



WORKING GROUP REPORT

CUSC Amendment Proposal CAP089/090/091

CAP089 (Maximum Unsecured Credit Limit)

CAP090 (Credit Limits for Rated Companies)

**CAP091 (Establishment & Maintenance of an Unsecured
Credit Allowance for Rated & Unrated Companies)**

**Prepared by the CAPs088-091 Working Group
for submission to the Amendments Panel**

Amendment Ref	CAP089/090/091
Issue	1.0
Date of Issue	22/08/05
Prepared by	CAPs088-091 WG

I DOCUMENT CONTROL

a National Grid Document Control

Version	Date	Author	Change Reference
0.1	15/6/05	B Graff	Initial Draft for Comment
0.2	11/8/05	A Truswell	Revised Draft Including CAP091
1.0	22/8/05	A Truswell	Report submitted to CUSC Panel

b 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

Executive Summary

- 1.1 Ofgem published a conclusions document on best practice guidelines for gas and electricity network operator credit cover in February 2005. In order to address and codify certain elements of these guidelines, CAP089 and CAP090 were raised by National Grid, and CAP091 was raised by BizzEnergy. The CUSC Amendments Panel considered CAP089, CAP090 and CAP091 on 20th May and agreed that a Working Group should consider the proposals, along with CAP088 which had also been raised following the publication of Ofgem's guidelines. The Working Group were required to report back to the August 2005 Panel meeting but its terms of reference required that if it reached agreement before this date on any of the Amendment Proposals then it should submit any reports earlier than this.
- 1.2 The Working Group reached a view that it would be more appropriate for the original CAP089 and CAP090 proposals to be amalgamated, and permission for this was sought, and granted, at the June Amendments Panel.
- 1.3 Following further development of the CAP091 proposal, the Working Group reached a view that it would be more appropriate for it also to be merged with CAP089/090, and permission for this was sought, and granted, at the July Amendments Panel.

Working Group Recommendation

- 1.4 The Working Group recommends that the CAP089/090/091 CUSC Amendment Proposal is now ready to proceed to wider industry Consultation.

2.0 INTRODUCTION

- 2.1 Ofgem's best practice guidelines recommended that Network Operators should set a maximum unsecured credit limit based on 2% of their Regulatory Asset Value (RAV). Currently there is no unsecured credit limit within the CUSC if a User has an NGC approved credit rating (A- or A3 respectively as set by Standard and Poor's or Moody's for connection charges, BBB- or Baa3 respectively as set by Standard and Poor's or Moody's for Use of System charges). CAP089 proposed that the CUSC should set a maximum credit limit based on 2% of National Grid Electricity Transmission plc's Regulatory Asset Value.
- 2.2 The CAP090 proposal was that individual counterparty credit limits and those that use Parent Company Guarantees or aggregates of both, should be set using credit ratings applied under the 'Basel 2' rules for determining bank capital adequacy. The implication is that there would be maximum credit allowances of 100 percent of the maximum unsecured credit limit for parties with a credit rating of AAA/AA and 40 percent for A. National Grid also proposed, consistent with Ofgem's guidelines, that the above allowance be further sub-divided for entities with ratings of BBB+, BBB and BBB-. Ofgem's guidelines continued to a BB- rating, and CAP090 was developed reflecting this. The proposal therefore produces the following credit allowances for rated entities:

Maximum credit limit = 2% RAV (~£102m for NGC)

Credit rating (Standard and Poor's)	Credit allowance as % of maximum credit limit (Based on Basel II model)	Approximate allowance
AAA/AA	100	£102.0m
A	40	£40.8m
BBB+	20	£20.4m
BBB	19	£19.3m
BBB-	18	£18.4m
BB+	17	£17.3m
BB	16	£16.3m
BB-	15	£15.3m

- 2.3 For the avoidance of doubt, the scope of the amendment proposals CAP089 and CAP090 is limited to credit arrangements relevant to Balancing Services Use of System (BSUoS) Charges and Transmission Network Use of System (TNUoS) Demand Charges. There are no changes to the credit requirements relating to Bilateral Agreements and Construction Agreements. The amendments seek to address and codify Ofgem's recommendations within its Network Operator Best Practice guidelines.
- 2.4 Following initial analysis by the Working Group, its view was that whilst CAP089 worked well as a stand alone proposal, CAP090 did not, because it was dependent on the maximum credit limit of 2% of RAV being established by CAP089. The Working Group therefore unanimously agreed that the two proposals should be amalgamated into a single Amendment proposal. Permission for this was sought by the Working Group Chairman at the June Amendments Panel, and was granted.
- 2.5 CAP091 was proposed by BizzEnergy to implement two further recommendations of Ofgem's best practice guidelines: the establishment of a certain amount of unsecured credit cover for unrated companies, or rated companies without an Approved Credit Rating, based on either their payment record or an independent assessment of their creditworthiness. It also sought to amend the Value at Risk in relation to TNUoS Demand charges.
- 2.6 CAP091 proposed to establish a default amount of unsecured credit cover for unrated companies, or rated companies without an Approved Credit Rating. In accordance with Ofgem's best practice guidelines, each such party would be accorded an increasing allowance based on their payment record, climbing at 0.4% per year (escalating on an evenly graduated basis each month within year) of the maximum unsecured credit limit to a maximum of 2% after five years of perfect payment history.
- 2.7 Under CAP091, an unrated company, or a rated company without an Approved Credit Rating, would also have the option to have an unsecured credit allowance set by submitting an independent assessment of its creditworthiness. In line with Ofgem's best practice guidelines, the independent assessment would be given by one of a panel of three assessment agencies selected by National Grid, and an annual assessment would be paid for by National Grid if requested by the User. The assessment would take the form of a score of 0 to 10, which would produce the following unsecured credit allowances:

Maximum credit limit = 2% RAV (~£102m for NGC)

Credit assessment score	Credit allowance as % of maximum credit limit	Approximate Allowance
10	20	£20.4m
9	19	£19.4m
8	18	£18.4m
7	17	£17.3m
6	16	£16.3m
5	15	£15.3m
4	13-1/3	£13.6m
3	10	£10.2m
2	6-2/3	£6.8m
1	3-1/3	£3.4m
0	0	£0.0m

2.8 CAP091 also proposed to amend the Value at Risk (VAR) in relation to TNUoS Demand charges. Currently the CUSC defines the Value at Risk for Use of System Charges as:

- For Generators, 29 days of BSUoS Charges; or
- For Suppliers, 32 days of BSUoS Charges; and
- For TNUoS Demand Reconciliation Charges, 10% of the User's annual TNUoS Charge.

CAP091 proposed to replace the 10% relating to TNUoS Demand Reconciliation Charges with an amount of within year TNUoS Security based on each User's forecasting performance in the previous year.

2.9 Following analysis by the Working Group, the Working Group's view was that CAP091 could not proceed as a stand alone proposal, because it was dependent on the maximum credit limit of 2% of RAV being established by CAP089/090. The Working Group therefore unanimously agreed that the two proposals should be amalgamated into a single Amendment proposal. Permission for this was sought by the Working Group Chairman at the July Amendments Panel, and was granted. The merged CAP089/090/091 original proposal consists of 5 proposed elements:

- A maximum unsecured credit limit of 2% of RAV
- Credit allowances for companies with an Approved Credit Rating (ACR) of BB- or above, ranging from 15% to 100% of the maximum unsecured credit limit
- A default credit allowance for unrated companies, or rated companies without an Approved Credit Rating, based on their payment record
- An option for unrated companies, or rated companies without an Approved Credit Rating, to gain a credit allowance based on an Independent Credit Assessment
- The replacement of the 10% VAR for TNUoS Demand Reconciliation Charges with an amount of within year TNUoS Security based on each User's forecasting performance in the previous year

3.0 PURPOSE AND SCOPE OF WORKING GROUP

- 3.1 The Working Group is responsible for assisting the CUSC Amendments Panel in the evaluation of CUSC Amendment Proposal CAP089/090/091. CAP089 and CAP090 were tabled by National Grid at the Amendments Panel on 20th May 2005, and CAP091 was tabled by BizzEnergy at the Amendments Panel on the same date.
- 3.2 The proposals must be evaluated to consider whether they better facilitate achievement of the applicable CUSC objectives. These can be summarised as follows:
- (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 the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

4.0 WORKING GROUP DISCUSSIONS

- 4.1 The Working Group considered each of the five elements of CAP089/090/091 set out in 2.9 above.
- 4.2 In relation to the establishment of the maximum unsecured credit limit of 2% of RAV, there were discussions about how National Grid's Regulatory Asset Value would be calculated and how frequently this would be reviewed. It was concluded that the values published in Ofgem's Final Proposals document were the most appropriate values due to their transparency. These are five annual values relating to the RAV in each year over the regulatory period. National Grid believed that as these figures were published at the beginning of the regulatory period, and would be re-published in the event of a major change, they would be the most accurate values to use.
- 4.3 There were discussions surrounding how frequently the User's Allowed Credit Cover (that proportion of the Unsecured Credit Cover extended to a User by National Grid as calculated in accordance with new Paragraph 3.26) should be monitored. National Grid proposed that when a User reached 85% of their cover that National Grid would provide notice of the proximity to the limit. If a User presented aggregate Value At Risk (VAR) in excess of 100% of the unsecured credit limit, National Grid would provide notice on the following business day that additional security was required to bring the unsecured VAR down to 80% of the credit allowance. The User would then be allowed two business days to put the appropriate level of cover in place. If a User's Allowed Credit Cover was altered by a revised TNUoS demand forecast being submitted, Users would be allowed 1 month following National Grid's acceptance of their forecast to put the appropriate level of cover in place.
- 4.4 Conversely, the Working Group discussed the timescales for NGC to agree to reduce a User's security cover. It was agreed that a period of 5 Business Days was appropriate.
- 4.5 In order to accommodate the credit limits as illustrated in 2.2 above, it was necessary to alter the definition of Approved Credit Rating. There was some debate as to where this definition should be changed – currently it is defined as A1 (the short term equivalent to A-) in Section 11 of the CUSC, but with the

proviso that National Grid may approve a lower rating. Such a lower rating (of BBB-) is set out in the introduction to the CUSC. The Working Group decided to amend the definition in Section 11 (such that a rating of BB- was acceptable). The reference in the introduction would therefore become redundant.

