



AMENDMENT REPORT

CUSC Proposed Amendment CAP089/090/091

CAP089 Maximum Unsecured Credit Limit

CAP090 Credit Limits for Rated Companies

**CAP091 Establishment & Maintenance of an Unsecured
Credit Allowance for Rated & Unrated Companies**

*The purpose of this report is to assist the Authority
in their decision of whether to implement CUSC
Amendment Proposal CAP089/090/091*

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1.0 SUMMARY AND RECOMMENDATION

- 1.1 Ofgem published a conclusions document on best practice guidelines for gas and electricity network operator credit cover in February 2005. (“Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover”, referred to hereafter as “the best practice guidelines.”) CAP089/090/091 seeks to better facilitate the applicable Code objectives by addressing and codifying certain elements of these guidelines.
- 1.2 CAPs089 and 090 were proposed by National Grid and submitted to the CUSC Amendments Panel for consideration at their meeting on 20th May 2005. CAP091 was proposed by BizzEnergy at the same meeting. The Amendments Panel determined that the issue should be considered by a Working Group. Whilst the Working Group discussed the best practice guidelines, the assessment of the Original CAP089/090/091 proposal and the five Working Group Alternative Amendments was, as with all other Amendment proposals, done against the Applicable Code Objectives.
- 1.3 The Working Group reached a view that it would be more appropriate for the CAP089 and CAP090 proposals to be amalgamated, and permission for this was sought, and granted, and the meeting of the Amendments Panel on 24th June 2005. Following further exploration of the issues, the Working Group reached a view that it was also appropriate to seek permission to amalgamate CAP091 with the combined CAP089/090 proposal. The Amendments Panel agreed to this at their meeting on the 29th July 2005.
- 1.4 The CAP089/090/091 Working Group Report, which included details of five proposed Working Group Alternative Amendments, was submitted to the meeting of the Amendments Panel on 25th August 2005. The Amendments Panel determined that the issue was appropriate to proceed to wider industry consultation by National Grid.
- 1.5 The Consultation Paper for CAP089/090/091 was published by National Grid on 2nd September 2005, placed on the CUSC website and copies sent to Core Industry Document Owners and CUSC Parties. Responses were invited by close of business on 3rd October 2005.
- 1.6 National Grid received a total of 9 responses to the Consultation for CAP089/090/091. National Grid and two respondents to the Consultation (BizzEnergy and Scottish and Southern Energy) proposed 51 Consultation Alternative Amendments to CAP089/090/091. As with the Working Group Alternative Amendments, all Consultation Alternative Amendments have been proposed against the Applicable CUSC Objectives. Under the terms of the CUSC this required a further period of consultation to be undertaken in order to allow the industry to consider the proposed Consultation Alternative Amendments, and this Consultation Alternative Amendment Consultation Paper was published by National Grid on 10th October 2005. Responses were invited by close of business on 24th October 2005.
- 1.7 National Grid received a total of 6 responses to this further Consultation for CAP089/090/091.

National Grid Recommendation

- 1.8 National Grid does not believe that the original CAP089/090/091 proposal better facilitates the Applicable CUSC Objectives to enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfil its obligations to facilitate competition in the

generation and supply of electricity. We believe that, under this proposal, the Value at Risk is under-estimated, and that the scoring mechanism for the proposed Independent Credit Assessments is flawed, both of which would result in National Grid less efficiently discharging its obligations. Consequently, National Grid does not recommend approval of the original CAP089/090/091 proposal.

- 1.9 However, National Grid does believe that many of the proposed alternatives would better facilitate the Applicable CUSC Objectives to enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfil its obligations to facilitate competition in the generation and supply of electricity. Our favoured option is Consultation Alternative Amendment CAA45, but reference should be made to section 9 of this document for a full explanation of National Grid's recommended alternatives.
- 1.10 Following a determination by the CUSC Amendments Panel, should the Authority approve CAP089/090/091, implementation should be on the 1st of the month, at least 6 weeks after the Authority decision (see section 7 for further detail).

2.0 PURPOSE AND SCOPE OF THE REPORT

- 2.1 This Amendment Report has been prepared and issued by National Grid under the rules and procedures specified in the Connection and Use of System Code (CUSC) as designated by the Secretary of State. It addresses issues relating to the establishment and maintenance of unsecured credit allowances for rated and unrated companies.
- 2.2 Further to the submission of Amendment Proposal CAP089/090/091 (see Annex 1) and the subsequent wider industry consultation that was undertaken by National Grid, this document is addressed and furnished to the Gas and Electricity Markets Authority ("the Authority") in order to assist them in their decision whether to implement Amendment Proposal CAP089/090/091.
- 2.3 This document outlines the nature of the CUSC changes that are proposed. It incorporates National Grid's recommendations to the Authority concerning the Amendment. Copies of all representations received in response to the consultation and further consultation have been included and a summary of the representations received is also provided. Copies of each of the responses to the consultation and further consultation are included as Annex 3 and 4 of this document.
- 2.4 This Amendment Report has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid website, at <http://www.nationalgrid.com/uk/indinfo/cusc>

3.0 THE PROPOSED AMENDMENT

- 3.1 The original, amalgamated, CAP089/090/091 proposal consists of 5 elements which are listed below:
 - The introduction of a maximum unsecured credit limit of 2% of National Grid Electricity Transmission plc's Regulatory Asset Value (RAV);

- Credit allowances for companies with an Approved Credit Rating (ACR) of BB- or above, ranging from 15% to 100% of the maximum unsecured credit limit;
- A default credit allowance for unrated companies, or rated companies without an Approved Credit Rating, based on their payment record;
- An option for unrated companies, or rated companies without an Approved Credit Rating, to gain a credit allowance based on an Independent Credit Assessment;
- The replacement of the existing requirement to secure 10% of TNUoS Demand charges with an amount based on each User's forecasting performance in the previous year (this is referred to as the Value at Risk, or VAR).

Each of these five elements is described in more detail in paragraphs 3.6 - 3.15.

- 3.2 The first element above, the introduction of a maximum unsecured credit limit, was originally proposed under CAP089.
- 3.3 The second element, the determination of credit allowances for companies with Approved Credit Ratings, was originally proposed under CAP090. However, the mechanism proposed by CAP090 was contingent on the implementation of CAP089, and the two proposals were therefore combined.
- 3.4 The third, fourth and fifth elements, credit allowances set by Payment Record, those set by Independent Assessment, and the revision to VAR, were originally proposed under CAP091. However, the third and fourth elements, credit allowances set by Payment Record and by Independent Assessment, were also both contingent on the introduction of a maximum unsecured credit limit as proposed by CAP089, and so CAP091 was also amalgamated with CAP089/090.
- 3.5 For the avoidance of doubt, the scope of CAP089/090/091 is limited to credit arrangements related to Balancing Services Use of System (BSUoS) charges and Transmission Network Use of System (TNUoS) Demand charges.

Maximum Unsecured Credit Limit

- 3.6 The best practice guidelines recommended that Network Operators should set a maximum unsecured credit limit based on 2% of their RAV. Currently there is no limit to the unsecured credit available if a User has an Approved Credit Rating for Use of System charges of at least BBB- (or equivalent). (The Standard and Poor's ratings scale is used throughout this document; such references such should be read as the rating in question or equivalent.) CAP089/090/091 therefore proposes that a maximum unsecured credit limit be defined in the CUSC based on 2% of National Grid Electricity Transmission (NGET) plc's RAV.

Credit Allowances for companies with Approved Credit Ratings

- 3.7 The best practice guidelines also recommended that individual counterparty credit limits, and those that use Parent Company Guarantees, should be set using credit ratings applied under the "Basel II" rules for determining bank capital adequacy. The implication of this is that there would be a maximum credit allowance of 100% of the maximum unsecured credit limit for parties with a credit rating of AAA or AA. At the other end of the scale, parties with a credit rating of BB- would be extended a maximum credit allowance of 15%

of the maximum unsecured credit limit. CAP089/090/091 therefore proposes to alter the definition of Approved Credit Rating, such that BB- (rather than BBB-) is the minimum acceptable, and to introduce the following scale of credit allowances:

Maximum credit limit = 2% RAV (~£102m for NGET)

Credit rating (Standard and Poor's)	Credit allowance as % of maximum credit limit (Based on Basel II model)	Approximate credit allowance
AAA/AA	100	£102.0m
A	40	£40.8m
BBB+	20	£20.4m
BBB	19	£19.3m
BBB-	18	£18.4m
BB+	17	£17.3m
BB	16	£16.3m
BB-	15	£15.3m

Default Credit Allowance based on Payment Record

- 3.8 CAP089/090/091 also proposes to establish a default unsecured credit allowance for unrated companies, or rated companies without an Approved Credit Rating. In accordance with Ofgem's best practice guidelines, each party would be accorded an increasing allowance based on their payment record, climbing at 0.4% per year (escalating on an evenly graduated basis each month within year) of the maximum unsecured credit limit to a maximum of 2% after five years of perfect payment history.

Credit Allowances based on Independent Credit Assessments

- 3.9 The best practice guidelines also recommended that unrated companies, or rated companies without an Approved Credit Rating, should have the option to have an unsecured credit allowance set by submitting an Independent Assessment of its creditworthiness. Such an assessment would replace the allowance for payment record due to the potential for double counting.
- 3.10 The best practice guidelines further suggested that the Independent Assessment could be given by one of a panel of three assessment agencies selected by the Network Operator. An annual assessment could be paid for by the Network Operator if requested by the counterparty. Any intermediate assessment could be paid for by the party that requested it. The assessment could take the form of a score of 0 to 10. A company scoring nought would not be suitable for any allowance of unsecured credit, where as a company scoring 10 could be eligible for up to 20% of the maximum unsecured credit limit. Suggested credit allowances for each of the intermediate steps were also detailed.
- 3.11 The CAP089/090/091 proposal is consistent with these recommendations, and would therefore produce the following unsecured credit allowances:

Maximum credit limit = 2% RAV (~£102m for NGET)

Credit assessment score	Credit allowance as % of maximum credit limit	Approximate credit allowance
10	20	£20.4m
9	19	£19.4m
8	18	£18.4m
7	17	£17.3m
6	16	£16.3m
5	15	£15.3m
4	13-1/3	£13.6m
3	10	£10.2m
2	6-2/3	£6.8m
1	3-1/3	£3.4m
0	0	£0.0m

Summary of Unsecured Credit Limits

3.12 The first four elements of the CAP089/090/091 proposal therefore detail three ways in which unsecured credit allowance would be determined for Users. These are summarised in the table below:

Maximum credit limit = 2% RAV (~£102m for NGET)

Credit rating	Credit assessment score	Years of perfect payment history	Credit allowance as % of maximum credit limit	Approximate credit allowance
AAA/AA	n/a	n/a	100	£102.0m
A			40	£40.8m
BBB+	10		20	£20.4m
BBB	9		19	£19.4m
BBB-	8		18	£18.4m
BB+	7		17	£17.3m
BB	6		16	£16.3m
BB-	5		15	£15.3m
<BB-	4		13.33	£13.6m
	3		10	£10.2m
	2		6.67	£6.8m
	1		3.33	£3.4m
	n/a		5	2
		4	1.6	£1.6m
		3	1.2	£1.2m
		2	0.8	£0.8m
1		0.4	£0.4m	
0	0	£0.0m		

3.13 The above table shows the overlap between the credit allowances available to Users with an Approved Credit Rating and those available to Users submitting an Independent Assessment, which occurs between 15% and 20% of the maximum unsecured credit limit. For unrated companies, this was explicitly the intention of the best practice guidelines, as in the view of that document “an unrated company could potentially be as creditworthy as a rated company in the lower two bands and therefore from a consistency point of view, should be able to achieve an unsecured allowance of 20% of the

NWO's [Network Operator's] maximum credit limit" (Best Practice Guidelines for Network Operator Credit Cover, paragraph 3.21).

- 3.14 However, the Best Practice Guidelines also stated that rated companies with a credit rating below BB- should only "be able to achieve an unsecured allowance of up to 13-1/3 per cent of the NWO's maximum credit limit" (paragraph 3.27), or, in other words, be scored between 0 and 4 in an Independent Assessment. However, neither CAP089/090/091 as originally proposed, nor any of the Working Group Alternative Amendments or Consultation Alternative Amendments described later in this document, place any restriction on rated companies without an Approved Credit Rating from being scored between 5 and 10 in an Independent Assessment. In practice, it is difficult to envisage such a situation arising, and despite the issue being highlighted in the consultation document, no parties raised alternatives to address the issue.

Value at Risk

- 3.15 The fifth, and final, element of CAP089/090/091 is the proposed amendment to the Value at Risk (VAR) in relation to TNUoS Demand charges. Currently the CUSC defines the VAR for Use of System Charges as:
- For Generators, 29 days of BSUoS Charges; or
 - For Suppliers, 32 days of BSUoS Charges; and
 - For TNUoS Demand Reconciliation Charges, 10% of the User's annual TNUoS Charge.

It is proposed to replace the 10% relating to TNUoS Demand Reconciliation Charges with an amount of within year TNUoS Security based on each User's forecasting performance in the previous year.

4.0 WORKING GROUP DISCUSSIONS

- 4.1 The CAP089/090/091 Working Group considered each of the five elements of the proposal, and these discussions are summarised below. The Working Group also considered the monitoring of Users' credit and Transitional Issues involving in establishing the new regime proposed by CAP089/090/091, and these discussions are summarised at the end of this section.

Maximum Unsecured Credit Limit

- 4.2 In relation to the establishment of the maximum unsecured credit limit of 2% of RAV, there were discussions about how National Grid's Regulatory Asset Value would be calculated and how frequently this would be reviewed. It was concluded that the values published in Ofgem's Final Proposals document for the Transmission Price Control Review were the most appropriate values due to their transparency. These are annual values relating to the forecast RAV in each year over the regulatory period. National Grid believed that as these figures were published at the beginning of the regulatory period, and would be re-published in the event of a major change, they would be the most accurate values to use.

Credit Allowances for companies with Approved Credit Ratings

- 4.3 In order to accommodate the credit limits as illustrated in 3.7 above, it is necessary to alter the current definition of Approved Credit Rating in the

CUSC. There was some debate as to where this definition should be changed – currently it is defined as A1 (the short term equivalent to A-) in Section 11 of the CUSC, but with the proviso that National Grid may approve a lower rating. Such a lower rating (of BBB-) is set out in the introduction to the CUSC. The Working Group decided to amend the definition in Section 11 such that a rating of BB- was acceptable. The reference in the introduction would therefore become redundant and could be removed.

- 4.4 The Working Group also discussed Qualifying Guarantees, and decided it was appropriate to attempt to amend the wording in the CUSC such that the entity issuing the Qualifying Guarantee must have a Credit Rating of such a level that would cover the required security amount.

Default Credit Allowance based on Payment Record

- 4.5 In relation to the unsecured credit to be extended to Users based on their payment record, it was felt by a number of the Working Group, including the proposer, that returning the counterparty to zero allowed credit following one failure to pay, perhaps through administrative error, was too severe. Not only would such a step seem disproportionate, but it could also lead to disputes over the circumstances of such a failure to pay, given the high stakes involved. The Working Group therefore agreed that the User's payment record for the purposes of calculating its allowed credit would be unaffected until a User failed to pay within 2 business days of the due date, in order to give reasonable time for any administrative oversight. In the first instance of a late payment beyond this limit, the User's allowed credit would be reduced by 50%. In the second instance in a 12 month period it would be reduced to zero. In the month following a late payment, the User could again start to earn allowed credit at the rate of one-twelfth of 0.4% of the maximum unsecured credit limit, given on-time payment in that month.

Credit Allowances based on Independent Credit Assessments

- 4.6 The Working Group discussed the mechanism that should apply for a User's Allowed Credit to be set by an Independent Credit Assessment. In line with Ofgem's best practice guidelines, it was proposed that an annual assessment for any User that requested it be paid for by National Grid. If the User requested a further assessment within the 12 month period, such an assessment would be valid for the recalculation of the User's Allowed Credit, but would be paid for by the User. As assessments would be obtained by the User, National Grid would have the right to request that the User obtain further assessments at any time, but these would be paid for by National Grid.
- 4.7 A number of the Working Group disagreed with this proposal, noting that if National Grid was incurring higher costs as a result of having to pay for Independent Credit Assessments it was likely to seek to pass these through to consumers via an increase in its Allowed Revenue. There was therefore concern that Users' Independent Assessments would be cross subsidised, whereas Users with credit ratings would incur the full costs of obtaining their ratings. The proposer did not share these concerns.
- 4.8 The Working Group discussed in detail the scoring of Independent Credit Assessments. Ofgem's best practice guidelines suggested that such an assessment could take the form of a score of 0 to 10, with 0 indicating that the company would not be suitable for any allowed unsecured credit and 10 indicating that the company would be eligible for 20% of the maximum unsecured credit limit (a level equivalent to a company with a rating of BBB+).

A company scoring 1 would be extended unsecured credit of $3\frac{1}{3}\%$ of the maximum unsecured credit limit, or approximately £3.4m. Some of the Working Group, including National Grid, felt that a more granular scoring system would be helpful as the maximum unsecured credit that assessment agencies would recommend extending to some small users could be an order of magnitude less than the £3.4m suggested by a score of 1. In this case, the alternative would be to score such Users zero, which clearly would not reflect the amount of unsecured credit deemed to be appropriate. Nevertheless, the proposer felt that the 0 to 10 scoring system suggested by Ofgem's best practice guidelines was the most appropriate, and the proposal was developed on this basis.

Value at Risk

4.9 The Working Group discussed the Value at Risk for TNUoS charges. Currently, 10% of Users' annual TNUoS Demand Charges are held as security for TNUoS Demand Reconciliation Charges to cover the period between Initial Demand Reconciliation (based largely on settlement data from the SF run) and Final Demand Reconciliation (based on RF data) 14 months later. A number of the Working Group, including the proposer, believed that RF data varied from SF data by less than 1% on average, and therefore queried the derivation of the 10% requirement. They also highlighted the fact that the overall demand across all Suppliers would stay constant, that there would be no systematic bias in the movements of any one User's settlement data, and that Suppliers could take actions to reduce the magnitude of such changes (although they could not influence their direction). In response, National Grid suggested that:

- The variation between SF and RF data may have decreased over time
- The requirement should cover most, if not all, variations, not just the average
- The 10% was a round number that represented an acceptable compromise between offering National Grid some security cover without unduly burdening Users, as detailed below.

National Grid suggested that an accurate quantification of the Value at Risk would result in a requirement considerably higher than 10%. It was recognised that such a quantification would include within year risk, and the level of this risk was queried. In response, National Grid highlighted a potential exposure of up to 25% of Suppliers' annual payments within year, as it only has the right to impose a demand forecast on Suppliers where the Supplier's forecast is less than 80% of National Grid's. National Grid would also be exposed to Non-Half-Hourly (NHH) metered demand charges for the first 15 days each month before monthly invoices were paid by Users. For Half-Hourly (HH) metered demand charges the situation is considerably more complicated, due to the timing of the Triad, although it is quite possible for User to have incurred a full annual liability with 3 monthly payments still to be made (25% of annual liability at risk). In addition, there would be the reconciliation risk, which National Grid quantified at 2.5% following analysis of Final Reconciliation data over the last 3 years, excluding outliers.

4.10 The proposer believed that the most appropriate mechanism for setting levels of TNUoS Security was one that incentivised Users to forecast accurately. CAP089/090/091 therefore proposes to replace the 10% relating to TNUoS Demand Reconciliation Charges with an amount of within year TNUoS Security based on each User's forecasting performance in the previous year. While some of the Working Group had reservations as to whether previous

forecasting performance would be an accurate indicator of future performance, most agreed that the concept had at least some merit.

Credit Monitoring

- 4.11 There were discussions surrounding how frequently each User's Allowed Credit (that proportion of the maximum unsecured credit limit extended to a User by National Grid) should be monitored. National Grid proposed that when a User reached 85% of their allowance that National Grid would provide notice of the proximity to the limit. If a User presented aggregate Value At Risk (VAR) in excess of 100% of the credit allowance, National Grid would provide notice that additional security was required to cover the amount by which the VAR exceeded the credit allowance. The User would then be allowed two business days to put the appropriate level of cover in place. If the cover required for a User was altered by a revised TNUoS demand forecast being submitted, the User would be allowed one month following National Grid's acceptance of their forecast to put the appropriate level of cover in place.
- 4.12 Conversely, the Working Group discussed the timescales for National Grid to agree to reduce a User's security cover. It was agreed that a period of five business days was appropriate.

Transitional Issues

- 4.13 At the last meeting of the Working Group, the section of Ofgem's best practice guidelines relating to Transitional Issues was raised. This suggested that where new arrangements were to be implemented that required additional collateral from counterparties, the requirement should be evenly increased over the year following implementation such that full compliance would be achieved by the anniversary of implementation. Many of the Working Group members believed this phasing should apply to the difference between the requirements currently existing in the CUSC and those proposed by CAP089/090/091, whilst others, including the proposer, believed that the phasing should be based on the security currently provided by Users, even if this was less than what was currently required.
- 4.14 The Working Group was unable to reach agreement on this issue, but agreed that the amendment worked without any phasing being included. Hence, the Security requirements as contained in the original proposal and all five Working Group Alternatives would take effect in full, were any of the proposals to be implemented, from that implementation date. The Working Group therefore agreed that were any members to subsequently decide that phasing needed to be incorporated within the amendment proposal they would raise Consultation Alternative Amendments to this effect, and this point was explicitly highlighted to the Amendments Panel when the CAP089/090/091 Working Group report was presented, and to the industry in the consultation document.

Impact on the CUSC

- 4.15 The Working Group reviewed and approved the legal text to give effect to CAP089/090/91, which is attached as Part A of Annex 2 of this document.

5.0 WORKING GROUP ALTERNATIVE AMENDMENTS

5.1 Whilst the Working Group was able to successfully develop the original CAP089/090/091 proposal, many of the Working Group did not agree with either the principle or the detail of one or more of the five elements included. As a result, five Working Group Alternative Amendments were proposed, and these are summarised in the table below:

	Original Proposal	WGAA1	WGAA2	WGAA3	WGAA4	WGAA5
2% RAV	Yes	Yes	Yes	Yes	Yes	Yes
ACR	Yes	Yes	Yes	Yes	Yes	Yes
Payment Record	Yes	No	Yes	Yes	Yes	No
Independent Assessment	0-10 NGC Pays	No	0-100 NGC Pays	0-10 User Pays	0-100 User Pays	0-100 User Pays
VAR	Forecasting Performance	No	Forecasting Performance +2.5%	Forecasting Performance	Forecasting Performance +2.5%	Forecasting Performance +2.5%

5.2 **Working Group Alternative Amendment 1** was supported by a number of the Working Group, and aims to just give effect to CAP089 (the establishment of a maximum unsecured credit limit of 2% of RAV) and CAP090 (setting credit limits for companies with an Approved Credit Rating). None of the provisions proposed by the original pre-amalgamation stand alone CAP091 would be included. The proposer believed that the case for the original CAPs089 and 090 better facilitating the Applicable CUSC Objectives to enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfill its obligations to facilitate competition in the generation and supply of electricity was more clear cut than for the, in their view, somewhat more complex and contentious CAP091.

5.3 **Working Group Alternative Amendment 2** was proposed in order to facilitate the extension of unsecured credit to smaller Users by increasing the granularity of the scoring of Independent Credit Assessments. These would be scored between 0 and 100, with each step of 1 representing 0.2% of the maximum unsecured credit limit, such that a company scoring 100 would be extended 20% of the maximum unsecured credit limit. This Alternative Amendment also provides for the Value at Risk to be defined as the User's forecasting performance from the previous year plus an amount equal to 2.5% of the User's annual charge. The 2.5% represents security cover for reconciliation charges, consistent with the percentage suggested by National Grid, which would be entirely deleted by the original proposal. The proposer of WGAA2 believed that it, when compared to the original proposal, more accurately captured the Value at Risk, increasing efficiency; that it, through the scoring of Independent Credit Assessments on a scale of 0-100, would allow the more accurate quantification of risks, again increasing efficiency; and that this scoring would also increase the likelihood of small Users receiving some unsecured credit, better facilitating competition.

5.4 **Working Group Alternative Amendment 3** was proposed to address perceptions of a cross-subsidy between the industry and Users benefiting from Independent Credit Assessments. To counteract this, Users would pay

for the first such assessment, and re-assessments on an annual basis. Where National Grid requested a re-assessment less than 12 months from the last assessment, National Grid would pay. Where National Grid requested a re-assessment more than 12 months from the last assessment, and the User refused to pay for this, the User's unsecured credit allowance would default back to that set by the User's payment record. In all other respects WGAA3 is identical to the original proposal. The proposer of WGAA3 believed that it, when compared to the original proposal, further increased efficiency by attributing the costs of Users' Independent Assessments in a cost reflective manner and better facilitated competition through the reduction of cross-subsidies.

- 5.5 **Working Group Alternative Amendment 4** applies the mechanism for the payment for Independent Credit Assessments described under WGAA3 to WGAA2. In all respects other than the payment of Independent Credit Assessments WGAA4 is identical to WGAA2. The proposer of WGAA4 believed that it further increased efficiency by attributing the costs of Users' Independent Assessments in a cost reflective manner and better facilitated competition through the reduction of cross-subsidies, when compared to WGAA2.
- 5.6 **Working Group Alternative Amendment 5** is identical to WGAA4 except that provisions relating to the unsecured credit allowance determined by Users' payment records would be removed. The proposer of this Alternative Amendment believed it to be more efficient as he did not believe a User's historical payment record to be a good indicator of the likelihood of future payments being made. In this Alternative Amendment, the default unsecured credit allowance for Users without an Approved Credit Rating would be zero.

Impact on the CUSC

- 5.7 The legal text to give effect to each of these alternatives is attached as Parts B-F of Annex 2 of this document.

6.0 CONSULTATION ALTERNATIVE AMENDMENTS

- 6.1 As a result of the wider industry consultation on the original proposal and the five Working Group Alternative Amendments, a total of 51 Consultation Alternative Amendments were proposed: 6 by Scottish and Southern Energy, 19 by BizzEnergy and 25 by National Grid. Scottish and Southern, in their response (CAP089/090/091-CR-07), suggest one alternative. However, after further discussions, it was clarified that the proposed amendment was equally applicable to the original proposal and all five Working Group Alternative Amendments (WGAA 1-5), and therefore resulted in six Consultation Alternative Amendments. Similarly, BizzEnergy propose four alternatives (CAP089/090/091-CR-01) which, following similar discussion, actually resulted in 19 Working Group Alternative Amendments, as demonstrated below:

Original Proposal & Working Group Alternative Amendments		Original Proposal	WGAA1	WGAA2	WGAA3	WGAA4	WGAA5	
		National Grid & Bizz	E.ON UK	National Grid	E.ON UK	E.ON UK	Centrica	
"The Five Elements"	2% RAV	Yes	Yes	Yes	Yes	Yes	Yes	
	ACR	Yes	Yes	Yes	Yes	Yes	Yes	
	Payment Record	Yes	No	Yes	Yes	Yes	No	
	Independent Assessment	0-10 NGC Pays	No	0-100 NGC Pays	0-10 User Pays	0-100 User Pays	0-100 User Pays	
	VAR	Forecasting Performance	No	Forecasting Performance +2.5%	Forecasting Performance	Forecasting Performance +2.5%	Forecasting Performance +2.5%	
Consultation Alternative Amendments	SSE	Credit Ratings Changes (A)	1	2	3	4	5	6
	BizzEnergy	1 - "suitable"	7	X	8	9	10	11
		2 - "transition" (B)	12	13	14	15	16	17
		3 - "payment record" (C)	18	X	19	20	21	X
		2+3	22	X	23	24	25	X
	National Grid	Change VAR (D)	26	X	27	28	29	30
		No VAR	31	X	32	33	34	35
		Phasing (E)	36	37	38	39	40	41
		Change VAR + Phasing	42	X	43	44	45	46
		No VAR + Phasing	47	X	48	49	50	51

In the table above, an "X" indicates that the combination is not applicable, and the letters A-E in blue bold represent modules of indicative legal text (see below).

6.2 Given the unprecedented number of Consultation Alternative Amendments that have been raised, National Grid discussed with Ofgem whether it would be appropriate to set out a further 51 versions of legal text in full, given that this would potentially have led to a Consultation Document of over 1000 pages. Ofgem agreed that it is not necessary to set out full legal drafting for each of the Consultation Alternative Amendments. However, the following paragraphs describe the legal drafting that would result for each of the Consultation Alternative Amendments by reference to the legal text for the Working Group Alternative Amendments and the five modules of indicative legal text contained as Parts A-E of Annex 3 of this document. On this basis, it is possible to derive the legal text for each of the 51 Consultation Alternative Amendments.

6.3 **Consultation Alternative Amendment 1 (CAA1)** was proposed by Scottish and Southern Energy to change the percentages of the maximum unsecured credit limit that would be extended as an unsecured credit allowance to

parties with A+, A, and A- credit ratings in the original proposal. This is shown in the table below:

Credit rating (Standard and Poor's)	Credit allowance as % of maximum credit limit Original Proposal	Credit allowance as % of maximum credit limit CAA1
AAA/AA	100	100
A+	40	80
A	40	70
A-	40	60
BBB+	20	20
BBB	19	19
BBB-	18	18
BB+	17	17
BB	16	16
BB-	15	15

Although the ratings of A+ and A- were not explicitly referenced in the table in the Original Proposal, they were implicitly included under A, and would therefore have resulted in a credit allowance of 40% of the maximum credit limit. The legal text for CAA1 would therefore be derived by amending the table in paragraph 1 of Appendix 1 of Section 3 of the CUSC as proposed under the Original Proposal as shown in Part A of Annex 3 of this document.

- 6.4 **Consultation Alternative Amendment 2 (CAA2)** was also proposed by Scottish and Southern Energy, and would introduce the table described in paragraph 6.3 above into WGAA1. The legal text for CAA2 would therefore be derived by amending the table in Appendix 1 of Section 3 of the CUSC as proposed under WGAA1 as shown in Part A of Annex 3 of this document.
- 6.5 **Consultation Alternative Amendment 3 (CAA3)** was also proposed by Scottish and Southern Energy, and would introduce the table described in paragraph 6.3 above into WGAA2. The legal text for CAA3 would therefore be derived by amending the table in paragraph 1 of Appendix 1 of Section 3 of the CUSC as proposed under WGAA2 as shown in Part A of Annex 3 of this document.
- 6.6 **Consultation Alternative Amendment 4 (CAA4)** was also proposed by Scottish and Southern Energy, and would introduce the table described in paragraph 6.3 above into WGAA3. The legal text for CAA4 would therefore be derived by amending the table in paragraph 1 of Appendix 1 of Section 3 of the CUSC as proposed under WGAA3 as shown in Part A of Annex 3 of this document.
- 6.7 **Consultation Alternative Amendment 5 (CAA5)** was also proposed by Scottish and Southern Energy, and would introduce the table described in paragraph 6.3 above into WGAA4. The legal text for CAA5 would therefore be derived by amending the table in paragraph 1 of Appendix 1 of Section 3 of the CUSC as proposed under WGAA4 as shown in Part A of Annex 3 of this document.
- 6.8 **Consultation Alternative Amendment 6 (CAA6)** was also proposed by Scottish and Southern Energy, and would introduce the table described in paragraph 6.3 above into WGAA5. The legal text for CAA6 would therefore be derived by amending the table in paragraph 1 of Appendix 1 of Section 3 of the CUSC as proposed under WGAA5 as shown in Part A of Annex 3 of this document.

- 6.9 **Consultation Alternative Amendment 7 (CAA7)** was proposed by BizzEnergy, and would add the word “suitable” to the definition of “Approved Agency” in the Original Proposal. In the view of the proposer, this would cover off a situation of Agencies being appointed to undertake Independent Assessments who are not active in rating small companies or who are for any other reason unsuitable. The legal text for CAA7 would therefore be derived by inserting the word “suitable” between the words “three” and “independent” in the definition of “Approved Agency” in the Original Proposal.
- 6.10 WGAA1 does not include Independent Assessments, and therefore a further amendment to change the definition of “Approved Agency” would not be relevant.
- 6.11 **Consultation Alternative Amendment 8 (CAA8)** was proposed by BizzEnergy, and would add the word “suitable” to the definition of “Approved Agency” in WGAA2. The legal text for CAA8 would therefore be derived by inserting the word “suitable” between the words “three” and “independent” in the definition of “Approved Agency” in WGAA2.
- 6.12 **Consultation Alternative Amendment 9 (CAA9)** was proposed by BizzEnergy, and would add the word “suitable” to the definition of “Approved Agency” in WGAA3. The legal text for CAA9 would therefore be derived by inserting the word “suitable” between the words “three” and “independent” in the definition of “Approved Agency” in WGAA3.
- 6.13 **Consultation Alternative Amendment 10 (CAA10)** was proposed by BizzEnergy, and would add the word “suitable” to the definition of “Approved Agency” in WGAA4. The legal text for CAA10 would therefore be derived by inserting the word “suitable” between the words “three” and “independent” in the definition of “Approved Agency” in WGAA4.
- 6.14 **Consultation Alternative Amendment 11 (CAA11)** was proposed by BizzEnergy, and would add the word “suitable” to the definition of “Approved Agency” in WGAA5. The legal text for CAA11 would therefore be derived by inserting the word “suitable” between the words “three” and “independent” in the definition of “Approved Agency” in WGAA5.
- 6.15 **Consultation Alternative Amendment 12 (CAA12)** was proposed by BizzEnergy, and would add to the Original Proposal a clause permitting a transition from the credit parties currently have on deposit with National Grid to that which would be required under the new arrangements. The transition would be linear and would last for 12 months after which time the full amount of credit should be lodged with National Grid. In the view of the proposer the provision is required in order to allow parties to raise any necessary additional funding in an ordered and sensible manner. The proposer further clarified that this alternative should also include the proposal relating to the insertion of the word “suitable” into the definition of “Approved Agency” (see paragraph 6.9). The legal text for CAA12 would be derived by adding a new paragraph 3.27 as in Part B of Annex 3 of this document to the legal text for the Original Proposal. The word “suitable” would also be inserted between the words “three” and “independent” in the definition of “Approved Agency” in the Original Proposal.
- 6.16 **Consultation Alternative Amendment 13 (CAA13)** was proposed by BizzEnergy, and would add to WGAA1 a clause relating to transition as described in paragraph 6.15 above. Insertion of the word “suitable” into the definition of “Approved Agency” would not be relevant to this alternative, as

WGAA1 does not contain Independent Assessments. The legal text for CAA13 would be therefore derived by adding a new paragraph 3.27 as in Part B of Annex 3 of this document to the legal text for WGAA1.

