

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP259: CMP223 - Enduring Generation User Commitment		
Decision:	The Authority ¹ directs this modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	24 March 2016	Implementation date:	01 April 2016

Background

The user commitment arrangements are the rules set out in the Connection and Use of System Code (CUSC) by which users of the electricity transmission system must underwrite works which they trigger on the transmission system. In the event that a user terminates its connection agreement prior to connection (or even if it reduces the capacity at which it eventually connects), it must pay a cancellation charge (the liability) to National Grid Electricity Transmission (NGET) as the transmission System Operator.

The user is required to provide security to NGET to cover a proportion of the liability prior to the start of any works on the connection. Security is posted at a reducing rate as the generation project nears commissioning and passes set milestones in recognition of the decreasing likelihood that a generator will terminate the connection agreement. If NGET is unable to recover 100% of a generator's liability following a termination of its connection agreement, it is able to recover the value of the unsecured liability from Transmission Network Use of System (TNUoS) charges, subject to satisfying certain criteria set by Ofgem.

Where a relevant Distributed Generator requires a connection to the distribution network which is considered to impact upon the transmission system, NGET will enter into a Construction Agreement with the relevant Distribution Network Operator (DNO) in respect of any works required to the transmission system. In the event that the relevant Distributed Generator fails to proceed and terminates its contract, the DNO will likewise terminate its agreement with NGET. NGET will then seek to recover the full liability amount from the DNO. DNOs are not able to recover any shortfall between the security received from the generator and the liability from Distribution Use of System (DUoS) charges. As a result, some DNOs have sought the full liability amount from the relevant Distributed Generator.

CUSC modification proposal CMP192, approved by the Authority in March 2012⁴, put in place a methodology in the CUSC to separate the liability ("cancellation charge") from the associated security amount, to take account of the reduced likelihood of termination, and therefore stranded assets, as the project progresses. Once developers have reached pre-determined stages of project development, their securities reduce relative to the liability to recognise the reduced risk of termination as a project nears completion.

CMP223, approved by the Authority in July 2015⁵, modified the CUSC so that relevant Distributed Generators do not face a difference in the way that security requirements are

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. This decision is made by or on behalf of GEMA.

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 Our decision on CMP192 is on our website here: <https://www.ofgem.gov.uk/publications-and-updates/connection-and-use-system-code-cusc-cmp192-national-grid-proposal-enduring-user-commitment-arrangements>

⁵ Our decision on CMP223 is available at: <https://www.ofgem.gov.uk/publications-and-updates/connection-and-use-system-code-cusc-cmp223-arrangements-relevant-distributed-generators-under-enduring-generation-user-commitment-0>

passed on as compared with directly-connected generators. The DNO would be able to pass on any shortfall in the funds recovered relative to total liability to NGET for recovery through TNUoS charges, thereby reducing the financial exposure of DNOs and providing an incentive to them to mirror their arrangements with NGET in their arrangements with the Distributed Generator. The new CMP223 arrangements will apply from 1 April 2016.

As the DCUSA is the contractual framework for NGET and relevant users, one of the recommendations from CMP223 was that the mechanism should be mirrored within the DCUSA so that these arrangements would likewise exist between a DNO and the Distribution Connected Parties.

The modification proposal

Scottish Power Networks raised DCP259 in November 2015. DCP259 seeks to modify the DCUSA (the Common Connection Charging Methodology (CCCM) set out in Schedule 22) so that the security arrangements between a DNO and a Distributed Generator, whose connection is deemed to have an impact on the transmission network, mirror the arrangements set out in CMP223. DCP259 would allow DNOs to set the security levels for new connections at 45% between the trigger date and consent for a relevant Distributed Generator and at 26% post consent but prior to the commissioning date. This would replace the current arrangement of the DNO requiring the full cost of the liability upfront.

If either the connection is cancelled/connection capacity is significantly reduced after the trigger date, the DNO would be liable for the difference between the security provided and the amount of the full liability. The DNO would then undertake reasonable efforts to reclaim this money from the Distributed Generator. If this proved unsuccessful, it would apply to NGET to refund the amount, with NGET covering the cost through TNUoS charges. If a DNO subsequently receives any payment from the Distributed Generator for this liability, NGET would be entitled to receive a refund of the equivalent amount.

As this change to the DCUSA will work in conjunction with CMP 223 the proposed implementation date for this modification will likewise be 1 April 2016.

A Working Group assessed DP259 and recommended its approval as better facilitating the relevant DCUSA objectives.

DCUSA Parties' recommendation

The Change Declaration for DCP259 indicates that, of the parties that were eligible to vote on DCP259, only DNOs did so. In the DNO party category where votes were cast⁶ there was unanimous support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP259 is accepted. The outcome of the weighted vote is set out in the table below:

DCP259	WEIGHTED VOTING (%)							
	DNO ⁷		IDNO/OTSO ⁸		SUPPLIER		DG ⁹	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	n/a	n/a	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	100%	0%	n/a	n/a	n/a	n/a	n/a	n/a

⁶ There are currently no gas supplier parties.

⁷ Distribution Network Operator

⁸ Independent Distribution Network Operator/Offshore Transmission System Operator

⁹ Distributed Generation

Our decision

We have considered the issues raised by the proposal, the Change Declaration and the Change Report dated 25 February 2016. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration.

We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the DCUSA General objectives;¹⁰ and
- directing that the modification is approved is consistent with our principal objective and statutory duties.¹¹

Reasons for our decision

We consider this modification proposal will better facilitate DCUSA General Objectives **3.1.2** and **3.1.3** and has a neutral impact on the other applicable objectives.

DCUSA General Objective 3.1.2 'the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity'

The DCP259 Working group felt that this modification would help facilitate competition by passing on the reduced security arrangement set out in the agreement between the DNO and NGET.

We agree with this view and consider that the implementation of these arrangements should ensure DNOs do not take undue steps to mitigate the risk of cancellations when setting the connection terms for DG connections.

As part of the CMP223 solution, the security required to be posted by the DNO to NGET was calculated based on the data available on the cancellation rates for connections for Distributed Generation projects. We consider that the use of the same security levels is appropriate but expect that, if these levels are altered in the CUSC as more data on this comes to light, the changes are mirrored by DNOs in the DCUSA.

While we consider that this modification will help facilitate the connection of new Distributed Generation and thus encourage competition, this should not be at the expense of customers supplied by the networks. This means that we fully expect DNOs to take all reasonable measures to recover the unsecured amounts from the Distributed Generator prior to applying for these to be recovered through TNUoS charges.

DCUSA General Objective 3.1.3 'the efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences'

The Working Group noted that this modification would enable DNOs to meet their obligation to comply with the CUSC in accordance with Standard Licence Condition 20.3

¹⁰ The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

¹¹ The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

of the electricity Distribution Licence. Again, we agree with this view and consider that a formal change to the DCUSA, so that it mirrors the security arrangements outlined in the CUSC, facilitates this compliance.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP259 '*CMP223 - Enduring User Commitment*' be made.

James Veaney

Head of Electricity Connections and Constraint Management

Signed on behalf of the Authority and authorised for that purpose