Modification proposal:	**Connection and Use of System Code (CUSC) CMP222: User Commitment for Non-Generation Users**		
Decision:	The Authority[1] directs that the CMP222 alternative (WACM1) modification[2] be made[3]		
Target audience:	National Grid Electricity Transmission PLC (NGET), Parties to the CUSC and other interested parties		
Date of publication:	21 October 2014	Implementation Date:	1 April 2015

Background to the modification proposal

National Grid Electricity Transmission (NGET) and the other transmission owners (TOs) invest in and reinforce the National Electricity Transmission System (NETS) to accommodate the needs of currently connected users and users expected to connect in the future. However, a user may decide to cancel its project or reduce the capacity it requires after any network reinforcement has begun. The costs of the unneeded reinforcement may then be passed on to other network users, and ultimately be borne by the end consumer.

User commitment puts liabilities on users who trigger specific reinforcement works in the event that they cancel or delay their projects. This means that users financially secure the network reinforcement and investment needed to connect them. This is vital to ensure that the TOs have enough information to plan and develop the network economically and efficiently. As a result, this commitment protects consumers' interests and those of the wider industry. It gives users an incentive to provide accurate and timely information about their needs. It also ensures the risk of stranded assets[4] is put on the parties that are best placed to mitigate and manage that risk.

CUSC modification CMP192 (Enduring user commitment arrangements)[5] introduced the current arrangements, known as the CUSC Section 15 arrangements, as an enduring solution for generators. However, non-generation users have been on interim arrangements and have had a choice between the interim final sums and interim general user commitment methodology (IGUCM) arrangements.

Our recent Impact Assessment of CMP222 (the August consultation) has more information and background on the various user commitment arrangements.[6]

The modification proposal

NGET raised CMP222 in September 2013 to look at the enduring user commitment arrangements for non-generation users. CMP222 proposes to extend the CUSC Section

[1] References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.
[2] 'Change' and 'modification' are used interchangeably in this document.
[3] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
[4] Stranded assets are assets built to reinforce the network which have become unnecessary. Assets can become stranded for various reasons, including users cancelling or delaying their capacity requirements.
[5] Our decision on CMP192 appears here: https://www.ofgem.gov.uk/publications-and-updates/connection-and-use-system-code-cusc-cmp192-national-grid-proposal-enduring-user-commitment-arrangements
[6] https://www.ofgem.gov.uk/publications-and-updates/cmp222-user-commitment-non-generation-users-impact-assessment

15 arrangements to interconnectors and pumped storage, while keeping distribution network Grid Supply Points (GSPs) and directly connected demand on the final sums (local) arrangements. One Workgroup Alternative CUSC Modification (WACM) proposal was developed alongside the original proposal (WACM1). WACM1 would impose post-commissioning user commitment on interconnectors, while, in the original proposal, interconnectors would only face pre-commissioning user commitment. The options developed for the original and WACM1 proposals are shown in the table below.

User	Original		WACM1	
	Pre-Commissioning	Post-Commissioning	Pre-Commissioning	Post-Commissioning
Interconnectors	CUSC Section 15 (using import capacity above B11,[7] export capacity below B11)	None	CUSC Section 15 (using import capacity above B11, export capacity below B11)	CUSC Section 15 (using import capacity above B11, export capacity below B11)
Distribution Network GSPs	Final Sums (Local)	None	Final Sums (Local)	None
Directly Connected Demand	Final Sums (Local)	None	Final Sums (Local)	None
Pumped Storage	CUSC Section 15	CUSC Section 15	CUSC Section 15	CUSC Section 15

The workgroup assessing CMP222 considered, by a majority, that both proposals would better facilitate the applicable CUSC objectives[8] compared to the current arrangements. Of the two options, the workgroup preferred WACM1.

