

Stage 02: Workgroup Consultation

Connection and Use of System Code (CUSC)

CMP248

Enabling capital contributions for transmission connection assets during commercial operation

01	Initial Written Assessment
02	Workgroup Consultation
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CMP248 seeks to introduce arrangements into the CUSC that would enable users that have existing arrangements to pay annual charges for transmission connection assets the opportunity to make capital contributions against the transmission connection assets.

This document contains the discussion of the Workgroup which formed in August 2015 to develop and assess the proposal. Any interested party is able to make a response in line with the guidance set out in Section 6 of this document.

Published on: 30th September 2015
Length of Consultation: 15 Working days
Responses by: 21st October 2015

The Workgroup concludes:

To be completed following the Workgroup Consultation



High Impact:

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



Low Impact:

Transmission Owners

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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 the Original CMP248.

CUSC Modification Proposal which was raised by Nigel McManus of Eneco UK and developed by the Workgroup. Parties are requested to respond by **5pm on 21st October 2015** to CUSC.team@nationalgrid.com using the Workgroup Consultation Response Pro forma which can be found on the following link:

<http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP248/>

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Document Control

Version	Date	Author	Change Reference
1.0	30/9/2015	Workgroup	Workgroup Consultation to Industry

1 Summary

- 1.1 This document describes the Original CMP248 CUSC Modification Proposal (the Proposal) and summarises the deliberations of the Workgroup. Prior to confirming any alternative proposals the Workgroup are seeking views on the options they have identified, what is the best solution to the defect and also any other further options that respondents may propose.
- 1.2 CMP248 was proposed on behalf of LZN Ltd by Nigel McManus, Eneco UK and was submitted to the CUSC Modifications Panel for their consideration on 23rd July 2015. A copy of this Proposal is provided within Annex 1. The Panel decided to send the Proposal to a Workgroup to be developed and assessed against the CUSC Applicable Objectives. The Workgroup is required to consult on the Proposal during this period to gain views from the wider industry (this Workgroup Consultation). Following this Consultation, the Workgroup will consider any responses; vote on the best solution to the defect and report back to the Panel at the November CUSC Panel meeting.
- 1.3 CMP248 aims to introduce arrangements into the CUSC that would enable users that have existing arrangements to pay annual charges for transmission connection assets the opportunity to make capital contributions against the transmission connection assets. This would enable them to reduce ongoing annual charges and related post operational securities.
- 1.4 The Workgroup first met on 10th September 2015, and agreed to complete this Workgroup Consultation document to inform discussions at future Workgroup Meetings.
- 1.5 This Workgroup Consultation has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid Website:

<http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP248/>

2 Key Issues and Summary of Workgroup discussions

Background

- 2.1 Currently connecting parties can choose at commissioning whether they wish to make a contribution towards the capital component of the transmission connection assets, outright or in part, or to effectively lease the asset on the basis of RPI indexation and straight line depreciation over typically 40 years.
- 2.2 The current requirements are defined in Section 14 of the CUSC, and state that “a capital contribution based on the allocated GAV [Gross Asset Value] at the time of commissioning will reduce capital” (CUSC 14.3.10).
- 2.3 Clause 14.3.22 sets out the user choice of making 100% capital contribution towards its allocation of a connection asset in which no capital charge will be payable (and the residual connection charge is then based on the non-capital components, the site specific running costs and maintenance costs); and Clause 14.3.23 sets out the arrangements for a partial contribution.
- 2.4 There are currently no explicit arrangements in the CUSC that would enable users to make decisions with regard to capital contributions after commissioning.
- 2.5 This proposal would provide users the option of making additional capital contributions after commissioning, referred in the proposal and in the report as being made during commercial operation. This payment would reduce the annual cost of ‘leasing’ the assets. This proposal therefore extends the choice that a user has prior to Commissioning to the period of ‘commercial operation’ post commissioning.
- 2.6 The Proposer stated that if a modification to the CUSC resulting from CMP248 was successful, it would better facilitate effective competition by removing a barrier to responding appropriately to changing circumstances, as it would enable users to have greater choice and flexibility concerning how they manage these costs effectively.
- 2.7 The Workgroup considered a number of areas relating to this proposal and the impact that it might have. These are considered in the following sections:
 - (a) How connection charges currently apply
 - (b) Impact of the proposal on generators
 - (c) Should full or partial capital contributions be permitted
 - (d) Level of partial contributions
 - (e) Quantity of charges and number of affected users
 - (f) Interaction with the STC and the Statements of the Basis for Transmission Owner Charges
 - (g) Process for making a capital contribution
 - (h) Other Areas