- 6.17 **Consultation Alternative Amendment 14 (CAA14)** was proposed by BizzEnergy, and would add to WGAA2 a clause relating to transition as described in paragraph 6.15 above. The legal text for CAA14 would be derived by adding a new paragraph 3.27 as in Part B of Annex 3 of this document to the legal text for WGAA2. The word “suitable” would also be inserted between the words “three” and “independent” in the definition of “Approved Agency” in WGAA2.
- 6.18 **Consultation Alternative Amendment 15 (CAA15)** was proposed by BizzEnergy, and would add to WGAA3 a clause relating to transition as described in paragraph 6.15 above. The legal text for CAA15 would be derived by adding a new paragraph 3.27 as in Part B of Annex 3 of this document to the legal text for WGAA3. The word “suitable” would also be inserted between the words “three” and “independent” in the definition of “Approved Agency” in WGAA3.
- 6.19 **Consultation Alternative Amendment 16 (CAA16)** was proposed by BizzEnergy, and would add to WGAA4 a clause relating to transition as described in paragraph 6.15 above. The legal text for CAA16 would be derived by adding a new paragraph 3.27 as in Part B of Annex 3 of this document to the legal text for WGAA4. The word “suitable” would also be inserted between the words “three” and “independent” in the definition of “Approved Agency” in WGAA4.
- 6.20 **Consultation Alternative Amendment 17 (CAA17)** was proposed by BizzEnergy, and would add to WGAA5 a clause relating to transition as described in paragraph 6.15 above. The legal text for CAA16 would be derived by adding a new paragraph 3.27 as in Part B of Annex 3 of this document to the legal text for WGAA5. The word “suitable” would also be inserted between the words “three” and “independent” in the definition of “Approved Agency” in WGAA5.
- 6.21 **Consultation Alternative Amendment 18 (CAA18)** was proposed by BizzEnergy, and aims to amend the Original Proposal such that, prior to February 2005, a User would be classed as having a good payment record if it paid an invoice a) within 7 working days of the invoice due date, if not formally reminded to do so or b) paid within 3 working days of receipt of any formal reminder. This would affect the credit allowance to be extended to Users based on their payment records by overriding the requirement to pay within 2 business days of the due date prior to February 2005. In the view of the proposer this would prevent parties from being unduly disadvantaged due to the retrospective nature of the Original Proposal. The proposer further clarified that this alternative should also include the proposal relating to the insertion of the word “suitable” into the definition of “Approved Agency” (see paragraph 6.9). The legal text for CAA18 would be derived by amending paragraph 3.26.5 of the Original Proposal, as shown in Part C of Annex 3 of this document. The word “suitable” would also be inserted between the words “three” and “independent” in the definition of “Approved Agency” in the Original Proposal.
- 6.22 WGAA1 does not include the proposal to extend unsecured credit to Users based on their payment record, and therefore a further amendment in the manner as described in paragraph 6.21 above would not be relevant.

- 6.23 **Consultation Alternative Amendment 19 (CAA19)** was proposed by BizzEnergy, and would amend the provisions in WGAA2 relating to Users' payment records in the same manner as described in paragraph 6.21 above. The legal text for CAA19 would be derived by amending paragraph 3.26.5 of WGAA2, as shown in Part C of Annex 3 of this document. The word "suitable" would also be inserted between the words "three" and "independent" in the definition of "Approved Agency" in the Original Proposal.
- 6.24 **Consultation Alternative Amendment 20 (CAA20)** was proposed by BizzEnergy, and would amend the provisions in WGAA3 relating to Users' payment records in the same manner as described in paragraph 6.21 above. The legal text for CAA20 would be derived by amending paragraph 3.26.5 of WGAA3, as shown in Part C of Annex 3 of this document. The word "suitable" would also be inserted between the words "three" and "independent" in the definition of "Approved Agency" in the Original Proposal.
- 6.25 **Consultation Alternative Amendment 21 (CAA21)** was proposed by BizzEnergy, and would amend the provisions in WGAA4 relating to Users' payment records in the same manner as described in paragraph 6.21 above. The legal text for CAA21 would be derived by amending paragraph 3.26.5 of WGAA4, as shown in Part C of Annex 3 of this document. The word "suitable" would also be inserted between the words "three" and "independent" in the definition of "Approved Agency" in the Original Proposal.
- 6.26 WGAA5 does not include the proposal to extend unsecured credit to Users based on their payment record, and therefore a further amendment in the manner as described in paragraph 6.21 above would not be relevant.
- 6.27 **Consultation Alternative Amendment 22 (CAA22)** was proposed by BizzEnergy, and aims to amend the Original Proposal in order to give effect to both the proposal relating to transition (see paragraph 6.15) and that relating to Users' payment records (see paragraph 6.21). The proposer further clarified that this alternative should also include the proposal relating to the insertion of the word "suitable" into the definition of "Approved Agency" (see paragraph 6.9). The legal text for CAA22 would therefore be derived by adding a new paragraph 3.27 as in Part B of Annex 3 of this document to the legal text for the Original Proposal, and by amending paragraph 3.26.5 of the Original Proposal, as shown in Part C of Annex 3 of this document. The word "suitable" would also be inserted between the words "three" and "independent" in the definition of "Approved Agency" in the Original Proposal.
- 6.28 WGAA1 did not propose the introduction of either credit allowances based on Users' payment records or those based on Independent Assessments. Therefore any alternative along the lines of CAA22 could only propose to give effect to the provisions relating to transition, and such an alternative has already been proposed as CAA13.
- 6.29 **Consultation Alternative Amendment 23 (CAA23)** was proposed by BizzEnergy, and proposes to amend WGAA2 in the same manner as described in paragraph 6.27 above. The legal text for CAA23 would therefore be derived by adding a new paragraph 3.27 as in Part B of Annex 3 of this document to the legal text for WGAA2, and by amending paragraph 3.26.5 of WGAA2, as shown in Part C of Annex 3 of this document. The word "suitable" would also be inserted between the words "three" and "independent" in the definition of "Approved Agency" in WGAA2.
- 6.30 **Consultation Alternative Amendment 24 (CAA24)** was proposed by BizzEnergy, and proposes to amend WGAA3 in the same manner as

described in paragraph 6.27 above. The legal text for CAA24 would therefore be derived by adding a new paragraph 3.27 as in Part B of Annex 3 of this document to the legal text for WGAA3, and by amending paragraph 3.26.5 of WGAA3, as shown in Part C of Annex 3 of this document. The word “suitable” would also be inserted between the words “three” and “independent” in the definition of “Approved Agency” in WGAA3.

- 6.31 **Consultation Alternative Amendment 25 (CAA25)** was proposed by BizzEnergy, and proposes to amend WGAA4 in the same manner as described in paragraph 6.27 above. The legal text for CAA25 would therefore be derived by adding a new paragraph 3.27 as in Part B of Annex 3 of this document to the legal text for WGAA4, and by amending paragraph 3.26.5 of WGAA4, as shown in Part C of Annex 3 of this document. The word “suitable” would also be inserted between the words “three” and “independent” in the definition of “Approved Agency” in WGAA4.
- 6.32 WGAA5 did not propose the introduction of credit allowances based on Users’ payment records. Therefore any alternative along the lines of CAA22 could only propose to give effect to the provisions relating to transition and “suitable” independent assessment agencies, and such an alternative has already been proposed as CAA17.
- 6.33 **Consultation Alternative Amendment 26 (CAA26)** was proposed by National Grid, and aims to correct a potential defect, in National Grid’s view, in the Value at Risk (VAR) element of the Original Proposal. The intention of these provisions were to base a User’s VAR for Transmission Network Use of System (TNUoS) charges on their forecasting performance in the previous Financial Year. This would be calculated as the percentage by which the Actual Amount (the liability incurred over the year) exceeded the Notional Amount (the amount paid over the year, based on the User’s forecasts). (If the Notional Amount exceeded the Actual Amount, the requirement would be zero.) However, Users are able to reforecast on a quarterly basis. In the event that a User significantly underforecast (and therefore underpaid) in the first three quarters, the security requirement in the following year could still be zero if the User made good the underpayment in the last quarter. This would not accurately capture the true Value at Risk over the year as a whole. CAA26 therefore proposes that a User’s TNUoS VAR would be the Performance Forecast given as a percentage multiplied by the annual TNUoS charge. The Performance Forecasting Percentage is calculated as $1/78^{\text{th}}$ of the sum of the monthly Forecasting Performance Weighting Factor multiplied by the difference between the Actual Amount and the Notional Amount of the User’s monthly Transmission Network Use of System Demand Charges in the previous Financial Year. National Grid believes that this approach would more accurately calculate the value at risk, and would minimise potential gaming opportunities. The legal text for CAA26 would be derived by amending paragraph 3.22.2 (c) of the Original Proposal, as shown in Part D of Annex 3 of this document.
- 6.34 WGAA1 did not propose introducing a security requirement based on forecasting performance, and any proposal to calculate this on a monthly basis is therefore not relevant.
- 6.35 **Consultation Alternative Amendment 27 (CAA27)** was proposed by National Grid, and proposes to introduce to WGAA2 the monthly TNUoS VAR calculation as described in paragraph 6.33 above. The additional security requirement of 2.5% of TNUoS for Demand Reconciliation charges would remain unaltered. The legal text for CAA27 would be derived by amending

- paragraph 3.22.2 (c) of WGAA2, as shown in Part D of Annex 3 of this document.
- 6.36 **Consultation Alternative Amendment 28 (CAA28)** was proposed by National Grid, and proposes to introduce to WGAA3 the monthly TNUoS VAR calculation as described in paragraph 6.33 above. The legal text for CAA28 would be derived by amending paragraph 3.22.2 (c) of WGAA3, as shown in Part D of Annex 3 of this document.
- 6.37 **Consultation Alternative Amendment 29 (CAA29)** was proposed by National Grid, and proposes to introduce to WGAA4 the monthly TNUoS VAR calculation as described in paragraph 6.33 above. The additional security requirement of 2.5% of TNUoS for Demand Reconciliation charges would remain unaltered. The legal text for CAA29 would be derived by amending paragraph 3.22.2 (c) of WGAA4, as shown in Part D of Annex 3 of this document.
- 6.38 **Consultation Alternative Amendment 30 (CAA30)** was proposed by National Grid, and proposes to introduce to WGAA5 the monthly TNUoS VAR calculation as described in paragraph 6.33 above. The additional security requirement of 2.5% of TNUoS for Demand Reconciliation charges would remain unaltered. The legal text for CAA30 would be derived by amending paragraph 3.22.2 (c) of WGAA5, as shown in Part D of Annex 3 of this document.
- 6.39 **Consultation Alternative Amendment 31 (CAA31)** was proposed by National Grid, and aims to offer an alternative that most closely meets the recommendations of the best practice guidelines. Four elements of the Original Proposal (the introduction of a maximum unsecured credit limit, credit allowances for companies with Approved Credit Ratings, credit allowances based on Payment Record, and those based on Independent Assessments) closely follow the best practice guidelines. However, the fifth element, TNUoS Value at Risk based on forecasting performance, does not. National Grid believes that, while there is some merit in this concept, it has not been as rigorously debated and assessed by the industry as the other elements. CAA31 would therefore retain the first four elements of the Original Proposal, and drop the fifth, with the TNUoS security requirement reverting to the status quo of 10% in the current CUSC baseline. Legal text for CAA31 would be derived by removing all changes to paragraph 3.22.2 (c) proposed by the Original Proposal. All references in the Original Proposal to “Transmission Network Use of System Demand Charges” and “TNUoS Demand Charges” would be amended to refer to “Transmission Network User of System Demand Reconciliation Charges” and “TNUoS Demand Reconciliation Charges” respectively.
- 6.40 WGAA1 proposed to just give effect to the first two elements of the Original Proposal, and the TNUoS VAR element has therefore effectively already been removed from this option.
- 6.41 **Consultation Alternative Amendment 32 (CAA32)** was proposed by National Grid, and proposes to remove from WGAA2 the TNUoS VAR forecasting performance element. The additional 2.5% of TNUoS for Demand Reconciliation charges would also be removed, and the TNUoS security requirement would revert to the status quo of 10% in the current CUSC baseline. Legal text for CAA31 would be derived by removing all changes to paragraph 3.22.2 (c) proposed by WGAA2, and by deleting the proposed new paragraph 3.22.2 (d). All references in WGAA2 to

“Transmission Network Use of System Demand Charges” and “TNUOS Demand Charges” would be deleted.

- 6.42 **Consultation Alternative Amendment 33 (CAA33)** was proposed by National Grid, and proposes to remove from WGAA3 the TNUoS VAR forecasting performance element. The TNUoS security requirement would revert to the status quo of 10% in the current CUSC baseline. Legal text for CAA33 would be derived by removing all changes to paragraph 3.22.2 (c) proposed by the WGAA3. All references in WGAA3 to “Transmission Network Use of System Demand Charges” and “TNUOS Demand Charges” would be amended to refer to “Transmission Network User of System Demand Reconciliation Charges” and “TNUOS Demand Reconciliation Charges” respectively.
- 6.43 **Consultation Alternative Amendment 34 (CAA34)** was proposed by National Grid, and proposes to remove from WGAA4 the TNUoS VAR forecasting performance element. The additional 2.5% of TNUoS for Demand Reconciliation charges would also be removed, and the TNUoS security requirement would revert to the status quo of 10% in the current CUSC baseline. Legal text for CAA34 would be derived by removing all changes to paragraph 3.22.2 (c) proposed by WGAA4, and by deleting the proposed new paragraph 3.22.2 (d). All references in WGAA4 to “Transmission Network Use of System Demand Charges” and “TNUOS Demand Charges” would be deleted.
- 6.44 **Consultation Alternative Amendment 35 (CAA35)** was proposed by National Grid, and proposes to remove from WGAA5 the TNUoS VAR forecasting performance element. The additional 2.5% of TNUoS for Demand Reconciliation charges would also be removed, and the TNUoS security requirement would revert to the status quo of 10% in the current CUSC baseline. Legal text for CAA35 would be derived by removing all changes to paragraph 3.22.2 (c) proposed by WGAA5, and by deleting the proposed new paragraph 3.22.2 (d). All references in WGAA5 to “Transmission Network Use of System Demand Charges” and “TNUOS Demand Charges” would be deleted.
- 6.45 **Consultation Alternative Amendment 36 (CAA36)** was proposed by National Grid, and would add to the Original Proposal a clause permitting a transition which would be more favourable to those who currently complied with their CUSC Obligations than those which do not.

Compliance

- 1) Users who currently have adequate security in place and under the new arrangements have a reduction in their security requirement will have the residual amount returned within 1 calendar month.
- 2) Users who currently have adequate security in place and under the new arrangements have an increase in their security requirement will have 12 calendar months to post the additional collateral which will be phased in the following manner:

At 3 months the minimum of a quarter of the additional collateral

At 6 months the minimum of half of the additional collateral

At 9 months the minimum of three quarters of the additional collateral

At 12 months the balance of any additional collateral

Non-Compliance

- 3) Users who currently have insufficient security in place and under the new arrangements have a reduction in their security requirement will have 3 calendar months to post the full collateral.
 - 4) Users who currently have insufficient security in place and under the new arrangements have an increase in their security requirement will have 3 calendar months to post collateral equal to the amount they are currently required to have under the terms of CUSC and a further 9 months to post additional security that is the difference between the current arrangements and the revised arrangements.
- 6.46 The legal text for CAA36 would be derived by adding to the Original Proposal a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.47 **Consultation Alternative Amendment 37 (CAA37)** was proposed by National Grid, and would add to WGAA1 a clause relating to transition as described in paragraph 6.45 above. The legal text for CAA37 would be derived by adding to WGAA1 a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.48 **Consultation Alternative Amendment 38 (CAA38)** was proposed by National Grid, and would add to WGAA2 a clause relating to transition as described in paragraph 6.45 above. The legal text for CAA38 would be derived by adding to WGAA2 a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.49 **Consultation Alternative Amendment 39 (CAA39)** was proposed by National Grid, and would add to WGAA3 a clause relating to transition as described in paragraph 6.45 above. The legal text for CAA39 would be derived by adding to WGAA3 a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.50 **Consultation Alternative Amendment 40 (CAA40)** was proposed by National Grid, and would add to WGAA4 a clause relating to transition as described in paragraph 6.45 above. The legal text for CAA39 would be derived by adding to WGAA4 a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.51 **Consultation Alternative Amendment 41 (CAA41)** was proposed by National Grid, and would add to WGAA5 a clause relating to transition as described in paragraph 6.45 above. The legal text for CAA39 would be derived by adding to WGAA5 a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.52 **Consultation Alternative Amendment 42 (CAA42)** was proposed by National Grid, and aims to amend the Original Proposal in order to give effect to both the proposal to introduce the monthly TNUoS VAR calculation, as described in paragraph 6.33, and that relating to transition, as described in paragraph 6.45. The legal text for CAA42 would be derived by amending paragraph 3.22.2 (c) of the Original Proposal, as shown in Part D of Annex 3 of this document, and by adding to the Original Proposal a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.53 WGAA1 did not propose introducing a security requirement based on forecasting performance, and any proposal to calculate this on a monthly basis is therefore not relevant. Therefore any alternative along the lines of

- CAA42 could only propose to give effect to the provisions relating to transition, and such an alternative has already been proposed as CAA37.
- 6.54 **Consultation Alternative Amendment 43 (CAA43)** was proposed by National Grid, and proposes to amend WGAA2 in the same manner as described in paragraph 6.52 above. The legal text for CAA43 would be derived by amending paragraph 3.22.2 (c) of WGAA2, as shown in Part D of Annex 3 of this document, and by adding to WGAA2 a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.55 **Consultation Alternative Amendment 44 (CAA44)** was proposed by National Grid, and proposes to amend WGAA3 in the same manner as described in paragraph 6.52 above. The legal text for CAA44 would be derived by amending paragraph 3.22.2 (c) of WGAA3, as shown in Part D of Annex 3 of this document, and by adding to WGAA3 a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.56 **Consultation Alternative Amendment 45 (CAA45)** was proposed by National Grid, and proposes to amend WGAA4 in the same manner as described in paragraph 6.52 above. The legal text for CAA45 would be derived by amending paragraph 3.22.2 (c) of WGAA4, as shown in Part D of Annex 3 of this document, and by adding to WGAA4 a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.57 **Consultation Alternative Amendment 46 (CAA46)** was proposed by National Grid, and proposes to amend WGAA5 in the same manner as described in paragraph 6.52 above. The legal text for CAA46 would be derived by amending paragraph 3.22.2 (c) of WGAA5, as shown in Part D of Annex 3 of this document, and by adding to WGAA5 a new paragraph 3.27 as in Part E of Annex 3 of this document.
- 6.58 **Consultation Alternative Amendment 47 (CAA47)** was proposed by National Grid, and aims to amend the Original Proposal in order to give effect to both the proposal to remove the TNUoS security requirement based on forecasting performance, as described in paragraph 6.39, and that relating to transition, as described in paragraph 6.45. Legal text for CAA47 would be derived by removing all changes to paragraph 3.22.2 (c) proposed by the Original Proposal. All references in the Original Proposal to “Transmission Network Use of System Demand Charges” and “TNUoS Demand Charges” would be amended to refer to “Transmission Network User of System Demand Reconciliation Charges” and “TNUoS Demand Reconciliation Charges” respectively. A new paragraph 3.27 as in Part E of Annex 3 of this document would be added to the Original Proposal.
- 6.59 WGAA1 proposed to just give effect to the first two elements of the Original Proposal, and the TNUoS VAR element has therefore effectively already been removed from this option. Therefore any alternative along the lines of CAA47 could only propose to give effect to the provisions relating to transition, and such an alternative has already been proposed as CAA37.
- 6.60 **Consultation Alternative Amendment 48 (CAA48)** was proposed by National Grid, and proposes to amend WGAA2 in the same manner as described in paragraph 6.58 above. Legal text for CAA48 would be derived by removing all changes to paragraph 3.22.2 (c) proposed by WGAA2, and by deleting the proposed new paragraph 3.22.2 (d). All references in WGAA2 to “Transmission Network Use of System Demand Charges” and “TNUoS Demand Charges” would be deleted. A new paragraph 3.27 as in Part E of Annex 3 of this document would be added to WGAA2.

- 6.61 **Consultation Alternative Amendment 49 (CAA49)** was proposed by National Grid, and proposes to amend WGAA3 in the same manner as described in paragraph 6.58 above. Legal text for CAA49 would be derived by removing all changes to paragraph 3.22.2 (c) proposed by WGAA3. All references in WGAA3 to “Transmission Network Use of System Demand Charges” and “TNUOS Demand Charges” would be amended to refer to “Transmission Network User of System Demand Reconciliation Charges” and “TNUOS Demand Reconciliation Charges” respectively. A new paragraph 3.27 as in Part E of Annex 3 of this document would be added to WGAA3.
- 6.62 **Consultation Alternative Amendment 50 (CAA50)** was proposed by National Grid, and proposes to amend WGAA4 in the same manner as described in paragraph 6.58 above. Legal text for CAA50 would be derived by removing all changes to paragraph 3.22.2 (c) proposed by WGAA4, and by deleting the proposed new paragraph 3.22.2 (d). All references in WGAA4 to “Transmission Network Use of System Demand Charges” and “TNUOS Demand Charges” would be deleted. A new paragraph 3.27 as in Part E of Annex 3 of this document would be added to WGAA4.
- 6.63 **Consultation Alternative Amendment 51 (CAA51)** was proposed by National Grid, and proposes to amend WGAA5 in the same manner as described in paragraph 6.58 above. Legal text for CAA51 would be derived by removing all changes to paragraph 3.22.2 (c) proposed by WGAA5, and by deleting the proposed new paragraph 3.22.2 (d). All references in WGAA5 to “Transmission Network Use of System Demand Charges” and “TNUOS Demand Charges” would be deleted. A new paragraph 3.27 as in Part E of Annex 1 of this document would be added to WGAA5.

7.0 IMPLEMENTATION AND TIMESCALES

- 7.1 In the CAP089/090/091 Working Group Report an implementation date of 10 Working Days after an Authority decision was proposed, consistent with the general default for recent Amendment Proposals. However, on further reflection, National Grid no longer believed this to be the most appropriate date. In our view, the need to ensure that the Independent Credit Agencies can be appointed, and briefed on whichever of the 57 potential options the Authority might choose to approve, requires more time than this. In the further industry consultation, we favoured an implementation date of the 1st of the month, at least 6 weeks after approval.
- 7.2 The one respondent to this consultation to express a view on the implementation date (see section 12) concurred with the views expressed by National Grid in this area. They believed it to be essential that Independent Credit Agencies be given sufficient time to fully understand their role in the process.
- 7.3 In accordance with paragraph 8.20.2 (g) of the CUSC, this issue was put to the CUSC Amendments Panel for determination at their meeting on 28th October 2005. The Panel concluded that, should the Authority approve CAP089/090/091, implementation should be on the **1st of the month, at least 6 weeks after the Authority decision**. However, the Panel noted that, in the event of the Authority approving an alternative that did not include Independent Credit Assessments, they would expect National Grid to consider whether it would be possible to utilise the provisions of the CUSC to potentially bring about a more immediate implementation date (such as 10 Working Days after the Authority’s decision).

7.4 For the avoidance of doubt, the alternatives that include Independent Credit Assessments are:

- The original proposal
- WGAA2-WGAA5
- CAA1, CAA3-CAA12, CAA14-CAA36, CAA38-51

7.5 The alternatives that do not include Independent Credit Assessments are:

- WGAA1
- CAA2, CAA13, CAA37

8.0 IMPACT ON THE CUSC

8.1 CAP089/090/091 requires amendments to Section 3 (Use of System) and to Section 11 (Interpretation and Definitions) of the CUSC.

8.2 The text required to give effect to the Original Proposal is contained as Part A of Annex 2 of this document.

8.3 The text to give effect to each of the Working Group Alternative Amendments is attached as Parts B-F of Annex 2 of this document.

8.4 The text to give effect to each of the Consultation Alternative Amendments is described in paragraphs 6.3 to 6.63 of this document, such that the text for each alternative can be derived with reference to Parts A-F of Annex 2 of this document and Parts A-E of Annex 3 of this document.

9.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

9.1 National Grid does not believe that the original CAP089/090/091 proposal better facilitates the Applicable CUSC Objectives to enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfil its obligations to facilitate competition in the generation and supply of electricity. We believe that, under this proposal, the Value at Risk is under-estimated, and that there is a strong risk that the scoring of Independent Credit Assessments on a scale of 0-10 could result in Users being extended a disproportionately large amount of unsecured credit or alternatively being given a credit score of zero which would perpetuate the barrier to entry for some suppliers, both of which would result in National Grid less efficiently discharging its obligations.

9.2 WGAA3 only differs from the original proposal in that Users would pay for independent assessments, and consequently National Grid has the same reservations as for the original. We therefore do not believe that WGAA3 better facilitates the Applicable CUSC Objectives.

9.3 National Grid does believe that WGAA2 and WGAA4 better facilitate the Applicable CUSC Objectives. The Value at Risk is more accurately captured, increasing efficiency, and could be influenced by Users' own actions, thereby better facilitating competition. The scoring of Independent Credit Assessments on a scale of 0-100 would allow the more accurate quantification of risks, again increasing efficiency, and would increase the likelihood of small Users receiving some unsecured credit, further facilitating

- competition. The difference between WGAA2 and WGAA4 is that National Grid would pay for Users Assessments under WGAA2 but not under WGAA4. National Grid prefers WGAA4, but would support WGAA2, on the clear proviso that future allowance would be made by Ofgem for the increased costs that National Grid would incur under WGAA2.
- 9.4 National Grid also supports WGAA5 and WGAA1 (with WGAA5 being preferred) as we believe that they better facilitate the Applicable CUSC Objectives with regard to efficiency and facilitation of competition, but not to the same extent as WGAA2 and WGAA4.
- 9.5 National Grid does not believe that Consultation Alternative Amendments CAA1-CAA6 better facilitate the applicable objectives, as in our view they do not adequately tie up with the best practice guidelines, and we have seen insufficient evidence in our view that such a divergence is justified or is necessarily consistent with better facilitating the applicable CUSC objectives.
- 9.6 Whilst National Grid does not believe the addition of the word “suitable” to the definition of “Approved Agency” is necessary, such a change would not have a material impact on whether or not we believed that an amendment of the scale of CAP089/090/091 better facilitated the applicable objectives. Therefore, we believe that CAA8, CAA10 and CAA 11 would better facilitate the applicable objectives (as they are based on WGAA2, WGAA4 and WGAA5, respectively), and that CAA7 and CAA9 would not (as they are based on the original proposal and on WGAA3, respectively).
- 9.7 National Grid does not support CAA12-CAA17, as we do not believe that it is appropriate for “phasing” to commence from current levels of credit provided, where such levels are below those which are actually in line with Users’ obligations. Such a proposal would effectively condone past breaches of CUSC. However, were such additional latitude to be granted, we believe that much stronger conditions should be put in place to ensure timely compliance, such as those proposed by National Grid in CAA36-CAA51.
- 9.8 We also do not believe that CAA18-CAA21 better facilitate the applicable objectives, as we do not believe that a further dilution of the requirements regarding payment record would be appropriate. We do not support CAA22-CAA25 for a combination of the reasons already outlined.
- 9.9 National Grid believes that the Consultation Alternative Amendments in the range CAA26-CAA51 all improve on the original proposal and the Working Group Alternatives on which they are based. They essentially prescribe for two further different approaches in relation to the treatment of VAR. Firstly, in CAA 26-CAA30 we propose a further alternative approach to the calculation of Value at Risk. The purpose of these amendments to the proposed VAR is to correct a defect in the legal drafting, as it is currently not reflective of the original intention of the proposal. The alternative refines the original proposal and incentives users to forecast accurately month on month over the year. We believe this is necessary because the current proposal is open to ‘gaming’ in that a user could under forecast for the majority of the year, exposing the industry to unnecessary risk, and make up the difference in the latter months. This would result in the user being afforded up to 100% free credit in the prevailing year after under-forecasting for most of the year and could potentially lead to anti-competitive behaviour.
- 9.10 CAA31-CAA35 would preserve the current treatment of Value at Risk. Whilst there is potentially some merit in the concept that TNUoS Value at Risk should be based on forecasting performance, it has not been as rigorously

debated and assessed by the industry as the other elements, and was not discussed in the best practice guidelines. Therefore National Grid wanted to give the Authority the opportunity to consider Amendment proposals which did not incorporate changes to VAR, but incorporated most other relevant elements of best practice. This calculation of VAR is more closely aligned to Ofgem's best Practice guidelines and presents an equitable calculation against all Users.

- 9.11 Despite the fact that CAA26-CAA51 all improve on the original proposal and the Working Group Alternatives on which they are based, National Grid considers that some of these Consultation Alternatives do not better facilitate the applicable objectives as a whole. These are CAA26, CAA31, CAA36, CAA42 and CAA47 (all based on the original proposal), and CAA28, CAA33, CAA39, CAA44 and CAA49 (all based on WGAA3). Although we do not support these alternatives, we believe they represent improvements on the original versions and therefore believed that it would be helpful to give these options to the Authority, notwithstanding our own reservations, in order to be as constructive as possible in this area.
- 9.12 National Grid considers that the following Consultation Alternatives in the range CAA26-CAA51 do better facilitate the applicable objectives:
- CAA37 (based on WGAA1)
 - CAA27, CAA32, CAA38, CAA43 and CAA48 (all based on WGAA2)
 - CAA29, CAA34, CAA40, CAA45 and CAA50 (all based on WGAA4)
 - CAA30, CAA35, CAA41, CAA46 and CAA51 (all based on WGAA5)
- 9.13 In summary, we have been primarily motivated in taking forward options, in accordance with better facilitating the applicable CUSC objectives, to ensure that we have done all that we can to ensure cost pass through. Hence, we believe that there are a number of Amendment and Alternative Amendment proposals which we would support. Our preference is for alternatives based on WGAA4, with CAA45 being our most favoured option. However, should the Authority take a view that it was not appropriate to change VAR, we would favour CAA50. We also strongly support CAA40, CAA34, CAA29 and WGAA4 itself, although to a lesser extent.
- 9.14 The difference between WGAA4 and WGAA2 is that National Grid would pay for Users Assessments under WGAA2 but not under WGAA4. National Grid prefers WGAA4, but would equally support WGAA2, on the clear proviso that future allowance would be made by Ofgem for the increased costs that National Grid would incur under WGAA2. If this were to be the case, we would favour CAA43, with CAA48 also being strongly supported. We would support CAA38, CAA32, CAA27 and WGAA2 itself, although to a lesser extent.
- 9.15 National Grid's clear third preference would be for alternatives based on WGAA5. We would favour CAA46, with CAA51 also being strongly supported. We would support CAA41, CAA35, CAA30 and WGAA5 itself to a lesser extent.
- 9.16 National Grid's final preference would be for CAA37 and then WGAA1.
- 9.17 As highlighted above, National Grid does not support the original proposal, or any of: WGAA3, CAA1-CAA7, CAA9, CAA12-CAA26, CAA28, CAA31, CAA33, CAA36, CAA39, CAA42, CAA44, CAA47 and CAA49.

10.0 IMPACT ON CUSC PARTIES

- 10.1 CAP089/090/091, if implemented, will change the amount of Security Cover for Use of System charges that Users will be required to have in place with National Grid.
- 10.2 Under the current CUSC baseline, Users with an Approved Credit Rating (BBB- or above) do not have to provide Security Cover for Use of System charges. Users without an Approved Credit Rating must provide security of amount defined in paragraph 3.22 of the CUSC by means of a Letter of Credit, Qualifying Guarantee or Cash in an Escrow account.
- 10.3 Under the original CAP089/090/091 proposal, and all Working Group and Consultation Alternatives, all Users would potentially need to provide security for Use of System charges. The Security Cover required would be the Security Requirement less the User's Allowed Credit.
- 10.4 The Security Requirement (or Value at Risk) for Transmission Network Use of System charges under some alternatives (including the original proposal) would be based on the User's forecasting performance in the previous year, in other alternatives would be based on the User's forecasting performance in the previous year plus 2.5%, and in the remaining alternatives would be the current paragraph 3.22 of CUSC. In all alternatives, the Security Requirement for Balancing Services Use of System charges would be as defined in the current paragraph 3.22 of CUSC.
- 10.5 The User's Allowed Credit, for Users with an Approved Credit Rating (now redefined as BB- or above) would be based on their exact rating (to a maximum level determined as 2% of National Grid Electricity Transmission plc's RAV). Some alternatives (including the original proposal) would introduce Allowed Credit based on payment record and/or independent assessments of Users' creditworthiness.
- 10.6 It is therefore likely that the amount of Security Cover for Use of System charges that Users are required to have in place with National Grid will change for a large number of Users. Under the Original Proposal, and some alternatives, these changes will be introduced in full on the implementation date. However, under Consultation Alternative Amendments CAA12-CAA17, CAA22-CAA25, and CAA36-CAA51, these changes would be phased in over a period of up to a year.

11.0 IMPACT ON CORE INDUSTRY DOCUMENTS

- 11.1 Neither the CAP089/090/091 Original Proposal, nor the Working Group Alternative Amendments, nor the Consultation Alternative Amendments, will have an impact on Core Industry Documents or other industry documents.

12.0 VIEWS AND REPRESENTATIONS

- 12.1 This Section contains a summary of the views and representations made by consultees during the consultation period in respect of the Proposed Amendment and the Working Group Alternative Amendments, and during the further consultation period in respect of the Consultation Alternative Amendments.

Views of Panel Members

- 12.2 No responses to either CAP089/090/091 consultation document were received from Panel Members in their capacity as Panel Memebers.

View of Core Industry Document Owners

- 12.3 No responses to either CAP089/090/091 consultation document were received from Core Industry Document Owners.

Responses to the Original Consultation

- 12.4 The following table provides an overview of the representations received to the original consulatation. Copies of the representations are attached as Annex 4.

Reference	Company	Supportive	Comments
CAP089/090/91-CR-01	BizzEnergy	Yes	Supports original; Proposes Consultation Alternatives
CAP089/090/91-CR-02	British Energy	Yes	Favours original; Also supports WGAA3
CAP089/090/91-CR-03	Centrica	No	Could increase industry exposure to bad debt
CAP089/090/91-CR-04	EDF Energy	Yes	Supports WGAA5
CAP089/090/91-CR-05	E.ON UK	Yes	Supports WGAA1; Limited support for WGAA5
CAP089/090/91-CR-06	Opus Energy	Yes	Favours original; Also supports WGAA2
CAP089/090/91-CR-07	Scottish and Southern Energy	No	Proposes Consultation Alternatives
CAP089/090/91-CR-08	Scottish Power	Yes	Prefers WGAA1
CAP089/090/91-CR-09	Zest 4	Yes	Supports original

- 12.5 **BizzEnergy** (the respondent in CAP089/090/091-CR-01) supported the original proposal, but also proposed a number of Consultation Alternative Amendments (which are described in section 6 of this document). BizzEnergy did not support WGAA1 or 5 where payment record is not taken into account, as they believed this would discriminate against new entrants, and did not support WGAA2, 4 or 5 as breaking down the credit score to a 0-100 scale would, in their view, create a tendency to mark a company for what it is worth rather than the probability of it meeting its payment requirements. BizzEnergy also did not support WGAA3, 4 or 5 on the basis that they would require Users to pay for Independent Assessments.

