



National Grid

AMENDMENT REPORT

CUSC Proposed Amendment CAP012

Procedure for Renewal of NGC (Connection) Assets

The purpose of this report is to assist the Authority in their decision of whether to implement Amendment Proposal CAP012

Amendment Ref	CAP012
Issue	1.0
Date of Issue	28 June 2002
Prepared by	National Grid

I DOCUMENT CONTROL**a National Grid Document Control**

Version	Date	Author	Change Reference
0.1	20/6/02	National Grid	Draft for comment
1.0	28/6/02	National Grid	Formal version for submission to the Authority

b Document Location

Nation Grid Website:

<http://www.nationalgrid.com/uk/indinfo/cusc>

c Distribution

Name	Organisation
The Gas and Electricity Markets Authority	Ofgem
CUSC Parties	Various
Panel Members	Various
National Grid Industry Information Website	

II	CONTENTS TABLE	
I	DOCUMENT CONTROL	2
	a National Grid Document Control	2
	b Document Location	2
	c Distribution	2
II	CONTENTS TABLE	3
1.0	SUMMARY AND RECOMMENDATION	4
2.0	PURPOSE AND SCOPE OF THE REPORT	5
3.0	THE PROPOSED AMENDMENT	6
4.0	ALTERNATIVE AMENDMENTS	6
5.0	ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES	7
6.0	IMPACT ON CUSC PARTIES	12
7.0	IMPACT ON CORE INDUSTRY DOCUMENTS	12
8.0	IMPACT ON OTHER INDUSTRY DOCUMENTS	12
9.0	IMPLEMENTATION AND TIMESCALES	13
10.0	VIEWS AND REPRESENTATIONS	13
11.0	SUMMARY OF PANEL MEMBERS VIEWS	17
12.0	NATIONAL GRID RECOMMENDATION	18
13.0	COMMENTS ON DRAFT AMENDMENT REPORT	18
	ANNEX 2 – PROPOSED TEXT TO MODIFY CUSC	22
	Part A – Text to give effect to the Proposed Amendment	22
	Part B – Text to give effect to Alternative Amendment (A)	24
	Part C – Text to give effect to Alternative Amendment (B)	26
	ANNEX 3 – COPIES OF REPRESENTATIONS RECEIVED TO CONSULTATION	30

1.0 SUMMARY AND RECOMMENDATION

- 1.1 Proposed Amendment CAP012 proposes to establish a procedure within the CUSC to address perceived defects concerning replacement of NGC (Connection) Assets in Section 2 of the CUSC.
- 1.2 CAP012 was proposed by Innogy and submitted for consideration at the CUSC Amendments Panel meeting on 11th January 2002. At the meeting the Panel determined that a Working Group be established to consider the Amendment Proposal prior to carrying out wider industry consultation.
- 1.3 The Asset Renewal Working Group recognised the need to review the asset replacement process set out in Paragraph 2.17 of the CUSC and supported the introduction of a revised procedure. The inclusion of provision for an Independent Engineer in the procedures was not supported by all members of the Working Group.
- 1.4 As part of their consideration of CAP012 the Asset Renewal Working Group considered whether any Alternative Amendment exists. A potential alternative to the Amendment Proposal was tabled by National Grid, but a majority of Working Group members did not agree that the alternative amendment better facilitated the Applicable CUSC Objectives over the Amendment Proposal and hence was not put forward as an Alternative Amendment by the Working Group.
- 1.5 The Working Group Report for CAP012 was submitted for consideration at the April 2002 CUSC Panel meeting, the Panel determined that the Working Group had met their Terms of Reference and approved the Report. The CUSC Panel instructed National Grid to carry out a period of wider industry consultation for CAP012 as required by CUSC and further instructed that on the grounds of transparency and efficiency, the Consultation document should also contain details of the proposed National Grid alternative option.
- 1.6 A Consultation Document for CAP012 was published by National Grid and on 13th May 2002. Responses were invited by 14th June 2002.
- 1.7 A total of 11 responses to the consultation for CAP012 were received. The majority of responses supported the need for a revised procedure for the renewal of NGC Assets and supported the Proposed Amendment. Two respondents – National Grid and British Energy proposed Alternative Amendments.
- 1.8 A summary of responses is contained in Section 10 of this document, full copies of each response is contained in Annex 3.

National Grid Recommendation

- 1.9 National Grid recommends that Alternative Amendment (A) better facilitates achievement of the Applicable CUSC Objectives and should be approved for implementation.
- 1.10 National Grid does not support the Proposed Amendment or Alternative Amendment (B) as they do not better facilitate the Applicable CUSC Objectives.
- 1.11 It is recommended that Alternative Amendment (A) be approved for implementation on 1st April 2003.

2.0 PURPOSE AND SCOPE OF THE REPORT

- 2.1 This Amendment Report has been prepared and issued by National Grid under the rules and procedures specified in the Connection and Use of System Code (CUSC) as designated by the Secretary of State. It addresses issues relating to replacement of NGC (Connection) Assets contained in Section 2 of the CUSC.
- 2.2 Further to the submission of Amendment Proposal CAP012 (contained in Annex 1) and the subsequent wider industry consultation that was undertaken by National Grid, this document is addressed and furnished to the Gas and Electricity Markets Authority (“the Authority”) in order to assist them in their decision on whether to implement Amendment Proposal CAP012 or any Alternative Amendment detailed in this Amendment Report.
- 2.3 This document outlines the nature of the CUSC changes that are proposed. It incorporates National Grid’s recommendations to the Authority and includes copies of all representations received in response to the consultation.
- 2.3 This Amendment Report has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid website, at <http://www.nationalgrid.com/uk/indinfo/cusc>, along with the CAP012 Amendment Proposal Form, the Asset Renewal Working Group Report and the CAP012 Consultation Document.

3.0 THE PROPOSED AMENDMENT

3.1 CAP012 proposes to incorporate a procedure into the CUSC for the renewal of NGC (Connection) Assets, to be followed by National Grid and Connected Party(ies). The Proposer raises concern that the renewal of NGC Assets which 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

3.2 The Amendment Proposal contends that the CUSC is deficient in two ways:

- There is no economic/engineering test seen by the User for Asset Replacement of NGC (Connection) Assets
- The test for Asset Replacement pre and post Replacement Period is different.

3.3 The Amendment Proposal also notes that a key part of any procedure would be the right of recourse of a User to an Independent Engineer to resolve any disputes between National Grid and the User.

Impact on the CUSC

3.4 The Proposed Amendment would require the existing text for Paragraph 2.17 of the CUSC (Version 1.0), Paragraphs 2.17.1 to 2.17.4 inclusive, to be deleted and replaced with the new legal text.

3.5 The text required to give effect to the Proposed Amendment is contained in Part A of Annex 2 of this document.

4.0 ALTERNATIVE AMENDMENTS

4.1 During the wider industry consultation for CAP012 Alternative Amendments were proposed by two respondents, namely National Grid and British Energy.

Alternative Amendment (A) – National Grid Company plc

4.2 Alternative Amendment (A) submitted by National Grid was originally put forward and discussed at the Asset Renewal Working Group, but was not proposed by the Working Group as an Alternative Amendment. Alternative Amendment (A) addresses the procedure for renewal of NGC (Connection) Assets, but does not include a role of an Independent Engineer within the process.

Impact of Alternative Amendment (A) on the CUSC

4.3 Alternative Amendment (A) would require the existing text for Paragraph 2.17 of the CUSC (Version 1.0), Paragraphs 2.17.1 to 2.17.4 inclusive, to be deleted and replaced with the new legal text.