(a) How connection charges currently apply

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

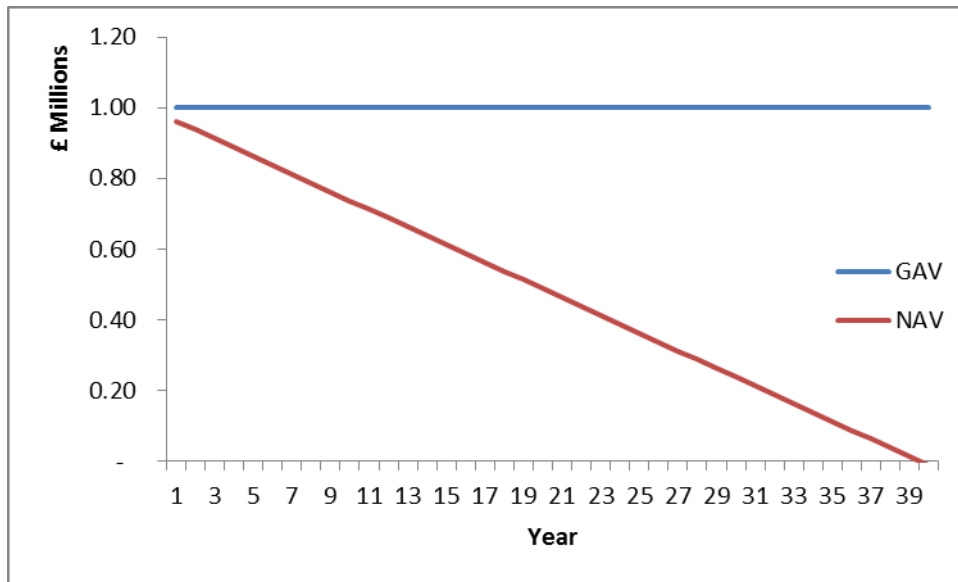


Figure 1: How the Gross Asset Value (GAV) and Net Asset Value (NAV) vary over time for a connection asset with initial GAV of £1M ignoring inflation, highlighting the straight line depreciation of the NAV over the 40 year depreciation period.

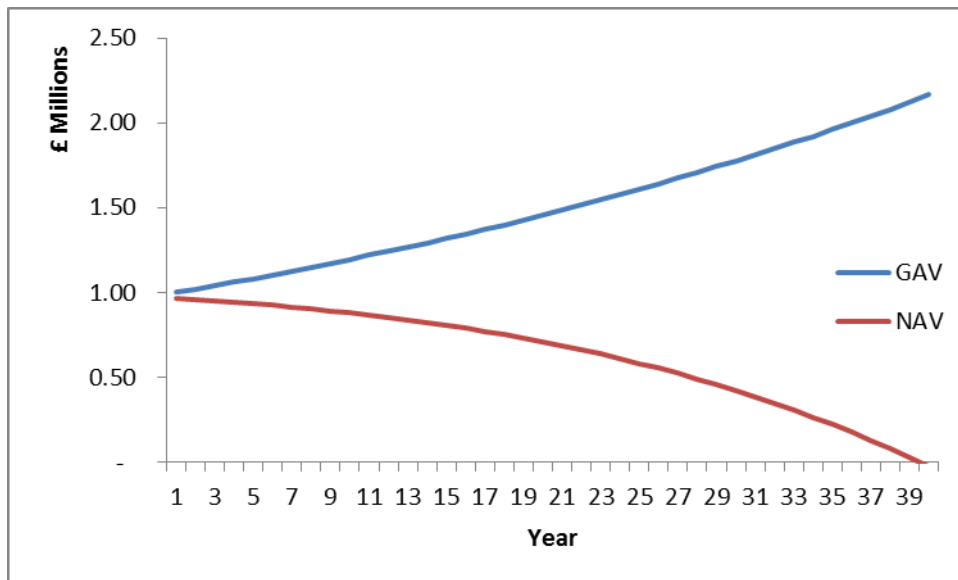


Figure 2: How the GAV and NAV vary over time for a connection asset with initial GAV £1M with constant inflation of 2%.

