

# **WORKING GROUP REPORT**

## **CUSC Amendment Proposal CAP012**

### ***Asset Renewal***

**Prepared by the Asset Renewal Working Group  
for submission to the Amendments Panel**

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## DISTRIBUTION

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## 1.0 SUMMARY AND RECOMMENDATIONS

The Working Group has evaluated the Amendment Proposal against the applicable CUSC objectives but was unable, as a group, to reach a unanimous recommendation on CAP012 – Asset Renewal. Therefore this report sets out the diverse views of Working Group Members and the relevant issues that should be consulted on in the Industry.

The Working Group as a whole recognised the need to review the asset replacement process set out in 2.17 of the CUSC and supported the introduction of a revised procedure. Some of the other issues raised by the Amendment Proposal, such as the inclusion of an Independent Engineer within the process, were not supported by the whole of the Working Group. In considering a revised procedure for asset renewal, National Grid proposed an alternative amendment. Although there was agreement that this also better facilitated the applicable CUSC objectives compared to the existing CUSC, it was not supported by the majority of the Working Group as they did not believe that it better facilitated the objectives over the Amendment Proposal itself. Therefore it is not presented as a formal alternative amendment in this report.

The CUSC Amendments Panel is invited to note:

- The diverse views within the CAP012 Working Group with the majority of the Working Group supporting the Amendment Proposal as drafted.
- The Working Group recognised that the definition of NGC Asset and the charging boundary, and the associated connection charges and termination liabilities, was an issue.
- The Working Group noted that the CUSC does not require that Interconnector Users are consulted regarding replacement of NGC Assets.

And Endorse:

- That the Amendment Proposal be consulted on by National Grid in the wider Industry forum.

## 2.0 INTRODUCTION

At the 11<sup>th</sup> January 2002 CUSC Panel meeting Innogy proposed a change to section 2 of the CUSC, in particular to paragraph 2.17 dealing with replacement of NGC Assets.

The concern of the Proposer is that the renewal of NGC Assets that are allocated to the User at a Connection Site will generally result in:

- Increased connection charges (i.e. NGC rate of return, depreciation charge and allocation of NGC overheads)
- Increased termination liability
- Increased amount required for security cover

The proposal sets out that the CUSC is deficient in three ways:

- No economic / engineering test seen by the User for Asset Replacement of connection assets (NGC Assets)
- No recourse for User(s) in the case of a dispute over Asset Replacement
- Different test for Asset Replacement pre and post Replacement Period

The proposal sets out that a procedure should be established within CUSC to address these defects.

The CUSC Panel determined that the proposal should be considered and evaluated further by a Working Group and the Asset Renewal Working Group was established on the 11<sup>th</sup> January 2002.

This report considers CAP012 – Asset Renewal (Annex 1 – Amendment Proposal form) and summarises the views and issues raised during the course of the Working Group discussions. The Report has been prepared in accordance with the terms of the CUSC. An electronic copy of this document can be found on the National Grid website, at [www.nationalgrid.com/uk/indinfo/cusc](http://www.nationalgrid.com/uk/indinfo/cusc).

### **3.0 PURPOSE AND SCOPE OF WORKING GROUP**

In accordance with the Terms of Reference for the Working Group (Annex 2), the Working Group considered the Innogy Amendment Proposal CAP012. The Working Group also developed and considered an alternative amendment but this was not taken forward by the Working Group as the majority did not believe that it better facilitated the applicable CUSC objectives as compared with the Amendment Proposal.

### **4.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES**

The Applicable CUSC Objectives are defined within Condition C7F of the Transmission Licence as:

- (a) in relation to a proposed modification of the modification procedures, the requirements of paragraph 6 (to the extent that they do not conflict with the objectives set out in paragraph 1); and
- (b) in relation to any other proposed modification, the objectives set out in paragraph 1.

