

# Credit Modification Proposals Update

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# State of Play

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- ◆ Discussion of draft Proposals at last Workstream
- ◆ Ofgem subsequently clarified the nature of the Value at Risk mechanism as defined in its Conclusions Document (58/05)
- ◆ Such clarification has not warranted significant change to National Grid Distribution's VAR proposal as outlined at Feb and Mar 2007 Workstreams
- ◆ Only change is in respect of calculation of additional 15 days proxy

# 15 Day Proxy

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- ◆ Draft Proposal worked on the assumption that average days duration for a calendar month is 30 days. ( $365/12 = 30.4$  days)/( $366/12 = 30.5$ )
- ◆ Thereby multiplying the outstanding amounts by 1.5 added the 15 days proxy
- ◆ Provided an 'economic' implementation option

# 15 Day Proxy

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- ◆ Amended legal text refers to the duration of the billing month concerned
- ◆  $VAR = a + (15 * (a/b))$ 
  - ◆ **a** is the aggregate value of all charges which at that time have been billed to such counterparty (but not necessarily due) but remain unpaid, and
  - ◆ **b** is the number of calendar days in the relevant income accrual month

# Implications

- ◆ At certain points in the month invoices may be due from different months
- ◆ Requires calculation of individual daily implicit rates:

| Invoice Month | Days in Accrued Month | Invoice Type | Invoice Value | VAR - Principal | VAR – 15 day proxy                | VAR - Total   |
|---------------|-----------------------|--------------|---------------|-----------------|-----------------------------------|---------------|
| Feb           | 31                    | Com          | £2,000        | <b>£2,000</b>   | $((2000/31)*15)$<br><b>£968</b>   | <b>£2,968</b> |
| Mar           | 28                    | CSEP         | £2,000        | <b>£2,000</b>   | $((2000/28)*15)$<br><b>£1,071</b> | <b>£3,071</b> |
|               |                       |              |               |                 |                                   | <b>£6,039</b> |

# Next Steps

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- ◆ Make relevant changes to Legal Text
  - ◆ VAR – as described
  - ◆ Other cosmetic (non-material) changes
- ◆ Formally raise proposals in time for discussion at the 17 May 2007 Modification Panel