

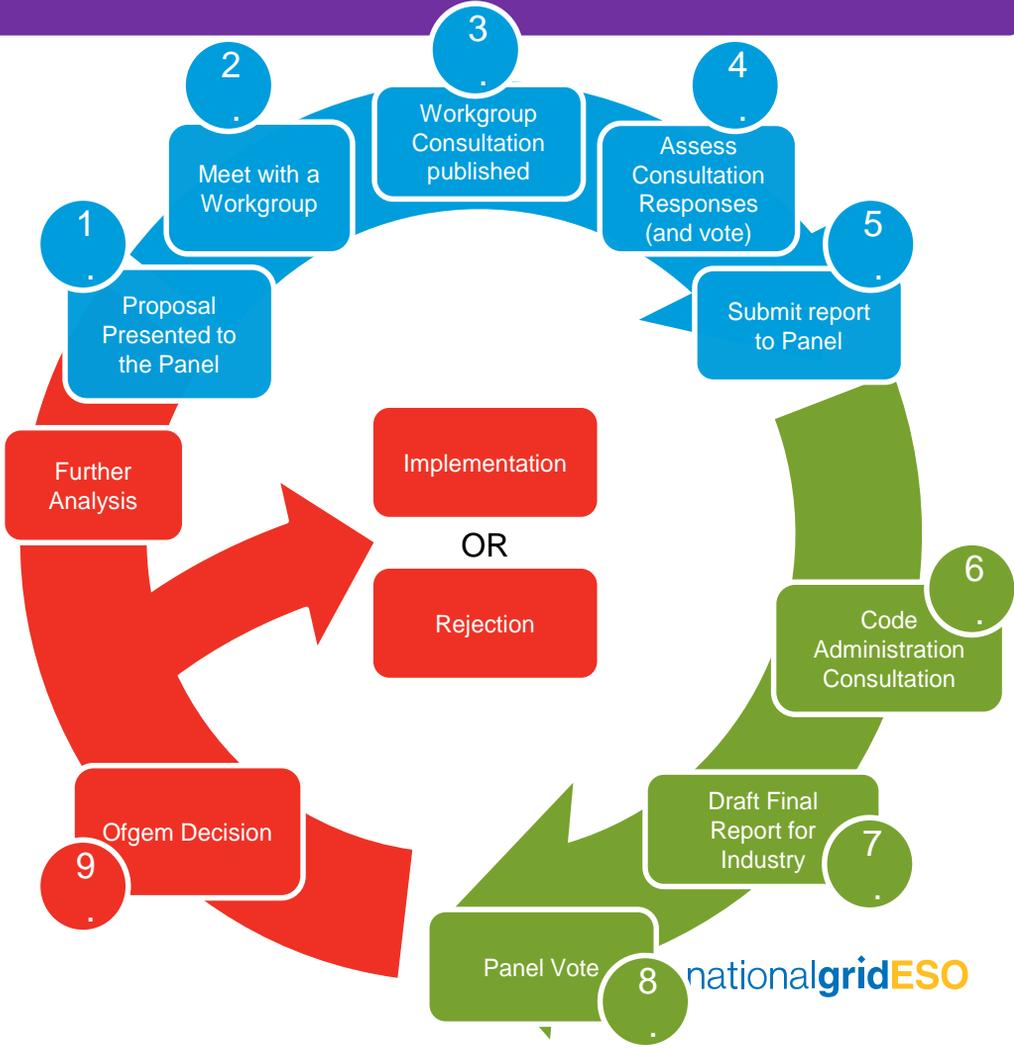
CMP311 – Reassessment of CUSC credit requirements for Suppliers