- 4.6 The Working Group also discussed Qualifying Guarantees, and decided to amend the wording in the CUSC such that the entity issuing the Qualifying Guarantee must have a Credit Rating of such a level that would cover the required security amount.
- 4.7 In relation to the unsecured credit to be extended to Users based on their payment record, it was felt by a number of the Working Group, including the proposer, that returning the counterparty to zero allowed credit following one failure to pay, perhaps through administrative error, was too draconian. Not only would such a step seem disproportionate, but it could also lead to disputes over the circumstances of such a failure to pay, given the high stakes involved. The Working Group therefore agreed that the User's payment record for the purposes of calculating its allowed credit would be unaffected until a User failed to pay within 2 business days of the due date, in order to give reasonable time for any administrative oversight. In the first instance of a late payment beyond this limit, the User's allowed credit would be reduced by 50%. In the second instance in a 12 month period it would be reduced to zero. In the month following a late payment, the User could again start to earn allowed credit at the rate of one-twelfth of 0.4% of the maximum unsecured credit limit, given on-time payment in that month.
- 4.8 The Working Group discussed the mechanism that should apply for a User's Allowed Credit to be set by an Independent Credit Assessment. In line with Ofgem's best practice guidelines, it was proposed that an annual assessment for any User that requested it be paid for by National Grid. If the User requested a further assessment within the 12 month period, such an assessment would be valid for the recalculation of the User's Allowed Credit, but would be paid for by the User. As assessments would be obtained by the User, National Grid would have the right to request that the User obtain further assessments at any time, but these would be paid for by National Grid.
- 4.9 The Working Group discussed in detail the scoring of Independent Credit Assessments. Ofgem's best practice guidelines suggested that such an assessment could take the form of a score of 0 to 10, with 0 indicating that the company would not be suitable for any allowed unsecured credit and 10 indicating that the company would be eligible for 20% of the maximum unsecured credit limit (a level equivalent to a company with a rating of BBB+). A company scoring 1 would be extended unsecured credit of $3\frac{1}{3}\%$ of the maximum unsecured credit limit, or approximately £3.4m. Some of the Working Group, including National Grid, felt that a more granular scoring system would be helpful as the maximum unsecured credit that assessment agencies would recommend extending to some small users could be an order of magnitude less than the £3.4m suggested by a score of 1. In this case, the alternative would be to score such Users zero, which clearly would not reflect the amount of unsecured credit deemed to be appropriate. Nevertheless, the proposer felt that the 0 to 10 scoring system suggested by Ofgem's best practice guidelines was the most appropriate, and the proposal was developed on this basis.
- 4.10 The Working Group discussed the Value at Risk for TNUoS charges. Currently, 10% of Users' annual TNUoS Demand Charges are held as

security for TNUoS Demand Reconciliation Charges to cover the period between Initial Demand Reconciliation (based largely on settlement data from the SF run) and Final Demand Reconciliation (based on RF data) 14 months later. A number of the Working Group, including the proposer, believed that RF data varied from SF data by less than 1% on average, and therefore queried the derivation of the 10% requirement. They also highlighted the fact that the overall demand across all Suppliers would stay constant, that there would be no systematic bias in the movements of any one User's settlement data, and that Suppliers could take actions to reduce the magnitude of such changes (although they could not influence their direction). In response, National Grid suggested that:

- The variation between SF and RF data has decreased over time
- The requirement should cover most, if not all, variations, not just the average
- The 10% was a round number that represented an acceptable compromise between offering National Grid some security cover without unduly burdening Users

National Grid also suggested that an accurate quantification of the Value at Risk would result in a requirement considerably higher than 10%. It was recognised that such a quantification would include within year risk, and the level of this risk was queried. In response, National Grid highlighted a potential exposure of up to 25% underpayment by Suppliers within year, as it only has the right to impose a demand forecast on Suppliers where the Supplier's forecast is less than 80% of National Grid's. National Grid would also be exposed to Non-Half-Hourly (NHH) metered demand charges for the first 15 days each month before monthly invoices were paid by Users. For Half-Hourly (HH) metered demand charges the situation is considerably more complicated, due to the timing of the Triad, although it is quite possible for User to have incurred a full annual liability with 3 monthly payments still to be made (25% at risk). In addition, there would be the reconciliation risk, which National Grid quantified at 2.5% following analysis of Final Reconciliation data over the last 3 years, excluding outliers.

4.11 The proposer believed that the most appropriate mechanism for setting levels of TNUoS Security was one that incentivised Users to forecast accurately. CAP089/090/091 therefore proposes to replace the 10% relating to TNUoS Demand Reconciliation Charges with an amount of within year TNUoS Security based on each User's forecasting performance in the previous year. While some of the Working Group had reservations as to whether previous forecasting performance would be an accurate indicator of future performance, most agreed that the concept had at least some merit.

4.12 At the last meeting of the Working Group, the section of Ofgem's best practice guidelines relating to Transitional Issues was raised. This suggested that where new arrangements were to be implemented that required additional collateral from counterparties, the requirement should be evenly increased over the year following implementation such that full compliance would be achieved by the anniversary of implementation. Many of the Working Group believed this phasing should apply to the difference between the requirements currently existing in the CUSC and those proposed by CAP089/090/091, whilst others, including the proposer, believed that the phasing should be based on the security currently provided by Users, even if this was less than was currently required. The Working Group was unable to reach agreement on this issue, but agreed that the amendment worked without any phasing being included. Hence the Working Group agreed that were any members to

subsequently decide that phasing needed to be incorporated within the amendment proposal they would raise Consultation Alternative Amendments to this effect.

- 4.13 The Working Group reviewed and approved the legal text to give effect to CAP089/090/91, which is attached as Part A of Annex 4 of this document.

5.0 WORKING GROUP ALTERNATIVE AMENDMENTS

- 5.1 As illustrated in 2.9 above, the merged CAP089/090/091 contains 5 elements, some of which proved contentious in the Working Group discussions. As a result, five Working Group Alternative Amendments were proposed, and these are summarised in the table below:

	Original Proposal	WGAA1	WGAA2	WGAA3	WGAA4	WGAA5
2% RAV	Yes	Yes	Yes	Yes	Yes	Yes
ACR	Yes	Yes	Yes	Yes	Yes	Yes
Payment Record	Yes	No	Yes	Yes	Yes	No
Independent Assessment	0-10 NGC Pays	No	0-100 NGC Pays	0-10 User Pays	0-100 User Pays	0-100 User Pays
VAR	Forecasting Performance	No	Forecasting Performance +2.5%	Forecasting Performance	Forecasting Performance +2.5%	Forecasting Performance +2.5%

- 5.2 **Working Group Alternative Amendment 1** was supported by a number of the Working Group, and aims to just give effect to CAP089 (the establishment of a maximum unsecured credit limit of 2% of RAV) and CAP090 (setting credit limits for companies with an Approved Credit Rating). None of the provisions proposed by CAP091 would be included.
- 5.3 **Working Group Alternative Amendment 2** was proposed in order to facilitate the extension of unsecured credit to smaller Users by increasing the granularity of the scoring of Independent Credit Assessments. These would be scored between 0 and 100, with each step of 1 representing 0.2% of the maximum unsecured credit limit, such that a company scoring 100 would be extended 20% of the maximum unsecured credit limit. This Alternative Amendment also provides for the Value at Risk to be defined as the User's forecasting performance from the previous year plus an amount equal to 2.5% of the User's annual charge. The 2.5% represents security cover for reconciliation charges, consistent with the percentage suggested by National Grid, which would be entirely deleted by the original proposal.
- 5.4 **Working Group Alternative Amendment 3** was proposed to address perceptions of a cross-subsidy between the industry and Users benefiting from Independent Credit Assessments. To counteract this, Users would pay for the first such assessment, and re-assessments on an annual basis. Where National Grid requested a re-assessment less than 12 months from the last assessment, National Grid would pay. Where National Grid requested a re-assessment more than 12 months from the last assessment, and the User refused to pay for this, the User's unsecured credit allowance

would default back to that set by the User's payment record. In all other respects WGAA3 is identical to the original proposal.

- 5.5 **Working Group Alternative Amendment 4** is identical to WGAA2 except that Independent Credit Assessments would be paid for in the manner described above.
- 5.6 **Working Group Alternative Amendment 5** is identical to WGAA4 except that provisions relating to the unsecured credit allowance determined by payment record would be removed. The proposer of this Alternative Amendment did not believe a User's historical payment record to be a good indicator of the likelihood of future payments being made. In this Alternative Amendment, the default unsecured credit allowance for Users without an Approved Credit Rating would be zero.
- 5.7 The legal text to give effect to each of these alternatives is attached as Parts B-F of Annex 4 of this document. Having fully developed the original proposal and the five Working Group Alternative Amendments, the Working Group recommended that the Working Group Report be drafted and submitted to the August meeting of the Amendments Panel.

