

All Industry Parties

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Dear Colleagues,

User Commitment for Generator Focused Anticipatory Investment (GFAI)

1. In June 2014 National Grid published an Open Letter seeking views on the development of user commitment arrangements for offshore transmission investment classified as GFAI. This letter sets out National Grid's thinking on the development of user commitment arrangements for GFAI, and our proposed next steps.

Background

2. Enduring user commitment arrangements for generation users were introduced as Section 15 of the CUSC¹ and went live from April 2013². 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.
3. In July 2013, Ofgem published an update to the consultation on a proposed framework to enable coordination of offshore transmission infrastructure³. 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 to support the later connection of specific offshore developments. WNBI is investment that provides a benefit to multiple parties, both onshore and offshore and

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>

including generation and demand (i.e. runs parallel to the onshore network, providing additional boundary capability).

4. Developer led WNBI projects will have access to a gateway assessment process, where the rationale for undertaking the additional investment will be assessed by the SO and approved by Ofgem. 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 consider that the existing processes are sufficient to manage the stranding risk of developer led WNBI projects and there does not appear to be a need to develop user commitment arrangements within the CUSC to account for these.
5. For GFAL projects, there is no voluntary gateway process to assess the needs case for the project up front. Ofgem consider that the owners of the generation projects for which Generator Focused Anticipatory Investment (GFAL) is undertaken are best placed to manage the associated stranding risk. In their July 2013 update, their view was that the most appropriate way of ensuring GFAL 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.
6. Our open letter published in June 2014 sought views from the industry on the best way of developing user commitment arrangements for GFAL projects. We received five responses to this open letter, four of which represented the views of OFTOs, with one response from a developer. Copies of these responses can be found on our website⁴.
7. Given the low level of response received from developers and the complexity of some of the issues raised, we sought additional views via the Transmission Charging Methodologies Forum (TCMF) and other meetings (including bilateral discussions). National Grid has taken these views into consideration when developing our proposed approach. A summary of the views we have received to date can be found in Annex 3.

National Grid's View

8. In considering the appropriate user commitment solution for GFAL, we have considered the risks associated with four potential GFAL scenarios (discussed in Annex 1). Whilst we believe that in the long term, the stranding risk of GFAL assets is best managed through the extension of the existing user commitment arrangements there are a number of complex issues to overcome in relation to some of these scenarios that also need to be considered.
9. In respect of GFAL made by a developer to facilitate its own projects there is no need for user commitment until the ownership of the GFAL assets has transferred to an OFTO. Once the transfer has taken place, user commitment is needed to protect consumers from the cost of underutilised investment as a result of any generation still to commission not doing so. Whilst the existing arrangements can be applied to this scenario, there will be additional risk posed when a developer opts for a fixed attributable cancellation charge prior to asset

⁴ User Commitment for Generator Focused Anticipatory Investment Open Letter & Responses:
<http://www2.nationalgrid.com/UK/Industry-information/System-charges/Electricity-transmission/Transmission-Network-Use-of-System-Charges/Tools-and-Data/>

transfer, due to the variable nature of the timing of the asset transfer (the actual transfer occurring later/earlier than assumed when the liability is fixed would lead to over securitisation/additional risk borne by consumers for a short period of time). This issue could be resolved by modifying the CUSC to restrict the fixing of the portion of a developer's attributable cancellation charge liability relating to the GFAL until after the actual asset transfer date is confirmed.

10. Where GFAL is subject to developer build and consists of transmission assets that will be shared by multiple developers' projects, the existing arrangements can be applied to calculate adequate cancellation charges to cover the risk of GFAL stranding. However, both the CUSC and NGET's Transmission Licence would need to be modified to provide a route for developers to recover the cost of stranded transmission investment (similar to that the TOs have through the Transmission Licence and the SO-TO Code).
11. There are two further issues associated with the GFAL scenario in which a developer builds shared transmission assets:
 - i) Third party developers reliant on the GFAL are exposed to the risk of delay or incurring additional cost if the developer building the GFAL cancels their own project and the GFAL works; and
 - ii) Stakeholders have indicated that developers will be reluctant to fund the construction of transmission capacity in excess of their own project's needs.