- 12.6 **British Energy** (the respondent in CAP089/090/091-CR-02) supported the original proposal, which they believed would better facilitate the applicable CUSC objectives by increasing efficiency and enhancing competition. British Energy believed the scoring of credit assessments on a scale of 0-10 would accurately capture the value at risk. British Energy therefore also supported WGAA3, and to a lesser extent WGAA2 and WGAA4, although the original proposal remained their favoured option. British Energy did not support WGAA1 or WGAA5, which they considered would discriminate unduly against unrated users by denying such users access to some unsecured credit.

- 12.7 **Centrica** (the respondent in CAP089/090/091-CR-03) considered that none of the proposals would better facilitate the applicable CUSC objectives, believing that the original proposal, and to a lesser extent some of the alternatives, would dilute the current obligations on Users and could increase the likelihood of the industry being exposed to bad debt. Centrica considered that allowing Users with a credit rating of BB+ or below the proposed credit allowances would expose the industry to an unnecessary risk. Centrica did not believe a party's payment record to be an accurate reflection of future performance, and also did not believe that credit scoring should be used. They did, however, believe that scoring on a scale of 0-100 would provide a greater level of protection to all parties than a scale of 0-10. Finally, Centrica did not believe that basing the level of security required on past performance is an accurate reflection of future behaviour.
- 12.8 **EDF Energy** (the respondent in CAP089/090/091-CR-04) supported WGAA5. EDF Energy supported the establishment of a maximum unsecured credit limit of 2% of NGET's RAV, and supported the proposed scale of credit allowances as a proportion of this maximum depending on each company's credit rating. They did not support the use of payment records, considering that this did not provide a meaningful assessment of a company's future creditworthiness. EDF Energy did support the use of independent assessments provided that the cost of the assessment was met by the User, as they did not believe that the CUSC objective to promote competition would be met if those Users who have already incurred the costs of obtaining their own credit ratings were also required to meet the costs of independent assessments for unrated companies. They also considered that a credit scoring system of 0 to 100 would best facilitate competition as it would provide sufficient granularity for companies with a low credit score to be extended some credit allowance whereas a 0 to 10 scoring system may result in no credit allowance in cases where a score of 1 was considered to provide too much credit. Finally, EDF Energy supported the proposal to set the level of security required on the basis of each User's demand forecasting performance in the previous year plus an additional 2.5% to cover reconciliation risk, and overall considered WGAA5 to be a pragmatic interpretation of the best practice guidelines, which best achieved the CUSC objectives of efficiency and the promotion of competition.
- 12.9 **E.ON UK** (the respondent in CAP089/090/091-CR-05) supported WGAA1, as they had a level of sympathy with the aim of CAP089 and CAP090. E.ON UK did not believe that a User's good payment record would necessarily mean a good record in the future, particularly for Users undergoing a rapid change in size. E.ON also did not support independent assessments, believing insufficient information had been provided. However, they did consider that a scoring mechanism of 0-100 would mitigate some of their concerns, and also fully supported the suggestion that Users should pay for such assessments. E.ON did believe that it would be reasonable to base the value at risk on forecasting performance plus 2.5%, and, given all the above views, were therefore also able to offer limited support for WGAA5.
- 12.10 E.ON UK also suggested that the table of credit allowances for companies with Approved Credit Ratings could be amended to enhance clarity, assuming, for instance, that a company with a rating of A- would be captured under an A rating in the table. After further discussion, E.ON UK clarified that this suggestion did not constitute a formal Consultation Alternative Amendment. However, National Grid is happy to confirm that we also believe that companies with ratings of A+ or A- would be captured under an A rating in the table (and companies with ratings of AA+ or AA- would map to AAA/AA).

- 12.11 **Opus Energy** (the respondent in CAP089/090/091-CR-06) supported the original proposal, considering that the amendment was needed to implement the best practice guidelines as agreed through extensive industry discussion and consultation. The ways in which the original diverged from the best practice guidelines, in terms of the use of forecasting performance in deriving VAR and the fall to 50% of credit gained through payment performance after one payment failure, were supported by Opus. They also supported the use of a 1-100 scale for credit assessment to provide additional granularity over a 1-10 scale, and therefore also supported WGAA2. They did not support WGAA1, WGAA3, WGAA4 or WGAA5, as, in their view, they deviated widely from the best practice guidelines.
- 12.12 **Scottish and Southern Energy** (the respondent in CAP089/090/091-CR-07) considered that neither the original proposal, nor any of the Working Group Alternative Amendments would better facilitate the applicable CUSC objectives. They believed that more creditworthy Users would end up subsidising the default risk of less creditworthy Users by the provision of unsecured credit limits to entities with less than BBB- credit ratings. They also believed the credit rating bands to be inconsistent and uneven, especially at the upper end, and therefore proposed a number of Consultation Alternative Amendments (which are described in section 6 of this document).
- 12.13 **Scottish Power** (the respondent in CAP089/090/091-CR-08) considered that the payment record and independent assessment proposals may result in poor quality counterparties being afforded unsecured credit limits, increasing the risk of default loss to the group. They were also of the opinion that forecasting performance for the prior year may not necessarily be a good indicator of TNUoS charges for future years, and therefore did not support this element of the proposal. Given the above views, Scottish Power expressed their preferences for the Working Group Alternative Amendments as:
1. WGAA1 (the highest preference)
 2. WGAA5
 3. WGAA4
 4. WGAA3
 5. WGAA2
- 12.14 **Zest 4** (the respondent in CAP089/090/091-CR-09) supported the original proposal, considering that it clearly seeks to establish the criteria outlined in the best practice guidelines, whereas, in their view, the alternatives would dilute these criteria. The only proposed alternative to which Zest 4 felt they could give some support was WGAA2, although they did not support the additional 2.5% on the VAR. They stated that they did not support WGAA1 or WGAA5 in any way, as, in their view, they appear to directly contravene the best practice guidelines by giving no credit for payment record.

Responses to the Consultation Alternative Amendment Consultation

- 12.15 The following table provides an overview of the representations received to the Consultation Alternative Amendment Consultation. As can be seen in the table, a number of respondents to the original consultation also responded to the subsequent consultation. Copies of the representations are attached as Annex 5.

Reference	Company	Supportive	Comments
CAP089/090/91-CAACR-01	BizzEnergy	Yes	Favours CAA22
CAP089/090/91-CAACR-02	Centrica	No	Does not support any option; Response received late
CAP089/090/91-CAACR-03	EDF Energy	Yes	Supports CAA6, WGAA5 and CAA41
CAP089/090/91-CAACR-04	E.ON UK	No	Limited support for CAA6, CAA35 and WGAA5
CAP089/090/91-CAACR-05	Opus Energy	Yes	Supports original; also supports WGAA2 and CAA7-CAA25
CAP089/090/91-CAACR-06	Scottish Power	Yes	Supports WGAA1, CAA2, CAA13 and CAA37

12.16 **BizzEnergy** (the respondent in CAP089/090/091-CAACR-01) believes that the original proposal plus the three BizzEnergy alternatives (i.e. CAA22) better fulfil the CUSC objectives than any of the other alternatives. BizzEnergy believe that little justification has been provided in terms of the proposed changes to credit allowances for rated companies in CAA1-CAA6. They do not support the proposed changes to the VAR calculation to include a performance weighting factor (CAA26-CAA30 and CAA42-CAA46); nor do they support the proposal to remove the forecasting performance and maintain the current VAR mechanism (CAA31-35 and CAA47-CAA51), believing this to be a retrograde step. BizzEnergy do not support the National Grid proposal on phasing (CAA36-CAA51), preferring their own proposal in this area. In summary, BizzEnergy:

- do not support WGAA1 or WGAA5 as they do not include payment record;
- do not support WGAA2, WGAA4 or WGAA5 as they do not believe that the additional 2.5% requirement is justified;
- do not support WGAA3, as the Users would have to pay for independent assessments without being able to choose the rating agent; but
- fully support and endorse the original proposal, as amended by the three BizzEnergy alternatives.

12.17 **Centrica** (the respondent in CAP089/090/091-CAACR-02) did not support the original or any of the Working Group Alternative Amendments as, in their view, they dilute the current baseline and increase the risk of parties being exposed to a bad debt, and also do not believe any of the Consultation Alternative Amendments better facilitate the applicable CUSC objectives. They believe that CAA1-CAA6 can be seen as a useful clarification although it does not improve the robustness of the proposed arrangements. Centrica believe that CAA7-CAA25 do not mitigate the increased level of risk that results from the original proposal and the Working Group Alternative Amendments as, in their view, they water down the current credit obligations. Centrica are opposed to phasing, as they believe this would increase the level of risk that market participants would be exposed to during the initial 12 month period. Centrica do believe there is merit in increasing the granularity (CAA26-CAA30) of the VAR calculation to a monthly as opposed to an annual calculation, and to maintaining the status quo of 10% TNUoS VAR (CAA31-CAA35), but consider that neither would offer the same level of protection to the market as the current baseline and therefore it do not better facilitate the applicable CUSC objectives. Centrica's response was received late.

- 12.18 Whilst Centrica do not support any of the proposals, they do concur with the views expressed by National Grid in respect of the implementation dates. They believe that it is essential that independent credit agencies are given sufficient time to fully understand their role in the proposed new process, and therefore support the revised implementation date to allow this education to take place.
- 12.19 **EDF Energy** (the respondent in CAP089/090/091-CAACR-03) previously highlighted their support for WGAA5. They believe that the proposed changes to credit allowances for A rated companies (CAA1-CAA6) are more appropriate, and given their earlier views, consider that CAA6 would better achieve the applicable CUSC objectives. Although they support the intent of the addition of the word “suitable” to the definition of Approved Agency (CAA7-CAA11), they question the robustness of the proposed legal text. They consider that BizzEnergy’s proposed clause to permit the transition of credit requirements (CAA12-CAA17) would provide greater benefit to those parties that have not complied with the existing credit requirements of the CUSC, and therefore would not better achieve the CUSC objectives. EDF Energy do not support the use of payment record, and therefore also do not support the proposed alternative to lower the criteria of payment record (CAA18-CAA21). They are concerned that the proposed weighted assessment of forecasting performance (CAA26-CAA30) has not been adequately thought through, and cannot see any justification for the removal of forecasting performance for VAR calculation (CAA31-CAA35) when, in their view, this aspect of the proposal has been discussed in some detail. However, they do consider that National Grid’s proposal for transition to new credit arrangements (CAA36-CAA41) would better achieve the CUSC objectives. In summary, EDF Energy consider that CAA6, WGAA5 and CAA41 better achieve the CUSC objectives than the status quo.
- 12.20 **E.ON UK** (the respondent in CAP089/090/091-CAACR-04) clarified that in their previous response they were not fully supportive of any proposals, but could offer limited support for WGAA5 as the least bad option. They do not believe that any option better meets the CUSC objectives more than the current baseline. However, E.ON do regard the proposed change to the credit allowances for rated companies (CAA1-CAA6) as an improvement, in their view better reflecting commercial reality. They do not support the addition of the word “suitable” to the definition of Approved Agency (CAA7-CAA11), and do not support a transitional period (CAA12-17), as this, in their view, would leave an unacceptable period during which parties would have insufficient credit cover in place. E.ON also emphatically do not support the proposed relaxation of rules for assessing a good payment record prior to February 2005 (CAA18-CAA21), and therefore also do not support CAA22-CAA25. E.ON have some sympathy with the intent of the proposal to adjust the calculation of VAR (CAA26-CAA30), but note that National Grid is able to amend inaccurate suppliers’ forecasts and therefore does not support any alternative based on this change. However, given E.ON’s general opposition to the calculation of VAR through forecasting performance, they do support the proposal to remove this element completely (CAA31-CAA35). Given their opposition to transition arrangements, they would do not support CAA36-CAA51. Given the views summarised above, and their initial limited support for WGAA5, they now also offer limited support for CAA6 and CAA35.
- 12.21 Whilst opposed to a transition period, E.ON UK highlight that the wording of paragraph 3.27 as proposed by CAA36-CAA51 (attached as Part E of Annex 3 of this document) could be interpreted as only requiring parties that currently do not meet the requirements of Section 3 Part III of the CUSC to only have provided 75% of the difference between the old and new

requirements by the end of the 12 month transitional period. National Grid would like to confirm, as the proposer of these alternatives, that the intention of this paragraph was that all Users would be 100% compliant by the end of the year, and would suggest that, were one of CAA36-CAA51 to be implemented, all parties may wish to consider whether the applicable CUSC objectives may be met by a further clarificatory amendment.

- 12.22 **Opus Energy** (the respondent in CAP089/090/091-CAACR-05) continues to support the original proposal and any proposal which they consider to add practical detail to the implementation of the guidelines. They do not support CAA1-CAA6 on the grounds that they would be a radical departure from the best practice guidelines. They also do not support CAA26-CAA30 due to difficulties, they believe, in accurately forecasting in the first half of the financial year (they note that they could support VAR based on forecast error through the year, but only where the weighting increases as the year progressed). Opus Energy do not support CAA31-CAA35 as they would remove the benefits they perceive in the original proposal, and also do not support CAA36-CAA51, as they consider that the added complexity of these would cause uncertainty and lead to disputes during implementation. In summary, Opus Energy continues to support the original proposal, and also supports WGAA2 and CAA7-CAA25 since they consider that these provide beneficial detail to assist with the practical implementation of the guidelines.
- 12.23 **Scottish Power** (the respondent in CAP089/090/091-CAACR-06) continues to prefer WGAA1, and they are happy to incorporate CAA2, CAA13 and CAA37. Their second preference is WGAA5, and they are happy to incorporate CAA6, CAA11, CAA17 and CAA41. However, they are strongly opposed to CAA30, CAA35, CAA46 and CAA51. Scottish Power oppose the use of payment records to determine credit limits, and therefore do not support WGAA2, WGAA3, WGAA4 or any related Consultation Alternative Amendments.

13.0 SUMMARY OF PANEL MEMBERS' VIEWS

- 13.1 The Panel considered CAP089/090/091 at its meeting on the 25th August 2005 and agreed the proposal should proceed to industry consultation. However, a number of important points arose during the discussion of the proposal, which were highlighted to the industry through the consultation process.
- 13.2 Firstly, the Amendments Panel raised the issue of the overlap between the amount of credit that could accrue following an Independent Assessment that resulted in a score between 5 and 10 and the credit which could be gained via the securing of a conventional Credit Rating. One Panel Member highlighted that his expectation had been that the maximum amount of credit that could be secured via Independent Assessment would be lower than that which could be secured via a Credit Rating. A number of Panel Members argued that this would be more appropriate, given the greater clarity that existed in relation to the Credit Rating process, and in order to ensure that the primacy of Credit Ratings was not inadvertently diluted by the introduction of the new arrangements. However, the Working Group Chairman noted that the proposed overlap was explicitly in line with the best practice guidelines.
- 13.3 A number of Panel Members also questioned a perceived lack of transparency regarding how exactly independent agencies would go about deriving credit scores. In particular, it was noted that, in the view of Panel Members, there was significantly less clarity over this proposed scoring

process than there was regarding the process for securing a credit rating. The Working Group Chairman in addressing these concerns noted that discussions between Network Operators and Credit Agencies were currently ongoing. The Working Group Chairman also noted that this was a highly specialist area, and one on which the Working Group had not felt it to be either appropriate to define how the independent agencies should go about this task, given their superior expertise, or practicable, given that independent agencies are not CUSC Parties, and hence could not be bound directly by these provisions.

- 13.4 The Amendments Panel noted that currently neither the original proposal or any of the Working Group Alternative Amendments contained any transitional arrangements. However, this issue has since been addressed by Consultation Alternative Amendments proposed by BizzEnergy (CAA12-CAA17 and CAA22-CAA25) and by National Grid (CAA36-CAA51).

14.0 NATIONAL GRID RECOMMENDATION

- 14.1 National Grid recommends approval of the Consultation Alternative Amendment CAA45, which should be implemented on the 1st of the month, at least 6 weeks after approval.
- 14.2 National Grid also believes that many of the Working Group Alternative Amendments and other Consultation Alternative Amendments (although not the original proposal) would better facilitate the Applicable CUSC Objectives. Reference should be made to section 9 of this document for a full explanation of National Grid's views. In the event of such alternatives being approved, National Grid would also recommend an implementation date of the 1st of the month, at least 6 weeks after approval (see section 7 for further information on implementation dates).

15.0 COMMENTS ON DRAFT AMENDMENT REPORT

15.1 National Grid received two responses following the publication of the draft Amendment Report. The following table provides an overview of each representation. A copy of the representations are attached as Annex 6.

Reference	Company	Summary of Comments
CAP089/090/091-AR-01	British Energy	Confirmed views accurately represented
CAP089/090/091-AR-02	Scottish Power	Reiterated previously submitted comments

ANNEX 1 – AMENDMENT PROPOSAL FORM

CUSC Amendment Proposal Form	CAP:089
Title of Amendment Proposal:	
Maximum Unsecured Credit Limit	
Description of the Proposed Amendment (mandatory by proposer):	
<p>It is proposed that that Network Operators should set a maximum credit limit based on 2% of Regulatory Asset Value. Currently there is no unsecured credit limit within CUSC if a user has NGC credit rating (A- or A3 respectively as set by Standard and Poor's or Moody's for connection charges, BBB- or Baa3 respectively as set by Standard and Poor's or Moody's for Use of System charges). CUSC will require amending in order to implement the criteria for setting the maximum credit limit.</p> <p>It is recommended that this amendment goes to a working group.</p>	
Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):	
<p>The amendment seeks to address and codify Ofgem's recommendations within its Network Operator Best Practice guidelines.</p>	
Impact on the CUSC (this should be given where possible):	
Section 3	
Impact on Core Industry Documentation (this should be given where possible):	
None	
Impact on Computer Systems and Processes used by CUSC Parties (this should be given where possible):	
None	
Details of any Related Modifications to Other Industry Codes (where known):	
None	
Justification for Proposed Amendment with Reference to Applicable CUSC Objectives** (mandatory by proposer):	
<p>An amendment to the CUSC as outlined above will enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfill its obligations to facilitate competition in the generation and supply of electricity.</p>	

Details of Proposer: Organisation's Name:	National Grid Transco
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Paul Murphy NGT 019260656330 paul.murphy@ngtuk.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Toby Thornton NGT 01926656384 toby.thornton@ngtuk.com
Attachments (Yes/No): If Yes, Title and No. of pages of each Attachment:	

Notes:

- 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.
- 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:

Richard Dunn
Panel Secretary
Commercial Frameworks
National Grid Company plc
NGT House
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA
Or via e-mail to: CUSC.Team@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 Company Transmission Licence under Section C10, paragraph 1. Reference should be made to this section when considering a proposed amendment.

CUSC Amendment Proposal Form	CAP:090																																				
Title of Amendment Proposal:																																					
Credit Limits for rated companies																																					
Description of the Proposed Amendment (mandatory by proposer):																																					
<p>To gain credit a user is currently required to have an NGC approved credit rating (A- or A3 respectively as set by Standard and Poor's or Moody's for connection charges, BBB- or Baa3 respectively as set by Standard and Poor's or Moody's for Use of System charges). This amendment would introduce the rules of establishing individual user limits based on a percentage of the maximum credit limit.</p> <p>CAP:089 proposed that the CUSC should set a maximum credit limit based on 2% of Regulatory Asset Value of an individual Network Operator. This proposal is that individual counterparty credit limits and those that use Parent Company Guarantees or aggregates of both, should be set using credit ratings applied under the 'Basel 2' rules for determining bank capital adequacy. The implication is that the maximum credit allowances of 100 percent of maximum credit limit for AAA/AA and 40 percent for A. For the third band, (BBB) NGC proposes, consistent with Ofgem's guidelines, that the above allowance be further sub-divided, such that the following are applied to rated entities:</p> <p>Maximum credit limit = 2% RAV (~£120m for NGC)</p> <table border="0"> <tr> <td>Credit rating</td> <td></td> </tr> <tr> <td>Credit allowance as % of maximum credit limit</td> <td></td> </tr> <tr> <td>Approx. Allowance</td> <td></td> </tr> <tr> <td>AAA/AA</td> <td></td> </tr> <tr> <td>100%</td> <td></td> </tr> <tr> <td>£120m</td> <td></td> </tr> <tr> <td>A</td> <td></td> </tr> <tr> <td>40%</td> <td></td> </tr> <tr> <td>£48m</td> <td></td> </tr> <tr> <td>BBB+</td> <td></td> </tr> <tr> <td>20%</td> <td></td> </tr> <tr> <td>£24m</td> <td></td> </tr> <tr> <td>BBB</td> <td></td> </tr> <tr> <td>19%</td> <td></td> </tr> <tr> <td>£22.8m</td> <td></td> </tr> <tr> <td>BBB-</td> <td></td> </tr> <tr> <td>18%</td> <td></td> </tr> <tr> <td>£21.6m</td> <td></td> </tr> </table> <p>It is recommended that this amendment goes to a working group.</p>		Credit rating		Credit allowance as % of maximum credit limit		Approx. Allowance		AAA/AA		100%		£120m		A		40%		£48m		BBB+		20%		£24m		BBB		19%		£22.8m		BBB-		18%		£21.6m	
Credit rating																																					
Credit allowance as % of maximum credit limit																																					
Approx. Allowance																																					
AAA/AA																																					
100%																																					
£120m																																					
A																																					
40%																																					
£48m																																					
BBB+																																					
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Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):																																					
<p>The amendment seeks to address and codify Ofgem's recommendations within its Network Operator Best Practice guidelines.</p>																																					

Impact on the CUSC (<i>this should be given where possible</i>):	
Section 3	
Impact on Core Industry Documentation (<i>this should be given where possible</i>):	
None	
Impact on Computer Systems and Processes used by CUSC Parties (<i>this should be given where possible</i>):	
None	
Details of any Related Modifications to Other Industry Codes (<i>where known</i>):	
None	
Justification for Proposed Amendment with Reference to Applicable CUSC Objectives** (<i>mandatory by proposer</i>):	
An amendment to the CUSC as outlined above will enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfill its obligations to facilitate competition in the generation and supply of electricity.	
Details of Proposer: Organisation's Name:	National Grid Transco
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Paul Murphy NGT 019260656330 paul.murphy@ngtuk.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Toby Thornton NGT 01926656384 toby.thornton@ngtuk.com
Attachments (Yes/No): If Yes, Title and No. of pages of each Attachment:	

Notes:

- 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.

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Or via e-mail to: CUSC.Team@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 Company Transmission Licence under Section C10, paragraph 1. Reference should be made to this section when considering a proposed amendment.

CUSC Amendment Proposal Form	CAP: 091
<p>Title of Amendment Proposal: Establishment and maintenance of an Unsecured Credit Allowance for Rated and Unrated Companies and the alignment of the Value at Risk calculation with current best practice.</p>	
<p>Description of the Proposed Amendment (mandatory by proposer):</p> <p>This amendment seeks to Modify the CUSC to incorporate provisions for unrated companies to establish an appropriate line of credit in accordance with the CUSC Objectives taking account of the Best Practice Guidelines for Network Operator Credit Cover Conclusions Document published in February 2005 by OFGEM.</p> <p>For example it is anticipated that at a high level the modification should include amongst other things:</p> <ol style="list-style-type: none"> 1. Establish an unsecured credit allowance for unrated counterparties by using the payment record. 2. Where a company rated in the lower bands or an unrated counterparty seeks to increase its unsecured credit allowance it can do so by submitting to independent assessment of its creditworthiness. 3. Recalculation of the Demand Reconciliation Credit Cover amount of 10%. 	
<p>Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):</p> <p>Unrated and lower rated companies regardless of creditworthiness cannot access an unsecured line of credit. The credit levels required are inappropriate to the risks faced by NGT.</p>	
<p>Impact on the CUSC (this should be given where possible):</p>	
<p>Impact on Core Industry Documentation (this should be given where possible):</p>	
<p>Impact on Computer Systems and Processes used by CUSC Parties (this should be given where possible):</p>	
<p>Details of any Related Modifications to Other Industry Codes (where known):</p>	
<p>Justification for Proposed Amendment with Reference to Applicable CUSC Objectives** (mandatory by proposer):</p> <p>The current arrangements do not facilitate competition in accordance to the applicable CUSC objective B and constitute an artificial barrier to entry to the market.</p>	

Details of Proposer: Organisation's Name:	BizzEnergy Limited
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	BSC Party – Supplier
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Keith Munday BizzEnergy Limited 07976651122 keithm@bizzenergy.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Robert Brown Cornwall Consulting 07811326156 robert.brown14@tiscali.co.uk
Attachments (/No): If Yes, Title and No. of pages of each Attachment: No	

Notes:

- 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.
- 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.

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3. Applicable CUSC Objectives** - These are defined within the National Grid Company Transmission Licence under Section C10, paragraph 1. Reference should be made to this section when considering a proposed amendment.

ANNEX 2 – PROPOSED TEXT TO MODIFY CUSC

Part A - Text to give effect to the Proposed Amendment

The proposed changes to the CUSC text are shown in colour and marked up against the current version of the CUSC. The text will be amended by inserting the coloured underlined text and deleting the text which is coloured and struck out.

Amend Section 3 Part III as follows and edit contents page accordingly:

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, ~~TSUOS CHARGES~~ AND TNUOS DEMAND RECONCILIATION CHARGES: PROVISION OF SECURITY COVER

3.21.1 Each **User** required to pay **Use of System Charges** shall provide **Security Cover** for ~~Transmission Services Use of System Charges,~~ **Balancing Services Use of System Charges** and **Transmission Network Use of System Demand Reconciliation Charges** from time to time in accordance with this Part III.

3.21.2 Each such **User** shall not later than the date of its accession to the **CUSC Framework Agreement** ~~or 15 July 1998 (whichever is later)~~ deliver to **NGC** evidence reasonably satisfactory ~~to it~~ that:-

(a) ~~to establish the User's Allowed Credit~~ it presently holds an **Approved Credit Rating**; and

(b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.

3.21.3 The **User** shall be required to provide **Security Cover** where its **Security Requirement** exceeds its **User's Allowed Credit**. If such **User** ~~is required to provide **Security Cover** does not hold or ceases to hold an **Approved Credit Rating**~~ it shall, not later than the date of:-

(a) the date of its becoming a party to the **CUSC Framework Agreement**; or

(b) ~~the date upon which it ceases to have an **Approved Credit Rating** two **Business Days** after **NGC** notifies the **User** in writing that the **Security Cover** required exceeds the **Security Amount** provided; or~~

(c) where and to the extent that the amount of **Security Cover** required exceeds the **Security Amount** provided

as a result of a User's revised forecast given in accordance with Paragraph 3.10 within one month of such revised forecast being provided to NGC:-

- (i) deliver to **NGC** a **Qualifying Guarantee** in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (ii) deliver to **NGC** a **Letter of Credit** (available for an initial period of not less than 6 months) in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (iii) deliver to **NGC** cash for credit to the **Escrow Account** in such amount as shall be notified by **NGC** in accordance with Paragraph 3.22.

3.21.4 The provisions of this Part III shall be in addition to any other requirements to provide security in respect of any other sums due under the terms of the **CUSC** or any **Bilateral Agreement** or **Construction Agreement**.

3.21.5 Maintenance of Security Cover

Where a **User** is required to provide **Security Cover** in accordance with the terms of this Paragraph 3.21 it shall at all times thereafter maintain a **Security Amount** equal to or more than the **Security Cover** applicable to it. Immediately upon any reduction occurring in the **Security Amount** provided by the **User** or any **Letter of Credit** or **Qualifying Guarantee** being for any reason drawn down or demanded respectively, the **User** will procure that new **Letters of Credit** or **Qualifying Guarantees** are issued or existing **Letters of Credit** or **Qualifying Guarantees** are reinstated (to the satisfaction of **NGC**) to their full value or cash is placed to the credit of the **Escrow Account** in an amount required to restore the **Security Amount** to an amount at least equal to the **Security Cover** applicable to the **User**, and in such proportions of **Letters of Credit**, **Qualifying Guarantees** and/or cash as the **User** may determine. Not later than 10 **Business Days** before any outstanding **Letter of Credit** and/or **Qualifying Guarantee** is due to expire, the **User** shall procure to the satisfaction of **NGC** that its required **Security Amount** will be available for a further period of not less than 6 months which may be done in one of the following ways:-

- (a) subject to the issuing bank continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with

confirmation from the issuing bank that the validity of the **Letter of Credit** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or

- (b) provide **NGC** with a new **Letter of Credit** issued by an issuing bank with an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Letter of Credit** shall be available for a period of not less than 6 months; or
- (c) subject to the entity issuing the **Qualifying Guarantee** continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing entity that the validity of the **Qualifying Guarantee** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or
- (d) provide **NGC** with a new **Qualifying Guarantee** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Qualifying Guarantee** shall be available for a period of not less than 6 months; or
- (e) procure such transfer to **NGC** for credit to the **Escrow Account** of an amount as shall ensure that the credit balance applicable to the **User** and standing to the credit of the **Escrow Account** shall be at least equal to the required **Security Amount**.

3.21.6 Failure to supply or maintain Security Cover

If the **User** fails at any time to provide or maintain **Security Cover** to the satisfaction of **NGC** in accordance with the provisions of this Part III, **NGC** may at any time while such default continues, and if at such time any **Letter of Credit** and/or **Qualifying Guarantee** forming part of the **Security AmountCover** is due to expire within 9 **Business Days** immediately, and without notice to the **User**, demand payment of the entire amount of any outstanding **Letter of Credit** and/or **Qualifying Guarantee** and shall credit the proceeds of the **Letter of Credit** and/or **Qualifying Guarantee** to the **Escrow Account**.

3.21.7 Substitute Letter of Credit or Qualifying Guarantee

- (a) If the bank issuing the **User's Letter of Credit** ceases to have the credit rating set out in the definition of **Letter of Credit** in this **CUSC** such **User** shall forthwith procure the issue of a substitute **Letter of Credit** by a bank that has such a credit rating or a **Qualifying Guarantee** or transfer to **NGC** cash to be credited to the **Escrow Account**.
- (b) If the entity providing the **User's Qualifying Guarantee** ceases to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) the **User** shall forthwith procure a replacement **Qualifying Guarantee** from an entity with such a credit rating or a **Letter of Credit** or transfer to **NGC** cash to be credited to the **Escrow Account**.

3.22 CREDIT MONITORING

3.22.1 Determination of Security Cover

The amount of **Security Cover** which the **User** shall be required to maintain shall be determined from time to time by **NGC** as the **User's Security Requirement** less the **User's Allowed Credit** in accordance with this Part III on the basis of the criteria set out in Paragraph 3.22.2, and shall be notified to the **User**.

3.22.2 Criteria for provision of Security CoverDetermination of Security Requirement

The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, the amount of **Security Cover** required to be provided by the **User** in respect of this requirement shall be provided in an amount to be reasonably assessed by **NGC** as the aggregate amount reasonably anticipated by **NGC** as being payable by the **User** pursuant to all its connections to and/or use of the **GB Transmission System** in respect of:-

- (a) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Supplier**, over a 32 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and
- (b) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Generator**,

over a 29 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and

(c) **Transmission Network Use of System Demand Reconciliation** Charges calculated in the following manner:-

(aa) 10% of **User's Demand related Transmission Network Use of System Demand Charges** for the **Financial Year in which such charges first become due ending on 31 March 1999**; and

(bb) in the case of subsequent **Financial Years** such ~~other~~ percentage of **User's Transmission Network Use of System Demand Charges** as reflects the percentage difference between the **Actual Amount** and the **Notional Amount** of the ~~Demand related~~ **User's Transmission Network Use of System Demand Charges** for the previous **Financial Year**, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero as ~~NGC acting reasonably shall specify to the User in writing from time to time taking into account the requirements for Security Cover contained in the Balancing and Settlement Code and where NGC proposes to change such other percentage NGC shall consult with Users~~; and

(d) interest on the amounts referred to in (a), (b), ~~(c)~~ and ~~(d)~~ above calculated in accordance with the provisions of this **CUSC**.

3.22.3 Review of Security Cover

NGC shall keep under review the **Security Cover** relating to the **User** and shall promptly advise the **User** whenever the **Security Amount** maintained by the **User** is more or less than the amount required to be maintained pursuant to this Paragraph 3.22.

3.22.4 ~~Increase or~~ Decrease of Security Cover

If, ~~after considering any representations which may be made by the User~~, **NGC** reasonably determines that the **User's required Security Cover** ~~has should be increased or~~ decreased, it shall

so notify the **User**. ~~If **NGC** so determines that such **Security Cover** should be decreased and the **User** consents then that reduction shall take place.~~ **NGC** shall consent to an appropriate reduction in the available amount of any outstanding **Qualifying Guarantee** or **Letter of Credit** and/or shall repay to the **User** such part of the deposit held in the **Escrow Account** for the account of the **User** (together with all accrued interest on the part to be repaid) sufficient to reduce the **User's Security Amount** to the level of **Security Cover** applicable to it within 5 Business Days of the **User's** consent. ~~If **NGC** so determines that the **User's Security Cover** should be increased, the **User** shall, within 5 Business Days of notice as aforesaid, procure an additional or replacement **Qualifying Guarantee** or **Letter of Credit** or transfer to **NGC** cash to be credited to the **Escrow Account** in an amount sufficient to increase its **Security Amount** so as to be at least equal to the level of **Security Cover** applicable to it.~~

3.22.5 Notification in respect of Security Cover

NGC shall notify each **User** promptly if:-

- (a) that **User** fails to provide, maintain, extend or renew a **Qualifying Guarantee** or a **Letter of Credit** which it is required to provide, maintain, extend or renew pursuant to Paragraphs 3.21 or 3.22 inclusive;
- (b) **NGC** shall make a demand under any such **Qualifying Guarantee** or a call under a **Letter of Credit**; or
- (c) **NGC** becomes aware that that **User**:
 - (i) shall cease to have an **Approved Credit Rating** or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, or
 - (ii) shall be placed on a credit watch by the relevant credit rating agency (or becomes subject to an equivalent procedure) which in any case casts doubt on the **User** retaining an **Approved Credit Rating** or an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement** or maintaining the **Credit Assessment Score** given by the **User's Independent Credit Assessment**, or
 - (iii) shall be in default under the additional or alternative security required to be provided pursuant to this Part III; or

- (d) **NGC** becomes aware that any bank that has issued a **Letter of Credit** in relation to that **User** which has not expired shall cease to have the credit rating required by this Section; or
- (e) **NGC** becomes aware that any entity providing a **Qualifying Guarantee** in relation to that **User** which has not expired shall cease to have an **Approved Credit Rating** for an amount at least equal to the required Security Amount (less its balance on the Escrow Account); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

Provided always that the failure by **NGC** to notify the **User** pursuant to Paragraphs 3.22.3, 3.22.4 or 3.22.5 shall not relieve the **User** of its obligations under and in accordance with the terms of this Section 3 and the **Charging Statements**.

