



National Grid

AMENDMENT REPORT

CUSC Proposed Amendment CAP024

Modification of defined term “NGC Credit Rating”

The purpose of this report is to assist the Authority in their decision of whether to implement Amendment Proposal CAP024

Amendment Ref	CAP024
Issue	2.0
Date of Issue	18 October 2002
Prepared by	National Grid

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

Version	Date	Author	Change Reference
0.1	8/10/02	National Grid	Draft for internal comment
1.0	9/10/02	National Grid	Draft for Industry comment
2.0	18/10/02	National Grid	Formal Version for submission to the Authority

b Document Location

Nation Grid Website:

<http://www.nationalgrid.com/uk/indinfo/cusc>

c 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

1.1 Under the current arrangements of the CUSC, National Grid's Credit Requirements in respect of post-Vesting Connection Assets are twofold. Firstly, Customers are required to provide security against Final Sums whilst National Grid Connection assets are under construction. Secondly, following commissioning of such assets, customers are required to provide security to National Grid in order to secure at all times the Termination Amounts payable in respect of such Connection Assets. If a User does not meet the requirements of the NGC Credit Rating as defined in Section 11 of the CUSC (in effect a credit rating of A- or A3 from Standard and Poor's or Moody's respectively), security can be provided by way of:

- (i) a Performance Bond from a Qualified Company (i.e. a Company that meets the NGC Credit Rating and that is either a shareholder of the User or a holding company of the User). Most commonly, this is in the form of a Parent Company Guarantee;
- (ii) a Performance Bond or Letter of Credit from a Qualified Bank (i.e. City of London branch of a bank that meets the NGC Credit Rating); or
- (iii) a cash deposit in a separately designated bank account in the name of National Grid (the interest from which is paid back to the User).

1.2 Aquila Networks plc submitted CUSC Amendment Proposal CAP024 (Modification of defined term "NGC Credit Rating") which proposes to amend the definition of "NGC Credit Rating" as currently set out in Section 11 of the CUSC so as to allow Users who are subject as part of their licence to strict financial ring fencing obligations including the requirement to maintain a certain credit rating, to avoid the need to provide security against post-Vesting Connection Charges provided they do meet the credit rating requirement as set out in their licence.

1.3 Amendment Proposal CAP024 was submitted for consideration by the CUSC Amendments Panel at their meeting on 16th August 2002. The Panel determined that the issue should proceed to wider consultation (in accordance with CUSC 8.19.1), the Consultation Document was circulated to CUSC Parties, Panel Members and other interested Parties on 4 September 2002, with comments requested by close of business on 4th October 2002. The Proposer has noted that he believes that the Consultation paper did not make clear that the credit requirements of CUSC, and hence the CAP024 proposals, relate to Final Sums and Termination Amounts only and do not specifically cover against failure to pay Connection Charges. The proposer expressed concern that this ambiguity may cause confusion in the debate over the specific issues that CAP024 is intended to address. In consultation with the proposer it was decided however not to reissue the Consultation at the time, but to wait and see if this ambiguity caused confusion. Readers of this report are invited to note the possible ambiguity in the initial consultation and focus on the specific area for which CAP024 is aimed.

1.4 This Amendment Report (Issue 2.0) was submitted to the Authority on 18 October 2002. The purpose of this document is to assist the Authority in their decision on whether to implement Amendment Proposal CAP024.

National Grid Recommendation

1.6 National Grid does not recommend the approval of CUSC Amendment Proposal CAP024.

2.0 INTRODUCTION

- 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 an issue relating to the credit requirements for Connection Charges (as currently set out in Part III of Section 2 of the CUSC).
- 2.2 Further to the submission of Amendment Proposal CAP024 (see Annex 1) and the subsequent wider industry consultation that was undertaken by National Grid (in accordance with 8.17.12(b)), 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 CAP024. Such an amendment will result in some changes to the definitions contained in Section 11 of the CUSC (as detailed in Annex 2).
- 2.3 This document outlines the nature of the CUSC changes that are proposed. It incorporates National Grid’s and the Amendments Panel recommendations to the Authority concerning the Amendment. Copies of all representations received in response to the consultation have been also been included and a ‘summary’ of the representations received is also provided. Copies of each of the responses to the consultation are included as Annex 3 to 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 PROPOSAL

- 3.1 Aquila Networks plc (the Proposer of CUSC Amendment CAP024) considers it both inappropriate and inefficient for those Users that are subject, as part of their licence, to strict financial ring fencing obligations including the requirement to maintain a certain credit rating, to be imposed with a higher credit rating requirement (than that required by their Licence) for the purposes of providing credit cover against final sums and termination amounts in respect of NGC Connection Assets.. Aquila Networks plc believe that such treatment imposes unnecessary costs to the industry and leads to inefficiencies in the promotion of effective competition in supply as well as reducing the effectiveness of competition in the sale, distribution and purchase of electricity.
- 3.2 CAP024 proposes to amend the definition of “NGC Credit Rating” as currently set out in Section 11 of the CUSC. The Proposed Amendment would mean that for Users holding a licence under the Electricity Act, the NGC Credit Rating would be equivalent to the credit rating as required by their licence.

4.0 PROPOSED IMPLEMENTATION AND TIME-SCALES

- 4.1 If the Authority is minded to give approval to the Proposed Amendment, the timescale for implementation should be 30 days after Authority decision.

5.0 IMPACT ON THE CUSC

- 5.1 The Proposed Amendment would require amendment of the definition of 'NGC Credit Rating' as contained in Section 11 of the CUSC. There is no impact on any other part of the CUSC.
- 5.3 The text required to give effect to the Proposed Amendment is contained as Annex 2 of this document.

