nationalgrid

Stage 02: Workgroup Consultation

Connection and Use of System Code (CUSC)

CMP223 Arrangements for Relevant Distributed Generators Under the Enduring Generation User Commitment

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 modify the CUSC such that distribution connected generators deemed to have an impact on the electricity transmission network are not faced with undue discrimination in the way security requirements under the CUSC Section 15 are passed on.

This document contains the discussion of the Workgroup which formed in October 2013. Any interested party is able to make a response in line with the guidance set out in Section 9 of this document.

Published on: **17 January 2014**
Length of Consultation: **20 Working Days**
Responses by: **14 February 2014**

The Workgroup concludes:
To be completed following the Workgroup Consultation

High Impact:
Distribution-connected generators; DNOs

Medium Impact:
None identified

Low Impact:
None identified

Contents

Any Questions?

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About this document

This document is a Workgroup consultation which seeks the views of CUSC and interested parties in relation to the issues raised by this document. Parties are requested to respond by **14 February 2014** to cusc.team@nationalgrid.com using the Workgroup Consultation Responses Proforma which can be found on the following link:

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

Document Control

Version	Date	Author	Change Reference
0.1	10/12/2013	Code Administrator	Draft to Workgroup
0.2	17/01/2014	Code Administrator	Workgroup Consultation

1 Summary

1.1 This document summarises the deliberations of the Workgroup and describes the CMP223 Modification Proposal.

1.2 CMP223 was proposed by Carnedd Wen Onshore Wind Farm Ltd and submitted to the CUSC Modifications Panel for their consideration on 27th September 2013. The Panel determined that the proposal should be considered by a Workgroup and that they should report back to the CUSC Modifications Panel following a period for the Workgroup Consultation.

1.3 This proposal seeks to modify the CUSC such that distribution connected generators deemed to have an impact on the electricity transmission network are not faced with undue discrimination in the way that security requirements under the CUSC Section 15 are passed on.

1.4 The Workgroup first met on 18th October 2013 and the members requested a change to the Terms of Reference which was approved at the 25th October 2013 CUSC Panel meeting. A copy of the Terms of Reference is provided in Annex 2. The Workgroup considered the issues raised by the CUSC Modification Proposal and worked through the Terms of Reference. The Workgroup met again in November and December. The Workgroup discussions are documented in Section 4.

1.5 As part of their discussions, the Workgroup has noted that there are potential solutions to the defect CMP223 seeks to resolve that may be pursued outside of the CUSC process. Whilst these may be viable alternative solutions, the Workgroup has been tasked to develop the Proposer's solution, and look at potential alternatives that could be achieved through changes to the CUSC. Whilst the Authority can opt to implement a solution outside of the CUSC, such solutions are outside of the remit of the CUSC Modifications Panel and the CMP223 Workgroup. This consultation therefore focuses on solutions that involve changes to the CUSC.

1.6 The Workgroup is seeking industry views on the proposed solution. Please see Section 9 for how to respond. Responses are welcomed by email by 14 February 2014.

2 Background

2.1 National Grid Electricity Transmission (NGET) and the other Transmission Owners (TOs) undertake investment works to accommodate the needs of generators already connected and those expected to connect in the future to the electricity transmission network. However, a generator may decide to cancel its project or reduce its capacity after the associated works have already begun. This may result in unnecessary costs to other network users, which are ultimately borne by the end consumer.

2.2 User Commitment performs a vital function in ensuring adequate information is available to TOs to plan and develop the transmission network in a manner that is economical and efficient, and protects the interests of consumers and wider industry. User Commitment signals are also financially underwritten to incentivise the provision of accurate and timely information and to ensure that the risk of stranded transmission assets is placed on those parties best placed to mitigate and manage the risk.

2.3 Licensed Generators are required to be party to various industry codes, including the CUSC. In February 2011 NGET proposed a modification to the CUSC (CMP192) to introduce enduring User Commitment arrangements for generators based on specific local works and generic methodology for wider works. The proposal was further developed by the industry, with the final approval being given by the Authority. The User Commitment methodology introduced by CMP192 was implemented through a new section of the CUSC (Section 15) on 30 March 20121. Section 15 arrangements replaced the interim security arrangements which included both Final Sums (Local works only) and the Interim Generic User Commitment Methodology (IGUCM).

2.4 Section 15 applies to generation deemed to have an effect on the transmission system, both directly connected to the transmission network and embedded in a distribution network, before and after commissioning (referred to as pre and post commissioning).

2.5 For pre-commissioning generation, there is an Attributable liability which is specific to the investments for that project, and a Wider liability which is generic and applies to all generation on a zonal basis. Under the arrangements set out in Section 15, a Fixed or Actual calculation for the Attributable liability can be chosen depending on whether stability or cost-reflectivity is valued more (Figure 1). The party who has signed a Construction Agreement with NGET in relation to a generation project has this liability to NGET and the National Electricity Transmission System Operator (NETSO) and this 'backs off' the liability that the NETSO has to the relevant TO for the cost of abortive works. This is known as TO Final Sums and is detailed under the SO/TO Code (STC).

2.6 Security for this combined liability is required at a reducing rate as the generation project nears commissioning and passes consenting milestones. For example, presently 42% of the combined liability will be secured prior to key consents being granted, reducing to 10% once these are achieved. This is to reflect the reducing likelihood of termination by the generator as commissioning nears. In the event that a generator terminates their project and the resulting invoice levied for the liability under the Construction Agreement is not paid, NGET will draw down on the security and pursue the outstanding debt. In the event that the outstanding debt is unrecoverable, NGET has the ability through Special Licence Condition 6F to increase the amount of revenue it recovers from all transmission network users.

[1] There was a twelve month transition period with the amendment proposal taking effect from 1 April 2013.

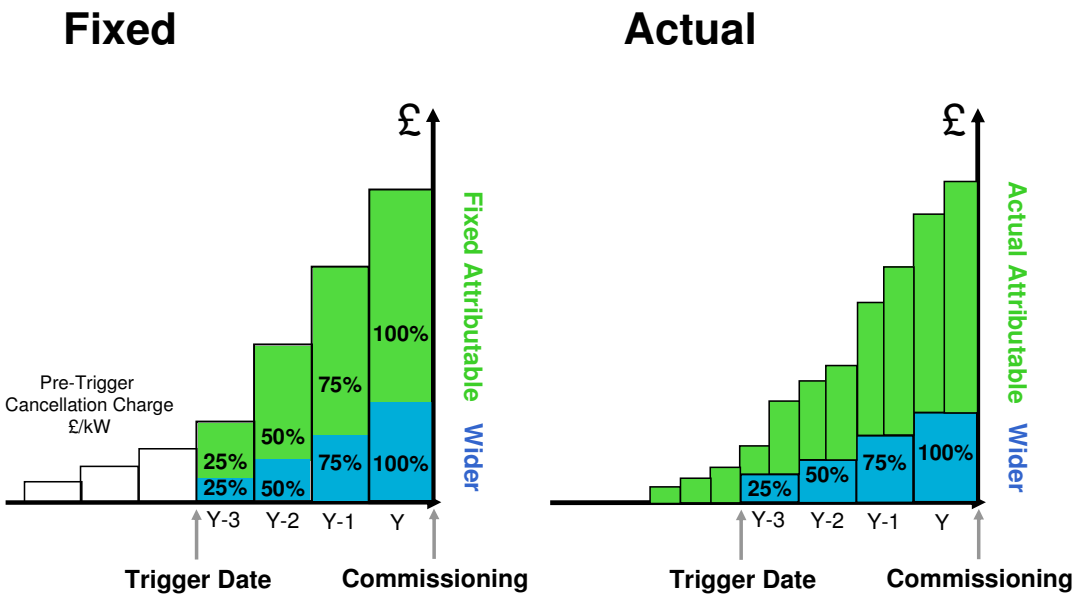


Figure 1

2.7 Generally, NGET does not have a contractual relationship with smaller distribution connected generators (apart from those with Bilateral Embedded Generation Agreements (BEGAs) or Bilateral Embedded Licence Exemptible Large Power Station Agreements (BELLAs), and so security and liability requirements are passed to the relevant DNO (both for the Attributable and wider works). For the security period ending 30th September 2014 the total liability requirement for such generation is £34.6m (including VAT), with an associated security requirement of £15.4m. For distributed generators with a BEGA only, the Wider liability and associated security requirement is applied directly to that generator, whilst the Attributable liability and associated security requirement is passed to the relevant DNO. It is a matter for the DNO to manage this liability through its relationship with the distributed generator, and this relationship is outside of the remit of the CUSC. This is illustrated in Figure 2.

