these instances liabilities were paid and securities did not need to be drawn upon). This data set is small enough to suggest that it is "statistically insignificant" and so the CMP222 Proposal is to use the equivalent generation percentages (100%, 42%, 10%) but to keep the numbers under review. If a review identified that a change was required then this would require a separate CUSC Modification to be raised.

4.26 In the absence of further evidence, the Workgroup agreed that the security percentages, for Interconnectors, should be 100%, 42%, 10% (the same as for generators). No further evidence was received during the Workgroup Consultation regarding these numbers.

4.27 It was suggested that Interconnector applications might be more speculative than generator applications; there are several proposals at the moment which will join the GB market to the same markets and it seems unlikely that these will all go ahead (more interconnection undermines the initial business case of a merchant Interconnector to expose the price differential between two markets and receive a revenue based on that price differential). It was also questioned what consents must be gained for Interconnector projects.

4.28 The Proposer presented analysis of the impact on Interconnectors, based on the Gone Green generation background for April 2015 to September 2015 – see Table 2. This suggests that the Proposal would result in a reduction in both the liabilities and securities paid by pre-commissioning Interconnectors compared to continuing with current baseline arrangements.

		Pre-commissioning (£M)
Current	Liability	57
	Security	57
New (Attributable + Wider)	Liability	49
	Security	30*

*(*Assumes the same % reduction as for generation users, i.e. 100%, 42%, 10%)*

Table 2 – Impact on interconnectors based on Gone Green generation background

4.29 Further analysis was presented on the potential impact of including Interconnectors in the calculation of the zonal wider liability figures. This showed a reduction only in tariffs for generation charging zones 15 South Lancashire, Yorkshire and Humber, and 16, North Midlands and North Wales (~15% and ~12.5% respectively).

Post Commissioning Interconnectors

4.30 The Proposer stated that it considered post-commissioning Interconnectors are very low risk and therefore would not require any User Commitment. Two reasons were given to support this.

4.31 Firstly, European legislation considers Interconnectors to be extensions of the transmission system, and they are licensed by Ofgem effectively as TOs. As such, they neither use the transmission system nor pay use of system charges (TNUoS or BSUoS), but instead facilitate other Users accessing the market.

4.32 Secondly, unlike generators, Interconnectors are unlikely to close unexpectedly at short notice once they are built, as they have limited ongoing operational costs, and no fuel costs. Their licence also includes a requirement to coordinate with other TOs on system planning, and hence there is no need to introduce a further financial commitment to incentivise timely information provision. The Proposer noted that there has never been a closure, expected or unexpected, of an Interconnector to GB.

4.33 It was suggested that there is the same intrinsic commercial risk from post-commissioning Interconnectors as the equivalent post-commissioning generator. Interconnectors are commercial projects, subject to the same commercial pressures as generators and therefore capable of failing in a similar way to generators. Both are built on the basis of a business plan and (invariably) bank loans / share capital and both, as commercial propositions, do not have access to secured revenue stream.

4.34 There was some discussion regarding what would happen in the scenario that the owner of an Interconnector was declared bankrupt / put into administration / liquidation / receivership. In terms of User Commitment, it was the view of some Workgroup members that the Interconnector would be in the same position (commercially) as a generator that went bankrupt etc. In both cases the business case for the original investment in the asset (Interconnector or power station) would not have worked and, therefore, the asset would then be sold on (with shareholders / bond holders getting less than 100p per £ they had invested). In either case the risk of non-payment to the NETSO, for which User Commitment is required, would be the same.

4.35 The example of the Moyle Interconnector was noted, which has seen its availability (and thus revenue raising capability) severely curtailed over a prolonged period of time. If this were to happen to a Interconnector then, it was suggested, it could be expected to be in the same position as a post-commissioning generator – outgoings to honour (bank financing, staff, rates and other costs etc.,) and no income to offset those costs, leading to the asset no longer being a 'going concern' and, under UK company law, leading the Directors to wind the business up. In addition bank covenants are also likely to be breach, in that situation, leading to the loans being call in. The Workgroup member therefore proposed that all post-commissioning Interconnectors should have the same User Commitment as post-commissioning generators do.

4.36 In the event that the project failed to be profitable, the proposer believed it was not the same decision to withdraw from the market as a generator would have. Given the broader European regime to converge markets the proposer believed that it was likely that as a minimum the Interconnector would be 'adopted'. Prior to bankruptcy the cost of the Interconnector would mainly be sunk, and so the incentive would be to keep running.

4.37 It was questioned as to whether the administrator could restrict the use of the Interconnector in these cases. The Workgroup considered whether this could be classified as removing capacity from the market, and whether the regulator would step in and introduce (or renegotiate) a cap and collar revenue stream. An administrator would seek a return and so likely try to keep the Interconnector viable as a going concern. Although it

was recognised that technical rather than economic reasons could cause the withdrawal of capacity for a period (e.g. a major cable failure). So, other than for a major technical fault, it seems unlikely that an Interconnector would not be made available for service.

4.38 It was suggested that an Interconnector would shut down and be replaced, in a similar manner to a generator. Therefore an Interconnector should also have the same post commissioning User Commitment arrangements as a generator. Counter to this it was pointed out that a generator was less likely to be replaced than a transmission line which aided market coupling. However, if the commercial case for either asset (Interconnector or power station) still existed then both would be replaced as this was the economically rational thing to do.

4.39 This opened up a debate about the treatment of Interconnectors in terms of system planning and co-ordination. TSO's have a licence obligation to co-ordinate, but it was pointed out that under EU legislation generators also have a licence obligation to coordinate and therefore this was no substitute for different post-commissioning User Commitment treatment (between Interconnectors and power stations). Upon further investigation, however, it was noted that the obligation on Interconnectors under EU regulation 714/2009[4] included providing information on the long-term evolution of the transmission infrastructure and its impact on cross-border transmission capacity, which is exactly the information that CUSC Section 15 is intended to incentivise. In comparison, the coordination requirement for generators was concerned with meeting technical requirements for the operation of the transmission system, and therefore was not a comparable obligation.

4.40 Some members of the workgroup believed that after a fault the decisions faced by the Interconnector were similar to the decisions faced by generators and the consequences of these were similar. Therefore they supported the view that Interconnectors should be exposed to post-commissioning User Commitment. Other members of the workgroup believed User Commitment is there to incentivise provision of information therefore a technical fault would not be sufficient justification for post-commissioning User Commitment as the owner would not be able to provide that information in advance.

4.41 The Workgroup considered if the market drivers for Interconnectors and generators were different, with Interconnectors able to forecast the market further ahead than generators. This is of significance as the agreed period that post-commissioning generators are subject to a User Commitment liability is up to two years in CUSC Section 15. However it was pointed out that both the Interconnector and the generator (in a post-commissioning situation) were relying on the same wholesale market prices to determine if they should continue as a commercially viable concern (or close / sell out).

4.42 The Workgroup discussed that there is no intrinsic 'skill' or 'knowledge' that means an Interconnector was better able to forecast the wholesale market further ahead than generators. Given that generators are active participants in the wholesale markets they, it could be argued, might even have a slight knowledge 'advantage', when compared with an Interconnector, in that they 'better' understand the key price drivers of the wholesale market. They would, for example, be expected to be negotiating fuel supply contracts etc., over the period (something Interconnectors would not do).