6.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

- 6.1 The proposer, and some members of the Working Group, consider that the original CAP089/090/091 proposal would enable National Grid to more easily and 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. It would more accurately reflect the risk profile of a User, which in turn would result in more reflective costs, and would allow Users to influence their unsecured credit allowance by their own actions, both of which would better facilitate competition.
- 6.2 There was also support to varying degrees from members of the Working Group for a number of the 5 Working Group Alternative Amendments.
- 6.3 National Grid, and some other members of the Working Group, believe that the original proposal misrepresents the Value at Risk, and therefore does not more accurately reflect the risk profile or costs. National Grid believes that Working Group Alternative Amendment 2 more accurately reflects the Value at Risk, and also provides a more flexible mechanism for the extension of unsecured credit to Users through more granular scoring of Independent Credit Assessments. This extra flexibility would increase the likelihood of small Users receiving some unsecured credit. Alternative Amendment 2 therefore adds flexibility to the original proposal, whilst also still allowing Users to influence their unsecured credit allowance by their own actions. For these reasons, National Grid believes that Alternative Amendment 2 would better allow it to more easily and 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.

7.0 PROPOSED IMPLEMENTATION AND TIMESCALES

- 7.1 It is proposed that should the Authority approve the original CAP089/090/091 proposal, or any of the Working Group Alternative Amendments, implementation should be 10 business days after the Authority decision.

8.0 IMPACT ON CUSC

- 8.1 The original CAP089/090/091 proposal or any of the Working Group Alternative Amendments will require a number of changes to Section 3 of the CUSC Part II Credit Requirements as detailed in the legal text in Annex 4.

9.0 IMPACT ON INDUSTRY DOCUMENTS

Impact on Core Industry Documents

- 9.1 None.

Impact on other Industry Documents

- 9.2 None.

Annex 1 – Working Group Terms of Reference and Membership

TERMS OF REFERENCE FOR CAPs 088-091 WORKING GROUP

RESPONSIBILITIES

1. The Working Group is responsible for assisting the CUSC Amendments Panel in the evaluation of CUSC Amendment Proposals CAPs 088-090 inclusive tabled by National Grid Company and CAP091 tabled by BizzEnergy at the Amendments Panel meeting on 20th May 2005.
2. The proposal must be evaluated to consider whether it better facilitates achievement of the applicable CUSC objectives. These can be summarised as follows:
 - (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 the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.
3. It should be noted that additional provisions apply where it is proposed to modify the CUSC amendment provisions, and generally reference should be made to the Transmission Licence for the full definition of the term.

SCOPE OF WORK

4. The Working Group must consider the issues raised by the Amendment Proposals and consider if the proposals identified better facilitate achievement of the Applicable CUSC Objectives.
5. In addition to the overriding requirement of paragraph 4, the Working Group shall consider and incorporate appropriate legal drafting in the report to implement CAPs 088-091 or any Working Group Alternative Amendment (WGAA) developed by the Group.
6. The Working Group is responsible for the formulation and evaluation of any WGAA's arising from Group discussions which would, as compared with the Amendment Proposal, better facilitate achieving the applicable CUSC objectives in relation to the issue or defect identified.
7. The Working Group should become conversant with the definition of Working Group Alternative Amendments which appears in Section 11 (Interpretation and Definitions) of the CUSC. The definition entitles the Group and/or an individual Member of the Working Group to put forward a Working Group Alternative Amendment if the Member(s) genuinely believes the Alternative would better facilitate the achievement of the Applicable CUSC Objectives. The extent of the support for the Amendment Proposal or any Working Group Alternative Amendment arising from the Working Group's discussions should be clearly described in the final Working Group Report to the CUSC Amendments Panel.
8. The Working Group Chairman should provide progress reports to the CUSC Amendments Panel meetings scheduled for 24th June and 29th July. If some of the Amendment Proposals can be progressed earlier than the timetable in

this paragraph then the Working Group should report earlier to the Panel on those Amendment Proposals. The Working Group is to submit their final report to the CUSC Panel Secretary on 11th August 2005 for circulation to Panel Members. The conclusions will be presented to the CUSC Panel meeting on 18th August 2005.

MEMBERSHIP

9. It is recommended that the Working Group has the following members:

Chair	Ben Graff
National Grid	Paul Murphy
Industry Representatives	Carl Wilkes (npower) Keith Munday (BizzEnergy) Lee Selway (EdF Energy) John Capener (British Energy) Bob Brown (Independent) Neil Smith (e.on) Gavin Ferguson (Centrica)
Authority Representative	Dipen Gadhia
Technical Secretary	Richard Dunn

[NB: Working Group must comprise at least 5 Members (who may be Panel Members) and will be selected by the Panel with regard to WG List held by the Secretary]

10. The membership can be amended from time to time by the CUSC Amendments Panel. Any additional nominations for Membership of the Group after the CUSC Panel meeting scheduled for 20th May should be provided to the CUSC Panel Secretary.

RELATIONSHIP WITH AMENDMENTS PANEL

11. The Working Group shall seek the views of the Amendments Panel before taking on any significant amount of work. In this event the Working Group Chairman should contact the CUSC Panel Secretary.
12. Where the Working Group requires instruction, clarification or guidance from the Amendments Panel, particularly in relation to their Scope of Work, the Working Group Chairman should contact the CUSC Panel Secretary.

MEETINGS

13. The Working Group shall, unless determined otherwise by the Amendments Panel, develop and adopt its own internal working procedures and provide a copy to the Panel Secretary for each of its Amendment Proposals.

REPORTING

14. The Working Group Chairman shall prepare a final report to the Amendments Panel scheduled for 19th August 2005 responding to the matter set out in the Terms of Reference.
15. A draft Working Group Report must be circulated to Working Group members with not less than five business days given for comments.
16. Any unresolved comments within the Working Group must be reflected in the final Working Group Report.
17. The Chairman (or another member nominated by him) will present the Working Group report to the Amendments Panel as required.

Annex 2 – Amendment Proposal Form

CUSC Amendment Proposal Form	CAP:089
Title of Amendment Proposal:	
Maximum Unsecured Credit Limit	
Description of the Proposed Amendment (mandatory by proposer):	
<p>It is proposed that that Network Operators should set a maximum credit limit based on 2% of Regulatory Asset Value. Currently there is no unsecured credit limit within CUSC if a user has NGC credit rating (A- or A3 respectively as set by Standard and Poor's or Moody's for connection charges, BBB- or Baa3 respectively as set by Standard and Poor's or Moody's for Use of System charges). CUSC will require amending in order to implement the criteria for setting the maximum credit limit.</p> <p>It is recommended that this amendment goes to a working group.</p>	
Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):	
<p>The amendment seeks to address and codify Ofgem's recommendations within its Network Operator Best Practice guidelines.</p>	
Impact on the CUSC (this should be given where possible):	
Section 3	
Impact on Core Industry Documentation (this should be given where possible):	
None	
Impact on Computer Systems and Processes used by CUSC Parties (this should be given where possible):	
None	
Details of any Related Modifications to Other Industry Codes (where known):	
None	
Justification for Proposed Amendment with Reference to Applicable CUSC Objectives** (mandatory by proposer):	
<p>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 fulfill its obligations to facilitate competition in the generation and supply of electricity.</p>	

Details of Proposer: Organisation's Name:	National Grid Transco
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:	Paul Murphy NGT 019260656330 paul.murphy@ngtuk.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Toby Thornton NGT 01926656384 toby.thornton@ngtuk.com
Attachments (Yes/No): If Yes, Title and No. of pages of each Attachment:	

Notes:

1. 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.
2. 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:

Richard Dunn
Panel Secretary
Commercial Frameworks
National Grid Company plc
NGT House
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA
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).

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.

CUSC Amendment Proposal Form	CAP:090																		
Title of Amendment Proposal:																			
Credit Limits for rated companies																			
Description of the Proposed Amendment (mandatory by proposer):																			
<p>To gain credit a user is currently required to have an NGC approved credit rating (A- or A3 respectively as set by Standard and Poor's or Moody's for connection charges, BBB- or Baa3 respectively as set by Standard and Poor's or Moody's for Use of System charges). This amendment would introduce the rules of establishing individual user limits based on a percentage of the maximum credit limit.</p> <p>CAP:089 proposed that the CUSC should set a maximum credit limit based on 2% of Regulatory Asset Value of an individual Network Operator. This proposal is that individual counterparty credit limits and those that use Parent Company Guarantees or aggregates of both, should be set using credit ratings applied under the 'Basel 2' rules for determining bank capital adequacy. The implication is that the maximum credit allowances of 100 percent of maximum credit limit for AAA/AA and 40 percent for A. For the third band, (BBB) NGC proposes, consistent with Ofgem's guidelines, that the above allowance be further sub-divided, such that the following are applied to rated entities:</p> <p>Maximum credit limit = 2% RAV (~£120m for NGC)</p> <table><thead><tr><th>Credit rating</th><th>Credit allowance as % of maximum credit limit</th><th>Approx. Allowance</th></tr></thead><tbody><tr><td>AAA/AA</td><td>100%</td><td>£120m</td></tr><tr><td>A</td><td>40%</td><td>£48m</td></tr><tr><td>BBB+</td><td>20%</td><td>£24m</td></tr><tr><td>BBB</td><td>19%</td><td>£22.8m</td></tr><tr><td>BBB-</td><td>18%</td><td>£21.6m</td></tr></tbody></table> <p>It is recommended that this amendment goes to a working group.</p>		Credit rating	Credit allowance as % of maximum credit limit	Approx. Allowance	AAA/AA	100%	£120m	A	40%	£48m	BBB+	20%	£24m	BBB	19%	£22.8m	BBB-	18%	£21.6m
Credit rating	Credit allowance as % of maximum credit limit	Approx. Allowance																	
AAA/AA	100%	£120m																	
A	40%	£48m																	
BBB+	20%	£24m																	
BBB	19%	£22.8m																	
BBB-	18%	£21.6m																	
Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):																			
The amendment seeks to address and codify Ofgem's recommendations within its Network Operator Best Practice guidelines.																			

