

Modification Proposal 0114 “Quantification of Value at Risk (VAR) to determine a User’s minimum Code Credit Limit Requirement” Replacement Proposal

Nature and Purpose of Proposal

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) mechanism 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 aggregate value of all Transportation charges which at that time have been invoiced to the User that remain unpaid (regardless of whether the Invoice Due Date has passed), plus
- a deemed amount equal to the aggregate value of all Transportation charges that would be incurred in a fifteen day period at the same average daily rate implicit in the invoiced amounts detailed above.

It is proposed that this VAR figure determines the minimum value of the Code Credit Limit a User has to establish with the Transporter. This requirement is proposed to replace existing provisions that require the User’s Code Credit Limit to be established in accordance with the relevant Transporter’s Code Credit Rules.

At any point in time the User’s Code Credit Limit must be equal to or be greater than it VAR.

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.

Deleted: ax
Deleted: User
Deleted:
Deleted: Security
Deleted: s

Deleted: within the previous calendar month

Deleted: value equivalent to
Deleted: s

Deleted: of the

Deleted: charge

Deleted: n

Deleted: respect of the

Deleted: ax

Deleted: security

Deleted: may have to provide to

Deleted: dependant on the value of its credit limit

Deleted: .