

Trigger Date Options

DRAFT Paper

Introduction

1. The point at which a generator moves from the User Commitment Amount (£1KW, £2KW or £3/KW) to the Cancellation Amount (25%, 50%, 75% or 100% of 6 times the Generation TNUoS tariff) has been identified as an important area for discussion by the CAP131 Working Group. As it stands, National Grid's proposal defines the trigger date as either the "Key Transmission Consent Date" where consents are required for the works, or a specified date where no consents are required with the proviso that such date is not more than 4 years ahead of the completion date. National Grid continues to support the fact that there needs to be a clear and consistent "trigger" and that key consents is a useful trigger where works require consent on the basis that contracts are generally let only once these consents are in place. National Grid also accepts that there are a number of alternative options and that using "consent" also raises issues as to what this actually constitutes. This note outlines those options and attempts to highlight the advantages and disadvantages of each approach.
2. The paper discusses 6 possible options;
 - a. Power station Section 36 consent
 - b. First Transmission consent
 - c. Last Transmission consent
 - d. Key Transmission consent date
 - e. Contract let date
 - f. A fixed date before completion (e.g. 4 years)

Power station Section 36 consent

3. One possible option would be to use the date on which a power station achieves its Section 36 consent to go ahead with the development. Projects with Section 36 consent are much more likely to go ahead, the consent (and therefore clarity as to when it is achieved is clearly defined and the certainty of such consent would enable the new development to raise the funds to secure the Cancellation amount.

Advantages	Disadvantages
<p>An indication of a "serious project".</p> <p>Discrete visible consent.</p>	<p>Transmission consents also required. Significant non-refundable sums amounts may become due before transmission consents are achieved – works to provide the connection can be undertaken.</p>

	Planning permission element of Section 36 consent only lasts for 5 years. Delivery of the transmission network may take longer if transmission consents are delayed.
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First Transmission Consent

4. For any given project, the SO typically needs to acquire a number of separate consents ranging from Section 37 (transmission line construction) to access to farmland to substation planning permission etc. One option would be to use the first relevant consent as a trigger date.

Advantages	Disadvantages
Sometimes reasonable proxy of significant sums being spent by the TO.	First transmission consents might arrive before power station consents. All consents may not be achieved.

Last Transmission Consent

5. If the “first transmission consent” is too early for most generation projects, then perhaps the last consent would be more appropriate.

Advantages	Disadvantages
Generator more likely to have achieved necessary consents.	Transmission business may have begun spending significant sums before the final consent is achieved (to enable faster connection). If a project did terminate it is likely that project costs would be under-recovered.

Key Transmission Consent Date

6. This option is likely to provide a middle ground compared to the prior two options. The SO would take a view as to the date at which it will achieve the most important consents that are likely to be on the critical path and have a serious overall risk to the project.

Advantages	Disadvantages
Closer proxy to the date at which significant sums are spent by the SO. Balance of over/under recovery risk	Derivation of Key Consent Date may not be immediately transparent to the industry.

between Generators and all users.	
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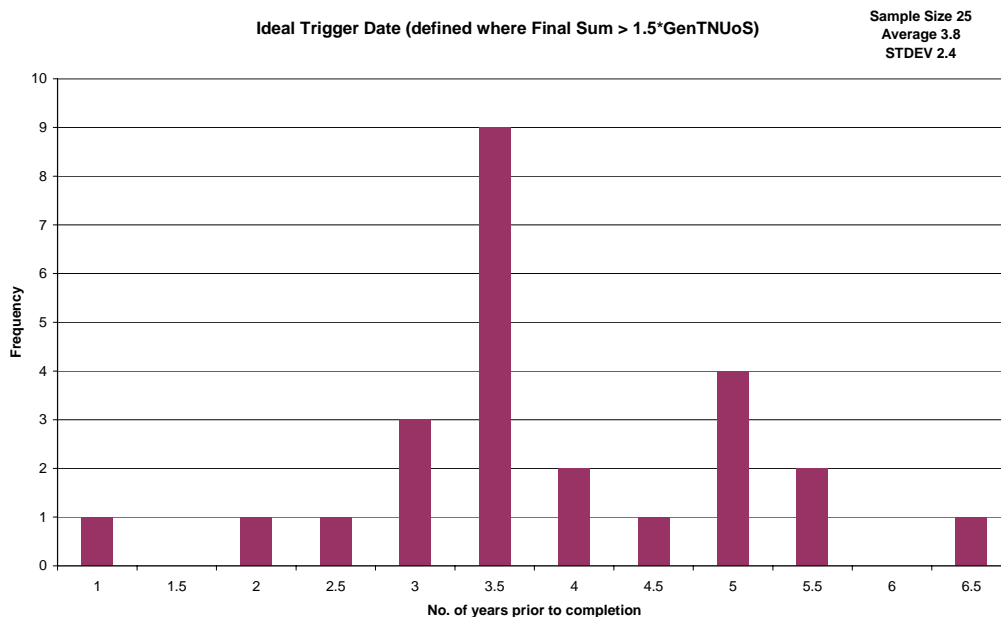
Contract Let Date

- The closest proxy to the point at which the SO begins to spend significant sums is “the” contract let date. It should be noted that there may be a number of contracts to let.

Advantages	Disadvantages
Best proxy for significant spend.	Derivation of contract let date may not be transparent to industry. Need to identify key contract against potential “package of work”.

A Fixed Date Prior to Completion

- The final option is to set a trigger date at a fixed time before completion regardless of consents or contracts. A generic date can be derived by examining how the final sum curve grows for a sample of projects and noting how long before completion the final sum is above the 25% Cancellation Amount ($1.5 * \text{Generation TNUoS} * \text{TEC}$). The results of this analysis are shown in the histogram below:



- The graph shows that for the analysed sample, the final sum curve was larger than 25% of the cancellation amount on average 3.8 years before completion. This would indicate that if a fixed date was to be used to set the trigger date, 4 years before completion would be a reasonable generic proxy for those projects where the completion date is more than four years away.

Advantages	Disadvantages
Simple and transparent. No ambiguity in definitions.	May bear little resemblance to actual spend. Makes processes and consequences of slipping completion dates more critical.

Conclusion

10. The most appropriate trigger date is defined by two trade-offs:

- a. The risk of over or under recovery
- b. Cost reflectivity (expenditure co-incidence) versus simplicity/transparency

	Risk to generator	Risk to all users	Expenditure co-incidence	Simple/Transparent
Power station Section 36 consent	High	Low	x x	✓✓
First transmission consent	High	Low	✓	✓
Last transmission consent	Low	High	x	✓
Key transmission consent	Medium	Low	✓✓	x
Contract let date	Medium	Low	✓✓	x x
Fixed time before completion	Medium	Medium	x	✓✓

11. The first three options could be eliminated on the basis that the risk is too high either for the generator or for other users. The suitability of the remaining options is dependent on the perceived importance of expenditure co-incidence versus simplicity and transparency.

12. On balance, National Grid continues to believe that Key Transmission Consent Date remains the most appropriate trigger date.