Impact on the CUSC <i>(this should be given where possible):</i>	
Section 3	
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 fulfill its obligations to facilitate competition in the generation and supply of electricity.	
Details of Proposer: Organisation's Name:	National Grid Transco
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:	Paul Murphy NGT 019260656330 paul.murphy@ngtuk.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Toby Thornton NGT 01926656384 toby.thornton@ngtuk.com
Attachments (Yes/No): If Yes, Title and No. of pages of each Attachment:	

Notes:

4. 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.
5. 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:

Richard Dunn
Panel Secretary
Commercial Frameworks
National Grid Company plc
NGT House
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA
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).

6. 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.

CUSC Amendment Proposal Form	CAP: 091
Title of Amendment Proposal: Establishment and maintenance of an Unsecured Credit Allowance for Rated and Unrated Companies and the alignment of the Value at Risk calculation with current best practice.	
Description of the Proposed Amendment <i>(mandatory by proposer):</i> This amendment seeks to Modify the CUSC to incorporate provisions for unrated companies to establish an appropriate line of credit in accordance with the CUSC Objectives taking account of the Best Practice Guidelines for Network Operator Credit Cover Conclusions Document published in February 2005 by OFGEM. For example it is anticipated that at a high level the modification should include amongst other things: <ol style="list-style-type: none">1. Establish an unsecured credit allowance for unrated counterparties by using the payment record.2. Where a company rated in the lower bands or an unrated counterparty seeks to increase its unsecured credit allowance it can do so by submitting to independent assessment of its creditworthiness.3. Recalculation of the Demand Reconciliation Credit Cover amount of 10%.	
Description of Issue or Defect that Proposed Amendment seeks to Address <i>(mandatory by proposer):</i> Unrated and lower rated companies regardless of creditworthiness cannot access an unsecured line of credit. The credit levels required are inappropriate to the risks faced by NGT.	
Impact on the CUSC <i>(this should be given where possible):</i> 	
Impact on Core Industry Documentation <i>(this should be given where possible):</i> 	
Impact on Computer Systems and Processes used by CUSC Parties <i>(this should be given where possible):</i> 	
Details of any Related Modifications to Other Industry Codes <i>(where known):</i> 	
Justification for Proposed Amendment with Reference to Applicable CUSC Objectives** <i>(mandatory by proposer):</i> The current arrangements do not facilitate competition in accordance to the applicable CUSC objective B and constitute an artificial barrier to entry to the market.	

Details of Proposer: Organisation's Name:	BizzEnergy Limited
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	BSC Party – Supplier
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Keith Munday BizzEnergy Limited 07976651122 keithm@bizzenergy.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Robert Brown Cornwall Consulting 07811326156 robert.brown14@tiscali.co.uk
Attachments (/No): If Yes, Title and No. of pages of each Attachment: No	

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:

Richard Dunn
Panel Secretary
Commercial Frameworks
National Grid Company plc
NGT House
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA
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).

9. 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 3 – Internal Working Group Procedure

CAPs088-091 Working Group

INTERNAL WORKING PROCEDURES

1. Notes and actions from each meeting will be produced by the Technical Secretary (provided by National Grid) and circulated to the Chairman and Working Group members for review.
2. The Meeting notes and actions will be published on the National Grid CUSC Website after they have been agreed at the next meeting or sooner on agreement by Working Group members.
2. The Chairman of the Working Group will provide an update of progress and issues to the Amendments Panel each month as appropriate.
4. Working Group meetings will be arranged for a date acceptable to the majority of members and will be held as often as required as agreed by the Working Group in order to respond to the requirements of the Terms of Reference set by the Amendments Panel.
5. If within half an hour after the time for which the Working Group meeting has been convened the Chairman of the group is not in attendance, the meeting will take place with those present.
6. A meeting of the Working Group shall not be invalidated by any member(s) of the group not being present at the meeting.

Annex 4 – Proposed Text to modify the CUSC

Part A - Text to give effect to the Proposed Amendment

Amend Section 3 Part III as follows and edit contents page accordingly:

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) ~~to establish the User's Allowed Credit~~ it presently holds an Approved Credit Rating; and or
 - (b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.
- 3.21.3 The User shall be required to provide Security Cover where its Security Requirement exceeds its User's Allowed Credit. If such **User** is required to provide Security Cover 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 two Business Days after NGC notifies the User in writing that the Security Cover required exceeds the Security Amount provided; or~~
 - (c) where and to the extent that the amount of Security Cover required exceeds the Security Amount provided as a result of a User's revised forecast given in accordance with Paragraph 3.10 within one month of such revised forecast being provided to NGC:-

- (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; and/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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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** 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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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) 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 AmountCover** 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** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) 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** as the **User's Security Requirement** less the **User's Allowed Credit** ~~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~~Determination of Security Requirement~~

~~The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, 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 **GB Transmission System** in respect of:-~~

- (a) 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
- (b) 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

(c) **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 Demand Charges** for the **Financial Year in which such charges first become due ending on 31 March 1999**; and

(bb) in the case of subsequent **Financial Years** such ~~other~~ percentage of **User's Transmission Network Use of System Demand Charges** as reflects the percentage difference between the **Actual Amount** and the **Notional Amount** of the ~~Demand related~~ **User's Transmission Network Use of System Demand Charges** for the previous **Financial Year**, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero 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

(d) interest on the amounts referred to in (a), (b), ~~(c)~~ and ~~(dc)~~ 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 required Security Cover** has 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 within 5 Business Days of the User's consent. ~~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 **User**:
 - (i) shall cease to have an **Approved Credit Rating** or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, 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 an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement** or maintaining the **Credit Assessment Score** given by the **User's Independent Credit Assessment**, 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; 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** for an amount at least equal to the required Security Amount (less its balance on the Escrow Account); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

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.

3.26 **USER'S ALLOWED CREDIT**

3.26.1 Each **User** shall notify **NGC** promptly if:-

- (a) it gains an **Approved Credit Rating**; or
- (b) it ceases to have an **Approved Credit Rating**; or
- (c) where the **User** holds an **Approved Credit Rating**, its specific investment grading changes; or
- (d) it has reason to believe that its **Credit Assessment Score** is likely to have changed since the last **Independent Credit Assessment**.

3.26.2 The **User's Allowed Credit** extended by **NGC** at any time to each **User** with an **Approved Credit Rating** shall be calculated in accordance with Paragraph 1 of Appendix 1 of this Section 3 subject to a maximum value of the **Unsecured Credit Cover**.

3.26.3 The **User's Allowed Credit** extended by **NGC** at any time to each **User** without an **Approved Credit Rating** shall be at the choice of the **User** the **Payment Record Sum** or the **Credit Assessment Sum**.

- 3.26.4 Unless the **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then, subject to Paragraph 3.26.5, for each successive month in which the **User** pays its **Use of System Charges** by the **Use of System Payment Date** then the **User's Allowed Credit** extended to such **User** at any time shall be calculated in accordance with Paragraph 2 of Appendix 1 of this Section 3.
- 3.26.5 Where a **User** fails to pay its **Use of System Charges** within 2 **Business Days** of the **Use of System Payment Date** its **Payment Record Sum** shall be reduced by 50% on the first such occasion within a twelve month period and shall be reduced to zero on the second occasion in such twelve month period. Upon any such failure to pay, the **User's Allowed Credit** (as adjusted following such failure in accordance with this clause) shall be calculated for successive months in accordance with Paragraph 3.26.4.
- 3.26.6 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on its **Credit Assessment Sum**, the **Credit Assessment Sum** extended to a **User** at any time shall be calculated by reference to the **Credit Assessment Score** given by the **Independent Credit Assessment** in accordance with Paragraph 3 of Appendix 1 of this Section 3.
- 3.26.7 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then the **User** will obtain an **Independent Credit Assessment** of that **User**. The first such **Independent Credit Assessment** will be at **NGC's** cost.
- 3.26.8 Where a **User's Allowed Credit** is based on the **Credit Assessment Sum** then where **NGC** has reason to believe that the **Independent Credit Assessment** last obtained is likely to have changed then **NGC** shall be entitled to request the **User** to obtain a further **Independent Credit Assessment**. Such **Independent Credit Assessment** shall be at **NGC's** cost.
- 3.26.9 The **User** may obtain an **Independent Credit Assessment** at **NGC's** cost provided that **NGC** has not paid for an earlier **Independent Credit Assessment** for that **User** within the previous 12 months. The **User** may obtain further **Independent Credit Assessments** within such a 12 month period at the **User's** cost.

