CUSC Credit Cover Modification Proposal

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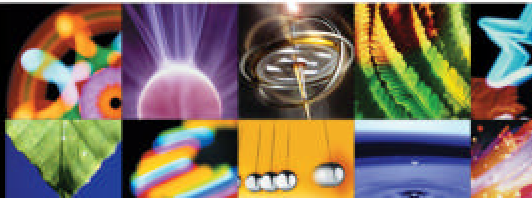

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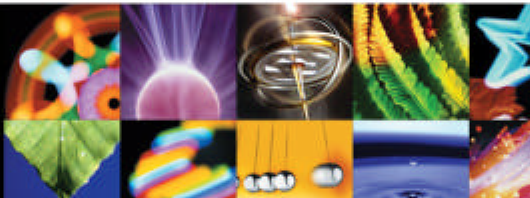
Modification

- Establishment and maintenance of an Unsecured Credit Allowance for Rated and Unrated Companies and the alignment of the Value at Risk Calculations with current best practices



Credit Cover Best Practices

Establishment of:

- Unsecured credit limits
- Value at Risk
- Security of excess VAR over unsecured
- Variety of acceptable tools to provide credit cover
- Monitoring and management of credit exposure
- Appropriate responses to breaches of contract

Nature of Defect (1)

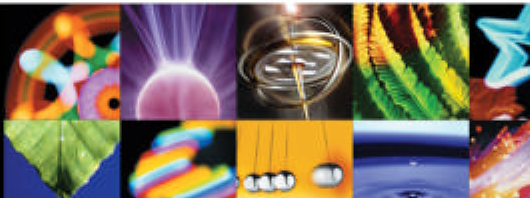
- No provisions in current Code for establishment and maintenance of unsecured credit lines for unrated and lower rated companies regardless of creditworthiness.
- Unrated and low rated companies do not necessarily present a high risk of default

Key Elements of Proposed Modification

- Establishment and maintenance of:
  - Unsecured Credit allowance based on payment record at no less than 0.008% p.a. escalating monthly of NGT Regulated Asset Value.
  - Credit allowances for unrated and lower rated companies based upon annual independent assessment paid for by NWO and additional assessments paid for by the User.
- Reassessment of the Value at Risk against best practice guidelines

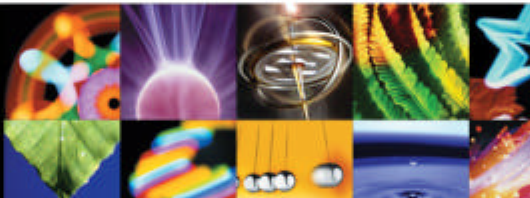
Nature of Defect(2)
Inappropriate VAR Calculations

- Monthly VAR is zero as pay mid-month
- Recent modifications limit forecast errors
- Reconciliations can go either way
- 10% upfront deposit for annual reconciliation amount is inappropriate
- Current arrangements overstate the VAR



Impact of Defects

- Over securitisation compared to the risks faced by NGT
- Barrier to Entry
- Not aligned with current Best Practices
- Current proposals work against the CUSC objective of facilitating competition



Summary

- Defects are having significant immediate impact on Competition now.
- Expeditious resolution by end of August requested.