

## iGT UNC / iGT INC Final Modification Report

<b>Date</b>	13 October 2008
<b>Reference</b>	iGT021
<b>Title</b>	Introduction of Credit Rules into the iGT UNC
<b>Proposer</b>	Jenny Rawlinson - GTC
<b>iGT UNC / Pipeline Operator</b>	iGT UNC
<b>Modification Proposal Dates</b>	<i>Circulation: 18/07/2008</i> <i>Response: 08/08/2008</i> <i>Circulation of DMR: 01/09/2008</i> <i>Response to DMR: 22/09/2008</i> <i>Circulation of DFMR: 13/10/2008</i> <i>DFMR presented to Panel: 19/11/08</i> <i>FMR sent to authority: 26/11/2008</i>

### The Proposal

The Proposer wishes to introduce arrangements in relation to Credit Rules into the iGT UNC, alongside which, formal Credit Rules themselves are to be introduced as an Ancillary Document to the iGT UNC. It is also proposed that the application of formal credit arrangements be optional for the Pipeline Operator so as not to prejudice smaller market participants.

### Suggested timescale for implementation

The next release of the iGT UNC four months or more from authority consent.

### Representations

Individual responses can be viewed [here](#)

Respondee	Response to Consultation	Response to DMR
National Grid	Not in Support	None
EDF Energy	Not in Support	None
SSE Energy	Qualified Support	None
SSE Pipelines	Qualified Support	None
Northern Gas Networks	Not in Support	None
Scotia Gas Networks	Not in Support	None
Wales and West Utilities	Not in Support	None
ScottishPower	Qualified Support	Not in Support
ES Pipelines	None	Support

### Facilitation of the relevant objectives

The proposer believes that this will facilitate the following relevant objectives;

- a) This will facilitate the efficient and economic operation of the pipe-line system to which this licence relates by providing credit cover arrangements for GTC thereby mitigating risk of potential lost revenue

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<p>b) This will facilitate the coordinated, efficient and economic operation of the pipe-line system of all other independent gas transporters by introducing a set of common arrangements that will be subject to a robust change control process.</p> <p>c) This will facilitate the efficient discharge of the licensee’s obligations under this licence, for example Condition 44 availability of resources.</p> <p>d) This will facilitate the securing of effective competition between relevant shippers and between relevant suppliers by ensuring that consistent credit arrangements are in place across all iGTs.</p> <p>e) n/a</p> <p>f) n/a</p>
<p><b>Implementation issues</b> None</p>
<p><b>View of affected Operator(s) on whether or not the Proposal should be implemented</b> The Operators views are available <a href="#">here</a>.</p>
<p><b>Other information</b> None</p>
<p><b>Panel Decision</b></p> <p>Each Panel Member was invited to state whether they supported, or did not support, the implementation of the Modification.</p> <p>The Pipeline Operators Members all supported its implementation.</p> <p>All Pipeline User Members did not support its implementation.</p> <p>The Panel Chairman requested the Pipeline Operators and the Pipeline Users explain their position in relation to the Relevant Objectives.</p> <p>The Pipeline Operators commented that this Modification promotes the Relevant Objectives in the following ways:</p> <p>a) It will facilitate the efficient and economic operation of the pipe-line system to which this licence relates by providing credit cover arrangements for Operators thereby mitigating risk of potential lost revenue;</p> <p>b) It will facilitate the co-ordinated, efficient and economic operation of the pipe-line system of all other independent gas transporters by introducing a set of common arrangements that will be subject to a robust change control process;</p> <p>c) It will facilitate the efficient discharge of the licensee’s obligations under this licence, for example Condition 44 availability of resources; and</p> <p>d) It will facilitate the securing of effective competition between relevant shippers</p>

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and between relevant suppliers by ensuring that consistent credit arrangements are in place across all iGTs.

The Pipeline Users commented that this Modification does not support the Relevant Objectives. The Users noted that, whilst they supported the principle of the Modification, expressed concerns that it would introduce Credit Rules that are not complete as they do not detail the method of calculating the limit, may not be consistent and are not in line with the Ofgem's Best Practice Guidelines.

The Panel were unable to reach agreement and therefore did not recommend this Modification for implementation, nor did it recommend that it should not be implemented.

### Implementation Date

The Panel unanimously recommended that if directed the implementation date would be the next release of the iGT UNC four months after Authority consent in accordance with clause 19.2 (b) of section L.

