

# CMP223 'Arrangements for Relevant Distributed Generators under the Enduring Generation User Commitment'

## Summary of Modification Proposal and Workgroup Report

**This proposal seeks to modify the CUSC such that distribution-connected generators that are deemed to have an impact on the electricity transmission network (i.e. Bilateral Embedded Generation Agreement (BEGA), Bilateral Embedded Licence Exemptible Large Power Station Agreement (BELLA) and Statement of Works generators) are not faced with undue discrimination in the way security requirements under the CUSC Section 15 are passed on by the DNOs.**

Under CUSC Section 15, users have a liability to the National Electricity Transmission System Operator (NETSO) for the transmission works that are being undertaken on their behalf by the TOs. This is because the NETSO has a liability to the TOs for these works. This liability will start off at zero and increase over time as more money is spent by the Transmission Owners (TOs). As the generator progresses its own project (through achieving financial milestones, gaining consents, and ultimately constructing its site), it will become more likely to connect and less likely to terminate its project. To reflect this reduction in risk over time, National Grid lowers the amount of security it requires users to put up against their liability at certain points. So, if a new generator is nearly completed, the developer may have a large liability (as the TO will have spent a lot of money on assets), but only be required to secure 10% of that liability (as the developer is very likely to finish commissioning the new generator). This is of particular benefit to smaller parties, who may have to get a letter of credit from a bank or other financial institution to cover their security.

For distributed generators, their liabilities and securities are passed through the DNO they are connecting with, as they do not usually have a direct relationship with National Grid. However, some DNOs have not been passing through these lower security requirements to the distributed generators that they are connecting. The reason for this is that they would still have the full liability to National Grid, and unlike National Grid they do not have a way of recovering any shortfall should something go wrong and a distributed generator not pay the invoiced liability. This has led to concerns that distributed generators are being treated unfairly in comparison to transmission connected generators, who provide their security directly to National Grid.

In order to address this issue, the CMP223 Workgroup identified five options that could be introduced into the CUSC. The main points are detailed below, however for the full descriptions please refer to the CMP223 Code Administrator Consultation. All of the options put forward include certain aspects, such as applying new security percentages for distributed generators of 45% pre-consents and 26% post-consents, and separating out individual distributed generator's liabilities where there are shared construction agreements (i.e. at hub connections). The Workgroup voted by majority for WACM3.

### Original

This option proposed a new contract be introduced between National Grid and each distributed generator that has a transmission impact (BEGA/BELLA/Statement of Works). This contract would be in addition to whatever contract the generator had with the DNO for connection, and would be there to apply the security and liability figures from CUSC Section 15 directly. The contract would be mandatory, would require the distributed generator to accede to the CUSC in a limited way (i.e. only certain sections would apply), and would fall away on commissioning of the generator.

In the event that a distributed generator terminated its project and did not pay the invoiced liability, National Grid would pursue the bad debt directly from the developer.

### WACM 1

This option would remove the financial exposure of the DNOs by allowing National Grid to recover any shortfall in distributed generator liability via TNUoS charges from transmission customers, in a similar way to a shortfall from transmission connected generators.

In the event that a distributed generator terminated its project and did not pay the invoiced liability, the DNO would pay National Grid the full liability and then pursue the distributed generator for the bad debt (i.e. the difference between the invoiced liability and whatever security had been in place). If it could not recover the full amount, the DNO would apply to National Grid to return some of the money it had been paid for the liability, demonstrating that they had exhausted all reasonable avenues for recovering the debt from the distributed generator. Subject to Ofgem's approval at the annual review, National Grid would then recover this money through TNUoS charges in the following year and return it the DNO.

### WACM 2

This option would remove the financial exposure of the DNOs by allowing National Grid to recover any shortfall in distributed generator liability via TNUoS charges from transmission customers, in a similar way to a shortfall from transmission connected generators.