3.22.6 Release from Security Cover Obligations

Upon a **User** becoming a **Dormant CUSC Party** or ceasing to be a **CUSC Party** and provided that all amounts owed by the **User** in respect of ~~Transmission Services Use of System Charges, Balancing Services Use of System Charges~~ and **Transmission Network Use of System Demand Reconciliation Charges** have been duly and finally paid and that it is not otherwise in default in any respect of any ~~Transmission Services Use of System Charges~~ **Balancing Services Use of System Charges** or **Transmission Network Use of System Demand Reconciliation Charges** (including in each case interest) payable under the **CUSC**, the **User** shall be released from the obligation to maintain **Security Cover** and **NGC** shall consent to the revocation of any outstanding **Qualifying Guarantee** or **Letter of Credit** and shall repay to the **User** the balance (including interest credited thereto) standing to the credit of the **User** on the **Escrow Account** at that date.

3.23 **PAYMENT DEFAULT**

If, by 12.30 hours on any **Use of System Payment Date**, **NGC** has been notified by a **User** or it otherwise has reason to believe that that **User** will not have remitted to it by close of banking business on the **Use of System Payment Date** all or any part ("the amount in default") of any amount which has been notified by **NGC** to the **User** as being payable by the **User** by way of either the ~~Transmission Services Use of System Charges and/or~~ **Balancing Services Use of System**

Charges and/or Transmission Network Use of System Demand Reconciliation Charges on the relevant **Use of System Payment Date**, then **NGC** shall be entitled to act in accordance with the following provisions (or whichever of them shall apply) in the order in which they appear until **NGC** is satisfied that the **User** has discharged its obligations in respect of the ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges**~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** (as appropriate) under the **CUSC** which are payable in respect of the relevant **Settlement Day** (in the case of ~~**Transmission Services Use of System Charges or Balancing Services Use of System Charges**~~) or **Financial Year** (in the case of **Transmission Network Use of System Demand Reconciliation Charges**):-

- (a) **NGC** may to the extent that the **User** is entitled to receive payment from **NGC** pursuant to the **CUSC** (unless it reasonably believes that such set-off shall be unlawful) set off the amount of such entitlement against the amount in default;
- (b) **NGC** shall be entitled to set off the amount of funds then standing to the credit of the **Escrow Account** against ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges**~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** (as appropriate) unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** at its absolute discretion and shall notify the **User** accordingly;
- (c) **NGC** may demand payment under any outstanding **Letter of Credit** supplied by the **User** in a sum not exceeding the available amount of all such **Letters of Credit**;
- (d) **NGC** may demand payment under any outstanding **Qualifying Guarantee** provided for the benefit of the **User** pursuant to Paragraph 3.21.3(b).

3.24 UTILISATION OF FUNDS

In addition to the provisions of Paragraph 3.23 above if **NGC** serves a notice of default under the terms of Paragraph 5.5 or a notice of termination under Paragraph 5.7 then **NGC** shall be entitled to demand payment of any of the ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges**~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** which are outstanding from the relevant **User** whether or not the **Use of System Payment Date** in respect of them shall have passed and:-

- (a) make demand under any outstanding **Qualifying Guarantee** or a call under any outstanding **Letter of Credit** supplied by the **User**; and
- (b) to set off the funds in the **Escrow Account** against the ~~Transmission Services Use of System Charges and/or~~ **Balancing Services Use of System Charges** and/or **Transmission Network Use of System Demand Reconciliation Charges** unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** as it shall in its sole discretion think fit.

3.25 **USER'S RIGHT TO WITHDRAW FUNDS**

If a **User** is not in default in respect of any amount owed to **NGC** in respect of the ~~Transmission Services Use of System Charges or~~ **Balancing Services Use of System Charges** or **Transmission Network Use of System Charges** under the terms of the **CUSC** and any **Bilateral Agreement** to which the **User** is a party:-

- (a) **NGC** shall transfer to the **User** quarterly interest credited to the **Escrow Account**; and
- (b) **NGC** shall transfer to such **User** within a reasonable time after such **User's** written request therefor any amount of cash provided by the **User** by way of **Security Cover** which exceeds the amount which such **User** is required to provide by way of security in accordance with this Part III.

3.26 **USER'S ALLOWED CREDIT**

3.26.1 Each **User** shall notify **NGC** promptly if:-

- (a) it gains an **Approved Credit Rating**; or
- (b) it ceases to have an **Approved Credit Rating**; or
- (c) where the **User** holds an **Approved Credit Rating**, its specific investment grading changes; or
- (d) it has reason to believe that its **Credit Assessment Score** is likely to have changed since the last **Independent Credit Assessment**.

3.26.2 The **User's Allowed Credit** extended by **NGC** at any time to each **User** with an **Approved Credit Rating** shall be calculated in accordance with Paragraph 1 of Appendix 1 of this Section 3 subject to a maximum value of the **Unsecured Credit Cover**.

- 3.26.3 The **User's Allowed Credit** extended by **NGC** at any time to each **User** without an **Approved Credit Rating** shall be at the choice of the **User** the **Payment Record Sum** or the **Credit Assessment Sum**.
- 3.26.4 Unless the **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then, subject to Paragraph 3.26.5, for each successive month in which the **User** pays its **Use of System Charges** by the **Use of System Payment Date** then the **User's Allowed Credit** extended to such **User** at any time shall be calculated in accordance with Paragraph 2 of Appendix 1 of this Section 3.
- 3.26.5 Where a **User** fails to pay its **Use of System Charges** within 2 **Business Days** of the **Use of System Payment Date** its **Payment Record Sum** shall be reduced by 50% on the first such occasion within a twelve month period and shall be reduced to zero on the second occasion in such twelve month period. Upon any such failure to pay, the **User's Allowed Credit** (as adjusted following such failure in accordance with this clause) shall be calculated for successive months in accordance with Paragraph 3.26.4.
- 3.26.6 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on its **Credit Assessment Sum**, the **Credit Assessment Sum** extended to a **User** at any time shall be calculated by reference to the **Credit Assessment Score** given by the **Independent Credit Assessment** in accordance with Paragraph 3 of Appendix 1 of this Section 3.
- 3.26.7 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then the **User** will obtain an **Independent Credit Assessment** of that **User**. The first such **Independent Credit Assessment** will be at **NGC's** cost.
- 3.26.8 Where a **User's Allowed Credit** is based on the **Credit Assessment Sum** then where **NGC** has reason to believe that the **Independent Credit Assessment** last obtained is likely to have changed then **NGC** shall be entitled to request the **User** to obtain a further **Independent Credit Assessment**. Such **Independent Credit Assessment** shall be at **NGC's** cost.
- 3.26.9 The **User** may obtain an **Independent Credit Assessment** at **NGC's** cost provided that **NGC** has not paid for an earlier **Independent Credit Assessment** for that **User** within the previous 12 months. The **User** may obtain further **Independent Credit Assessments** within such a 12 month period at the **User's** cost.

Add new definitions to Section 11 as follows:

Approved Agency the panel of three independent assessment agencies appointed by NGC and other network operators from time to time for the purpose of providing **Independent Credit Assessments** details of such agencies to be published on the **NGC Website**;

Credit Assessment Score a score between zero and ten given by an **Approved Agency** in the **Independent Credit Assessment**;

Credit Assessment Sum the proportion of the of the **Unsecured Credit Cover** extended by NGC to a **User** who does not meet the **Approved Credit Rating** and calculated in accordance with Paragraph 3.26.6;

Independent Credit Assessment an assessment of the creditworthiness of a **User** by an **Approved Agency** as nominated by the **User** obtained in accordance with Paragraph 3.26.7, 3.26.8 and 3.26.9;

NGC Prescribed Level the forecast value of the regulatory asset value of NGC for a **Financial Year** as set out in the document published from time to time by Ofgem setting this out and currently known as "Ofgem's Transmission Price Control Review of NGC - Transmission Owner Final Proposals" such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Payment Record Sum the proportion of the **Unsecured Credit Cover** extended by NGC to a **User** who does meet the **Approved Credit Rating** calculated in accordance with Paragraph 3.26.4 and 3.26.5;

Security Requirement the aggregate amount for the time being which the **User** shall be required by NGC to provide and maintain by way of **Security Cover** and its **User's Allowed Credit** in accordance with Paragraph 3.22;

Transmission Network Use of System Demand Charges that element of **Transmission Network Use of System Charges** relating to **Demand**

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User's Allowed Credit that proportion of the **Unsecured Credit Cover** extended to a **User** by NGC as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than **BB-A1** by Standard and Poor's Corporation or a rating not less than **Ba3P4** by Moody's Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~

term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

Qualifying Guarantee a guarantee in favour of **NGC** in a form proposed by the **User** and agreed by **NGC** (whose agreement shall not be unreasonably withheld or delayed) and which is held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of **User's Allowed Credit** that would be available to that entity in accordance with Paragraph 3.26 if it was a **User**;

Amend definition of **Security Cover** as follows:

Security Cover for each **User**, the **User's Security Requirement** less the **User's Allowed Credit** the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of security in accordance with the **CUSC**;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

1. Where the **User** meets the **Approved Credit Rating** that **User's Allowed Credit** at any given time shall be calculated as a percentage of **Unsecured Credit Cover** by reference to the specific investment grade within the **User's Approved Credit Rating** as follows:

<u>Approved Long Term Credit Rating</u>			<u>User's Allowed Credit as % of Unsecured Credit Cover</u>
<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch</u>	
<u>AAA/AA</u>	<u>Aaa/Aa2</u>	<u>AAA/AA</u>	<u>100</u>
<u>A</u>	<u>A2</u>	<u>A</u>	<u>40</u>
<u>BBB+</u>	<u>Baa1</u>	<u>BBB+</u>	<u>20</u>
<u>BBB</u>	<u>Baa2</u>	<u>BBB</u>	<u>19</u>
<u>BBB-</u>	<u>Baa3</u>	<u>BBB-</u>	<u>18</u>
<u>BB+</u>	<u>Ba1</u>	<u>B</u>	<u>17</u>
<u>BB</u>	<u>Ba2</u>	<u>B</u>	<u>16</u>
<u>BB-</u>	<u>Ba3</u>	<u>B</u>	<u>15</u>

2. Where based on the **Payment Record Sum**, a **User's Allowed Credit** at any time shall be calculated on the basis of 0.4% per 12 month period (escalating on an evenly graduated basis each month) of the **Unsecured Credit Cover**, subject to a maximum of 2% after 60 months of successive payment by the **Use of System Payment Date**.

3. Where based on the **Credit Assessment Sum**, a **User's Allowed Credit** at any given time shall be calculated as a percentage of the **Unsecured Credit Cover** by reference to the **Credit Assessment Score** as follows:

<u>Credit Assessment Score</u>	<u>User's Allowed Credit as % of Unsecured Credit Cover</u>
<u>10</u>	<u>20</u>
<u>9</u>	<u>19</u>
<u>8</u>	<u>18</u>
<u>7</u>	<u>17</u>
<u>6</u>	<u>16</u>
<u>5</u>	<u>15</u>
<u>4</u>	<u>13.33</u>
<u>3</u>	<u>10</u>
<u>2</u>	<u>6.67</u>
<u>1</u>	<u>3.33</u>
<u>0</u>	<u>0</u>

Part B - Text to give effect to Working Group Alternative Amendment 1

The proposed changes to the CUSC text are shown in colour and marked up against the current version of the CUSC. The text will be amended by inserting the coloured underlined text and deleting the text which is coloured and struck out.

Amend Section 3 Part III as follows and edit contents page accordingly:

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, ~~TSUOS CHARGES~~ AND TNUOS DEMAND RECONCILIATION CHARGES: PROVISION OF SECURITY COVER

3.21.1 Each **User** required to pay **Use of System Charges** shall provide **Security Cover** for ~~Transmission Services Use of System Charges,~~ **Balancing Services Use of System Charges** and **Transmission Network Use of System Demand Reconciliation Charges** from time to time in accordance with this Part III.

3.21.2 Each such **User** shall not later than the date of its accession to the **CUSC Framework Agreement** ~~or 15 July 1998 (whichever is later)~~ deliver to **NGC** evidence reasonably satisfactory ~~to it~~ **that:-**

(a) ~~to establish the User's Allowed Credit~~ presently holds an **Approved Credit Rating**; ~~and/or~~

(b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.

3.21.3 ~~The User shall be required to provide Security Cover where its Security Requirement exceeds its User's Allowed Credit. If such User is required to provide Security Cover does not hold or ceases to hold an Approved Credit Rating~~ it shall, not later than the date of:-

(a) the date of its becoming a party to the **CUSC Framework Agreement**; or

(b) ~~the date upon which it ceases to have an Approved Credit Rating~~ two **Business Days** after **NGC** notifies the **User** in writing that the **Security Cover** required exceeds the **Security Amount** provided; or

(c) where and to the extent that the amount of **Security Cover** required exceeds the **Security Amount** provided as a result of a **User's** revised forecast given in accordance with Paragraph 3.10 within one month of such revised forecast being provided to **NGC**:-

- (i) deliver to **NGC** a **Qualifying Guarantee** in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (ii) deliver to **NGC** a **Letter of Credit** (available for an initial period of not less than 6 months) in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (iii) deliver to **NGC** cash for credit to the **Escrow Account** in such amount as shall be notified by **NGC** in accordance with Paragraph 3.22.

3.21.4 The provisions of this Part III shall be in addition to any other requirements to provide security in respect of any other sums due under the terms of the **CUSC** or any **Bilateral Agreement** or **Construction Agreement**.

3.21.5 Maintenance of Security Cover

Where a **User** is required to provide **Security Cover** in accordance with the terms of this Paragraph 3.21 it shall at all times thereafter maintain a **Security Amount** equal to or more than the **Security Cover** applicable to it. Immediately upon any reduction occurring in the **Security Amount** provided by the **User** or any **Letter of Credit** or **Qualifying Guarantee** being for any reason drawn down or demanded respectively, the **User** will procure that new **Letters of Credit** or **Qualifying Guarantees** are issued or existing **Letters of Credit** or **Qualifying Guarantees** are reinstated (to the satisfaction of **NGC**) to their full value or cash is placed to the credit of the **Escrow Account** in an amount required to restore the **Security Amount** to an amount at least equal to the **Security Cover** applicable to the **User**, and in such proportions of **Letters of Credit**, **Qualifying Guarantees** and/or cash as the **User** may determine. Not later than 10 **Business Days** before any outstanding **Letter of Credit** and/or **Qualifying Guarantee** is due to expire, the **User** shall procure to the satisfaction of **NGC** that its required **Security Amount** will be available for a further period of not less than 6 months which may be done in one of the following ways:-

- (a) subject to the issuing bank continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing bank that the validity of the **Letter of Credit** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or

- (b) provide **NGC** with a new **Letter of Credit** issued by an issuing bank with an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Letter of Credit** shall be available for a period of not less than 6 months; or
- (c) subject to the entity issuing the **Qualifying Guarantee** continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing entity that the validity of the **Qualifying Guarantee** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or
- (d) provide **NGC** with a new **Qualifying Guarantee** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Qualifying Guarantee** shall be available for a period of not less than 6 months; or
- (e) procure such transfer to **NGC** for credit to the **Escrow Account** of an amount as shall ensure that the credit balance applicable to the **User** and standing to the credit of the **Escrow Account** shall be at least equal to the required **Security Amount**.

3.21.6 Failure to supply or maintain Security Cover

If the **User** fails at any time to provide or maintain **Security Cover** to the satisfaction of **NGC** in accordance with the provisions of this Part III, **NGC** may at any time while such default continues, and if at such time any **Letter of Credit** and/or **Qualifying Guarantee** forming part of the **Security AmountCover** is due to expire within 9 **Business Days** immediately, and without notice to the **User**, demand payment of the entire amount of any outstanding **Letter of Credit** and/or **Qualifying Guarantee** and shall credit the proceeds of the **Letter of Credit** and/or **Qualifying Guarantee** to the **Escrow Account**.

3.21.7 Substitute Letter of Credit or Qualifying Guarantee

- (a) If the bank issuing the **User's Letter of Credit** ceases to have the credit rating set out in the definition of **Letter of Credit** in this **CUSC** such **User** shall forthwith procure the issue of a substitute **Letter of Credit** by a bank that has

such a credit rating or a **Qualifying Guarantee** or transfer to **NGC** cash to be credited to the **Escrow Account**.

- (b) If the entity providing the **User's Qualifying Guarantee** ceases to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) the **User** shall forthwith procure a replacement **Qualifying Guarantee** from an entity with such a credit rating or a **Letter of Credit** or transfer to **NGC** cash to be credited to the **Escrow Account**.

3.22 CREDIT MONITORING

3.22.1 Determination of Security Cover

The amount of **Security Cover** which the **User** shall be required to maintain shall be determined from time to time by **NGC** as the **User's Security Requirement** less the **User's Allowed Credit** ~~in accordance with this Part III on the basis of the criteria set out in Paragraph 3.22.2, and shall be notified to the **User**.~~

3.22.2 Criteria for provision of Security Cover~~Determination of Security Requirement~~

~~The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, the amount of **Security Cover** required to be provided by the **User** in respect of this requirement shall be provided in an amount to be reasonably assessed by **NGC** as the aggregate amount reasonably anticipated by **NGC** as being payable by the **User** pursuant to all its connections to and/or use of the **GB Transmission System** in respect of:-~~

- (a) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Supplier**, over a 32 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and
- (b) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Generator**, over a 29 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code**

and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and

(c) **Transmission Network Use of System Demand Reconciliation Charges** calculated in the following manner:-

(aa) 10% of **User's Demand** related **Transmission Network Use of System Charges** for the **Financial Year** ending on 31 March 1999; and

(bb) in the case of subsequent **Financial Years** such other percentage of the **Demand** related **Transmission Network Use of System Charges** as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such other percentage **NGC** shall consult with **Users**; and

(d) interest on the amounts referred to in (a), (b), ~~(c)~~ and ~~(d)~~ above calculated in accordance with the provisions of this **CUSC**.

3.22.3 Review of Security Cover

NGC shall keep under review the **Security Cover** relating to the **User** and shall promptly advise the **User** whenever the **Security Amount** maintained by the **User** is more or less than the amount required to be maintained pursuant to this Paragraph 3.22.

3.22.4 ~~Increase or~~ Decrease of Security Cover

~~If, after considering any representations which may be made by the User, NGC reasonably determines that the User's required Security Cover has should be increased or~~ decreased, it shall so notify the **User**. ~~If NGC so determines that such Security Cover should be decreased and the User consents then that reduction shall take place.~~ **NGC** shall consent to an appropriate reduction in the available amount of any outstanding **Qualifying Guarantee** or **Letter of Credit** and/or shall repay to the **User** such part of the deposit held in the **Escrow Account** for the account of the **User** (together with all accrued interest on the part to be repaid) sufficient to reduce the **User's Security Amount** to the level of **Security Cover** applicable to it within 5 Business Days of the User's consent. ~~If NGC so determines that the User's Security Cover should be increased, the User shall, within 5 Business Days of notice~~

~~as aforesaid, procure an additional or replacement **Qualifying Guarantee** or **Letter of Credit** or transfer to **NGC** cash to be credited to the **Escrow Account** in an amount sufficient to increase its **Security Amount** so as to be at least equal to the level of **Security Cover** applicable to it.~~

3.22.5 Notification in respect of Security Cover

NGC shall notify each **User** promptly if:-

- (a) that **User** fails to provide, maintain, extend or renew a **Qualifying Guarantee** or a **Letter of Credit** which it is required to provide, maintain, extend or renew pursuant to Paragraphs 3.21 or 3.22 inclusive;
- (b) **NGC** shall make a demand under any such **Qualifying Guarantee** or a call under a **Letter of Credit**; or
- (c) **NGC** becomes aware that that **User**:
 - (i) shall cease to have an **Approved Credit Rating** or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, or
 - (ii) shall be placed on a credit watch by the relevant credit rating agency (or becomes subject to an equivalent procedure) which in any case casts doubt on the **User** retaining an **Approved Credit Rating** or an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, or
 - (iii) shall be in default under the additional or alternative security required to be provided pursuant to this Part III; or
- (d) **NGC** becomes aware that any bank that has issued a **Letter of Credit** in relation to that **User** which has not expired shall cease to have the credit rating required by this Section; or
- (e) **NGC** becomes aware that any entity providing a **Qualifying Guarantee** in relation to that **User** which has not expired shall cease to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** (less its balance on the **Escrow Account**); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

Provided always that the failure by **NGC** to notify the **User** pursuant to Paragraphs 3.22.3, 3.22.4 or 3.22.5 shall not relieve the **User** of its obligations under and in accordance with the terms of this Section 3 and the **Charging Statements**.

3.22.6 Release from Security Cover Obligations

Upon a **User** becoming a **Dormant CUSC Party** or ceasing to be a **CUSC Party** and provided that all amounts owed by the **User** in respect of ~~Transmission Services Use of System Charges~~, ~~Balancing Services Use of System Charges~~ and ~~Transmission Network Use of System Demand Reconciliation Charges~~ have been duly and finally paid and that it is not otherwise in default in any respect of any ~~Transmission Services Use of System Charges~~ ~~Balancing Services Use of System Charges~~ or ~~Transmission Network Use of System Demand Reconciliation Charges~~ (including in each case interest) payable under the **CUSC**, the **User** shall be released from the obligation to maintain **Security Cover** and **NGC** shall consent to the revocation of any outstanding **Qualifying Guarantee** or **Letter of Credit** and shall repay to the **User** the balance (including interest credited thereto) standing to the credit of the **User** on the **Escrow Account** at that date.

3.23 **PAYMENT DEFAULT**

If, by 12.30 hours on any **Use of System Payment Date**, **NGC** has been notified by a **User** or it otherwise has reason to believe that that **User** will not have remitted to it by close of banking business on the **Use of System Payment Date** all or any part (“the amount in default”) of any amount which has been notified by **NGC** to the **User** as being payable by the **User** by way of either the ~~Transmission Services Use of System Charges~~ ~~and/or~~ ~~Balancing Services Use of System Charges~~ and/or ~~Transmission Network Use of System Demand Reconciliation Charges~~ on the relevant **Use of System Payment Date**, then **NGC** shall be entitled to act in accordance with the following provisions (or whichever of them shall apply) in the order in which they appear until **NGC** is satisfied that the **User** has discharged its obligations in respect of the ~~Transmission Services Use of System Charges~~ ~~and/or~~ ~~Balancing Services Use of System Charges~~ and/or ~~Transmission Network Use of System Demand Reconciliation Charges~~ (as appropriate) under the **CUSC** which are payable in respect of the relevant **Settlement Day** (in the case of ~~Transmission Services Use of System Charges~~ or ~~Balancing Services Use of System Charges~~) or **Financial Year** (in the case of **Transmission Network Use of System Demand Reconciliation Charges**):-

- (a) **NGC** may to the extent that the **User** is entitled to receive payment from **NGC** pursuant to the **CUSC** (unless it reasonably

believes that such set-off shall be unlawful) set off the amount of such entitlement against the amount in default;

- (b) **NGC** shall be entitled to set off the amount of funds then standing to the credit of the **Escrow Account** against ~~Transmission Services Use of System Charges and/or~~ **Balancing Services Use of System Charges** and/or **Transmission Network Use of System Demand Reconciliation Charges** (as appropriate) unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** at its absolute discretion and shall notify the **User** accordingly;
- (c) **NGC** may demand payment under any outstanding **Letter of Credit** supplied by the **User** in a sum not exceeding the available amount of all such **Letters of Credit**;
- (d) **NGC** may demand payment under any outstanding **Qualifying Guarantee** provided for the benefit of the **User** pursuant to Paragraph 3.21.3(b).

3.24 UTILISATION OF FUNDS

In addition to the provisions of Paragraph 3.23 above if **NGC** serves a notice of default under the terms of Paragraph 5.5 or a notice of termination under Paragraph 5.7 then **NGC** shall be entitled to demand payment of any of the ~~Transmission Services Use of System Charges and/or~~ **Balancing Services Use of System Charges** and/or **Transmission Network Use of System Demand Reconciliation Charges** which are outstanding from the relevant **User** whether or not the **Use of System Payment Date** in respect of them shall have passed and:-

- (a) make demand under any outstanding **Qualifying Guarantee** or a call under any outstanding **Letter of Credit** supplied by the **User**; and
- (b) to set off the funds in the **Escrow Account** against the ~~Transmission Services Use of System Charges and/or~~ **Balancing Services Use of System Charges** and/or **Transmission Network Use of System Demand Reconciliation Charges** unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** as it shall in its sole discretion think fit.

3.25 USER'S RIGHT TO WITHDRAW FUNDS

If a **User** is not in default in respect of any amount owed to **NGC** in respect of the ~~**Transmission Services Use of System Charges**~~ or **Balancing Services Use of System Charges** or **Transmission Network Use of System Charges** under the terms of the **CUSC** and any **Bilateral Agreement** to which the **User** is a party:-

- (a) **NGC** shall transfer to the **User** quarterly interest credited to the **Escrow Account**; and
- (b) **NGC** shall transfer to such **User** within a reasonable time after such **User's** written request therefor any amount of cash provided by the **User** by way of **Security Cover** which exceeds the amount which such **User** is required to provide by way of security in accordance with this Part III.

3.26 USER'S ALLOWED CREDIT

3.26.1 Each User shall notify NGC promptly if:-

- (a) it gains an Approved Credit Rating; or**
- (b) it ceases to have an Approved Credit Rating; or**
- (c) where the User holds an Approved Credit Rating, its specific investment grading changes.**

3.26.2 The User's Allowed Credit extended by NGC at any time to each User with an Approved Credit Rating shall be calculated in accordance with Appendix 1 of this Section 3 subject to a maximum value of the Unsecured Credit Cover.

3.26.3 The User's Allowed Credit extended by NGC at any time to each User without an Approved Credit Rating shall be zero.

Add new definitions to Section 11 as follows:

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by **Ofgem** setting this out and currently known as "**Ofgem's Transmission Price Control Review of NGC - Transmission Owner Final Proposals**" such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User's Allowed Credit** in accordance with Paragraph 3.22;

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time

which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User's Allowed Credit that proportion of the **Unsecured Credit Cover** extended to a **User** by **NGC** as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than ~~BB-A1~~ by Standard and Poor's Corporation or a rating not less than ~~Ba3P4~~ by Moody's Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

Qualifying Guarantee a guarantee in favour of **NGC** in a form proposed by the **User** and agreed by **NGC** (whose agreement shall not be unreasonably withheld or delayed) and which is held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of **User's Allowed Credit** that would be available to that entity in accordance with Paragraph 3.26 if it was a **User**;

Amend definition of **Security Cover** as follows:

Security Cover for each **User**, the **User's Security Requirement** less the **User's Allowed Credit** the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of security in accordance with the **CUSC**;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

Where the **User** meets the **Approved Credit Rating** that **User's Allowed Credit** at any given time shall be calculated as a percentage of **Unsecured Credit Cover** by reference to the specific investment grade within the **User's Approved Credit Rating** as follows:

<u>Approved Long Term Credit Rating</u>			<u>User's Allowed Credit as % of Unsecured Credit Cover</u>
<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch</u>	
<u>AAA/AA</u>	<u>Aaa/Aa2</u>	<u>AAA/AA</u>	<u>100</u>
<u>A</u>	<u>A2</u>	<u>A</u>	<u>40</u>
<u>BBB+</u>	<u>Baa1</u>	<u>BBB+</u>	<u>20</u>
<u>BBB</u>	<u>Baa2</u>	<u>BBB</u>	<u>19</u>
<u>BBB-</u>	<u>Baa3</u>	<u>BBB-</u>	<u>18</u>
<u>BB+</u>	<u>Ba1</u>	<u>B</u>	<u>17</u>
<u>BB</u>	<u>Ba2</u>	<u>B</u>	<u>16</u>
<u>BB-</u>	<u>Ba3</u>	<u>B</u>	<u>15</u>

Part C - Text to give effect to Working Group Alternative Amendment 2

The proposed changes to the CUSC text are shown in colour and marked up against the current version of the CUSC. The text will be amended by inserting the coloured underlined text and deleting the text which is coloured and struck out.

Amend Section 3 Part III as follows and edit contents page accordingly:

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, T~~S~~NUOS DEMAND CHARGES AND TNUOS DEMAND RECONCILIATION CHARGES: PROVISION OF SECURITY COVER

- 3.21.1 Each **User** required to pay **Use of System Charges** shall provide **Security Cover** for ~~Transmission Services Use of System Charges,~~ **Balancing Services Use of System Charges, Transmission Network Use of System Demand Charges** and **Transmission Network Use of System Demand Reconciliation Charges** from time to time in accordance with this Part III.
- 3.21.2 Each such **User** shall not later than the date of its accession to the **CUSC Framework Agreement** ~~or 15 July 1998 (whichever is later)~~ deliver to **NGC** evidence reasonably satisfactory ~~to it that:-~~
- (a) ~~to establish the **User's Allowed Credit** it presently holds an **Approved Credit Rating**;~~ and
 - (b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.
- 3.21.3 The **User** shall be required to provide **Security Cover** where its **Security Requirement** exceeds its **User's Allowed Credit**. If such **User** ~~is required to provide **Security Cover** does not hold or ceases to hold an **Approved Credit Rating**~~ it shall, not later than the date of:-
- (a) the date of its becoming a party to the **CUSC Framework Agreement**; or
 - (b) ~~the date upon which it ceases to have an **Approved Credit Rating** two **Business Days** after **NGC** notifies the **User** in writing that the **Security Cover** required exceeds the **Security Amount** provided;~~ or
 - (c) where and to the extent that the amount of **Security Cover** required exceeds the **Security Amount** provided as a result of a **User's** revised forecast given in

accordance with Paragraph 3.10 within one month of such revised forecast being provided to NGC:-

- (i) deliver to **NGC** a **Qualifying Guarantee** in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (ii) deliver to **NGC** a **Letter of Credit** (available for an initial period of not less than 6 months) in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (iii) deliver to **NGC** cash for credit to the **Escrow Account** in such amount as shall be notified by **NGC** in accordance with Paragraph 3.22.

3.21.4 The provisions of this Part III shall be in addition to any other requirements to provide security in respect of any other sums due under the terms of the **CUSC** or any **Bilateral Agreement** or **Construction Agreement**.

3.21.5 Maintenance of Security Cover

Where a **User** is required to provide **Security Cover** in accordance with the terms of this Paragraph 3.21 it shall at all times thereafter maintain a **Security Amount** equal to or more than the **Security Cover** applicable to it. Immediately upon any reduction occurring in the **Security Amount** provided by the **User** or any **Letter of Credit** or **Qualifying Guarantee** being for any reason drawn down or demanded respectively, the **User** will procure that new **Letters of Credit** or **Qualifying Guarantees** are issued or existing **Letters of Credit** or **Qualifying Guarantees** are reinstated (to the satisfaction of **NGC**) to their full value or cash is placed to the credit of the **Escrow Account** in an amount required to restore the **Security Amount** to an amount at least equal to the **Security Cover** applicable to the **User**, and in such proportions of **Letters of Credit**, **Qualifying Guarantees** and/or cash as the **User** may determine. Not later than 10 **Business Days** before any outstanding **Letter of Credit** and/or **Qualifying Guarantee** is due to expire, the **User** shall procure to the satisfaction of **NGC** that its required **Security Amount** will be available for a further period of not less than 6 months which may be done in one of the following ways:-

- (a) subject to the issuing bank continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing bank that the validity of the

Letter of Credit has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or

- (b) provide **NGC** with a new **Letter of Credit** issued by an issuing bank with an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Letter of Credit** shall be available for a period of not less than 6 months; or
- (c) subject to the entity issuing the **Qualifying Guarantee** continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing entity that the validity of the **Qualifying Guarantee** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or
- (d) provide **NGC** with a new **Qualifying Guarantee** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Qualifying Guarantee** shall be available for a period of not less than 6 months; or
- (e) procure such transfer to **NGC** for credit to the **Escrow Account** of an amount as shall ensure that the credit balance applicable to the **User** and standing to the credit of the **Escrow Account** shall be at least equal to the required **Security Amount**.

3.21.6 Failure to supply or maintain Security Cover

If the **User** fails at any time to provide or maintain **Security Cover** to the satisfaction of **NGC** in accordance with the provisions of this Part III, **NGC** may at any time while such default continues, and if at such time any **Letter of Credit** and/or **Qualifying Guarantee** forming part of the **Security AmountCover** is due to expire within 9 **Business Days** immediately, and without notice to the **User**, demand payment of the entire amount of any outstanding **Letter of Credit** and/or **Qualifying Guarantee** and shall credit the proceeds of the **Letter of Credit** and/or **Qualifying Guarantee** to the **Escrow Account**.

3.21.7 Substitute Letter of Credit or Qualifying Guarantee

- (a) If the bank issuing the **User's Letter of Credit** ceases to have the credit rating set out in the definition of **Letter of Credit** in this **CUSC** such **User** shall forthwith procure the issue of a substitute **Letter of Credit** by a bank that has such a credit rating or a **Qualifying Guarantee** or transfer to **NGC** cash to be credited to the **Escrow Account**.
- (b) If the entity providing the **User's Qualifying Guarantee** ceases to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) the **User** shall forthwith procure a replacement **Qualifying Guarantee** from an entity with such a credit rating or a **Letter of Credit** or transfer to **NGC** cash to be credited to the **Escrow Account**.

3.22 CREDIT MONITORING

3.22.1 Determination of Security Cover

The amount of **Security Cover** which the **User** shall be required to maintain shall be determined from time to time by **NGC** as the **User's Security Requirement** less the **User's Allowed Credit** in accordance with this Part III on the basis of the criteria set out in Paragraph 3.22.2, and shall be notified to the **User**.

