



National Grid

AMENDMENT REPORT

CUSC Amendment Proposal CAP018

*(Credit Cover Requirements for
Transmission Use of System Charges)*

*The purpose of this report is to assist the
Authority in their decision of whether to
implement Amendment Proposal CAP018*

Amendment Ref	CAP018
Issue	1.0
Date of Issue	28 August 2002
Prepared by	National Grid

DOCUMENT CONTROL

Issue	Date	Author	Change Reference
0.1	19/08/02	National Grid	Initial Draft for internal comment
0.2	20/08/02	National Grid	Draft for industry comment
1.0	28/08/02	National Grid	Formal version for Authority submission

DOCUMENT LOCATION

National Grid website:

<http://www.nationalgridinfo.co.uk/cusc/index.html>

DISTRIBUTION

Name	Organisation
The Gas and Electricity Markets Authority	Ofgem
CUSC Parties	Various
Panel Members	Various
National Grid Industry Information Website	

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1.0 SUMMARY AND RECOMMENDATIONS

Summary

- 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 and require Transmission Network Users that do not meet the required Approved Credit Rating (ACR) to provide financial security against TNUoS and BSUoS charges (as necessary) by providing one (or a combination) of the following:
- 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.
- 1.2 National Grid submitted CUSC Amendment Proposal CAP018 (Credit Cover for Use of System Charges) which proposes changes to these credit cover requirements. The Amendment was proposed as National Grid believes 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:
- 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.
- 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 PCGs 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 a cash-deposit.
- 1.4 The CUSC Amendments Panel, at their meeting on 22 March 2002, determined that a Working Group, the Credit Cover Working Group (CCWG) should be established and actioned to consider the CAP018 Amendment Proposal. Terms of Reference were agreed for the CCWG and further to two meetings and associated debate and correspondence, the CCWG recommended 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 considered that Amendment Proposal CAP018 did better facilitate the applicable CUSC objectives; and

- 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).
- 1.5 The Working Group Report was presented to the CUSC Amendments Panel on 21 June 2002. At the meeting, the Amendments Panel endorsed the Working Group Report and agreed that the specific terms of reference for the Group had been met. The Amendments Panel also agreed the issue should proceed to wider consultation by National Grid (in accordance with CUSC 8.19.1).
- 1.6 As a result of the above, National Grid circulated a Consultation Document to CUSC Parties and Panel Members (and other interested Parties) on 11 July 2002. Comments were requested by no later than close of business, 14 August 2002. Following the consultation, and in accordance with 8.20.3, a draft of this Amendment Report was circulated for comment on the 20 August 2002. Comments were requested by 15:00hrs on 28 August 2002.
- 1.7 This Amendment Report (Issue 1.0) was submitted to the Authority on 28 August 2002. The purpose of this document is to assist the Authority in their decision of whether to implement Amendment Proposal CAP018.

Recommendations

National Grid Recommendation

- 1.8 National Grid recommends that Amendment Proposal CAP018 is implemented to the time-scales proposed on the basis that it better facilitates achievement of the Applicable CUSC Objectives as set out in paragraph 1 of Condition C7F to National Grid's Transmission Licence.
- 1.9 This is on the grounds that by removing the use of ACR's 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 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.

Working Group Recommendation

- 1.10 In general, the CCWG recognised that there was a need for National Grid to review its credit policy. The group also 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 there might be a better means of securing a parties obligations than LoC/cash.

2.0 INTRODUCTION

- 2.1 This Amendment Report has been 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 an issue relating to the credit requirements for Use of System charges (as currently set out in Part III of Section 3 of the CUSC).
- 2.2 Further to the submission of Amendment Proposal CAP018 (see Annex 1), the consideration of the Amendment Proposal by the Credit Cover Working Group (CCWG) and the subsequent wider industry consultation that was undertaken by National Grid (in accordance with 8.17.12(b)), 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 CUSC Amendment Proposal CAP018. Such an amendment will result in some changes to Part III of Section 3 of the CUSC and to the definitions contained in Section 11 of the CUSC (as detailed in Annex 2).
- 2.3 This document outlines the nature of the CUSC changes that are proposed for implementation with effect from 1 December 2002 (if the Authority decision is made by the end of September 2002) or 1 April 2003 (if the Authority decision is made between September 2002 and the end of February 2003) or 30 days after the Authority’s decision (if the Authority’s decision is made after March 2003). It indicates any relevant issues that arose in the CCWG discussions and also incorporates National Grid’s and the Amendments Panel’s recommendations to the Authority concerning the Amendment. Copies of all representations received in response to the consultation have been included. Furthermore, a ‘summary’ of the representations received is also provided.
- 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.nationalgridinfo.co.uk/cusc>.

3.0 THE PROPOSED AMENDMENT PROPOSAL

- 3.1 Under the current credit cover arrangements, 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

- 3.2 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.
- 3.4 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.

4.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

- 4.1 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 NGC of the obligations imposed on it by the Act and the Transmission Licence; and
 - (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.
- 4.2 National Grid recommends that Amendment Proposal CAP018 is implemented to the time-scales proposed on the basis that it better facilitates achievement of the Applicable CUSC Objectives as set out in paragraph 1 of Condition C7F to National Grid's Transmission Licence.
- 4.3 This is on the grounds that by removing the use of ACR's 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 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.

5.0 PROPOSED IMPLEMENTATION AND TIME-SCALES

- 5.1 CUSC Amendment Proposal CAP018, if implemented, will require National Grid to seek an alternative form of Credit Cover from those Users who are currently not required to provide credit cover against TNUoS and BSUoS charges since they (or their Parent Company) meet the necessary Approved Credit Rating.
- 5.2 It is recommended that CUSC Amendment Proposal CAP018 as detailed in this Amendment Report is implemented with effect from 1 December 2002 (if the Authority decision is made by the end of September 2002) or 1 April 2003 (if the Authority decision is made between September 2002 and the end of February 2003) or 30 days after the Authority's decision (if the Authority's decision is made after March 2003).

6.0 IMPACT ON CUSC

- 6.1 The proposed Amendment Proposal will require the modification of Part III of Section 3 of the CUSC. The relevant legal drafting is contained in Annex 2 of this Amendment Report.

7.0 IMPACT ON CORE INDUSTRY DOCUMENTS

- 7.1 It is envisaged that the Amendment Proposal will have no impact on any core industry documentation.

Changes required & Timescales to be followed to give effect to the Proposed Amendment

- 7.2 See comments made in Section 5.0 above.

Changes or Developments Required to Central Computer Systems & Timescales Involved

- 7.3 It is envisaged that the Amendment Proposal will have no impact on any central computer systems.

Estimation of Costs

- 7.4 Not applicable.

8.0 IMPACT ON CUSC PARTIES

- 8.1 If Amendment Proposal CAP018 is implemented, Users who are not currently required to provide credit cover against TNUoS and BSUoS

charges (as they or their Parent Company meet the Approved Credit Rating) will need to provide security to National Grid by way of a Letter of Credit or cash-deposit.

- 8.2 Paragraph 4.3.3 of the CAP018 Working Group Report noted that the volume of credit currently secured via ACR/PCG (in respect of TNUoS and BSUoS charges) was approximately £90m and that LoC's (for "investment grade" companies) were typically available at a cost of between 0.2% and 0.5%. In view of this, if CAP018 was implemented the cost to the Industry is estimated in the range £180 - £450K per annum.

9.0 ALTERNATIVE AMENDMENTS

Description of Alternative Amendment

- 9.1 As outlined in Paragraph 4.2 of the consultation document, in accordance with the Terms of Reference, the CCWG considered whether any Alternatives to CAP018 existed. Although no formal Alternative Amendments were put forward by the CCWG, the Working Group did consider and debate several other possible credit-cover mechanisms (most notably where bad debt was recovered via the price control mechanism or covered via commercial insurance). However, in spite of this, the CCWG considered that most of these possible options were either outside the scope of the CUSC to deliver, or were judged to not improve on the CAP018 proposal.
- 9.2 The options as discussed by the CCWG are described in Section 4 of the Working Group Report. However, as these options were not considered formal Alternatives, they are not considered further in this section of the Amendment Report.

Assessment against Applicable CUSC Objectives

- 9.3 Not applicable as no formal Alternatives have been offered or considered.

10.0 SUMMARY OF VIEWS AND REPRESENTATIONS

Amendments Panel Members Views

- 10.1 No views were expressed from CUSC Amendments Panel members following circulation of the Consultation Document.