4.4 The text required to give effect to Alternative Amendment (A) is contained in Part B of Annex 2 of this document.

Alternative Amendment (B) – British Energy plc

- 4.5 Alternative Amendment (B) was submitted by British Energy in their response to the CAP012 consultation. Alternative Amendment (B) is based on the text for the Proposed Amendment which has been subject to certain changes. Paragraph 2.17.1 has been amended to facilitate instigation of information by either party. Alternative Amendment (B) (Paragraph 2.17.2) also re-states the right for User(s) to disconnect if National Grid replaces an NGC Asset before expiry of the Replacement Period where it is necessary and prior approval has not been sought. Regarding timing of replacement notices Alternative Amendment (B) (Paragraph 2.17.4) provides that National Grid should provide an explanation of the reasons for replacement at the same time as the Replacement Notice, rather than following the notice.

Impact of Alternative Amendment (B) on the CUSC

- 4.6 Alternative Amendment (B) would require the existing text for Paragraph 2.17 of the CUSC (Version 1.0), Paragraphs 2.17.1 to 2.17.4 inclusive, to be deleted and replaced with the new legal text.
- 4.7 The text required to give effect to Alternative Amendment (B) is contained in Part C of Annex 2 of this document.

5.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

Proposed Amendment

- 5.1 The Asset Renewal Working Group assessed the Proposed Amendment against the Applicable CUSC Objectives in terms of how it addressed the three perceived deficiencies identified by the Proposer and as described in Section 3 of this Amendment Report.

Economic /engineering test as seen by User

- 5.2 The Proposer felt that the current process for asset replacement set out in the CUSC did not require National Grid to demonstrate to Users the need for the asset replacement. Although for Asset Replacement before the Replacement Period, the User has a right to disconnect, and for post Replacement Period the User may serve a counter notice, the Proposer felt that the replacement of Connection Assets should be demonstrated to be economic to the connected party.
- 5.3 National Grid noted this view and stated that currently for a number of Users the practice of detailing the reasons for asset replacement and the presentation of these reasons to the User is already 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 asset replace to meet licence and statutory obligations achieved this, but did not necessarily mean that the asset replacement scheme was seen as economic by a particular User at a particular site, as the replacement may be driven by wider licence obligations.
- 5.4 The Working Group 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 factors include the ability to procure and logistically obtain the necessary manufacturing capability to build essentially low volume; large cost items with long lead times. In addition access to the system is key, with much of the asset replacement expected to be undertaken in situ. There is also a requirement to ensure that there are sufficient outage windows to undertake the necessary works to comply with the security standards and to operate the system economically.

- 5.5 National Grid noted the decision process involved in asset replacement is based on knowledge and experience derived from a number of sources, such as maintenance history, faults and defects, panels of inquiry (following failures), research and development – material scientists and spares availability. Once a programme is established further ‘fine-tuning’ takes place following consideration of site specific issues and feedback of further information. National Grid noted that it is not economic or effective to undertake a more detailed assessment programme for individual assets at sites which may require access to HV equipment, partial or complete dismantling and non-destructive testing.
- 5.6 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.
- 5.7 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 National Grid’s obligations under its Transmission Licence 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 inconsistent with the Applicable CUSC Objective of facilitating competition.
- 5.8 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 would not only be liable for the new charges associated with the changed assets but also for the revised termination amounts. Users felt that this was an unsatisfactory process as they were sometimes not aware in advance of the new liability for termination amounts. The draft process developed by the Working Group was considered to address this issue by virtue of requiring National Grid to issue a “replacement notice” which would then subsequently be followed up by an “offer”. The “offer” would propose to vary the User’s agreement (by modifying the charging appendices).

Role of an Independent Engineer

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

- 5.10 National Grid noted that the reasons for asset replacement are to comply with licence and 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 obligations in respect of its licence or statutory requirements. On this basis it would not be 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.
- 5.11 On further discussion, the Working Group agreed that the Independent Engineer could not resolve disputes relating to Licence obligations. However, Working Group members felt an Independent Engineer could provide an independent and impartial view in the case of a dispute over technical need for asset replacement, but if it 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 appeared to be a change from the wording in and possible intent of the Amendment Proposal form which viewed the Independent Engineer as the arbiter. The Proposer confirmed that this approach did meet the intent behind the Amendment Proposal.
- 5.12 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. It was agreed that this would be achieved through increased communication between National Grid and Users when developing asset replacement plans for a connection site.
- 5.13 The majority of Working Group members supported the use of an Independent Engineer in the process as it provided an independent view on the requirement to replace assets and felt that it 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 the benefits of the role of an 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 currently to prevent parties 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 an 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 Independent 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 any offer that had been made, and therefore this only provided an additional requirement to go through in the process and may introduce delay. Some Working Group members felt that the role of an Independent Engineer would provide a filter to reduce the number of cases that may be referred to the Authority, and it was obviously beneficial to resolve disputes between Users without involving the Authority. Furthermore it would instil a discipline for parties to come to an agreement rather than having one imposed.

- 5.14 National Grid highlighted 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 need to be established to cater for such an 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 arbiter and that they may call in the services of an Independent Engineer themselves to address technical issues.
- 5.15 Overall within the Working Group, 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 relevant objectives. The minority view was that such a role would add little or no value to the process, could possibly be costly, inefficient and could introduce significant delay into the asset replacement process and therefore would not better facilitate the Applicable CUSC Objectives.

Different test pre and post Replacement Period

- 5.16 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 (except for light current / protection equipment). The Amendment Proposal notes that the obligations on National Grid when asset replacing pre replacement period and post replacement period are different and believes that there should be consistency. The proposal notes that Clause 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.
- 5.17 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 own risk on the asset requiring replacement during this period. However once the replacement period expired the remaining liabilities (including Termination Amounts) for any assets that had been changed during the Replacement Period would be borne by the connected party if they had not disconnected.
- 5.18 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 would also be 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.

Alternative Amendment (A)

- 5.19 As part of their consideration of the Amendment Proposal the Asset Renewal Working Group considered whether any Alternative Amendments to CAP0012 exist. An alternative was put forward by National Grid, which is similar to the Amendment Proposal, but without provision for the role of an Independent Engineer.

- 5.20 Although the Working Group unanimously supported the National Grid Alternative Amendment proposal as better facilitating the Applicable CUSC Objectives, the majority of the Working Group did not believe that the alternative proposed was better than the Amendment Proposal. Therefore the Working Group did not carry the National Grid alternative forward to the Working Group Report.
- 5.21 National Grid recognises and agrees that a revised procedure should be included in the CUSC for the replacement of NGC Assets and the need to provide Users with more information during the procedure for replacement. National Grid also recognises that there are issues raised regarding the different obligations for pre and post expiry of the replacement period. Alternative Amendment (A) addresses these issues, providing for a consistent approach for replacement pre and post replacement period and also introduces an 'Urgent' process (Paragraph 2.17.7) to allow for exceptional events such as where assets have failed and form a strategic part of the main transmission system.

Role of an Independent Engineer

- 5.22 The Amendment Proposal put forward that a key part of the procedure would be the right of recourse of a User to an Independent Engineer to resolve any disputes between National Grid and the User.
- 5.23 Alternative Amendment (A) differs from the Proposed Amendment in that it does not include provision for an Independent Engineer in the procedure for the replacement of NGC Assets. National Grid replace NGC Assets under CUSC 2.17 in order to comply with licence and statutory obligations, and it is the role of the Authority to determine on whether National Grid is meeting its licence requirements. National Grid note that an Independent Engineer could only provide a view within this process but could never assume National Grid's obligations in respect of its licence or statutory requirements. On this basis it would not be 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 and therefore the change put forward by the Proposed Amendment could not better facilitate the Applicable CUSC Objectives.
- 5.24 In addition to the issues over the role an Independent Engineer could have in the process for replacement of NGC Assets, there are wider concerns such as the increase in costs of the replacement process and how these will be recovered, the increase in delays and inefficiencies in the process, and how the parties would reach agreement over setting the terms of reference for an Independent Engineer.
- 5.25 Alternative Amendment (A) argues that there is nothing in either the CUSC or Alternative Amendment (A) to stop parties agreeing bilaterally to the use of an Independent Engineer if they wish. Ultimately a dispute may be referred to the Authority for determination and therefore the right of recourse to an Independent Engineer only provides an additional requirement to go through the process.

