

## **SCHEDULE 1 Cover**

### **1. PROVISION OF COVER**

1.1 The User shall not later than the date of this Agreement provide and maintain Cover in accordance with the provisions of this Schedule.

#### **Forms of Collateral**

1.2 The User shall not later than the date of this Agreement deliver to the Company one or more of the following forms of Collateral such that the aggregate value of such Collateral is equal to or greater than the sum notified to the User by the Company as the User's Value at Risk to the extent that it exceeds the User's Credit Allowance:

- (a) a Letter of Credit or equivalent bank guarantee (available for an initial period of not less than six months);
- (b) an Escrow Account Deposit;
- (c) a Cash Deposit; or
- (d) any other form of Collateral as agreed between the parties from time to time, including but not limited to performance bonds, bilateral insurance, and independent security. The Company may rate the effectiveness of such Collateral as being between 0% and 100%. Where the effectiveness of such Collateral is rated as less than 100%, its contribution to the aggregate level of Cover provided shall be reduced accordingly.

1.3 Any dispute raised by the User or the Company on the form of Collateral provided under paragraph 1.2(d) or on the rating of any Collateral shall be dealt with under Part 8 of this Schedule. Any requirement for payment to be made under such Collateral shall be dealt with in accordance with Part 4 of this Schedule.

#### **Maintenance of Cover**

1.4 The User may increase the value of Collateral provided or provide additional forms of Collateral at any time during the term of this Agreement.

1.5 Where:

- (a) there is any reduction in the amount of Collateral provided by the User as Cover; or
  - (b) the Company makes a demand against such Collateral following a Payment Default by the User,
- the User shall provide additional Collateral to ensure that the Indebtedness Ratio is equal to or greater than the Indebtedness Ratio Limit according to the provisions of this Schedule.

### **2. CALCULATION OF COVER**

2.1 For the duration of this Agreement, the Company shall calculate and maintain an up-to-date record of each of the following values with respect to the User in compliance with the requirements for such record keeping set out from time to time by the Authority for the purposes of this Schedule:

- (a) the User's Value at Risk;
- (b) the User's Credit Allowance; and
- (c) the User's Indebtedness Ratio,

and, upon request by the User, the Company shall without delay provide a written statement of such values.

## The User's Value at Risk

- 2.1 The User's Value at Risk shall, at any time, be the aggregate of:
- (a) billed but unpaid Use of System Charges which are not currently subject to a Designated Dispute (as defined in Schedule 6) and which have been billed according to an established billing cycle operated by the Company in accordance with the provisions of Clause 7 and/or 8;
- plus
- (b) the Fifteen Days' Value, which shall be the estimated value of the Use of System Charges that would be incurred by the User for a further 15 days from that time, based on the average daily Use of System Charges actually billed to the User during the previous month;
- less
- (c) any credit notes and any amounts paid to the Company by the User in the form of a Prepayment or an Advance Payment.
- 2.3 Where the User has not incurred Use of System Charges, the Value at Risk shall be set at £1,000 until such time as the Value at Risk can be calculated in accordance with the provisions of paragraph 2.2.

## The User's Credit Allowance

- 2.4 The User's Credit Allowance ("CA" here below) shall be calculated according to the following formula:

$$CA = RAV \times 2\% \times CAF$$

where:

RAV is the closing balance for the Regulatory Asset Value (having the meaning given to that term in the price control review reporting rules issued by the Authority pursuant to Condition 52 of the Electricity Distribution Licence) as published in the Company's latest audited regulatory accounts (or, where no Regulatory Asset Value is published, shall be a value to be determined by the Authority as a suitable replacement following consultation with the Company); and

CAF is the Credit Allowance Factor (which is to be expressed as a percentage determined under paragraph 2.5 or 2.6 or in accordance with paragraph 2.11).

