WORKING GROUP REPORT

CUSC Amendment Proposal CAP018

Credit Cover Requirements for Transmission Use of System Charges

Prepared by the Credit Cover Working Group for submission to the Amendments Panel

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DISTRIBUTION

Name	Organisation
	Ofgem
CUSC Parties	Various
Panel Members	Various
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1.0 SUMMARY AND RECOMMENDATIONS

1.1 The requirements for credit cover in respect of both TNUoS and BSUoS charges are outlined in Part III of Section 3 of the CUSC. CUSC Amendment Proposal CAP018 (Credit Cover for Use of System Charges) was submitted by National Grid and proposes changes to this credit policy. In accordance with the terms of reference provided by the Amendments Panel (see Annex 2), the Credit Cover Working Group (CCWG) has considered whether Amendment Proposal CAP018 better facilitates achievement of the Applicable CUSC Objectives when compared to the extant credit policy for TNUoS and BSUoS charges. In undertaking this exercise, the CCWG also considered whether any Alternatives to CAP018 existed.

1.2 The CCWG recognised the need to review the provisions for credit cover within the electricity industry to address any inequality and the costs of default. However there was a wide range of views as to the most appropriate form of credit cover provision. It was noted that all of the possible solutions appeared to have various advantages and disadvantages and there was no one solution that was seen as being clearly superior.

1.3 During the CCWG meetings and associated debate and correspondence, the group reached the conclusion that CAP018 did better meet the applicable CUSC objectives on the grounds that it better facilitates competition and better addresses the costs of default. This was by virtue that it places all Users on a common footing in respect of credit cover provision and provides a high degree of certainty of recovery following a default. Notwithstanding this however, the majority of the CCWG believed that CAP018 contained a number of weaknesses, not least in respect of the additional cost that the proposal was likely to place on the industry. In view of this, the CCWG believed that there was a need to consider further ways of dealing with non-payment of charges within the Industry. However, although any such Industry review was likely to lead to the need for some consequential CUSC changes, it was considered unlikely for the changes to be introduced via new CUSC Amendment Proposals (i.e. more likely to be implemented via changes to the Transmission Licence and/or Charging Methodology Statements). In view of this, no formal Alternative Amendment Proposal (to CAP018) has been put forward by the CCWG.

1.4 This report sets out the views of CCWG Members and highlights the relevant issues that the CCWG believe should be consulted on in the Industry. The report also outlines the alternative mechanisms that were discussed by the CCWG , however, as stated above, none of them have been developed into a formal Alternative Amendment Proposal.

1.5 The CCWG recommends the CUSC Amendments Panel to note

- The CCWG as a whole recognised the need to review the provision of credit cover within the electricity industry;
- The CCWG considers that Amendment Proposal CAP018 does better facilitate the applicable CUSC objectives;
- The CCWG noted some weaknesses with the Amendment Proposal and considered that further work should be carried out in an appropriate forum to examine the options for bad debt being recovered directly under the price control, or via insurance (either with the premium paid by National Grid and recovered under the price control or arranged directly by the User).

And Endorse:

- That the Amendment Proposal proceeds to wider Industry Consultation .

2.0 INTRODUCTION

2.1 The requirements for credit cover in respect of both TNUoS and BSUoS charges are outlined in Part III of Section 3 of the CUSC. CUSC Amendment Proposal CAP018 (Credit Cover for Use of System Charges) proposes changes to the current credit policy. The Amendment Proposal was submitted by National Grid for consideration by the CUSC Amendments Panel at their 22 March 2002 meeting.

2.2 The CUSC Amendments Panel determined that a Working Group, the Credit Cover Working Group (CCWG), should be established and actioned to consider the CAP018 Amendment Proposal.

3.0 PURPOSE AND SCOPE OF WORKING GROUP

3.1 At the CUSC Amendments Panel meeting of 22 March 2002, the CUSC Panel determined that a Working Group, the CCWG, should be established and actioned to consider the CAP018 Amendment Proposal. The CCWG was issued with a set of Terms of Reference (see Annex 2).