[4] REGULATION (EC) No 714/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 13 July 2009, Annex 1, Paragraph 5.5 (a) http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF (page 19 of 21)

4.43 It was suggested that a further factor to be taken into consideration with respect to Interconnectors related to the proposed joint projects to Ireland. If the generation at the Irish end of the link were to 'disappear'; for example no longer be commercially viable; then, presumably, the related Interconnector would give the NETSO near identical notice as generation (in this example).

4.44 It was noted that during the development of CMP192, Workgroup members argued that a generator's decision to reduce TEC or disconnect was based on short-term factors, in particular expected future wholesale power prices and spreads. As there is no market beyond 1-2 years, post-commissioning generators would only be able to give up to 1-2 years' notice of TEC reduction or disconnection. The original CMP192 proposal was for post-commissioning generators to provide a similar duration of User Commitment as pre-commissioning generators, i.e. 4 years. However, given that, post-commissioning, Interconnectors (and generators) rely for their revenue on the same wholesale market(s); i.e. the wholesale market price difference between Country A and Country B; they too only have a similar period of certainty (of revenue to pay their costs) as generators.

Direct Demand

Pre-Commissioning Direct Demand

4.45 It is proposed to codify the existing Final Sums arrangements; i.e. limited to local works; for pre-commissioning Directly-Connected User. Currently these arrangements are included as an appendix to each User's BCA. Pre-commissioning Directly-Connected Users presents a low risk to transmission investment plans. In addition, sites are small in size and number, therefore have a limited impact on wider Transmission System investments.

4.46 The Proposer explained how the majority of direct demand connected to date is associated with upgrades to the rail system, which has been the case for a number of years. As a regulated monopoly industry with long-term agreed investment plans, the rail industry is considered at a low risk of unexpected terminations.

4.47 It was also noted that direct demand sites have no codified maximum capacity figures, and a number of factors in the CUSC Section 15 arrangements require a capacity figure. The Proposer considered that creating and codifying such a figure for the purposes of User Commitment would be subjective due to demand side not having maximum capacities, and a disproportionate response for the small number of low risk Users affected.

4.48 The Proposer stated there have been 5 new connection sites for Directly-Connected User demand since 2007. A Workgroup member also noted the recent National Grid 'Timely Connections Report'[5], which mentions 11 demand sites with offers for commissioning between now and 2024. It was observed this is roughly one such connection per year. The National Grid representative explained that only one of the offers in the 'Timely Connections Report includes a new substation, the others are connecting to existing substations.

4.49 The Workgroup agreed the CMP222 Proposal represents appropriate treatment for pre-commissioning Directly-Connected Users.

[5] http://www.nationalgrid.com/NR/rdonlyres/B87798CE-61EC-4D50-8C44-402D1A509F35/60492/TimelyConnectionsReportV10130513.pdf (Figures 4 and 6)

Post-Commissioning Direct Demand

4.50 The Proposer explained that post-commissioning directly connected demand presents a low risk to transmission investment plans. There are approximately 30 sites on the GB Transmission network, the majority of which are supplies to the rail network. As the rail network is also a regulated monopoly industry with predictable development over time, it is not expected that these sites will need a financial commitment to incentivise information provision for closures.

4.51 There are around 5 steelworks and chemical works that present a risk profile that is similar to a generator and hence may require some commitment, however due to their small number, size and their local impact, no security from post-commissioning directly connected demand is proposed under CMP222. However, one Workgroup member noted that some of these large industrial demand Users have capacity in excess of some generators on the Transmission System who did have to provide User Commitment. The Proposer noted that all remaining sites are <100MW peak demand. Therefore it is proposed that there is no need to introduce further User Commitment for these types of demand Users. A workgroup member noted that the workgroup should discuss further (post-consultation) whether this would be considered undue discrimination.

DNO GSPs

Pre-Commissioning DNO GSPs

4.52 It is proposed to codify the existing Final Sums arrangements; i.e. limited to local works: for pre-commissioning DNO GSPs as they present a low risk profile to transmission investment plans. The Proposer clarified that this was not intended to change the User Commitment arrangements for embedded generation which is already set out in CUSC Section 15.

4.53 Where new GSPs are being developed for demand growth, it tends to reduce the load on neighbouring GSPs which feed the same distribution system, and hence the impact on the wider Transmission System is minimal. Furthermore, as the demand landscape has changed gradually and predictably, the requirement for new GSPs is reasonably stable. The requirement for, and value of, User Commitment for wider Transmission works from DNO GSPs is therefore considered minimal.

4.54 It was also noted that DNO GSPs have no codified maximum capacity figures, and a number of factors in the CUSC Section 15 arrangements require a capacity figure. The Proposer considered that creating and codifying such a figure for the purposes of User Commitment would therefore be subjective, and a disproportionate response for the small number of low risk Users affected.

4.55 The Workgroup noted that there is an interaction between embedded generation associated with new GSPs. The Proposer clarified that this would be as per current arrangements, and that the Final Sums for the DNO would be the cost of the local works once the liability of any associated embedded generator has been excluded.

It was requested that the Proposer provide an example of how this works for an island hub with a new GSP for both embedded and demand connection, shown in **Figure 3 – Example of island hub with new GSP**

4.56 . This shows a DNO GSP connecting two generators to a substation, generator X of 200MW and generator Y of 150MW. The Proposer noted that, in the case of an island generation hub, the island cable had been

excluded from DNO Final Sums as the driver for the cable is connecting generation to the mainland.

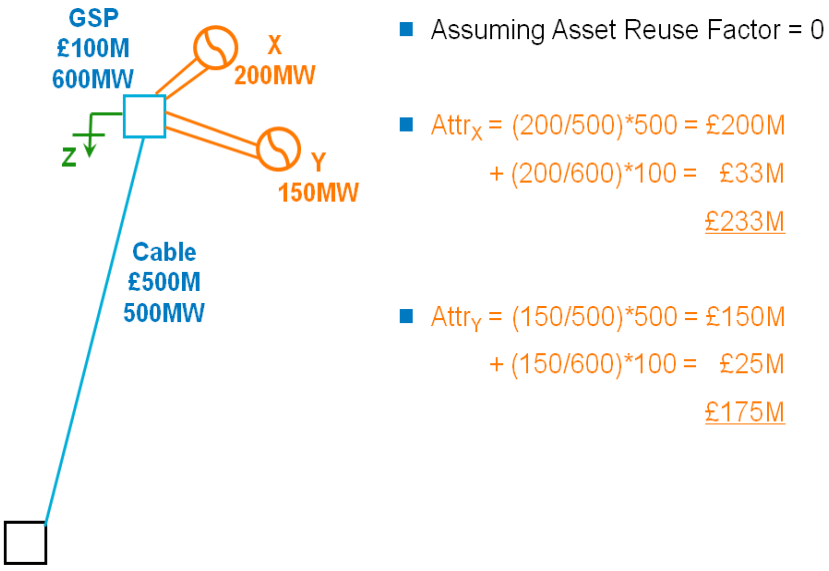

Figure 3 – Example of island hub with new GSP

4.57 The substation will be connected to the MITS via a 500MW cable. Assuming an asset reuse factor of 0, the attributable liability to generator X for the substation are £33M; the attributable liability to generator Y are £25M and Final Sums to the DNO for the new substation are the remainder of £42M. For the cable, the remainder of £150M that is not being secured by the embedded generation is covered by all GB Users through the SIF.

Post-Commissioning DNO GSPs

4.58 Post-commissioning DNO GSPs present a very low risk profile, and have strong parallels with TO – TO arrangements. DNOs have regulated investment plans and obligations to coordinate set out in their licences, and historically once a GSP is commissioned it is unlikely to be decommissioned at short notice. The Proposer noted that there was no record of a DNO GSP being closed without considerable notice being provided through channels such as the annual Week 24 demand forecasts. The Workgroup agreed that post-commissioning DNO GSPs should require no further User Commitment.

