

Modification		At what stage is this document in the process?
<h1>IGT132:</h1> <h2>Introduction of IGT Code Credit Rules</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #28a745; color: white; padding: 2px 5px; border-radius: 4px;">01 Modification</div> <div style="border: 1px solid #17a2b8; background-color: #e9ecef; padding: 2px 5px; border-radius: 4px;">02 Workgroup Report</div> <div style="border: 1px solid #6c757d; background-color: #e9ecef; padding: 2px 5px; border-radius: 4px;">03 Draft Modification Report</div> <div style="border: 1px solid #fd7e14; background-color: #fff3cd; padding: 2px 5px; border-radius: 4px;">04 Final Modification Report</div> </div>
<p><b>Purpose of Modification:</b></p> <p>To implement credit cover arrangements into the IGT UNC based on the principles of the Ofgem guidelines in 2005.</p>		
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <li>assessed by a Workgroup</li> <li>go to the Authority for approval</li> </ul> <p>This modification will be presented by the Proposer to the Panel on 18<sup>th</sup> October 2019. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>	
	<p>High Impact: Pipeline Users</p>	
	<p>Medium Impact: Pipeline Operators</p>	
	<p>Low Impact: N/A</p>	

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Timetable		
<b>The Proposer recommends the following timetable:</b>		
Initial consideration by Workgroup	5 <sup>th</sup> November 2019	
Amended Modification considered by Workgroup	dd month year	
Workgroup Report presented to Panel	28 <sup>th</sup> February 2020	
Draft Modification Report issued for consultation	3 <sup>rd</sup> March 2020	
Consultation Close-out for representations	24 <sup>th</sup> March 2020	
Variation Request presented to Panel	dd month year	
Final Modification Report available for Panel	30 <sup>th</sup> March 2020	
Modification Panel decision	24 <sup>th</sup> April 2020	

## 1 Summary

### What

This change proposal seeks to implement credit cover arrangements within the IGT UNC for all Pipeline Operator parties. At present such arrangements are isolated to a few of the individual network codes but as with similar arrangements in the UNC and the Distribution Connection and Use of System Agreement (DCUSA) the intent is to have in place such arrangements as a standard for all parties involved.

Credit cover arrangements were implemented into the UNC and DCUSA following an Ofgem decision on credit cover consultation in 2005 following consultations. The guidelines that came out of this process provided a framework for common arrangements and principles across the Gas and Electricity markets. However, such arrangements have not been implemented into the IGT UNC. This change looks to implement the Ofgem guidance and principles, into the IGT UNC.

### Why

Credit cover arrangements are already in place within the UNC and DCUSA, implementing credit cover arrangements brings the IGT UNC in line with other industry codes; i.e. DCUSA and the UNC. Implementing the arrangements into the IGT UNC is believed to be a more appropriate mechanism for implementing common credit cover arrangements – rather than relying on individual IGTs to implement [varying bespoke](#) arrangements within their individual network codes.

In 2018 and 2019 a large number of Suppliers have defaulted and entered the SoLR (Supplier of Last Resort) process. In the majority of cases the Pipeline Operator is financially safe in these events because they contract with the gas shipper for gas transportation rather than with the supplier. However, in 2018 there has been an occasion when the Pipeline User (the gas shipper) defaulted at the same time [as the Supplier](#). On this occasion due to the lack of code credit rules within the IGT UNC, Pipeline Operators were fully exposed to the bad debt with no mechanism for recovery. [Whilst the probability of this reoccurring is relatively low, the impact can be significant](#). The implementation of credit cover arrangements into the IGT UNC would provide protection against future such scenario's if both the Pipeline User and Supplier were to default and enter the SoLR process at the same time.

### How

By referring to the text set out in DCUSA and in [the UNC](#) text, the proposal will seek to establish equivalent credit cover rules into the IGT UNC. This will allow Pipeline Operators to apply common credit cover rules to Pipeline Users.

## 2 Governance

### Justification for Self-Governance Procedures

Not applicable

### Requested Next Steps

This Modification should:

- be assessed by a Workgroup

### 3 Why Change?

In 2018 a large number of Suppliers defaulted and entered the SoLR process. One such occasion resulted in the Pipeline User defaulting at the same time. Because there haves been no credit arrangements previously in code, there is not any requirements on Pipeline Users to provide credit cover for IGTs. Therefore, independent Pipeline Operators are fully exposed to Pipeline User bad debt with little to no protection.

To provide protection against these scenarios, rather than attempting to update each individual network code with varying bespoke arrangements, it is proposed to implement common arrangement for credit cover into the IGT UNC.

For clarity this will not mandate the use of the credit arrangements by Pipeline Operators but will mandate the Pipeline Users to meet the obligations should they be requested to do so in line with the Ofgem proposals in 2005. ~~For the avoidance of doubt, this does not exclude Pipeline Operators and Pipeline Users from agreeing bi-lateral credit arrangements.~~

This change is intended as an extension of the original Ofgem guidance in 2005 which led to the current Code Credit Rules in the DCUSA and the UNC. The aim is not only to provide protection for the market but also to perform the administrative task of ensuring the IGT UNC successfully implements rules already adopted by the rest of the market.

### 4 Code Specific Matters

#### Technical Skillsets

N/A

#### Reference Documents

- UNC TPD Section V
- DCUSA Schedule 1
- Ofgem 2005 Best practice guidelines for gas and electricity operator credit cover
- Appendix 1 – Useful Analysis

### 5 Solution

Using the experience gained from the application of standard credit rules in the UNC and the DCUSA, and guidance from the Ofgem's Best Practice Guidelines for Gas and Electricity Operator credit cover, it is proposed that common credit rules are added to the IGT UNC to provide appropriate protections for Pipeline Operators and a uniform approach with expectations of Pipeline Users.

Code credit rules can be implemented into the code with common principles in place. This approach will also ensure that the common Ofgem guidance on code credit rules are implemented into the IGT UNC. The aim is to establish a common set of credit arrangements for IGTs to have the option of applying. This provides a good balance of meeting business needs, while also giving a common framework for the industry to work from.



