



WORKING GROUP REPORT

CUSC Amendment Proposal CAP099

**Incorporation of additional credit management tools
within the CUSC in line with current best practice**

**Prepared by the CAPs098-099 Working Group
for submission to the Amendments Panel**

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I DOCUMENT CONTROL

a National Grid Document Control

Version	Date	Author	Change Reference
0.1	09/09/05	A Truswell	First draft for comment
1.0	19/09/05	A Truswell	Report submitted to CUSC Panel

b 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

Executive Summary

- 1.1 Ofgem published a conclusions document on best practice guidelines for gas and electricity network operator credit cover in February 2005 (“Best practice guidelines for gas and electricity network operator credit cover”, hereafter referred to as “the best practice guidelines”). In order to address and codify certain elements of these guidelines, CAP099 was raised by BizzEnergy. The CUSC Amendments Panel considered CAP099 on 29th July 2005 and agreed that a Working Group should consider the proposal, along with CAP098. The Working Group was required to report back to the September 2005 Panel meeting but its terms of reference required that if it reached agreement before this date on any of the Amendment Proposals then it should submit any reports earlier than this.

Working Group Recommendation

- 1.2 The Working Group recommends that the CAP099 CUSC Amendment Proposal is now ready to proceed to wider industry Consultation.

2.0 INTRODUCTION

- 2.1 Ofgem’s best practice guidelines recommended that the following tools should be available to counterparties of gas and electricity network operators to allow them to cover any security requirements beyond their unsecured credit limit:

- A Letter of Credit from a bank with a credit rating of not less than A
- Cash held in an Escrow account
- A Performance Bond (provided by an insurance company, not a bank)
- Bilateral Insurance
- Independent Security
- Prepayment (payment made before the delivery of the service)
- Advance Payment (payment made after delivery of the service but before contract settlement)

- 2.2 Parties may currently provide security to National Grid for Use of System charges (comprising Balancing Services Use of System and Transmission Network Use of System charges) through Letters of Credit, Cash held in Escrow and Guarantees from Parent Companies. CAP099 therefore proposes to amend the CUSC to allow the use of:

- A Performance Bond
- Bilateral Insurance
- Independent Security (i.e. from an entity other than a bank, an insurer or a parent company)
- Prepayment / Advance Payment

- 2.3 For the avoidance of doubt, the scope of these proposals is limited to the provision of security for Use of System charges. Please also note that Standard and Poor’s long term credit ratings are used throughout this document; such references should be read as allowing equivalent short term ratings or equivalent long or short term ratings from Moody’s or Fitch.

3.0 PURPOSE AND SCOPE OF WORKING GROUP

- 3.1 The Working Group is responsible for assisting the CUSC Amendments Panel in the evaluation of CUSC Amendment Proposal CAP099. CAP099 was tabled by BizzEnergy at the meeting of the Amendments Panel on 29th July 2005.
- 3.2 The proposals must be evaluated to consider whether they better facilitate achievement of the applicable CUSC objectives. These can be summarised as follows:
- (a) the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence; and
 - (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.

4.0 WORKING GROUP DISCUSSIONS

- 4.1 The Working Group considered general issues in facilitating the use of the new credit management tools, and also issues specific to each of the tools proposed. These discussions are summarised below.

General Issues

- 4.2 The proposer confirmed that it was the intention of the proposal to allow counterparties to provide a combination of any of the available credit management tools in order to meet the total security requirement. This is in accordance with the recommendation of the best practice guidelines.
- 4.3 National Grid summarised the current CUSC requirements for credit management tools: that they should be from a creditworthy entity; that National Grid should have the ability to call down upon the tool, and in a timely manner; and that such tools should cover the security requirement. National Grid further suggested that the criteria set out in paragraph 3.40 of the best practice guidelines would form a good basis for determining whether of not additional credit management tools would be fit for purpose from National Grid's point of view. The criteria are:
- The credit support must be from an entity with a credit rating not less than A;
 - It should be legally enforceable in the UK;
 - The country of residence of the support provider must have a sovereign credit rating of A or better for non local currency obligations; and
 - There should be no material conditions preventing exercise of the security.
- 4.4 The proposer highlighted that the best practice guidelines recommend use of these criteria for determining whether of not security should be valued at 100% of face value. Therefore, security failing to meet these criteria should be accepted but at a value less than 100%. In the event that the counterparty disagreed with National Grid's valuation of such security, a disputes process would be required.

