

March 2022

Value at Risk – change to calculation methodology

For information



1. Introduction

- Calculating Value at Risk or 'VAR' is a requirement of UNC TPD Section V
- A User's VAR is the proxy value calculated to ensure that Code Credit Limits are appropriate
- The VAR is calculated in accordance with UNC TPD Section V paragraph 3.2.1(d)
- WWU has reviewed its VAR methodology, and will be making a change to the way part of it is calculated from April 2022



1. Introduction V 3.2.1 d

- (d) Subject to paragraph 3.3.4, “Value at Risk” at any point in time is the sum of:
 - (i) The aggregate amount (other than Energy Balancing Charges) invoiced to the User pursuant to Section S but remaining unpaid (irrespective of whether such amount has become due for payment); and
 - (ii) The average daily rate of the aggregate amount (other than Energy Balancing Charges) invoiced to the User in the previous calendar month multiplied by 20
- The key issue is what is meant by daily rate in (ii) given that the invoice issued in, for example, February relates to January trading



2. Methodology

- WWU's current VAR methodology (per paragraph 3.2.1(d)(ii)), using March VAR as an example, is:

$$\frac{\text{Invoice Value - February}}{\text{Number of Days - February}} \times 20$$

- WWU's VAR methodology from April 2022 will be:

$$\frac{\text{Invoice Value - February}}{\text{Number of Days - January}} \times 20$$

- An illustrative example, used to demonstrate the impact of the above change, is included on the next slide

3. Illustration

Month	January	February	March	April	May	June	July	August	September	October	November	December
Number of days	31	28	31	30	31	30	31	31	30	31	30	31
Services ¹	£310	£280	£310	£300	£310	£300	£310	£310	£300	£310	£300	£310
Invoiced ²		£310	£280	£310	£300	£310	£300	£310	£310	£300	£310	£300
Current calculation ³			£221	£181	£207	£194	£207	£194	£200	£207	£194	£207
Revised calculation ⁴			£200	£200	£200	£200	£200	£200	£200	£200	£200	£200

1. Services – this is the charge to the User in a gas month assumed as a constant £10 a **day** for illustrative purposes
2. Invoiced – this is the amount invoiced in the invoice month for services consumed in the previous gas month
3. Volatility in the current calculation because the number of days in invoice month \neq period of consumption; so for example in March the January services for 31 days invoiced in February are being divided by the 28 days in February and multiplied by 20
4. The revised VAR calculation avoids the volatility caused by the number of days in the month the services are provided versus the number of days in the month of the invoice so if consumption is constant, as above, the amount calculated is constant

4. Summary

- This change should reduce volatility in VAR calculations
- The revised approach is consistent with the legal text as it can be interpreted in two ways
- Change to be implemented from April 2022

Thank you