The goal is to allow a strong base and easy transition to implement the code credit rules for both Pipeline Operator and Pipeline User parties. *It is important to provide a consistent basis for parties to work on while still allowing parties to set up their own arrangements should they be required. The IGT UNC standard rules acting as a backstop for all to follow.*

## 6 Impacts & Other Considerations

**Does this modification impact a Significant Code Review (SCR) or other significant industry change projects including the Retail Energy Code, if so, how?**

N/A

### Consumer Impacts

N/A

### Environmental Impacts

N/A

## 7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
(A) Efficient and economic operation of the pipe-line system	None
(B) Co-ordinated, efficient and economic operation of (i) the combined pipe-line system; and/or (ii) the pipe-line system of one or more other relevant gas transporters	Positive
(C) Efficient discharge of the licensee's obligations	None
(D) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation agreements with other relevant gas transporters) and relevant shippers	None
(E) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers	None
(F) Promotion of efficiency in the implementation and administration of the	Positive

Code	
(G) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Cooperation of Energy Regulators	None

This change aims to better facilitate Relevant Objectives B and F. This is because the change aims to provide the IGT UNC with the same credit cover principles set out by Ofgem and implemented into the UNC and DCUSA. This would ensure efficient and fair treatment across all gas networks.

## 8 Implementation

Following an Authority decision to implement, the proposal is for this change to be released within the next release of the IGT UNC.

## 9 Legal Text

### Text Commentary

For clarity the proposed text is initially based on the DCUSA Schedule 1 with adaptations made from the UNC, for the benefit of the IGT UNC as a whole. The initial reason for this was to provide a familiar basis for IGTs with IDNO businesses that already utilise the DCUSA credit cover, for a smooth implementation of such arrangements. But in general, it is felt that the DCUSA approach for the most part offers a simpler and easier to understand Code Credit Rules set up. And therefore, pursued for the majority of the legal text as a basis for the IGT UNC

Some of this analysis is presented in Section 11 – Appendix 1 to help explain the differences between codes, and the ultimate approach taken for the IGT UNC.

[Additional information is provided within Section 11 – Appendix, highlighting an example of how the methodology in Clause 21.2 of the proposed legal text would practically work.](#)

This change will also add defined terms.

### Suggested Text

#### Part G – Pipeline Transportation Charges, Invoicing, Payment and Code Credit Rules

##### ~~21 Code Credit Rules~~

~~21.1 The Pipeline Operator may if its 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.~~

~~21.2 For the purposes of the Code;~~

~~(a) "Code Credit Rules" are the rules so entitled and established and revised from time to time by the Pipeline Operator;~~

(b) "**Code Credit Limit**" is an amount representing a Pipeline User's limit of indebtedness to the Pipeline Operator as more particularly defined in the Pipeline Operator's Network Code.

(c) "**System Failure**" is an event or circumstance affecting:

- (i) the Computer System of a Pipeline Operator that affects the ability of that Pipeline Operator to generate information for communication or to give or receive communications associated with that information; or
- (ii) the ability of the CDSP to generate and communicate accurate information in whole or in part to the Pipeline Operator in the form and by the method set out in the Data Services Contract between the Pipeline Operator and the CDSP (unless the Pipeline Operator and the CDSP have agreed otherwise), and that the System Failure has been categorised as either a P1, P2 or P3 incident, in accordance with the UK Link Manual by the CDSP at any time during the Billing Period.

For the avoidance of doubt, planned Computer System downtime, for the purpose of maintenance that has been notified by the Pipeline Operator or by the CDSP to the Pipeline Operator does not constitute System Failure.

## 21 Code Credit Rules

### 21.1. Provision of Cover

- 21.1.1 If requested by the Pipeline Operator, the Pipeline User shall deliver to the Pipeline Operator one or more of the following forms of Collateral and the following conditions of this Clause 21 shall apply. Such that the aggregate value of such Collateral is equal to or greater than the sum notified to the Pipeline User by the Pipeline Operator as the Pipeline User's Value at Risk to the extent that it exceeds the Pipeline User's Credit Allowance:
- (a) a Letter of Credit or equivalent bank guarantee (available for an initial period of not less than six months);
  - (b) an Escrow Account Deposit;
  - (c) a Cash Deposit; or
  - (d) any other form of Collateral as agreed between the Pipeline Operator and the Pipeline User from time to time, including but not limited to performance bonds, bilateral insurance, and independent security. The Pipeline Operator may rate the effectiveness of such Collateral as being between 0% and 100%. Where the effectiveness of such Collateral is rated as less than 100%, its contribution to the aggregate level of Cover provided shall be reduced accordingly.
- 21.1.2 Any dispute raised by the Pipeline User or the Pipeline Operator on the form of Collateral provided under Clause 21.1.1(d) or on the rating of any such Collateral shall be dealt with under Clause 21.8. Any requirement for payment to be made under such Collateral shall be dealt with in accordance with Clause 21.4.
- 21.1.3 The Pipeline User may increase the value of Collateral provided or provide additional forms of Collateral at any time during the term of this agreement.
- 21.1.4 Where:



- (a) there is any reduction in the amount of Collateral provided by the Pipeline User as Cover; or
- (b) the Pipeline Operator makes a demand against such Collateral following a Payment Default by the Pipeline User,

the Pipeline User shall provide additional Collateral to ensure that the Pipeline User's Indebtedness Ratio is equal to or lower than the Indebtedness Ratio Limit according to the provisions of this Clause 21.

- 21.1.5 Notwithstanding Clause 21.1.4, where at any time as a direct consequence of an unanticipated increase in a Pipeline Users registered aggregate "Supply Point Capacity", a Pipeline User's Value at Risk increases materially, a Pipeline User will have one calendar month from the date of notice given by the relevant Pipeline Operator, to provide additional surety or security and after expiry of such date, or Clauses 21.1.4 (a) and (b) shall apply.

