

nationalgrid

CMP288 & 289: Action 20

Finding a better way

Wayne Mullins

Action 20: 1. Delay to backfeed

TO Programme (no backfeed)

TO Programme (inc. backfeed)

Advanced Investment
(subject to financing
charge)

TO Programme (no backfeed)

TO Programme (inc. backfeed)

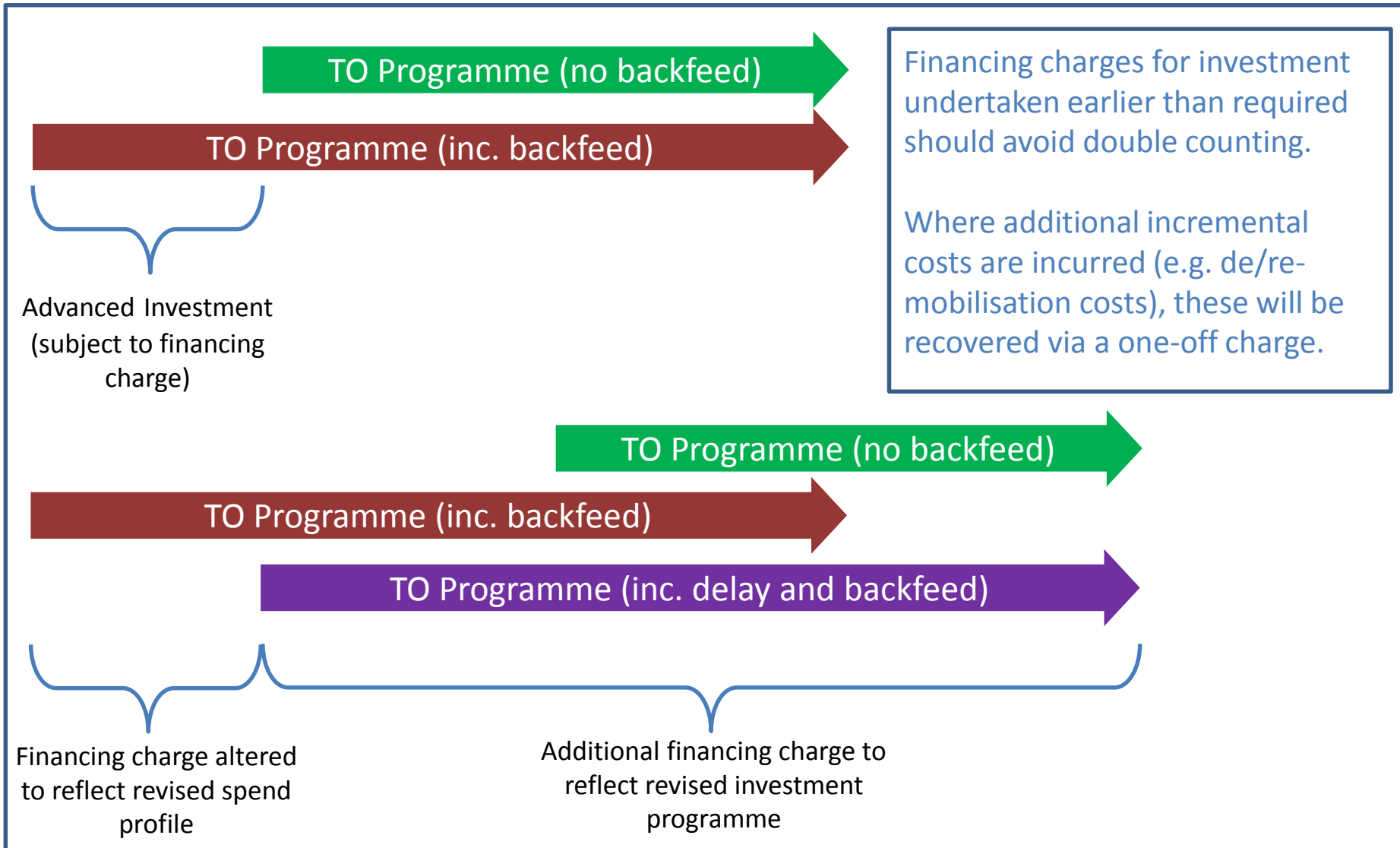
TO Programme (inc. delayed backfeed)