- 4.5 The best practice guidelines state that “where a counterparty disagrees with the rating given by a NWO [Network Operator] to a proposed credit cover tool ... such disputes should be referred to an industry group for determination”. However, the Working Group considered that a suitable group did not currently exist. The majority of the Working Group also agreed that any such group would need to be part of the formal CUSC governance process, and it was felt that establishing such a group to arbitrate a potentially very small number of disputes would be a disproportionate solution, and potentially outside the scope of this proposal.
- 4.6 The Working Group therefore agreed that disputes would be resolved by an Independent Expert, appointed by both parties. In the event that the parties were unable to agree the appointment of such an expert, the appointment would be made by a relevant professional body. This requirement could be amended at a later date if an appropriate industry group was established.
- 4.7 Many Working Group members expressed concern that discussions between National Grid, the counterparty and, potentially, any arbiter would not be transparent to other parties. The most creditworthy parties would be bound by clearly defined criteria, where as the least creditworthy parties would be subject only to bilateral negotiation. National Grid also expressed concern that this process could be seen to be very undefined and therefore result in the majority of cases going to arbitration. The Working Group concluded that it would be beneficial if either guidelines or records of determinations could be made available.
- 4.8 It was suggested that transparent criteria could be added to the provision of credit cover by less creditworthy entities by reference to the process for determining unsecured credit allowances for rated counterparties. Such allowances could therefore be used to determine the maximum amount to be provided by entities other than the counterparty. Ofgem stated that the methodology had only been derived for companies in the UK gas and electricity markets, and that it may not therefore be appropriate to extend its use to entities outside of these markets. Some members of the Working Group disagreed with the methodology in general; some disagreed that there was a difference between companies in the UK gas and electricity markets and those not; and some took the view, that while not perfect, the methodology would at least provide a clear and transparent set of criteria. However, the proposer stated that it was not the intention of the proposal to include such a provision.

Performance Bonds and Independent Security

- 4.9 The Working Group discussed the difference between Performance Bonds and Independent Security. It was clarified that Performance Bonds would be provided by an insurance company, and that the introduction of Independent Security would therefore allow credit cover to be provided by an entity that was not a parent company, bank or insurer.

Bilateral Insurance

- 4.10 The Working Group discussed the specifics of Bilateral Insurance, clarifying that such insurance would normally only pay out in the event of insolvency of the counterparty. National Grid expressed concerns that the insurance company would not pay out the full amount in default, and then any recovery would be very slow. It was also clarified that, in an insolvency situation, it would be necessary to provide adequate evidence to the insurer in an

insolvency situation that a debt was due, and that all reasonable efforts had previously been exercised in order to obtain payment of this debt. Some Working Group members believed this to be little more than a formality, but National Grid highlighted that this would place a higher burden of proof on National Grid than under current forms of collateral acceptable under the CUSC.

- 4.11 A member of the Working Group believed that Bilateral Insurance policies are typically onerous and expensive with large excesses. He also raised the issue that insurance companies are less creditworthy than banks. The proposer disagreed, believing that, although initial use of the product may be low, it would allow use by those parties that wanted to and would encourage future innovation.
- 4.12 The Working Group also discussed whether there were generic forms of Bilateral Insurance, or whether it was always negotiated on a case-by-case basis. This would affect the legal drafting, the transparency to other parties, and valuation of the tool against its face value. The proposer believed that there were relatively few products in the market place, but, due to the relative immaturity of the product, suggested that the legal drafting should not be too prescriptive.