## 21.2 Calculation of Cover

- 21.2.1 For the duration of this agreement's application, the Pipeline Operator shall calculate and maintain a record of each of the following values with respect to the Pipeline User, that is to say:

- (a) the Pipeline User's Value at Risk;
- (b) the Pipeline User's Credit Allowance; and
- (c) the Pipeline User's Indebtedness Ratio,

in such manner as will enable the Pipeline Operator, upon request by the Pipeline User, to provide a written and up-to-date statement of such values without delay.

- 21.2.2.1 At any time, the Pipeline User's Value at Risk shall be the aggregate of:

- (a) billed but unpaid charges and which have been billed to the Pipeline User according to an established billing cycle operated by the Pipeline Operator pursuant to this Clause 21; plus
- (b) the Fifteen Days' Value, which shall be the estimated value of the charges that would be incurred by the Pipeline User for a further 15 days from that time, based on the average daily charges billed to the Pipeline User (whether under this agreement or any use of system agreement applying between the Pipeline User and the Pipeline Operator immediately before this agreement became effective) using the latest available bill raised in respect of a full calendar month (or a number of days that approximates to a full calendar month), according to the established billing cycle operated by the Pipeline Operator; less
- (c) any credit notes and any amounts paid to the Pipeline Operator by the Pipeline User in the form of a Prepayment or an Advance Payment.

- 21.2.3 The Pipeline User's Credit Allowance (CA here below) shall be calculated according to the following formula:  $CA = 5 \text{ times Annual Transportation Revenue} \times 2\% \times CAF$ ; and CAF is the Credit Allowance Factor (which is to be expressed as a percentage determined pursuant to Clause 21.2.4 or 21.2.5).

21.2.4 Where the Pipeline User has a Credit Rating from an Approved Credit Referencing Agency that is Ba3/BB- or above, CAF shall be determined according to the following table.

Credit Rating		CAF (%)
Moody's	Standard and Poor's	
Aaa to Aa2	AAA to AA	100
Aa3 to A3	AA- to A-	40
Baa1	BBB+	20
Baa2	BBB	19
Baa3	BBB-	18
Ba1	BB+	17
Ba2	BB	16
Ba3	BB-	15

- 21.2.5 Where the Pipeline User does not have a Credit Rating from an Approved Credit Referencing Agency that is Ba3 / BB- or above, CAF shall be determined as follows:
- (a) where there is, at the time of such determination, an Independent Credit Assessment that was carried out within the preceding 12 months and the Pipeline User has not requested that the Pipeline Operator use the Pipeline User's Payment Record Factor, CAF shall be determined by reference to the Independent Credit Assessment procured pursuant to Clause 21.2.7 and in accordance with the table set out in Clause 21.2.10; or
  - (b) where the Pipeline User has requested that the Pipeline Operator use the Pipeline User's Payment Record Factor or there is not, at the time of such determination, an Independent Credit Assessment that was carried out within the preceding 12 months, CAF shall equal the Payment Record Factor (which shall be determined in accordance with the provisions of Clauses 21.2.12 to 21.2.14).
- 21.2.6 For the purposes of determining CAF pursuant to Clause 21.2.5(a), the Pipeline User may, once a year, request that the Pipeline Operator obtain an Independent Credit Assessment from a Recognised Credit Assessment Agency chosen by the Pipeline User.
- 21.2.7 As soon as reasonably practicable following such request (or within such other period as the Pipeline Operator and the Pipeline User may agree), the Pipeline Operator shall procure from that Recognised Credit Assessment Agency (and shall provide to the Pipeline User) a credit assessment of the Pipeline User. Where a Recognised Credit Assessment Agency offers more than one credit assessment product, the Pipeline Operator shall procure an assessment on the basis of the product that the Pipeline Operator and the Pipeline User agree (each acting reasonably) provides the most appropriate assessment of the creditworthiness of the Pipeline User when all factors are taken into consideration.
- 21.2.8 Where the Recognised Credit Assessment Agency that is used is listed in the table below, and it undertakes an assessment on the basis of one of its credit assessment products listed below,



the results of such assessment will give rise to the corresponding Credit Assessment Score set out below:

Credit Assessment Score	Equivalence of the Credit Assessment Score to credit scores provided by Recognised Credit Assessment Agencies in their Independent Credit Assessments.				
	Check It (ICC) – Credit Score Report	Dunn & Bradstreet/ N2 Check – Comprehensive Report	Equifax	Experian – Bronze, Silver or Gold Report	Graydons – Level 1, Level 2 or Level 3 Report
10	95-100	5A1/	A+	95-100	AAA
9	90-94	5A2/4A1	A/A-	90-94	AA
8	80-89	5A3/4A2/3A1	B+	80-89	A
7	70-79	4A3/3A2/2A1	B/B-	70-79	BBB
6	60-69	3A3/2A2/1A1	C+	60-69	BB
5	50-59	2A3/1A2/A1	C/C-	50-59	B
4	40-49	1A3/A2/B1	D+	40-49	CCC
3	30-39	A3/B2/C1	D/D-	30-39	CC
2	20-29	B3/C2/D1	E+	20-29	C
1	10-19	C3/D2/E1	E/E-	10-19	Not in use
0	Below 10	E2 to Z inclusive	Below E-	Below 10	D to Z inclusive

21.2.9 Where the Recognised Credit Assessment Agency that is used is not listed in Clause 21.2.8 (or where the credit assessment product is not listed in Clause 21.2.8), the Pipeline Operator shall (acting reasonably) determine the applicable Credit Assessment Score on an equivalent basis to that set out in Clause 21.2.8.

21.2.10 Where the value of CAF is to be determined in accordance with Clause 21.2.5(a), the value of CAF shall be that which corresponds in the following table to the Credit Assessment Score set out below.

