CUSC Modification Proposal Form

CMP417: Extending principles of CUSC Section 15 to all Users

Overview: This modification looks to extend the principles of CUSC Section 15 "User Commitment Methodology" to Users on Final Sums methodology, resulting in all Users being on the User Commitment Methodology. This will introduce equitable treatment across User groups and reduce barriers to entry as a User's security amount will better reflect the transmission liabilities they impose should they cancel connection or reduce capacity.

Modification process & timetable

1. **Proposal Form**
   12 July 2023
2. **Workgroup Consultation**
   30 October 2023 – 20 November 2023
3. **Workgroup Report**
   18 January 2024
4. **Code Administrator Consultation**
   29 January 2024 – 19 February 2024
5. **Draft Final Modification Report**
   14 March 2024
6. **Final Modification Report**
   03 April 2024
7. **Implementation**
   From 10WD following Authority decision

Status summary: The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

This modification is expected to have a: High impact

ESO, Distribution Network Operators (DNOs), Transmission Owners (TOs), Users who remain on Final Sums methodology (Distributed connected Demand, Transmission connected Demand and DNOs where work is not triggered by an Embedded Generator (EG) e.g. asset replacement)

Proposer's recommendation of governance route	Standard Governance modification with assessment by a Workgroup

Who can I talk to about the change?	**Proposer:** Alison Price alison.price@nationalgrideso.com 07812787339	**Code Administrator Contact:** Lizzie Timmins Elizabeth.timmins@nationalgrideso.com 07840708429

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What is the issue?

Security and liability arrangements are provisions by which Users of the National Electricity Transmission System (NETS) must underwrite works which they trigger; Customers under existing User Commitment Arrangements, are required to financially secure their TO's spend in relation to their connection. The security requirement is the proportion of the total liability that must be secured by the customer. It represents a financial commitment for security which falls away and is replaced with Use of System charges once a User is connected to the transmission system.

In the event a User terminates a connection agreement prior to connection or reduces their capacity, they have a liability for charges to the ESO which filters through to the relevant TO.

There are two security methodologies currently in use to determine a User's financial liability and security amount which needs to be secured in relation to the provision of new, or amended capacity:

- CUSC Section 15 'User Commitment Methodology'
- Final Sums methodology - outlined in CUSC Schedule 2, Exhibit 3, Part 2

User Commitment Methodology was introduced via CMP192 and expanded under subsequent mods CMP222 and CMP223. The purpose of these modifications were to lower perceived barriers to new entrants, incentivise timely provision of information to the TOs to aid efficient decision-making, and improve the governance of the methodology by embedding it in the CUSC. It was perceived at the time the previous modifications were raised that the Final Sums methodology may have had a negative impact on competition. This was due to the significant difference in security requirements for Users once their Connection and Construction Agreements were signed.

Modifications CMP192, CMP222 and CMP223 did not include the Users who remain on Final Sums Methodology currently (Distributed Connected Demand, Transmission Connected Demand and DNO works not triggered by EG) as the general consensus of Workgroup Members at the time was that these Users only triggered the specific assets built to connect them to the NETS, and did not think it was possible for a single demand connection to have local or attributable works associated with them. However we are now seeing Demand connections driving Transmission Works beyond the Connection Site over recent months and years.

Under CUSC Section 15 User Commitment Methodology, the User is required to place security with the ESO to cover a proportion of its liability. Security is calculated at a reducing rate as the project nears commissioning and passes set milestones. Under Final Sums methodology, the User will secure all spend associated with the project as it progresses. Users have no reducing rate applied and are required to secure 100% of a TO's liability which can act as a barrier to entry for some Users.

Users covered under CUSC Section 15 User Commitment Methodology sit in the following categories:

- a Power Station directly connected to the NETS in respect of which there is a Bilateral Connection Agreement with The Company;
- an Embedded Power Station in respect of which there is a Bilateral Embedded Generation Agreement with The Company;

- a Distribution System directly connected to the NETS in respect of which there is a Construction Agreement associated with Distributed Generation;
- an Interconnector directly connected to the NETS in respect of which there is a Bilateral Connection Agreement with The Company

Any other User not described above, currently remains on the Final Sums methodology as defined in its Construction Agreement (CUSC Schedule 2, Exhibit 3, Part 2).