Pumped Storage

4.59 It was suggested during discussions with industry at the September TCMF that Pumped Storage should be included within this CMP222 Modification Proposal because they import from and export to the Transmission System. The Proposer reiterated that Pumped Storage are considered to be generators and therefore provide User Commitment through the arrangements set out in Section 15. It was also noted that the one Pumped Storage project currently with a BCA is securing through CUSC Section 15.

4.60 It was the questioned whether this extended to all energy storage Users or simply Pumped Storage Users. The Proposer considered this would apply to all storage Users.

Post Workgroup Report Discussion

4.61 The Workgroup met to discuss the 4 responses received to the Workgroup Report, including answers to the questions posed in the

Workgroup Report. These responses are included in Appendix 4. The Workgroup then discussed the draft legal text for the original proposal (CUSC Section 11, CUSC Section 15).

4.62 It was questioned as to whether it was appropriate to use the higher of import or export capacity for interconnector projects, as there would be a different effect on transmission investment requirements if the interconnector was located in a zone that was predominantly generation rather than predominantly demand. For example, transmission investment decisions in a high demand area would consider an interconnector's export capacity as being a contributory factor, whereas decisions in a high generation area would consider an interconnector's import capacity. The workgroup considered whether this made the use of a blanket 'higher of' principle insufficiently nuanced in those cases where the figures were different. The proposer considered whether it would be possible to link the choice of which capacity figure to use to an assessment of the net supply position (i.e. generation vs. demand) of the location it was to connect to. One option would be for National Grid to undertake an assessment of the position when a new interconnector project applies, however this would lack transparency for users.

4.63 The group discussed how an objective, transparent and stable assessment of the net supply position could be determined. The proposer considered that it would be necessary for any assessment criteria to be sufficiently high-level and stable that any future interconnectors did not find their liabilities flipping between being based on import or export. It was considered that there may be publically available data on generation and demand on a zonal basis which could be used to provide a locational assessment in the E-TYS, although upon investigation neither included zonal breakdowns of either generation or supply. Consideration was given to using the total generation position in each zone, net of peak demand, as calculated from the DCLF ICRP Transport & Tariff model (available from National Grid upon request). The net position is shown in Figure 4.

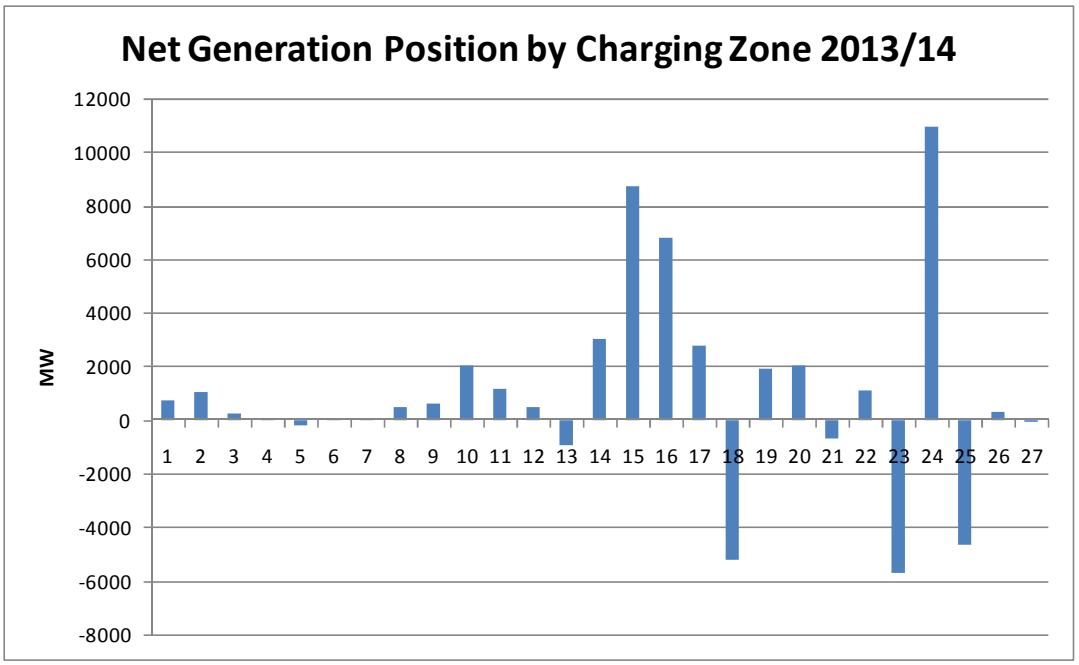

Figure 4

4.64 However, this showed that for over half of the zones the difference between generation and demand was not pronounced, and hence these zones could result in volatile liabilities for interconnectors. It was also

apparent when considering the required boundary capabilities in the E-TYS that there was not a strong correlation between net supply position and investment driver. For example, the overwhelming driver of transmission investment for zones 1 to 15 is increased generation, yet this is not reflected in the net supply position.

4.65 Boundary reinforcement drivers were then considered to identify a suitable locational split between areas of predominantly generation-driven investment and demand-driven investment. The E-TYS clearly identifies boundary B11 as delineating the "power exporting regions of Scotland, Yorkshire and the Humber". On boundaries above B11, the E-TYS is clear that the main driver is Scotland generation, and therefore choosing one of these would miss out Yorkshire and the Humber regions. Below this boundary there is no clear separation of drivers, with the middle of the system being a mix of power flows coming from several directions.

4.66 It can therefore be assumed that above B11 the majority of investments on the transmission system will be driven by generation, and below B11 by demand. The choice of one of the fixed boundaries that is clearly defined in the E-TYS also ensures that there is transparency and predictability over what liabilities would be calculated on. It is expected that the applicability of this boundary be assessed at the mid and end reviews of the Price Control.

4.67 The finalised Original proposal is described in **Table 3** below;

	Pre-Commissioning	**Post-Commissioning**
Interconnectors	CUSC Section 15 (using import capacity above B11, export capacity below B11)	None
Distribution Network GSPs	Final Sums (Local)	None
Directly Connected Demand	Final Sums (Local)	None
Pumped Storage	CUSC Section 15	CUSC Section 15

Table 3 - Finalised Original Proposal

Workgroup Alternative CUSC Modifications

4.68 As detailed above, the workgroup discussed at length the arguments around whether post-commissioning interconnectors should have the same User Commitment arrangements applied to them as generators i.e. CUSC Section 15. This was thus proposed as an alternative, with the workgroup voting 4 to 2 in favour of making this a Workgroup Alternative, WACM1. No other alternatives were proposed. WACM1: Original proposal but with CUSC Section 15 User Commitment applied to post-commissioning Interconnectors, is outlined in table 4 below:

	Pre-Commissioning	**Post-Commissioning**
Interconnectors	CUSC Section 15 (using import capacity	CUSC Section 15 (using import capacity

	above B11, export capacity below B11)	above B11, export capacity below B11)
Distribution Network GSPs	Final Sums (Local)	None
Directly Connected Demand	Final Sums (Local)	None
Pumped Storage	CUSC Section 15	CUSC Section 15

Table 4 – WACM1

5 Workgroup Consultation Responses

5.1 Four responses were received to the Workgroup Consultation. No alternative requests were made during the Workgroup Consultation. The full responses can be found in Annex 4 of this Workgroup Report.

