

<b>CUSC Amendment Proposal Form</b>	<b>CAP: 168</b>
<b>Title of Amendment Proposal:</b>	
<b>Transmission Access – Under-use and reallocation of TEC</b>	
<b>Description of the Proposed Amendment</b> <i>(mandatory by proposer):</i>	
<p>In summary the proposed arrangement would work as follows.</p> <p>CAP168 centres on the introduction of an under-use charge for transmission entry capacity (TEC).</p> <p>Incentivised by an <b>under-use charge</b> (additional to TNUoS payments) based on a pre-set multiple of TNUoS payments, parties would make available TEC they do not require by assigning the right to use such TEC to third parties on a bilateral basis. This might be on either a temporary basis within-year or for longer-term blocks of a year (or both). In the case of within-year provision already exists under CUSC 6.34 for CUSC parties to offer unwanted TEC to other grid users but only in certain defined circumstances, and this has not been utilised. Consequently CAPI68 would introduce a daily and a weekly access product. Annual blocks could also be sold individually or in multi-year bundles under this proposal.</p> <p>The assignee would assume the TNUoS liability (proportionate if within-year) and the associated liability for any subsequent under-use in respect of the assigned TEC.</p> <p>Alternatively usage rights could be returned to National Grid, who could facilitate the market in access rights as part of the proposed incremental capacity release mechanism (CAPI61).</p> <p>In the event of under-use charges being incurred for a period of time (say, two years) as a result of a TEC holder failing to assign or return unused capacity, a further <b>“use it or lose it” mechanism</b> would be introduced. This would require the return of that capacity to National Grid unless the TEC holder is able to evidence a requirement for its use in the subsequent year or to confirm that it has offered to sell the unused capacity on reasonable terms into the market.</p> <p>Rights would continue to be defined <b>nodally</b>, so provisions would be needed to establish exchange rates for annual or forward TEC trades. The CAPI42 bulletin board could be developed to allow willing buyers and sellers to meet and trade if CAPI61 were not implemented. However if CAPI61 were implemented there would be interaction between this proposal and SO incremental release.</p> <p>All TEC holders would be obligated to provide surety in the form of a <b>user commitment amount</b> over the period prior to the trigger date and a cancellation amount between the trigger date and the completion date. This would be structured in the same way as under the relevant elements of CAPI65, which would replace the existing final sums regime. Similarly, user commitment charges and cancellation charges would be applied.</p> <p>A <b>capacity reduction charge</b> would also be introduced to incentivise orderly notification of withdrawal of generation from the system in the event such notice is not given. Other aspects of the user commitment principles as proposed by CAPI65 would also be adopted.</p> <p>Fuller notes on how the proposal would work are attached.</p>	
<b>Description of Issue or Defect that Proposed Amendment seeks to Address</b> <i>(mandatory by proposer):</i>	
<p>Under the existing transmission access arrangements a long queue of applications for new connection capacity has developed. There are significantly more applications than available unallocated capacity, and some generators may be constrained or delayed or even not able to</p>	

develop owing to lack of secure transmission access. Much of this generation “in the queue” is low carbon. This situation has arisen at a time when the UK requires connection of significant amounts of new generation capacity due to its ageing generation fleet, to deal with expected plant withdrawals to comply with environmental regulations and to meet demanding renewables and CHP targets.

To compound matters there is presently little incentive for existing transmission access right holders to release TEC when it is not being used. Such instances include::

- planned or unplanned outages
- when there is uncertainty around the timing of commissioning of new plant
- where an operator considers there is potential for increasing future output beyond current expected operating conditions
- where an operator wishes to come off the system for a period of time for commercial reasons, perhaps because of operating limits imposed by the Large Plant Combustion Directive (LCPD), and
- where an operator considers there are strategic reasons to preserve unused capacity perhaps because it has future plans for additional generation.

Although there is already scope for securing additional access (under CAP70 and CAP94) and for limited trading (CAPI42) within-year, the proposer considers the current rules are deficient to deliver robust trading of TEC rights. Consequently TEC holders can be unwilling to give up TEC they know they will not use in the short to medium term but which they expect to need in the medium to long term as they could lose all future rights to that released capacity, and as a result the system operator has an inaccurate picture of available system capacity and any local surplus.

The proposal entails the introduction of a mechanism—an under-use charge—that will foster the more efficient use of TEC and “enhanced access rights trading” for TEC holders and those looking to increase TEC to provide greater flexibility during periods of under-utilisation of transmission capacity. It is designed to:

- encourage more efficient use of existing network capacity, by
  - causing currently unused TEC to be released to make spare transmission capacity available to other grid users, including those in “the queue”
  - freeing up TEC when maintenance or other prolonged outage occurs or where an operator’s view of likely operating or commodity pricing parameters changes
  - providing financial incentives to encourage users to better manage their TEC to reflect the level of expected usage
- in so doing stimulate TEC trading
- through freeing up access to the grid, enable the execution of more efficient balancing actions by the system operator, potentially reducing total balancing costs
- use any additional monies arising from under-use or resale of TEC by the system operator to offset total balancing costs.

