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Decision to extend interim user commitment arrangements for non-generation network users

“User commitment” is the term used to describe the liabilities placed on network users who trigger investment in the electricity transmission network. The user commitment 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 from 1 April 2013 and will not apply to non-generation users (i.e. 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.

On 25 October 2012, we published an open letter consultation¹. We proposed to extend the current interim user commitment arrangements for non-generation users to 31 March 2015, whilst retaining the option to implement an enduring regime sooner if this were possible. This letter explains our decision to extend the current interim approach for these users, as proposed in our consultation.

Background

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 only²) and the Interim Generic User Commitment Methodology (IGUCM)³ will expire on 31 March 2013. They were introduced to help reduce uncertainty and volatility associated with the original user commitment methodology, FSL, which requires users to secure all works. For generation network users, these interim arrangements will be replaced by enduring user commitment arrangements from 1 April 2013 following our

¹ For the open letter consultation, please see:

<http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/Documents1/20121025%20Extension%20of%20Interim%20arrangements.pdf>

² 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.

³ 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>

March 2012 decision⁴ to approve National Grid Electricity Transmission's (NGET's) Connection and Use of System Code (CUSC) Modification Proposal (CMP) 192⁵.

Non-generation network users, who are currently liable for user commitment, were excluded from the scope of CMP 192 development. 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

NGET, in correspondence⁶ with us, considered that the most suitable solution for non-generation users would be a CUSC modification proposal to develop the appropriate enduring user commitment arrangements. However, it noted that such a solution would take up to two years to develop and therefore could not be in place prior to April 2013⁷. NGET considered that there were three options that could be in place from 1 April 2013 until an enduring solution was in place. 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. To enable NGET to offer an extension to the interim arrangements, NGET would need to recover any difference between efficiently incurred costs and costs secured by prospective non-generation users under either the IGUCM or interim FSL methodology. NGET stated that this option would be its preferred approach.

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.

Consultation

On 25 October 2012, we published an open letter consultation. We proposed to extend the current interim user commitment arrangements for non-generation users to 31 March 2015, whilst retaining the option to implement an enduring regime sooner if this is possible.

We emphasised the importance of robust and transparent enduring user commitment arrangements for non-generation users, and of NGET undertaking the steps necessary to

⁴ 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>

⁵ For the Final Modification Proposal, please see: <http://www.nationalgrid.com/NR/rdonlyres/DA4EB7E8-7168-49CA-A115-381A3A5D9753/50218/CMP192finalCUSCMODIFICATIONREPORT10.pdf>

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/Pages/MoreInformation.aspx?docid=2&refer=Networks/Trans/ElecTransPolicy>

⁷ 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) project and any subsequent code modification process.

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

develop an enduring solution as soon as possible⁹. We noted, however, that it would not be possible to develop and implement enduring arrangements prior to 1 April 2013.

We recognised that reverting to the user commitment regime in place prior to the introduction of interim arrangements was 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 generators, who are likely to see a reduction in their security requirements and underwriting following implementation of CMP 192¹⁰. We therefore did not consider this option to be appropriate. We also considered that it would not be appropriate to extend the CMP 192 principles to non-generation users because there had not been any specific industry consultation on how to do so and what the impact would be. The current interim arrangements, however, were implemented following an industry consultation and their extension would not result in a step-change in user commitment liability, and associated security, for non-generation users.

We proposed to extend both interim arrangements and interim exclusions for non-generation users to 31 March 2015, retaining the option of implementing an enduring regime sooner if possible. The purpose of the extension is to cover the period until an enduring solution has been developed and implemented. In order to enable NGET to continue to offer interim arrangements to non-generation users, we considered that it was 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.

Responses to the consultation

Our consultation closed on 22 November 2012. We received four responses. One of the four respondents asked for its response to be kept confidential. The three non-confidential responses, which are available on our website, fully supported our proposal as set out in the consultation. The confidential response also agreed that, of the options presented for consultation, our preferred option was the most appropriate.

Decision

Taking into consideration the responses to the consultation, and in line with the reasons we set out above and in our consultation, we have decided to extend the interim user commitment arrangements for non-generation users to 31 March 2015. We consider this to be the most appropriate option until enduring user commitment arrangements are developed and implemented.

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

Yours faithfully,



Andrew Burgess
Associate Partner, Transmission and Distribution Policy

⁹ On 31 October 2012, NGET published an open letter canvassing industry parties' views on a number of key considerations regarding the future treatment of interconnectors:
<http://www.nationalgrid.com/NR/rdonlyres/2731D581-13D6-478D-91A7-C2ADCB3D7758/57327/OpenLetteronUCforInterconnectorsOct2012.pdf>

¹⁰ 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