



## **AMENDMENT REPORT**

### **CUSC Proposed Amendment CAP119**

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

*The purpose of this report is to assist the Authority in their decision of whether to implement Amendment Proposal CAP119*

Amendment Ref	CAP119
Issue	1.0
Date of Issue	25 <sup>th</sup> April 2006
Prepared by	National Grid

**I DOCUMENT CONTROL****a National Grid Document Control**

Version	Date	Author	Change Reference
0.1	08/03/06	National Grid	Draft for internal comment
0.2	10/03/06	National Grid	Draft for industry comment
0.3	20/03/06	National Grid	Draft for CUSC Panel Recommendation Vote
0.4	06/04/06	National Grid	Draft for CUSC Panel comment
1.0	25/04/06	National Grid	Formal version for submission to the Authority

**b Document Location**

National Grid Website:

[www.nationalgrid.com/uk/Electricity/Codes/](http://www.nationalgrid.com/uk/Electricity/Codes/)

**c Distribution**

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

<b>II</b>	<b>CONTENTS TABLE</b>	
<b>I</b>	<b>DOCUMENT CONTROL</b>	<b>2</b>
<b>II</b>	<b>CONTENTS TABLE</b>	<b>3</b>
<b>1.0</b>	<b>SUMMARY AND RECOMMENDATIONS</b>	<b>4</b>
<b>2.0</b>	<b>PURPOSE AND INTRODUCTION</b>	<b>4</b>
<b>3.0</b>	<b>PROPOSED AMENDMENT</b>	<b>5</b>
<b>4.0</b>	<b>ALTERNATIVE AMENDMENT</b>	<b>6</b>
<b>5.0</b>	<b>ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES</b>	<b>7</b>
<b>6.0</b>	<b>PROPOSED IMPLEMENTATION</b>	<b>7</b>
<b>7.0</b>	<b>IMPACT ON THE CUSC</b>	<b>8</b>
<b>8.0</b>	<b>IMPACT ON CUSC PARTIES</b>	<b>8</b>
<b>9.0</b>	<b>IMPACT ON INDUSTRY DOCUMENTS</b>	<b>8</b>
<b>10.0</b>	<b>IMPACT ON INDUSTRY COMPUTER SYSTEMS OR PROCESSES</b>	<b>8</b>
<b>11.0</b>	<b>VIEWS AND REPRESENTATIONS</b>	<b>8</b>
<b>12.0</b>	<b>NATIONAL GRID RECOMMENDATION</b>	<b>9</b>
<b>13.0</b>	<b>AMENDMENTS PANEL RECOMMENDATION</b>	<b>9</b>
<b>14.0</b>	<b>COMMENTS ON DRAFT AMENDMENT REPORT</b>	<b>11</b>
	<b>ANNEX 1 - AMENDMENT PROPOSAL FORM</b>	<b>12</b>
	<b>ANNEX 2 - PROPOSED LEGAL TEXT TO MODIFY THE CUSC</b>	<b>15</b>
	<b>ANNEX 3 - REPRESENTATIONS RECEIVED DURING CONSULTATION</b>	<b>17</b>
	<b>ANNEX 4 - REPRESENTATIONS RECEIVED DURING CONSULTATION ALTERNATIVE AMENDMENT CONSULTATION</b>	<b>21</b>
	<b>ANNEX 5 - COPIES OF COMMENTS RECEIVED ON THE PROPOSED AMENDMENT REPORT</b>	<b>23</b>

## 1.0 SUMMARY AND RECOMMENDATIONS

### Executive Summary

- 1.1 CAP119, Clarification of, and correction to, the table of Users' Credit Allowances, was proposed by National Grid and submitted to the CUSC Amendments Panel for consideration at their meeting on 27<sup>th</sup> January 2006. The CUSC Amendments Panel determined that it was appropriate for the proposal to proceed to wider industry consultation by National Grid. This consultation closed on 16<sup>th</sup> February 2006.
- 1.2 In response to this consultation, a Consultation Alternative Amendment to CAP119 was proposed by Scottish and Southern Energy. Under the terms of the CUSC there is a requirement for a further period of consultation to be undertaken in order to allow the industry to consider the proposed Consultation Alternative, and this further consultation closed on 7<sup>th</sup> March 2006.