3.2 In accordance with the Terms of Reference provided by the Amendments Panel, the CCWG has considered whether Amendment Proposal CAP018 better facilitates achievement of the Applicable CUSC Objectives when compared to the extant mechanism for determining which Users have to provide security for Transmission Network Use of System (TNUoS) Charges and Balancing Services Use of System (BSUoS) Charges. In undertaking this exercise, the CCWG has also considered whether any Alternatives to CAP018 exist.

3.3 This report summarises the findings and recommendations of the CCWG in respect of their consideration of Amendment Proposal CAP018. This report has been prepared in accordance with the terms of the CUSC and an electronic copy of this document can be found on the National Grid website, at: http://www.nationalgrid.com/uk/indinfo/cusc/index.html.

4.0 DESCRIPTION OF AMENDMENT PROPOSAL AND ASSESSMENT AGAINST CUSC OBJECTIVES

4.1 The Proposed Amendment Proposal

4.1.1 Under the current credit cover arrangements, Transmission Network Users who do not meet the required Approved Credit Rating (ACR) must provide security against TNUoS and BSUoS charges and can do this by providing:

- A Qualifying Guarantee from a Company that holds an ACR. Most commonly this is in the form of a Parent Company Guarantee (PCG);
- A Letter of Credit (LoC); or
- A cash deposit

4.1.2 National Grid (the proposer of CUSC Amendment Proposal CAP018) considers that the current arrangements, that require Users to provide credit cover against TNUoS and BSUoS charges by reference to whether they (or their Parent Company) meet an ACR is inappropriate as:

- An ACR does not guarantee any money in the event that the User defaults;
- Such a policy introduces a cross-subsidy; and
- Such a policy differentiates between companies that have an ACR and those that do not.

4.1.3 CUSC Amendment Proposal CAP018 proposes to remove the use of ACRs to determine which Users have to provide security for TNUoS and BSUoS charges and to remove PCG's as a means of providing such security. Such an amendment would mean all Users could only provide security by way of providing a LoC, or via a cash deposit.

Working Group Discussion

4.1.4 The proposer of CAP018 outlined how the proposed amendment addressed the concerns of paragraph 4.1.2 above. The proposer stated that credit provision via LoC/cash offered a high probability of recovering liabilities (up to the value of the LoC/cash deposit) therefore some money was 'guaranteed' in the event a User defaulted. In addition, the proposer explained that if all Users were required to put in place the same type of credit arrangements, the cross subsidy issue and concerns regarding differing treatment between companies (who do/do not have an ACR) were addressed.

4.1.5 In general, the CCWG recognised that there was a need for National Grid to review it's credit policy. They agreed that the proposed Amendment did better meet the relevant CUSC Objectives on the grounds that the proposed changes would better facilitate competition and would guarantee recovery of bad debts following a default (up to the value of the cash / LoC). In spite of this however, the majority of the group believed that such a credit policy could have a number of weaknesses and disadvantages over other possible alternative credit cover mechanisms.

4.1.6 The increased cost of providing credit via a LoC/cash only basis (which would ultimately be borne by the end consumer) was seen as being high. Based on the proportion of credit cover held by ACR/PCG if CAP018 were to be approved those parts of the industry currently relying on an ACR/PCG would need to put in place LoCs/cash. Currently the volume of credit secured by ACR/PCG is approximately £90m. The cost of putting in place a LoC will vary depending on the company concerned. In this case the companies that would need to put LoCs/cash in place are all currently classed "investment grade" (BBB- or better) and so LoCs should typically be available at a cost of between 0.2% and 0.5%. Assuming the higher figure then this would represent a cost of £450k per annum for the industry. Cash is generally more expensive for a User to provide because of the foregone opportunity cost[1]. The cost could range from a couple of percent to 5% or more depending on their cost of capital.

4.1.7 One member of the Working Group suggested that the current credit philosophy is intended to measure and protect against a company's ability to pay rather than their willingness to pay. By moving to cash or LoC this fundamentally changes the basis of the security provided to provide a much higher level of cover. They also suggested that if a LoC/cash only credit policy was adopted under the CUSC then this might be used as a precedent to extend the policy to Distribution Use of System (DUoS) charges and that the cost to the industry would be high. Ofgem's consultation on Credit Cover[2] suggested (paragraph 6.22) that the cost to the industry of providing LoC/cash based security could be £3-£4million per annum.