Credit Assessment Score	CAF (%)
10	20
9	19



8	18
7	17
6	16.66
5	15
4	13.33
3	10
2	7
1	3.33
0	0

- 21.2.11.1 During the 12-month period following completion of an annual Independent Credit Assessment pursuant to Clause 21.2.6, the Pipeline User may request that the Pipeline Operator procure further Independent Credit Assessments for the purpose of requiring the Pipeline Operator recalculate the Pipeline User's Credit Allowance. Where the Pipeline User so requests, Clauses 21.2.7 to 21.2.10 shall apply (provided that, where the Pipeline Operator so requests, the Pipeline User shall pay the Pipeline Operator's reasonable costs in procuring such Independent Credit Assessments. In any event, the Pipeline Operator will set the Pipeline User's Credit Allowance no higher than the lower of the credit value recommended within the Independent Credit Assessment and the credit value calculated by applying the Credit Allowance Factor.
- 21.2.11.2 Where a Pipeline User's Credit Allowance has been revised downwards in accordance with Clause 21.2.7 above, the Pipeline Operator will notify the Pipeline User accordingly on the next Business Day following the occurrence of the event described in Clause 21.2.7.
- 21.2.12 Where the Pipeline User's Payment Record Factor is to be used to determine the Credit Allowance Factor in accordance with Clause 21.2.5(b), the Credit Allowance Factor shall equal the value of the Payment Record Factor determined in accordance with Clauses 21.2.13 to 21.2.15.
- 21.2.13 The Payment Record Factor shall equal the number of months since the Good Payment Performance start date (as specified in Clause 21.2.14) multiplied by 0.033% (that is to say, by 0.4% per annum) up to a maximum value of 0.8% after 24 consecutive months of good payment history. The Pipeline Operator shall give the Pipeline User notice of any adverse change in the calculation of the Payment Record Factor pursuant to Clause 21.2.14.
- 21.2.14 The Good Payment Performance start date shall for Pipeline Users, where the Pipeline User fails, or has failed, on any occasion to pay any relevant account relating to undisputed charges in full on the applicable Payment Date, be the date on which a relevant account is submitted in a month subsequent to the month in which such payment failure is remedied (unless having regard to all the circumstances, including in particular the value, duration, and frequency of failure, the Pipeline Operator reasonably determines an earlier date). In respect of the impact on the Pipeline User's good payment history, the Pipeline Operator shall apply the following matrix:



Age of debt (days)	Value of debt as a percentage of previous month's charges*	Effect on Good Payment Performance
1 to 3	<25%	Loss of 25% of previously accrued Good Payment Performance
	>25% and <75%	Loss of 50% of previously accrued Good Payment Performance
	>75%	Loss of 100% of previously accrued Good Payment Performance
>4	Any	Loss of 100% of previously accrued Good Payment Performance

\*Total Transportation charges billed in the previous month

- 21.2.15 Where any unpaid disputed invoice is found to have been disputed without merit, a failure to have paid the relevant account in accordance with the terms of this agreement shall be treated as a failed payment and the provisions of Clause 21.2.14 shall apply accordingly.
- 21.2.16 The Credit Limit for the Pipeline User shall equal the Credit Allowance plus the aggregate value of the Collateral provided on any day.
- 21.2.17 The Pipeline User's Indebtedness Ratio shall equal the Pipeline User's Value at Risk as a percentage of the Credit Limit.
- 21.2.18 If, on any day, the Pipeline User's Indebtedness Ratio equals or is greater than 85% of the Pipeline User's Indebtedness Ratio Limit, the Pipeline Operator shall give notice of this to the Pipeline User.
- 21.2.19 Where credit support is provided for the Pipeline User through a Qualifying Guarantee by a third party (the Credit Support Provider), the maximum Pipeline User's Credit Allowance shall be calculated in accordance with Clause 21.2.3 but substituting the Credit Support Provider for the Pipeline User in all such calculations. Where the value of the Qualifying Guarantee is lower than the Pipeline User's Credit Allowance calculated pursuant to Clause 21.2.3, the Pipeline User's Credit Allowance shall be the maximum value of the Qualifying Guarantee.
- 21.2.20 Where a Credit Support Provider provides a Qualifying Guarantee for the Pipeline User and for other Pipeline Users of the Pipeline Operator's network, the aggregate of all Qualifying Guarantees so offered shall not exceed the maximum Credit Allowance that could be determined for that Credit Support Provider pursuant to Clause 21.2.3.
- 21.2.21 Where the Pipeline User disputes the Pipeline Operator's calculation of their Value at Risk or their Credit Allowance, the provisions of Clause 21.8 shall apply.

**21.3 Increase or Decrease of Cover Requirement**

- 21.3.1 The following provisions have effect in relation to cover requirements pursuant to the circumstances specified under the relevant headings in this Clause 21.3.
- 21.3.2 If, on any Business Day, the Pipeline User's Indebtedness Ratio equals or is greater than its Indebtedness Ratio Limit because of either (a) an increase in the Pipeline User's Value at Risk;



or (b) a decrease in the Credit Allowance Factor, then (in either) the Pipeline Operator shall give notice of this to the Pipeline User on the following Business Day and the Pipeline User shall take all appropriate action to ensure that its Indebtedness Ratio is equal to or below 80% within two Business Days of its receipt of such notice.

- 21.3.3 It shall be a Cover Default if the Pipeline User fails to remedy a default under Clause 21.3.2 within the prescribed timescale.
- 21.3.4 Following a Cover Default under Clause 21.3.3, the Pipeline User's Indebtedness Ratio Limit shall be decreased to 80% for one year following rectification of the default, after which time it shall be increased back to 100%.
- 21.3.5 In addition to any other remedies available to it, the Pipeline Operator shall be entitled to take the following actions following a Cover Default (provided that, where Pipeline User's right to take on new supplies has been suspended at any time after Day 0 + 5, the Pipeline Operator must, as soon as the Cover Default has been remedied, take such steps as are within its power to initiate the restoration of such Pipeline User supply points:

Working Days after Cover Default	Action within the Pipeline Operators rights
Day 0	Date of default
Day 0 + 1	Interest and administration fee start to apply
Day 0 + 1	Issue notice of default to Pipeline User contact containing a statement of the Indebtedness Ratio and send a copy of such notice to the Authority
Day 0 + 3	Formal Pipeline User response required