CUSC Panel[9] recommendation

The CUSC Panel considered CMP222 at its meeting on 30 May 2014. The Panel voted, by majority, that both the original proposal and WACM1 better facilitate the applicable objectives of the CUSC compared to the current arrangements. The Panel voted 5 to 4 that WACM1 best facilitates the applicable objectives compared to the original proposal and the current arrangements. The Panel members' views are shown in full in the Final Modification Report (FMR).

Impact Assessment and consultation

We published our CMP222 Impact Assessment on 26 August 2014 (the August consultation).[6] We provided our assessment of the impact of CMP222 and our current thinking, including that we were minded to approve WACM1.

[7] The B11 boundary is in northern England. In general, above B11 electricity is exported south, and below B11 electricity is imported from the north.
[8] As set out in Standard Condition C10(1) of NGET's electricity transmission licence.
[9] The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC.

Our analysis was mainly qualitative and looked at the impacts on interconnectors and pumped storage who will face different liabilities and securities under CMP222 compared to the current arrangements. These users will face lower liabilities and significantly lower securities. We said that our initial view was that this treatment was appropriate. We set out our initial view that CMP222 creates user commitment arrangements that more accurately reflect the impact that non-generation users have on the transmission network and ensures there is no unnecessary discrimination between any users.

CMP222 proposes no change to the interim arrangements that distribution network GSPs and directly connected demand are on, which are the final sums (local) arrangements, and proposes that they are extended. We set out our initial view that it is appropriate to keep the treatment of these users the same, as they have usually have little impact on the plans to reinforce the wider transmission network.

We also considered the potential interactions CMP222 has with the cap and floor interconnector policy as well as any potential interactions with European Union (EU) law.

We received four responses to the consultation. These are published on our website alongside our August consultation.

Our decision

We have considered the issues raised by the modification proposal and the FMR dated 11 June 2014. We have considered and taken into account the responses to the Code Administrator consultation on the modification proposal which are attached to the FMR[10] and responses to the Impact Assessment we carried out. We have concluded that:

1. CMP222 and WACM1 both better facilitate the achievement of the applicable objectives of the CUSC[11];
2. of the two, WACM1 best facilitates the objectives; and
3. directing that WACM1 be made is consistent with our principal objective and statutory duties.[12]

Reasons for our decision

We agree with the views of the majority of Panel members that both proposals better facilitate the applicable CUSC objectives and that, of the two, WACM1 best facilitates the objectives. In our view, WACM1 better facilitates objectives (a) and (b) and is neutral on (c). WACM1 will introduce user commitment arrangements that will more accurately reflect the risk and impact that non-generation users have on the transmission network. It will also lower the barriers to entry for interconnectors and pumped storage while ensuring that consumers remain protected, and as a result should benefit security of supply and assist in meeting the UK's energy targets.[13]

[10] The CMP222 modification proposals, modification reports and representations can be viewed on NGET's website at: http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP222/

[11] As set out in Standard Condition C10(1) of NGET's Transmission Licence, see: https://epr.ofgem.gov.uk//Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf

[12] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

[13] The UK has legally binding targets for energy, including the use of renewable energy, from both UK and EU law.

Objective (a) 'The efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence'

User commitment is an important element of ensuring the transmission network is planned and developed efficiently. Imposing user commitment that reflects the costs and risks users face reduces the risk of any inefficient or unnecessary investment in the transmission network. It also incentivises users to provide accurate and timely information about their requirements, which allows NGET and the other TOs to develop an efficient transmission network.

Our view is that WACM1 proposes user commitment arrangements that more accurately reflect the risks and impacts that the different users impose on the transmission network. Interconnectors and pumped storage impact both the local and wider transmission network. They also have a similar impact on the transmission network to that of generators; in particular they present a similar risk of stranded assets. Our decision is therefore that that the same user commitment arrangements should apply to these users as apply to generators. The CUSC Section 15 arrangements will also profile the securities required to underwrite the liabilities depending on the timing and status of the project. This is more cost reflective than the current arrangements. WACM1 is also more cost reflective than the original proposal, as it reflects that interconnectors can still have a potential impact on the wider transmission network after they have connected.

