

Amendment proposal:	<b>Connection and Use of System Code (CUSC): CAP148, CAP161, CAP162, CAP163, CAP164, CAP165, CAP166, CAP167 and CAP168</b>		
Decision:	The Authority <sup>1</sup> has decided to reject these proposals <sup>2</sup>		
Target audience:	National Grid Electricity Transmission PLC (NGET), Parties to the CUSC and other interested parties		
Date of publication:	22 October 2010	Implementation Date:	N/A

## Background to the amendment proposals

The Energy White Paper published in May 2007<sup>3</sup> announced a joint review by Ofgem and DECC (then the Department of Trade & Industry) of the access regime for electricity transmission networks in Great Britain – the Transmission Access Review (TAR). The objective of the review was to deal with the large (and growing) queue of electricity generators that have been unable to gain access to the transmission system for a number of years under the prevailing access arrangements.

The review culminated in the TAR Final Report<sup>4</sup>, which was published in the summer of 2008. The report identified a suite of “strawman models” which, when considered in various combinations, provide a range of potential options for enduring access reform, but noted that it was for the industry to take forward work to develop appropriate enduring access arrangements through raising change proposals to industry codes.

In response, National Grid Electricity Transmission (NGET) raised a range of CUSC amendments that were designed to cover all of the features of the key access strawmen that were identified in the TAR documentation. The key amendment proposals raised by NGET are as follows:

- CAP161: Transmission Access - System Operator Release of Short-term Entry Rights
- CAP162: Transmission Access - Entry Overrun
- CAP163: Transmission Access - Entry Capacity Sharing
- CAP164: Transmission Access - Connect and Manage
- CAP165: Transmission Access - Finite Long-term Entry Rights
- CAP166: Transmission Access - Long-term Entry Capacity Auctions

These CUSC amendments<sup>5</sup> were designed by NGET to be modular so that they could be combined in various ways that would be capable of accommodating a wide range of different approaches for access reform. After raising these proposals, NGET formed three working groups to further develop the amendments and to consider issues such as transmission charging and related code changes in a more holistic fashion. Following conclusion of the working group processes, final Amendment Reports (“ARs”) were

<sup>1</sup> The terms ‘the Authority’, ‘Ofgem’ and ‘we’ are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> <http://www.berr.gov.uk/files/file39387.pdf>

<sup>4</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=128&refer=Networks/Trans/ElecTransPolicy/tar>

<sup>5</sup> Details of which can be found on National Grid’s website in the following location:

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

furnished to the Authority in January 2009 for CAP161 to 165 and in March 2009 for CAP166.

In July 2009 the Secretary of State indicated his intention to use the Energy Act 2008 powers to bring about enduring access reform<sup>6</sup>. The Secretary of State subsequently published a number of consultation documents from August 2009 on 'Improving Grid Access'<sup>7</sup>.

Following the Secretary of State's announcement, the Authority considered it would be prudent to keep under review all transmission access related amendments, including those identified above, until such time as the interactions with the Government's intervention process were known<sup>8</sup>. Specifically, to prevent unnecessary resource burden and to avoid being unable to take into account the Secretary of State's intervention in our decision-making process, we announced that we would keep under review the timing of our work on the above proposals together with the following access-related CUSC amendment proposals which were with the Authority for a decision:

- CAP148 - Deemed Access Rights to the GB Transmission System for Renewable Generation;
- CAP167 - Definition of a threshold(s) associated with the request for a Statement of Works, and
- CAP168 - Transmission Access - Under-use and reallocation of TEC.

On 11 August 2010, the Secretary of State exercised his powers under section 84 of the Energy Act 2010 to implement a form of Connect and Manage<sup>9</sup>. The Secretary of State also made clear that the costs of constraints would be charged back to users of the system on a smeared, per MWh basis. These provisions have been reflected in the transmission licence, the CUSC and other industry codes.

The implementation of these provisions has changed the baseline against which proposed amendments to the CUSC are assessed. We consider it appropriate to consider the implications of the baseline change for our assessment of the above access-related CUSC amendment proposals.

## **The amendment proposals**

### *CAP148*

CAP148, which was raised by Wind Energy (Forse) Ltd in April 2007, proposed to change the access arrangements for generators so as to provide for priority connection for new renewable generation and priority dispatch for such generation once connected.