Add new definitions to Section 11 as follows:

Approved Agency the panel of three independent assessment agencies appointed by **NGC** and other network operators from time to time for the purpose of providing **Independent Credit Assessments** details of such agencies to be published on the **NGC Website**;

Credit Assessment Score a score between zero and ten given by an **Approved Agency** in the **Independent Credit Assessment**;

Credit Assessment Sum the proportion of the of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does not meet the **Approved Credit Rating** and calculated in accordance with Paragraph 3.26.6;

Independent Credit Assessment an assessment of the creditworthiness of a **User** by an **Approved Agency** as nominated by the **User** obtained in accordance with Paragraph 3.26.7, 3.26.8 and 3.26.9;

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by Ofgem setting this out and currently known as “Ofgem’s Transmission Price Control Review of NGC - Transmission Owner Final Proposals” such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Payment Record Sum the proportion of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does meet the **Approved Credit Rating** calculated in accordance with Paragraph 3.26.4 and 3.26.5;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User’s Allowed Credit** in accordance with Paragraph 3.22;

Transmission Network Use of System Demand Charges that element of **Transmission Network Use of System Charges** relating to **Demand**

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User’s Allowed Credit that proportion of the **Unsecured Credit Cover** extended to a **User** by **NGC** as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than ~~BB-A1~~ by Standard and Poor’s Corporation or a rating not less than ~~Ba3P4~~ by Moody’s Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

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 held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of **User's Allowed Credit** that would be available to that entity in accordance with Paragraph 3.26 if it was a User;

Amend definition of **Security Cover** as follows:

Security Cover for each **User**, the **User's Security Requirement** less the **User's Allowed Credit** the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of security in accordance with the **CUSC**;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

- Where the **User** meets the **Approved Credit Rating** that **User's Allowed Credit** at any given time shall be calculated as a percentage of **Unsecured Credit Cover** by reference to the specific investment grade within the **User's Approved Credit Rating** as follows:

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

2. Where based on the **Payment Record Sum**, a **User's Allowed Credit** at any time shall be calculated on the basis of 0.4% per 12 month period (escalating on an evenly graduated basis each month) of the **Unsecured Credit Cover**, subject to a maximum of 2% after 60 months of successive payment by the **Use of System Payment Date**.
3. Where based on the **Credit Assessment Sum**, a **User's Allowed Credit** at any given time shall be calculated as a percentage of the **Unsecured Credit Cover** by reference to the **Credit Assessment Score** as follows:

<u>Credit Assessment Score</u>	<u>User's Allowed Credit as % of Unsecured Credit Cover</u>
<u>10</u>	<u>20</u>
<u>9</u>	<u>19</u>
<u>8</u>	<u>18</u>
<u>7</u>	<u>17</u>
<u>6</u>	<u>16</u>
<u>5</u>	<u>15</u>
<u>4</u>	<u>13.33</u>
<u>3</u>	<u>10</u>
<u>2</u>	<u>6.67</u>
<u>1</u>	<u>3.33</u>
<u>0</u>	<u>0</u>

Part B - Text to give effect to Working Group Alternative Amendment 1

Amend Section 3 Part III as follows and edit contents page accordingly:

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, TSNUOS DEMAND 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) ~~to establish the User's Allowed Credit~~ it presently holds an Approved Credit Rating; and/or

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

3.21.3 The User shall be required to provide Security Cover where its Security Requirement exceeds its User's Allowed Credit. If such **User** is required to provide Security Cover 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~~ two Business Days after NGC notifies the User in writing that the Security Cover required exceeds the Security Amount provided; or

(c) where and to the extent that the amount of Security Cover required exceeds the Security Amount provided as a result of a User's revised forecast given in accordance with Paragraph 3.10 within one month of such revised forecast being provided to NGC:-

(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; and/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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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** 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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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) 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 AmountCover** 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** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) 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** as the **User's Security Requirement** less the **User's Allowed Credit** 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 CoverDetermination of Security Requirement

The **Security Requirement** for each **User** shall be determined asIf Paragraph 3.21.3 applies, 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 **GB Transmission System** in respect of:-

- (a) 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
- (b) 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

- (c) **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
 - (d) interest on the amounts referred to in (a), (b), ~~(c)~~ and ~~(dc)~~ 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 required Security Cover has 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 within 5 Business Days of the User's consent. 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 **User**:
 - (i) shall cease to have an **Approved Credit Rating** or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, 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 an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, 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; 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** for an amount at least equal to the required **Security Amount** (less its balance on the **Escrow Account**); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

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.

3.26 USER'S ALLOWED CREDIT

3.26.1 Each User shall notify NGC promptly if:-

- (a) it gains an Approved Credit Rating; or**
- (b) it ceases to have an Approved Credit Rating; or**
- (c) where the User holds an Approved Credit Rating, its specific investment grading changes.**

3.26.2 The User's Allowed Credit extended by NGC at any time to each User with an Approved Credit Rating shall be calculated in accordance with Appendix 1 of this Section 3 subject to a maximum value of the Unsecured Credit Cover.

3.26.3 The User's Allowed Credit extended by NGC at any time to each User without an Approved Credit Rating shall be zero.

Add new definitions to Section 11 as follows:

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by Ofgem setting this out and currently known as "Ofgem's Transmission Price Control Review of NGC - Transmission Owner Final Proposals" such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User's Allowed Credit** in accordance with Paragraph 3.22;

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User's Allowed Credit that proportion of the Unsecured Credit Cover extended to a User by NGC as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than **BB-A1** by Standard and Poor's Corporation or a rating not less than **Ba3P4** by Moody's Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

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 held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of User's Allowed Credit that would be available to that entity in accordance with Paragraph 3.26 if it was a User;

Amend definition of **Security Cover** as follows:

Security Cover for each User, the User's Security Requirement less the User's Allowed Credit the aggregate amount for the time being which the User shall be required by NGC to provide and maintain by way of security in accordance with the CUSC;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

Where the User meets the Approved Credit Rating that User's Allowed Credit at any given time shall be calculated as a percentage of Unsecured Credit Cover by reference to the specific investment grade within the User's Approved Credit Rating as follows:

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

Part C - Text to give effect to Working Group Alternative Amendment 2

Amend Section 3 Part III as follows and edit contents page accordingly:

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, TSNUOS DEMAND 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, Transmission Network Use of System Demand 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) ~~to establish the User's Allowed Credit~~ it presently holds an **Approved Credit Rating**; and
 - (b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.
- 3.21.3 The **User** shall be required to provide **Security Cover** where its **Security Requirement** exceeds its **User's Allowed Credit**. If such **User** ~~is required to provide **Security Cover** 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** two **Business Days** after **NGC** notifies the **User** in writing that the **Security Cover** required exceeds the **Security Amount** provided; or~~
 - (c) where and to the extent that the amount of **Security Cover** required exceeds the **Security Amount** provided as a result of a **User's** revised forecast given in accordance with Paragraph 3.10 within one month of such revised forecast being provided to **NGC**:-

- (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; and/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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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** 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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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) 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 AmountCover** 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** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) 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** as the **User's Security Requirement** less the **User's Allowed Credit** ~~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~~Determination of Security Requirement~~

~~The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, 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 **GB Transmission System** in respect of:-~~

- (a) 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
- (b) 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

(c) **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 Demand Charges** for the **Financial Year in which such charges first become due ending on 31 March 1999**; and

(bb) in the case of subsequent **Financial Years** such ~~other~~ percentage of **User's Transmission Network Use of System Demand Charges** as reflects the percentage difference between the **Actual Amount** and the **Notional Amount** of the ~~Demand-related~~ **User's Transmission Network Use of System Demand Charges** for the previous **Financial Year**, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero 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

(d) for **Transmission Network Use of System Demand Reconciliation Charges**, 2.5% of **User's Transmission Network Use of System Demand Charges**; 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 required Security Cover** has 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 within 5 Business Days of the **User's** consent. ~~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 **User**:
 - (i) shall cease to have an **Approved Credit Rating** or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, 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 an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement** or maintaining the **Credit Assessment Score** given by the **User's Independent Credit Assessment**, 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; 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** for an amount at least equal to the required Security Amount (less its balance on the Escrow Account); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

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, Transmission Network Use of System Demand 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, Transmission Network Use of System Demand 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 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 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 Charges or~~ **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 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 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 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.

3.26 **USER'S ALLOWED CREDIT**

3.26.1 Each **User** shall notify **NGC** promptly if:-

- (a) it gains an **Approved Credit Rating**; or
- (b) it ceases to have an **Approved Credit Rating**; or
- (c) where the **User** holds an **Approved Credit Rating**, its specific investment grading changes; or

(d) it has reason to believe that its **Credit Assessment Score** is likely to have changed since the last **Independent Credit Assessment**.

3.26.2 The **User's Allowed Credit** extended by **NGC** at any time to each **User** with an **Approved Credit Rating** shall be calculated in accordance with Paragraph 1 of Appendix 1 of this Section 3 subject to a maximum value of the **Unsecured Credit Cover**.

3.26.3 The **User's Allowed Credit** extended by **NGC** at any time to each **User** without an **Approved Credit Rating** shall be at the choice of the **User** the **Payment Record Sum** or the **Credit Assessment Sum**.

3.26.4 Unless the **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then, subject to Paragraph 3.26.5, for each successive month in which the **User** pays its **Use of System Charges** by the **Use of System Payment Date** then the **User's Allowed Credit** extended to such **User** at any time shall be calculated in accordance with Paragraph 2 of Appendix 1 of this Section 3.