- 21.3.6 The Pipeline Operator shall give the Pipeline User one month's written notice of its intention to use a new Annual Transportation Revenue value to calculate the Credit Allowance according to Clause 21.2.3. Such notice shall state the new Annual Transportation Revenue value and the date on which the Pipeline Operator will begin to use that value in such calculation.
- 21.3.7 The Pipeline User may by notice to the Pipeline Operator decrease the amount of Collateral at any time provided that such decrease would not cause the Indebtedness Ratio to exceed the Indebtedness Ratio Limit.
- 21.3.8 The Pipeline Operator shall, within two Business Days of its receipt of a notice from the Pipeline User pursuant to Clause 21.3.7, undertake actions to facilitate the reduction, or the return to the Pipeline User, of such Collateral.
- 21.3.9 Not later than 10 Business Days before any outstanding Letter of Credit is due to expire, the Pipeline User shall either procure to the satisfaction of the Pipeline Operator that it (or a suitable replacement Letter of Credit which meets the Pipeline Operator's reasonable requirements) will be available for a further period of not less than six months, or provide an alternative form of Collateral as set out in Clause 21.1.1.
- 21.3.10 Upon the Pipeline User ceasing to be a party to this agreement, and once all the amounts owed by the Pipeline User in respect of charges and any other amount owed by the Pipeline User to



the Pipeline Operator under this agreement have been duly and finally paid, including interest, the Pipeline User shall be released from the obligation to maintain Cover in respect of the Pipeline Operator and the Pipeline Operator shall consent to the revocation of any outstanding Qualifying Guarantee or Letter of Credit, and the Pipeline User shall be entitled to withdraw the balance (if any) (including interest credited thereto) outstanding to the credit of the Pipeline User in the Escrow Account at the relevant date and to request the return or termination of any other form of Collateral provided.

#### **21.4 Use of Cover Following Payment Default**

21.4.1 This Clause applies if, after 17:30 hours on any Payment Date, the Pipeline Operator has been notified by the Pipeline User or otherwise has reason to believe that the Pipeline User has not remitted to it by close of banking business on the Payment Date all or any part (the amount in default) of any amount which has been notified by the Pipeline Operator to the Pipeline User as being payable by the Pipeline User by way of the charges on the relevant Payment Date, or any other amounts owing under this agreement.

21.4.2 Where Clause 21.4.1 applies, a Payment Default exists and the Pipeline Operator shall (in addition to any other remedies available to it) be entitled to act in accordance with the following provisions (or whichever of them may apply) in the order in which they appear below until the Pipeline Operator is satisfied that the Pipeline User has discharged its obligations in respect of charges or such other amounts under this agreement which are payable in respect of the relevant account:

- (a) the Pipeline Operator, to the extent that the Pipeline User is entitled to receive payment from the Pipeline Operator pursuant to this agreement (unless it reasonably believes that such set-off would be unlawful), shall be entitled to set off the amount of such entitlement against the amount in default;
- (b) the amount of funds then standing to the credit of the Escrow Account or the amount of any Cash Deposit (excluding any interest accrued thereon to the benefit of the Pipeline User) shall be released to the Pipeline Operator and set off against the amounts unpaid by the Pipeline User, and for that purpose the Pipeline Operator shall be entitled to place such funds in any account of the Pipeline Operator at its sole discretion and shall notify the Pipeline User accordingly;
- (c) the Pipeline Operator may demand payment under any Letter of Credit for a sum not exceeding the amount of the Cover;
- (d) the Pipeline Operator may demand payment under any outstanding Qualifying Guarantee provided for the benefit of the Pipeline User pursuant to Clause 21.2.19; or
- (e) the Pipeline Operator may demand payment under any other form of Collateral provided under Clause 21.1.1(d) in the manner which the Pipeline Operator and the Pipeline User have previously agreed as appropriate in relation to that particular form of Collateral or, in the absence of such agreement, in a manner which the Pipeline Operator (acting reasonably) considers appropriate in relation thereto.

#### **21.5 Utilisation of Funds**

21.5.1 In addition to the provisions of Clause 21.4, if a Cover Default occurs in respect of the Pipeline User in accordance with this Clause 21, the Pipeline Operator shall be entitled:



- (a) to demand payment of any of the charges and any other amounts owed by the Pipeline User under this agreement which are outstanding, whether or not the Payment Date in respect of them has passed; and
- (b) to make demand under any outstanding Qualifying Guarantee or a call under any outstanding Letter of Credit supplied by the Pipeline User,

and the funds in the Escrow Account to the extent that they represent Cover provided by the Pipeline User shall be released to the Pipeline Operator and set off against the Charges and any other amount owed by the Pipeline User under this agreement that is unpaid by the Pipeline User, and for that purpose the Pipeline Operator shall be entitled to place any such amount released to it from the Escrow Account to any account of the Pipeline Operator as in its sole discretion it thinks fit.

## **21.6 Pipeline User's Right to Withdraw Funds**

21.6.1 If the Pipeline User is not in default in respect of any amount owed to the Pipeline Operator in respect of the charges or any other amount owed by the Pipeline User under this agreement, the Pipeline Operator shall permit the release to the Pipeline User, within two Business Days of receiving the Pipeline User's written request for it, of any amount of cash provided by the Pipeline User by way of Cover which exceeds the amount which the Pipeline User is required to provide in accordance with this Clause 21.

21.6.2 Interest on the amount deposited in an Escrow Account (at a rate to be agreed by the Pipeline User with the bank at which such account is held) or on the amount of a Cash Deposit (at a rate to be agreed between the Pipeline Operator and the Pipeline User) shall accrue for the benefit of the Pipeline User.

## **21.7 No Security**

21.7.1 Nothing in this Part K 21 shall be effective to create a charge on or any other form of security interest in any asset comprising part of the Pipeline User's business.

## **21.8 Disputes**

21.8.1 The Pipeline Operator and the Pipeline User shall attempt to resolve in good faith any dispute that may arise under or in relation to the provisions of this agreement.