To attempt to overcome issue (i), arrangements could be introduced in a manner that makes the developer constructing the GFAL liable to reimburse costs third party developers incur as a result of the GFAL being cancelled. However, we believe that introducing the risk of this additional liability to developers building the GFAL would provide a disincentive to opt for a coordinated developer build solution. For this reason we do not believe that such a change is appropriate. However, it is also our view that issue (ii) presents more risk to the likelihood of such GFAL solutions. This is something that cannot be resolved through user commitment alone.

12. Where GFAL is subject to OFTO build, we consider the user commitment arrangements within the CUSC, National Grid Transmission Licence and SO-TO Code to be appropriate with no need for any framework or licence changes. To date, no developer has opted for an OFTO build of transmission works associated with its project(s). However, given the risks highlighted above and Ofgem's recent work to provide more flexibility in the OFTO build process, we consider this to be the most likely option for GFAL facilitating multiple developers' projects.
13. Our thinking on the issues relating to each scenario is discussed in further detail in Annex 4. Whilst we have highlighted a number of potential framework and licence changes that could be brought forward, these relate to either a scenario that we understand to be unlikely or seek to resolve an issue that will apply for a limited period of time. Given the emerging nature of GFAL, the CUSC modification process for these could be complex, involve considerable industry resource, and may not result in a solution that covers all eventualities. On this basis we do not feel that it is appropriate for changes to be brought forward at this time.

14. Should a GFAL scenario arise prior to such changes being implemented, we would look to apply the principles of the existing arrangements bilaterally. Given the potential bespoke nature of GFAL transmission solutions, it may be more efficient to cover the specific needs on a project by project basis.

Next Steps

15. We would welcome further views from stakeholders on our proposed approach, particularly in relation to the appropriate timing for each of the potential changes identified. If you would like to discuss any of the matters discussed by this letter, please contact Wayne Mullins (wayne.mullins@nationalgrid.com, 01926 653 999) who will be happy to discuss these.

Yours sincerely,

Patrick Hynes

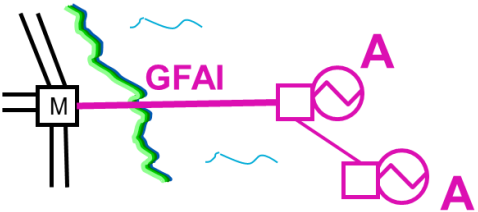
Electricity Charging & Capacity Development Manager

Annex 1: GFAI Scenarios

1. National Grid has identified four possible build scenarios for GFAI:
 - a. Developer build GFAI facilitating a single developer’s project(s);
 - b. Developer build GFAI facilitating multiple developers’ project(s);
 - c. OFTO build GFAI facilitating a single developer’s project(s); and
 - d. OFTO build GFAI facilitating multiple developers’ project(s).

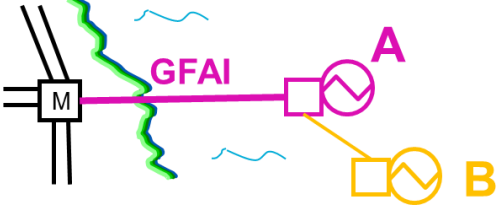
The following sections summarise the risk of stranded investment in relation to these.

a. Developer build GFAI facilitating a single developer’s project(s)

2. Under this scenario, the GFAI assets are built by a developer to facilitate multiple stages of the same project (as built by developer A in the adjacent diagram). In this case, the risk of stranded transmission investment is internalised, with the same developer building both transmission and generation assets. As a result, no user commitment arrangements are required for the GFAI prior to the assets transferring to an OFTO.
 

3. However, if the GFAI assets are transferred to an OFTO prior to the commissioning of all of the associated generation then there is a risk of some of the remaining generation not connecting leading to stranded transmission investment.

