

Issue	Revision
5	0

# **Interim Generic User Commitment Methodology Statement**

**Effective from July 2009**

## About this Document

This document sets out the main principles and methodology behind the Interim Generic User Commitment arrangements that National Grid Electricity Transmission plc (National Grid) is offering on a voluntary basis to generators. The document comprises a description of the arrangements, some examples and a series of questions and answers. The document describes the methodology that National Grid employs to calculate the liability of generators in relation to the provision of new or additional capacity in Great Britain on behalf of National Grid, Scottish Power Transmission Ltd (SPTL) and Scottish Hydro-Electric Transmission Ltd (SHETL). Once connected to or using the transmission system, the charges levied by National Grid in respect of connection and use of system and the methodologies behind them are set out in:

- **The Statement of the Connection Charging Methodology**
- **The Statement of Use of System Amounts**
- **The Statement of the Use of System Charging Methodology**

These are available on our Charging website at:

<http://www.nationalgrid.com/uk/Electricity/Amounts/chargingstatementsapproval/>

This document has been published by National Grid for information for generators seeking to connect to or use the transmission system or those seeking additional incremental capacity. Where the term 'User' is used, it refers to the generator.

If you require further details about any of the information contained within this document or have comments on how this document might be improved please contact our **Charging Team**, preferably by email at:

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## List of changes

This document has been updated to include the following changes:

1. The contact details have been updated
2. The introduction includes a paragraph on the difference between Final Sums and IGUCM
3. The User Commitment Amount section contains a graph to represent this phase
4. Calculations for the new TNUoS tariffs have been added with a separate link to the local circuit tariffs.
5. Graphs have been updated for advancing connections
6. FAQs have been refreshed

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## Introduction

### Purpose

- 1 User Commitment is the means through which National Grid indemnifies itself against the risk of unnecessary transmission investment in the event that a generator terminates its agreements for connection and or use of system, or reduces its Connection Entry Capacity (CEC) or Transmission Entry Capacity (TEC) during construction. This interim methodology is an optional alternative to the existing 'Principles of Clustering, Sharing of Final Sums and Termination' document published in March 2006 [[Principles of Clustering, Sharing of Final Sums and Termination](#)]. For non generators, the existing 'Final Sums' arrangements will continue to apply.
- 2 National Grid is not required to produce an Interim Generic Final Sums Methodology Statement pursuant to any specific Transmission Licence Condition. This document explains an alternative to the "Final Sums" arrangements in the current construction agreements whereby instead of "Final Sums" a User would pay a User Commitment Amount (UCAM) or Cancellation Amount upon early termination of a Construction Agreement based on the principles outlined below.

The new methodology differs in a number of ways to final sums:

- a. It is purely generic and not necessarily as cost reflective on a project specific basis;
  - b. The User's liability does not relate to specific transmission reinforcement works needed for connection of the User;
  - c. The User's financial liability is fixed upon signature of the Construction Agreement with reference to the prevailing Generation TNUoS tariffs by the User;
  - d. There is no "sharing" of financial liabilities with other Users and so the liability will not vary as a result of others joining or leaving a cluster;
  - e. There is no requirement to separately identify Sole User and Wider works;
  - f. The sums payable will not be refunded irrespective of whether the transmission companies have spent more or less than these sums on works that have become unnecessary as a result of the User terminating their agreement, or whether any assets are scrapped or re-used.
- 3 The arrangements outlined in this document are currently available as an alternative to "Final Sums" and the intention is to move to a permanent arrangement using these principles. These arrangements are applicable to standard agreements and the principles may require appropriate modification where a Generator seeks something different from this standard or 'customer choice' terms. Generators making applications for new or increased capacity or modifications to their agreements on or after the 1<sup>st</sup> September 2006 will be asked as to whether they want the terms of the interim arrangements described in this document, or the existing "Final sums" wording, to be included in their offer.
  - 4 As the methodology is implemented, any refinements required as a result of practical experience will be brought into effect. User feedback on any implementation issues is welcomed by National Grid.

## Principles

- 5 The Interim Generic User Commitment Methodology is based on the following principles:
- (a) The risk of unnecessary investment is borne by both new generators and consumers such that new generators are liable for 10 years' worth of generation transmission network use of system (TNUoS) charges.
  - (b) The nature of a Generic User Commitment Methodology means that although it can be expected to be cost reflective on average, it may not necessarily be cost reflective for a given project.
  - (c) The Generic User Commitment Methodology should be simple to understand and administer, the sums payable fixed upon signature of the relevant Construction Agreement (CONSAG) and non-refundable in the event of the CONSAG being terminated (regardless of works actually undertaken or whether assets are redundant or re-used).
  - (d) The liability will be based on two phases; a User Commitment Amount and a Cancellation Amount both of which will be based on a generic formula that applies to any project using the following information:
    - I. The size of the generation project;
    - II. The Generation TNUoS zone in which the project connects (in those areas where there is no current Generation TNUoS tariff, or in situations where the relevant TNUoS tariff is not appropriate, National Grid reserve the right to use a bespoke tariff);
    - III. Financial year in which the offer is signed;
    - IV. The Transmission Owners having obtained the relevant consents<sup>1</sup> for any Construction Works that need to have been completed prior to connection of or use by the User and as set out on the User's CONSAG in appendices G and H. This represents the trigger point from which liabilities move from the User Commitment Amount to the Cancellation Amount;
    - V. The contracted Completion Date as set out in the CONSAG.

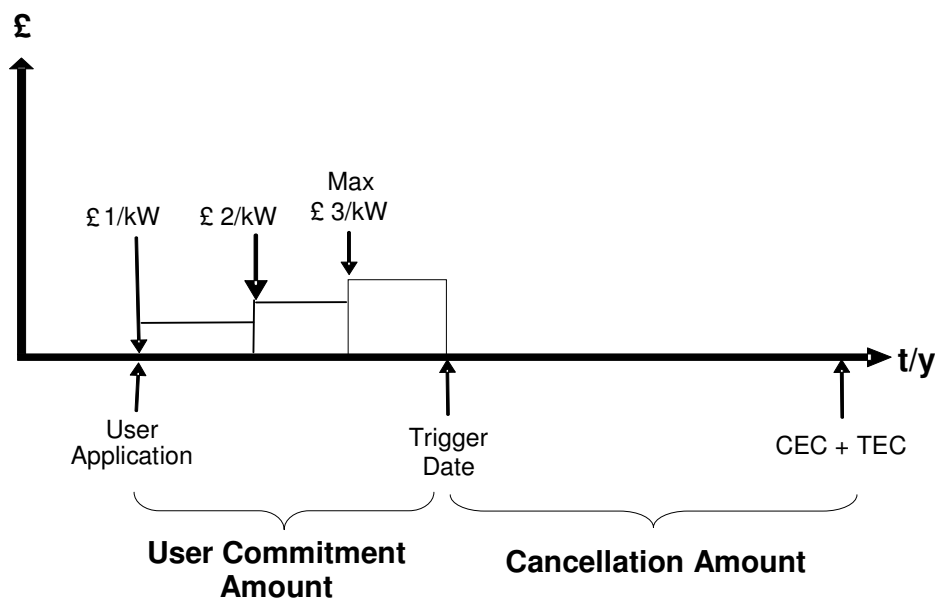
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<sup>1</sup> Relevant consents for each project our likely to include:

- Local Authority Planning consent for new substations or for extensions to existing substations, or for any development within a substation that requires such consent, for cable sealing end compounds or for any other transmission system development requiring such consent including access roads;
- Section 37 consent for any new or modified overhead lines
- Easements for any necessary cable routes
- Land acquisition

## User Commitment Amount

- 6 Where the earliest time transmission access can be provided is more than 4 financial years from the date of the offer of connection and key consents are required and have not been obtained, the generic methodology comprises a liability (User Commitment Amount - UCAM) of £1/kW commencing upon signature of the CONSAG. This increases by £1/kW on 1<sup>st</sup> April for each year, up to the date at which the key consents are obtained or, if later, the date 4 financial years from the completion date for the TO works, subject to a cap of £3/kW. The User would be liable to pay this sum in the event the User terminates their agreement during this period. The UCAM will be non-refundable regardless of costs incurred or whether the assets are redundant or will be re-used. Once key consents are obtained from the TO, this will be the 'trigger date' (i.e. date at which the User moves from paying the UCAM to the Cancellation Amount) and the liability for the UCAM will fall away.
- 7 Where a connection or increase in capacity requires construction works and no consents are needed, and the completion date is more than 4 financial years from signature the User is liable for the UCAM upon signature of the CONSAG until 4 financial years before the completion date of the TO works. Therefore the 'trigger date' for projects with no required consents is 4 financial years from the completion date. Where the date of the offer of connection is within 4 financial years before completion, and no consents are needed, the User will become liable for the Cancellation Amount on signature and the UCAM will not apply.
- 8 In the event a connection or increase in capacity can be achieved without construction works then a generator will not be liable for either the UCAM or Cancellation Amount.
- 9 Where a connection date has been slipped back, and the trigger date has also been delayed, the User commitment amount will still be payable until the new trigger date, subject to a cap of £3/kW.
- 10 The figure below shows the UCAM phase of the Interim Generic User Commitment. The cancellation amount has not been captured in this diagram.



## Cancellation Amount

- 11 Once all key consents have been obtained by the relevant Transmission Owner(s), the User will become liable for the Cancellation Amount rather than the UCAM. When the User is notified that the key transmission consents have been obtained, the liability will change 30 days after the notice has been issued (e.g. if the notice was given on 20<sup>th</sup> June then the revised liability would apply from 20<sup>th</sup> July). However, the liability for the cancellation amount falls away upon completion of User and TO works.
- 12 Where key consents are required and the completion date of the project is within 4 financial years of key consents being obtained the User's liability will be determined in accordance with paragraph 13 below until the enduring arrangements come into effect. If there are no consents required and the completion date is more than 4 complete financial years from signature then the Cancellation Amount will be payable 4 financial years before completion. For example, if a project with no consents required has a completion date of October 2012 and the User signed in July 2006, then the Cancellation Amount will only be payable from 1<sup>st</sup> April 2009 (the UCAM is payable until 2009). Where the date of the offer of connection is within 4 financial years of completion, and no consents are needed, the User will become liable for the Cancellation Amount on signature and the UCAM will not apply.
- 13 GB generators seeking new or additional capacity will be liable for a Cancellation Amount amounting to 10 times the Generation TNUoS on 1<sup>st</sup> April in the year of connection, multiplied by the higher of the relevant CEC or TEC for the project such that:

$$CC_t = TEC * GenTNUoS_z * X$$

Where:

- $t$  = financial year in which completion is due to take place;
- $z$  = User's project
- $CC_t$  = liability to be secured 1st April of the year of connection;
- $TEC$  = Transmission Entry Capacity of the project;
- $X$  = multiplication factor of TNUoS that is to be secured i.e. 10; and
- $GenTNUoS_z$  = relevant Generation TNUoS tariff of the project calculated as:

$$GenTNUoS_z = WiderTNUoS_z + SubsTNUoS_z + LocCirTNUoS_z$$

Where:

- $WiderTNUoS_z$  = the wider zonal TNUoS tariff as published in the Statement of Use of System Charges as at the date of the connection offer relating to project  $z$ ;
- $SubsTNUoS_z$  = the local substation TNUoS tariff as published in the Statement of Use of System Charges as at the date of the connection offer relating to project  $z$ , with reference to the substation design contained within the connection offer (or



in the event that sufficient data is not contained within the connection offer, the latest data National Grid has received from the relevant TO); and

$LocCirTNUoS_z$  = either:

zero where the generation planned in project  $z$  connects directly to a MITS node (as defined in the Statement of Use of System Methodology); or

(where such data exists) the mean average of all local circuit TNUoS tariffs for generation connecting to the same TO's network as the generation planned in project  $z$ , as published in the Statement of Use of System Charges, as at the date of the connection offer relating to project  $z$ ; or

(where no such TO average is available) the local circuit TNUoS tariff for project  $z$  calculated as though it had connected to the transmission network modelled in order to calculate the set of TNUoS tariffs published in the Statement of Use of System Charges as at the date of the connection offer relating to project  $z$ , based upon the latest data National Grid has received from the relevant TO in relation to project  $z$ .

- 14 For the purposes of calculating  $LocCirTNUoS_z$ , the mean average of all local circuit TNUoS tariffs for each TO's network for this example, are set out below. For the latest local circuit tariffs, they can be found on the following link titled Average Local Circuit TNUoS Tariffs for Calculating Cancellation Amounts:

[http://www.nationalgrid.com/uk/Electricity/GettingConnected/gb\\_agreements/Policies & Guidance](http://www.nationalgrid.com/uk/Electricity/GettingConnected/gb_agreements/Policies_&Guidance)

£1.902884/kW for generation connecting to SHETL's network;  
 £0.601638/kW for generation connecting to SPTL's network; and  
 £0.661506/kW for generation connecting to NGET's network.

- 15 If for a given project, the value of  $GenTNUoS_z$  is negative or less than £3/kW, a minimum £3/kW tariff will apply to calculate the generic Cancellation Amount.
- 16 The level and profile of the Cancellation Amount is fixed upon signature of the Construction Agreement using the prevailing Generation TNUoS tariff at the time that the offer is made. The profile is based on the construction programme within the CONSAG with the full Cancellation Amount due if the CONSAG is terminated in the financial year of completion. The Cancellation Amount increases to this 100% total in equal amounts each financial year from the obtaining of key consents or 'trigger date' if no consents are required such that:

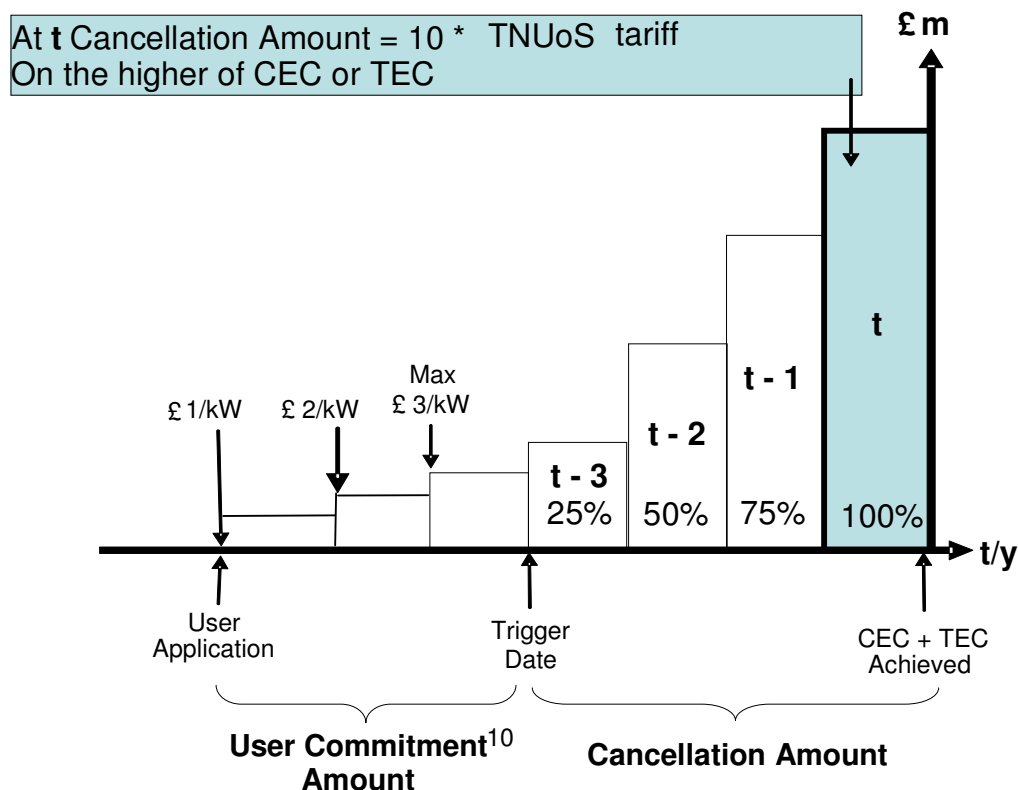
$$CC_{t-3} = TEC * GenTNUoS_z * X * 0.25$$

$$CC_{t-2} = TEC * GenTNUoS_z * X * 0.5$$

$$CC_{t-1} = TEC * GenTNUoS_z * X * 0.75$$

- 17 In the event a connection or increase in capacity can be achieved within four financial years, and construction works are required, then no UCAM will be payable and the applicable Cancellation Amount will be determined according to the above formulas. So, if the offered completion date is available within three years, for example (t-2), then the Cancellation Amount in the first financial year will be 50% of the full amount, and 75% in t-1.
- 18 In the event a project makes an application which has the effect of delaying the completion date, the Cancellation Amount will be frozen at the level of the date that the Agreement to Vary the completion date is executed, and will rise again in accordance with a new profile, as defined in the Agreement to Vary, until the project completes. If the construction programme is revised by National Grid, for example, for planning consent issues, then the Cancellation Amount payment and profile will be adjusted to reflect this. See the examples outlined later in this document for further clarification.
- 19 In the event the Construction Agreement is terminated in this period before the completion date, the Cancellation Amount will be payable and this will be non-refundable regardless of costs incurred or whether the assets are redundant or will be re-used. The liability falls away upon completion of User and TO works.
- 20 Where a User with an existing Construction Agreement chooses to adopt the Interim Generic User Commitment Methodology then the new liabilities under this arrangement will replace their current liabilities in respect of Final Sums. This process will be given effect by the parties signing an Agreement to Vary their Construction Agreement.
- 21 A schematic summary of the Interim Generic User Commitment Methodology is shown in Figure 1 below showing the UCAM phase and the Cancellation Amount phase. VAT is applicable to, and will be added to, both the User Commitment Amount and the Cancellation Amount.