Agenda

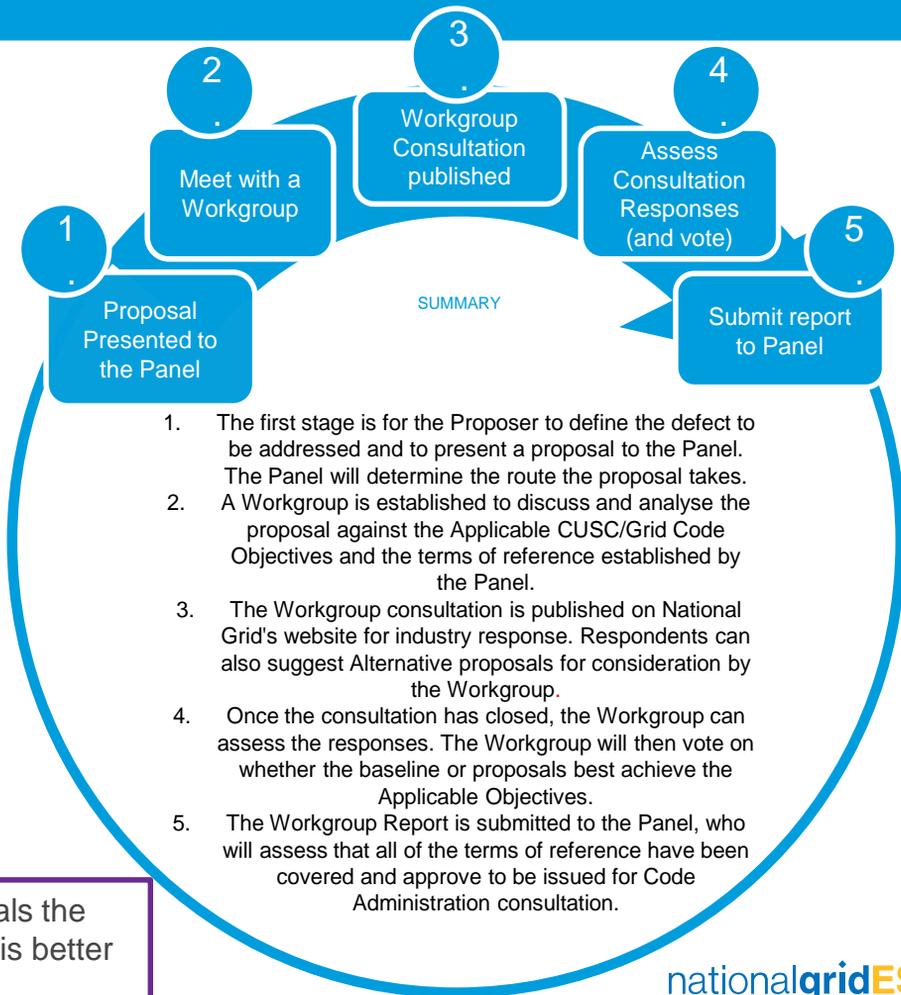
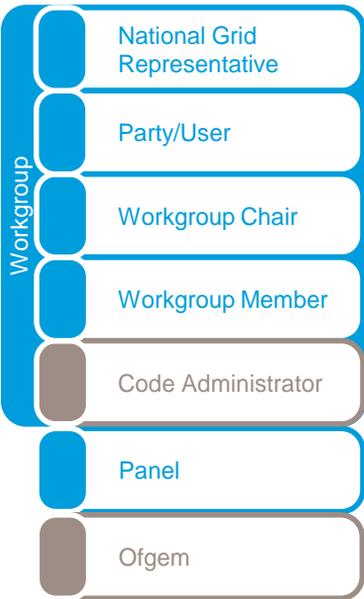
- Overview of the Modification Process
- Introduction – CMP311 Reassessment of CUSC credit requirements for Suppliers

Who is involved?

