



## **WORKING GROUP REPORT**

**CUSC Amendment Proposal 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)**

**Prepared by the CAPs088-091 Working Group  
for submission to the Amendments Panel**

Amendment Ref	CAP089/090/091
Issue	1.0
Date of Issue	22/08/05
Prepared by	CAPs088-091 WG

## I DOCUMENT CONTROL

### a National Grid Document Control

Version	Date	Author	Change Reference
0.1	15/6/05	B Graff	Initial Draft for Comment
0.2	11/8/05	A Truswell	Revised Draft Including CAP091
1.0	22/8/05	A Truswell	Report submitted to CUSC Panel

### b Distribution

Name	Organisation
The Gas and Electricity Markets Authority	Ofgem
CUSC Parties	Various
Panel Members	Various
National Grid Industry Information Website	

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## 1.0 SUMMARY AND RECOMMENDATIONS

### Executive Summary

- 1.1 Ofgem published a conclusions document on best practice guidelines for gas and electricity network operator credit cover in February 2005. In order to address and codify certain elements of these guidelines, CAP089 and CAP090 were raised by National Grid, and CAP091 was raised by BizzEnergy. The CUSC Amendments Panel considered CAP089, CAP090 and CAP091 on 20<sup>th</sup> May and agreed that a Working Group should consider the proposals, along with CAP088 which had also been raised following the publication of Ofgem's guidelines. The Working Group were required to report back to the August 2005 Panel meeting but its terms of reference required that if it reached agreement before this date on any of the Amendment Proposals then it should submit any reports earlier than this.
- 1.2 The Working Group reached a view that it would be more appropriate for the original CAP089 and CAP090 proposals to be amalgamated, and permission for this was sought, and granted, at the June Amendments Panel.
- 1.3 Following further development of the CAP091 proposal, the Working Group reached a view that it would be more appropriate for it also to be merged with CAP089/090, and permission for this was sought, and granted, at the July Amendments Panel.

### Working Group Recommendation

- 1.4 The Working Group recommends that the CAP089/090/091 CUSC Amendment Proposal is now ready to proceed to wider industry Consultation.

## 2.0 INTRODUCTION

- 2.1 Ofgem's best practice guidelines recommended that Network Operators should set a maximum unsecured credit limit based on 2% of their Regulatory Asset Value (RAV). Currently there is no unsecured credit limit within the CUSC if a User has 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). CAP089 proposed that the CUSC should set a maximum credit limit based on 2% of National Grid Electricity Transmission plc's Regulatory Asset Value.
- 2.2 The CAP090 proposal was 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 there would be maximum credit allowances of 100 percent of the maximum unsecured credit limit for parties with a credit rating of AAA/AA and 40 percent for A. National Grid also proposed, consistent with Ofgem's guidelines, that the above allowance be further sub-divided for entities with ratings of BBB+, BBB and BBB-. Ofgem's guidelines continued to a BB- rating, and CAP090 was developed reflecting this. The proposal therefore produces the following credit allowances for rated entities:

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

Credit rating (Standard and Poor's)	Credit allowance as % of maximum credit limit (Based on Basel II model)	Approximate 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

- 2.3 For the avoidance of doubt, the scope of the amendment proposals CAP089 and CAP090 is limited to credit arrangements relevant to Balancing Services Use of System (BSUoS) Charges and Transmission Network Use of System (TNUoS) Demand Charges. There are no changes to the credit requirements relating to Bilateral Agreements and Construction Agreements. The amendments seek to address and codify Ofgem's recommendations within its Network Operator Best Practice guidelines.
- 2.4 Following initial analysis by the Working Group, its view was that whilst CAP089 worked well as a stand alone proposal, CAP090 did not, because it was dependent on the maximum credit limit of 2% of RAV being established by CAP089. The Working Group therefore unanimously agreed that the two proposals should be amalgamated into a single Amendment proposal. Permission for this was sought by the Working Group Chairman at the June Amendments Panel, and was granted.
- 2.5 CAP091 was proposed by BizzEnergy to implement two further recommendations of Ofgem's best practice guidelines: the establishment of a certain amount of unsecured credit cover for unrated companies, or rated companies without an Approved Credit Rating, based on either their payment record or an independent assessment of their creditworthiness. It also sought to amend the Value at Risk in relation to TNUoS Demand charges.
- 2.6 CAP091 proposed to establish a default amount of unsecured credit cover for unrated companies, or rated companies without an Approved Credit Rating. In accordance with Ofgem's best practice guidelines, each such 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.
- 2.7 Under CAP091, an unrated company, or a rated company without an Approved Credit Rating, would also have the option to have an unsecured credit allowance set by submitting an independent assessment of its creditworthiness. In line with Ofgem's best practice guidelines, the independent assessment would be given by one of a panel of three assessment agencies selected by National Grid, and an annual assessment would be paid for by National Grid if requested by the User. The assessment would take the form of a score of 0 to 10, which would produce the following unsecured credit allowances:

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

Credit assessment score	Credit allowance as % of maximum credit limit	Approximate 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

2.8 CAP091 also proposed to amend the Value at Risk (VAR) in relation to TNUoS Demand charges. Currently the CUSC defines the Value at Risk 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.

CAP091 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.

2.9 Following analysis by the Working Group, the Working Group's view was that CAP091 could not proceed as a stand alone proposal, because it was dependent on the maximum credit limit of 2% of RAV being established by CAP089/090. The Working Group therefore unanimously agreed that the two proposals should be amalgamated into a single Amendment proposal. Permission for this was sought by the Working Group Chairman at the July Amendments Panel, and was granted. The merged CAP089/090/091 original proposal consists of 5 proposed elements:

- A maximum unsecured credit limit of 2% of 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 10% VAR for TNUoS Demand Reconciliation Charges with an amount of within year TNUoS Security based on each User's forecasting performance in the previous year

### 3.0 PURPOSE AND SCOPE OF WORKING GROUP

- 3.1 The Working Group is responsible for assisting the CUSC Amendments Panel in the evaluation of CUSC Amendment Proposal CAP089/090/091. CAP089 and CAP090 were tabled by National Grid at the Amendments Panel on 20<sup>th</sup> May 2005, and CAP091 was tabled by BizzEnergy at the Amendments Panel on the same date.
- 3.2 The proposals must be evaluated to consider whether they better facilitate achievement of the applicable CUSC objectives. These can be summarised as follows:
  - (a) the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence; and
  - (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

### 4.0 WORKING GROUP DISCUSSIONS

- ~~3.34.1~~ The Working Group considered each of the five elements of CAP089/090/091 set out in 2.9 above.
- 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 were the most appropriate values due to their transparency. These are five annual values relating to the 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.
- 4.3 There were discussions surrounding how frequently the User's Allowed Credit Cover (that proportion of the Unsecured Credit Cover extended to a User by National Grid as calculated in accordance with new Paragraph 3.26) should be monitored. National Grid proposed that when a User reached 85% of their cover 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 unsecured credit limit, National Grid would provide notice on the following business day that additional security was required to bring the unsecured VAR down to 80% of the credit allowance. The User would then be allowed two business days to put the appropriate level of cover in place. If a User's Allowed Credit Cover was altered by a revised TNUoS demand forecast being submitted, Users would be allowed 1 month following National Grid's acceptance of their forecast to put the appropriate level of cover in place.
- 4.4 Conversely, the Working Group discussed the timescales for NGC to agree to reduce a User's security cover. It was agreed that a period of 5 Business Days was appropriate.
- 4.5 In order to accommodate the credit limits as illustrated in 2.2 above, it was necessary to alter the definition of Approved Credit Rating. 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

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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.

- 4.6 The Working Group also discussed Qualifying Guarantees, and decided 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.
- 4.7 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 draconian. 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.
- 4.8 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.
- 4.9 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  $\frac{3\frac{1}{3}}{100}$ % 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.
- 4.10 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 has 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

National Grid also 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% underpayment by Suppliers 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% 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.

- 4.11 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.
- 4.12 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 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 was currently required. The Working Group was unable to reach agreement on this issue, but agreed that the amendment worked without any phasing being included. Hence the Working Group 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.

- 4.13 The Working Group reviewed and approved the legal text to give effect to CAP089/090/91, which is attached as Part A of Annex 4 of this document.

