



National Grid

CONSULTATION DOCUMENT

CUSC Amendment Proposal CAP024

Modification of defined term “NGC Credit Rating”

The purpose of this document is to consult on Amendment Proposal CAP024 with CUSC Parties and other interested Industry members

Amendment Ref	CAP024
Issue	1.0
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Prepared by	National Grid

I DOCUMENT CONTROL**a National Grid Document Control**

Version	Date	Author	Change Reference
0.1	3/9/02	National Grid	Initial Draft for internal comment
1.0	4/9/02	National Grid	Formal version for release

b Document Location

National Grid website:

http://www.nationalgridinfo.co.uk/cusc/mn_consultation_index.html

c Distribution

Name	Organisation
CUSC Parties	Various
Panel Members	Various
Interested Parties	Various
Core Industry Document Owners	Various
National Grid Industry Information Website	-

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1.0 SUMMARY

- 1.1 Under the current arrangements of the CUSC Users are required to provide security with regard to Connection Assets. If a User does not meet the requirements of the NGC Credit Rating they are required to provide security of a type specified in Paragraph 2.22.1 of the CUSC (Performance Bond or Letter of Credit from a Qualified Bank, a cash deposit in a Bank Account or a Performance Bond from a Qualified Company).
- 1.2 CUSC Amendment Proposal CAP024 proposes to amend the definition of "NGC Credit Rating" to allow for the situation where Users meet the credit requirements of their licence under the Electricity Act which requires them to maintain a credit rating. In this case the credit rating required from the User would be that set out in their licence.
- 1.3 CAP024 was proposed by Aquila Networks plc and submitted to the Amendments Panel for consideration at their meeting on 16th August 2002. The Amendments Panel determined that the issue was appropriate to proceed straight to wider industry consultation by National Grid in accordance with the CUSC.
- 1.4 This document initiates this wider industry consultation exercise and invites views on CUSC Amendment Proposal CAP024. The consultation closing date is **4th October 2002**.

2.0 INTRODUCTION

- 2.1 This consultation document is 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.
- 2.2 This document outlines the nature of the CUSC changes that are proposed by Aquila Networks plc and seeks views from industry members relating to Amendment Proposal CAP024. Representations received in response to this consultation document will be included in National Grid's Amendment Report that will be furnished to the Authority for their decision.
- 2.3 This consultation document 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>, along with the Amendment Proposal itself.

3.0 THE AMENDMENT PROPOSAL

- 3.1 CAP024 proposes to amend the defined term "NGC Credit Rating", which would mean that the NGC Credit Rating for a User with holding a licence specifying a credit rating is that credit rating required by their licence.
- 3.2 Aquila Networks plc (the Proposer of CUSC Amendment Proposal CAP024) considers that the current definition of "NGC Credit Rating" is unreasonable as it imposes a higher rating (A-/A3) than is required by their Licence issued under the Electricity Act. The Proposer believes that this imposes unnecessary costs on the industry as they are required to provide other forms of credit e.g. Letter of Credit from a bank, and hence leads to inefficiencies in

the promotion of effective competition in supply and reduces the effectiveness of competition in the sale, distribution and purchase of electricity.

- 3.3 The text to give effect to CAP024 is contained at Annex 1.

4.0 IMPLEMENTATION AND TIMESCALES

- 4.1 It is proposed that if CAP024 is approved, implementation should take place 30 days after the Authority's decision.

5.0 INITIAL VIEW OF AMENDMENTS PANEL

- 5.1 The Amendments Panel discussed CAP024 at their meeting on 16th August 2002 and accepted that the issue raised was separate from the current Ofgem consultation on credit within the Industry and the changes to National Grid's Credit Policy proposed in CAP018. The Panel determined that CAP024 be subject to consultation to seek industry views on the Amendment Proposal and whether such amendment of the CUSC would better facilitate achievement of the Applicable CUSC Objectives.

6.0 INITIAL VIEW OF NATIONAL GRID

- 6.1 National Grid is still considering the implications of CAP024. National Grid's initial view is that security is required to guard against non-payment, for example in the event of a User becoming insolvent. A credit rating is not a firm guarantee of payment or a User's ability to pay, but is the current criteria by which the likelihood of this is judged. A licence obligation to maintain a credit rating is not a guarantee that the User's rating will not fall below that required by the licence in the short term, in addition it does not guarantee that a User will be able to meet its payment obligations. Consequently National Grid does not believe there is justification in lowering the required credit rating for different categories of User, particularly given the current economic climate.
- 6.2 National Grid believes that the status quo should be maintained until such time as a review of credit in respect of NGC Connection Assets can be initiated. Such a review should be undertaken in a timely manner taking account of any issues arising out of National Grid's Connection Charging Review and, although not specifically dealing with connection charges, Ofgem's consultation on Arrangements for Gas and Electricity Supply and Gas Shipping Credit Cover, may provide indication of possible approaches to security.

7.0 VIEWS INVITED

- 7.1 National Grid is seeking the views of interested parties in relation to the issues raised by Amendment Proposal CAP024, in particular;
- Whether CAP024 better facilitates achievement of the Applicable CUSC objectives
 - Any issues associated with the proposed timing for implementation

7.2 Please send your responses to this consultation to National Grid by no later than close of business on **Friday 4th October 2002**.

7.3 Please address all comments to the following e-mail address:

emma.groves@uk.ngrid.com

Or alternatively, comments may be addressed to:

Emma Groves
Commercial
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

Annex 1 - Proposed Text to Modify CUSC

Part A - Text to give effect to the Proposed Amendment

Change Marked Version

- “NGC Credit Rating” any one of the following:-
- (a) a credit rating for long term debt of A- and A3 respectively as set by Standard and Poor’s or Moody’s respectively;
 - (b) an indicative long term private credit rating of A- and A3 respectively as set by Standard and Poor’s or Moody’s as the basis of issuing senior unsecured debt; ~~or~~
 - (c) a short term rating by Standard and Poor’s or Moody’s which correlates to a long term rating of A- and A3 respectively ~~–; or~~
 - (d) where the **User’s Licence** issued under the Electricity Act 1989 (as amended by the Utilities Act 2000) requires that **User** to maintain a credit rating, the credit rating defined in that **User’s Licence**.

Clean Version

- “NGC Credit Rating” any one of the following:-
- (c) a credit rating for long term debt of A- and A3 respectively as set by Standard and Poor’s or Moody’s respectively;
 - (d) an indicative long term private credit rating of A- and A3 respectively as set by Standard and Poor’s or Moody’s as the basis of issuing senior unsecured debt;
 - (c) a short term rating by Standard and Poor’s or Moody’s which correlates to a long term rating of A- and A3 respectively; or
 - (d) where the **User’s Licence** issued under the Electricity Act 1989 (as amended by the Utilities Act 2000) requires that **User** to maintain a credit rating, the credit rating defined in that **User’s Licence**.