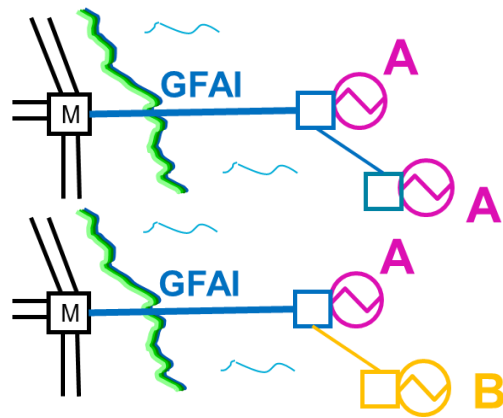
b. Developer build GFAI facilitating multiple developer’s project(s)

4. Under this scenario there are two or more developers (e.g. A & B in the adjacent diagram) being facilitated by GFAI assets built by one of the developers (in this case, A). This scenario presents the most challenging scenario to apply the existing user commitment arrangements to.
 

5. There are two areas where stranding of transmission assets could occur under this scenario:
 - i) a developer (A) building GFAI assets faces the risk of stranded investment as a result of other developers (B), whose projects the GFAI is facilitating, reducing their capacity requirement; and
 - ii) developers whose projects rely on the delivery of GFAI assets (B) by a developer face a risk of additional cost and/or to the delivery of their project should the developer building the GFAI assets (A) not deliver these.

c & d. OFTO build GFAI

6. In the event that an OFTO builds GFAI assets (blue in the adjacent diagrams), the need for user commitment is equivalent to that for TO build onshore in both a single developer (as depicted in the top diagram) and a multiple developer (bottom diagram) scenario. In these scenarios there is a risk of stranded transmission investment should any associated generation reduce its capacity requirements (which the existing user commitment arrangements would cover).



Annex 2: Strawman Options presented in our original open letter

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.
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 a fixed attributable liability 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 GFAL. 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 GFAL, 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 GFAL 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.

Annex 3: Stakeholder Views

1. In our June 2014 open letter, we identified a number of principles on which we proposed any user commitment solution should be based:
 - i) The cost risk of GFAI sits with the parties who are best placed to manage it;
 - ii) 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;
 - iii) 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; and
 - iv) Information flows in an effective manner.
2. Using these principles, we developed the strawman options found in Annex 2 to address specific issues that we had identified with developer build GFAI. Respondents were asked to provide their views on the possible solutions with a view to these being taken into account in the formation of a related CUSC modification.
3. National Grid has taken the views obtained during this process into consideration when developing our proposed approach. The following is a summary of the views received.

Scenario Likelihood

4. In our discussions with stakeholders, we sought views on the likelihood of GFAI in each of the four possible GFAI scenarios. Overall, it was felt that GFAI under a developer build scenario would be more likely for projects being developed by a single party. Strong concerns were raised over the balance of risk posed by a scenario in which GFAI is subject to developer build for multiple developers' projects. In addition to the two risks already highlighted in paragraph 5 of Annex 1, the need to finance the GFAI assets until they are transferred to an OFTO was highlighted as a key issue. Developers felt that the prospect of funding additional transmission works to facilitate a competitor's project was an unattractive one. It was highlighted that in addition to the increased risk faced through a coordinated approach (that could be mitigated through adequate user commitment arrangements) developers would often see more merit in an uncoordinated approach that would tie up less capital that they could rather invest elsewhere for a greater return. Whilst we feel that it is important to highlight this concern, it is something that cannot be resolved through adjustment of the user commitment arrangements.
5. In relation to an OFTO build scenario, some developers highlighted that traditionally they have opted for a developer build option as this allows them to control the design and delivery of the transmission assets effectively. Ofgem's recent work to provide more flexibility in the OFTO build process was welcomed and was highlighted as something that could make OFTO build a realistic option. Under this option, there is no concern for developers associated with upfront financing the construction of GFAI for multiple developers' projects as this will be managed by the OFTO.

Sharing of GFAI Liability

6. As part of our open letter, we requested views on how the liability associated with the GFAI assets should be apportioned.