Working Group Members

- 10.2 In general, the CCWG recognised that there was a need for National Grid to review its credit policy. The group also 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 there might be a better means of securing a parties obligations than LoC/cash.
- 10.3 The increased cost to the Industry of providing credit exclusively 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 security currently provided via ACR/PCG, if CAP018 were to be approved, those companies within the industry who currently provide security via ACR/PCG would need to put in place LoCs/cash. Currently, the volume of credit secured via ACR/PCG (in respect of BSUoS and TNUoS charges) is approximately £90m. The cost of putting in place a LoC varies depending on the company concerned. In this case, the affected companies that would, under these proposals, need to put LoCs/cash in place would all be classed as “investment grade” (with a credit rating of BBB- or better) and so LoCs should typically be available at a cost of between 0.2% and 0.5%. This would represent an additional cost in the range £180k to £450k per annum to the industry. Cash is generally more expensive for a User to provide because of the foregone opportunity cost¹. The cost could range from a couple of percent to 5% or more depending on the cost of capital of the company concerned.
- 10.4 One member of the CCWG suggested that the current credit policy philosophy was intended to measure and protect against a company’s ability to pay rather than their willingness to pay and by moving to a mechanism that required all Users to provide security would provide an enhanced 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 Cover² suggested (paragraph 6.22) that the cost to the industry of providing LoC/cash based security could be £3-£4million per annum.
- 10.5 As a result of this, the majority of Working Group members believed that whilst CAP018 may put all market participants on the same footing, thereby better facilitating competition and removing any question of discrimination, the proposal did not necessarily appear to represent good value to the end consumer.
- 10.6 Although LoCs cannot generally be withdrawn once issued, they do need to be renewed on a regular basis (usually every 6 months). In

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

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. As a result of this, the Group noted that LoCs didn't appear to be as secure as cash. It was highlighted that if an 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 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 could then be returned once an acceptable LoC was in place – or utilised to cover any bad debts if the party concerned had subsequently become insolvent.

Core Industry Document Owners

- 10.7 No views have been received from Core Industry Document Owners.

Respondents

- 10.8 National Grid received a total of 10 responses to the consultation on CUSC Amendment CAP018. In carrying out this exercise, National Grid highlighted four particular areas where views were especially invited. These were:

- Whether the current arrangements for determining which Users have to provide security in respect of TNUoS and BSUoS charges (i.e. by reference to whether they or their parent company meet an ACR) remain appropriate;
- Whether CAP018 proposes a more suitable mechanism for determining the security requirements from Transmission System Users in respect of TNUoS and BSUoS charges;
- Whether the proposed Amendment better facilitates the Applicable CUSC Objectives; and
- Any proposed alternative mechanisms.

10.9 Of the ten responses received:

- 5 respondents outlined their support to retain the current arrangements;
- 9 respondents suggested CAP018 did not propose a more suitable mechanism;
- 7 respondents suggested CAP018 did not better meet the CUSC Objectives; and
- 3 respondents suggested a price control mechanism could be a more appropriate mechanism for managing bad debt.

10.10 The following table provides an overview of the representations received. Copies of the representations are attached as Annex 4.

Reference	Company Name	Supportive	Summary of Comments
CAP018-CR-01	Electricity Direct	No	<p>Current arrangements anti-competitive as they impose costs on new entrants not paid by large incumbents.</p> <p>Believes cost to industry (and customers) of LoC/cash would be high and would still be a barrier to entry.</p> <p>Believes recovery of bad debt should be via price control methodology.</p> <p>CAP018 does help to put all market participants on a level footing but does not better facilitate the CUSC Objectives.</p>
CAP018-CR-02	East Midlands Electricity	No	<p>No relationship with National Grid (re. TNUoS and BSUoS charges) but believes provision of credit cover is an industry-wide issue. Therefore believes current arrangements should continue until Ofgem have considered the implications on an industry wide basis.</p>
CAP018-CR-03	Elaxon	Yes	<p>Supportive as the proposed amendment would be beneficial to Parties since the process would mirror the requirements under the BSC.</p>
CAP018-CR-04	British Gas	No	<p>Does not support CAP018 and believes the current arrangements should remain.</p> <p>LoC/cash has lead to a situation where parties are significantly over-secured. LoC's can be complex and involve high admin/legal costs. The higher costs would also ultimately be borne by customers.</p> <p>May concentrate the energy industry risk upon particular areas in the banking industry which may lead to certain doubts over the effectiveness of the cover (+ some banks have lower credit ratings than industry parties).</p> <p>Does not support recovery via price control as it does not allocate costs to those that incur them + fails to provide sufficient incentive on National Grid to reduce</p>

			defaults.
CAP018-CR-05	Scottish Power	No	<p>Not clear how increased cash to cover ACR/PCGs can be provided by Users without causing some of those users financial difficulty.</p> <p>Would particularly discriminate against smaller Users and may create a barrier to new entrants.</p> <p>Do not see an immediate need to dispense with ACRs/PCGs as they do represent credible and transparent form of credit cover requirement.</p> <p>Agree that there could be further problems if DNO's took a lead from CAP018 and required LoC's/cash also.</p> <p>Recommend that further exploration of the price control/insurance options should take place. It is possible that a combination of the various methods offers an appropriate solution?</p> <p>Any amendment to the CUSC should not be made until the further views of Ofgem on credit cover requirements for the gas and electricity industries are made known.</p> <p>Does not support the Proposal.</p>
CAP018-CR-06	TXU Energy	No	<p>Believes it inappropriate for National Grid to act before the conclusions of Ofgem's consultation.</p> <p>Believes the most appropriate solution is one outside Terms of Reference of CUSC, namely a form of pass-through under the price control and therefore does not support CAP018.</p> <p>Need to ensure overall credit 'package' has as little impact as possible on end Users.</p> <p>As the value of debt is small, no reason not to pass through in the following year as a form of correction factor to the price control.</p> <p>Need to introduce a clear, well-defined process for the payment of all network charges + established escalation procedures coupled with appropriate incentives on Suppliers.</p> <p>This review should be delayed pending the results of Ofgem's wider consultation.</p>
CAP018-CR-07	British Energy	No	<p>Does not support CAP018.</p> <p>Proposal unfairly discriminates against those Users who currently benefit from ACR/PCG's.</p> <p>National Grid could be seen as failing in its duty to facilitate competition by moving away from the existing regime as it could raise barriers to entry.</p>

			BE view that the existing arrangements should be retained, however, of the options identified, preference would be the price control mechanism.
CAP018-CR-08	Corus Group	No	<p>Not directly effected but concerned by the fact that the additional costs from such a scheme would be placed on end consumers.</p> <p>Proposed amendments would lead to a reduced risk to National Grid would therefore expect corresponding reduction in National Grid's RoR.</p> <p>Overkill to seek such security from all users and more efficient options exist (maybe bad debt in one year could be smeared across users and recovered in subsequent years).</p> <p>Neither existing nor proposed arrangements facilitate competition.</p>
CAP018-CR-09	Innogy Group	No	<p>Imposes unnecessary costs on customers.</p> <p>The current methodology appropriately reflects commercial risks within the industry.</p> <p>Discrimination issues – if National Grid seeks such cover, reciprocal arrangements should be considered such that National Grid posts LoC's in relation to their own TNUoS/BSUoS liabilities and other payments (e.g. AS payments). Also discriminates against Users holding ACRs (the current situation is non-discriminatory in that treats parties of similar risk and creditworthiness in the same manner).</p> <p>CAP018 arrangements may also curtail parties' future investment.</p> <p>Does not better facilitate CUSC Objectives.</p>
CAP018-CR-10	BNFL	No	<p>Does not support CAP018 and does not better facilitate CUSC Objectives.</p> <p>The efficient discharge of the obligations should take into account the costs to the industry as a whole. Any amendment in this area should be capable of demonstrating costs are minimised and that allocation of risk between parties is appropriate. It is not necessarily inappropriate for different arrangements to be applied to companies with different credit ratings.</p> <p>Can see there may be scope for improving the arrangements in this area.</p>

National Grid's Views

10.11 National Grid's recommendation regarding this Amendment Proposal is outlined in paragraphs 4.2 and 4.3 above.

- 10.12 In spite of the responses received following the CAP018 consultation exercise, National Grid remains of the view that the use of Approved Credit Ratings and/or Parent Company Guarantees as the basis of any risk assessment (particularly in view of recent activity in the industry regarding the collapse of Enron, Railtrack, AES Fifoots and Independent Energy) remains inappropriate since:
- 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.
- 10.13 Amending the CUSC as proposed in CAP018 so only LoC/cash can be accepted as credit cover against Use of System charges would mean that all companies would be providing the best form of credit protection available (as provision of LoC/cash provides a high probability of recovering liabilities). Furthermore, such a policy would also address the cross-subsidy problems associated with the use of ACRs/PCGs and would better protect other Users from the costs associated with any 'pass-through' of bad debt caused by others (with an ACR or PCG) defaulting.
- 10.14 With regards the consultation responses received suggesting that credit cover requirements should be removed altogether and bad debt from supplier failure should be addressed within the price control framework, National Grid notes that it is likely that such a scheme would need to be introduced via changes to the Transmission Licence, Price Control mechanism and/or via changes to the Charging Methodology Statements and in view of this, such mechanism is outside the scope of the CUSC. Notwithstanding this, National Grid believes that although such a mechanism would mean that its revenue was protected, it would mean a time-lag (which could be significant), was introduced between when a User defaulted to when the cost of the default could be passed through. This would result in interruptions to National Grid's cash flow, that could potentially be quite serious if a User representing a large part of National Grid's income defaulted. Furthermore, although such an approach would mean that all Users would be treated on the same basis regardless of their credit rating, such socialisation of debt would mean that all non-defaulting parties (which could include some new market participants) would carry the burden of any bad debt that arose due to a User defaulting in the previous year.
- 10.15 In addition to the above, if there were no stated credit requirements, Users with poor financial status could operate in the market, placing further, undue burden on other, more robust users, as well as having implications for the Credit Rating of National Grid itself.

