

# CAP157 – Extension of Qualified Company Definition

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*CUSC Panel*

*14<sup>th</sup> December 2007*

# Modification Background

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- ◆ Original CUSC Amendment Proposal, raised by CRE Energy Ltd relates to the provision of Performance Bonds to secure Final Sums and Termination Amounts.
- ◆ The current arrangements allow provision of Performance Bonds to be provided by Qualified Banks or Qualified Companies.
- ◆ A Qualified Company is currently defined as a company:
  - ◆ that is a shareholder of a User or holding company of such a shareholder;
  - ◆ that has a credit rating equivalent to A- (Standard & Poor's); and
  - ◆ that National Grid does not have any reason to doubt its credit rating (e.g. credit watch)
- ◆ CRE Energy Ltd believe that this definition is unduly restrictive to Users within a corporate group with a complex structure.

# CAP157 Proposal

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- ◆ The proposal extends the definition of Qualified Company to allow non-parent companies within the same corporate group to provide Performance Bonds.
- ◆ It is not proposed that the required level of creditworthiness of a Performance Bond provider is changed.
- ◆ In order to accept such a bond, National Grid will require a number of assurances from the guarantor to confirm that they are able to provide such a bond and that sign on from the wider group has been received.
- ◆ These assurances will provide sufficient comfort that an administrator will consider the Performance Bond for settlement, if both the User and bond provider fail.

# Working Group Alternative

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- ◆ Identical to the original amendment proposal, but with the assurances required by National Grid specified within the CUSC for transparency.
- ◆ The Working Group agreed that the additional clarity should make the process of providing Performance Bonds more efficient than the original amendment.

# Consultation

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- ◆ Consultation received 3 responses.
- ◆ 2 respondents support the WGAA.
- ◆ The remaining respondent supported both amendments, preferring the WGAA.

# CUSC Objectives

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- ◆ National Grid and the Working Group believe that CAP157 original would better facilitate the CUSC Objective (b).
- ◆ National Grid and the Working Group believe that the Working Group Alternative would better facilitate the CUSC Objectives (a) and (b).
- ◆ National Grid believes that whilst the provision of Performance Bonds from within a corporate group is not flawless, the two proposals do not pose any additional risk to the existing arrangements.