7. One respondent believed that there was a case for consumers sharing some of the risk associated with the assets. This is a view that was also shared as part of our subsequent industry engagement.
8. That respondent then went on to highlight that any risk not covered by consumers should be shared between the developers based upon their needs. For example, if two developers see an equal benefit from an asset then they should both be liable for an equal proportion. It was highlighted that the simplest way of doing this was to base the liability upon the level of capacity required by each developer. This would be consistent with the treatment relating to onshore attributable works. This view was echoed in our subsequent discussions with stakeholders and is something that is consistent with the treatment of liabilities for attributable works under the existing user commitment arrangements within the CUSC.
9. We have received a number of comments surrounding interactions with the process for the award of Contracts for Difference (CfDs) under the Electricity Market Reforms. Under these arrangements generation projects would need to be at a relatively advanced stage of development before they are eligible to bid for a CfD. Developers are concerned that significant user commitment could be required in advance of a CfD being awarded and projects not being viable as a result.

Pre-Asset Transfer Arrangements for Developer Build GFAI

10. We also sought views on how the user commitment arrangements for GFAI should work under a developer build arrangement prior to the assets being transferred to an OFTO. We presented two options: one in which the NETSO determines each party's liability and administers the user commitment arrangements in the same way as does with works carried out by a TO; and one in which developers share the risk associated with the GFAI project via a bilateral contract (possibly based on a template in the CUSC).
11. One respondent to our open letter commented on this area. They believed that a bilateral contract was probably the simplest solution, highlighting a need for this to be based on a CUSC template and that a fully commercial agreement without guidance or rules would not be appropriate.
12. In our subsequent discussions, most stakeholders highlighted a preference for the NETSO administered approach. Their view was that this provides a consistent approach with existing user commitment arrangements and avoids any potential inconsistency of application, leading to potential competition issues.
13. The majority of stakeholders seem to agree that the investment stranding risk faced by developers building GFAI and potential ways in which the existing user commitment arrangements could be extended to cover this could be clearly identified. However, the level of assurance that developers building GFAI assets should provide to those whose projects these works facilitate was viewed as less clear. A requirement for the GFAI building developer to provide security to other developers was considered as a potential blocker to their build of GFAI, whereas the provision of no assurance would discourage other developers from coordinating.

Post-Asset Transfer Arrangements for Developer Build GFAI

14. In our open letter we sought views on how the risk of stranded transmission investment for GFAI should be handled following the transfer of assets to an OFTO. Such a risk occurs from the point of asset transfer until all the generation the GFAI facilitates has commissioned and begins paying TNUoS.
15. We received a number of comments in response to our open letter in this area. The respondents' preferred approach was to apply the existing arrangements under the CUSC to GFAI post-asset transfer, which would result in treatment consistent with that which manages the risk associated with stranding of onshore transmission investment.
16. Some respondents raised concerns that the option that made developers whose projects had not yet commissioned directly liable to OFTOs for any stranded GFAI would result in an increased cost of capital to OFTOs. These respondents highlighted that this could ultimately lead to increased costs to consumers. Another respondent questioned the rationale behind the option that made commissioned developers liable for the share of GFAI made for cancelled projects.

OFTO build Arrangements

17. As part of our post-open letter engagement, we asked stakeholders their views on how the user commitment arrangements should work in relation to GFAI that is subject to OFTO build. Generally, there was support provided for applying the existing user commitment arrangements. Under these, the GFAI related cancellation liability would form part of the attributable works cancellation charge and OFTOs would be able to recover the cost of any stranded assets via the TO final sums provisions within the SO-TO Code. This assumes that the OFTO licence will have similar terms to those in the onshore TOs' licences which allow them to recover stranded investment costs.

Treatment of User Commitment Receipts

18. Finally, we sought views on how any cancellation charge income relating to GFAI received by the NETSO should be treated, which could have an impact on overall TNUoS and OFTO revenues.
19. In response to our open letter, a number of respondents raised concerns over the potential options that resulted in any amounts being immediately returned to the OFTO, with a corresponding reduction in future OFTO revenues. It was highlighted that this would require OFTOs to include early repayment terms in its financing arrangements which could affect the relating cost of capital and investor appetite, ultimately increasing costs to consumers. These respondents believed that the NETSO should manage any receipts, feeding them back into TNUoS.
20. In our subsequent engagement, we asked stakeholders for views on the treatment of any difference between the cancellation charge liability for the GFAI and any Final Sums amount charged to the NETSO by the OFTO. Such a difference could arise if the reduction in a project's transmission capacity requirements occurs at a stage where it is not efficient to reduce the level of capacity of the GFAI assets.