6.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

- 6.1 The applicable CUSC Objectives are set out in paragraph 1 of Condition C7F of the Transmission Licence. CUSC Amendments Proposals should better facilitate achievement of the Applicable CUSC Objectives. These can be summarised as follows:
- a) the efficient discharge by NGC of the obligations imposed on it by the Act and the Transmission Licence;
 - b) and 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.
- 6.2 The proposer of CAP024 recommends that Amendment Proposal CAP024 is implemented on the basis that it better facilitates achievement of the Applicable CUSC Objectives as set out in paragraph 1 of Condition C7F to National Grid's Transmission Licence. This is on the grounds that although it is normally reasonable to expect a contract between parties to include provision for the management of risk, where a party is a licensed monopoly and the grantor of that licence is obliged by statute to ensure that the party is able to finance the activities which are subject of obligations imposed by or under that statute, it is reasonable to assume that a party compliant with any licence obligations imposed by the grantor of the licence for this purpose pose an acceptable risk with no further requirements.
- 6.3 Aquila Networks plc believes that such treatment imposes unnecessary costs on the industry which leads to inefficiencies in the promotion of effective competition in supply and reduces the effectiveness of the sale, distribution and purchase of electricity.
- 6.4 As part of its licence obligations National Grid should not discriminate between parties or classes of parties. One respondent has expressed the view that to treat licence holders with financial ring fencing arrangements including credit rating obligations differently from other CUSC parties would be discriminatory. Other respondents have expressed the view that where different treatment is cost reflective it is non-discriminatory and as such they believe CAP024 fulfils National Grid's licence, and hence CUSC, obligations.

7.0 IMPACT ON CUSC PARTIES

- 7.1 CUSC Parties with a Distribution Licence would see a reduction in the credit rating that they must maintain in respect of providing security against final sums and termination amounts. There would be no effect on un-Licensed DNOs, suppliers, generators, interconnector owners or users, or directly connected customers.

8.0 IMPACT ON CORE INDUSTRY DOCUMENTS

- 8.1 The Proposed Amendment will not impact on Core Industry Documents or other industry documentation.

9.0 ALTERNATIVE AMENDMENTS

- 9.1 No Alternative Amendments have been offered or considered as part of CUSC Amendment Proposal CAP024.

10.0 SUMMARY OF VIEWS AND REPRESENTATIONS**Amendments Panel Members Views**

- 10.1 Only one Panel Member expressed a view in respect of CAP024. They supported the Proposed Amendment believing that because assignment of credit rating is a judgement of risk then anything in excess of the User's Licence obligation creates an anomaly and additional cost which is inefficient. Therefore implementation of CAP024 would enable efficient discharge by NGC of the obligations imposed on it by the Electricity Act 1989 and the Transmission Licence, by aligning the CUSC definition of "NGC Credit Rating" with the User's Licence obligation. They did not agree with NGC's view that the status quo should be maintained until a review of credit issues is initiated and believed that if CAP024 satisfies the Applicable CUSC Objectives, then it should be implemented.
- 10.2 Alignment with the User's Licence obligation (where there is one) appears to be an acceptable form of discrimination; there can be no doubt about what the Licensed User's credit rating should be.

Core Industry Document Owners

- 10.3 No views have been received from Core Industry Document Owners

Respondents

- 10.4 National Grid received a total of 7 responses to the consultation on CUSC Amendment CAP024, four of which were supportive of the proposal.
- 10.5 The following table provides an overview of the representations received. Copies of the representations are attached in Annex 3.

Reference	Company	Supportive	Comments
CAP024-CR-01	Western Power Distribution	Yes	<p>Wholeheartedly support CAP024</p> <p>It is rational and sensible that the credit rating required for the NGC Credit Rating should align with the credit rating required by the distribution licence under the Electricity Act.</p> <p>Agree that the imposition by CUSC of a higher rating imposes unnecessary costs into the industry as well as reducing the effectiveness of competition in the sale, distribution and purchase of electricity.</p>

CAP024-CR-02	Powergen UK plc	No	<p>Given current market conditions, do not support effectively reducing security levels for connection charges.</p> <p>Current arrangements provide a reasonable balance between the need to protect the industry from non-payment of connection charges and the overall cost to the industry of providing appropriate security.</p> <p>If consistency with the distribution licence is a problem, licences should be amended accordingly.</p> <p>Does not better facilitate CUSC Objectives.</p>
CAP024-CR-03	TXU Europe Energy Trading Ltd	Yes	<p>Not sensible that Ofgem are prepared to give a distribution licence to a company with a BBB- rating but NGC are only prepared to accept a company is unlikely to default on its Connections charges if it has a rating of A-/A3.</p> <p>This Amendment Proposal should be implemented now and should be followed by a review of credit arrangements in respect of NGC Connection Assets.</p>
CAP024-CR-04	Aquila Networks plc	Yes	<p>The proposal is specifically aimed at credit cover provisions for termination charges only and at Users who specifically have financial obligations within their licence, which currently applies to distribution businesses.</p> <p>Although it is reasonable to expect a contract between parties to include the provision of management of risk, what is the risk of termination occurring at a NGC/distribution connection site? Even were a distributor to fail, we can not envisage the situation where the lights were permitted to go out. The likely scenario is that the lights would be kept on under 'new management'. There would, therefore be no termination charges due.</p> <p>The risk of termination charges falling due from distributors is minimal compared to other classes of connected customer.</p> <p>What is the risk of a distribution company failing? The Authority places an obligation on distributors to maintain at all times an investment grade rating. Whilst there is never any absolute guarantee against a distributor failing it is reasonable to assume that the standard imposed by the Authority to minimise the risk is a reasonable measure of the acceptable standard</p> <p>Not justified for NGC to require a higher and more costly standard to manage the same risk.</p> <p>Discrimination would occur if the costs or potential costs imposed by each class of customer were not reflected in the charges made to or terms offered to that class of customer. As NGC are imposing a higher credit rating on distributors than is required by their Licence, NGC are imposing undue costs upon distributors and are therefore discriminating against them.</p> <p>Current rules impose unnecessary costs into the industry and leads to inefficiencies in the promotion of effective competition in supply as well as reducing the effectiveness of competition in the sale, distribution and purchase of electricity.</p>
CAP024-CR-05	Seeboard Power Networks plc	Yes	<p>Agree that the current definition of NGC Credit Rating is unreasonable as it imposes unnecessary costs on the industry and hence leads to inefficiencies in the promotion of effective competition.</p>