## 5.0 WORKING GROUP ALTERNATIVE AMENDMENTS

- 5.1 As illustrated in 2.9 above, the merged CAP089/090/091 contains 5 elements, some of which proved contentious in the Working Group discussions. 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 CAP091 would be included.
- 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.
- 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.

- 5.5 **Working Group Alternative Amendment 4** is identical to WGAA2 except that Independent Credit Assessments would be paid for in the manner described above.
- 5.6 **Working Group Alternative Amendment 5** is identical to WGAA4 except that provisions relating to the unsecured credit allowance determined by payment record would be removed. The proposer of this Alternative Amendment 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.
- 5.7 The legal text to give effect to each of these alternatives is attached as Parts B-F of Annex 4 of this document. Having fully developed the original proposal and the five Working Group Alternative Amendments, the Working Group recommended that the Working Group Report be drafted and submitted to the August meeting of the Amendments Panel.

## 6.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

- 6.1 The proposer, and some members of the Working Group, consider that the original CAP089/090/091 proposal would 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. It would more accurately reflect the risk profile of a User, which in turn would result in more reflective costs, and would allow Users to influence their unsecured credit allowance by their own actions, both of which would better facilitate competition.
- 6.2 There was also support to varying degrees from members of the Working Group for a number of the 5 Working Group Alternative Amendments.
- 6.3 National Grid, and some other members of the Working Group, believe that the original proposal misrepresents the Value at Risk, and therefore does not more accurately reflect the risk profile or costs. National Grid believes that Working Group Alternative Amendment 2 more accurately reflects the Value at Risk, and also provides a more flexible mechanism for the extension of unsecured credit to Users through more granular scoring of Independent Credit Assessments. This extra flexibility would increase the likelihood of small Users receiving some unsecured credit. Alternative Amendment 2 therefore adds flexibility to the original proposal, whilst also still allowing Users to influence their unsecured credit allowance by their own actions. For these reasons, National Grid believes that Alternative Amendment 2 would better allow it 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.

## 7.0 PROPOSED IMPLEMENTATION AND TIMESCALES

- 7.1 It is proposed that should the Authority approve the original CAP089/090/091 proposal, or any of the Working Group Alternative Amendments, implementation should be 10 business days after the Authority decision.

## **8.0 IMPACT ON CUSC**

- 8.1 The original CAP089/090/091 proposal or any of the Working Group Alternative Amendments will require a number of changes to Section 3 of the CUSC Part II Credit Requirements as detailed in the legal text in Annex 4.

## **9.0 IMPACT ON INDUSTRY DOCUMENTS**

### **Impact on Core Industry Documents**

- 9.1 None.

### **Impact on other Industry Documents**

- 9.2 None.

## **Annex 1 – Working Group Terms of Reference and Membership**

### **TERMS OF REFERENCE FOR CAPs 088-091 WORKING GROUP**

#### **RESPONSIBILITIES**

1. The Working Group is responsible for assisting the CUSC Amendments Panel in the evaluation of CUSC Amendment Proposals CAPs 088-090 inclusive tabled by National Grid Company and CAP091 tabled by BizzEnergy at the Amendments Panel meeting on 20<sup>th</sup> May 2005.
2. The proposal must be evaluated to consider whether it better facilitates achievement of the applicable CUSC objectives. These can be summarised as follows:
  - (a) the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence; and
  - (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.
3. It should be noted that additional provisions apply where it is proposed to modify the CUSC amendment provisions, and generally reference should be made to the Transmission Licence for the full definition of the term.

#### **SCOPE OF WORK**

4. The Working Group must consider the issues raised by the Amendment Proposals and consider if the proposals identified better facilitate achievement of the Applicable CUSC Objectives.
5. In addition to the overriding requirement of paragraph 4, the Working Group shall consider and incorporate appropriate legal drafting in the report to implement CAPs 088-091 or any Working Group Alternative Amendment (WGAA) developed by the Group.
6. The Working Group is responsible for the formulation and evaluation of any WGAA's arising from Group discussions which would, as compared with the Amendment Proposal, better facilitate achieving the applicable CUSC objectives in relation to the issue or defect identified.
7. The Working Group should become conversant with the definition of Working Group Alternative Amendments which appears in Section 11 (Interpretation and Definitions) of the CUSC. The definition entitles the Group and/or an individual Member of the Working Group to put forward a Working Group Alternative Amendment if the Member(s) genuinely believes the Alternative would better facilitate the achievement of the Applicable CUSC Objectives. The extent of the support for the Amendment Proposal or any Working Group Alternative Amendment arising from the Working Group's discussions should be clearly described in the final Working Group Report to the CUSC Amendments Panel.
8. The Working Group Chairman should provide progress reports to the CUSC Amendments Panel meetings scheduled for 24<sup>th</sup> June and 29<sup>th</sup> July. If some of the Amendment Proposals can be progressed earlier than the timetable in