The objectives detailed in paragraph 1 are the efficient discharge by the licensee of the obligations under the Act and licence and to facilitate competition in the generation and supply of electricity and where consistent facilitating competition in the sale, distribution and purchase of electricity.

In relation to this amendment proposal, which details changes to Section 2 of the CUSC, the Working Group agreed that the objectives of (b) above (i.e. Paragraph 1 of the Transmission Licence), is the relevant objective against which this Amendment Proposal should be judged when deciding whether they are better facilitated.

The principle of improving and developing the asset replacement process laid out in the CUSC was fully supported by the Working Group however, there were strong, diverse views represented within the group regarding the defects identified by the Amendment Proposal. These views are represented in the following paragraphs and are detailed against the defects identified.

#### **Definition of NGC Asset**

The group initially discussed the wider issue of the definition of NGC Asset and its implications regarding charging boundaries. NGC Assets are those owned by National Grid and used to connect the User's equipment to the transmission system. In general these assets are charged for directly to the User at the connection site. The condition of such an asset is important to the User in terms of the reliability of their connection and to ensure their continued connection, but also fundamentally to National Grid as these assets may form part of the main interconnected transmission system. The Working Group noted that this was an issue raised by the Amendment Proposal and that there was a need for a balance to be drawn between the User, who in general sees a direct charge for the assets against National Grid's wider obligations contained in its licence. As a consequence of these wider obligations, National Grid needs to manage the asset replacement programme across the entire

transmission system while maintaining a secure and economic transmission system. It was noted that these requirements may not always be compatible. It was also noted that existing Users will be generally reluctant to accede to any new assets given the direct and material impact of increases seen to both future connection charges and the increase in termination liabilities.

The group agreed that this was an important issue but that it was outside the remit of the CAP012 Working Group and also the CUSC and should just be noted within the Working Group report. The Working Group noted that this specific issue will be considered by the review of Charging Principles that is taking place under the Transmission Charging Methodology Forum (TCMF).

The Working Group also noted that, as part of the maintenance of NGC Assets certain minor items of equipment associated with NGC Assets might require renewal and the cost of such renewal would be recovered by National Grid via the site specific maintenance charge. Since the Gross Asset Value of the associated NGC Asset would not normally be revised in these circumstances, the User would not be subject to an increase in connection charges. Whilst the procedure for such renewal would not be covered under this Amendment Proposal, the need for discussion between the User and NGC regarding such renewal was noted.

#### Interconnector Users

The Working Group also raised the issue of Interconnector Users not being included in the proposed process for replacement of NGC Assets. The Interconnector Owner may effectively pass through the connection charges for the site and therefore the Interconnector Users would be sensitive to the replacement of NGC Assets. The Working Group noted this concern but also noted that this would primarily be a matter for bilateral negotiation between the Interconnector Owner and the Interconnector Users and the CUSC may not be the appropriate place to include such provision. The Working Group also noted that the matter of consulting beyond the immediate interface was perhaps a wider issue and that it should be considered outside the remit of the CAP012 Working Group.

The Amendment Proposal identifies three defects and the issues raised by the Working Group are detailed below.

#### Economic / engineering test as seen by User

The proposer felt that currently the process for asset replacement detailed in the CUSC did not require National Grid to demonstrate to Users the need for the asset replacement. Although for Asset Replacement planned pre the Replacement Period there is a right for Users to disconnect and for post Replacement Period to serve a counter notice, the Proposer felt that any asset replacement of a connection site should be demonstrated to be economic to the connected party. National Grid noted this view and stated that currently for a number of Users the practice of detailing the reasons for asset replacement and presenting these to Users is followed and that this should be undertaken for all Users. However, it was also made clear that the obligations on National Grid to operate a secure and economic transmission system, required National Grid to be able to asset replace the system effectively. The right contained within the CUSC to replace to meet licence and statutory obligations, achieved this but did not necessarily mean that the asset replacement scheme was seen as economic at a particular site to a particular User; the replacement may be driven by wider licence obligations.