Why change?

Over recent months and years, some Demand connections have driven Transmission Works beyond the Connection Site, and as a result have triggered significant securities in their agreements. There are instances whereby Transmission Works are triggered by multiple Users across both security methodologies. This can result in both methodologies being applied to different Users across the same Transmission Works.

The two different approaches in methodology being applied has created a two tiered process; this modification aims to introduce equitable treatment to all Users connecting to the NETS.

For Users under CUSC Section 15 User Commitment Methodology any shared works has reducing factors applied, whereas all those users on Final Sums methodology secure 100% of the TO's spend regardless of the nature of the works with their agreements.

The principles of Final Sums methodology have acted as a barrier to entry and have rendered some projects untenable. The ESO has received multiple formal complaints from customers outlining the commercial impact to their businesses of the substantial security amounts they have received in their Construction Agreements.

This modification aims to improve the cost reflectivity that Users currently on Final Sums Methodology have on a TO's spend profile. This will help reduce uncertainty for developers whereby the security amount is reflective of the transmission liabilities they actually impose.

What is the proposer's solution?

To extend the principles of CUSC Section 15 "User Commitment Methodology" to Users on the Final Sums methodology.

Applying Section 15 to other User groups has been a stepped process (CMP192 implemented in 2012 and CMP222 and CMP223 in 2015).

We are now proposing to extend CUSC Section 15 to Users on Final Sums methodology:

- Distributed connected Demand;
- Transmission connected Demand;
- DNOs where work is triggered not by an Embedded Generator e.g. asset replacement works

Within CUSC Section 15, cancellation charges are payable by Users on terminations of agreements or reductions in a capacity product. Section 15 references the following with regards to its existing User groups:

CUSC Section 15 Part One Clause 2 states that for Section 15 Users:

> *"The Cancellation Charge is payable by Users on termination of agreements with and reductions in **Transmission Entry Capacity** or **Developer Capacity** or **Interconnector User Commitment Capacity** in respect of Users in the categories of*
>
> *(a) a **Power Station** directly connected to the **National Electricity Transmission System** in respect of which there is a **Bilateral Connection Agreement** with **The Company;***
>
> *(b) an **Embedded Power Station** in respect of which there is a **Bilateral Embedded Generation Agreement** with **The Company**;*
>
> *(c) a **Distribution System** directly connected to the **National Electricity Transmission System** in respect of which there is a **Construction Agreement** associated with **Distributed Generation***
>
> *(d) an **Interconnector** directly connected to the **National Electricity Transmission System** in respect of which there is a **Bilateral Connection Agreement** with **The Company** and reference to **User** in this Section 15 shall be interpreted accordingly."*

Therefore within the workgroup, consideration needs to be given as to how we refer to the cancellation charges for the new Users within CUSC Section 15. Any implementation of a solution will require a transitional period. This will allow for the facilitation change in contractual positions, in particular the construction agreement.

Implementation will be in two stages:

- Any clock started Users 10 working days from the Authority decision will be under CUSC section 15 User Commitment Methodology.
- Existing Users under Final Sums methodology will require a transitional period post the decision from the Authority.

Potential CUSC changes required for this modification:

- CUSC Section 6 "General Provision"
- CUSC Section 11 "Interpretation and Definitions"
- CUSC Section 15 "User Commitment Methodology", including the creation of a capacity figure for Demand
- CUSC Schedule 2, Exhibit 3, Part 2 - this is the Final Sums Construction Agreement
- Appendix MM to the Construction Agreement – "Security Arrangements"
- User Commitment exhibits MM1-3

Draft legal text

Legal text will be drafted by the proposer and reviewed by the Workgroup.

What is the impact of this change?