- 2.5 Where the User has a Credit Rating from an Approved Credit Referencing Agency that is Ba3/BB- or above, CAF shall be determined according to the following table:

Credit Rating		CAF (%)
Moody's	Standard and Poor's	
Aaa to Aa2	AAA to AA	100
Aa3 to A3	AA- to A-	40
Baa1	BBB+	20
Baa2	BBB	19
Baa3	BBB-	18
Ba1	BB+	17
Ba2	BB	16
Ba3	BB-	15

- 2.6 Where the User does not have a Credit Rating from an Approved Credit Referencing Agency that is Ba3 / BB– or above, CAF shall be determined as follows:
- (a) where the User has requested that the Company use an Independent Credit Assessment, CAF shall be determined by reference to the Credit Assessment Score provided to the User pursuant to paragraph 2.8 and in accordance with the table set out at paragraph 2.9; or
  - (b) where the User has not requested that the Company use an Independent Credit Assessment, CAF shall equal the Payment Record Factor (which shall be determined in accordance with the provisions of paragraphs 2.12 to 2.14).

**Credit Assessment Score**

- 2.7 For the purposes of determining CAF pursuant to paragraph 2.6(a), the User may, once a year, request that the Company obtain an Independent Credit Assessment from a Recognised Credit Assessment Agency chosen by the User.
- 2.8 Within one month of such request, the Company must procure from that Recognised Credit Assessment Agency (and must provide to the User) an Independent Credit Assessment which shall include a Credit Assessment Score determined on a scale from zero to 10 in respect of the User.
- 2.9 The value of CAF corresponding in the following table to the Credit Assessment Score so determined shall be the Credit Allowance Factor which, pursuant to paragraph 2.6(a), is to be used for the purposes of calculating the User’s Credit Allowance pursuant to paragraph 2.4.

Credit Assessment Score	CAF (%)
10	20
9	19
8	18
7	17
6	16
5	15
4	13
3	10
2	7
1	3
0	0

**Additional Credit Assessment**

- 2.10 During the 12-month period following completion of an annual Independent Credit Assessment pursuant to paragraph 2.7, the User may at its own cost procure from a Recognised Credit Assessment Agency, and submit to the Company, an interim Independent Credit Assessment for the purpose of enabling the Company to review and where necessary recalculate the User’s Credit Allowance.

**Payment Record Factor**

- 2.11 The Company shall at any time be entitled to use (and, on request by the User, must use) the Payment Record Factor to determine the Credit Allowance Factor. For this purpose, and for that of paragraph 2.6(b), the Credit Allowance Factor shall equal the value of the Payment Record Factor determined in accordance with paragraphs 2.12 to 2.14.

- 2.12 The Payment Record Factor shall equal the number of months since the Good Payment Performance Start Date (as specified in paragraph 2.13) multiplied by 0.033% (that is to say, by 0.4% per annum) up to a maximum value of 2% after five years of good payment history.
- 2.13 For all Users, the Good Payment Performance Start Date shall initially be the date of the earliest of the first Initial Account, Reconciliation Account, or account issued pursuant to Clause 8 (as the case may be) (the “relevant account”). Where the User fails, or has failed, on any occasion to pay any relevant account relating to undisputed Use of System Charges in full on the Payment Date, the Good Payment Performance Start Date shall be the date on which the relevant account is submitted in the month subsequent to the month in which such payment failure occurs.
- 2.14 Where any unpaid disputed invoice is found to have been disputed without merit, a failure to have paid the relevant account in accordance with the terms of this Agreement shall be treated as a late payment.

### **The User’s Indebtedness Ratio**

- 2.15 The Credit Limit for the User shall equal the Credit Allowance plus the aggregate value of the Collateral provided on any day.
- 2.16 The Indebtedness Ratio for the User shall equal the Value at Risk as a percentage of the Credit Limit.
- 2.17 If, on any day, the User’s Indebtedness Ratio equals or is greater than 85% of the User’s Indebtedness Ratio Limit, the Company shall give notice of this to the User.

### **Credit Allowance Where Credit Support is Provided by a Third Party**

- 2.18 Where credit support is provided for the User through a Qualifying Guarantee by a third party (the “Credit Support Provider”), the maximum Credit Allowance assigned to the User shall be calculated in accordance with paragraph 2.4 above, but substituting the Credit Support Provider for the User in all such calculations. Where the value of the Qualifying Guarantee is lower than the Credit Allowance calculated pursuant to paragraph 2.4, the actual User’s Credit Allowance shall be the maximum value of the Qualifying Guarantee.
- 2.19 Where a Credit Support Provider provides a Qualifying Guarantee for another user of the Distribution System, the Value at Risk for that user shall be calculated as the aggregate of:
- (a) the Value at Risk for that user; and
  - (b) the Value at Risk for all other users for which the Credit Support Provider has provided a Qualifying Guarantee.
- 2.20 Where the User disputes the Company’s calculation of Value at Risk or the Credit Allowance, the provisions of Part 8 of this Schedule shall apply.