21. Under this scenario, the OFTO may be allowed to recover the value of the GFAl from the NETSO over the life of the asset through its tender revenue stream, but the cost of the stranded investment would be recovered by the NETSO in a lump sum via the cancellation charge. Under the existing arrangements applied onshore, the lump sum received by the NETSO would be passed into TNUoS through a one off reduction, with a slight increase in future charges as the TO collects its annual revenue.
22. A number of stakeholders raised concerns that offsetting the entire cancellation charge from TNUoS in a single lump sum under an offshore scenario could adversely affect TNUoS tariff stability. Concerns were also raised concerning the cost-reflectivity of charges as those benefitting from the initial TNUoS reduction could be different parties to those funding the corresponding OFTO revenue amounts.

Annex 4: National Grid's View

1. In this section we highlight a number of potential CUSC and Licence modifications that would be required to ensure that adequate user commitment arrangements are in place for GFAI. Our view is that any enduring user commitment solution for GFAI should be consistent with those applied for attributable works onshore with each developer being liable for its share of stranded GFAI should it reduce its capacity requirements prior to its project commissioning.
2. The potential framework and licence changes identified either relate to a scenario that we understand to be unlikely or seek to resolve an issue that will apply for a limited period of time. Given the emerging nature of GFAI, the CUSC modification process for these could be complex, involve considerable industry resource, and may not result in a solution that covers all eventualities. On this basis we do not feel that it is appropriate for changes to be brought forward at this time.

a. Developer build GFAI facilitating a single developer's project(s)

3. If the existing user commitment arrangements are applied to GFAI, the ability for developers to opt for a fixed attributable cancellation charge liability and the variable timing of asset transfer to an OFTO presents an issue. If a project does not fully commission until after the asset transfer date and the developer's liability is fixed prior to asset transfer, with the liability for the GFAI being based upon an assumed asset transfer date, then it is possible for the fixed liability profile to be significantly different from the actual cost. In the case that the asset transfer occurs later than assumed, the developer may have to provide security for the fixed amount in advance of the asset transfer as well as holding the debt for funding the works. If the asset transfer occurs earlier, then the developer may not be liable for the works until the assumed date and the risk resides with consumers. It is worth noting that this issue is not restricted to GFAI, but also potentially applies to phased projects connecting to the same offshore platform.
4. This issue could be resolved by modifying the CUSC to restrict the fixing of the portion of a developer's attributable cancellation charge liability relating to the GFAI until after the actual asset transfer date is confirmed. Under this model, the attributable liability is effectively managed in two parts, with the remaining (e.g. onshore) liability being fixed prior to asset transfer upon the developer's request.

b. Developer build GFAI facilitating multiple developer's project(s)

5. National Grid believe that the risk of stranding of GFAI assets built by a developer should another developer being facilitated reduce their capacity requirement is best covered by extending the existing user commitment arrangements. Whilst the current drafting of the cancellation charge calculation within the CUSC could be utilised, changes are required to the CUSC framework to enable developers to reclaim stranded investment from the SO and to National Grid's Transmission Licence to enable the SO to recover this (via cancellation charges and TNUoS), replicating similar arrangements between the SO and TOs in the SO-TO Code.

6. In relation to what assurance of GFAI delivery can be provided to developers whose projects are being facilitated by assets built by another developer, we believe that potential user commitment solutions will introduce further blockers to developer build of GFAI. For example, whilst arrangements placing a mandatory non-delivery liability on the developer building GFAI assets could be put into place, this will discourage developers from building GFAI. However, we do believe that there may be potential options that could be utilised to mitigate such a risk (e.g. a process is adopted in which a third party is appointed to deliver the transmission works to facilitate the remaining developer's connection).

c & d. OFTO build GFAI

7. In our view, the existing arrangements can be applied to an OFTO build GFAI scenario appropriately without any need for changes to the CUSC or Licence drafting. We would assume that the cancellation of OFTO works is treated within the OFTO licence in an equivalent manner as the cancellation of onshore works in the onshore TO licences.