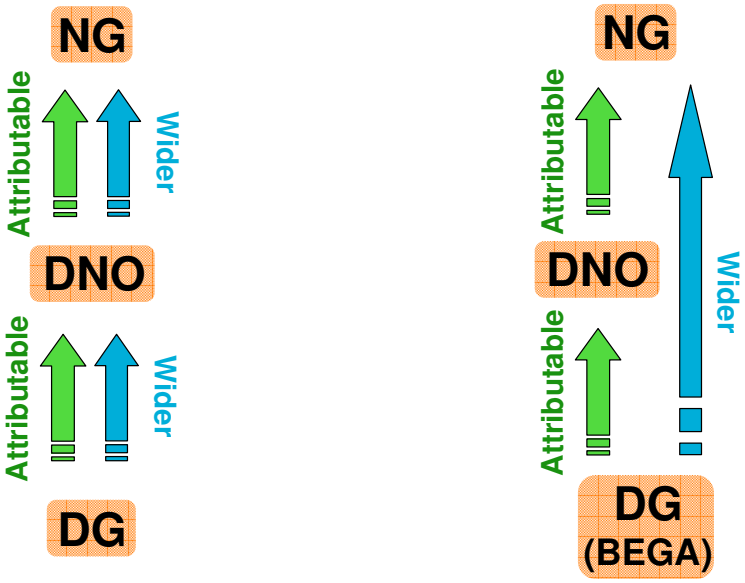


Figure 2 - relationship between NG, DNOs and DG

2.8 Post-commissioning, directly (transmission) connected generators and those

distribution connected generators with BEGAs retain a wider liability to NGET, but are not required to provide security for it as the physical assets of their site are considered to be of sufficient value to minimise the risk of stranding in the event of insolvency. Post-commissioning distribution connected generators (excluding those with a BEGA) do not retain any liability to NGET.

3 Why Change?

3.1 The Proposer has put forward that since the new arrangements for generation user commitment have been codified in the Connection and Use of System Code (CUSC) as a result of the CUSC Modification Proposal (CMP) 192: "Enduring User Commitment"; that this has resulted in unintended consequences for distribution connected generators deemed to have an impact on the electricity transmission network ("relevant distributed generators").

3.2 As relevant distributed generators have the same type of impact on the electricity transmission network as generators that are directly transmission connected, they contribute to reinforcement requirements in the same manner.

3.3 Relevant distributed generators have no direct contractual relationship with National Grid Electricity Transmission (NGET). Currently, under CUSC Section 15, Distribution Network Operators (DNOs) have been defined as 'Users' in relation to the cancellation charge. This means that the DNO will be liable to pay a cancellation charge to NGET upon the termination of a relevant distributed generation project, and will, in turn, look to pass this onto the relevant distributed generator. Similarly, the security arrangements in place to cover cancellation charge liabilities under CUSC Section 15 will apply to DNOs in relation to relevant distribution generators. However, the DNOs are not required to replicate these arrangements (which allow for a level of security lower than the cancellation liability to be posted) in their agreement with the relevant distributed generator.

3.4 A DNO has no provision for recovery in its Electricity Distribution Licence in the event of non-payment of the shortfall between security provided by a relevant distributed generator and the liability incurred upon termination by that generator. As a result the DNO would be left exposed, and to mitigate this risk, a number of DNOs have requested security cover for the full cancellation charge from relevant distributed generators with more onerous terms and conditions than those specified in CUSC Section 15. The Proposer has highlighted that this places relevant distributed generators at a disadvantage compared to transmission connected generators when entering the market and that this may therefore be considered as undue discrimination. Annex 3 contains the CMP223 Proposal Form which provides further detail on why the Proposer sees change to be necessary.

3.5 Further to the defect initially highlighted by the Proposer, the following additional concerns have been highlighted as part of the Workgroup process:

- Inconsistencies between DNOs have been experienced in relation to how terms and conditions for security provision and liabilities are applied to relevant distributed generators. It is also unclear as to how DNO businesses that have not yet had to deal with the arrangements specified under CUSC Section 15 would apply this in relation to relevant distributed generators.

- The manner in which some DNOs have passed through both liabilities and securities in a 'generator hub' scenario. In the event that a single construction agreement exists between NGET and a DNO for transmission works to facilitate multiple relevant distributed generators, the allocation of a cancellation charge upon the termination of relevant

2.9

Where can I find more information on CMP192?

Documentation for CMP192 can be accessed at the National Grid website at http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/amendment_archive/151-200/

Where can I find more information on User Commitment Methodology?

Further guidance and implementation of User Commitment Methodology on the Nation Grid website using the following: http://www2.nationalgrid.com/UK/Services/Electricity%20connections/policies%20and%20guidance/

distributed generator projects in at the discretion of the DNO. For example, the Proposer has indicated that in relation to a project for which a DNO has requested a new transmission connection to form a hub for multiple embedded generation projects, a policy has been adopted by the DNO whereby any element of cancellation charge liabilities for which it does not hold security are not discretely assigned to individual generators. This means that a (non-terminating) relevant distributed generator project may incur a charge following the termination of other projects terminating, a risk that parties with an agreement with NGET would not face.

4 Solution

4.1 The Proposer's original solution seeks to rectify the defect (detailed in the CMP223 Proposal Form – see Annex 3) by adapting existing arrangements, or creating direct contractual relationships between the relevant distributed generators and NGET so that the terms and conditions for securities and liabilities in relation to related transmission works can be passed on in the same way as they are to other "Users" specified in CUSC Section 15. Under the Proposer's solution, the relating terms and conditions would be in force until either:

(i) for generation projects that commission, the later of the transmission works or the relevant distributed generator commissioning; or

(ii) for generation projects that terminate their proposed connection, the date at which the final cancellation charge is paid.

4.2 Under this solution, the term "relevant distributed generators" would be defined within the CUSC, and changes made to enable these to be treated as "Users" under Section 15 "User Commitment Methodology". This solution does not intend that relevant distributed generators becoming party to or becoming compliant with the wider terms of the CUSC. The Proposer's view is that the primary relationship for connection and use of the network for distributed customers is with a DNO.

4.3 A contractual agreement would be required to specifically cover security and liability arrangements to be in place between NGET and the relevant distributed generators. In the event of a relevant distributed generator terminating NGET would pursue this party directly for the cancellation charge. In the event of stranded assets NGET would be able to make use of the recovery mechanism set out under Special Licence Condition 6F of the Transmission Licence.

4.4 Finally, the Proposer requested that the Workgroup considers the merits of applying a de minimis threshold. Such a threshold would mean that sub 1MW generators would be exempt from User Commitment. The Proposer suggested that this may ease the administrative burden on NGET and smaller generators, and may further assist smaller parties who may be affected by the current arrangements disproportionately as they are usually the most cash constrained investors.

5 Summary of Workgroup Discussions

5.1 The Workgroup discussed the original proposal and solution and explored other potential solutions put forward by the Proposer and other Workgroup Members.

Workgroup Presentations

The presentation slides used at the first Workgroup meetings are available on National Grid's website at the link below:

http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/workingstandinggroups/wg/CAP223/

Option 1 - Original Proposal: CUSC Modification to define "relevant distribution generator" as a User for the purposes of receiving Section 15 user commitment.

Q5: What are your views on the Option 1, including pros and cons? Please provide evidence where possible.

Applicability

5.2 Section 15 of the CUSC defines the categories of Users which the section applies to. The Workgroup discussed whether this could be broadened to include a category for relevant distributed generators. The Proposer's intention is for these entities to only be required to comply with Section 15 (in addition to any existing requirements in place where a BEGA (Bilateral Embedded Generation Agreement) or BELLA (Bilateral Embedded Licence Embedded Exemptible Large Power Station Agreement) is in place). However, in relation to those parties without an existing agreement the Workgroup recognised that if a new category of User accedes to the CUSC then the impact on each CUSC section will need to be reviewed. For example, in order to define a new "User" (even if restricted to a certain section) a change needs to be made to Section 1 of the CUSC. The Workgroup noted that for this change to work as desired, then clauses in Sections 1, 5, 7, 8, 11, and 15 of the CUSC would need to apply to relevant distributed generators in a similar manner to which these apply to BELLA parties.

Structure of Contractual Relationship

5.3 The Workgroup considered whether parties with a BEGA or a BELLA would need to have the new user commitment contract. A number of members considered that this would be unnecessary administration, since the terms of the new contract could be incorporated in the BEGA and BELLA templates.

5.4 In order to enable a direct relationship between NGET and the relevant distributed generators without a BEGA or BELLA the Workgroup explored whether this could be incorporated into existing forms of contracts (BELLAs/BEGAs) or if a new contract would be required to specifically cover security and liability arrangements will be needed. The Proposer suggested that the new contract could be based upon a simplified version of the existing BELLA contract.

5.5 In addition, it was recognised that the terms of NGET's agreements with DNO's would need to be modified to reflect the new relationship between NGET and relevant distributed generators. For example, the security and liability requirements terms would need to be removed, and additional terms added to allow termination of a Construction Agreement upon the relevant distributed generator failing to meet the terms of the new User Commitment agreement.

5.6 The Workgroup considered that some relevant distributed generators may prefer dealing with a single party rather than having a separate contract with NGET in addition to their contract with the DNO. The Workgroup suggested that relevant distributed generators (that would not be required to sign a BEGA

or BELLA under the existing arrangements) are given the choice of either contracting directly with NGET or receiving securities and liabilities indirectly via the DNO.

Impact on the Contract Administration Process

5.7 The Workgroup recognised that maintaining and administering additional contracts for a new category of customer would be very burdensome for NGET. However, this would depend upon the nature of the administrative process and the volume of relevant distributed generators that require contracts.

5.8 NGET assessed the financial materiality for the administrative process associated with providing such a new form of contract. The resource requirement was estimated for progressing a simple non-contentious development which did not change as being approximately 2 days per User, based on:

- Write contract, check and send out 2 hours
- Post-signing administration, including liability profile 2 hours
- Securities calculation and creation and checking of Appendices 2 hours
- Transactional administration, credit checking, databases, etc. 1 day

5.9 NGET also highlighted that there could be additional workload required in the event of customer queries, modification applications, changes to security requirements, date changes, etc. These were estimated as an additional 2.5 days per user, based on:

- Queries and changes to contract before signing 2 hours
- Changes to transmission investment plans 1 hour
- Changes to security templates, seeking legal views, admin 2 days

5.10 It is worth noting that for BELLA and BEGA parties, some of the tasks listed above are already undertaken to some extent. It is therefore envisaged that the additional administrative burden associated with additional terms being added to these to apply the arrangements under Section 15 of the CUSC will be less for these parties.