The proposer considered the amendment would better facilitate Applicable CUSC Objective (a) (the efficient discharge by NGET of the obligations under its licence), by removing inefficiencies in the queue process, allowing NGET to pay generation not to

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<sup>6</sup> DECC (2009): 'The Low Carbon Transition Plan':

[http://decc.gov.uk/assets/decc/white%20papers/uk%20low%20carbon%20transition%20plan%20wp09/1\\_20090724153238\\_e\\_@@\\_lowcarbontransitionplan.pdf](http://decc.gov.uk/assets/decc/white%20papers/uk%20low%20carbon%20transition%20plan%20wp09/1_20090724153238_e_@@_lowcarbontransitionplan.pdf)

<sup>7</sup> DECC's consultations and decision on 'Improving Grid Access' can be viewed at the following link:

[http://www.decc.gov.uk/en/content/cms/consultations/improving\\_grid/improving\\_grid.aspx](http://www.decc.gov.uk/en/content/cms/consultations/improving_grid/improving_grid.aspx)

<sup>8</sup> The Authority's letter of 30 July 2009 can be viewed at the following link:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=55&refer=Networks/Trans/ElecTransPolicy/TAR>

<sup>9</sup> Section 84 was commenced on 29 July 2010 by the Energy Act 2008 (Commencement No 5) Order 2010 [SI 2010 No 1888], with an effective date of 11 August 2010.

connect rather than undertaking potentially inefficient investment, and by allowing NGET in its capacity as National Electricity Transmission System Operator (NETSO) to more efficiently use transmission assets.

The proposer also considered the amendment would better facilitate Applicable CUSC Objective (b) (facilitating effective competition in the generation and supply of electricity) by providing greater certainty to renewable generators, allowing suppliers to better meet their renewables obligations and by removing discrimination whereby intermittent generators are treated in the same way as conventional generators.

Five alternative proposals have also been raised. These alternatives each retain the priority connection element of the original proposal, albeit with some variations (for example in relation to eligibility criteria, and the assignment of firm rights once connected).

On 16 July 2008 Ofgem published an impact assessment consultation in relation to CAP148, including the original proposal and each of the alternatives. The impact assessment consultation set out our quantitative and qualitative assessment of the impacts of CAP148 and set out the Authority's minded-to decision, reached at its May 2008 meeting, to reject each of the CAP148 variants. It also stated that the Authority anticipated publishing its decision on CAP148 towards the end of 2008, following consideration of responses to the impact assessment consultation.

At its December 2008 meeting, the Authority gave further consideration to CAP148 in the light of all relevant information available to it, including responses to the 16 July 2008 impact assessment consultation. The Authority also considered the implications of changes to its statutory duties arising under the Energy Act 2008 and, in April 2009, consulted on the impact such changes would have on its consideration of CAP148<sup>10</sup>. Subsequent to this consultation we considered that it would be prudent to await the conclusion of the Government's intervention before making our decision on CAP148.

#### *CAP161*

CAP161 proposes to introduce arrangements which will require the NETSO to host capacity auctions close to real time for short term access rights. Under the original proposal, access rights would be firm and access would be granted on a "pay as bid" basis. The access product would be defined zonally. The access auction would be held five weeks in advance for a weekly product, and two days ahead for a daily product.

The proposer considered CAP161 would better facilitate Applicable CUSC Objective (a) and (b) by promoting efficient use of the transmission system, improving the investment signals provided to the transmission licensees, and by providing release of access rights from existing generators, thereby facilitating new entry.

The working group proposed three working group alternative amendments which define access rights on a nodal (as opposed to zonal as per the original amendment) identity. WGAA1 would use the original five week ahead weekly auction and two day-ahead daily auction structure. WGAA2 would auction a Commercial Limited Duration Transmission Entry Capacity (CLDTEC) product. The CLDTEC is a block of capacity with a minimum

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<sup>10</sup> For documents relating to our assessment of CAP148, please see the following area of Ofgem's website: <http://search.ofgem.gov.uk/search.aspx?pkid=755724950&aid=6581&pt=6018936&sw=cap148&fontsize=&contrast=>

duration of one week, which would be available between seven weeks ahead and the end of the relevant financial year. WGAA3 would combine WGAA1 and WGAA2.