5.2 The following table provides an overview of the representation received:

Company	Initial Views	Views Against Applicable CUSC Objectives	Implementation	Other Comments
Greenwire	Support the proposal for all Users: Interconnectors, DNO GSPs, Directly Connected Demand and Pumped Storage. Consider the proposal creates a more "level playing field" between Generators and Interconnectors.	Agree with Proposer's view.	Implementation approach not included in Workgroup Consultation	
UK Power Networks	<u>DNO GSPs</u> In full agreement with the proposal that Final Sums should remain limited to local works only for pre-commissioning DNO GSPs. Agree that post-commissioning DNOP GSPs require no further user commitment: "in the last 15 years..have only seen one GSP decommissioned across our three DNO areas…due to collective agreement with National Grid." No comment made regarding proposal with respect to three other Users being considered (Directly Connected Demand , Pumped Storage and Interconnectors).	Yes on (b).		
SSE	<u>Interconnectors</u> Not supportive of approach with respect to Interconnectors. Perceive proposal to give discriminatory treatment to post commissioning Interconnectors. <u>DNO GSPs</u>	Overall, no for (a), (b) and (c). For three (of the four User types, Distribution Network GSPs, Directly Connected Demand and Pumped Storage) yes on (b), neutral on (a) and (c).		Agree with proposed security percentages of 100%, 42%, 10% are "appropriate for application to pre-commissioning

	Supportive of approach. Directly Connected Demand Supportive of approach. Pumped Storage Supportive of approach.	For merchant Interconnectors, No on (b) as it "unduly discriminates in its treatment of post commissioning interconnectors (by allowing them, as it is currently proposed, to avoid having a similar User Commitment as other post commissioning users, such as generators)".		merchant interconnectors." Perceive interconnectors as having the same perceived risks, post-commissioning, as "other non Interconnector CUSC Parties for whom User Commitment is currently required" under CMP192.
EDF Energy	Interconnectors Supportive that the principles of CUSC Section 15 should be applied to pre-commissioning interconnectors, from the point of view of "the cost-efficient development of the transmission system". Support of proposal with respect to post-commissioning interconnectors. DNO GSPs Supportive of proposal: "DNO GSPs present a low risk profile to transmission investment plans" Directly Connected Demand Agree with proposal Pumped Storage. Agree that "Pumped Storage sites are generators at times and should continue to be subject to CMP192 on the same basis as any other generator".	Yes on (b).	Implementation approach not included in Workgroup Consultation	Know of no evidence to support the "application of different securitisation percentage of user commitment potential liabilities at the different stages of the pre-commissioning project, as between generation and interconnection". Agree that "an operating interconnector generally may have a slightly smaller risk profile than a generator of equivalent size".

6 Impact and Assessment

Impact on the CUSC

6.1 Changes to Section 15, User Commitment Arrangements, possible changes to Section 11, Definitions and Interpretations, changes to Section 10, Transitional Arrangements, changes to Schedule 2.

Impact on Greenhouse Gas Emissions

6.2 None identified.

Impact on Core Industry Documents

6.3 None identified.

Impact on other Industry Documents

6.4 The workgroup discussed whether the proposal or WACM had any interaction with CMP223 (Arrangements for Relevant Distributed Generators under the Enduring Generation User Commitment). It was agreed that there was no interaction.

7 Views

7.1 The Workgroup believes that the Terms of Reference have been fulfilled and CMP222 has been fully considered.

7.2 For reference the CUSC Objectives are:

a) The efficient discharge by The Company of the obligations imposed upon it by the Act and the Transmission Licence

b) Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity

c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

National Grid Initial View

7.3 National Grid considered that the CMP222 Original Proposal would better facilitate Applicable CUSC Objective (b) in that it would ensure users had clarity over their financial liabilities to the System Operator, and in particular, for interconnector developers, clarity and transparency over liabilities will ensure that user commitment arrangements do not unduly restrict new developments, and hence limit the arbitrage opportunities between continental Europe and the GB market.

Workgroup Vote

7.4 The Workgroup met on 10th March 2014 and voted on the Original proposal and the Workgroup Alternative CUSC Modification. The Workgroup voted by a majority of 5 to 3 that WACM1 best facilitates the Applicable CUSC Objectives out of the options put forward and the baseline. The votes received were as follows:

7.5 **Vote 1**: Whether each proposal better facilitates the Applicable CUSC Objectives;

Original

WG Member	(a)	(b)	(c)	Overall
Adam Sims	**Yes** – Proposal ensures Users are treated equitably	**Yes** – ensures User commitment will not unduly restrict new developments	**Yes** – In line with EU guidelines	**Yes**
Kenny Stott	**No** – Inequitable treatment of post-commissioning Users	**No** – Fails to provide equality for post-commissioning Users	**No** – Market distortion and discriminatory treatment within UK	**No**
Vince Hammond	**Yes** – Proposal ensures Users are treated equitably	**Yes** – ensures User commitment will not unduly restrict new	**Yes** – In line with EU guidelines	**Yes**

		developments		
Guy Nicholson	**Yes** – NGET has a licence obligation	**Yes** – Interconnectors are currently disadvantaged	**Yes** – It is less onerous on interconnectors	**Yes**
Leonida Bandura	**Yes** – facilitates efficient discharge of licensee's obligations	**Yes** – provides transparency and clarity in relation to users financial abilities	**Yes** – in line with existing EU regulations and guidelines	**Yes**
Garth Graham	**No** – Can't treat post-commissioning Users differently to other post-commissioning Users.	**No** – Original fails to provide equality of treatment by treating post-commissioning Users differently.	**No** – treating users differently will affect cross border trade and distort internal market in electricity.	**No**
Deborah MacPherson	**Yes** – ensures compliance with NGETs licence obligation	**Yes** – provides clarity in relation to users financial abilities	**Yes** –	**Yes**
Kyle Martin	**No** – Can't treat post-commissioning Users differently to other post-commissioning Users.	**No** – Original fails to provide equality of treatment by treating post-commissioning Users differently.	**No** – treating users differently will affect cross border trade and distort internal market in electricity.	**No**

WACM 1

WG Member	(a)	(b)	(c)	Overall
Adam Sims	**No** – Post-commissioning ICs are different under EU regulation, treating them the same as generators is undue discrimination.	**Yes** – ensures User commitment will not unduly restrict new developments	**No** – treating post-commissioning interconnectors as generators is against European guidelines.	**No**
Kenny Stott	**Yes** – Equitable treatment within UK	**Yes** – Promotes effective competition	**Yes** – within the context of European requirements	**Yes**
Vince Hammond	**No** – Post commissioning I/Cs are designated as TSOs, a completely	**No** – If discriminatory then cannot be construed as 'effective competition'	**No** – Treating Interconnectors the same as Generators is counter to European	**No**

	different entity to generators and seems arbitrary therefore to apply same treatment as generation. Potential discrimination arises.		guidelines.	
Guy Nicholson	**Yes** – NGET has a licence obligation	**Yes** – Interconnectors are currently disadvantaged	**Yes** – It is less onerous on interconnectors	**Yes**
Leonida Bandura	**No** – treating post-commissioning interconnectors as generators is not appropriate	**Yes** (in part) – for Users that are not post commissioning interconnectors, there is greater clarity around Users financial liabilities.	**No** – treating post-commissioning interconnectors as generators is not in line with EU guidelines. They are an extension of the transmission system.	**No**
Garth Graham	**Neutral** –	**Yes** – treating post-commissioning interconnectors the same as other Users facilitates effective competition.	**Neutral** -	**Yes**
Deborah MacPherson	**Yes** - ensures compliance with NGETs licence obligation	**Yes** – Greater clarity around Users financial liabilities with SO and removes potential discrimination between parties	**Yes** –	**Yes**
Kyle Martin	**Neutral** -	**Yes** – treating post-commissioning interconnectors the same as other Users facilitates effective competition.	**Neutral** -	**Yes**