Proposer's assessment against CUSC Non-Charging Objectives	
Relevant Objective	**Identified impact**
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	**Neutral**
(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;	**Positive** Extending Section 15 to all Users removes the two-tier process between the existing security methodologies and ensures that Users have clarity over their financial securities and liabilities. This will ensure that User Commitment arrangements do not unduly restrict new developments and facilitate competition.
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	**Neutral**
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	**Positive** Having a User Commitment Methodology which applies to all Users will help with the administration of CUSC arrangements.
*The Electricity Regulation referred to in objective (c) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.	

Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories	
Stakeholder / consumer benefit categories	**Identified impact**
Improved safety and reliability of the system	**Positive** Reducing security provisions for Users who are currently on Final Sums methodology may help ensure more renewable energy is connected to the network by making connections more accessible. This will likely improve security of supply by providing more options to help balance the system.
Lower bills than would otherwise be the case	**Neutral**
Benefits for society as a whole	**Positive** Supports the electrification of GB which will have a positive impact on local infrastructure.
Reduced environmental damage	**Positive** Reducing security provisions for Users who are currently on Final Sums methodology may help ensure more renewable energy is connected to the network by making renewable connections more accessible.
Improved quality of service	**Positive** Linked to the point above, connecting more renewable energy will help the UK work towards their net zero target. More widely, there is industry drive to incentivise more demand into the market to support UK PLC economic growth, development of cloud capability to meet market needs and support new housing developments particularly in London regions and surrounding suburban areas. The incentivisation of demand supports UK progress to net zero.

When will this change take place?

Implementation date
From 10 working days following the Authority decision, as follows:

- Any clock started Users 10 working days from the Authority decision will begin their contracts under the User Commitment Methodology.
- 01 July 2025 for existing Users on Final Sums Methodology.

Date decision required by
Approval required by June 2024

Implementation approach

For existing Users under Final Sums methodology, a transitional period will be required to move them to the User Commitment methodology. This will be required to allow changes to be implemented in-line with the biannual security process. The implementation date for these customers as of 01 July 2025 is proposed as it allows Users to know the methodology and requirements to be built into their business plan for investment decisions and to align with the July 2025 security process.

A transitional period will be required following approval of this modification to allow for:

- facilitative changes in contractual positions, in particular the construction agreement;
- changes to Internal Connections processes including the Connections internal securities database.

10 working days from the Authority decision, any clock started Users will be under the User Commitment Methodology

Proposer's justification for governance route
Governance route: Standard Governance modification with assessment by a Workgroup. We may require further input from industry to help develop the solution.

Interactions

☐Grid Code	☐BSC	☒STC	☐SQSS
☐European Network Codes	☐ EBR Article 18 T&Cs[1]	☐Other modifications	☐Other

If the solution moves existing Users away from the old securities system via the Final Sums Methodology, changes to the STC and STCP may be required as a result of the removal of the Final Sums Methodology. These would be consequential modifications, bearing in mind that Users will remain on Final Sums methodology in their agreements during the transition period.

[1] If your modification amends any of the clauses mapped out in Exhibit Y to the CUSC, it will change the Terms & Conditions relating to Balancing Service Providers. The modification will need to follow the process set out in Article 18 of the Electricity Balancing Guideline (EBR – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
DNO	Distribution Network Operator
EBR	Electricity Balancing Regulation
EG	Embedded Generator
ESO	National Grid Electricity System Operator Limited
LARF	Local Asset Reuse Factor
NETS	National Electricity Transmission System
SIF	Strategic Investment Factor
STC	System Operator Transmission Owner Code
STCP	System Operator Transmission Owner Code Procedure
SQSS	Security and Quality of Supply Standards
T&Cs	Terms and Conditions
The Company	National Grid Electricity System Operator Limited
TO	Transmission Owner

Reference material

- Section 15 User Commitment Methodology
- Modifications which have moved Users to Section 15 of the CUSC:
  - CMP192 Arrangements for Enduring Generation User Commitment
  - CMP222 User Commitment for Non Generation Users
  - CMP223 Arrangements for Relevant Distributed Generators under the Enduring Generation User Commitment