|  |
| --- |
|  |
| **John Brookes**  **National Grid**  By email to:  [john.brookes1@nationalgrid.com](mailto:john.brookes1@nationalgrid.com) |

|  |
| --- |
| Nicola Percival  Policy & Regulations Manager  [nicola.percival@innogy.com](mailto:nicola.percival@innogy.com)  07557 758 382 |

29th June 2017

**Open letter consultation: Investment Ahead of TEC guidance document**

Dear John,

Thank you for the opportunity to provide feedback on National Grid’s proposals regarding delay charges and backfeed. Please find our responses to the questions herein. We welcome the re-introduction of National Grid providing additional project cost information for the Enabling Works identified in Construction Agreements, alongside the bi-annual securities.

1. **Do you agree with the principle that inefficient costs related to early transmission investment, which occurs as a result of a Customer request, should be recovered from the customer who makes the request?**

We agree in principle with delay charges being applied where one party has caused a delay which incurs charges upon another party. However, the guidance document does not address the issue fully and we have concerns about National Grid’s proposals.

Currently projects have limited sight of when National Grid plan to spend money on works relating to a specific project, so they cannot reasonably be held responsible for ‘inefficient’ spend that occurs without their explicit knowledge. Regular discussion between the TO, SO and developer could mitigate much of this ‘inefficient spend’ by seeking to agree to proceed prior to any material costs being incurred. This should be considered as good practice for all parties. In addition, there is no reciprocity in the proposal. If the TO delays connection and the developer has incurred ‘inefficient’ costs there is no methodology or rules by which the developer can seek to recover those costs.

Developers may be comfortable to pay delay charges if:

1. it can be explained where there is a loss;
2. it can be shown that it is reasonable that any shortfall should land with the generator i.e. are they best placed to manage that risk (given the wider risk and uncertainty that generators are exposed to);
3. an accurate and transparent spend profile can be provided which shows the costs attributable to the generator. This should be shared on a regular basis;
4. sufficient advanced warning is given of delay charges which may become payable; and
5. the developer is engaged in decision making and there is provision for a Go/No Go decision point which takes all of this into account.

We believe that the rules around such charges must be set out clearly in the CUSC so that the policy is subject to a full impact assessment.

1. **What are your views on the changes we are proposing to the guidance note and methodologies?**

There is no cost reflectivity in the new proposals for ‘financing’. We believe the actual cost incurred would be from evidencing the difference between the actual cost with the efficient-build cost, were the TO able to plan from the beginning. It would also need to be clear that the cost of those Infrastructure Assets that have been paid upfront through this Financing Charge are not also included in the cost base that is used to calculate the TNUoS charges. Similarly, it needs to be clear that if a Financing Charge is being applied to the Connection Assets that that cost has been deducted before calculating the annual Connection Assets Charge. We believe that this methodology needs to be set out clearly in the CUSC. Currently, the lack of clarity could be considered a breach of Special Licence Condition 6(4).

We also feel the 6% rate of return in the calculation is not appropriate. There is little risk to National Grid as these assets are 100% secured/recoverable, and therefore this does not reflect the risk National Grid are exposed to.

Some specific points we would want to raise:

* There is no mention of the Liabilities being reduced for Secured Enabling Works where a Financing Charge has been applied. If a payment has been made towards some of the cost of these works then we should not also be expected to be Liable for these same costs.
* The previous guidance calculated the “delay charge” (now called the “financing charge”) based on the transmission investments which the transmission owner has made, or is committed to make. We understood this to mean the Enabling Assets as listed in Appendix H of the Consag and also the Connection Assets as listed in Appendix G of the Consag. However this revised guidance now states that the transmission investment that is used to calculate the charge will be the Enabling Works as listed in Appendix H of the Consag. There is no mention of the Connection Assets. How are these treated? Is there a delay charge associated with these assets?

To our best knowledge delay charges have not been applied in Scotland and it is unclear from the guidance whether it is the TO or SO who triggers the charge. Do the TO believe they are incurring a financial loss or do the SO believe that costs are not being effectively recovered from TNUoS?

There should also be a transition plan which would allow for delays without liability.

1. **What are your views on the benefits of publishing separate guidance notes for each of the two charges currently outlined in the guidance document?**

Our view has not changed since innogy was a member of the CUSC workgroup for CMP249 – delay charges should not be applied in the same manner as backfeed. They should be considered separately - backfeed is requested to facilitate ‘definite’ connection, whereas delay charges are pushing back connections without certainty of connection or further delays. The provision of backfeed may be critical to a generator’s connection, and therefore we feel the benefit of flexibility when facilitating a generator’s connection onto the transmission system is in the interest of all transmission connectees. Backfeed charges, if/when applied, must be appropriate and cost-reflective – and fully transparent in the CUSC.

The guidance states that NGET assume that backfeed would only be required a few weeks ahead of generation commencing which may not be the case when there are significant OTSDUW assets to commission:

* Earlier backfeed dates may be driven by the OTSDUW party, rather than the generator, and therefore the generator should not get charged for this.
* The development of the OTSDUW programme between the generator and NGET may result in an earlier backfeed than originally anticipated by the initial connection agreement.
* The backfeed timescale can be impacted greatly to coordinate with TO works, associated outages and their coordination with seasonal restrictions
* The guidance should take note of where original date for works is earlier than required by the generator’s programme in order to suit the TO’s delivery programme (e.g. to combine with other works that are being undertaken)

More clarification is needed regarding on why demand TNUoS doesn’t cover the backfeed cost, and for consistency, further clarification on what happens with demand connectees who request a delay.

1. **Are there any further changes you would like to see made to the guidance note?**

We advocate full cost-reflectivity and transparency in how and when delay charges may be applied. We believe that the rules around such charges must be set out clearly in the CUSC so that the policy is subject to a full impact assessment.

Yours sincerely,

Nicola Percival

Innogy Renewables UK Limited

**Innogy Renewables UK Limited**

Windmill Hill Business Park **·** Whitehill Way**·** Swindon **·** Wiltshire **·** SN5 6PB

**Registered Office Innogy Renewables UK Limited · Windmill Hill Business Park · Whitehill Way · Swindon · Wiltshire · SN5 6PB**

Registered in England and Wales no. 2550622