



CONSULTATION DOCUMENT

CUSC Amendment Proposal CAP119

Clarification of, and correction to, the table of Users' Credit Allowances

*The purpose of this document is to
consult on Amendment Proposal CAP119
with CUSC Parties and other interested
Industry members*

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|---------------|---------------|
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| Prepared by | National Grid |

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| 1.0 | 02/02/06 | National Grid | Formal version for release |

b Document Location

National Grid website:

www.nationalgrid.com/uk/electricity/codes/

c Distribution

| Name | Organisation |
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| CUSC Parties | Various |
| Panel Members | Various |
| Interested Parties | Various |
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1.0 SUMMARY AND VIEWS

Executive Summary

- 1.1 CAP119, Clarification of, and correction to, the table of Users' Credit Allowances, was proposed by National Grid and submitted to the CUSC Amendments Panel for consideration at their meeting on 27th January 2006. The CUSC Amendments Panel determined that it was appropriate for the proposal to proceed to wider industry consultation by National Grid.
- 1.2 This document initiates this wider consultation exercise, and invites views on CUSC Amendment Proposal CAP119. The consultation closing date is **16th February 2006**.

National Grid's View

- 1.3 National Grid, as the proposer of CAP119, is supportive of the amendment proposal, believing that it would better facilitate achievement of the applicable CUSC objectives.

2.0 PURPOSE AND INTRODUCTION

- 2.1 This is a consultation document 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 Further to the submission of Amendment Proposal CAP119, this document seeks views from industry members relating to the Amendment Proposal.
- 2.3 CAP119 was proposed by National Grid and submitted to the CUSC Amendments Panel for consideration at their meeting on 27th January 2006. The Amendments Panel determined that CAP119 was appropriate to proceed to wider industry consultation by National Grid.
- 2.4 This consultation document outlines the nature of the CUSC changes that are proposed. 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.
- 2.6 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 www.nationalgrid.com/uk/Electricity/Codes/ along with the Amendment Proposal form. This document invites views upon CAP119 and the closing date is **16th February 2006** for responses, including any Consultation Alternatives.
- 2.7 CUSC Parties are reminded that any Consultation Alternatives must be submitted by the above closing date and must be in writing and contain sufficient detail in accordance with the requirements within CUSC 8.15.2

3.0 PROPOSED AMENDMENT

- 3.1 CAP119 proposes to amend a table introduced into the CUSC by CAP089/090/091. CAP089/090/091 was proposed by National Grid and BizzEnergy in May 2005 in order to address and codify certain elements of Ofgem's "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" (referred to hereafter as "the best practice guidelines"), which had been published in February 2005. The changes to the CUSC proposed by CAP089/090/091 largely impacted Section 3 of the CUSC, and the proposal was approved by Ofgem on 20th December 2005 for implementation on 1st February 2006.
- 3.2 CAP089/090/091, in part, introduced the concept of Unsecured Credit Allowances to be used when calculating the security cover required from Users for Use of System charges. For Users with an Approved Long Term Credit Rating of BB- or above, this Credit Allowance will be determined by reference to a table in Paragraph 1 of a new Appendix 1 to Section 3 of the CUSC.
- 3.3 It is this table that CAP119 proposes to amend, with the aim of clarifying the original table by setting out all the Long Term ratings for each rating agency in relation to the percentage of unsecured credit allowed. The original table lacks a degree of transparency as it groups the ratings strictly in accordance with the "Basel II" model as detailed in the best practice guidelines, and does not expressly set out all related ratings. In other words, instead of referring simply to AAA/AA, it is proposed that the table should explicitly also refer to AA+ and AA-. Similarly, the reference to ratings of A would be clarified by including A+ and A- ratings.
- 3.4 This issue was first raised by a respondent to the CAP089/090/091 consultation document (E.ON UK). However, due to the large number of Alternative Amendments proposed in relation to CAP089/090/091, neither National Grid nor the respondent considered that the issue was sufficiently material as to warrant further adding to the complexity of that amendment proposal.
- 3.5 Following the approval of the CAP089/090/091 Consultation Alternative Amendment (CAA) 12 by the Authority, it was also brought to National Grid's attention that the table of credit ratings to be implemented contained an error in respect of some of the references to Fitch ratings. The intention of the table was to contain Long Term ratings; however, in the column of Fitch ratings the Short Term rating of B had been inadvertently included. CAP119 therefore proposes to amend these to instead refer to the Long Term ratings of BB+, BB and BB-.
- 3.6 National Grid would like to emphasise that neither of these changes will alter in any way the process introduced by CAP089/090/091. Equally, National Grid believes that the CAP089/090/091 process will work without CAP119 – the implicit references contained in AAA/AA and A plus the Short Term Fitch Ratings will ensure that all relevant Users will be assigned the correct Credit Allowance. However, National Grid considers that CAP119 would significantly enhance the transparency of the table concerned and the process in general, and that now is an appropriate point at which to propose such a clarification.

- 3.7 The legal text to give effect to CAP119 is attached as Annex 1 to this document.

4.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

- 4.1 National Grid is required by the terms of its Transmission Licence to facilitate amendments to the CUSC that would better facilitate achievement of the following objectives:

- (a) the efficient discharge by the Licensee of the obligations imposed upon it by the act and the Transmission Licence; and
- (b) facilitating effective competition in generation and supply of electricity and facilitating such competition in the sale, distribution and purchase of electricity.