4.1.8 As a result of this, the majority of Working Group members believed that whilst CAP018 may put all market participants on the same footing, better facilitating competition and removing any question of discrimination, the proposal did not necessarily appear to represent good value to the end consumer.

4.1.9 Although LoCs cannot generally be withdrawn once issued, they do need to be renewed on a regular basis (usually every 6 months). In view of this, some members of the Group believed that this could raise a potential problem in that the issuing organisation could refuse to renew a LoC at a time when a User was 'approaching' a default situation. It was thought that this could then lead to cash calls being unsuccessful. As a result of this, the Group noted that LoCs didn't appear to be as secure as cash. It was highlighted that if a issuing bank did fail to renew a Users LoC then that User would need to provide credit cover via a cash deposit. However, it was recognised that a User 'approaching' a default situation was likely to have

[1] The cost of capital less the interest receivable on the escrow account.
[2] Arrangements for gas and electricity supply and gas shipping credit cover – March 2002

difficulties in providing such alternative form of credit cover at that time. It should be possible to draft the LoC so that in the event that a satisfactory replacement had not been issued prior to its expiry then it could be called on and the resulting cash placed in an escrow account. The cash would be returned once an acceptable LoC was in place – or utilised to cover any bad debts if the party concerned had subsequently become insolvent.

4.2 **Alternative Amendments**

4.2.1 In accordance with the Terms of Reference for the Working Group, the CCWG considered whether any alternatives to CAP018 existed. Although the CCWG considered several options, the discussions concentrated on recovery via price control and commercial insurance. These options as discussed during the CCWG meetings are briefly outlined below.

Recovery via Price Control

4.2.1 The CCWG noted that the Distribution Network Operators (DNOs) received a modification to their Licences to allow them to **partially recover** the cost of any bad debt arising from the failure of Independent Energy via their price control mechanism. It was also noted that similar arrangements were likely to be implemented in view of the Enron failure. The Group considered that such arrangements were only likely to be interim solutions until the Ofgem consultation on credit cover arrangements for the industry concluded and an enduring arrangement for dealing with bad debt arising from such failures was identified and implemented.

4.2.2 Further discussion on recovery of bad debt via the price control mechanism raised the following issues:

Advantages

- The solution was likely to be popular with end consumers because relatively speaking, the option should be low cost to them;

- National Grid's financial exposure would appear to be adequately addressed;

Disadvantages

- Some members felt that recovery through price control is not cost reflective and does not allocate costs to those that incur them;

- such a solution would introduce a time lag between when a User defaults and when the cost of that default can be passed through;

- The solution would need to contain correct incentives to encourage National Grid to ensure that losses are minimised in the event of a default, and that all reasonable steps to recover bad debts are taken;

- There should be no "free riding" by Users;

- There should probably be some form of "excess" (i.e. Users should cover the first part of the cost of their default – this could possibly be covered by cash or LoC);

4.2.3 The majority of the CCWG believed that some from of recovery via the Price Control might provide a more acceptable solution to Users than the CAP018 proposal and that it should be considered further. The National Grid representative was concerned that the detailed arrangements for recovery via the price control would need to be understood before National Grid could sign on to it (i.e. the degree of certainty regarding recovery). It was also noted that the pass through mechanism would need to be defined up-front in order to minimise the regulatory risk.

4.2.4 It was noted that the primary route for the introduction of such a scheme would probably be via National Grid's Transmission Licence and Price Control mechanism (since the cost of bad debt related to Use of System Charges would need to be included within the definition of the "Kt" value) and/or via changes to the Charging Methodology Statements. Although consequential changes to the CUSC may also be necessary, the possible modification of the Transmission Licence / Price Control and/or Charging Methodology Statements is outside of the scope of the CUSC and therefore the remit of the CCWG. The CCWG noted that this issue may be addressed as part of the ongoing Ofgem consultation on credit cover in the gas and electricity markets.

