

Workstream 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 0032

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Distribution Workstream is that, while views may differ regarding the merits of the Modification Proposal, it is sufficiently developed to proceed to consultation.

1. The Modification Proposal

This Proposal is one of two which seek to implement some of the 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 charges:

- The Best Practices Guidelines recommends that the VAR for UOS charges should be the sum of all the Charges billed plus 15 days worth of the 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 Ofgem's recommended 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.

Additional workload for Transporters would be encouraged if Users change their security provisions which would be inconsistent with administrative efficiency and hence contrary to Relevant Objective (f). Users would incur costs for the same reason but would only do this if it was offset by savings made.

- 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 Credit Rules within the UNC may help to reduce the prospect 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 significant 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

- Alignment of the UNC with best practice as identified in Ofgem's conclusions document [subject to Ofgem confirmation]
- 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 Credit Rules
- Increased administrative costs for Transporters due to more cash calling

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

The report reflects issues raised at Workstream meetings. No written representations have been received.

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 the 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

No programme of works would be required as a consequence of implementing the Modification Proposal.

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

The Proposer believes that minimal changes would be required in respect of operational processes and procedures and therefore 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. Workstream recommendation regarding implementation of this Modification Proposal

There was no consensus among attendees at the Distribution Workstream meeting on 28 July 2005 that implementation of this Modification Proposal may be expected to facilitate achievement of the Relevant Objectives, with Users in favour and Transporters opposed.

Attendees believed that, were this Proposal to be implemented, increased facilitation of the Relevant Objectives would be achieved if implementation were coincident with that of Modification Proposals 0023 or 0031 and 0024, 0025, 0026 (and any subsequent related Proposals in this area) which also reflect Ofgem's conclusion document, since this would mean that only one change to the existing Credit Rules would be needed, and any related systems changes associated with the various Proposals could be implemented in a coordinated and efficient manner. This would also apply to Modification Proposal 0027 if the proposed right of set off was elective for Shippers.

18. Text

No legal text has been developed by the Proposer or within the Workstream, either with respect to modifying the Uniform Network Code or each Transporter's Credit Rules.