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Dear Aled,

Impact Assessment on CMP222: User Commitment for Non-Generation Users

National Grid, through our subsidiary National Grid Electricity Transmission plc (NGET), owns and operates the electricity transmission system in England & Wales, and is the National Electricity Transmission System Operator (NETSO) for the entire transmission system across Great Britain.

We welcome the opportunity to provide a response to the impact assessment consultation on CUSC Modification Proposal (CMP) 222: User Commitment for Non-Generation Users. This letter outlines National Grid Electricity Transmission's views on the Original Proposal and the Workgroup CUSC Alternative Modification (WACM1). Having considered the views presented to date, National Grid remains supportive of the implementation of the Original Proposal, but considers that overall, both this and WACM1 would provide an improvement on the existing arrangements.

National Grid's views on the implementation of WACM1

National Grid supports the view that User Commitment arrangements for demand and pre-commissioning interconnector projects presented by both CMP222 proposals should be implemented. Going forward these will ensure that our customers have clarity over their financial liabilities to the NETSO. However, we would like to highlight a number of concerns that we have in relation to application of post-commissioning cancellation charges to interconnector owners under WACM1.

Interconnectors

National Grid supports the concept of providing financial incentives for market participants to coordinate with the NETSO. It is important that these incentives:

- i) provide an appropriate signals to encourage the timely provision of accurate information to aid the efficient development of the transmission system;
- ii) reflect the associated level of risk; and

- iii) do not hinder competition.

This section of our response considers each of these in turn.

Providing Appropriate Signals

The existing User Commitment arrangements, under Section 15 of the CUSC provide an effective signal to generation customers. Their exposure to both TNUoS and cancellation charges means that there is both a cost associated with enduring transmission capacity rights and with providing insufficient notice to relinquish these rights. The overall result is that generators are encouraged to relinquish any unrequired access rights to avoid ongoing TNUoS charges, and would look to do this in an economic manner.

TNUoS charges for interconnector owners were removed with the implementation of Use of System Charging Methodology Modification Proposal GB ECM-26¹, to conform to European Law. This removed the financial incentive placed on an interconnector owner to give up its enduring rights to the transmission network, and as such hinders the effectiveness of any cancellation charge. In theory, applying a cancellation charge without TNUoS may encourage an added delay in the dates for which interconnector capacity reductions apply in the provision of information, in conflict with the original objective of CMP192, and an Interconnector Owner's broader requirement to coordinate with the NETSO.

Reflection of Risk

It is National Grid's view that for post-commissioning users, the level of signal provided to each category of user should reflect the level of risk associated with a reduction in their need for transmission capacity. For example, Distribution Network Operators (DNOs) would not be liable for post-commissioning cancellation charges under either CMP222 solution, due to the low risk of a capacity reduction at short notice. Conversely, generators are already liable for these charges as they are considered more likely to reduce their capacity requirements in short timescales.

WACM1 assumes that the level of risk associated with interconnector owners is akin to that of a generator. However, National Grid understands that interconnector owners and generators have very different business models:

- whilst both will have financing costs, interconnector owners will have limited short-term operational costs (e.g. no fuel costs);
- a generator's revenue is based upon how economic it can operate relative to other generation that has access to the market; and
- an interconnector owner's revenue is dependent upon the price differential between two markets, as this presents an arbitrage opportunity that will drive flows (in either direction between the markets).

¹ GB ECM-26: "Review of interconnector charging arrangements" Authority Decision Letter (<http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=18663>)

Based on the above, interconnector activity is less likely to be adversely affected by changes in the generation and demand backgrounds than those of a generator. On this basis, it seems unlikely that an interconnector owner's capacity requirement will be reduced at short-notice for wider economic reasons. Whilst interconnectors may still be subject to catastrophic failure, such scenarios are both rare and unplanned. As such, we are concerned that the signal to which interconnector owners would be exposed under WACM1 overestimates the associated risk.

Competition

In order to assess the need to reflect similar signals on interconnector owners and generators, it is useful to consider to the extent to which they compete.

Whilst imports of energy into GB via an interconnector may present additional competition to generation within the GB market, a link also provides additional opportunities to GB generation by providing access to other markets. In doing so, an interconnectors facilitate competition between generators in these markets, reducing the overall cost to consumers within Europe. For this reason they are considered as part of the wider European transmission system, once operational.

Applying post-commissioning cancellation charges to interconnector owners effectively means that we are requesting user commitment from another Transmission System Operator (TSO). This would therefore only be appropriate if such a commitment would be provided should any other TSO connect to the GB system. We are concerned that such measures would not be in the overall interests of consumers.

Cap & Floor Policy

We note the comments in the consultation on the possible interaction with the cap and floor framework for interconnectors. We believe that Ofgem's suggested approach to implement User Commitment arrangements under CMP222 and to subsequently keep the associated liabilities and security requirements under review is reasonable.

Interactions with EU Law

National Grid understands that EC Regulation 714/2009 Article 14(5) restricts the application of network charges to interconnectors. Post-commissioning cancellation charges are effectively a charge for providing insufficient notice when relinquishing capacity required on the transmission network rather than for use of the network itself, and it would therefore seem that the application of such charges to interconnector owners are not in breach this Regulation.

However, it is also possible that such cancellation charges could be considered as network charges as the principle behind the recovery of cancellation charges is that they are made in lieu of TNUoS charges that would apply had appropriate notice been given. As such, placing the associated financial liability or risk on an interconnector owner may also be considered inappropriate in a broader European sense, similar to applying a transmission fee.

If you would like to discuss any of these points further, please do not hesitate to contact me or Wayne Mullins (email: wayne.mullins@nationalgrid.com, tel: 01926 653 999).

Yours sincerely,

[By Email]

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