The Working Group also noted that National Grid's asset replacement plan was based on the assessment of asset types to manage the replacement across the entire transmission system taking into account many different factors. These include the ability to procure and logistically to obtain the necessary manufacturing capability to build essentially low volume, large cost items with long lead times. Also access to the system is key with much of the asset replacement expected to be undertaken in situ. There is a requirement to ensure that there are sufficient outage windows to undertake the necessary works both to comply with the security standards but also to operate the system economically. National Grid noted that the decision process

involved in asset replacement is put together based on knowledge and experience derived from a number of sources, such as maintenance history, faults and defects, panels of inquiry (failures), research and development – material scientists and spares availability. Once the programme is established there is 'fine-tuning' following consideration of site issues and feedback of further information. National Grid noted that it is not economic or effective to undertake a more detailed condition assessment programme in terms of individual assets at sites which may require access to HV equipment, partial or complete dismantling and non-destructive testing.

The Working Group noted these issues and agreed that there needed to be a more transparent process with effective discussion with Users of the issues driving asset replacement. By undertaking this within a revised asset replacement process, the Working Group agreed that the applicable CUSC objectives would be better facilitated.

However, the Working Group did not agree that the test for asset replacement should be whether the replacement was economic to the connected User. A minority of the Working Group felt that such an approach may be inconsistent with transmission licence obligations to operate and maintain an efficient and economic transmission system and therefore could not better facilitate the applicable CUSC objectives. However, some working group members argued that the material effect that an asset replacement could have on a connected User was likewise not consistent with the applicable CUSC objectives of facilitating competition.

Working Group members asked if National Grid had incentives to replace NGC Assets. National Grid noted that these assets fall within the regulated asset base for which National Grid has an agreed capital expenditure over the price review period. On this basis any expenditure would have to be justified to the regulator at the end of, or during, the price review period and any works which were deemed to be unnecessary to meet the licence and statutory obligations could be disallowed by the Authority.

Some Working Group members also noted that currently when assets are replaced before the expiry of their Replacement Period then although the User may get notified at the time, it may be several years before the Replacement Period expires. During this time the charges will not vary however, when the expiry of the replacement period occurs Users not only would be liable for the new charges associated with the changed assets but also for the termination amounts. Users felt that this was an unsatisfactory process as they were sometimes not aware in advance of the liability for termination amounts.

### Role of an Independent Engineer

The Amendment Proposal form noted that the key part of any procedure would be the inclusion of a right of recourse to an Independent Engineer to resolve any asset replacement disputes between National Grid and the User.

National Grid noted that the reasons for asset replacement are for licence or statutory obligations and it is the Authority's role to determine and enforce National Grid's transmission licence. An Independent Engineer could only provide a view within this process but could never assume National Grid's liability to satisfy the licence obligations or statutory requirements. On this basis it was not possible for an Independent Engineer to resolve such a dispute as ultimately it could still be referred to the Authority under National Grid's transmission licence. Therefore, National Grid argued that such a change could not better facilitate the applicable CUSC objectives.

On further discussion, the Working Group agreed that the Independent Engineer could not resolve disputes which related to Licence obligations. However, the Independent Engineer could provide an independent and impartial view in the case of a dispute on technical need for asset replacement but, if this became a licence issue the ultimate arbiter would be the Authority. This independent view would be provided both to the User(s) and National Grid, and if there was still no agreement between parties then the offer to asset replace would be referred to the Authority for

a decision. The Working Group noted that this was a change from the wording in, and possible intent, of the Amendment Proposal form which viewed the Independent Engineer as the arbiter but supported the change. The Working Group also noted that it would be helpful to Users if National Grid made transparent the criteria used in the interpretation of its licence when determining the need for asset replacement. The Working Group noted that this would be achieved through increased communication between National Grid and Users when developing asset replacement plans for a connection site.