3.22.2 Criteria for provision of Security CoverDetermination of Security Requirement

The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, the amount of **Security Cover** required to be provided by the **User** in respect of this requirement shall be provided in an amount to be reasonably assessed by **NGC** as the aggregate amount reasonably anticipated by **NGC** as being payable by the **User** pursuant to all its connections to and/or use of the **GB Transmission System** in respect of:-

- (a) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Supplier**, over a 32 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and
- (b) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Generator**,

over a 29 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and

(c) **Transmission Network Use of System Demand Reconciliation Charges** calculated in the following manner:-

(aa) 10% of **User's Demand-related Transmission Network Use of System Demand Charges** for the **Financial Year in which such charges first become due ending on 31 March 1999**; and

(bb) in the case of subsequent **Financial Years** such ~~other~~ percentage of **User's Transmission Network Use of System Demand Charges** as reflects the percentage difference between the **Actual Amount** and the **Notional Amount** of the ~~Demand-related~~ **User's Transmission Network Use of System Demand Charges** for the previous **Financial Year**, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero as ~~NGC~~ acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such other percentage **NGC** shall consult with **Users**; and

(d) for **Transmission Network Use of System Demand Reconciliation Charges**, 2.5% of **User's Transmission Network Use of System Demand Charges**; and

(e) interest on the amounts referred to in (a), (b), (c) and (d) above calculated in accordance with the provisions of this **CUSC**.

3.22.3 Review of Security Cover

NGC shall keep under review the **Security Cover** relating to the **User** and shall promptly advise the **User** whenever the **Security Amount** maintained by the **User** is more or less than the amount required to be maintained pursuant to this Paragraph 3.22.

3.22.4 ~~Increase or~~ Decrease of Security Cover

~~If, after considering any representations which may be made by the User, NGC reasonably determines that the User's required Security Cover has should be increased or decreased, it shall so notify the User. If NGC so determines that such Security Cover should be decreased and the User consents then that reduction shall take place. NGC shall consent to an appropriate reduction in the available amount of any outstanding Qualifying Guarantee or Letter of Credit and/or shall repay to the User such part of the deposit held in the Escrow Account for the account of the User (together with all accrued interest on the part to be repaid) sufficient to reduce the User's Security Amount to the level of Security Cover applicable to it within 5 Business Days of the User's consent. If NGC so determines that the User's Security Cover should be increased, the User shall, within 5 Business Days of notice as aforesaid, procure an additional or replacement Qualifying Guarantee or Letter of Credit or transfer to NGC cash to be credited to the Escrow Account in an amount sufficient to increase its Security Amount so as to be at least equal to the level of Security Cover applicable to it.~~

3.22.5 Notification in respect of Security Cover

NGC shall notify each **User** promptly if:-

- (a) that **User** fails to provide, maintain, extend or renew a **Qualifying Guarantee** or a **Letter of Credit** which it is required to provide, maintain, extend or renew pursuant to Paragraphs 3.21 or 3.22 inclusive;
- (b) **NGC** shall make a demand under any such **Qualifying Guarantee** or a call under a **Letter of Credit**; or
- (c) **NGC** becomes aware that that **User**:
 - (i) shall cease to have an **Approved Credit Rating** ~~or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**~~, or
 - (ii) shall be placed on a credit watch by the relevant credit rating agency (or becomes subject to an equivalent procedure) which in any case casts doubt on the **User** retaining an **Approved Credit Rating** ~~or an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement** or maintaining the **Credit Assessment Score** given by the **User's Independent Credit Assessment**~~, or

- (iii) shall be in default under the additional or alternative security required to be provided pursuant to this Part III; or
- (d) **NGC** becomes aware that any bank that has issued a **Letter of Credit** in relation to that **User** which has not expired shall cease to have the credit rating required by this Section; or
- (e) **NGC** becomes aware that any entity providing a **Qualifying Guarantee** in relation to that **User** which has not expired shall cease to have an **Approved Credit Rating** for an amount at least equal to the required Security Amount (less its balance on the Escrow Account); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

Provided always that the failure by **NGC** to notify the **User** pursuant to Paragraphs 3.22.3, 3.22.4 or 3.22.5 shall not relieve the **User** of its obligations under and in accordance with the terms of this Section 3 and the **Charging Statements**.

3.22.6 Release from Security Cover Obligations

Upon a **User** becoming a **Dormant CUSC Party** or ceasing to be a **CUSC Party** and provided that all amounts owed by the **User** in respect of ~~Transmission Services Use of System Charges, Balancing Services Use of System Charges, Transmission Network Use of System Demand Charges~~ and **Transmission Network Use of System Demand Reconciliation Charges** have been duly and finally paid and that it is not otherwise in default in any respect of any ~~Transmission Services Use of System Charges, Balancing Services Use of System Charges, Transmission Network Use of System Demand Charges~~ or **Transmission Network Use of System Demand Reconciliation Charges** (including in each case interest) payable under the **CUSC**, the **User** shall be released from the obligation to maintain **Security Cover** and **NGC** shall consent to the revocation of any outstanding **Qualifying Guarantee** or **Letter of Credit** and shall repay to the **User** the balance (including interest credited thereto) standing to the credit of the **User** on the **Escrow Account** at that date.

3.23 PAYMENT DEFAULT

If, by 12.30 hours on any **Use of System Payment Date**, **NGC** has been notified by a **User** or it otherwise has reason to believe that that **User** will not have remitted to it by close of banking business on the **Use of System Payment Date** all or any part (“the amount in default”) of any amount which has been notified by **NGC** to the **User** as being payable by the **User** by way of either the ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Reconciliation Charges**~~ on the relevant **Use of System Payment Date**, then **NGC** shall be entitled to act in accordance with the following provisions (or whichever of them shall apply) in the order in which they appear until **NGC** is satisfied that the **User** has discharged its obligations in respect of the ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Reconciliation Charges**~~ (as appropriate) under the **CUSC** which are payable in respect of the relevant **Settlement Day** (in the case of ~~**Transmission Services Use of System Charges or Balancing Services Use of System Charges**~~) or **Financial Year** (in the case of ~~**Transmission Network Use of System Demand Reconciliation Charges or Transmission Network Use of System Demand Reconciliation Charges**~~):-

- (a) **NGC** may to the extent that the **User** is entitled to receive payment from **NGC** pursuant to the **CUSC** (unless it reasonably believes that such set-off shall be unlawful) set off the amount of such entitlement against the amount in default;
- (b) **NGC** shall be entitled to set off the amount of funds then standing to the credit of the **Escrow Account** against ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Reconciliation Charges**~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** (as appropriate) unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** at its absolute discretion and shall notify the **User** accordingly;
- (c) **NGC** may demand payment under any outstanding **Letter of Credit** supplied by the **User** in a sum not exceeding the available amount of all such **Letters of Credit**;
- (d) **NGC** may demand payment under any outstanding **Qualifying Guarantee** provided for the benefit of the **User** pursuant to Paragraph 3.21.3(b).

3.24 UTILISATION OF FUNDS

In addition to the provisions of Paragraph 3.23 above if **NGC** serves a notice of default under the terms of Paragraph 5.5 or a notice of termination under Paragraph 5.7 then **NGC** shall be entitled to demand payment of any of the ~~Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Charges~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** which are outstanding from the relevant **User** whether or not the **Use of System Payment Date** in respect of them shall have passed and:-

- (a) make demand under any outstanding **Qualifying Guarantee** or a call under any outstanding **Letter of Credit** supplied by the **User**; and
- (b) to set off the funds in the **Escrow Account** against the ~~Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Charges~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** as it shall in its sole discretion think fit.

3.25 USER'S RIGHT TO WITHDRAW FUNDS

If a **User** is not in default in respect of any amount owed to **NGC** in respect of the ~~Transmission Services Use of System Charges or Balancing Services Use of System Charges or Transmission Network Use of System Charges~~ under the terms of the **CUSC** and any **Bilateral Agreement** to which the **User** is a party:-

- (a) **NGC** shall transfer to the **User** quarterly interest credited to the **Escrow Account**; and
- (b) **NGC** shall transfer to such **User** within a reasonable time after such **User's** written request therefor any amount of cash provided by the **User** by way of **Security Cover** which exceeds the amount which such **User** is required to provide by way of security in accordance with this Part III.

3.26 USER'S ALLOWED CREDIT

3.26.1 Each User shall notify NGC promptly if:-

- (a) it gains an Approved Credit Rating; or**
- (b) it ceases to have an Approved Credit Rating; or**

- (c) where the **User** holds an **Approved Credit Rating**, its specific investment grading changes; or
- (d) it has reason to believe that its **Credit Assessment Score** is likely to have changed since the last **Independent Credit Assessment**.

3.26.2 The **User's Allowed Credit** extended by **NGC** at any time to each **User** with an **Approved Credit Rating** shall be calculated in accordance with Paragraph 1 of Appendix 1 of this Section 3 subject to a maximum value of the **Unsecured Credit Cover**.

3.26.3 The **User's Allowed Credit** extended by **NGC** at any time to each **User** without an **Approved Credit Rating** shall be at the choice of the **User** the **Payment Record Sum** or the **Credit Assessment Sum**.

3.26.4 Unless the **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then, subject to Paragraph 3.26.5, for each successive month in which the **User** pays its **Use of System Charges** by the **Use of System Payment Date** then the **User's Allowed Credit** extended to such **User** at any time shall be calculated in accordance with Paragraph 2 of Appendix 1 of this Section 3.

3.26.5 Where a **User** fails to pay its **Use of System Charges** within 2 **Business Days** of the **Use of System Payment Date** its **Payment Record Sum** shall be reduced by 50% on the first such occasion within a twelve month period and shall be reduced to zero on the second occasion in such twelve month period. Upon any such failure to pay, the **User's Allowed Credit** (as adjusted following such failure in accordance with this clause) shall be calculated for successive months in accordance with Paragraph 3.26.4.

3.26.6 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on its **Credit Assessment Sum**, the **Credit Assessment Sum** extended to a **User** at any time shall be calculated by reference to the **Credit Assessment Score** given by the **Independent Credit Assessment** in accordance with Paragraph 3 of Appendix 1 of this Section 3.

3.26.7 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then the **User** will obtain an **Independent Credit Assessment** of that **User**. The first such **Independent Credit Assessment** will be at **NGC's** cost.

3.26.8 Where a **User's Allowed Credit** is based on the **Credit Assessment Sum** then where **NGC** has reason to believe that the **Independent Credit Assessment** last obtained is likely to have changed then **NGC** shall be entitled to request the **User** to obtain a further **Independent**

Credit Assessment. Such **Independent Credit Assessment** shall be at **NGC's** cost.

3.26.9 The **User** may obtain an **Independent Credit Assessment** at **NGC's** cost provided that **NGC** has not paid for an earlier **Independent Credit Assessment** for that **User** within the previous 12 months. The **User** may obtain further **Independent Credit Assessments** within such a 12 month period at the **User's** cost.

Add new definitions to Section 11 as follows:

Approved Agency the panel of three independent assessment agencies appointed by **NGC** and other network operators from time to time for the purpose of providing **Independent Credit Assessments** details of such agencies to be published on the **NGC Website**;

Credit Assessment Score a score between 0 and 100 given by an **Approved Agency** in the **Independent Credit Assessment**;

Credit Assessment Sum the proportion of the of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does not meet the **Approved Credit Rating** and calculated in accordance with Paragraph 3.26.6;

Independent Credit Assessment an assessment of the creditworthiness of a **User** by an **Approved Agency** as nominated by the **User** obtained in accordance with Paragraph 3.26.7, 3.26.8 and 3.26.9;

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by **Ofgem** setting this out and currently known as "Ofgem's Transmission Price Control Review of NGC - Transmission Owner Final Proposals" such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Payment Record Sum the proportion of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does meet the **Approved Credit Rating** calculated in accordance with Paragraph 3.26.4 and 3.26.5;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User's Allowed Credit** in accordance with Paragraph 3.22;

Transmission Network Use of System Demand Charges that element of **Transmission Network Use of System Charges** relating to **Demand**

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time

which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User's Allowed Credit that proportion of the **Unsecured Credit Cover** extended to a **User** by **NGC** as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than ~~BB-A1~~ by Standard and Poor's Corporation or a rating not less than ~~Ba3P4~~ by Moody's Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

Qualifying Guarantee a guarantee in favour of **NGC** in a form proposed by the **User** and agreed by **NGC** (whose agreement shall not be unreasonably withheld or delayed) and which is held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of **User's Allowed Credit** that would be available to that entity in accordance with Paragraph 3.26 if it was a **User**;

Amend definition of **Security Cover** as follows:

Security Cover for each **User**, the **User's Security Requirement** less the **User's Allowed Credit** the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of security in accordance with the **CUSC**;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

1. Where the **User** meets the **Approved Credit Rating** that **User's Allowed Credit** at any given time shall be calculated as a percentage of **Unsecured Credit Cover** by reference to the specific investment grade within the **User's Approved Credit Rating** as follows:

<u>Approved Long Term Credit Rating</u>			<u>User's Allowed Credit as % of Unsecured Credit Cover</u>
<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch</u>	
<u>AAA/AA</u>	<u>Aaa/Aa2</u>	<u>AAA/AA</u>	<u>100</u>
<u>A</u>	<u>A2</u>	<u>A</u>	<u>40</u>
<u>BBB+</u>	<u>Baa1</u>	<u>BBB+</u>	<u>20</u>
<u>BBB</u>	<u>Baa2</u>	<u>BBB</u>	<u>19</u>
<u>BBB-</u>	<u>Baa3</u>	<u>BBB-</u>	<u>18</u>
<u>BB+</u>	<u>Ba1</u>	<u>B</u>	<u>17</u>
<u>BB</u>	<u>Ba2</u>	<u>B</u>	<u>16</u>
<u>BB-</u>	<u>Ba3</u>	<u>B</u>	<u>15</u>

2. Where based on the **Payment Record Sum**, a **User's Allowed Credit** at any time shall be calculated on the basis of 0.4% per 12 month period (escalating on an evenly graduated basis each month) of the **Unsecured Credit Cover**, subject to a maximum of 2% after 60 months of successive payment by the **Use of System Payment Date**.
3. Where based on the **Credit Assessment Sum**, a **User's Allowed Credit** at any given time shall be calculated as a percentage of the **Unsecured Credit Cover** by reference to the **Credit Assessment Score** between 0 and 100, where a score of 1 represents 0.2% of the **Unsecured Credit Cover** and each incremental score of 1 represents an extra 0.2% of **Unsecured Credit Cover** to a maximum of 20%. A score of 0 represents 0% of **Unsecured Credit Cover**.

Part D - Text to give effect to Working Group Alternative Amendment 3

The proposed changes to the CUSC text are shown in colour and marked up against the current version of the CUSC. The text will be amended by inserting the coloured underlined text and deleting the text which is coloured and struck out.

Amend Section 3 Part III as follows and edit contents page accordingly:

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, ~~TSUOS CHARGES~~ AND TNUOS DEMAND RECONCILIATION CHARGES: PROVISION OF SECURITY COVER

3.21.1 Each **User** required to pay **Use of System Charges** shall provide **Security Cover** for ~~Transmission Services Use of System Charges,~~ **Balancing Services Use of System Charges** and **Transmission Network Use of System Demand Reconciliation Charges** from time to time in accordance with this Part III.

3.21.2 Each such **User** shall not later than the date of its accession to the **CUSC Framework Agreement** ~~or 15 July 1998 (whichever is later)~~ deliver to **NGC** evidence reasonably satisfactory ~~to it that:-~~

(a) to establish the **User's Allowed Credit** ~~presently holds an **Approved Credit Rating**; and/or~~

(b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.

3.21.3 The **User** shall be required to provide **Security Cover** where its **Security Requirement** exceeds its **User's Allowed Credit**. If such **User** is required to provide **Security Cover** does not hold or ceases to hold an **Approved Credit Rating** it shall, not later than the date of:-

(a) the date of its becoming a party to the **CUSC Framework Agreement**; or

(b) the date upon which it ceases to have an **Approved Credit Rating** two **Business Days** after **NGC** notifies the **User** in writing that the **Security Cover** required exceeds the **Security Amount** provided; or

(c) where and to the extent that the amount of **Security Cover** required exceeds the **Security Amount** provided as a result of a **User's** revised forecast given in accordance with Paragraph 3.10 within one month of such revised forecast being provided to **NGC**:-

- (i) deliver to **NGC** a **Qualifying Guarantee** in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (ii) deliver to **NGC** a **Letter of Credit** (available for an initial period of not less than 6 months) in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (iii) deliver to **NGC** cash for credit to the **Escrow Account** in such amount as shall be notified by **NGC** in accordance with Paragraph 3.22.

3.21.4 The provisions of this Part III shall be in addition to any other requirements to provide security in respect of any other sums due under the terms of the **CUSC** or any **Bilateral Agreement** or **Construction Agreement**.

3.21.5 Maintenance of Security Cover

Where a **User** is required to provide **Security Cover** in accordance with the terms of this Paragraph 3.21 it shall at all times thereafter maintain a **Security Amount** equal to or more than the **Security Cover** applicable to it. Immediately upon any reduction occurring in the **Security Amount** provided by the **User** or any **Letter of Credit** or **Qualifying Guarantee** being for any reason drawn down or demanded respectively, the **User** will procure that new **Letters of Credit** or **Qualifying Guarantees** are issued or existing **Letters of Credit** or **Qualifying Guarantees** are reinstated (to the satisfaction of **NGC**) to their full value or cash is placed to the credit of the **Escrow Account** in an amount required to restore the **Security Amount** to an amount at least equal to the **Security Cover** applicable to the **User**, and in such proportions of **Letters of Credit**, **Qualifying Guarantees** and/or cash as the **User** may determine. Not later than 10 **Business Days** before any outstanding **Letter of Credit** and/or **Qualifying Guarantee** is due to expire, the **User** shall procure to the satisfaction of **NGC** that its required **Security Amount** will be available for a further period of not less than 6 months which may be done in one of the following ways:-

- (a) subject to the issuing bank continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing bank that the validity of the **Letter of Credit** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or

- (b) provide **NGC** with a new **Letter of Credit** issued by an issuing bank with an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Letter of Credit** shall be available for a period of not less than 6 months; or
- (c) subject to the entity issuing the **Qualifying Guarantee** continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing entity that the validity of the **Qualifying Guarantee** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or
- (d) provide **NGC** with a new **Qualifying Guarantee** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Qualifying Guarantee** shall be available for a period of not less than 6 months; or
- (e) procure such transfer to **NGC** for credit to the **Escrow Account** of an amount as shall ensure that the credit balance applicable to the **User** and standing to the credit of the **Escrow Account** shall be at least equal to the required **Security Amount**.

3.21.6 Failure to supply or maintain Security Cover

If the **User** fails at any time to provide or maintain **Security Cover** to the satisfaction of **NGC** in accordance with the provisions of this Part III, **NGC** may at any time while such default continues, and if at such time any **Letter of Credit** and/or **Qualifying Guarantee** forming part of the **Security AmountCover** is due to expire within 9 **Business Days** immediately, and without notice to the **User**, demand payment of the entire amount of any outstanding **Letter of Credit** and/or **Qualifying Guarantee** and shall credit the proceeds of the **Letter of Credit** and/or **Qualifying Guarantee** to the **Escrow Account**.

3.21.7 Substitute Letter of Credit or Qualifying Guarantee

- (a) If the bank issuing the **User's Letter of Credit** ceases to have the credit rating set out in the definition of **Letter of Credit** in this **CUSC** such **User** shall forthwith procure the issue of a substitute **Letter of Credit** by a bank that has

such a credit rating or a **Qualifying Guarantee** or transfer to **NGC** cash to be credited to the **Escrow Account**.

- (b) If the entity providing the **User's Qualifying Guarantee** ceases to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) the **User** shall forthwith procure a replacement **Qualifying Guarantee** from an entity with such a credit rating or a **Letter of Credit** or transfer to **NGC** cash to be credited to the **Escrow Account**.

3.22 CREDIT MONITORING

3.22.1 Determination of Security Cover

The amount of **Security Cover** which the **User** shall be required to maintain shall be determined from time to time by **NGC** as the **User's Security Requirement** less the **User's Allowed Credit** ~~in accordance with this Part III on the basis of the criteria set out in Paragraph 3.22.2, and shall be notified to the **User**.~~

3.22.2 Criteria for provision of Security Cover~~Determination of Security Requirement~~

~~The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, the amount of **Security Cover** required to be provided by the **User** in respect of this requirement shall be provided in an amount to be reasonably assessed by **NGC** as the aggregate amount reasonably anticipated by **NGC** as being payable by the **User** pursuant to all its connections to and/or use of the **GB Transmission System** in respect of:-~~

- (a) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Supplier**, over a 32 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and
- (b) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Generator**, over a 29 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code**

and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and

(c) **Transmission Network Use of System Demand Reconciliation Charges** calculated in the following manner:-

(aa) 10% of **User's Demand related Transmission Network Use of System Demand Charges** for the **Financial Year in which such charges first become due ending on 31 March 1999**; and

(bb) in the case of subsequent **Financial Years** such ~~other~~ percentage of **User's Transmission Network Use of System Demand Charges** as reflects the percentage difference between the **Actual Amount** and the **Notional Amount** of the ~~Demand related~~ **User's Transmission Network Use of System Demand Charges** for the previous **Financial Year**, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero as ~~NGC~~ acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the ~~Balancing and Settlement Code~~ and where ~~NGC~~ proposes to change such other percentage ~~NGC~~ shall consult with **Users**; and

(d) interest on the amounts referred to in (a), (b), ~~(c)~~ and ~~(dc)~~ above calculated in accordance with the provisions of this **CUSC**.

3.22.3 Review of Security Cover

NGC shall keep under review the **Security Cover** relating to the **User** and shall promptly advise the **User** whenever the **Security Amount** maintained by the **User** is more or less than the amount required to be maintained pursuant to this Paragraph 3.22.

3.22.4 ~~Increase or~~ Decrease of Security Cover

If, ~~after considering any representations which may be made by the **User**~~, **NGC** reasonably determines that the **User's required Security Cover** ~~has should be increased or~~ decreased, it shall so notify the **User**. ~~If **NGC** so determines that such **Security Cover** should be decreased and the **User** consents then that reduction shall take place.~~ **NGC** shall consent to an appropriate reduction in the available amount of any

outstanding **Qualifying Guarantee** or **Letter of Credit** and/or shall repay to the **User** such part of the deposit held in the **Escrow Account** for the account of the **User** (together with all accrued interest on the part to be repaid) sufficient to reduce the **User's Security Amount** to the level of **Security Cover** applicable to it within 5 Business Days of the User's consent. ~~If **NGC** so determines that the **User's Security Cover** should be increased, the **User** shall, within 5 Business Days of notice as aforesaid, procure an additional or replacement **Qualifying Guarantee** or **Letter of Credit** or transfer to **NGC** cash to be credited to the **Escrow Account** in an amount sufficient to increase its **Security Amount** so as to be at least equal to the level of **Security Cover** applicable to it.~~

3.22.5 Notification in respect of Security Cover

NGC shall notify each **User** promptly if:-

- (a) that **User** fails to provide, maintain, extend or renew a **Qualifying Guarantee** or a **Letter of Credit** which it is required to provide, maintain, extend or renew pursuant to Paragraphs 3.21 or 3.22 inclusive;
- (b) **NGC** shall make a demand under any such **Qualifying Guarantee** or a call under a **Letter of Credit**; or
- (c) **NGC** becomes aware that that **User**:
 - (i) shall cease to have an **Approved Credit Rating** or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, or
 - (ii) shall be placed on a credit watch by the relevant credit rating agency (or becomes subject to an equivalent procedure) which in any case casts doubt on the **User** retaining an **Approved Credit Rating** or an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement** or maintaining the **Credit Assessment Score** given by the **User's Independent Credit Assessment**, or
 - (iii) shall be in default under the additional or alternative security required to be provided pursuant to this Part III; or
- (d) **NGC** becomes aware that any bank that has issued a **Letter of Credit** in relation to that **User** which has not expired shall cease to have the credit rating required by this Section; or

- (e) **NGC** becomes aware that any entity providing a **Qualifying Guarantee** in relation to that **User** which has not expired shall cease to have an **Approved Credit Rating** for an amount at least equal to the required Security Amount (less its balance on the Escrow Account); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

Provided always that the failure by **NGC** to notify the **User** pursuant to Paragraphs 3.22.3, 3.22.4 or 3.22.5 shall not relieve the **User** of its obligations under and in accordance with the terms of this Section 3 and the **Charging Statements**.

3.22.6 Release from Security Cover Obligations

Upon a **User** becoming a **Dormant CUSC Party** or ceasing to be a **CUSC Party** and provided that all amounts owed by the **User** in respect of ~~**Transmission Services Use of System Charges**~~, ~~**Balancing Services Use of System Charges**~~ and ~~**Transmission Network Use of System Demand Reconciliation Charges**~~ have been duly and finally paid and that it is not otherwise in default in any respect of any ~~**Transmission Services Use of System Charges**~~ ~~**Balancing Services Use of System Charges**~~ or ~~**Transmission Network Use of System Demand Reconciliation Charges**~~ (including in each case interest) payable under the **CUSC**, the **User** shall be released from the obligation to maintain **Security Cover** and **NGC** shall consent to the revocation of any outstanding **Qualifying Guarantee** or **Letter of Credit** and shall repay to the **User** the balance (including interest credited thereto) standing to the credit of the **User** on the **Escrow Account** at that date.

3.23 **PAYMENT DEFAULT**

If, by 12.30 hours on any **Use of System Payment Date**, **NGC** has been notified by a **User** or it otherwise has reason to believe that that **User** will not have remitted to it by close of banking business on the **Use of System Payment Date** all or any part (“the amount in default”) of any amount which has been notified by **NGC** to the **User** as being payable by the **User** by way of either the ~~**Transmission Services Use of System Charges**~~ ~~and/or~~ ~~**Balancing Services Use of System Charges**~~ and/or ~~**Transmission Network Use of System Demand Reconciliation Charges**~~ on the relevant **Use of System Payment Date**, then **NGC** shall be entitled to act in accordance with the following provisions (or whichever of them shall apply) in the order in which they appear until **NGC** is satisfied that the **User** has discharged its

obligations in respect of the ~~Transmission Services Use of System Charges and/or Balancing Services Use of System Charges~~ and/or ~~Transmission Network Use of System Demand Reconciliation Charges~~ (as appropriate) under the CUSC which are payable in respect of the relevant ~~Settlement Day~~ (in the case of ~~Transmission Services Use of System Charges or Balancing Services Use of System Charges~~) or ~~Financial Year~~ (in the case of ~~Transmission Network Use of System Demand Reconciliation Charges~~):-

- (a) **NGC** may to the extent that the **User** is entitled to receive payment from **NGC** pursuant to the **CUSC** (unless it reasonably believes that such set-off shall be unlawful) set off the amount of such entitlement against the amount in default;
- (b) **NGC** shall be entitled to set off the amount of funds then standing to the credit of the **Escrow Account** against ~~Transmission Services Use of System Charges and/or Balancing Services Use of System Charges~~ and/or ~~Transmission Network Use of System Demand Reconciliation Charges~~ (as appropriate) unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** at its absolute discretion and shall notify the **User** accordingly;
- (c) **NGC** may demand payment under any outstanding **Letter of Credit** supplied by the **User** in a sum not exceeding the available amount of all such **Letters of Credit**;
- (d) **NGC** may demand payment under any outstanding **Qualifying Guarantee** provided for the benefit of the **User** pursuant to Paragraph 3.21.3(b).

3.24 UTILISATION OF FUNDS

In addition to the provisions of Paragraph 3.23 above if **NGC** serves a notice of default under the terms of Paragraph 5.5 or a notice of termination under Paragraph 5.7 then **NGC** shall be entitled to demand payment of any of the ~~Transmission Services Use of System Charges and/or Balancing Services Use of System Charges~~ and/or ~~Transmission Network Use of System Demand Reconciliation Charges~~ which are outstanding from the relevant **User** whether or not the **Use of System Payment Date** in respect of them shall have passed and:-

- (a) make demand under any outstanding **Qualifying Guarantee** or a call under any outstanding **Letter of Credit** supplied by the **User**; and

- (b) to set off the funds in the **Escrow Account** against the ~~Transmission Services Use of System Charges and/or Balancing Services Use of System Charges~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** as it shall in its sole discretion think fit.

3.25 **USER'S RIGHT TO WITHDRAW FUNDS**

If a **User** is not in default in respect of any amount owed to **NGC** in respect of the ~~Transmission Services Use of System Charges or Balancing Services Use of System Charges~~ or **Transmission Network Use of System Charges** under the terms of the **CUSC** and any **Bilateral Agreement** to which the **User** is a party:-

- (a) **NGC** shall transfer to the **User** quarterly interest credited to the **Escrow Account**; and
- (b) **NGC** shall transfer to such **User** within a reasonable time after such **User's** written request therefor any amount of cash provided by the **User** by way of **Security Cover** which exceeds the amount which such **User** is required to provide by way of security in accordance with this Part III.

3.26 **USER'S ALLOWED CREDIT**

3.26.1 Each **User** shall notify **NGC** promptly if:-

- (a) it gains an **Approved Credit Rating**; or
- (b) it ceases to have an **Approved Credit Rating**; or
- (c) where the **User** holds an **Approved Credit Rating**, its specific investment grading changes; or
- (d) it has reason to believe that its **Credit Assessment Score** is likely to have changed since the last **Independent Credit Assessment**.

3.26.2 The **User's Allowed Credit** extended by **NGC** at any time to each **User** with an **Approved Credit Rating** shall be calculated in accordance with Paragraph 1 of Appendix 1 of this Section 3 subject to a maximum value of the **Unsecured Credit Cover**.

3.26.3 The **User's Allowed Credit** extended by **NGC** at any time to each **User** without an **Approved Credit Rating** shall be at the choice of the **User** the **Payment Record Sum** or the **Credit Assessment Sum**.

- 3.26.4 Unless the **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then, subject to Paragraph 3.26.5, for each successive month in which the **User** pays its **Use of System Charges** by the **Use of System Payment Date** then the **User's Allowed Credit** extended to such **User** at any time shall be calculated in accordance with Paragraph 2 of Appendix 1 of this Section 3.
- 3.26.5 Where a **User** fails to pay its **Use of System Charges** within 2 **Business Days** of the **Use of System Payment Date** its **Payment Record Sum** shall be reduced by 50% on the first such occasion within a twelve month period and shall be reduced to zero on the second occasion in such twelve month period. Upon any such failure to pay, the **User's Allowed Credit** (as adjusted following such failure in accordance with this clause) shall be calculated for successive months in accordance with Paragraph 3.26.4.
- 3.26.6 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on its **Credit Assessment Sum**, the **Credit Assessment Sum** extended to a **User** at any time shall be calculated by reference to the **Credit Assessment Score** given by the **Independent Credit Assessment** in accordance with Paragraph 3 of Appendix 1 of this Section 3.
- 3.26.7 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then the **User** will obtain an **Independent Credit Assessment** of that **User**.
- 3.26.8 Where a **User's Allowed Credit** is based on the **Credit Assessment Sum** then where **NGC** has reason to believe that the **Independent Credit Assessment** last obtained is likely to have changed then **NGC** shall be entitled to request the **User** to obtain a further **Independent Credit Assessment**. Where the **User** refuses to obtain such **Independent Credit Assessment**, the **User's Allowed Credit** will be calculated as the **Payment Record Sum**.
- 3.26.9 Each **Independent Credit Assessment** will be at the **User's** cost, except where **NGC** requests that the **User** obtain an **Independent Credit Assessment** in accordance with Paragraph 3.26.8 and the **User** has paid for an earlier **Independent Credit Assessment** within the previous 12 months when such **Independent Credit Assessment** shall be at **NGC's** cost.

Add new definitions to Section 11 as follows:

Approved Agency the panel of three independent assessment agencies appointed by **NGC** and other network operators from time to time for the

purpose of providing **Independent Credit Assessments** details of such agencies to be published on the **NGC Website**;

Credit Assessment Score a score between zero and ten given by an **Approved Agency** in the **Independent Credit Assessment**;

Credit Assessment Sum the proportion of the of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does not meet the **Approved Credit Rating** and calculated in accordance with Paragraph 3.26.6;

Independent Credit Assessment an assessment of the creditworthiness of a **User** by an **Approved Agency** as nominated by the **User** obtained in accordance with Paragraph 3.26.7, 3.26.8 and 3.26.9;

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by Ofgem setting this out and currently known as “Ofgem’s Transmission Price Control Review of NGC - Transmission Owner Final Proposals” such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Payment Record Sum the proportion of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does meet the **Approved Credit Rating** calculated in accordance with Paragraph 3.26.4 and 3.26.5;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User’s Allowed Credit** in accordance with Paragraph 3.22;

Transmission Network Use of System Demand Charges that element of **Transmission Network Use of System Charges** relating to **Demand**

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User’s Allowed Credit that proportion of the **Unsecured Credit Cover** extended to a **User** by **NGC** as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than ~~BB-A1~~ by Standard and Poor’s Corporation or a rating not less than ~~Ba3P4~~ by Moody’s Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

Qualifying Guarantee a guarantee in favour of **NGC** in a form proposed by the **User** and agreed by **NGC** (whose agreement shall not be unreasonably withheld or delayed) and which is held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of **User's Allowed Credit** that would be available to that entity in accordance with Paragraph 3.26 if it was a User;

Amend definition of **Security Cover** as follows:

Security Cover for each User, the User's Security Requirement less the User's Allowed Credit the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of security in accordance with the **CUSC**;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

1. Where the **User** meets the **Approved Credit Rating** that **User's Allowed Credit** at any given time shall be calculated as a percentage of **Unsecured Credit Cover** by reference to the specific investment grade within the **User's Approved Credit Rating** as follows:

<u>Approved Long Term Credit Rating</u>			<u>User's Allowed Credit as % of Unsecured Credit Cover</u>
<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch</u>	
<u>AAA/AA</u>	<u>Aaa/Aa2</u>	<u>AAA/AA</u>	<u>100</u>
<u>A</u>	<u>A2</u>	<u>A</u>	<u>40</u>
<u>BBB+</u>	<u>Baa1</u>	<u>BBB+</u>	<u>20</u>
<u>BBB</u>	<u>Baa2</u>	<u>BBB</u>	<u>19</u>
<u>BBB-</u>	<u>Baa3</u>	<u>BBB-</u>	<u>18</u>
<u>BB+</u>	<u>Ba1</u>	<u>B</u>	<u>17</u>
<u>BB</u>	<u>Ba2</u>	<u>B</u>	<u>16</u>
<u>BB-</u>	<u>Ba3</u>	<u>B</u>	<u>15</u>

2. Where based on the **Payment Record Sum**, a **User's Allowed Credit** at any time shall be calculated on the basis of 0.4% per 12 month period (escalating on an evenly graduated basis each month) of the **Unsecured Credit Cover**, subject to a maximum of 2% after 60 months of successive payment by the **Use of System Payment Date**.