			<p>It is not justified for NGC to require a higher and more costly standard than that deemed appropriate by the Authority.</p> <p>In the case of licensed distributors, the risk to which NGC is exposed is minimal. It can not be envisaged that the lights would be permitted to go out even if a distributor failed. Overall the risk of termination charges being defaulted on by distributors is insignificant when compared to other classes of connected customers.</p> <p>Current rules impose unnecessary costs into the industry and leads to inefficiencies in the promotion of effective competition in supply as well as reducing the effectiveness of competition in the sale, distribution and purchase of electricity.</p> <p>Discrimination would occur if the costs or potential costs imposed by each class of customer were not reflected in the charges made to or terms offered to that class of customer. As NGC are imposing a higher credit rating on distributors than is required by their Licence, NGC are imposing undue costs upon distributors and are therefore discriminating against them.</p> <p>Disagree that there should be no change until a wider consultation has taken place.</p>
CAP024-CR-06	British Gas Trading Ltd	No	<p>Does not support CAP024 as we believe it is discriminatory and would not further the relevant objectives.</p> <p>Do not accept that a credit rating for another activity, irrespective of whether that activity is licensed, has a bearing on the relevant credit rating to apply to CUSC activities.</p> <p>Should CAP024 be approved we believe it would require a similar reduction of all credit ratings for CUSC parties to avoid discrimination and would obviously have implications for NGC's overall credit exposure.</p> <p>Until such time as Ofgem's deliberations on acceptable forms of credit have been completed, we see no value in debating items such as this.</p>
CAP024-CR-07	London Electricity Group	No	<p>Not in favour of CAP024.</p> <p>Do not believe the proposed amendment better meets the applicable CUSC Objectives.</p>

11 NATIONAL GRID VIEWS AND RECOMMENDATION

National Grid Views

Requirement for Security

- 11.1 Normal contracting arrangements between parties do not always apply where one is a monopoly and has licence obligations to offer terms for connection. In these circumstances it is normal practice to have a single contractual arrangement (i.e. CUSC) with terms approved by a regulator since the licensee does not have the ability to pick and choose the terms of its agreements as to do so could be discriminatory.
- 11.2 Many of the responses supporting CAP024 appear to base their arguments on an assumption DNOs are unlikely to fail and even if they did, then National Grid faces little or no risk because a failing DNO would be sold on since it is inconceivable that the “lights would be allowed to go out”. We agree that the risk for the ex-Regional Electricity Companies (as opposed to private network operators) is limited. However it is finite and National Grid faces real exposures from a failing DNO, for example until a replacement DNO is identified, unpaid Connection Charges could arise and the replacement DNO may not accept liabilities incurred prior to it taking over from the failed DNO. There is a real risk that a DNO could fail. The regulator’s obligations to ensure the licensee is properly financed didn’t work for Railtrack, and despite the requirement on DNOs to be ring-fenced the rating agencies don’t give them AAA ratings – so clearly the market considers that DNOs can fail.
- 11.3 Where a DNO rating falls below the NGC Credit Rating then alternative forms of security need to be put in place (usually letters of credit or cash in an escrow account). A DNO whose rating falls below BBB- would be in breach of its licence. Given that BBB- is the lowest investment grade rating it is questionable whether such a DNO would then be in a position to obtain the necessary letters of credit, or to raise cash to place in an escrow account in accordance with CUSC. As a result setting the NGC Credit Rating at the level at which represents the lowest investment grade rating and at which a licence breach occurs would probably mean that no alternative security could in practice be obtained when a DNO’s rating fell below that level.

Private Networks

- 11.4 There is a risk that the proposed change to security requirements within CAP024 could be applied to private networks. Where these serve more than one customer they may require a Licence and if the Licence contains a minimum credit rating then (if CAP024 is approved) this would be used as the basis for judging whether security needed to be provided. However the risk of failure of such private networks is higher (than the 12 ex-RECs) since private networks are generally dependent on a large primary customer, without which the network operator’s *raison d’être* may cease, resulting in their failure. National Grid does not believe that CAP024 is intended to address credit requirements for private networks and believes that if the principle behind CAP024 were to be accepted then the text should be more tightly drafted to limit its application to the 12 ex-RECs alone.