- 2.10 The basic annual connection charge formula (CUSC 14.3.20) is used to calculate the annual connection charge for a user with connection assets. Assuming, an initial GAV of £1M and

inflation of 2% (as above), the indicative annual charges without any capital contributions are shown in Figure 3. After the forty year depreciation period there is no capital charge.

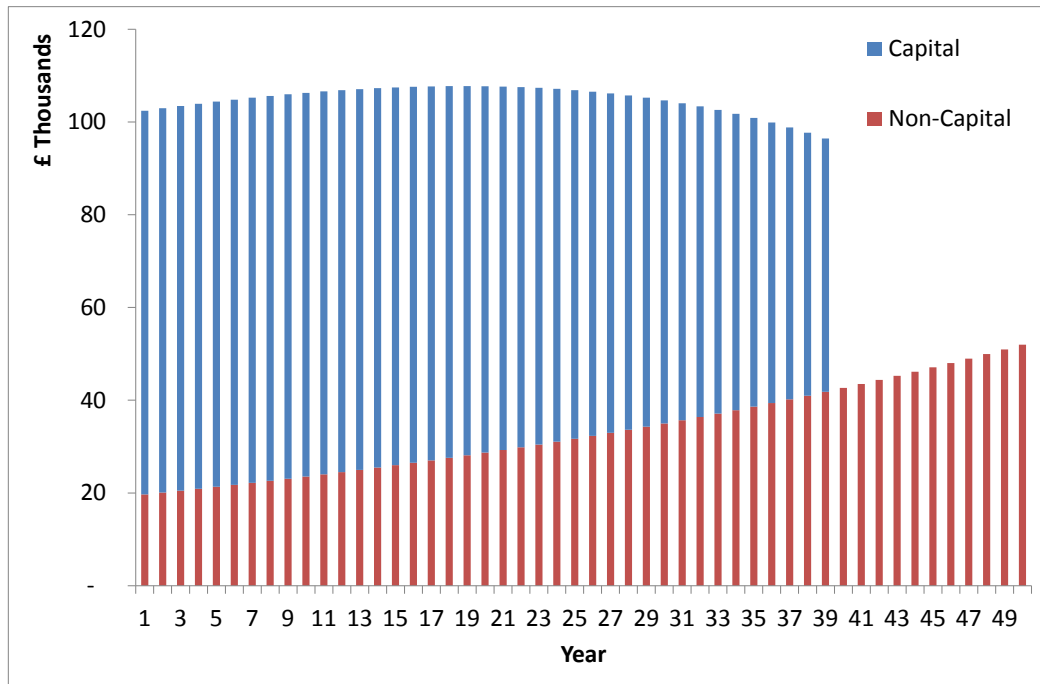


Figure 3: Value of the connection charge without any capital contribution.