3.26.5 Where a **User** fails to pay its **Use of System Charges** within 2 **Business Days** of the **Use of System Payment Date** its **Payment Record Sum** shall be reduced by 50% on the first such occasion within a twelve month period and shall be reduced to zero on the second occasion in such twelve month period. Upon any such failure to pay, the **User's Allowed Credit** (as adjusted following such failure in accordance with this clause) shall be calculated for successive months in accordance with Paragraph 3.26.4.

3.26.6 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on its **Credit Assessment Sum**, the **Credit Assessment Sum** extended to a **User** at any time shall be calculated by reference to the **Credit Assessment Score** given by the **Independent Credit Assessment** in accordance with Paragraph 3 of Appendix 1 of this Section 3.

3.26.7 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then the **User** will obtain an **Independent Credit Assessment** of that **User**. The first such **Independent Credit Assessment** will be at **NGC's** cost.

3.26.8 Where a **User's Allowed Credit** is based on the **Credit Assessment Sum** then where **NGC** has reason to believe that the **Independent Credit Assessment** last obtained is likely to have changed then **NGC** shall be entitled to request the **User** to obtain a further **Independent Credit Assessment**. Such **Independent Credit Assessment** shall be at **NGC's** cost.

3.26.9 The **User** may obtain an **Independent Credit Assessment** at **NGC's** cost provided that **NGC** has not paid for an earlier **Independent Credit Assessment** for that **User** within the previous 12 months. The **User** may obtain further **Independent Credit Assessments** within such a 12 month period at the **User's** cost.

Add new definitions to Section 11 as follows:

Approved Agency the panel of three independent assessment agencies appointed by **NGC** and other network operators from time to time for the purpose of providing **Independent Credit Assessments** details of such agencies to be published on the **NGC Website**;

Credit Assessment Score a score between 0 and 100 given by an **Approved Agency** in the **Independent Credit Assessment**;

Credit Assessment Sum the proportion of the of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does not meet the **Approved Credit Rating** and calculated in accordance with Paragraph 3.26.6;

Independent Credit Assessment an assessment of the creditworthiness of a **User** by an **Approved Agency** as nominated by the **User** obtained in accordance with Paragraph 3.26.7, 3.26.8 and 3.26.9;

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by Ofgem setting this out and currently known as "Ofgem's Transmission Price Control Review of NGC - Transmission Owner Final Proposals" such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Payment Record Sum the proportion of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does meet the **Approved Credit Rating** calculated in accordance with Paragraph 3.26.4 and 3.26.5;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User's Allowed Credit** in accordance with Paragraph 3.22;

Transmission Network Use of System Demand Charges that element of **Transmission Network Use of System Charges** relating to **Demand**

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User's Allowed Credit that proportion of the Unsecured Credit Cover extended to a User by NGC as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than ~~BB-A1~~ by Standard and Poor's Corporation or a rating not less than ~~Ba3P4~~ by Moody's Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

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 held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of User's Allowed Credit that would be available to that entity in accordance with Paragraph 3.26 if it was a User;

Amend definition of **Security Cover** as follows:

Security Cover for each User, the User's Security Requirement less the User's Allowed Credit the aggregate amount for the time being which the User shall be required by NGC to provide and maintain by way of security in accordance with the CUSC;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

1. Where the User meets the Approved Credit Rating that User's Allowed Credit at any given time shall be calculated as a percentage of Unsecured Credit Cover by reference to the specific investment grade within the User's Approved Credit Rating as follows:

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

2. Where based on the **Payment Record Sum**, a **User's Allowed Credit** at any time shall be calculated on the basis of 0.4% per 12 month period (escalating on an evenly graduated basis each month) of the **Unsecured Credit Cover**, subject to a maximum of 2% after 60 months of successive payment by the **Use of System Payment Date**.

3. Where based on the **Credit Assessment Sum**, a **User's Allowed Credit** at any given time shall be calculated as a percentage of the **Unsecured Credit Cover** by reference to the **Credit Assessment Score** between 0 and 100, where a score of 1 represents 0.2% of the **Unsecured Credit Cover** and each incremental score of 1 represents an extra 0.2% of **Unsecured Credit Cover** to a maximum of 20%. A score of 0 represents 0% of **Unsecured Credit Cover**.

Part D - Text to give effect to Working Group Alternative Amendment 3

Amend Section 3 Part III as follows and edit contents page accordingly:

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) ~~to establish the User's Allowed Credit~~ ~~it presently holds an Approved Credit Rating;~~ and
 - (b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.
- 3.21.3 The User shall be required to provide Security Cover where its Security Requirement exceeds its User's Allowed Credit. If such **User** ~~is required to provide Security Cover 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~~ two Business Days after **NGC** notifies the **User** in writing that the **Security Cover** required exceeds the **Security Amount** provided; or
 - (c) where and to the extent that the amount of Security Cover required exceeds the Security Amount provided as a result of a User's revised forecast given in accordance with Paragraph 3.10 within one month of such revised forecast being provided to NGC:-
 - (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; and/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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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** 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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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) 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 AmountCover** 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** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) 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** as the **User's Security Requirement** less the **User's Allowed Credit** 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 CoverDetermination of Security Requirement

The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, 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 **GB Transmission System** in respect of:-

- (a) 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
- (b) 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

(c) **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 Demand Charges** for the **Financial Year in which such charges first become due ending on 31 March 1999**; and

(bb) in the case of subsequent **Financial Years** such ~~other~~ percentage of **User's Transmission Network Use of System Demand Charges** as reflects the percentage difference between the **Actual Amount** and the **Notional Amount** of the ~~Demand related~~ **User's Transmission Network Use of System Demand Charges** for the previous **Financial Year**, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero 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

(d) 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 required Security Cover** has 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 within 5 Business Days of the User's consent. ~~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 **User**:
 - (i) shall cease to have an **Approved Credit Rating** or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, 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 an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement** or maintaining the **Credit Assessment Score** given by the **User's Independent Credit Assessment**, 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; 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 for an amount at least equal to the required Security Amount (less its balance on the Escrow Account); or

(f) NGC becomes aware that the User's Security Requirement exceeds 85% of the User's Allowed Credit.

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.

3.26 **USER'S ALLOWED CREDIT**

3.26.1 Each **User** shall notify **NGC** promptly if:-

- (a) it gains an **Approved Credit Rating**; or
- (b) it ceases to have an **Approved Credit Rating**; or
- (c) where the **User** holds an **Approved Credit Rating**, its specific investment grading changes; or
- (d) it has reason to believe that its **Credit Assessment Score** is likely to have changed since the last **Independent Credit Assessment**.

3.26.2 The **User's Allowed Credit** extended by **NGC** at any time to each **User** with an **Approved Credit Rating** shall be calculated in accordance with Paragraph 1 of Appendix 1 of this Section 3 subject to a maximum value of the **Unsecured Credit Cover**.

3.26.3 The **User's Allowed Credit** extended by **NGC** at any time to each **User** without an **Approved Credit Rating** shall be at the choice of the **User** the **Payment Record Sum** or the **Credit Assessment Sum**.

3.26.4 Unless the **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then, subject to Paragraph 3.26.5, for each successive month in which the **User** pays its **Use of System Charges** by the **Use of System Payment Date** then the **User's Allowed Credit** extended to such **User** at any time shall be

calculated in accordance with Paragraph 2 of Appendix 1 of this Section 3.

3.26.5 Where a **User** fails to pay its **Use of System Charges** within 2 **Business Days** of the **Use of System Payment Date** its **Payment Record Sum** shall be reduced by 50% on the first such occasion within a twelve month period and shall be reduced to zero on the second occasion in such twelve month period. Upon any such failure to pay, the **User's Allowed Credit** (as adjusted following such failure in accordance with this clause) shall be calculated for successive months in accordance with Paragraph 3.26.4.

3.26.6 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on its **Credit Assessment Sum**, the **Credit Assessment Sum** extended to a **User** at any time shall be calculated by reference to the **Credit Assessment Score** given by the **Independent Credit Assessment** in accordance with Paragraph 3 of Appendix 1 of this Section 3.

3.26.7 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then the **User** will obtain an **Independent Credit Assessment** of that **User**.

3.26.8 Where a **User's Allowed Credit** is based on the **Credit Assessment Sum** then where **NGC** has reason to believe that the **Independent Credit Assessment** last obtained is likely to have changed then **NGC** shall be entitled to request the **User** to obtain a further **Independent Credit Assessment**. Where the **User** refuses to obtain such **Independent Credit Assessment**, the **User's Allowed Credit** will be calculated as the **Payment Record Sum**.

3.26.9 Each **Independent Credit Assessment** will be at the **User's** cost, except where **NGC** requests that the **User** obtain an **Independent Credit Assessment** in accordance with Paragraph 3.26.8 and the **User** has paid for an earlier **Independent Credit Assessment** within the previous 12 months when such **Independent Credit Assessment** shall be at **NGC's** cost.