Discrimination Issues

- 11.5 National Grid does not discriminate between different classes of licensee, and does not believe that the *status quo* is discriminatory. In this respect we believe Aquila’s arguments are flawed. The DNO Licence requires a certain credit rating (BBB-) because the regulator needs to be sure that the company is sufficiently sound that they will be able to raise the necessary funds (bonds

etc) to operate their business and specifically to be able to invest in their network. National Grid's security requirements are established for entirely different reasons – to guard against the type of exposure outlined above, i.e. National Grid's security requirements are not related to any requirements placed on CUSC Parties within their Licences. As an example of this a generator's licence does not require it to maintain any specified credit rating at all. Nevertheless any loans or bonds it has used to fund its operations are likely to require it to maintain a certain credit rating. The credit ratings specified by these banks therefore bear no relation to any licence based condition – they reflect the banks' requirement to guard against non-payment, insolvency etc. A credit rating is not a firm guarantee of payment or a User's ability to pay, but is the criteria by which the likelihood of this is judged.

Price Controls

11.6 National Grid notes that its security requirements have remained unchanged for some time and that they were in place under the Master Connection and User Agreement (which preceded CUSC). They were in place at the time the DNO price controls were last reviewed and so presumably the costs and issues surrounding the provision of security were taken into account at that time. Furthermore security requirements were in place at the time of National Grid's last price control review. Any reduction in these security requirements implies an increase in the risks faced by National Grid and this could result in a (marginal) increase in its cost of capital.

11.7 National Grid believes that DNOs should be able to pass through the costs of providing security for Connection Charges as well as the Connection Charges themselves to their customers.

Better Facilitation of Applicable CUSC Objectives

11.8 National Grid recognises that its security requirements do impose costs on CUSC Parties but considers that the current arrangements provide a reasonable balance between the need to protect the industry from non-payment of connection charges and the overall cost to the industry of providing appropriate security. National Grid does believe these costs affect effective competition in supply, sale, distribution and purchase of electricity. There is no competition in distribution and all distribution companies (ex-RECs) face the same conditions. 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.

11.9 National Grid does not believe that the proposed Amendment better meets CUSC objectives and therefore recommends that it should be rejected.

12 National Grid Recommendation

12.1 National Grid recommends that CAP024 should be rejected.

Case for Review of Current Arrangements

12.2 National Grid further believes that the *status quo* should be maintained until such time as a review of credit in respect of NGC Connection Assets can be undertaken. Such a review should take 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. Any review that proposed changes to the existing security provisions would also need to examine issues such as DNOs of last resort.

13.0 COMMENTS ON DRAFT AMENDMENT REPORT

- 13.1 National Grid received three responses containing comments on the Draft Amendment Report. Copies are contained at Annex 4 to this report.
- 13.2 The respondents identified a number of areas where they believed that their views were not adequately reflected, had been omitted, or were unclear. Amendments to this report have been made to take account of these comments.
- 13.3 One respondent (CAP024-AR-01) in particular noted a concern regarding whether the original Consultation was sufficiently clear that the CUSC credit requirements, and hence the CAP024 proposals, relate to Final Sums and Termination Amounts only and do not specifically cover against failure to pay Connection Charges. National Grid's view is that the Consultation on CAP024 was sufficiently clear. CUSC provides for security to be established against NGC Connection Assets and not directly for Connection Charges. However, failure to pay Connection Charges would be a breach of CUSC and in the event such a breach were not remedied then ultimately the Connection Agreement could be terminated at which point final sums and/or termination amounts would become payable. Therefore there is an indirect link between the security held against final sums and termination amounts and non-payment of Connection Charges.
- 13.4 One respondent (CAP024-AR-01) also made a number of further points (paragraphs 7 to 10) in response to National Grid's views as set out in the Draft Amendment Report. In the first of these points, the respondent expresses the view that *"...National Grid are more concerned of the risk of non payment of Connection Charges than of Termination Charges as far a distributors are concerned..."*. Further, that the level of cover requested is unreasonable as cover for non-payment of Connection Charges and that Grid should bring forward its own Amendment Proposal in this area. National Grid's comment is that the only remedy under CUSC for non-payment is termination; and upon termination then final sums and/or termination amounts are payable and so security for these sums is the appropriate requirement. As noted above this is why there is an indirect link between non-payment of Connection Charges and security requirements in respect of final sums and/or termination amounts. National Grid believes that any consideration of a CUSC Amendment Proposal in this area should wait until after the Connections Charging Review as noted in Section 12 above.
- 13.5 One respondent (CAP024-AR-02) noted their concern that the implementation period of 30 days would be insufficient. This comment appears to be based on their view previously stated in their response to the consultation (CAP024-CR-06) that a change to the credit requirements for the DNOs would be discriminatory unless extended to all CUSC Parties. If it were extended to all Parties then the work involved for National Grid to revise the credit arrangements of all CUSC Parties would be far more significant. They further noted that they believed the impact on CUSC Parties identified in Section 7 of this report understated the position as there would be an effect on other CUSC parties since all are impacted if there is a change of credit

cover only benefiting one class of parties. They finally noted that NGC's suggestion that the proposal, if implemented, must at least be limited to the 12 ex-Regional Electricity Companies would in their view also be discriminatory.