Bad Debt Insurance

4.2.5 The CCWG considered the possibility of using the insurance market to provide cover against bad debt. Currently individual companies can insure against the risk of future bad debt but this would be at additional cost to them. If the credit cover arrangements were robust then it should not be necessary for individual parties to undertake such additional measures. The CCWG noted that although an insurance option appeared to have some attractions, it also had a number of possible difficulties. It was suggested that such cover would be very specialised and so there was concern over how easy it might be to obtain suitable comprehensive cover. The group were concerned such cover could be expensive and that there was no clear mechanism for apportioning costs. It was noted that such 'specialised-insurance' was an emerging market in the UK, however, it was understood that such mechanisms were more widely used in North America.

4.2.6 It was suggested that an insurance based approach would probably be best applied to the industry as a whole rather than individual companies each insuring themselves and that:

- The scheme could be centrally negotiated rather than company by company;
- Since (it was assumed) National Grid would be able to recover the cost of the premium for the policy, there would need to be an economic purchase obligation to ensure value for money;
- Charge out arrangements should be cost reflective; and
- A major failure might result in insurance providers withdrawing from the market and so a further "safety net" would be need to be considered.

4.2.7 As with the price control option discussed above, the CCWG believed the development of such an insurance scheme would fall outside of the terms of reference of the CCWG. The CCWG felt that there was a case for a more thorough examination of this issue in an appropriate forum

4.2.8 The group considered that it might be possible for individual companies to insure themselves against insolvency. Under such a mechanism, Users would pay a premium for such insurance cover and in the event that a claim was necessary under the policy any payments would be assigned to National Grid. The CCWG considered that such a scheme could be a potential option and one that could be attractive to companies in a strong financial position (who may be able to obtain the cover at low cost compared to the cost of putting in place a LoC or a cash deposit). The CCWG recognised that there could be other problems associated with such a scheme (e.g. management of a large number of insurance policies, mechanism for initiating a claim, arrangements for assignment of the proceeds of any claim, withdrawal of insurance cover if the insured company starts to get into financial difficulties etc). . It was noted that the obligation to participate in such a scheme may have to reside within the CUSC (e.g. as an option to sit alongside the other forms of acceptable security set out in Part III section 3.21.3).

Advance Payment

4.2.9 Pre-payment was also raised as a possible solution. However, it was considered that from a Users' perspective this would be little different from being required to put cash in place. However, it was suggested that if a User did want to provide payment in advance as a way of providing credit cover then this should not be precluded. The National Grid representative pointed out that Suppliers in particular find it difficult to accurately forecast their future demand and so the degree of prepayments required would be difficult to calculate. The administration of such an arrangement could also be difficult. This option was not developed further as it was not considered to provide an acceptable solution to the majority of Users. However, there was a case for such a facility being made available as an option and if a User was particularly interested then they could submit an appropriate Amendment Proposal.

'Strengthened' ACR Policy

4.2.10 The possible benefits from strengthening the existing ACR policy were discussed. Credit Rating Agencies are understood to have tightened up their procedures following recent failures. The current ACR policy (BBB-) involves a risk that a company with an ACR will still fail. Raising the ACR requirement to (say) AA does not remove the risk entirely, it simply reduces it. Thus the first question to address would be where one draws the line and how such a decision is made. In principle the higher the rating of a company then the lower the likelihood of their failure. But at the same time the consequences of a failure are likely to be greater. If the required ACR was set at "AA" then all the companies currently meeting "BBB-" (or any other rating better than "BBB-" but less than "AA") would no doubt consider that raising the level to "AA" was unfair. Furthermore, such a policy still leaves the issue of possible discrimination unresolved. The CCWG concluded that strengthening the ACR policy would not address the defects identified by CAP018 and so the issue was not considered further.

4.3 Assessment against Applicable CUSC Objectives

4.3.1 The CCWG considered whether the Amendment Proposal as tabled would better meet the achievement of the Applicable CUSC Objectives.

4.3.2 The Applicable CUSC Objectives are set out in paragraph 1 of Condition C7F of the Transmission Licence. CUSC Amendments should better facilitate achievement of the Applicable CUSC Objectives. These can be summarised as follows:

(a) the efficient discharge by National Grid 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.