- Workgroup
 - National Grid Representative
 - Party/User
 - Workgroup Chair
 - Workgroup Member
- Code Administrator
- Panels
- Ofgem

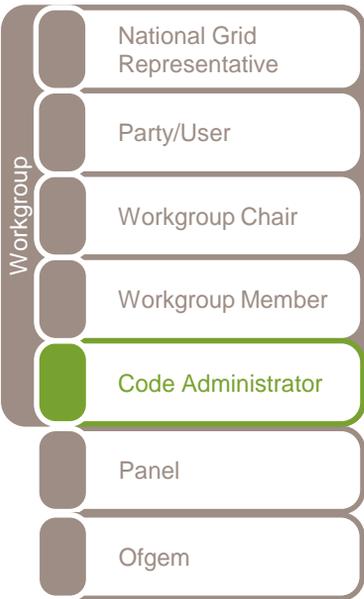


Who is involved?



For any alternative proposals the WG will vote on whether it is better than the baseline

Who is involved?

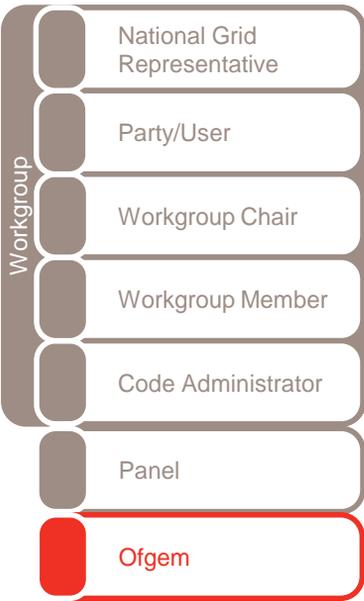


SUMMARY

6. At this stage the Code Administrator gathers views and data from the wider industry on the final proposal and alternatives.
7. The Code Administrator Consultation responses are added to the Workgroup report, which is then published.
8. The Panel will vote on whether the proposal and any alternatives better facilitate the objectives compared to baseline. The proposal will then be recommended for submission to Ofgem.

