

## Code Administrator Consultation

# CMP351: Financial Securities – Timescales for Provision of Cash Deposit into Escrow

**Overview:** The purpose of this Modification is to change the timescales by which Cash Deposits need to be provided to National Grid ESO through the bi-annual financial securities process.

## Modification process & timetable



Have 5 minutes? Read our [Executive summary](#)

Have 20 minutes? Read the full [Code Administrator Consultation](#)

Have 30 minutes? Read the full Code Administrator Consultation and annexes

**Status summary:** Code Administrator Consultation. We are now consulting on this proposed change.

**This modification is expected to have a:**

**Low impact** on National Grid ESO fulfilling its obligation to ensure Developers are providing the correct level of security against commitments under Construction Agreements.

<b>Governance route</b>	The CUSC Panel by unanimously agreed that this modification should follow the standard governance route and proceed to Code Administrator Consultation.	
<b>Who can I talk to about the change?</b>	<b>Proposer:</b> Mark Pearce NeuConnect Britain Limited <a href="mailto:mark.pearce@neuconnect.eu">mark.pearce@neuconnect.eu</a> Phone: 07979 708 604	<b>Code Administrator:</b> Ren Walker  <a href="mailto:lurrentia.walker@nationalgrideso.com">lurrentia.walker@nationalgrideso.com</a> Phone: 07976 940 855
<b>How do I respond?</b>	Send your response proforma to <a href="mailto:cusc.team@nationalgrideso.com">cusc.team@nationalgrideso.com</a> by <b>5pm on 12 November 2020</b> .	

## Executive Summary

This Modification seeks to change the timescales by which Cash Deposits need to be provided to National Grid ESO through the bi-annual financial securities process.

At the CUSC Panel on 25 September 2020, the Panel requested further explanation on 2 areas:

- Firstly, clarifying who provides security in the form of cash. National Grid ESO confirmed that typically cash security would be provided by smaller parties or larger parties providing a top up to existing security; and
- Secondly, during Panel's assessment of the CMP351 proposal, consideration was given as to whether the period for all forms of Security could be reduced from 45 days to 21 days. National Grid ESO confirmed that shortening the timescales for Documentary forms of credit (e.g. Parent Company Guarantee or Letter of Credit) would not allow National Grid ESO to carry out the Event of Default and Cancellation process before expiry of the Security form.

## What is the issue?

The Proposer believes that the prevailing CUSC provisions inadvertently differentiate between CUSC Parties providing documentary financial instruments and those providing cash deposits. They believe that, if the change is not made, CUSC Parties providing cash as a form of Security are unduly being disadvantaged.

## What is the solution and when will it come into effect?

### Proposers solution:

The Proposer's solution is to relax the timescales for cash deposits for Financial Securities from 45 calendar days to 21 calendar days.

### Implementation date:

This modification will need to be implemented by 15 February 2021 to be effective for the next Securities period.

## What is the impact if this change is made?

The Proposer believes that Consumer interests remain protected insofar as the proposed timescales respect the necessity for National Grid ESO to manage Connection Agreements efficiently and effectively whilst ensuring those Parties affected to not be unduly burdened with providing Financial Security sooner than is absolutely necessary.

## Interactions

This modification has no interactions with other modifications or wider industry works.

## Contents

- **What is the issue?**
- **What is the solution?**
  - Proposer's solution
  - Legal text
- **What is the impact of this change?**
- **When will the change taken place?**
- **How to respond**
- **Acronym table and reference material**

## What is the issue?

Financial Securities can be provided in the form of a Letter of Credit (LoC), Parent Company Guarantee/Company Guarantee (PCG / CG), Performance Bond (PB) or a Cash Deposit.

Documentary forms of Security (LoC, PCG/CG and PB) typically have a commencement and expiry date whilst a Cash Deposit is held in a National Grid ESO managed Escrow Account and has no such defined timeframes. To enable National Grid ESO to manage exposure it is necessary to require CUSC Parties to put in place revised Securities 45 calendar days prior to the start of the next Security Period.

