



AMENDMENT REPORT

CUSC Proposed Amendment CAP099

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

*The purpose of this report is to assist the
Authority in their decision of whether to
implement Amendment Proposal CAP099*

Amendment Ref	CAP099
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Prepared by	National Grid

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Name	Organisation
The Gas and Electricity Markets Authority	Ofgem
CUSC Parties	Various
Panel Members	Various
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1.0 SUMMARY AND RECOMMENDATION

- 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”, referred to hereafter as “the best practice guidelines.”) CAP099 seeks to better facilitate the applicable Code objectives by addressing and codifying certain elements of these guidelines.
- 1.2 CAP099 was proposed by BizzEnergy and submitted to the CUSC Amendments Panel for consideration at their meeting on 29th July 2005. The Amendments Panel determined that the issue should be considered by a Working Group. The CAP099 Working Group Report was submitted to the meeting of the Amendments Panel on 23rd September 2005. The Amendments Panel determined that the issue was appropriate to proceed to wider industry consultation by National Grid.
- 1.3 The Consultation Paper for CAP099 was published by National Grid on 28th September 2005, placed on the CUSC website and copies sent to Core Industry Document Owners and CUSC Parties. Responses were invited by close of business on 28th October 2005.
- 1.4 National Grid received a total of 5 responses to the consultation for CAP099.
- 1.5 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.

National Grid Recommendation

- 1.6 National Grid does not believe that the original CAP099 proposal would better facilitate the applicable CUSC objectives with regard to enabling National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence. We believe that accepting Bilateral Insurance, accepting Security from entities with a low degree of creditworthiness, and engaging in opaque bilateral negotiation processes, could all be inefficient. Also, accepting such security, which is inherently more risky, could increase the exposure of the industry to the costs of User insolvency. Both this and the introduction of un-codified, bilateral negotiation processes could hinder competition.
- 1.7 National Grid does believe that the Working Group Alternative Amendment would better facilitate the applicable CUSC objectives, and therefore recommend its approval. The tools and mechanisms included in this Alternative would, in our view, unambiguously better facilitate competition in the generation and supply of electricity by allowing a wider range of efficient credit management tools to be utilised, in a much more certain and transparent environment.
- 1.8 National Grid believes that, should the Authority approve either the Original Proposal or the Working Group Alternative Amendment, CAP099 should be implemented 10 business days after the Authority decision. The only respondent to the CAP099 consultation to address the issue of the implementation date agreed with this recommendation.

2.0 PURPOSE AND SCOPE OF THE REPORT

- 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 issues relating to the incorporation of additional credit management tools into the CUSC in line with the recommendations of the best practice guidelines.
- 2.2 Further to the submission of Amendment Proposal CAP099 (see Annex 1) and the subsequent wider industry consultation that was undertaken by National Grid, 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 CAP099.
- 2.3 This document outlines the nature of the CUSC changes that are proposed. It incorporates National Grid’s 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

- 3.1 The 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)
- 3.2 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 in addition 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
- 3.3 The proposal also sets out that these tools should be accepted at full value where the following criteria are met:

- The credit support is from an entity with a credit rating not less than A-;
 - It is legally enforceable in the UK;
 - The country of residence of the support provider has a sovereign credit rating of A or better for non local currency obligations; and
 - There are no material conditions preventing exercise of the security.
- 3.4 In circumstances where these criteria are not met in full, in the Original Proposal the tools can still be accepted at a discounted value, following discussion with National Grid. The proposer argued that allowing these products to be accepted at a discounted value was, in his view, in line with the best practice guidelines, and would introduce greater creativity and flexibility into current CUSC credit practices.
- 3.5 Where National Grid and the counterparty cannot agree on the appropriate discounted value, the dispute can be referred to an independent expert to determine the value of the tool.

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.

It was agreed that, for the purposes of the CUSC, a credit rating of A- should be acceptable, as this would be consistent with the provisions for providing security for connection to the Transmission System.