7.6 **Vote 2**: Where one or more WACMs exist, whether each WACM better facilitates the Applicable CUSC Objectives than the Original Modification Proposal:

WG Member	WACM 1
Adam Sims	**No** – treating post-commissioning interconnectors as generators is against EU guidelines.
Kenny Stott	**Yes** – Post commissioning, promotes effective competition.
Vince Hammond	**No** – post-commissioning interconnectors are different to generation, they are TSOs – therefore it seems arbitrary to apply the same treatment to a TSO as a generator and counter to the EU guidelines on interconnectors.
Guy Nicholson	**Yes** – if interconnectors are treated the same as generation pre-commissioning they should not be treated differently to generation post-commissioning.
Leonida Bandura	**No** – interconnectors should not be treated the same as generators as they are an extension to the transmission system.
Garth Graham	**Yes** – treating post-commissioning interconnectors the same as other Users facilitates effective competition.
Deborah MacPherson	**Yes** – Provides clarity in respect of financial liability with the SO and removes potential discrimination between parties.
Kyle Martin	**Yes** – treating post-commissioning interconnectors the same as other Users facilitates effective competition.

7.7 **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.

WG Member	Best option
Adam Sims	Original
Kenny Stott	WACM1
Vince Hammond	Original
Guy Nicholson	WACM1
Leonida Bandura	Original
Garth Graham	WACM1
Deborah MacPherson	WACM1
Kyle Martin	WACM1

8 Proposed Implementation and Transition

8.1 The Workgroup agreed that, if implemented, the Proposal should come into effect, taking into account the six monthly securities periods. It was considered that an implementation date of 1st April 2015 would give parties suitable notice and allow the administration of new contracts to be undertaken. The security amounts applicable from April 2015 would be notified in January 2015.

9 How to Respond

9.1 If you wish to respond to this Code Administrator Consultation, please use the response proforma which can be found under 'Industry Consultation' at the following link;

http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP222/

9.2 Responses are invited to the following questions;

1. Do you believe that CMP222 better facilitates the Applicable CUSC Objectives? Please include your reasoning.

2. Do you support the proposed implementation approach as set out in Section 8? If not, please state why and provide alternative suggestions where possible.

3. Do you have any other comments?

9.3 Views are invited on the proposals outlined in this consultation, which should be received by 5pm on 2nd May 2014. Please e-mail your formal response to;

Cusc.team@nationalgrid.com

9.4 If you wish to submit a confidential response, please note the following:

Information provided in response to this consultation will be published on National Grid's website unless the response is clearly marked 'Private and Confidential', we will contact you to establish the extent of the confidentiality. A response marked 'Private and Confidential' will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the CUSC Modifications Panel or the industry and may therefore not influence the debate to the same extent as a non confidential response.

Please not an automatic confidentiality disclaimer generated by your IT System will not in itself, mean that your response is treated as if it had been marked 'Private and Confidential'.

Annex 1 – CMP222 CUSC Modification Proposal Form

CUSC Modification Proposal Form CMP222

nationalgrid

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal

User Commitment for Non-Generation Users

Submission Date

18th September 2013

Description of the Issue or Defect that the CUSC Modification Proposal seeks to address

Enduring user commitment arrangements for generators, both pre- and post-commissioning, were developed through modification proposal CMP192, Arrangements for Enduring Generation User Commitment[1], which created the new Section 15 of the CUSC. Non-generation users currently provide security through either the Final Sums arrangements set out in their Construction Agreement or the Interim Generic User Commitment Methodology (IGUCM)[2]. These were intended to provide short-term solutions whilst enduring arrangements were developed, and Ofgem have provided a letter of comfort to National Grid that requires enduring arrangements to be in place for 1st April 2015. With the introduction of the enduring generation user commitment arrangements in April 2013, it is therefore timely to develop an enduring methodology for non-generation users.

[1] http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/amendment_archive/151-200/
[2] http://www.nationalgrid.com/uk/Electricity/GettingConnected/PoliciesAndGuidance/

Description of the CUSC Modification Proposal

This proposal is intended to introduce enduring user commitment arrangements for sites where there is an offtake of electricity from the transmission system (excluding generation site supplies), specifically interconnectors, distribution network Grid Supply Points (GSPs) and directly connected loads. These arrangements should not seek to indemnify sunk costs, but to provide an incentive on users to signal their intentions early and hence allow Transmission Owners (TOs) to avoid inefficient investment. It is also intended that they be proportionate to the number and materiality of the users involved.

Interconnectors

Pre-commissioning interconnector developments pose similar risks to, and impacts on, the transmission system as generators of equivalent size. It is therefore proposed to apply the principles of CUSC Section 15 to pre-commissioning interconnectors, using the higher of their import and export capacities. Although not currently allowed for by National Grid Electricity Transmission's licence, Ofgem's ITPR review (Integrated Transmission Planning & Regulation) is considering whether interconnectors may be identified and developed by a central body such as the System Operator. In this situation the appropriateness of user commitment should be considered, as the System Operator would have control of the risk itself.

Post-commissioning interconnectors have a much smaller risk profile than a generator of equivalent

size. Firstly, European legislation considers interconnectors to be extensions of the transmission system, and they are licensed by Ofgem effectively as TOs. As such, they neither use the transmission system nor pay use of system charges (TNUoS or BSUoS). Secondly, unlike generators, interconnectors are unlikely to close unexpectedly at short notice once they are built, as they have limited ongoing operational costs, and no fuel costs. Their licence also includes a requirement to coordinate with other TOs, and hence there is no need to introduce a further financial commitment to incentivise timely information provision. National Grid therefore considers that there is no requirement to introduce any additional user commitment for post-commissioning interconnectors.

Distribution Network GSPs

Pre-commissioning DNO GSPs present a low risk profile to transmission investment plans. Where new GSPs are being developed for demand growth, it tends to reduce the load on neighbouring GSPs which feed the same distribution system, and hence the impact on the wider system is minimal. Furthermore, as the demand landscape changes gradually and predictably, the requirement for new GSPs is reasonably stable. The requirement for, and value of, user commitment for wider transmission works from DNO GSPs is therefore considered minimal. It is proposed to continue with Final Sums limited to local works for pre-commissioning DNO GSPs. For the avoidance of doubt, this does not affect the liability passed to the DNO for an embedded generator through the existing Section 15 arrangements.

Post-commissioning DNO GSPs present a very low risk profile, and have strong parallels with TO – TO arrangements. DNOs have regulated investment plans and obligations to coordinate set out in their licences, and historically once a GSP is commissioned it is unlikely to be decommissioned at short notice. National Grid therefore considers that there is no requirement to introduce any additional user commitment for post-commissioning DNO GSPs. A possible exception to this is where the GSP is mainly associated with export onto the Transmission system. The proposal should consider whether the risks are higher in these cases and if there is a justification for adopting post-commissioning user commitment.

Directly Connected Demand

Pre-commissioning directly connected demand presents a low risk to transmission investment plans. Sites are small in size and number, and hence have a limited impact on wider investments. It is proposed to continue with Final Sums limited to local works for pre-commissioning directly connected demand.