Documentary forms of Security can be pre-dated to the commencement of the next Security Period whilst cash deposits are effective from the date they are provided. CUSC Parties providing cash deposits are therefore over securing for a period of 45 days prior to the start of the next Security Period.

## What is the solution?

### **Proposer's solution:**

The Proposer's solution is to relax the timescales for cash deposits for Financial Securities from 45 calendar days to 21 calendar days. In their view, this addresses and balances this inadvertent disparity between CUSC Parties and National Grid ESO's obligations to the wider industry.

A timescale of 21 calendar days prior to the start of the Security Period is more appropriate for Cash Deposits. This timeframe allows National Grid ESO to issue its first and subsequent Event of Default Letters after which Termination of the Construction Agreement and associated Bilateral Connection Agreement can be notified to the CUSC Party concerned and to the respective Transmission Owner to cease further works associated with that project.

This will encourage competition by not inadvertently penalising Parties wishing to provide cash as a means of Security into an account managed and controlled by National Grid ESO.

## Legal text

The legal text for this change can be found in Annex 2.

## What is the impact of this change?

The modification will have a positive impact for those Parties with a Construction Agreement providing financial securities under the bi-annual securities process by means of a cash deposit into a National Grid ESO managed Escrow Account.

The modification will have little or no impact of National Grid ESO fulfilling its obligation to ensure Developers are providing the correct level of security against commitments under Construction Agreements.

## Proposer's Assessment against the Applicable Objectives

Proposer's Assessment against CUSC Non-Charging Objectives	
Relevant Objective	Identified impact
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	<b>None</b>
(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;	<b>Positive</b>
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	<b>None</b>
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	<b>Positive</b>
*Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).	

The Proposer believes this Proposal better facilitates Applicable CUSC Objectives (b) and (d) as it promotes efficiency in the implementation and administration of the CUSC arrangements by addressing an existing inefficiency requiring parties providing Financial Security by means of a Cash Deposit into an Escrow account to provide it presently 45 days prior to the Security Period in question.

Reducing this specific timescale down from 45 calendar days to 21 calendar days means the CUSC Party concerned is minimising the period for which it is over securing whilst still allowing National Grid ESO to ensure Securities are provided in a timely manner and Event of Default situations can continue to be managed efficiently and effectively by National Grid ESO.

To a lesser extent the Modification facilitates competition in the Generation and Supply of Electricity facilitating such competition in the sale, distribution and purchase of electricity insofar as Developers only have to provide Security in timescales appropriate to the form of Security being provided and not being burdened by the most onerous form of Cash Deposit.

## When will this change take place?

### **Implementation date:**

This modification will need to be implemented by 15 February 2021 to be effective for the next Securities period.

### **Date decision required by:**

A decision is needed from the Authority sufficiently ahead of 15 February 2021, to allow for the Modification to be implemented and be effective for the April – September 2021 Security Period.

### **Implementation approach:**

There are no system changes required to implement this modification. Changes are only required in CUSC, Section 15 'User Commitment Methodology'.

## How to respond

### Code Administrator Consultation questions:

- Do you believe that CMP351 Original proposal better facilitates the Applicable Objectives?
- Do you support the implementation approach?
- Do you have any further comments?

Views are invited on the proposals outlined in this consultation, which should be received by 5pm on **12 November 2020**. Please send your response to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) using the response pro-forma which can be found on the [modification page](#).

*If you wish to submit a confidential response, please note that information provided in response to this consultation will be published on National Grid ESO's website unless the response is clearly marked "Private & Confidential", we will contact you to establish the extent of the confidentiality. A response marked "Private & Confidential" will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the CUSC Modifications Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response. Please note an automatic confidentiality disclaimer generated by your IT System will not in itself, mean that your response is treated as if it had been marked "Private and Confidential".*

**Acronyms, key terms and reference material**

Acronym / key term	Meaning
Baseline	The code/standard as it is currently
LoC	Letter of Credit
PCG / CG	Parent Company Guarantee / Company Guarantee
PB	Performance Bond

**Reference material:**

None

**Annexes**

Annex	Information
Annex 1	CMP351 Proposal Form
Annex 2	Legal Text