Figure 1

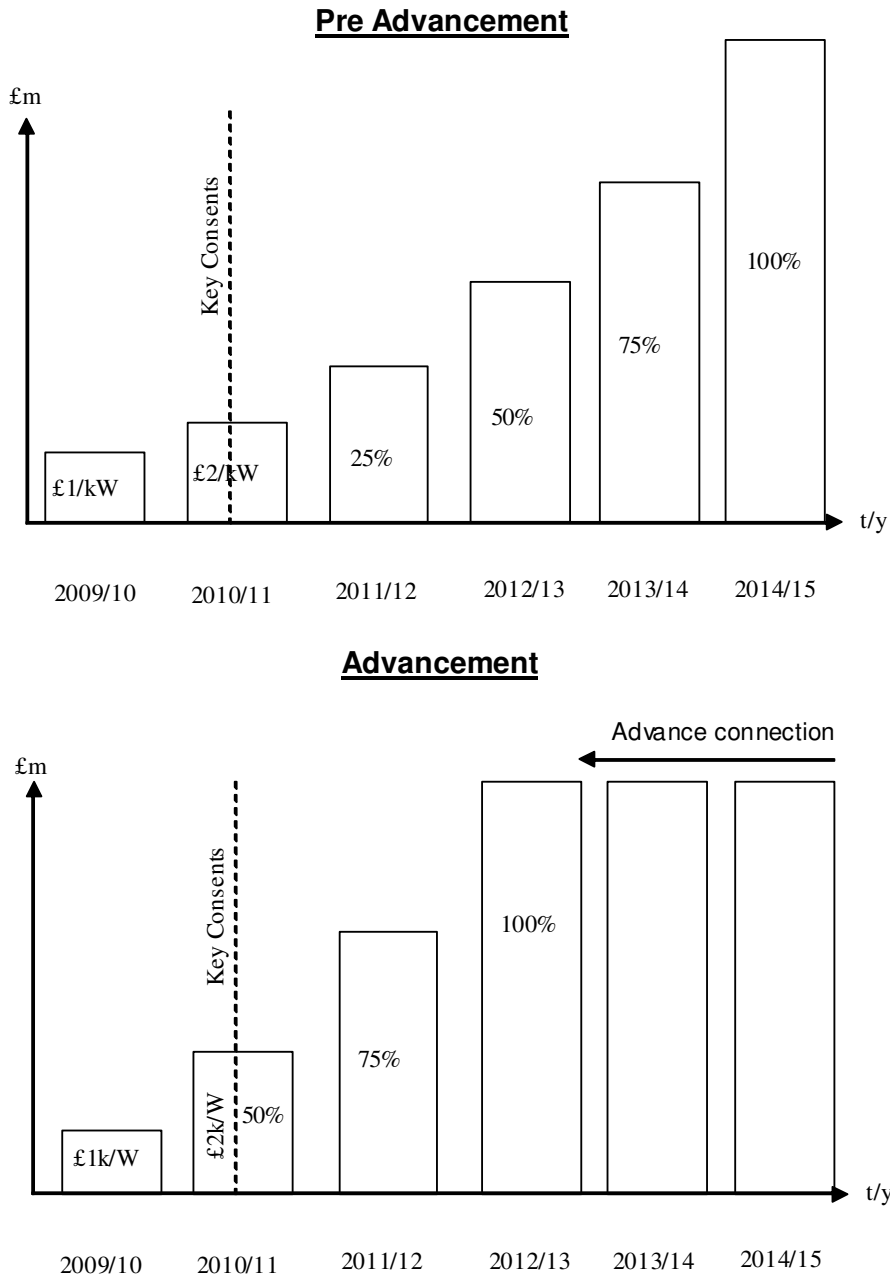


**Advancing Connections**

22 Where a project advances their connection date, the securities required are detailed in the following examples:

**Figure 2**

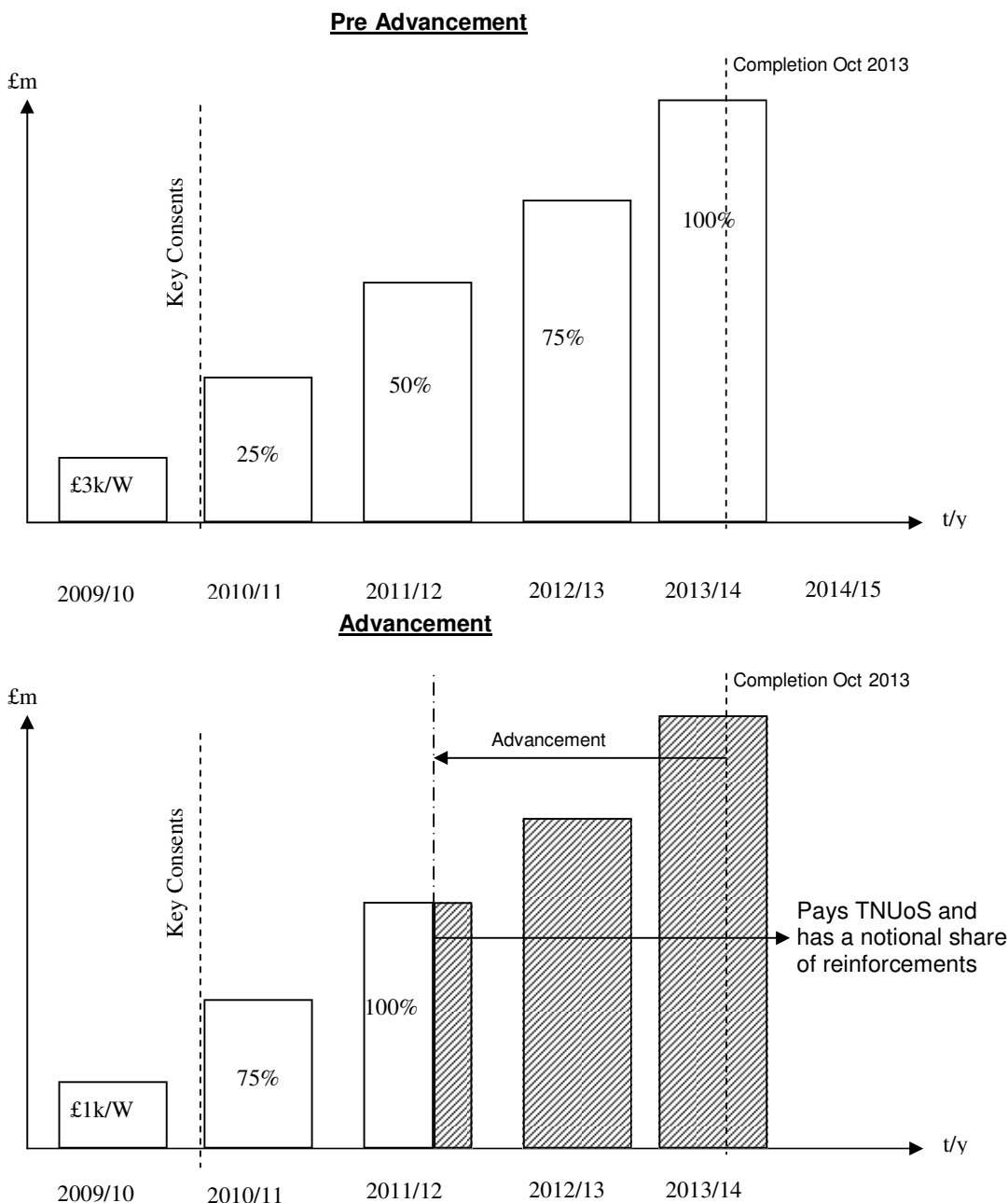
In this scenario the advancing project is moving its completion date from October 2014 to October 2012. The relevant TO anticipates all 'key' consents to be in place June 2010, which is more than 4 years from completion hence the project (pre advancement) would move onto £2/kW in April 2010.



By advancing the completion date by 2 years the security required will be as shown above. The 'key consents' trigger in June 2010 will move the project from £2k/W to 10 x MW x (50% TNUoS) factor.

**Figure 3**

In this scenario a project with a completion date of October 2013 is providing security at £3/kW with all 'key consents' anticipated from April 2010, as shown below. Having gained its planning consent the project wishes to advance its connection date by 2 years. There are no restrictions to local works being completed early but wider reinforcement works are scheduled for completion in October 2014. The project is offered a connection for October 2011 under Interim Connect and Manage terms.

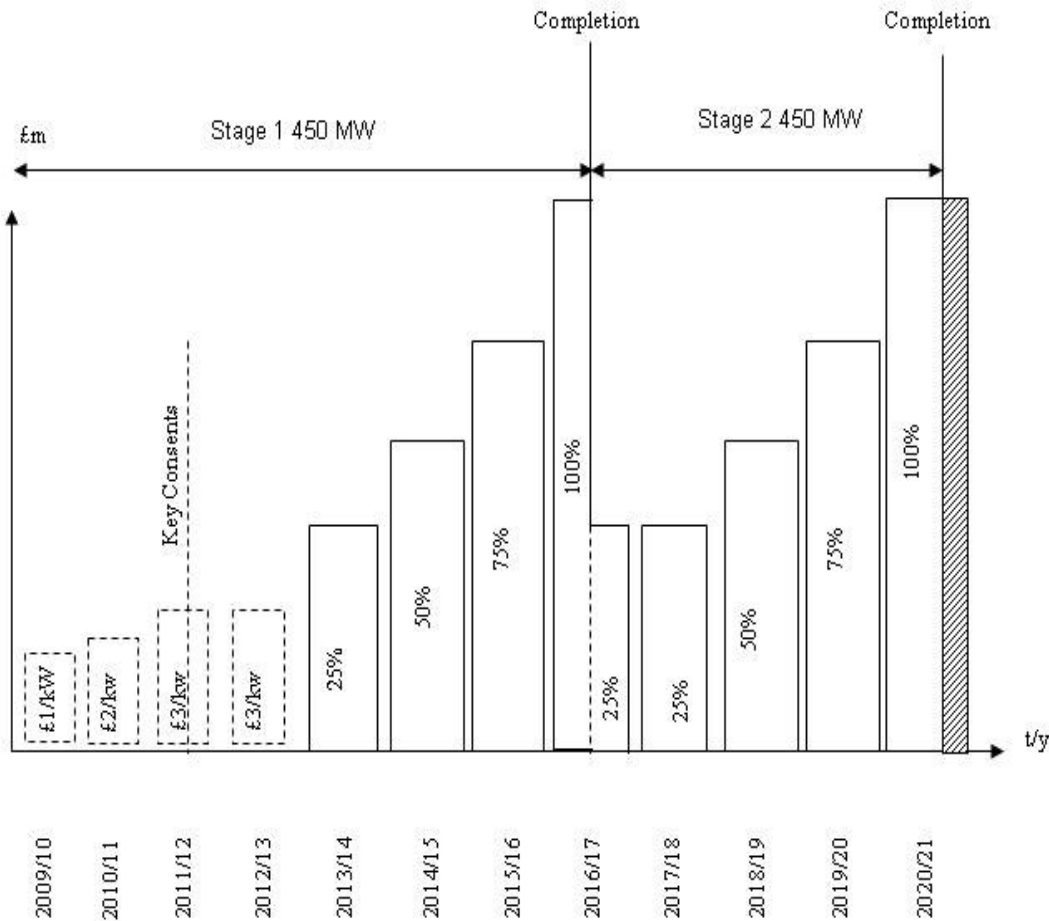


On completion of the connection, the project is liable to pay use of system charges and the requirement to continue securing the wider works finishes. The share of the to-be-completed infrastructure still belongs to the advanced project and cannot be reallocated to other parties also reliant on it. The sharing for other projects security

would still include a notional portion for this connected project (but we would not hold security for that portion).