#### *CAP162*

CAP162 would allow generators to export power in excess of their capacity holdings, with their output only capped at their local transmission system limits. The charge for overrunning would be cost reflective.

The proposer considered CAP162 would better facilitate Applicable CUSC Objective (a) and (b) by promoting efficient use of the transmission system, improving the investment signals provided to the transmission licensees, and by providing release of access rights from existing generators, thereby facilitating new entry.

The original amendment was based on a zonal identity for capacity, whilst a WGAA was developed that proposed a nodal definition of rights.

#### *CAP163*

The original amendment proposal CAP163 would introduce a sharing mechanism of wider access rights within a zone on a 1:1 basis. The sharing of rights would be facilitated by the introduction of a local only connection (a new concept called Local Capacity Nomination (LCN)) which represents the maximum capacity (in MW) of access rights (short-term rights, long-term rights and overrun) a generator is entitled to obtain within a charging year. The LCN concept would allow a generator without wider rights to share those of a generator with such rights, allowing it to access the system ahead of reinforcement works being complete.

The proposer considered CAP163 would better facilitate Applicable CUSC Objective (a) and (b) by promoting efficient use of the transmission system, improving the investment signals provided to the transmission licensees and by providing release of access rights from existing generators, thereby facilitating new entry.

Due to concerns regarding the appropriate definition of zones (e.g. the trade-off between providing adequate liquidity and avoiding significant constraint costs), a WGAA was developed which is based on rights defined on a nodal basis, which could be traded between nodes.

#### *CAP164*

CAP164 makes provision for generators to be given a fixed connection date - a "TEC effective date" – which would be the later of completion of the necessary local works or a fixed period. The original proposal did not stipulate what this fixed period should be, but the working group agreed a four-year period. The generator would be required to pay Transmission Network Use of System (TNUoS) charges for a minimum period, irrespective of whether the generator itself is physically able to connect. This is intended to encourage generators to apply only once consents have been granted.

The proposer considered CAP164 would better facilitate Applicable CUSC Objective (a) and (b) by promoting more efficient use of the transmission system by facilitating new entry ahead of wider works and improving the signals for transmission reinforcement by ensuring that only projects that are likely to connect within a defined timescale apply for a new connection.

A WGAA was developed which created a new capacity product (interim TEC or “iTEC”), which would enable a generator to connect from a fixed date at an agreed amount of capacity, using iTEC before wider TEC rights can be granted. During the iTEC period, the generator would pay an alternative form of access charges based on a cost reflective price for early connection, recognising the additional operational costs imposed, a charge for local works and a contribution to the residual charge, before reverting to paying TNUoS when full TEC is delivered upon completion of wider works. The iTEC product would confer the same rights to use the system as full TEC, with the primary difference being the way in which a user is charged for using the access rights in advance of wider works.

### *CAP165*

The original CAP165 proposal defines long-term entry rights on the basis of a fixed number of years (nominated by the generators) and specific zonal identity (to be defined through a methodology to be developed). The definition of the zonal identity would be consistent with other CAPs such as CAP163 that would allow sharing of capacity between generators within zones at a 1:1 ratio. The length of the rights would be nominated by the relevant generator, who, after the commencement of the rights would be required to provide a financial commitment (known as “post-commissioning user commitment”) to pay charges for the relevant period. These rights could be extended by the generator via an application process at any time. New generators, and existing generators wishing to increase their capacity holdings, would be required to book a defined period of rights and, ahead of the commencement of the rights, provide financial commitment (known as “pre-commissioning user commitment”) equivalent to 50% of the cost of the capacity booking.

The proposer considered that CAP165 would better facilitate Applicable CUSC Objective (a) by promoting more efficient investment signals by lessening the chance of stranding transmission assets. The proposer considered it would also better facilitate Applicable CUSC Objective (b) by ensuring existing and new entrants provide equivalent levels of user commitment, reallocating unused existing capacity to new entrants and enhancing transparency in the user commitment arrangements thereby reducing barriers to entry.

