

Guide to Termination Amounts (Post-Commissioning Securities)

The aim of this document is to provide users with an overview of Termination Amounts, also known as Post-Commissioning Securities in relation to Section 2 of the Connection Use of System Code (CUSC).

What are Termination Amounts?

Termination amounts are the amounts required as security if the user disconnects from the transmission system during the period that the transmission assets are chargeable to the user.

Why do customers have to provide such security?

The Transmission Owners have invested in assets which generally have a 40-year life span. This long-term commitment must be secured by the user. Should the user disconnect from the network the Transmission Owners would not be able to recover the costs of the assets which have been provided.

How do customers provide this security?

Customers will generally provide security in one of the following forms:

- A Bank Guarantee
- A bond
- A Letter of Credit
- A Cash payment to be held in a National Grid ESO Escrow Account

If the user secures with a Letter of Credit by the 15th February with the credit covering April to March, this would also cover the October to March statement. They will be informed of the amounts but would not be required to do anything further.

If the user secures with a Letter of Credit by the 15th February for a 6-month period, would be required to provide another Letter of Credit by the 15th of July to cover October to March.

If the user secures with a Cash payment by the 15th February, for April to March they would receive a refund in August to the value of 6 months' connection charges. National Grid ESO will have recovered this via monthly connection charges, therefore no need to secure as the user would have already paid.

What is the process?

Bi-annually, National Grid ESO has a CUSC obligation to provide the customer with 75 days' notice of the amounts it needs to secure for the forthcoming 6 or 12-month period as follows:

- By 15th January – amounts due for the 12 months April to March of the following financial year. The user must lodge security with National Grid ESO at least 45 days prior to 1st April, that is by 15th February. The amounts will be calculated using the indicative Site Specific Maintenance (SSM) charge. This can be found in the users Indicative Connection Charges sent in December.

- By 15th July – amounts due for the 6 months October to March of the current financial year. The user must lodge security with National Grid ESO at least 45 days prior to 1st October, that is by 15th August. The amounts will be calculated using the Final Site Specific Maintenance (SSM) Charge. This can be found in the users Final Connection Charges sent in January.

How are the amounts calculated?

The amounts are calculated based on the End of Year NAV (Net Asset Value) + 6 or 12 months of connection charges.

Example: April to March

£1,000,000.00 (NAV) + £106,102.56 (12 months connection charge) = £1,106,102.56 (Termination Amount)

Example: October to March

£1,000,000.00 (NAV) + £53,051.28 (6 months connection charge) = £1,053,051.29 (Termination Amount)

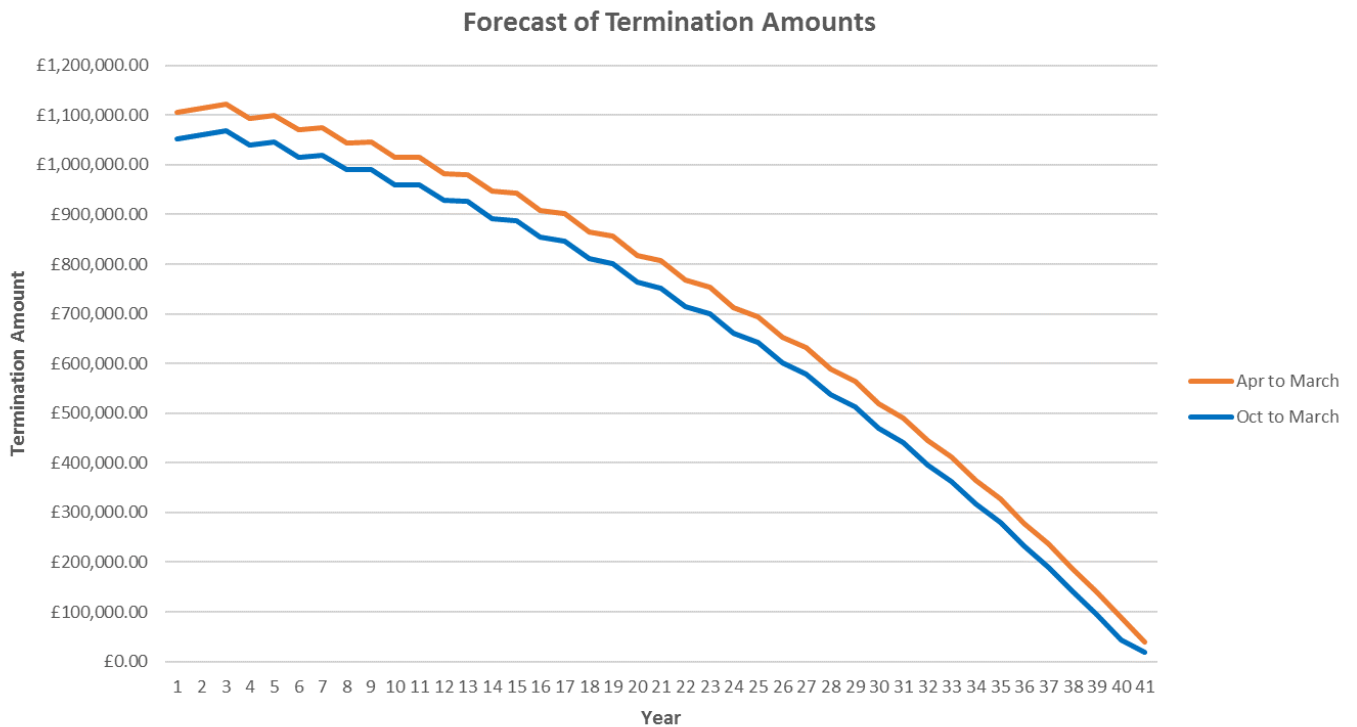


Figure 1: How the Termination Amounts vary over time assuming an initial GAV of £1,025,641.03 with constant inflation 1.33%, SSM of 0.45% and TRC of 1.47%. After the 40 year depreciation, there is no capital charge.