- 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. The proposer suggested that this would allow greater creativity and flexibility in CUSC credit provisions.

- 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 it was outside the scope of this particular Amendment proposal, and potentially outside the scope of CUSC Governance, to create a cross Code / cross Governance body which was hardwired into the CUSC. It was also felt that establishing such a group to arbitrate a potentially very small number of disputes would be a disproportionate solution.
- 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. The Working Group recognised that one of the further benefits of this approach was that, were an industry wide expert group to be created at some point in the future, the reference to an “independent expert” within the CAP099 drafting could be used to facilitate the use of this new expert group, without the need for a future CUSC Amendment.
- 4.7 Many Working Group members (including National Grid) 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 (i.e. Users). Such allowances could therefore be used to determine the maximum amount to be provided by entities other than the counterparty. However, some members of the Working Group disagreed with this methodology in general; some believed that the methodology was not relevant as 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, and would not therefore cover failure to pay for any other reason. National Grid expressed concerns that the insurance company would not pay out the full amount in default, and that 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 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 the National Grid representative highlighted that this could 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.
- 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 The CAP099 original proposal 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 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 Legal text to give effect to CAP099 is attached as Part A of Annex 2 of this document.

Working Group Assessment Against Applicable CUSC Objectives

- 4.18 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.
- 4.19 However, the proposer was the only member of the Working Group to believe that the original CAP099 proposal definitely 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.)

5.0 WORKING GROUP ALTERNATIVE AMENDMENT

Description of Working Group Alternative Amendment

- 5.1 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.

- 5.2 To counter these concerns, a Working Group Alternative Amendment was proposed by National Grid. 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 (including the provider having a credit rating of at least A-). As a result, no negotiation or disputes processes would be required. Prepayment / Advance Payment would also be permitted. Legal text to give effect to the Working Group Alternative Amendment is attached as Part B of Annex 2 of this document.

Working Group Assessment Against Applicable CUSC Objectives

- 5.3 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 bilateral negotiation processes, would all be inefficient; and
 - Accepting such security, which is inherently more risky, could increase the exposure of the industry to the costs of User insolvency. Both this

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

- 5.4 However, the proposer of the Working Group Alternative Amendment believed that the tools and mechanisms included in this Alternative Amendment, as described in paragraph 5.2, 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 in a transparent manner, against clear criteria.
- 5.5 Including the proposer of the Working Group Alternative Amendment, three members of the Working Group believed that this Alternative better facilitated the Applicable CUSC Objectives. Two members were unsure, and one considered that it did not.
- 5.6 Working Group members indicated that they preferred the Working Group Alternative Amendment to the Original Proposal by a margin of five to one.

6.0 IMPLEMENTATION AND TIMESCALES

- 6.1 It was proposed in the consultation document that, should the Authority approve the original CAP099 proposal or the Working Group Alternative Amendment, implementation should be ten business days after the Authority decision. As CAP099 proposes to add additional credit management tools to the CUSC, National Grid believed, and continues to believe, there to be no transitional issues that would require any phasing. The CAP099 Working Group also agreed that implementation should be ten business days after the Authority decision.
- 6.2 Only one respondent to the consultation (EDF Trading) addressed the issue of the implementation date, and this respondent supported the proposed ten business day implementation period (see section 11 for further details of responses to the consultation).

7.0 IMPACT ON THE CUSC

- 7.1 CAP099 would require amendments to Section 3 (Use of System), to Section 6 (General Provisions) and to Section 11 (Interpretation and Definitions) of the CUSC.
- 7.2 The text required to give effect to the CAP099 Original Amendment Proposal is contained as Part A of Annex 2 of this document.
- 7.3 The text required to give effect to the CAP099 Working Group Alternative Amendment is contained as Part B of Annex 2 of this document.