Alternative Amendment (B)

- 5.26 As part of their response to the wider industry consultation for CAP012 British Energy proposed certain text changes to the Proposed Amendment intended to improve clarity. Paragraph 2.17.1 has been modified to facilitate instigation of information by either party. Also it is expected that justification

for any asset replacement is expected to be provided to the User at the same time as issuing of the Replacement Notice.

- 5.27 In addition, Alternative Amendment (B) proposes to reinstate the provision for disconnection to Users in the event of early asset replacement (Paragraph 2.17.2 of the text as detailed in Part C of Annex 2). However, it should be noted that the option for a User to disconnect is already provided for within Paragraphs 5.6 and 5.7 of the CUSC and therefore restating this within Section 2 is unnecessary.

6.0 IMPACT ON CUSC PARTIES

- 6.1 The Proposed Amendment and Alternative Amendments (A) and (B) propose a new procedure to apply for the replacement of NGC Assets. The procedure will involve Users and National Grid providing information both about the expected replacement plans for connection assets along with discussion of User(s) future needs at the site.
- 6.2 The Proposed Amendment and Alternative Amendment (B) provide for an Independent Engineer in the process, the cost of which would be borne by the connected parties.

7.0 IMPACT ON CORE INDUSTRY DOCUMENTS

- 7.1 The Proposed Amendment, Alternative Amendment (A) or Alternative Amendment (B) will have will have no impact on Core Industry Documents or computer systems and processes used for arrangements established under Core Industry Documents.

Summary of Representations

- 7.2 No responses have been received from Core Industry Document Owners noting any impact of CAP012 on Core Industry Documents.
- 7.3 No responses have been received from any other Industry Document Owners noting any impact of CAP012.

8.0 IMPACT ON OTHER INDUSTRY DOCUMENTS

Proposed Amendment

- 8.1 The Proposed Amendment and Alternative Amendments (B) may require modification of National Grid Charging Statements to detail how the services of an Independent Engineer will more clearly be charged and recovered.
- 8.2 The Proposed Amendment and Alternative Amendments (A) and (B) will impact on National Grid Charging Statements as all three are drafted to remove the necessity for the default charge on NGC Assets operating beyond their replacement period. The necessary modifications will be raised by National Grid as appropriate. These modifications will need to take into account the results of the review of the Charging Methodology for Assets Operating beyond their Replacement Period.

9.0 IMPLEMENTATION AND TIMESCALES

- 9.1 The Asset Renewal Working Group agreed that the Proposed Amendment should not be retrospective, and should only apply to future proposals for renewal of NGC Assets. National Grid noted that as Asset Replacement schemes generally are developed two to three years in advance of site works and that any changes to the process would need to be gradually brought in.
- 9.2 National Grid recognise that the Amendment Proposal and Alternative Amendments (A) and (B) will require changes and developments to National Grid's internal processes that will take time to implement, and may have implications on resources to ensure that the proposed obligations within the CUSC are delivered. Although these issues were discussed briefly at the Working Group National Grid has given the matter further review and believe it will require up to 12 months to ensure the necessary processes are established. However if the implementation date were in advance of 1st April 2003 National Grid would endeavour to work within the spirit of the procedure from the outset.
- 9.3 For cases where National Grid has had to replace assets before the end of the replacement period it may be several years before User(s) are charged for the new assets. Obviously it is not possible to retrospectively follow the process for those assets or schemes that are currently being progressed. It would be National Grid's intention to review the position for each User and document all replacement works that are currently being undertaken or have been undertaken (and have yet to be charged) to provide clarity to Users and in order to effectively implement CAP012 or either Alternative Amendment as directed. National Grid believe that this review will take 12 months to complete for all Users.
- 9.4 However, this piece of work should not delay the implementation of CAP012 or Alternatives but Users should note that this review will be undertaken to provide additional clarity. Therefore National Grid is proposing that Alternative A be implemented with effect from 1st April 2003. This date will also interface with the review of the Charging Methodology for assets operating beyond their replacement period. It should be noted though that this will be dependent on the timing of any direction by the Authority on this amendment.

10.0 VIEWS AND REPRESENTATIONS

- 10.1 This Section contains a summary of the views and representations made by consultees during the consultation period in respect of the Proposed Amendment and the NGC Alternative Amendment option.

Views of Panel Members

- 10.2 No views were received from Panel members to the wider industry consultation.

View of Core Industry Document Owners

- 10.3 No views were expressed by Core Industry Document Owners to the wider industry consultation.

Responses to Consultation

10.4 The following table provides an overview of the representations received. Copies of the representations are attached as Annex 3.

Reference	Company	Supportive	Comments
CAP012-CR-01	Rugeley Power Limited	Support Proposed Amendment	Support involvement of Independent Engineer to resolve disputes.
CAP012-CR-02	The National Grid Company plc	Do not support Proposed Amendment	Proposes Alternative Amendment without provision for independent engineer
CAP012-CR-03	Powergen UK plc	Support Proposed Amendment	Believe that provision for Independent Engineer would help decision process if referred to Ofgem, and also ensure that less disputes reach Ofgem in the first place.
CAP012-CR-04	Elxon	Of both	Recognise need to review process to be more transparent and enable discussion between NGC and Users
CAP012-CR-05	Seeboard Power Networks plc	Support NGC alternative option (A)	Believe there is benefit for reviewing the process, but believe that provision for an Independent Engineer would become a burden to all parties
CAP012-CR-06	British Energy plc	Support Proposed Amendment	Propose text changes (dealt with as Alternative Amendment (B)). Would like to see process for a formal disclosure process of information relating to asset replacement plans
CAP012-CR-07	Innogy plc, npower Limited, Innogy Cogen Trading Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited	Support Proposed Amendment	Believe there is merit in an Independent Engineer considering the replacement in the first instance and that the ability to challenge National Grid's analysis may reduce the overall costs of the system
CAP012-CR-08	British Gas Trading Limited	Unclear	Suggest that the independent assessment of National Grid's requirements for replacement should be within the Licence regime and that customers short term requirements should be addressed as part of the review of Transmission Charging
CAP012-CR-09	TXU Europe Energy Trading Ltd – On behalf of the 21 TXU CUSC Parties	Support Proposed Amendment	Believe that an Independent Engineer would have a defined timescale, whereas the Authority do not, & consequently believe the Proposed Amendment better facilitates the relevant objectives

Reference	Company	Supportive	Comments
CAP012-CR-10	London Electricity Group plc	Support Proposed Amendment	Believe that recourse to an Independent Engineer would allow connected parties to satisfy themselves of the need for any replacement
CAP002-CR-11	Scottish Power Generation Limited*	Support Proposed Amendment	Believe that an Independent Engineer will allow parties to reach agreement without excessive recourse to Ofgem

Response received after the consultation closing date, but included for completeness.

- 10.5 Of the 11 responses received to the industry consultation for CAP012, 7 respondents supported the Proposed Amendment (including British Energy, who also proposed Alternative Amendment (B)); 2 respondents supported the National Grid Alternative Amendment option; 1 respondent supported both the Proposed Amendment and the National Grid Alternative Amendment, and 1 respondent did not support either the Proposed Amendment or the Alternative Amendment option.

Role of an Independent Engineer

- 10.6 Five respondents specifically supported inclusion of the role of an Independent Engineer to resolve any asset replacement disputes between National Grid and the User. Two respondents (PG, SP) believed that provision for appointment of an Independent Engineer would ensure that fewer disputes reach Ofgem and felt that it would aid Ofgem's decision process if the a dispute was referred. However another respondent (BG) noted that National Grid would be unlikely to accept the view of a third party engineer and hence the role of an Independent Engineer would not affect the number of disputes being referred to Ofgem.
- 10.7 One respondent (LE) noted that National Grid have specific licence requirements on them with regard to system integrity, but felt that the Proposed Amendment did not compromise these obligations.
- 10.8 One respondent (BE) referred to members of the Asset Renewal Working Group suggesting that publishing the criteria which ensures compliance of National Grid's licence and statutory obligations would increase transparency.

