IGT | UNC

Final Modification Report	At what stage is this document in the process?
# IGT132VV: Introduction of IGT Code Credit Rules	01 Modification 02 Workgroup Report 03 Draft Modification Report 04 Final Modification Report

Purpose of Modification:

To implement credit cover arrangements into the IGT UNC based on the principles of the Ofgem guidelines in 2005.

	Panel consideration on 25th March 2022. The Panel recommends implementation.
	High Impact: Pipeline Users
	Medium Impact: Pipeline Operators
	Low Impact: N/A

IGT | UNC

Contents

Any questions?

Contact:
Code Administrator

iGTUNC@Gemserv.com

02070901044

Proposer:
Chris Barker

chris.barker@bu-uk.co.uk

01359 221705

Timeline

The Proposer recommends the following timetable:

Modification Sent Back by Ofgem	2nd July 2021
Initial consideration by Workgroup	12th August 2021
RFI issued to industry parties	25th October 2021
RFI close-out for representations	22nd November 2021
RFI responses considered by Workgroup	9th December 2021
Workgroup Report presented to Panel	25th February 2022
Draft Modification Report issued for consultation	25th February 2022
Consultation Close-out for representations	16th March 2022
Variation Request presented to Panel	-
Final Modification Report available for Panel	18th March 2022
Modification Panel decision	25th March 2022

IGT132 was raised on 11th October 2019. Two variation requests were accepted for this Modification and on 8th April 2021 the Panel recommended by majority vote that the Modification should be implemented. The Final Modification Report (FMR) was issued to Ofgem for Authority decision on 29th April 2021. On 2nd July 2021, Ofgem issued their send back letter for IGT132VV. The above timetable reflects the journey of this Modification following send back.

1 Summary

What

This Modification proposal seeks to implement credit cover arrangements into the IGT UNC for all Pipeline Operator parties. At present, credit cover 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 for this change is to have standard arrangements in place for all parties involved.

Credit cover arrangements were implemented into the UNC and DCUSA following an Ofgem decision on credit cover (which it consulted on in 2005). The guidelines that came out of this process provided a framework for common arrangements and principles to be applied across the gas and electricity markets. However, such arrangements have not been implemented into the IGT UNC. This change looks to implement arrangements into the IGT UNC, in line with Ofgem guidance and principles.

In July 2021 Ofgem considered the issues raised by this Modification and the (FMR). Ofgem determined that they could not made a determination on the Modification based on the information provided in the FMR.

Ofgem directed that further work be undertaken to address 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 Shipper;
- of the impact that the additional costs borne by Shippers will have on consumers; and
- to consider if this Modification will negatively impact competition between Shippers.

The Workgroup reviewed the feedback from Ofgem and determined that a Request for Information (RFI) should be issued to IGTs and Shippers to obtain information required for further analysis of the solution.

Why

Credit cover arrangements are already in place within the UNC and DCUSA and implementing credit cover arrangements into the IGT UNC will bring it in line with these industry codes. Implementing a standard set of arrangements into the IGT UNC is believed to be a more appropriate mechanism for implementing common credit cover arrangements, opposed to relying on individual IGTs to implement varying bespoke arrangements within their individual network codes.

In 2018 and 2019 several Suppliers defaulted and entered the Supplier of Last Resort (SoLR)process. In most cases the Pipeline Operator is financially safe in such events because they contract with the gas Shipper for gas transportation rather than with the Supplier. However, in 2018 there was instance where a 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) the 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 could be significant. The implementation of standard credit cover arrangements into the IGT UNC will 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 UNC text, the proposal will seek to establish equivalent credit cover rules into the IGT UNC. This will allow Pipeline Operators to apply standard credit cover rules to Pipeline Users.

2 Governance

Justification for Self-Governance Procedures

Not applicable

Requested Next Steps

This Modification should:

- proceed to Consultation.

Workgroup Comments

The Workgroup reviewed the feedback provided by Ofgem in its send back letter and determined that an RFI should be issued to IGTs and Shippers. The RFI was issued on 25th October 2021 for 20 working days. Further detail on the outcome of the RFI can be found in Section 5 and Appendix 3 of this document.

Panel Comments

The Panel agreed that the Modification does not meet the Self-Governance criteria and should be issued to the Authority.