- 10.16 With regards the consultation responses received that suggest an insurance based arrangement could be introduced as a possible alternative to ACRs/PCGs or LoC/cash for providing recovery of a failed supplier's bad debt, National Grid also notes that such a mechanism is likely to be outside the scope of the CUSC. Nevertheless, in spite of this, National Grid has investigated the market for such an arrangement and have a number of concerns with such an approach including, amongst other things, the following:
- The ability of the Industry to procure satisfactory and comprehensive insurance cover at reasonable cost (in view of recent events);
 - The ability of Insurers to effectively remove the risk associated with certain customers by introducing excesses and/or limits;
 - The possible difficulties in renewing insurance cover at reasonable cost in the event of a significant claims having been made; and
 - The danger of claims being excluded on technical reasons.
- 10.17 In relation with the consultation response received suggesting that as the proposed amendment would lead to a reduction in risk to National Grid a corresponding reduction in National Grid's Rate of Return should be expected, National Grid notes this point, but believes this is a matter for National Grid and Ofgem to discuss as part of any TO Price Control discussions.
- 10.18 Finally, in relation with those consultation responses received highlighting the interaction between CAP018 and Ofgem's wider consultation on "Arrangements for gas and electricity supply and gas shipping credit cover", National Grid would like to note that it does recognise, following conclusion of their review, Ofgem may propose alternative arrangements for recovering bad debt against, inter alia, Use of System charges. However, in the meantime, National Grid would like to confirm that it remains of the view that CAP018 does better meet the CUSC Objectives for the reasons outlined above.

Comments received following circulation of the draft Amendment Report/other unresolved comments

- 10.19 A further 4 responses were received following the circulation of the draft of this Amendment Report. These are attached in Appendix 4. The purpose of circulating draft Amendment Reports is to allow respondents of consultations to ensure their views and issues have been accurately reflected and where appropriate, addressed within the report. In view of this, the response from UK Electric Power (ref. CAP018-AR-01) is not considered further in this section of the Amendment Report as these comments should have been raised during the consultation exercise. Notwithstanding this, the response is included in Appendix 4 for completeness.

- 10.20 With regards the observation in response CAP018-AR-02 that relates to the dismissal of alternatives because they are not bounded by the CUSC, as stated in the response, this issue is not CAP018 specific, rather a general issue that will need to be taken forward in future CUSC Amendments Panel meetings. With regards the concerns raised regarding the potential clash between the CUSC amendment process of National Grid and National Grid's commercial position, National Grid notes that the views of all Parties are included in the Amendment Report that is furnished to Ofgem for their decision. This includes copies of all consultation responses and a summary of such responses. It is therefore National Grid's view that the current process adequately enables all Parties to make clear their views on any potential CUSC Amendment.
- 10.21 With regards British Energy's response in relation to the content and presentation of the draft Amendment Report, National Grid would like to point out that, where possible, a standard document 'structure' relating to all CUSC documentation is used. In relation to Amendment Reports, a section is included in the document to outline a summary of all views and representations received relating to the Amendment Proposal in question. This includes, inter alia, views and representations from Amendments Panel members, the Working Group and consultation respondents. This section of the report also includes National Grid's views and is also used to address, where appropriate, any views and issues raised by e.g. consultation respondents.

Annex 1 – CUSC Amendment Proposal

CUSC Amendment Proposal Form	CAP018
Title of Amendment Proposal: Credit Cover Requirements for Use of System Charges	
Description of the Proposed Amendment <i>(mandatory by proposer):</i> 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 <i>(mandatory by proposer):</i> 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: <ol style="list-style-type: none"> 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: <ol style="list-style-type: none"> 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 <i>(this should be given where possible):</i> Relevant sections relating to security cover in respect of TNUoS and BSUoS charges.	
Impact on Core Industry Documentation <i>(this should be given where possible):</i> None.	
Impact on Computer Systems and Processes used by CUSC Parties <i>(this should be given where possible):</i> None.	
Details of any Related Modifications to Other Industry Codes <i>(where known):</i> None.	
Justification for Proposed Amendment with Reference to Applicable CUSC Objectives <i>(mandatory by proposer):</i> 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 – Proposed Text to Modify CUSC

AMENDMENTS TO PARAGRAPHS 3.21.2, 3.21.3, 3.21.5, 3.21.6, 3.21.7, 3.22.2, 3.22.4, 3.22.5, 3.22.6, 3.2 AND 3.24 WITHIN SECTION 3 PART III

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, TSUOS CHARGES AND TNUOS DEMAND RECONCILIATION CHARGES: PROVISION OF SECURITY COVER

3.21.1 Each **User** required to pay **Use of System Charges** shall provide **Security Cover** for **Transmission Services Use of System Charges, Balancing Services Use of System Charges and Transmission Network Use of System Demand Reconciliation Charges** from time to time in accordance with this Part III.

3.21.2 Each such **User** shall not later than the date of its accession to the **CUSC Framework Agreement** or 15 July 1998 (whichever is later) deliver to **NGC** evidence reasonably satisfactory to it that:-

~~(a) it presently holds an **Approved Credit Rating**; or~~

~~(b) it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.~~

3.21.3 ~~If such **Each User** does not hold or ceases to hold an **Approved Credit Rating** it shall, not later than the date of:-~~

~~(a) the date of its becoming a party to the **CUSC Framework Agreement**; or~~

~~(b) the date upon which it ceases to have an **Approved Credit Rating**:-~~

~~(i) deliver to **NGC** a **Qualifying Guarantee** in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; or~~

(ii) deliver to **NGC** a **Letter of Credit** (available for an initial period of not less than 6 months) in such amount as shall be notified by **NGC** to the **User** in accordance with Paragraph 3.22; and/or

(iii) deliver to **NGC** cash for credit to the **Escrow Account** in such amount as shall be notified by **NGC** in accordance with Paragraph 3.22.

3.21.4 The provisions of this Part III shall be in addition to any other requirements to provide security in respect of any other sums due under the terms of the **CUSC** or any **Bilateral Agreement** or **Construction Agreement**.

3.21.5 Maintenance of Security Cover

~~Where a User is required to provide Security Cover in accordance with the terms of this Paragraph 3.21 it shall at all times thereafter maintain a Security Amount equal to or more than the Security Cover applicable to it. Immediately upon any reduction occurring in the Security Amount provided by the User or any Letter of Credit or Qualifying Guarantee being for any reason drawn down or demanded respectively, the User will procure that new Letters of Credit or Qualifying Guarantees are issued or existing Letters of Credit or Qualifying Guarantees are reinstated (to the satisfaction of NGC) to their full value or cash is placed to the credit of the Escrow Account in an amount required to restore the Security Amount to an amount at least equal to the Security Cover applicable to the User, and in such proportions of Letters of Credit, Qualifying Guarantees and/or cash as the User may determine. Not later than 10 Business Days before any outstanding Letter of Credit and/or Qualifying Guarantee is due to expire, the User shall procure to the satisfaction of NGC that its required Security Amount will be available for a further period of not less than 6 months which may be done in one of the following ways:-~~

- ~~(a) subject to the issuing bank continuing to have an Approved Credit Rating the credit rating set out in the definition of Letter of Credit in this CUSC provide NGC with confirmation from the issuing bank that the validity of the Letter of Credit 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~~
- ~~(b) provide NGC with a new Letter of Credit issued by an issuing bank with an Approved Credit Rating the credit rating set out in the definition of Letter of Credit in this CUSC for an amount at least equal to the required Security Amount applicable to it (less its balance on the Escrow Account) which Letter of Credit shall be available for a period of not less than 6 months; or~~
- ~~(c) subject to the entity issuing the Qualifying Guarantee continuing to have an Approved Credit Rating provide NGC with confirmation from the issuing entity that the validity of the Qualifying Guarantee 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~~
- ~~(d) provide NGC with a new Qualifying Guarantee for an amount at least equal to the required Security Amount applicable to it (less its balance on the Escrow Account) which Qualifying Guarantee shall be available for a period of not less than 6 months; or~~
- ~~(e)(c) procure such transfer to NGC for credit to the Escrow Account of an amount as shall ensure that the credit balance~~

applicable to the **User** and standing to the credit of the **Escrow Account** shall be at least equal to the required **Security Amount**.

