

## CAP131 Working Group

|                 |  |
|-----------------|--|
| Meeting Name    | CAP131 Working Group                             |
| Meeting No.     | 6  |
| Date of Meeting | 8 <sup>th</sup> December 2006                    |
| Time            | 10:00am – 03:00pm                                |
| Venue           | Conference Rom 5, National Grid Offices, Warwick |

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

### 1. Introductions/Apologies for Absence

175. Apologies for absence were received from Paul Jones (E.On), Steve Eyre (British Energy), Mike Kay (United Utilities), Garth Graham (Scottish and Southern). Charles Ruffel (RWE – observer) and Karron Baker (Ofgem).

### 2. Minutes of the Meeting held on 28<sup>th</sup> November 2006

176. The minutes were agreed as a correct record. It was noted that by their nature many of the actions on NP were ongoing.

### 3. Implementation Issues

177. The Group discussed a matrix of the proposed treatment of the various classes of user tabled by NP at the meeting. The Users identified were:

- Signed Offers (old regime)
- Signed Offers (voluntary interim regime)
- Future New Applications
- Existing Players

178. NP explained that the matrix analysed the proposed treatment of these users under three main headings:

- Applicability
- Process
- Timing

179. Several Group Members noted that there were additional potential categories of User not identified in the matrix e.g. those Users with a post 2016 offer. This was a significant category since the offer could not identify appropriate works and therefore a final sums calculation was not possible.

180. The Group agreed that a future target date for the introduction of CAP131 should be identified as part of the solution. Group members favoured a date of 1 April 2008 or 1 October 2008 to align with the current dates for issue of projected FSL. This target date would also obviate the need to consider different regimes for Users depending on how far away their project was from completion. In addition, Ofgem could decide that an RIA was appropriate for CAP131 which would add to the implementation timetable. 1 April 2008 or 1 October 2008 would give Users a suitable period in which to adapt to the new arrangements, in particular the need to put in place any revised credit arrangements. It was agreed that National Grid would draft an obligation on National Grid to provide Users with FSL before any introduction of CAP131.

**Action: AQ**

181. A mechanism to cater for those Users with post 2016 connection offers was

discussed and a number of alternative options were considered including whether Users with connection offers more than seven years out should be required to put up a user commitment. A voluntary approach to inclusion in the CAP131 arrangements was also discussed but rejected because of its impracticability. It was agreed that National Grid would include this alternative option along with other possible permutations relating to previously discussed areas at the next meeting.

**Action: NP**

#### 4. Presentation on Capex Projections and CAP131

182. BR gave the meeting a presentation examining the risks associated with the Capex projects that would be impacted by CAP131. The presentation took as its starting point the assumption by National Grid in the CAP131 proposal that new users should bear 50% of the investment cost. The overall capex affected by CAP131 was estimated in the presentation to be £2.5bn, based on previous material circulated by National Grid that suggested a total capex plan of £5bn and an expectation that 50% of projects will progress to completion. The proportion of this borne by all users under CAP131 would therefore be 50% or £1.25bn. Assuming an asset re-use rate of 14% this could potentially reduce the liability by a further £175m (subsequently amended to £350m during discussion).

183. Further points made during discussion on the presentation included:

- the assumption of 50% of projects progressing to completion may be appropriate for certain geographical locations (e.g. Scotland) but not necessarily elsewhere;
- projects failing in the final year before completion could involve National Grid in substantial stranded investment but earlier project failure could involve very little stranded investment by National Grid;
- the failing projects are unlikely to be evenly dispersed amongst charging zones
- larger developers could adopt a portfolio approach and cancel more projects in the post-trigger phase of FSL envisaged in CAP131 rather than smaller developers who might be expected to cancel earlier;

184. The Group also discussed a histogram produced by RF examining a typical pattern of projects costs over time to completion in comparison to the £5bn overlaid with a distribution curve showing the risk of the project failing and thus the volume of costs to be secured. This indicated investment costs at risk as a much smaller fraction of the £5bn. It was noted that this should provide comfort for Ofgem that the costs at risk are much lower than the x12 TNUoS reflected in the current user commitment proposals.

