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29th June 2007

Re: UNC Modification Proposals 0144/0144AV “Quantification of Value At Risk (VAR) to determine a User’s minimum Code Credit Limit Requirement”

Dear Julian

Thank you for the opportunity to comment upon these Modification Proposals. We are not supportive of the original Modification Proposal 0144 but, as the Proposer, are supportive of our Alternative Modification Proposal 0144AV.

1. The Modification Proposals

Ofgem did not direct implementation of UNC Modification Proposals 0032 & 0114. Reasons stated in the decision letter for Proposal 0114 included concerns over the inconsistencies and ambiguities in the drafting of the Proposal and suggested text. The Proposer of this and the other current credit related Proposals (0145, 0146, 0147 & 0148) has sought to address these concerns but has also introduced a new definition of Value at Risk (VAR).

We did not support the implementation of Modification Proposal 0114 for reasons which are still pertinent to Modification Proposal 0144. The revised definition of VAR promotes further concerns and the Alternative Proposal 0144A was raised to address this specific part of the Proposal.

Both proposals seek to use the previous invoiced month’s value as the basis for the VAR. The nature of the invoicing schedule has the effect of making the credit limit calculation misrepresentative as it relates to a period 2 months prior. This will overstate the VAR in the spring and summer months and conversely understate it in the autumn and winter months. Users will have the ability to flex their limits monthly thereby increasing administration for Transporters and Users. The limits will be closely aligned to prior month’s usage and at certain periods this will create issues if portfolios are increased. However, as the Proposals are now based on a minimum requirement, Users will be able to establish a suitable level of security having regard for any seasonal or portfolio impact.

We do not believe that the definition of VAR within Proposal 0144 accurately reflects the intention of the Best Practice Guidelines or is in line with the recent decision relating to Code Credit VAR

24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

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within the electricity industry (Calculation and Securing the Value at Risk (VAR) – CUSC Modification CAP127).

This Alternative Proposal seeks to define VAR in line with the Guidelines and as a basis for the minimum value for which a User must provide security. In the Ofgem decision letter for CAP127 it is made clear that the additional 15 days usage reflects the invoice due date for the appropriate CUSC invoices being the 15th of each month. The equivalent due date for UNC invoices is the 20th (based on the usual Capacity Invoice due date).

Modification Proposal 0144 seeks to create a VAR calculation that can result in a negative or zero value at certain times of the month. This creates the potential for under securitisation which goes against one of the underlying principles of the arrangements for credit cover in that credit arrangements should provide as secure and stable a business environment as is reasonable.

We believe that If Modification Proposal 0144 is implemented it will not accurately reflect Best Practice Guidelines and will be inconsistent with the interpretation within the Electricity industry.

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

Implementation of consistent credit processes will ensure that there is no inappropriate discrimination and no barrier to entry.

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

b) development and capital cost and operating cost implications

We have identified that, under either Proposal, we would incur costs of making significant changes to operational processes and procedures due to the monitoring of Users' respective Value at Risk quantities and the administration requirements of potentially an increased volume of amendments to credit security by Users.

d) Analysis of the consequences (if any) this proposal would have on price regulation

The minimum level of credit required to be posted by a User would be less than is required under existing rules. With the minimum credit value requirements closer to peak User debt levels, there is a greater chance of Transporters being exposed to risk which is not covered by any form of credit security.

Our Alternative Proposal provides for a more stable level of VAR than Modification Proposal 0144. This in turn reduces the instances and value of risk to each Transporter.

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



The advantages and disadvantages that have been identified within the modification proposal are subjective and interchangeable between the categories dependant on the party's position within the industry.

If you have any questions relating to this Representation please do not hesitate to contact me.

Yours sincerely

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