8.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

- 8.1 National Grid does not believe that the original CAP099 proposal would better facilitate the applicable CUSC objectives with regard to enabling National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence. We believe that accepting Bilateral Insurance, accepting Security from entities with a low degree of creditworthiness, and engaging in opaque bilateral negotiation processes,

could all be inefficient. Such bilateral negotiations would lack transparency with the wider industry, and it is not obvious to National Grid at this point as to how we would go about negotiating a discount value where the criteria were not met in full, given the lack of any proposed criteria within the CUSC as to what values we might ascribe to products in these circumstances. Also, accepting such security, which is inherently more risky, could increase the exposure of the industry to the costs of User insolvency. Both this and the introduction of un-codified, bilateral negotiation processes could hinder competition.

- 8.2 National Grid does believe that the Working Group Alternative Amendment would better facilitate the applicable CUSC objectives. The tools and mechanisms included in this Alternative would, in our view, unambiguously better facilitate competition in the generation and supply of electricity by allowing a wider range of efficient credit management tools to be utilised, in a much more certain and transparent environment.
- 8.3 National Grid would note that all respondents to the CAP099 consultation preferred the Working Group Alternative Amendment to the original CAP099 proposal (see section 11), and that all Working Group members, with the exception of the proposer of the original amendment, also preferred the Working Group Alternative Amendment.

9.0 IMPACT ON CUSC PARTIES

- 9.1 CAP099, if implemented, will allow the use of additional credit management tools by Users in the provision of security cover for Use of System charges. These additional tools will comprise Performance Bonds, Bilateral Insurance and Independent Security under the original proposal, and Performance Bonds and Independent Security under the Working Group Alternative Amendment. Prepayment / Advance Payment would also be facilitated under both alternatives.
- 9.2 As CAP099 would only add to the credit management tools permitted under the CUSC, there would be no impact on CUSC parties until such time as they may choose to make use of these new options.

10.0 IMPACT ON CORE INDUSTRY DOCUMENTS

- 10.1 Neither the CAP099, nor the Working Group Alternative Amendment, will have an impact on Core Industry Documents or other industry documents.

11.0 VIEWS AND REPRESENTATIONS

- 11.1 This section contains a summary of the views and representations made by consultees during the consultation period in respect of the Proposed Amendment and the Working Group Alternative Amendment (WGAA).

Views of Panel Members

- 11.2 No responses to the CAP099 consultation document were received from Panel Members in their capacity as Panel Members.

View of Core Industry Document Owners

- 11.3 No responses to the CAP099 consultation document were received from Core Industry Document Owners.

Responses to Consultation

- 11.4 The following table provides an overview of the representations received. Copies of the representations are attached as Annex 3.

Reference	Company	Supportive	Comments
CAP099-CR-01	Centrica	Yes	Supports the WGAA only
CAP099-CR-02	EDF Trading	Yes	Supports the WGAA only
CAP099-CR-03	E.ON UK	Yes	Supports the WGAA only
CAP099-CR-04	Scottish and Southern Energy	No	WGAA is better than the original
CAP099-CR-05	Scottish Power	Yes	Supports the WGAA only

- 11.5 **Centrica** (the respondent in CAP099-CR-01) do not support the original proposal due to the increased level of risk it introduces to the current baseline in their view. Centrica believe that the newly proposed products should not be underwritten by an entity with a credit rating of less than A-, and although they acknowledge that credit provided by an issuer with a credit rating of less than A- would not be afforded 100% of the face value, they do not support this solution as it, in their view, fails to provide the requisite level of transparency and increases the likelihood of CUSC signatories being exposed to bad debt.
- 11.6 However, Centrica do support the Working Group Alternative Amendment, which they consider extends the basket of tools available to market participants in a more controlled manner than the original, and therefore better facilitates the Applicable CUSC Objectives by promoting competition in the generation and supply of electricity. In their view, the Working Group Alternative Amendment does not reduce the level of protection provided to CUSC signatories by only allowing A- rated companies to underwrite the credit cover provided, but, by adding Performance Bonds and Independent Security to the list of tools available to Users, extends the options available to lodge cover. Centrica agree that bi-lateral insurance is insufficiently developed to be included at the current time.
- 11.7 **EDF Trading** (the respondent in CAP099-CR-02) do not support the original proposal, considering that it would unduly increase risks to National Grid and thereafter to CUSC parties. They therefore cannot believe that the CUSC Objectives would be bettered.
- 11.8 However, EDF Trading consider that the Working Group Alternative Amendment, which excludes Bilateral Insurance, is more transparent, and that the conditions in this alternative are tighter and appear sufficient in their view not to increase the risks to other parties. They do, therefore, support the Working Group Alternative Amendment, considering that by allowing more credit flexibility it would better facilitate the CUSC Objectives.
- 11.9 **E.ON UK** (the respondent in CAP099-CR-03) do not support the original proposal, having several concerns about it. They believe that the adoption of