Prepayment / Advance Payment

- 4.13 The proposer believed that there should be a mechanism allowing for, and incentives to encourage, parties to prepay. National Grid suggested that such prepayments would not reduce a party's credit requirement, as the Value at Risk calculated either under the existing CUSC provisions, or under those proposed by CAP089/090/091, would not be reduced.
- 4.14 The proposer agreed, but stated that there would still be a benefit to National Grid in terms of cash flow, and that there may be a benefit to Users, particularly start up suppliers, in that they may be able to utilise their working capital. The exact benefit available would depend on the interest rate available, and it was noted that the best practice guidelines state that monies provided as prepayment should appreciate at Base Rate.
- 4.15 The Working group concluded that prepayment is unlikely to be used by many parties, but that the opportunity to do so should be codified within the CUSC.

Summary and Legal Text

- 4.16 CAP099 can therefore be summarised as proposing to add Bilateral Insurance, Performance Bonds and Independent Security to the CUSC as acceptable methods of providing security cover. Where these meet certain requirements (including the entity providing the security having a credit rating of at least A-, consistent with the provisions for providing security for connection to the Transmission System) they will be accepted at 100% of face value. Where such cover does not meet these requirements, it would be accepted by National Grid, but would be discounted to less than 100% of face value. Any disputes over the exact discount applied would be referred to an Independent Expert. Prepayment / Advance Payment would also be permitted.
- 4.17 Indicative legal text to give effect to CAP088 is attached as Part A of Annex 2 of this document, but was not reviewed at the Working Group meetings.

5.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

- 5.1 The proposer considers that the original CAP099 proposal would enable National Grid to better facilitate competition in the generation and supply of electricity by allowing a wider range of credit management tools to be utilised. The proposed believes that precluding their use restricts the options of Users, and constitutes an artificial barrier to entry to the market.
- 5.2 However, the proposer was the only member of the Working Group to believe that the original CAP099 proposal clearly better facilitated the Applicable CUSC Objectives. Three members were unsure, and two considered that it definitely did not. (Working Group members from National Grid shared one vote.)

6.0 ALTERNATIVE AMENDMENT

Description of Alternative Amendment

- 6.1 As discussed above, some Working Group members were uncomfortable with one or more elements of the original CAP099 proposal. Three of the more prominent of these issues were:
- Bilateral Insurance, which some believed to be risky, inefficient and insufficiently developed;
 - The provision of Performance Bonds and Independent Security by entities with a low degree of creditworthiness; and
 - The non-transparent nature of the bilateral negotiation process between National Grid and counterparties offering security rated at less than 100% of face value, and the potentially resulting disputes process.
- 6.2 To counter these concerns, a Working Group Alternative Amendment was proposed. This proposed adding Performance Bonds and Independent Security (but not Bilateral insurance) to the CUSC as acceptable methods of providing security cover, but only where these met all the requirements (included the provider having a credit rating of at least A-, consistent with the provisions for providing security for connection to the Transmission System). As a result, no negotiation or disputes processes would be required. Prepayment / Advance Payment would also be permitted. Indicative legal text to give effect to the Working Group Alternative Amendment is attached as Part B of Annex 2 of this document, but was not reviewed at the Working Group meetings

Assessment Against Applicable CUSC Objectives

- 6.3 The proposer of the Working Group Alternative Amendment believed that the Original Proposal would not better facilitate the Applicable CUSC Objectives because:
- Accepting Bilateral Insurance, accepting Security from entities with a low degree of creditworthiness, and engaging in opaque bi-lateral negotiation processes, would all be inefficient; and
 - Accepting such security, which is inherently more risky, could increase the exposure the industry to the costs of User insolvency.

Both this and the introduction of un-codified, bilateral negotiation processes would hinder competition.

- 6.4 However, the proposer of the Working Group Alternative Amendment believed that the tools and mechanisms included in this Alternative Amendment, as described in paragraph 6.2, would unambiguously better facilitate competition in the generation and supply of electricity by allowing a wider range of efficient credit management tools to be utilised.
- 6.5 In addition to the proposer of the Working Group Alternative Amendment, two other members of the Working Group also believed that it better facilitated the Applicable CUSC Objectives. Two members were unsure, and one considered that it did not.
- 6.6 Working Group members indicated that they preferred the Working Group Alternative Amendment to the Original Proposal by a margin of five to one.