Directly connected demand and distribution network GSPs have very different characteristics. These users are in the main regulated monopolies with predictable investment plans and usually have little impact on the plans to reinforce the wider transmission network. As a result, they present a low risk and we therefore are of the view that it is appropriate to keep these users on the final sums (local) arrangements, which only considers the local impact of users on the transmission network.

It may be possible for new distribution network GSPs with embedded generators to affect wider transmission investment plans. If these situations arise and have a material impact, we would expect changes to be made to the arrangements in the future to reflect this.

One of the respondents to our Impact Assessment noted that the effectiveness of applying the post-commissioning user commitment arrangements to interconnectors could be reduced as these users do not pay transmission network use of system (TNUoS) charges. This means that they do not have an incentive to relinquish their transmission connection in order to avoid TNUoS charges. This may impact on the incentive for interconnectors to provide timely information about their network requirements. In our view, notwithstanding that interconnectors do not pay TNUoS charges, we expect that they would provide NGET with timely and accurate information about their requirements from the transmission network, consistent with the conditions set out in their licences and in EU law. Imposing post-commissioning user commitment on interconnectors establishes a financial incentive that reflects the impact interconnectors have on the transmission network in the event that they do not provide sufficient warning of their intentions.

Objective (b) 'Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity'

WACM1 will ensure that generators, interconnectors and pumped storage, all have similar user commitment arrangements. In our view, this will ensure there is no undue

discrimination between these users. We also consider that WACM1 more accurately reflects the costs that different users impose. As a result, WACM1 will facilitate efficient competition between users of the transmission network.

Some of the respondents to the industry consultation and our Impact Assessment said that interconnectors have a different risk profile to generators and as a result should not face post-commissioning user commitment. We recognise that interconnectors will not necessarily face the same risks as generators. However, interconnectors may need to make decisions about their connections which will have a similar impact on the transmission network as generators would have. On balance, we think it is appropriate for interconnectors to face post-commissioning user commitment. This is consistent with the current arrangements, where different generators may face different risks but still face post-commissioning user commitment as they have similar impacts on the transmission network. An example would be gas-fired power stations and nuclear power stations, which have different operational risks but still face the same post-commissioning user commitment.

Objective (c) 'Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency'

In our view, the proposed treatment of interconnectors is consistent with EU law and the other proposed changes have no impact on this objective.

One respondent to our Impact Assessment said that a possible interpretation of post-commissioning user commitment was that it imposed a cancellation charge which NGET would collect, instead of the use of network charges that would have been collected had the user provided more notice. If the cancellation charge is a proxy for network charges for the transit of electricity, as set out in Article 14(5) of the Electricity Regulation[14] then applying it would be inconsistent with EU law, which prohibits interconnectors from such charges on the GB network.

We recognise that paying the cancellation charge can allow a user to avoid paying use of network charges. However, the basis for the charges is different: the cancellation charge is specifically based on the user's impact on wider transmission reinforcement of cancelling, while the use of network charges recover the general costs of the transmission network across all users. In addition, as interconnectors do not pay use of network charges, they would not benefit from paying a cancellation charge to avoid use of network charges.

The Authority's principal objective and statutory duties

We consider that implementing WACM1 better meets our objectives and is in the interests of consumers. WACM1 will lower the barriers to entry for interconnectors and pumped storage while ensuring that consumers are protected and do not face any undue risks. Due to the benefits that interconnectors and pumped storage can provide, this should improve security of supply in Great Britain, and help meet the UK's legally binding energy targets. WACM1 will also ensure there is no undue discrimination between users of the transmission network and facilitate efficient competition.

[14] Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009R0714&qid=1412775578598&from=EN

Decision notice

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority hereby consents that the alternative modification proposal WACM1 for CMP222 *'User Commitment for Non-generation users'* be made.

Kersti Berge
Partner, Electricity Transmission
Signed on behalf of the Authority and authorised for that purpose