Bilateral insurance as a credit tool could result in a detrimental impact upon the CUSC. They concur with both the Working Group and National Grid that engaging in opaque bilateral negotiation processes would introduce inefficiencies into the current arrangements. They also note the arguments from the Working Group that Bilateral Insurance represents an inherently more risky type of security and that this could expose the industry to the costs of User insolvency.

- 11.10 However, E.ON UK do support the Working Group Alternative Amendment as it will, in their view, facilitate the use of new credit management tools which should better meet the applicable CUSC objectives, whilst protecting against the introduction of unjustifiable risk.
- 11.11 **Scottish and Southern Energy** (the respondent in CAP099-CR-04) do not support the original proposal, as they do not believe that it better facilitates the achievement of any of the Applicable CUSC Objectives when compared to the existing CUSC baseline. They agree that discussions between National Grid, the counterparty and potentially any arbiter would not be transparent to other parties, which, in their opinion, would amount to unwarranted and undue discrimination against creditworthy parties. They also highlight the reservations expressed in the consultation document about the appropriateness/suitability of Bilateral Insurance, believing that it should not be a solution put forward for CAP099.
- 11.12 Scottish and Southern Energy welcome the suggestion from National Grid of a Working Group Alternative Amendment, which addresses a number of the serious concerns they have with the original proposal. They do not believe that the Working Group Alternative Amendment better facilitates the achievement of any of the Applicable CUSC Objectives when compared to the existing CUSC baseline, but do acknowledge that it is better than the original.
- 11.13 **Scottish Power** (the respondent in CAP099-CR-05) support the Working Group Alternative Amendment. They support the addition of Performance Bonds and Independent Security to the CUSC as acceptable methods of providing security cover when certain criteria are met, but do not agree with the use of Bilateral Insurance as a form of credit support. They are in agreement that the Working Group Alternative Amendment better facilitates the CUSC objective to facilitate effective competition by allowing an additional range of credit management tools to be used by market participants.

12.0 SUMMARY OF PANEL MEMBERS VIEWS

- 12.1 The Amendments Panel agreed that CAP099 was ready to proceed to wider Consultation. Discussions at the Amendments Panel focussed on the fact that the Original CAP099 proposal did not directly seek to create a cross governance expert group. All Panel Members who spoke on this subject were in agreement that the current drafting on this point appeared to be sensible, in that by pointing at an independent expert it allowed CAP099 to work even if there was no expert group. However, were there to be an expert group, there was no reason within the current drafting as to why this group could not then be used in the context of CAP099.

13.0 NATIONAL GRID RECOMMENDATION

- 13.1 National Grid recommends approval of the CAP099 Working Group Alternative Amendment, which should be implemented 10 business days after the Authority's decision.
- 13.2 National Grid does not recommend approval of the CAP099 Original Proposal, as we consider that it would not better facilitate the applicable CUSC objectives. However, should the Authority approve the Original Proposal, National Grid would also recommend implementation 10 business days after the Authority's decision.

14.0 COMMENTS ON DRAFT AMENDMENT REPORT

- 14.1 National Grid received no responses following the publication of the draft Amendment Report.