### National Grid Recommendation

- 1.3 National Grid believes that the amendments proposed by the CAP119 Original Proposal would ensure that Users with Approved Credit Ratings were in no doubt as to the Unsecured Credit Allowance that they were entitled to, and that this would therefore better facilitate competition in the generation and supply of electricity. Consequently, National Grid recommends that the CAP119 Original Proposal is approved by the Authority.
- 1.4 National Grid does not believe that the Consultation Alternative Amendment would better facilitate the applicable CUSC objectives. We note that the proposal differs from the recommendations of the best practice guidelines (see paragraph 3.1), and have seen insufficient evidence in our view that such a divergence is justified or is necessarily consistent with better facilitating the applicable CUSC objectives.
- 1.5 National Grid recommends that, should the Authority approve CAP119, implementation should be ten business days after the Authority's decision.

### Amendments Panel Recommendation

- 1.6 The CUSC Amendments Panel Recommendation Vote on CAP119 was conducted at the Panel Meeting on 31<sup>st</sup> March 2006. On the question of whether CAP119 would BETTER facilitate achievement of the Applicable CUSC Objectives, the Panel majority vote was as follows:

Original Amendment Proposal	- YES
Consultation Alternative Amendment	- NO

The Panel recommends that the version of CAP119 that would BEST facilitate achievement of the Applicable CUSC Objectives is the CAP119 Original Proposal.

## 2.0 PURPOSE AND INTRODUCTION

- 2.1 This Amendment Report has been prepared and issued by National Grid under the rules and procedures specified in the Connection and Use of System Code (CUSC) as designated by the Secretary of State. It addresses

issues relating to the table of Users' Credit Allowances in paragraph 1 of Appendix 1 of Section 3 (Use of System) of the CUSC.

- 2.2 Further to the submission of Amendment Proposal CAP119 (see Annex 1) and the subsequent wider industry consultation that was undertaken by National Grid, this document is addressed and furnished to the Gas and Electricity Markets Authority ("the Authority") in order to assist them in their decision whether to implement Amendment Proposal CAP119.
- 2.3 This document outlines the nature of the CUSC changes that are proposed. It incorporates National Grid's recommendations to the Authority concerning the Amendment. Copies of all representations received in response to both consultation documents have been also been included and a 'summary' of the representations received is also provided. Copies of each of the responses to the consultations are included as Annex 3 and Annex 4 to this document.
- 2.4 This Amendment Report has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid website, at [www.nationalgrid.com/uk/Electricity/Codes/](http://www.nationalgrid.com/uk/Electricity/Codes/).

### **3.0 PROPOSED AMENDMENT**

- 3.1 CAP119 was proposed by National Grid to amend a table introduced into the CUSC by CAP089/090/091. CAP089/090/091 was proposed by National Grid and BizzEnergy in May 2005 in order to address and codify certain elements of Ofgem's "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" (referred to hereafter as "the best practice guidelines"), which had been published in February 2005. The changes to the CUSC proposed by CAP089/090/091 largely impacted Section 3 of the CUSC, and the proposal was approved by Ofgem on 20<sup>th</sup> December 2005 for implementation on 1<sup>st</sup> February 2006.
- 3.2 Part of CAP089/090/091 was to introduce the concept of Unsecured Credit Allowances to be used when calculating the security cover required from Users for Use of System charges. For Users with an Approved Long Term Credit Rating of BB- or above, this Credit Allowance will be determined by reference to a table in Paragraph 1 of a new Appendix 1 to Section 3 of the CUSC.
- 3.3 It is this table that CAP119 proposes to amend, with the aim of clarifying the original table by setting out all the Long Term ratings for each rating agency in relation to the percentage of unsecured credit allowed. The original table lacks a degree of transparency as it groups the ratings strictly in accordance with the "Basel II" model as detailed in the best practice guidelines, and does not expressly set out all related ratings. In other words, instead of referring simply to AAA/AA, it is proposed that the table should explicitly also refer to AA+ and AA-. Similarly, the reference to ratings of A would be clarified by including A+ and A- ratings.
- 3.4 This issue was first raised by a respondent to the CAP089/090/091 consultation document (E.ON UK). However, due to the large number of Alternative Amendments proposed in relation to CAP089/090/091, neither National Grid nor the respondent considered that the issue was sufficiently material as to warrant further adding to the complexity of that amendment proposal.