3.21.6 Failure to supply or maintain Security Cover

If the **User** fails at any time to provide or maintain **Security Cover** to the satisfaction of **NGC** in accordance with the provisions of this Part III, **NGC** may at any time while such default continues, and if at such time any **Letter of Credit** ~~and/or Qualifying Guarantee~~ forming part of the **Security Cover** is due to expire within 9 **Business Days** immediately, and without notice to the **User**, demand payment of the entire amount of any outstanding **Letter of Credit** ~~and/or Qualifying Guarantee~~ and shall credit the proceeds of the **Letter of Credit** ~~and/or Qualifying Guarantee~~ to the **Escrow Account**.

3.21.7 Substitute Letter of Credit ~~or Qualifying Guarantee~~

~~(a)~~ If the bank issuing the **User's Letter of Credit** ceases to have the credit rating set out in the definition of **Letter of Credit** in this **CUSC** such **User** shall forthwith procure the issue of a substitute **Letter of Credit** by a bank that has such a credit rating ~~or a Qualifying Guarantee~~ or transfer to **NGC** cash to be credited to the **Escrow Account**.

~~(b) If the entity providing the User's Qualifying Guarantee ceases to have an Approved Credit Rating the User shall forthwith procure a replacement Qualifying Guarantee from an entity with such a credit rating or a Letter of Credit or transfer to NGC cash to be credited to the Escrow Account.~~

3.22 CREDIT MONITORING

3.22.1 Determination of Security Cover

The amount of **Security Cover** which the **User** shall be required to maintain shall be determined from time to time by **NGC** in accordance with this Part III on the basis of the criteria set out in Paragraph 3.22.2, and shall be notified to the **User**.

3.22.2 Criteria for provision of Security Cover

~~If Paragraph 3.21.3 applies, the~~ The amount of **Security Cover** required to be provided by the **User** in respect of this requirement shall be provided in an amount to be reasonably assessed by **NGC** as the aggregate amount reasonably anticipated by **NGC** as being payable by the **User** pursuant to all its connections to and/or use of the **NGC Transmission System** in respect of:-

- (a) the **Transmission Services Use of System Charges** provided for in the **CUSC** over a 31 day period for the **Financial Year** ending on 31 March 1999 and in the case of subsequent **Financial Years** such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where

NGC proposes to change such period **NGC** shall consult with **Users**; and

- (b) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Supplier**, over a 32 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and
- (c) the **Balancing Services Use of System Charges** provided for in the **CUSC**, where the **User** is a **Generator**, over a 29 day period or such period as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such period **NGC** shall consult with **Users**; and
- (d) **Transmission Network Use of System Demand Reconciliation Charges** calculated in the following manner:-
 - (aa) 10% of **User's Demand** related **Transmission Network Use of System Charges** for the **Financial Year** ending on 31 March 1999; and
 - (bb) in the case of subsequent **Financial Years** such other percentage of the **Demand** related **Transmission Network Use of System Charges** as **NGC** acting reasonably shall specify to the **User** in writing from time to time taking into account the requirements for **Security Cover** contained in the **Balancing and Settlement Code** and where **NGC** proposes to change such other percentage **NGC** shall consult with **Users**; and
- (e) interest on the amounts referred to in (a), (b), (c) and (d) above calculated in accordance with the provisions of this **CUSC**.

3.22.3 Review of Security Cover

NGC shall keep under review the **Security Cover** relating to the **User** and shall promptly advise the **User** whenever the **Security Amount** maintained by the **User** is more or less than the amount required to be maintained pursuant to this Paragraph 3.22.

3.22.4 Increase or Decrease of Security Cover

If, after considering any representations which may be made by the **User**, **NGC** reasonably determines that the **User's Security Cover** should be increased or decreased, it shall so notify the **User**. If **NGC** so determines that such **Security Cover** should be decreased and the **User** consents then that reduction shall take place. **NGC** shall consent to an appropriate reduction in the available amount of any outstanding ~~Qualifying Guarantee or Letter of Credit~~ and/or

shall repay to the **User** such part of the deposit held in the **Escrow Account** for the account of the **User** (together with all accrued interest on the part to be repaid) sufficient to reduce the **User's Security Amount** to the level of **Security Cover** applicable to it. If **NGC** so determines that the **User's Security Cover** should be increased, the **User** shall, within 5 **Business Days** of notice as aforesaid, procure an additional or replacement **Qualifying Guarantee** or **Letter of Credit** or transfer to **NGC** cash to be credited to the **Escrow Account** in an amount sufficient to increase its **Security Amount** so as to be at least equal to the level of **Security Cover** applicable to it.

3.22.5 Notification in respect of Security Cover

NGC shall notify each **User** promptly if:-

- (a) that **User** fails to provide, maintain, extend or renew a **Qualifying Guarantee** or a **Letter of Credit** which it is required to provide, maintain, extend or renew pursuant to Paragraphs 3.21 or 3.22 inclusive;
- (b) **NGC** shall make a demand under any such **Qualifying Guarantee** or a call under a **Letter of Credit**; or
- (c) **NGC** becomes aware that ~~that the~~ **User**:
 - ~~(i) shall cease to have an Approved Credit Rating, or~~
 - ~~(ii) shall be placed on a credit watch by the relevant credit rating agency (or becomes subject to an equivalent procedure) which in any case casts doubt on the User retaining an Approved Credit Rating, or~~
 - ~~(iii) shall be in default under the additional or alternative security required to be provided pursuant to this Part III; or~~
- (d) **NGC** becomes aware that any bank that has issued a **Letter of Credit** in relation to that **User** which has not expired shall cease to have the credit rating ~~required by this Section set out in the definition of Letter of Credit in this CUSC; or,~~
- ~~(e) **NGC** becomes aware that any entity providing a Qualifying Guarantee in relation to that User which has not expired shall cease to have an Approved Credit Rating.~~

Provided always that the failure by **NGC** to notify the **User** pursuant to Paragraphs 3.22.3, 3.22.4 or 3.22.5 shall not relieve the **User** of its obligations under and in accordance with the terms of this Section 3 and the **Charging Statements**.

3.22.6 Release from Security Cover Obligations

Upon a **User** becoming a **Dormant CUSC Party** or ceasing to be a **CUSC Party** and provided that all amounts owed by the **User** in respect of **Transmission Services Use of System Charges, Balancing Services Use of System Charges and Transmission**

Network Use of System Demand Reconciliation Charges have been duly and finally paid and that it is not otherwise in default in any respect of any **Transmission Services Use of System Charges Balancing Services Use of System Charges** or **Transmission Network Use of System Demand Reconciliation Charges** (including in each case interest) payable under the **CUSC**, the **User** shall be released from the obligation to maintain **Security Cover** and **NGC** shall consent to the revocation of any outstanding **Qualifying Guarantee or Letter of Credit** and shall repay to the **User** the balance (including interest credited thereto) standing to the credit of the **User** on the **Escrow Account** at that date.

3.23 PAYMENT DEFAULT

If, by 12.30 hours on any **Use of System Payment Date**, **NGC** has been notified by a **User** or it otherwise has reason to believe that that **User** will not have remitted to it by close of banking business on the **Use of System Payment Date** all or any part ("the amount in default") of any amount which has been notified by **NGC** to the **User** as being payable by the **User** by way of either the **Transmission Services Use of System Charges** and/or **Balancing Services Use of System Charges** and/or **Transmission Network Use of System Demand Reconciliation Charges** on the relevant **Use of System Payment Date**, then **NGC** shall be entitled to act in accordance with the following provisions (or whichever of them shall apply) in the order in which they appear until **NGC** is satisfied that the **User** has discharged its obligations in respect of the **Transmission Services Use of System Charges** and/or **Balancing Services Use of System Charges** and/or **Transmission Network Use of System Demand Reconciliation Charges** (as appropriate) under the **CUSC** which are payable in respect of the relevant **Settlement Day** (in the case of **Transmission Services Use of System Charges** or **Balancing Services Use of System Charges**) or **Financial Year** (in the case of **Transmission Network Use of System Demand Reconciliation Charges**):-

- (a) **NGC** may to the extent that the **User** is entitled to receive payment from **NGC** pursuant to the **CUSC** (unless it reasonably believes that such set-off shall be unlawful) set off the amount of such entitlement against the amount in default;
- (b) **NGC** shall be entitled to set off the amount of funds then standing to the credit of the **Escrow Account** against **Transmission Services Use of System Charges** and/or **Balancing Services Use of System Charges** and/or **Transmission Network Use of System Demand Reconciliation Charges** (as appropriate) unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** at its absolute discretion and shall notify the **User** accordingly;
- (c) **NGC** may demand payment under any outstanding **Letter of Credit** supplied by the **User** in a sum not exceeding the available amount of all such **Letters of Credit**;

- (d) ~~NGC may demand payment under any outstanding **Qualifying Guarantee** provided for the benefit of the **User** pursuant to Paragraph 3.21.3(b).~~

3.24 UTILISATION OF FUNDS

In addition to the provisions of Paragraph 3.23 above if **NGC** serves a notice of default under the terms of Paragraph 5.5 or a notice of termination under Paragraph 5.7 then **NGC** shall be entitled to demand payment of any of the **Transmission Services Use of System Charges** and/or **Balancing Services Use of System Charges** and/or **Transmission Network Use of System Demand Reconciliation Charges** which are outstanding from the relevant **User** whether or not the **Use of System Payment Date** in respect of them shall have passed and:-

- (a) make ~~demand under any outstanding **Qualifying Guarantee** or~~ a call under any outstanding **Letter of Credit** supplied by the **User**; and
- (b) to set off the funds in the **Escrow Account** against the **Transmission Services Use of System Charges** and/or **Balancing Services Use of System Charges** and/or **Transmission Network Use of System Demand Reconciliation Charges** unpaid by the **User** and for that purpose **NGC** shall be entitled to transfer any such amount from the **Escrow Account** to any other account of **NGC** as it shall in its sole discretion think fit.