5.11 The Workgroup noted that the requirement for Statements of Works was becoming more prevalent for distribution connected generation. The Workgroup noted that an increasing volume of applicants could be a large administrative burden on NGET, DNOs, and TOs. As the total volume of work required by NGET to administer the proposed new contracts would increase in line with this, it was agreed that it was important to gain an understanding of the amount of developers requiring Statements of Works for their projects throughout GB.

5.12 The Workgroup noted that the vast majority of Statement of Works applications received by NGET to date are from Scotland, and in the past 3 years the volume of Statement of Works applications from Scotland only have been:

- 1 September 2010 – 31 August 2011 36
- 1 September 2011 – 31 August 2012 41

- 1 September 2012 – 31 August 2013 58

5.13 The volumes are increasing year on year and it was noted that for every Statement of Work – Stage 1 application there is an almost 100% progression to Stage 2, which effectively doubles the figures and the level of transactions.

De-Minimis Capacity Level for Application of Section 15 of the CUSC

5.14 The Proposer suggested that a de minimis capacity level for a relevant distributed generator could be introduced to limit the additional administrative burden introduced by the proposed new contract. Under this arrangement, liabilities and securities would only be placed on generators which are larger than the set de minimis capacity and have an impact on transmission network reinforcement needs (i.e. require a Statement of Works).

5.15 The Workgroup queried how the deminimis capacity level would be determined, and how this would be justified. The Workgroup identified two different approaches that could be used to set a de minimis capacity level:

- a flat level such as 1MW; or

- via linking to the MW levels used by the DNOs to judge when a new generator should be assessed through the Statement of Works process.

5.16 It was noted that the approach linking to the Statement of Works process would be flexible taking account of geographical differences and the level would not be fixed. If the DNO has identified multiple parties which have triggered the Statement of Works then all parties would provide security. Appropriate governance would be required to be in place and the outcomes visible.

5.17 One Workgroup member commented that at present it is not logical to split a project but an unintended consequence of introducing a de minimis capacity level is that projects in the future may be split in order to avoid User Commitment. However, it was also noted that a 1MW threshold would be established under the proposed Requirement for Generators ('RfG') connection European Network Code and therefore such unintended consequences would not be particular to the de minimis level.

5.18 It was also noted that a potential future improvement could be to link the de minimis capacity level to the forthcoming Requirement for Generators Network Code definition of generation types. For example, the de minimis capacity level could be linked to lower limit for Type "B" generation. In addition to this, as Type "B" generation would be defined as generation of between 1MW and 10MW which is connected at less than 110kV, it was considered that this could provide justification for the use of a flat 1MW level.

5.19 The Workgroup discussed the advantages and disadvantages of the flat level and Statement of Works options. These are outlined in Table 1 below:

De minimis level set to:	Advantages	Disadvantages
Flat 1MW	• Its transparent • It is predictable • Same treatment for all • Links to European legislation for Type B generators and above	• It is not linked to a requirement for transmission investment. • It may capture less users than it needs to (where a Statement of Works is triggered, but a generator is <1MW).
Statement of Works	• Linked to requirement for transmission investment • Would avoid users who did not create a liability	• It is not transparent. • It is variable by location. • It is not codified.

Table 1

5.20 It was suggested that in Southern Scotland (the area covered by the Scottish Power Distribution network), distribution connected generation have a larger impact on the transmission network than similar sized generators in England and Wales. Therefore if a de minimis level was introduced which was linked to Statement of Works there may be a larger proportion of distribution connected generation in Scotland which require direct contracts with NGET than in England and Wales.

5.21 It was also questioned whether having a de minimis level such as 1MW means that no securities would be passed on to generators below 1MW by DNOs. It was stated that currently within North Scotland (the area covered by the Scottish Hydro Electric Power Distribution network), there are no securities required from <1MW generators, but generators are provided with a connection date consistent with the completion date of the transmission reinforcement works which would have resulted from completion of the Statement of Works process. It was noted that this was not a common approach across all DNOs, and that some DNOs would require security from <1MW generators if they had a Statement of Works impact.

5.22 The workgroup noted that there would be a level below which it would not be cost-effective for NGET or the relating DNO to seek security, as the transactional cost of obtaining this would be greater than the amount being secured. Whilst this level would not be public, the workgroup considered that it would be referenced in any correspondence between NGET/DNO and Ofgem when justifying why security had not been sought.

Q6: Should there be a de minimis level, exempting those generators below it from user commitment? On what basis should this level be determined? What are the risks of implementing a de minimis threshold?

Post-Commissioning Liabilities

5.23 During the development of Section 15 of the CUSC through the CMP192 Workgroup, it was agreed to not require post-commissioning User Commitment from distributed generators for two reasons: as a result of (UK) Government policy (a direct consequence of licence exemptions), and also due to the lack of an enduring contractual relationship with the NETSO to enforce it. It was noted that the introduction of the new contract proposed under Option 1 would establish a contractual relationship between relevant distributed generators and NGET, removing one of the reasons for excluding them from post-commissioning liabilities.

5.24 One of the principles of Section 15 is that a 1MW change has the same effect on transmission investment plans regardless of whether it is from a pre- or

post-commissioning user. It was questioned whether this principle meant that distributed generators who accede to the CUSC, and hence have a contractual relationship with NGET, should also be required to provide post-commissioning User Commitment in the same way as a directly (transmission) connected generator. It was noted that users with a BEGA had a post-commissioning liability at present, and that this would require further investigation.

5.25 intention for relevant distributed generators to be subjected to post-commissioning The Proposer clarified that this had not been considered in the Original proposal, and that it was not their liabilities.

Q10: Do you consider that an embedded generator should have post-commissioning liabilities, and if so, which?

Credit and Security Provisions

5.26 It was questioned whether distribution connected generation would be subject to similar credit requirements as transmission connected generation or whether they would be more or less onerous. The Workgroup considered that whether the generator's contract is with the DNO or NGET they would likely have very similar credit requirements. Although, it was pointed out that around 80% of schemes within North Scotland (the area covered by the Scottish Hydro Electric Power Distribution network) would have to provide credit through a cash deposit or letter of credit anyway, as they are Special Purpose Vehicles and hence would unlikely be in a position benefit from credit or alternative security arrangements.

5.27 It was noted that the current security percentages of 100%, 42% and 10% were calculated from historical data of directly connected developments. The introduction of a new contractual relationship for relevant distributed connected generation could allow these percentages to be assessed to see if they remained appropriate for distributed generators. However, at present there is insufficient data to undertake this.

Q12: Do you believe that the security profile currently applied to current CUSC parties is appropriate for relevant distributed generators? If different security profiles should be applied, how should these be determined?

Timeline for the Recovery Process under Option 1

5.28 The following diagram, shows the timelines of events upon the relevant distributed generators ('DG') terminating in each of these scenarios under Option 1. The left hand side shows illustrates the process for DG choosing to contract with the DNO, while the right hand side illustrates the process for DG choosing to contract directly with NGET.:

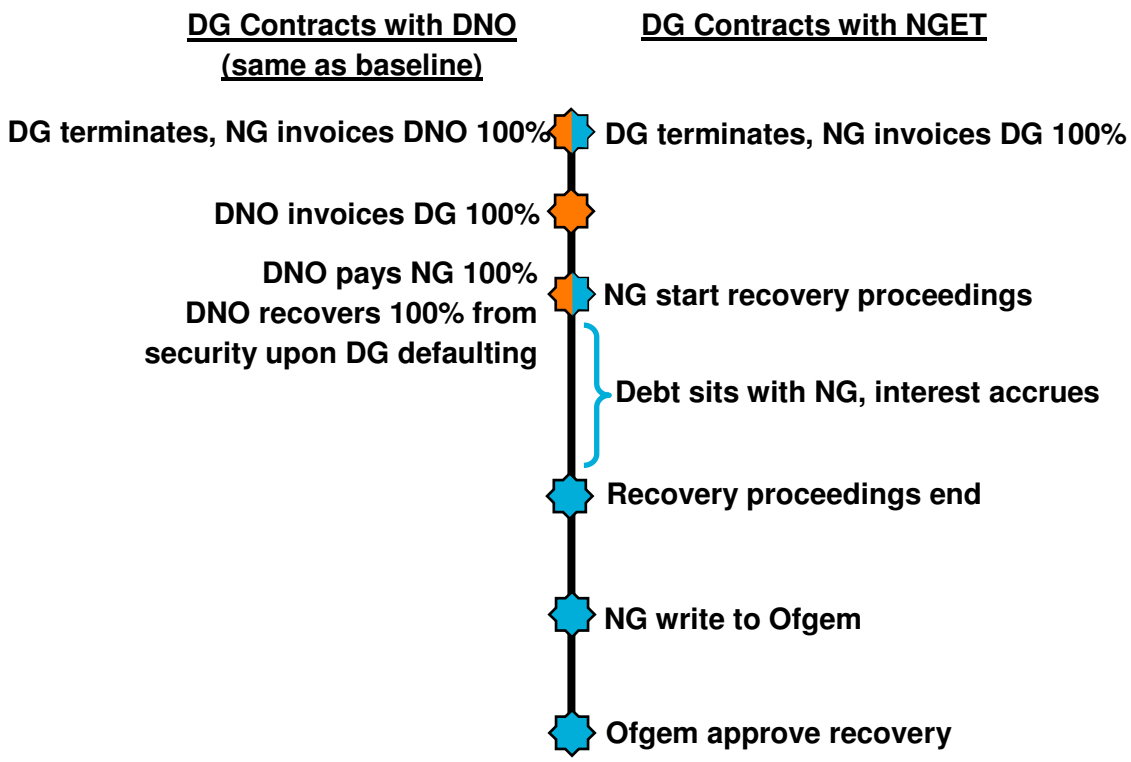


Figure 3

5.29 The Workgroup discussed whether the proposal would have an impact on the liabilities that existing relevant distributed generators have. It was noted that as distributed generation are included in the calculation of the wider liability zonal figures if they have a BEGA or BELLA, they are already captured and therefore are unlikely to have a noticeable effect.