- 3.5 Following the approval of the CAP089/090/091 Consultation Alternative Amendment (CAA) 12 by the Authority, it was also brought to National Grid's attention that the table of credit ratings to be implemented contained an error in respect of some of the references to Fitch ratings. The intention of the table was to contain Long Term ratings; however, in the column of Fitch ratings the Short Term rating of B had been inadvertently included. CAP119 therefore proposes to amend these to instead refer to the Long Term ratings of BB+, BB and BB-.
- 3.6 National Grid would like to emphasise that neither of these proposed changes would alter in any way the process introduced by CAP089/090/091. Equally, National Grid believes that the CAP089/090/091 process will work without CAP119 – the implicit references contained in AAA/AA and A plus the Short Term Fitch Ratings will ensure that all relevant Users will be assigned the correct Credit Allowance. However, National Grid considers that CAP119 would significantly enhance the transparency of the table concerned and the process in general, and that now is an appropriate point at which to propose such a clarification.
- 3.7 The legal text required to give effect to the CAP119 Original Proposal is attached as Part A of Annex 2 of this document.

#### 4.0 ALTERNATIVE AMENDMENT

- 4.1 In response to the CAP119 consultation, a Consultation Alternative Amendment to CAP119 was proposed by Scottish and Southern Energy.
- 4.2 Scottish and Southern Energy believe that it would be appropriate to further change the table, such that different credit allowances would be available for A+, A and A- credit ratings, resulting in greater credit allowances for Users with credit ratings of A+ and A as compared to the current CUSC baseline. This is shown in the table below:

Standard & Poor's Long Term Credit Rating	User's Allowed Credit as % of Unsecured Credit Cover	
	CAP119 Original Proposal*	CAP119 Consultation Alternative Amendment
AAA	100	100
AA+	100	100
AA	100	100
AA-	100	100
A+	40	80
A	40	60
A-	40	40
BBB+	20	20
BBB	19	19
BBB-	18	18
BB+	17	17
BB	16	16
BB-	15	15

\*The CAP119 Original Proposal is to explicitly list each credit rating; therefore the credit allowances proposed under the CAP119 Original Proposal mirror those implied by the current CUSC baseline.

- 4.3 This proposal is based on previous Consultation Alternative Amendments (CAAs 1-6) to CAP089/090/091 proposed by Scottish and Southern Energy.
- 4.4 The legal text to give effect to the proposed Consultation Alternative Amendment is contained in Part B of Annex 2 of this document.

## **5.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES**

- 5.1 National Grid is required by the terms of its Transmission Licence to facilitate amendments to the CUSC that would better facilitate achievement of the following objectives:
- (a) the efficient discharge by the Licensee of the obligations imposed on it by the act and the Transmission Licence; and
  - (b) facilitating effective competition in generation and supply of electricity and facilitating such competition in the sale, distribution and purchase of electricity.
- 5.2 National Grid believes that the amendments proposed by the CAP119 Original Proposal would ensure that Users with Approved Credit Ratings were in no doubt as to the Unsecured Credit Allowance that they were entitled to, and that this would therefore better facilitate competition in the generation and supply of electricity.
- 5.3 National Grid does not believe that the Consultation Alternative Amendment would better facilitate the applicable CUSC objectives. We note that the proposal differs from the recommendations of the best practice guidelines, and have seen insufficient evidence in our view that such a divergence is justified or is necessarily consistent with better facilitating the applicable CUSC objectives.
- 5.4 National Grid also notes the similarity between this Consultation Alternative Amendment and a number of Consultation Alternative Amendments (CAAs1-6) to CAP089/090/091 that have previously been presented to, and rejected by, the Authority.
- 5.5 Finally, National Grid would like to highlight that the intention of CAP119 was to correct and clarify the table in paragraph 1 of Appendix 1 of Section 3 of the CUSC, not to implement changes of a material nature.