Additionally proposals already in process also have merit in terms of encouraging more efficient allocation of TEC. However CAPI68, especially if implemented with some combination of CAPI61-164 (but not either CAPI65 or CAPI66), would provide:

- much stronger incentives for existing TEC holders to release unused or surplus capacity on the

transmission grid, and

- a more orderly, enduring approach for making available unused transmission access rights in a timely manner.

Consequently by implementing CAPI68 in combination with CAPI61-164 DECC and Ofgem objectives for TAR can be achieved without a disproportionate upheaval to the current transmission access arrangements. Such an approach would therefore mitigate unnecessary risks and delays to new investment.

CAPI68 also takes on board the fundamental requirement that generators need to have certainty over their access to the system in order to ensure a route to market for their power. To achieve this, they already commit significant monies to guarantee the necessary investment on the network to accommodate their expected production, and a developer already provides significant funding for the local works needed to connect it. It has also led to the development of final sums liability arrangements whereby the generator also underwrites investment in the wider system in return for TEC—that is, rights to capacity and its use—that are in effect renewable annually.

**Impact on the CUSC** (*this should be given where possible*):

The impact on the CUSC would include, but may not be limited to, changes in Section 2 (Connection), 3 (Use of System), 6 (General Provisions) and 9 (Interconnectors). There would also be consequential changes required to Section 11 (Interpretation and Definitions), and potentially to the CUSC Schedules and Exhibits.

**Impact on Core Industry Documentation** (*this should be given where possible*):

No impact on Core Industry Documentation has been identified, but it is suggested that potential impacts would be reviewed during the assessment of the proposed amendment.

**Impact on Computer Systems and Processes used by CUSC Parties** (*this should be given where possible*):

CUSC parties' models of the financial viability of new existing power stations and interconnectors would need to take into account the revised arrangements. Any necessary system, process and operational changes would need to be assessed. If CAPI61 in particular but also CAPI63 were implemented, the additional requirements arising from implementation of CAPI68 should be minimal.

**Details of any Related Modifications to Other Industry Codes** (*where known*):

The interaction with the current charging mechanism has been addressed in the proposal. It is recognised that many of the issues identified in the various GB ECM pre-consultations that closed late 2008 would apply equally. Further there would need to be additional changes to the charging methodology statement to implement under-use charges.

**Justification for Proposed Amendment with Reference to Applicable CUSC Objectives\*\*** (*mandatory by proposer*):

The proposal has real merit under the CUSC applicable objectives on its own (that is, without implementation of any or all of CAPI61 -164).

The proposed amendment would better facilitate the achievement of Applicable CUSC Objective (a), the efficient discharge by the licensee of the obligations imposed upon it under the Act and by the licence, in that the more efficient use of transmission capacity will create more efficient investment signals. In turn this would result in consequentially reduced risk of transmission asset

stranding, and would better allow National Grid as the relevant licensee to discharge its obligation under the Act to develop and maintain an efficient, co-ordinated and economical system of electricity transmission.

The proposed amendment would also better facilitate the achievement of Applicable CUSC Objective (b), facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity as:

- existing and new generators would be required to provide equivalent levels of user commitment thereby ensuring the equitable treatment of the two groups, and
- existing unused capacity could be reallocated with certainty to new entrants permitting earlier connection in some instances boosting competition and removing a barrier to entry.

More generally the mechanism would facilitate creation of an efficient access capacity trading market that would increase use of the existing grid, facilitate the flow of new projects onto the system and their earlier timing thus helping tackle the queue and reinforcing other measures underway, and therefore deliver significant competitive benefits.

Given these impacts CAPI68 would also facilitate progress against politically critical low carbon targets (further reinforcing beneficial efficiency impacts). It would create strong incentives on capacity hoarders to release capacity and enable unused capacity to be released into the market or returned to the SO. It would also add a more orderly, certain process than allowing over-run without securing the underlying access right, with particular benefits for new entrants who would not be able to rely on the proposed overrun arrangements under the proposed CAPI62.

By introducing CAPI68 in combination with other changes—notably incremental system operator release (CAPI61) and capacity sharing (CAPI63)—it would deliver additional benefits to those listed above under the applicable objectives.