7.0 PROPOSED IMPLEMENTATION AND TIMESCALES

- 7.1 It is proposed that should the Authority approve the original CAP099 proposal, or the Working Group Alternative Amendment, implementation should be 10 business days after the Authority decision.

8.0 IMPACT ON CUSC

- 8.1 The original CAP099 proposal or the Working Group Alternative Amendment will require a number of changes to Section 3 Part III (Credit Requirements), Section 6 (General Provisions) and Section 11 (Interpretation and Definitions) of the CUSC as detailed in the legal text in Annex 2.

9.0 IMPACT ON INDUSTRY DOCUMENTS

Impact on Core Industry Documents

- 9.1 None.

Impact on other Industry Documents

- 9.2 None.

Annex 1 – Working Group Terms of Reference and Membership

TERMS OF REFERENCE FOR CAPs 098-099 WORKING GROUP

RESPONSIBILITIES

1. The Working Group is responsible for assisting the CUSC Amendments Panel in the evaluation of CUSC Amendment Proposals CAPs 098-099 inclusive tabled by BizzEnergy at the Amendments Panel meeting on 29th July 2005.
2. The proposal must be evaluated to consider whether it better facilitates achievement of the applicable CUSC objectives. These can be summarised as follows:
 - (a) the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence; and
 - (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.
3. It should be noted that additional provisions apply where it is proposed to modify the CUSC amendment provisions, and generally reference should be made to the Transmission Licence for the full definition of the term.

SCOPE OF WORK

4. The Working Group must consider the issues raised by the Amendment Proposals and consider if the proposals identified better facilitate achievement of the Applicable CUSC Objectives.
5. In addition to the overriding requirement of paragraph 4, the Working Group shall consider
 - Cost to National Grid for facilitating more frequent reconciliations
 - Worked examples of the issue
 - An explicit assessment of the risk to other players

and incorporate appropriate legal drafting in the report to implement CAPs 098-099 or any Working Group Alternative Amendment (WGAA) developed by the Group.

6. The Working Group is responsible for the formulation and evaluation of any WGAA's arising from Group discussions which would, as compared with the Amendment Proposal, better facilitate achieving the applicable CUSC objectives in relation to the issue or defect identified.
7. The Working Group should become conversant with the definition of Working Group Alternative Amendments which appears in Section 11 (Interpretation and Definitions) of the CUSC. The definition entitles the

Group and/or an individual Member of the Working Group to put forward a Working Group Alternative Amendment if the Member(s) genuinely believes the Alternative would better facilitate the achievement of the Applicable CUSC Objectives. The extent of the support for the Amendment Proposal or any Working Group Alternative Amendment arising from the Working Group's discussions should be clearly described in the final Working Group Report to the CUSC Amendments Panel.

8. The Working Group Chairman should provide progress reports to the CUSC Amendments Panel meetings scheduled for 25th August. The Working Group is to submit their final report to the CUSC Panel Secretary on 15th September 2005 for circulation to Panel Members. The conclusions will be presented to the CUSC Panel meeting on 23rd September 2005.

MEMBERSHIP

9. It is recommended that the Working Group has the following members:

Chair	Ben Graff
National Grid	Paul Murphy Andrew Truswell
Industry Representatives	Carl Wilkes (RWE npower) Keith Munday (BizzEnergy) Lee Selway (EDF Energy) John Capener (British Energy) Bob Brown (Cornwall Consulting) Neil Smith (E.ON) Mark Manley (Centrica)
Authority Representative	Dipen Gadhia
Technical Secretary	Lindsey Paradine

[NB: Working Group must comprise at least 5 Members (who may be Panel Members) and will be selected by the Panel with regard to WG List held by the Secretary]

10. The membership can be amended from time to time by the CUSC Amendments Panel. Any additional nominations for Membership of the Group after the CUSC Panel meeting scheduled for 20th May should be provided to the CUSC Panel Secretary.

