

**Draft Modification Report**  
**Adjustment to the number of days in the V A R calculation to bring the Code Credit Rules**  
**into line with the Best Practice Guidelines, Conclusions document Feb 2005**  
**Modification Reference Number 0032**

Version 1.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 9.6.

**1. The Modification Proposal**

This is one of a number of Proposals which seek to implement recommendations identified within Ofgem's conclusion document "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" 58/05. This concluded the high-level principles that should be applied and further work required in respect of credit cover arrangements for transportation.

This Proposal seeks to implement the recommendation detailed within paragraph 3.30 of the conclusion document.

The Value at Risk mechanism is a widely established process to determine the predicted level of business activity and to determine the basis for the calculation of the Code Credit Limit. For a new User a value of 63 days of peak trading activity is used.

It is proposed that 46 days peak trading activity is used for both existing and new users in the calculation of the Code Credit Limit for Use of System (UoS) charges:

- The Best Practice Guidelines recommend that the VAR for UoS charges should be the sum of all the Charges billed plus 15 days worth of the peak same daily average implied in the billed charges.
- UoS charges are billed on a monthly basis, as the majority of months have 31 days it seems reasonable to use this as part of the equation. Thus 31 +15 make the 46 days proposed.

**2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

Implementing consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination, and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between Relevant Shippers.

**3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

No such implications on security of supply or operation of the Total System have been identified. Incorporating elements of the existing Code Credit Rules within the UNC may help to reduce the impacts of industry fragmentation.

**4. The implications for Transporters and each Transporter of implementing the Modification Proposal , including**

**a) implications for operation of the System:**

No implications for operation of the system have been identified.

**b) development and capital cost and operating cost implications:**

The Transporters have suggested that operating costs would be increased as a result of an increased administrative burden.

Users requested that Transporters quantify and provide evidence of the potential cost increase as part of the consultation process.

**c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

No cost recovery mechanism is proposed.

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

No such consequences are anticipated.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

No such consequence is anticipated.

**6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

No systems impacts are anticipated by either Transporters or Users.

**7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

Users would incur costs in optimising their commercial position, but would only incur costs to the extent that they are offset by savings made.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

No such implications have been identified.

**9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

No such consequences are anticipated.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**Advantages**

- Ensures credit cover continues to be sought on a non-discriminatory basis.
- Ensures there continue to be no inappropriate barriers to entry as a result of credit requirements.
- Provides Users with an opportunity to optimise their commercial position.
- VAR to whole industry may be reduced.
- Earlier visibility of VAR breaches.

**Disadvantages**

- May create inconsistency between the UNC and each set of Code Credit Rules
- Increased administrative costs for Transporters due to more cash calling.
- Increased risk to Users of Transporter imposed sanctions.

**11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

Representations are now invited.

**12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

**13. The extent to which implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

**14. Programme for works required as a consequence of implementing the Modification Proposal**

The Proposer believes that minimal changes would be required in respect of operational processes and procedures

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

In light of the limited works required to implement, the proposer believes this Modification Proposal could be implemented with immediate effect if appropriate direction is received from the Authority.

The Transporters agreed to consider appropriate lead times as part of the consultation process.

**16. Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

**17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

**18. Text**

**TPD SECTION V: GENERAL**

*Add new paragraph 3.1.6 as follows:*

In determining a User's required Code Credit Limit, the Value at Risk mechanism shall be used to determine such Code Credit Limit. The Value at Risk mechanism detailed in a Transporter's Code Credit Rules shall utilise an assessment of the number of peak trading activity days, the number of such peak trading being forty-six (46) for both new and existing Users. For the avoidance of doubt the number of peak trading activity days shall only be amended by modification of the Code.

Subject Matter Expert sign off:

*I confirm that I have prepared this modification report in accordance with the Modification Rules.*

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive Officer, Joint Office of Gas Transporters**

Signature:

Date :