Seven working group alternatives were developed:

- WGAA1 represents only a minor change to the original, in that transmission access rights would be defined on a nodal, rather than zonal, basis;
- WGAA2 features a system of fixed and cost-reflective final sums to give pre-commissioning user commitment. Access rights would be defined on a nodal, rather than zonal, basis;
- WGAA3 features a four year rolling commitment period for post-commissioning generators. Access rights would be defined on a nodal, rather than zonal, basis;
- WGAA4 was developed from a consultation request and features an enduring right with a four year minimum booking for new users and a fifteen month notice for reduction in TEC;
- WGAA5 was developed from a consultation request and features an eight year rolling commitment, fixed and cost-reflective final sums to give pre-commissioning liability with scaled pre commissioning security;

- WGAA6 was developed from a consultation request and is based on WGAA3 but with a two year notice period; and
- WGAA7 was developed from a consultation request and is based on WGAA3 with pre-commissioning user commitment being restricted to the period seven years prior to the completion date.

### *CAP166*

CAP166 proposes that all long term access rights would be allocated via an auction process. These long-term rights would be released in whole year blocks, and defined on a zonal basis. The definition of the zones would be according to a common methodology (to be developed) and would be consistent with other relevant proposals including, for example, CAP163 which would allow the sharing of capacity between generators within the same zone at a ratio of 1:1. Capacity up to a pre-determined zonal baseline would be allocated on a “pay as bid” basis, with user commitment being the obligation to pay the successful bid. Security requirements would be developed separately. Capacity above the zonal baselines, or “incremental capacity”, would be released separately to bids meeting a regulatory test (according to a methodology to be developed).

The proposal also included separate arrangements for infrastructure comprising generators’ local connections, including the relevant user commitment.

The proposer considered CAP166 would better facilitate Applicable CUSC Objective (a) by providing enhanced investment signals, enabling the transmission licensee to develop the transmission system more efficiently. The proposer also considered CAP166 would better facilitate Applicable CUSC Objective (b) by enabling all generators to bid for rights on equal terms, with capacity going to the party valuing it most, whilst existing unused capacity could be reallocated to new entrants, guaranteeing certainty of access. User commitment requirements would also become more transparent, which would enhance competition.

There were three WGAAAs. WGAA1 proposed an auction based upon a boundary constraint model where access is auctioned on a nodal basis (rather than the zonal basis in the original amendment proposal). WGAA1 allows the auction to determine the price of such access and there is no reserve price.

WGAA2 is also based on a boundary constraint model, but includes a reserve price designed to reflect the Long Run Marginal Cost (LRMC) of providing capacity. A Short Run Marginal Cost (SRMC) based charge would also apply, reflecting the costs of allowing over-allocation of capacity across derogated boundaries.

WGAA3 features a capacity-duration auction whereby access for any given year is provided to all users requesting it. The charge for access would be split into a long run charge designed to proxy the long run cost of providing capacity and a short run charge which reflects forecast operational costs of providing access, including where such access is provided ahead of wider reinforcement.

Four further alternative amendments were identified but not fully worked up due to time constraints. A record of these alternative amendment proposals is described in the final AR.

## *CAP167*

CAP167 was raised by NGET in May 2008, to provide clarification in the assessment of whether a Small Embedded Power Station (SEPS) development (or the aggregate effect of multiple projects) is likely to have a significant impact on the GB transmission system. If it is deemed to do so, then its connection to the distribution network and energisation needs to be subject to certain steps defined in the CUSC.

The proposal builds upon arrangements introduced in July 2006 under CAP097 whereby, in the case of a Small Power Station<sup>11</sup>, a distribution network operator (DNO) requests a Statement of Works from NGET if it reasonably believes the given connection may have a significant impact on the transmission system. If any relevant works are identified by NGET, which may include works on the wider transmission system, local transmission works and/or site-specific works, then the DNO must not energise the connection until such works are completed<sup>12</sup>. In this respect the Small Power Station is then treated in the same way as generators contracting directly with NGET, but with the DNO providing the interface with NGET.

In raising CAP167, NGET highlighted that DNOs have varying interpretations of what constitutes a significant impact and may not be the best party to judge such impacts. CAP167 aims to address this by providing transparent criteria, in the form of MW threshold(s), for determining whether there could be a significant impact and whether a DNO is therefore required to request a Statement of Works. In this way CAP167 seeks to clarify the triggers for a DG to be subject to the existing Statement of Works process, it would not change the process by which NGET assesses a Request for a Statement of Works, nor the identification of transmission works in that assessment.