Consequential and Related Modifications

5.30 NGET has an adjustment mechanism in its transmission licence (Special Licence Condition: 6F) which enables the recovery of liabilities in the event NGET is unable to recover 100% of the generator's liability following termination of its transmission connection agreement. The Workgroup noted the need for a change to Special Licence Condition 6F in order to allow NGET to recover relevant distributed generators liabilities, if that was the option to be taken forward.

5.31 It was noted that this approach means that the risk was being socialised by the Transmission Network Use of System (TNUoS) customers and that small parties do not pay TNUoS charges and queried whether this is cost reflective. It was also noted that the Embedded Distributed Generation Benefit review may address this in its consideration of transmission charging for embedded generation.

5.32 If an existing contract was to be utilised it was highlighted that there is currently ongoing contract changes in respect to BEGAs and BELLAs participating in the Balancing Mechanism and a separate project to improve Statement of Works process.

Interim Solutions & Potential Solutions Outside of the CUSC

5.33 Separately the Workgroup have also explored whether there was any viable interim solutions to address the CMP223 defect as they recognised that the

CUSC governance process may take up to 12 months, from its date of submission to the CUSC Panel to its eventual implementation (if approved by the Authority in due course). Whilst the following provides a summary of these, please note that such interim solutions are being developed outside of the CUSC Modification process, and as such lie outside the scope of the enduring solution being developed by the Workgroup.

5.34 The Workgroup briefly discussed whether a letter of comfort from Ofgem (enabling the DNOs to recover any financial exposure that may be incurred as a result of replicating the provisions under Section 15 of the CUSC) could be obtained as an interim solution. It was suggested that a question should be raised in the Workgroup Consultation to seek views as the DNO's are unable to socialise the risk. A Workgroup member advised that the DNO Commercial Operations Group (COG) was planning to discuss User Commitment and how to apply a consistent approach. It was agreed that data provided by DNOs to this workgroup could be shared with Ofgem at an aggregated level to support the DNO's request for an interim letter of comfort. Discussions on interim arrangements do not form part of this CUSC modification proposal.

5.35 The Workgroup considered whether a solution would be to include an additional clause in the Construction Agreement to state that the DNO will pass on the same security payment profile to its customers that it received from NGET. It was suggested that NGET may not be able to legally impose such criteria on the DNO. In addition, whilst this could potentially resolve the pass-through of the security profiles, it does not address the shortfall between security provided and liability upon termination in the event of non-payment. This is because the DNO has no provision for recovery in the Electricity Distribution Licence, and this is the root cause of the problems experienced by relevant distributed generators.

5.36 It was noted that a solution to the CMP223 defect could be to modify the DNO Licence to mirror the recovery mechanism set out in NGET Special Licence Condition 6F and make relevant Distribution Connection and Use of System Agreement (DCUSA) changes. However, the Workgroup members agreed that this option was out of scope of the CUSC and hence could not be considered. In addition the Workgroup agreed that a review of credit arrangements for small parties is out of scope for CMP223.

5.37 The Workgroup also discussed whether, if DNO licences were changed to allow them to recover the shortfall, it would be appropriate for the abortive costs of assets on the transmission system to be recovered from distribution network customers. Some members considered that this would not be justified, as the risk associated with wider transmission works would be placed only on a specific (DNO) geographical area.

6 Discussion on Alternatives

Option 2

6.1 The Workgroup considered an alternative solution whereby the root cause of the defect (namely the potential shortfall in securities that the DNO could not recover) would be recovered by NGET through a licence mechanism on behalf of the DNO. The Workgroup considered a number of potential approaches that this could take.

6.2 The Workgroup noted that for all approaches, NGET would have to invoice for the full liability in order to trigger the necessary contractual recovery processes by the DNO.

6.3 One idea was that the DNO would be allowed to invoice NGET for the shortfall once the DNO has demonstrated to NGET that is has pursued all avenues to recover any shortfall in liabilities in relation to a relevant distributed generator terminating. The Workgroup queried how the DNO would demonstrate that they have exhausted all practical options for debt recovery and would the standard industry practice of issuing debt recovery letters be sufficient. Some members considered that this option would require NGET having an oversight of DNO accounts, which the DNOs would be unlikely to accept, whilst some members considered that 'Good Industry Practice' should be sufficient to address NGET concerns.

6.4 The Workgroup considered whether there would be a cashflow implication for the DNO in having significant numbers of unpaid invoices outstanding from relevant distributed generators, as the invoicing from NGET would be instantaneous on termination of the relevant distributed generator. The Workgroup considered that a possible solution may be to manage the payment due date in the contract to allow for the time taken by debt recovery processes, but that this may have unintended consequences and that the implementation would require further investigation.

6.5 The NGET representative noted that it would have to provide evidence to Ofgem before it would be allowed to recover the shortfall, and therefore proposed an alternative whereby the DNO would demonstrate directly to Ofgem that it had pursued the bad debt. There was some discussion over whether the DNO would prefer to justify it's processes to NGET or Ofgem, and some members considered that NGET might require a more onerous demonstration as Ofgem would hold it accountable. However, it was considered that NGET would simply pass the justification provided on to Ofgem when requesting recovery through the licence.

6.6 A question was raised as to whether there was "Good Industry Practice" with regards to debt recovery procedures. The NGET representative considered that there was not, but there were standard actions that could be taken when a company attempts to recover an unpaid invoice. To inform the debate, the NGET representative explained their internal process.

6.7 NGET has a number of options available to pursue an unpaid invoice, and makes a decision on the most appropriate course of action on a case by case basis. Each course of action has different risks and benefits, and NGET will make the decision based on a number of factors, including the likelihood, speed and level of cost recovery. These are standard options available to any company such as issuing a winding-up petition, drawing down on security, pursuing litigation, etc., but these depend to some extent on the terms of the contract between NGET and the defaulting party.

6.8 The Workgroup considered that smaller relevant distributed generators may present a larger risk of non-recovery than large relevant distributed generators as large projects are more likely to be sold on to another company. However, the Workgroup also recognised that the overall risk of asset stranding as a result of an individual smaller project terminating could be lower because the termination may not change the works required on the transmission system due to other projects requiring the same investment. The Workgroup explored whether a Letter of Comfort from Ofgem would be still required by the DNOs, but it was assumed that there would be no grounds for the DNOs to pass through different security profiles without this.

6.9 The Workgroup considered timelines for the approaches, shown in Figure 4.

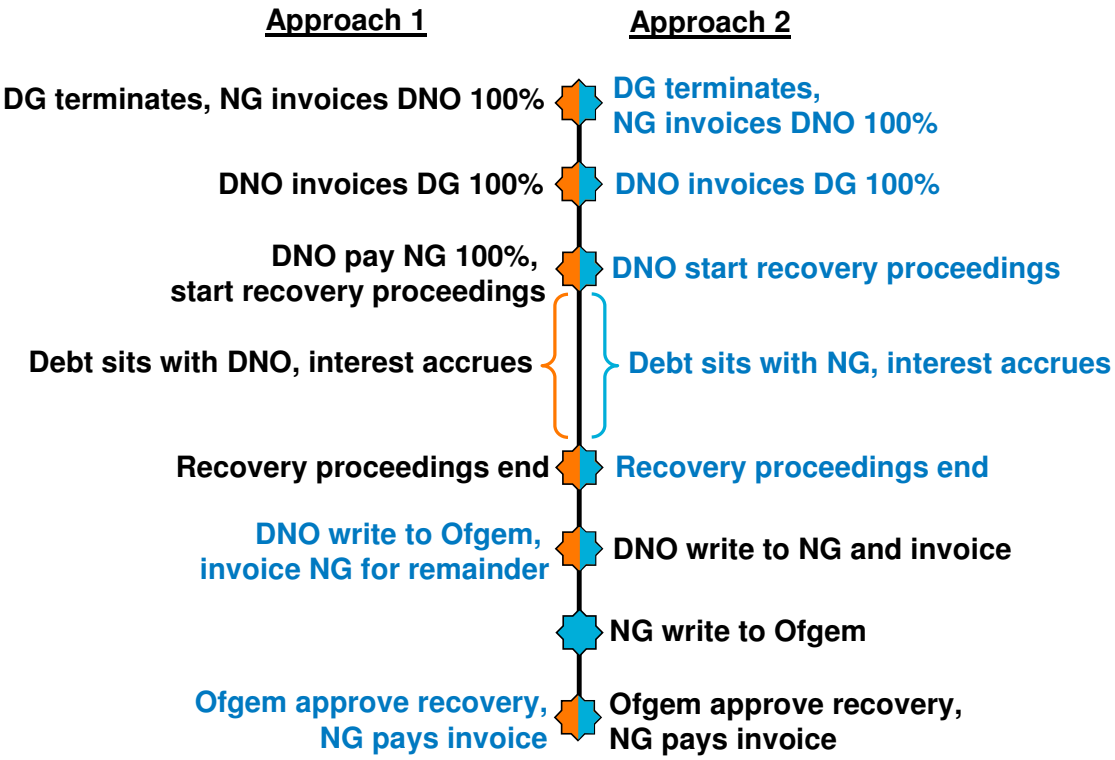


Figure 4

6.10 The Workgroup agreed that the DNO was unlikely to pay the invoice to NGET whilst it was still in the process of recovering the debt from the relevant distributed generator, and therefore the debt would still sit with NGET. It was also agreed that NGET provided no benefit from acting as an intermediary between Ofgem and the DNO when justifying cost recovery. It was agreed by the Workgroup that aspects of both these approaches should be combined to create a single alternative approach, Option 2. The aspects that will be included in Option 2 are shown in blue text on the timeline in Figure 4.

