

CODE MODIFICATION PROPOSAL No. 0114

**“Quantification of Value At Risk (VAR) to determine maximum User Credit Security Requirements”
Version 1.0**

Date: 08/09/06

Proposed Implementation Date: 01/04/07

Urgency: Non-Urgent

Proposer’s preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf)

This Modification Proposal has been developed within the Uniform Network Code (UNC) Distribution Workstream. General consensus on its objectives was forthcoming. ‘Proceed to consultation’ is therefore requested.

Nature and Purpose of Proposal (including consequence of non implementation)

In respect of transportation credit arrangements, Ofgem published a number of recommendations in its conclusions document “*Best practice guidelines for gas and electricity network operator credit cover*” 58/05 in February 2005.

Pursuant to recommendations contained within the conclusions document it is proposed that Transporters adopt a ‘Value at Risk’ (VAR) mechanism¹ to determine the minimum value of credit limit required to be in place. The Value at Risk at any one point in time is deemed to be:

- the value of all Transportation charges invoiced to the User within the previous calendar month, plus
- a value equivalent to fifteen days of the average daily charge in respect of the above.

It is proposed that this VAR figure determines the maximum value of the security a User may have to provide to the Transporter dependant on the value of its credit limit.

If this Proposal is not implemented, UNC will not reflect the recommendations contained within the Ofgem conclusions document and Transporters will not be obliged to operate this aspect of their credit arrangements in a consistent manner.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

Implementation of consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination and no

¹ Ofgem Conclusions Document (58/05) para 3.30

inappropriate barrier to entry. This measure facilitates the securing of effective competition between relevant shippers.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

The Proposer believes that significant changes would be required in respect of operational processes and procedures in the event of implementation of this Modification Proposal.

In light of the work required, the Proposer believes that this Modification Proposal could be implemented with effect from 3 months following the appropriate direction being received from the Authority.

Code Concerned, sections and paragraphs

Changes are likely to be required within Section V of the UNC.

Proposer's Representative

Chris Warner (National Grid)

Proposer

Phil Lawton (National Grid)

Signature

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