



## **DCUSA CHANGE REPORT**

### **DCP 259 – CMP223 - Enduring Generation User Commitment**

#### **Executive Summary**

DCP 259 seeks to incorporate changes in the Common Connection Charging Methodology (CCCM) to reflect the changes resultant from CUSC Modification Proposal (CMP) 223, approved by the Authority on 14 July 2015.

This document presents the Change Report for DCP 259 and invites respondents to vote on the proposed change.

## 1 PURPOSE

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- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 259 – ‘CMP223 - Enduring Generation User Commitment’. The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.
- 1.2 Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **24 February 2016**.

## 2 EXECUTIVE SUMMARY

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- 2.1 DCP 259 was raised by Scottish Power Networks to incorporate changes in the Common Connection Charging Methodology (CCCM) to reflect the changes resultant from CUSC<sup>1</sup> Modification Proposal (CMP) 223, approved by the Authority on 14 July 2015.
- 2.2 This change is designated as a Part 1 Matter as it introduces an obligation on DNO Parties to use a National Grid Electricity Transmission Plc (NGET) security mechanism which could introduce risk for a specific group of Parties to DCUSA. The DCUSA Panel directed that the DCP 259 Working Group only propose legal text changes that are as a direct consequence of CMP 223. As these Regulation amendments will be law from the 01 April 2016, the Working Group has deemed that a consultation on the legal text change was not needed. The Working Group agree with the principle of this change. The draft legal text is set out in Attachment 2.

## 3 BACKGROUND AND SUMMARY OF DCP 259

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- 3.1 The user<sup>2</sup> commitment arrangements are the rules set out in the CUSC by which users of the transmission system must underwrite works they trigger on the transmission

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<sup>1</sup> Connection and Use of System Code

<sup>2</sup> a person who is a party to the CUSC Framework Agreement other than The Company

system. In the event a user terminates<sup>3</sup> its connection agreement, it must pay a cancellation charge to NGET.

- 3.2 The user is required to place security with NGET to cover a proportion of the liability. Security is posted at a reducing rate as the generation project nears commissioning and passes set milestones. This reflects the decreasing likelihood of a generator terminating. If NGET is unable to recover 100% of a generator's liability following a termination of its connection agreement, it is able to recover the value of the unsecured liability from Transmission Network Use of System (TNUoS) charges, subject to satisfying certain conditions.
- 3.3 Where a distributed generator is considered to have an impact on the transmission system (a relevant distributed generator), NGET will enter into a Construction Agreement with DNOs in respect of any works required as a result of the connection. In the event that a relevant distributed generator fails to proceed and terminates its contract then the DNO will terminate its agreement with NGET. NGET will then seek to recover the full liability amount from the DNO. DNOs are not able to recover the shortfall between the security received from the generator and the liability from DUoS<sup>4</sup> customers therefore, some DNOs have been seeking security from the relevant DG for the entire user commitment amount at all times.
- 3.4 The CMP192 methodology separates the liability ("cancellation charge") from the associated security amount (to take into account the reduced likelihood of termination, and therefore stranded assets, as project certainty increases). Once developers have reached pre-determined stages of project development their securities reduce relative to the liability in recognition of the reduced risk of termination as a project nears completion.
- 3.5 CMP223 modified the CUSC so that relevant DGs do not face a difference to directly connected generators due to the way security requirements are passed on. The proposal is that the DNO should be able to pass any shortfall in the funds recovered relative to total liability to NGET for recovery via TNUoS<sup>5</sup>. This approach reduces the financial exposure of the DNOs and should incentivise them to mirror the security

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<sup>3</sup> Although the change report references termination the cancellation charge can also apply where the capacity of the project is reduced.

<sup>4</sup> Distribution Use of System

<sup>5</sup> Transmission Network Use of System

arrangements they have with NGET in their own arrangements with the relevant DG, though this modification cannot oblige a DNO to mirror the level of security it is charged by NGET.

- 3.6 The new arrangements under CMP 223 will apply from the 01 April 2016. Volume 1 and Volume 2 of the CMP 223 final modification report<sup>6</sup> are located on NGET's website.

## **4 INTENT OF THE DCP 259 CHANGE PROPOSAL**

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- 4.1 DCP 259 was raised as a Part 1 Matter by Scottish Power to incorporate changes in the Common Connection Charging Methodology (CCCM) to reflect the changes resultant from CMP 223, approved by the Authority on 14 July 2015.

## **5 WORKING GROUP**

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- 5.1 The DCUSA Panel established a Working Group to assess DCP 259. The Working Group consisted of DNO, Distributed Generation (DG), NGET and Ofgem representatives. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – [www.dcusa.co.uk](http://www.dcusa.co.uk).
- 5.2 The DCUSA Panel have directed that this change be designated as an urgent change with the view that it will be implemented by 1 April 2016 to align with the CMP 223 modification.
- 5.3 This CP has been established as a Part 1 Matter under Clause 9.4.3 as it introduces an obligation on DNO Parties to use NGET's security mechanism which could introduce risk for a specific group of Parties to DCUSA. This CPs proposed amendments to Schedule 22 will be based on the changes that CMP 223 is implementing only.
- 5.4 Under CMP 223 NGET undertook research on the reduction in cancellation pre and post consent for Distributed Generation projects. Between the trigger date and the consent the DG will be required to provide 45% security and 26% security post consent but prior to the commissioning date. Prior to the trigger date, the DG will be required to provide 100% security, should any liability exist.