The Panel agreed that the Workgroup have addressed the areas of feedback highlighted by Ofgem in its send back letter and that no further work is required on the Modification by the 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 have 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.

The change is to provide protection against these scenarios, rather than attempting to update each individual network code with varying bespoke arrangements, the proposal is to implement a 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 Ofgem's proposals in 2005.

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 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 protection 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.

The Workgroup reviewed the feedback provided by Ofgem in its send back letter and determined that an RFI should be issued to IGTs and Shippers. The RFI was issued on 25th October 2021 for 20 working days. Further detail on the outcome of the RFI can be found in Section 5 and Appendix 3 of this document.

Workgroup Consideration of Ofgem Send Back Feedback & RFI

On 2nd July 2021, Ofgem issued their send back letter for IGT132VV. The Workgroup reviewed the feedback provided by Ofgem and determined that an RFI should be issued to IGTs and Shippers to help obtain the information and to complete the analysis, requested by Ofgem.

The Workgroup considered the questions that should be put forward to the IGTs and Shippers, including the types of questions and the information they needed to extract to provide Ofgem with enough information to make decision on the Modification. The Workgroup concluded that the Code Administrator should draft the RFI based on the Ofgem feedback, additional analysis points and the sub questions raised by the Workgroup.

The RFI was issued to all of industry on 25th October 2021 for 20 working days. There was a total of 12 questions for IGTs and 13 questions for Shippers.

A total of three IGTs and three Shippers responded to the RFI. Respondents were a mixture of medium and large organisations. The Workgroup considered and discussed the responses received at its 13th

January 2022 meeting. The full list of questions, as well as a summary of responses and Workgroup observations, can be found in Appendix 3 of this document.

Workgroup Comments on Solution

Though the intention is for the Credit rules to apply to transportation charges only, the Workgroup considered that there may be an issue with clarity with regards to whether the Modification applied to just transportation charges or extended to metering. On that understanding the Modification could not be varied at this stage of the Modification process it was agreed that a house keeping Modification could be raised after the implementation of this Modification to provide further clarity in the IGT UNC if needed.

Panel Comments

The Panel raised no comments or questions regarding the solution, agreed that the Workgroup have addressed the areas of feedback highlighted by Ofgem in its send back letter and that no further work is required on the Modification by the Workgroup.

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 (Workgroup Comments)

What is the current consumer experience?

The Workgroup noted that the consumer is not currently impacted as IGTs are consuming debt meaning it is not being passed through to the consumer. Furthermore, IGTs are not currently imposing sanctions onto Shippers, though the combination of market volatility and the increased number of SoLR events creates a potential risk of sanctions being applied in the future. The Modification would reduce the potential future risk of applying sanctions on Shippers.

The Workgroup discussed various responses to the RFI that were relevant to consumer impacts. The responses showed that although IGTs can currently apply sanctions to prevent Shippers taking additional Meter Point Registration Numbers (MPRNs) on their networks, this is limited to debt over £10k which may not be applicable for smaller IGTs, Shippers or Suppliers. Applying sanctions could in turn prevent consumers switching, having a potential detrimental impact for consumers. This Modification has been raised to reduce the risk of sanctions being levied by enabling IGTs to manage their debt more efficiently.

The Workgroup discussed how unpaid debt could potentially affect consumers. All the IGTs stated that cashflow[1] would be affected when debts are not paid, ramifications from this could be that IGTs may not be able to finance other licensed activities which could impact the consumer. However, this varies with each IGT as they each handle cashflow in different ways.

What would the new consumer experience be?

[1] See IGTs response to RFI questions 4 and 8, page 31-32

Costs

The new credit arrangements that will be introduced by this Modification will impact Shipper costs. The RFI responses indicate that these costs are likely to be passed through to the consumer[2]. The Workgroup acknowledge that there would be cost implications but that they are unable to comment further as responses providing additional information with regards to costs were confidential. However, these will be provided directly to Ofgem, and the Workgroup recommend that Ofgem seek further cost information from Shippers directly.

While the Workgroup could not determine the extent to which costs would be incurred by Shippers because of Code credit arrangements, the Workgroup felt that costs would be dependent on the credit arrangements organised with each Shipper if invoked. The Workgroup also noted that the matter in which credit cover is organised commercially confidential and therefore further information is not available.

