

Public

National Energy System Operator

Connection Charges – Summary

Effective 1 April 2024

Overview

1. Applications
2. Connection Charges
3. Annual Charge Setting
4. Post Commissioning Securities (Termination Amounts)

Applications

Application fees are payable in respect of applications for new connection agreements, certain use of system agreements and for modifications to existing agreements. The fees are based on the reasonable costs incurred by National Energy System Operator including where appropriate, charges from the Transmission Owners (TO's) in accordance with their charging statements. The application process and options available are detailed in the Statement of Use of System Charging Methodology which is included in Section 14 of the Connection and Use of System Code (CUSC).

The application fee is dependent upon size, type and location of the applicant's scheme.

Users can opt for a variable price application and pay an advance of the Engineering Charges based on the fixed prices, which will be reconciled once the actual costs have been calculated using the charge out rates.

Alternatively, onshore users can opt to pay a fixed price application fee in respect of New and Modified Bilateral Agreement. In some circumstances, where a given application is expected to involve significant costs over and above those normally expected to process an offer of terms, NESO reserves the right to remove the option for a fixed price application fee.

The application fees indicated will be reviewed on an annual basis and reflect any changes to the Boundaries of Influence. It should be noted that the zone to which a particular user is applying is determined by location of the connection to the National Electricity Transmission System and not by the geographical location of the User's plant and equipment.

All application fees are subject to VAT.

Application Fees will be reconciled and/or refunded in accordance with Section 14 of the Connection and Use of System Code (CUSC)

Connection Charges

The Connection Charges are set to recover costs associated with Pre-Vesting and Post Vesting connection assets specified in the connection offer. NESO will invoice one twelfth of the Connection Charge monthly (which may be subject to amendment).

Connection Charges consist of: (1) Capital Charges and (2) Transmission Operation and Maintenance Charges. These are explained further below.

Capital Charges

For assets where the capital costs are recovered through annual connection charges, these charges are based on a rate of return on the Net Asset Value (NAV) plus a depreciation charge based on an expected 40-year life. The rate of return that will be applied to the NAV is 6%. For connection assets where the User has paid 100% (full) capital contribution towards the purchase and installation of the assets, there are no annual capital charges. NESO will recover the cost of connection from the user by means of either:

- a) A full capital contribution charge
- b) Annual capital charge, over the lifetime of the asset

- c) A partial capital contribution charge with reduced annual charges.

For Option (a) where the user has requested and paid full capital contribution there will be no annual capital connection charges (i.e. no depreciation and rate of return charges)

For Option (a) the sum quoted in the construction agreement for the connection assets at the relevant site will become the Gross Asset Value (GAV) of the connection assets for the purposes of calculating the annual Transmission Operation and Maintenance Charges for the site.

For Option (c) where the user has requested and paid partial capital contribution, either pre or post asset commissioning, the annual capital connection charge will recover the remaining capital cost. The annual capital connection charge will become payable the day after commissioning of the connection assets or from the day the connection assets become available for use.

Where the user has elected Option (b) or (c) the capital costs recovered through annual charges are based on a rate of return on the Net Asset Value (NAV) plus a depreciation charge based on a 40 year life. The rate of return that will be applied to the NAV is 6%. The depreciation period for Post vesting connection assets may, by mutual agreement with NESO and the Transmission Owners be less than 40 years but never more than 40.

Calculation of Gross Asset Value (GAV) and Net Asset Value (NAV)

The GAV represents the initial total cost of a connection asset to the Transmission Owner. Typically, the GAV is made up of the following components:

- Construction costs – costs of materials and bought in services;
- Transmission Owner engineering – allocated equipment and engineering costs including overheads;
- Interest during construction – financing cost; and
- Liquidated damages premiums – premiums required to cover Liquidated Damages, if applicable.

The GAV of an asset is re-valued each year using the Retail Price Index (RPI). The formula for this revaluation is therefore as

follows:

$$GAV_n = GAV_{n-1} * RPI_n$$

RPI will be adjusted in accordance of CUSC Section 14.3.6

The NAV of each asset for year n, used for charge calculation, is the average (mid-year) depreciated GAV of the asset. The following formula calculates the NAV of an asset with a 40-year life, where A_n is the age of the asset (number of completed charging years old) in year n:

$$NAV_n = GAV_n * (40 - (A_n + 0.5) / 40)$$

Transmission Operation and Maintenance Charges

The non-capital component of the connection charge is divided into two parts, as set out below. Both non-capital elements will normally be identified in the charging appendices of relevant Bilateral Agreements.

Part A: Site Specific Maintenance Charges

This is a maintenance only component that recovers a proportion of the costs and overheads associated with the maintenance activities conducted on a site-specific basis for connection assets of the transmission licensees.

Site-specific maintenance charges will be calculated each year based on the forecast total site-specific maintenance for GB divided by the total Gross Asset Value (GAV) of the transmission licensees GB connection assets, to arrive at a percentage of total GAV. For 2024/25 this will be 0.38%.

Part B: Transmission Running Costs

The Transmission Running Cost (TRC) factor is calculated at the beginning of each price control to reflect the appropriate amount of other Transmission Running Costs (rates, operation, indirect overheads) incurred by the transmission licensees that should be attributed to connection assets.

The TRC factor is calculated by taking a proportion of the forecast Transmission Running Costs for the transmission licensees (based on operational expenditure figures from the latest price control) that corresponds with the proportion of the transmission licensees' total connection assets as a function of their total business GAV. This cost factor is therefore expressed as a percentage of an asset's GAV and will be fixed for the entirety of the price control period. For 2021/22 to 2025/26 this will be 1.06%.

Annual Charge Setting

Under the terms of the Connection and Use of System Code (CUSC), NESO is required to give at least 2 months' prior written notice of any revisions to Connection Charges. In previous years, we have published draft indicative connection charges prior to 31 January to provide customers with an early indication of the level of their charges. Each year the following areas are reviewed:

- a) The Gross Asset Values (GAV) of Pre-Vesting Connection assets (i.e. those Connections made prior to 30 March 1990), are amended in line with the Retail Price Index (RPI).
- b) The Gross Asset Values of Post-Vesting Connection assets (i.e. those Connections made post 30 March 1990), are re-valued using your chosen revaluation methodology (RPI method or Modern Equivalent Asset (MEA) method).
- c) The indicative net GB Transmission Running Cost factor will be 1.06% derived from the final price control proposals for the period 2021/22 to 2025/26
- d) Indicative GB Site Specific Maintenance charges will be recalculated. This factor is calculated using data from all three Transmission Owners.

We will write out to you confirming your indicative charges for the following financial year and your actual charges. This will include a new Appendix A and B with a copy of your charge book showing the before and after charges.

Post Commissioning Securities

Customers are required under existing User Commitment Arrangements to financially secure NG's spend in relation to their connection.

Pre-Connection customers will receive a security statement from NESO through the bi-annual process in January and July. There are two security methodologies currently in use

- CMP192 – applicable to all generation projects including embedded generators

- Final Sums – applicable to DNOs and directly connected demand

Security is codified in the Connection Use of System Code (CUSC) section 15.

Security is placed by customers and is a proportion of the liability incurred in relation to the works required to facilitate a particular project. Security is returned upon connection of a project.

Through the bi-annual security process the required security must be placed 45 days before the start of the next security period (with the exception of cash securities – please see (CMP351)).

As well as receiving a security statement through the bi-annual process in January and July customers will also receive an updated security with mod offer or new contract offer. Upon the signing of a contract or contract variation the customer has 30 days to place the required security.