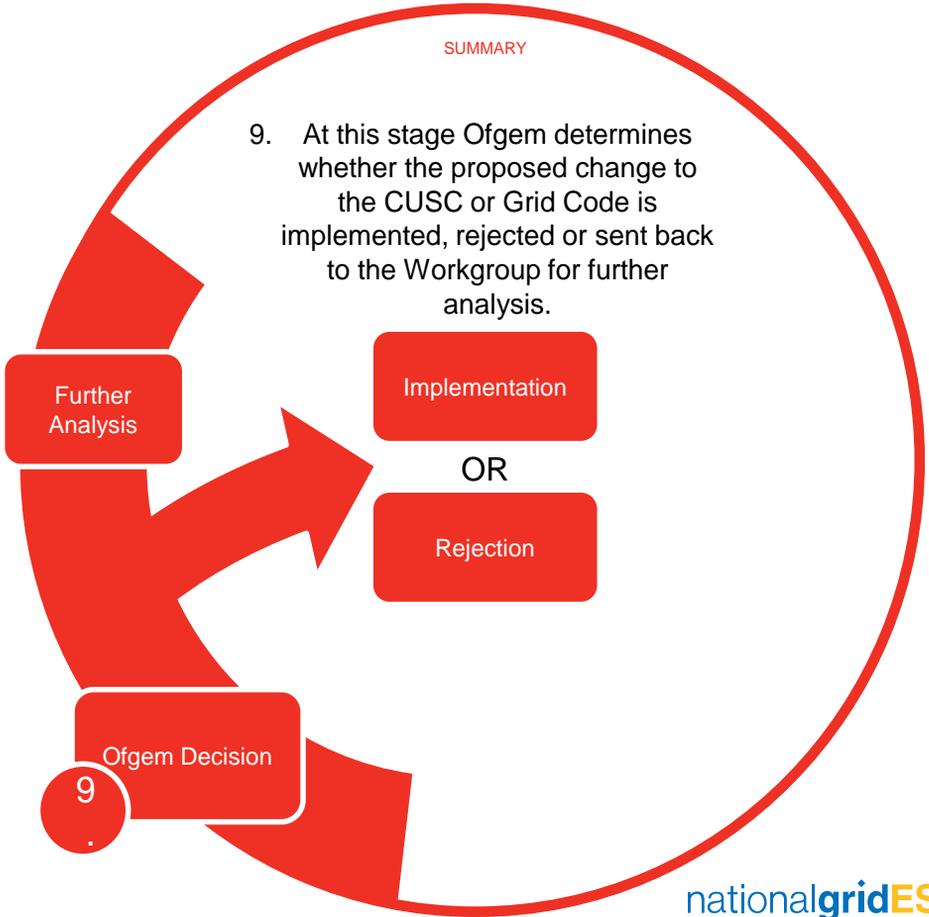


Who is involved?



SUMMARY

- At this stage Ofgem determines whether the proposed change to the CUSC or Grid Code is implemented, rejected or sent back to the Workgroup for further analysis.



Further Information:

Is available on the National Grid ESO website: <https://www.nationalgrideso.com/codes>

- FAQ's
- Modification Tracker
- Horizon Scanning

Code Admin Contact Details: cusc.team@nationalgrid.com

Questions?



CMP311: Reassessment of CUSC credit requirements for Suppliers

Simon Sheridan

Background

- **Raised at TCMF in December 2018**
- **Unsecured Credit**
 - Section 3 of CUSC enables Parties to access 'Allowed' and 'Unsecured Credit' based on Credit Rating/Payment History
 - The ESO therefore is exposed to a proportion of Parties' UoS liabilities
 - The market has changed
 - There are now approximately 70 active Suppliers in the market, vs. the handful that were in operation at the time of S3 being drafted
 - During 2018/19, 9 Suppliers have ceased trading, with consumers undergoing SoLR process – unpaid UoS liabilities are recovered through all Parties
 - The financial risk posed by Unsecured Credit arrangements before re-billing are significant

Mod proposal

- **Defect**

- User Allowed Credit, as defined in Section 3, Part III section 3.27 of the CUSC, allows each supplier to have up to £6 million credit with NGENSO, built up over 60 months.
- The credit is in place to support financial cover for TNUoS and BSUoS liabilities.
- Unsecured credit has grown exponentially as more Suppliers have entered the market, increasing risk to the ESO and potentially costs on consumers due to supplier failure.

- **What**

- NGENSO propose to remove the User Allowed Credit facility from Section 3, Part III of the CUSC
- The 3 areas of cover that will be removed by this change are:
 - Payment record sum, Independent credit assessment and Approved credit rating
- This change will affect all suppliers (new and existing).
- NGENSO suggest an implementation date of April 2020, which allows existing supplier credit to come to natural conclusion and time for alternatives to be found.

Mod proposal 2

- **Why**

- The growth in suppliers, often with business models that carry a substantial amount of financial risk , has led to the ESO re-assessing its credit requirements.
- If nothing is done, then there may be an increase in costs to future consumers if the ESO is unable to recover the unpaid TNUoS and BSUoS invoices because of Supplier failure
- Establishing more appropriate credit arrangements ensures that consumers are protected from Supplier failures, as the ESO isn't guaranteed to recover any outstanding sums as there's currently no enduring mechanism in place.
- As of April 1st, 2019, the ESO will be a separate entity from the TO.
 - Carrying large unsecured amounts of credit risk may cause the ESO additional financial costs which would need to be recovered from consumers.

- **Suggest workgroup route**

- **Suggest priority mod due to the consumer benefits**

Questions?

Terms of Reference

- Consider if a variation to the Users Allowed Credit Components may be appropriate
- Consider the interaction with the Targeted Charging Review (TCR)
- Impact on Suppliers, as well as Consumers
- Analyse recent Supplier of Last Resort (SOLR) incidents – credit rating and payment history
- Ensuring the views of smaller suppliers are represented
- Review of original User Allowed Credit decisions

Questions?