Financing charge altered
to reflect revised spend
profile

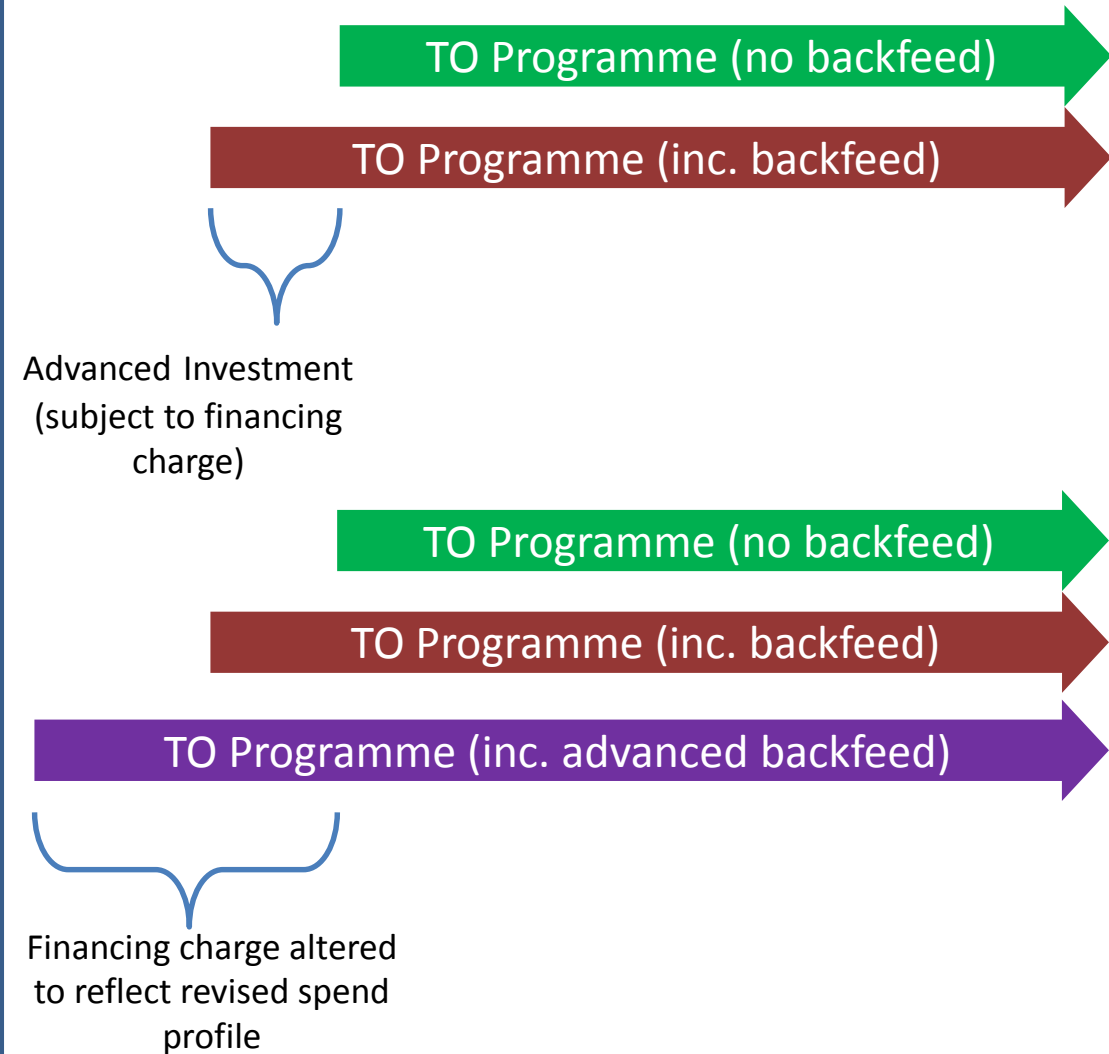
Where expenditure is undertaken later than it would have been originally, but the output remains the same, there will be a reduced financing cost, and therefore a reduced fee.

