



Transmission licensees,
interconnectors, demand users,
generators, suppliers, consumer
groups and other interested
parties

*Promoting choice and value for
all gas and electricity customers*

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Dear stakeholder,

Consultation on interim user commitment arrangements for non-generation network users

"User commitment" is a term for the liabilities on users that trigger investment in the transmission network. This open letter considers the user commitment arrangements that should apply from 1 April 2013 for those users who are not generators. The arrangements ensure that consumers are protected from unnecessary costs if a user decides to reduce its capacity or cancel its project without giving sufficient notice to the transmission owners (TOs).

In March 2012, following consultation, we approved a new enduring approach to user commitment for generators. These arrangements will replace the existing interim arrangements for generators only from 1 April 2013 and will not apply to non-generation users (interconnectors and large demand customers). This means that there will not be a codified enduring regime in place for non-generation users when the interim arrangements expire.

We present for consultation our proposal to extend the current interim approach for those users to 31 March 2015 whilst retaining the option to implement an enduring regime sooner if this is possible. In order to enable National Grid Electricity Transmission (NGET) to continue to offer interim arrangements to non-generation users, we propose to allow NGET to recover any difference between efficiently incurred costs and costs secured by non-generation users via these interim arrangements during the proposed extension period. However, we expect NGET to initiate and progress an appropriate review of enduring arrangements for non-generation users as soon as possible.

Responses to our consultation should be sent to us on or before 22 November 2012.

Background

When a network user applies to connect to the transmission system or to increase its existing capacity, TOs undertake the required reinforcement works to the electricity network to accommodate its needs. However, the user may decide to cancel its project or reduce its capacity. Where the associated works have already begun and the capacity cannot be reused, this can result in unnecessary costs for wider network users and

ultimately for consumers. Similarly, where an existing user is reducing its capacity or closing, if the TO does not get sufficient notice it may incur costs that could otherwise have been avoided. User commitment places liabilities on users in order to financially secure the cost of investment works or ensure otherwise avoidable costs are not incurred.

User commitment arrangements currently in place were introduced on a temporary basis. Interim Final Sums Liability (FSL) arrangements (which allow users to secure local works investments only¹), and the Interim Generic User Commitment Methodology (IGUCM)² will expire on 31 March 2013. They were introduced to help reduce uncertainty and volatility associated with the original user commitment methodology, FSL that requires users to secure all works. For generation network users, these interim arrangements will be replaced by enduring user commitment arrangements following our March 2012 decision³ to approve NGET's Connection and Use of System Code (CUSC) Modification Proposal (CMP) 192⁴.

From 1 April 2013, CMP 192 will introduce enduring arrangements for calculating user commitment liabilities, and associated securities, for generators only. Non-generation network users, namely interconnectors and demand connections, who are currently liable for user commitment, were excluded from the scope of CMP 192 development. CMP 192 focused solely on generators because industry perceived the user commitment arrangements to act as a barrier to entry for smaller generators and because it was considered that non-generation users' arrangements should be developed separately given different drivers behind their user commitment. For interconnectors, this was in part due to the perceived uncertainty of their future arrangements⁵.

Therefore, from 1 April 2013, non-generation users will not be able to use the currently available interim methodologies or the CMP 192 arrangements.

Interim user commitment options for non-generation users

In August and October 2012⁶, NGET wrote to us asking us to consider the interim options for user commitment arrangements for those parties excluded from the scope of CMP192. NGET considered that the most suitable solution would be a CUSC modification proposal to develop the appropriate enduring user commitment arrangements for non-generation users. NGET proposed to publish an open letter to the industry to canvass views on the future development of the arrangements for non-generation users. However, it noted that it was unlikely that such a solution could now be developed and implemented prior to April 2013. NGET considered that an enduring solution would take up to two years to develop due to the uncertainty of future interconnector arrangements and the need to take into account their consideration under the Integrated Transmission Planning and Regulation (ITPR) project⁷ and any subsequent code modification process.