RELATIONSHIP WITH AMENDMENTS PANEL

11. The Working Group shall seek the views of the Amendments Panel before taking on any significant amount of work. In this event the Working Group Chairman should contact the CUSC Panel Secretary.
12. Where the Working Group requires instruction, clarification or guidance from the Amendments Panel, particularly in relation to their Scope of Work, the Working Group Chairman should contact the CUSC Panel Secretary.

MEETINGS

13. The Working Group shall, unless determined otherwise by the Amendments Panel, develop and adopt its own internal working procedures and provide a copy to the Panel Secretary for each of its Amendment Proposals.

REPORTING

14. The Working Group Chairman shall prepare a final report to the Amendments Panel scheduled for 19th August 2005 responding to the matter set out in the Terms of Reference.
15. A draft Working Group Report must be circulated to Working Group members with not less than five business days given for comments.
16. Any unresolved comments within the Working Group must be reflected in the final Working Group Report.
17. The Chairman (or another member nominated by him) will present the Working Group report to the Amendments Panel as required.

Annex 2 – Proposed Text to modify CUSC

Part A – Indicative text to give effect to the Proposed Amendment

Amend Paragraph 3.21.3 to replace full stop at end of 3.21.3 (iii) with a semi colon followed by the words “and/or”

Add the following as 3.21.3 (iv)

- “(iv) deliver to **NGC** a **Bilateral Insurance Policy** in such an amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or”

Add the following as 3.21.3 (v)

- “(v) deliver to **NGC** an **Insurance Performance Bond** in such an amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or”

Add the following as 3.21.3 (vi)

- “(vi) deliver to **NGC** an **Independent Security Arrangement** in such an amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22.”

Amend first paragraph in 3.21.5 to add the words “or **Bilateral Insurance Policy** or **Insurance Performance Bond** or **Independent Security Arrangement**” after the word “**Guarantee**” on lines 6 and 15 and the word “**Guarantees**” on lines 8 and 12.

Delete full stop at end of 3.21.5 (e) and replace with semi colon and word “or”

Add the following as 3.21.5 (f) and (g)

- “(f) subject to the entity issuing the **Bilateral Insurance Policy** or **Insurance Performance Bond** or **Independent Security**

Arrangement continuing to meet the **Requirements** provide **NGC** with confirmation from the issuing entity that the validity of the **Bilateral Insurance Policy** or **Insurance Performance Bond** or **Independent Security Arrangement** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or

- (g) provide **NGC** with a new **Bilateral Insurance Policy** or **Insurance Performance Bond** or **Independent Security Arrangement** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Bilateral Insurance Policy** or **Insurance Performance Bond** or **Independent Security Arrangement** shall be available for a period of not less than 6 months.”

Amend first paragraph in 3.21.6 to add the words “and/or **Bilateral Insurance Policy** and/or **Insurance Performance Bond** and/or **Independent Security Arrangement**” after the word “**Guarantee**” on lines 6, 8 and 10.

Amend 3.21.7 (a) to add the words “or a **Bilateral Insurance Policy** or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Guarantee**” on line 5.

Amend 3.21.7 (b) to add the words “or a **Bilateral Insurance Policy** or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Credit**” on line 4.

Add the following as 3.21.7(c)

- “(c) If the entity providing the **User’s Bilateral Insurance Policy** or **Insurance Performance Bond** or **Independent Security Arrangement** ceases to meet the **Requirements** the **User** shall forthwith procure a replacement of the same or a **Bilateral**

Insurance Policy, Insurance Performance Bond, Independent Security Arrangement, Letter of Credit, Qualifying Guarantee or transfer to **NGC** cash to be credited to the **Escrow Account**.”

Amend 3.22.4 to add the words “or **Bilateral Insurance Policy** or **Insurance Performance Bond** or **Independent Security Arrangement**” after the word “**Credit**” on lines 8 and 16.

