

# CUSC Amendment Proposal 127: Calculation and Securing of Value at Risk

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CUSC Panel

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# Value at Risk (VAR)

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- ◆ Issues with current calculation and securitisation of VAR in CUSC
- ◆ Calculation of actual VAR
- ◆ Proposal
- ◆ Applicable Objectives
- ◆ Recommendation

# Current calculation of VAR in CUSC

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- ◆ Only address one of the many elements of actual VAR.
- ◆ Guidelines inappropriate in addressing fully the calculation of Demand TNUoS VAR.
- ◆ Current calculation introduced by CAP 089/090/091 does not fully implement the intention of guidelines.
- ◆ Does not present an appropriate balance between risk and securitisation.

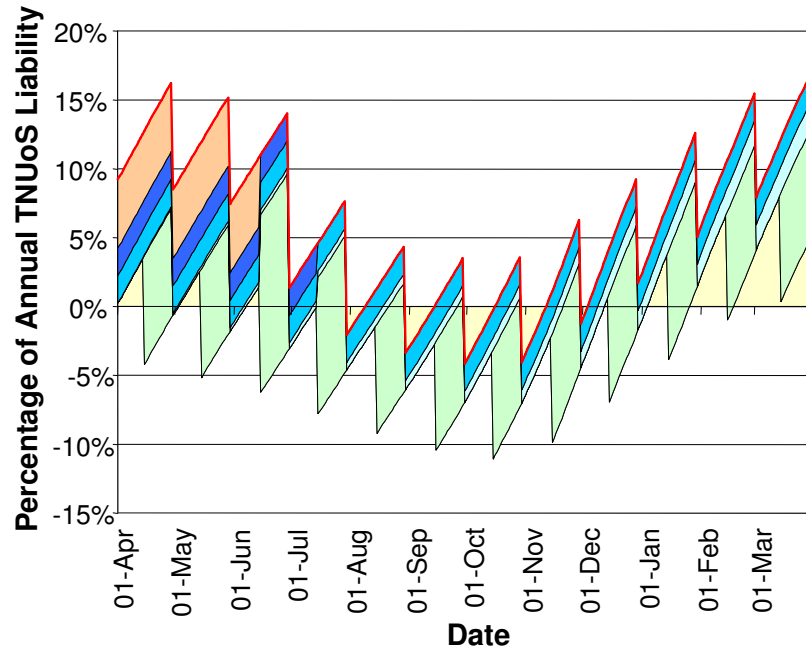
# Calculation of actual VAR

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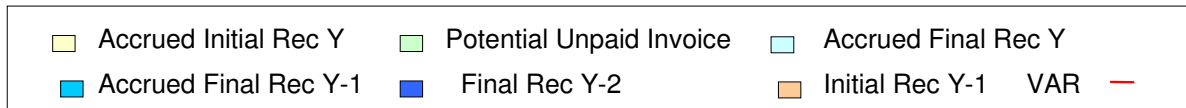
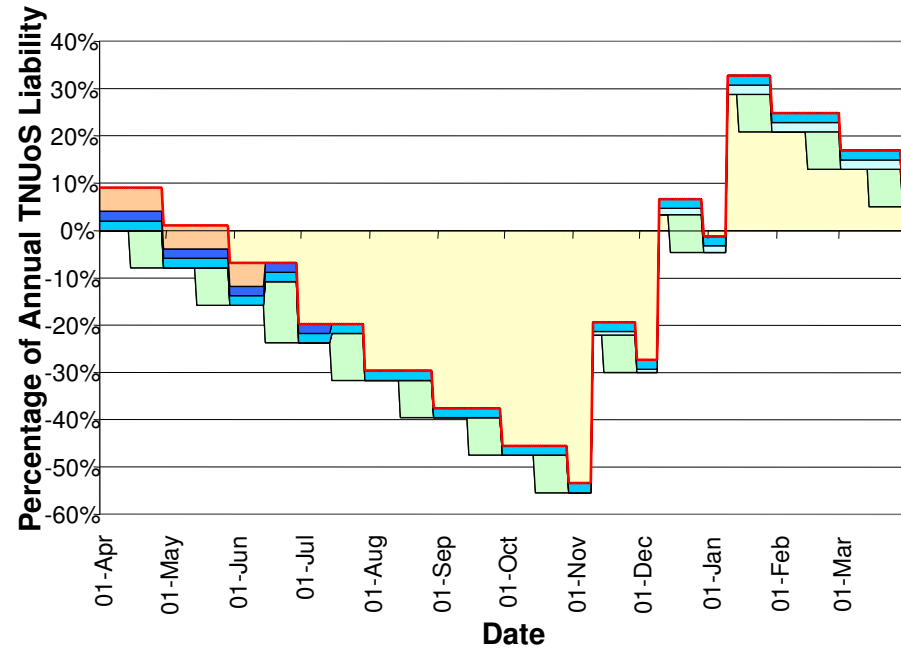
- ◆ Can calculate typical supplier's VAR - split by HH and NHH charges
- ◆ Difficult to forecast due to many variables:
  - ◆ under/over forecasting
  - ◆ Adverse weather affects on demand forecasting
  - ◆ reconciliation
  - ◆ what % of uncertainty to secure
  - ◆ invoices not paid on time