### Proposed Legal Text

#### Change Paragraph G 20.1

#### Delete

20.1 The Pipeline Operator may if it's Network Code so provides operate Code Credit Rules pursuant to which it will determine and assign to each Pipeline User a Code Credit Limit and may require a Pipeline User to provide surety or security. The provisions detailing the operation of the Code Credit Rules and the consequences of Pipeline Users being assigned Code Credit Limits will be detailed in the Pipeline Operator's Network Code.

#### Add

20.1 Each Pipeline Operator will determine and assign for each Pipeline User a Code Credit Limit and may require a Pipeline User to provide surety or security. The provisions detailing the operation of the Code Credit Rules and the consequences of Pipeline Users being assigned Code Credit Limits are detailed in the iGT UNC Ancillary Document Code Credit Rules and Code Credit Limits.

Add "Code Credit Rules and Code Credit Limits" to Appendix K2

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### Create new iGT UNC Ancillary Document

#### CODE CREDIT RULES AND CODE CREDIT LIMITS

#### 1. CODE CREDIT LIMITS

##### 1.1 General

1.1.1 The Pipeline Operator will, in accordance with the Code Credit Rules, determine and assign to each Pipeline User a Code Credit Limit, and will keep each Pipeline User informed of its Code Credit Limit (as revised in accordance with paragraph 1.2.4) for the time being.

1.1.2 The Code Credit Rules set out (inter alia):

- (i) the principles on which the Pipeline Operator will assess and from time to time revise (in accordance with paragraph 1.2.2) its assessment of the credit-worthiness of Pipeline Users (and persons providing surety for Pipeline Users) and establish Code Credit Limits;
- (ii) the basis on which a Pipeline User may (with a view to increasing its Code Credit Limit) provide surety or security for Relevant Code Indebtedness or (with a view to reducing its Relevant Code Indebtedness) make prepayments to the Pipeline Operator;
- (iii) procedures by which a Pipeline User may discuss its Code Credit Limit with the Pipeline Operator.

1.1.3 Nothing in the Code or the Code Credit Rules shall constitute any duty of care or other obligation on the part of the Pipeline Operator (whether to or for the benefit of the Pipeline User in question or Pipeline Users in general) in relation to the implementation of the Code Credit Rules or the provisions of this paragraph 1.

#### 1.2 Code Credit Limit and Relevant Code Indebtedness

1.2.1 For the purpose of the Code:

- (a) a “Code Credit Limit” is an amount representing a Pipeline User’s maximum permitted Relevant Code Indebtedness.
- (b) “Relevant Code Indebtedness” is:
  - (i) the aggregate amount, for which a Pipeline User is at any time liable to the Pipeline Operator pursuant to the Code, determined on the basis of amounts accrued (and in accordance with paragraph (c) where applicable) and irrespective of whether such amounts have been invoiced under Part G or (where invoiced) have become due for payment; less
  - (ii) any amount which has been paid to the Pipeline Operator by the Pipeline User by way of prepayment, on the basis that the



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Pipeline Operator may apply such amount without the Pipeline User's consent in or towards payment of amounts referred to in Paragraph (i), and which has not yet been so applied;

- (c) for the purpose of paragraph (b)(i) a Pipeline User's liability for Transportation Charges in respect of a Day shall be treated as accruing on the following Day.

1.2.2 For the avoidance of doubt, the amount of a Pipeline User's Relevant Code Indebtedness shall be determined by reference to the relevant provisions of the Code, and nothing in the Code shall be construed as withdrawing from a Pipeline User any right to dispute whether the Pipeline Operator has correctly calculated such amount in any case, or from the Pipeline Operator any right to dispute the validity of any Invoice Query submitted by any Pipeline User.

1.2.3 Without prejudice to paragraph 1.2.2, where a Pipeline User has submitted an Invoice Query in accordance with Part G15 in respect of any Invoice Document the Pipeline Operator will review and give due consideration to such Invoice Query before taking any steps pursuant to paragraph 1.3.

1.2.4 A Pipeline User's Code Credit Limit may from time to time be reviewed and revised, in accordance with the Code Credit Rules, on notice of not less than 30 Days (or any lesser period agreed by the Pipeline User) to the Pipeline User:

- (i) at intervals of approximately 12 months;
- (ii) at the Pipeline User's request (but subject to paragraph 1.2.6);
- (iii) where any published credit rating of the Pipeline User or any person providing surety for the Pipeline User is revised downwards;
- (iv) where (but without prejudice to any requirement of the Code Credit Rules) any instrument of surety or security expires or is determined;
- (v) at the Pipeline Operator's request where at any time the Pipeline Operator has reasonable grounds to believe that the affect of the review will be to reduce the Pipeline User's Code Credit Limit.