Post-commissioning directly connected demand similarly present a low risk to transmission investment plans. There are approximately 30 sites on the GB network, the majority of which are supplies to the rail network. As the rail network is also a regulated industry with predictable development over time, it is not expected that these sites will need a financial commitment to incentivise information provision for closures. There are around 5 steelworks and chemical works that present a risk profile that is similar to a generator and hence may require some commitment, however due to their small number, size and their local impact, no security from post-commissioning directly connected demand is proposed.

Pumped Storage

Pumped storage sites are considered to be generators and as such provide user commitment through the arrangements set out in CUSC Section 15. However, as they do offtake electricity from the transmission system for purposes other than site supply, the proposal should consider whether this is appropriate for these sites.

Impact on the CUSC
It is anticipated that this proposal would affect Section 15; Schedule 2 Exhibit 1; Schedule 2 Exhibit 3; Section 11; and require transitional arrangements in Section 10.
Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes / No
No impact has been identified.
Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information
BSC ☐ **Grid Code** ☐ **STC** ☐ **Other** ☐ *(please specify)* *This is an optional section. You should select any Codes or state Industry Documents which may be affected by this Proposal and, where possible, how they will be affected.*
Urgency Recommended: Yes / No
Urgency is not requested.
Justification for Urgency Recommendation
N/A
Self-Governance Recommended: Yes / No
Self-governance is not requested.
Justification for Self-Governance Recommendation
N/A
Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?

N/A

Impact on Computer Systems and Processes used by CUSC Parties:

None identified.

Details of any Related Modification to Other Industry Codes

N/A

Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives:

Please tick the relevant boxes and provide justification:

☐ (a) the efficient discharge by The Company of the obligations imposed upon it by the Act and the Transmission Licence

☒ (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

Introducing enduring arrangements for user commitment will ensure that users have clarity over their financial liabilities to the System Operator. Particularly for interconnector developers, clarity and transparency over liabilities will ensure that user commitment arrangements do not unduly restrict new developments, and hence limit the arbitrage opportunities between continental Europe and the GB market.

☐ (c) 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) was added in November 2011. This refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Additional details

Details of Proposer: (Organisation Name)	National Grid Electricity Transmission
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	 Adam Sims National Grid 01926 655292 Adam.sims@nationalgrid.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	 Andy Wainwright National Grid 01926 655944 Andy.wainwright@nationalgrid.com
Attachments (No): **If Yes, Title and No. of pages of each Attachment:**	

Annex 2 – CMP222 Terms of Reference

Workgroup Terms of Reference and Membership

TERMS OF REFERENCE FOR CMP222 WORKGROUP

Responsibilities

1. The Workgroup is responsible for assisting the CUSC Modifications Panel in the evaluation of CUSC Modification Proposal CMP222 User Commitment for Non-Generation Users tabled by National Grid Electricity Transmission Plc at the CUSC Modifications Panel meeting on 27 September 2013.

2. The proposal must be evaluated to consider whether it better facilitates achievement of the Applicable CUSC Objectives. These can be summarised as follows:

   (a) the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;

   (b) Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;

   (c) 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) Consider the risk profile of post-commissioning Interconnectors
   b) Consider the interaction with GSPs and potential overlap with CMP223.
   c) Review illustrative legal text
   d) Review the interaction with European Regulations, in particular in relation to merchant interconnector arrangements in the GB regime.
   e) Consider the application of the proposed solution to the potential Irish join projects

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 23 January 2014 for circulation to Panel Members. The final report conclusions will be presented to the CUSC Modifications Panel meeting on 31 January 2014.

Membership

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

Role	Name	Representing
Chairman	Patrick Hynes	National Grid

*National Grid Representative**	Adam Sims (Proposer)	National Grid
*Industry Representatives**	Guy Nicholson	Greenwire Ltd
	Ane Landaluze	Scottish Power Renewables
	Leonida Bandura	EON
	Garth Graham	SSE
	Deborah Macpherson	SP Distribution
Authority Representatives	Vanja Munerati	Ofgem
Technical secretary	Amy Boast	
Observers		

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 CMP222 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: Indicative Workgroup Timetable

The following timetable is indicative for the CMP222 Workgroup.

W/C 30 September	Send out request for WG nominations
18 October	Workgroup meeting 1
W/C 4 November	Workgroup meeting 2
W/C 11 November	Workgroup meeting 3
19 November	Issue draft Workgroup Consultation for Workgroup comment (5 working days)
26 November	Deadline for comments on draft Workgroup Consultation
28 November	Publish Workgroup consultation (for 3 weeks)
19 December	Deadline for responses to Workgroup consultation
W/C 6 January 2014	Post-consultation Workgroup meeting
14 January 2014	Circulate draft Workgroup Report
21 January 2014	Deadline for comment on Workgroup report
23 January 2014	Submit final Workgroup report to Panel Secretary
31 January 2014	Present Workgroup report to CUSC Modifications Panel

Annex 3 – Workgroup Attendance

List of workgroup meeting and attendance (O attended, D dialled in, A provided alternate, X did not attend, L left workgroup).

Name	Company	Role	Meeting 1	Meeting 2	Meeting 3	Meeting 4
Patrick Hynes	NETSO	Chair	O	O	O	O
Amy Boast	Code Administrator	Technical Secretary	A	O	O	A
Adam Sims	NETSO	Proposer	O	O	O	O
Guy Nicholson	Greenwire Ltd	Workgroup member	O	O	O	D
Ane Landaluze	Scottish Power	Workgroup member	D	D	L	L
Garth Graham	SSE (Generation)	Workgroup member	D	O	D	D
Kenny Stott	SSE	Workgroup member	X	O	X	O
Deborah MacPherson	Scottish Power Distribution	Workgroup member	X	O	X	O
Kyle Martin	Energy UK	Workgroup member	D	O	D	X
Leonida Bandura	EON	Workgroup member	A	O	O	O
Vanja Munerati	Ofgem	Observer	O	O	A	A
Vince Hammond	NGIL	Workgroup member	X	O	O	D

Annex 4 – Workgroup Consultation Responses

CUSC Workgroup Consultation Response Proforma

CMP222 – User Commitment for non-generation Users

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 **20/01/2014** 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 Wayne Mullins at Wayne.Mullins@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:	Guy Nicholson, guy.nicholson@elpower.com 07824145479
Company Name:	Greenwire Ltd - c/o Element Power
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	We support the proposal. As Greenwire we are fundamentally a Generator but expected to be licenced as an Interconnector. As far as is possible we would seek to be treated as a generator, including for User Commitment.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	There are no Alternatives in the Consultation. The original facilitates the Applicable CUSC Objectives as it creates a more level playing field between Generators and Interconnectors. *For reference, the Applicable CUSC Objectives for the Use of System Charging Methodology are:* *(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 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 use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses.*

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	YES
Do you have any other comments?	NO
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	NO *If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website[1], and return to the above email address with your completed Workgroup Consultation response proforma.*

Specific questions for CMP222

Q	Question	Response
1	The Workgroup asks for views and evidence for alternative security percentages (than 100%, 42%, 20%) to be applied to pre-commissioning Interconnectors.	Greenwire – although expected to be licenced as an Interconnector - is dependent on its generation project and will be financed primarily as a generator – in which case the security percentages applicable to generators would be appropriate. We would expect the same to apply to all proposed Irish Joint Projects.

