

CAP 157 working group report

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CAP157 : extension of qualified company definition

- Proposed by CRE Energy on an urgent basis and submitted to the Cusc panel on 23 July 2007
- Urgent status not supported by the panel or Ofgem
- Seeks to change the definition of “Qualifying Company” and “Qualified Company” in the Cusc
- The issue being who can provide security guarantees to a user, in respect of termination amounts and final sums
- At present the definition means an immediate shareholder or holding company
- The proposal is to extend to immediate affiliates of the user
- No change to the levels of credit rating required from the provider
- Cusc panel sent CAP157 to a working group for three months

Working group terms of reference

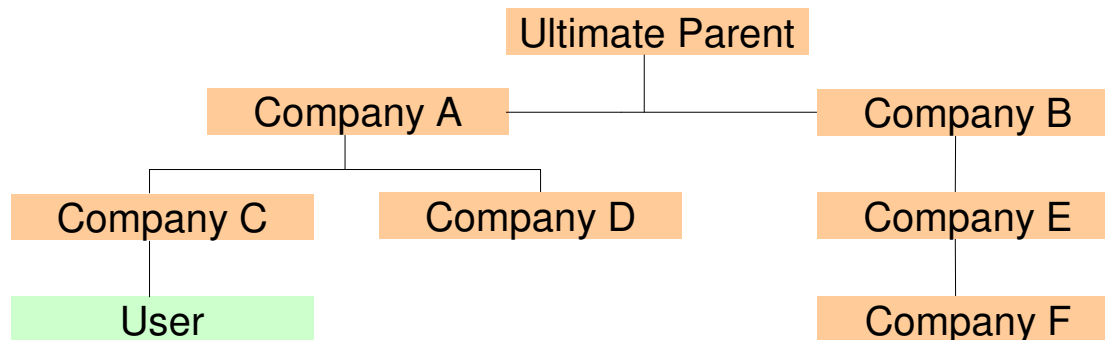
- The extension of the definition of qualified/qualifying company
- Note any relevance of Ofgem's best practice guidelines for credit cover in relation to final sums and termination amounts
- Note any relevance of similar security tools used for UoS charges

Perceived defect

- The existing arrangements are considered unduly restrictive
- At present limited to a vertical relationship
- May cause difficulties with more complex group structures
- Seeks to allow a guarantee from a related company which is not necessarily above the user in the corporate structure

Present and proposed eligibility

- At present: C, A and Ultimate Parent are eligible, subject to required credit rating
- Proposed: A to F and the Ultimate Parent, again subject to required credit rating



Working group discussion

- The working group identified a slight risk with the present arrangements, where there is a domino effect of companies failing within a group. The proposal does not change this risk.
- Potential advantages for smaller parties were identified
- The proposal appears to offer flexibility over the baseline.

Working group alternative

- A slight risk with the proposal was identified where, for example, a receiver might be able to prevent settlement of a bond
- This led to a working group alternative
- The aim is to provide comfort that a bond can be settled and not set aside
- Extra assurances are introduced

Impact on the Cusc and other industry documents

- The original and WGAA have similar impact
- Cusc: section 11 and schedule 2 exhibit 3 appendix M
- No impact was identified on core or other industry documents

Legal text and proposed implementation

- Legal text is provided for the original and WGAA
- The group suggests implementation ten days following Authority approval

Assessment against Cusc objectives and voting

- The working group unanimously voted that both the original and the WGAA better meet the applicable Cusc objective (a), facilitating effective competition
- The working group unanimously voted that the WGAA was better than the original

Next steps

- The working group believes that its terms of reference have been met
- It is recommended that a consultation report should proceed to wider industry consultation
- The working group should be stood down