<b>Details of Proposer:</b> Organisation's Name:	ConocoPhillips
<b>Capacity in which the Amendment is being proposed:</b> (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Maureen McCaffrey ConocoPhillips 020 7408 6785 <a href="mailto:maureen.mccaffrey@conocophillips.com">maureen.mccaffrey@conocophillips.com</a>
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Nigel Cornwall Cornwall Energy 01692 407865 <a href="mailto:nigel@cornwallenergy.com">nigel@cornwallenergy.com</a>
<b>Attachments—Yes</b> <b>If Yes, Title and No. of pages of each Attachment:</b>  Further detail on proposal—4 pages.	

**Notes:**

1. Those wishing to propose an Amendment to the CUSC should do so by filling in this "Amendment Proposal Form" that is based on the provisions contained in Section 8.15 of the CUSC. The form seeks to ascertain details about the Amendment Proposal so that the Amendments Panel can determine more clearly whether the proposal should be considered by a Working Group or go straight to wider National Grid Consultation.
2. The Panel Secretary will check that the form has been completed, in accordance with the requirements of the CUSC, prior to submitting it to the Panel. If the Panel Secretary accepts the Amendment Proposal form as complete, then he will write back to the Proposer informing him of the reference number for the Amendment Proposal and the date on which the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, then he may reject the Proposal. The Panel Secretary will inform the Proposer of the rejection and report the matter to the Panel at their next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform the Proposer.

The completed form should be returned to:

Bali Virk  
Panel Secretary  
Commercial Frameworks  
National Grid  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

Or via e-mail to: [bali.virk@uk.ngrid.com](mailto:bali.virk@uk.ngrid.com)

(Participants submitting this form by email will need to send a statement to the effect that the proposer acknowledges that on acceptance of the proposal for consideration by the Amendments Panel, a proposer which is not a CUSC Party shall grant a licence in accordance with Paragraph 8.15.7 of the CUSC. A Proposer that is a CUSC Party shall be deemed to have granted this Licence).

3. Applicable CUSC Objectives\*\* - These are defined within the National Grid Electricity Transmission plc Licence under Section C7F, paragraph 15. Reference should be made to this section when considering a proposed amendment.

## Attachment – further description

Incentivised by an under-run charge, access rights trading needs to accommodate a range of possible outcomes where a TEC holder may wish to:

- release unused TEC for a period less than a year<sup>1</sup>
- release unused TEC on a longer-term, annual basis, and/or
- in some circumstances divest unused TEC rights where they are no longer required.

Further, in the interests of open access, the proposer believes there should be a mechanism to deal with situations where a TEC holder retains capacity despite incurring under-use charges for a period of time and where the TEC holder might not be able to demonstrate a certain future requirement for its use.

The methodology proposed by CAPI68 incorporates the following key features:

- all existing TEC holders maintain their existing TEC rights in circumstances where they are being used
- all TEC holders with a connection agreement (that is connecting and operating parties) would be obligated to provide surety in the form of a user commitment amount over the period prior to connection (that is, when they are in the queue), and such surety would be structured as per the proposed user commitment principles under CAPI65
- post commissioning the TEC holder would pay TNUoS “in the usual way”
- there would be a new under-use charge (in essence an access imbalance charge) that would be levied on the difference between a generator’s reported maximum demand on at least three separate days across the year (and not just over the triad period) in a given year and its booked TEC reflected in the bilateral connection agreement
- the under-use charge would apply in positive charging zones<sup>2</sup> and should be based on a multiple of the sum of the relevant zonal TNUoS charge (the locational charge plus the residual element) foregone by not using the full booked TEC
- the multiple would be not less than one and a half times the applicable TNUoS charge but a more cost-reflective rationale could be examined<sup>2</sup>
- TEC holders would be able to assign TEC for a minimum of a day<sup>3</sup> on either a fixed duration or in multiple annual strips to third parties seeking increased or new TEC
- to facilitate liquidity and flexibility within-year a daily and weekly access product would be available
- standard contracts would be established as a CUSC exhibit for assignment of TEC
- extra monies above expected TNUoS payments received by the system operator from under-use charges or from the resale of TEC assigned to it would also be used to help offset BSUoS
- alternatively the monies could be ring-fenced and used by the system operator to invest in operational enhancements

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<sup>1</sup> There is a consensus that existing within-year products (which concern only unallocated TEC), namely Short-term TEC and Limited Duration TEC, have not created the necessary flexibility, and have seen limited use. The Temporary TEC Exchange introduced under CAPI42 has not been used.

<sup>2</sup> No additional mechanism is needed for generation in negative zones as there is already an incentive to generate to achieve TNUoS payments.

<sup>2</sup> To incentivize the release of genuinely unused TEC, this multiple or charge could be scaled up over time (for instance to two times in year two).

<sup>3</sup> There would need to be a mechanism to ensure that a user could not sell a single day’s capacity to avoid one year’s under-run charges.