ANNEX 1 – 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:

- 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 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 2 – PROPOSED TEXT TO MODIFY CUSC

Part A - 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 the Director General of The Institute of Credit Management;

“**Bilateral Insurance Policy**”

a policy of insurance taken out by the **User** with a company in the business of providing insurance who meets the **Requirements** for the benefit of **NGC** and upon which **NGC** can claim if the circumstances set out in **CUSC** Paragraph 5.3.1(b) (i) to (v) arise in respect of such **User** and which shall provide security for the **Agreed Value**. In addition **NGC** may accept such a policy from such a 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 the Director General of The Institute of Credit Management;

“**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 the Director General of The Institute of Credit Management;
“Insurance Performance Bond”	a Performance Bond provided by a company in the business of providing insurance which meets the Requirements . In addition NGC may accept such a policy from such a 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 the Director General of The Institute of Credit Management;
“Requirements”	shall mean an entity who throughout the validity period of the Bilateral Insurance Policy, Insurance Performance Bond or Independent Security Arrangement: <ul style="list-style-type: none"> (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 long term debt rating of not less than A by Standard and Poor’s Corporation or a rating not less than A2 by Moody’s Investor Services or a short term rating which correlates to those long term ratings or an equivalent rating from any other reputable credit agency approved by **NGC** in respect of non local currency obligations;

Part B - 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 a company in the business of providing insurance which meets the **Requirements**;
- “**Requirements**” shall mean an entity who throughout the validity period of the **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 **Insurance Performance Bond** or **Independent Security Arrangement**.

“Required Sovereign Credit Rating”

a long term debt rating of not less than A by Standard and Poor's Corporation or a rating not less than A2 by Moody's Investor Services or a short term rating which correlates to those long term ratings or an equivalent rating from any other reputable credit agency approved by **NGC** in respect of non local currency obligations;

ANNEX 3 – COPIES OF REPRESENTATIONS RECEIVED TO CONSULATATION

This Annex includes copies of any representations received following circulation of the Consultation Document (circulated on 28th September 2005, requesting comments by close of business on 28th October 2005).

Representations were received from the following parties:

No.	Company	File Number
1	Centrica	CAP099-CR-01
2	EDF Trading	CAP099-CR-02
3	E.ON UK	CAP099-CR-03
4	Scottish and Southern Energy	CAP099-CR-04
5	Scottish Power	CAP099-CR-05

Reference	CAP099-CR-01
Company	Centrica



Lindsey Paradine
Commercial Frameworks
National Grid Company plc
National Grid Transco House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Centrica Energy
Millstream East,
Maidenhead Road,
Windsor,
Berkshire SL4 5GD

Tel. (01753) 431052
Fax (01753) 431150
www.centrica.com

Our Ref.
Your Ref.
01 November 2005

Dear Lindsey,

CUSC Amendment Proposals CAP099 – Incorporation of additional credit management tools within the CUSC in line with current best practice

Centrica welcomes this opportunity to comment on this Amendment Proposal. Centrica believes the credit arrangements are an essential element of the CUSC baseline and the credit rules need to be robust to provide an appropriate level of protection to all CUSC signatories. Centrica recognise that CAP099 is seeking to codify certain elements of the 'Best Practice Guidelines', however Centrica do not support the Original proposal due to the increased level of risk it introduces into the current baseline. Centrica do support the Working Group Alternative Amendment (WGAA) as it better facilitates the Applicable CUSC Objectives by promoting competition in the generation and supply of electricity.

The Original Proposal seeks to extend the basket of tools available to Parties in providing credit cover. Centrica believe the new products have to be as robust as the options currently available, therefore they should be underwritten by an entity with an appropriate credit rating and the draw down rights need to be clearly established. Centrica do not believe the Original proposal satisfies the criteria as the newly proposed products can be underwritten by an entity that is rated at less than A-. Centrica acknowledge that credit provided by an issuer with a credit rating of less than A- would not be afforded 100 per cent of the face value however this does not address Centrica's concerns about the value that would be assigned to such a tool. The proposal suggests a negotiation would take place between National Grid and the counterparty to assign a value to the product. However the proposal does not define a process or methodology to be utilised to calculate the appropriate value. Centrica do not support the proposed solution as it fails to provide the requisite level of transparency and it increases the likelihood of CUSC signatories being exposed to a bad debt.

