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Our Ref: **Electricity Transmission User Commitment for non-generation parties**

Dear Ian,

Further to your meeting with Mike Calviou and Peter Bingham on 25th September, this letter outlines our proposed way forward for enduring and interim solutions for non-generation parties that currently fall outside the scope of the CMP192 process for user commitment, namely interconnectors and non DNO demand connections (at present the only relevant non DNO demand connections are with Network Rail).

The current position is that these non generation parties currently have interim arrangements that are set to expire when CMP192 becomes effective on 1st April 2013. The potential timescales for identifying an enduring solution, which could take 1-2 years if any output from the ITPR process and any subsequent code modifications are taken into account, mean that an extension of an interim solution to 2015 may be a pragmatic approach.

The development of CMP192 was explicitly focussed on generation because the existing arrangements were perceived as a barrier to new generation projects, and the difference in treatment between pre and post commissioning generation had been questioned. The working group considered Interconnectors and non DNO demand to have sufficiently different drivers for user commitment arrangements and that they should be developed separately. In the case of interconnectors the regulatory uncertainty at the time was an added consideration.

Alongside any extension of the interim arrangements, we propose to continue developing an enduring solution by publishing an open letter to the industry in October 2012, to canvass views on the future development of the user commitment regime for non-generation parties.

I have suggested below a number of options which you might consider for an extension of the interim arrangements. In addition, Appendix 1 details the underwriting requirements for non-generation parties for the 2 years beyond the expiration of the interim arrangements.

Option 1 - Interim arrangements come to an end.

Non-generation parties would be required to secure a Final Sums liability (including wider works) from 1st April 2013. In addition to the users who have opted for Final Sums being required to secure all works, this will also require any party on the IGUCM arrangements to be transferred back to Final Sums arrangements.

Option 2 – Interim arrangements are extended until a codified solution is implemented.

An extension to the existing interim arrangements for non-generation parties (i.e. IGUCM and Final Sums without wider works) until a full codified resolution is in place (this would require agreement/letter of comfort from Ofgem as users would not be covering the full liability).

Option 3 – Adopt 192 principles until a codified solution is implemented.

An extension of the CMP192 principles to non-generation parties until a full codified resolution is in place (this would also require agreement/letter of comfort from Ofgem as users would not be covering the full liability).

Following our discussions with your team on this subject and our impact analysis of these options, we believe that the preferred approach is Option 2, with the current interim arrangements extended until April 2015. This enables the use of interim arrangements that were originally implemented following an industry consultation and will not result in a potential step-change in security and liability requirements for non-generation parties in April 2013.

I trust that this letter sets out clearly the issues and also the options for progressing a suitable interim arrangement for non generation parties. We are of course, ready to support any further analysis or processes required to come to a decision. Please do not hesitate to contact me if you wish to discuss this further.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Duncan Burt', with a stylized flourish at the end.

Duncan Burt

Commercially sensitive information removed

The final sums process links projects to all of the Transmission investment schemes that the project has an impact on. An underwriting amount is calculated based on the projects proportion of those investment schemes. Under the interim arrangements, the wider transmission schemes were not secured by projects. The information above demonstrates the potential scale of the wider underwriting without the interim arrangements.

Demand connections will normally only have a local Transmission impact. The extent of their works is likely to be limited to the point that they connect to the Transmission system.

Appendix 2 – Background information on CMP192 and non-generation customers

The new user commitment arrangements implemented as part of CUSC modification proposal CMP192 now form part of the CUSC as Section 15. CMP192 was initiated in February 2011 with the explicit goal of developing user commitment arrangements for generation users only. In the context of the EU Internal Market in Electricity as a result of the Third Package, interconnector flows were neither classed as production (generation) or consumption (demand). Interconnectors were now to be considered part of the overall transmission infrastructure facilitating the wider market, and therefore designated as TSOs. This created uncertainty with regard to the regulatory treatment of interconnectors in GB, and specifically there was a question of how user commitment could be applied to them. CMP192 made it clear that interconnectors would be out of scope due to this regulatory uncertainty. In addition, large demand connections to the transmission system also fall outside the scope of CMP192.

The CUSC modification allowed 12 months for us to implement CMP192, with the new user commitment arrangements becoming effective on 1 April 2013. We have made good progress in terms of developing revised contracts and indicative user commitment profiles for the existing contracted generation. Alongside this we are working with Ofgem and the industry in order to develop both interim and enduring solutions for those non generation parties that were not included in the scope of CMP192.

Prior to the development of CMP192, Security and User Commitment were cited as a “barrier to entry” and the lack of transparency and ability to forecast underwriting was challenged. Due to these challenges, interim measures supported by Ofgem were implemented to address the issues of security and underwriting until enduring solutions were developed and brought within the industry governance of the CUSC. As an interim solution, the option for users to secure via the Interim Generic User Commitment Methodology (IGUCM) or an actual Final Sums profile, without being required to secure the wider works, were offered to users with Ofgem’s approval. In addition to this interim solution, a letter of comfort was provided by Ofgem that allowed for the recovery of any differences between termination costs incurred in the economic and efficient development of the transmission system and the amounts recovered from users. This letter of comfort and the interim arrangements expire when CUSC section 15 (CMP192) becomes effective on 1st April 2013.

Although, as outlined above, non-generation connections were not included in the scope of CMP192, they were included in the previous interim arrangements, and will therefore be required to secure via the Final Sums methodology 1 April 2013 when the interim arrangements expire and CMP192 is implemented.