# NHH and HH Liability – component parts

NHH



HH

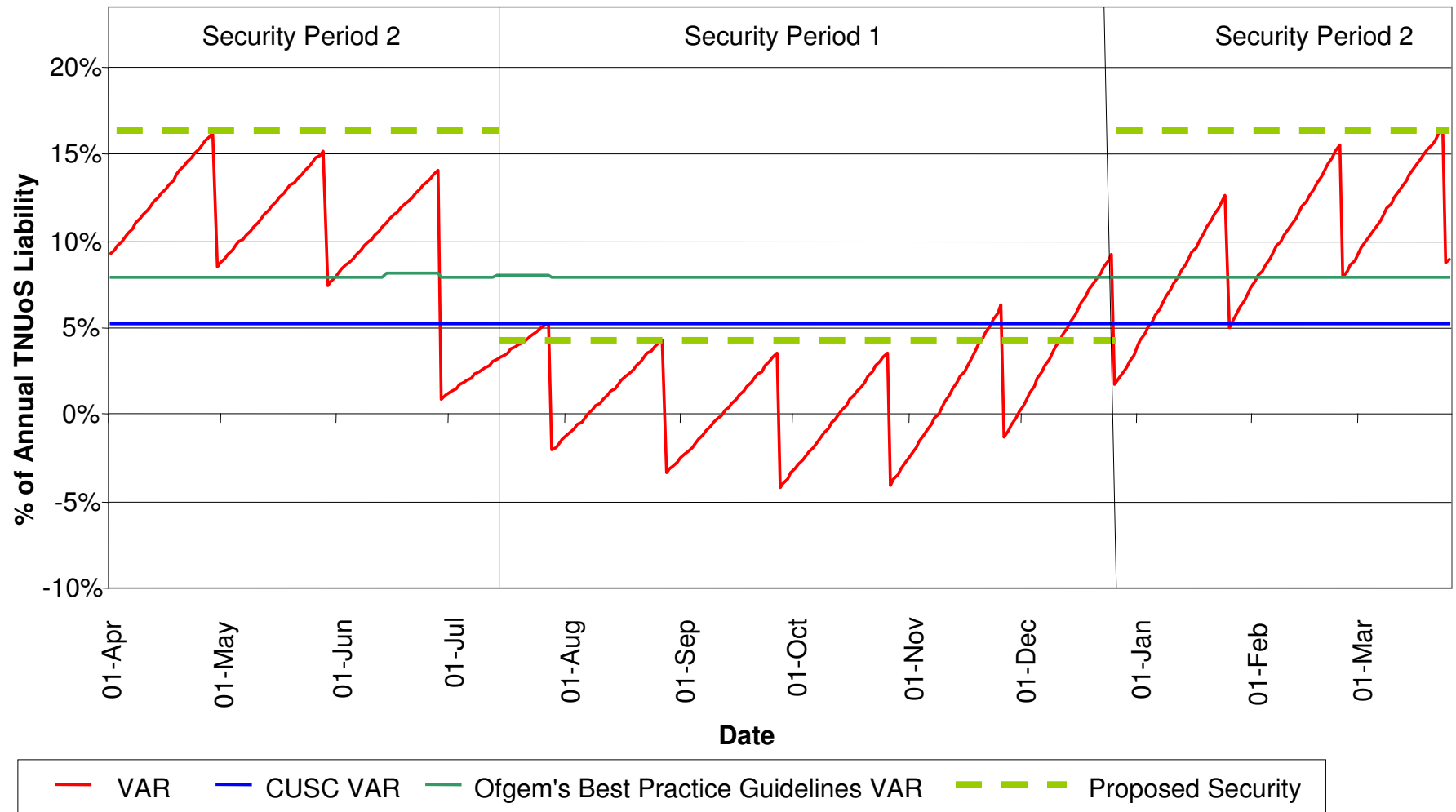


# Proposal

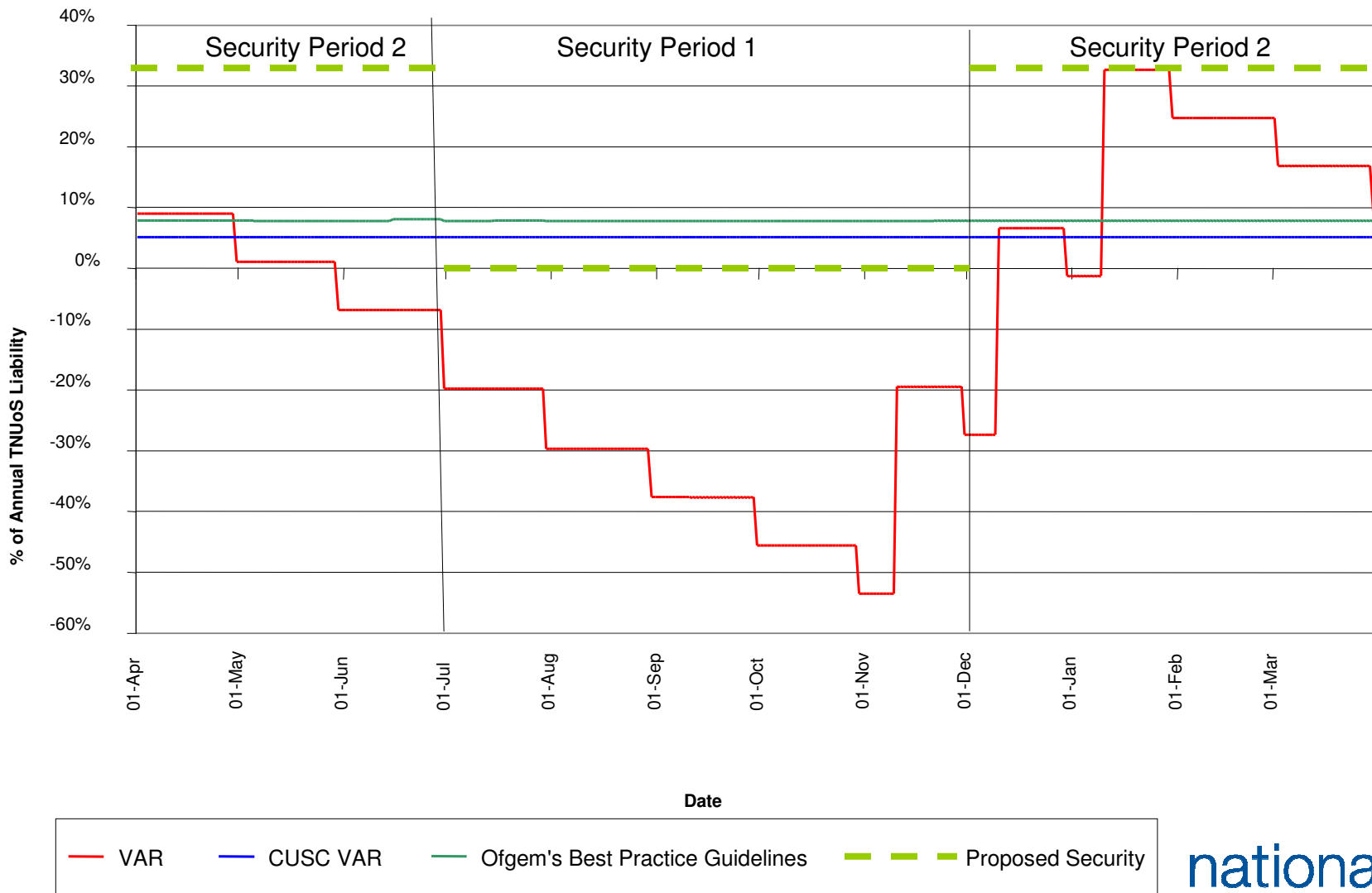
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- ◆ Calculate actual VAR taking into account all elements
- ◆ Two “security periods” - secure a percentage of the maximum VAR observed in the relevant security period.
- ◆ Advantages
  - ◆ Addresses the intention of the guidelines
  - ◆ Despite complexity, better reflects the actual value at risk for demand TNUoS
  - ◆ Reduces risk, exposure and socialisation of resultant bad debt across the Industry
  - ◆ Incentivises users to forecast accurately

# Actual VAR v CUSC v Guidelines for NHH



# Actual VAR v CUSC v Guidelines (HH)



# Applicable Objectives

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A more accurate calculation of value at risk and the securitisation of this in two within year periods would result in a more appropriate level of security being held, which would:

- ◆ Be more efficient, thereby better facilitating the achievement of Applicable Objective (a); and would
- ◆ Better facilitate effective competition (Objective (b)) by ensuring that an appropriate level of security was held for all parties, and thus reducing the chances of bad debt being passed through to the industry, and ensuring that the market is not unduly over securitised thus reducing barriers to entry.

# Recommendation

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- ◆ Workgroup for a period 3 months