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Dear Interested Party,

User Commitment Review

Summary

Customers wishing to connect to the transmission system prompt the need for investment by the Transmission Owners (TOs), both in local assets needed to connect a customer and wider system reinforcement due to changed power flows on the system. User Commitment is required from customers under the Connection and Use of System Code (CUSC) to demonstrate that a customer is committed to developing their scheme. This in turn helps a TO ensure that the investments it makes in the transmission system are both necessary and efficient.

National Grid is reviewing the User Commitment requirements in CUSC to determine if they are still fit for purpose.

We have written this open letter to seek views on whether further work and engagement should be undertaken in this area leading to possible formal modification proposals. We are asking customers to answer the following two questions and provide comments to support their views.

Question 1: *Do you consider that in general the User Commitment provisions in CUSC Section 15 continue to meet Applicable CUSC Objectives?*

Question 2: *Are there any specific areas of the User Commitment methodology in CUSC which you consider would benefit from revision? Specifically, do you consider that the areas National Grid has received feedback on and outlined in this letter (pages 3-4) should be reviewed in greater detail?*

In each case, please provide reasons and evidence to support your views.

Please provide responses by 29/06/2018.

Background

The current User Commitment methodology came into force within CUSC when it was revised in April 2013 under CUSC Modification Proposal (CMP) 192.

Prior to the changes a customer secured against all the works needed to connect them to the Transmission System, known as 'final sums'. With many of the works required increasingly being shared, the sharing methodology resulted in volatility in securities as interrelated offers with shared works were accepted and terminated. This methodology was seen as a barrier to entry and as an interim measure a time limited methodology (Interim Generic User Commitment Methodology – IGUCM) was introduced. A more permanent solution was introduced through CMP192 in April 2013.

As the current methodology breaks the link between the liabilities of an individual customer and the wider works required to connect them, where a customer terminates their connection agreement prior to connection then the liabilities recovered may either be greater or less than the investment at risk by a TO. Any over or under recovery of costs incurred is socialised through TNUoS.

Since the introduction of the current User Commitment methodology there have been extensive changes in the environment of the electricity industry. For example technologies such as photovoltaics and storage have seen significant development. Innovation has also led to changes in how we connect people with more no build options being considered.

Basis of Current Methodology

A customer's liability is split between the works required to connect to the Main Interconnected Transmission System (MITS), known as Attributable Works and Wider Works. The methodology behind a customer's liabilities also changes on the Trigger Date. The trigger date is 1 April, 3 financial years ahead of the year of commissioning, so in effect can be four years out.

Attributable Works liability is based on the spend profile of the Attributable Works. However, a customer may choose to fix their attributable works in which case it is based on the forecast spend profile (at the time of fixing) post trigger date. Prior to the trigger date the Attributable Liabilities, if a customer chooses to fix, are a set £/MW (Currently £1/MW, £2/MW or £3/MW). If a customer opts not to fix, then their forecast liabilities will be updated every 6 months in line with latest forecast spend and the actual liabilities will be calculated at the time of cancellation.

For Attributable Works, a number of scaling factors are applied to reflect assets which may be shared, assets which have re-use value and also how far a connection is from the MITS.

Wider Works Liability only applies post trigger and is a generic £/MW figure which varies by transmission zone and is calculated and published annually. The methodology to calculate it is based on the forecast transmission works to reinforce each boundary on the Transmission System.

CUSC also makes a distinction between liabilities and securities. The amount a customer is required to secure against their liabilities reduces the closer you get to commissioning, this is to reflect the expected reduced risk of a customer cancelling the further into the construction phase it gets.

Benefits/Deficiencies of Current Methodology

The current methodology was widely seen as removing some of the barriers to entry seen under the final sums methodology.

Under the current methodology, where a customer fixes their Attributable Works liabilities, a standard £/MW figure applies pre trigger date. This can result in the actual liabilities being recovered from a terminating customer being higher or lower than the costs incurred by a TO. Any

liabilities are paid to the SO and where these liabilities vary from the actual expenditure incurred by a TO, the SO socialises the difference across all customers. Inherent in this process is the assumption that the TO has efficiently incurred the costs, that the customer has provided securities in line with CUSC section 15 and any bad debt has been efficiently managed. For the majority of schemes, this generic approach results in risks being balanced between customers and consumers.

Question 1: *Do you consider that in general the User Commitment provisions in CUSC Chapter 15 continue to meet Applicable CUSC Objectivesⁱ?*

There are some areas where we have received feedback that the current User Commitment methodology may require further review. These areas are as follows;

Long Lead Time High Value Schemes

The generic charge approach for User Commitment methodology sought to provide a fair balance of risk between customers and consumers, concern has been expressed that schemes which fall at the extreme of the cost/time spectrum may be seen to shift this balance of risk too much onto consumers. This is especially true for schemes pre trigger. These can be characterised as long lead time high value schemes.

The greatest risk is where significant expenditure is required ahead of a customer starting construction on site. This expenditure usually relates to design, procurement and consents. Within these categories, the most significant expenditure relates to consents and in particular those associated with significant overhead line schemes, where a Development Consent Order (DCO) is required. In these cases, significant expenditure can take place a number of years before it is known whether a TO can build the required works to connect a customer. In these cases, the final investment decision for a customer is often made after the DCO is secured. In some cases these works relate to Enabling Works which are not Attributable, but would not be required if the customer was not there.

In considering whether to change User Commitment for high value long lead time schemes, consideration could be given to a number of factors. e.g.

- Is it appropriate to treat such customers differently
- How such customers could be defined as a class
- What User Commitment would be appropriate for such a class of customers
- Should User Commitment for such class of customers be extended to all Enabling Works
- Should there be a point in the customer's development/construction programme where that customer reverts to standard User Commitment.

Distributed/Embedded Generation

The rise in Distributed Generation has resulted in more securities being part of Bilateral Connection Agreement (BCA) offers to DNOs. As BCAs under the statement of works trials can now relate to multiple Embedded Generators, there is a lack of clarity over when a trigger date is. Where there was a one to one relationship between an Embedded Generator and a BCA, generally the connection date for the Embedded Generator and completion date for works lined up. However, where a BCA relates to multiple generators with varying connection dates, trigger dates may not line up with connection dates. Should a review of User Commitment seek to clarify this area?

Wider Works Security Methodology

To calculate the wider works security a methodology is used which take the cost of boundary (the transmission system is divided up into zones with boundaries between them) reinforcement with total costs then pro-rated by capacity. It has been suggested that this could be improved to be more cost reflective to each boundary. In addition the costs for each scheme are only the costs associated with that scheme forecast to be incurred in a single year. It has been suggested that User Commitment would be more cost reflective if costs over multiple years were considered. Do you believe these concerns are sufficient to review the methodology?

Question 2: *Are there any specific areas of the User Commitment methodology in CUSC which you consider would benefit from revision? Specifically, do you consider the areas previously indicated to National Grid and discussed above should be reviewed in greater detail?*

If you wish to discuss any aspect of this letter further prior to responding or have any other query, please contact Richard Smith (Customer Policy Development Manager) – e-mail richard.smith5@nationalgrid.com

Please provide any responses by 29/06/2018.

Yours sincerely,

[By email]

John Twomey

ⁱ Applicable CUSC Objectives:

- a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence;
- (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;
- (c) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency; and
- (d) promoting efficiency in the implementation and administration of the CUSC arrangements,