National Grid View:

- 10.9 National Grid do not support the role of an Independent Engineer in the asset replacement process as discussed in paragraphs 5.23, 5.24 and 5.25 of this Amendment Report.
- 10.10 National Grid reiterates that NGC Assets are replaced to comply with statutory or licence obligations under CUSC Paragraph 2.17 and believe that a third party cannot determine on National Grid's licence obligations, only the Authority can fulfil this role.
- 10.11 Regarding the suggestion to publish the criteria for licence and statutory compliance, National Grid note that it is for the Authority to determine on National Grid's licence and statutory obligations, and it is not appropriate for National Grid to publish a translation of it's obligations and how they may be

applied in practice. However increased communication with Users regarding the need to asset replace should better inform Users of National Grid's obligations.

Impact of Independent Engineer on costs and efficiencies

- 10.12 Two respondents (Seeboard & NGC) believed that the involvement of an Independent Engineer would lead to increasing costs which would need to be recovered from Users as well as delays in the process, and hence become a burden to all parties. Another respondent (BG) felt that if the matter was referred to Ofgem they would probably wish to appoint their own experts which would mean any earlier independent report would be of little value and hence cause inefficiencies in both time taken and also cost incurred. Another respondent (Innogy) noted that if the Authority called upon the services on an Independent Engineer, then the cost would fall on all Licence holders and not just the affected Users.
- 10.13 One respondent (PG) believed that there should be no delay caused to the process by the role of an Independent Engineer if adequate notification is given to Users if National Grid plan to replace an NGC Asset. Another respondent (Innogy) felt that the ability to challenge National Grid's analysis by using an Independent Engineer might reduce the overall costs of the system by ensuring that the most economic reconfiguration of a connection was considered at the time of asset replacement.
- 10.14 One respondent (TXU) accepted National Grid's view that provision for the role of an Independent Engineer may not be efficient, but believed that as an Independent Engineer would have a defined timescale for consideration whereas the Authority has no timetable for consideration of disputes then the Proposed Amendment would better facilitate the relevant objectives.

National Grid View:

- 10.15 National Grid maintain that an Independent Engineer cannot determine on National Grid's licence obligations, and in cases where referral is made to the Authority, they are not obliged to take note of an Independent Engineer's report.
- 10.16 National Grid has concerns over setting the Terms of Reference for an Independent Engineer. If this fell to the disputing parties it is unclear how they would reach agreement on the matter. It is therefore likely to increase cost to the industry and provide an inefficient process.

Economic test to the User and Procedure for replacement of NGC Assets

- 10.17 A number of respondents commented on the impact of the Proposed Amendment on the balance between National Grid and Users. Two respondents (Rugeley & Innogy) felt that National Grid should be mindful of the User's position in the marketplace and the remaining life of the asset, which would be dependent on the site and plant connected. Another respondent (BE) noted that a process of 'disclosure' would mitigate potential use of Paragraph 2.17.8.

National Grid View:

- 10.18 National Grid agrees that a revised procedure should be included in the CUSC for the replacement of NGC Assets. National Grid notes that

discussions between National Grid and the User regarding the remaining life of the asset (e.g. Power Station) or any process of 'disclosure' would not only require information to be passed from National Grid to the User, but also from Users to National Grid, including potentially, confirmation of the remaining life of a power station. With regard to the cost of failure to a particular user, National Grid notes that the failure of certain NGC Assets may also cause implications for the wider system and hence an assessment of impact cannot be based on sole Users.

- 10.19 National Grid notes that it is required to operate, develop and maintain an efficient and co-ordinated transmission system. If the replacement of NGC Assets was subject to economic tests for individual connected parties, National Grid's ability to meet transmission licence obligations may be at risk.

Charging Issues

- 10.20 Three respondents (Innogy, BG & BE) noted that CAP012 impacts more widely on Transmission Charging and the mechanism for charging for NGC Assets. One respondent felt that it should remain outside of the regulatory asset base as they believed that on the basis that replacement requested by a User may not take place if it was not in the capex plan agreed with Ofgem. Another respondent felt that charging issues for asset replacement should be considered as part of a review of Transmission Charging. Another respondent noted that it was important that appropriate modifications to the Connection Charging Methodology were raised to deal with some of the issues raised by CAP012.

National Grid View:

- 10.21 National Grid support the issues raised regarding asset based charging for connection assets and this issue was also raised within the Asset Renewal Working Group. National Grid recognises the issue and notes that it is outside the remit of CAP012 but is being considered as part of a wider review of its charges which is already underway through the Transmission Charging Methodologies Forum.

11.0 SUMMARY OF PANEL MEMBERS VIEWS

- 11.1 On the basis of the consultation and assessment undertaken in respect of CUSC Amendment Proposal CAP012, of the CUSC Amendments Panel members who expressed a view, three Panel Members supported the Proposed Amendment and four Panel Members supported approval of Alternative Amendment (A).
- 11.2 The Panel Members who supported Alternative Amendment (A) felt that whilst the role of an Independent Engineer may provide comfort to a User, an Independent Engineer could not determine on issues of National Grid's licence obligations. Furthermore it was considered that the additional step of an Independent Engineer would add unnecessary complexity, expense and delay to the process which would not better facilitate the Applicable CUSC Objectives, and that the ultimate arbiter for final resolution of disputes is the Authority. also
- 11.3 The Panel Members who supported the Proposed Amendment did not believe that National Grid was in a better position than the customer to judge the health and safety impact of asset failure at a customer's site. One Panel

member felt that the role of an Independent Engineer could limit the number of disputes going to the Regulator only if National Grid were required to take cognisance of it via inclusion of the role in the CUSC.

12.0 NATIONAL GRID RECOMMENDATION

- 12.1 National Grid has noted the views of the Industry which are in general supportive of the Proposed Amendment, however for the reasons set out elsewhere in this Amendment Report National Grid recommends that the Proposed Amendment be rejected on the basis that provision for the role of an Independent Engineer to determine on National Grid's licence obligations would not better facilitate the Applicable CUSC Objectives. National Grid likewise also recommends that Alternative Amendment (B) is rejected due to the inclusion of the role for an Independent Engineer.
- 12.2 National Grid recommends that the revised procedure for the replacement of NGC Assets as proposed by the Alternative Amendment (A) should be approved for implementation on 1st April 2003.

13.0 COMMENTS ON DRAFT AMENDMENT REPORT

- 13.1 NGC received a number of comments on the Draft Amendment Report, which have been incorporated into the final Amendment Report.

One party commented that of the CUSC parties replying to the consultation, seven respondents supported the Proposed Amendment whilst only two respondents (one of which was National Grid) supported Alternative Amendment (A). And went on to query the basis of National Grid's recommendation in Section 12 that Alternative Amendment (A) be approved for implementation; whether it was intended to be an impartial representation of the industry's preference following consultation or reiteration of National Grid's view. National Grid's recommendation has to be based on which (if any) out of the Proposed Amendment and any Alternative Amendments, better meets the Applicable CUSC Objectives. National Grid has set out its reasons for believing that the Proposed Amendment is flawed and therefore why it cannot better meet the Applicable CUSC Objectives and this is the reason why the recommendation has been made for Alternative Amendment (A).

Annex 1 – Amendment Proposal Form

CUSC Amendment Proposal Form	CAP012
Title of Amendment Proposal: PROCEDURE FOR THE RENEWAL OF NGC (CONNECTION) ASSETS	
Description of the Proposed Amendment <i>(mandatory by proposer):</i> <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>	
Description of Issue or Defect that Proposed Amendment seeks to Address <i>(mandatory by proposer):</i> <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"> ▪ 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”. ▪ 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. <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>	
Impact on the CUSC <i>(this should be given where possible):</i> Revised drafting of CUSC Clause 2.17 together with an associated Procedure	
Impact on Core Industry Documentation <i>(this should be given where possible):</i> None	

Impact on Computer Systems and Processes used by CUSC Parties (this should be given where possible):

None

Details of any Related Modifications to Other Industry Codes (where known):

None

Justification for Proposed Amendment with Reference to Applicable CUSC Objectives (mandatory by proposer):

The proposal will facilitate the following Applicable CUSC Objectives (as defined in Condition C7F of the Transmission License): -

(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) 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.