**Figure 4**

For a project advancing its connection date and seeking a staged offer, security under IGUC will be calculated as shown below. Whilst this is an unusual scenario it has been taken from an actual offer made to a User. A 900 MW plant will be built in two stages of 450 MW. The accompanying substation will also be built in two stages complementing the connection dates given to the User. Stage 1 completion is November 2016 and stage 2 completion is October 2020. All 'key' consents will be obtained in May 2011. The security required in the offer for this project is as follows:



Whilst 'key consents' are planned to be obtained in May 2011 the User, at that point, will secure at £3/kW due to the stage 1 completion being greater than 4 years away. For Stage 1, from April 2013 the User secures a cancellation amount of 900MW x (25% TNUoS) x 10 and so on until completion of stage 1 in November 2016. From that point the User will pay TNUoS on 450 MW of connected generation and security for stage 2 will commence at 450MW x (25% TNUoS) x 10.

### Examples to illustrate the described principles

All examples are based on a 100MW power station that (at the time the offer is made) is planned to connect to a non-MITS node within a TO's network that has an average Local Circuit Tariff of £0.67/kW, resides in a TNUoS generation zone that has a Wider Generation TNUoS tariff of £7/kW, and has a Local Substation Tariff of £0.33/kW. As a result (in the year of completion) the Cancellation Amount would be  $10 \times (\text{£}7/\text{kW} + \text{£}0.67/\text{kW} + \text{£}0.33/\text{kW}) \times 100,000\text{kW} = \text{£}8\text{m}$ . All sums are in £m and are exclusive of VAT. Where key consents are obtained, the User is given 30 days from the key consents date in which to put the Cancellation Amount in place.

#### Example 1

User applies 04/2009, completion date is September 2012. Consents obtained 06/2009.

Year	April 2009 to June 2009	July 2009 to March 2010	April 2010 to March 2011	April 2011 to March 2012	April 2012 to Sep 2012
User Commitment Amount (£m)	0.1				
Cancellation Amount (£m)		2.0	4.0	6.0	8.0
<b>Total</b>	<b>0.1</b>	<b>2.0</b>	<b>4.0</b>	<b>6.0</b>	<b>8.0</b>

#### Example 2

User applies in 04/2009, completion date in 02/2013. Consents obtained 05/2011.

Year	April 2009 to March 2010	April 2010 to March 2011	April 2011	May 2011 to March 2012	April 2012 to Feb 2013
User Commitment Amount (£m)	0.1	0.2	0.3		
Cancellation Amount (£m)				6.0	8.0
<b>Total</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>6.0</b>	<b>8.0</b>

#### Example 3

User applies 04/2009, completion date in December 2012. Consents are obtained in June 2009. In October 2010, the User slips its completion date to December 2014.

Year	April 2009 to May 2009	June 2009 to March 2010	April 2010 to March 2011	April 2011 to March 2012	April 2012 to Dec 2013		
User Commitment Amount (£m)	0.1						
Cancellation Amount (£m)		2.0	4.0	6.0	8.0		
<b>Original Total</b>	<b>0.1</b>	<b>2.0</b>	<b>4.0</b>	<b>6.0</b>	<b>8.0</b>		
Following Modification by User in October 2010 of Completion Date							
Year	April 2009 to May 2009	June 2009 to March 2010	April 2010 to March 2011	April 2011 to March 2012	April 2012 to March 2013	April 2013 to March 2014	April 2014 to Dec 2014
Cancellation Amount (£m)				4.0	4.0	6.0	8.0
<b>Revised Total</b>	<b>0.1</b>	<b>2.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>6.0</b>	<b>8.0</b>

**Example 4**

User applies in April 2008, completion date of March 2013. Consents not obtained in April 2010 as originally anticipated. National Grid defers completion date to October 2014. Consents are finally obtained in April 2013.

Year	April 2008 to March 2009	April 2009 to March 2010	April 2010 to March 2011	April 2011 to March 2012	April 2012 to March 2013	April 2013 to March 2014	April 2014 to March 2015
User Commitment Amount (£m)	0.1	0.2					
Cancellation Amount (£m)			4.0	6.0	8.0		
<b>Original Total</b>	<b>0.1</b>	<b>0.2</b>	<b>4.0</b>	<b>6.0</b>	<b>8.0</b>		
Following Modification by National Grid in March 2010 of Completion Date to October 2014							
User Commitment Amount (£m)	0.1	0.2	0.3	0.3	0.3		
Cancellation Amount (£m)						6.0	8.0
<b>Revised Total</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>6.0</b>	<b>8.0</b>

**Example 5**

User applies in September 2009 with staged completion dates of September 2013 (50% CEC and TEC) and September 2014 (other 50% CEC and TEC). Consents obtained in November 2009.

Year	Sep 2009 to Nov 2009	Nov 2009 to March 2010	April 2010 to March 2011	April 2011 to March 2012	April 2012 to March 2013	April 2013 to Sep 2013	
Stage 1 – Completion in September 2013							
User Commitment Amount (£m)	0.05						
Cancellation Amount (£m)		1.0	2.0	3.0	4.0	4.0	
<b>Total</b>	<b>0.05</b>	<b>1.0</b>	<b>2.0</b>	<b>3.0</b>	<b>4.0</b>	<b>4.0</b>	
Stage 2 – Completion in September 2014							
Year	Sep 2009 to Nov 2009	Nov 2009 to March 2010	April 2010 to March 2011	April 2011 to March 2012	April 2012 to March 2013	April 2013 to March 2014	April 2014 to Sep 2014
User Commitment Amount (£m)	0.05						
Cancellation Amount (£m)		1.0	2.0	3.0	4.0	4.0	4.0
<b>Total</b>	<b>0.05</b>	<b>1.0</b>	<b>2.0</b>	<b>3.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
<b>Aggregate Total</b>	<b>0.1</b>	<b>2.0</b>	<b>4.0</b>	<b>6.0</b>	<b>8.0</b>	<b>8.0</b>	<b>4.0</b>

## Process Flow – How to Calculate an Indicative Generic Cancellation Payments for Users with completion dates

**Step 1:** Does National Grid have all necessary consents for the project (if required)?

Yes - go to Step 5

No - the project is liable for a User Commitment Amount

No consents required - project is liable for either UCAM or Cancellation Amount depending upon number of financial years from completion

**Step 2:** liability for the User Commitment Amount begins upon signature of the Construction Agreement. If National Grid does not achieve all required consents, until the following financial year the User Commitment Amount will be £1/kW.

