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31st January 2019

Dear Joseph,

CMP288/289 Working Group Consultation Response

We welcome the opportunity to respond to the Working Group Consultation on CUSC Modification Proposal CMP288 'Explicit charging arrangements for customer delays and backfeeds' and CMP289 'Consequential change to support the introduction of explicit Charging arrangements for customer delays and backfeeds via CMP288'. This response is provided on behalf of National Grid Electricity Transmission Plc, Electricity Transmission Owner in England and Wales, proposer of CMP288 & 289.

In summary, we fully support the implementation of CMP288 & 289. As a Transmission Owner, we have first-hand experience of the defect CMP 288 & 289 seeks to address, having incurred inefficient costs as a result of customer requests for backfeeds and unforeseen delays. These modifications will ensure cost reflectivity, providing more appropriate information and cost signals to developers to keep TOs informed of their requirements. In turn, this will enable TOs to undertake transmission investment more efficiently, reducing costs to consumers.

The following summarises our views on a number of key areas of the Workgroup discussions. Responses to the specific consultation questions can be found in the Appendix to this letter.

Proposed charges

Where a developer requests a backfeed, it is vital that the requesting party is exposed to the costs associated with its provision. Failure to do so may result in developers opting for a backfeed in place of a cheaper alternative for obtaining site supplies to which they are exposed to the cost of. This would result in increased costs to consumers, in addition to TOs. CMP288 ensures that this cost is appropriately reflected in the charges.

For customer requested delays, transmission works to facilitate a customer connection requiring longer lead times than the customer's project is a primary factor. This means that TO investment can be required ahead of the customer being financially committed to their project. The introduction of the Capacity Market and Contracts for Difference through the Electricity Market Reform, increased the overall level of risk associated with delays, as customers link funding decisions to auction results. Whilst these mechanisms (the recent Capacity Market suspension aside) provide more certainty for projects they are successful in auctions, they have resulted in a number of unsuccessful projects serially delaying year on year following the outcome of each auction, leading to additional costs.

Engagement and information exchange

Primarily, it is the developer that will make the decision over the timing of its project's commissioning. However, to enable it make the most efficient decision all round, it is appropriate for the developer to be exposed to a cost signal reflecting any additional transmission costs associated with a change in timing for the works at their request. This would encourage developers to share more information about the likelihood of their project, that will in turn enable TOs to take more action to manage spend for higher risk projects. We note that the scope of this information flow or the form it will take has not yet been discussed in any detail by the CMP288/289 Workgroup, and this is something that we would welcome further discussion on.

We recognise that in order for the cost signal CMP288 seeks to introduce to work optimally, customers need to be aware of the potential costs they are due to face over time, and welcome the feedback that has been received from the workgroup on this matter. Whilst we agree with the principles of providing information of trigger points for large spend items, we are wary that the solution must be proportionate. Whilst the provision of cost information is vital in enabling the developer to determine the potential financial impact of a delay, the information provided on the timing of key spend items should be something that informs engagement required between developer, SO, and TO rather than replace it. There is a risk that if the level of data provided, if not set appropriately will require a disproportionate level of TO and SO resource to prepare and may confuse developers.

We would like to stress that we do not view the proposed modification as a substitute for well-timed conversations with connectees on their project delivery timelines. In fact, a TO being notified of customers' intentions to delay prior to inefficient TO costs are incurred, so the TO construction programme can be amended, avoiding the need for a charge is the optimal scenario. We believe the arrangements proposed should incentivise these conversations.

RIIO-T2

During our early engagement on CMP288 & 289 some parties were of the view that TOs should be expected to absorb the costs associated with delays. Since this, Ofgem have signalled their intention to offer network companies lower returns in RIIO-2 compared with today. This means a TO's ability to absorb such costs will be limited, unless an explicit funding mechanism is provided. Whilst we do not believe it is the best overall solution, we would encourage stakeholders who believe that such a mechanism should be developed to highlight this part of our RIIO-T2 stakeholder engagement.

Ofgem have also stated that they will seek to lower the proportion of the difference between allowances and expenditure to which network companies will be exposed in RIIO-2. The result of this will be that consumers will pick up a larger proportion of the delay financing cost.

TO initiated delays

We note the Workgroup discussions surrounding the potential for TO initiated delays for both Enabling Works and Wider Works (including those involving multiple TOs). Whilst both lie outside the scope of CMP288 & 289, it is worth acknowledging that both are possible and that arrangements exist to deal with the financial consequences of this.