The majority of working group members supported such an approach as it provided an independent view on the requirement to replace assets and that this would provide Users with comfort in National Grid's decision and add value to the asset replacement process. National Grid though noted that there were several issues with such an approach; they did not believe that the benefits of the role of the Independent Engineer in facilitating the replacement process outweighed the increased costs, administration and the additional inefficiency and delay. National Grid also noted that there is nothing stopping parties at the moment employing independent engineers to review National Grid's proposals if this was necessary to satisfy Users and bring confidence to the decisions being made. However, the majority of Working Group members felt that the benefits did outweigh the issues and that the Independent Engineer may provide an acceptable alternative to both parties. National Grid were also concerned as to how consistent views from Independent Engineers would be achieved and how the disputing parties would achieve agreement over the Terms of Reference for the Engineer. Some Working Group members felt that these issues were manageable and should there be a failure to agree then the final recourse would be to the Authority. National Grid noted that ultimately the Authority would have to determine on the decision and therefore this only provided an additional requirement to go through in the process. Some Working Group members felt that this process would provide a filter to reduce the number of cases that may end up at the Authority and it was obviously beneficial to resolve disputes between Users without involving the Authority. Furthermore it would instil a discipline to come to an agreement rather than having one imposed, be it National Grid or the Authority.

National Grid also noted that any increased costs from such a process would have to be recovered ultimately from Users and therefore indirectly this would increase the cost of the process for replacing NGC Assets. National Grid also noted that a transparent mechanism would be required to cater for this new obligation. Some Working Group members felt that overall this would not increase the costs to the industry, since the alternative would be for the Authority to be the technical arbiter and that they may call in the services of an Independent Engineer.

Overall there was majority support for the role of an Independent Engineer within the process; it was considered that it would improve transparency, add value, ensure that there was a suitable balance in decision making and, as such, better meet the CUSC objectives. The minority view was that such a role would add no value to the process, could possibly be costly, inefficient and introduce significant delay into the asset replacement process and therefore did not better facilitate the applicable CUSC objectives.

#### Different Test Pre and Post Replacement Period

Replacement Period is defined as the period for accounting purposes after which an NGC Asset will need to be replaced and is generally 40 years. The Amendment Proposal notes that the obligations on National Grid when asset replacing pre replacement period and post are different and believes that there should be consistency. The proposal notes that 2.17.1 permits National Grid to renew a connection asset whenever the requirement is seen as being within "National Grid's reasonable opinion". For assets post replacement period, National Grid can renew a connection asset if it is required "in NGC's reasonable opinion to enable NGC to comply with its licence and statutory obligations". The Proposer noted that the only recourse available to Users pre replacement period was to disconnect and post replacement period to serve a counter notice.

The Working Group noted that connected parties' charges were not affected when assets were replaced pre replacement period and in that respect it was National Grid's risk on the asset requiring replacement during this period. However once the replacement period expired the remaining liabilities for any assets that had been changed during the Replacement Period would be borne by the connected party if they had not disconnected. This included Termination Amounts.

The majority of the Working Group felt that changing the obligations so that National Grid could only asset replace in order to satisfy its licence and statutory obligations was also appropriate pre replacement period.

National Grid explained that there was a requirement in whatever asset replacement process that was developed for an urgent route to ensure that National Grid could meet its licence obligations. The Working Group noted this issue.

## **5.0 ALTERNATIVE AMENDMENT**

### **5.1 Description of Alternative Amendment**

In accordance with their Terms of Reference the Working Group also considered whether any Alternative Amendments to CAP012 exist. Although no formal Alternative Amendments were put forward by the Working Group, National Grid did table a proposal which was identical to the Amendment Proposal but without the provision for an Independent Engineer.

This recognised the value of introducing and clarifying the process for the replacement of NGC Assets to ensure greater transparency, demonstrating to Users the engineering and economic reasons when replacing, and applying the same test for pre and post replacement period. However, due to the concerns raised over the introduction of the Independent Engineer into the process, this was excluded from the tabled proposal.

