

CMP311 High level summary & signposting

What is going to change if this modification is approved?

The unsecured credit that a Supplier can receive from the Electricity System Operator will change. Appendix 1 of the code currently stipulates that Suppliers can gain unsecured credit through;

- Approved Credit Rating (from S&P, Moody's or equivalent of BB-, Ba3 respectively or above)
- Independent Credit Assessment (from an Approved Agency) (what is this? Please see the Workgroup discussions section for an overview)
- Payment Record Sum (paying and paying on time)

This change would mean that Suppliers could no longer be able to use their good payment record to build up an unsecured allowance as the Payment Record Sum facility would be removed. This would leave Suppliers with two routes to unsecured credit through the Independent Credit Assessment or Approved Credit Rating.

Why does the Proposer think this needs to happen?

- The number of suppliers is increasing and these may have business models that carry a substantial amount of financial risk, this has led to the ESO re-assessing its credit requirements.
- There is the potential that if nothing is done that there may be an increase in costs to future consumers if the ESO is unable to recover the unpaid invoices.
- As of April 1st, 2019, the ESO is a separate entity from the Transmission Owner business. Carrying large unsecured amounts of credit risk may cause the ESO additional financial costs which may need to be recovered from consumers.
- The ESO cashflow is affected as Transmission Owners must still be paid on time. There is a real cost to the ESO here from drawing on this capital of fees paid to investors.

Who is going to be affected?

- All current and future Suppliers

When is this going to happen?

- The Workgroup are currently discussing this and welcome your views, the current thinking is start of the Financial Year occurring 12 months after an Ofgem decision

Workgroup views

Workgroup members met six times ahead of this Consultation being issued to discuss the issue raised by the Proposer and to consider potential solutions to address it.

Some Workgroup members believe there is no issue to resolve as the ESO can recover the costs through the existing mechanisms even though this can take a period of time. Without further information the Workgroup were not able to determine if the proposal would deliver reduced costs to consumer or better facilitate effective competition. Concern was expressed that this proposal could further exacerbate Supplier failures.

The Workgroup reviewed Ofgem's Best Practice Guidance documents (please see Annex 2) and following this the Proposer reviewed their original proposal (as was submitted to the CUSC Panel) and now only seeks to remove the Payment Record Sum.

Workgroup members were also mindful of the impacts this removal would cause for new and existing Suppliers and would like to understand what impact this would have on your business to assist in formulating other solutions to the issue.

Two other potential solutions were discussed within the Workgroup; these are that the Payment Record Sum would not be removed but would;

- 1. Be permitted for only the initial 2 or 3 years of a New Supplier's lifetime (at the current rate of 0.4% per annum).*
- 2. As "1" but if a Supplier is left with no unsecured credit allowance they can request to use a credit limit from an Approved Agency as substitute (if such a limit exists).*

The Workgroup are seeking views on these potential solutions – please see the related question on the response proforma.

Where can I get more information and how do I feed into the process?

We are seeking your view on how this will impact you, you can send us your views on the consultation response proforma or please get in touch by emailing us at cusc.team@nationalgrideso.com.

We will also be holding a webinar to discuss this proposal on 21 October 2019 at 11am please email us if you wish to join.

The sections within this document do the following;

Original Proposal

What was originally submitted to the CUSC Panel for their review. Please note that the Proposer originally sought to remove all unsecured credit for Suppliers but following feedback from the Workgroup is now seeking to just remove the Payment Record Sum as outlined above.

Proposer solution

This outlines what is potentially going to change in the Code (CUSC)

Workgroup discussions

This section outlines the discussions that were held in the Workgroup

Annex 2

This provides a summary of the key documentation that the Workgroup reviewed

Annex 3

This shows the slides presented by the Proposer at Workgroup meetings

How to respond

The CMP311 Workgroup is seeking the views of CUSC Parties and other interested parties in relation to the issues noted in this document and specifically in response to the questions highlighted in the report and summarised below:

Standard Workgroup Consultation questions:

- Q1:** Do you believe that CMP311 Original proposal (revised since originally proposed to just remove the Payment Record Sum) better facilitates the Applicable CUSC Objectives than current arrangements?
- Q2:** Do you support the proposed implementation approach, both in terms of allowing at least 12 months to make arrangements and the Workgroup suggestion to commence in April with the Financial Year?
- Q3:** Do you have any other comments?
- Q4:** Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?

Specific CMP311 Workgroup Consultations Questions:

- Q5:** What impact do you think this modification would have on suppliers entering the market?
- Q6:** What impact do you think this modification would have on existing suppliers and what would be the cost to your business?
- Q7:** Two potential solutions other than that Proposed have been discussed by the Workgroup, what are your views on these?
- Q8:** What impact do you believe this modification would have on the Consumer?

Please send your response using the response proforma which can be found on the National Grid website via the following link:

<https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc>

In accordance with Section 8 of the CUSC, CUSC Parties, BSC Parties, the Citizens Advice and the Citizens Advice Scotland may also raise a Workgroup Consultation Alternative Request. If you wish to raise such a request, please use the relevant form available at the weblink below:

http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/

Views are invited upon the proposals outlined in this report, which should be received by **5pm on 29 October 2019**.

Your formal responses may be emailed to: cusc.team@nationalgrideso.com

If you wish to submit a confidential response, please note that information provided in response to this consultation will be published on National Grid's website unless the response is clearly marked "Private & Confidential", we will contact you to establish the extent of the confidentiality. A response marked "Private & Confidential" will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the CUSC Modifications Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

Please note an automatic confidentiality disclaimer generated by your IT System will not in itself, mean that your response is treated as if it had been marked "Private and Confidential"