The proposer considered CAP167 would better facilitate Applicable CUSC Objective (a) (the efficient discharge by NGET of the obligations under its licence), by increasing the visibility to the NETSO of small generation projects, allowing NGET to plan better the investment, forecast demand and plan operational outages. The proposer also considered CAP167 would better facilitate Applicable Objective (b) by providing a level playing field in the connection application process, especially in constrained areas where generators contracting directly with NGET may be more likely to be dependent on works on the wider transmission system.

Two WGAA's were raised which proposed to define a methodology by which the impacts of SEPS could be assessed. WGAA1 proposes that the assessment of the impact of a SEPS excludes wider transmission system issues, and is limited to those criteria relevant to establishing sole use works due to its connection. It was also proposed that the assessment takes into account the administrative and cost burden that will be imposed on the SEPS from the process. WGAA2 is based on the original proposal, but would include an assessment of the impact on carbon abatement.

## *CAP168*

CAP168 was raised by Conoco Phillips in March 2009 and granted urgency by the Authority so as to be assessed together with the other related CUSC Amendment

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<sup>11</sup> Power Stations are classified as Small, Medium or Large on the basis of size thresholds set out in the Grid Code. Under the current thresholds Small Power Stations are below 10MW in northern Scotland, below 30MW in southern Scotland, and below 50MW in England and Wales.

<sup>12</sup> Unless the transmission licensee responsible for the identified transmission works has been granted a derogation from the requirements to comply with the NETS SQSS which facilitates connection of such generation in advance of such works being completed.

Proposals. CAP168 proposed the introduction of an under-use charge as well as the introduction of shorter term access products, which could be reallocated to third parties on a bilateral basis, or administered by the NETSO. In addition to revised security arrangements, CAP168 also proposed a capacity reduction charge to incentivise early notification of capacity reductions.

The proposer considered CAP168 would better facilitate Applicable CUSC Objective (a) by enabling more efficient utilisation of TEC as well as more accurate investment signals. The proposer also stated that it would better facilitate Applicable CUSC Objective (b) by requiring existing and new generators to provide equivalent levels of user commitment and removing barriers to entry by making spare capacity available.

### **CUSC Panel<sup>13</sup> recommendation**

The CUSC Panel voted unanimously that the original variant of CAP148 and all of the alternative proposals would not better facilitate the Applicable CUSC Objectives. No vote was taken on which of the CAP148 proposals would best facilitate the Applicable CUSC Objectives.

The CUSC Panel voted unanimously that the original variant of CAP161 was not better than the baseline and that CAP161 WGAA1 was better than the baseline. The CUSC Panel voted by majority that CAP161 WGAA2 and 3 were better than the baseline. The CUSC Panel voted unanimously that, of the alternatives put forward, WGAA1 would best facilitate the Applicable CUSC Objectives.

The CUSC Panel voted unanimously that the original variant of CAP162 was not better than the baseline and that CAP162 WGAA was better than the baseline. The CUSC Panel voted unanimously that, of the alternatives put forward, the CAP162 WGAA would best facilitate the Applicable CUSC Objectives.

The CUSC Panel voted unanimously that the original variant of CAP163 was not better than the baseline and that CAP163 WGAA was better than the baseline. The CUSC Panel voted unanimously that, of the alternatives put forward, the CAP163 WGAA would best facilitate the Applicable CUSC Objectives.

The CUSC Panel voted unanimously that the original variant of CAP164 was not better than the baseline and that CAP164 WGAA was better than the baseline. The CUSC Panel voted unanimously that, of the alternatives put forward, the CAP164 WGAA would best facilitate the Applicable CUSC Objectives.

The CUSC Panel voted unanimously that the original variant of CAP165 was not better than the baseline and by majority that CAP165 WGAA4, 6 and 7 were better than the baseline. The CUSC Panel voted by majority that the remaining WGAA's were not better than the baseline. The CUSC Panel voted by majority that, of the alternatives put forward, WGAA4 would best facilitate the Applicable CUSC Objectives.