3. Where based on the **Credit Assessment Sum**, a **User's Allowed Credit** at any given time shall be calculated as a percentage of the **Unsecured Credit Cover** by reference to the **Credit Assessment Score** as follows:

<u>Credit Assessment Score</u>	<u>User's Allowed Credit as % of Unsecured Credit Cover</u>
<u>10</u>	<u>20</u>
<u>9</u>	<u>19</u>
<u>8</u>	<u>18</u>
<u>7</u>	<u>17</u>
<u>6</u>	<u>16</u>
<u>5</u>	<u>15</u>
<u>4</u>	<u>13.33</u>
<u>3</u>	<u>10</u>
<u>2</u>	<u>6.67</u>
<u>1</u>	<u>3.33</u>
<u>0</u>	<u>0</u>

Part E - Text to give effect to Working Group Alternative Amendment 4

The proposed changes to the CUSC text are shown in colour and marked up against the current version of the CUSC. The text will be amended by inserting the coloured underlined text and deleting the text which is coloured and struck out.

Amend Section 3 Part III as follows and edit contents page accordingly:

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, T~~S~~NUOS DEMAND CHARGES AND TNUOS DEMAND RECONCILIATION CHARGES: PROVISION OF SECURITY COVER

3.21.1 Each **User** required to pay **Use of System Charges** shall provide **Security Cover** for ~~Transmission Services Use of System Charges,~~ **Balancing Services Use of System Charges, Transmission Network Use of System Demand Charges** and **Transmission Network Use of System Demand Reconciliation Charges** from time to time in accordance with this Part III.

3.21.2 Each such **User** shall not later than the date of its accession to the **CUSC Framework Agreement** ~~or 15 July 1998 (whichever is later)~~ deliver to **NGC** evidence reasonably satisfactory ~~to it that:-~~

(a) ~~to establish the **User's Allowed Credit** it presently holds an **Approved Credit Rating**;~~ and

(b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.

3.21.3 The **User** shall be required to provide **Security Cover** where its **Security Requirement** exceeds its **User's Allowed Credit**. If such **User** ~~is required to provide **Security Cover** does not hold or ceases to hold an **Approved Credit Rating**~~ it shall, not later than the date of:-

(a) the date of its becoming a party to the **CUSC Framework Agreement**; or

(b) ~~the date upon which it ceases to have an **Approved Credit Rating** two **Business Days** after **NGC** notifies the **User** in writing that the **Security Cover** required exceeds the **Security Amount** provided;~~ or

(c) where and to the extent that the amount of **Security Cover** required exceeds the **Security Amount** provided as a result of a **User's** revised forecast given in

accordance with Paragraph 3.10 within one month of such revised forecast being provided to NGC:-

- (i) deliver to **NGC** a **Qualifying Guarantee** in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (ii) deliver to **NGC** a **Letter of Credit** (available for an initial period of not less than 6 months) in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (iii) deliver to **NGC** cash for credit to the **Escrow Account** in such amount as shall be notified by **NGC** in accordance with Paragraph 3.22.

3.21.4 The provisions of this Part III shall be in addition to any other requirements to provide security in respect of any other sums due under the terms of the **CUSC** or any **Bilateral Agreement** or **Construction Agreement**.

3.21.5 Maintenance of Security Cover

Where a **User** is required to provide **Security Cover** in accordance with the terms of this Paragraph 3.21 it shall at all times thereafter maintain a **Security Amount** equal to or more than the **Security Cover** applicable to it. Immediately upon any reduction occurring in the **Security Amount** provided by the **User** or any **Letter of Credit** or **Qualifying Guarantee** being for any reason drawn down or demanded respectively, the **User** will procure that new **Letters of Credit** or **Qualifying Guarantees** are issued or existing **Letters of Credit** or **Qualifying Guarantees** are reinstated (to the satisfaction of **NGC**) to their full value or cash is placed to the credit of the **Escrow Account** in an amount required to restore the **Security Amount** to an amount at least equal to the **Security Cover** applicable to the **User**, and in such proportions of **Letters of Credit**, **Qualifying Guarantees** and/or cash as the **User** may determine. Not later than 10 **Business Days** before any outstanding **Letter of Credit** and/or **Qualifying Guarantee** is due to expire, the **User** shall procure to the satisfaction of **NGC** that its required **Security Amount** will be available for a further period of not less than 6 months which may be done in one of the following ways:-

- (a) subject to the issuing bank continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing bank that the validity of the

Letter of Credit has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or

- (b) provide **NGC** with a new **Letter of Credit** issued by an issuing bank with an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Letter of Credit** shall be available for a period of not less than 6 months; or
- (c) subject to the entity issuing the **Qualifying Guarantee** continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing entity that the validity of the **Qualifying Guarantee** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or
- (d) provide **NGC** with a new **Qualifying Guarantee** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Qualifying Guarantee** shall be available for a period of not less than 6 months; or
- (e) procure such transfer to **NGC** for credit to the **Escrow Account** of an amount as shall ensure that the credit balance applicable to the **User** and standing to the credit of the **Escrow Account** shall be at least equal to the required **Security Amount**.

3.21.6 Failure to supply or maintain Security Cover

If the **User** fails at any time to provide or maintain **Security Cover** to the satisfaction of **NGC** in accordance with the provisions of this Part III, **NGC** may at any time while such default continues, and if at such time any **Letter of Credit** and/or **Qualifying Guarantee** forming part of the **Security AmountCover** is due to expire within 9 **Business Days** immediately, and without notice to the **User**, demand payment of the entire amount of any outstanding **Letter of Credit** and/or **Qualifying Guarantee** and shall credit the proceeds of the **Letter of Credit** and/or **Qualifying Guarantee** to the **Escrow Account**.

3.21.7 Substitute Letter of Credit or Qualifying Guarantee

- (a) If the bank issuing the **User's Letter of Credit** ceases to have the credit rating set out in the definition of **Letter of Credit** in this **CUSC** such **User** shall forthwith procure the issue of a substitute **Letter of Credit** by a bank that has such a credit rating or a **Qualifying Guarantee** or transfer to **NGC** cash to be credited to the **Escrow Account**.
- (b) If the entity providing the **User's Qualifying Guarantee** ceases to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) the **User** shall forthwith procure a replacement **Qualifying Guarantee** from an entity with such a credit rating or a **Letter of Credit** or transfer to **NGC** cash to be credited to the **Escrow Account**.

3.22 CREDIT MONITORING

3.22.1 Determination of Security Cover

The amount of **Security Cover** which the **User** shall be required to maintain shall be determined from time to time by **NGC** as the **User's Security Requirement** less the **User's Allowed Credit** in accordance with this Part III on the basis of the criteria set out in Paragraph 3.22.2, and shall be notified to the **User**.

3.22.2 Criteria for provision of Security CoverDetermination of Security Requirement

The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, the amount of **Security Cover** required to be provided by the **User** in respect of this requirement shall be provided in an amount to be reasonably assessed by **NGC** as the aggregate amount reasonably anticipated by **NGC** as being payable by the **User** pursuant to all its connections to and/or use of the **GB Transmission System** in respect of:-

- (a) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Supplier**, over a 32 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and
- (b) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Generator**,

over a 29 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and

(c) **Transmission Network Use of System Demand Reconciliation Charges** calculated in the following manner:-

(aa) 10% of **User's Demand-related Transmission Network Use of System Demand Charges** for the **Financial Year in which such charges first become due ending on 31 March 1999**; and

(bb) in the case of subsequent **Financial Years** such ~~other~~ percentage of **User's Transmission Network Use of System Demand Charges** as reflects the percentage difference between the **Actual Amount** and the **Notional Amount** of the ~~Demand-related~~ **User's Transmission Network Use of System Demand Charges** for the previous **Financial Year**, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero as ~~NGC~~ acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such other percentage **NGC** shall consult with **Users**; and

(d) for **Transmission Network Use of System Demand Reconciliation Charges**, 2.5% of **User's Transmission Network Use of System Demand Charges**; and

(e) interest on the amounts referred to in (a), (b), (c) and (d) above calculated in accordance with the provisions of this **CUSC**.

3.22.3 Review of Security Cover

NGC shall keep under review the **Security Cover** relating to the **User** and shall promptly advise the **User** whenever the **Security Amount** maintained by the **User** is more or less than the amount required to be maintained pursuant to this Paragraph 3.22.

3.22.4 ~~Increase or~~ Decrease of Security Cover

~~If, after considering any representations which may be made by the User, NGC reasonably determines that the User's required Security Cover has should be increased or decreased, it shall so notify the User. If NGC so determines that such Security Cover should be decreased and the User consents then that reduction shall take place. NGC shall consent to an appropriate reduction in the available amount of any outstanding Qualifying Guarantee or Letter of Credit and/or shall repay to the User such part of the deposit held in the Escrow Account for the account of the User (together with all accrued interest on the part to be repaid) sufficient to reduce the User's Security Amount to the level of Security Cover applicable to it within 5 Business Days of the User's consent. If NGC so determines that the User's Security Cover should be increased, the User shall, within 5 Business Days of notice as aforesaid, procure an additional or replacement Qualifying Guarantee or Letter of Credit or transfer to NGC cash to be credited to the Escrow Account in an amount sufficient to increase its Security Amount so as to be at least equal to the level of Security Cover applicable to it.~~

3.22.5 Notification in respect of Security Cover

NGC shall notify each **User** promptly if:-

- (a) that **User** fails to provide, maintain, extend or renew a **Qualifying Guarantee** or a **Letter of Credit** which it is required to provide, maintain, extend or renew pursuant to Paragraphs 3.21 or 3.22 inclusive;
- (b) **NGC** shall make a demand under any such **Qualifying Guarantee** or a call under a **Letter of Credit**; or
- (c) **NGC** becomes aware that that **User**:
 - (i) shall cease to have an **Approved Credit Rating** ~~or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**~~, or
 - (ii) shall be placed on a credit watch by the relevant credit rating agency (or becomes subject to an equivalent procedure) which in any case casts doubt on the **User** retaining an **Approved Credit Rating** ~~or an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement** or maintaining the **Credit Assessment Score** given by the **User's Independent Credit Assessment**~~, or

- (iii) shall be in default under the additional or alternative security required to be provided pursuant to this Part III; or
- (d) **NGC** becomes aware that any bank that has issued a **Letter of Credit** in relation to that **User** which has not expired shall cease to have the credit rating required by this Section; or
- (e) **NGC** becomes aware that any entity providing a **Qualifying Guarantee** in relation to that **User** which has not expired shall cease to have an **Approved Credit Rating** for an amount at least equal to the required Security Amount (less its balance on the Escrow Account); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

Provided always that the failure by **NGC** to notify the **User** pursuant to Paragraphs 3.22.3, 3.22.4 or 3.22.5 shall not relieve the **User** of its obligations under and in accordance with the terms of this Section 3 and the **Charging Statements**.

3.22.6 Release from Security Cover Obligations

Upon a **User** becoming a **Dormant CUSC Party** or ceasing to be a **CUSC Party** and provided that all amounts owed by the **User** in respect of ~~Transmission Services Use of System Charges, Balancing Services Use of System Charges, Transmission Network Use of System Demand Charges~~ and **Transmission Network Use of System Demand Reconciliation Charges** have been duly and finally paid and that it is not otherwise in default in any respect of any ~~Transmission Services Use of System Charges, Balancing Services Use of System Charges, Transmission Network Use of System Demand Charges~~ or **Transmission Network Use of System Demand Reconciliation Charges** (including in each case interest) payable under the **CUSC**, the **User** shall be released from the obligation to maintain **Security Cover** and **NGC** shall consent to the revocation of any outstanding **Qualifying Guarantee** or **Letter of Credit** and shall repay to the **User** the balance (including interest credited thereto) standing to the credit of the **User** on the **Escrow Account** at that date.

3.23 **PAYMENT DEFAULT**

If, by 12.30 hours on any **Use of System Payment Date**, **NGC** has been notified by a **User** or it otherwise has reason to believe that that **User** will not have remitted to it by close of banking business on the **Use of System Payment Date** all or any part (“the amount in default”) of any amount which has been notified by **NGC** to the **User** as being payable by the **User** by way of either the ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Reconciliation Charges**~~ on the relevant **Use of System Payment Date**, then **NGC** shall be entitled to act in accordance with the following provisions (or whichever of them shall apply) in the order in which they appear until **NGC** is satisfied that the **User** has discharged its obligations in respect of the ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Reconciliation Charges**~~ (as appropriate) under the **CUSC** which are payable in respect of the relevant **Settlement Day** (in the case of ~~**Transmission Services Use of System Charges or Balancing Services Use of System Charges**~~) or **Financial Year** (in the case of ~~**Transmission Network Use of System Demand Reconciliation Charges or**~~ **Transmission Network Use of System Demand Reconciliation Charges**):-

- (a) **NGC** may to the extent that the **User** is entitled to receive payment from **NGC** pursuant to the **CUSC** (unless it reasonably believes that such set-off shall be unlawful) set off the amount of such entitlement against the amount in default;
- (b) **NGC** shall be entitled to set off the amount of funds then standing to the credit of the **Escrow Account** against ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Reconciliation Charges**~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** (as appropriate) unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** at its absolute discretion and shall notify the **User** accordingly;
- (c) **NGC** may demand payment under any outstanding **Letter of Credit** supplied by the **User** in a sum not exceeding the available amount of all such **Letters of Credit**;
- (d) **NGC** may demand payment under any outstanding **Qualifying Guarantee** provided for the benefit of the **User** pursuant to Paragraph 3.21.3(b).

3.24 UTILISATION OF FUNDS

In addition to the provisions of Paragraph 3.23 above if **NGC** serves a notice of default under the terms of Paragraph 5.5 or a notice of termination under Paragraph 5.7 then **NGC** shall be entitled to demand payment of any of the ~~Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Charges~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** which are outstanding from the relevant **User** whether or not the **Use of System Payment Date** in respect of them shall have passed and:-

- (a) make demand under any outstanding **Qualifying Guarantee** or a call under any outstanding **Letter of Credit** supplied by the **User**; and
- (b) to set off the funds in the **Escrow Account** against the ~~Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Charges~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** as it shall in its sole discretion think fit.

3.25 USER'S RIGHT TO WITHDRAW FUNDS

If a **User** is not in default in respect of any amount owed to **NGC** in respect of the ~~Transmission Services Use of System Charges or Balancing Services Use of System Charges~~ or **Transmission Network Use of System Charges** under the terms of the **CUSC** and any **Bilateral Agreement** to which the **User** is a party:-

- (a) **NGC** shall transfer to the **User** quarterly interest credited to the **Escrow Account**; and
- (b) **NGC** shall transfer to such **User** within a reasonable time after such **User's** written request therefor any amount of cash provided by the **User** by way of **Security Cover** which exceeds the amount which such **User** is required to provide by way of security in accordance with this Part III.

3.26 USER'S ALLOWED CREDIT

3.26.1 Each User shall notify NGC promptly if:-

- (a) it gains an Approved Credit Rating; or**
- (b) it ceases to have an Approved Credit Rating; or**

- (c) where the **User** holds an **Approved Credit Rating**, its specific investment grading changes; or
- (d) it has reason to believe that its **Credit Assessment Score** is likely to have changed since the last **Independent Credit Assessment**.

3.26.2 The **User's Allowed Credit** extended by **NGC** at any time to each **User** with an **Approved Credit Rating** shall be calculated in accordance with Paragraph 1 of Appendix 1 of this Section 3 subject to a maximum value of the **Unsecured Credit Cover**.

3.26.3 The **User's Allowed Credit** extended by **NGC** at any time to each **User** without an **Approved Credit Rating** shall be at the choice of the **User** the **Payment Record Sum** or the **Credit Assessment Sum**.

3.26.4 Unless the **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then, subject to Paragraph 3.26.5, for each successive month in which the **User** pays its **Use of System Charges** by the **Use of System Payment Date** then the **User's Allowed Credit** extended to such **User** at any time shall be calculated in accordance with Paragraph 2 of Appendix 1 of this Section 3.

3.26.5 Where a **User** fails to pay its **Use of System Charges** within 2 **Business Days** of the **Use of System Payment Date** its **Payment Record Sum** shall be reduced by 50% on the first such occasion within a twelve month period and shall be reduced to zero on the second occasion in such twelve month period. Upon any such failure to pay, the **User's Allowed Credit** (as adjusted following such failure in accordance with this clause) shall be calculated for successive months in accordance with Paragraph 3.26.4.

3.26.6 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on its **Credit Assessment Sum**, the **Credit Assessment Sum** extended to a **User** at any time shall be calculated by reference to the **Credit Assessment Score** given by the **Independent Credit Assessment** in accordance with Paragraph 3 of Appendix 1 of this Section 3.

3.26.7 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then the **User** will obtain an **Independent Credit Assessment** of that **User**.

3.26.8 Where a **User's Allowed Credit** is based on the **Credit Assessment Sum** then where **NGC** has reason to believe that the **Independent Credit Assessment** last obtained is likely to have changed then **NGC** shall be entitled to request the **User** to obtain a further **Independent Credit Assessment**. Where the **User** refuses to obtain such

Independent Credit Assessment, the **User's Allowed Credit** will be calculated as the **Payment Record Sum**.

3.26.9 Each **Independent Credit Assessment** will be at the **User's** cost, except where **NGC** requests that the **User** obtain an **Independent Credit Assessment** in accordance with Paragraph 3.26.8 and the **User** has paid for an earlier **Independent Credit Assessment** within the previous 12 months when such **Independent Credit Assessment** shall be at **NGC's** cost.

Add new definitions to Section 11 as follows:

Approved Agency the panel of three independent assessment agencies appointed by **NGC** and other network operators from time to time for the purpose of providing **Independent Credit Assessments** details of such agencies to be published on the **NGC Website**;

Credit Assessment Score a score between 0 and 100 given by an **Approved Agency** in the **Independent Credit Assessment**;

Credit Assessment Sum the proportion of the of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does not meet the **Approved Credit Rating** and calculated in accordance with Paragraph 3.26.6;

Independent Credit Assessment an assessment of the creditworthiness of a **User** by an **Approved Agency** as nominated by the **User** obtained in accordance with Paragraph 3.26.7, 3.26.8 and 3.26.9;

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by Ofgem setting this out and currently known as "Ofgem's Transmission Price Control Review of NGC - Transmission Owner Final Proposals" such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Payment Record Sum the proportion of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does meet the **Approved Credit Rating** calculated in accordance with Paragraph 3.26.4 and 3.26.5;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User's Allowed Credit** in accordance with Paragraph 3.22;

Transmission Network Use of System Demand Charges that element of **Transmission Network Use of System Charges** relating to **Demand**

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time

which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User's Allowed Credit that proportion of the **Unsecured Credit Cover** extended to a **User** by **NGC** as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than ~~BB-A1~~ by Standard and Poor's Corporation or a rating not less than ~~Ba3P4~~ by Moody's Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

Qualifying Guarantee a guarantee in favour of **NGC** in a form proposed by the **User** and agreed by **NGC** (whose agreement shall not be unreasonably withheld or delayed) and which is held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of **User's Allowed Credit** that would be available to that entity in accordance with Paragraph 3.26 if it was a **User**;

Amend definition of **Security Cover** as follows:

Security Cover for each **User**, the **User's Security Requirement** less the **User's Allowed Credit** the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of security in accordance with the **CUSC**;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

1. Where the **User** meets the **Approved Credit Rating** that **User's Allowed Credit** at any given time shall be calculated as a percentage of **Unsecured Credit Cover** by reference to the specific investment grade within the **User's Approved Credit Rating** as follows:

<u>Approved Long Term Credit Rating</u>			<u>User's Allowed Credit as % of Unsecured Credit Cover</u>
<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch</u>	
<u>AAA/AA</u>	<u>Aaa/Aa2</u>	<u>AAA/AA</u>	<u>100</u>
<u>A</u>	<u>A2</u>	<u>A</u>	<u>40</u>
<u>BBB+</u>	<u>Baa1</u>	<u>BBB+</u>	<u>20</u>
<u>BBB</u>	<u>Baa2</u>	<u>BBB</u>	<u>19</u>
<u>BBB-</u>	<u>Baa3</u>	<u>BBB-</u>	<u>18</u>
<u>BB+</u>	<u>Ba1</u>	<u>B</u>	<u>17</u>
<u>BB</u>	<u>Ba2</u>	<u>B</u>	<u>16</u>
<u>BB-</u>	<u>Ba3</u>	<u>B</u>	<u>15</u>

2. Where based on the **Payment Record Sum**, a **User's Allowed Credit** at any time shall be calculated on the basis of 0.4% per 12 month period (escalating on an evenly graduated basis each month) of the **Unsecured Credit Cover**, subject to a maximum of 2% after 60 months of successive payment by the **Use of System Payment Date**.

3. Where based on the **Credit Assessment Sum**, a **User's Allowed Credit** at any given time shall be calculated as a percentage of the **Unsecured Credit Cover** by reference to the **Credit Assessment Score** between 0 and 100, where a score of 1 represents 0.2% of the **Unsecured Credit Cover** and each incremental score of 1 represents an extra 0.2% of **Unsecured Credit Cover** to a maximum of 20%. A score of 0 represents 0% of **Unsecured Credit Cover**.

Part F - Text to give effect to Working Group Alternative Amendment 5

The proposed changes to the CUSC text are shown in colour and marked up against the current version of the CUSC. The text will be amended by inserting the coloured underlined text and deleting the text which is coloured and struck out.

Amend Section 3 Part III as follows and edit contents page accordingly:

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, T~~S~~NUOS DEMAND CHARGES AND TNUOS DEMAND RECONCILIATION CHARGES: PROVISION OF SECURITY COVER

- 3.21.1 Each **User** required to pay **Use of System Charges** shall provide **Security Cover** for ~~Transmission Services Use of System Charges,~~ **Balancing Services Use of System Charges, Transmission Network Use of System Demand Charges** and **Transmission Network Use of System Demand Reconciliation Charges** from time to time in accordance with this Part III.
- 3.21.2 Each such **User** shall not later than the date of its accession to the **CUSC Framework Agreement** ~~or 15 July 1998 (whichever is later)~~ deliver to **NGC** evidence reasonably satisfactory ~~to it that:-~~
- (a) ~~to establish the **User's Allowed Credit** it presently holds an **Approved Credit Rating**;~~ and
 - (b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.
- 3.21.3 The **User** shall be required to provide **Security Cover** where its **Security Requirement** exceeds its **User's Allowed Credit**. If such **User** ~~is required to provide **Security Cover** does not hold or ceases to hold an **Approved Credit Rating**~~ it shall, not later than the date of:-
- (a) the date of its becoming a party to the **CUSC Framework Agreement**; or
 - (b) ~~the date upon which it ceases to have an **Approved Credit Rating** two **Business Days** after **NGC** notifies the **User** in writing that the **Security Cover** required exceeds the **Security Amount** provided;~~ or
 - (c) where and to the extent that the amount of **Security Cover** required exceeds the **Security Amount** provided as a result of a **User's** revised forecast given in

accordance with Paragraph 3.10 within one month of such revised forecast being provided to NGC:-

- (i) deliver to **NGC** a **Qualifying Guarantee** in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (ii) deliver to **NGC** a **Letter of Credit** (available for an initial period of not less than 6 months) in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or
- (iii) deliver to **NGC** cash for credit to the **Escrow Account** in such amount as shall be notified by **NGC** in accordance with Paragraph 3.22.

3.21.4 The provisions of this Part III shall be in addition to any other requirements to provide security in respect of any other sums due under the terms of the **CUSC** or any **Bilateral Agreement** or **Construction Agreement**.

3.21.5 Maintenance of Security Cover

Where a **User** is required to provide **Security Cover** in accordance with the terms of this Paragraph 3.21 it shall at all times thereafter maintain a **Security Amount** equal to or more than the **Security Cover** applicable to it. Immediately upon any reduction occurring in the **Security Amount** provided by the **User** or any **Letter of Credit** or **Qualifying Guarantee** being for any reason drawn down or demanded respectively, the **User** will procure that new **Letters of Credit** or **Qualifying Guarantees** are issued or existing **Letters of Credit** or **Qualifying Guarantees** are reinstated (to the satisfaction of **NGC**) to their full value or cash is placed to the credit of the **Escrow Account** in an amount required to restore the **Security Amount** to an amount at least equal to the **Security Cover** applicable to the **User**, and in such proportions of **Letters of Credit**, **Qualifying Guarantees** and/or cash as the **User** may determine. Not later than 10 **Business Days** before any outstanding **Letter of Credit** and/or **Qualifying Guarantee** is due to expire, the **User** shall procure to the satisfaction of **NGC** that its required **Security Amount** will be available for a further period of not less than 6 months which may be done in one of the following ways:-

- (a) subject to the issuing bank continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing bank that the validity of the

Letter of Credit has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or

- (b) provide **NGC** with a new **Letter of Credit** issued by an issuing bank with an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Letter of Credit** shall be available for a period of not less than 6 months; or
- (c) subject to the entity issuing the **Qualifying Guarantee** continuing to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) provide **NGC** with confirmation from the issuing entity that the validity of the **Qualifying Guarantee** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or
- (d) provide **NGC** with a new **Qualifying Guarantee** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Qualifying Guarantee** shall be available for a period of not less than 6 months; or
- (e) procure such transfer to **NGC** for credit to the **Escrow Account** of an amount as shall ensure that the credit balance applicable to the **User** and standing to the credit of the **Escrow Account** shall be at least equal to the required **Security Amount**.

3.21.6 Failure to supply or maintain Security Cover

If the **User** fails at any time to provide or maintain **Security Cover** to the satisfaction of **NGC** in accordance with the provisions of this Part III, **NGC** may at any time while such default continues, and if at such time any **Letter of Credit** and/or **Qualifying Guarantee** forming part of the **Security AmountCover** is due to expire within 9 **Business Days** immediately, and without notice to the **User**, demand payment of the entire amount of any outstanding **Letter of Credit** and/or **Qualifying Guarantee** and shall credit the proceeds of the **Letter of Credit** and/or **Qualifying Guarantee** to the **Escrow Account**.

3.21.7 Substitute Letter of Credit or Qualifying Guarantee

- (a) If the bank issuing the **User's Letter of Credit** ceases to have the credit rating set out in the definition of **Letter of Credit** in this **CUSC** such **User** shall forthwith procure the issue of a substitute **Letter of Credit** by a bank that has such a credit rating or a **Qualifying Guarantee** or transfer to **NGC** cash to be credited to the **Escrow Account**.
- (b) If the entity providing the **User's Qualifying Guarantee** ceases to have an **Approved Credit Rating** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) the **User** shall forthwith procure a replacement **Qualifying Guarantee** from an entity with such a credit rating or a **Letter of Credit** or transfer to **NGC** cash to be credited to the **Escrow Account**.

3.22 CREDIT MONITORING

3.22.1 Determination of Security Cover

The amount of **Security Cover** which the **User** shall be required to maintain shall be determined from time to time by **NGC** as the **User's Security Requirement** less the **User's Allowed Credit** in accordance with this Part III on the basis of the criteria set out in Paragraph 3.22.2, and shall be notified to the **User**.

3.22.2 Criteria for provision of Security CoverDetermination of Security Requirement

The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, the amount of **Security Cover** required to be provided by the **User** in respect of this requirement shall be provided in an amount to be reasonably assessed by **NGC** as the aggregate amount reasonably anticipated by **NGC** as being payable by the **User** pursuant to all its connections to and/or use of the **GB Transmission System** in respect of:-

- (a) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Supplier**, over a 32 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and
- (b) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Generator**,

over a 29 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and

(c) **Transmission Network Use of System Demand Reconciliation Charges** calculated in the following manner:-

(aa) 10% of **User's Demand-related Transmission Network Use of System Demand Charges** for the **Financial Year in which such charges first become due ending on 31 March 1999**; and

(bb) in the case of subsequent **Financial Years** such ~~other~~ percentage of **User's Transmission Network Use of System Demand Charges** as reflects the percentage difference between the **Actual Amount** and the **Notional Amount** of the ~~Demand-related~~ **User's Transmission Network Use of System Demand Charges** for the previous **Financial Year**, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero as ~~NGC~~ acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such other percentage **NGC** shall consult with **Users**; and

(d) for **Transmission Network Use of System Demand Reconciliation Charges**, 2.5% of **User's Transmission Network Use of System Demand Charges**; and

(e) interest on the amounts referred to in (a), (b), (c) and (d) above calculated in accordance with the provisions of this **CUSC**.

3.22.3 Review of Security Cover

NGC shall keep under review the **Security Cover** relating to the **User** and shall promptly advise the **User** whenever the **Security Amount** maintained by the **User** is more or less than the amount required to be maintained pursuant to this Paragraph 3.22.

3.22.4 ~~Increase or~~ Decrease of Security Cover

~~If, after considering any representations which may be made by the User, NGC reasonably determines that the User's required Security Cover has should be increased or decreased, it shall so notify the User. If NGC so determines that such Security Cover should be decreased and the User consents then that reduction shall take place. NGC shall consent to an appropriate reduction in the available amount of any outstanding Qualifying Guarantee or Letter of Credit and/or shall repay to the User such part of the deposit held in the Escrow Account for the account of the User (together with all accrued interest on the part to be repaid) sufficient to reduce the User's Security Amount to the level of Security Cover applicable to it within 5 Business Days of the User's consent. If NGC so determines that the User's Security Cover should be increased, the User shall, within 5 Business Days of notice as aforesaid, procure an additional or replacement Qualifying Guarantee or Letter of Credit or transfer to NGC cash to be credited to the Escrow Account in an amount sufficient to increase its Security Amount so as to be at least equal to the level of Security Cover applicable to it.~~

3.22.5 Notification in respect of Security Cover

NGC shall notify each **User** promptly if:-

- (a) that **User** fails to provide, maintain, extend or renew a **Qualifying Guarantee** or a **Letter of Credit** which it is required to provide, maintain, extend or renew pursuant to Paragraphs 3.21 or 3.22 inclusive;
- (b) **NGC** shall make a demand under any such **Qualifying Guarantee** or a call under a **Letter of Credit**; or
- (c) **NGC** becomes aware that that **User**:
 - (i) shall cease to have an **Approved Credit Rating** ~~or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**~~, or
 - (ii) shall be placed on a credit watch by the relevant credit rating agency (or becomes subject to an equivalent procedure) which in any case casts doubt on the **User** retaining an **Approved Credit Rating** ~~or an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement** or maintaining the **Credit Assessment Score** given by the **User's Independent Credit Assessment**~~, or

- (iii) shall be in default under the additional or alternative security required to be provided pursuant to this Part III; or
- (d) **NGC** becomes aware that any bank that has issued a **Letter of Credit** in relation to that **User** which has not expired shall cease to have the credit rating required by this Section; or
- (e) **NGC** becomes aware that any entity providing a **Qualifying Guarantee** in relation to that **User** which has not expired shall cease to have an **Approved Credit Rating** for an amount at least equal to the required Security Amount (less its balance on the Escrow Account); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

Provided always that the failure by **NGC** to notify the **User** pursuant to Paragraphs 3.22.3, 3.22.4 or 3.22.5 shall not relieve the **User** of its obligations under and in accordance with the terms of this Section 3 and the **Charging Statements**.

3.22.6 Release from Security Cover Obligations

Upon a **User** becoming a **Dormant CUSC Party** or ceasing to be a **CUSC Party** and provided that all amounts owed by the **User** in respect of ~~Transmission Services Use of System Charges, Balancing Services Use of System Charges, Transmission Network Use of System Demand Charges~~ and **Transmission Network Use of System Demand Reconciliation Charges** have been duly and finally paid and that it is not otherwise in default in any respect of any ~~Transmission Services Use of System Charges, Balancing Services Use of System Charges, Transmission Network Use of System Demand Charges~~ or **Transmission Network Use of System Demand Reconciliation Charges** (including in each case interest) payable under the **CUSC**, the **User** shall be released from the obligation to maintain **Security Cover** and **NGC** shall consent to the revocation of any outstanding **Qualifying Guarantee** or **Letter of Credit** and shall repay to the **User** the balance (including interest credited thereto) standing to the credit of the **User** on the **Escrow Account** at that date.

3.23 **PAYMENT DEFAULT**

If, by 12.30 hours on any **Use of System Payment Date**, **NGC** has been notified by a **User** or it otherwise has reason to believe that that **User** will not have remitted to it by close of banking business on the **Use of System Payment Date** all or any part (“the amount in default”) of any amount which has been notified by **NGC** to the **User** as being payable by the **User** by way of either the ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Reconciliation Charges**~~ on the relevant **Use of System Payment Date**, then **NGC** shall be entitled to act in accordance with the following provisions (or whichever of them shall apply) in the order in which they appear until **NGC** is satisfied that the **User** has discharged its obligations in respect of the ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Reconciliation Charges**~~ (as appropriate) under the **CUSC** which are payable in respect of the relevant **Settlement Day** (in the case of ~~**Transmission Services Use of System Charges or Balancing Services Use of System Charges**~~) or **Financial Year** (in the case of ~~**Transmission Network Use of System Demand Reconciliation Charges or Transmission Network Use of System Demand Reconciliation Charges**~~):-

- (a) **NGC** may to the extent that the **User** is entitled to receive payment from **NGC** pursuant to the **CUSC** (unless it reasonably believes that such set-off shall be unlawful) set off the amount of such entitlement against the amount in default;
- (b) **NGC** shall be entitled to set off the amount of funds then standing to the credit of the **Escrow Account** against ~~**Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Reconciliation Charges**~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** (as appropriate) unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** at its absolute discretion and shall notify the **User** accordingly;
- (c) **NGC** may demand payment under any outstanding **Letter of Credit** supplied by the **User** in a sum not exceeding the available amount of all such **Letters of Credit**;
- (d) **NGC** may demand payment under any outstanding **Qualifying Guarantee** provided for the benefit of the **User** pursuant to Paragraph 3.21.3(b).

3.24 UTILISATION OF FUNDS

In addition to the provisions of Paragraph 3.23 above if **NGC** serves a notice of default under the terms of Paragraph 5.5 or a notice of termination under Paragraph 5.7 then **NGC** shall be entitled to demand payment of any of the ~~Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Charges~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** which are outstanding from the relevant **User** whether or not the **Use of System Payment Date** in respect of them shall have passed and:-

- (a) make demand under any outstanding **Qualifying Guarantee** or a call under any outstanding **Letter of Credit** supplied by the **User**; and
- (b) to set off the funds in the **Escrow Account** against the ~~Transmission Services Use of System Charges and/or Balancing Services Use of System Charges and/or Transmission Network Use of System Demand Charges~~ and/or **Transmission Network Use of System Demand Reconciliation Charges** unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** as it shall in its sole discretion think fit.

3.25 USER'S RIGHT TO WITHDRAW FUNDS

If a **User** is not in default in respect of any amount owed to **NGC** in respect of the ~~Transmission Services Use of System Charges or Balancing Services Use of System Charges~~ or **Transmission Network Use of System Charges** under the terms of the **CUSC** and any **Bilateral Agreement** to which the **User** is a party:-

- (a) **NGC** shall transfer to the **User** quarterly interest credited to the **Escrow Account**; and
- (b) **NGC** shall transfer to such **User** within a reasonable time after such **User's** written request therefor any amount of cash provided by the **User** by way of **Security Cover** which exceeds the amount which such **User** is required to provide by way of security in accordance with this Part III.