6.11 It was questioned whether a downside to this option would be that Ofgem would get involved in the process, and whether there were any other processes where this would happen. NGET confirmed that this would happen for transmission connected generators under Special Licence Condition 6F, so this would not be different. It was also noted that SLC6F would need to be updated to allow recovery of bad debts from relevant distributed generators.

6.12 It was questioned whether DNOs and NGET would accrue the same interest as is outlined in the CUSC, and it was understood that this is likely to be the case.

6.13 Some of the workgroup identified additional issues for relevant distributed generators who were connecting to an embedded generation hub in which a single construction agreement exists between NGET and a DNO for

transmission works to facilitate multiple relevant distributed generators.

6.14 In this situation there was a concern that NGET may not have visibility of the individual generators driving the transmission investment, and therefore be unable to identify when a relevant distributed generator terminated unless the DNO informed NGET.

6.15 In addition, NGET would be unable to associate a liability and security amount with individual generation projects, leaving the allocation of these up to the discretion of the DNO. The Proposer has indicated that under the current arrangements a policy has been adopted by at least one DNO whereby some cancellation charge liabilities are not discretely assigned to individual generators. This means that a (non-terminating) relevant distributed generator project may incur a charge following the termination of other projects, a risk that parties with a direct agreement with NGET would not face.

6.16 Some members felt that the risk posed to relevant distributed generators would not be mitigated under Option 2 unless separate agreements were in place for each relevant distributed generator project. However some members did not agree, and considered that there would be no incentive for the DNO to cover the whole liability from other relevant distributed generators once it was insulated from the risk of incurring a bad debt. To mitigate the perceived risk, it was proposed that Option 2 include a change to the DNO construction agreement template such that the DNO had to list out the distributed generation it was connecting through the hub and the associated securities and liabilities.

6.17 It was further noted that in the event that NGET were not made aware of the termination of a relevant distributed generator by the DNO concerned, the information concerned would quickly be publicised anyway, and that market intelligence would be fed into discussions between NGET and the DNO as it would directly impact the DNO's needs case for its works.

6.18 Some members voiced concerns that there would be a risk that the available credit terms that NGET offer would not be passed on by the DNO; e.g. parent company guarantee, credit rating, etc. The Workgroup noted that NGET's credit terms were publicly available in the CUSC, and were likely to be similar to DNOs due to their similar approach to risk.

6.19 It was noted that most of the developers with generation projects connecting via the generation hub provided as an example have decided to opt for a fixed liability profile. The reason for this is so they do not incur any further liability if any other developers connecting via the hub decide to terminate. It was questioned if these developers would be given the opportunity to move back to an actual profile if the risk was mitigated as a result of this proposal. The Workgroup agreed that that this will be further discussed as part of the implementation and transition process.

Q11: What do you believe are the implications of the proposed changes on cluster (generation hub) applications, and how do you believe individual parties forming cluster application should be treated?

Q13: What impacts might there be of the proposed changes on the security arrangements of existing distributed generators both with and without BEGAs/BELLAS? Could there be a case for contract re-openers?

Q7: What are your views on Option 2, including pros and cons? Please provide evidence where possible.

Option 3

6.20 The Workgroup considered a further approach where, in the event of termination and non-payment of invoice by the relevant distributed generator, the DNO would outsource the debt recovery to NGET. Under this approach, NGET would be pursuing debts on behalf of each DNO, based on the terms in their contracts. It was noted that this would require DNO contracts to have the ability for them to be 'factored'; i.e. that the enforcement of the contract can be transferred to another party. The following, Figure 5 shows the timeline of events upon the DG terminating under this approach:

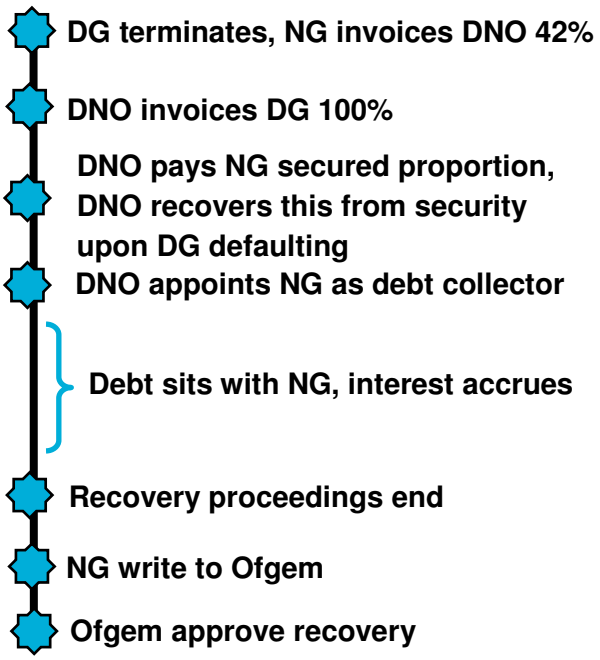


Figure 5

6.21 It was noted that all DNOs have different contracts with relevant distributed generators, so this approach would necessitate NGET having a clear understanding of each DNOs contract structure and terms. It may also be possible that NGET would need to see some contracts prior to them being sent for signature, to ensure that the required terms are included.

6.22 A member clarified that although NGET would be attempting to recover the debt, the relevant distributed generator would retain the liability to the DNO, and contractually would have to pay the DNO rather than NGET anyway.

6.23 It was questioned whether, if the DNO was to outsource debt-recovery, NGET was the best party to undertake this. It was noted that there are many debt-recovery companies available, all of which have greater skills and experience in this area than NGET. One member noted that that DNOs may already outsource the recovery of unpaid debts, and therefore this option could be normal practice.

6.24 NGET stated that it is not resourced to chase large numbers of unpaid invoices, and noted that in the 2013/14 charging year (to date) there has been no unpaid debt associated with the User Commitment arrangements. NGET's customers are companies who are unlikely to default on the payment of an invoice, or if they do it is more likely to be an administrative error than a cash flow issue. The CUSC itself provides measures to assess companies' credit risk, and hence gives good visibility of risk. Additionally, for Use of System charges, NGET has the right to disconnect sites for non-payment. Typically, the main area where invoices are not paid by generators on time is application fees for connection to the transmission system. In the 2013/14 charging year

so far there have been approximately 40 invoices that have not been paid on time, of these 11 are for application fees (which are for payments in advance of work being undertaken to process an application, so bear no risk). To date this charging year only one of the 40 required bad debt procedures to be invoked, with the others either having been paid or awaiting payment.

Q8: What are your views on Option 3, including pros and cons? Please provide evidence where possible.

Summary of Potential Solutions:

6.25 The Workgroup discussed three potential solutions, the principles of these are provided in Table 2, below. A summary of the pros and cons for these options are included in Annex 5.

Table 2

	Option 1 (original)	**Option 2**	**Option 3**
Main changes proposed to the CUSC	Section 1: modification to imply that relevant DG have the option of becoming 'Users' in relation to Section 15, upon an agreement to do this has been signed. Section 15: potential changes to reflect new agreement types and optionality of terms.	Section 15: modification to facilitate the recovery of any shortfall in liabilities related to a relevant DG terminating from NGET once DNOs have demonstrated to Ofgem's satisfaction that they have exhausted all options of recovering the debt from the relevant DG.	Section 15: modification to facilitate the recovery of any shortfall in liabilities related to a relevant DG terminating from NGET once DNOs have demonstrated to Ofgem's satisfaction that they have exhausted all options of recovering the debt from the relevant DG.
Contractual arrangements	Inclusion of new optional terms within BELLAs & BEGAs and the introduction of a new optional user commitment contract for other 'relevant DGs'. Relevant DGs will have the option of having a direct relationship with NGET in relation to liabilities and securities for transmission works, or retaining the DNO as the party who passes these through.	Construction Agreements between NGET and DNOs would recognise individual DG projects to clarify security amounts and potential liabilities for each.	Construction Agreements between NGET and DNOs would recognise individual DG projects to clarify security amounts and potential liabilities for each.