**Step 3:** From the first day of the next financial year, if National Grid has not achieved its required consents, the User Commitment Amount will go up by a further £1/kW to £2/kW.

**Step 4:** From the first day of the following financial year, if National Grid has still not achieved its consents, the User Commitment Amount will go up by a further £1/kW to £3/kW. The User Commitment Amount will remain at £3/kW until National Grid has achieved its consents, if required.

**Step 5:** When National Grid has achieved its consents, or there are no consents required for the project, and the completion is within four financial years (the "Trigger Date"), then the liability for the Cancellation Amount will begin.

**Step 6:** Working back from the Completion Date, from the first day of the financial year in the year of the completion date, the Cancellation Amount liability will be equal to  $10 * \text{Generation TNUoS Tariff}^2 (\text{£/kW}) * \text{TEC (kW)}$ .

**Step 7:** In the complete financial year before the one identified in Step 6, the Cancellation Amount will be equal to  $0.75 * 10 * \text{Generation TNUoS Tariff} * \text{TEC}$

**Step 8:** In the complete financial year before the one identified in Step 7, the Cancellation Amount will be equal to  $0.5 * 10 * \text{Generation TNUoS Tariff} * \text{TEC}$

**Step 9:** In the complete financial year before the one identified in Step 8, the Cancellation Amount will be equal to  $0.25 * 10 * \text{Generation TNUoS Tariff} * \text{TEC}$

Note that where the trigger date is within four financial years of the completion date, then apply relevant steps 6 to 9 as appropriate.

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<sup>2</sup> Calculated as described in paragraph 12



## Frequently Asked Questions

The following set questions and answers are intended to assist in explaining how the new arrangements are intended to apply.

**Q1 Why do Users have to put up funds to cover National Grid's risk?**

A1 Development of the GB Transmission System is largely driven by Connection and Use of System contracts from Users. Therefore, it is the User who is seeking to use the transmission system that triggers transmission system reinforcement. If a User decides to pull out of their project during the construction phase (Transmission Licensees do not have such unilateral rights) then it is appropriate for that User to be accountable for the cost of abortive works to terminate.

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**Q2 Some Users have stated that uncertainty in User Commitment liabilities will act as a barrier to entry to the market, and is thus contrary to National Grid's obligation to promote market entry?**

A2 The proposed generic methodology will provide Users with the highest possible level of certainty and predictability regarding their financial liability.

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**Q3 Are the Charges refundable?**

A3 The liability only falls away once the all the works associated with the User's project have been completed. However, in the event that the User's Construction Agreement is terminated, or reduces the capacity they requested, or fails to complete their project, then the User will be invoiced for the liability and no refund is made, irrespective of what the TOs have actually spent or whether the assets are redundant or will be re-used.

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**Q4 If a User terminates under the Interim Generic User Commitment Methodology do any additional User Commitment liabilities continue to be incurred?**

A4 No. The liabilities for User Commitment are pre-defined in the Construction Agreement and fixed when it is signed. Upon termination the User faces no further liability beyond that set out in the Construction Agreement for the relevant year.

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**Q5 If a User pulls out of a project, how much of the money it makes available to National Grid as a User Commitment does it get back?**

A5 None, the User Commitment is in effect a termination amount that crystallises on termination.

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**Q6 What account is taken of the User obtaining its planning consents (e.g. Section 36)?**

A6 None, if the User's project consent is not forthcoming in timescales consistent with the programme then the User must decide whether to terminate the agreement, or apply for a Modification Application seeking a later connection date.

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**Q7 Users are more able to secure works once they have consents. Could National Grid ask for security only once the power station consents have been obtained?**

A7 Users are better placed to manage the risks of their projects as they know more about their requirements, including obtaining consents and Users' risk appetite is for them. Where a User is unsure about the viability of their project (e.g. due to the absence of planning consents) then it would be inappropriate for National Grid to commence work on the transmission reinforcements that the User triggers. Where Users are not ready to secure those reinforcements costs, then they should consider applying for a later connection date so that they have time for their project to mature to a point at which they will be in a position to accept the User Commitment liabilities.

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**Q8 Is the User liable for any "Sole User Works"?**

A8 No, because the methodology is not asset based and therefore no asset based concepts continue to exist. It is a purely generically derived number based on the size of the generator and the TNUoS zone to which it plans to connect. The completion date of the project will still be dependent on such works (where required) but the User will not be directly exposed to the financial risk.

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**Q9 If a User reduces the size of its project then how does this impact on the User's liability?**

A9 National Grid will invoice the User for a charge based on the reduction in size of the project's CEC or TEC. E.g. if the project was 100MW and reduced to 80MW then National Grid would invoice the User for a Cancellation Charge based on the 20MW reduction in capacity (i.e. the reduction is in effect treated as a partial termination.)

Clearly it will be important for Users to be comfortable with the TEC/CEC figure they have in their agreement. The change in level of Cancellation Charge that occurs when transmission consents are obtained will give Users a strong incentive to terminate and/ or revise their TEC/CEC figures before they move to the Cancellation Amount profile.

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**Q10 Can National Grid commit to capping a User's liability to the amount provided in the Secured Amount Statement or profile in the S-curve?**

A10 If the User has adopted the generic User commitment arrangements, this has the effect of capping liability for the next financial year, subject to the Trigger Date.

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**Q11 What happens if a User needs to delay their connection (e.g. due to delays in them obtaining planning consent)?**

A11 The User should apply to National Grid for a revised date and the request will be assessed and a revised offer will be made. The Cancellation Amount will be frozen at the level of the date that the Agreement to Vary the completion date is executed, , and will rise again in accordance with the new profile, as defined in the Agreement to Vary, until the project completes. See Example 3.

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**Q12 What happens to a User's liability if National Grid delays the connection?**

A12 National Grid's ability to change the completion date in a User's agreement is very limited but includes delays in obtaining consent (e.g. S37) and event of Force Majeure.

If consents have not been obtained then the User would only have a liability for the User Commitment Amount and so the delay to the programme would not result in a change to the User's liability – it would remain in the £1-3/kW range.

In the case of an event of Force Majeure under the Construction Agreement (e.g. an outbreak of Foot and Mouth disease preventing transmission reinforcement work from being undertaken) then the User's liability would be revised to reflect the new extended programme. E.g. if the project was 2 years from completion (User securing 75% of the maximum Cancellation Amount) but a delay of 1 year arises then the User's Cancellation Amount would reduce to 50%.

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**Q13 Will a User have to wait until reinforcements specified in the Construction Agreement Appendix H are completed before it can connect?**

A13 Yes.

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**Q14 Can works listed in Appendix H Part 2 (H2) become transferred to Appendix H Part 1 (H1) or vice versa if the composition of the cluster(s) changes?**

A14 Yes, it is possible that works identified in the H1 and H2 appendices could move. However this no longer has any effect on the User's financial liability.