It was observed by the Workgroup that the costs associated with IGT credit cover being applied would be passed onto to consumers and the only exemption was that some consumers were contracted to a fixed tariff[3]. Shippers should be able to get the money back for credit cover costs but there is a potential delay in recovering this due to the length of fixed price contracts and the terms of the current price cap.

The Workgroup recognised that the costs associated with applying credit cover would largely be incurred by Shippers and be passed on to Suppliers (and from there onto consumers, subject to the price cap). However, there is currently no mechanism for IGTs to recover costs associated with their bad debt, as IGT charges are set in accordance with Special Condition 1 of the IGT Licence, which does not include any provision for bad debt recovery.

Consumer Registrations

The Workgroup agreed that the credit arrangements provide an interim step that can be used before sanctions are applied. The sanctions allow the possibility of preventing Shipper's registrations[4] and the Code credit arrangements would allow IGTs to mitigate the risk of debt at an earlier stage thereby delaying the use of the sanctions already present in Code.

Impact of the change on Consumer Benefit Areas

Area	Identified Impact
Improved safety and reliability *The Workgroup agreed that securing reliability of supply to consumers has a positive impact on this area.*	Positive
Lower bills than would otherwise be the case *The Workgroup agreed how securing IGTs debt management options could ensure that costs are not smeared across the consumer base and protect consumer spending, but that there wasn't enough evidence available to confirm this.*	Neutral
Reduced environmental damage	None

[2] See Shipper response to RFI question 6, page 37

[3] See Shipper response to RFI question 6, page 37

[4] See IGT response to RFI question 3, page 31

Improved quality of service *The Workgroup agreed that there is a positive impact on this area as the Modification looks to minimise risk in the industry. As previously discussed, this may have unforeseen or indirect impacts on the consumer through IGT cashflow (as noted in Section 6).*	Positive
Benefits for society as a whole *The Workgroup determined that there may be impacts to a small percentage of the population if an IGT went out of business, the risk of such eventuality in itself being low.*	Neutral

Environmental Impacts

N/A

Workgroup Comments on Consumer Benefit Area Impacts

The Workgroup believe that there is a positive impact on safety and reliability as the Modification mitigates against prolonged exposure to debt which an IGT might otherwise mitigate through reducing other business activities which may inadvertently have an impact on the consumer.

The Workgroup agreed that consumer costs cannot be ascertained at this time and the impact on lower bills is neutral rather than positive.

The Workgroup agreed that the Modification would have a positive impact on the quality of service experienced by the consumer as it would offer more stability and reduced risk to the industry.

The Workgroup agreed that prolonged and sustained levels of debt could lead to IGT failure and the failure of an IGT business would have an impact on consumers. The Workgroup discussed a response to the RFI that indicated that IGT licenced activities could be impacted[5] as an unintended consequence, which may ultimately impact the service provided to consumers by IGTs.

Panel Comments

The Panel considered the areas of impact and Workgroup comments. The Panel and had no further comments regarding impacts and agreed that the Workgroup had addressed all the areas in Ofgem's send back letter and that no further work was required.

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	Positive

[5] See IGT response to RFI questions 4 and 8, pages 31 and 32

(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	Positive
(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	Neutral/Positive
(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 Code	Positive
(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, if implemented, would 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.

Workgroup Comments

The Workgroup discussed the Relevant Objectives. The Proposer noted that Relevant Objective (B) was selected due to the licence conditions IGTs must meet. Relevant Objective (F) was selected due to the alignment of moving credit arrangements into the main body of the Code from independent network codes, which another IGT supported. The Workgroup noted that the full consideration of how these are met (positive, negative or neutral) will be carried out during consultation.

IGT Competition

The Workgroup discussed the impact on competition for IGTs and agreed that it could increase competition as it could encourage IGTs to join the market, and that would have a positive impact. Having credit cover as an option, despite it not being a standardised system, allows all IGTs the ability to manage risks more efficiently.

The Workgroup also discussed whether some IGTs currently having the ability to apply code credit arrangements within their network codes would give them a competitive advantage within the market due to risk management. The Workgroup agreed that removing these conditions alongside the implementation of this Modification could ensure a level playing field for all and could ensure consistent treatment by all IGTs.