## **6.0 PROPOSED IMPLEMENTATION**

- 6.1 National Grid proposed that CAP119 should be implemented ten Business Days after an Authority decision. In accordance with paragraph 8.19.3(b) of the CUSC, views were invited on this proposed implementation date.
- 6.2 No respondents to the CAP119 consultation expressed a view on the proposed implementation date. There is, therefore, no disparity between the view of the industry and that of National Grid.

## **7.0 IMPACT ON THE CUSC**

- 7.1 CAP119 would require amendments to the table in paragraph 1 of Appendix 1 of Section 3 (Use of System) of the CUSC.
- 7.2 The legal text required to give effect to CAP119 Original Proposal is attached as Part A of Annex 2 of this document.
- 7.3 The legal text required to give effect to the Consultation Alternative Amendment is attached as Part B of Annex 2 of this document.

## **8.0 IMPACT ON CUSC PARTIES**

### **Proposed Amendment**

- 8.1 The Original CAP119 Proposal would have no material impact upon CUSC Parties, but would clarify the exact Unsecured Credit Allowance that they were entitled to.

### **Consultation Alternative Amendment**

- 8.2 The CAP119 Consultation Alternative Amendment would have a material impact upon CUSC Parties due to Users with credit ratings of A+ and A being afforded greater Unsecured Credit Allowances than is the case under the current CUSC baseline.

## **9.0 IMPACT ON INDUSTRY DOCUMENTS**

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

## **10.0 IMPACT ON INDUSTRY COMPUTER SYSTEMS OR PROCESSES**

- 10.1 CAP119 has no impact upon Industry Computer Systems or Processes.

## **11.0 VIEWS AND REPRESENTATIONS**

- 11.1 This Section contains a summary of the views and representations made by consultees during the consultation period in respect of the Proposed Amendment and the Consultation Alternative Amendment.

### **Views of Panel Members**

- 11.2 No views or representations were made by Panel Members in their capacity as Panel Members.

### **View of Core Industry Document Owners**

- 11.3 No views or representations were made by Core Industry Document Owners.

## Responses to Consultation

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

Reference	Company	Supportive	Comments
CAP119-CR-01	British Energy	YES	Agrees that CAP119 would expand and clarify table of approved credit ratings
CAP119-CR-02	Scottish and Southern Energy	N/A	Proposes Consultation Alternative Amendment

## Responses to Consultation Alternative Amendment Consultation

11.5 The following table provides an overview of the representations received to the Consultation Alternative Amendment Consultation. Copies of the representations are attached as Annex 4.

Reference	Company	Supportive	Comments
CAP119-CAAR-01	Scottish and Southern Energy	YES	Does not believe that the level of risk at AA- is so substantially different to A+ as between 100% and 40%

## 12.0 NATIONAL GRID RECOMMENDATION

12.1 National Grid believes that the amendments proposed by the CAP119 Original Proposal would ensure that Users with Approved Credit Ratings were in no doubt as to the Unsecured Credit Allowance that they were entitled to, and that this would therefore better facilitate competition in the generation and supply of electricity. Consequently, National Grid recommends that the CAP119 Original Proposal is approved by the Authority.

12.2 National Grid recommends that, should the Authority approve CAP119, implementation should be ten business days after the Authority's decision.

## 13.0 AMENDMENTS PANEL RECOMMENDATION

13.1 The CUSC Amendments Panel Recommendation Vote on CAP119 was conducted at the Panel Meeting on 31<sup>st</sup> March 2006. The results of this vote are summarised below, with details of the reasons given by Panel Members for their votes in subsequent sections.