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**Q15 Will the Construction Agreement Appendices Continue to Show H1 “Sole”, H1 “Shared” and H2 Wider System Reinforcement Works?**

A15 The works that have been identified as being necessary to connect the User will be set out in the Construction Agreement as H1 and H2 only but H1 will not be further sub categorised. Under the new methodology the works are not linked to the calculation of the Cancellation Charges.

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**Q16 How will I be notified of my liabilities?**

A16 The process and timescales involved in issuing Secured Amounts Statements and Bi-annual Estimates to Users will no longer be necessary since under the interim generic arrangements the User will know in advance what its liability is, and therefore the amount to be secured in any Financial Year. The User’s Offer of Connection will contain an Appendix to the CONSAG setting out the liability that will apply throughout the project. (The only uncertainty being the actual date that the TO receives key consents and which triggers the move over from the pre-consent User Commitment Amount (£1-3/kW) to the Cancellation Amount (25/50/75/100% of 10 times the relevant TNUoS tariff).

**UCAM Period**

For new applicants (i.e. those without existing agreements) the interim arrangements following the User commitment profile will be set out in an appendix to the Construction Agreement. On the User’s signature of their Offer of Connection they will become liable to pay the User Commitment Amount for the specified period in the event of termination within that period.

**Cancellation Amount Period (ie After Trigger Date)**

The appendix will specify the anticipated “Trigger Date” and where this is based on Key Consents the User will receive notification by letter from National Grid advising them that all key consents have been obtained and of the consequential change in their liabilities which will occur 30 days following the issue of this notice.

Users that do not meet the credit rating requirements of the CUSC will have to put in place security in accordance with the provisions of the CONSAG (parent company guarantee, performance bond, or cash – see Appendix M of the CONSAG). Failure to put in place the required security is an Event of Default and can lead to Termination.

Users will need to ensure that the appropriate security has been put in place at least 45 days in advance of the relevant security period or in case of the increase required from the “Trigger Date” a User will have 30 days before the Trigger Date in which to put security in place for the increased amount.

Where a User meets the credit rating requirements of the CUSC there is no obligation to put security in place however the User is required to confirm to National Grid that it continues to meet the credit rating requirements.

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**Q17 Will the form of Security required by National Grid in respect of User's liabilities change?**

A17 No, this will remain unchanged for these interim arrangements and is detailed in Appendix M of the CONSAG.

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**Q18 How does this help the GB Queue?**

A18 National Grid believes the new arrangements will help reduce the size of the GB queue in a number of ways. Although the absolute level of the User's liability will on average be lower, and the volatility of the User's liability will be removed, the non-refundable nature of the Cancellation Amounts should remove some of the more "speculative" projects from the queue now and in the future. Users will therefore have to weigh up the risks of the current regime (the potential for a much higher User's liability which may or may not be refundable) versus those of the interim (lower User's liabilities which are certain, but are not refundable).

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**Q19 Is moving to the interim scheme voluntary?**

A19 Yes, it is entirely at the User's discretion.

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**Q20 If I change to the interim arrangements can I subsequently change back?**

A20 No, once a User has changed to the new arrangements we do not believe that it would be appropriate for Users to be able to change back.

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**Q21 How long will I have to decide whether I change to the new arrangements?**

A21 It is entirely up to the User. We have issued SAS to relevant Users in mid-July 2006 and those Users not meeting the credit requirements of the CUSC have been asked to put security in place in the normal way. Alongside the SAS we provided an estimate of the liability that would apply under the interim regime. Users interested in moving to this arrangement can discuss it with us and move over to it at any time by making a formal request and signing the subsequent amending agreement. However note Q21 above. While a User is considering which option to take, their liabilities (and where appropriate obligations to secure these liabilities) will remain as defined in the existing agreements.

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**Q22 Can National Grid terminate the connection agreement?**

A22 There are only very limited circumstances under which National Grid can terminate the Construction Agreement. These include circumstances where the User fails to pay amounts due, fails to put in place the required security, or fails to complete their works by the “backstop date” – all circumstances within the User’s control. In circumstances where National Grid can terminate then the User would be invoiced for the relevant Cancellation Charge.

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**Q23 What happens when the TO gets consents more than 4 years before the completion date?**

A23 The User will remain on the pre-consent liability (£1-3/kW) until the start of the financial year 4 years ahead of the financial year in which the project is due to complete. At this time the User will become liable for the Cancellation Amount.

E.g. if the project is due to complete in October 2012 then 25% of the Cancellation Amount will apply from 1 April 2009, 50% will apply from 1 April 2010, 75% will apply from April 2011, 100% from April 2012 to October 2012.

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**Q24 If in a cluster, some Users remain on the current arrangements but others transfer to the interim arrangement then what will happen in the event of one party terminating?**

A24 National Grid will ensure that parties that do not change to the interim arrangements are held whole in relation to any effects arising from others that are subject to the same shared reinforcement changing to the generic interim methodology.

Consider a cluster with only 2 Users, A and B. User A decides to remain on the current Final Sums Liability (FSL) arrangements while User B decides to move over to the interim arrangements. So the works would be shown as shared in H Part 1.2 of User A’s Consag and just listed as works in App H Part 1 in User B’s Consag.

In the event that User A terminates:

Following an assessment by the TOs of whether there were other parties to take User A’s position, or of any design change implied by User A’s termination, the TO would identify what works if any were unnecessary. User A would be invoiced for any costs associated with these.

User B’s liability would be unaffected by the termination of User A.

In the event that User B terminates:

User B would be invoiced for their Cancellation Charge based on the generic methodology.

The TO would assess whether there were other parties to take User B’s position, or whether any design change was implied by the termination. In the event that no additional party shared the works then they would become User A’s “Sole User Works” and their FSL would in future relate to a 6 month security period (rather than 12 months in the case of shared works). If an additional party shared the works then

depending on whether they choose this methodology or Final Sums Liability the works would remain as shared works in User A's agreement. User A and any new Users that joined it in sharing the reinforcement would now be liable for the works.

In the event that both User A and B terminate in the same 6 month period:

In determining User A's liability we would treat them as if they and User B were both subject to the current FSL arrangements (i.e. sharing liability for shared works). Since both Users are terminating we assume all works will be redundant (no one else is able to make use of the capacity released by their termination). User A's liability will be based on their share of the cost of these works (determined from the relevant TECs of User A and B). User A would be invoiced for their share of these costs.

User B's liability will be defined by the generic interim arrangement.

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**Q25 I have an embedded generator project, how will the interim scheme affect me?**

A25 Where a Generator has a Bilateral Embedded Generator Agreement (BEGA) and wider transmission works are needed in advance of that User's connection then there will be a Construction Agreement in place between the generator and National Grid. The generator will have the option of adopting the interim generic arrangements in respect of the TEC that they have contracted for. Any associated Connection Asset works will still be secured separately by the Distribution Network Operator (DNO) under the current FSL arrangements.

Where works are required at the Grid Supply Point (GSP) below which the embedded generator plans to connect then these will be addressed via agreements between National Grid and the relevant DNO. There is currently no "transmission access product" for the distribution sites (i.e. a "transmission exit or off-take capacity" to mirror the Transmission Entry Capacity that a generator can acquire). As such the generic methodology cannot be applied to a DNO. The DNO will be required to continue to secure any connection works at the GSP concerned under the current FSL arrangements.

