

DCP 259 Working Group Minutes

Meeting Name	DCP 259 Working Group
Meeting Number	01
Date	08 December 2015
Time	1:00pm
Venue	Teleconference

Attendee	Company
Peter Turner [PT] (Chair)	Northern Powergrid
Fruszuna Kemenes [FK]	RWE Inogy UK
Gwen MacIntyre [GM]	SSE
Neil Magrath [NM]	UK Power Networks
Paul McGimpsey [PM]	Scottish Power
Tim Hughes [TH]	Western Power Distribution
Wayne Mullin [WM]	National Grid
Claire Hynes [CH] (Secretariat)	ElectraLink

Apologies	Company
Brian Hoy	ENWL

1 ADMINISTRATION

- 1.1 The Working Group reviewed the “Competition Law Dos and Don’ts”. All Working Group members agreed to be bound by the Competition Laws Do’s and Don’ts for the duration of the meeting.
- 1.2 The Working Group reviewed the DCP 259 Terms of Reference (ToR). All Working Group members agreed to the terms and the work plan set out in the document for the duration of the Working Group.

2 APPOINTMENT OF CHAIR

- 2.1 PT was appointed as the Chair of the Working Group.

3 BACKGROUND AND INTENT OF THE DCP 259 CHANGE PROPOSAL

- 3.1 PM advised that the intent of this CP is to incorporate changes in the Common Connection Charging Methodology (CCCM) to reflect the changes resultant from CUSC ¹Modification Proposal (CMP)223², approved by the Authority on 16th July 2015.
- 3.2 The Working Group noted that CMP 223 is about reflecting the spirit of the change of CMP 192³. CMP 192 introduced new user commitment arrangements for embedded generation in March 2012. This change looked at how the security is worked out and the underwriting

¹ Connection and Use of System Code

² CMP 223 - Arrangements for Relevant Distributed Generators under the Enduring Generation User Commitment

³ CMP 192 - National Grid proposal for enduring user commitment arrangements

known as the 'commitment for generation project'. Prior to CMP 192 pre-commissioning generators were required to post security equal to 100% of their liability. CMP 192 allowed the pre-commissioning generator to reduce the security and better reflect the risk of the liabilities being drawn-down over the lifetime of the project when certain trigger points were reached. Less than four years before commissioning a generator would have to post security equal to 42% of their liability. After key consents have been obtained the security requirements would drop to 10%. In case of early termination of their agreement, generators are required to pay National Grid liabilities reflecting the notice period profile. Should National Grid be unable to recover the liability, the difference between liability and security would be recovered through National Grid's allowed revenue in future years.

- 3.3 For embedded generation, this liability is passed to the DNO and the majority of DNOs then passed this liability to the distributed generation project rather than the reduced security amount. The DNOs wanted surety if the work was terminated they were adequately covered. This removed one of the main benefits of CMP 192 of lower barriers to market entry as a result of reduced securities obligations and more affordable arrangements for small generators. CMP 223 seeks to mirror the security arrangement that National Grid has in place with Distributed Generators.
- 3.4 In the scenario where NGET⁴ enters in to a construction agreement with the DNO and the embedded generator terminates the contract with the DNO, the DNO will pass through any shortfall in the funds they recover from the generator (who will be required to post a reduced amount of security) relative to the total liability to NGET for recovery via TNUoS⁵. DCP 259 CP seeks to incorporate the changes proposed by CMP 223 in Clauses 5.3 and 5.4 of DCUSA Schedule 22.

4 WORKING GROUP ANALYSIS OF THE DCP 259 CHANGE PROPOSAL

- 4.1 One member advised that the CMP 223 solution aimed to de-risk the DNOs in terms of providing recovery of debt via National Grid should the rules be implemented by the DNOs. So long as the DNO applies the same security percentages as National Grid, the DNO will be covered should they receive bad debt from a default on payment where the DNO has adequately chased that debt.
- 4.2 The group noted that Security and Liability are defined by National Grid and discussed whether these definitions could be referenced in the DCP 259 draft legal text. Members noted that Section 15⁶ and Section 3⁷ of the CUSC sets out the items involved in Security.
- 4.3 Clause 5.44A was amended to reflect the charges element and draft Clause 5.44B has been changed to reflect the security element required as set out in Attachment 1. The Working Group discussed whether they should specify the manner by which the DNO passes the security through in Clause 5.44B.
- 4.4 The Working Group discussed cancellation charges. If the DNO has transported a transformer to site for the work required and the generator terminates the work, there are also removal costs for the DNO to consider which the DNO would normally pass on to the generator rather than seek to recover them through TNUoS⁸. The Working Group discussed whether any additional legal text should be added to reflect this point. Members noted that there is a line in CMP 223 that notes that total liability could be greater than the security.