3.25 USER'S RIGHT TO WITHDRAW FUNDS

If a **User** is not in default in respect of any amount owed to **NGC** in respect of the **Transmission Services Use of System Charges** or **Balancing Services Use of System Charges** or **Transmission Network Use of System Charges** under the terms of the **CUSC** and any **Bilateral Agreement** to which the **User** is a party:-

- (a) **NGC** shall transfer to the **User** quarterly interest credited to the **Escrow Account**; and
- (b) **NGC** shall transfer to such **User** within a reasonable time after such **User's** written request therefor any amount of cash provided by the **User** by way of **Security Cover** which exceeds the amount which such **User** is required to provide by way of security in accordance with this Part III.

END OF SECTION 3

AMENDMENTS TO DEFINITIONS WITHIN SECTION 11

Delete the following definitions:

~~“Approved Credit Rating”~~

~~a short term debt rating of not less than A- by Standard and Poor’s Corporation or a rating not less than P1 by Moody’s Investor Services, or a long term rating which correlates to those short term ratings, or an equivalent rating from any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;~~

~~“Qualifying Guarantee”~~

~~a guarantee in favour of **NGC** in a form proposed by the **User** and agreed by **NGC** (whose agreement shall not be unreasonably withheld or delayed) and which is provided by an entity which holds an **Approved Credit Rating**;~~

Amend the following definition:

“Security Amount”

in respect of the **User** the aggregate of available amounts of each outstanding (a) **Letter of Credit**, ~~(b) **Qualifying Guarantee**~~ and ~~(c)~~ the principal amount (if any) of cash that the **User** has paid to the credit of the **Escrow Account** (and which has not been repaid to the **User**); for the purpose of this definition, in relation to a **Letter of Credit** ~~or **Qualifying Guarantee**~~ “available amount” means the face amount thereof less (i) payments already made thereunder and (ii) claims made thereunder but not yet paid;

AMENDMENTS TO CUSC INTRODUCTION

In addition to the changes outlined above, paragraph 11 of the introduction to the CUSC (which has no legally binding effect) will be removed in the event that CUSC Amendment Proposal CAP018 is approved for implementation by the Authority.

Annex 3 – Copies of Representations Received (Consultation Document)

This Annex includes copies of any representations received following circulation of the consultation document (circulated on 11th July 2002 requesting comments by 14th August 2002).

Representations were received from the following parties:

No.	Company	File Number
1	Electricity Direct	CAP018-CR-01
2	East Midlands Electricity	CAP018-CR-02
3	Elexon	CAP018-CR-03
4	British Gas	CAP018-CR-04
5	Scottish Power	CAP018-CR-05
6	TXU Energy	CAP018-CR-06
7	British Energy	CAP018-CR-07
8	Corus Group	CAP018-CR-08
9	Innogy Group	CAP018-CR-09
10	BNFL	CAP018-CR-10

Reference	CAP018-CR-01
Company	Electricity Direct



4 The Courtyard, Alban Park
St Albans AL4 0LA

Tel: 01727 842842

Fax: 01727 731756

E-mail: gareth.swales@electricity-direct.co.uk

Dear Sirs

Firstly let me thank you for allowing Electricity Direct (UK) Limited to respond to National Grids consultation on Credit Cover Requirements for Transmission Use of System Charges. We agree with National Grid that the current arrangements for credit cover are inadequate, and furthermore anti-competitive, but disagree with National Grids proposed solution.

The current credit cover arrangements are clearly anti-competitive since they impose costs on new entrants (that cannot get a credit rating) that are not paid by large incumbents. The credit provisions are not proportional to the levels of liabilities and do not address the ability to pay. Ultimately a new entrant may have to curtail their growth as a direct consequence of the credit cover requirements and this means consumers are being disadvantaged.

The initial work done by the CCWG indicate that the cost to the industry in providing credit cover whether by LOC or cash was seen as being high, which is subsequently passed on to the end consumer. A view that we would endorse. All parties putting up LOC/cash also still results in a barrier to entry. New suppliers have to find this extra finance (whether it is by cash or LOC) making them less competitive as the cost of capital for a new entrant is much greater than those of an established market player.

We believe that the recovery of bad debt should be via a price control methodology. The Price Control would address the issue of cross subsidy as costs could be recovered on a proportional basis and would provide no barrier for new (and existing) participants establishing themselves in the market. It would allow NGC to recover all of the liabilities whereas LOC/cash would only allow NGC to recover up to the value of the LOC/cash.

In summary we believe that the current amendment proposal CAP018 will help to put market participants on a level footing but does not better facilitate the applicable CUSC objectives for the reasons discussed. We would however endorse an alternative amendment whereby bad debt was recovered via a price control methodology that would better facilitate the applicable CUSC Objectives.

Yours Sincerely

Gareth Swales

Reference	CAP018-CR-02
Company	East Midlands Electricity

Our ref :
Your ref :

David Friend
National Grid Company plc
National Grid House
Coventry
CV4 8JY

19 July 2002

Dear David

CUSC Amendment Proposal CAP018

Thank you for the opportunity to contribute to the above consultation. This response is on behalf of East Midlands Electricity Distribution plc.

EMED do not have a direct relationship with NGC in relation to TNUoS or BSUoS charges but we believe that the provision of credit cover is an industry wide issue and should be considered as such.

We therefore believe that the current arrangement should continue i.e. ACR's should remain an acceptable method of providing credit cover, until OFGEM have considered the implications on an industry basis.

Yours sincerely

Ron Hill
Contracts Manager

Reference	CAP018-CR-03
Company	Elexon

Our ref. Comments on CAP018
Your ref. CAP018



24 July 2002

David Friend
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY

(By email to: david.friend@uk.ngrid.com)

Dear David,

Comments on Consultation Paper CAP018 'Credit Cover Requirements for Transmission Use of System Charges'

ELEXON acting as the Balancing and Settlement Code Company has reviewed the Consultation Paper CAP018 'Credit Cover Requirements for Transmission Use of System Charges'. ELEXON would like to highlight the current Credit Cover Requirements under the BSC.

In accordance with BSC Section M2 (Credit Cover and Energy Credit Cover) Trading Parties may provide Credit Cover by delivering to the Funds Administration Agent, either: (i) a Letter of Credit; or (ii) a cash deposit. There is no reference to the use of Parent Company Guarantees for Credit Cover in the BSC. Therefore, ELEXON supports the 'Proposed Amendment' to remove a qualifying Guarantee from a Company that holds an Approved Credit Rating. This would be beneficial to Parties, as the process would mirror the requirements under the BSC.

Yours sincerely,

Justin Andrews
Change Delivery

Reference	CAP018-CR-04
Company	British Gas

word/cusc



energy management group

National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

Charter Court
50 Windsor Road
Slough
Berkshire
SL1 2HA

Tel. (01753) 758156
Fax (01753) 758170
Our Ref. Cap007
Your Ref.
30 July 2002

For the Attention of Ms E Groves
- Commercial Development

Dear Emma

Re: CUSC Amendment Proposal CAP018 - Credit Cover Requirements for Transmission Use of System Charges

Thank you for the opportunity to comment on the Consultation Document in respect of the above Amendment Proposal. British Gas Trading Limited (BGT) do not support the original proposal raised by NGC and believe that the current arrangements should be retained. We are disappointed that this consultation pre-empts the outcome of the wide ranging review of credit provision instigated by Ofgem in March of this year.

Letters of Credit or Cash

BGT do not support the introduction of the use of Letters of Credit (LoC) or Cash as the sole means of security provision. Letters of Credit are already used within the Electricity industry for provision of security under the BSC. It is widely recognised that this has led to a situation where parties are significantly over securitised. Furthermore, Letters of Credit can be complex and involve significant administrative and legal costs. This, together with the over securitisation of the industry, will lead to higher costs to participants which will ultimately be borne by customers.

It is our view that the widespread use of Letters of Credit may concentrate the energy industry risk upon particular areas of the banking industry, which itself may lead to doubts about the effectiveness of cover. It is also worthy of note that banks may have lower credit ratings than a number of the energy industry participants and it would therefore be paradoxical for the risk to be underwritten by a body holding a lower credit rating.

