National Grid House
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All Industry Parties

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Dear Colleagues,

User Commitment for Generator Focused Anticipatory Investment (GFAI)

This letter sets out National Grid's views on the development of user commitment arrangements for offshore projects classed as GFAI. We are seeking industry views on the overarching principles that should be adhered to and the characteristics of possible solutions, prior to raising a CUSC modification proposal.

Background

Enduring user commitment arrangements for generation users were introduced as Section 15 of the CUSC[1] and went live from April 2013[2]. The arrangements were proposed by National Grid Electricity Transmission (NGET) through CMP192, with the intention of reducing the barriers to new entrants, ensuring fair treatment pre- and post-commissioning, and creating an incentive for users to provide timely information on their intentions. For offshore assets that are being progressed under developer-build arrangements, there is no requirement in CUSC Section 15 for user commitment as the developer would effectively be indemnifying itself. Historically these have been small radial connections for single stage projects.

In July 2013, Ofgem published an update to the consultation on a proposed framework to enable coordination of offshore transmission infrastructure[3]. This update identified two categories of offshore transmission investment that went beyond the minimum required for individual generator connection: Generator Focused Anticipatory Investment (GFAI) and Wider Network Benefit Investment (WNBI). GFAI is investment in offshore transmission infrastructure which is led by a developer to support the later connection of specific offshore developments (either its own or those of another developer). WNBI is investment that provides a benefit to multiple parties, both onshore and offshore and including generation and demand.

[1] User commitment arrangements are set out in Section 15:
http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/Connection-and-Use-of-System-Code/
[2] National Grid has published a guidance note to explain the user commitment arrangements in plain English on its website under "Useful Documents":
http://www2.nationalgrid.com/uk/services/electricity-connections/policies-and-guidance/
[3] The update to Ofgem's consultation can be found here:
https://www.ofgem.gov.uk/ofgem-publications/75429/statement-proposed-framework-enable-coordination-update-our-december-consultation.pdf

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WNBI projects have the option to proceed through a voluntary gateway assessment process, where Ofgem will assess the rationale for undertaking the additional investment. This provides confidence to the developer that the investment is appropriate, and that the risk of stranding will be covered by consumers subject to the normal economic and efficient tests. We therefore consider that the existing processes are sufficient to manage the stranding risk of WNBI projects, and therefore there is no need to develop user commitment arrangements for them.

For GFAI projects, there is no voluntary gateway process to assess the needs case for the project up front. Ofgem consider that the most appropriate way of ensuring GFAI developers have a route for cost recovery, whilst ensuring consumers are protected from undue stranding risk, is to extend and develop the existing framework for user commitment. We are therefore seeking views from the industry on the best way of developing user commitment arrangements for GFAI projects.

GFAI User Commitment

Whilst there have been no GFAI projects to date, it is assumed that where GFAI has been identified for later projects or stages, the developer would request that the GFAI be included in the transfer value of the assets. This value would form the basis for the OFTO tender revenue stream that is recovered through TNUoS tariffs. Should the GFAI turn out to not be required due to later stages or projects changing or terminating prior to commissioning, the cost of it would still have to be recovered in order to fund the OFTO tender revenue stream. This means that the cost of GFAI would effectively be underwritten by consumers rather than the developer who is driving the need for it.

As there are specific and identifiable parties who benefit from GFAI assets, we believe that it would be appropriate for these parties to underwrite the cost as they will be best placed to manage the stranding risk. We therefore consider that the existing arrangements for user commitment in CUSC 15 should be further developed to account for these situations, and we agree with Ofgem's view that GFAI risk should not be shared with consumers to any greater extent than would be allowed onshore under CUSC Section 15.

We note, however, that one of the drivers for introducing developer-build and GFAI was to allow a more commercial approach to undertaking offshore transmission infrastructure. In introducing user commitment for GFAI, we do not want to overly complicate the relationship between GFAI parties and create a barrier to the advancement of these projects. We have therefore identified a number of principles which we believe any future arrangements should be based on.

1. The cost risk of GFAI sits with the parties who are best placed to manage it
2. Consumers should be protected from the risk of GFAI to the same extent that they would be for onshore investment that is driven by a generator
3. Where the GFAI is for a separate developer, the initiating developer should be no worse off for undertaking GFAI than if they were limiting works to their own requirements
4. Information flows in an effective manner

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We welcome views on these, and any additional principles that industry parties feel should be included.