Where additional incremental costs are incurred (e.g. de/re-mobilisation costs), these will be recovered via a one-off charge.

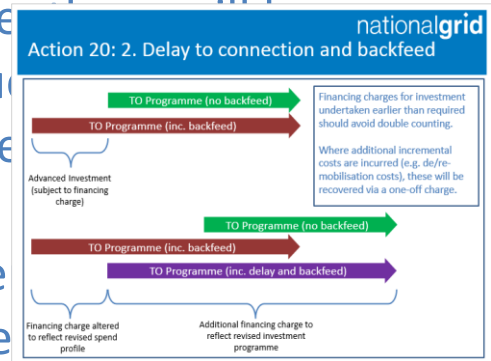
Action 20: 2. Delay to connection and backfeed



Action 20: 3. Backfeed advances

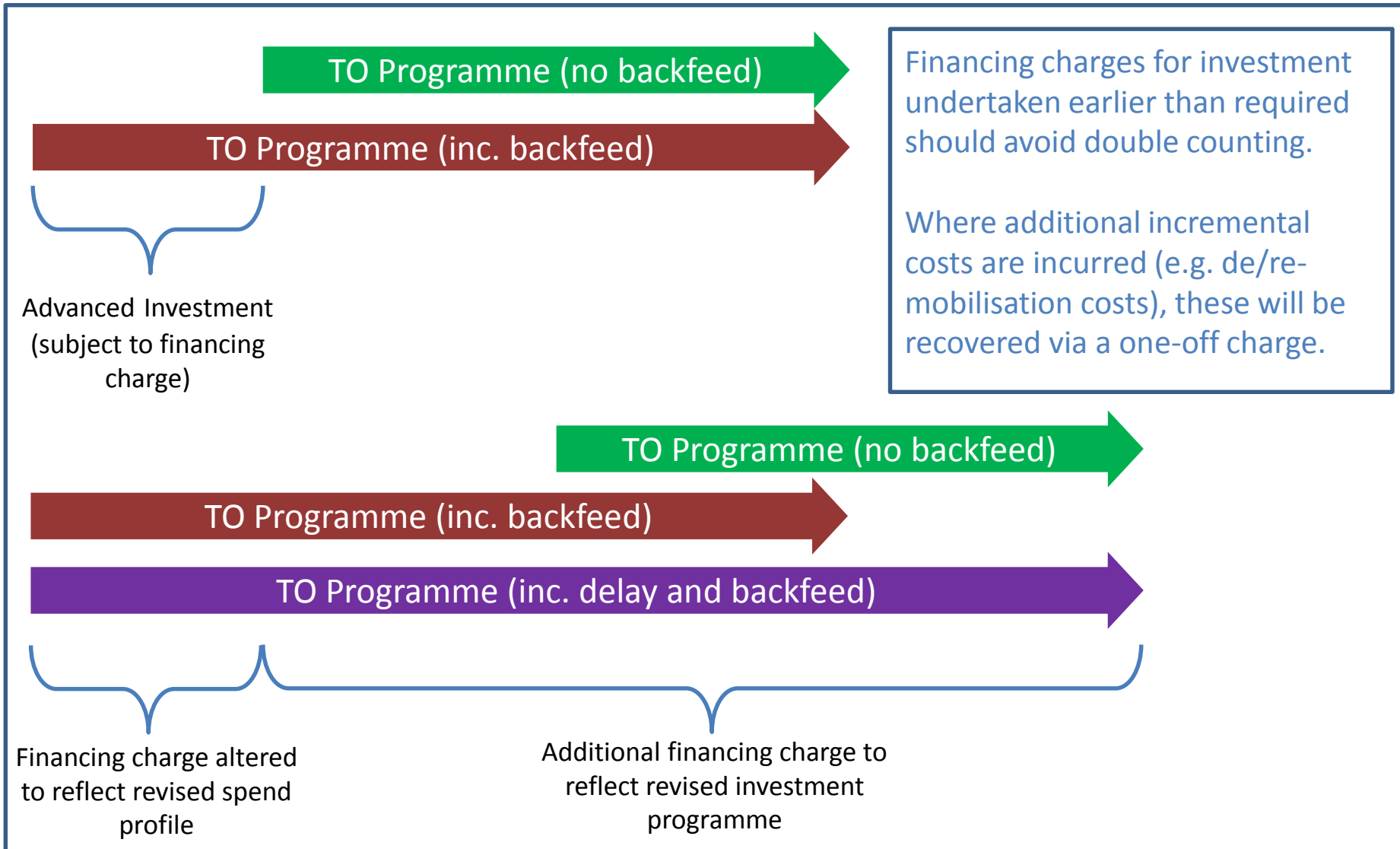


Where expenditure is undertaken earlier than it would have been previously, but the output remains the same, there is a reduction in the financing charge.



When incremental costs are incurred (e.g. de/re-mobilisation costs), these will be recovered via a one-off charge.

Action 20: 4. Delay to connection with static backfeed



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CMP288 & 289: Solution Options

Finding a better way

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Scope of charges

Requests Covered:

- User requested Backfeeds requiring work to be undertaken in an earlier Financial Year than would be otherwise.
- User requested Delays to the Completion Date into a later Financial Year than prior to the request.

Type of works included:

- Local Enabling works (financing transmission charge)
- Wider Enabling works (financing transmission charge)
- Additional incremental works - e.g. de & remobilisation (one-off charge)

Type of works excluded:

- Connection asset works (as IDC included in connection charge)

Treatment of Shared Works

Option 1 – All costs of financing early works targeted at delaying party:

- Financing charge based on full cost to date of works that would have been undertaken later had the new date been originally contracted.
- Initial charge based on TO's best view of future requirements with reconciliation following NOA/NDP outcome.
- Pros – all costs recovered;
- Cons – may result in a “last man standing scenario”; scope and value of charge variable.

Option 2 – MW proportion of all shared works targeted to delaying party:

- Financing applied on MW proportion of the cost of all shared works to date regardless of the effect of the delay.