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**Q26 Do Advanced Capital Contributions made on Connection Assets have any impact on the level of a User's liability?**

A26 No, because the generic methodology does not relate to any specific assets. Any Advanced Capital Contributions are made over and above the level of UCAM and Cancellation Amount liability. The generic methodology and Advanced Capital Contributions therefore exist independently of one another.

**Q27 How are the projects with Advanced Services treated?**

A27 A number of projects have Construction Agreements which specify Advanced Services to be carried out to address submarine cable routes and other technical details. These works will be secured (or paid for in advance) under the existing arrangements. Some of the proposed connection locations for these projects do not yet have generation TNUoS tariffs established (since there is as yet no transmission system) and so the interim methodology cannot be applied at this time. We are considering how best to address this in the future as including these costs at the moment would have greatly increased the level of "X" used as the TNUoS multiplier.

**Q28 How does the Interim Generic User Commitment Methodology differ from the Final Sums Methodology?**

A28 The new methodology differs in a number of ways:

- g. It is purely generic and not necessarily as cost reflective on a project specific basis;
- h. The User's liability does not relate to specific transmission reinforcement works needed for connection of the User;
- i. The User's financial liability is fixed upon signature of the Construction Agreement with reference to the prevailing Generation TNUoS tariffs by the User;
- j. There is no "sharing" of financial liabilities with other Users and so the liability will not vary as a result of others joining or leaving a cluster;
- k. There is no requirement to separately identify Sole User and Wider works;
- l. The sums payable will not be refunded irrespective of whether the transmission companies have spent more or less than these sums on works that have become unnecessary as a result of the User terminating their agreement, or whether any assets are scrapped or re-used.

**Q29 What is the status of this methodology and what are the next steps?**

A29 A review of transmission access is still in progress under the Transmission Access Reform (TAR) process. The aim of TAR is to develop an enduring access regime that can meet the challenges faced through the increasing amount of generation connecting to the transmission system.

Under TAR, National Grid will bring forward a proposal to modify the industry frameworks (CUSC, the Charging Methodology Statements etc) to introduce a Generic User Commitment Methodology. These proposals will include the establishment of clear governance arrangements to underpin the rules for determining a User's liability.

Clearly, any enduring arrangements will be the subject of industry consultation and ultimately to Ofgem approval and so their final form is uncertain. However based on the work undertaken in the Transmission Access Reform workstreams we believe that the above proposals reflect the likely direction of any enduring arrangements and so on this basis we intend to offer them to any User that is interested in opting to move over to the interim generic methodology on a voluntary basis. We recognise that the features of the new methodology will not be attractive to all Users with existing offers and so not all Users will want to move over to the interim regime.

Until formal industry framework changes are approved and implemented it will be entirely at a User's discretion as to whether they choose to move over to the interim



arrangements. However where a User makes the choice to change to the interim generic regime then it will not be possible to return to the old methodology subsequently.

The Secured Amounts Statements (SAS) and Bi-Annual Estimates for the forthcoming October 2006 to March 2007 Security Period have been issued on the basis of the current methodology. However we will make available to Users an estimate of their User's liability under the interim generic methodology based on certain assumptions. Where Users are interested in moving over to the interim generic methodology then more detailed information will be provided. An amending agreement will be provided once a formal request has been received.

**Q30 What would happen if a Construction Agreement is terminated?**

A30 In the event that a Construction Agreement is terminated for a User that has opted for the generic interim methodology then National Grid will under the terms of the Construction Agreement invoice the User for the User's liability applying at the time of termination.

Where the User does not meet the credit rating requirements set out in the CUSC then the relevant security would need to be in place from signature and thereafter prior to the start of each subsequent Financial Year (ie 1 April) with a "top up" required in the Financial Year in which the "trigger date" occurs to make up the difference between the sum required for the UCAM and the Cancellation Amount.

**Q31 What happens to a User's liability if they reduce their capacity AND request a design variation?**

A31 For the reduction in capacity, National Grid will invoice the User for a charge based on the reduction in size of the project's CEC or TEC. E.g. if the project was 100MW and reduced to 80MW then National Grid would invoice the User for a Cancellation Charge based on the 20MW reduction in capacity (i.e. the reduction is in effect treated as a partial termination.)

With the design variation, if it is initiated by the relevant TO, then any charges will be absorbed by them. However, if the design variation is requested by the User and it is not deemed to be the most economic and most efficient method then there will be a separate charge to the User. This will be based on the differential in costs that may be incurred between the original design and the requested design.

**Q32 Do I have to adopt the Interim Generic User Commitment Methodology if I would like to advance my project?**

A32 Under the terms of Interim Connect and Manage (ICM) published on 26 June 2009, this will no longer be a requirement. The ICM policy can be found on the link below:

[http://www.nationalgrid.com/uk/Electricity/GettingConnected/gb\\_agreements/Policies+Guidance/](http://www.nationalgrid.com/uk/Electricity/GettingConnected/gb_agreements/Policies+Guidance/)

## Appendix

Below is a sample cancellation charge:

### APPENDIX R CANCELLATION CHARGE

<b>Company Name:</b>			
<b>Connection Site:</b>			
<b>Capacity:</b>	42,000	kW	
<b>Connection Voltage:</b>	132	kV	
<b>Sum of existing TEC at substation:</b>	0	kW	
<b>Connection Redundancy:</b>	Not Redundant		
<b>MITS Connection:</b>	No		
<b>TNUoS Tariff used for Calculation</b>	22.325297	(£/KW)	
<b>Wider Zonal Tariff</b>	21.588654	(£/KW)	
<b>Local Substation Tariff</b>	0.135005	(£/KW)	
<b>Local Circuit Tariff</b>	0.601638	(£/KW)	
<b>TNUoS Year</b>	2009 / 2010		
<b>Assumed Financial Year of Signature</b>	2009 / 2010		
<b>Completion Date</b>	01/09/2014		

<u>Financial Year</u>	<u>User Commitment Amount</u> <u>(Pre Trigger Date)</u>		<u>Cancellation Amount</u> <u>(Post Trigger Date)</u>	
	<u>Exc VAT</u>	<u>Inc VAT</u>	<u>Exc VAT</u>	<u>Inc VAT</u>
01/04/2009 - 31/03/2010	£42,000	£49,350		
01/04/2010 - 31/03/2011	£84,000	£98,700		
01/04/2011 - 31/03/2012	£126,000	£148,050	£2,344,156	£2,754,384
01/04/2012 - 31/03/2013	£126,000	£148,050	£4,688,312	£5,508,767
01/04/2013 - 31/03/2014	£126,000	£148,050	£7,032,469	£8,263,151
01/04/2014 - 30/09/2014	£126,000	£148,050	£9,376,625	£11,017,534

**Trigger Date is :-**                      **Key Consents Date**

TO  
Other TO Local Tariff (Calculated by  
C&R)  
TNUoS Zone

SPTL

<b>Author</b>	Chris Sambridge
<b>Owner</b>	Customer Policy Team
<b>Version</b>	5.0
<b>Status</b>	Final
<b>Date (for this version)</b>	July 2009
<b>Authorised by:</b>	Les Jenkins
<b>Review Date (if applicable)</b>	

<b>Previous Versions</b>		
<b>Version</b>	<b>Author</b>	<b>Date</b>
4.0	April 2006	Chris Sambridge