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

Q	Question	Response
2	The Workgroup invites views on the perceived risk of post-commissioning Interconnectors and whether they should provide User Commitment.	For Greenwire we expect the post commissioning risk to be lower than an equivalent pure generator as it is likely that an additional “real interconnector” will be added to connect the GB and Irish markets, providing an additional reason and potential source of revenue to maintain the asset. However, for assets of this kind we would see the key risk as a failure, or serial failures, of the subsea cable. If that were to happen, failure would be unpredictable. At some stage, late in it is life, It is conceivable that in some circumstances the cost of repair and risk of further failure means that the asset is abandoned. Providing post commissioning user commitment may or may not have some influence on the decision to repair or abandon.
3	The Workgroup invites views and evidence as to whether post-commissioning Interconnectors, in the event that they are required to provide User Commitment, have a greater ability to forecast market conditions than generators.	Greenwire is primarily a generator, though is expected to facilitate real interconnection between GB and Ireland. We do not see that one activity or the other would give a greater or lesser ability to forecast market conditions. In our view it is a fault or failure of the asset that would drive a decision to close, not a market forecast.
4	The Workgroup invites views and evidence as to whether Pumped Storage sites should be treated differently from other generation types, and if so how?	No comment.

CUSC Workgroup Consultation Response Proforma

CMP222 – User Commitment for non-generation Users

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 **20/01/2014** 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 Wayne Mullins at Wayne.Mullins@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:	Jonathan Purdy jonathan.purdy@ukpowernetworks.co.uk 07875 11 3017
Company Name:	Eastern Power Networks plc, London Power Networks plc and South Eastern Power Networks plc collectively referred to as "UK Power Networks".
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	Pre-Commissioning DNO GSPs We note the proposers intent not to change the existing Final Sums arrangements for pre-commissioning DNO GSPs. DNO GSPs represent a very low risk profile to transmission investment plans and have a minimal impact on the wider transmission system. We are, therefore, in full agreement that the Final Sums should remain limited to the local works only. Post-Commissioning DNO GSPs In the last 15 years we have seen only one (very old 275/132kV) GSP decommissioned across our three DNO areas and that was only because the collective agreement with National Grid was to build a new 400/132kV GSP with twice the capacity on an adjacent site in preference to re-planting the existing site. We, therefore, agree with the views of the proposer and the Workgroup that post-commissioning DNO GSPs require no further user commitment.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC	For reference, the Applicable CUSC objectives are:

Objectives? Please include your reasoning.	(a) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Yes
Do you have any other comments?	No
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No

Specific questions for CMP222

Q	Question	Response
1	The Workgroup asks for views and evidence for alternative security percentages (than 100%, 42%, 20%) to be applied to pre-commissioning Interconnectors.	We have no observations to make on this question.
2	The Workgroup invites views on the perceived risk of post-commissioning Interconnectors and whether they should provide User Commitment.	We have no observations to make on this question.

Q	Question	Response
3	The Workgroup invites views and evidence as to whether post-commissioning Interconnectors, in the event that they are required to provide User Commitment, have a greater ability to forecast market conditions than generators.	We have no observations to make on this question.
4	The Workgroup invites views and evidence as to whether Pumped Storage sites should be treated differently from other generation types, and if so how?	We have no observations to make on this question.

CUSC Workgroup Consultation Response Proforma

CMP222 – User Commitment for non-generation Users

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 **20/01/2014** 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 Wayne Mullins at Wayne.Mullins@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:	*Garth Graham (garth.graham@sse.com)*
Company Name:	*SSE*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	We set our initial views on this proposed Modification (CMP222) in response to the questions posed below.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	CMP222 deals with four types of Users of the transmission system in terms of their respective User Commitment in two distinct phases of their operation; namely pre and post commissioning. In terms of three (of the four User types) we agree that CMP222, as currently drafted, does, at this initial stage, appear to better meet Applicable CUSC Objective (b) (and is neutral with respect to (a) and (c)). The three User types are (i) Distribution Network GSPs; (ii) Directly Connected Demand and (iii) Pumped Storage. However, in respect of the fourth User type; merchant interconnectors; we believe that CMP222 fails to better meet the Applicable CUSC Objective (b) as it unduly discriminates in its treatment of post commissioning merchant interconnectors (by allowing them, as it is currently proposed, to avoid having a similar User Commitment as other post commissioning users, such as generators). This, therefore, fails to facilitate effective competition in the generation and supply of electricity.

	Furthermore, this discriminatory treatment of post commissioning merchant interconnectors also means that CMP222 does not better meet Applicable CUSC Objective (a) as the Transmission Company would be treating identical users differently, which would breach their licence obligations as regards discrimination. This, therefore, means they fail to discharge The Company obligations imposed in the Act and Transmission Licence. Finally, this discriminatory treatment of post commissioning merchant interconnectors also means that CMP222 does not better meet Applicable CUSC Objective (c) as this, in our view, would be in breach of the Electricity Regulation and other relevant legally binding decisions of the European Commission and / or the Agency. Therefore, at this Workgroup Consultation stage in the CMP222 modification process we do not believe, overall, that CMP222 does better meet any of the Applicable CUSC Objectives as it fails to do so with respect to Objectives (a), (b) and (c) for the reasons outlined above.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Given that an implementation approach is not set out in the Workgroup Consultation we cannot support something we have not seen.
Do you have any other comments?	We note the changes in both Liability and Security for interconnectors, as set out in Table 1 of the Workgroup consultation which appears to show that, with the CMP222 proposal, there will be a 14% reduction in the level of liability and a 47% reduction in the level of security provided by interconnectors. It will be for Ofgem to determine if this amounts to a cross subsidy from none interconnector parties to merchant interconnector parties; noting that the vast majority of the merchant interconnectors to GB involve a direct corporate interest on the part of the parent company of the Proposer of this Modification, namely National Grid PLC.
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP222

Q	Question	Response
1	The Workgroup asks for views and evidence for alternative security percentages (than 100%, 42%, 20%) to be applied to pre-commissioning Interconnectors.	We note the Workgroup deliberations, as set out in paragraphs 4.24-4.27, and it appears, from the evidence to date, that the proposed security percentages of 100% / 42% / 10% are appropriate for application to pre-commissioning merchant interconnectors.
2	The Workgroup invites views on the perceived risk of post-commissioning Interconnectors and whether they should provide User Commitment.	In our view merchant interconnectors have the same (if not worse) perceived risks, post commissioning, as other non interconnector CUSC Parties for whom User Commitment is currently required (as per CMP192). Both types of project (be they a merchant interconnector or a power station) are, as we understand it, based on a commercial view of the market (be that cross border arbitrage or generation respectively) and as such there is an inherent risk (that is the same for both types of Users) that their commercial judgement is flawed. If that were to be the case and both could no longer viably trade then the assets would, presumably, be sold on (at a loss to the existing shareholders / bondholders) and the new owners would pick up the liability to pay their charges to National Grid (for which the User Commitment is required) because if the charges were not paid then the assets could not use the transmission system etc., etc., and would, therefore, be rendered useless. In this respect we note that despite numerous examples of organisations that own GB power stations having ceased trading over the past twenty odd years there have been no examples provided by National Grid (or Ofgem) of those assets not paying their applicable charges such that other Users are out of pocket. In respect of merchant interconnectors we make two additional observations. Firstly it is the case, as for example we have seen recently with the Moyle interconnector, that technical problems can cause the asset to be unavailable for long periods. This could be fatal in the case of a merchant interconnector which relies on the income it raises during its operation to pay back its capital / loans / bonds. A prolonged technical outage could render its commercial position untenable (i.e. no longer a going concern) leading to it ceasing trading and, presumably,