ANNEX 1- AMENDMENT PROPOSAL FORM

CUSC Amendment Proposal Form	CAP024
Title of Amendment Proposal: Modification of defined term 'NGC Credit Rating'	
Description of the Proposed Amendment <i>(mandatory by proposer):</i> The amendment proposes extending the definition of 'NGC credit rating' to cover the situation where another licensed entity meets the requirements of their licence, but not in its current form CUSC.	
Description of Issue or Defect that Proposed Amendment seeks to Address <i>(mandatory by proposer):</i> 'NGC credit rating' is used in circumstances where National Grid seek to minimise their exposure of risk from a party at a connection site defaulting and no other party picking up any liability. It is currently set at A-/A3. Under the terms of their Distribution Licence, Distributors must maintain a credit rating BBB-. As both these requirements originate from the Electricity Act and seek to minimise the same risk it is not appropriate or efficient that they should be different. The imposition by CUSC of a higher rating than that required by the Distribution Licence imposes unnecessary costs into the industry and leads to inefficiencies in the promotion of effective competition in supply as well as reducing the effectiveness of competition in the sale, distribution and purchase of electricity.	
Impact on the CUSC <i>(this should be given where possible):</i> Wording only – proposed amendment: Definitions - 'NGC Credit Rating' (b) Delete 'or' (c) Replace '.' with ';' or' (d) (New Clause) ' 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.'	
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> It is normally reasonable to expect a contract between parties to include provision for the management of risk. Where a party is a licensed monopoly and the grantor of that licence is obliged by statute to ensure that the party is able to finance the activities which are the subject of obligations imposed by or under that statute, it is reasonable to assume that a party compliant with any licence obligations imposed by the grantor of the Licence for this purpose poses an acceptable risk with no further requirements. The imposition by CUSC of a higher rating than that required by the licence imposes unnecessary costs into the industry and leads to inefficiencies in the promotion of effective competition in supply as well reducing the effectiveness of competition in the sale, distribution and purchase of electricity.	

Details of Proposer: Organisation's Name:	Aquila Networks plc
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:	Richard Smith Aquila Networks plc 0121 530 7539 richard.smith@aquila-networks.co.uk
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Craig Finn Aquila Networks plc 08457 353637 craig.finn@aquila-networks.co.uk
Attachments (Yes/No): 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 Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry, CV4 8JY
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).

- Applicable CUSC Objectives** - These are defined within the National Grid Company Transmission Licence under Section C7F, paragraph 15. 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****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**.

**ANNEX 3 – COPIES OF REPRESENTATIONS RECEIVED TO
CONSULTATION**

This Annex includes copies of any representations received following circulation of the Consultation Document (circulated on 4th September 2002 requesting comments by close of business on 4th October 2002).

Representations were received from the following parties:

No.	Company	File Number
1	Western Power Distribution	CAP024-CR-01
2	Powergen UK plc	CAP024-CR-02
3	TXU Europe Energy Trading Ltd	CAP024-CR-03
4	Aquila Networks plc	CAP024-CR-04
5	Seeboard Power Networks plc	CAP024-CR-05
6	British Gas Trading Ltd	CAP024-CR-06
7	London Electricity Group	CAP024-CR-07

Reference	CAP024-CR-01
Company	Western Power Distribution

From: Harris, Dave [dharris@westernpower.co.uk]
Sent: 05 September 2002 13:54
To: Groves, Emma
Cc: David Lane (E-mail); Turvey, Nigel J.
Subject: FW: CUSC - CAP024 Consultation Document (Modification of defined term "NGC Credit Rating")

Emma,

Speaking on behalf of Western Power Distribution (South West) and (South Wales), we wholeheartedly support this CUSC Amendment Proposal CAP024. It is rational and sensible that the credit rating required for the NGC Credit Rating should align with the credit rating required by the Distribution Licence under the Electricity Act. It should certainly not be more onerous than that required by the Licence under the Act.

We agree that the imposition by CUSC of a higher rating imposes unnecessary costs into the industry as well as reducing the effectiveness of competition in the sale, distribution and purchase of electricity.

Dave Harris
Tariffs Manager

Tel: 0117 933 2219
Fax: 0117 933 2007

Reference	CAP024-CR-02
Company	Powergen UK plc

Christiane Sykes
Strategy and Regulation



Emma Groves
The National Grid Company Plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

5 September 2002
Reference CAP024

Dear Emma

Modification of defined term 'NGC Credit Rating'

Given the current market conditions, we would not support effectively reducing security levels for connection charges. In our view, the current arrangements provide a reasonable balance between the need to protect the industry from non-payment of connection charges and the overall cost to the industry of providing appropriate security. If consistency with the terms of the Distribution Licence is indeed a problem, we would suggest that such licences are amended accordingly.

In our view, this proposal does not better promote competition in supply and in the sale, distribution and purchase of electricity and as such, does not better facilitate the applicable CUSC objectives.

Yours sincerely,



Christiane Sykes.

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Reference	CAP024-CR-03
Company	TXU Europe Energy Trading Ltd

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

TXU Europe Energy Trading Ltd
Wherstead Park
Wherstead
Ipswich
Suffolk
IP9 2AQ

19th September 2002

CAP024 Consultation Response

Dear Emma

We take the points made in the section of the report titled “Initial View of National Grid” – i.e that the Credit Rating is not a guarantee of payment. The issue appears to be whether it is very sensible that Ofgem are prepared to give a Distribution Licence to a company with a BBB- rating but NGC are only prepared to accept that a company is unlikely to default on its Connection Asset payments if it has a rating of A-/A3. The answer to this has to be “no”.

We agree that a review of credit arrangements in respect of NGC Connection Assets should be initiated, the difference between us is that we would prefer to see this Amendment Proposal implemented now and the review conducted later rather than the other way round as proposed by NGC.