- if an operator were exposed to under-use charges in excess of a defined level of TEC for more than two consecutive years [or three years in five], procedures would be initiated to compel the TEC holder to release the unused capacity into the market or reassign the TEC on a permanent basis to the system operator unless the TEC holder could evidence a clear requirement for it in the third [or a subsequent] year
- all existing holders of TEC would be required to give two years' notice of their intention to reduce or withdraw capacity (other than through the TEC assignment mechanism outlined above)
- the CAPI42 bulletin board would be used to enable willing buyers to transact with willing sellers<sup>4</sup> and could also be extended to publicise both unused TEC and closure declarations<sup>5</sup>
- developers or new generation schemes would be able to subscribe for new TEC "in the usual way", subject to meeting user commitment requirements.

The detailed rules would depend on whether the offer of assignment of TEC rights was:

- within-year or for annual rights
- triggered by sustained under-utilisation.

In more detail:

#### **Short-term (within-year)**

- to the extent an operator does not require it, it can already under CAPI42 offer this to the market but only on a temporary basis, and a third party purchaser could be identified and the access right for the defined period sold
- an alternative option under CAPI68 would be to offer the TEC back to the system operator
- if CAPI61 were approved blocks would be made available in one week or one day blocks
- if CAPI61 were not approved, TEC for a period of four weeks to fifty one weeks would be offered but CAPI68 would extend this facility to daily or weekly blocks<sup>6</sup>
- under either approach an exchange rate mechanism for trades would need to be applied
- the TNUoS charges payable by the assignee in relation to the transferred TEC should be calculated on the same basis that the initial holder would have faced on the transferred TEC over the relevant part of the year covered by the assignment
- a mechanism would be required to establish proportionate charges where daily and weekly blocks were traded
- the purchaser would be subject to any under-use in the same way as the seller would have been (again taking into account any daily or weekly availability)
- the under-use charge would be calculated relative to the three highest demands recorded by the user across the year *during the period for which it holds the TEC* irrespective of whether they occurred over the triad period
- this charge should be based initially on a multiple of one and a half times the appropriate TNUoS charge.

#### **Annual strips**

- an operator may make available to the market their excess TEC to any other operator who requires TEC (at which time TEC and all its rights and obligations will be transferred) in annual "strips"<sup>3</sup>

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<sup>4</sup> Consideration should be given to broadening the scope of the exchange to cover all unbooked capacity.

<sup>5</sup> Alternatively CAPI61 mechanisms could be used for release of TEC assigned back to the SO if that change were approved.

<sup>6</sup> In other words anything less than a year and anything prescribed as the minimum under CAPI42.

- as within-year an option would be to offer the TEC back to the system operator
- the TNUoS charge payable by the assignee in relation to the transferred TEC should be the same that the initial holder would have faced on the assigned capacity
- for annual traders there would be no need to provide for part usage of the capacity within year
- there would need to be an under-use charge applied in the event the reallocated TEC was not used by the purchaser, again levied in the same way that the charge would have applied to the initial TEC holder
- this charge should also be based on a multiple of one and a half times the appropriate TNUoS charge.

#### **Use it or lose it**

- if the same TEC is not used or assigned for two years continuously [or three years in five] and the operator cannot provide evidence to the system operator that it will use the capacity in the third year [or a subsequent relevant year] and has taken reasonable steps to offer the unused TEC to the market, the operator could be required to offer that TEC back to the system operator or to other grid users on a permanent basis
- further if any plant incurs under-use charges for at a defined level in any two year period [or any three years in five] its TEC could be reduced to the level where the under-use would not have incurred
- to the extent an operator holds TEC that has been assigned by another operator under the reallocation mechanism, the assignee would pay the TNUoS liability and be charged for any under-use on the transferred TEC holding.

#### **Closing Plant**

Closing plant shall be required to give two years' full notice of its intention to close. Where two years' notice is properly given, no transmission charges should be incurred once the plant has closed. However where only one year's notice is given, the plant will pay 50% of the transmission charges it would have incurred. These charges would be incurred even if the associated TEC were subsequently sold to the system operator or into the market.

#### **New Plant**

All operators commit to pay three years' worth of TEC going forward; this aggregate sum shall be subject to the existing CUSC security arrangements, but with the amounts adjusted in the event that any TEC is reassigned. The trigger point and other definitions would be as proposed under CAPI65. TEC reservations may not exceed that that the plant of the owner could physically produce and would be a value less than the contracted CEC.

#### **SO buy-back**

The CAPI68 proposal has assumed that unused rights are sold bilaterally or returned to the SO to avoid under-use charges. Options involving SO buy-back could also be addressed during the assessment.

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<sup>3</sup> CAPI42 applies only to within-year trades.