### Voting Summary

13.2 On the question of whether CAP119 would BETTER facilitate achievement of the Applicable CUSC Objectives, the Panel majority vote was as follows:

Original Amendment Proposal	- YES
Consultation Alternative Amendment	- NO

The Amendments Panel recommends that the version of CAP119 that would BEST facilitate achievement of the Applicable CUSC Objectives is the CAP119 Original Proposal.

### **Vote on which proposals “better” facilitated the applicable objectives**

#### **CAP119 Original Proposal**

- 13.3 The Panel voted unanimously that the Original Proposal DID better facilitate the Applicable CUSC Objectives.
- 13.4 Panel Members believed that the Original Proposal would clarify the intention of the best practice guidelines, and increase transparency for Users.

#### **Consultation Alternative Amendment**

- 13.5 The Panel voted by 7 votes to 2 that the Consultation Alternative Amendment DID NOT better facilitate the Applicable CUSC Objectives.
- 13.6 Panel Members in favour of this proposal believed that it was consistent with Ofgem’s decision letter on CAP089/090/091, which stated that “the level of credit obtainable by Users should be dependent on the credit risk the User poses to NGET”. Such Panel Members believed that the allowances proposed by the Consultation Alternative Amendment better reflected this risk rather than the “cliff edge” between 100% and 40% contained in the Basel II rules. A Panel Member believed that this could be a particular issue when a User’s credit ratings changed.
- 13.7 Panel Members not in favour of this proposal believed that, although there may be some merit in the proposed allowances, there was insufficient evidence that this was the case. The National Grid Panel Member clarified that, although the proposal was not out of scope in that it was an allowable alternative under the current provisions of the CUSC, National Grid felt that had any changes of a material nature been intended, these would have been better considered by a Working Group. A number of other Panel Members agreed with this view, believing that they had insufficient information on which to base any support for the proposal.

### **Panel Recommendation as to which proposal “best” facilitated the applicable objectives**

- 13.8 The Panel voted to recommend that the version of CAP119 that would BEST facilitate achievement of the Applicable CUSC Objectives is the Original Proposal. The Original Proposal received 7 votes and the Consultation Alternative Amendment received 2 votes.
- 13.9 Panel Members favouring the Original Proposal believed that it provided a useful clarification of the existing rules, which would add transparency for Users. A Panel Member believed that, in the absence of any consensus or evidence in favour of another set of rules over Basel II, accurately reflecting the allowances contained in the best practice guidelines was the most appropriate amendment that could be made at this time.
- 13.10 Panel Members favouring the Consultation Alternative Amendment believed that it contained all the advantages of the Original Proposal, whilst additionally, in their view, introducing a set of allowances that would more accurately reflect the commercial level of credit risk posed by each User to NGET, and that would eliminate the “cliff edge” between 100% and 40%.

## 14.0 COMMENTS ON DRAFT AMENDMENT REPORT

- 14.1 National Grid received no responses following the publication of the draft Amendment Report (v0.2) for industry comment.
- 14.2 National Grid received one response following the publication of the draft Amendment Report (v0.4) for Panel Member comment following the Amendments Panel Recommendation Vote. The below table provides an overview of the representation received, and a copy of the representation is attached as Annex 5.

Reference	Company	Summary of Comments
CAP119-AR-01	Scottish and Southern Energy	Suggests possible changes to paragraphs 13.10 and 1.4

- 14.3 National Grid agrees that the suggested change to paragraph 13.10 (to read “the commercial level of credit risk posed by each User **to NGET**”) would add clarity, and has therefore amended the paragraph accordingly.
- 14.4 National Grid agrees with the respondent that, following the CUSC Panel Recommendation Vote and the introduction of paragraph 13.7 into the document which clarifies National Grid’s views as to the extent to which the Consultation Alternative Amendment may or may not have exceeded the scope of the Amendment Proposal, it would be desirable if the report reflected these views consistently throughout. Paragraphs 1.4 and 5.5 have therefore been amended accordingly.