- 4.2 National Grid believes that the amendments proposed by CAP119 would ensure that Users with Approved Credit Ratings were in no doubt as to the Unsecured Credit Allowance that they were entitled to, and that this would therefore better facilitate competition in the generation and supply of electricity.

5.0 PROPOSED IMPLEMENTATION

- 5.1 National Grid propose that CAP119 should be implemented ten Business Days after an Authority decision. In accordance with paragraph 8.19.3(b) of the CUSC, views are invited on this proposed implementation date.

6.0 IMPACT ON THE CUSC

- 6.1 CAP119 would require amendments to the table in paragraph 1 of Appendix 1 to Section 3 (Use of System) of the CUSC.
- 6.2 The text required to give effect to CAP119 is contained as Annex 1 of this document.

7.0 IMPACT ON INDUSTRY DOCUMENTS

- 7.1 CAP119 has no impact upon Core Industry Documents or other Industry Documents.

8.0 INITIAL VIEW OF THE AMENDMENTS PANEL

- 8.1 The Amendments Panel agreed that CAP119 should proceed to wider consultation by National Grid, for a period of 10 business days.

9.0 INITIAL VIEW OF NATIONAL GRID

- 9.1 National Grid believes that CAP119 better facilitates the Applicable CUSC Objectives to enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfil its obligations to facilitate competition in the generation and supply of electricity. We consider that, although CAP119 would not materially alter any process, it would significantly enhance the transparency of the table concerned.

10.0 VIEWS INVITED

- 10.1 National Grid is seeking the views of interested parties in relation to the issues raised by Amendment Proposal CAP119 and issues arising from the proposed timescale for implementation of CAP119.
- 10.2 Please send your responses to this consultation to National Grid by no later than close of business on **16th February 2006**.
- 10.3 Please address all comments to the following e-mail address:

beverley.viney@uk.ngrid.com

Or alternatively, comments may be addressed to:

Beverley Viney
Amendments Panel Secretary
Electricity Codes
National Grid
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

ANNEX 1 - PROPOSED LEGAL TEXT TO MODIFY THE CUSC

Amend the table in Paragraph 1 of Appendix 1 of Section 3 of the CUSC as follows:

| Approved Long Term Credit Rating | | | User's Allowed Credit as % of Unsecured Credit Cover |
|---|---|---|--|
| Standard & Poor's | Moody's | Fitch | |
| AAA/ AA AA+ AA AA- | Aaa/ Aa2 Aa1 Aa2 Aa3 | AAA/ AA AA+ AA AA- | 100 |
| A+ A A- | A1 A2 A3 | A+ A A- | 40 |
| BBB+ | Baa1 | BBB+ | 20 |
| BBB | Baa2 | BBB | 19 |
| BBB- | Baa3 | BBB- | 18 |
| BB+ | Ba1 | BB+ | 17 |
| BB | Ba2 | BB | 16 |
| BB- | Ba3 | BB- | 15 |

ANNEX 2 – AMENDMENT PROPOSAL FORM

| CUSC Amendment Proposal Form | CAP: 119 |
|--|-----------------|
| | |
| <p>Title of Amendment Proposal:</p> <p>Clarification of, and correction to, the table of Users' Credit Allowances</p> | |
| <p>Description of the Proposed Amendment (mandatory by proposer):</p> <p>It is proposed that the CUSC be amended to update the table for Users' Credit Allowances as a % of Unsecured Credit Cover. This would clarify the original table setting out all the long term ratings for each ratings agency in relation to the percentage of unsecured credit allowed, as introduced by CAP089/090/091. The original table lacks a degree of transparency as it groups the ratings strictly in accordance with the Basel II model and does not expressly set out all related ratings. In other words, instead of referring simply to AAA/AA, it is proposed that the table should explicitly also refer to AA+ and AA-. Also, the original table was found to contain an error on the Fitch rating, whereby a short term equivalent rating had been inserted alongside the long term ratings. Therefore it is proposed to replace the three references to B with BB+, BB and BB- respectively.</p> <p>This proposal will only clarify the table and does not represent any material change to the process introduced by CAP089/090/091.</p> | |
| <p>Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):</p> <p>There is an error in original table and also a lack of clarity as to the exact percentages of unsecured credit that each individual rating agencies' ratings related to.</p> | |
| <p>Impact on the CUSC (this should be given where possible):</p> <p>Amend table in Paragraph 1 of Appendix 1 of Section 3.</p> | |
| <p>Impact on Core Industry Documentation (this should be given where possible):</p> <p>None.</p> | |
| <p>Impact on Computer Systems and Processes used by CUSC Parties (this should be given where possible):</p> <p>None.</p> | |
| <p>Details of any Related Modifications to Other Industry Codes (where known):</p> <p>None.</p> | |
| <p>Justification for Proposed Amendment with Reference to Applicable CUSC Objectives** (mandatory by proposer):</p> <p>Introduction of the proposed table would ensure that the users are in no doubt to the percentage of unsecured credit that they are entitled to and hence would enable National Grid to more 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> | |

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|---|---|
| Details of Proposer: Organisation's Name: | National Grid Electricity Transmission 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: | Paul Murphy National Grid Electricity Transmission plc 01926 656330 paul.murphy@uk.ngrid.com |
| Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address: | Andrew Truswell National Grid Electricity Transmission plc 01926 655388 andrew.truswell@uk.ngrid.com |
| Attachments (Yes/No): Yes If Yes, Title and No. of pages of each Attachment: Legal Text (1 page) | |

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:

Lindsey Paradine
Panel Secretary
Commercial Frameworks
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA
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).

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.