Shipper Competition

The Workgroup has acknowledged that the costs of credit cover are dependent on the size of a Shipper organisation, and this will have consequential impacts on competition, the Shipper organisation and new entrants to the market.

The Proposer believes that, as part of the credit cover methodology, there is some mitigation between the size/proportionality of the two organisations and other factors such as credit rating comes into play and therefore the competition factor between Shippers is not only affected by size.

The Workgroup highlighted that the Shipper to IGT size relationship is accounted for in the credit rules algorithm in the same way as has been adopted in the UNC and DCUSA. The Workgroup believe this to be a neutral impact on Shipper competition.

Supplier Competition

The Workgroup agreed the indirect impact on Suppliers would come through costs being past through from their Shipper and as the impact on competition is deemed to be neutral the Workgroup believe the impact of competition for Suppliers would also be neutral.

Promotion of efficiency in the implementation and administration of the Code

The Workgroup agreed that the Modification would have a positive impact on the promotion of efficiency and the implementation and administration of the Code as it would encourage credit code arrangements. However, Shipper users of the Workgroup highlighted that it may not offer standardisation as each credit proposal with each Shipper could be different depending on their agreement. The Workgroup did however highlight that these factors also exist within the UNC and DCUSA as well.

Panel Comments

The Panel considered views against the Objectives made by the Workgroup and consultation respondents.

The Panel agreed by majority that IGT132VV has a positive impact on Objective (F) for the reasons given above. One member disagreed as they felt, from a Shipper's point of view, the Modification did not promote efficiency as if credit was adopted in different ways and at different times there would be additional administration and monitoring required.

The Panel unanimously agreed that IGT132VV has a positive impact on Objectives (A), (B) and (C) for the reasons given above, also adding that if an IGT is cashflow restricted they would have issues meeting their licence obligations, the risk of which this Modification mitigates.

The Panel also agreed unanimously that IGT132VV would have a positive/neutral impact on Objective (D) for the reasons given above.

8 Implementation

Following an Authority decision to implement, this Modification is proposed for implementation as part of the next release of the IGT UNC. The Panel have determined that such a release should provide a minimum of 6 months lead time following approval.

Workgroup Comments

The Workgroup had no further comments on the proposed implementation approach.

Panel Comments

The Panel considered responses to the IGT132VV consultation regarding implementation, paying special attention to those responses requesting a specific lead time.

The Panel agreed, having considered views put forward by respondents, that IGT132VV should be implemented as part of a scheduled IGT UNC release which provides a minimum of six months lead time following approval.

The Panel recognised that some parties may require additional lead time but noted that credit cover is a bilateral arrangement and members believe that a lead time of six months should not stall any nessessary conversations. They also added that that the lead time allows for preparation ahead of the implementation of IGT132VV.

9 Legal Text

Text Commentary

The proposed text was initially based on 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 Independent Distribution Network Operator (IDNO) businesses that already utilise the DCUSA credit cover and for a smooth implementation of the 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 analysis is provided in Section 11 (Appendices) to help explain the differences between Codes, and the ultimate approach taken for the IGT UNC.

Additional information is also provided in Section 11 (Appendices) highlighting an example of how the methodology in Clause 21.2 of the proposed legal text would work in practice.

The legal text will also add new 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 times Annual Transportation Revenue x 2% x 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	Equivalence of the Credit Assessment Score to credit scores provided by Recognised Credit Assessment Agencies in their Independent Credit

Score	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 for determination in accordance with Part K, Clause 8.

21.8.3 A determination 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.

Workgroup Comments

The Workgroup gave due consideration to the Legal Drafting prior to the Modification being issued to Ofgem for Authority Decision. Full details of previous considerations and discussions can be found in the IGT132VV FMR dated 23rd April 2021, which can be found on the IGT132VV webpage.

Relevant charges

The Workgroup agreed that the legal text delivers the intend of the solution but believe that the credit cover arrangements proposed by this Modification should apply to transportation charges only. The Proposer confirmed that the intention is for the Credit rules to apply to transportation charges only. The Workgroup considered that there may be an issue with clarity with regards to whether the Modification applied to just transportation charges only or extended to metering beyond that. On the understanding

that the Modification could not be varied at this stage of the Modification process it was agreed that a house keeping Modification could be raised after the implementation of this Modification to provide further clarity in the IGT UNC if needed.