**ANNEX 1 - AMENDMENT PROPOSAL FORM**

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

<b>Details of Proposer:</b> Organisation's Name:	National Grid Electricity Transmission plc
<b>Capacity in which the Amendment is being proposed:</b> (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Paul Murphy National Grid Electricity Transmission plc 01926 656330 <a href="mailto:paul.murphy@uk.ngrid.com">paul.murphy@uk.ngrid.com</a>
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Andrew Truswell National Grid Electricity Transmission plc 01926 655388 <a href="mailto:andrew.truswell@uk.ngrid.com">andrew.truswell@uk.ngrid.com</a>
<b>Attachments (Yes/No):</b> Yes <b>If Yes, Title and No. of pages of each Attachment:</b> Legal Text (1 page)	

**Notes:**

- Those wishing to propose an Amendment to the CUSC should do so by filling in this "Amendment Proposal Form" that is based on the provisions contained in Section 8.15 of the CUSC. The form seeks to ascertain details about the Amendment Proposal so that the Amendments Panel can determine more clearly whether the proposal should be considered by a Working Group or go straight to wider National Grid Consultation.
- The Panel Secretary will check that the form has been completed, in accordance with the requirements of the CUSC, prior to submitting it to the Panel. If the Panel Secretary accepts the Amendment Proposal form as complete, then he will write back to the Proposer informing him of the reference number for the Amendment Proposal and the date on which the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, then he may reject the Proposal. The Panel Secretary will inform the Proposer of the rejection and report the matter to the Panel at their next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform the Proposer.

The completed form should be returned to:

Lindsey Paradine  
Panel Secretary  
Commercial Frameworks  
National Grid Electricity Transmission plc  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick, CV34 6DA  
Or via e-mail to: [CUSC.Team@uk.ngrid.com](mailto:CUSC.Team@uk.ngrid.com)

(Participants submitting this form by email will need to send a statement to the effect that the proposer acknowledges that on acceptance of the proposal for consideration by the Amendments Panel, a proposer which is not a CUSC Party shall grant a licence in accordance with Paragraph 8.15.7 of the CUSC. A Proposer that is a CUSC Party shall be deemed to have granted this Licence).

3. Applicable CUSC Objectives\*\* - These are defined within the National Grid Company Transmission Licence under Section C10, paragraph 1. Reference should be made to this section when considering a proposed amendment.

**ANNEX 2 - PROPOSED LEGAL TEXT TO MODIFY THE CUSC****Part A - Text to give effect to the Original Proposed Amendment**

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

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

**Part B - Text to give effect to the Consultation Alternative Amendment**

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

Approved Long Term Credit Rating			User's Allowed Credit as % of Unsecured Credit Cover
Standard & Poor's	Moody's	Fitch	
AAA/ <del>AA</del> <del>AA+</del> <del>AA</del> <del>AA-</del>	Aaa/ <del>Aa2</del> <del>Aa1</del> <del>Aa2</del> <del>Aa3</del>	AAA/ <del>AA</del> <del>AA+</del> <del>AA</del> <del>AA-</del>	100
<del>A+</del>	<del>A1</del>	<del>A+</del>	<del>80</del>
A	A2	A	<del>40</del> 60
<del>A-</del>	<del>A3</del>	<del>A-</del>	<del>40</del>
BBB+	Baa1	BBB+	20
BBB	Baa2	BBB	19
BBB-	Baa3	BBB-	18
BB+	Ba1	<del>BB+</del>	17
BB	Ba2	<del>BB</del>	16
BB-	Ba3	<del>BB-</del>	15

**ANNEX 3 - REPRESENTATIONS RECEIVED DURING CONSULTATION**

This Annex includes copies of any representations received following circulation of the Consultation Document (circulated on 2<sup>nd</sup> February 2006, requesting comments by close of business on 16<sup>th</sup> February 2006).