⁴ National Grid Electricity Transmission

⁵ Transmission Network Use of System charges

⁶ Section 16 - User Commitment Methodology

⁷ Section 3 - Use of System

- 4.5 The Working Group noted that the removal costs are a charge usually set out in the section on termination in the DNOs contract with the distributed generator. The Working Group considered whether wording could be added to reflect that if the distributed generator terminates or reduces their requirement for works x, y and z that the termination charges for x, y and z and the costs incurred and removal of assets for a, b and c would also apply. Members noted that removal costs were referred to in CMP 192. Where a generator cancels before the work is completed, National grid will charge an amount to remove the assets and make safe. Attributable costs include some shared assets.
- 4.6 Members discussed the application of charges. A new charge called the cancellation charge was introduced based on National Grids new methodology. If you cancel any of your capacity requirement you are charged on the amount of capacity you have cancelled. For Pre-commissioning generation projects it is a party cancellation charge and for post commissioning projects it is party termination charge which is applied. Sole users provide a capital contribution up front for the next 6 months which is then not included in their cancellation charge.
- 4.7 Members discussed the scenario where a capital contribution to a transformer at a new substation has been received for the building of a new GSP with a radio circuit infrastructure. The radio circuit infrastructure is not part of your connection charge but part of the DUoS cost of the connection. Members considered whether the wording in the draft legal text was sufficient or whether a reference should be made to state that these charges may not feed in to the entire costs that will be levied on you if there is a termination.
- 4.8 In CUSC Section 11⁹ there is a separate definition of Cancellation charge¹⁰. One member suggested wording such as *“Any cancellation charge is part of the users liability. Works undertaken by the Transmission System Operator (TSO) cancellation is not part of those works”* is added to the draft legal text in the section on liability. It was noted that works can apply to connections or cancellation charges.
- 4.9 Members noted that the wording *“we will not carry out credit checks on you in circumstances where the amount of security is less than the full value of the works”* was presented at the Connections Commercial operations Group (CoG) without comment from Ofgem. The concern was that if the DNO carried out credit checks on the generation Parties connecting that they would not fulfil the necessary DCUSA credit requirements and would essentially drop back in to the old wording which required the DNO to hold security for 100% of the liability.
- 4.10 Another member advised that their understanding is where a generator has requested work worth 10 million pounds they must have sufficient credit to provide 45% of the liability and credit on the rest. This would occur where a company is A rated on its credit check. This member advised that the current drafting restricts the right to provide a credit for 4.5 million pounds and proposed the wording *“Where the amount of security is less than the full value of the works we will not carry out credit checks in result of the difference”*. The security requirements are the maximum amount of security against the liability which could be a credit rating.
- 4.11 The Working Group agreed to consider wording which mirrored the National Grid’s security and liability arrangements and wording on the credit checks. PM agreed to re-draft the legal text based on this meetings discussions.

⁹ Section 11 Interpretation and Definitions

¹⁰ 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**;

ACTION 01/01:PM

- 4.12 One member agreed to refine wording at Clause 5.44B set out in Attachment 1.

ACTION 01/02: WM

- 4.13 The Working Group agreed that it would be useful for National Grid to provide a presentation on CMP 192 and CMP 223 to allow the group to better draft the legal text for this change. WM agreed to present on this topic on at the 17 December 2015 meeting.

ACTION 01/03: WM**5 NEXT STEPS**

- 5.1 The DCP 259 Working Group agreed the next steps as follows:
- WM to present on CMP 192 and CMP 223 at the 17 December 2015 Working Group meeting

6 ANY OTHER BUSINESS

- 6.1 There were no items of any other business.

7 NEXT MEETING

- 7.1 The next meeting is scheduled for 10:00am on Thursday, 17 December 2015 via web-conference.

ATTACHMENTS

- Attachment 1 - DCP 259 Draft Legal Text With Proposed Amendments

APPENDIX A: SUMMARY OF ACTIONS

NEW AND OPEN ACTIONS

Action Ref.	Action	Owner	Update
01/01	Re-draft the legal text based on the meetings discussions.	PM	
01/02	Refine the wording in Clause 5.44B set out in Attachment 1.	WM	
01/03	Provide a presentation on the enduring user commitment arrangements at the 17 December 2015 Working Group meeting.	WM	