Panel Comments

The Panel considered comments regarding charges, specifically with regards to this Modification applying to transportation charges only. It was recognised by Panel that the comments received as part of Workgroup development highlighted that further clarity was required with regards to this. It was noted further that it has always been the understanding of the Workgroup that the intention of this Modification was for it to only apply to transportation charges.

The Panel considered mitigation regarding transportation charges, though they agreed that the application of this Modification to transportation charges only has been clarified within the Modification documentation and discussed by the Workgroup. They note that the Proposer of IGT132VV is happy to raise a Modification to provide clarity in the future.

It should be noted that the Code Administrator will add the transportation charge point to the Known Issues Register and look to facilitate the progression of a clarification Modification following approval of IGT132VV. The subsequent approval and implementation notice can include confirmation of this Modification and its progression should IGT132VV be approved.

10 Consultation

Panel invited representations from interested parties on 14th March 2022. The summaries in the following table are provided for reference on a reasonable endeavours basis only. We recommend that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
Indigo Pipelines Ltd	Support	B - Positive D - Neutral F - Positive	• We support the introduction of standardised Code Credit arrangements within the IGT UNC. We believe this will make the arrangements transparent and consistent, and enable better governance, than the current bespoke arrangements contained within individual IGT's own Network Codes. As well as providing additional risk mitigation for IGTs, it will benefit Shippers as IGTs will have additional mechanisms to deal with debt other than invoking Sanctions against the Shipper. • This Modification is not suitable for self-governance as it could have a material impact on Shippers acceding to IGT UNC, therefore it should be sent to the Authority for decision. • We agree with the proposer that this Modification supports Objectives B & F; Code Credit arrangements

			will assist Transporters in the economic operation of their pipeline system (B), whilst standardising the arrangements and placing them in the IGT UNC will make the rules more transparent and improve the administration of them (F). We feel it is neutral in relation to Objective D as we believe it has neither a positive nor negative impact on Shipper/Supplier competition. • No [costs] identified – the application of Code Credit arrangements remains optional for Transporters. • Next scheduled [implementation] release after Authority decision. • Is satisfied with that the legal text delivers the intent of the Modification.
Last Mile Asset Management	Support	A - Positive B - Positive C - Positive	• We are supportive of this proposal on the basis it will enable a consistent framework in which credit cover arrangements can be applied. It will better insulate IGTs from bad debt and provide parity with other network operators under the UNC and DCUSA. • We agree that this is not a Self-Governance Modification. • Relevant Objectives: A) We believe this objective is fulfilled on the basis it will allow us to better manage our cash flow from Shippers and to a degree will lower the risk of bad debt occurring which we currently do not have a mechanism to recover. B) As this Modification would introduce a framework in which credit cover can be provided for all IGT entities, we believe that the benefits realised under objective (a) will apply to all IGTs should they utilise such provisions and objective (b) will therefore be satisfied. C) IGTs are required to operate an efficient and economic pipeline system under their licence and by taking steps to lower the risk of bad debt from materialising, would satisfy objective (c). • We would see a small increase in costs to track and administer the credit cover provisions but this will be outweighed by the benefits this change would bring. • We acknowledge that Shippers may prefer a grace period but we would request this is no more than 3 months from the date of implementation.

			• We are satisfied the [legal text], though we acknowledge a house keeping change may be raised at a later date to provide additional clarification that the cover relates to Transportation Charges only. In addition, a further Modification could be raised to align with the payment history changes recently approved under DCP349. • We would highlight that the lack of credit cover provision under the IGT UNC was raised by investors as part of our recent refinancing exercise. On a point of parity with other industry agreements, we see no reason why credit cover arrangements should not be introduced and the same protections offered for IGTs.
E.ON	Oppose	B - Positive D - Positive F - Negative	• Although there have been some changes following feedback previously provided, we still do not fully support the designed solution. • The intention of the Modification is to add common credit rules to the IGT UNC, and a uniform approach. We do not agree that the solution delivers this. Whilst there are common principles, there is not an uniform approach. Each individual IGT has the option to utilise these rules at any time and agree to any type of credit. The cost of applying credit cover would largely be incurred by Shippers and be passed on to Suppliers, though we acknowledge that this may reduce mutualisation cost risks. • 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 should 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 proposer's 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. • 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. E.ON has actively participated in the working group sessions and was one of the three shippers who responded to the RFI. We are disappointed that only three shippers and three IGTs responded, responses from a range of organisations would have been beneficial. We hope the information that was provided gives Ofgem the information it was seeking. • We agree that this Modification requires Authority decision. • The legal text needs to be amended so that it is clear that only transportation costs are covered by these credit cover rules. We would support a housekeeping Modification being raised. • We agree with the reasons outlined for objectives B & D; indeed may look like credit cover could be restrictive to completion and new entrants to market, but ultimately it would help ensure only robust businesses join the market. • We do not agree entirely that the solution delivers objective F; the solution can be adopted by each IGT differently and at different times which make the administration inefficient to Shippers working with