¹ Local works investments can be directly attributable to a limited number of generators, whilst wider works are difficult to disaggregate and apportion due to the nature of the transmission system. Since 2010, wider investment work security has not been required from generators under this approach.

² For more information, please see the Interim Generic User Commitment Methodology Statement, August 2006 available at: <http://www.nationalgrid.com/NR/rdonlyres/760388F8-7C6B-40C6-86BF-92AE523C83E1/15522/InterimGenericUserCommitmentMethodologyStatementv2.pdf>

³ For the Authority's decision on CMP 192, please see the following link: <http://www.ofgem.gov.uk/Licensing/ElecCodes/CUSC/Amend/Documents1/CMP%20192%20D.pdf>

⁴ For the Final Modification Proposal, please see: <http://www.nationalgrid.com/NR/rdonlyres/DA4EB7E8-7168-49CA-A115-381A3A5D9753/50218/CMP192finalCUSCMODIFICATIONREPORT10.pdf>

⁵ Under the current CUSC, interconnectors are treated as both demand and generation, depending on whether they are exporting (demand) or importing (generation). During CMP 192 development, the industry workgroup considered that further clarity was needed in relation to how interconnectors will be treated within the enduring GB framework.

⁶ For non-confidential correspondence from NGET, see letter from NGET dated 17 October 2012, Electricity transmission user commitment for non-generation parties available at: <http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/Pages/ElectricityTransmissionPolicy.aspx>

⁷ In March 2012, we published an open letter inviting views on the drivers and evidence associated with planning for and delivering an integrated electricity transmission system, available at <http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/itpr/Pages/index.aspx>.

In its correspondence with us, NGET considered that there were three options that could be in place from 1 April 2013 until an enduring solution was in place. It described the underwriting requirements for non-generation users during the next two years under each option. These are set out below.

Option 1 - Interim arrangements come to an end

Under this option, non-generation users would be required to secure all works under FSL, and those users that are currently on the IGUCM arrangements would be transferred back to full FSL from 1 April 2013. NGET considered that under this option most non-generation users' liability and security underwriting would increase significantly and illustrated the potential scale of such an increase⁸.

Option 2 – Extend the interim arrangements

This option would allow NGET to offer an extension to the existing interim arrangements (IGUCM and FSL without wider works) to non-generation users until enduring arrangements are in place. Under this option, users would not be securing the full user commitment liability. In order to enable NGET to offer an extension to the interim arrangements, NGET would need to be able to recover any difference between efficiently incurred costs and costs secured by prospective non-generation users under either the IGUCM or interim FSL methodology.

Option 3 – Adopt CMP 192 principles

Under this option, NGET would be able to offer an extension of the CMP 192 principles to non-generation users until enduring arrangements are in place. In a similar way to Option 2, users would not be covering the full liability and NGET would need to be able to recover the difference in order to offer this option to prospective non-generation users.

NGET stated that *Option 2* would be its preferred approach. It noted that interim arrangements were originally implemented following an industry consultation. NGET considered that extending the interim arrangements would not cause a potential step-change in security and liability requirements for non-generation users from April 2013.

Our views on way forward

Enduring arrangements for non-generation users

We consider it is important that robust and transparent enduring user commitment arrangements for non-generation users are in place. It is therefore important that NGET initiates a review and develops an enduring solution as soon as possible. We expect NGET to set out and communicate to relevant stakeholders the timing of the work required to develop and implement enduring arrangements and to take appropriate steps to ensure engagement of key stakeholders throughout the process. We note the need to follow a transparent and consultative code modification process and accept that it could take up to two years to develop and implement the appropriate enduring solution for non-generation users.