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<sup>6</sup> <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP223/>

5.5 The Working Group considered how to best reflect the Parties liabilities under CMP 223 that are applicable to DCUSA. For example where an embedded distributed generation project has a total liability of £1 million, the DNO, by mirroring NGETs arrangements, would only require a percentage of that liability by way of security i.e. 45% or £450,000 prior to consent and the remaining £550,000 remains unsecured. Providing the DNO replicates the CUSC best practice guidance on debt recovery within DCUSA this will allow the DNO to pass any shortfall in funds recovered relative to the total liability to NGET for recovery via TNUoS from NGET. In the scenario where the distributed generation project is cancelled then the DNO will pay £1 million to NGET. The DNO would draw down on the security amount of £450,000 (45%) and then pursue the unsecured debt of £550,000 (55%) from the distributed generator. If the DNO is unable to recover the unsecured element, then the DNO will provide reasonable evidence to NGET showing that they have sufficiently chased the debt with their application to NGET for repayment of the £550,000 (55%). This application is not subject to any Ofgem approval. If the DNO subsequently receives any payment from the distributed generator in relation to the unsecured debt then NGET will be eligible for an equivalent refund. Please see the Annex to the CMP 223 modification report<sup>7</sup> for detail on this process including the debt threshold.

5.6 The Working Group considered the CMP 223 Cancellation Charge definition which states *““Cancellation Charge” the charge payable by certain Users in the event of termination of a Bilateral Connection Agreement or Bilateral Embedded Generation Agreement or Construction Agreement or a reduction in Transmission Entry Capacity or a reduction in Interconnector User Commitment Capacity or a reduction in Developer Capacity as calculated in accordance with the User Commitment Methodology”*. The Working Group proposed the following text to reflect the existence and context of the cancellation charge in the Common Connection Charging Methodology:

*“Should GB Transmission System works be required, NGET may apply a cancellation charge in the event that your project is cancelled or the capacity of your project reduces”.*

<sup>7</sup> <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP223/>

- 5.7 Members considered that the two main elements to be reflected in DCUSA from the CUSC modification are the security pass through mechanism and the clarification of Parties liabilities. The Working Group proposes the following wording to reflect the security pass through mechanism:

*“NGET also calculates a secured amount in respect of this cancellation charge (being a percentage of the cancellation charge, which reduces at certain trigger points). We may ask you for security in respect of this cancellation charge, but we will not ask you for more than the secured amount calculated by NGET”.*

## 6 ASSESSMENT AGAINST THE DCUSA OBJECTIVES

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- 6.1 The Working Group considers that the following DCUSA Objectives are better facilitated by DCP 259:

- **General Objective Two - The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity**

General Objective two is better facilitated by DCP 259 as the change facilitates competition by ensuring DNOs pass down equivalent security to distributed generators as is levied upon them by NGET Electricity Transmission Plc (NGET).

- **General Objective Three - The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences**

General Objective three is better facilitated by DCP 259 as DNOs are required to comply with the CUSC in accordance with Standard Licence Condition (SLC) 20.3.

## 7 DCP 259 - LEGAL DRAFTING

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- 7.1 The proposed legal text has been considered by the Working Group and reviewed by the DCUSA legal advisor and acts as Attachment Two.

## 8 ENVIRONMENTAL IMPACT

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- 8.1 In accordance with DCUSA Clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if DCP 259 were implemented. The Working Group did not identify any material impact on

greenhouse gas emissions from the implementation of this Change Proposal.

## 9 ENGAGEMENT WITH THE AUTHORITY

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- 9.1 Ofgem has been fully engaged throughout the development of DCP 259 as a member of the Working Group.

## 10 IMPLEMENTATION

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- 10.1 In alignment with the CMP 223 modification implementation date and subject to Party approval and Authority consent, DCP 259 will be implemented on the 01 April 2016.

## 11 PANEL RECOMMENDATION

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- 11.1 The Panel approved this Change Report at its meeting on **17 February 2016**. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 259.

- 11.2 The timetable for the progression of the CP is as follows:

Activity	Date
Change Report approved by DCUSA Panel	17 February 2016
Change Report Issued for Voting	17 February 2016
Party Voting Closes	24 February 2016
Change Declaration Issued	25 February 2016
Authority Decision	31 March 2016
Implementation	01 April 2016

## 12 NEXT STEPS

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12.1 Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **24 February 2016**.

12.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA by email to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) or telephone 020 7432 3011.

## ATTACHMENTS

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- Attachment 1 – DCP 259 Voting Form
- Attachment 2 – DCP 259 Draft Legal Text
- Attachment 3 – DCP 259 Change Proposal
- Attachment 4 – Ofgem decision on CMP223