Amend 3.22.5 (a) to add the words “or a **Bilateral Insurance Policy** or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Credit**” on line 2.

Amend 3.22.5 (b) to add the words “or a **Bilateral Insurance Policy** or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Credit**” on line 2.

Amend 3.22.5 (e) to add the words “or a **Bilateral Insurance Policy** or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Guarantee**” on line 2 and add the words “cease to meet the **Requirements** in the case of a **Bilateral Insurance Policy** or an **Insurance Performance Bond** or an **Independent Security Arrangement** or in the case of a **Qualifying Guarantee**” after the word “shall” on line 3.

Amend 3.22.6 to add the words “or a **Bilateral Insurance Policy** or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Credit**” on line 14.

Delete full stop at end of 3.23 (d) and replace with semi colon.

Add a new 3.23 (e) and (f) and (g) as follows

“(e) **NGC** may demand payment under any outstanding **Bilateral Insurance Policy** provided for the benefit of the **User**;

- (f) **NGC** may demand payment under any outstanding **Insurance Performance Bond** provided for the benefit of the **User**;

- (g) **NGC** may demand payment under any outstanding **Independent Security Arrangement** provided for the benefit of the **User.**”

Amend 3.24 (a) to add the words “**Bilateral Insurance Policy, Insurance Performance Bond or Independent Security Arrangement**” after the word “**Credit**” on line 2.

Add new 6.6.5 as follows

- “6.6.5 Where a **User** wishes to pay its **Use of System Charges** payments in advance of the due date for such payment then **NGC** will discuss and agree arrangements for this with the **User.**”

Add the following new definitions to section 11

Agreed Value	the value attributed by NGC to the form of security provided that if NGC and the User cannot agree on such value then the value will be determined by an expert appointed by NGC and the User or failing their agreement as to the expert the expert nominated by [name of body]
Bilateral Insurance Policy	a policy of insurance taken out by the User with an [insurance company – need to define this?] who meets the Requirements for the benefit of NGC and upon which NGC can claim in the event of default by the User under its

payment obligations under Section 3 [is it payment default or just insolvency?] which shall provide security for the **Agreed Value**. In addition **NGC** may accept such a policy from an [insurance company] who does not meet the **Requirements** up to an **Agreed Value** where **NGC** agrees or where **NGC** does not agree as determined by an expert appointed by **NGC** and the **User** or failing their agreement as to the expert the expert nominated by [name of body]

Enforceable

NGC (acting reasonably) is satisfied that the security is legally enforceable and in this respect the **User** shall obtain such legal opinion at its expense as **NGC** (acting reasonably shall require).

Independent Security Arrangement

a guarantee in favour of **NGC** in a form satisfactory to **NGC** and which is provided by an entity which meets the **Requirements**. In addition **NGC** may accept such a policy from an entity] who does not meet the **Requirements** up to an **Agreed Value** where **NGC** agrees or where **NGC** does not agree as determined by an expert appointed by **NGC** and the **User** or failing their agreement as to the expert the expert nominated by [name of body]

Insurance Performance Bond

A **Performance Bond** provided by an [insurance company] which meets the

Requirements

Requirements In addition **NGC** may accept such a policy from an [insurance company] who does not meet the **Requirements** up to an **Agreed Value** where **NGC** agrees or where **NGC** does not agree as determined by an expert appointed by **NGC** and the **User** or failing their agreement as to the expert the expert nominated by [name of body] shall mean an entity who throughout the validity period of the **Bilateral Insurance Policy, Insurance Performance Bond or Independent Security Arrangement:**

- (a) holds a rating of at least A- in Standard and Poor's long term debt rating or A3 in Moody's long term debt rating provided that such entity is not during such validity period put on any credit watch or any similar credit surveillance which gives **NGC** reasonable cause to doubt that such entity may not be able to retain the aforesaid rating throughout the validity period; and
- (b) the country of residence of such entity meets the **Required Sovereign Credit Rating**; and
- (c) the security provided is **Enforceable**; and
- (d) there are no material

conditions preventing the
exercise by **NGC** of its rights
under the **Bilateral Insurance
Policy, Insurance
Performance Bond** or
**Independent Security
Arrangement.**