3.26 USER'S ALLOWED CREDIT

3.26.1 Each User shall notify NGC promptly if:-

- (a) it gains an Approved Credit Rating; or**
- (b) it ceases to have an Approved Credit Rating; or**

- (c) where the **User** holds an **Approved Credit Rating**, its specific investment grading changes; or
- (d) it has reason to believe that its **Credit Assessment Score** is likely to have changed since the last **Independent Credit Assessment**.

3.26.2 The **User's Allowed Credit** extended by **NGC** at any time to each **User** with an **Approved Credit Rating** shall be calculated in accordance with Paragraph 1 of Appendix 1 of this Section 3 subject to a maximum value of the **Unsecured Credit Cover**.

3.26.3 The **User's Allowed Credit** extended by **NGC** at any time to each **User** without an **Approved Credit Rating** shall be zero or, if the **User** has so notified **NGC**, the **Credit Assessment Sum**.

3.26.4 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on its **Credit Assessment Sum**, the **Credit Assessment Sum** extended to a **User** at any time shall be calculated by reference to the **Credit Assessment Score** given by the **Independent Credit Assessment** in accordance with Paragraph 2 of Appendix 1 of this Section 3.

3.26.5 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then the **User** will obtain an **Independent Credit Assessment** of that **User**.

3.26.6 Where a **User's Allowed Credit** is based on the **Credit Assessment Sum** then where **NGC** has reason to believe that the **Independent Credit Assessment** last obtained is likely to have changed then **NGC** shall be entitled to request the **User** to obtain a further **Independent Credit Assessment**. Where the **User** refuses to obtain such **Independent Credit Assessment**, the **User's Allowed Credit** will be zero.

3.26.7 Each **Independent Credit Assessment** will be at the **User's** cost, except where **NGC** requests that the **User** obtain an **Independent Credit Assessment** in accordance with Paragraph 3.26.6 and the **User** has paid for an earlier **Independent Credit Assessment** within the previous 12 months when such **Independent Credit Assessment** shall be at **NGC's** cost.

Add new definitions to Section 11 as follows:

Approved Agency the panel of three independent assessment agencies appointed by **NGC** and other network operators from time to time for the purpose of providing **Independent Credit Assessments** details of such agencies to be published on the **NGC Website**;

Credit Assessment Score a score between 0 and 100 given by an **Approved Agency** in the **Independent Credit Assessment**;

Credit Assessment Sum the proportion of the of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does not meet the **Approved Credit Rating** and calculated in accordance with Paragraph 3.26.4;

Independent Credit Assessment an assessment of the creditworthiness of a **User** by an **Approved Agency** as nominated by the **User** obtained in accordance with Paragraph 3.26.5, 3.26.6 and 3.26.7;

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by Ofgem setting this out and currently known as “Ofgem’s Transmission Price Control Review of NGC - Transmission Owner Final Proposals” such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User’s Allowed Credit** in accordance with Paragraph 3.22;

Transmission Network Use of System Demand Charges that element of **Transmission Network Use of System Charges** relating to **Demand**

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User’s Allowed Credit that proportion of the **Unsecured Credit Cover** extended to a **User** by **NGC** as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than ~~BB-A1~~ by Standard and Poor’s Corporation or a rating not less than ~~Ba3P4~~ by Moody’s Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

Qualifying Guarantee a guarantee in favour of **NGC** in a form proposed by the **User** and agreed by **NGC** (whose agreement shall not be unreasonably withheld or delayed) and which is held by an entity which holds an **Approved**

Credit Rating provided that such guarantee cannot secure a sum greater than the level of **User's Allowed Credit** that would be available to that entity in accordance with Paragraph 3.26 if it was a User;

Amend definition of **Security Cover** as follows:

Security Cover for each User, the **User's Security Requirement** less the **User's Allowed Credit** the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of security in accordance with the **CUSC**;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

1. Where the **User** meets the **Approved Credit Rating** that **User's Allowed Credit** at any given time shall be calculated as a percentage of **Unsecured Credit Cover** by reference to the specific investment grade within the **User's Approved Credit Rating** as follows:

<u>Approved Long Term Credit Rating</u>			<u>User's Allowed Credit as % of Unsecured Credit Cover</u>
<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch</u>	
<u>AAA/AA</u>	<u>Aaa/Aa2</u>	<u>AAA/AA</u>	<u>100</u>
<u>A</u>	<u>A2</u>	<u>A</u>	<u>40</u>
<u>BBB+</u>	<u>Baa1</u>	<u>BBB+</u>	<u>20</u>
<u>BBB</u>	<u>Baa2</u>	<u>BBB</u>	<u>19</u>
<u>BBB-</u>	<u>Baa3</u>	<u>BBB-</u>	<u>18</u>
<u>BB+</u>	<u>Ba1</u>	<u>B</u>	<u>17</u>
<u>BB</u>	<u>Ba2</u>	<u>B</u>	<u>16</u>
<u>BB-</u>	<u>Ba3</u>	<u>B</u>	<u>15</u>

2. Where based on the **Credit Assessment Sum**, a **User's Allowed Credit** at any given time shall be calculated as a percentage of the **Unsecured Credit Cover** by reference to the **Credit Assessment Score** between 0 and 100, where a score of 1 represents 0.2% of the **Unsecured Credit Cover** and each incremental score of 1 represents an extra 0.2% of **Unsecured Credit Cover** to a maximum of 20%. A score of 0 represents 0% of **Unsecured Credit Cover**.

ANNEX 3 – FURTHER PROPOSED TEXT TO MODIFY CUSC**Part A - Text for Use in Consultation Alternative Amendments CAA1-CAA6**

Change Marked against the table contained in the Original Proposal and in the Working Group Alternative Amendments WGAA1-WGAA5

Approved Long Term Credit Rating			User's Allowed Credit as % of Unsecured Credit Cover
Standard & Poor's	Moody's	Fitch	
AAA/AA	Aaa/Aa2	AAA/AA	100
<u>A+</u>	<u>A1</u>	<u>A+</u>	<u>80</u>
A	A2	A	40 <u>70</u>
<u>A-</u>	<u>A3</u>	<u>A-</u>	<u>60</u>
BBB+	Baa1	BBB+	20
BBB	Baa2	BBB	19
BBB-	Baa3	BBB-	18
BB+	Ba1	B	17
BB	Ba2	B	16
BB-	Ba3	B	15

Part B - Text for Use in Consultation Alternative Amendments CAA12-CAA17 and CAA22-CAA25**Change Marked against the text in the Original Proposal and in the Working Group Alternative Amendments WGAA1-WGAA5**

Add the following as an additional Paragraph to CUSC Section 3 Part III:

3.27 TRANSITIONAL ARRANGEMENTS

Recognising the changes to the Security Cover and Security Requirements introduced by the Security Amendment and the consequences for NGC and Users then notwithstanding the provisions of CUSC Section 3 Part III the following transitional provisions shall apply:

- (a) the obligation for Users whose Security Requirement will as a result of the Security Amendment increase at the Security Amendment Implementation Date shall be to provide the difference between the Existing Security Cover and the Security Cover in full by no later than the End Date and by increasing the Existing Security Cover each month by equal monthly amounts of the difference between the Existing Security Cover and the Security Cover; and
- (b) where a User's Security Requirement at the Security Amendment Implementation Date is less than the Existing Security Cover held for that User then NGC shall release the Existing Security Cover by the appropriate amount as soon as practicable and in any event within one calendar month of the Security Amendment Implementation Date.

Add the following new definitions to CUSC Section 11:

<u>Existing Security Cover</u>	<u>the Security Cover held by NGC in respect of a User pursuant to CUSC Section 3 Part III immediately prior to the Security Amendment Implementation Date;</u>
<u>Security Amendment</u>	<u>the Proposed Amendment in respect of Amendment Proposal 089\090\091;</u>
<u>Security Amendment Implementation Date</u>	<u>the Implementation Date of the Security Amendment;</u>
<u>End Date</u>	<u>shall mean 5.00 pm on the date 12 months from (and not including) the Security Amendment Implementation Date;</u>

Part C - Text for Use in Consultation Alternative Amendments CAA18-CAA25**Change Marked against the text in the Original Proposal and in the Working Group Alternative Amendments WGAA2-WGAA4**

3.26.5 Where a **User** fails to pay its **Use of System Charges** within 2 **Business Days** of the **Use of System Payment Date** its **Payment Record Sum** shall be reduced by 50% on the first such occasion within a twelve month period and shall be reduced to zero on the second occasion in such twelve month period. Upon any such failure to pay, the **User's Allowed Credit** (as adjusted following such failure in accordance with this clause) shall be calculated for successive months in accordance with Paragraph 3.26.4. The **User's Payment Record Sum** shall not be reduced provided that any such failure to pay prior to the 24 February 2005 shall not affect a **User's Payment Record Sum** where such payment was made:

- a) within 3 **Business Days** of **NGC** notifying the **User** of its failure to pay by the **Use of System Payment Date**; or
- b) where **NGC** did not so notify the **User** of its failure to pay, within 7 **Business Days** of the **Use of System Payment Date**.

Part D - Text for Use in Consultation Alternative Amendments CAA26-CAA30 and CAA42-46**Change Marked against the text in the Original Proposal and in the Working Group Alternative Amendments WGAA2-WGAA5**

Amend Paragraph 3.22.2 (c) as follows:

- (c) **Transmission Network Use of System Demand Charges** calculated in the following manner:-
- (aa) 10% of **User's Transmission Network Use of System Demand Charges** for the **Financial Year** in which such charges first become due and until [30 June] in the following Financial Year; and
- (bb) in the case of subsequent **Financial Years** from [30 June] in such Financial Years to [29 June] in the following Financial Year such percentage of **User's Transmission Network Use of System Demand Charges** ~~as reflects the percentage difference between the Actual Amount and the Notional Amount of the User's Transmission Network Use of System Demand Charges for the previous Financial Year~~, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero arrived at by using the Performance Forecasting Weighting equation; and

In new Appendix 1 to Section 3 add the following new paragraph as paragraph 4 in the Original Proposal and WGAA2-WGAA4, and as paragraph 3 in WGAA5:

The following equation sets out the calculation of forecasting performance as a monthly percentage. The summation of the months April – March of the previous financial year gives the total percentage to be multiplied against the TNUoS annual charge to give the Value at Risk to be secured. The table sets out the Performance Forecasting Weighting Factors.

$$\frac{1}{78} \sum \left[\frac{(\text{Actual Amount} - \text{Notional Amount}) * 100 * \text{Performance Forecasting Weighting Factor}}{\text{Actual Amount}} \right]$$

<u>Weighting</u>	<u>Month</u>
<u>12</u>	<u>April</u>
<u>11</u>	<u>May</u>
<u>10</u>	<u>June</u>
<u>9</u>	<u>July</u>
<u>8</u>	<u>August</u>
<u>7</u>	<u>September</u>
<u>6</u>	<u>October</u>
<u>5</u>	<u>November</u>
<u>4</u>	<u>December</u>
<u>3</u>	<u>January</u>
<u>2</u>	<u>February</u>
<u>1</u>	<u>March</u>
<u>78</u>	

Add the following new definition in CUSC Section 11 to the Original Proposal and to WGAA2-WGAA4:

<u>Performance Forecasting Weighting Factors</u>	<u>the factors set out on table in Section 3 Appendix 1, Paragraph 4.</u>
--	---

Add the following new definition in CUSC Section 11 to WGAA5:

<u>Performance Forecasting Weighting Factors</u>	<u>the factors set out on table in Section 3 Appendix 1, Paragraph 3.</u>
--	---

Part E - Text for Use in Consultation Alternative Amendments CAA36-CAA51

Change Marked against the text in the Original Proposal and in the Working Group Alternative Amendments WGAA1-WGAA5

Add the following as an additional Paragraph to CUSC Section 3 Part III:

3.27 TRANSITIONAL ARRANGEMENTS

3.27.1 Recognising the changes to the Security Cover and Security Requirements introduced by the Security Amendment and the consequences for NGC and Users then notwithstanding the provisions of CUSC Section 3 Part III the following transitional provisions shall apply:

3.27.2 The obligation for Users whose Security Requirement will increase at the Security Amendment Implementation Date as a result of the Security Amendment shall be as follows:

(a) where the Existing Security Cover provided by or on behalf of a User meets the requirements of Section 3 Part III immediately prior to the Security Amendment Implementation Date, to provide the difference between the Existing Security Cover and the Security Cover by increasing the Existing Security Cover by a minimum of 25% of the difference between the Existing Security Cover and the Security Cover by the 3rd, 6th, 9th and 12th calendar month from the Security Amendment Implementation Date ; and

(b) where the Existing Security Cover provided by or on behalf of a User does not comply with Section 3 Part III immediately prior to the Security Amendment Implementation Date, to provide the difference between the Existing Security Cover and the Security Cover for such Security Requirement by increasing the Existing Security Cover to that required immediately prior to the Security Amendment Implementation Date within 3 calendar months of the Security Amendment Implementation Date and thereafter by a minimum of 25% of the difference between the Existing Security Cover (as increased) and the Security Cover by the 6th, 9th and 12th calendar month from the Security Amendment Implementation Date.

3.27.3 where a User's Security Requirement at the Security Amendment Implementation Date is less than the Existing Security Cover held for that User then NGC shall release the Existing Security Cover by the appropriate amount as soon as practicable and in any event within one calendar month of the Security Amendment Implementation Date.

Add the following new definitions to **CUSC** Section 11:

<u>Existing Security Cover</u>	<u>the Security Cover held by NGC in respect of a User pursuant to CUSC Section 3 Part III immediately prior to the Security Amendment Implementation Date;</u>
<u>Security Amendment</u>	<u>the Proposed Amendment in respect of Amendment Proposal 089\090\091;</u>
<u>Security Amendment Implementation Date</u>	<u>the Implementation Date of the Security Amendment;</u>

ANNEX 4 – COPIES OF REPRESENTATIONS RECEIVED TO CONSULTATION

This Annex includes copies of any representations received following circulation of the Consultation Document (circulated on 2nd September 2005, requesting comments by close of business on 3rd October 2005).

Representations were received from the following parties:

No.	Company	File Number
1	BizzEnergy	CAP089/090/091-CR-01
2	British Energy	CAP089/090/091-CR-02
3	Centrica	CAP089/090/091-CR-03
4	EDF Energy	CAP089/090/091-CR-04
5	E.ON UK	CAP089/090/091-CR-05
6	Opus Energy	CAP089/090/091-CR-06
7	Scottish and Southern Energy	CAP089/090/091-CR-07
8	Scottish Power	CAP089/090/091-CR-08
9	Zest 4	CAP089/090/091-CR-09

Reference	CAP089/090/091-CR-01
Company	BizzEnergy

brighter business energy

Ms Lindsay Paradine
Transmission Commercial
National Grid
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA



30 September 2005

Re: Consultation CAP 91

Dear Lindsay,

We fully support and endorse the original proposal for CAP 91, but feel it would be greatly enhanced by the addition of the Consultation Alternative Amendments outlined below.

We do not support WGAA1 or 5 where payment record is not taken into account as we believe this discriminates unduly against new entrants and creates an artificial barrier to entry into the supply sector. We do not support WGAA2, 4 or 5 due to breaking down the credit score to a 0-100 scale will create a tendency to mark a company for what its worth rather than probability to meet its payment requirements.

On the issue of Independent Assessment, we are very concerned regarding the selection of, briefing and appointment of the Rating Agencies. We believe that Users should also be party to the selection of these Agents and that a clear instruction of what is expected to prevent a for what its worth type briefing is essential. We are also concerned as to whether Agents would be prepared to carry out such assessments. Some Agencies have indicated that they are not prepared to Rate small companies.

We do not support WGAA3, 4 or 5 as they require the User to submit at their own cost to the Independent assessment, the quid pro quo would be if the User could select the Agent in which case the User would be prepared to pay for the Assessment.

We would like to propose four independent Consultation Alternative Amendments as follows. These Amendments apply equally to all five Working Group Alternative Amendments.

Amendment 1

On the definition of Approved Agency I would like to add the word "suitable" after three in the first line. This is to cover off a situation of Agencies being appointed who are not active in rating small companies or who are for any other reason unsuitable to fulfil the required rating.

Amendment 2

We would like to raise a Consultation Alternative Amendment Proposal in the area of Transition provisions. This proposal is consistent with paragraph 3.29 of the OFGEM Best practice Guidelines. The proposal is to introduce a clause that allows a smooth transition from the credit



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parties currently have on deposit with National Grid under the CUSC to that which would be required under the new arrangements. The transition should be linear and last for 12 months after which time the full amount of credit should be lodged with NGC. This provision is required in order to allow parties to raise any necessary additional funding in an ordered and sensible manner.

Amendment 3

OFGEMs Best Practice Guidelines were published in February 2005. Prior to their publication, and in the absence of any other commercial incentives parties would behave as per the normal drivers for the market they are operating in. The industry average for payment terms according to Experian is 23 days beyond terms. Applying the standards set out in the Best Practice Guidelines to periods prior to their publication is unduly harsh. At that time very limited chasing on any overdue accounts to an appropriate level in an organization was being carried out. Parties could therefore be behaving quite sensibly within the market context in which they found themselves would be unduly disadvantaged due to the retrospective nature of the current amendment proposal. Indeed Parties who had payment records that on average were a few days overdue may find themselves with a poor record, where in effect against the Experian sector norm they are excellent payers. We therefore believe that the following approach on payment record prior to February 2005 would not be unreasonable.

It could be argued that provided the parties were no worse than the 23 days beyond terms that this would be acceptable. However, this may give rise to excessive credit being granted. As a pragmatic solution the following Consultation Alternative Amendment Proposal is therefore proposed that would allowing a payment record to be classed as good, if the party paid an invoice a) within the 7 working days of the due date, if not formally reminded to do so or b) paid within 3 working days of receipt of any formal reminder. This we feel is more reasonable given the circumstances prevailing at the time.

Amendment 4

A final Consultation Alternative Amendment Proposal is proposed that combines amendment proposal 2&3.

We believe that the above Amendments will better facilitate competition and than the Modifications as proposed in the Consultation Paper.

Regards

Keith Munday
Commercial Director

Reference	CAP089/090/091-CR-02
Company	British Energy



Lindsey Paradine
Transmission Commercial
National Grid
National Grid House
Warwick Technology Park
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CV34 6DA

3rd October 2005

Dear Lindsey,

Consultation on CUSC Amendment Proposal CAP089/090/091

Thank you for the opportunity to comment on the above consultation document which raises a number of important issues.

Key Points

- **British Energy supports the original Amendment Proposal. It contains a package of proposals, which taken together are consistent with the Ofgem conclusions document 'best practice guidelines for gas and electricity network operator credit cover'. The Amendment will better facilitate Applicable CUSC objectives by increasing efficiency and enhancing competition.**
- **We believe that the credit assessment score granularity contained in the original Amendment Proposal which is based on the outcome of detailed deliberations by the industry working groups concerned accurately captures the value at risk. It will therefore increase efficiency, increase the likelihood of unrated users receiving access to some unsecured credit which will in turn facilitate greater competition.**
- **British Energy is also supportive of WGAA3 and to a lesser extent WGAA2 and WGAA4 which would all better facilitate Applicable CUSC objectives as compared with the existing baseline. However the original Amendment Proposal remains our favoured option.**
- **We do not support WGAA 1 and WGAA5, which would exclude important elements of the Ofgem guidelines by denying unrated users access to some unsecured credit. These two WGAA discriminate unduly against unrated users, which is likely to damage competition.**

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Detailed Points:**Amendments Panel Observations**

As regards the matters raised by the CUSC Panel we note the point made by some members regarding the overlap in unsecured credit available to a user who's credit assessment score fell into the range 5 – 10 and that which could be secured via a conventional credit rating. A member also stated that his expectation was that the amount of credit available following assessment would be lower than via the conventional credit rating route.

In British Energy's view this matter was given extensive consideration by the industry working groups and that the proposed overlap is in line with Ofgem's guideline document which was based on these deliberations. We see no reason why an overlap of this sort should not be acceptable since they stem from use of the same basic weightings that are applied under the 'Basel II' rules for determining bank capital adequacy for unrated or rated companies with a credit rating of BB-. While some respondents may not support the Basel II rules they are nonetheless the chosen basis of Ofgem's credit guidelines.

We recognise that the process of independent credit assessment and scoring will be a new one for the industry and that it is probably something the CUSC Panel will need to keep under review. We do not believe it would be appropriate to try to define in the CUSC in any more detail what is a highly specialist area. We therefore support the current proposals in this area.

Transitional issues were discussed at the working group but no agreement could be reached as the group was split as set out in the Amendment Report. We believe the Amendment works without this requirement.

Value at Risk

We support the original proposal in this area as we consider the most appropriate mechanism for the setting of TNUoS security levels is one that incentivises users to forecast accurately. We therefore support the change that would see the replacement of the 10% related to TNUoS demand reconciliation with an amount of within year TNUoS security based on each users forecast performance in the previous year.

I trust this response is clear but please feel free to contact me directly should you need clarification on either 01452 654182 or 07774 767722.

Yours sincerely



John Capener
Head of Transmission and Trading Arrangements
British Energy Power and Energy Trading

Reference	CAP089/090/091-CR-03
Company	Centrica



Lindsey Paradine
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Our Ref.
Your Ref.
06 October 2005

Dear Lindsey,

CUSC Amendment Proposals CAP089/90/91

Centrica welcomes this opportunity to comment on these amalgamated Amendment Proposals. Centrica believes the credit arrangements are an essential element of the CUSC baseline and the credit rules need to be robust to provide an appropriate level of protection to all CUSC signatories. Centrica believe the original proposal and to a lesser extent some of the alternatives dilute the current obligations on CUSC signatories and could increase the likelihood of the industry being exposed to a bad debt. Therefore Centrica do not believe that any of the proposals better facilitate the Applicable CUSC Objectives.

CAP089 and CAP090 seek to introduce the concept of User's credit allowances being based upon 2 percent of National Grid Electricity Transmission's RAV. A percentage credit allowance is then calculated based upon the company's credit rating. Whilst Centrica can understand the rationale for developing the methodology we have concerns about the proposed matrix. Allowing Users with a credit rating of BB+ or below such a significant allowances of unsecured credit exposes the industry to an unnecessary risk. Therefore Centrica do not believe this element better facilitates competition in the generation and supply of electricity.

Bizz Energy originally raised CAP091, however it was contingent on CAP089 and 090 and has been amalgamated into 1 proposal. Bizz's original proposal contains 2 specific elements. The first proposes the introduction of 2 new tools that can be utilised by CUSC signatories to secure specified percentages of unsecured credit. This includes the use of a party's payment record and the ability to gain an independent credit assessment. The second element of the proposal suggests reducing the existing requirement to secure 10 percent of TNUoS demand charges to an accuracy figure based upon historical performance. Centrica has concerns about all 3 elements of the proposal.

Centrica do not believe that using a party's payment record is an accurate reflection of future performance. A poor payment record could illustrate that a party is in difficulty, however a perfect payment record does not guarantee that a party will be in a position to pay future liabilities. Centrica has real concerns about a party being able access a level of unsecured credit based upon its historical payment record. Centrica believes this increases the chances of a CUSC party defaulting on a payment invoice and the industry being exposed to a smear of the bad debt.

A *centrica* business

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy
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The second element of the proposal allows a party to request an independent credit assessment. The assessment will then be converted into a score, which will equate to an unsecured credit allowance for an unrated company. Whilst not supporting this element of the proposal Centrica would like to express a number of concerns about the independent process. The first of which is the scarcity of information that is available in relation to this process. Centrica acknowledge that work is ongoing in this area, however at the current time there is no information available on how a score will be calculated. Centrica recognises there will need to be an element of subjectivity in the process but Centrica would like to see a mechanistic process developed to support independent credit scoring. This would provide the market with an appropriate level of transparency to assess the robustness of the process and ensure a consistency of approach. Centrica also have concerns about the matrix, which is included in the Ofgem 'Best Practice Guidelines'. The concern relates to the level of granularity and amount of unsecured credit that could be provided to an unrated company. Allowing a party with a credit scoring of 1, £3.4 million of unsecured credit exposes the industry to a large risk of being exposed to a bad debt. Centrica prefer the alternative matrix that has a number of smaller increases, the steps allow for circa £200,000 increments as opposed to approximately £3 million. Centrica believe this provides a greater level of protection to all parties.

The third element of the original proposal seeks to reduce the requirement to hold 10 percent of the User's annual TNUoS demand charges to a figure based upon historical forecast accuracy against outturn charges. As a principle Centrica believe this has some merit, however Centrica have concerns that in the event of a party facing financial difficulties if this proposed solution, would provide the necessary level of protection. In a perfect world (where everyone pays on time and no parties become bankrupt) this model would work as it incentivises parties to forecast accurately and therefore minimise the credit cover required. However, Centrica believe that basing the level of security required on past performance is not an accurate reflection of future behaviour and therefore calculating the level of credit required is inappropriate and exposes all CUSC signatories to an unnecessary level of risk. A number of the WGAA contain some additional protection as they build in a margin of 2.5%. Centrica would like confirmation that the margin provides an appropriate level of assurance for the SO to manage the risk of an under forecast. Furthermore that the SO has sufficient options available to negate that potential risk.

If you have any questions regarding this response please ring me 01753 431137.

Yours sincerely,

Mark Manley
Contract Manager

A Centrica business

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Reference	CAP089/090/091-CR-04
Company	EDF Energy

Our Ref
Your Ref

Lindsey Paradine
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NGT House
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Warwick
CV34 6DA



Date 3 October 2005

Dear Lindsey,

CUSC Amendment Proposal CAP89/90/91: Application of best practice Credit Guidelines for Network Operators

EDF Energy are pleased to have the opportunity to comment on CUSC Amendment Proposal CAP89/90/91.

We have provided comments below on the different elements of these amalgamated CUSC Amendment Proposals.

Our overall view is that Working Group Alternative Amendment 5 would facilitate achievement of the applicable CUSC objectives and is preferable to the Original and other Alternative proposals in terms of the CUSC objectives.

Maximum Unsecured Credit Limit

We support the establishment of a maximum unsecured credit limit in the CUSC of 2% of National Grid Electricity Transmission (NGET) plc's Regulatory Asset Value. However, we do have a concern that in the event that NGET undertakes any asset divestments for any reason then the Maximum Unsecured Credit Limit could be significantly reduced.

Credit Allowances for companies with Approved Credit Ratings

We support the proposed scale of credit allowances as a proportion of the maximum credit limit depending on the approved credit rating of each company as we believe this approach offers an efficient and clearly defined means of assessing Users' creditworthiness.

Default Credit Allowance based on Payment Record

We do not support the use of Payment Record as a means of establishing a credit allowance as we do not believe this provides a meaningful assessment of a company's future creditworthiness. This method would result in greater exposure of the industry to

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credit risk and would not therefore satisfy the CUSC objective to facilitate competition in the generation and supply of electricity.

Credit Allowances based on Independent Credit Assessments

We support the use of Independent Credit Assessments as a means of establishing credit allowances for unrated companies provided that the cost of the credit assessment is met by the User. We do not believe that the CUSC objective to promote competition would be achieved if those Users who have already incurred the costs of obtaining their own credit ratings are also required to meet the costs of independent credit assessments for unrated companies.

We believe that a credit scoring system of 0 to 100 would best facilitate competition as it provides sufficient granularity for companies with a low credit score to be extended some credit allowance whereas a 0 to 10 scoring system may result in no credit allowance in cases where a score of 1 was considered to provide too much credit.

Value at Risk

We support the proposal to set the level of security required on the basis of each User's demand forecasting performance in the previous year plus an additional 2.5% to cover reconciliation risk. Although we are concerned that historical performance may not be an accurate indicator of future performance we believe that this proposal would incentivise accurate forecasting and would also introduce some relationship between the level of security required and a reasonably realistic measure of the value at risk.

Based on the National Grid's analysis of Final reconciliation data we believe that the 2.5% requirement for security to cover reconciliation risk is reasonable.

Conclusion

Overall we believe that the Working Group Alternative Amendment 5 is a pragmatic interpretation of Ofgem's Best Practice Guidelines for Network Operator Credit Cover taking into account the activities governed by the CUSC and the applicable CUSC objectives. We believe that this proposal provides a number of routes for transmission Users to obtain credit allowances without exposing National Grid and ultimately other transmission users to undue credit risk. We therefore believe that this Working Group Alternative Amendment proposal best achieves the CUSC objective to promote competition. We also believe that this Alternative achieves the CUSC objective for efficiency by requiring Users to pay for their own independent credit assessments and by excluding the potentially risky payment record approach to credit allowances.

If you have any queries, please do not hesitate to contact me on 020 7752 2526.

Yours sincerely

Rupert Judson
Electricity Market Strategy Manager
EDF Energy

Reference	CAP089/090/091-CR-05
Company	E.ON UK



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Neil Smith
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Friday 30th September 2005

Dear Lindsey,

RE: CUSC Amendment Proposal CAP089/90/91

We appreciate the opportunity to comment upon this CUSC Amendment Proposal. The amalgamation of these three Amendment proposals has necessarily created a complex modification with five key elements. E.ON UK has a level of sympathy with the aim of CAP089 and 90 and is therefore supportive of Working Group Alternative Amendment 1 (WGAA 1). However, we do have substantial concerns with the suggested changes relating to a User's payment record and the independent assessment process. Consequently, we can offer limited support for WGAA 5, whilst being unable to support either the original Amendment or Alternatives two, three or four. In the interest of providing a clear rationale for our preferred solution each of these elements shall be assessed in turn.

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I. A maximum unsecured credit limit of 2% of National Grid's Regulatory Asset Value (RAV) - originally CAP089.

We are unclear how the maximum unsecured credit limit figure of 2% of National Grid's RAV better meets the applicable CUSC objectives. Unfortunately, other than stating the necessity of this figure on account of its inclusion in the 'Best practice guidelines', the Amendment consultation fails to address this concern. We note from the guidelines that eight out of twelve respondents were opposed to Ofgem's suggestion that unsecured credit should be based on a Network Operators RAV, and of the four in support two wished to see further analysis (2.9, Pg8). In the absence of an argument in favour of the applicable CUSC objectives we have reservations about this methodology. In fact, there are strong arguments that unsecured credit cover should be based on the credit worthiness of counterparties and not National Grid's ability to sustain loss.

In terms of obtaining the regulatory asset value we agree that the figure published in Ofgem's Final Proposals document for the Transmission Price Control Review would provide an appropriate level of transparency. We are also comfortable with the recommended frequency at which this figure will be reviewed and published. The ability to re-publish the figures in the event of a major change would also ensure that the levels of unsecured credit remain consistent with RAV.

II. Credit allowances for companies with Approved Credit Ratings – originally CAP090.

We are generally supportive of this aspect of the proposal on the basis that allocating a proportion of unsecured credit based upon a User's credit rating seems to be a logical suggestion. However, we would note that the step change in unsecured amounts between AA and A is perhaps too great, and conversely the difference between A and BB- seems to be insufficient and does not necessarily reflect commercial reality. Furthermore, the table included within the Amendment Report could be amended to enhance clarity. For instance, we assume that a company with a rating of A- will be captured under an A rating in the table (i.e. permitted a credit allowance of 40% of the maximum credit limit).

III. Default credit allowances based on payment record – originally part of CAP091.

Whilst noting that historical analysis of payment performance forms part of a credit assessment it should be recognised that this is only one of a number of important factors. It does not necessarily follow that a good historical payment record means a good record in the future. This particular concern may apply to those companies who are undergoing a rapid change in size over a short period of time. As with each of the proposals which have originated from the 'Best practice guidelines' we would like to reassert that it should be the parties' ability to pay which should be used to determine the appropriate level of unsecured credit allowance. An Approved Credit Rating best achieves this assessment.

IV. Credit allowances for unrated companies based on independent credit assessments – originally part of CAP091.

E.ON UK is unable to support this aspect of the Amendment Proposal. We believe that there has been insufficient information provided regarding the independent assessment process and are therefore unable to make an informed decision as to the potential impact upon the CUSC objectives. Furthermore, we consider that the only aspects which are explicit in their detail, such

as the suggested credit assessment scores (0-10) and the payment for the assessment, are in fact detrimental to the achievement of the applicable CUSC objectives.

Whilst recognising the arguments within the working group and having regard to the 'Best practice guidelines', we are unconvinced that the suggested amount of credit for unrated companies is set at a level which would avoid unnecessary and increased risk to the industry and consumers. Although certain levels of unsecured credit may be appropriate for some unrated companies we believe that the overall effect of this proposal will be to increase the exposure of National Grid and ultimately consumers, to companies who are more likely to default. Therefore, this particular aspect of the proposal can only be detrimental to the achievement of the relevant objectives 'A' (efficient discharge of National Grid's obligations) and 'B' (competition).

We share the concerns of some CUSC Amendment Panel members with regard to the overlap between the credit allowances available to Users with an Approved Credit Rating and those available to Users submitting an Independent Assessment. The assertion that 'an unrated company does not necessarily pose a high risk of default' (Ofgem – Best Practice Guidelines, 3.12, Pg35) falls a good distance short of suggesting that an unrated company does not pose a higher risk of default. An Approved Credit Rating provides the industry with confidence in the current arrangements, to undermine this certainty will be detrimental to the development of competition. One outcome of this proposal could be an increase in the number of companies opting for the independent assessment in preference to an Approved Credit Rating. Such a phenomenon would surely be exacerbated if National Grid were required to pay for the initial Assessment itself. An increase in the number of assessments could result in an increase in disputes which would have an adverse effect on the efficiency of the current arrangements.

We also have grave concerns over the current confusion regarding the assessment arrangements. The industry is effectively being consulted about the adequacy of a credit assessment process of which they have only a sketchy appreciation at best. It would be in the interest of all parties to understand how and even if this proposal could be realised, in order to be confident that the industry will be adopting robust credit arrangements going forward. The establishment of a cross-industry assessment agency is likely to be extremely complex and will undoubtedly take time. Bearing this in mind, and with hindsight, a specified date for implementation may not necessarily have been suitable for inclusion within the 'Best practice guidelines'.

We do concede that Working Group Alternative Amendment 2 (WGAA2), by increasing the granularity of the assessment scores, does mitigate some of our concerns with this proposal. This will allow a more accurate quantification of risk and will ensure that unrated companies receive an appropriate level of unsecured credit, rather than £3.4 million or naught (based upon the difference between independent assessments of just one and zero). This would better facilitate the applicable objectives compared to the original proposal, but would still involve a credit assessment process of which we have been given no substantive information upon which to make an informed judgement.