Add new definitions to Section 11 as follows:

Approved Agency the panel of three independent assessment agencies appointed by **NGC** and other network operators from time to time for the purpose of providing **Independent Credit Assessments** details of such agencies to be published on the **NGC Website**;

Credit Assessment Score a score between zero and ten given by an **Approved Agency** in the **Independent Credit Assessment**;

Credit Assessment Sum the proportion of the of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does not meet the **Approved Credit Rating** and calculated in accordance with Paragraph 3.26.6;

Independent Credit Assessment an assessment of the creditworthiness of a **User** by an **Approved Agency** as nominated by the **User** obtained in accordance with Paragraph 3.26.7, 3.26.8 and 3.26.9;

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by **Ofgem** setting this out and currently known as “**Ofgem’s Transmission Price Control Review of NGC - Transmission Owner Final Proposals**” such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Payment Record Sum the proportion of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does meet the **Approved Credit Rating** calculated in accordance with Paragraph 3.26.4 and 3.26.5;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User’s Allowed Credit** in accordance with Paragraph 3.22;

Transmission Network Use of System Demand Charges that element of **Transmission Network Use of System Charges** relating to **Demand**

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User’s Allowed Credit that proportion of the **Unsecured Credit Cover** extended to a **User** by **NGC** as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than ~~BB-A1~~ by Standard and Poor’s Corporation or a rating not less than ~~Ba3P4~~ by Moody’s Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

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 held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of **User's Allowed Credit** that would be available to that entity in accordance with Paragraph 3.26 if it was a User;

Amend definition of **Security Cover** as follows:

Security Cover for each User, the **User's Security Requirement** less the **User's Allowed Credit** the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of security in accordance with the **CUSC**;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

- Where the **User** meets the **Approved Credit Rating** that **User's Allowed Credit** at any given time shall be calculated as a percentage of **Unsecured Credit Cover** by reference to the specific investment grade within the **User's Approved Credit Rating** as follows:

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

- Where based on the **Payment Record Sum**, a **User's Allowed Credit** at any time shall be calculated on the basis of 0.4% per 12 month period (escalating on an evenly graduated basis each month) of the

Unsecured Credit Cover, subject to a maximum of 2% after 60 months of successive payment by the **Use of System Payment Date**.

3. Where based on the Credit Assessment Sum, a User's Allowed Credit at any given time shall be calculated as a percentage of the Unsecured Credit Cover by reference to the Credit Assessment Score as follows:

<u>Credit Assessment Score</u>	<u>User's Allowed Credit as % of Unsecured Credit Cover</u>
<u>10</u>	<u>20</u>
<u>9</u>	<u>19</u>
<u>8</u>	<u>18</u>
<u>7</u>	<u>17</u>
<u>6</u>	<u>16</u>
<u>5</u>	<u>15</u>
<u>4</u>	<u>13.33</u>
<u>3</u>	<u>10</u>
<u>2</u>	<u>6.67</u>
<u>1</u>	<u>3.33</u>
<u>0</u>	<u>0</u>

Part E - Text to give effect to Working Group Alternative Amendment 4

Amend Section 3 Part III as follows and edit contents page accordingly:

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, TSNUOS DEMAND 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,** Transmission Network Use of System Demand 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) ~~to establish the User's Allowed Credit~~ it presently holds an Approved Credit Rating; and or
 - (b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.
- 3.21.3 The User shall be required to provide Security Cover where its Security Requirement exceeds its User's Allowed Credit. If such **User** is required to provide Security Cover 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~~ two Business Days after NGC notifies the User in writing that the Security Cover required exceeds the Security Amount provided; or
 - (c) where and to the extent that the amount of Security Cover required exceeds the Security Amount provided as a result of a User's revised forecast given in accordance with Paragraph 3.10 within one month of such revised forecast being provided to NGC:-

- (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; and/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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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** 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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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) 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 AmountCover** 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** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) 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** as the **User's Security Requirement** less the **User's Allowed Credit** ~~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~~Determination of Security Requirement~~

~~The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, 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 **GB Transmission System** in respect of:-~~

- (a) 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
- (b) 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

(c) **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 Demand Charges** for the **Financial Year in which such charges first become due ending on 31 March 1999**; and

(bb) in the case of subsequent **Financial Years** such ~~other~~ percentage of **User's Transmission Network Use of System Demand Charges** as reflects the percentage difference between the **Actual Amount** and the **Notional Amount** of the ~~Demand-related~~ **User's Transmission Network Use of System Demand Charges** for the previous **Financial Year**, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero 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

(d) for **Transmission Network Use of System Demand Reconciliation Charges**, 2.5% of **User's Transmission Network Use of System Demand Charges**; 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 required Security Cover** has 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 within 5 Business Days of the **User's** consent. ~~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 **User**:
 - (i) shall cease to have an **Approved Credit Rating** or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, 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 an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement** or maintaining the **Credit Assessment Score** given by the **User's Independent Credit Assessment**, 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; 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** for an amount at least equal to the required Security Amount (less its balance on the Escrow Account); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

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, Transmission Network Use of System Demand 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, Transmission Network Use of System Demand 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 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 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 Charges or~~ **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 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 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 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.

3.26 USER'S ALLOWED CREDIT

3.26.1 Each **User** shall notify **NGC** promptly if:-

- (a) it gains an **Approved Credit Rating**; or
- (b) it ceases to have an **Approved Credit Rating**; or
- (c) where the **User** holds an **Approved Credit Rating**, its specific investment grading changes; or

(d) it has reason to believe that its **Credit Assessment Score** is likely to have changed since the last **Independent Credit Assessment**.

3.26.2 The **User's Allowed Credit** extended by **NGC** at any time to each **User** with an **Approved Credit Rating** shall be calculated in accordance with Paragraph 1 of Appendix 1 of this Section 3 subject to a maximum value of the **Unsecured Credit Cover**.

3.26.3 The **User's Allowed Credit** extended by **NGC** at any time to each **User** without an **Approved Credit Rating** shall be at the choice of the **User** the **Payment Record Sum** or the **Credit Assessment Sum**.

3.26.4 Unless the **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then, subject to Paragraph 3.26.5, for each successive month in which the **User** pays its **Use of System Charges** by the **Use of System Payment Date** then the **User's Allowed Credit** extended to such **User** at any time shall be calculated in accordance with Paragraph 2 of Appendix 1 of this Section 3.

3.26.5 Where a **User** fails to pay its **Use of System Charges** within 2 **Business Days** of the **Use of System Payment Date** its **Payment Record Sum** shall be reduced by 50% on the first such occasion within a twelve month period and shall be reduced to zero on the second occasion in such twelve month period. Upon any such failure to pay, the **User's Allowed Credit** (as adjusted following such failure in accordance with this clause) shall be calculated for successive months in accordance with Paragraph 3.26.4.

3.26.6 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on its **Credit Assessment Sum**, the **Credit Assessment Sum** extended to a **User** at any time shall be calculated by reference to the **Credit Assessment Score** given by the **Independent Credit Assessment** in accordance with Paragraph 3 of Appendix 1 of this Section 3.

3.26.7 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then the **User** will obtain an **Independent Credit Assessment** of that **User**.

3.26.8 Where a **User's Allowed Credit** is based on the **Credit Assessment Sum** then where **NGC** has reason to believe that the **Independent Credit Assessment** last obtained is likely to have changed then **NGC** shall be entitled to request the **User** to obtain a further **Independent Credit Assessment**. Where the **User** refuses to obtain such **Independent Credit Assessment**, the **User's Allowed Credit** will be calculated as the **Payment Record Sum**.

3.26.9 Each **Independent Credit Assessment** will be at the **User's** cost, except where **NGC** requests that the **User** obtain an **Independent Credit Assessment** in accordance with Paragraph 3.26.8 and the **User** has paid for an earlier **Independent Credit Assessment** within the previous 12 months when such **Independent Credit Assessment** shall be at **NGC's** cost.

Add new definitions to Section 11 as follows:

Approved Agency the panel of three independent assessment agencies appointed by **NGC** and other network operators from time to time for the purpose of providing **Independent Credit Assessments** details of such agencies to be published on the **NGC Website**;

Credit Assessment Score a score between 0 and 100 given by an **Approved Agency** in the **Independent Credit Assessment**;

Credit Assessment Sum the proportion of the of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does not meet the **Approved Credit Rating** and calculated in accordance with Paragraph 3.26.6;

Independent Credit Assessment an assessment of the creditworthiness of a **User** by an **Approved Agency** as nominated by the **User** obtained in accordance with Paragraph 3.26.7, 3.26.8 and 3.26.9;

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by Ofgem setting this out and currently known as "Ofgem's Transmission Price Control Review of NGC - Transmission Owner Final Proposals" such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Payment Record Sum the proportion of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does meet the **Approved Credit Rating** calculated in accordance with Paragraph 3.26.4 and 3.26.5;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User's Allowed Credit** in accordance with Paragraph 3.22;

Transmission Network Use of System Demand Charges that element of **Transmission Network Use of System Charges** relating to **Demand**

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User's Allowed Credit that proportion of the Unsecured Credit Cover extended to a User by NGC as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than ~~BB-A1~~ by Standard and Poor's Corporation or a rating not less than ~~Ba3P4~~ by Moody's Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

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 held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of User's Allowed Credit that would be available to that entity in accordance with Paragraph 3.26 if it was a User;

Amend definition of **Security Cover** as follows:

Security Cover for each User, the User's Security Requirement less the User's Allowed Credit the aggregate amount for the time being which the User shall be required by NGC to provide and maintain by way of security in accordance with the CUSC;

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

1. Where the User meets the Approved Credit Rating that User's Allowed Credit at any given time shall be calculated as a percentage of Unsecured Credit Cover by reference to the specific investment grade within the User's Approved Credit Rating as follows:

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

2. Where based on the **Payment Record Sum**, a **User's Allowed Credit** at any time shall be calculated on the basis of 0.4% per 12 month period (escalating on an evenly graduated basis each month) of the **Unsecured Credit Cover**, subject to a maximum of 2% after 60 months of successive payment by the **Use of System Payment Date**.

