

iGT UNC Panel Chair, iGT UNC
Panel, gas transporters, gas
shippers and other interested
parties

Email: Licensing@ofgem.gov.uk

Date: 02 July 2021

Dear Panel Chair,

**Direction to send back Independent Gas Transporters (IGT) UNC 132VV
(IGT132VV): 'Introduction of iGT Code Credit Rules'**

On 29 April 2021 the iGT UNC Panel submitted the Final Modification Report (FMR) for IGT132VV 'Introduction of iGT Code Credit Rules' to the Authority for decision.¹ We have determined that we cannot properly form an opinion on the approval of this modification proposal based on the information provided in the FMR.

Background

The proposed modification would introduce credit cover arrangements to the IGT UNC. The proposed modification would not require that iGTs put credit cover in place, but it would standardise credit cover arrangements within the iGT UNC. As proposed, the credit cover arrangements would be designed using Ofgem's best practice guidelines for gas and electricity network operator credit cover.² Similar arrangements currently exist in the Uniform Network Code (UNC) and the Distribution Connection and Use of System Agreement (DCUSA).

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² Ofgem, [Best practice guidelines for gas and electricity network operator credit cover](#), 2005

At the iGT UNC Panel meeting on 23 April 2021, a majority of the iGT UNC Panel considered that iGT132VV would better facilitate the iGT UNC objectives and the Panel therefore recommended its approval.³

We have considered the issues raised by the modification proposal and the Final Modification Report that we received on 29 April 2021. We have also considered and taken into account the responses to the industry consultations on the modification proposal which are attached to the FMR and published in full on the IGT UNC website.⁴ We have determined that we cannot properly form an opinion on the approval of this modification based on the information provided in the FMR. We are therefore directing that the report is revised and resubmitted, to address the issues set out below.

Reasons for send back

We consider that the FMR does not provide sufficient analysis. Below we have set out our core concerns.

- There is a lack of information on the extent to which consumers would face costs if an iGT is exposed to bad debt as a result of a shipper failure. The FMR appears contradictory on the impact to consumers as it states that consumers would not face the cost of iGT bad debt exposure, but equally that credit cover would protect consumers from future costs.
- The FMR states that on only one occasion, in 2018, where a shipper failed at the same time as a supplier, were iGTs exposed to bad debt. There is no evidence as to the likelihood or materiality of the risk of bad debt costs for iGTs in future, or that current arrangements are not fit for purpose, provided in the FMR.
- The FMR suggests that exposure to bad debt could lead to iGT failure and this could impact consumers' gas supply. There is insufficient detail in the FMR to allow us to consider the risk that bad debt exposure could lead to the failure of an iGT.

³ The iGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the iGT UNC Modification Rules.

⁴ iGT UNC modification proposals, modification reports and representations can be viewed on the iGT UNC website at <http://www.igt-unc.co.uk/>

- There is insufficient evidence that the additional costs of credit cover will not be passed through to consumers by shippers, or the extent to which shippers might expect to face additional costs.
- The FMR states in section 7 'relevant objectives' that the modification will have no impact on effective competition between relevant shippers or suppliers. We do not consider that adequate evidence or analysis has been presented to demonstrate that credit cover arrangements will not impact competition between shippers or suppliers – particularly the risk that certain types of shipper or supplier will be able to secure credit cover more cheaply than others.

Our expectations

We therefore direct that further work is undertaken to address these deficiencies, including further analysis:

- to explain the extent to which iGTs may require credit cover in line with the modification,
- of the impact that credit cover will have on shippers, including on a range of different types of shippers,
- of the impact that the additional costs borne by shippers will have on consumers,⁵ and
- to consider if this modification will negatively impact competition between shippers.

Furthermore, the FMR is unclear whether credit cover arrangements are already required by some iGTs. If this is the case, we do not consider that sufficient analysis has been undertaken to estimate the extent to which the new methodology set out in the FMR will increase or decrease credit cover requirements for shippers – and the extent to which these costs or savings would be passed onto consumers.

⁵ The FMR suggests that there will be no consumer costs as a result of this modification.

To manage concerns around availability of commercially sensitive information and unknown variables the panel may wish to consider the use of scenario ranges when setting out future impact analysis in this FMR. A similar approach was recently adopted by Ofgem in our 'Supplier Licensing Review: reducing credit balance mutualisation' consultation.⁶

Direction

In accordance with paragraph 12(b) of standard condition 9 of the gas transporter licence and Part L, clause 26 of the IGT UNC – Modification Rules, we direct that the FMR for UNC 132VV should be revised to address the points above, and resubmitted as soon as is practicable.

Yours faithfully,

Barry Coughlan

Head of Licensing Frameworks

Signed on behalf of the Authority and authorised for that purpose

⁶ Ofgem, [Supplier Licensing Review: reducing credit balance mutualisation](#), 2021