The CUSC Panel voted unanimously that the original variant of CAP166 and WGAA1 were not better than the baseline, and by majority that the remaining WGAA's were not better than the baseline. The CUSC Panel voted (6 abstentions out of 8 votes) that none of the amendment proposals would better facilitate the Applicable CUSC Objectives (not a majority vote).

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<sup>13</sup> The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

The CUSC Panel voted by majority that the original variant of CAP167 was not better than the baseline, in equal numbers for and against CAP167 WGAA1 being better than the baseline, and unanimously that WGAA2 was not better than the baseline. The CUSC Panel voted in equal numbers that WGAA1 would best facilitate the Applicable CUSC Objectives (not a majority vote).

The CUSC Panel voted unanimously that the original variant of CAP168 and the WGAA<sup>14</sup> were not better than the baseline, and that neither amendment proposal would best facilitate the Applicable CUSC Objectives (5 abstentions out of 9 votes and therefore not a majority vote).

### **The Authority's decision**

The Authority has given careful consideration to all of the issues raised in relation to CAP148, CAP161-166, CAP167 and CAP168. The Authority has considered and taken into account the responses to NGET's consultation on each of the amendments, which are attached to the respective final ARs, the recommendations of the Working Groups and the CUSC Panel, as well as wider policy development arising from the Secretary of State's intervention to amend the CUSC and associated documents to implement a form of Connect and Manage.

The Authority has concluded that implementation of all of the above amendment proposals would not better facilitate the achievement of the objectives of the CUSC. In view of this conclusion, it was not considered necessary to address the issue of whether the proposals would be consistent with the Authority's principal objective and general duties.

### **Reasons for the Authority's decision**

Each of the CUSC amendment proposals detailed in this decision letter relate to the way in which the transmission access regime applies in Great Britain. Each amendment was assessed and voted upon by the Working Groups and CUSC Panel against the prevailing baseline, which pre-dates the intervention by the Secretary of State under section 84 of the Energy Act 2008, and was based on the prevailing arrangements. On and from 11 August 2010, the Secretary of State's intervention has commenced Connect and Manage arrangements with socialisation of constraint costs.

We consider that the Government's intervention has changed materially the baseline against which the CUSC Amendments would be assessed. As a consequence, it is impossible to assess whether the CUSC Panel would reach the same conclusion if the vote was taken against the significantly different baseline currently in place. The relevant Working Group's analysis and any responses during the development process which were taken into account when the CUSC Panel made its recommendations to the Authority are in question. Consequently any decision to approve such amendments taken with such recommendations, analysis and responses in mind may be considered not to be robust.

Furthermore, because the technical features of the amendments and the associated legal text were developed against the previous baseline, it would not be possible to approve the amendments without significant change in light of the revised codes and licence

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<sup>14</sup> For clarity the final AR refers to the WGAA as WGAA1, although this is the only alternative proposal.

provisions implemented by the Government. The amendment proposals are therefore not workable in the manner contained in the relevant final ARs.

The suite of CUSC amendments would interact, and in most cases be incompatible, with the new baseline implemented by the Secretary of State's intervention. With CAP161 to CAP166 and CAP168, the definition of the local works and wider infrastructure is not the same as the definition of enabling works under the Government's model.

We consider that some features of CAP161 to CAP163 may be complementary to a Connect and Manage model. However, the value of these amendments could be substantially diminished under the Government's Connect and Manage model compared to the baseline against which they were originally developed. In addition, the detailed changes to the codes required to implement these amendments would over-write the areas recently changed by the intervention<sup>15</sup>. An illustration of such difficulty arises when contemplating how a cost-reflective system of overrun prices under CAP162 could be compatible with socialisation of all constraint costs.

In the case of the amendments that form complete self-contained models of access reform, CAP148, CAP164, CAP166 and CAP168, the fundamental features of each of the amendments would deviate significantly from the approach implemented in the codes and licences by the Secretary of State. CAP148 would make explicit provisions in relation to a connection lead time as well as prioritisation of the connection of certain types of generation. As a consequence, the features of CAP148 differ materially from the arrangements inserted into the codes and licence by the Secretary of State.

