IGT | UNC

Consultation Response

IGT132V: Introduction of IGT Code Credit Rules

Responses invited by: 13th April 2021

Respondent Details

Name: Kirsty Dudley

Organisation: E.ON

Support Implementation	☐
Qualified Support	☐
Neutral	☐
Do Not Support	☑

Please briefly summarise the key reason(s) for your support / opposition

Although we acknowledge the proposer has incorporated changes in the variant version to address some of the issues we raised in our previous response, for example, allowing for group cover rather than always individual entity, we still do not fully support the designed solution. Our reasonings are as follows:

- The model is dependent on choice rather than a requirement for all IGTs, we don't believe this should be an opt in approach, there should be consistency and it be mandatory if it is an essential activity. If an IGT chooses not to implement the requirement initially but then chooses to opt in at a later date, it puts added administrational strains on Shippers. It also is not clear if an IGT chooses to no longer require the cover how they then 'opt-out'. Our preference would be that all IGTs would follow a consistent approach, but this could be set from a mutually agreeable date to allow Shippers/IGTs to balance the workload of credit setting.

- The GTs complete this process individually, but it has been in place for a number of years and can still be a cumbersome process. We are concerned that the process as outlined would be even more work and would grow to be divergent between each IGT (existing and new). We would have preferred to see a central mechanism delivering this process. We also do not see any overarching controls in place to avoid different approaches being adopted, this could only be challenged via a code dispute which seems an extreme way to challenge.

- We raised in our previous response that the approach put forward is unique and a mixture of what is offered in other codes, although we recognise the proposers reasons for this we still believe this will cause confusion, especially to new entrants. This could be even more confusing if not all IGTs adopt the model.

- We still don't see in the text who communications/requests will be sent to, this small detail could cause issues for both the IGTs and Shippers.

- We don't believe the benefits outlined against the relevant objectives consider the time/effort it will take to establish and administer this process; it could have been designed more efficiently and because of this we believe it has a negative impact to Shippers.

- We have suggested further legal text changes – see legal text section.

Overall, we support the principle of credit rules being introduced, but we are concerned that the solution doesn't introduce a robust efficient process which we would have preferred.

Self-Governance Statement

Do you agree with the Modification Panel's determination with respect to whether or not this should be a self-governance modification?

We agree this Modification requires Authority decision.

Specific Panel questions

Q1: Panel would invite parties to consider the new legal text changes made following further Workgroup development in March 2021. These areas are specific to; addition of timescale for initial requests of credit cover, addition of bilateral agreements between Pipeline Operators and Pipeline Users, application of cover at a company or Group of Companies level and limitation of frequency that Pipeline Operators can request cover from a Pipeline User in an Annual period

See summary response, we agree the changes are an improvement, however we still do not fully support the solution.

Relevant Objectives

How would implementation of this modification impact the relevant objectives?

We agree with the reasons outlined for objective B; however, we do not agree the solution delivers objective F, we believe the solution could be adopted differently which would be inefficient to Shippers working with different IGTs.

Impacts and Costs

What development and ongoing costs would you face if this modification was implemented?

There will be impacts to our credit costs as it will be additional agreements at additional costs. Also, it will cause the introduction of initial and enduring administration costs, which would result in additional FTE requirements. We are unable to provide exact costs for this depending on how many IGTs choose to require cover and if they will agree to group cover.

Implementation

What lead time would you wish to see prior to this modification being implemented, and why?

We would require a minimum of 3-6 months implementation if the change is approved, we have multiple entities and short codes so we would require time to ensure that the process is embedded correctly and adequate cover is in place and to ensure the FTE is available to administer the process.

There is nothing in the modification for IGTs to advise they intend to request credit, we believe this should also be included so allow parties to assess the volume of work required on approval.

Legal Text

Are you satisfied that the legal text will deliver the intent of the modification?

We have reviewed the text and have the following comments:

1) Although we recognise PCGs could be part of 'other forms of collateral' we believe that they should be an option of their own, see suggested text below for clause 21.1.1 below:

(a) a Letter of Credit or equivalent bank guarantee (available for an initial period of not less than six months);

(b) Parent company guarantee (available for an initial period of not less than six months);

(~~b~~c) an Escrow Account Deposit;

(~~c~~d) a Cash Deposit; or

(~~d~~e) 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.

2) we would prefer to see a timing cap between amendments so have suggested additional wording to the text:

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, with no more than two changes to the Annual Transportation Revenue value per calendar year, **with no less than 6 months between the changes**.

3) We don't believe that Shippers will just want to decrease credit, they might have circumstance changes e.g. taking on a SoLR which would see them proactively requiring more credit (we didn't note the ability in any other clause):

21.3.7 The Pipeline User may by notice to the Pipeline Operator increase or decrease the amount of Collateral at any time provided that such increase or decrease would not cause the Indebtedness Ratio to exceed the Indebtedness Ratio Limit.

Further Comments

Is there anything further you wish to be taken into account?

- We note there isn't a template for guarantees, we are concerned that without this it could add time to the process to negotiate the initial wording. This could be a difficult process if each IGT has a different approach to drafting, we would rather have a boilerplate template in code.
- We would like to see early notification from IGTs who intend to request credit cover so we can prepare and anticipate the volume of work required to introduce this.

Responses should be submitted by email to IGTUNC@gemserv.com