this paragraph then the Working Group should report earlier to the Panel on those Amendment Proposals. The Working Group is to submit their final report to the CUSC Panel Secretary on 11<sup>th</sup> August 2005 for circulation to Panel Members. The conclusions will be presented to the CUSC Panel meeting on 18<sup>th</sup> August 2005.

## MEMBERSHIP

9. It is recommended that the Working Group has the following members:

Chair	Ben Graff
National Grid	Paul Murphy
Industry Representatives	Carl Wilkes (npower) Keith Munday (BizzEnergy) Lee Selway (EdF Energy) John Capener (British Energy) Bob Brown (Independent) Neil Smith (e.on) Gavin Ferguson (Centrica)

Authority Representative	Dipen Gadhia
Technical Secretary	Richard Dunn

[NB: Working Group must comprise at least 5 Members (who may be Panel Members) and will be selected by the Panel with regard to WG List held by the Secretary]

10. The membership can be amended from time to time by the CUSC Amendments Panel. Any additional nominations for Membership of the Group after the CUSC Panel meeting scheduled for 20<sup>th</sup> May should be provided to the CUSC Panel Secretary.

## RELATIONSHIP WITH AMENDMENTS PANEL

11. The Working Group shall seek the views of the Amendments Panel before taking on any significant amount of work. In this event the Working Group Chairman should contact the CUSC Panel Secretary.
12. Where the Working Group requires instruction, clarification or guidance from the Amendments Panel, particularly in relation to their Scope of Work, the Working Group Chairman should contact the CUSC Panel Secretary.

## MEETINGS

13. The Working Group shall, unless determined otherwise by the Amendments Panel, develop and adopt its own internal working procedures and provide a copy to the Panel Secretary for each of its Amendment Proposals.

## **REPORTING**

14. The Working Group Chairman shall prepare a final report to the Amendments Panel scheduled for 19<sup>th</sup> August 2005 responding to the matter set out in the Terms of Reference.
15. A draft Working Group Report must be circulated to Working Group members with not less than five business days given for comments.
16. Any unresolved comments within the Working Group must be reflected in the final Working Group Report.
17. The Chairman (or another member nominated by him) will present the Working Group report to the Amendments Panel as required.

**Annex 2 – Amendment Proposal Form**

<b>CUSC Amendment Proposal Form</b>	<b>CAP:089</b>
<b>Title of Amendment Proposal:</b>	
<b>Maximum Unsecured Credit Limit</b>	
<b>Description of the Proposed Amendment</b> <i>(mandatory by proposer):</i>	
<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>	
<b>Description of Issue or Defect that Proposed Amendment seeks to Address</b> <i>(mandatory by proposer):</i>	
<p>The amendment seeks to address and codify Ofgem's recommendations within its Network Operator Best Practice guidelines.</p>	
<b>Impact on the CUSC</b> <i>(this should be given where possible):</i>	
<b>Section 3</b>	
<b>Impact on Core Industry Documentation</b> <i>(this should be given where possible):</i>	
None	
<b>Impact on Computer Systems and Processes used by CUSC Parties</b> <i>(this should be given where possible):</i>	
None	
<b>Details of any Related Modifications to Other Industry Codes</b> <i>(where known):</i>	
None	
<b>Justification for Proposed Amendment with Reference to Applicable CUSC Objectives**</b> <i>(mandatory by proposer):</i>	
<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>	