The Working Group have since noted that National Grid intend to submit their Alternative Amendment during the industry consultation based on the alternative amendment proposed during the Working Group.

### **5.2 Assessment Against Applicable CUSC Objectives**

The Working Group unanimously felt that the National Grid alternative amendment would better facilitate the applicable CUSC objectives compared to the existing CUSC. However the majority of the Working Group felt that the alternative amendment did not better facilitate the objectives as compared to the Amendment Proposal itself, and therefore this has not been presented as a formal Alternative Amendment.

## **6.0 PROPOSED IMPLEMENTATION AND TIMESCALES**

The Group considered the implementation and timescale issues. The Working Group noted that this amendment would require changes to National Grid's internal procedures to deliver the proposed process. On this basis National Grid proposed that the amendment should not be implemented formally for at least 6 months after the Authority's decision and it should be recognised that it would need to be phased in due to the timescales associated with planning replacement of NGC Assets. However, National Grid would endeavour to work within the spirit of the proposal during this period wherever reasonably practicable.

## **7.0 IMPACT ON CUSC**

The proposed change will not have an impact on other parts of the CUSC. The changes required to implement the proposal are detailed in Annex 4.

## **8.0 IMPACT ON INDUSTRY DOCUMENTS**

### **8.1 Impact on Core Industry Documents**

This amendment proposal will have no impact on other core industry documents.

### **8.2 Impact on other Industry Documents**

This amendment proposal may have an impact on the National Grid Charging Statements in the need to detail how the services of an Independent Engineer will more clearly be charged and recovered.

**Annex 1: CUSC Amendment Proposal CAP012**

<b>CUSC Amendment Proposal Form</b>	<b>CAP012</b>
<p>Title of Amendment Proposal:</p> <p><b>PROCEDURE FOR THE RENEWAL OF NGC (CONNECTION) ASSETS</b></p>	
<p>Description of the Proposed Amendment (<i>mandatory by proposer</i>):</p> <p>To incorporate within the CUSC a procedure that must be followed by both NGC and a Connected Party(ies) before a NGC Connection Asset is renewed. The procedure would apply irrespective of whether the Asset had reached the expiry of its Replacement Period. The purpose of the procedure would be to ensure that the renewal of NGC Connection Assets would be subject to a rigorous engineering and economic appraisal that had due regard to the future duty and requirements of the User(s).</p>	
<p>Description of Issue or Defect that Proposed Amendment seeks to Address (<i>mandatory by proposer</i>):</p> <p>The procedure is required because there is currently no test as to whether the replacement of a NGC Connection Asset would be seen as economic by the Connected Party(ies). Unlike other NGC assets, NGC Connection Assets are for the predominant use of the Connected Party(ies).</p> <p>The only tests to be applied before NGC Connection Assets are renewed are given in CUSC Clause 2.17:</p> <ul style="list-style-type: none"> <li>▪ For assets where replacement is proposed before the expiry of their Replacement Period, Clause 2.17.1 permits NGC to renew a Connection Asset whenever the requirement is seen as being within “NGC’s reasonable opinion”.</li> <li>▪ In the case of assets operating beyond the expiry of their replacement period, Clause 2.17.2 permits a NGC Connection Asset to be renewed if it is required “in NGC’s reasonable opinion to enable NGC to comply with its license and statutory obligations”. However, in this case the User may issue a counter notice for the assets to remain in service.</li> </ul> <p>This proposal would require NGC to conduct to the satisfaction of the User an engineering and economic appraisal before the Asset was replaced. A key part of the procedure would be the right of recourse to an Independent Engineer to resolve any disputes between NGC and the User. Although the Authority can determine any charges due once a Connection Asset has been replaced, it does not appear to have any locus in deciding whether the replacement of the NGC Connection Asset is appropriate.</p>	
<p>Impact on the CUSC (<i>this should be given where possible</i>):</p> <p>Revised drafting of CUSC Clause 2.17 together with an associated Procedure</p>	
<p>Impact on Core Industry Documentation (<i>this should be given where possible</i>):</p> <p>None</p>	