Whilst there is potential for a TO to delay a customer's connection, the analysis presented to the Workgroup indicates that this is much less likely than a customer initiated delay. Under the existing liquidated damages arrangements, developers can benefit from payments, should the TO delay their project. Noting the Workgroup discussions around this arrangement, we would be open to these arrangements being reviewed, should stakeholders feel this is necessary. However, we do not feel that perceived deficiencies in these arrangements should prevent arrangements being introduced for customer initiated delays.

In relation to wider works, the funding for this (and it's timing), which are recovered through TNUoS charges, are determined through the RIIO price control. As this is the case, any changes to this funding will need to be undertaken as part of a change to the Transmission Licence. Ofgem have a mechanism to do this, and have indicated they are minded to use this for the Western HVDC, and will consult stakeholders' views before doing so.

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

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'W. Mullins', is written over a light blue rectangular background.

Wayne Mullins

Strategic Planning Manager

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Appendix: CUSC Workgroup Consultation Response Proforma

CMP288 'Explicit charging arrangements for customer delays and backfeeds'

and

CMP289 'Consequential change to support the introduction of explicit Charging arrangements for customer delays and backfeeds via CMP288'

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **31 January 2019** to cusc.team@nationalgrid.com Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Shazia Akhtar at Shazia.akhtar2@nationalgrid.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	Wayne Mullins, Strategic Planning Manager (wayne.mullins@nationalgrid.com)
Company Name:	National Grid Electricity Transmission plc
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	For reference, the Applicable CUSC Objectives for the Use of System Charging Methodology are: (a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity; (b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);

	<p>(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;</p> <p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission Plc Licence under Standard Condition C10, paragraph 1*; and</p> <p>(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.</p> <p>*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).</p> <p>The Applicable Standard CUSC objectives are:</p> <p>(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;</p> <p>(b) Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;</p> <p>(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and</p> <p>(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.</p> <p>*Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).</p>
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Standard Workgroup consultation questions

Q	Question	Response
1	<p>Do you believe that CMP288 and CMP289 Original proposals, better facilitates the Applicable CUSC Objectives?</p>	<p>Yes. Our view of the impact on each objective is summarised below:</p> <p>CMP288 (Charging Objectives):</p> <ul style="list-style-type: none"> a) Positive. The proposal removes additional financing costs related to individual customer delays and backfeeds, which removes a potential cross-subsidy between CUSC parties. b) Positive. The proposal ensures that the cost of delays and provision of backfeeds is reflected in charges made to the party causing the cost. c) Neutral. d) Neutral. e) Positive. Including explicit charging arrangements for one-off incremental costs improves transparency of the CUSC arrangements. <p>CMP289 (Standard Objectives):</p> <ul style="list-style-type: none"> a) Positive. This proposal facilitates a charging change that providing a cost reflective signal on parties connecting to the Transmission system, and provides transparency to enable Users to assist TOs in undertaking transmission works economically and efficiently. b) Positive. This proposal facilitates a charging change that ensures that the cost of delays and provision of backfeeds is reflected in charges made to the party causing the cost. c) Neutral d) Positive. Providing additional transparency of TO expenditure improves transparency of the CUSC arrangements.

Q	Question	Response
2	Do you support the proposed implementation approach?	<p>Yes, as some parties may require time to adapt processes to fulfil additional reporting requirements proposed under CMP289.</p> <p>The proposal seeks to introduce a consistent minimum standard for providing information on each project. It is our understanding that each TO already provides information on transmission investments made to facilitate customer projects via different methods. However, there are benefits to providing the information in a consistent manner, as it will make it easier for developers to understand potential delay charges using the delay & backfeed charge calculator provided by the SO.</p> <p>We are comfortable with the implementation timescales for the proposed charging mechanism. However, it is worth noting that it will still be possible for the existing charging framework to be used to recover TO costs associated with delays and backfeeds prior to implementation. Whilst this is the case, charges should only be made where sufficient transparency of likely project costs incurred prior to the delay and the charging methodology exists to enable the customer to understand the potential charging impact prior to them committing to a delay or backfeed.</p>
3	Do you have any other comments?	Please see our covering letter.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP288 and CMP289