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

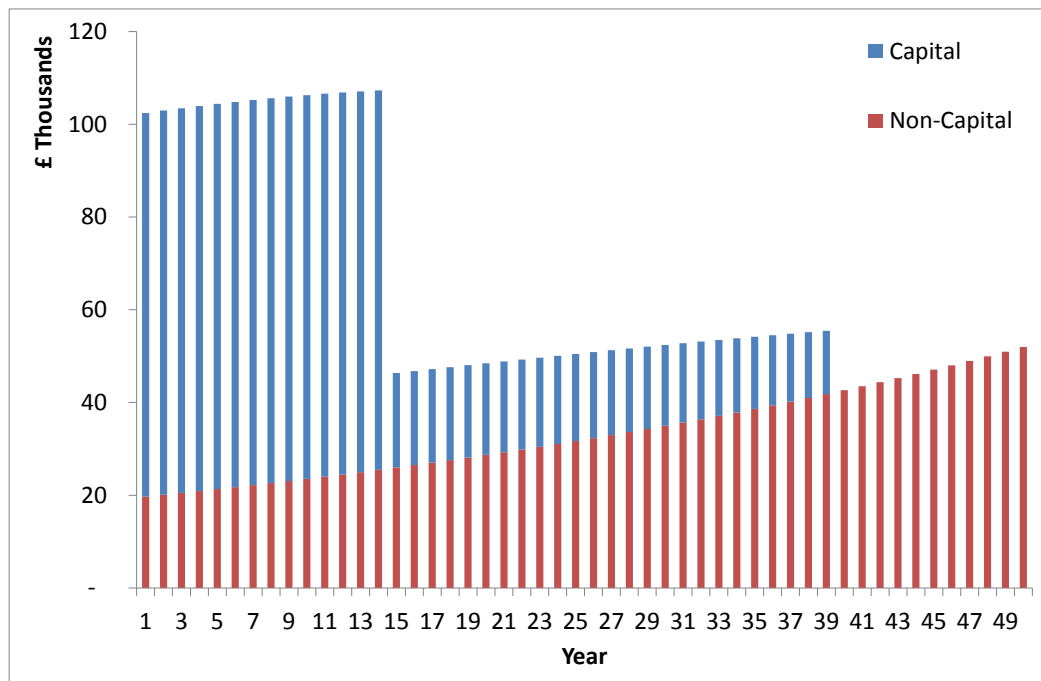


Figure 4: Value of the connection charge with a 75% partial capital contribution at Year 15.

(b) Impact of the proposal on generators

2.12 The modification was raised by an existing generator, who chose, for commercial reasons, not to make any capital contribution at the time of commissioning. Therefore, it now needs to

provide a security for the future value of the repayment of the assets, and to pay the charges for those assets each year as defined in the CUSC.

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

(c) Should full or partial capital contributions be permitted?

- 2.18 The current methodology for pre-commissioning capital contributions allows for either a full or partial capital contribution to be made by the user to reduce their future payment costs.
- 2.19 In the case of the full capital contribution, the user would then pay only the non-capital element of the connection charge covering the Site Specific Maintenance Charges (SSMC) and Transmission Running Costs (TRC). In the case of partial contribution, in addition to the SSMC and the TRC the user would pay a reduced cost for the lease of the assets adjusted by a factor to account for the capital contribution made at the pre-commissioning stage.
- 2.20 The Workgroup discussed whether (with the CMP248 solution) a user should be able to make only (i) a single full (i.e. 100%) contribution or (ii) a full and/or one (or more) partial contribution(s) toward the connection asset during commercial operation. The Workgroup felt that allowing both full and partial contributions during commercial operation would provide the most flexibility to the users as is most consistent with the choice currently afforded to users at the pre-commissioning stage. However, this approach may have some implications on the process.
- 2.21 The Workgroup agreed to seek industry views through the Workgroup Consultation on whether the (i) full, or (ii) full and/or partial contribution(s) approach should be permitted during commercial operation.

Consultation Question 5

With reference to paragraphs 2.18-2.21 do you think that (i) only full capital contribution, or (ii) full or partial capital contributions towards connection assets should be permitted during commercial operation.

(d) Level of partial contributions

- 2.22 The Workgroup, which favoured allowing partial contributions during commercial operation, held a discussion around whether there should be a minimum level of partial contribution that was permitted to be made by the user. The reason for considering this was to reduce administrative burden on the System Operator (SO) and the Transmission Owners (TOs) of having to potentially process a number of partial capital contributions for small amounts.
- 2.23 It was noted that there is currently no minimum level of partial capital contributions permitted at the point of Commissioning. One Workgroup member noted that as the user would have to make a positive decision to make a capital contribution it is unlikely to do this for a small amount of capital, which would have only a small impact on its remaining annual charge.
- 2.24 Several options were proposed by the Workgroup
- (a) Set no minimum level for partial contributions;
 - (b) Allow payments only in increments of, say 10%, of the remaining value;
 - (c) Set a value in GBP for a minimum capital contribution, possible linked to the materiality threshold in the CUSC (which is currently £10,000).
- 2.25 Option (a) is consistent with pre-commissioning capital contributions. A challenge under Option (b) would be in determining and justifying the value of the chosen percentage threshold(s). Option (c) avoids the need to define a percentage and uses an existing concept from the CUSC although it was questioned whether this was appropriate in the context of connection charges, where the average GAV for a site in Northern Scotland is £4.72 million; £2.76 million in Southern Scotland and £14.06 million in England & Wales.
- 2.26 One Workgroup member cautioned against specifying a minimum level in such a way that it would prohibit a user from paying off the final part of its connection charge. It was noted that a full contribution (i.e. paying off the value in total) should always be possible.
- 2.27 The general consensus of the Workgroup was to proceed with Option (a), to reduce complexity in the modification and maintain consistency with the existing methodology in terms approaches for pre and post commissioning situations. It was noted that should handling small capital contributions become an issues for the SO at a later date, a separate modification to address this defect to the CUSC could (if appropriate) be raised and addressed. Some Workgroup members would prefer the defined percentage in Option (b) to provide clarity to Users.
- 2.28 The Workgroup agreed to seek industry views through the Workgroup Consultation on whether there should be a minimum level for capital contributions and if so what that should be in terms of either a percentage (Option (b)) or £X (Option (c)).