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

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

(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 – Proposed Text to modify CUSC

Part A – Text to give effect to the Proposed Amendment

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 following.

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**.

Part B – Text to give effect to Alternative Amendment (A)

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 following.

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 2.17.7) as soon as practicable.
- 2.17.3 Following the issue of the **Replacement Notice** **NGC** shall provide an explanation of the economic and engineering reasons to asset replace and the parties shall meet as soon as practicable to consider options, programme and costs associated with the replacement.
- 2.17.4 **NGC** shall make an offer to the **User(s)** (subject to Paragraph 2.17.7) 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 If after a period of 3 months from receipt of the offer 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**.
- 2.17.6 Subject to Paragraph 2.17.7, **NGC** shall not replace the **NGC Assets** until the offer has been accepted by the **User(s)** or until the determination of the **Authority** if an application to the **Authority** has been made.
- 2.17.7 **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 2.17.5 above.

- 2.17.8 Subject to 2.17.9 **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.
- 2.17.9 Where **NGC Assets** have been replaced pursuant to Paragraph 2.17.7 **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 Appendices A and 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**.

Part C – Text to give effect to Alternative Amendment (B)

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 following.

Conformed Version (marked up on text for Proposed Amendment)

2.17 REPLACEMENT OF NGC ASSETS

2.17.1 **NGC** will provide information to each **User** on an ongoing basis or at the reasonable request of each **User** 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 an **NGC Asset** requires replacement before the expiry of its **Replacement Period**, **NGC** shall, with the prior written approval of the relevant **User** (except where in **NGC's** reasonable opinion such replacement is necessary in which case such approval shall not be required but in such case the **User** shall have the right to **Disconnect**) have the right to replace the **NGC Asset** and **NGC** shall be entitled to vary the **Connection Charges** in accordance with the **Statement of the Connection Charging Methodology**.

2.17.~~23~~ 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**") in conjunction with Paragraph 2.17.1 such notice to be given (subject to Paragraph 2.17.~~89~~) as soon as practicable

2.17.~~34~~ With 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.~~45~~ **NGC** shall make an offer to the **User(s)** (subject to Paragraph 2.17.~~89~~) 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.~~56~~ 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.~~45~~ 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.~~67~~ If after a period of 3 months from receipt of the offer, or subject to Paragraph 2.17.~~56~~, 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.~~78~~ Subject to Paragraph 2.17.~~89~~, **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.~~89~~ **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.~~67~~ above.
- 2.17.~~910~~ Subject to 2.17.~~4011~~ **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.~~4011~~ Where **NGC Assets** have been replaced pursuant to Paragraph 2.17.~~89~~ **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**.

Clean Version

- 2.17.1 **NGC** will provide information to each **User** on an ongoing basis or at the reasonable request of each **User** 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 an **NGC Asset** requires replacement before the expiry of its **Replacement Period**, **NGC** shall, with the prior written approval of the relevant **User** (except where in **NGC's** reasonable opinion such replacement is necessary in which case such approval shall not be required but in such case the **User** shall have the right to **Disconnect**) have the right to replace the **NGC Asset** and **NGC** shall be entitled to vary the **Connection Charges** in accordance with the **Statement of the Connection Charging Methodology**.
- 2.17.3 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**") in conjunction with Paragraph 2.17.1 such notice to be given (subject to Paragraph 2.17.9) as soon as practicable
- 2.17.4 With 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.
- 2.17.5 **NGC** shall make an offer to the **User(s)** (subject to Paragraph 2.17.9) no earlier than 6 months after the date of the **Replacement Notice** detailing the variations it proposes to make to Appendices A and B 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**.
- 2.17.6 At the request of the **User(s)** (such request to be made within 1 month of receipt of the offer referred to Paragraph 2.17.5 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.
- 2.17.7 If after a period of 3 months from receipt of the offer, or subject to Paragraph 2.17.6, 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**.
- 2.17.8 Subject to Paragraph 2.17.9, **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.

- 2.17.9 **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 2.17.7 above.
- 2.17.10 Subject to 2.17.11 **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.
- 2.17.11 Where **NGC Assets** have been replaced pursuant to Paragraph 2.17.9 **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**.

Annex 3 – Copies of Representations Received to Consultation

This Annex includes copies of any representations received following circulation of the Consultation Document (circulated on 13th May 2002, requesting comments by close of business on 14th June 2002).

Representations were received from the following parties:

No.	Company	File Number
1	Rugeley Power Limited	CAP012-CR-01
2	The National Grid Company plc	CAP012-CR-02
3	Powergen UK plc	CAP012-CR-03
4	Elexon	CAP012-CR-04
5	Seeboard Power Networks plc	CAP012-CR-05
6	British Energy plc	CAP012-CR-06
7	Innogy plc, npower Limited, Innogy Cogen Trading Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited	CAP002-CR-07
8	British Gas Trading Limited	CAP002-CR-08
9	TXU Europe Energy Trading Limited – On behalf of the 21 TXU CUSC Parties	CAP002-CR-09
10	London Electricity Group plc	CAP002-CR-10
11	Scottish Power Generation Limited	CAP002-CR-11

Reference	CAP012-CR-01
Company	Rugeley Power Limited



Rugeley Power Limited
Rugeley Power Station
Rugeley
Staffordshire
WS15 4PR

Tel 01889 572100
Direct Tel 01889
Direct Fax 01889
www.internationalpowerplc.com

Our Ref: IP/NI AS/RDB
Your Ref:

27 May 2002

Ms Emma Groves
Commercial
National Grid Company plc
National Grid House
Kirby Corner Road
COVENTRY
CV4 8JY

Dear Madam

With reference to the Consultation Document CAP012 - Procedure for Renewal of NGC (Connection) Assets, Rugeley Power Ltd fully supports the proposal to involve an Independent Engineer to resolve any asset replacement disputes between National Grid and the User.

We also feel that National Grid must take cognisance of the User's position in the electricity marketplace along with a view of the remaining life of the asset (e.g. Power Station). To accommodate this process, National Grid must have a full and thorough consultation process with the User.

Yours faithfully

A handwritten signature in black ink that reads "A. J. Savidge".

A Savidge
Commercial Engineer



Rugeley Power Limited
is registered in
England and Wales:
Registered No: 04213554
Registered Office: Senator House
85 Queen Victoria Street
London EC4V 4DP
A subsidiary of International
Power PLC.

N:\TC\Comms\Issue\N12\M&E\Gives 2705.doc

Reference	CAP012-CR-02
Company	The National Grid Company plc

National Grid Response to CAP012 Industry Consultation: Alternative Amendment

In accordance with CUSC 8.20.2 (e) National Grid is submitting an Alternative Amendment to the CUSC Amendment Proposal CAP012 on 'Procedure for Renewal of NGC (Connection) Assets'.

National Grid agrees that the Asset Replacement process for NGC Assets detailed within the CUSC could be amended to introduce a new procedure which would provide for improved clarity and better facilitate the applicable CUSC objectives. National Grid recognises that some of the issues raised by CAP012 should be addressed and during the Working Group stage presented an alternative amendment to address these issues.

Although the Working Group unanimously supported the alternative amendment as better facilitating the applicable CUSC objectives, the majority of the Working Group did not believe that the alternative amendment was better than the proposed amendment. On this basis the Working Group did not put forward the alternative amendment proposed by National Grid in the Working Group report.