## **3. INCREASE OR DECREASE OF COVER REQUIREMENT**

- 3.1 The following provisions have effect in relation to cover requirements pursuant to the circumstances specified under the relevant headings in this Part 3.

### **Increase in Cover Requirements Pursuant to a Change in the Value at Risk**

- 3.2 If, on any Working Day, the User’s Indebtedness Ratio equals or is greater than its Indebtedness Ratio Limit because of an increase in the user’s Value at Risk, the Company shall give notice of this to the User on the following Working Day and the User shall take all appropriate action to ensure that its Indebtedness Ratio is equal to or below 80% within two Working Days of its receipt of such notice.

- 3.3 It shall be a Cover Default if the User fails to remedy a default under paragraph 3.2 within the prescribed timescale.
- 3.4 Following a Cover Default under paragraph 3.3, the User's Indebtedness Ratio Limit shall be decreased to 80% for one year following rectification of the default, after which time it shall be increased back to 100%.

**Actions in Relation to Cover Default**

- 3.5 In addition to any other remedies available to it, the Company shall be entitled to take the following actions following a Cover Default:

<b>Working Days After Cover Default</b>	<b>Action Within the Company's Rights Under this Schedule</b>
Day 0	Date of default
Day 0 + 1	Interest and administration fee start to apply.
Day 0 + 1	Issue notice of default to Contract Manager containing a statement of the Indebtedness Ratio and send a copy of such notice to the Authority.
Day 0 + 3	Formal User response required.
Day 0 + 5	Initiate action to suspend provision of MPAS to User in accordance with the provisions of the Master Registration Agreement, and notify the Authority.

**Increase or Decrease in Cover Requirements Pursuant to a Change in the RAV**

- 3.6 The Company shall give the User one month's written notice of its intention to use a new value of RAV to calculate the Credit Allowance according to paragraph 2.4. Such notice shall state the new value of RAV and the date on which the Company will begin to use that value in such calculation.
- 3.7 The Company shall also recalculate as necessary from time to time the value of the Fifteen Days' Value, of the Value at Risk, and of the Indebtedness Ratio according to paragraph 2.2 or 2.16 (as the case may be) and pass such calculations (including supporting evidence for the derivation of figures used) to the User.

**Decrease in Cover Requirements**

- 3.8 The User may by notice to the Company decrease the amount of Collateral at any time provided that such decrease would not cause the Indebtedness Ratio to exceed the Indebtedness Ratio Limit.
- 3.9 The Company shall, within two Working Days of its receipt of a notice from the User pursuant to paragraph 3.8, undertake actions to facilitate the reduction, or the return to the User, of such Collateral.

**Increase in Cover Requirements Because of the**

**Expiry**

- 3.10 Not later than 10 Working Days before any outstanding Letter of Credit is due to expire, the User shall procure to the satisfaction of the Company that it (or a suitable replacement Letter of Credit which meets the Company's reasonable requirements) will be available for a further period of not less than six months.

**Release from Cover Obligations**

- 3.11 Upon the termination of this Agreement, and provided that all amounts owed by the User in respect of Use of System Charges and any other amount owed by the User to the Company under this Agreement have been duly and finally paid, including interest, the User shall be released from the obligation to maintain

Cover and the Company shall consent to the revocation of any outstanding Qualifying Guarantee or Letter of Credit and the User shall be entitled to withdraw the balance (if any) (including interest credited thereto) standing to the credit of the User in the Escrow Account at that date and to request the return or termination of any other form of Collateral provided.