Consultation Question 6

Should there be a minimum permitted level of capital contributions? If so, what should that value be either as a £ figure or a % figure and why?

(e) Quantity of charges and number of affected users

- 2.29 In order to put in context the total value of affected assets and number of users, the following data was provided by the SO. Figure 5 illustrates the total value of the GAV, NAV and

connection charges by onshore TO area. Figure 6 averages this data over the number of sites to provide *illustrative* data for a user.

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

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

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

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

- 2.30 In general, the majority of connection charges in England and Wales (National Grid) are in respect of DNOs and other directly connected demand customers. In Scotland, although there are connection charges for DNOs and other directly connected demand customers, connection charges for generators make up a larger proportion of connection charges.
- 2.31 Although this modification has been proposed by a Generator, the Workgroup agreed that the choice would apply to any user with connection assets and connection charges.

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

- 2.32 The contractual relationship between the user with the connection assets, regardless of where they are located in GB, is between National Grid and the user via the CUSC. The CUSC defines the basis of charges to the users. This modification seeks to provide additional choice for users in the Section 14 of the CUSC.
- 2.33 The relationship between SO and the other TOs, who will build the connection assets in their geographic regions, is defined through the System Operator Transmission Owner Code (STC). In addition all TOs are required to produce Statements of the Basis for Transmission Owner Charges^{1,2} (referred to as *Statements*) which states how charges will be made between the TOs and National Grid.

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

- 2.34 Therefore, there is a need to ensure that the requirements of the CUSC and the Statements are consistent, to avoid a mismatch in cash flow received from the users and paid to the TOs, and the risk that National Grid is left financially exposed due to customers choosing to make a capital contribution during commercial operation at a time that does not align with the above cash flow process.
- 2.35 At present, the connection assets exist only in respect of connection to the existing onshore TOs (National Grid and the Scottish TOs - Scottish Hydro Electricity Transmission and Scottish Power Transmission). There are currently no offshore connection assets, so at present this change does not directly affect Offshore TOs. However, this modification must not preclude users with connection assets from current or future offshore TOs or future onshore TOs (in the context of ITPR) from making capital contributions in the same way as those users connected to the existing onshore TOs.
- 2.36 The current versions of the Statements for each Scottish TO do not permit capital contributions during commercial operation as they are aligned to the current provisions of CUSC. However, the Workgroup members representing the two Scottish TOs confirmed they would be content to update their Statements to reflect the changes in the CUSC arising from this modification if it is approved and implemented.