185. It was agreed that National Grid would consider the presentation and the various points raised and identify potential scenarios (without proceeding to any detailed calculations) that the Group could discuss further to help inform the debate on the suitable parameters for user commitment.

**Action: NP**

#### 5. Presentation on an Alternative Proxy for TNUoS costs in FSL

186. DS gave the meeting a presentation examining the case for an alternative non-locational proxy to in the calculation of user commitment. The essence of this approach was rather than use Generation TNUoS tariffs as proposed in CAP131, actual project data could be employed to determine the commitment. The key parameters in the calculation would be:

- the kw value of TEC

## CAP131 Working Group

- local line length
  - choice of cable/OHL design as defined by an expansion factor
187. It was argued that a simple calculation of TEC x local km line length x expansion factor would provide a reasonable proxy for the appropriate level of user commitment. Perceived advantages of this approach are:
- project data should be a more accurate representation of investment costs;
  - inherent geographical variability should not be captured;
  - this approach should secure the same value (50%) of investment cost as the TNUoS approach.
188. It was also argued that the non-locational proxy more accurately reflects the costs of local reinforcements, which were thought to be most at risk of being stranded if a new user terminates.
189. National Grid argued that the parameters used to calculate the user commitment in CAP131 are already project related. The principle identified in the presentation that inherent geographic variability derived by using Generation TNUoS tariffs as a key input should be dampened was questioned, since the tariff is cost reflective of the investment costs in a given location. The proxy does not therefore consider the costs associated with wider reinforcements.
190. National Grid also questioned whether the expansion constant and security factor should also be included in a calculation of this nature.
191. Disadvantages of this approach are:
- There may be little data to suggest what the local line length will be making the approach less transparent compared to using Generation TNUoS tariffs;
  - It assumes investment costs are the same throughout a TO's territory
192. Practically, identifying whether the approach would indeed generically secure 50% of the investment costs would be a significant task to fully calculate. It was agreed that National Grid would incorporate this proposal as an option in the discussion on the way forward at the next meeting.

**Action: NP**

### 6. Next Steps

193. HR indicated that the next meeting of the Group would be a "State of the Union" session to try and identify how the whole CAP131 approach would work and whether any Alternatives were appropriate. The output from the session should form the basis for the eventual Working Group report to the CUSC Panel. DW also requested that the Group consider the implications of CAP131 for closure of existing stations at the next meeting.

### 7. Next Meeting

194. The next Working Group meeting will be held on Monday 18<sup>th</sup> December 2006 at National Grid offices in Northampton. The meeting will commence at 10am.

# CAP131 Working Group

## Appendix 1 – Working Group Attendance

### Members Present:

|                               |    |  |
|-------------------------------|----|--|
| Hedd Roberts                  | HR | Chairman   |
| Richard Dunn                  | RD | Secretary  |
| Nick Pittarello               | NP | National Grid  |
| Angela Quinn                  | AQ | National Grid (part meeting)                           |
| Richard Ford                  | RF | RES Ltd  |
| Simon Lord                    | SL | International Power (part meeting - by telephone link) |
| Merel Van der Neut Kolfshoten | MK | Centrica   |
| Robert Brown                  | RB | Cornwall Energy Associates                             |
| Bill Reed                     | BR | RWE  |
| David Scott                   | DS | EDF Energy   |
| Malcolm Taylor                | MT | AEP  |
| David Ward                    | DW | Magnox   |

### In Attendance:

|                |    |       |
|----------------|----|-------|
| Richard Miller | RM | Ofgem |
|----------------|----|-------|

### Apologies:

|                |    |                       |
|----------------|----|-----------------------|
| Garth Graham   | GG | Scottish and Southern |
| Paul Jones     | PJ | E.ON                  |
| Steven Eyre    | SE | British Energy        |
| Mike Kay       | MK | United Utilities      |
| Mike Davies    | MD | Wind Energy           |
| Charles Ruffel | CR | RWE Npower            |