	Option 1 (original)	Option 2	Option 3
Licence changes required	Changes required to Special Condition 6F of NGET's Transmission Licence to allow passthrough of liabilities relating to relevant DG projects.	Changes required to Special Condition 6F of NGET's Transmission Licence to allow passthrough of liabilities relating to relevant DG projects. Changes required to Distribution Licences to allow passthrough of transmission liabilities relating to relevant DG projects back to NGET.	Changes required to Special Condition 6F of NGET's Transmission Licence to allow passthrough of liabilities relating to relevant DG projects. Changes required to Distribution Licences to allow passthrough of transmission liabilities relating to relevant DG projects back to NGET.
Profile of levels of security	Relevant DG taking up the option of becoming 'Users' receive CMP192 profiles (same as directly connected parties).	Remain at DNO's discretion, but removal of risk from DNO should enable replication of profiles under Section 15 of the CUSC in DNO-DG agreements.	Remain at DNO's discretion, but removal of risk from DNO should enable replication of profiles under Section 15 of the CUSC in DNO-DG agreements.
Arrangements to recover debt in case of default	NGET best endeavours. NGET deals directly with defaulting customer. If not possible NGET recovers shortfall through licence. (For relevant DG opting to manage via DNO, DNO policies continue to apply.)	DNO best endeavours. Reliant upon DNO notifying NGET of termination, upon which: - NGET invoices the DNO for full liability - DNO tries to recover bad debt and justifies cost recovery to Ofgem. - DNO pays NGET the security cover provided by DG (e.g. 42%) and passes remaining debt back to NGET. - NGET recovers shortfall through licence.	NGET best endeavours. Reliant upon DNO notifying NGET of termination, upon which: - NGET invoices the DNO for the security cover provided by DG (e.g. 42%), DNO invoices relevant DG for full liability (100%). DNO pays NGET and transfers bad debt (58%) to NGET. - NGET tries to recover bad debt NGET justifies cost recovery to Ofgem. - NGET recovers shortfall through licence.
De minimis arrangements: **a) Is there one?** **b) At what level is this set?**	Optional addition (with views sought on an appropriate level as part of this consultation).	N/A	N/A

	Option 1 (original)	Option 2	Option 3
Treatment of cluster applications	All parties choosing direct NGET contract would be treated in the same way as other CMP192 users. (Those opting to go via DNO receive DNO's T&Cs.	Remains at DNO's discretion, but removal of risk from DNO along with individual projects being recognised under NGET-DNO construction agreements should enable replication of profiles under Section 15 of the CUSC in DNO-DG agreements.	Remains at DNO's discretion, but removal of risk from DNO along with individual projects being recognised under NGET-DNO construction agreements should enable replication of profiles under Section 15 of the CUSC in DNO-DG agreements.
Post commissioning liabilities	Original as per existing arrangements with no post-commissioning liability being introduced under BELLAs or the new User Comment agreement. However, post-commissioning liability could be introduced as an alternative or future change.	As per existing arrangements as no contractual arrangement would exist between NGET and some DGs.	As per existing arrangements as no contractual arrangement would exist between NGET and some DGs.
Sign-up to new process – mandatory or optional?	Optional	Mandatory, subject to any transitional arrangements.	Mandatory, subject to any transitional arrangements.

7 Impacts

Impact on the CUSC

7.1 CMP223 may require amendments to the following parts of the CUSC:

- Section 1
- Section 11
- Section 15
- Schedule 2 Exhibit 2 BEGA
- Schedule 2 Exhibit 3 Construction Agreement
- Schedule 2 Exhibit 5 BELLA

7.2 The exact impact will be subject to the options(s) taken forward. There is the potential that the Original or one of the alternatives (if they are taken forward) could require broader changes. For example, whilst Option 1 is to make Users subject to Section 15, in order for this to take effect other Sections of the CUSC like general provisions, and definition need to apply.

Impact on Greenhouse Gas Emissions

7.3 Neither the proposer nor the Workgroup identified any material impact on Greenhouse Gas emissions.

Impact on Core Industry Documents

7.4 None identified at this stage.

Impact on other Industry Documents

7.5 The different solution could have an number of consequential impacts on DNO contractual arrangements. Changes would potentially be required to NGET's transmission licence as detailed in paragraph 5.29 of this report, and DNO distribution licences.

8 Proposed Implementation

8.1 The Workgroup considered that CMP223 could be implemented 10 Working Days after an Authority Decision, however consideration should be given to the timing with regards to the six-monthly securities process. In accordance with 8.22.10 (b) of the CUSC, views are invited on this proposed implementation date.

8.2 The Workgroup discussed the need for a consequential modification to the Special Licence Condition 6F to allow NGET to recover distribution connected generation liabilities, either directly under the original proposal or on behalf of DNOs under the alternatives. Special Licence Condition: 6F currently enables the recovery of liabilities from a transmission connected generator in the event NGET is unable to recover 100% of the generator's liability following termination of its connection agreement.

8.3 The Workgroup considered whether existing relevant distributed generators who have chosen a fixed liability under the current arrangements should be allowed the opportunity to reopen their choice, should CMP223 be implemented, as they may have chosen a different option under these new arrangements. It was considered that the issue of retrospective changes such as this should be discussed as each potential solution is developed.

9 How to Respond

9.1 The Workgroup is seeking the views of CUSC Parties and other interested parties in relation to the issues noted in this document and specifically in response to the questions highlighted in the report and summarised below:

Standard Workgroup consultation questions;

- **Q1: Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.**

- **Q2: Do you have any other comments?**

- **Q3: Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider? If so then please refer to paragraph 9.3 below.**

Specific questions for CMP223

- **Q4: Do you believe that any of the potential solutions highlighted under CMP223 better facilitates the Applicable CUSC Objectives?**

- **Q5: What are your views on the Option 1, including pros and cons? Please provide evidence where possible.**

- **Q6: Should there be a de minimis level, exempting those generators below it from user commitment? On what basis should this level be determined? What are the risks of implementing a de minimis threshold?**

- **Q7: What are your views on Option 2, including pros and cons. Please provide evidence where possible.**

- **Q8: What are your views on Option 3, including pros and cons. Please provide evidence where possible.**

- **Q9: Do you believe that the application of the provisions of Section 15 of the CUSC to relevant distributed generators should be optional or mandatory?**

- **Q10: Do you consider that an embedded generator should have post-commissioning liabilities, and if so, which?**

- **Q11: What do you believe are the implications of the proposed changes on cluster (generation hub) applications, and how do you believe individual parties forming cluster application should be treated?**

- **Q12: Do you believe that the security profile currently applied to current CUSC parties is**

appropriate for relevant distributed generators? If different security profiles should be applied, how should these be determined?

- **Q13: What impacts might there be of the proposed changes on the security arrangements of existing distributed generators both with and without BEGAs/BELLAS? Could there be a case for contract re-openers?**

9.2 If you wish to make a representation on this Workgroup Consultation, please use the response proforma which can be found under CMP223 at the following link:

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

9.3 In accordance with Section 8 of the CUSC, CUSC Parties, BSC Parties and the National Consumer Council may also raise a Workgroup Consultation Alternative Request. If you wish to raise such a request, please use the relevant form available at the weblink below:

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

9.4 Views are invited upon the proposals outlined in this report, which should be received by 14 February 2014.

9.5 Your formal responses may be emailed to:

cusc.team@nationalgrid.com

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

9.7 Information provided in response to this consultation will be published on National Grid's website unless the response is clearly marked "Private & 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, the Workgroup or the industry and may therefore not influence the debate to the same extent as a non confidential response.

Please note 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 - Proposed Legal Text

Given the nature of the options, at this stage the Workgroup has not provided supporting legal text. This will be established after this Workgroup consultation and will be included in the final Code Administrator Consultation in due course.

Workgroup Terms of Reference and Membership

TERMS OF REFERENCE FOR CMP223 WORKGROUP

Responsibilities

1. The Workgroup is responsible for assisting the CUSC Modifications Panel in the evaluation of CUSC Modification Proposal CMP223 Arrangements for Relevant Distributed Generators Under the Enduring Generation User Commitment tabled by Carnedd Wen Onshore Wind Farm Ltd at the 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) Implications on the National Grid Electricity Transmission Licence.
   b) Obligations under Section 15 of the CUSC – whether terms in Section 15 could be mandatory or optional for relevant Distributed Generation users.
   c) Impact of change on liabilities for directly connected users.
   d) Cost implications of administering additional contracts on National Grid and embedded users.
   e) Check that there are no wider implications of the application of section 15 to DG users.
   f) Consider progression of the DCuSA proposal.
   g) Review illustrative legal text.

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	National Grid
Industry Representatives*	Fruzsina Kemenes	Carnedd Wen Onshore Wind Farm (Proposer)
	Leonida Bandura	E.ON
	Garth Graham	SSE
	Ane Landaluze	Scottish Power
	Deborah Macpherson	SP Distribution
	Kyle Martin	Energy UK
	Kenny Stott	SHE Transmission
	Andrew Causebrook	Vattenfall Wind Power Ltd
Authority Representatives	Edda Dirks	Ofgem
Technical secretary	Louise McGoldrick	Code Administrator
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 CMP223 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 CMP223 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
21 November	Issue draft Workgroup Consultation for Workgroup comment (5 working days)
28 November	Deadline for comments on draft Workgroup Consultation
2 December	Publish Workgroup consultation (for 3 weeks)
23 December	Deadline for responses to Workgroup consultation
W/C 6 January 2014	Post-consultation Workgroup meeting
15 January 2014	Circulate draft Workgroup Report
22 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

CUSC Modification Proposal Form CMP223

nationalgrid

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal
Arrangements for Relevant Distributed Generators Under the Enduring Generation User Commitment
Submission Date
16.09.2013
Description of the Issue or Defect that the CUSC Modification Proposal seeks to address

This CUSC modification seeks to address an unintended consequence of the application of CMP192 and related terms under Section 15 of the CUSC. As a consequence of the rules described below, distribution connected generators deemed to have an impact on the transmission network are faced with undue discrimination in the way that liability and security terms and conditions are set and how the sums are calculated and passed on.

