

## CAP131 Working Group

Meeting Name	CAP131 Working Group
Meeting No.	10
Date of Meeting	22 <sup>nd</sup> January 2007
Time	10:30am – 16:00pm
Venue	Conference Room 10, National Grid House, Warwick

This note outlines the key action points from the most recent meeting of the CAP131 Working Group.

### 1. Introductions/Apologies for Absence

1. Apologies for absence were received from Mike Kay (United Utilities), Bob Brown (Cornwall Energy Associates), Richard Ford (RES Ltd), Lilian Macleod (National Grid), Garth Graham, Richard Miller (Ofgem) and Charles Ruffel (RWE – observer).

### 2. Actions from previous meetings

2. National Grid confirmed that even where it had not obtained transmission consents, the User Commitment Amount would remain non-refundable.
3. National Grid confirmed that where National Grid delayed a project and it then became uneconomic, the user retained the right to terminate on the new schedule.
4. National Grid confirmed that there would be no double counting in relation to securities provided by BEGAs. Connection works would be separated from wider works with transmission works being secured by the BEGA party (through CAP131) and local works by the DNO on the old final sums method. The £3/KW tariff floor used to represent local connection costs should therefore not apply to BEGA parties.
5. National Grid confirmed that the definition of Section 36 consent being achieved would be the Secretary of State decision, regardless of whether additional conditions were attached.
6. National Grid confirmed that the small generator discount would not apply to the TNUoS tariff used to calculate User Commitment. It also confirmed that where applications were made with an SQSS design variation, it may be appropriate to reflect any discount in the user commitment tariff.
7. National Grid confirmed that the analysis used to calculate the TNUoS multipliers were inclusive of all consent costs and would not be separately invoiced.
8. National Grid confirmed that its Alternative Amendment proposal did not apply liabilities on projects with a lead time of 7 years or more.

### 3. Actions Carried Forward from previous Minutes

9. National Grid to confirm if there is any interaction between CAP131 and the ongoing 3<sup>rd</sup> party work process.

**Action: HR**

10. National Grid to confirm whether £3/KW is a fair representation of local connection works in negative and marginally positive zones.

**Action: NP**

### 4. Contractual Framework for User Commitment

11. The Working Group discussed the appropriate location for the User Commitment proposals. National Grid confirmed its intention to place details of User Commitment in the CUSC with a stand alone section describing the methodology, and that there was no change required to the Charging Methodologies. The CONSAG would then outline the schedule of payments by reference to the methodology as would liabilities on existing users. More details to follow.

**Action: NP/AQ**

12. The Group deliberated whether it would be necessary to apply indexation to the User Commitment parameters. It was noted that cash certainty for new users was one of the key features of the CAP131 proposals and therefore indexation ought only to apply to future offers. National Grid agreed to consider the implications.

**Action: NP**

### 5. User Commitment and Existing Users

13. The Group discussed whether a generator would be able to disconnect from the transmission system before all liabilities are paid. The Group noted that there is presently a requirement to provide 6 months notice of disconnection in CUSC Section 5.6. This led on to a debate about the appropriateness of 2 years notice of TEC reduction and some members questioned whether 6 months or 1 even year would address National Grid's concerns. National Grid reiterated that 2 years was viewed as enough time to adjust the planning background to ensure efficient investment and at the same time not unduly reducing generator flexibility.

14. Some members of the Group again queried the rationale for applying user commitment to existing users. One member thought that existing users are not a triggering party for works and that they were already paying TNUoS. Another noted that there now appears to be an inconsistency in the proposals – why should projects without works avoid exposure to user commitment when existing players that also cause no works if they reduce TEC are exposed?

### 6. Risk Analysis

15. National Grid presented some initial analysis in relation to a previous request from the Working Group to examine the exposure between the old FSL method and the Generic methodology. The results suggested that on average, if a project terminated at any stage from t-6, National Grid would not have received sufficient security to cover the cost of works. This was especially true at the t-4 stage. It was noted that the total FSL curve may include some projects where more than one party is securing 100% of reinforcement costs.