In addition to this paradox, the overall cost of a Letter of Credit will reflect the credit rating of a Company seeking guarantee AND the bank concerned. To such companies, it may be seen that no additional cover is obtained, only increased cost are incurred.

A *centrica* business

British Gas Trading Limited Registered in England No.3078711. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD
www.gas.co.uk

Recovery through Price Controls

We note that one of the options discussed at the Credit Cover Working Group was recovery of bad debt through the Price Controls of the Distribution Network Operators. We do not support this proposal as it does not allocate charges to those that incur them and fails to provide sufficient incentive to NGC to reduce defaults.

We believe that this proposal may be contrary to the Price Control principles of targeted and cost reflective pricing. If all costs of credit cover were to be borne by the Distribution Companies through their Price Controls, this would have the effect of smearing all such costs in an unfocused and opaque manner. This may discriminate in favour of small players. The cost of default would also be spread throughout the Price Control Period and not contained within any single accounting period.

More so than other arrangements, this measure would heavily depend upon the effectiveness of the procedures of the Distribution Companies for credit control to limit exposure experienced by the industry. We see as a disadvantage of this measure that individual companies will have little control over the level of debt accrued across the industry. There will also be a lesser incentive upon individual companies to control escalation of debt.

Parent Company Guarantees (PCG) or Approved Credit Ratings (ACR)

BGT recognise that use of approved credit ratings may have been an issue in recent failures but this experience does not undermine the appropriate use of significant ratings to assess a Company's creditworthiness. Use of speculative ratings should deliver no credit. It is our view that higher ratings can be used as a basis to deliver prudent levels of credit.

The use of PCGs as a measure of credit cover would benefit from the adoption of a standard form. It is recognised that not all Companies will be able to obtain a PCG. Indeed, not all Companies will be able to obtain an ACR of sufficient standing.

Therefore although we support the value of an ACR or a PCG they can only provide a partial solution, dependent upon the credit worthiness of the company, or it's parent, and the level of credit cover required.

In conclusion, BGT believe that the current credit cover requirements under CUSC are appropriate.

We trust that these comments are helpful. Should you wish to discuss any of the points raised here in more detail please contact Catherine Robinson on 01753 758180.

Yours sincerely

Danielle Lane
Transportation Analyst

Reference	CAP018-CR-05
Company	Scottish Power

CUSC Amendment Consultation

To: David Friend
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY

14th August 2002

CAP018: Credit Cover Requirements for Transmission Use of System Charges

Dear David,

Many thanks for the opportunity to consider the consultation document in respect of CUSC Amendment Proposal CAP018. This response is provided on behalf of Scottish Power Generation Limited and Scottish Power Energy Retail Limited.

CAP018 highlights reasons why NGC wishes to move away from System Users' reliance on Approved Credit Ratings (ACRs) and qualifying Parent Company Guarantees (PCGs) as potential means to provide credit cover for Use of System charges (TNUoS and BSUoS) and towards the sole use of Letters of Credit (LoCs) and cash. Those reasons are: the lack of a 'guarantee' of recovery of debts from defaulting Users; an element of cross-subsidy between defaulting and non-defaulting Users when NGC seeks recovery; and that the current policy discriminates between those Parties which can rely upon an ACR/PCG and those which cannot.

In respect of these reasons, our views are as follows:

- While there is clearly a 'guaranteed' amount to be recovered if cash is provided as credit cover, NGC has not proven how the increased cash required to cover current ACRs/PCGs can be provided by Users without causing some of those Users financial difficulty. The difficulty of raising additional funds would particularly discriminate against smaller players in the industry, with consequential impacts on all other Users, and might create a barrier to new entrants. It is difficult to see how this approach meets the Applicable CUSC Objective of facilitating competition in generation and supply. We, therefore, do not see an immediate need to dispense with ACRs/PCGs as they do represent credible and transparent forms of credit cover requirement
- We agree with the conclusion of the CAP018 Working Group that similar effects to the above, involving financial difficulty and discrimination, could become manifest for particular Users if Distribution companies took a lead from NGC's intent and treated cash/LoCs as the norm for credit cover requirements
- We also agree with the Working Group that the requirement to periodically renew LoCs may result, for some Users who may be nearing credit default, in a non-renewal, precipitating real financial difficulty for that User and knock-on impacts on all other Users. To avoid that situation by posting cash only would place an

over-reliance on cash as the sole means of credit cover which, as indicated, would also lead to a greater risk of default

- We note the discussions of the Working Group about alternatives to CAP018. Although no one method was highlighted for an Alternative Amendment, there were sufficient potential solutions (recovery through the Price Control/insurance-based schemes) which, if explored further, might provide a better solution. We would recommend that such further exploration of different options should take place. We also note in this regard that OFGEM's conclusions on its recent consultation on credit cover arrangements in the gas and electricity industries may be available to industry participants in the near future. It might be unwise in the circumstances to make pre-emptive amendments to the current legal framework. Instead, it may be appropriate to wait and see OFGEM's views before considering further change
- It is possible that an appropriate solution may consist of a combination of the various means to order credit cover arrangements discussed by the Working Group. We are ready to explore these different options in the context of further consultations. We would, therefore, regard any change from the current credit cover requirements outlined in the CUSC as inappropriate at this time

Further to the views expressed above, we do not support the changes to credit cover requirements outlined in CAP018 and cannot agree that they meet the Applicable CUSC Objective of facilitating competition in generation and supply.

If you wish to discuss the content of this response, please do not hesitate to contact me.

Yours sincerely,

Abid Sheikh
Commercial Analyst (0141 568 3113)

Reference	CAP018-CR-06
Company	TXU Energy

TXU Energy
 Wherstead Park
 Ipswich
 Suffolk IP9 2AQ
 Tel: +44 (0)1473 554272
 Mobile: 07879 802399
 Fax: +44 (0)1473 555320
 Email: haley.hutson@txu-europe.com
 Web: <http://www.txuenergi.co.uk>

David Friend
 Commercial Development
 National Grid Company plc
 National Grid House
 Kirby Corner Road
 Coventry
 CV4 8JY

14th August 2002

Dear David,

CAP018 Consultation Response – Credit Cover Requirements for Transmission Use of System Charges

Thank you for allowing us the opportunity to respond to the above consultation.

TXU welcomes the work carried out by the Credit Cover Working Group (CCWG) in recognising the need to review the provision of credit cover within the electricity industry. However, this is a wider issue than just Transmission Use of System charges (TUoS) and feel it would be inappropriate for the National Grid Company (NGC) to take act before Ofgem have provided feedback from their consultation on Credit Cover. This is particularly important given the proposed merger between NGC and the Lattice Group plc and the alignment of processes that such a merger may bring.

TXU believes the most appropriate solution to the general debate on credit cover is one that is outside the scope of the terms of reference for the CUSC, namely a form of pass through under the price control. *Therefore, TXU does not support the introduction of CAP018.* Our views on credit cover requirements are summarised here, with more detailed discussion provided in the Appendix.

The impact of any credit cover must, ultimately, be borne by customers, both as a direct cost, and through a reduction in competition if the applied mechanism distorts the market. This means that it is important to ensure that the overall credit cover ‘package’ has as little an impact as possible on end users. Our view is that the simplest and cheapest mechanism would be that of pass through, which also provides minimal distortions to the market. We believe that, as the likely value of debt is small, there is no reason why this should not be passed through in the following year, as a form of correction factor in the relevant price control. It is our understanding that the banks would be able to provide a liquidity facility to assist companies in coping with the cash-flow implications.

In addition, we advocate the introduction of a clear, well-defined process for the payment of all network charges. This must be accompanied by an established escalation procedure, coupled with appropriate incentives on suppliers. Debt that is incurred outside of such a period will then be faced by network businesses as a fully controllable operational risk. Any debt incurred within the time of the defined process should not be faced by network operators, as it is outside their control and creates a risk that is not consistent with their allowed rate of return.

Such an approach will remove a significant uncontrollable risk from the network operator, while providing them with a strong incentive to collect debt in a timely manner. It also places incentives on retail businesses to pay on time in order to avoid the penalties under the escalation procedure.

Under such a scheme, NGC could recover any reasonable debt incurred. This provides a high degree of certainty and significantly reduces NGC's exposure to this risk, putting their remaining exposure firmly under their own control.

As mentioned previously, Credit Cover is an issue that applies to all networks businesses and any discussion should not be limited to NGC. TXU believes the most practical and cost efficient solution for all network operators is that of a price control pass through which falls outside the CUSC's terms of reference. As this issue relates to all networks, we believe that this review should be delayed pending the results of Ofgem's wider consultation. We are copying this response to Fran Gillon, Head of Supplier Failure & Licensing at Ofgem.

Should you wish to discuss anything further, please do not hesitate to contact me.