Alternative Amendment

The Alternative Amendment addresses the procedure for renewal of NGC (Connection) Assets at a connection site, which should be followed by both National Grid and the User(s). The procedure addresses several issues:

It provides for a consistent approach to replacement of NGC Assets for both pre and post expiry of the Replacement Period. National Grid agrees that the same process should be followed when replacing assets throughout their life but notes that for early replacement of assets the User will generally not see an effect on their charges until the expiry of the Replacement Period.

In order to cater for exceptional events that have not been planned for, the procedure introduces an 'Urgent' process. This ensures that where assets have failed or require replacement in advance of planned replacement and form a strategic part of the main transmission system such that there is some urgency about their replacement or they are an environmental or safety risk, National Grid retains the right to replace such assets.

National Grid also recognises the need to provide Users with more information during the process so that they are informed of the reasons for asset replacement and ensures that National Grid is more clearly aware of Users future needs for connection sites.

It should be noted that all these proposed changes are also included in the draft legal text for the Amendment Proposal.

Proposed Text for Alternative Amendment

National Grid has drafted proposed text for the Alternative Amendment, which is attached.

Initial View on Amendment Proposal

National Grid note that the Amendment Proposal seeks to establish a procedure for the renewal of NGC Assets at a connection site and identifies two defects with the existing CUSC:

- No test as to whether replacement would be seen as economic by the connected party
- Different tests for replacement for pre and post Replacement Period

The Amendment Proposal also notes that a key part of any procedure would be the right of recourse of a User to an Independent Engineer to resolve any disputes between National Grid and the User.

As detailed above National Grid agrees that a revised procedure should be included within the CUSC for the replacement of NGC Assets and also recognises the issue raised regarding the different obligations for pre and post expiry of replacement period. Therefore the National Grid Alternative Amendment addresses these issues.

However, considering the other issues raised by the Amendment Proposal it is worth noting that National Grid replaces NGC Assets for licence or statutory reasons as detailed in CUSC 2.17. Although the economic impact on the User(s) must be assessed and should influence the proposed asset replacement scheme, which is what the Alternative Amendment proposes, whether a proposal is economic to a particular User cannot be the ultimate test for any replacement. National Grid is required to operate, develop and maintain an efficient and co-ordinated transmission system. This requires planning across the transmission system to ensure that there is adequate access so that security and reliability is not compromised. This means that decisions for asset replacement are generally taken based on assessment of plant type which develops National Grid's replacement plans and these are then refined by local site and specific asset conditions. In making the replacement of assets contingent on the economic case for individual connected parties, National Grid's ability to meet the wider transmission licence obligations may be put in jeopardy. To place an obligation on National Grid to only asset replace if the proposal is economic as seen by the User, as detailed by the Amendment Proposal, would be against National Grid's licence obligations and therefore cannot better facilitate the applicable CUSC objectives.

The Amendment Proposal also requires that an Independent Engineer resolve any disputes between National Grid and the User. As noted above National Grid replace NGC Assets under CUSC 2.17 for licence or statutory reasons and therefore the Authority has the ultimate determination on whether National Grid is meeting its licence requirements. A third party can not determine on National Grid's licence obligations and the introduction of another body to resolve such disputes would leave National Grid with unclear accountability which is not effective or appropriate. It is not appropriate for National Grid to be required to contractually recognise a decision by an independent body if this decision may place it in potential breach of its licence. Using an Independent Engineer to resolve disputes between National Grid and Users is not necessarily consistent with our licence obligations. Therefore National Grid do not believe that the Amendment Proposal is compatible with better facilitation of the applicable CUSC objectives.

The introduction of an Independent Engineer introduces other issues in addition to those described above, as it will increase the costs of the replacement process, which will need to be recovered from Users, increase administration, and provide

additional inefficiency and delay in replacing NGC Assets. It is also unclear how consistent views from Independent Engineers would be achieved and how the disputing parties would ever reach agreement over the Terms of Reference for the Independent Engineer. It should also be noted that currently there is nothing to stop parties bilaterally agreeing to the use of an Independent Engineer if they so choose (both under the current CUSC and also with the National Grid proposed Alternative Amendment). However as already stated ultimately the Authority would have to determine on the decision and therefore this only provides an additional requirement to go through in the process.

Amendment Proposal versus Alternative Amendment (National Grid)

The Alternative Amendment proposed by National Grid improves the process required when replacing NGC Assets and therefore meets the intent of the proposal and also better facilitates the applicable CUSC objectives. However, certain defects (principally the role for an Independent Engineer) raised by the Amendment Proposal are not compatible with the applicable CUSC objectives and therefore have not been included in the Alternative Amendment as described above.

On this basis National Grid's view is that the Amendment Proposal as a whole cannot better facilitate the applicable CUSC objectives. National Grid believes that the Alternative Amendment proposed establishes an improved procedure for the renewal of NGC (Connection) Assets and better facilitates the applicable CUSC objectives.

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 2.17.7) as soon as practicable.
- 2.17.3 Following the issue of the **Replacement Notice** **NGC** shall provide an explanation of the economic and engineering reasons to asset replace and the parties shall meet as soon as practicable to consider options, programme and costs associated with the replacement.
- 2.17.4 **NGC** shall make an offer to the **User(s)** (subject to Paragraph 2.17.7) 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 If after a period of 3 months from receipt of the offer 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**.

- 2.17.6 Subject to Paragraph 2.17.7, **NGC** shall not replace the **NGC Assets** until the offer has been accepted by the **User(s)** or until the determination of the **Authority** if an application to the **Authority** has been made.
- 2.17.7 **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 2.17.5 above.
- 2.17.8 Subject to 2.17.9 **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.
- 2.17.9 Where **NGC Assets** have been replaced pursuant to Paragraph 2.17.7 **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 revised Appendices A and 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 in CUSC 2.17 (version 1.0), 2.17.1 to 2.17.4 inclusive, will be deleted and replaced with the above text.

Reference	CAP012-CR-03
Company	Powergen UK plc

Paul Jones
Strategy and Regulation



Emma Groves
Commercial
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

31 May 2002
Reference

Dear Emma

CAP012 Consultation – Procedure for Renewal of NGC Connection Assets

I write in response to the above consultation on behalf of Powergen. We support the working group's proposal and not the alternative proposed by NGC.

We believe that the procedure should provide for the appointment of an independent engineer when the replacement of connection assets is being considered. This would provide comfort to parties that the replacement is necessary, would help the decision process if the proposal is referred to Ofgem and should ensure that less disputes reach Ofgem in the first place.

We do not believe that the appointment of an independent engineer would delay the process of undertaking a replacement of assets. It is important that adequate notification is given to users if NGC plan to replace a connection asset so that they can take suitable business decisions to mitigate against any adverse impact this may have on their operation. If this is given, there is no reason why the appointment of an independent engineer cannot be undertaken in good time to ensure that there is no delay to the process.

We, therefore, do not see why the alternative proposal should be adopted.
Please contact me on 024 7642 4829 should you wish to discuss this issue further.

Yours sincerely,

Paul Jones
Trading Arrangements

Reference	CAP012-CR-04
Company	Elexon

Our ref. Comments on CAP012

Your ref. CAP012

27 May 2002

Emma Groves
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY

(By email to: emma.groves@uk.ngrid.com)

Dear Emma,

Comments on Consultation Paper CAP012 'Procedure for Renewal of NGC (Connection) Assets'

ELEXON acting as the Balancing and Settlement Code Company has reviewed the Consultation Paper CAP012 'Procedure for Renewal of NGC (Connection) Assets' which seeks incorporate a procedure into the CUSC to be followed by National Grid and Connected Party(ies) before an NGC (Connection) Asset is renewed.

ELEXON recognise the need to review the Asset Replacement process to provide a more transparent process, enable effective discussion with Users, and introduce a process to resolve any asset replacement disputes between National Grid and the User.

It is ELEXON's view that both the Proposed Amendment and 'National Grid option' would enable National Grid to operate a more secure and economic transmission system.

