Overview of Contestable Connection Asset Payments

USER

1. Applies for connection, asking for contestable construction

USER

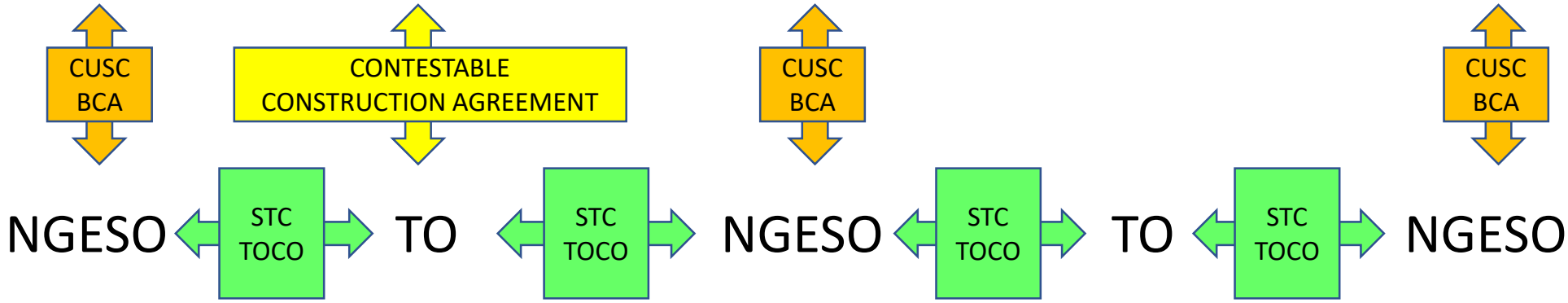
3. User accepts SO BCA.
4. TO-User establish contestable construction agreement
5. User proceeds to build assets for £10m
6. On completion, TO pays £10m to adopt asset
   INPUT VAT *

USER

9. User Pays 100% capital contribution of £11m+RoR through TOCO (£11.66m)
   OUTPUT VAT *

USER

13. User pays Connection charges based on indexed £11m GAV (£0 NAV) for SSM and TRC charges only



2. TO – NGESO Agreement established including indicative 'all-in' asset values of planned adoptable connection assets

7. TO contestable construction agreement costs and overheads £1m added to adoption payment to inform Gross Asset Value of £11m
8. TOCO Gross Asset Value £11m

10. NGESO Pays 100% capital contribution through to TO.
11. Net Asset Value reduced to £0.

12. TO site specific charges based on £0 Net Asset Value. Charges based on indexed £11m GAV for site specific maintenance (SSM) and transmission running cost (TRC) factors only

* The procurement of assets at full value as Input VAT and the related capital contribution as Output VAT have to be transacted as gross amounts for HMRC tax purposes.

Steps from Flow Diagram	TO - User Contestable Construction Agreement		NGESO - User BCA		NGESO-TO TO Construction Offer	
	TO	User	User	NGESO	NGESO	TO
5. User Builds Asset under a bilateral TO-User contestable construction agreement		£10m				
6. TO Adopts Asset under contestable construction agreement This is actioned with **INPUT VAT** as procurement of goods	£10m	(£10m)				
7. TO includes Contestable Contract TO costs and overheads to inform Gross Asset Value of adopted Connection Assets in TOCO	£1m					£1m
8. TO Formalises Gross Asset Value and advises NGESO as part of charge setting / charge notification in TOCO	£11m					£11m
9. NGESO seeks 100% capital contribution plus CUSC 6% rate of return from User, in line CUSC 14.3.10, per scheduled capital contributions payment in BCA (backing off TOCO schedule) This is actioned with **OUTPUT VAT** by NGESO as sale of services			£11.66m	(£11.66m)		
10. TO seeks 100% capital contribution plus rate of return from NGESO					£11.66m	(£11.66m)

Cost and Charge component summary		User
TO Adoption payment under constestable construction agreement	Cost	£10m
TO contestable construction agreement PM costs and overheads	Cost	£1m
TO Gross Asset Value	Asset	£11m
Rate of Return	Return	£0.66m
User Capital Contribution under CUSC BCA	Charge	£11.66m
TO Net Asset Value	Residual Asset Value	£0m
TO/NGESO Ongoing Connection Charge	Charge	(£0m x WACC%) + (Indexed £11m GAV x (SSM + TRC))

14.3.10 In addition a number of options exist:

- a capital contribution based on the allocated GAV at the time of commissioning will reduce capital. Typically a capital contribution made in advance of or at the time of commissioning will include costs to cover the elements outlined below and charges are calculated as set out in the equations below;
  - Construction costs
  - Engineering costs (Engineering Charge x job hours)
  - Interest During Construction (IDC)
  - Return element (6%)
  - Liquidated Damages Premium (LD) (if applicable)

General Formula:

Capital Contribution Charge = (Construction Costs + Engineering Charges) x (1+Return %) + IDC + LD Premium

- MEA revaluation which is combined with a 7.5% rate of return, as against 6% on the standard RPI basis;
- annual charges based on depreciation periods other than 40 years;
- annuity based charging;
- indexation of GAVs based on principles other than MEA revaluation and RPI indexation. No alternative forms of indexation have been employed to date.

14.3.11 For new connection assets, should a User wish to agree to one or more of the options detailed above, instead of the standard connection terms, the return elements charged by the transmission licensee may also vary to reflect the re-balancing of risk between the transmission licensee and the User. For example, if Users choose a different indexation method, an appropriate rate of return for such indexation method will be derived.

14.3.12 A User can choose to make a capital contribution based on the allocated and depreciated NAV of a commissioned asset. For a capital contribution to take account at the start of charging year n, the User may, at most once per year, make a full or partial capital contribution of at least 10% of the NAV prevailing as of 31st March in year n-1. The User shall notify the Company of the capital contribution amount no later than 1st September in year n-1, and pay the capital contribution 45 days prior to the start of charging year n which will be applied to the NAV prevailing at the start of year n.
As the capital component of the connection charge for year n will reduce as a result of the capital contribution, a reduced rate of return element will be payable and a lower security requirement will be required in charging year n and subsequent years.