Yours sincerely,

Haley Hutson
Competition & Pricing Manager

cc Fran Gillon, Ofgem

APPENDIX

Set out below, are TXU's view on the relative merits and drawbacks of using Cash or Letters of Credit as the solution for Credit Cover, along with TXU's suggested solution of a Cost Pass Through:

Cash Deposits

We are unsure of the costs for providing cash cover presented by NGC in the document. It is our view that the true cost of cash is the opportunity cost, in other words, the return a company could achieve if the cash was invested in day-to-day business activities. As such, we believe that the cost to most investor owned companies of providing a cash deposit would be around 10%, rather than the 0.2 - 0.5 % suggested. While some companies may provide lower returns than this, we believe that the shareholders of most companies in a competitive market industry will expect a return at a similar level. This would result in a cost to the industry of up to £9m per year, rather than the £180k - £450k suggested. This is in an industry whose total historical bad debt for all network charges is less than £30m in the years since competition was established.

The true cost of this approach means that it is not a sensible option.

Letters of Credit (LoC)

Our experience suggests that the estimated costs presented in the consultation document slightly underestimate the situation in the current market. As the banks must now fully back LoCs (i.e. 100% by cash), we are concerned that the provision of such cover for the entire market would have a significant impact on the risk profile of those banks providing cover. The result of this would be to very significantly raise the cost of LoCs as the banks adjust to their more limited trading position. Recent discussions we have had with the banks suggest that the cost may rise as high as 1.5 - 2% if this approach is adopted for all energy networks, assuming such a large degree of cover could be provided at all.

In addition to this the current US GAAP rules on disclosure of LoCs mean that any increase in the amount provided will have an impact on our (and any other company operating under US GAAP) available borrowing. There is therefore an opportunity cost associated with the provision of LoCs, possibly as high as that of cash deposits. This may be increased further by additional disclosure rules proposed by the SEC.

It is also unlikely that a company without an approved credit rating would be able to secure a LoC, as the company would then be required to provide a cash deposit. The market would then effectively be biased toward the large, vertically integrated companies and niche players would find it difficult to compete. This would also tend to lead to a reduction in the liquidity of wholesale markets.

If companies are required to provide Letters of Credit to cover any possible bad debt, it is important that network operators are provided with suitable incentives to collect debt in a timely manner. Where debt is fully covered, there is little incentive to collect

debt. There may also be an incentive on a failing supply business to pay other debts in preference. Both of these will tend to increase further the level of cover required.

We do not consider this approach to be viable and understand that a number of the banks also have significant concerns with it.

Pass Through

The mechanism to apply this approach, namely network charges and the relevant price controls, already exists, and will do for the foreseeable future. In addition, it has been shown to work in the past. Any pass through will need to include a reasonable rate of interest, but this will clearly be lower than that charged by a higher risk business such as a bank or insurance company. This methodology is one of the few solutions that provide the significant benefit of covering only the debt that occurs, rather than all debt that might occur. As such, it provides significant benefit in not tying up funds that could be invested elsewhere, to the benefit of customers.

We acknowledge that this approach does not deliver cost reflectivity for credit worthiness of retail businesses. However, the impact of credit ratings is faced through many other areas of our businesses, such as dealings with service providers, wholesale trading and business growth. We therefore believe that the impact of this is minor compared with the significant barrier to entry and potential market distortion that occurs when companies are required to provide some form of pre-emptive cover. Such cost reflectivity is only of economic value if it changes customer behaviour and we feel it would be lost amongst the other costs faced by retail businesses. Whilst we believe that cost reflectivity is important, there is a critical balance to be drawn between economic incentives and prices.

We believe this approach is the most feasible and appropriate solution, provided it is accompanied by a clear and robust escalation procedure to limit the potential level of debt.

Reference	CAP018-CR-07
Company	British Energy



9 August 2002

David Friend
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

Dear David,

CUSC Amendment Proposal CAP018

Thank you for the opportunity to comment on the issues raised in NGC's consultation document of July 2002 on credit cover requirements for Transmission Use of System Charges.

Key Points

- **British Energy does not support the removal of Parent Company Guarantees as an acceptable means of providing credit cover and is opposed to the introduction of Letters of Credit/cash.**
- **The removal of Parent Company Guarantees unfairly discriminates against those system users who currently benefit from approved credit ratings and access to PCGs.**
- **NGC could be seen to be failing in its duty to facilitate competition by moving away from the existing regime as it could raise barriers to entry**
- **Notwithstanding our view that the existing arrangements should be retained, of the options for change identified British Energy's preference lies in the price control approach.**

Detailed Comments

British Energy is not persuaded that a change to the current arrangements for the provision of credit cover is required or necessary. The existing arrangements have largely worked well in managing risk, and even in the context of the failures of Independent Energy and Enron the cost to the monopoly service providers was

relatively small. Furthermore, following the collapse of Enron it is apparent that credit rating agencies are now more attuned of the need to respond quickly to changes in a company's financial position (whether through a decline in its financial strength or an increase in exposure). This should improve confidence in, and the reliability of, credit cover provided through Approved Credit Ratings (ACR) and Parent Company Guarantees (PCG).

NGC claims that the current arrangements are inefficient and that they introduce a cross-subsidy from those companies that do not have an ACR's and PCG's to those that do. An alternative view is that within any other competitive market there will be players at differing stages of development. In this context, therefore, the ability to generate an ACR and PCG should simply be seen as a normal competitive advantage. The removal of a current option actually decreases competition in the provision of credit cover. Moreover, and of equal consideration, is the legitimate view that the removal of PCG's will unfairly discriminate against those parties who currently use ACR's and PCG's as a means of providing credit cover.

Treating parties differently is not necessarily discrimination whereas treating them differently without good reason is. CAP018 will discriminate against those parties with Approved Credit Ratings while the present position merely treats users differently because their credit worthiness is different. This is an accepted and common sense principle which has always been applied in commercial and financial transactions. For example, many Grid Trade Master Agreements use PCG's or ACR's as security. Further collateral in the form of Letters of Credit etc is only required if the counterparty's ACR's falls below investment grade or it doesn't have an ACR.

The amendment to the CUSC in the form of CAP018 which is intended to allow NGC to "...fulfil its obligations to facilitate competition in the generation and supply of electricity" may potentially raises barriers to entry (and hence harms competition). The requirement to provide Letters of Credit (LoC) or cash deposits could particularly affect smaller suppliers, as it will ultimately inhibit their ability to grow and to compete effectively. Moreover, the widespread use of LoCs and cash deposits within the industry will almost certainly raise issues relating to the gearing of some suppliers and their ability to raise the necessary LoCs/cash in the first place.

Notwithstanding our comments above, of the options for change outlined in the paper our preference lies in dealing with credit risk under the price control regime. We note that Ofgem adopted this approach in respect of the failure of Independent Energy when distribution companies were allowed to recover most of what would otherwise have been stranded costs by an adjustment to the price control.

British Energy would be particularly concerned if NGC were to settle on arrangements based on LoCs or cash because, as indicated above, this would increase the cost to industry participants of providing credit. In this respect any extension to the use of LoCs or cash must be accompanied by a more accurate means of assessing the amount of security to be provided (the debate in the BSC arena has highlighted this as an issue, where it is clear that a disproportionate amount of security cover is required of BSC participants). It is also an inescapable fact that LoCs tie-up bank credit lines.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Love', with a stylized flourish at the end.

David Love
Head of Regulation

Direct Line: 01452 653325

Fax: 01452 653246

E-Mail: david.love@british-energy.com

Reference	CAP018-CR-09
Company	Innogy Group



Consultation Document 11 July 2002
CUSC Amendment Proposal P18 'Credit Cover Requirements for TUoS Charges'

Innogy Response

CAP 18 – Credit Cover Requirements for Transmission Use of System Charges

Innogy Group welcomes the opportunity to respond to the Consultation on CAP18. However, we feel that the proposed Amendment will impose unnecessary costs on customers. The current methodology appropriately reflects the commercial risks within the industry and recognises that different types of party represent different levels of risk. In this context, we have the following comments:

- Efficiency - the cost incurred through the imposition of LoCs will increase the costs for customers. Indeed, customers will be hit twice over, since they are impacted by the cost of supply, as well as any increase in the price of wholesale power prices through the increase in generation costs.
- Discrimination between charges under the CUSC - NGC is seeking to cover BSUoS and TNUoS liabilities without recognising that some companies are debtors to NGC, rather than creditors. We believe that for consistency reciprocal arrangements should be considered such that NGC posts LoCs in relation to their own TNUoS and BSUoS liabilities. This will avoid discrimination based on location or the type of charge and reflect the risk (albeit small) that NGC may default on payments. The same principal should carry through to other NGC payments under Ancillary Services Agreements.
- Discrimination vs. parties with ACRs - those parties that do have an Approved Credit Rating are not allowed to make use of such. The current situation is non-discriminatory, since it treats parties of similar risk and creditworthiness in the same manner. The report stated that those companies with ACRs provide a poorer form of credit cover than those without. Unfortunately the report does not reflect the commercial reality that those companies who do not have ACRs represent a greater credit risk than those with ACRs. Purely concentrating on the form of the credit held ignores the real reason why credit is held. It is not held to cover all debts, but to cover the risk of non-payment of those debts. Requiring the same credit cover requirements from all companies does not better facilitate competition by treating different types of party in the similar manner. In fact it has the opposite effect, it detracts from competition by not allowing those companies who can manage their risks better than others to pass those benefits through to the end consumer.
- Future investment – by forcing parties to commit lines of credit to NGC, these lines of credit are no longer available to back up other investments. In the long term, this will curtail parties' investments in the industry, such new build to replace old, inefficient plant.