#### **4. USE OF COVER FOLLOWING PAYMENT DEFAULT**

4.1 This paragraph applies if, after 17:30 hours on any Payment Date, the Company has been notified by the User or otherwise has reason to believe that the User has not remitted to it by close of banking business on the Payment Date all or any part (“the amount in default”) of any amount which has been notified by the Company to the User as being payable by the User by way of the Use of System Charges on the relevant Payment Date, or any other amounts owing under this Agreement except for the disputed amount of a Designated Dispute (as defined in Schedule 6).

4.2 Where paragraph 4.1 applies, a Payment Default exists and the Company shall (in addition to any other remedies available to it) be entitled to act in accordance with the following provisions (or whichever of them may apply) in the order in which they appear below until the Company is satisfied that the User has discharged its obligations in respect of Use of System Charges or such other amounts under this Agreement which are payable in respect of the relevant account:

- (a) the Company, to the extent that the User is entitled to receive payment from the Company pursuant to this Agreement (unless it reasonably believes that such set-off would be unlawful), shall be entitled to set off the amount of such entitlement against the amount in default;
- (b) the amount of funds then standing to the credit of the Escrow Account or the amount of any Cash Deposit (excluding any interest accrued thereon to the benefit of the User) shall be released to the Company and set off against the amounts unpaid by the User, and for that purpose the Company shall be entitled to place such funds in any account of the Company at its sole discretion and shall notify the User accordingly;
- (c) the Company may demand payment under any Letter of Credit for a sum not exceeding the amount of the Cover;
- (d) the Company may demand payment under any outstanding Qualifying Guarantee provided for the benefit of the User pursuant to paragraph 2.18; or
- (e) the Company may demand payment under any other form of Collateral provided under paragraph 1.2(d) in the manner which the parties have previously agreed as appropriate in relation to that particular form of Collateral or, in the absence of such agreement, in a manner which the Company (acting reasonably) considers appropriate in relation thereto.

#### **5. UTILISATION OF FUNDS**

5.1 In addition to the provisions of Part 4 above, if the Company serves a notice of termination in accordance with Clause 18, it shall be entitled:

- (a) to demand payment of any of the Use of System Charges and any other amounts owed by the User under the Agreement which are outstanding, whether or not the Payment Date in respect of them has passed; and
- (b) to make demand under any outstanding Qualifying Guarantee or a call under any outstanding Letter of Credit supplied by the User,

and the funds in the Escrow Account to the extent that they represent Cover provided by the User shall be released to the Company and set off against the Use of System Charges and any other amount owed by the User under the Agreement that is unpaid by the User, and for that purpose the Company shall be entitled to place any such amount released to it from the Escrow Account to any account of the Company as in its sole discretion it thinks fit.

## 6. USER'S RIGHT TO WITHDRAW FUNDS

6.1 If the User is not in default in respect of any amount owed to the Company in respect of the Use of System Charges or any other amount owed by the User under the Agreement, the Company shall permit the release to the User, within two Working Days after the User's written request therefor, of any amount of cash provided by the User by way of Cover which exceeds the amount which the User is required to provide in accordance with this Schedule.

6.2 Interest (at a rate to be agreed by the User with the bank at which such accounts are held) on the amount deposited in the Escrow Account or as a Cash Deposit shall accrue for the benefit of the User.

## 7. NO SECURITY

7.1 Nothing in this Schedule shall be effective to create a charge on or any other form of security interest in any asset comprising part of the User's business.

## 8. DISPUTES

8.1 The parties shall attempt to resolve in good faith any dispute that may arise under or in relation to the provisions of this Schedule.

8.2 Where any such dispute remains unresolved after 14 days, either party may refer the matter to the Authority for determination as if it were a dispute falling within Condition 4E of the Electricity Distribution Licence.

8.3 A determination by the Authority under this Part 8 shall be final and binding.

## 9. NOTICES

9.1 Contact details for notices issued under this Schedule, and the form of such notices, shall be agreed between the parties. Where no such agreement exists, the provisions of Clause 24.5 shall apply.

## 10. DEFINITIONS

10.1 In this Schedule, and without prejudice to the provisions of paragraph 10.2, the following words or expressions shall have the meanings set opposite them:

**Advance Payment** means a deposit of funds by or on behalf of the User as early payment relating to any invoice issued but not yet due into a bank account specified by the Company, in the name of the Company.