The CMP192 methodology separates the liability ("termination amount") from the associated security amount (to take into account the reduced likelihood of termination – and therefore stranded assets – as project certainty increases). Once developers have reached pre-determined stages of project development their securities reduce relative to the liability in recognition of the reduced risk of termination as a project nears completion.

Overall, the new methodology for setting liabilities and securities under CMP192 has been a welcome improvement for renewable energy projects. However, the rules for the application of CMP192 in CUSC Section 15 'User Commitment Methodology' appear to have created new issues for Distribution Network Operators (DNOs) and their generation customers. The resulting treatment of generators that are directly transmission connected is contrasted to the treatment of distribution connected generators below:

CMP192 treatment of generators which are directly transmission connected

Generators seeking to directly connect to the transmission network only have to provide security to National Grid for the reduced security amount (although they remain liable for 100% of the termination amount). Generally, a pre-consented project secures 42% of its CMP192 liability from the "Trigger Date" until the point that it achieves consent, then after consent until energisation, it secures only 10% of its CMP192 liability.

- Recovery mechanism for stranded assets:

NGET has an adjustment mechanism in its licence (Special Licence Condition: 6F) which permits it to recover the value of stranded generation connections spend, subject to satisfying certain conditions, in the event that it is unable to recover 100% of a generator's liability following a termination of its connection agreement.

CMP192 arrangements – impact on distribution connected generators

For clarification, currently most distribution connected generators in the majority of DNO areas are not deemed to have an impact on the reinforcement needs for the transmission network. In instances where they are considered to have an impact, DNOs will enter a Construction Agreement with NGET in respect of any

construction works required as a result of their connection. Where this occurs these generators - referred to henceforth as 'relevant distributed generators' - are indirect recipients of NGET's security and liability requirements as described below.

DNOs are defined as 'Users' under S15 of the CUSC and have a direct contractual relationship with NGET. Thereby DNOs are liable to NGET for the full costs of the "attributable" (and in some cases the "wider") transmission works required for relevant distributed generators, in the same way that transmission connected generators are liable for the cost of those transmission works. (I.e. The relevant distributed generators have no direct relationship with NGET in relation to the reinforcement works).

- Recovery mechanism for stranded assets:

If a relevant distributed generator fails to proceed and terminates its contract with the DNO (the contracted 'user'), the DNO will terminate its agreement with NGET, who would in turn seek to recover the full liability amount from the DNO rather than from the relevant distributed generator. In the absence of a suitable recovery mechanism (such as NGET has), some DNOs are seeking to cover the risk that they will have to pay termination charges to NGET by seeking security from the relevant distributed generator for the entire CMP192 liability amount at all times and passing on much more onerous contractual terms and conditions compared to NGET's.

The treatment of embedded generation projects with Bilateral Embedded Generation Agreements (BEGAs) is slightly different. An embedded generator with a BEGA would be exposed directly to NGET under CMP192 for liability and security requirements associated with *wider* works. In this case the generator would benefit from the milestone-related reduced security requirements under CMP192 for the wider works costs *but not for the attributable works costs*, as the DNO would require them to secure their full liability (as again, this would be the amount that the DNO would have to pay to NGET in the event of an agreement being partially or fully terminated).

Undue discrimination

DNOs are undoubtedly left exposed under the arrangements and some are managing the risk by requesting 100% securities throughout the development period and insisting on more onerous terms and conditions – while this is rational it unfortunately creates a large barrier to the connection of relevant distributed generators. Providing cash security, letters of credit or parent company guarantees to secure 100% of the liability sum has cash-flow implications and is not a viable option for many companies and communities, threatening the ability to sustain their distributed generation projects.

The relevant distributed generators would be treated differently directly under NGET's terms and conditions. The DNO methodologies for liability and security apportionment are not always transparent, the forecast period for the liabilities can be shorter than that provided by NGET exposing relevant distributed generators to volatility. We also note that because different DNOs are taking different approaches to how their liability and security exposures are passed through and there is a lack of consistency in terms of market access for distribution connected generators from one part of the country to the next.

CMP192 original objectives not being met

Treating generators that are connected to the distribution system in a less beneficial manner to those connected directly to the transmission system - with respect to pre-commissioning security requirements - creates a barrier to market entry for relevant distributed generators. This is contrary to the original objectives of CMP192[1] which sought to address the following defects in the User Commitment regime:

1. The methodology for calculating user commitment requirements is not defined in the existing commercial framework, and as such is non-transparent to users.
2. The level and volatility of liabilities, and hence the level of security, determined through the existing

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

Without NGET and the DNOs addressing the issues highlighted, relevant distributed generators will continue to face undue discrimination and the development of competition in the UK energy market will be impeded.

Description of the CUSC Modification Proposal

Key Objectives

This CUSC modification proposal seeks to achieve a fair and transparent treatment of relevant distributed generators in terms of transmission system securities and liabilities. At the same time, the solution must not lead to distributed generators becoming party to/ needing to become compliant with the wider terms of the CUSC – after all the primary relationship for connection and use of the network for distributed customers is with a DNO.

Issue to be resolved

As set out above, the application of CMP192 via CUSC section 15, the 'User Commitment Methodology' effectively compromises Applicable CUSC Objective 4(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. Although the relevant distributed generators have the same type of impact on the transmission network as generators that are directly transmission connected, there is a stark difference in the way that liability and security terms & conditions are set, how charges are calculated and passed on. Currently, under CUSC S15 DNOs have been defined as 'Users' in relation to the cancellation charge and the pass-through of the payment profiles to the relevant distributed generators is at their discretion. The fact that the DNO has been elected as a middle man without having been provided with an allowance for the recovery of stranded assets in the Electricity Distribution Licence is the root cause of the problems experienced by relevant distributed generators.

Suggested Approach

One way of resolving the problem would be to cut out the DNO acting as middle man. This modification proposes to create a direct relationship between the relevant distributed generators and NGET so that the terms and conditions for securities and liabilities can be passed on in the same way as they are to other 'users' specified in CUSC S15.

This modification suggests defining 'relevant distributed generators', distributed generation that would normally be associated with a Construction Agreement between NGET and a DNO as a class of 'User' exclusively under CUSC Section 15 'User Commitment Methodology'. These relevant distributed generators must not be named as parties to other sections of the CUSC (in section 1).

Thereby this CUSC modification could remove the risks that a DNO is forced to take on, on behalf relevant distributed generators. Relevant distributed generators would thus be apportioned cancellation charges and security requirements directly by NGET in the same way as if they were transmission connected. In order to work some form of simple agreement specifically covering security and liability arrangements may have to be in place between NGET and the relevant distributed generators. In the event of a relevant distributed generator terminating NGET would pursue this party directly for the cancellation charge. In the event of stranded assets NGET would be able to make use of the recovery mechanism set out under Special License Condition 6F.

Finally, we request that a deminimis threshold for passing through securities should be considered. Smaller parties are affected by the arrangements disproportionately as they are usually the most cash constrained investors. We suggest that Sub 1MW generators should be exempt from security downpayments.

Impact on the CUSC
The proposal suggests changes to CUSC Sections 1 'Applicability Section' and/or 15 'User Commitment Methodology'.
Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes / No
No.
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
No – Due to the complexity of how the defined issue could be resolved a working group will be needed. However, the impacts are being acutely felt by relevant distributed generators today and projects at risk of falling through and therefore a solution is required ASAP.
Justification for Urgency Recommendation
N/A
Self-Governance Recommended: / No?
No. *This is an optional section. You should state whether you believe this Proposal should be treated as Self-Governance.*
Justification for Self-Governance Recommendation
If you have answered yes above, please describe why this Modification should be treated as Self-Governance. *A Modification Proposal may be considered Self-governance where it is unlikely to have a material effect on:* • *Existing or future electricity customers;* • *Competition in generation or supply;* • *The operation of the transmission system;* • *Security of Supply;*

- *Governance of the CUSC*
- *And it is unlikely to discriminate against different classes of CUSC Parties.*

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?

Yes, there is no interaction with the Electricity Balancing SCR.

Impact on Computer Systems and Processes used by CUSC Parties:

Possible..

If the solution favoured by the working group is to define relevant distributed generators (Distributed Generation that would normally be associated with a Construction Agreement between NGNET and a DNO) as a class of 'User' then a simple new contract covering solely the cancellation charge and the security amounts between NGNET and the DG user may be necessary.

This is an optional section. Include a list of any relevant Computer Systems and Computer Processes which may be affected by this Proposal, and where possible, how they will be affected.

Details of any Related Modification to Other Industry Codes

This is an optional section. You should list any other simultaneous modifications being proposed to other Industry Documents and Codes that you are either aware of or have raised.

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.

The current situation with CMP192 compromises Applicable CUSC Objective ('B'): facilitating effective competition in the generation of electricity by unintentionally, unduly discriminating against generators that are directly distribution system connected and deemed to have an impact on the National Electricity Transmission System. These generators have the same impact on the security of the transmission network as generators that are directly transmission connected – as such, there appears to be no justification for the difference in the way that liability and security charges are calculated and passed on to these users.