Required Sovereign Credit Rating a rating of A or more in [source?] in
respect of non local currency
obligations

Part B – Indicative text to give effect to the Alternative Amendment

Amend Paragraph 3.21.3 to replace full stop at end of 3.21.3 (iii) with a semi colon followed by the words “and/or”

Add the following as 3.21.3 (iv)

- “(iv) deliver to **NGC** an **Insurance Performance Bond** in such an amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or”

Add the following as 3.21.3 (v)

- “(v) deliver to **NGC** an **Independent Security Arrangement** in such an amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22.”

Amend first paragraph in 3.21.5 to add the words “or **Insurance Performance Bond** or **Independent Security Arrangement**” after the word “**Guarantee**” on lines 6 and 15 and the word “**Guarantees**” on lines 8 and 12.

Delete full stop at end of 3.21.5 (e) and replace with semi colon and word “or”

Add the following as 3.21.5 (f) and (g)

- “(f) subject to the entity issuing the **Insurance Performance Bond** or **Independent Security Arrangement** continuing to meet the **Requirements** provide **NGC** with confirmation from the issuing entity that the validity of the **Insurance Performance Bond** or **Independent Security Arrangement** has been extended for a period of not less than 6 months on the same terms and otherwise for such amount as is required by this Part III; or
- (g) provide **NGC** with a new **Insurance Performance Bond** or **Independent Security Arrangement** for an amount at least

equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) which **Insurance Performance Bond** or **Independent Security Arrangement** shall be available for a period of not less than 6 months.”

Amend first paragraph in 3.21.6 to add the words “and/or **Insurance Performance Bond** and/or **Independent Security Arrangement**” after the word “**Guarantee**” on lines 6, 8 and 10.

Amend 3.21.7 (a) to add the words “or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Guarantee**” on line 5.

Amend 3.21.7 (b) to add the words “or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Credit**” on line 4.

Add the following as 3.21.7 (c)

“(c) If the entity providing the **User’s Insurance Performance Bond** or **Independent Security Arrangement** ceases to meet the **Requirements** the **User** shall forthwith procure a replacement of the same or an **Insurance Performance Bond, Independent Security Arrangement, Letter of Credit, Qualifying Guarantee** or transfer to **NGC** cash to be credited to the **Escrow Account**.”

Amend 3.22.4 to add the words “or **Insurance Performance Bond** or **Independent Security Arrangement**” after the word “**Credit**” on lines 8 and 16.

Amend 3.22.5 (a) to add the words “or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Credit**” on line 2.

Amend 3.22.5 (b) to add the words “or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Credit**” on line 2.

Amend 3.22.5 (e) to add the words “or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Guarantee**” on line 2 and add the words “cease to meet the **Requirements** in the case of a an **Insurance Performance Bond** or an **Independent Security Arrangement** or in the case of a **Qualifying Guarantee**” after the word “shall” on line 3.

Amend 3.22.6 to add the words “or an **Insurance Performance Bond** or an **Independent Security Arrangement**” after the word “**Credit**” on line 14.

Delete full stop at end of 3.23 (d) and replace with semi colon.

Add a new 3.23 (e) and (f) as follows

- “(e) **NGC** may demand payment under any outstanding **Insurance Performance Bond** provided for the benefit of the **User**;
- “(f) **NGC** may demand payment under any outstanding **Independent Security Arrangement** provided for the benefit of the **User**.”

Amend 3.24 (a) to add the words “**Insurance Performance Bond** or **Independent Security Arrangement**” after the word “**Credit**” on line 2.

Add new 6.6.5 as follows

- “6.6.5 Where a **User** wishes to pay its **Use of System Charges** payments in advance of the due date for such payment then **NGC** will discuss and agree arrangements for this with the **User**.”