**Approved Credit Referencing Agency** means Moody's Investors Service or Standard and Poor's Ratings Group or such replacement agency as may be notified by the Authority from time to time for the purposes of this Schedule.

**Cash Deposit** means a deposit of funds by or on behalf of the User into a bank account in the name of the Company.

**Collateral** means the implements (excluding parent company guarantees) through which the User can provide Cover, as set

	out in paragraph 1.2 and as may be amended or added to from time to time by the Company with the Authority's approval.
<b>Cover</b>	
	means the aggregate amount of Collateral which the User is required to provide and maintain in accordance with the provisions of this Schedule.
<b>Cover Default</b>	has the meaning given in paragraph 3.3.
<b>Credit Allowance ("CA")</b>	has the meaning given in paragraph 2.4.
<b>Credit Allowance Factor ("CAF")</b>	has the meaning given in paragraph 2.4.
<b>Credit Assessment Score</b>	has the meaning given in paragraph 2.8.
<b>Credit Limit</b>	has the meaning given in paragraph 2.15.
<b>Credit Rating</b>	means a long-term debt rating from an Approved Credit Referencing Agency.
<b>Credit Support Provider</b>	has the meaning given in paragraph 2.18.
<b>Escrow Account</b>	means a separately designated bank account in the name of the User at such branch of [REDACTED] or such branch of any other bank in the United Kingdom as the Company shall specify (the "Bank") (on terms to be approved by the Company and which provide, amongst other things, that the funds held in the Escrow Account may be released by the Bank to the Company in the circumstances envisaged in Parts 3 and 4 of this Schedule with the right to direct payments from the Escrow Account in favour only of the Company until the events specified in paragraph 3.11 have occurred) to which all deposits required to be made by the User pursuant to this Schedule shall be placed, provided that such proceeds are not to be withdrawn by the User save in accordance with the provisions of this Schedule.
<b>Escrow Account Deposit</b>	means a deposit of funds by or on behalf of the User into an Escrow Account.
<b>Fifteen Days' Value</b>	has the meaning given in paragraph 2.2(b).
<b>Good Payment Performance Start Date</b>	has the meaning given in paragraph 2.13
<b>Indebtedness Ratio</b>	has the meaning given in paragraph 2.16.
<b>Indebtedness Ratio Limit</b>	shall be 100% unless otherwise notified by the Company under the provisions of this Agreement.
<b>Independent Credit Assessment</b>	means a credit assessment of the User procured by the Company at the User's request in accordance with paragraph 2.8 from a Recognised Credit Assessment Agency chosen by the User.
<b>Letter of Credit</b>	means an unconditional irrevocable standby letter of credit in such form as the Company may reasonably approve issued for the account of the User in sterling in favour of the Company, allowing for partial drawings and providing for the payment to the Company forthwith on demand by any United Kingdom clearing bank or any other bank which in



each case has a long-term debt rating of not less than single “A” by Standard and Poor’s Ratings Group or by Moody’s Investors Service, or such other bank as the Company may approve and which shall be available for payment at a branch of the issuing bank.

**Payment Date** means the due date for payment of any Initial Account, Reconciliation Account, or other account submitted to the User pursuant to this Agreement.

**Payment Default** has the meaning given in paragraph 4.2.

**Payment Record Factor** has the meaning given in paragraph 2.12.

**Prepayment** means a deposit of funds by or on behalf of the User as early payment relating to future invoices not yet issued into a bank account specified by the Company, in the name of the Company.

**Qualifying Guarantee** means a guarantee in favour of the Company which is legally enforceable in the United Kingdom and in such form as may be agreed between the Company and the User and which may specify a maximum value.

**Recognised Credit Assessment Agency** means any credit assessment agency recognised by the Authority for the purpose of providing credit assessments pursuant to this Schedule.

**Regulatory Asset Value (“RAV”)** has the meaning given in paragraph 2.4.

**Value at Risk** has the meaning given in paragraph 2.2.

10.2 Any other words or expressions used in this Schedule (excluding headings or any parts thereof) which bear initial capital letters and are defined in Clause 1.1 shall have the same respective meanings as are given to them in that clause.