21.8.2 Where any such dispute remains unresolved after ~~30~~ Business Days, either of the Pipeline Operator or the Pipeline User may refer the matter ~~to the Authority~~ for determination ~~in accordance with Part K, Clause 8 provided all reasonable endeavours have been pursued first.~~

21.8.3 A determination ~~by the Authority~~ under this Clause 21.8 shall be final and binding.

## **21.9 Notices**

21.9.1 Contact details for notices issued under Clause 21, and the form of such notices and the manner of their service, shall be as agreed between the Pipeline Operator and the Pipeline User. Where no such agreement exists, the provisions of the Pipeline Operation Standards of Service Query Management – Operation Guidelines shall apply.

## **Part M, Definitions**



- **Advance Payment** - means a deposit of funds by or on behalf of the Pipeline User as early payment relating to any invoice issued but not yet due into a bank account specified by the Pipeline Operator, in the name of the Pipeline Operator.
- **Annual Transportation Charges** – means the aggregate of Transportation Charges (as defined in Part G) payable by all Pipeline Users to the Pipeline Operator for the preceding 12-month period from the date such calculation is made.
- **Approved Credit Referencing Agency** - means Moody's Investors Service or Standard and Poor's Ratings Group or such replacement agency as may be notified by the Authority from time to time for the purposes of Part K, Clause 21.
- **Cash Deposit** - means a deposit of funds by or on behalf of the Pipeline User into a bank account in the name of the Pipeline Operator.
- **Collateral** - means the implements (excluding parent Pipeline Operator guarantees) through which the Pipeline User can provide Cover, as set out in Part K, Clause 21.1.1 and as may be amended or added to from time to time by the Pipeline Operator with the Authority's approval.
- **Cover** - means the aggregate amount of Collateral which the Pipeline User is required to provide and maintain in accordance with the provisions of Part K, Clause 21.
- **Cover Default** - has the meaning given to that term in Part K Clause 21.3.3.
- **Credit Allowance (CA)** - has the meaning given to that term in Part K Clause 21.2.3.
- **Credit Allowance Factor (CAF)** - has the meaning given to that term in Part K Clause 21.2.3.
- **Credit Assessment Score** - means a Credit Assessment Score as determined pursuant to Part K Clause 21.2.8 or 21.2.9.
- **Credit Limit** - has the meaning given to that term in Part K Clause 21.2.16.
- **Credit Rating** - means a long-term debt rating from an Approved Credit Referencing Agency.
- **Credit Support Provider** - has the meaning given in Part K Clause 21.2.19.
- **Escrow Account** - means a separately designated bank account in the name of the Pipeline User at such branch of any bank in the United Kingdom as the Pipeline Operator shall specify (the Bank) (on terms to be approved by the Pipeline Operator and which provide, amongst other things, that the funds held in the Escrow Account may be released by the Bank to the Pipeline Operator in the circumstances envisaged in Clauses 21.3 and 21.4 with the right to direct payments from the Escrow Account in favour only of the Pipeline Operator until the events specified in Clause 21.3.10 have occurred) to which all deposits required to be made by the Pipeline User pursuant to Part K, Clause 21 shall be placed, provided that such proceeds are not to be withdrawn by the Pipeline User save in accordance with the provisions of Part K, Clause 21.
- **Escrow Account Deposit** - means a deposit of funds by or on behalf of the Pipeline User into an Escrow Account.
- **Fifteen Days' Value** - has the meaning given to that term in Part K Clause 21.2.2.1(b).
- **Good Payment Performance** - has the meaning given to that term in Part K Clause 21.2.14.
- **Indebtedness Ratio** - has the meaning given to that term in Part K Clause 21.2.17.
- **Indebtedness Ratio Limit** – shall be 100% unless otherwise notified by the Pipeline Operator under the provisions of Part K, Clause 21.

- **Independent Credit Assessment** - means a credit assessment of the Pipeline User procured by the Pipeline Operator at the Pipeline User's request in accordance with Part K Clause 21.2.7 from a Recognised Credit Assessment Agency chosen by the Pipeline User.
- **Letter of Credit** - means an unconditional irrevocable standby letter of credit in such form as the Pipeline Operator may reasonably approve issued for the account of the Pipeline User in sterling in favour of the Pipeline Operator, allowing for partial drawings and providing for the payment to the Pipeline Operator forthwith on demand by any United Kingdom clearing bank or any other bank which in each case has a long-term debt rating of not less than single A by Standard and Poor's Ratings Group or by Moody's Investors Service, or such other bank as the Pipeline Operator may approve and which shall be available for payment at a branch of the issuing bank.
- **Payment Date** - means the due date for payment of any Initial Account, Reconciliation Account, or other account submitted to the Pipeline User pursuant to Part K, Clause 21.
- **Payment Default** - has the meaning given to that term in Part K Clause 21.4.2.
- **Payment Record Factor** - has the meaning given to that term in Part K Clause 21.2.13.
- **Prepayment** - means a deposit of funds by or on behalf of the Pipeline User as early payment relating to future invoices not yet issued into a bank account specified by the Pipeline Operator, in the name of the Pipeline Operator.
- **Qualifying Guarantee** - means a guarantee in favour of the Pipeline Operator which is legally enforceable in the United Kingdom and in such form as may be agreed between the Pipeline Operator and the Pipeline User and which may specify a maximum value.
- **Recognised Credit Assessment Agency** - means any of the credit assessment agencies listed at Part K, Clause 21.2.8, or any other credit assessment agency reasonably believed by the Pipeline Operator and the Pipeline User to be fit for the purpose of providing credit assessments pursuant to Part K, Clause 21, taking account of all the circumstances applicable to the Pipeline User.
- **System Failure** - is an event or circumstance affecting:
  - (i) the Computer System of a Pipeline Operator that affects the ability of that Pipeline Operator to generate information for communication or to give or receive communications associated with that information; or
  - (ii) the ability of the CDSP to generate and communicate accurate information in whole or in part to the Pipeline Operator in the form and by the method set out in the Data Services Contract between the Pipeline Operator and the CDSP (unless the Pipeline Operator and the CDSP have agreed otherwise), and that the System Failure has been categorised as either a P1, P2 or P3 incident, in accordance with the UK Link Manual by the CDSP at any time during the Billing Period.