Representations were received from the following parties:

<b>No.</b>	<b>Company</b>	<b>File Number</b>
1	British Energy	CAP119-CR-01
2	Scottish and Southern Energy	CAP119-CR-02

<b>Reference</b>	CAP119-CR-01
<b>Company</b>	British Energy

**From:** Capener John [mailto:john.capener@british-energy.com]  
**Sent:** Monday, February 13, 2006 10:11 AM  
**To:** Viney, Beverley  
**Cc:** Allport Louise  
**Subject:** RE: Consultation Document for CAP119

Beverley,

Thank you for the opportunity to comment on this amendment proposal. British Energy supports the proposals contained in CAP119 which are intended to expand and clarify the table of approved credit ratings for use in the CUSC following approval of CAP089/090/091.

Regards

John

John Capener  
Head of Transmission & Trading Arrangements  
Tel: 01452 654182  
Fax: 01452 653715  
Email: john.capener@british-energy.com

<b>Reference</b>	CAP119-CR-02
<b>Company</b>	Scottish and Southern Energy

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

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

**Sent:** 09 February 2006 14:49

**To:** GoldIC, Industry Codes

**Cc:** Viney, Beverley; MacLeod, Lilian

**Subject:** Re: Consultation Document for CAP119

Dear Sirs,

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

In relation to the consultation concerning CUSC Amendment Proposals CAP 119 (contained within your note of 2nd February 2006), we have the following comments to make.

We have reviewed the consultation document and note that the suggested change is broadly in line with our suggested change (raised in our response of 3rd October 2005 to the CAP 089/090/091, copied below for information) all be it with a fixed % credit cover figure of 100% or 40% rather than the more variable figures we suggested.

In addition we have been mindful of our previous comments on changes to the CUSC (as well as the BSC) and the matter of a lack of credit available in the market place at times of high/volatile prices.

That having been said, and recognising the 40% figure already agreed for an 'A' rating (i.e. A+, A, or A-), we would like to propose an alternative to CAP119 (based on our previous CAP 089/090/091 suggestion) namely to incorporate the proposed changes shown in Annex 1 of the consultation document with the "User's Allowed Credit as % of Unsecured Credit Cover" varied (using the Standard & Poor's ratings, reading across for Moody's and Fitch as appropriate) as follows:-

AAA	100%
AA+	100%
AA	100%
AA-	100%
A+	80%
A	60%
A-	40%
BBB+	20%
BBB	19%
BBB-	18%
BB+	17%
BB	16%
BB-	15%

Such an amended change to this CAP119 would, we believe, better achieves the applicable CUSC objectives than the original CAP119 proposal.

Regards

Garth Graham  
Scottish and Southern Energy plc

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[SSE response (dated 3rd October 2005) to Consultation Documents for CAP105 and CAP089/090/09]

Dear Sirs,

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

In relation to the consultation concerning the report associated with CUSC Amendment Proposals CAPs 089/090/091 (contained within your note of 2nd September 2005), we have the following comments to make.

We have reviewed the consultation document and concluded that the proposals mean, in effect, that the more creditworthy CUSC Parties will end up subsidising the default risk of the less creditworthy CUSC Parties by the provision of unsecured credit limits to entities with less than BBB- ratings. This cannot be said to better facilitate effective competition in the generation and supply of electricity or in facilitating such competition in the sale, distribution and purchase of electricity.

Furthermore, we note that the credit rating bandings (that are proposed by CAPs 089/090/091) for calculating the unsecured credit limit levels are inconsistent and uneven, especially at the upper end.

Specifically, there is no distinction made between A+ and A- rated entities whilst the credit limit allocated between an AA- and A+ rated entities is greater than the gap between A+ and BBB+ rated entities. Is there a particular reason for this? Are the proposed numbers based on the historical trends of default of companies with these ratings? If so are these based on factual information provided by the rating agencies or some other source?