			different IGTs. • There will be impacts to our credit costs as there will be additional agreements (ie with legal entities we currently do not have agreements with) 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 what cover is agreed, but by way of example; as there is no uniformity in the method each IGT will use, we would need to set up a process to monitor and document the different collateral in place, the different rules, and the different renewal dates. This will all need to be documented and monitored on almost a permanent basis, but also we could be in the situation where multiple renewals happen at the same time. • 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.
BUUK	Support	B - Positive F - Positive	• The Workgroup has spent a long time and directed a lot of resource to this change and have been able to effectively assess each of the potential risks and impacts from the change. As well as the benefits of the change's implementation. Benefits which will enable IGTs to effectively manage financial risk of their networks, while implementing code credit rules common to other codes including Shippers which currently must adhere to similar rules within the UNC. It is also considered that by enabling IGTs to protect a portion of their debt it may also allow Shippers to better manage their Transportation outflow and thus provide enhanced protection against market volatility. • As noted by the Workgroup report it is appropriate to resubmit the Modification to Ofgem for considerations. • The Workgroup has done well to review and assess

			issues which could arise. • Agree with the Workgroup that objectives B and F will have a positive impact, ultimately meaning that the IGT UNC utilises a standardised form of code credit rules across IGT parties enabling for efficient discharge of other regulatory requirements. No negative outcomes were identified by the Workgroup, including around competition where the Workgroup have addressed the concern raised by Ofgem in their send back letter. • As noted previously it is difficult to attribute direct costs as they will be commercially sensitive and unique for each Shipper/ IGT relationship. The Workgroup RFI and related work through should help provide a sense of the foreseeable impact and change of costs affecting both the market and ultimately the consumer from the change. • Agreed with the workgroup that this change should be implemented alongside the next release of the IGT UNC.
Energy Assets Pipelines	Support	B - Positive F - Positive	• We support implementation of the Modification proposal as we consider that introducing a single consistent methodology for credit management for all IGTs will simplify the operation of the market for all participants. • It will also provide additional security for smaller IGTs who may not have the resources to develop and implement their own credit arrangements. • We consider (as we operate across both gas and electricity) that basing the arrangement on those in the DCUSA is appropriate as it minimises operational complexity. • We consider that the additional data collected via an RFI, following Ofgem 'sending back' this Modification provides further justification for implementation. • We agree that this Modification should be subject to Ofgem approval as it may have an effect on competition. • We consider that this proposal would better facilitate relevant objectives (b) and (f), by implementing single consistent credit risk management (CRM) process for all IGTs, which would remove the need to include CRM in individual network codes.

			• Although we anticipate a small increase in administrative effort to manage the processes associated with this Modification, we consider this will be outweighed by the reduction in risk. • 3 months to enable us to put the required processes in place. • [Are satisfied that the legal text will deliver the intent of the Modification]
ScottishPower	Oppose	B - Positive F - Neutral	• Whilst ScottishPower understands the rationale of the Modification, we do not support implementation. • The current Energy Market conditions are very different to those in place when the Modification was first raised in 2019. The Industry is already facing increased costs, and this Modification will only add to the burden of cost being passed through to the end consumer. There could be a potential delay in a Shipper/Supplier's ability to recover costs associated to credit cover as it cannot be added to fixed term contracts in place before the Modification is approved and recognition to be given to the timeline for price CAP setting. We believe recognition must be given to be given to the current impact of energy prices with the price CAP increasing from 1st April 2022 and forecast predicting a larger increase from 1st October 2022. • The intention of the Modification was for Code Credit rules to apply to transportation charges only, however this is not made clear in the legal text. Following workgroup discussions, it was agreed a housekeeping Modification could be raised subject to the Modification being approved. If the Modification is approved, we recommend this is completed to address this issue and give clarity this does not relate to any other charges. • We agree this Modification requires an Authority decision. • Gas Transporters and electricity distributors have regulated cost and profit models, but it is our understanding that IGTs do not operate under similar conditions. As such we would question if it is acceptable to mirror processes within