CAP164, whilst based on the same generic arrangements as the Government's Connect and Manage model, was designed on the basis that a fixed annual lead time would be provided to the connecting generator, rather than access being dependent on completion of enabling works. The concept of iTEC does not exist under the Government's intervention, where full access rights are made available from completion of enabling works.

CAP166 proposed a form of auctioning which would see generators competing for capacity on a pay as bid basis, resulting in generators either potentially being subject to different prices from different rounds of auction for the same rights, or even being unable to access the transmission system until the required wider transmission reinforcement was completed. This is fundamentally at odds with the principle of Connect and Manage whereby generators are allowed to access the system on an equal basis when their enabling works are completed, without being subject to the completion of the wider transmission works.

CAP168 envisages an entirely different approach to the access arrangements. The arrangements would not affect the current process by which generators are connected to the system, but would have a material effect on the way in which access rights are used and charged. Such elements would change the nature of the existing access rights afforded to generators and would run contrary to the Government's model of access reform.

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<sup>15</sup> The Government had indicated its intention to notify its targeted intervention to the European Commission as a Public Service Obligation (PSO) on transmission licence holders for the purposes of the EU internal market energy directive. This has now taken place. The intended effect of implementing as a PSO is to create a stable access regime enshrined in the licence – details of the Government's intention with regard to the PSO can be viewed at the following link:  
<http://www.decc.gov.uk/assets/decc/Consultations/Improving%20Grid%20Access/251-govt-response-grid-access.pdf>

In the case of CAP165, the definition of rights for a finite period and the different requirements to provide user commitment in each of the variants would also work contrary to the Government's intervention, which expressly provides for a two year user commitment period (on a rolling basis), whilst retaining the current definition of access rights.

In the case of CAP167, in our decision letter on CAP097, we stated that we did not envisage that all Small Power Stations would be required to be subject to transmission works but nor did we believe that the definition of Small Power Stations was the right threshold at which generators would not be subject to transmission works. We remain of the view that it may not be appropriate for DNOs to offer connection to all Small Power Stations without referral to NGET. We consider that it is important that NGET has appropriate visibility of Small Power Stations so that it can take into account the impact of such generation on the NETS in meeting its obligations under the transmission licence. However, the proposed changes under CAP167 need to be re-examined to ensure consistency between the treatment of small embedded generation and the principles of Connect and Manage.

Under the model implemented by Government, generators subject to the statement of works process should be eligible for earlier connection under the new Connect and Manage arrangements, in which case their connection would only be dependent on enabling works in the same way as generators contracting directly with NGET. We consider there is merit in reviewing the statement of works process in the light of the Connect and Manage arrangements<sup>16</sup>. We note that CAP167 makes no changes to the statement of works process, but that implementation of CAP167 would require the development and maintenance of a methodology for determining thresholds and the calculation and application of thresholds under that methodology. We further note that it is for each DNO to liaise with applicants as to the interpretation of its CUSC obligations in respect of individual applications for connection to the distribution system, and applicants should be made aware that under the current arrangements the Statement of Works process could apply to them as embedded Small Power Stations. We also expect NGET and the DNOs to work together to reach a common understanding as to the circumstances in which a statement of works should be requested.

## **Next steps**

Whilst we consider that none of the amendment proposals discussed in this decision document better facilitates the Applicable CUSC Objectives because of the material change in the baseline and the incompatibility of the amendments' design with the new baseline, we are of the view that there may be some merit in certain features of CAP161 to CAP163. We expect the industry to review further the issues discussed and assessed in the development of these amendments against the new baseline, and if appropriate, bring forward updated proposals.

We also consider that there is sufficient merit in clarifying the arrangements relating to small embedded generation, and therefore expect the industry to review issues raised by CAP167 as well as the statement of works process itself in the context of the Connect and Manage arrangements, and if appropriate, bring forward updated proposals.

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<sup>16</sup> For example in terms of the categorisation of relevant works associated with the impact on the transmission system and the identification of works which must be complete before the connection may be energised

We also note that issues left out of Government's access reform, including the treatment of generation connected to the distribution system, are in scope of Project TransmiT, our recently launched review of transmission charging and associated connection arrangements.

**Mark Cox**  
**Associate Partner, Industry Codes and Licensing**

Signed on behalf of the Authority and authorised for that purpose.