For the avoidance of doubt, planned Computer System downtime, for the purpose of maintenance that has been notified by the Pipeline Operator or by the CDSP to the Pipeline Operator does not constitute System Failure.
- **Value at Risk** - has the meaning given to that term in Part K Clause 21.2.2.1.

## 10 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

- Refer this proposal to Workgroup for assessment.
- Send the Workgroup Report to the Authority for approval.

## 11 Appendix

### Appendix 1 – Useful Analysis

While the UNC (TPD Section V) and DCUSA (Schedule 1) versions of Code Credit Rules provide mandated obligations for the required processes and procedures to be put in place, the intent from this change proposal is to allow IGTs to apply the same processes without the enforcement to do so. Therefore, rather than pointing across to the UNC this change proposal replicates and adapts wording to ensure that the Code Credit Rules aren't mandatory for Pipeline Operator parties to apply but gives them the ability to do so if they wish, while keeping the core principles the same in a new section of text.

The below table highlights some analysis carried out, comparing the differences between the UNC and DCUSA code credit arrangements. With recommendations noted for an IGT UNC equivalent.

UNC Section TPD V	DCUSA Schedule 1 Equivalent	Differences	Action for the IGT UNC	IGT UNC Proposed Clause
3.1.1	2.1	UNC provides greater detail and clarity of the overall process with specific timescales and charge percentages	The DCUSA approach has been preferred for this clause as it provides greater flexibility on Collateral options for parties to agree	21.2.1
3.1.2	-	No equivalent identified	N/A to IGT UNC requirements	N/A
3.1.3	2.4	UNC version provides greater detail such as around Parent Company relationship	The DCUSA approach is more simplistic and therefore the desired solution as the aim is to not over complicate arrangements with additional factors, while maintaining flexibility of individual parties	21.2.4
3.1.4	2.5	N/A, merely the wording	N/A	21.2.5
3.1.5	2.13	With DCP349 implementation, merely the wording	N/A	21.2.13

3.1.6	2.14 and 2.15	With DCP349 implementation, primarily the wording and formatting with the DCUSA approach also including a table for information	N/A	21.2.14 and 21.2.15
3.1.7	2.8	DCUSA version includes two additional rating agencies within the table, also with the Credit Limit % provided within a separate table (2.10)	Further to the point raised for DCUSA clause 2.4 the aim is to not overcomplicate or limit the process, and therefore the DCUSA approach is deemed more preferable as it encompasses more options and ability for flexibility between parties, as well as greater clarity around the CAF percentage	21.2.8
3.1.8	2.9 and 2.11	UNC specifies a set charge while the DCUSA highlights 'reasonable costs'	To avoid limitations and restrictions the preference would be for a reasonable endeavours approach between parties as per the DCUSA	21.2.9 and 21.2.11
3.1.9	-	No equivalent identified	N/A to IGT UNC requirements	N/A
3.2.1	2.2 and 2.3	DCUSA version provides greater detail and formulas for the calculations of the 'Value at Risk' and 'Credit Allowance'	The DCUSA approach provides a much easier to understand methodology to be used within calculation of Code Credit arrangements and thus the preferred approach for the IGT UNC	21.2.2 and 21.2.3
3.2.2	-	Clarification around the provisions and right to dispute provided within the UNC version	Not deemed necessary	N/A
3.2.3	1.2	Clarification around rights to dispute/ question invoice queries	The IGT UNC has its own approach to disputes and thus the governance and legal text approach of the DCUSA is utilised to allow for this flexibility	21.1.2

3.2.4	2.6 and 2.7	UNC provides greater detail and timescales around the assessment process	As with other clauses the preferred approach is not to be prescriptive and limited in timescales, therefore the DCUSA provides the required flexibility for parties with this clause	21.2.6 and 21.2.7
3.2.5	2.7	DCUSA is more open to interpretation around gathering of revisions to credit ratings	As with other clauses the preferred approach is not to be prescriptive and limited in timescales, therefore the DCUSA provides the required flexibility for parties with this clause	21.2.7
3.2.6	-	Ability/ requirement to carry out a reassessment following a SoLR event	While a useful tool the goal is to simplify the code credit arrangements as much as possible, and not create too much of an onerous process. Therefore, not required for IGT UNC purposes	N/A
3.2.7	2.11	DCUSA is more open to interpretation, highlighting 'reasonable costs'	The DCUSA approach allows for a more bi-lateral and flexible style which is the aim for the IGT UNC	21.2.11
3.2.8	2.11	DCUSA is more open to interpretation with reference to 'requests'	As with the previous UNC clause, the DCUSA approach allows for a more bi-lateral and flexible style which is the aim for the IGT UNC	21.2.11
3.2.9	-	Requirement to notify User of downwards revision to limits	An area lacking from the DCUSA which seeks for greater communication between parties and thus adopted in 21.2.11.2 as a suitable addition for the IGT UNC	21.2.11.2
3.2.10	1.4	UNC provides greater detail and timescales around the maintenance of cover	As with other points the DCUSA approach is the preferred because it is less stringent and strict on the requirements of parties	21.1.4