Centrica believe there is merit in extending the basket of tools available to market participants as long as they do not reduce the level of protection provided to CUSC signatories. Centrica believe the WGAA seeks to achieve this aim in a more controlled manner than the original by only allowing A- rated companies to underwrite the credit cover provided. Centrica agree that Performance Bonds and Independent Security should be added to the list of tools available to Users. Performance Bonds are a proven and accepted method of lodging credit cover and will provide Users with an alternative option for meeting their CUSC obligations. Similarly Independent

A *centrica* business

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy
Registered in England No.3033654. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD

Security extends the options available to lodge credit cover. The WGAA does not include bi-lateral insurance and Centrica agree with the statement that the product is insufficiently developed at the current time. However, Centrica believe that in future bi-lateral insurance could become an accepted means of lodging credit cover. Industry development could help to achieve this aim and Centrica believe that further work could be undertaken by the industry to develop the product.

If you have any questions regarding this response please ring me 01753 431137.

Yours sincerely,

Mark Manley
Contract Manager

A *centrica* business

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy
Registered in England No.3033654. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD

Reference	CAP099-CR-02
Company	EDF Trading

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

From: steve.drummond@edftrading.com
[mailto:steve.drummond@edftrading.com]
Sent: 28 October 2005 15:30
To: Paradine, Lindsey
Cc: Jonas.Tornquist@edftrading.com
Subject: CAP099 Consultation Response

[Lindsey,](#)

[Please accept these brief comments in response to the CAP099 consultation, made on behalf of EDF Trading and EDF \(Generation\).](#)

[We are concerned that the original proposal, which seeks under certain conditions to add Bilateral Insurance, Performance Bonds and Independent Security to the CUSC as acceptable methods of providing security cover, would unduly increase risks to National Grid and thereafter to CUSC parties. We cannot therefore believe that CUSC Objectives would be bettered.](#)

[However, the WGAA, which excludes Bilateral Insurance, is more transparent and the conditions in the WGAA are tighter and appear sufficient to not increase risks to other Parties. The Objectives of the CUSC would therefore be bettered if the WGAA was implemented by allowing more credit flexibility and hence we would support the WGAA as put forward.](#)

[Furthermore, we could would support a 10 day implementation period.](#)

[Kind regards](#)

[Steve Drummond](#)
[UK Market Adviser to EDFT](#)

Reference	CAP099-CR-03
Company	E.ON UK



Lindsey Paradine
Commercial
National Grid Company plc
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

E.ON UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
eon-uk.com

Neil Smith
024 7642 4369

neil.c.smith@eonuk.com

Friday 30th September 2005

Dear Lindsey,

RE: CUSC Amendment Proposal CAP099

We appreciate the opportunity to comment upon this CUSC Amendment Proposal. E.ON UK support the Working Group Alternative Amendment as it will facilitate the use of new credit management tools which should better meet the applicable CUSC objectives, whilst protecting against the introduction of unjustifiable risk.

E.ON UK has several concerns about the original Amendment. We believe that the adoption of Bilateral insurance as a credit tool could result in a detrimental impact upon the CUSC. We concur with both the Working Group and National Grid that engaging in opaque bilateral negotiation processes would introduce inefficiencies in to the current arrangements. We note the arguments from the Working Group that Bilateral Insurance represents an inherently more risky type of security and that this could expose the industry to the costs of User insolvency.

It is of paramount importance that the enforceability of any new credit tools needs to be certain. Typically Network Operators provide proforma PCG/LoC wording, which is to be used by all parties. This consistent wording provides both transparency and confidence in the arrangements and such an approach should be adopted for each of these new tools.