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

**Notes:**

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

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Warwick, CV34 6DA  
Or via e-mail to: [CUSC.Team@uk.ngrid.com](mailto: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																		
<b>Title of Amendment Proposal:</b>																			
<b>Credit Limits for rated companies</b>																			
<b>Description of the Proposed Amendment (mandatory by proposer):</b>																			
<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>Credit allowance as % of maximum credit limit</td> <td>Approx. Allowance</td> </tr> <tr> <td>AAA/AA</td> <td>100%</td> <td>£120m</td> </tr> <tr> <td>A</td> <td>40%</td> <td>£48m</td> </tr> <tr> <td>BBB+</td> <td>20%</td> <td>£24m</td> </tr> <tr> <td>BBB</td> <td>19%</td> <td>£22.8m</td> </tr> <tr> <td>BBB-</td> <td>18%</td> <td>£21.6m</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+	20%	£24m																	
BBB	19%	£22.8m																	
BBB-	18%	£21.6m																	
<b>Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):</b>																			
<p>The amendment seeks to address and codify Ofgem's recommendations within its Network Operator Best Practice guidelines.</p>																			

<b>Impact on the CUSC</b> <i>(this should be given where possible):</i>	
Section 3	
<b>Impact on Core Industry Documentation</b> <i>(this should be given where possible):</i>	
None	
<b>Impact on Computer Systems and Processes used by CUSC Parties</b> <i>(this should be given where possible):</i>	
None	
<b>Details of any Related Modifications to Other Industry Codes</b> <i>(where known):</i>	
None	
<b>Justification for Proposed Amendment with Reference to Applicable CUSC Objectives**</b> <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.	
<b>Details of Proposer:</b> Organisation's Name:	National Grid Transco
<b>Capacity in which the Amendment is being proposed:</b> (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Paul Murphy NGT 019260656330 paul.murphy@ngtuk.com
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Toby Thornton NGT 01926656384 toby.thornton@ngtuk.com
<b>Attachments (Yes/No):</b> <b>If Yes, Title and No. of pages of each Attachment:</b>	

**Notes:**

4. 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.
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6. 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.

<b>CUSC Amendment Proposal Form</b>	<b>CAP: 091</b>
<b>Title of Amendment Proposal:</b> 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.	
<b>Description of the Proposed Amendment (mandatory by proposer):</b>  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.  <b>For example it is anticipated that at a high level the modification should include amongst other things:</b> <ol style="list-style-type: none"> <li>1. Establish an unsecured credit allowance for unrated counterparties by using the payment record.</li> <li>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.</li> <li>3. Recalculation of the Demand Reconciliation Credit Cover amount of 10%.</li> </ol>	
<b>Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):</b>  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.	
<b>Impact on the CUSC (this should be given where possible):</b>  	
<b>Impact on Core Industry Documentation (this should be given where possible):</b>  	
<b>Impact on Computer Systems and Processes used by CUSC Parties (this should be given where possible):</b>  	
<b>Details of any Related Modifications to Other Industry Codes (where known):</b>  	
<b>Justification for Proposed Amendment with Reference to Applicable CUSC Objectives** (mandatory by proposer):</b>  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.	

<b>Details of Proposer:</b> Organisation's Name:	BizzEnergy Limited
<b>Capacity in which the Amendment is being proposed:</b> (i.e. CUSC Party, BSC Party or "energywatch")	BSC Party – Supplier
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Keith Munday BizzEnergy Limited 07976651122 keithm@bizzenergy.com
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Robert Brown Cornwall Consulting 07811326156 robert.brown14@tiscali.co.uk
<b>Attachments (/No):</b> 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.
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### **Annex 3 – Internal Working Group Procedure**

#### CAPs088-091 Working Group

##### INTERNAL WORKING PROCEDURES

1. Notes and actions from each meeting will be produced by the Technical Secretary (provided by National Grid) and circulated to the Chairman and Working Group members for review.
2. The Meeting notes and actions will be published on the National Grid CUSC Website after they have been agreed at the next meeting or sooner on agreement by Working Group members.
2. The Chairman of the Working Group will provide an update of progress and issues to the Amendments Panel each month as appropriate.
4. Working Group meetings will be arranged for a date acceptable to the majority of members and will be held as often as required as agreed by the Working Group in order to respond to the requirements of the Terms of Reference set by the Amendments Panel.
5. If within half an hour after the time for which the Working Group meeting has been convened the Chairman of the group is not in attendance, the meeting will take place with those present.
6. A meeting of the Working Group shall not be invalidated by any member(s) of the group not being present at the meeting.