			UNC/DCUSA if IGTs do not have the same regulatory scrutiny of cost/income projections. • We agree with the reasons outlined for objective B. however, we do not agree the solution delivers objective F as stipulated in the workgroup report. • The level of credit cover will be dependant on the size of the Shipper organisation and will have consequential impacts on competition and create a barrier of entry to the market for smaller parties. We would like to note Smaller parties did not provide a response to the RFI issued and may not be aware of the consequential impacts on them should the Modification be approved. • The development and ongoing costs will be for initial set up of Credit Cover costs, time, and resources. This change is not mandatory for an IGT to introduce credit cover and will be dependant on who chooses to introduce credit cover. Also, there is not one single method of providing credit i.e. credit rating, parent company guarantee, letter of credit for each IGT so the type of request could be different each time a request for credit it requested. • We would require a minimum of 6-9 months lead time if this Modification is approved. This length of time would be needed to allow for stakeholder management and set up of enduring processes which includes FTE for adequate cover to be put in place. • We note that a recent DCUSA change to slightly amend the credit cover rules is currently being pushed back to April 2023 by another change. This is as a direct result of the impact on Suppliers. We recommend this is reviewed when the final decision is made. • It's not clear within the legal text that this is for Transportation charges only.

Summary

There were six responses received to the consultation for IGT132VV, four were received from IGTs and two were received from Shippers.

Both Shippers opposed the Modification and all four IGTs supported the Modification proposal.

All six respondents agreed that Authority Consent is required.

One respondent agreed that this Modification met Objective A (Efficient and economic operation of the pipe-line system), all six respondents agreed that the Modification met Objective B (Co-ordinated, efficient and economic operation), one respondent agreed that the Modification met Objective C (Efficient discharge of the licensee's obligations), one respondent agreed that the Modification met Objective D (Securing of effective competition), three respondents agreed that the Modification met Objective F (Promotion of efficiency in the implementation and administration of the Code) and one respondent thought it had a negative impact on Objective F.

Four of the respondents agreed that the legal text delivers the intent of the Modification, and two respondents did not agree that the legal text delivers the intent of the Modification. Three respondents would support a housekeeping Modification in order to clarify, in the legal text that the Modification be applied to Transportation charges only.

The responses were varied and it is recommend that the consultation responses are looked at individually and can be found here.

Panel Comments

The Panel considered responses to the IGT132VV consultation. A question was raised regarding whether SoLR charges were included under this Modification as the equivalent UNC provisions include SoLR. It was confirmed that SoLR charges are currently not included in the IGT UNC and therefore cannot be included under this Modification.

The Panel considered a response which highlighted a potential related DCUSA change[6] that amends credit cover rules and has been pushed back to April 2022 by another change. The respondent recommended that this change be considered when the final decision on IGT132VV was made. The IGT132VV Proposer advised the Panel that DCP349 - Effectiveness of the current provision of unsecured cover under Schedule 1 was raised around the same time as IGT132VV and that the some of the aspects of DCP349 were included in IGT132VV. They noted that there have been some slight changes to the DCP regarding Suppliers not making retrospective amendments. However, as IGT132VV has no retrospective amendments there is no impact on this Modification Proposal. The Proposer felt that this DCUSA change had no impact on the implementation of IGT132VV.

The Panel agreed that no new issues had been raised as part of the consultation and had no further comments on the Modification.

11 Panel Discussions

Discussion

Consultation Responses

The Panel considered responses to the IGT132VV consultation. A question was raised regarding whether Supplier of Last Resort (SoLR) charges were included under this Modification as the equivalent UNC provisions include SoLR as they are within UNC Section S. It was confirmed that SoLR charges are currently not included in the IGT UNC and therefore cannot be included under this Modification.

