CUSC Modification Proposal Form

At what stage is this document in the process?

01	**Proposal Form**
02	Workgroup Consultation
03	Workgroup Report
04	Code Administrator Consultation
05	Draft CUSC Modification Report
06	Final CUSC Modification Report

CMP311:

Mod Title: **Reassessment of CUSC credit requirements for Suppliers, specifically for "User Allowed Credit" as defined in Section 3, Part III section 3.27 of the CUSC**

Purpose of Modification: To reassess User Allowed Credit" as defined in Section 3, Part III section 3.27 of the CUSC due to the large scale of liabilities this creates

The Proposer recommends that this modification should be:

- Assessed by a Workgroup – The modification is a material change to the CUSC and therefore affects all parties to a greater or lesser extent. Assessment by a workgroup is the natural route for this modification proposal to take to ensure all feedback on the solution can be discussed and reviewed.

This modification was raised 15th February 2019 and will be presented by the Proposer to the Panel on 25 February 2019The Panel will consider the Proposer's recommendation and determine the appropriate route.

High Impact: Suppliers

Medium Impact: N/A

Low Impact National Grid Electricity System Operator (NGESO)

Contents

Timetable

The Code Administrator will update the timetable following prioritisation of this modification at Panel

The Code Administrator recommends the following timetable:	
Initial consideration by Workgroup	dd month year
Workgroup Consultation issued to the Industry	dd month year
Modification concluded by Workgroup	dd month year
Workgroup Report presented to Panel	dd month year
Code Administration Consultation Report issued to the Industry	dd month year
Draft Final Modification Report presented to Panel	dd month year
Modification Panel decision	dd month year
Final Modification Report issued the Authority	dd month year
Decision implemented in CUSC	dd month year

Any questions?

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National Grid Representative:

As above

As above

As above

Proposer Details

Details of Proposer: (Organisation Name)	NGESO
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Simon Sheridan NGESO Simon.sheridan@nationalgrid.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Jamie Webb NGESO Jamie.webb@nationalgrid.com
Attachments (Yes/No): **If Yes, Title and No. of pages of each Attachment:**	

Impact on Core Industry Documentation.

Please mark the relevant boxes with an "x" and provide any supporting information

BSC	
Grid Code	
STC	
Other	

(Please specify)

It is not anticipated that there will be any additional impacts on other Industry documentation

1 Summary

Defect

User Allowed Credit, as defined in Section 3, Part III section 3.27 of the CUSC, allows all suppliers to have up to £6 million credit with NGESO. This figure is calculated as a % of NGET revenue and updated annually in April (a Supplier can earn a "payment record sum" which currently is equal to approx. £100K a month for a maximum of 60 months). The credit is in place to support financial cover for TNUoS and BSUoS liabilities. This amount of unsecured credit has grown exponentially as more Suppliers have entered the market increasing risk to the ESO and potentially increasing costs on future consumers as a result of supplier failure.

What

NGESO propose to remove the User Allowed Credit in Section 3, Part III (Credit Arrangements), specifically section 3.27 and update other relevant sections in the CUSC that refer to it.

This currently allows all Suppliers to gain unsecured credit cover (to a max value £6 million) from the ESO against a calculation made in Appendix 1 of section 3. The 3 areas of cover that will be removed by this change are:

- Payment record sum
- Independent credit assessment
- Approved credit rating.

This change will affect all parties (new suppliers and existing). NGESO suggest an implementation date of April 2020, which will allow exiting credit arrangements with suppliers to come to natural conclusion and allow time for alternatives to be found.

Why

Since Part III of the CUSC was written there has been a large increase in the number of suppliers, currently totalling approximately 70 in 2019. This growth in suppliers, often with business models that carry a substantial amount of financial risk, has led to the ESO re-assessing its credit requirements. If nothing is done, then there may be an increase in costs to future consumers if the ESO is unable to recover the unpaid TNUoS and BSUoS invoices because of Supplier failure from administrators.

Additionally, as of April 1st, 2019, the ESO will be a separate entity from the TO business. Carrying large unsecured amounts of credit risk may cause the ESO additional financial costs which would need to be recovered from consumers. Establishing more appropriate credit arrangements for all Suppliers would in turn reduce the potential exposure that the ESO carries and ensure that consumers in future are protected from other Supplier failures.