Straw-man Options

Using the principles identified above, we have compiled a number of possible concepts into straw-man options which address the specific issues we have identified. Some of the concepts outlined below would require changes to the NGET and OFTO licences as well as the CUSC. There are two scenarios for consideration: a developer building assets for a staged project where the later stage does not materialise, and a developer building assets for a second developer where one or the other terminates their connection agreement prior to commissioning. It should be noted that there may be situations where projects are partially GFAI and partially WNBI, in these cases it is assumed that the WNBI part of the works would be assessed through the gateway process.

Sharing of a GFAI Liability

As more than one stage/project would be driving the requirement for GFAI, any user commitment liability would have to be shared equitably between the two. As it is likely that at least some of the assets will be built before one stage/project is commissioned, it is assumed that any liability is based on the accumulated spend, i.e. a "Fixed" option would not be available. This could be addressed by:

1. The NETSO determining the appropriate share of liability, in conjunction with the developer, based on its assessment of what would have been required to connect only the initial stage/project.
2. The share of the liability for all GFAI assets is apportioned by the relative MW size of each stage/project to each other.
3. Two developers agree the share of responsibility bilaterally, and communicate this to the NETSO as appropriate.

Pre-Asset Transfer

A single developer would have no liability to another party for the assets it was building for itself, as it would hold the risk as well. However for two developers, one would be acting as a TO in constructing transmission assets to connect the other. As developers have different rights and obligations to TOs, each developer will require some certainty that the other party is going to fulfil its commitments. For the initiating developer, this means that they would require certainty that the second developer will turn up, and for the second developer they would require certainty that the first developer will connect them appropriately. This could be addressed by:

4. A bilateral contract in place between the GFAI developer and the secondary developer to share the costs of constructing the GFAI project. The contract template could be set out as a Schedule to the CUSC, and include suitable penalty clauses for pulling out.

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5. Both developers have a liability to the NETSO for their share of the cost of GFAI, as set out in CUSC Section 15. The developers would secure their liability through the existing CUSC arrangements with the same terms and conditions as onshore generators. The option of Fixed Attributable would not be offered due to the visibility of the ongoing/completed investment spend to the securing party.

Post-Asset Transfer

Once the developer has transferred assets to an OFTO (which is assumed to be at commissioning of the first stage/project), until the subsequent stage/project commissions consumers would be at risk of the assets becoming stranded. This could be addressed by:

6. Until it commissions, the remaining developer has a liability to the NETSO for a share of the cost of the GFAI. This would be set out in CUSC Section 15, and would be in addition to the existing pre-commissioning attributable and wider liabilities. The developer would secure their liability through the existing CUSC arrangements with the same terms and conditions as onshore generators. This could apply to single or two developer projects.
7. Until it commissions, the remaining developer has a liability to the OFTO for a share of the cost of the GFAI. The OFTO's revenue stream is also reduced by the same proportion until the remaining developer commissions. This could apply to single or two developer projects.
8. Any commissioned stage/project would have a TNUoS tariff that included a new OFTO Residual Tariff. This tariff would be for its share of the GFAI, and would be set to zero unless the subsequent stage/project either cancelled or failed to commission by the backstop date in their construction agreement. In the event that the generator closed prior to the end of the OFTO's revenue recovery period, the remainder would be added to any post-commissioning liability that the generator may incur. This could only apply to single developer projects.

Treatment of User Commitment Receipts Received

In the event that part or all of the GFAI is not required and an amount of money is recovered from one or more developers through whatever user commitment arrangements apply, how that money is treated would need to be addressed. This could be through:

9. Passing the termination receipts to the OFTO and reducing their allowed annual revenue stream to account for it. This would require a change to the OFTO licence.
10. The termination receipts would be held by the NETSO and used to fund part of the OFTO's annual revenue requirement, instead of recovering it through TNUoS charges.
11. The termination receipts would be returned to TNUoS payers through a one-off reduction to the residual tariff.

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It should be noted that none of these represent our preferred approach, but are intended to stimulate debate and indicate the approximate bounds for a future solution. We would appreciate your views on the principles for user commitment for GFAI projects, and the straw-man options that we have put together. Views are also invited on whether two developers are more likely to undertake GFAI through joint venture (JV) vehicles, and if so how user commitment liabilities should apply to these.

Our intention is to raise a CUSC modification proposal later in the year, so we would appreciate responses being sent by **25th July 2014**. Please respond to Wayne Mullins (wayne.mullins@nationalgrid.com 01926 653 999) if you have any views, comments or questions.

I look forward to hearing from you.

Yours sincerely,

Patrick Hynes

Electricity Charging & Capacity Development Manager