We note NGET's view that any changes to the treatment of interconnectors which result from our ongoing ITPR project could affect the timing of the development and implementation of the enduring arrangements for non-generation users. However, we consider that progress can still be made, and, to this end, expect NGET to highlight and provide an explanation of the specific areas where decisions are contingent on conclusions from the ITPR project. We think it is possible to make progress on the issue in the short term and to ensure consistency between the enduring arrangements for interconnector user commitment and the ITPR project.

⁸ Please note that we can not disclose this information due to the confidential nature of the information provided by NGET.

Interim arrangements for non-generation users

As set out above, reverting to the user commitment regime in place prior to the introduction of interim arrangements is likely to represent a significant increase in user commitment liability and associated security for non-generation users. This would be in contrast to the approach adopted for generation users which are likely to see a reduction in their security requirements and underwriting following implementation of CMP 192⁹. We consider that such a step change in user commitment requirements for non-generation users might act as a barrier to entry for those users and note that interim arrangements were introduced to help reduce such uncertainty and volatility. On the other hand, we do not think it is appropriate to extend the CMP 192 principles to non-generation users at this stage. This is because there has not been any specific industry consultation on how the arrangements would apply and what the impact would be.

Having reviewed the options proposed by NGET and the potential impact of those options on consumers, we consider it would be appropriate to continue with the interim arrangements whilst the enduring user commitment solution for non-generation users is being developed.

We propose to approve NGET's extension of both interim arrangements and interim exclusions for non-generation users to 31 March 2015 but to retain the option of implementing an enduring regime sooner if this is possible. The purpose of the extension is to cover the period until an enduring solution has been developed and implemented. We consider an extension of up to two calendar years is appropriate, as any shorter period may not be sufficient for the relevant amendment process to conclude.

We note that the overall exposure for end consumers (the absolute proportion of liability that would not be secured by prospective non-generation users) under *Option 2* is considerably higher during the next two years when compared to equivalent exposure since interim arrangements have been in place. However, this is not unexpected given the level of investment necessary over the next price control period (2013-2021). In line with this, and in order to enable NGET to continue to offer interim arrangements to non-generation users, we consider it appropriate to provide assurance to NGET that any difference between efficiently incurred costs and costs secured by non-generation users via these interim arrangements would be recoverable during the proposed extension period.

For the avoidance of doubt, the proposed extension would not change the current TO and System Operator (SO) arrangements under which individual TOs are separately regulated through their price control for efficient investment. It is for NGET to work with the Scottish TOs to resolve any misalignment or lack of clarity in the working arrangements between the SO and the Scottish TOs.

We welcome respondents' views on the above proposals and whether there are any additional factors that may require further consideration in determining whether to extend the interim user commitment arrangements for non-generation network users.

⁹ For more information on liabilities and securities for generators under CMP 192, please see our Impact Assessment at: http://www.ofgem.gov.uk/Licensing/ElecCodes/CUSC/Ias/Documents1/CMP%20192_master_9.pdf

Next steps

Publication of this open letter marks the start of a four-week consultation period, during which respondents are invited to submit any comments on the proposed way forward. We welcome views and any additional information from interested parties on or before **22 November 2012**. Our consultation and the subsequent decision making process reflects the need to have the appropriate interim arrangements for non-generation users in place by 1 April 2013.

Unless marked confidential, all responses will be published on our website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. We will consider such requests subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. Any respondent who wishes their response to remain confidential should clearly mark the response to that effect and give their reasons for confidentiality.

Responses should be submitted, preferably by e-mail, on or before 22 November 2012 to Vanja.Munerati@ofgem.gov.uk, or by post to:

Vanja Munerati
Senior Manager – Electricity Transmission Policy
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

If you have any questions about this letter or the attached notice, please contact Vanja Munerati on 020 7901 7472 or Vanja.Munerati@ofgem.gov.uk.

Following closure of this open letter consultation, and consideration of respondents' views, we will either issue our final views or consult again on the matter if appropriate.

Yours faithfully,

Andrew Burgess
Associate Partner, Transmission and Distribution Policy