Yours sincerely

Philip Russell
Market Development Manager
For and on behalf of the 21 TXU CUSC Parties

Reference	CAP024-CR-04
Company	Aquila Power Networks plc



Aquila Networks plc
Toll End Road
Tipton
DY4 0HH
Telephone: 0121 530 7539
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Fax: 0121 530 7573
richard.smith@aquila-networks.co.uk
aquila-networks.co.uk

24 September 2002

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

Dear Emma,

CAP024 Consultation

We welcome the opportunity to comment on the CAP024 consultation and expand on our views expressed in the initial modification proposal. We note that CAP024 is specifically aimed at credit cover provisions for termination charges only. We are extremely surprised, therefore, that the consultation completely omits this point! The proposal is also aimed specifically at users who have financial obligations within their licence, which currently applies to distribution businesses.

It is normally reasonable to expect a contract between parties to include the provision of management of risk. In the case of licensed distributors, we must examine the risk to which National Grid is exposed. Firstly what is the risk of termination occurring at a National Grid/ Distributor connection site? Even were a distributor to financially fail, we can not envisage the situation where the lights were permitted to go out. Indeed in the case of supplier failure, Ofgem have made it very clear that they do not expect any customer to be disconnected. The likely scenario is that the lights would be kept on under 'new management'. There would, therefore, be no termination charges due. The risk of termination charges falling due from distributors is minimal compared to other classes of connected customers.

Secondly, what is the risk of a distribution business failing? The Authority is under a statutory obligation to ensure that licence holders are able to finance the activities which are subject of obligations imposed under the Act. In the case of distribution businesses, the Authority applies a licence obligation on distributors to 'use all reasonable endeavours to ensure that the licensee maintains at all times an investment grade credit rating'. The condition is not

simply to hold, but to maintain. Whilst there is never any absolute guarantee against a distributor failing, and indeed in the consultation National Grid indicate that a credit rating is no guarantee of the user's ability to pay, it is reasonable to assume that the standard imposed by the Authority to minimise the risk is a reasonable measure of the acceptable standard. It is not justified, therefore, for National Grid to require a higher and more costly standard to manage the same risk.

Like distributors, National Grid is a licensed monopoly and under an obligation to ensure CUSC meets its licence requirements. One such licence obligation on National Grid is that when offering terms it shall not discriminate between any persons or class or classes of persons. The Act provides for four distinct licences, a generation licence, a transmission licence, a distribution licence and a supply licence. As the Act makes these distinctions, it is entirely reasonable to view different licence holders as different classes of persons. Discrimination would occur if the costs or potential costs imposed by each class of customer were not reflected in the charges made to or terms offered to that class of customer. As National Grid are imposing a higher credit rating on distributors than is required by their licence to meet statutory obligations, National Grid are imposing undue costs upon distributors and are, therefore, discriminating against them.

In order to be acceptable as a CUSC modification, the proposals must meet Applicable CUSC Objectives. We consider that the imposition by CUSC of a higher rating than that required by the licence and assumed in the distribution price control settlement, imposes unnecessary costs into the industry and leads to inefficiencies in the promotion of effective competition in supply as well as reducing the effectiveness of competition in the sale, distribution and purchase of electricity. The imposition of higher costs on distributors than required by their licence also represents discrimination against licensed distributors. The modification, therefore, is entirely consistent with National Grid's licence obligations of non-discrimination.

In the consultation, National Grid suggests that there should be no change until wider consultation has taken place. We note that all current consultations in the industry on credit cover currently specifically omit connection charges and none covers the relationship between two licensed monopolies. Any transfer of possible approaches must be considered carefully and in the light of this. We also note that the current provisions in CUSC were simply a transfer from MCUSA. We consider the requirements to be outdated and even if a wider consultation of credit cover arrangements is undertaken, it is appropriate to make this minor change now to remove an unnecessary anomaly between current licences and older industry documentation.

Yours sincerely

Richard Smith
System Commercial Manager

Reference	CAP024-CR-05
Company	Seeboard Power Networks plc



30th September 2002

Emma Groves,
Commercial Development,
National Grid Company plc,
National Grid House, Kirby Corner Road,
COVENTRY,
CV4 8JY,

SEEBOARD Power Networks plc

Sheencroft
Church Road
Haywards Heath
West Sussex RH16 3SN

Telephone: (01444) 477600
Direct line: (01444) 477724
Fax: (01444) 477757
Email: jpurdy@seeboard.com

Dear Emma,

CAP024 Consultation

We welcome the opportunity to participate in the CAP024 consultation.

We agree with the Amendment Proposal that the current definition of "NGC Credit Rating" is unreasonable where it imposes a higher rating than that required by a licensee under their licence and that by doing so it imposes unnecessary costs on the industry and hence leads to inefficiencies in the promotion of effective competition.

The Authority is under a statutory obligation to ensure that licence holders are able to finance the activities which are the subject of obligations imposed under the Act. In the case of distribution businesses, the Authority applies a licence obligation on distributors to "use all reasonable endeavours to ensure that the licensee maintains at all times an investment grade credit rating". It is entirely reasonable to assume that the standard imposed by the Authority to minimise the risk of a distributor failing is a reasonable measure of the acceptable standard. It is, therefore, not justified for NGC to require a higher and more costly standard than that deemed appropriate by the Authority.

We agree with NGC that credit ratings do not provide an absolute guarantee of the user's ability to pay. However, in the case of a licensed distributors the risk to which NGC is exposed is minimal. The likelihood of a termination occurring at a NGC/distributor connection site in the event of the financial failure of the distributor is almost non-existent - it just can not be envisaged that the lights would be permitted to go out. Ofgem have made it very clear that in the event of supplier failure (as has happened twice now) the customer is not to be disconnected. Therefore, even in the event of distributor failure, the lights would be kept on with the company in administration or under new ownership and there would, therefore, be no termination charges due. Overall the risk of termination charges being defaulted upon by licensed distributors is insignificant when compared to other classes of connected customers.