Yours sincerely

Justin Andrews
ELEXON Change Delivery

Reference	CAP012-CR-05
Company	Seaboard Power Networks plc



6th June 2002

Emma Groves,
Commercial Development,
National Grid Company plc,
National Grid House, Kirby Corner Road,
COVENTRY,
CV4 8JY,

SEEBOARD Power Networks plc

Sheencroft
Church Road
Haywards Heath
West Sussex RH16 3SN

Telephone: (01444) 477600
Direct line: (01444) 477724
Fax: (01444) 477757
Email: jpurdy@seeboard.com

Dear Emma,

CAP012 Consultation

Thank you for the opportunity to comment to the above consultation.

SEEBOARD Power Networks has always had a good working relationship with NGC with regard to asset replacement including regular discussions of future NGC plans and the underlying economic/engineering basis for that replacement program. However, we concur with the views of the Asset Renewal Working Group's that there is a case for reviewing clause 2.1.7 of the CUSC.

With regard to the proposed amendment we find ourselves in agreement with NGC, in that whilst the involvement of an Independent Engineer would have benefits is likely that these would be outweighed by the potential delays and costs involved, becoming a burden to all the parties. We do not believe that this amendment will better facilitate the CUSC Objectives.

We believe that the proposal put forwards by NGC (Annex 1, Part B) by revising the Clause 2.1.7 process without the involvement of an Independent Engineer would improve the existing asset replacement methodology and increase transparency. We believe that this alternative amendment will better facilitate the CUSC Objectives.

If you have any queries or would like to discuss any of the issues raised in our response please do not hesitate to contact me.

Yours Sincerely

Jonathan Purdy
Policy & Pricing Manager
SEEBOARD Power Networks

CAP012 Consultation.doc
Jonathan Purdy

SEEBOARD Power Networks plc, Registered Office: Forest Gate, Brighton Road, Crawley, W Sussex RH11 9BH. Registered No. 3043097 England

Reference	CAP012-CR-06
Company	British Energy plc



10th June 2002

Emma Groves
Commercial Development
The National Grid Company plc
Kirby Corner Road
COVENTRY
CV4 8JY

Dear Emma,

CUSC Consultation Document CAP012:
Procedure for Renewal of NGC Connection Assets

Thank you for the opportunity to comment on the above consultation document.

We would advise that British Energy SUPPORTS approval and implementation of the Amendment Proposal submitted by Innogy.

Whilst we recognise that the text provided by NGC and discussed by the Working Group (WG) represents a pragmatic balance [“It was agreed that the text should not be too prescriptive”; Working Group Meeting No.3 notes, 9th April], on further consideration of the proposed replacement text for section 2.17 we have provided some additional minor mark-ups of this text below, to amplify and improve the clarity.

The text also includes insertion of a clause drawn from the current section 2.17.1 to address the ‘early asset replacement’ condition which does not appear to be explicitly catered for in the proposed revision, to ensure retention of the ‘disconnection’ option available to Users. This option may/may not be covered elsewhere in CUSC (sections 5.6 and 5.7?). The text however should be regarded as indicative and NGC should provide confirmation of continuation of Users’ rights in this regard.

We would also raise the ‘emergency’ asset replacement condition in the event of failure and seek confirmation that this issue is/will be catered for within the proposed clause 2.17.8

There are also a number of additional substantive points which were discussed at the Working Group (WG) and are relevant to any improved and transparent process which are not covered directly within this proposal. It is important that appropriate modifications to, for example, the Connection Charging Methodology, are raised to ensure these issues are captured and consulted on more widely, irrespective of, and independent to, this CAP.

Specifically, a number of members of the WG recognised the lack of transparency in the application of NGC's overarching 'statutory and licence obligations' and, whilst accepting that NGC have to justify to the Authority the need and case for asset replacement funding, it was suggested that publishing the criteria which ensures compliance with these obligations would increase the transparency and better inform all Users (Consultation Document 4.13 refers).

In addition, the concept of 'disclosure' was suggested by Ofgem during discussions in a WG meeting ("...a formal disclosure process of information relating to asset replacement plans may be a useful way forward" WG Meeting No.2 notes 14th March refer). Such a process would help mitigate the potential use of the proposed section 2.17.8 for example.

We would therefore like to see a commitment to taking these issues forward as a priority, separately to this CAP.

If you have any queries in relation to any of the above, please do not hesitate to contact me.

Yours faithfully,

Steve Phillips

Senior Trading Consultant
Market Development
Power & Energy Trading

Enc. **"British Energy Proposed Text to Modify CUSC to Replace Annex 1"**

British Energy Proposed Text to Modify CUSC to Replace Annex 1

Part A - Text to give effect to the Proposed Amendment

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 following.

2.17 REPLACEMENT OF NGC ASSETS

2.17.1 **NGC** will provide information to each **User** on an ongoing basis or at the reasonable request of each User with regards to its long term intentions and any programme for the replacement of any **NGC Assets** at a **Connection Site**.

Text change to facilitate instigation of information by either party

2.17.2 Where in **NGC's** reasonable opinion an **NGC Asset** requires replacement before the expiry of its **Replacement Period**, **NGC** shall, with the prior written approval of the relevant **User** (except where in **NGC's** reasonable opinion such replacement is necessary in which case such approval shall not be required but in such case the **User** shall have the right to **Disconnect**) have the right to replace the **NGC Asset** and **NGC** shall be entitled to vary the **Connection Charges** in accordance with the **Statement of the Connection Charging Methodology**.

This section is drawn directly from the current 2.17.1 and addresses the 'early asset replacement' condition and Disconnect option which has not been explicitly carried forward into the proposed replacement section to ensure that the current User's right is retained. The text has not been modified and subject to NGC's review of the issue raised, may need revision

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**") in conjunction with Paragraph 2.17.1 such notice to be given (subject to Paragraph 2.17.8) as soon as practicable

**Intent behind this change is to ensure that any Replacement Notice (to be included in CUSC section 11 as a 'defined' term?) is only issued following appropriate dialogue and information provision. Note too, the comments in the main text with respect to defining transparent criteria for 'statutory and licence duties'

2.17.4 With 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.

2.17.5

**Proposed text implies that a Notice is issued and then at some time in the future a User will get justification for the Notice. Do not believe this is the intent. Given the increased information and dialogue under this proposal, any

Notice which NGC issues should: a) come as no surprise to the User and b) be accompanied with appropriate documentation?*

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**.

deletion of "of" as a typo. text error

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**.

Reference	CAP012-CR-07
Company	Innogy plc, npower Limited, Innogy Cogen Trading limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited

Procedure for Renewal of NGC (Connection) Assets Comments by Innogy plc on NGC's Consultation of 13 May 2002

This note has been prepared in response to NGC's consultation on behalf of Innogy plc, npower Limited, Innogy Cogen Trading Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited.

Generally we fully support the Amendment Proposal. We believe that it would better facilitate the CUSC objectives than the Alternative Amendment proposed by NGC. The following detailed points are made in response to specific issues raised by the Working Group discussion.

1. Economic Test to the User (paragraphs 4.5 - 4.7)

We would emphasize the importance of the criteria for the replacement of connection assets being based on the economics of their replacement and not just the statistical history of failure rates. The benefit for individual Users of replacing assets will be a function of both the probability of failure and the consequential cost of failure. The cost of failure could well be very different for different sites depending on the plant connected. For example the loss of output from a generating unit that was normally utilised for peaking duty will be much smaller than that for a base-loading generator of the same capacity. Only the User and not NGC can make an assessment of this cost. It is for this reason that the User must be a party to the decision making process as to when an asset should be replaced.

2. Incentives to replace assets (paragraph 4.8)

The point made in this paragraph really demonstrates why connection assets should not be included in the regulatory asset base. Although the point seems to be considered from the perspective that NGC would like to see an asset replaced but the User sees this as unnecessary, the alternative better illustrates the anomaly. It would be intolerable if the replacement of an asset that was requested by a User was frustrated because it was not within the capex plan NGC had agreed with Ofgem. Connections should be bilateral arrangements between Users and NGC and their cost recovery should fall outside the regulated asset base.