<p><b>Impact on Computer Systems and Processes used by CUSC Parties</b> (this should be given where possible):</p> <p>None</p>
<p><b>Details of any Related Modifications to Other Industry Codes</b> (where known):</p> <p>None</p>
<p>Justification for Proposed Amendment with Reference to Applicable CUSC Objectives (<b>mandatory by proposer</b>):</p> <p><b>The proposal will facilitate the following Applicable CUSC Objectives (as defined in Condition C7F of the Transmission License): -</b></p> <p><b>(a) The efficient discharge by the licensee of the obligations imposed on it under the Act and by this License. The proposed procedure for the renewal of NGC Assets will ensure that assets are renewed in an economically efficient manner having due regard to the requirements of the Connected Party(ies).</b></p> <p><b>(b) Facilitating effective competition in the generation and supply of electricity.: The proposed procedure will ensure that relevant economic factors are considered in a non-discriminatory and consistent manner between Users, such that the lowest cost solution can be found and thus competition facilitated.</b></p>

<p><b>Details of Proposer:</b> Organisation's Name:</p>	<p>Innogy plc</p>
<p>Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")</p>	<p>CUSC Party</p>
<p><b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:</p>	<p><b>David Tolley</b> <b>Innogy plc</b> <b>01793 892650</b> <a href="mailto:david.tolley@innogy.com">david.tolley@innogy.com</a></p>
<p><b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:</p>	<p>John Norbury Innogy plc 01793 892667 <a href="mailto:john.norbury@innogy.com">john.norbury@innogy.com</a></p>
<p><b>Attachments (Yes/No):</b> No <b>If Yes, Title and No. of pages of each Attachment:</b></p>	

**Notes:**

Those wishing to propose an Amendment to the CUSC should do so by filling in this "Amendment Proposal Form" that is based on the provisions contained in Section 8.15 of the CUSC. The form seeks to ascertain details about the Amendment Proposal so that the Amendments Panel can determine more clearly whether the proposal should be considered by a Working Group or go straight to wider National Grid Consultation.

The Panel Secretary will check that the form has been completed, in accordance with the requirements of the CUSC, prior to submitting it to the Panel. If the Panel Secretary accepts the Amendment Proposal form as complete, then he will write back to the Proposer informing him of the reference number for the Amendment Proposal and the date on which the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, then he may reject the Proposal. The Panel Secretary will inform the Proposer of the rejection and report the matter to the Panel at their next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform the Proposer.

The completed form should be returned to:

Mark Cox  
Panel Secretary  
Commercial Development  
National Grid Company plc  
National Grid House  
Kirby Corner Road  
Coventry, CV4 8JY

Or via e-mail to: [CUSC.Team@uk.ngrid.com](mailto:CUSC.Team@uk.ngrid.com)

(Participants submitting this form by email will need to send a statement to the effect that the proposer acknowledges that on acceptance of the proposal for consideration by the Amendments Panel, a proposer which is not a CUSC Party shall grant a licence in accordance with Paragraph 8.15.7 of the CUSC. A Proposer that is a CUSC Party shall be deemed to have granted this Licence).

## **Annex 2: Working Group Terms of Reference and Membership**

### **TERMS OF REFERENCE CUSC Amendment Proposal CAP012**

#### **Responsibilities**

The Working Group is responsible for assisting the CUSC Amendments Panel in the evaluation of CUSC Amendment Proposal CAP012 tabled by Innogy plc at the Amendments Panel meeting on 11<sup>th</sup> January 2002.

The proposal must be evaluated to see if it better facilitates achievement of the applicable CUSC objectives. These can be summarised as follows:

- (a) the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence; and
- (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.

It should be noted that additional provisions apply where it is proposed to modify the CUSC amendment provisions, and generally reference should be made to the Transmission Licence for the full definition of the term.