Proposer's Views

4.3.3 In its Amendment Proposal, National Grid put forward the view that the Amendment Proposal better facilitated achievement of the Applicable CUSC Objectives set out in Condition C7F. National Grid suggested that the Amendment would enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfil its obligations to facilitate competition in the generation and supply of electricity.

4.3.4 Their reasoning was based on the grounds that by applying a consistent credit cover policy across all industry participants all Users would be placed on a common footing and this would further facilitate competition. To continue with the existing policy would permit companies having a credit rating that complied with National Grid's policy (BBB-) to continue to offer lower-quality security than those that failed to meet the BBB- criteria. This results in costs to the industry in terms of bad debts when such companies failed (e.g. Enron) that would not be faced in the event of the failure of a company that had been required to put in place a LoC or cash deposit.

4.3.5 Furthermore, there was concern that the existing policy might be considered discriminatory. It was noted that the CAP018 Amendment Proposal, if implemented, would remove any potential for this and would therefore ensure that compliance with the non-discrimination requirements of National Grid's Licence was not in question.

Working Group's Views

4.3.4 In general, the CCWG recognised that there was a need to review the arrangements for providing security against TUoS[3] charges. However, there were strong, diverse views represented within the group regarding the defects identified by the Amendment Proposal and how these could best be remedied. These views are represented in the following paragraphs and are detailed against the defects identified:

Approved Credit Rating does not necessarily guarantee any money in the event that the User defaults

4.3.4 The CCWG recognised that the existing arrangements do not necessarily provide recovery of any bad debt in the event that a User defaults. They further recognised that the proposal would provide money in such circumstances subject to the LoC being adequately drawn up. It was also noted that if the bad debt exceeded the level of credit cover provided by the LoC/cash deposit, then the Amendment Proposal provides no further protection.

CUSC differentiates between companies that have an Approved Credit Rating and those that do not.

4.3.5 The National Grid representative believed that the proposal would place all parties on the same footing in terms of providing credit cover. Currently companies with an ACR provide a poorer form of credit cover than those who do not have an ACR. Those that do not have an ACR already face an additional cost in providing the cash/LoC. By requiring the same credit cover provisions across all participants would put all Users on a common footing and therefore better facilitate competition.

4.3.6 One WG member believed that the removal of ACR's would discriminate against those parties with ACRs. They considered that the present situation treats users differently because their credit worthiness is different and that this was acceptable commercial behaviour and was not discriminatory. Treating Users differently without reason would be considered discriminatory.

4.3.5 Other CCWG Members believed that the cost of providing cash/LoC is in itself a barrier to new market entrants and so it failed the "facilitate competition test". They believed that competition would be facilitated by arrangements that did not require Users to provide cash/LoC. It was noted that the CAP018 proposal does not introduce the requirement for cash / LoC for new market entrants (without an ACR) – it merely extends the requirement to all market participants. As such, if the need to provide a cash deposit or LoC is considered to be a barrier, then it is the same barrier for all.

4.3.7 It was noted that the cost of cash could be a significant issue. If the principle of cash/LOC based security cover were to be extended to the whole industry (i.e. DNOs) then there may be issues relating to the gearing of some suppliers and their ability to raise the necessary cash/LOC.

4.3.6 It was noted that the credit rating agencies were now understood to have modified their procedures so that they could respond more quickly when a company's financial strength declines or their exposure increases. It was therefore arguable that credit ratings should now be more reliable. The counter argument to this was put that "more reliable" still left room for unexpected failures that could result in bad debts.

4.3.7 It was noted that currently National Grid's requirement is for LoCs to be provided by banks with an ACR. The question was therefore raised as to whether National Grid was concerned about the reliability of credit ratings assigned to banks issuing LoCs. (i.e. why could National Grid accept an ACR from a bank but not from the User?). The National Grid representative noted that there was only a problem if both the User

[3] Transmission Use of System Charges, comprising TNUoS (Transmission Network Use of System Charges) and BSUoS (Balancing Services Use of System Charges)

and the bank providing the LoC were to fail at the same time and this was considered to be highly unlikely. However it did raise questions regarding whether there should be a limit on the number/value of LoCs that should be accepted from any single institution and if a limit was considered prudent then how such a policy could be implemented in practice.

