

Patrick Hynes
Electricity Charging & Access
Development Manager
UK Transmission
patrick.hynes@nationalgrid.com
Direct tel.: 01926 656319

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Dear Industry Colleagues,

User Commitment for Non-Generation Users

In March 2011, National Grid raised CUSC Modification Proposal 192 (CMP192 - Arrangements for Enduring Generation User Commitment¹). This proposal was raised in response to concerns expressed by the industry and Ofgem over the existing interim user commitment arrangements (Final Sums and IGUCM). These concerns centred on the arrangements being a barrier to new entrants in the generation market, and hence interconnectors and large demand customers were not considered. As stated in the CMP192 guidance document published in May 2012², it was anticipated that these users would be allowed to remain on the interim arrangements until such time as there was sufficient regulatory certainty to develop enduring arrangements for them. Ofgem are now consulting on this extension³, and concurrently National Grid are asking for industry views on how and when enduring arrangements for user commitment from these parties should be developed.

At the time that CMP192 was raised and developed, the EU Internal Market in Electricity as a result of the Third Package classified interconnector (cross-border) flows as physical flows on a transmission network of a Member State that results from the impact of activity of producers and/or consumers outside that member state. The historical treatment of those flows within the GB market as either production (generation) or consumption (demand) was therefore no longer appropriate. Interconnectors are defined under the Third Package as transmission spanning member states and so should be considered as part of the overall transmission infrastructure facilitating the wider market. Interconnector owners are therefore now designated as transmission owners (TOs), and this has created a number of regulatory issues due to their historical treatment in GB as generators.

The regulatory uncertainty around interconnector treatment and the small number and low impact of new large demand customers, combined with the different drivers behind their development, ensured that these parties were out of scope of CMP192.

¹ CMP192 Final Workgroup Report: <http://www.nationalgrid.com/NR/rdonlyres/179CC9F2-F71B-4862-86EA-8847892DD225/48255/CMP192WorkgroupConsultationFinalv10.pdf>

² Guidance for Implementation of CMP192: http://www.nationalgrid.com/NR/rdonlyres/16CC2A9D-6732-4C49-A78B-6A9557159AAB/53464/CUSC_15_CMP192_guidance_v1.pdf

³ Ofgem's consultation on interim user commitment arrangements for non-generation network users: <http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/Documents/1/20121025%20Extension%20of%20Interim%20arrangements.pdf>

Ofgem approved CMP192 in April 2012, and it now forms a new Section 15 of the CUSC. At the same time, Ofgem initiated a review into the overall framework for coordination of transmission investment, known as the Integrated Transmission Planning & Regulation (ITPR)⁴. An open letter was published on 23rd March 2012, in which Ofgem stated that they would be reviewing the interaction between onshore, offshore and interconnection investment regimes, with one of the main drivers being the development of the regulatory regime for interconnectors.

The fundamental principles of user commitment as introduced by CMP192 are that the System Operator (SO) seeks user commitment from the generators connected to a TO, based on the generator's TEC (Transmission Entry Capacity), in order to reflect the liability that the SO has with each TO under the STC (SO/TO Code). The current regulatory regime for interconnectors has a number of areas of uncertainty which impinge upon possible user commitment developments. Some key considerations are detailed below:

- The majority of interconnectors are unlikely to have directly-connected generation, and where they do, it may well be less than the capability of the interconnector itself. The generation may also be in a different regulatory jurisdiction, making the application and enforcement of user commitment liability more difficult.
- Interconnectors are transmission, not generation, so whilst historically they have had TEC, this may not be appropriate in the future as TEC includes rights and obligations specifically around system injection, and interconnectors can also be demand. If a different capability figure is used to determine user commitment for interconnector owners, does this represent the access rights of the interconnector? If it does, what precedence does it have over the TEC of proximate generators when identifying system constraints, and does it also apply to levels of offtaking?
- Interconnector owners are not currently considered within the STC, and as such the SO has no liability towards them. Furthermore, interconnector owners are not required to have a licence until they are commissioned (although in some cases they have applied for one prior to this), and they are not required to be signatories to any code until they have a licence. This means that the majority of onshore transmission assets requiring user commitment will have been constructed by the time the interconnector owner receives a licence.
- Onshore and offshore TOs do not provide user commitment to the SO for developments on their systems, instead the SO has a liability to these TOs on behalf of the users who contract directly with it. The justification for seeking user commitment from one type of TO but not others has not been demonstrated.

National Grid considers that these aspects need to be addressed for the development of user commitment arrangements for interconnectors to be achieved, and we expect the forthcoming ITPR initial consultation to consider these issues as a minimum. National Grid considers that it is therefore an appropriate time to canvass industry views on user commitment for interconnectors and large demand users, particularly:

⁴ Ofgem's ITPR website: <http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/itpr/Pages/index.aspx>

- a) What interactions the review may have with other regulatory initiatives
- b) What the appropriate timescales are for initiating a review
- c) How the issues raised in this letter might be addressed through the review
- d) Are there any significant issues that have not been identified in this letter
- e) What the appropriate timescales are for implementing enduring arrangements

NG would welcome industry parties' views on these points, along with any related issues that parties feel are relevant, by 15th December. These responses will inform National Grid's decision on the most appropriate way to progress the development of user commitment for non-generation users, although this does not preclude other CUSC signatories raising proposals in this area. Please send responses to adam.sims@nationalgrid.com or by post to:

National Grid House - Floor B3,
Warwick Technology Park,
Gallows Hill,
Warwick,
CV34 6DA

Please mark clearly any responses that should be treated as confidential, the details of which will not be made public. If you would like to discuss any of these points further, please do not hesitate to contact me or Adam Sims (01926 655292).

Yours faithfully,

Patrick Hynes

Electricity Charging & Access Development Manager