☐ (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). *This section is mandatory. You should detail why this Proposal better facilitates the Applicable CUSC Objectives compared to the current baseline. Please note that one or more Objective must be justified.*

Additional details

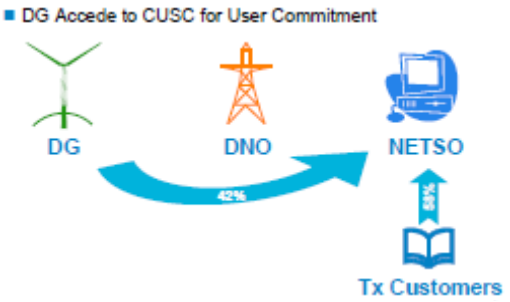
Details of Proposer: (Organisation Name)	Carnedd Wen Onshore Wind Farm Ltd
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Fruzsina Kemenes Carnedd Wen Onshore Wind Farm Ltd 01793 474463 Fruzsina.kemenes@rwe.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Diana Chklar Carnedd Wen Onshore Wind Farm Ltd +44 7584580327 **diana.chklar@rwe.com**
Attachments (Yes/No): **If Yes, Title and No. of pages of each Attachment:**	

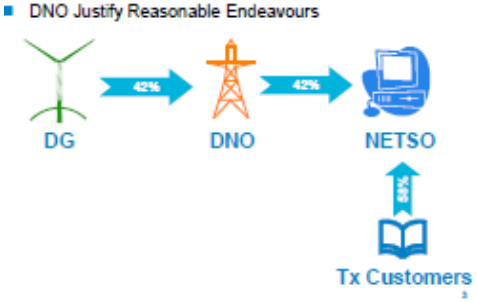
Annex 4 - Workgroup Attendance Register

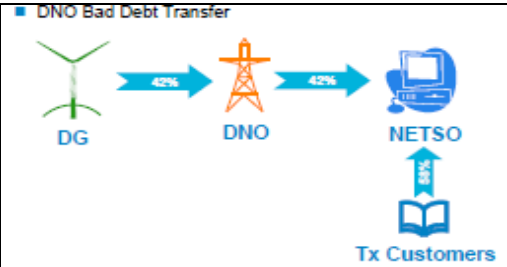
Name	Organisation	Role	1	2	3	4
Patrick Hynes	National Grid	Chairman	O	O	O	O
Louise Mcgoldrick / Jade Clarke	NGET	Technical Secretary	O	O	O	O
Adam Sims / Wayne Mullins	NGET	National Grid representative	O	O	O	O
Edda Dirks / Angelita Bradney	Ofgem	Authority Representative	O	O	D	D
Fruzsina Kemenes	Carnedd Wen Onshore Wind Farm Ltd	Proposer	O	O	O	D
Leonida Bandura	EON	Workgroup Member	A	O	O	D
Garth Graham	SSE	Workgroup Member	D	O	D	D
Ane Landaluze	ScottishPower	Workgroup Member	A	O	D	X
Deborah MacPherson	SP Distribution/SP Manweb	Workgroup Member	A	O	X	D
Kyle Martin	Energy UK	Workgroup Member	D	O	D	D
Kenny Stott	SHE Transmission	Workgroup Member	X	O	D	D
Andrew Causebrook	Vattenfall Wind Power Ltd	Workgroup Member	X	O	O	X

Attended O; alternate A; dial-in D; non-attendance X

Annex 5 – Potential solutions to the defect

Proposal	Pros	Cons	'Risk Attribution' – In the event of project cancellation which party carries final risk?
OPTION 1: **CUSC Modification** **Section 1: define relevant distributed generators deemed to have an impact on transmission reinforcement as a possible S-15 'user'.** CUSC applicability will be limited to relevant clauses of Sections 1, 5,6,7,8,11 and 15. (same as BELLAs) Retain DNO acting as broker (status quo) as an option for relevant DG. **Further refinement:** Introduce a de-minimis capacity level for application of securities and liabilities. Alternatives: -exempt projects too small for SOW - exempt 1MW+ 'arbitrary' threshold (Note that this coincides with	Perceived discrimination issue resolved. As a 'user' under Section 15 relevant DG will be treated in the same way as other 'users' in terms of securities and cancellation charges. Transparent, clear statement on how DG will be treated UK-wide as soon as The Authority passes its decision. Retaining the option for the relevant DG to choose the DNO to act as 'broker' gives DG a choice to avoid becoming involved with the CUSC (but clearly then it remains at DNO's discretion how such DG are treated). For DNOs: Resolves the risk of having to bear the difference between relevant DG security and the liability. A de-minimis capacity level for application should avoid retaining a cash-flow barrier for very small projects and avoid the hassle of dealing with multiple contracts for small parties. Should also ease the administrative burden on NGET.	Requires new NGET contracts for relevant DG (setting up is relatively easy). Key issue is time needed to administer and enforcement. The proposal is intended to be a time limited agreement (either up until connection or shortly after completion of connection contract) – meaning that there should be no implications for operation. However, as the CUSC can be changed there is a risk that the solution could unintentionally lead to onerous technical requirements on signatories at a future date. Risk of mission creep- e.g. new commitments for distribution connected parties or DNOs developing constraints management tool via contract. Lengthy implementation process, continuing to leave live projects exposed. Who pays for cancellation if any DG are exempt? The risk profiles of DG cancellations need to be understood. Risk to GDUoS customers' needs to be evaluated by Ofgem (data to be supplied by DNOs). Introducing a deminimis threshold could	**TNUoS customers** Ultimately GB TNUoS customers (generation & demand residual). 

proposed EU regulation related limit: encompasses 'Type A' and 'Type B' generators)		lead to gaming behaviour on part of DG customers	
OPTION 2: **CUSC Modification** **Amend Section 15 so that:** **A shortfall in liabilities related to a relevant DG terminating is recovered by NGET once the DNOs demonstrate they have exhausted all options.** Amend Construction Agreements so that all relevant DG parties are named. NGET invoices the DNO for full liability DNO tries to recover bad debt and justifies cost recovery to Ofgem, DNO pays NGET 42% min. NGET recovers shortfall through licence.	For DNOs: Resolves the risk of having to bear the difference between relevant DG security and the liability. No new contracts for relevant distributed generators Small SOW connectees continue to have a single interface – the DNO - for their connections Amending Connection Agreements to name all relevant DG parties helps resolve 'DG hub mutual liability issue'. (DG Hub scenario – cancellation charge recovery terms and conditions will be governed by DNO. Here multiple DGs are covered by a single Construction Agreement between the DNO and NGET and rules on how termination by a single party should be dealt with sit with DNO – not transparent or fair. (Worse case: remaining parties carry liability of terminating DG)).	The terms and conditions and charges for securities and cancellations that relevant distributed users face will remain at the discretion of the DNO. It can be assumed that there would be no grounds then for the DNOs to pass through different security profiles- but there is no regulatory guarantee. Lengthy implementation process, continuing to leave live projects exposed.	**TNUoS customers** Ultimately GB TNUoS customers. (Generation & demand residual). 
OPTION 3: **Amend Section 15 so that: A shortfall in liabilities related to a relevant DG terminating can as a last resort be recovered by NGET**	For DNOs: Resolves the risk of having to bare the difference between relevant DG security and the liability No new contracts for relevant distributed generators Small SOW connectees continue to have	The terms and conditions and charges for securities that relevant distributed users face will remain at the discretion of the DNO. It can be assumed that there would be no grounds then for the DNOs to pass through different security profiles- but	**TNUoS customers** ultimately GB TNUoS customers. (generation & demand residual).

on behalf of DNOs. Amend Construction Agreements so that all relevant DG parties are named. NGET invoices the DNO for 42% liability (=security cover provided by DG) DNO pays NGET and transfers bad debt (58%) to NGET NGET tries to recover bad debt NGET justifies cost recovery to Ofgem NGET recovers shortfall through licence	a single interface – the DNO - for their connections but would face NGET if they terminate. DG Hub scenario – cancellation charge recovery terms and conditions will be governed directly by NGET – apportionment and method of recovering liabilities no longer sits with DNOs. (Relevant DG needs to be named in construction agreements to provide visibility for NGET).	there is no regulatory guarantee. Debt collector role for NGET – not a natural fit. A new clause would have to be introduced to DNO-DG contracts, introducing NGET as a third party. NGET has no authority to request this and would also seek to review every DNO-relevant DG contract. NG would be enforcing contracts on behalf of the DNOs; such contracts will differ between DNOs, NG does not have any expertise in these contracts, nor any guarantee that they will have the appropriate requirements for enforcement. Lengthy implementation process, continuing to leave live projects exposed.	
Optional CONSEQUENTIAL CHANGE **Related to 2, 3: DCUSA Mod/ Connection Charging Methodology Mod: to include Statement of the methodology on the DCUSA adapted from S-15 of the CUSC.**	Clarity on exactly how DG will be treated once both the The Authority passes its decision. Perceived Discrimination issue resolved. Relevant distributed generators will be treated in the same way as 'users' in terms of securities and cancellation charges if DNOs adopt the terms and conditions for cancellation charges and securities via a common regulatory document. Resolves the risk issue for the DNOs by directing DNOs to recover from cancelling party.	Complicated. Would be dependent on both change proposals progressing at the same speed and going through. Both codes subject to different governance procedures could end up changing separately over time. Very lengthy process, continuing to leave projects exposed.	**TNUoS customers** Ultimately GB TNUoS customers. (Generation & demand residual).