4.3.8 Some WG members were concerned that the proposal would increase the degree of over-securitisation within the industry. There was a danger that Users could feel it necessary to put in place more credit than is strictly needed because the consequences of default are severe and such an outcome would be inefficient. CCWG members noted that this seemed to be a particular problem in the BSC but it was not clear if it would be a problem under the CUSC. One WG member suggested that schemes should deal with aggregate debt.

4.3.9 Some WG members suggested that while current arrangements might be considered anti-competitive it can also be argued that companies with ACR's incur costs to obtain/keep their ratings and that requiring them to provide LoC/cash as credit support effectively means that they are paying twice. Other WG members suggested that obtaining a credit rating has other benefits besides the ability to avoid (or not) the need to provide credit cover (e.g. a good credit rating would generally reduce the cost of borrowing).

5.0 ALTERNATIVE AMENDMENTS

5.1 Based on the CCWG's discussions it was concluded that there was no viable Alternative Amendment Proposal compared to CAP018 that lay within the scope of the CUSC or the CCWG.

6.0 PROPOSED IMPLEMENTATION AND TIMESCALES

6.1 The Group considered the implementation and timescale issues. If the Authority were to approve CAP018 then the following steps would be necessary:

- it would be necessary for National Grid to write to all its customers informing them of the decision;
- the notification would need to include the date by which it was necessary for those currently relying on an ACR/PCG to put in place the appropriate level of LoC/cash deposit; and
- Those customers needing to obtain LoCs/make cash deposits would need time to make these arrangements.

6.2 Overall the CCWG concluded that a period of at least 14-28 days should be allowed as a minimum for implementation.

7.0 IMPACT ON CUSC

7.1 The proposed amendment will require modification of a number of paragraphs within Part III of Section 3 of the CUSC (Credit Requirements) (and elsewhere). The *relevant legal text is currently being drafted and will be provided in the Amendment Report.*

8.0 IMPACT ON INDUSTRY DOCUMENTS

8.1 <u>Impact on Core Industry Documents</u>
This amendment proposal will have no impact on other core industry documents.

8.2 Impact on other Industry Documents

Work is being undertaken by National Grid to establish whether this Amendment Proposal will have an impact on the National Grid Charging Statements but at the time of drafting this report the work had not been completed.

Annex 1: CUSC Amendment Proposal CAP018

CUSC Amendment Proposal Form	CAP018

Title of Amendment Proposal:

Credit Cover Requirements for Use of System Charges

Description of the Proposed Amendment ***(mandatory by proposer)*:**

This Amendment Proposal seeks to remove the use of Approved Credit Ratings to determine which Users have to provide security for Transmission Network Use of System (TNUoS) charges and Balancing Services Use of System (BSUoS) charges and to remove Parent Company Guarantees as a means of providing such security.

Description of Issue or Defect that Proposed Amendment seeks to Address ***(mandatory by proposer)*:**

Under the current arrangements, Transmission Network Users who do not meet the required Approved Credit Rating (ACR) must provide security against TNUoS and BSUoS Charges and can do this by providing:

1. A Qualifying Guarantee from a Company that holds an Approved Credit Rating (ACR). Most commonly, this is in the form of a Parent Company Guarantee;
2. A Letter of Credit (LoC); or
3. A cash deposit.

However, National Grid considers a policy that requires Users to provide credit cover against TNUoS and BSUoS charges by reference to whether they (or their Parent Company) meet an ACR is inappropriate as:

1. An Approved Credit Rating does not necessarily guarantee any money in the event that the User defaults; and
2. Such a policy differentiates between companies that have an Approved Credit Rating to those that do not.

This Amendment Proposal seeks to address the above deficiencies by amending the CUSC so security (for TNUoS and BSUoS) can only be provided by way of providing a LoC or a cash deposit.

Impact on the CUSC *(this should be given where possible)*:

Relevant sections relating to security cover in respect of TNUoS and BSUoS charges.

Impact on Core Industry Documentation *(this should be given where possible)*:

None.

Impact on Computer Systems and Processes used by CUSC Parties *(this should be given where possible)*:

None.

Details of any Related Modifications to Other Industry Codes *(where known)*:

None.