If you would like to discuss any of the matters raised within our response please do not hesitate to contact me.

Yours sincerely

Neil Smith
Regulatory Analyst
Trading Arrangements
Energy Wholesale
E.ON UK plc

E.ON UK plc
Registered in
England and Wales
No 2966970
Registered Office:
Westwood Way
Westwood Business Park
Coventry CV4 8LG

Reference	CAP099-CR-04
Company	Scottish and Southern Energy

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

From: Garth.Graham@scottish-southern.co.uk [mailto:Garth.Graham@scottish-southern.co.uk]

Sent: 27 October 2005 18:17

To: GoldIC, Industry Codes

Subject: Re: Consultation Document for CAP099

[Dear Sirs,](#)

[This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd., Medway Power Ltd., and SSE Energy Supply Ltd.](#)

[In relation to the consultation concerning the report associated with CUSC Amendment Proposal CAP099 "Incorporation of additional credit management tools within the CUSC in line with current best practice" \(contained within your note of 28th September 2005\), we have the following comments to make.](#)

[First, with respect to the point made in paragraph 4.7 of the consultation document we agree with many of the Working Group that discussions between National Grid, the counterparty and potentially any arbiter would not be transparent to other parties. This difference in treatment would amount to unwarranted and undue discrimination against creditworthy parties and could not, in our opinion, be said to better facilitate the achievement of any of the Applicable CUSC Objectives when compared to the existing baseline version of the CUSC.](#)

[Second, with respect to the points made in paragraphs 4.10-4.12 of the consultation document we echo the serious reservations expressed about the appropriateness/suitability of Bilateral Insurance and we do not believe that it should be a solution put forward for CAP099.](#)

[Third, with respect to the point made in paragraph 5.2 \(and expanded in paragraphs 5.3-5.6\) of the consultation document, we welcome the suggestion from National Grid of a Working Group Alternative Amendment which addresses a number of the serious concerns that we and many members of the Working Group have with the 'original' proposal.](#)

[In conclusion, with respect to the 'original' proposal we do not believe that it better facilitates the achievement of any of the Applicable CUSC Objectives when compared to the existing baseline version of the CUSC. We note the comments made in paragraph 5.2 of the consultation document and, for the avoidance of doubt, whilst we have considered the Working Group Alternative Amendment we do not believe that it better facilitates the achievement of any of the Applicable CUSC Objectives when compared to the existing baseline version of the CUSC, although we acknowledge it is 'better' than the 'original'.](#)

[Regards](#)

[Garth Graham](#)
[Scottish and Southern Energy plc](#)

Reference	CAP099-CR-05
Company	Scottish Power



Lindsey Paradine
Transmission Commercial
National Grid
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Ref: CUSC CAP099

Date: 28th October

Tel No. 01355 845207

Email: ukelectricityspoc@saic.com

Dear Lindsey

CUSC Amendment Proposal CAP099 – Incorporation of Additional Credit Management Tools within the CUSC in line with Current Best Practice

ScottishPower welcomes the opportunity to provide a response to CUSC Amendment Proposal CAP099 – Incorporation of Additional Credit Management Tools within the CUSC in line with Current Best Practice. This response is submitted on behalf of ScottishPower's Energy Wholesale Business which includes ScottishPower Generation Ltd and ScottishPower Energy Management Ltd.

In consideration of CUSC Amendment Proposal CAP099, ScottishPower supports the Working Group Alternative Amendment. We support the addition of Performance Bonds and Independent Security to the CUSC as acceptable methods of providing security cover where certain criteria are met. Similarly, we do not agree with the use of Bilateral Insurance as a form of credit support.

We are in agreement that CAP099 Alternative Amendment better facilitates the CUSC objective to facilitate effective competition by allowing an additional range of credit management tools to be used by market participants.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours sincerely,

Man Kwong Liu
SAIC Ltd.

For and on behalf of: ScottishPower's Energy Wholesale Business which includes ScottishPower Generation Ltd and ScottishPower Energy Management Ltd.