

CUSC Amendment Proposal Form	CAP:127
Title of Amendment Proposal: Calculation and Securing of Value at Risk	
Description of the Proposed Amendment (<i>mandatory by proposer</i>): Section 3 - Credit Requirements (calculation of security for Demand TNUoS) Value at Risk (VAR) is the maximum amount of Use of System liability that any User is required to secure ("Security Requirement"). Post implementation of Ofgem's Best Practice Guidelines on Network Operator Credit Cover it has become evident that it is possible to develop the current calculation of VAR and to refine the amount of VAR that parties need to secure such that the CUSC more fully meets the intentions of the Best Practice Guidelines. Moreover that by ensuring that VAR is more accurate, appropriate and effective, National Grid believes that this proposal will better facilitate the applicable objectives. It is the intention of this proposal to ensure that the CUSC more clearly reflects both the value and variability of the true value at risk throughout the year. Hence, National Grid propose an amendment to the CUSC that seeks to implement a calculation of VAR for Demand TNUoS charges that is more closely aligned to the monetary value at risk and actual risk of exposure to non payment, and to more appropriately define the way in which VAR has to be secured. There are two elements to the proposal : 1) Calculation of VAR; 2) Securing VAR. 1) <u>Calculation of VAR</u> National Grid believes that the most effective way to treat VAR would be to ensure that a range of factors are taken into account in the relevant formula, such that the calculation is both sensitive and accurate. Instead of simply relying on a users forecast (as now) it is proposed that the calculation should factor in the cumulative daily risk adjusted liability, reconciliation demand and the amount invoiced to date. In more detail: $\text{VAR} = \text{Cumulative Daily Risk Adjusted Liability} + \text{Reconciliation Determination} + \text{Allowance for Unpaid Invoices} - \text{Amount Invoiced to Date}$ Where: a) Cumulative Daily Risk Adjusted Liability is determined by using <i>daily liability profiles</i> from previous settlement data and a <i>risk adjusted forecast liability</i> factor calculated by assuming some variation in forecasting performance and weather effects. b) Reconciliation Determination - Allowances for Initial and Final reconciliation amounts that have potentially been accrued are then added to the daily liability profile to result in the "final adjusted liability determination": c) Amount Invoiced to Date / Allowance for Unpaid Invoices - A provision will be held in order to provide sufficient security for amounts invoiced, but remain unpaid upon a supplier failing to pay invoices. The value invoiced during the past 45 days will be held, which equates to the previous two invoices. 2) <u>Securing VAR</u> In addition to refining the treatment of VAR, it is proposed that the amount to be secured should	

also be amended such that the financial year's liability would be split into two "security periods" and parties would secure a percentage of the maximum VAR observed in the relevant security period.

National Grid believe that the securing of VAR in two security periods will more accurately reflect the fact that security levels will vary throughout the year (and are likely in some instances to be zero for a significant part of the year.)

Description of Issue or Defect that Proposed Amendment seeks to Address (*mandatory by proposer*):

Current CUSC VAR calculation

It had become evident that the methodology for calculating VAR under the terms of the CUSC for TNUoS does not reflect Ofgem's Best Practice Guidelines intention of securing the actual VAR at any given point in time, it is open to 'gaming' and can result in insufficient levels of security being provided and potential exposures to bad debt.

Best Practice Guidelines VAR Calculation

Billed and unpaid charges cover only one element of VAR and due to the unique manner in which TNUoS charges are calculated and charged, the methodology for use of system charges proposed by Ofgem's Best Practice Guidelines document would also provide insufficient levels of security and potential exposures to bad debt, if applied as interpreted.

Impact on the CUSC (*this should be given where possible*):

Section 3 Part III (Credit Requirements),
Section 6 (General Provisions) and Section 11 (Interpretation and Definitions)

Impact on Core Industry Documentation (*this should be given where possible*):

None anticipated

Impact on Computer Systems and Processes used by CUSC Parties (*this should be given where possible*):

None anticipated

Details of any Related Modifications to Other Industry Codes (*where known*):

N/A

Justification for Proposed Amendment with Reference to Applicable CUSC Objectives** (*mandatory by proposer*):

National Grid believes that this proposal will better facilitates CUSC Applicable Objectives;

(a) the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence; and

(b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;

by introducing a more accurate calculation of value at risk and the re-definition of two within year periods for which VAR applies, will enable VAR to be treated more effectively, accurately and appropriately going forward.

Details of Proposer: Organisation's Name:	National Grid
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Paul Murphy National Grid Electricity Transmission 01926 656330 Paul.Murphy@uk.ngrid.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Bec Thornton National Grid Electricity 01926 656386 Bec.Thornton@uk.ngrid.com
Attachments (Yes/No): If Yes, Title and No. of pages of each Attachment: No	

Notes:

- Those wishing to propose an Amendment to the CUSC should do so by filling in this "Amendment Proposal Form" that is based on the provisions contained in Section 8.15 of the CUSC. The form seeks to ascertain details about the Amendment Proposal so that the Amendments Panel can determine more clearly whether the proposal should be considered by a Working Group or go straight to wider National Grid Consultation.
- The Panel Secretary will check that the form has been completed, in accordance with the requirements of the CUSC, prior to submitting it to the Panel. If the Panel Secretary accepts the Amendment Proposal form as complete, then he will write back to the Proposer informing him of the reference number for the Amendment Proposal and the date on which the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, then he may reject the Proposal. The Panel Secretary will inform the Proposer of the rejection and report the matter to the Panel at their next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform the Proposer.

The completed form should be returned to:

Beverley Viney
Panel Secretary
Commercial Frameworks
National Grid Company plc
NGT House
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA
Or via e-mail to: Beverley.viney@uk.ngrid.com

(Participants submitting this form by email will need to send a statement to the effect that the proposer acknowledges that on acceptance of the proposal for consideration by the Amendments Panel, a proposer which is not a CUSC Party shall grant a licence in accordance with Paragraph 8.15.7 of the CUSC. A Proposer that is a CUSC Party shall be deemed to have granted this Licence).

3. Applicable CUSC Objectives** - These are defined within the National Grid Company Transmission Licence under Section C10, paragraph 1. Reference should be made to this section when considering a proposed amendment.