- Pros – avoids last man standing issue; charges more predictable.
- Cons – potential for under/over recovery; only provides a proxy for the cost of delay.

Financing Cost

Proposed Methodology (Simplified calculation):

Delay Financing Charge relating to d year delay
= Expenditure to Date $\times ((1+WACC^d)-1)$

Charged annually in equal instalments over the ***Delay Period***

Backfeed Financing Charge relating to d year delay
= Advanced Expenditure $\times ((1+WACC^d)-1)$

Charged annually in equal instalments over the ***Backfeed Period***

Assumes Total Expenditure = Total Allowance. Charge does not vary with changes in allowance arrangements.

Also assumes Income can be treated as ***negative Totex*** under TO licence (i.e. removes RAV addition through TIM, rather than using a ***charge and refund*** approach under SO licence, so depreciation impact rectified).

Consideration of Reuse & Cancellation

Re-Use:

Following reuse of any of the works considered within the delay charge, the charge will be reconciled to remove any financing charges relating to the timeframe following the reallocation of the works to another customer.

Cancellation Charges:

Calculation of Actual Attributable Cancellation Charges adjusted to reflect financing proportion of delay charge, such that financing is not double counted.

Transparency

Bi-annual Cost profiles:

Updated expenditure to date and 6 monthly forward looking forecast cost profiles provided covering a minimum 12 months to be provided to developers, utilising the existing CUSC securities processes, where possible.

Quarterly Reporting:

Written updates on forthcoming significant milestones provided on a quarterly basis as part of quarterly reporting.

Charge calculation tool:

SO to publish and maintain a charge calculator tool, to enable customers to utilise cost profile information to calculate potential charges under different scenarios.