

All Industry Parties

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Dear Industry Colleagues,

MODIFICATION TO USER COMMITMENT METHODOLOGY FOR DISTRIBUTED GENERATION AS A CONSEQUENCE OF CUSC MODIFICATION PROPOSAL 223 (CMP223)

As you may be aware, Ofgem recently decided on the option to be implemented under CMP223 following conclusion of the open governance process associated with Connection and Use of System Code (CUSC) modifications. As a customer with a potential project to connect a generator to a distribution network (an 'Embedded Generator'), this letter is to provide you with information of these changes, including security to be provided under the User Commitment Methodology. This is of particular note to all Embedded Generators with a Bilateral Embedded Generation Agreement (BEGA) as your security percentages will be affected by CMP223.

USER COMMITMENT ARRANGEMENTS

The User Commitment arrangements are the rules set out in Section 15 of the CUSC by which users (as defined in CUSC Section 15, Part 1) of the transmission system must underwrite works they trigger on the transmission system; in the event a user terminates or reduces the capacity of its connection agreement, it must pay a cancellation charge to National Grid. The user is required to place security with National Grid to cover a proportion of the cancellation charge and the proportion to be secured will be based on progress towards passing set milestones.

Where an Embedded Generator is considered to have an impact on the transmission system, the DNO will enter into an Construction Agreement with National Grid and provide some or all of the security required depending on the type of contractual relationship (if any) between the Embedded Generator and National Grid. The DNO (or generator) will then be liable for the cancellation charge should the Embedded Generator terminate its connection agreement or reduce capacity. The table below provides a summary of which party provides security to National Grid for the Attributable and Wider components associated with the Embedded Generator's connection and the associated cancellation charge.

Contract Type	Attributable Components	Wider Components
Confirmation of Project Progression	DNO	DNO
Bilateral Embedded Licence exemptible Large power station Agreement (BELLA)	DNO	DNO
Bilateral Embedded Generation Agreement (BEGA)	DNO	Embedded Generator

More information on User Commitment in CUSC Section 15 and is available on National Grid's website - <http://www2.nationalgrid.com/uk/services/electricity-connections/policies-and-guidance/>

SUMMARY OF CMP223

In the event that an Embedded Generator terminates its contract with the DNO, the DNO will terminate its agreement with National Grid, who would in turn seek to recover the full cancellation charge from the DNO rather than from the generator, except where a BEGA is in place where cancellation charge would also be directly recovered by National Grid. The DNOs were previously not able to recover the shortfall between the security received from the generator and the liability due to National Grid so some DNOs sought security from generators for the entire cancellation charge at all times.

CMP223 sought to change the above and allow DNOs to recover any shortfall between the security received from the generator and the liability due to National Grid. Ofgem has recently decided on the option to be implemented as a result of the proposal which will result in changes to the amount of security to be provided to National Grid by both DNOs and Embedded Generators. Further information on CMP223 is available on National Grid's website - <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP223/>

IMPACT OF CMP223 ON EMBEDDED GENERATORS

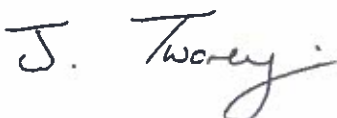
As part of CMP223, the percentage of the cancellation charge to be secured by the user under the User Commitment Methodology was reviewed specifically for Embedded Generators. The result of this review was that the required security percentages related to Embedded Generators will be revised as follows:

Project Status	Percentage of Cancellation Charge to be secured by the User from 1st April 2016
Pre Trigger Date	100%
Post Trigger Date and no planning consent	45%
Post Trigger Date and planning consent approved	26%

These figures will be formalised as part of the Annual Wider Cancellation Charge Statement to be published no later than 31st January 2016 as required under in CUSC Section 15, Part 2. CMP223 is to be implemented from **1st April 2016** and so the revised percentages will be applicable from this date. Cancellation Charge Statements (MM1) and Cancellation Charge Secured Amount Statements (MM2) will be issued to users in January 2016 as per the standard User Commitment process to notify you of the revised Cancellation Charge and Secured Amount. These statements will include the revised percentages resulting in the need to **revise existing security arrangements related to all relevant Embedded Generators (including those with a BEGA)** to account for the changes as a consequence of CMP223.

For the avoidance of doubt, generators to be connected directly to the transmission system with a Bilateral Connection Agreement (BCA) will not be impacted by these changes and will continue to provide security based on 100%, 42% or 10% of the cancellation charge. Projects which do not have a related Construction Agreement with National Grid will also be unaffected. Should you have any questions in relation to this change, please contact your Customer Account Manager in the first instance.

Yours sincerely



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