To highlight the reasons laid out above, NGESO have included relevant figures from 2018/19

- 9 x suppliers have ceased trading in FY 2018/19

- As of 14/02/19 a total of 48 suppliers are under-forecasting their demands for the charging year, which totals £102m, increasing the potential risk exposure of the ESO.
    - As of 02/19 the ESO unsecured risk within this total is £55m

NGESO will not be changing the way suppliers proof of Security Cover is provided, e.g. letter of credit, qualifying guarantee, cash for credit, bilateral insurance policy, insurance performance bond, independent security arrangement.

How

As discussed above NGESO intend to remove the facility for User Allowed Credit from the CUSC. NGESO do not intend to replace it with something else, but to ensure that all references to it are removed and updated.

2 Governance

Justification for Normal Procedures

Normal procedures should be followed for this proposal. It is a material change and industry engagement is important to ensure all views are heard and alternative solutions can be raised if deemed necessary.

Requested Next Steps

This modification should:

- be assessed by a Workgroup

3 Why Change?

Since Part III of the CUSC was written there has been a large increase in the number of suppliers, currently totalling approximately 70 in 2019. This growth in suppliers, often with business models that carry a substantial amount of financial risk, has led to the ESO re-assessing its credit requirements. If nothing is done, then there may be an increase in costs to future consumers if the ESO is unable to recover the unpaid TNUoS and BSUoS invoices because of Supplier failure from administrators.

Additionally, as of April 1st, 2019, the ESO will be a separate entity from the TO business. Carrying large unsecured amounts of credit risk may cause the ESO additional financial costs which would need to be recovered from consumers. Establishing more appropriate credit arrangements for all Suppliers would in turn reduce the potential exposure that the ESO carries and ensure that consumers in future are protected from other Supplier failures.

NGESO will not be changing the way suppliers proof of Security Cover is provided, e.g. letter of credit, qualifying guarantee, cash for credit, bilateral insurance policy, insurance performance bond, independent security arrangement.

4 Code Specific Matters

Technical Skillsets

Understanding of the CUSC, specifically in section 3 part III on credit and liabilities.

Reference Documents

CUSC Section 3 Part III, Section 11 for definitions.

5 Solution

The specific relevant areas are, but not restricted to:

- 3.22.2(a) - change
- 3.22.3 - change
- 3.23 - change
- 3.23.1 – Remove
- 3.23.11(f) - change
- 3.27 – Remove the whole section
- Appendix 1 Credit Arrangements – remove the whole section

Also, in section 11 definitions: User Allowed Credit and any others contain that phrase.

6 Impacts & Other Considerations

NGESO don't believe there are any cross code or additional impacts or considerations.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

N/A.

Consumer Impacts

This change proposal should result in beneficial impacts for consumers as the costs of Supplier failure will be covered by appropriate credit facilities as opposed to recovery from consumers in the future.

7 Relevant Objectives

Impact of the modification on the Applicable CUSC Objectives (Standard):	
Relevant Objective	Identified impact
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	Positive - Proactively managing costs that would be borne by future consumers in the event of a supplier default
(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;	Positive – This will remove a real financial risk from NGESO, and a potential cost to consumers. It will support new suppliers into the industry who can become long term market participants and understand the responsibility they need to have to manage their own risks. They will therefore be more financially secure when entering the market. Suppliers would therefore be more likely to endure in the market place, which brings benefits to competition for consumers who would be less likely to be affected by new suppliers becoming insolvent.
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	None
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	Positive – It removes multiple routes of cover which reduces the monitoring on specific supplier's requirements to secure cover. This will reduce an administrative burden on the NGESO.
*Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).	

This modification shows a proactive approach to managing costs that would be borne by consumers. It removes a real financial risk from NGESO, a cost that would ultimately be on consumers. It will support new suppliers into the industry who can become long term market participants, as they will need to be more financially secure to enter the market. It is more efficient as it removes multiple routes of cover which reduces the monitoring on specific supplier's requirements to secure cover. This will reduce the administrative burden on the NGESO.

8 Implementation

Implementation as soon as possible, proposed for April 2020.

9 Legal Text

Text Commentary

Our suggestion is to alter Section 3, Part III section 3.27 of the CUSC to remove the unsecured credit amount from Suppliers. A first draft of legal text to highlight areas affected is included as an attachment.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

Refer this proposal to a Workgroup for assessment.

