

Network Operator Credit Cover Arrangements – CUSC Amendment Proposals

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CAP088 Application of the late payments of Commercial Debts (Interest Act) Act 1998

- Detail of Amendment
 - Allows for interest to be levied on late paid items at a rate equal to the Bank of England base rate plus eight percentage points per annum.
 - Rate is set twice a year and is calculated by adding 8 per cent to the reference rate, which is the Bank of England base rate on 30 June and 31 December each year.
 - Base rate is applicable for the following six-month periods i.e. 1 July to 31 December and 1 January to 30 June respectively.
- Current CUSC arrangements
 - The CUSC currently allows for interest to be levied on late payments at base rate + 4%.

CAP088 Application of the late payments of Commercial Debts (Interest Act) Act 1998 (contd.)

- Benefits

- Acts as an additional incentive to ensure that payments are made in accordance with prevailing contracts.
- Meets objective of implementing best practice.
- Will enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfil its obligations to facilitate competition in the generation and supply of electricity.

- Recommendation

- It is recommended that this amendment goes to a working group.

CAP089 Maximum Unsecured Credit Limit

- Detail of Amendment
 - Sets a maximum credit limit based on 2% of an individual Network Operator's Regulatory Asset Value.
- Current CUSC arrangements
 - There are no credit limits within CUSC subject to the party meeting the:
 - 'NGC Credit Rating', A- or A3 respectively as set by Standard and Poor's or Moody's for Connection charges; or
 - Where a Users Licence is issued under the Electricity Act and requires that User to maintain a credit rating, the rating is that as defined in the licence; or
 - 'Approved Credit Rating', BBB- or Baa3 respectively as set by Standard and Poor's or Moody's for Use of System charges.

CAP089 Maximum Unsecured Credit Limit (contd.)

- Benefits

- Transparency and consistency across all Network Operators
- Sets a maximum limit to which subsequent individual users limits can be calculated – CAP090 (Based on Basel 2 model).
- Meets objective of implementing best practice.
- Will enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfil its obligations to facilitate competition in the generation and supply of electricity.

- Recommendation

- It is recommended that this amendment goes to a working group.

CAP090 Credit limits for rated Companies

- Amendment Detail
 - Introduces the rules of establishing individual user limits based on a percentage of the maximum credit limit
 - 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.
- Current CUSC arrangements
 - Criteria to obtaining credit within the CUSC:
 - ‘NGC Credit Rating’, A- or A3 respectively as set by Standard and Poor’s or Moody’s for Connection charges; or
 - Where a Users Licence is issued under the Electricity Act and requires that User to maintain a credit rating, the rating is that as defined in the licence; or
 - ‘Approved Credit Rating’, BBB- or Baa3 respectively as set by Standard and Poor’s or Moody’s for Use of System charges.

CAP090 Credit limits for rated Companies (contd.)

- Example: Maximum credit limit = 2% RAV (~£120m)

S&P Credit rating (based on Basel 2 bandings)	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

CAP090 Credit limits for rated Companies (contd.)

- Benefits

- Transparency and consistency of setting individual users limits.
- Meets objective of implementing best practice.
- Will enable National Grid to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and fulfil its obligations to facilitate competition in the generation and supply of electricity.

- Recommendation

- It is recommended that this amendment goes to a working group.