(g) Process for making a capital contribution

- 2.37 The Workgroup considered what would be an appropriate process and timescale for users making a capital contribution in the context of this modification.
- 2.38 The Workgroup agreed that there should be a once per annum window for users to make capital contributions, rather than an ad-hoc process throughout the year. This will allow the TOs and the SO to include this in their work plan and revenue forecasts, whilst providing a transparent process to the user as to what they need to do and by when (if they wish to make a capital contribution).
- 2.39 The Workgroup held a discussion around a suitable process for users when requesting and initiating a capital contribution³. The main points of discussion covered were:
- (a) **RPI figure.** In calculating the following year's charges the May to October RPI figure will be needed, which is only available in November when it is published by the Office for National Statistics. It was, however; felt that there was only a small amount of risk in not knowing this figure for the generator in deciding at an appropriate point in the year, say September whether to make a capital contribution.
 - (b) **TO Revenue Forecasts.** The TOs need to be notified in sufficient time to allow changes in revenue from capital contributions to be reflected in their revenue forecasts. Current revenue forecasts need to be provided by the TOs to NGET by 1st November, and finalised by the following 25th January. The TOs noted the need for sufficient time for their internal sign off of these forecasts, suggesting early September as being the most appropriate date for users to confirm (to the SO) that they wished to make a capital contribution for the following charging year.
 - (c) **Comparison to TEC reductions.** It was noted that TEC reductions need only be given with notice of 1 financial year and 5 Working Days' in order to avoid a

² SPT:

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

³ Noting the deliberations above (under '*Should full or partial capital contributions be permitted*') regarding either (i) a single full contribution of (ii) full and / or partial contribution(s) the annual notification etc., approach set out here would be applicable in if either (i) or (ii) were adopted.

cancellation charge and otherwise a minimum notice of 5 Working Days' notice is required. As CMP248 is of lesser impact to the TO(s), Workgroup members would expect a shorter lead time is required in this case.

- (d) **Double charges and security.** There is a need to ensure that the user does not have a significant overlap in having to make (i) a capital contribution, (ii) provide security and (iii) pay charges relating to the pre-capital contribution value.

2.40 When considered together, these four points (a)-(d) resulted in the Workgroup proposing the following process:

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

- (a) **By the preceding 1st September** A user wishing to make a capital contribution for the following Charging Year must notify the SO by this date. This would be in the form of an irrevocable notification⁴. Upon receipt of such a notification:
- (i) The SO would notify the appropriate Transmission Owner within 5 Working Days, to allow the Transmission Owner to adjust its revenue forecast for the following Charging Year; and
 - (ii) The SO would raise an invoice (payable by the user) for the capital contribution as part of the connection charging invoice process, and will amend any contractual paperwork for that user as appropriate.
- (b) **By the preceding 15th February** The capital contribution is to be paid by the user to National Grid, and a reduced security cover is required for the following Charging Year reflecting the lower asset Net Asset Value .
- (c) **From 1st April** The user's connection charge for the new Charging Year reflects that a capital contribution has been made by that user, is reflected in the adjusted capital component.

The effect of the capital contribution on the value of the Net Asset Value would be calculated as of 1st April, i.e. when the new Charging Year commences.

2.41 The Workgroup agreed to seek industry views on the proposed process for a user to make a capital contribution during commercial operation.

Consultation Question 7

Do you have any views on the proposed process for a user to make a capital contribution during commercial operation?

2.42 As a result of CMP244⁵ which is currently in the Workgroup phase and is considering moving to a longer notice period for the setting of TNUoS tariffs, the date for forecasting the TO

⁴ Noting the deliberations above (under 'Should full or partial capital contributions be permitted') regarding either (i) a single full contribution of (ii) full and / or partial contribution(s) then the notification may, with option (ii), be in the form of either a £ figure or a % figure – although which option (i or ii) is taken forward depends on responses received to this consultation.

⁵ <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP244/>

revenue may change, and the CMP248 Workgroup may need to give this further consideration in future meetings if clarity is gained from CMP244.

(h) Other Areas

GAV Indexation

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

Information records

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

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

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

2.47 A suggestion was also made that when the Preliminary Charging Statements are issued, it include a box at the bottom of the statement inviting parties to state if they wish to make a capital contribution⁶ which would provide the form of the irrevocable notification by the User to the SO.

2.48 It was noted that changes to any documents and procedures not detailed in Section 14 of the CUSC is beyond the scope of this Workgroup. However, if needed a consequential modification could be raised, likely after this Workgroup to avoid unnecessary delay.

2.49 The Workgroup will likely give further thought as to whether changes can be appropriately reflected via amendments to Section 14 when they meet to consider responses to this consultation.

⁶ As per footnote 4 this maybe either a £ figure or a % figure, depending on the deliberations around the partial contributions option.