#### **Scope of Work**

The Working Group must consider the issues raised by the Amendment Proposal and consider if the proposal identified better facilitates achievement of the Applicable CUSC Objectives.

The specific areas for review are:

- 1) The establishment of a procedure to ensure that prior to the renewal of a Connection Asset a rigorous engineering and economic appraisal is undertaken with regard to both the anticipated usage and the User or Users' future requirements.
- 2) The right of recourse to an independent engineer in the case of a dispute when renewing connection assets.

The Working Group is responsible for the formulation and evaluation of any Alternative Amendments arising from Group discussions which would, as compared with the Amendment Proposal, better facilitate achieving the applicable CUSC objectives in relation to the issue or defect identified. The Working Group shall have due regard to Core Industry Documents and other industry documents in the evaluation of the Amendment Proposal and any Alternative Amendment.

The Working Group is to submit their final report to the CUSC Panel Secretary on 11<sup>th</sup> April 2002 for circulation to Panel Members. The conclusions will be presented to the CUSC Panel meeting on 26<sup>th</sup> April 2002.

#### **Membership**

The Working Group has the following members:

Andy Balkwill	Chair
Mark Cox	National Grid
John Norbury	Innogy
Simon Lord	First Hydro
Steve Drummond	EDF Energy Merchants Ltd
Paul Cowdrey	London Power Networks
Andrew Neves	East Midlands Electricity
Richard Smith	GPU
Steve Phillips	British Energy
Bridget Morgan	Ofgem Observer
Martin Davies	Technical Secretary

The membership can be amended from time to time by the CUSC Amendments Panel.

## Relationship with Amendments Panel

The Working Group shall seek the views of the Amendments Panel before taking on any significant amount of work, which shall be determined by the Working Group Chair. In this event the Working Group Chairman should contact the CUSC Panel Secretary.

Where the Working Group requires instruction, clarification or guidance from the Amendments Panel, particularly in relation to their Scope of Work, the Working Group Chairman should contact the CUSC Panel Secretary.

## Meetings

The Working Group shall develop and adopt its own internal working procedures and provide a copy to the Panel Secretary for each of its Amendment Proposals.

## Reporting

The Working Group Chairman will provide a verbal report on progress at each Amendments Panel Meeting as required by the Panel.

The Working Group Chairman shall prepare a report to the Amendments Panel responding to the matter set out in the Terms of Reference.

A draft Working Group Report must be circulated to Working Group members, with not less than five business days given for comments.

Any unresolved comments within the Working Group must be reflected in the final Working Group Report.

The Chairman (or another member nominated by him) will present the Working Group report to the Amendments Panel as required.

## **Annex 3: Internal Working Group Procedures**

### Asset Renewal Working Group (CAP012) Internal Working Procedures

1. Notes of each meeting will be produced by the Technical Secretary (provided by National Grid) and circulated to the Chairman and Working Group members for review.
  - (a) Meeting notes will be published on the National Grid CUSC Website following the review by Working Group members.
2. The Chairman of the Working Group will provide an update of progress and issues to the Amendments Panel each month as appropriate.
3. Working Group meetings will be arranged for a date acceptable to members of the group and will be held as often as required as agreed by the Working Group, in order to respond to the requirements of the Terms of Reference set by the Amendments Panel.
4. If within half an hour after the time for which the Working Group meeting has been convened the Chairman of the group is not in attendance, the meeting will take place with those present. A Chairman shall be appointed from those members of the Working Group present.
5. A meeting of the Working Group shall not be invalidated by any member(s) of the group not being present at the meeting.

