

[Working Group Alternative A3 + B3]

USER COMMITMENT PRINCIPLES

Introduction

This section describes the methodology and principles used to calculate the Cancellation Charge associated with User Commitment.

1. CANCELLATION CHARGE

Where a **Construction Agreement** between **The Company** and a **TEC User** is terminated such **User** shall be liable under the terms of that **Construction Agreement** to pay to **The Company** the **Cancellation Charge**. In addition a **TEC User** will be liable for final sums (as defined in the **Construction Agreement**) in respect of any **One Off Works** in such **Construction Agreement**.

The **Cancellation Charge** to be payable by the **User** in such circumstances shall be calculated in accordance with principles set out in this Section of the CUSC.

For the avoidance of doubt on termination of a **Construction Agreement** between **The Company** and a **Non TEC User** such **User's** liability is based on payment of **Final Sums** (as provided for in the **Construction Agreement**) rather than **Cancellation Charge**.

The **Cancellation Charge** will be the applicable **User Commitment Amount** in the event that the **Construction Agreement** is terminated prior to the **Trigger Date** or the applicable **Cancellation Amount** in the event that the **Construction Agreement** is terminated on or after the **Trigger Date**. The liability for the **Cancellation Charge** falls away in the event that the **Construction Agreement** is not terminated prior to or on the **Completion Date** in the **Construction Agreement**. The amounts and profile of the **User Commitment Amount** and **Cancellation Amount** throughout the term of the **Construction Agreement** will be specified in a **User's Construction Agreement**.

User Commitment Amount

Where the **Completion Date** in the **Construction Agreement** is more than seven full years after signature of the **Construction Agreement** (which will be assumed for these purposes to be the last day of the period for accepting the **Offer**) the **User Commitment Amount** will be £0 on termination any time prior to the date seven years before the **Completion Date**.

Where the **Completion Date** in the **Construction Agreement** is more than four full years but less than seven full years after signature of the **Construction Agreement** the total **User Commitment Amount** will be

£1/KW on termination for the first full 12-month period, and will increase by £1/KW increments for each following 12-month period until the **Trigger Date** subject to a cap of £3/KW.

Value Added Tax will be payable on the **User Commitment Amount** in each **Cancellation Period**.

Cancellation Amount

The **Cancellation Amount** shall apply for each 12-month period up to a maximum of 4 years before the Completion Date and will be calculated on the following basis:

$$\text{Cancellation Amount}_t = \text{TEC} * \text{Generation TNUoS}_z * X * T_t$$

Where:

- *Cancellation Amount_t* is the liability due on termination of a **Construction Agreement** in the full relevant year
- *TEC* is the **Transmission Entry Capacity** requested (in KW)
- *Generation TNUoS_z* is either the zonal Generation TNUoS tariff (subject to a minimum £3/KW) applicable to the generation project and published in the **Statement of Use of System Charges** or where a generation TNUoS zone does not exist for a given offshore or island location at the time of the **User's** application, the tariff which will be consistent with the Transmission Network Use of System Charging Methodology will be provided by **The Company** to the **User** in the **Offer**).
- *X* is a multiplier and is established by **The Company** at the beginning of each Transmission Price Control Period. For **Offers** made during the period April 2007 to April 2012 it will be six.
- *T_t* is a fraction which varies according to the number of full years from the **Completion Date** to the **Trigger Date**. In the full 12-month period(t) prior to the **Completion Date** T is equal to 1. In the full 12-month period prior to year t (t-1) T is equal to 75%. In the full 12-month period prior to t-1 (t-2) T is equal to 50%. In the full 12-month period prior to t-2 (t-3) T is equal to 25%.

Value Added Tax will be payable on the **Cancellation Amount** in each **Cancellation Period**.

The **Cancellation Amount** will be based on the applicable Generation TNUoS tariff at the time of the **Offer**. Where the period of an Offer crosses a charging year, the applicable Generation TNUoS tariff that will be used shall be the Generation TNUoS tariff prevailing on the last day on which the Offer can be accepted.

Trigger Date

In making an **Offer** to a **User** **The Company** will consider the **Construction Works** and **Construction Programme** associated with that **Offer** and taking into account the nature and programming of the **Construction Works** and the **Consents** associated with this identify a date in the **Construction Agreement** as the **Trigger Date**. **The Trigger Date** will be specified in **Appendix Q** in the **User's Construction Agreement** and will equate to when **The Company** reasonably believes it will incur significant costs in relation to the **Construction Works** associated with that **Offer**.

Cancellation Charge Profile

Using the above principles **The Company** will identify a trigger date and a **Cancellation Charge** profile showing sums due by reference to termination of the **Construction Agreement** within specified periods based on the **Construction Programme** and **Construction Works** with a **User's Construction Agreement**. The profile and the TNUOS tariff will assume a start on the last day that the **User** could accept the **Offer** and will be specified in Appendix R in a **User's Construction Agreement**.

There may be circumstances where the **Trigger Date** is the date of signature of the **Offer**.

Changes to Construction Programme or Construction Works or TEC

Where the **Construction Programme** or the **Construction Works** or **Transmission Entry Capacity** subsequently change from that in the original **Construction Agreement** the following principles will apply in respect of reassessing the **Trigger Date** and the **Cancellation Charge**.

Where such change is as a result of **The Company's** exercise of its rights under the **Construction Agreement** then:

- (1) The appropriateness of the **Trigger Date** (if any) against such revised **Construction Programme** or **Construction Works** and shall revise the **Trigger Date** accordingly; and
- (2) The profile of the **User Commitment Amount** (if any) revised accordingly on the basis of the number of full years from signature of the original **Construction Agreement** to the new **Trigger Date**; and
- (3) The profile of the **Cancellation Amount** revised accordingly on the basis of the number of full years from the new **Completion Date** to the new **Trigger Date**.

A revised Appendix R to a **User's Construction Agreement** will be issued by **The Company** to the **User** showing this new profile.

Where such change is as a result of the **User's** request then notwithstanding any change in the **Construction Works** or **Completion Date**:

- 1) Where the revised **Construction Programme** alters the period of full years between the date of signature of the original **Construction Agreement** and the **Trigger Date** the **User Commitment Amount** will remain at the amount at the time the user requested the change until the **Trigger Date**; or
- 2) The **Cancellation Amount** will be frozen at the prevailing level and remain at that level for the period of the slippage.

A revised Appendix R to a **User's Construction Agreement** will be issued by **The Company** to the **User** indicating the revised **Completion Date** and **Trigger Date** if applicable and liabilities due on termination of the **Construction Agreement**.