1.2.5 Subject to paragraph 1.2.6, the Pipeline Operator will bear the costs and fees that it incurs (but not any costs incurred by the Pipeline User) in connection with any review of a Pipeline User's Code Credit Limit in accordance with paragraph 1.2.4.

1.2.6 The Pipeline Operator will not be obliged to agree to any request of the Pipeline User under paragraph 1.2.4(ii) unless the Pipeline User agrees to reimburse to the Pipeline Operator the reasonable costs and fees payable by the Pipeline Operator to any third party in accordance with the Code Credit Rules in connection with such request.



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### 1.3 Requirements as to Relevant Code Indebtedness

#### 1.3.1 Where:

- (i) A Pipeline User's Relevant Code Indebtedness exceeds 70% of its Code Credit Limit and the Pipeline Operator has given notice to the Pipeline User to that effect; and
- (ii) at any time following such notice the Pipeline User's Relevant Code Indebtedness exceeds 85% of its Code Credit Limit and the Pipeline Operator has given notice to the Pipeline User to that effect (which notice may in appropriate circumstances be given at the same time as that under paragraph (i)),

paragraphs 1.3.2 and 1.3.3 shall apply.

1.3.2 Subject to paragraph 1.3.1, where and for so long as the Relevant Code Indebtedness of a Pipeline User for any time being exceeds 85% of the Pipeline User's Code Credit Limit, the Pipeline Operator shall be entitled to reject or refuse to accept a [Supply Point Nomination or] Supply Point Confirmation under Part C, other than a Supply Point Renomination or Supply Point Reconfirmation until such time as the Pipeline User's Relevant Code Indebtedness is reduced to less than 85% of its Code Credit Limit.

1.3.3 Subject to paragraph 1.3.1, where and for so long as the Relevant Code Indebtedness of a Pipeline User for the time being exceeds 100% of the Pipeline User's Code Credit Limit, the Pipeline Operator may give Termination Notice (in accordance with Part K7) to the Pipeline User.

### 1.4 Security under Code Credit Rules

1.4.1 Any instrument of surety or security provided by a Pipeline User pursuant to the Code Credit Rules (and whether or not entered into by the Pipeline User) shall not be a part of the Code; and no provision of or modification of the Code, nor any inconsistency between the Code and any such instrument, and nothing done by the Pipeline Operator pursuant to the Code, shall prejudice or invalidate any such instrument.

1.4.2 Where a Pipeline User had provided surety or security pursuant to the Code Credit Rules the Pipeline User (or the person giving the surety) may request the Pipeline Operator to release all or any of such security or agree to a reduction in any maximum amount of such surety.

1.4.3 Following a request by a Pipeline User under paragraph 1.4.2, the Pipeline Operator will as soon as reasonably and, except where the Pipeline User also requests a review (by an agency appointed by the Pipeline Operator for such purposes) and revision of its Code Credit Limit, in any event not more than 10 Business Days after such request, release security, or agree to a reduction in surety, to such extent or by such amount as will permit the condition in paragraph 1.4.4 to be satisfied.



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- 1.4.4 The condition referred to in paragraph 1.4.3 is that the amount of the Pipeline User's Relevant Code Indebtedness at the date of such release or reduction is not more than 85% of the amount of the Pipeline User's Code Credit Limit, determined in accordance with the Code Credit Rules on the basis of the release of security or reduction in surety (and taking account of any alternative surety or security provided by the Pipeline User).
- 1.4.5 A Pipeline User may (inter alia) provide security for the purposes of the Code Credit Rules in the form of a deposit in a bank account where:
- (i) the account is in the joint names of the Pipeline User and the Pipeline Operator;
  - (ii) interest on the amount deposited in the account will accrue for the benefit of the Pipeline User;
  - (iii) the Pipeline User and the Pipeline Operator have irrevocably instructed the bank, in terms reasonably satisfactory to the Pipeline Operator, and the Pipeline User to make payment to the Pipeline Operator of amounts (up to the amount deposited in the account) which have become due for payment to the Pipeline Operator (but having regard to the time at which pursuant to Part G 16 payment is due where an Invoice Query has been raised) against reasonable evidence provided by the Pipeline Operator that payment of such amount has become due (but such instruction shall be without prejudice to any provision of Part G as to the payment of interest);
  - (iv) the bank shall have agreed that the amounts deposited in the account may not be set-off or otherwise applied by the bank in respect of any indebtedness of the Pipeline User or other person;
  - (v) amounts (other than in respect of interest earned) standing to the credit of the account will not be paid to the Pipeline User except with the Pipeline Operator's written agreement (but subject to paragraph 1.4.3).