Consideration must be given as to whether the Amendment Proposal meets Applicable CUSC Objectives. We consider that the imposition by CUSC of a higher rating than that required by

costs into the industry and leads to inefficiencies in the promotion of effective competition in supply as well as reducing the effectiveness of competition in the sale, distribution and purchase of electricity.

The imposition of higher costs on distributors than required by their licence also represents discrimination against licensed distributors. When offering terms NGC is obligated by its licence not to discriminate between any persons or class or classes of persons. The Electricity Act 1989 provides for four distinct licences, a generation licence, a transmission licence, a distribution licence and a supply licence. As the Act makes these distinctions, it is entirely reasonable to view different licence holders as different classes of persons. Discrimination would occur if the costs or potential costs imposed by each class of customer were not reflected in the charges made to or terms offered to that class of customer. As NGC are imposing a higher credit rating on distributors than is required by their licence to meet statutory obligations, NGC are imposing undue costs upon distributors and are, therefore, discriminating against them. The Amendment Proposal is, therefore, entirely consistent with NGC's licence obligations of non-discrimination.

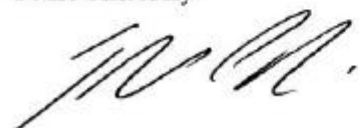
With regard to implementation we do not see any issues with timing, indeed the Amendment can be immediate following the Authorities decision.

We disagree with NGC's suggestion that there should be no change until a wider consultation has taken place. All of the current consultations elsewhere in the industry on credit cover currently omit connection charges and none covers the relationship between two licensed monopolies. Amendment Proposal CAP024 stands on its own and merits adoption.

SEEBOARD Power Networks supports the Amendment Proposal and urges the Amendments Panel to send the amendment to the Authority with a recommendation for approval.

If you have any queries or would like to discuss any of the issues raised in our response please do not hesitate to contact me.

Yours Sincerely



Jonathan Purdy
Policy & Pricing Manager
SEEBOARD Power Networks

Reference	CAP024-CR-06
Company	British Gas Trading Ltd



energy management group

National Grid Company plc
National Grid House
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Charter Court
50 Windsor Road
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Berkshire
SL1 2HA

For the attention of Ms E Groves -
Commercial

Tel. (01753) 758051
Fax (01753) 758170

Our Ref. G: transp/elec
Your Ref.
18 October 2002

Dear Emma,

Re: CAP024 – Modification of defined term “NGC Credit Rating”

Thank you for the opportunity to comment on this Amendment Proposal (AP). British Gas (BGT) does not support the AP as we believe that it is discriminatory and would not further the relevant objectives. In particular we offer the following specific comments.

We do not accept that a credit rating for another activity, irrespective of whether that activity is licensed, has a bearing on the relevant credit rating to apply to CUSC activities.

Should this AP be approved we believe that it would require a similar reduction of all credit ratings for CUSC parties to avoid any discrimination, and this would obviously have implications for NGC’s overall credit exposure and credit requirements.

As has been previously noted when discussing Amendments regarding credit arrangements, until such time as Ofgem’s deliberations on acceptable forms of credit have been completed, we see no value in debating items such as this.

Should you wish to discuss any of our comments further, please do not hesitate to contact me.

Yours sincerely,

Simon Goldring
Transportation Manager

Reference	CAP024-CR-07
Company	London Electricity Group

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

From: Mistry Harish [\[mailto:Harish.Mistry@le-group.co.uk\]](mailto:Harish.Mistry@le-group.co.uk)
Sent: 04 October 2002 16:44
To: Groves, Emma
Subject: CAP024 MODIFICATION OF DEFINED TERM "NGC CREDIT RATING"

Consultation Response -CAP024 NGC CREDIT RATING

This response from London Electricity Group is on behalf of all the groups CUSC Parties.

We are not in favour of CAP024. We do not believe that the proposed amendment better facilitates achievements of the applicable CUSC objectives.

Harish Mistry
London Electricity Group

**ANNEX 4 – COPIES OF COMMENTS RECEIVED ON THE DRAFT
AMENDMENT REPORT**

This Annex includes copies of any representations received following circulation of the Draft Amendment Report (circulated on 9 October 2002, requesting comments by close of business on 16 October 2002).

Representations were received from the following parties:

No.	Company	File Number
1	Aquila Networks plc	CAP024-AR-01
2	Centrica group of CUSC parties	CAP024-AR-02
3	David Lane, CUSC Panel Member	CAP024-AR-03

Reference	CAP024-AR-01
Company	Aquila Networks plc

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

From: Smith, Richard
Sent: 14 October 2002 14:40
To: 'Balkwill, Andy'
Subject: RE: CAP024 Draft Amendment Report

Andy

A few comments on the paper and our views:

1. I am glad to see that the introduction now makes it clear that we are only talking about termination and final sums and not connection charges. However, I believe that the fact that the initial consultation was ambiguous on this should be made clear early on since some arguments appear to be focused on protection against connection charges and the reader should be clear about the intent of the proposed amendment. If there is a case for credit cover against connection charges themselves then I would expect an amendment to be put forward to CUSC to cover them. I suggest adding the following wording to paragraph 1.3 before the final sentence 'This Amendment Report...': 'The Consultation paper did not make clear that the credit requirements of CUSC, and hence the CAP024 proposals, relate to Final Sums and Termination Amounts only (as indicated in paragraph 1.1) and do not specifically cover against failure to pay Connection Charges. The proposer of CAP024 expressed concern that this ambiguity may lead to confusion in the debate over the specific issues for which CAP024 is intended to address. It was agreed, however, not to reissue the consultation at the time, but to wait and see if this ambiguity caused confusion. Readers of this report are invited to note the ambiguity in the initial consultation and focus on the specific area for which CAP024 is aimed.'