16. One Working Group noted that the FSL curve is not a reflection of actual stranded costs since National Grid has the ability to re-engineer before assets are built, and another stated that the numbers took no account of asset re-use.

17. Mike Davies presented a paper outlining an alternative approach to calculating the value of securities National Grid should be aiming to secure. The conclusion from the analysis suggests that the levels of security achieved through CAP131 would be substantially too high. National Grid agreed to work with Mike to identify why the two methods reach very different conclusions.

**Action: MD & NP**

### 7. Working Group Alternative Amendments

18. The Working Group identified those areas where there is broad agreement:
- £1, £2 and £3/KW User Commitment Amount

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- 25%, 50%, 75% and 100% Cancellation Charge staircase
- Calculating the security from the TEC Effective Date backwards
- No CONSAG, no liabilities
- Only projects due for connection to the Grid within 7 years should put up User Commitment
- Ignore CEC – anything that does not change TEC but involves transmission work will be charged according to the old methodology

19. A number of alternatives were raised and they were agreed as:
- . Calculation of the User Commitment tariff should be based on UCA zones defined in the Transmission Licence, not Generation TNUoS zones (on the condition this alternative solution provides a preferable outcome in the view of the proposer)

**Action: SL & NP**

- . CAP131 should not apply to existing users
- . That the trigger date from User Commitment Amount to Cancellation charge should be the earlier of S36 Consent, or Key Transmission Milestone plus one year

20. A Working Group member requested two additional alternatives. The first was to redefine what was meant by a new project as any party seeking to set up a new BMU, the implication being that those that parties already existing would be able to apply for incremental TEC without going through the User Commitment process. The Group agreed that this issue had already been addressed by National Grid's alternative amendment not to apply User Commitment to projects where no transmission works are required.

21. The second proposed alternative was to add that new projects should not be able to reduce TEC for 6 years after the TEC effective date, to prevent perverse incentives for new projects to "hoard" unrealistic levels of TEC and then give two years notice of a reduction after the TEC becomes effective (and hence bypassing the more onerous Cancellation Charges). The Group considered that there should be a contractual method to deal with this issue and National Grid should be able to identify those projects that have requested a level of TEC which can not be delivered through the installed generation.

22. National Grid agreed to work up an assessment of the above alternatives against the applicable CUSC objectives.

**Action: NP**

23. National Grid agreed to assess the impact of the above alternatives on the value of X.

**Action: NP**

### 8. Transition

24. The Group agreed that User Commitment should be effective with enough time from an Ofgem decision to enable parties to adjust their commercial positions and to align with the relevant National Grid securities phase. There was some debate about whether the old school arrangement should remain an option to new generators until the implementation date, but it was recognised there would be very little value in doing so. National Grid to consider the options.

**Action: AQ**

### 9. Next Meeting

25. The next Working Group meeting will be held on Monday, 5<sup>th</sup> February 2007 at National Grid offices in **NORTHAMPTON**. The meeting will commence at 10:00am.
26. Future meetings of CAP131 Working Group have been confirmed as follows:
  - Monday, 12<sup>th</sup> February 2007 (National Grid offices in Northampton)

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## Appendix 1 – Working Group Attendance

### Members Present:

Hedd Roberts	HR	Chairman
Nick Pittarello	NP	National Grid
Mike Davies	MD	Wind Energy
Karron Baker	KB	Ofgem
Angela Quinn	AQ	National Grid
Steven Eyre	SE	British Energy
David Ward	DW	Magnox
Paul Jones	PJ	E.ON
Simon Lord	SL	International Power
Bill Reed	BR	RWE
David Scott	DS	EDF Energy
Malcolm Taylor	MT	AEP
Dave Wilkerson	DW	Centrica

### Apologies:

Richard Miller	RM	Ofgem
Mike Kay	MK	United Utilities
Bob Brown	RB	Cornwall Energy Associates
Garth Graham	GG	Scottish and Southern
Richard Ford	RF	RES Ltd
Charles Ruffel	CR	RWE Npower
Lilian Macleod	LM	National Grid