Treatment of Cancellation Charge Revenues

8. Under the existing user commitment arrangements, where a reduction in a developer's TEC requirement results in the cancellation of works, the relating cancellation charge revenue would be offset against the cost of the works charged to the NETSO as TO Final Sums. As there is no ongoing TO revenue stream expected in this scenario it is appropriate for any difference to be fed into TNUoS via a one off adjustment following the cancellation.
9. Where no transmission works are cancelled (i.e. works are so advanced that it would be inefficient to connect any remaining generation via other means) the treatment is the same, but the TO Final Sums charge could be set to zero with the TO could have an ongoing revenue stream in relation to these assets instead. An alternative treatment, which may appear more cost reflective, is for the to NETSO feed the cancellation charge back into TNUoS gradually to net off the ongoing revenue stream. It is our view that such a change to National Grid's Transmission Licence would need to apply to both onshore and offshore investment (i.e. it is wider than application to GFAI scenarios alone).
10. However, there are also merits in passing the amount received back to consumers earlier as a one off amount with the cost being recovered more gradually as part of the existing arrangements. However, we do recognise that the value of offshore transmission tends to be more expensive than equivalent onshore solutions. This could potentially introduce greater variability in TNUoS tariffs under the existing treatment. It is currently unclear as to what extent this will occur.
11. Given the above, we propose that the current application remains in place for the time being, but is kept under review.

Other concerns

12. We note the comments received in relation to the interactions with the CfD mechanism. The purpose of the user commitment arrangements is to provide adequate protection to consumers against the cost of stranded transmission investment. Whilst the move to CfDs has increased the level of risk associated with the development of some renewable projects, this in isolation will not affect the value of transmission investment that is at risk of

stranding for a given generation project. We do not feel that it is appropriate to reduce the level of user commitment required in reaction to a change in the renewables subsidy mechanism that does not result in a corresponding reduction in the risk or value of potential stranded investment faced by consumers. As it is the purpose of CfDs to encourage development of renewable generation against the background of the market arrangements, it is appropriate for the level of risk developers face to be taken into account within the design of the mechanism itself. We note that the existing user commitment arrangements were in place when the CfD process was designed.

13. The concerns surrounding the CfD mechanism highlight a characteristic of the existing user commitment arrangements where the attributable works include anticipatory investment. In the event that works are undertaken earlier than needed for one project to facilitate another, the later project (if opting for the actual attributable works cancellation charge) would be liable for a proportion of the value of the anticipatory investment earlier than they otherwise would be. However, coordination delivers the overall most efficient solution, and developers would share the benefits of this in the long term through lower TNUoS charges
14. One further issue surrounds the fixing of attributable liabilities. In the event that a project reduces its TEC requirement, any difference between a fixed attributable works cancellation charge and the actual value of the stranded investment, would be funded by consumers through TNUoS. As the value of offshore transmission investment tends to be higher than equivalent investment onshore, the impact of this issue is potentially greater. However, there is an appropriate balance to strike between the level of risk borne by consumers and the benefits that are realised through the predictability developers are provided with through the option to fix their attributable works liabilities. We intend to keep these arrangements under review to ensure that the balance provided continues to be appropriate.
15. We also note the comments received in favour of consumers sharing some of the risks faced by developers associated with GFAL. Whilst this would encourage developers to coordinate under a developer build arrangement, cost sharing within the existing user commitment arrangements only exists where investments can be considered as being driven by a combination of demand and generation (e.g. wider system reinforcements). GFAL is purely driven by generation projects, and introducing cost sharing would therefore be a change to the principles underpinning the existing arrangements.
16. In addition, such an arrangement would need to be introduced in relation to all attributable works (on and offshore) to ensure that the level of risk shared with consumers is equivalent for all developers. Whilst appropriate coordination of offshore transmission will provide benefits to consumers, we believe that introducing consumer sharing of risk to all generators (on and offshore) to overcome the competition issues would weaken the existing user commitment signal which could potentially lead to less efficient transmission investment overall.