In the event that a distributed generator terminated its project and did not pay the invoiced liability, the DNO would pay National Grid a proportion of the liability (i.e. the amount set by the current security percentage), and then pursue the distributed generator for the bad debt (i.e. the difference between the invoiced liability and whatever security had been in place). If it could not recover the remaining amount, the DNO would inform National Grid that they had exhausted all reasonable avenues for recovering the debt from the distributed generator. Subject to Ofgem's approval at the annual review, National Grid would then recover this money through TNUoS charges in the following year.

### WACM 3

This option would remove the financial exposure of the DNOs for Statement of Works parties by allowing National Grid to recover any shortfall in liability via TNUoS charges from transmission customers, in a similar way to a shortfall from transmission connected generators. For BEGA and BELLA parties, their contracts would be changed to apply the security and liability figures from CUSC Section 15 directly.

In the event that a Statement of Works generator terminated its project and did not pay the invoiced liability, the DNO would pay National Grid a proportion of the liability (i.e. the amount set by the current security percentage), and then pursue the Statement of Works generator for the bad debt (i.e. the difference between the invoiced liability and whatever security had been in place). If it could not recover the remaining amount, the DNO would inform National Grid that they had exhausted all reasonable avenues for recovering the debt from the Statement of Works generator. Subject to Ofgem's approval at the annual review, National Grid would then recover this money through TNUoS charges in the following year.

In the event that a BEGA or BELLA party terminated its project and did not pay the invoiced liability, National Grid would pursue the bad debt directly from the developer.

### WACM 4

This option would remove the financial exposure of the DNOs for Statement of Works parties by allowing National Grid to recover any shortfall in liability via TNUoS charges from transmission customers, in a

similar way to a shortfall from transmission connected generators. For BEGA and BELLA parties, their contracts would be changed to apply the security and liability figures from CUSC Section 15 directly.

In the event that a Statement of Works generator terminated its project and did not pay the invoiced liability, the DNO would pay National Grid the full liability and then pursue the Statement of Works generator for the bad debt (i.e. the difference between the invoiced liability and whatever security had been in place). If it could not recover the full amount, the DNO would apply to National Grid to return some of the money it had been paid for the liability, demonstrating that they had exhausted all reasonable avenues for recovering the debt from the Statement of Works generator. Subject to Ofgem's approval at the annual review, National Grid would then recover this money through TNUoS charges in the following year and return it the DNO.

In the event that a BEGA or BELLA party terminated its project and did not pay the invoiced liability, National Grid would pursue the bad debt directly from the developer.

## Summary

The main differences between the alternative proposals are highlighted in the following table, colour-coded for ease of comparison.

	Type of Distributed Generator		
	BEGA	BELLA	Statement of Works
<b>Original</b>	Direct contract w/ NGET for securities and liabilities	Direct contract w/ NGET for securities and liabilities	Direct contract w/ NGET for securities and liabilities
<b>WACM1</b>	NGET reimburse DNOs for unrecoverable liability upon application, NGET recover through TNUoS	NGET reimburse DNOs for unrecoverable liability upon application, NGET recover through TNUoS	NGET reimburse DNOs for unrecoverable liability upon application, NGET recover through TNUoS
<b>WACM2</b>	DNOs do not pay unrecoverable liability, NGET recover through TNUoS	DNOs do not pay unrecoverable liability, NGET recover through TNUoS	DNOs do not pay unrecoverable liability, NGET recover through TNUoS
<b>WACM3</b>	Direct contract w/ NGET for securities and liabilities	Direct contract w/ NGET for securities and liabilities	DNOs do not pay unrecoverable liability, NGET recover through TNUoS
<b>WACM4</b>	Direct contract w/ NGET for securities and liabilities	Direct contract w/ NGET for securities and liabilities	NGET reimburse DNOs for unrecoverable liability upon application, NGET recover through TNUoS

The CMP223 Code Administrator Consultation and supporting documents can be found under the 'Industry Consultation' tab on the National Grid website at the follow link; <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP223/>

Please note the CMP223 Code Administrator Consultation closes on 3<sup>rd</sup> June 2014. Details on how to respond can be found within the CMP223 Code Administrator Consultation document.

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