3.2.11	-	Requirement for User to provide additional cover in cases of increase to capacity requirements	The UNC clause is potentially specific to the gas market and therefore required for the IGT UNC and not the DCUSA, therefore adopted in 21.1.5	21.1.5
3.3.1	-	Greater detail and context around the application of the 'Value at Risk'	While potentially useful for IGT UNC purposes, the aim is to not overcomplicate the rule requirements and therefore the decision has been made not to adopt this particular clause, especially as the simpler DCUSA approach already fulfils the needs	N/A
3.3.2	-	Greater detail and context around the application of the 'Value at Risk'	While potentially useful for IGT UNC purposes, the aim is to not overcomplicate the rule requirements and therefore the decision has been made not to adopt this particular clause, especially as the simpler DCUSA approach already fulfils the needs	N/A
3.3.3	-	Greater detail and context around the application of the 'Value at Risk'	While potentially useful for IGT UNC purposes, the aim is to not overcomplicate the rule requirements and therefore the decision has been made not to adopt this particular clause, especially as the simpler DCUSA approach already fulfils the needs	N/A
3.3.4	-	Provides clarification that the 'Value at Risk' includes NTS Capacity Charges	N/A to IGT UNC requirements	N/A
3.4.1	-	Provides clarification that the form of collateral is arranged outside of code, therefore through bilateral agreement	Not deemed necessary as already the approach for the rest of the arrangements being proposed	N/A
3.4.2	6.1	N/A, merely the wording	N/A	21.6.1

3.4.3	6.1	Two Working Days in the DCUSA, Ten for the UNC	While the goal is to not create an onerous process, for the sake of efficiency the shorter of the two business day requirements has been opted for the IGT UNC	21.6.1
3.4.4	6.1	N/A, merely the wording	N/A	21.6.1
3.4.5	10.1	N/A, merely the wording	Chose to update the IGT UNC with new defined terms rather than embed within text	21.10.1
3.4.6	1.1	Difference in terms for DCUSA (Escrow Account Deposit, Cash Deposit or Other) and UNC (Guarantee, Deposit Deed or Prepayment Agreement)	DCUSA approach deemed more preferable as encompasses more options allowing for greater flexibility of the arrangements between parties	21.1.1
3.4.7	9.1	UNC specifies contact detail requirements, with the DCUSA pointing to another area of code and leaving it more open	DCUSA approach deemed more preferable due to existing issues within the IGT UNC around contact details which has been raised as a separate issue which isn't deemed a dependent factor for this change	21.9.1
-	1.3	No equivalent identified	The sentence provides clarity rather than any direct material impact and therefore deemed appropriate for the IGT UNC to help with the understanding	21.1.3
-	2.12	No equivalent identified	Provides clarity around an alternate means of calculating the CAF which is further explained anyway in both versions of code. Therefore, the extra clarity is deemed useful for the IGT UNC	21.2.12

-	2.16 to 2.18	Provides greater detail and context around the application of the 'Indebtedness Ratio'	Provides greater clarification into the methodology and the arrangements between parties which will be useful for the IGT UNC to adopt	21.2.16 to 21.2.18
-	2.19 to 2.21	Provides greater clarity around the application of the credit support from third parties	These clauses allow for greater flexibility of the arrangements, and thus more choice for parties. Deemed to be an important factor to add for the IGT UNC to improve options	21.2.19 to 21.2.21
-	3.1	No equivalent identified	N/A to IGT UNC requirements	21.3.1
-	3.2 to 3.10	Provides greater clarity around how to maintain and update credit cover arrangements	Provides greater clarification into the arrangements between parties which will be useful for the IGT UNC to adopt, and part of the reason the DCUSA is on the whole felt easier to understand compared to the UNC	21.3.2 to 21.3.10
-	4.1, 4.2 and 5.1	Provides greater clarity around when and how to use credit cover	Provides greater clarification into the arrangements between parties which will be useful for the IGT UNC to adopt, and part of the reason the DCUSA is on the whole felt easier to understand compared to the UNC	21.4.1, 21.4.2 and 21.5.1
-	6.2	No equivalent identified	The sentence provides clarity rather than any direct material impact and therefore deemed appropriate for the IGT UNC to help with the understanding	21.6.2
-	7.1	No equivalent identified	The sentence provides clarity rather than any direct material impact and therefore deemed appropriate for the IGT UNC to help with the understanding	21.7.1



-	8.1 to 8.3	No equivalent identified	Amendments required to account for IGT UNC real world realities with an emphasis on reasonable endeavours and best intent of parties to resolve	21.8.1 to 21.8.3
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This research has provided the basis for the proposed IGT UNC legal text. It should be enforced that while there may be differences between the UNC and DCUSA, and thus the IGT UNC too, the principles throughout remain the same for a consistent approach to code credit cover. Some of the recommendations from the above analysis have already been adopted, but others may wish to be added too dependent on workgroup discussions.

## Appendix 2 – Methodology Explanation

The following aims to demonstrate how the methodology behind the Calculation of Cover in Clause 21.2, and therefore the amount of security required, works in practice. The inputted figures in the example are not based on a real-world case but aim to highlight the impact of the credit arrangements calculations.

### Value at Risk

This value is equal to:  $U + E - P$

Where:  $U =$  Unpaid invoices within the billing cycle

$E =$  Estimated future invoice values within the next 15 days

$P =$  Prepayments or other Advanced Payments received

### Credit Allowance

This value is equal to:

$5 \text{ times Annual Transportation Revenue} \times 2\% \times \text{CAF}$

### Indebtedness Ratio

This value is equal to:

$\text{VAR as a percentage of } (CA + C)$

Where:  $\text{VAR}$  is the **Value at Risk**.

$CA$  is the **Credit Allowance**.

$C$  is the **Collateral** which has been collected from the Shipper in several possible forms i.e. security, to be agreed between the two parties. The **Collateral** value is to be equal to, or greater than:

$\text{VAR} - CA$

This value can be increased or decreased throughout the year depending on discussions and other agreements in place between IGT and the Shipper.

### Example

Using the above methodology as a basis, an example would follow thus, where if:

Unpaid invoices within the billing cycle = £50,000

Estimated future invoice values within the next 15 days = £25,000

Prepayments or other Advanced Payments received = £0

5 times Annual Transportation Revenue = £4,000,000

CAF = 20%

then the following information would be provided from the methodology's calculations:

**Value at Risk** = £75,000

**Credit Allowance** = £16,000

**Collateral** = £60,000

**Indebtedness Ratio** = 49.67%

Applying this approach, if the Shipper were to default, the IGT would potentially only suffer Bad Debt of £15,000 because £60,000 would have been available as Collateral to collect.