Q	Question	Response
5	<p>Do you believe this consultation covers all the relevant interactions between other liability/charging mechanism currently in place in addition to cancelation and connection charge? If not, please can you provide further information.</p>	<p>We believe that all interactions are covered in the report.</p>
6	<p>Do you agree with the scope of the works which are proposed to be used to calculate the charge?</p>	<p>Yes.</p> <p>In order to facilitate a connection, certain works will need to be undertaken beforehand. The longer lead time for these works resulting from a request for a backfeed or delay results in additional costs. It is therefore appropriate that the charging methodology adequately targets the recovery of these costs through charges the requesting customer pays.</p> <p>The existing charging arrangements for Connection Assets and One-Off Works (relating to additional assets, design changes, etc.) already account for these costs through the application of interest during construction. It is therefore appropriate for the remainder of works required prior to connection (e.g. all Enabling Works covered by Appendix H1 of a Generation Construction Agreement) to fall within scope of the proposed charge. We recognise that it may be necessary for the Workgroup to further explore how these works are defined for each type of User as the CUSC definition of Enabling Works applies to Connect and Manage Works, which may not apply to some categories of User.</p>

Q	Question	Response
7	Do you agree with the proposed level of granularity, timing of the proposed information exchange and the period it covers?	<p>We believe that an information exchange between TOs and customers is vital to minimising costs to consumers and TOs through delay. The cost profile information should provide developers with an understanding of when TOs are expecting to make financial commitments, and details of large spend items should aid discussions around potential programme impacts with the TO and SO. However, it is important for the threshold defining a large spend item to be set at an appropriate level. Should the threshold be set too low, there is a risk that developers could be provided with too much data to interpret correctly, and could require a disproportionate level of resource to prepare.</p> <p>The information exchange coupled with the signal provided by the prospect of a financing related charge upon delay should both enable and incentivise customers to inform TOs of an intention to delay their project in a timely fashion.</p> <p>To date the workgroup discussions have been primarily focussed upon the information TOs should provide to developers. Whilst this is important, we recognise that there are benefits in TOs also understanding how customers are progressing with their projects. This would provide the TO with an early opportunity to explore options around its programme with customers to manage the risk of additional costs occurring in the future. We therefore believe that the quarterly information exchange should be two way, and the workgroup should seek to develop how the provision of updates from developers should work.</p>
8	Do you agree with the proposed quarterly reporting of/provision of milestones?	Yes, subject to the comments made in response to question 7.
9	Do you believe the report has captured all the cross code/licence issues relevant to these modifications?	Yes.

Q	Question	Response
10	Do you agree that the wording of the CUSC should be amended to clarify that one-off charges will be issued to recover additional incremental costs incurred to facilitate a User requested delay or backfeed? If so, do you think this should include a list of example such one off costs that can be incurred for delays and backfeeds?	<p>Given the frequency of customer requests to delay or for provision of a backfeed, we believe that minor amendments to the wording around One-Off charges should be made to clarify that these charges may apply should additional costs be incurred.</p> <p>However, as the nature of the works involved may vary on a case by case basis and will be discussed with customers in development of an offer (i.e. prior to signature), providing examples that may or may not apply in each case provides limited benefit, and may actually prove misleading. We therefore do not believe that examples should be provided.</p>
11	Do you support either of the solutions proposed for calculating financing charges in relation to shared and wider enabling works? Do you have another solution which may be better?	<p>Both options have their merits, and drawbacks. Whilst Option 1 provides full cost recovery, it may lead to all costs being charged to the final party that delays. Option 2 seeks to allocate a proportion of the costs to all parties that require the works to be undertaken, but may lead to under or over recovery. Given that shared works tend to be larger projects, we do not believe it is appropriate for under or over recovery of delay costs to occur in this manner, as these will fall on TOs or consumers depending on the underlying licencing arrangements. As neither of these have control over the delay of these works, we support Option 1.</p>
12	Do you agree with the proposed approach that the delay/backfeed charges should be paid as the costs are incurred? Or do you feel they should be paid in an alternative timeframe (e.g. the point of connection)?	<p>Yes. The application of charges during the period in which the associated costs they seek to recover are incurred will minimise the overall financing cost incurred and the associated charges.</p>
13	Do you agree with the one month deadline to notify the TO of an intention to delay, to allow the TO to reassess its investment strategy?	<p>We support the principle of a notification deadline to enable the TO to act. However, it should be noted that on occasion, the TO may no longer have an opportunity to reschedule its works. (e.g. an outage window available at the time of the original application that could have been used had the new connection date been known at the time may have been allocated to a different project by the time the delay occurs). In this scenario, the delaying party should still be exposed to the full cost of the delay.</p>

Q	Question	Response
14	Do you agree that individual TOs' regulated Weighted Average Cost of Capital (WACC) should be used as the financing rate to calculate the proposed financing charges?	Yes. As the regulated WACC is used to determine TO revenues, this is the rate at which its revenues will be impacted by delay or advancement of works as a result of a customer requests will impact TNUoS charges, and should therefore be used to recover the additional cost TOs and consumers would otherwise face.