3 Workgroup Alternatives

- 3.1 No alternatives were discussed or envisaged at the Workgroup meeting on 10th September 2015.

Impact on the CUSC

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

Impact on Greenhouse Gas Emissions

- 4.2 None identified.

Impact on Core Industry Documents

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

Impact on other Industry Documents

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

5 Proposed Implementation and Transition

- 5.1 It is proposed to make the amendment to the charging methodology as soon as practically possible; namely ten Working Days after an Authority decision to approve the change; so that the provisions can be used as soon as possible.
- 5.2 The Workgroup noted that a modification to the CUSC change prior to September 2016, would allow parties to make a capital contribution for the charging year starting in April 2017
- 5.3 As this is a new provision, there are no existing affected parties, so no transitional arrangements are required.

6 How to Respond to this Consultation

- 6.1 This 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 believe that CMP244 Original better facilitate the Applicable CUSC Objectives?
- Q2:** Do you support the proposed implementation approach?
- Q3:** Do you have any other comments?
- Q4:** Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider? See 6.3 below for details of the process.

Specific CMP248 Workgroup Consultation Questions:

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

- 6.2 Please send your response using the response pro forma which can be found on the National Grid website via the following link: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP248/>

- 6.3 In accordance with Section 8 of the CUSC, CUSC Parties, BSC Parties, the Citizens Advice and the Citizens Advice Scotland 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/

- 6.4 Views are invited upon the proposals outlined in this report, which should be received by **5pm** on **21st October 2015**. Your formal responses may be emailed to: cusc.team@nationalgrid.com

- 6.5 If you wish to submit a confidential response, please note that 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 & Confidential" will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the CUSC Modifications Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

6.6 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".

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

Connection and Use of System Code (CUSC)

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

Description of the CUSC Modification Proposal

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

This would enable them to reduce ongoing annual charges and related post operational securities.

The modification would facilitate effective competition by removing a barrier to responding appropriately to changing circumstances. It would enable users to have greater choice and flexibility concerning how they manage these costs effectively which would be a benefit to competition between generators.

Impact on the CUSC

The relevant CUSC paragraphs are in section 14.3 of Part 1 *The Statement of the Connection Charging 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)

There is an expected impact on the STC. The modification would allow capital to be paid by the user to NGET in respect of making a capital contribution against transmission connection assets. These assets are owned and operated by the transmission owner (TO) and so the monies paid to National Grid would need to be paid back to the TO. It is for the TO to confirm that there is no reason why it should not accept the capital and that there is no impact on their financing arrangement for the assets in question.

Urgency Recommended: Yes / No

No

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

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

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

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

Full justification:

Connection Charging Methodology

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

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

Full justification:

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

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

Additional details

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

Contact Us

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

E-mail cusc.team@nationalgrid.com

Phone: 01926 653606

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

Submitting the Proposal

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

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

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

Workgroup Terms of Reference and Membership

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

Responsibilities

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

Connection Charging Methodology

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

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

Scope of work

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

As appropriate, the Workgroup will be required to undertake any further analysis and update the original Modification Proposal and/or WACMs. All responses including any WG Consultation Alternative Requests shall be included within the final report including a summary of the Workgroup's deliberations and conclusions. The report should make it

clear where and why the Workgroup chairman has exercised his right under the CUSC to progress a WG Consultation Alternative Request or a WACM against the majority views of Workgroup members. It should also be explicitly stated where, under these circumstances, the Workgroup chairman is employed by the same organisation who submitted the WG Consultation Alternative Request.

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

Membership

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

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

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

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

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

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

Appendix 1 – Indicative Workgroup Timetable

The following timetable is indicative for CMP248

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

Post Workgroup modification process

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

Annex 3 – Workgroup attendance register

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

Name	Organisation	Role	10/09/15
John Martin	National Grid	Chair	A
Sharon Fellows	National Grid	Technical Secretary	A
Nigel McManus	Eneco	Proposer	A
Ian Fothergill	SHE Transmission	Workgroup member	A
Garth Graham	SSE	Workgroup member	D
John Norbury	RWE	Workgroup member	A
Deborah Macpherson	SPT	Workgroup member	D
Paul Wakeley	National Grid	Workgroup member	A
Dominic Green	Ofgem	Workgroup member	A