We believe that the banding (as outlined in the table under paragraph 3.7 and repeated in paragraph 3.12) should be amended to read:-

AAA	100%
AA	100%
A+	80%
A	70%
A-	60%
BBB+	20%
BBB	19%
BBB-	18%
BB+	17%
BB	16%
BB-	15%

In conclusion we note that the effect of this proposed changed will be that creditworthy CUSC parties will be subjected to a 'double whammy' of (i) having the incentive on them having such a good credit position being water down whilst (ii) having to subsidising the default risk of the less creditworthy CUSC Parties.

We believe, therefore, that the CUSC Amendment Proposals CAPs 089/090/091 do not better achieves the applicable CUSC objectives.

Regards

Garth Graham  
Scottish and Southern Energy plc

**ANNEX 4 - REPRESENTATIONS RECEIVED DURING CONSULTATION  
ALTERNATIVE AMENDMENT CONSULTATION**

This Annex includes copies of any representations received following circulation of the Consultation Alternative Amendment Consultation Document (circulated on 21<sup>st</sup> February 2006, requesting comments by close of business on 7<sup>th</sup> March 2006).

Representations were received from the following parties:

No.	Company	File Number
1	Scottish and Southern Energy	CAP119-CAAR-01

<b>Reference</b>	CAP119-CAAR-01
<b>Company</b>	Scottish and Southern Energy

**From:** Garth.Graham@scottish-southern.co.uk [mailto:Garth.Graham@scottish-southern.co.uk]  
**Sent:** Monday, February 27, 2006 12:14 PM  
**To:** GoldIC, Industry Codes  
**Cc:** Macleod, Lilian  
**Subject:** Re: CAP119: Consultation Alternative Amendment

Dear Sirs,

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

In relation to the consultation concerning CUSC Amendment Proposals CAP 119 (contained within your note of 21st February 2006), we have the following comments to make.

We have reviewed the consultation document and in particular the Consultation Alternative Amendment.

We have been mindful of the comments contained in the Authority's decision with respect to CAPs 089/090/091 that:-

"Having established a maximum level of unsecured credit that it would be appropriate to extend to an individual corporate entity of the highest standing, the level of credit obtainable by other Users should be dependent on the credit risk the User poses to NGET."

It goes on to note that:-

"The introduction of a transparent and easily referenced scale which helps set the level on unsecured credit a User holding a particular rating can be given according to the risk that User poses to NGET, would better facilitate the achievement of the Applicable Objectives"

We believe that with CAP119 the 'cliff-edge' between AA- (100%) and A+ (40%) could be set at a level far more reflective of the actual risk that a User poses to NGET and we do not believe that the level of risk at AA- is so substantially different to A+ as between 100% and 40%.

Utilising a gradation in the values for 'A' ("A+", "A", "A-") as we propose with our Consultation Alternative Amendment to CAP119 is, we believe, a better way to reflect the risk a User poses to NGET and therefore better achieves the Applicable Objectives.

Regards

Garth Graham  
Scottish and Southern Energy plc

**ANNEX 5 - COPIES OF COMMENTS RECEIVED ON THE PROPOSED AMENDMENT REPORT**

This Annex includes a copy of the representation received following circulation of v0.4 of the Draft Amendment Report (circulated on 6<sup>th</sup> April 2006 requesting comments by close of business on 13<sup>th</sup> April 2006).

Representations were received from the following parties:

No.	Company	File Number
1	Scottish and Southern Energy	CAP119-AR-01

<b>Reference</b>	CAP119-AR-1
<b>Company</b>	Scottish and Southern Energy

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

**Sent:** Wednesday, April 12, 2006 5:51 PM

**To:** Viney, Beverley

**Cc:** Macleod, Lilian

**Subject:** Re: FW: CAP119 Amendment Report

Beverley,

Two possible changes to the report.

1) Regarding para 13.10 could you amend the second to last line to read:-

" the commercial level of credit risk posed by each User **to NGET**,"

2) In light of the comments in para 13.7:-

"The National Grid Panel Member clarified that, although the proposal was not out of scope"

You might wish to amend the comments in para 1.4:-

"In our [National Grid] view, the Consultation Alternative Amendment also exceeds the scope of the amendment proposal"

Regards

Garth