Finally, we can not see why NGC should pay for the annual independent credit assessment for an unrated company. This can only be considered as a cross subsidy. It is the unrated company who shall benefit from the assessment, it should therefore be the unrated company who pays for the assessment. We note the argument that the assessment protects the industry from granting the unrated company too much unsecured credit although it must be remembered that this is not an existing defect and would only be brought about by this proposal. National Grid does not pay for the credit assessments of rated companies and there is no reason why they should pay in this

instance. Cross subsidisation would be detrimental to the achievement of the applicable CUSC objectives. In this regard we are fully supportive of the suggestion that the User should pay.

V. Value at Risk (VAR) – originally part of CAP091.

We believe that it is reasonable to base the value at risk on forecasting performance plus 2.5%. The original proposal suggests that the VAR could be based solely on past forecasting performance. We concur with the proposer of Working Group Amendment two, in that the original proposal would not make allowance for reconciliation charges. We therefore consider that this alternative better reflects the true value at risk.

Governance Concerns

Throughout this process we have been concerned with the concept of ‘Best practice’ guidance and the extent to which it has in this instance, prescribed solutions for the industry to adopt. These concerns have been echoed both by members of the CUSC Panel and the Working Group for CAP89/90/91. It is unclear how the Authority is able to avoid fettering its discretion under such circumstances. Whilst we recognise that there was a level of industry participation in the development of the guidelines, participants conclusions were far from unanimous.

Given the adoption of the appeals process it is in the interest of all stakeholders in the industry to limit the potential expense and regulatory uncertainty which inevitably arises as the result of an appeal. Arguably documents which drive ‘top-down’ policy direction through a governance process designed for ‘bottom-up’ change may not be appropriate going forward.

If you would like to discuss any of the matters raised within our response please do not hesitate to contact me.

Yours sincerely

Neil Smith
Regulatory Analyst
Trading Arrangements
Energy Wholesale
E.ON UK plc

Reference	CAP089/090/091-CR-06
Company	Opus Energy



Lindsey Paradine
Transmission Commercial
National Grid
NGT House
Warwick Technology Park
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Warwick
CV34 6DA

30 Sep 2005

Dear Ms Paradine,
Re: Amendment Proposal CAP089/090/091

Please find to follow the response from Opus Energy Limited to the above amendment proposal.

Opus supports the amendments put forward under the "Original Proposal". We consider that these amendments are needed to implement the best practice guidelines agreed through extensive industry discussion and consultation. These guidelines will promote a stable business environment and will ensure network operators across the industry employ a consistent approach to the assessment of credit cover and value at risk.

Opus feels that the following deviations from the guidelines enhance the effective management of credit risk and would consequently support them.

- the use of a 1-100 scale for credit assessment to provide additional granularity over a 1-10 scale,
- the use of forecasting performance to calculate risk in order to provide an incentive on users to provide accurate forecasts and minimize the risk of reconciliation debt, and
- a fall to 50% of credit gained through payment performance after payment failure in order to minimize conflict between users and network operators.

Consequently, Opus would also support the alternative proposal WGAA2.

Opus does not support the alternative proposals WGAA1, WGAA3, WGAA4 and WGAA5. It is considered that these deviate widely from the guidelines and that, consequently, their implementation could cause confusion and uncertainty in other areas of the industry where the best practice guidelines are to be implemented through bi-lateral negotiation.

Please feel free to contact me with any queries on our response.

Yours sincerely

Louise Boland
Commercial Director

Reference	CAP089/090/091-CR-07
Company	Scottish and Southern Energy

From: Garth.Graham@scottish-southern.co.uk
Sent: 03 October 2005 16:47
To: GoldIC, Industry Codes
Subject: Re: Consultation Documents for CAP105 and CAP089/090/091

Dear Sirs,

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd., Medway Power Ltd., and SSE Energy Supply Ltd.

In relation to the consultation concerning the report associated with CUSC Amendment Proposals CAPs 089/090/091 (contained within your note of 2nd September 2005), we have the following comments to make.

We have reviewed the consultation document and concluded that the proposals mean, in effect, that the more creditworthy CUSC Parties will end up subsidising the default risk of the less creditworthy CUSC Parties by the provision of unsecured credit limits to entities with less than BBB- ratings. This cannot be said to better facilitate effective competition in the generation and supply of electricity or in facilitating such competition in the sale, distribution and purchase of electricity.

Furthermore, we note that the credit rating bandings (that are proposed by CAPs 089/090/091) for calculating the unsecured credit limit levels are inconsistent and uneven, especially at the upper end.

Specifically, there is no distinction made between A+ and A- rated entities whilst the credit limit allocated between an AA- and A+ rated entities is greater than the gap between A+ and BBB+ rated entities. Is there a particular reason for this? Are the proposed numbers based on the historical trends of default of companies with these ratings? If so are these based on factual information provided by the rating agencies or some other source?

We believe that the banding (as outlined in the table under paragraph 3.7 and repeated in paragraph 3.12) should be amended to read:-

AAA	100%
AA	100%
A+	80%
A	70%
A-	60%
BBB+	20%
BBB	19%
BBB-	18%
BB+	17%
BB	16%
BB-	15%

In conclusion we note that the effect of this proposed changed will be that creditworthy CUSC parties will be subjected to a 'double whammy' of (i) having the incentive on them having such a good credit position being water down whilst (ii) having to subsidising the default risk of the less creditworthy CUSC Parties.

We believe, therefore, that the CUSC Amendment Proposals CAPs 089/090/091 do not better achieves the applicable CUSC objectives.

Regards
Garth Graham
Scottish and Southern Energy plc

Reference	CAP089/090/091-CR-08
Company	Scottish Power



Lindsey Paradine
Transmission Commercial
National Grid Company plc
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Ref CAP089/CAP090/CAP091
Date 3rd October 2005

Tel No. 01355 845207
Email: ukelectricityspoc@saic.com

Dear Lindsey,

CUSC Consultation CAP089 – Maximum Unsecured Credit Limit; CUSC Consultation CAP090 – Credit Limits for Rated Companies; CUSC Consultation CAP090 – Establishment & Maintenance of an Unsecured Credit Allowance for Rated & Unrated Companies

ScottishPower welcomes the opportunity to provide a response to "CUSC Amendment Proposals CAP089/090/091". This response is submitted on behalf of ScottishPower UK Division which includes the UK energy businesses of ScottishPower, namely ScottishPower Generation Ltd, ScottishPower Energy Management Ltd and ScottishPower Energy Retail Ltd.

We would like to provide the following comments on the Amendment Proposals as outlined in the consultation:-

Payment record

For unrated companies, previous payment history is not necessarily a good indicator of future payment history. The Payment Record and Independent Assessment proposals may result in poor quality counterparties being afforded unsecured credit limits, increasing the risk of default loss to the group.

Independent Assessment

In our opinion, we have not seen any clear proposal on how the independent credit assessments would take place (e.g. who would make the assessment, what information would it be based on and so forth). Independent credit assessment may result in unrated companies being awarded a higher credit allowance than a company that has a poor credit rating. We are in agreement that there appears to be general feeling among the group members that if NGC has to pay for these independent credit assessments, NGC will pass these costs on to the consumer.

Value at Risk (VAR) for TNUoS charges

We are of the opinion that forecasting performance for the prior year may not necessarily be a good indicator of TNUoS charges for future years. Therefore, we do not support the proposal to replace the 10% relating to TNUoS Demand Reconciliation Charges with an amount of within year TNUoS security based on each user's forecasting performance in the previous year.

Therefore, in considering the various Working Group Alternative Amendments, ScottishPower's preference for the WGAA's is as thus (with 1 being of the highest preference):

1. WGAA1
2. WGAA5
3. WGAA4
4. WGAA3
5. WGAA2

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours sincerely,

Man Kwong Liu
SAIC Ltd.

For and on behalf of: ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd; ScottishPower Energy Retail Ltd.

Reference	CAP089/090/091-CR-09
Company	Zest 4

-----Original Message-----

From: Chris Mays [mailto:chrismays@zest4.com]
Sent: 03 October 2005 18:23
To: Paradine, Lindsey
Cc: 'Sassan Baghai'
Subject: CUSC Amendment Proposal CAP 089/090/091

In response to Amendment Proposal CAP 089/090/091 ZEST4 can see no reason why the original proposal requires any amendments. The original proposal clearly seeks to establish the criteria outlined in the Best Practice Guidelines published by Ofgem in Feb 2005 whereas the amendments appear to seek to dilute these criteria. The only proposed amendment where ZEST4 could give some support is WGAA2 although we do not support the additional 2.5% on the VAR. ZEST\$ does NOT support WGAA1 or WGAA5 in any way as this appears to directly contravene the Best Practice Guidelines as it gives no credit for payment record.

In summary, ZEST4 supports the original proposal.

Kind regards

Chris Mays

ANNEX 5 – COPIES OF REPRESENTATIONS RECEIVED TO CONSULTATION ALTERNATIVE AMENDMENT CONSULTATION

This Annex includes copies of any representations received following circulation of the Consultation Document (circulated on 10th October 2005, requesting comments by close of business on 24th October 2005).

Representations were received from the following parties:

No.	Company	File Number
1	BizzEnergy	CAP089/090/091-CAACR-01
2	Centrica	CAP089/090/091-CAACR-02
3	EDF Energy	CAP089/090/091-CAACR-03
4	E.ON UK	CAP089/090/091-CAACR-04
5	Opus Energy	CAP089/090/091-CAACR-05
6	Scottish Power	CAP089/090/091-CAACR-06

Reference	CAP089/090/91-CAACR-01
Company	BizzEnergy

brighter business energy

Ms Lindsay Paradine
Transmission Commercial
National Grid
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA



21st October 2005

Re: Consultation CAP 91 – Consultation Alternative Amendment Proposals

Dear Lindsay,

We believe that our original proposal plus the three BizzEnergy Limited proposed amendments of adding suitable, transition and payment record better fulfil the CUSC objectives than any of the alternatives.

For simplicity, I will address the effect of each of the amendment proposals on a generic basis of Working Group Amendment and Consultation Amendments.

SSE proposal on Banding Changes CAA1-6

We do not have any objection to this in principle, however little justification to the revised numbers has been provided and as such it is difficult to make an informed assessment as to whether these numbers are any more appropriate than the original numbers.

NGC proposal to change the VAR calculation to include a performance weighting factor. CAA 26-30, 42-46

We believe for the following reasons that the proposal has some very un-desirable side effects that resulting it being materially worse than the current baseline and than the original proposal and the original proposal as amended by the Bizz modifications.

Suppliers acquire and loose customers throughout the year. The majority of HH customers now transact in the October sales round. A Supplier behaving entirely responsibly would declare the increase in customers won in October during the first week of October. These would be included in the November invoice issued on 1st November and paid for in full over the next 5 months (even though only 33% of costs would have been recovered from the customer). Using the consultation alternative methodology this would give rise to a credit requirement of 27% for the following year.

Small errors are also magnified in scale. A 10% error in the demand forecast in the last month an error of 0.8% on the year would result in a credit requirement of 1%. The important fact is that the error is magnified by the mechanism.



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Registered in England No: 3961223



Similarly a 10% error in the first month 0.8% annual error that was rectified during last 10 months of the year would result in a 6% credit for the following year. The credit requirement is disproportionate the risk presented and therefore will necessarily tie up working capital and inhibit competition.

NGCs consultation amendment proposal seems to be driven out of concern about gaming. There are already safe guards in that NGC have capped under forecast by 20% earlier this year. We are therefore only talking about an already limited materiality. Alternative solutions if this is a real problem that would not have such un-desirable side effects would be to tighten the 20% dead-band.

NGC Proposals to remove VAR and maintain current VAR mechanism CAA 31-35, 47-51

We believe that this is a retrograde step and does not the original proposal improves the achievement of the BSC objectives in terms of promoting competition. It incentivises good behaviour and ensures that arbitrary amounts of excessive credit cover are not required. The defect that NGC highlighted in the Original proposal is still present in this version albeit to a slightly lower degree.

NGC Proposals on Phasing 36-41, 42-51

The first point under this proposal is that if a User has excess cover in place at the point of implementation of these rules, NGC will take 1 month to return the funds. This should be the same obligation on payment as a User required to pay NGC, i.e. 2 days. This is also inconsistent with the excess funds return of 5 days in para 3.22.4. Holding onto a Users deposits for any longer than operationally necessary to return the funds has the effect of hindering competition by denying small companies access to their own working capital.

Second point is that until the Authority has approved a change we do not know how much if any additional funds need to be raised. It is extremely inefficient and difficult to raise funds against such an uncertain backdrop. Parties are therefore waiting until we are clear on the need before proceeding. Raising of funds will take time, this cannot be guaranteed to happen in a short time period especially 3 months with Christmas in the way. It is therefore a matter of pragmatism as to what can be achieved in what time frame. It would not be in the interests of competition or market efficiency to implement a set of changes designed to promote competition and efficiency to find that this had serious side effects on otherwise healthy companies. We believe that forcing companies to unnecessarily raise significant sums of money in a short period is inconsistent with the objective of efficient operation and promoting competition. We therefore believe that the Bizz alternative on phasing evenly over a 12 month period, although not ideal better fulfils the objectives of promoting competition and efficiency.

Bizz Addition of "suitable" CAA1-6

We believe the addition of the word suitable Bizz Mod 1-6 should be applied to any solution. It was merely a matter of expediency in the drafting of the Consultation Alternative not to include this as variants to transition and payment record.

This however raises a process issue that consultation alternative modifications raised by different parties are mutually exclusive even though they may all have merit. This does not seem to be consistent with efficient operation of the market as it leads to a sub-optimal amendment in the first place followed by a further amendment proposal to include the excluded amendments.

**Bizz amendment payment record**

We fully support this for reasons given in the amendment proposal.

Working Group Alternative Amendments

As regards the working group alternative amendments we do not support WGAA1 or WGAA5 as they do not include payment record. This we believe is a significant benefit to improving competition by partially reducing the excessive amount of security required to be posted by unrated companies compared to the risk they present to the market.

We do not support WGA 2, 4, or 5 as we do not believe that the additional 2.5% requirement over and above forecasting performance has been supported or justified. We see the requirement as requiring unnecessary and unjustified deposits which will deprive small companies of access to their working capital and hence be inconsistent with the objective of promoting competition.

WGAA3 requires that the user pays for the initial independent assessment. This could be acceptable if the user could choose the Independent Rating Agent. It is unreasonable to ask a user to pay for a service for which he is not party to the selection of the service provider and therefore has limited ability to manage his own budgets.

We fully support and endorse the original proposal for CAP 91, as amended by the three Bizz Mods. However if we are constrained to selecting one Consultation alternative this would be CAA22. As we believe this combination best fulfils the objectives of promoting competition and efficiency of market operation. Whilst we note NG concern over gaming, we believe that if this is a material issue albeit already present in the current mechanism, that this would be best addressed by modifications to the 20% band of under or over forecast rather than an overly complex weighting mechanism.

Regards

Keith Munday
Commercial Director

Reference	CAP089/090/91-CAACR-02
Company	Centrica



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Our Ref.
Your Ref.
26 October 2005

Dear Lindsey,

CUSC Amendment Proposals CAP089/90/91

Centrica welcomes this opportunity to comment on the significant number of Consultation Alternative Amendments. Centrica did not support the original or any of the Working Group Alternative Amendments (WGAA) as they dilute the current baseline and increase the risk of parties being exposed to a bad debt. Centrica do not believe any of the Consultation Alternative Amendments (CAA) better facilitate the Applicable CUSC Objectives.

The CAA are variations around the original proposal and the WGAA's. CAA 1 – 6 can be seen as a useful clarification although it does not improve the robustness of the proposed arrangements. The proposal fails to curtail the level of unsecured credit cover offered to parties with a Credit Rating of BB+ or below. Centrica believes this exposes the industry to an unnecessary level of risk and does not better facilitate the Applicable CUSC Objectives.

CAA 7 to 25 do not mitigate the increased level of risk that results from the original proposal and the WGAA as they water down the current credit obligations. CAA 7 to 11 propose including the word 'suitable' Centrica questions the value of the governance process that creates 6 CAA due to the requirement to include the word 'suitable'. Centrica remain opposed to phasing the implementation of the credit arrangements as this increases the level of risk that market participants are exposed during the initial 12 month phased implementation and therefore cannot better facilitate the relevant Objectives.

Centrica believe there is merit in increasing the granularity (CAA26 – 30) of the calculation to a monthly as opposed to an annual calculation. Centrica believe it increases the accuracy of the calculation of the VAR, however it still doesn't address a number of the concerns that were expressed in our initial consultation response. Similarly CAA31 to 36 enhances the level of protection provided by the proposed solutions by removing the 2.5% additional cover for TNUoS and maintaining the status quo of 10%. However Centrica do not believe the CAA provides the same level of protection to the market as the current baseline and therefore it does not better facilitate the Applicable CUSC Objectives. CAA 36 to 41 propose a phased implementation approach Centrica do not support a phased approach. The remaining CAA are a combination of the National Grid proposals and Centrica does not believe these will better facilitate competition in the generation and supply of electricity.

A *centrica* business

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy
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Centrica concur with the views expressed by National Grid in respect of the implementation dates. Whilst Centrica do not support any of the proposals the Independent Credit Agencies will have an integral role to play in any approved amendment. Centrica believe it is essential that they are given sufficient time to fully understand their role in the process. Therefore Centrica supports the revised implementation date to allow this education to take place.

If you have any questions regarding this response please ring me 01753 431137.

Yours sincerely,

Mark Manley
Contract Manager

A *centrica* business

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy
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Reference	CAP089/090/91-CAACR-03
Company	EDF Energy

Our Ref
Your Ref

Lindsey Paradine
National Grid plc
NGT House
Warwick Technology Park
Gallows Hill
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CV34 6DA



Date 24 October 2005

Dear Lindsey,

CUSC Amendment Proposal CAP89/90/91: Application of best practice Credit Guidelines for Network Operators

EDF Energy is pleased to have the opportunity to comment on the CUSC Amendment Proposal CAP89/90/91 – Consultation Alternative Amendments.

In our response to the previous CAP089/90/91 consultation we detailed our support for the Working Group Alternative Amendment 5 (WGAA5) on the basis that this proposal provides a number of routes for transmission users to obtain credit allowances without exposing National Grid and ultimately other transmission users to undue credit risk. We therefore consider that WGAA5 better achieves the CUSC objective to facilitate competition. We also consider that WGAA5 achieves the CUSC objective for efficiency by requiring Users to pay for their own independent credit assessments and by excluding the potentially risky payment record approach to credit allowances.

We have considered the various consultation alternative amendments below against the background of our previously preferred option, WGAA5 in terms of the applicable CUSC objectives. However, a consequence of the number of alternatives raised at the consultation stage is that the alternatives proposed by different consultees cannot be considered in combination.

Consultation Alternatives CAA1-CAA6: Changes to credit allowances for A rated companies

We believe that the proposed alternative credit allowance percentages for parties with credit ratings of A+, A and A- provide for more appropriate scaling of credit allowances for the different categorisations of A rating. By recognising the differences between A+, A and A- ratings we believe that this alternative proposal better facilitates competition. Taking into account our views on the original proposal and working group alternatives, we therefore consider that CAA6 would better achieve the applicable CUSC objectives.

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**Consultation Alternatives CAA7-CAA11: Addition of word "suitable" to the definition of Approved Agency**

We support the intent of this proposed consultation alternative in trying to ensure that any credit agencies appointed to perform independent credit assessments are appropriately qualified and experienced to do so. However, we are concerned that from a legal perspective the word "suitable" may not necessarily convey this intent. We therefore consider that this proposal does in theory better facilitate the CUSC objective to facilitate competition in that it improves the credit protection for National Grid and Users. However, we question the robustness of the proposed legal text.

Consultation Alternatives CAA12-CAA17: Clause permitting transition of credit requirements

We consider that this proposal would provide greater benefit to those parties that have not complied with the existing credit requirements of the CUSC than to those parties that have complied with the CUSC. We do not believe that this is consistent with facilitating competition and therefore consider that this consultation alternative proposal does not better achieve the CUSC objectives.

Consultation Alternatives CAA18-CAA21: Payment Record

We do not support the use of Payment Record as a means of establishing a credit allowance as we do not believe this provides a meaningful assessment of a company's future creditworthiness. This proposed alternative to lower the criteria for assessment of payment record would further undermine the validity of such an approach and reward historical non-compliance with the CUSC. We do not believe that this is consistent with facilitating competition and therefore consider that this consultation alternative proposal does not better achieve the CUSC objectives.

Consultation Alternatives CAA22-CAA25: Transition + Payment Record

As described above, we do not consider that either of the previous two consultation alternative proposals better achieve the CUSC objectives. Therefore, the combination of these proposals does not better achieve the CUSC objectives.

Consultation Alternatives CAA26-CAA30: Weighted assessment of forecasting performance

We are concerned that this alternative proposal has not been adequately thought through. Measures already exist in the CUSC to ensure accurate demand forecasting by users. If it is considered that these measures are not achieving the intended results then this should be addressed in a separate amendment proposal. Furthermore, we consider that this alternative proposal could in fact provide a dis-incentive for parties to update their forecasts with more accurate data towards the end of the charging year. We do not therefore consider that this proposal is efficient or that it would benefit competition.

Consultation Alternatives CAA31-35: Remove forecasting performance for VAR calculation

We can not see any justification for this alternative proposal at this stage in the process when this aspect of the proposal has been discussed in some detail by the working group supported by analysis provided by National Grid. We continue to believe that the approach to calculating VAR set out in WGAA5 and other working group alternative proposals best achieves the applicable CUSC objectives.

Consultation Alternatives CAA36-CAA41: Transition to new credit arrangements

We consider that this alternative proposal does provide a fair transition to the proposed new credit arrangements and therefore does better achieve the CUSC objectives.



Consultation Alternatives CAA42-CAA46: Change VAR + Transition

As detailed above, we do not believe the proposed alternative VAR calculation better achieves the CUSC objectives and therefore nor does this combination of alternatives.

Consultation Alternatives CAA47-CAA51: No VAR + Phasing

As detailed above, we do not believe the proposed No VAR alternative better achieves the CUSC objectives and therefore nor does this combination of alternatives.

Conclusion

To summarise our assessment of the various alternative proposals, EDF Energy consider that several of the alternative proposals do better achieve the CUSC objectives than the status quo. These are CAA6, WGAA5 and CAA41.

If you have any queries, please do not hesitate to contact me on 020 7752 2526.

Yours sincerely

Rupert Judson
Electricity Market Strategy Manager
EDF Energy

Reference	CAP089/090/91-CAACR-04
Company	E.ON UK



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Westwood Way
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Paul Jones
024 7642 4829

paul.jones@eon-uk.com

23 October, 2005

Dear Lindsey,

CAP089/090/091 Consultation Alternative Amendments Consultation

I am responding to the above consultation on behalf of E.ON. In our previous response we outlined that we were not fully supportive of any proposals, but that we could offer limited support for Working Group Alternative (WGA) 5 as the least bad option. Other alternatives are better than the original proposal for different reasons, but we do not believe that any option better meets the CUSC objectives more than the current baseline.

In terms of the Consultation Alternative Amendments we note that although it appears that a large number of changes have been proposed, in fact a smaller number of incremental adjustments are proposed to the options which emerged from the workgroup. We therefore propose to comment on the appropriateness of the incremental changes rather than attempt to address each individual combination. However, we attempt to identify individual options which could receive our limited support if one of the amendment options were to be implemented.

1. Change percentages associated with maximum unsecured credit limit (CAAs 1 to 6)

We support this change. In our previous response we stated that we believed that the step change in the unsecured amounts between AA and A were too high and similarly that the change between A and BB- was too small. This amendment addresses this so

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that the credit allowances more reflect commercial reality. To ignore this would mean a distortion in the allowances which would not be conducive to the promotion of competition. We do not believe that it is appropriate to reject this proposal on the basis of whether it is consistent with Ofgem's credit guidelines. Amendment proposals have to be considered in the context of the applicable CUSC objectives. Ofgem's credit guidelines do not form part of these objectives.

Given our limited support to WGA5 our favoured option therefore would be CAA6.

2. The addition of the word "suitable" to the definition of Approved Agency (CAAs 7 to 11)

We see little purpose for this change. We would therefore be unsupportive of any of the relevant CAAs. We also remain unconvinced of the need for the Approved Agency in principle.

3. Transitional change to the new arrangements plus addition of word "suitable" to the definition of Approved Agency (CAAs 12 to 17)

As with 2 above, we do not support the addition of the word "suitable". We do not support a transitional period over which the new requirements take effect and believe that it is particularly inappropriate to allow parties 12 months. We therefore cannot support this change. This would leave an unacceptable period during Parties would have insufficient credit cover in place. We cannot see how this can be conducive to effective competition.

We therefore do not support any CAAs based on this change.

4. Relaxation of rules for assessing a good payment record prior to February 2005 (CAAs 18 to 21)

We do not agree with this amendment. We are not supportive of the good payment record proposal in principle. We therefore cannot accept such a major relaxation of the assessment of good payment record process. To recap, the present proposal is that payments made within 2 days of the invoice date are regarded as prompt. To increase this to 7 days represents more than a threefold increase. Additionally, how payment made after a reminder has been sent can be regarded as good payment practice we do not know.

It is perhaps symptomatic of how some parties are willing to push payment and credit terms to obtain a competitive advantage. Unsurprisingly, we do not support any CAAs based on this proposal.

5. Combination of 2, 3 and 4 above (CAAs 22 to 25)

Clearly, in light of our comments above, we do not support any of these CAAs.

6. Adjustment of calculation of Value at Risk (CAAs 26 to 30)

We do not support the original forecasting performance element of the VAR, but have some sympathy with what NGC is trying to achieve in this proposal. However, the proposed solution appears to be very complicated. Given that this centres around the accuracy of suppliers' forecasts and that NGC is able to amend these if it believes that they are inaccurate, we do not see why this amendment needs to be made. This change would not therefore appear to better facilitate the efficient discharge of the requirements of the transmission licence.

We therefore do not support any CAA based on this change.

7. Remove the forecasting performance element of the VAR (CAAs 31 to 35)

Given our comments in 6 above, we would support this proposal. Our favoured option would be CAA35 as it makes this amendment to WGA5.

8. Transition which is more favourable to those who are currently compliant with their CUSC obligations (CAAs 36 to 41)

In line with our views on 3 above we do not believe that a transition period should be included. We therefore do not support this change on this basis.

Additionally, the proposed change would appear to provide a transition which is more favourable for parties who are not compliant. The transition for compliant parties ramps up over the year by 25% of the difference between the old requirements and the new every three months. The transition for non compliant parties requires that the old requirements are met after three months followed by a ramping up of 25% of the difference between the old requirements and the new thereafter for month 6, 9 and 12. Therefore, by 12 months the non compliant party only has to provide 75% of the difference between old and new requirements, where as the compliant party has to provide 100%.

For example, imagine two parties both with an old requirement of £100 and a new of £140. For the transition 25% of the difference between the old and new values would be £10. The requirements for the compliant and non compliant parties would be as follows.

Months	Compliant	Non Compliant
3	110	100
6	120	110
9	130	120
12	140	130

We therefore do not support any CAAs based on this change.

9. Combination of 6 and 8 above (CAAs 42 to 46)

We cannot support this amendment or any CAAs associated with it for the reasons given

above.

10. Combination of 7 and 8 above (CAAs 47 to 51)

Whilst we are supportive of the removal of the forecasting performance element of the VAR in 7 above the inclusion of the transition period as in 8 above means that on balance we cannot support this proposal.

I hope the above comments prove helpful. I would also like to thank you for summarising what is a very complex situation as clearly as you did in the consultation document.

Yours sincerely

Paul Jones
Trading Arrangements

Reference	CAP089/090/91-CAACR-05
Company	Opus Energy



Lindsey Paradine
Transmission Commercial
National Grid
NGT House
Warwick Technology Park
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Warwick
CV34 6DA

19 October 2005

Dear Ms Paradine,
Re: Amendment Proposal CAP089/090/091 – Consultation Alternative Amendments

Please find to follow the response from Opus Energy Limited to the above amendment proposal, Consultation Alternative Amendments.

Opus continues to support the amendments to the CUSC which most closely reflect the Best Practise Guidelines, which were agreed through extensive industry discussion and consultation. Consequently Opus continues to support the original proposal, and any proposals which add practical detail to the implementation of the guidelines.

- Opus does not support CAA 1-6 on the grounds that such a radical departure from the guidelines would need further debate and discussion before implementation.
- Opus does not support CAA 26-30. Common practice in the Half Hourly sector involves competitive tendering for site acquisition in October each year. Consequently, It would be difficult within the first half of the TNUOS calendar (ie Apr – Sep) for a supplier to exactly forecast portfolio Triad demand for the coming winter. Accuracy of forecast should increase significantly post October and continue to increase through the winter. Opus could support VAR based on forecast error throughout the TNUOS calendar, but only where the weighting (based on accuracy of forecast) increased as the year progressed.
- Opus does not support CAA 31-35. Payment of TNUOS charges occurs mid month, so any VAR arises from reconciliation payments alone. Where forecasts are accurate, the variance due to further settlement runs is significantly less than 10%. One of the overall principles behind the amendments to the credit cover arrangements is to reduce the industry's exposure to credit risk by improving the efficiency of working practices, rather than through over-collateralisation. Basing VAR on forecasting accuracy achieves this aim by creating an incentive that allows payments to closely match exposure, whilst reducing the level of collateral needed.
- Opus does not support CAA 36-51. Following the interim arrangements for the provision of collateral that parties have been following since Feb 05, it is unclear how "adequate" or "insufficient" would be defined. It is possible that the added complexity of these wording amendments would cause uncertainty and consequently lead to disputes between parties during implementation.

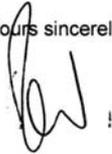
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Company Reg. No. 4382246 • Registered Address • 3 Newbury Street Wantage Oxfordshire OX12 8BU

In summary, Opus continues to support the original proposal. It also supports the alternative proposals WGAA2 and CAA 7-25 since it is considered that these provide beneficial detail to assist with the practical implementation of the guidelines.

Please feel free to contact me with any queries on our response.

Yours sincerely



Louise Boland
Commercial Director

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Company Reg. No. 4382246 • Registered Address • 3 Newbury Street Wantage Oxfordshire OX12 8BU

Reference	CAP089/090/91-CAACR-06
Company	Scottish Power



Lindsey Paradine
Transmission Commercial
National Grid Company plc
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Ref CAP089/CAP090/CAP091

Date 24th October 2005

Tel No. 01355 845207

Email: ukelectricityspoc@saic.com

Dear Lindsey,

CUSC Consultation Alternative Amendment for CAP089 – Maximum Unsecured Credit Limit; CUSC Consultation CAP090 – Credit Limits for Rated Companies; CUSC Consultation CAP090 – Establishment & Maintenance of an Unsecured Credit Allowance for Rated & Unrated Companies

ScottishPower welcomes the opportunity to provide a further response to "CUSC Alternative Amendment Proposals CAP089/090/091". This response is submitted on behalf of ScottishPower UK Division which includes the UK energy businesses of ScottishPower, namely ScottishPower Generation Ltd, ScottishPower Energy Management Ltd and ScottishPower Energy Retail Ltd.

We would like to provide the following comments on the Alternative Amendment Proposals as outlined in the consultation:-

- Scottish Power's strong preference for WGAA1 continues and we are happy to incorporate the proposed consultation alternative amendments (CAA's) 2, 13 and 37.
- As previously stated in our original consultation response, ScottishPower's second preference continues to be WGAA5. We are happy to incorporate (CAA's) numbered 6, 11, 17 and 41. However, we are strongly opposed to (CAA's) numbered 30, 35, 46 and 51.
- After further consideration, ScottishPower continues to oppose the use of payment record as a method in determining credit limits and consequently do not support WGAA2, WGAA3 or WGAA4. The proposed (CAA's) to WGAA2, 3 and 4 do not provide any enhancement that would change our view on the use of any of these three working groups Alternative Amendments.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours sincerely,

Man Kwong Liu
SAIC Ltd.

For and on behalf of: ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd;
ScottishPower Energy Retail Ltd.

ANNEX 6 – COPIES OF COMMENTS RECEIVED ON THE PROPOSED AMENDMENT REPORT

This Annex includes copies of any representations received following circulation of the Draft Amendment Report (circulated on 31st October 2005, requesting comments by close of business on 7th November 2005).

Representations were received from the following parties:

No.	Company	File Number
1	British Energy	CAP089/090/091-AR-01
2	Scottish Power	CAP089/090/091-AR-02

Reference	CAP089/090/091-AR-1
Company	British Energy

-----Original Message-----

From: Capener John [mailto:john.capener@british-energy.com]

Sent: 07 November 2005 16:31

To: Paradine, Lindsey

Subject: RE: CAP089_090_091- Draft Amendment Report

Hi Linz,

I have looked at this draft amendment report and am satisfied that it accurately represents our view i.e. that we support the original amendment and WGAA3 and to a lesser extent WGAA2 and 4 although the original amendment is our favoured option.

Kind Regards

John

Reference	CAP089/090/091-AR-2
Company	Scottish Power



Lindsey Paradine
Transmission Commercial
National Grid Company plc
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Ref CAP089/CAP090/CAP091
Date 07 November 2005

Tel No. 01355 845207
Email: ukelectricityspoc@saic.com

Dear Lindsey,

CUSC Amendment Report for CAP089 – Maximum Unsecured Credit Limit; CUSC Consultation CAP090 – Credit Limits for Rated Companies; CUSC Consultation CAP090 – Establishment & Maintenance of an Unsecured Credit Allowance for Rated & Unrated Companies

ScottishPower welcomes the opportunity to provide a response/further comments to the "CUSC Amendment Report for CAP089/090/091". This response is submitted on behalf of ScottishPower's Energy Wholesale Business which includes ScottishPower Generation Ltd, ScottishPower Energy Management Ltd.

ScottishPower do not agree to the proposed recommendation CAA45 in this Draft Amendment Report.

We would like to re-iterate our position regarding our previously submitted comments for inclusion in the Draft Amendment Report (DAR).

ScottishPower's position remains as that detailed in our Alternative Amendment response with preference for WGAA1 incorporating CAA's 2, 13 and 37 followed by WGAA5, incorporating CAA's 6, 11, 17 and 41 only.

We continue to strongly oppose the use of payment record as we believe it does not provide a meaningful assessment of a company's future creditworthiness. We are therefore strongly opposed to WGAA2, WGAA3 and WGAA4 (hence our rejection of the proposed recommendation CAA45 in this DAR).

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours sincerely,

Man Kwong Liu
SAIC Ltd.

For and on behalf of: ScottishPower's Energy Wholesale Business which includes ScottishPower Generation Ltd and ScottishPower Energy Management Ltd.