Q	Question	Response
		being either sold on or closed down (if the cost / timescale to repair / replace the link is to great given current and forecast market conditions). [lack of space on the pro forma – rest of answer to Q2 is shown at the bottom of the pro forma.]
3	The Workgroup invites views and evidence as to whether post-commissioning Interconnectors, in the event that they are required to provide User Commitment, have a greater ability to forecast market conditions than generators.	We agree with the views of the Workgroup noted in paragraph 4.42 that "...there is no intrinsic 'skill' or 'knowledge' that means an Interconnector was better able to forecast the wholesale market further ahead than generators. Given that generators are active participants in the wholesale markets they, it could be argued, might even have a slight knowledge 'advantage', when compared with an Interconnector, in that they 'better' understand the key price drivers of the wholesale market. They would, for example, be expected to be negotiating fuel supply contracts etc., over the period (something Interconnectors would not do)." We agree with these views. Merchant interconnectors have no greater ability to forecast market conditions than generators and, indeed, there are credible grounds for believe the opposite is the case (that, in fact, generators have a greater ability to forecast market conditions when compared to merchant interconnectors).
4	The Workgroup invites views and evidence as to whether Pumped Storage sites should be treated differently from other generation types, and if so how?	We note the Workgroup deliberations set out in paragraphs 4.59-4.60 and we have no evidence to suggest that Pumped Storage (or other storage Users) should be treated differently from other generation (or merchant interconnector) types.

Q2

Secondly we are mindful of the regulatory developments currently underway with regard to generation wholly located in Ireland being directly connected to the GB network via a dedicated merchant interconnector.

In this scenario the said merchant interconnector would be rendered redundant if the post commissioned power station to which it is connected either went out of business or ceased operation. If the said power station was located in GB it would have provided User Commitment (as per CMP192) but where its located, say, in Ireland neither the power station or the associated merchant Interconnector would, if CMP222 were to be implemented, be required to provide any post commissioning User Commitment.

This, in our view, is discriminatory as it treats two identical power stations (both receiving income via the GB electricity / capacity / renewable arrangements etc.,) differently with

respect to one of the two power stations (GB located) having to provide User Commitment and the other (non GB located) not having to. This will grossly distort effective competition in the generation of electricity and, therefore, is not consistent with facilitating such competition in the sale, distribution and purchase of electricity.

CUSC Workgroup Consultation Response Proforma

CMP222 – User Commitment for non-generation Users

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 **20/01/2014** 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 Wayne Mullins at Wayne.Mullins@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)**	We do agree that pre-commissioning Interconnector developments pose similar risks to new large generator development projects, in that the development is capital-intensive, comes, in today's GB market, with a range of regulatory and commercial risks, and may not ultimately be developed. There is thus a similar risk of "stranded assets" that the consumer may be left paying for via TNUoS charges to all other users, if such a project fails. These stranded assets take the form of onshore transmission system investments to accommodate new interconnector projects, which may fail to reach fruition. We do therefore agree with this proposal to apply the principles of CUSC Section 15 (arising from the carefully-developed generator user commitment mod "CMP192") to pre-commissioning interconnectors, from the point of view of the cost-efficient development of the transmission system. We agree with the proposal that all parameters including security percentages should be the same as for pre-commissioning generators (100%, 42%, 10%, depending on the project's stage) In terms of evidence of interconnector project failure/lapse rates, we note with interest the workgroup's findings that of ten Interconnector projects which have applied for connection since privatisation (1990), only three have actually been commissioned, with one terminating formally and six simply "lapsing" under informal earlier arrangements (this excludes currently-physically-undeveloped interconnector projects with a live, signed connection agreement at this time – it is not yet

	known whether these will be realised, or lapse/cancel). As to directly-connected demand (mostly rail connections) and pre-commissioning, proposed new DNO GSPs, we agree with the proposal to continue with Final Sums limited to local works, as we agree with National Grid, the proposer, that DNO GSPs present a low risk profile to transmission investment plans. We agree that pumped storage sites are generators at times and should continue to be subject to CMP192 on the same basis as any other generator.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We believe that the change proposal better meets CUSC applicable objective (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. It could be argued to do this by, to some extent, ensuring equitable treatment of pre-commissioning generator and interconnector projects. This may be further relevant given Ofgem's consultation on non-GB directly connected generators, We believe that the change proposal is neutral against CUSC applicable objective (b) that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, costs. The change does reflect developments in the transmission system, in relation to trends in what is connected to it. We believe that the change proposal also minimises costs to consumers by ensuring that the risk of the consumer having to pay for stranded assets on the TO networks, is minimised.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Yes
Do you have any other comments?	No
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No

Specific questions for CMP222

Q	Question	Response
1	The Workgroup asks for views and evidence for alternative security percentages (than 100%, 42%, 20%) to be applied to pre-commissioning Interconnectors.	There is no evidence known to us, to support the application of different securitisation percentages of user commitment potential liabilities at the different stages of the pre-commissioning project, as between generation and interconnection.
2	The Workgroup invites views on the perceived risk of post-commissioning Interconnectors and whether they should provide User Commitment.	As to post-commissioning interconnectors, it is quite a finely-balanced matter, but we do agree with the content of the report under consultation on this modification proposal. Specifically, although there is some risk of cable failure as has occurred at Moyle, in general, we agree that an operating interconnector generally may have a slightly smaller risk profile than a generator of equivalent size, in terms of ceasing to operate due to "wearing out" and needing extensive re-planting (or experiencing a conflagration, as at Tilbury). If market prices cause the asset to need to be mothballed for a period of time, with an uncertain but potentially-positive future, the costs during mothballing for an interconnector should be lower than for a generator. This is due to no wider TNUoS exposure, and the more limited human resources and maintenance requirements (for generators, these include inert gases, barring etc) involved. This could perhaps support a decision not to permanently close an interconnector in adverse market conditions, where a generator would permanently close. Tightening environmental regulations (SOx, NOx and greenhouse gases) are a driver for generator closures, yet are almost irrelevant for interconnectors (other than for switchgear-related gaseous leakages). Most generator closures are not due to technical failure, but due to commercial and environmental considerations (often a mix, and interaction, of both) – although the costs of replanting on older generators, to maintain efficiency and reliability, can form an important part of a closure decision. There would be a valid counter-argument that the treatment should be comparable, though, as post-commissioning projects, if subject to CUSC section 15 (CMP192), do not have to secure the potential CMP192 liability – it only crystallises if the asset actually does close at less than a year and 5 working days' notice. It is thus quite a finely-balanced matter, but on balance, we do agree that due to different risks, there is no requirement to introduce additional User Commitment for post-commissioning Interconnectors. We note from the consultation that "*the workgroup did not agree whether merchant Interconnectors*

Q	Question	Response
		should be exposed to post-commissioning User Commitment and therefore this is likely to form part of the post-consultation discussion on an alternative."
3	The Workgroup invites views and evidence as to whether post-commissioning Interconnectors, in the event that they are required to provide User Commitment, have a greater ability to forecast market conditions than generators.	Interconnectors rely for their revenue on the same GB wholesale market as generators, except that they are also dependent on another market (in fact, on the difference in price between the two). They only have a similar period of certainty of forward market conditions (of revenue to pay their costs) as generators, which was deemed to be about two years in the CMP192 debate. There are other commercial and environmental factors that affect interconnectors and generators differently in closure vs mothballing/possible re-opening decisions, which we detail in our reply to the preceding question.
4	The Workgroup invites views and evidence as to whether Pumped Storage sites should be treated differently from other generation types, and if so how?	There is no valid reason for any different treatment – we agree with the consultation document / workgroup majority, on this.