3. Where based on the **Credit Assessment Sum**, a **User's Allowed Credit** at any given time shall be calculated as a percentage of the **Unsecured Credit Cover** by reference to the **Credit Assessment Score** between 0 and 100, where a score of 1 represents 0.2% of the **Unsecured Credit Cover** and each incremental score of 1 represents an extra 0.2% of **Unsecured Credit Cover** to a maximum of 20%. A score of 0 represents 0% of **Unsecured Credit Cover**.

Part F - Text to give effect to Working Group Alternative Amendment 5

Amend Section 3 Part III as follows and edit contents page accordingly:

PART III - CREDIT REQUIREMENTS

3.21 BSUOS CHARGES, TSNUOS DEMAND 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,** Transmission Network Use of System Demand 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) ~~to establish the User's Allowed Credit~~ it presently holds an Approved Credit Rating; ~~and/or~~
 - (b) if required, that it has provided and is not in default under the **Security Cover** referred to in Paragraph 3.21.3 below.
- 3.21.3 The User shall be required to provide Security Cover where its Security Requirement exceeds its User's Allowed Credit. If such **User** is required to provide Security Cover 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~~ two Business Days after NGC notifies the User in writing that the Security Cover required exceeds the Security Amount provided; or
 - (c) where and to the extent that the amount of Security Cover required exceeds the Security Amount provided as a result of a User's revised forecast given in accordance with Paragraph 3.10 within one month of such revised forecast being provided to NGC:-

- (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; and/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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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** 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** for an amount at least equal to the required **Security Amount** applicable to it (less its balance on the **Escrow Account**) 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) 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 AmountCover** 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** for an amount at least equal to the required **Security Amount** (less the **User's** balance on the **Escrow Account**) 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** as the **User's Security Requirement** less the **User's Allowed Credit** ~~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~~Determination of Security Requirement~~

~~The **Security Requirement** for each **User** shall be determined as if Paragraph 3.21.3 applies, 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 **GB Transmission System** in respect of:-~~

- (a) 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
- (b) 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

(c) **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 Demand Charges** for the **Financial Year in which such charges first become due ending on 31 March 1999**; and

(bb) in the case of subsequent **Financial Years** such ~~other~~ percentage of **User's Transmission Network Use of System Demand Charges** as reflects the percentage difference between the **Actual Amount** and the **Notional Amount** of the ~~Demand-related~~ **User's Transmission Network Use of System Demand Charges** for the previous **Financial Year**, provided that where the **Notional Amount** exceeds the **Actual Amount**, the percentage shall be zero 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

(d) for **Transmission Network Use of System Demand Reconciliation Charges**, 2.5% of **User's Transmission Network Use of System Demand Charges**; 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 required Security Cover** has 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 within 5 Business Days of the **User's** consent. ~~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 **User**:
 - (i) shall cease to have an **Approved Credit Rating** or shall cease to have an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement**, 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 an **Approved Credit Rating** for an amount at least equal to the **User's Security Requirement** or maintaining the **Credit Assessment Score** given by the **User's Independent Credit Assessment**, 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; 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** for an amount at least equal to the required Security Amount (less its balance on the Escrow Account); or
- (f) **NGC** becomes aware that the **User's Security Requirement** exceeds 85% of the **User's Allowed Credit**.

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, Transmission Network Use of System Demand 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, Transmission Network Use of System Demand 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 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 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 Charges or~~ **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 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 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 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.

3.26 USER'S ALLOWED CREDIT

3.26.1 Each **User** shall notify **NGC** promptly if:-

- (a) it gains an **Approved Credit Rating**; or
- (b) it ceases to have an **Approved Credit Rating**; or
- (c) where the **User** holds an **Approved Credit Rating**, its specific investment grading changes; or

(d) it has reason to believe that its **Credit Assessment Score** is likely to have changed since the last **Independent Credit Assessment**.

3.26.2 The **User's Allowed Credit** extended by **NGC** at any time to each **User** with an **Approved Credit Rating** shall be calculated in accordance with Paragraph 1 of Appendix 1 of this Section 3 subject to a maximum value of the **Unsecured Credit Cover**.

3.26.3 The **User's Allowed Credit** extended by **NGC** at any time to each **User** without an **Approved Credit Rating** shall be zero or, if the **User** has so notified **NGC**, the **Credit Assessment Sum**.

3.26.4 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on its **Credit Assessment Sum**, the **Credit Assessment Sum** extended to a **User** at any time shall be calculated by reference to the **Credit Assessment Score** given by the **Independent Credit Assessment** in accordance with Paragraph 2 of Appendix 1 of this Section 3.

3.26.5 Where a **User** has notified **NGC** that it wishes its **User's Allowed Credit** to be based on the **Credit Assessment Sum** then the **User** will obtain an **Independent Credit Assessment** of that **User**.

3.26.6 Where a **User's Allowed Credit** is based on the **Credit Assessment Sum** then where **NGC** has reason to believe that the **Independent Credit Assessment** last obtained is likely to have changed then **NGC** shall be entitled to request the **User** to obtain a further **Independent Credit Assessment**. Where the **User** refuses to obtain such **Independent Credit Assessment**, the **User's Allowed Credit** will be zero.

3.26.7 Each **Independent Credit Assessment** will be at the **User's** cost, except where **NGC** requests that the **User** obtain an **Independent Credit Assessment** in accordance with Paragraph 3.26.6 and the **User** has paid for an earlier **Independent Credit Assessment** within the previous 12 months when such **Independent Credit Assessment** shall be at **NGC's** cost.

Add new definitions to Section 11 as follows:

Approved Agency the panel of three independent assessment agencies appointed by **NGC** and other network operators from time to time for the purpose of providing **Independent Credit Assessments** details of such agencies to be published on the **NGC Website**;

Credit Assessment Score a score between 0 and 100 given by an **Approved Agency** in the **Independent Credit Assessment**;

Credit Assessment Sum the proportion of the of the **Unsecured Credit Cover** extended by **NGC** to a **User** who does not meet the **Approved Credit Rating** and calculated in accordance with Paragraph 3.26.4;

Independent Credit Assessment an assessment of the creditworthiness of a **User** by an **Approved Agency** as nominated by the **User** obtained in accordance with Paragraph 3.26.5, 3.26.6 and 3.26.7;

NGC Prescribed Level the forecast value of the regulatory asset value of **NGC** for a **Financial Year** as set out in the document published from time to time by **Ofgem** setting this out and currently known as “**Ofgem’s Transmission Price Control Review of NGC - Transmission Owner Final Proposals**” such values to be published on the **NGC Website** by reference to the **NGC** credit arrangements no later than 31 January prior to the beginning of the **Financial Year** to which such value relates;

Security Requirement the aggregate amount for the time being which the **User** shall be required by **NGC** to provide and maintain by way of **Security Cover** and its **User’s Allowed Credit** in accordance with Paragraph 3.22;

Transmission Network Use of System Demand Charges that element of **Transmission Network Use of System Charges** relating to **Demand**

Unsecured Credit Cover the maximum amount of unsecured credit available to each **User** for the purposes of Part III of Section 3 of the **CUSC** at any time which shall be a sum equal to 2% of the **NGC Prescribed Level** in the relevant **Financial Year**;

User’s Allowed Credit that proportion of the **Unsecured Credit Cover** extended to a **User** by **NGC** as calculated in accordance with Paragraph 3.26;

Amend definition of **Approved Credit Rating** as follows and delete paragraph 11 in introduction to CUSC;

Approved Credit Rating a ~~longshort~~ term debt rating of not less than ~~BB-A1~~ by Standard and Poor’s Corporation or a rating not less than ~~Ba3P4~~ by Moody’s Investor Services, or a ~~shortlong~~ term rating which correlates to those ~~longshort~~ term ratings, or an equivalent rating from a any other reputable credit agency approved by **NGC**; or such other lower rating as may be reasonably approved by **NGC** from time to time;

Amend definition of **Qualifying Guarantee** as follows so that a guarantee can only be provided up to the appropriate level depending on the rating of the company providing the guarantee:

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 held by an entity which holds an **Approved Credit Rating** provided that such guarantee cannot secure a sum greater than the level of **User’s Allowed Credit** that would be available to that entity in accordance with Paragraph 3.26 if it was a User;

Amend definition of **Security Cover** as follows:

Security Cover for each **User**, the **User's Security Requirement** less the **User's Allowed Credit** ~~the aggregate amount for the time being which the User shall be required by NGC to provide and maintain by way of security in accordance with the CUSC;~~

Add new Appendix 1 to Section 3 as follows and amend contents page accordingly

CREDIT ARRANGEMENTS

1. Where the User meets the Approved Credit Rating that User's Allowed Credit at any given time shall be calculated as a percentage of Unsecured Credit Cover by reference to the specific investment grade within the User's Approved Credit Rating as follows:

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

2. Where based on the Credit Assessment Sum, a User's Allowed Credit at any given time shall be calculated as a percentage of the Unsecured Credit Cover by reference to the Credit Assessment Score between 0 and 100, where a score of 1 represents 0.2% of the Unsecured Credit Cover and each incremental score of 1 represents an extra 0.2% of Unsecured Credit Cover to a maximum of 20%. A score of 0 represents 0% of Unsecured Credit Cover.