2. Paragraph 1.2: I believe it would better represent our intent if it read'.....so as to allow Users who are subject as part of their licence to strict financial ring fencing obligations including the requirement to maintain a certain credit rating, to avoid the need to....'

3. Paragraph 3.1: Again the paper should refer to providing cover against 'Termination' and not 'Connection' charges. In addition we believe it would better represent our views if it read '.... for those Users that are subject as part of their licence to strict financial ring fencing obligations including the requirement to maintain a certain credit rating, to be imposed.....'.

4. Section 6. Our response contained the view that the imposition of a higher credit rating was discriminatory. As non discrimination is a NGC licence objective and hence a CUSC objective, we believe this point should be covered in this section. I suggest an additional paragraph 6.5 ' As part of its licence obligations National Grid should not discriminate between parties or classes of parties. One respondent has expressed the view that to treat licence holders with financial ring fencing arrangements including credit rating obligations differently from other CUSC parties would be discriminatory. Other respondents have expressed the view that where different treatment is cost reflective it is non-discriminatory and as such CAP024 fulfils National Grid's licence, and hence CUSC, obligations.'

5. Section 10.5: I believe a summary of our views would be more complete if it included the words at the end of the block starting ' What is the

Risk...' - 'Whilst there is never any absolute guarantee against a distributor failing... it is reasonable to assume that the standard imposed by the Authority to minimise the risk is a reasonable measure of the acceptable standard'

6. Paragraph 11.1: This covers the relationship where one party is a licensed monopoly. CAP024 is specifically aimed at the subset of where BOTH parties are licences monopolies.

Whilst the above represents comments on the presentation of our views in the report and matters of accuracy, the following represents further comments on National Grid's views.

7. Paragraph 11.2: National Grid believe that there is a real risk a distributor could fail. Whilst we have argued that the risk is low we accept that it is not zero. Our argument, however, is that the financial ring fencing arrangements which we are subject to (which include many more provisions than the obligation to maintain an investment grade credit rating) make the risk as low as it is practicable to do so and that if Ofgem believe that such provisions are sufficient to meet the requirements of an Act of parliament, it is unreasonable for another licensed monopoly to require a higher standard. In addition it is apparent that National Grid are more concerned of the risk of non payment of Connection Charges than of Termination Charges as far a distributors are concerned. We consider it entirely unreasonable to require cover which is set at a level approximately 10 times higher than could reasonably be requested to cover just Connection Charges. We would expect if these are National Grid's concerns they would propose their own amendment to introduce cover provisions for connection charges.

8. Paragraph 11.4: CAP024 will cover any licensee where Ofgem impose financial ring fence arrangements. As such if they do impose the same standards on a private distributor it could be argued that the risk of them failing is no higher than that of an ex PES distributor. Having said that, should Ofgem decide not to provide for such financial arrangements in licences for private networks CAP024, as proposed, would not apply.

9. Paragraph 11.5: We disagree with National Grid's interpretation. The financial ring fence provisions we are subject to are to secure that the licence holder is able to finance the activities which are the subject of obligations imposed under the Act. This goes much wider than just investment in the network. In order to fulfil our obligations we need to have and to maintain connections with the National Grid. The financial ring fence provisions, therefore, directly relate to the same issues a National Grid seek to protect themselves for under CUSC. In the case of a generator even if they have a suitable credit rating they have no obligation to manage the business in such a way as to maintain it and may even choose to financially restructure the business in such a way as to lower it. A distributor does not have that freedom.

10. Price Controls: We note National Grid's comment that the costs of providing security should be pass through and would welcome Ofgem's confirmation of this.

Regards

Richard Smith
System Commercial Manager
Aquila Networks plc

Reference	CAP024-AR-02
Company	British Gas Trading Ltd

From: Goldring, Simon
Sent: 15 October 2002 12:57
To: Dunn, Richard
Cc: Robinson, Catherine; Lane, Danielle; Sequeira, Brian
Subject: Re: CAP024

Richard,

Thank you for the opportunity to comment on the draft Amendment Report for CAP024 - modification of Defined Term "NGC Credit Rating".

The Centrica group of CUSC parties agrees with NGC's recommendation that this proposal should be rejected. We also offer the following comments.

Clause 4.1 - we do not believe that 30 days from a decision by the Authority to implement is sufficient for all the revised credit work that NGC will need to carry out for **all** CUSC parties.

Clause 71. - we believe that there would be an effect on other CUSC parties as we are all impacted if there is a change of credit cover only benefiting one class of parties. We believe that the proposal is unduly discriminatory.

Clause 11.4 - we understand NGCs view that Private Networks are outwith the scope of the Amendment Proposal. However, to limit to the 12 ex-RECs is in itself discriminatory.

We trust that our comments will be recorded in the final report.

Regards
Simon Goldring

Reference	CAP024-AR-03
Company	Panel Member

From: David Lane
Sent: 16 October 2002 12:36
To: Dunn, Richard
Cc: Balkwill, Andy
Subject: RE: CAP024 Draft Amendment Report

Richard

The following view of mine has been omitted from the report:

"I do not agree with NGC's view that the status quo should be maintained until a review is initiated; if this Amendment satisfies the Applicable CUSC Objectives, then it should be implemented."

I believe that this is a significant omission and it should be included.

Regards,

David Lane
ClearEnergy