## **Annex 4: Proposed Text to Modify the CUSC**

## Amendment Proposal:

### 2.17 REPLACEMENT OF NGC ASSETS

- 2.17.1 **NGC** will provide information to each **User** on an ongoing basis with regards to its long term intentions and any programme for the replacement of any **NGC Assets** at a **Connection Site**.
- 2.17.2 Where in **NGC's** reasonable opinion to enable **NGC** to comply with its statutory and licence duties it is necessary to replace an **NGC Asset** **NGC** shall give written notice of this (a "**Replacement Notice**") such notice to be given (subject to Paragraph **2.17.8**) as soon as practicable.
- 2.17.3 Following the issue of the **Replacement Notice** **NGC** shall provide an explanation of the engineering and economic reasons to asset replace and the parties shall meet as soon as practicable to consider the options, programme and costs associated with the replacement.
- 2.17.4 **NGC** shall make an offer to the **User(s)** (subject to Paragraph 2.17.8) no earlier than 6 months after the date of the **Replacement Notice** detailing the variations it proposes to make to Appendices A and B of and any other changes required to the **Bilateral Connection Agreement** and if appropriate enclosing a **Construction Agreement** in respect of the replacement of the **NGC Assets**.
- 2.17.5 At the request of the **User(s)** (such request to be made within 1 month of receipt of the offer referred to Paragraph 2.17.4 above) the parties shall jointly appoint or if such appointment cannot be agreed within 10 days the President of the Institution of Electrical Engineers shall appoint an engineer with suitable expertise (the "**Engineer**") to consider the need and programme for replacement. Following such appointment the engineer shall provide a report within 3 months of appointment, or such longer period as the parties might agree. The cost of the appointment shall be borne by the disputing parties equally.
- 2.17.6 If after a period of 3 months from receipt of the offer, or subject to Paragraph 2.17.5, 1 month from receipt of the report from the Engineer, or such longer period as the parties might agree the **User(s)** and **NGC** have failed to reach agreement on the offer then either party may make an application to the **Authority** under Standard Condition C7E of the **Transmission Licence** to settle any dispute about the replacement of the **NGC Assets**.
- 2.17.7 Subject to Paragraph 2.17.8, **NGC** shall not replace the **NGC Assets** until the offer has been accepted by the **User(s)** or until determination of the **Authority** if an application to the **Authority** has been made.
- 2.17.8 **NGC** shall take all reasonable steps to avoid exercising its rights pursuant to this Paragraph but in the event that **NGC** has reasonable grounds to believe, given its licence and statutory duties, that an **NGC Asset** should be replaced prior to or during the process outlined above then **NGC** shall consult with the **User(s)** as far as reasonably practicable and shall be entitled to replace such **NGC Asset** and shall advise the **User(s)** of this and as soon as practicable make an offer for such replacement which can be accepted or referred in accordance with Paragraph 2.17.6 above.
- 2.17.9 Subject to 2.17.10 **Connection Charges** shall be payable in respect of such replaced **NGC Assets** in accordance with the **Statement of the Connection Charging Methodology** and **NGC** shall give the **User(s)** not less than 2 months prior written notice of such varied charges and specify the date upon which such charges become effective. **NGC** shall be entitled to invoice the **Connection Charges** based on an estimate of the cost and the provisions of Paragraphs 2.14.3 and 2.14.4 shall apply.

2.17.10 Where **NGC Assets** have been replaced pursuant to Paragraph 2.17.8 **NGC** shall not be entitled to vary the **Connection Charges** until the offer has been accepted or the matter has been determined by the **Authority** and until such time the **User(s)** shall continue to pay **Connection Charges** as if the **NGC Assets** had not been replaced. If the matter is determined in **NGC's** favour then **NGC** shall be entitled to issue a revised Appendix B and the **User(s)** shall pay to **NGC** the difference between the two amounts plus interest at **Base Rate** on a daily basis from completion of the replacement to the date of payment by the **User(s)**. If the matter is not determined in **NGC's** favour **Connection Charges** shall be payable as directed by the **Authority**.

**Please Note: The existing text for CUSC 2.17 (version 1.0), 2.17.1 to 2.17.4 inclusive, will be deleted and replaced with the above text.**