Consequently, we do not believe that the proposed Amendment better facilitates the Applicable CUSC Objectives. In fact, we feel that this Amendment actually detracts from the CUSC.

Ben Willis
Npower Ltd

Reference	CAP018-CR-10
Company	BNFL



Berkeley Centre
Berkeley
Gloucestershire GL13 9PB
Tel : 01453 810451
Fax: 01453 812529

David Friend
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

14 August 2002

Dear Mr Friend,

**CUSC AMENDMENT PROPOSAL CAP018: CREDIT COVER REQUIREMENTS
FOR TRANSMISSION USE OF SYSTEM CHARGES**

I refer to the Consultation Document for CAP018 dated 11 July 2002. Please find the response of Magnox Electric to this consultation below.

Magnox Electric does not support the proposed amendment to the CUSC set out in CAP018. We do not believe that either the amendment proposal itself nor the additional discussion in the Consultation Paper present adequate demonstration that the proposal would better facilitate the Applicable CUSC Objectives. In particular, we would comment:

- (i) the amendment is described as enabling National Grid to more efficiently discharge the obligations imposed on it by the Act and the Transmission Licence. We would contend that in this context the efficient discharge of obligations should take into account the costs of the industry as a whole, including those of NGC, as ultimately these costs will be borne by the consumer. The amendment does not demonstrate that costs as a whole would be lower than at present if it were implemented. We would argue that any amendment in this area should be capable of demonstrating that costs are minimised and the allocation of risk between the different parties is appropriate.
- (ii) We do not agree that it is necessarily inappropriate that different arrangements apply to companies that do not have the same credit rating. It is inevitable under any arrangement, including that proposed, that the costs to companies will not be identical; this is merely a reflection that companies with lower credit ratings will be obliged to pay risk premiums in one way or another.

Whilst we do not support CAP018, we can see that there may be scope for improving the arrangements in this area.

Yours faithfully,

Nigel Burrows
Regulation and Market Access Manager

Annex 4 – Copies of Representations Received (Draft Amendment Report)

This Annex includes copies of any representations received following circulation of the draft Amendment Report (circulated on 20th August 2002 requesting comments by 27th August 2002).

Representations were received from the following parties:

No.	Company	File Number
1	UK Electric Power Ltd	CAP018-AR-01
2	CUSC Panel Member	CAP018-AR-02
3	British Energy	CAP018-AR-03
4	Scottish Power Generation Limited and Scottish Power Energy Retail Limited	CAP018-AR-04

Reference	CAP018-AR-01
Company	UK Electric Power Ltd

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

From: Cumberland, Eddie [<mailto:eddie.cumberland@ukelectric.com>]
Sent: 21 August 2002 09:37
To: Friend, David
Subject: CAP018 Response

First may I thank NGC for the opportunity to comment on the draft final CAP018 report on Security Cover.

It is disappointing that the working group did not develop an alternative on the basis of the price control recovery model.

It is also disappointing that NGC are pressing ahead with CAP018 when OFGEM is currently reviewing security cover and only this week, on 19th August 2002, has issued some guidelines.

Your argument that the removal of ACR's will provide a level playing field is only partially correct as there are two elements:-

- a) The first being that ACR's do not provide a guarantee of cash to cover payment default is clearly correct as was demonstrated by the collapse of Enron.
- b) The second being that the cost of providing LoC varies significantly between the various companies probably in a range of 0.2% to 5% and it is those companies currently with ACR's that are able to purchase LoC at 0.2%.

I reluctantly agree that CAP018 does marginally reduce the risk to NGC and therefore does albeit very limited improve the CUSC applicable objectives.

However I would strongly urge NGC to delay the submission of CAP018 and await the outcome of the OFGEM security cover determination. If CAP018 is submitted to OFGEM then I would recommend it be as a temporary solution with a commitment to review the matter again in a timely manner once the current OFGEM determination is made on security cover.

Best regards

Eddie

Eddie Cumberland
UK Electric Power Ltd
Manor Court, St. Margaret's Street,
Ipswich, IP4 2AT, United Kingdom
Tel: +44 1473 232 500 (switchboard)
Tel: +44 1473 232 555 (direct dial)
Fax: +44 1473 232 575
Email: eddie.cumberland@ukelectric.com

Reference	CAP018-AR-02
Company	CUSC Amendments Panel Member

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

From: Malcolm Taylor [<mailto:mtaylor@aepuk.com>]
Sent: 28 August 2002 14:22
To: Friend, David; Davies, Charles; Balkwill, Andy
Subject: CAP018 - Further Thoughts

David,

on further reflection over the weekend and discussion with Andy Balkwill, I believe some of my comments on the CAP018 Amendment report were excessive and I apologise for my liverishness.

* 'Your dismissal of alternatives simply because they are not bounded by the CUSC. For those parties who will be faced with increased operational costs arising from this change, the fact that you appear unable to consider alternatives because they don't fall in the CUSC governance box, will seem a paltry excuse.'

I will attempt to be more precise in my concerns. Regarding the dismissal of alternatives, I recognise on reflection that we are once again bumping up against the water-tight multi-compartmental governance issue that you are as constrained by as the rest of us. From the customer's perspective the cold fact will be the increased costs of participation. The fact that you are precluded from addressing other solutions because of governance boundaries will not matter to them. From your perspective, I imagine you just want a solution that will work cost-effectively and, everything else being equal, the governance within which it sits is a second order matter.

Unfortunately, it seems to me regarding CAPs, Ofgem can only react to the question, as posed and answered via a CAP (or BSC mod, GCode mode, etc.). Therefore they are precluded, except through commentary on a decision from even indicating a better way. I believe this is inefficient and unsatisfactory. However, I am equally sure that because of governance boundaries, you cannot address alternatives other than by way of allusion in an amendment report. There must be a better way. I will raise the matter at the next CUSC Panel in the hopes that we can begin to bound this question and thereby frame possible solutions, although I recognise it may be outside our vires to even have the discussion!

Turning to my final comment regarding potential clashes between the amendment process role of NGC and NGC's proper commercial concern to maximise shareholder value, I continue to have this concern and can only note it for now, as Ofgem have already indicated their satisfaction with the current role of NGC in managing the amendment process (via the rejection of CAP005). I will look forward to reading Ofgem's reasoning in their response to CAP018.

Kind Regards
Malcolm Taylor
Electricity Market Adviser
Association of Electricity Producers

Reference	CAP018-AR-03
Company	British Energy

From: Capener John [<mailto:john.capener@british-energy.com>]
Sent: 27 August 2002 08:05
To: CUSC Team
Cc: Phillips, Steve; Leng Neville
Subject: RE: CUSC - CAP018 DRAFT Amendment Report (Credit Cover Requirements for Use of System Charges)

Paragraph 10.3 does not appear to relate to the subject matter of this consultation can you check and correct /reissue as necessary please. Also after paragraph 10.2 the numbering changes to 4.3.1 - 4.3.4 which while relevant to the consultation requires renumbering.

On a more substantive point the summary fails to mention or give any weight to the fact that with the exception of Elexon none of the industry parties to the CUSC were supportive. The body of the report simply lists the main points from the respondents comments whereas paragraphs 10.8 - 10.14 are given over to NGC's arguments as to why, notwithstanding the rest of the industry views, CAP041 is a good thing. This does not come across as a balanced report in my view. Too much weight seems to be given to NGC's view at the expense of the majority.

John

Reference	CAP018-AR-04
Company	Scottish Power Generation Limited and Scottish Power Energy Retail Limited

CUSC Amendment Report

To: David Friend
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY

28th August 2002

CAP018: Credit Cover Requirements for Transmission Use of System Charges

Dear David,

Many thanks for this opportunity to consider the CUSC Amendment Report in respect of CAP018. This response is provided on behalf of Scottish Power Generation Limited and Scottish Power Energy Retail Limited.

We would reiterate the views and reasons expressed in our response to the CAP018 Consultation as to why we do not support this Amendment.

In respect of the representation of our views in the Report, could you please add in your summary of those views that we also indicated that any amendments to the CUSC should not be made until the further views of OFGEM on credit cover requirements for the gas and electricity industries are made known.

Also in that regard, we note with disappointment that NGC continues to recommend CAP018 as a solution, even while acknowledging that this pre-empts any further OFGEM proposals which may provide a suitable alternative way forward (para 10.14).

If you wish to discuss the content of this response, please do not hesitate to contact me.

Yours sincerely,

Abid Sheikh
Commercial Analyst (0141 568 3113)