3. The use of an Independent Engineer (paragraph 4.12)

One of the main ideas behind CAP012 is that it should be possible to challenge the right to replace an asset before the charges for the replaced asset became an issue that could only be resolved by a referral to the Authority. The supporters of CAP012 have proposed that recourse should be made to an Independent Engineer to resolve any question concerning the need to replace. NGC say that this is a matter for the Authority. We would have no difficulty with Ofgem resolving the need issue before the charging issue but we wonder if Ofgem are either prepared or resourced for this prospect. There would seem to be merit in ensuring an Independent

Engineer considered the replacement need in the first instance. If National Grid and the User were still in dispute over the matter after the Independent Engineer's advice had been received then the matter could then be referred to the Authority for determination at that stage.

4. Costs of the process (paragraph 4.15)

National Grid has suggested that the use of an Independent Engineer would increase the costs of the process. Whilst this may be the case the ability to challenge National Grid's analysis by drawing on the services of an Independent Engineer might well reduce the overall costs of the system by ensuring that the most economic reconfiguration of a connection was considered at a time of asset replacement.

5. The Alternative Amendment

National Grid has suggested that its alternative amendment will better meet the CUSC objectives by utilising a more efficient process than the original amendment by not employing the services of an Independent Engineer. We do not believe that this would be the case. If the costs of the Independent Engineer were borne by the connected parties, either through the capital charges for the relevant assets or through the site specific operating charge, then there would be a natural discipline to make use of his services only on occasions when there was economic benefit. In this context it is worth noting that if disputes over asset replacement were referred to the Authority in the first instance, and the Authority then called upon the services of an Independent Engineer, then the cost would fall on all Licence holders and not just the affected Users.

Reference	CAP012-CR-08
Company	British Gas Trading Limited

word/cusc



energy management group

National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

Charter Court
50 Windsor Road
Slough
Berkshire
SL1 2HA

Tel. (01753) 758051
Fax (01753) 758170
Our Ref. Cap012
Your Ref.
14th June 2002

For the Attention of Ms E Groves
- Commercial Development

Dear David,

Re: CUSC Amendment CAP012 –Procedure for Renewal of NGC (Connection) Assets - Consultation Document

Thank you for the opportunity to comment on the Consultation Document in respect of the above Amendment Proposal.

British Gas Trading (BGT) recognise the concerns with the current arrangements in respect of the replacement of Assets by NGC. We welcome the acceptance by NGC of the need to formalise arrangements for the provision of data relating to the economic and engineering needs for replacement. However, we are unsure whether either the Proposal or Alternative address the issue surrounding the need for an independent engineer or the basis of charging.

BGT agrees that there needs to be a place for an independent assessment of NGC's requirements for replacement, but that this should be put into the context of the current Licence regime for resolving these issues. Therefore the issue of when and who appoints such a party needs to be considered. On the basis that NGC are unlikely to accept the view of a 3rd party engineer having stated that there is a need for replacement (para 4.11) it would seem likely that most disputes would end up with Ofgem. If the matter referred to Ofgem they will probably wish to appoint their own experts which means that any earlier independent report may have no value, but would have incurred a cost.

Lastly, we do not believe that the issue of the differential pricing has been adequately resolved. There are clear issues between the NGC position of always maintaining assets to the required standards and the connecting party trying to minimise costs, particularly where their use of the asset may be short

lived. We would therefore recommend that this issue be considered separately as part of a review of Transmission Charging.

Should you have any queries regarding this response, please do not hesitate to contact me.

Yours sincerely,

Simon Goldring
Transportation Manager

Reference	CAP012-CR-09
Company	TXU Europe Energy Trading Ltd – On behalf of the 21 TXU CUSC Parties

Emma Groves
National Grid Company plc
Kirby Corner Road
Coventry
CV4 8JY

TXU Europe Energy Trading Ltd
Wherstead Park
Wherstead
Ipswich
Suffolk
IP9 2AQ

14th June 2002

CAP012 Consultation Response

Dear Emma

We confirm that we agree with the unanimous views of the Working Group that either the original or the NGC alternative better achieve the relevant objectives in comparison with the current baseline.

The difference between NGC and other Working Group Members relates to the use of the Independent Engineer. NGC's view is that this is "not efficient" as it just puts another process in the loop. We accept this point, but we note that this would have a defined timescale whereas the determination by the Authority has no specified timescale and it is not entirely clear that the Authority must hear and determine on such disputes. Consequently on balance we agree with the majority of the Working Group that the original Amendment proposal does better facilitate the relevant objectives and should be made.

Yours sincerely

Philip Russell
Market Development Manager
For and on behalf of the 21 TXU CUSC Parties

Reference	CAP012-CR-10
Company	London Electricity Group plc

From: Cecil Dick [Dick.Cecil@le-group.co.uk]
Sent: 14 June 2002 17:11
To: Groves, Emma
Subject: Consultation Response -CAP012 CUSC

Consultation Response CAP012 CUSC

Procedure for Renewal of NGC (Connection) Assets

This response from London Electricity Group is on behalf of all the groups CUSC Parties.

We support the CAP012 (original form). We consider CAP012 meets better the CUSC Objectives.

We are supportive to the proposed amendment as it gives rise to a better commercial balance between NGC and the users on asset replacement issues. We acknowledge that it is important that NGC's responsibilities to ensure system integrity are not compromised, but this is dealt with by clause 2.17.8. We therefore support the amendment as set out in the paper. We also agree the proposed legal text is an improvement on that in the existing CUSC.

c) Regarding the proposed legal text -- 2.17.2 on page 10 and also on page 12, for the avoidance of doubt, we consider 'to each User' should be inserted before 'such notice' on line 3.

Why we prefer the Amendment to the Alternative

In respect of the question of the need to have an Independent Engineer, we agree with the proposer that NGC connection assets are for the predominate use of the connected parties. In this context, a connected party (in particular, the party allocated with over 50% of a piece of asset) should be allowed to satisfy himself for the need of any renewals because he will be paying. So an option to have an Independent Engineer should be available to such a party. We therefore prefer the original Amendment to the Alternative.

Additional note

The working group notes of 14th March refer to the suggestion made by Ofgem that "a formal disclosure process of information relating to asset replacement plans may be a useful way forward". We think that this suggestion should be taken forward separately from this Amendment and it would be helpful if NGC pick up the idea soon.

Dick Cecil
London Electricity Group

Reference	CAP012-CR-11
Company	Scottish Power Generation Limited

CUSC Amendment Consultation

To: Emma Groves
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY

14th June 2002

CAP012: Procedure for Renewal of NGC (Connection) Assets

Dear Emma,

Many thanks for the opportunity to consider the consultation document in respect of CUSC Amendment proposal CAP012. This response is provided on behalf of Scottish Power Generation Limited.

The Amendment Proposal is sensible in providing a transparent and equitable approach to the decision-making process behind asset replacement on the Transmission network.

The only significant difference between the Proposal and NGC's alternative view is that there is provision for an Independent Engineer to consider any technical issues in dispute in relation to the asset replacement decision. This cannot be considered unreasonable in the circumstances. It does not prevent the Authority from ultimately deciding upon the replacement where there is an impact on NGC's licence and statutory obligations. It cannot be regarded as a stalling tactic by Parties. It should, in fact, allow NGC and affected Parties to reach an agreement on the asset replacement without excessive recourse to the Authority as ultimate arbiter.

On this basis, we agree that the Proposal meets the Applicable CUSC Objectives of efficient discharge by NGC of its licence and statutory obligations and facilitating effective competition in generation and supply of electricity.

If you wish to discuss the content of this response, please do not hesitate to contact me.

Yours sincerely,

Abid Sheikh
Commercial Analyst (0141 568 3113)