Justification for Proposed Amendment with Reference to Applicable CUSC Objectives ***(mandatory by proposer)*:**

An amendment to the CUSC as outlined above will enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfil its obligations to facilitate competition in the generation and supply of electricity.

Details of Proposer: Organisation's Name:	The National Grid Company plc
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	 Andy Balkwill National Grid 024 7642 3198 andy.balkwill@uk.ngrid.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	 Edgar Goddard National Grid 024 7642 3185 edgar.goddard@uk.ngrid.com
Attachments (Yes/No): No **If Yes, Title and No. of pages of each Attachment:**	

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:

Mark Cox
Panel Secretary
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry, CV4 8JY

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).

Annex 2: Working Group Terms of Reference and Membership

CAP018: Credit Cover for Use of System Charges
Credit Cover Working Group - Terms of Reference Paper (Issue 3)

Introduction

CUSC Amendment Proposal CAP018 seeks to remove the use of Approved Credit Ratings to determine which Users have to provide security against Transmission Network Use of System (TNUoS) Charges and Balancing Services Use of System (BSUoS) Charges and to remove Parent Company Guarantees as a means of providing such security. At the 22 March 2002 CUSC Amendments Panel meeting, the Amendments Panel decided that a Working Group (the Credit Cover Working Group) should be established to consider Amendment Proposal CAP018.

This paper outlines the terms of reference that the Credit Cover Working Group should work to regarding CAP018.

Proposed Membership of the Credit Cover Working Group

At the 26 April 2002 CUSC Amendments Panel meeting, the Amendments Panel agreed the following revised membership for the Credit Cover Working Group:

Andy Balkwill	Chairman & secretary
Catherine Robinson	(Centrica)
Harish Mistry	(London Electricity)
MariaTaylor	(TXU)
Neville Leng	(British Energy)
David Friend	(National Grid)
Gareth Swales	(Electricity Direct)
Keith Munday	(BizzEnergy)
Rod Stanforth	(Edison Mission Energy)
Duncan Jack	(St Clements Services)

Observing

Matthew Buffey	(Ofgem)

Note: the above membership can be amended from time to time by the CUSC Amendments Panel.

Terms of Reference

1. The Credit Cover Working Group has been established and actioned to consider CAP018 in line with the Amendment Procedures described in Section 8 of the CUSC.

2. The Working Group must consider the issues raised by the Amendment Proposal and consider if the proposal better facilitates achievement of the Applicable CUSC Objectives.

3. The Working Group is responsible for the formulation and evaluation of any Alternative Amendments arising from the Working 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.

4. In progressing the Amendment Procedures in respect of CAP018, the Credit Cover Working Group should be cognizant of any documentation etc that may be published in relation with Ofgem's Consultation on "Arrangements for gas and electricity supply and gas shipping credit cover". The closing date for this Consultation exercise is 7 May 2002.

5. The Credit Cover Working Group Chairman will be responsible for providing a verbal report on the Working Groups progress at each Amendments Panel Meeting. Furthermore, the Working Group Chairman will, in accordance with 8.17.10 of the CUSC, be responsible for producing a Working Group Report with recommendations. The report should be submitted to the Panel Secretary by 13 June 2002 for circulation to Panel Members and the Conclusions of such report should be presented to the Amendments Panel meeting scheduled for 21 June 2002. The report should be written with reference to Section 8.17 of The CUSC.

Relationship with Amendments Panel

The Working Group shall seek the views of the Amendments Panel before taking on any significant amount of work.

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

The Working group shall develop and adopt its own internal working procedures and provide a copy to the Panel Secretary.

Annex 3: Internal Working Group Procedures

23 April 2002

Credit Cover Working Group

Internal Working Procedures

1. Notes of each meeting will be produced by the Chairman and will be circulated to the Working Group members for review.

2. Meeting notes will be published on the National Grid CUSC Website with agreement from Working Group members.

3. The Chairman of the Working Group will provide a verbal update of progress and issues to the Amendments Panel each month as appropriate.

3. Working Group meetings will be arranged for a date acceptable to members of the group 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.

4. 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.

5. A meeting of the Working Group shall not be invalidated by any member(s) of the group not being present at the meeting.