Add the following new definitions to section 11

Enforceable **NGC** (acting reasonably) is satisfied that the security is legally enforceable

and in this respect the **User** shall obtain such legal opinion at its expense as **NGC** (acting reasonably shall require).

Independent Security Arrangement

a guarantee in favour of **NGC** in a form satisfactory to **NGC** and which is provided by an entity which meets the **Requirements**.

Insurance Performance Bond

A **Performance Bond** provided by an [insurance company] which meets the **Requirements**

Requirements

Shall mean an entity who throughout the validity period of the **Insurance Performance Bond** or **Independent Security Arrangement**:

- (e) holds a rating of at least A- in Standard and Poor's long term debt rating or A3 in Moody's long term debt rating provided that such entity is not during such validity period put on any credit watch or any similar credit surveillance which gives **NGC** reasonable cause to doubt that such entity may not be able to retain the aforesaid rating throughout the validity period; and
- (f) the country of residence of such entity meets the **Required Sovereign Credit Rating**; and
- (g) the security provided is **Enforceable**; and
- (h) there are no material

conditions preventing the
exercise by **NGC** of its rights
under the **Insurance
Performance Bond** or
**Independent Security
Arrangement.**

Required Sovereign Credit Rating a rating of A or more in [source?] in
respect of non local currency
obligations

Annex 3 – Amendment Proposal Form

CUSC Amendment Proposal Form	CAP:099
Title of Amendment Proposal: Incorporation of additional credit management tools within the CUSC in line with current best practice.	
Description of the Proposed Amendment <i>(mandatory by proposer):</i> This amendment seeks to Modify the CUSC to incorporate provisions to allow the use of: <ul style="list-style-type: none"> 1. A Performance Bond 2. Bi-lateral insurance 3. Independent Security 4. Advanced Payment Objectives incorporating the Best Practice Guidelines for Network Operator Credit Cover Conclusions Document published in February 2005 by OFGEM.	
Description of Issue or Defect that Proposed Amendment seeks to Address <i>(mandatory by proposer):</i> The current CUSC does not allow for the use of these tools to manage Credit risk exposure.	
Impact on the CUSC <i>(this should be given where possible):</i>	
Impact on Core Industry Documentation <i>(this should be given where possible):</i>	
Impact on Computer Systems and Processes used by CUSC Parties <i>(this should be given where possible):</i>	
Details of any Related Modifications to Other Industry Codes <i>(where known):</i>	
Justification for Proposed Amendment with Reference to Applicable CUSC Objectives** <i>(mandatory by proposer):</i> The current arrangements do not facilitate competition in accordance to the applicable CUSC objective B and constitute an artificial barrier to entry to the market.	

Details of Proposer: Organisation's Name:	BizzEnergy Limited
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	BSC Party – Supplier
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Keith Munday BizzEnergy Limited 07976651122 keithm@bizzenergy.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Robert Brown Cornwall Consulting 07811326156 robert.brown14@tiscali.co.uk
Attachments (/No): If Yes, Title and No. of pages of each Attachment: No	

Notes:

1. 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.
2. 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 Frameworks
National Grid Company plc
NGT 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.

Annex 4 – Internal Working Group Procedure

CAPs098-099 Working Group

INTERNAL WORKING PROCEDURES

1. Notes and actions from each meeting will be produced by the Technical Secretary (provided by National Grid) and circulated to the Chairman and Working Group members for review.
2. The Meeting notes and actions will be published on the National Grid CUSC Website after they have been agreed at the next meeting or sooner on agreement by Working Group members.
3. The Chairman of the Working Group will provide an update of progress and issues to the Amendments Panel each month as appropriate.
4. Working Group meetings will be arranged for a date acceptable to the majority of members and will be held as often as required as agreed by the Working Group in order to respond to the requirements of the Terms of Reference set by the Amendments Panel.
5. If within half an hour after the time for which the Working Group meeting has been convened the Chairman of the group is not in attendance, the meeting will take place with those present.
6. A meeting of the Working Group shall not be invalidated by any member(s) of the group not being present at the meeting.