[6] DCP349 - Effectiveness of the current provision of unsecured cover under Schedule 1

The Panel considered a response which highlighted a potential related DCUSA change[7] that amends credit cover rules and has been pushed back to April 2022 by another change. The respondent recommended that this change be considered when the final decision on IGT132VV was made. The IGT132VV Proposer advised the Panel that DCP349 - Effectiveness of the current provision of unsecured cover under Schedule 1 was raised around the same time as IGT132VV and that the some of the aspects of DCP349 were included in IGT132VV. They noted that there have been some slight changes to the DCP regarding Suppliers not making retrospective amendments. However, as IGT132VV has no retrospective amendments there is no impact on this Modification Proposal. The Proposer felt that this DCUSA change had no impact on the implementation of IGT132VV.

The Panel agreed that no new issues had been raised as part of the consultation and had no further comments on the Modification.

Legal Drafting

Panel considered comments regarding charges, specifically with regards to this Modification applying to transportation charges only. It was recognised by Panel that the comments received as part of Workgroup development highlighted that further clarity was required with regards to this. It was noted further by a Panel member that it has always been the Workgroups understanding that the intention of this Modification was for it to only apply to transportation charges.

The Panel considered mitigation regarding transportation charges, though they recognised that the application of this Modification to transportation charges only has been clarified within the Modification documentation and discussed by the Workgroup. They note that the Proposer is happy to raise Modification to provide clarity.

It should be noted that the Code Administrator will add the transportation charge point to the Known Issues Register and look to facilitate the progression of the Modification following approval of IGT132VV. The subsequent approval and implementation notice can include confirmation of this Modification and its progression should IGT132VV be approved.

Implementation

The Panel considered responses to the IGT132VV consultation which highlighted implementation lead times as the reasons given for the additional time.

The Panel agreed, having considered views put forward by respondents, that IGT132VV should be implemented as part of a scheduled IGT UNC release which provides a minimum of six months lead time following approval.

The Panel recognised that credit cover is bilateral arrangement and do not believe that the lead time of six months should stall any nessessary conversations. They note that that the lead time allows for preparation ahead of the implementation of IGT132VV.

Impacts & Ofgem comments

The Panel considered the areas of impact and Workgroup comments. The Panel and had no further comments regarding impacts and agreed that the Workgroup had addressed all the areas in Ofgem's send back letter and that no further work was required.

[7] DCP349 - Effectiveness of the current provision of unsecured cover under Schedule 1

Panel Determinations

The Panel parties present voted unanimously in agreement that IGT132VV:

i. should be subject to Authority decision

ii. does not impact the current SCR

iii. has a positive impact on relevant objectives A (Efficient and economic operation of the pipe-line system), B (Co-ordinated, efficient and economic operation) and C (Efficient discharge of the licensee's obligations)

iv. has a neutral/positive impact on relevant objective D (Securing of effective competition)

v. can be implemented in the next IGT UNC release which provides a minimum of 6 months lead time following approval by the Authority as in itself

The Panel parties present voted by majority in agreement that IGT132VV:

i. has a positive impact on relevant objective F (Promotion of efficiency in the implementation and administration of the Code)

ii. should be implemented

12 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- This Modification should proceed to consultation.

Panel Recommendation to Authority

The Panel members recommended by majority decision:

- that Modification IGT132VV should be implemented.

13 Appendices

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.

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.

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

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 Business days

P = Prepayments or other Advanced Payments received

Credit Allowance

This value is equal to:

5 times Annual Transportation Revenue x 2% x CAF

Indebtedness Ratio

This value is equal to:

VAR as a percentage of (CA + C)

Where: 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:

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.

Appendix 3 – RFI responses for IGTs and Shippers

On 25th October 2021 a Request for Information (RFI) was issued with regards to IGT 132VV. Three Shippers and Three IGTs responded to the RFI.

Questions included in the RFI were developed by the Workgroup in October 2021. As part of the development of the RFI, the Workgroup considered the four broad questions raised by Ofgem in their send back letter:

- What is the risk of not doing this?
- What does credit cover currently cost the market?
- Will the proposal hurt competition?
- What are the costs of intervention?

As part of the RFI the above questions were broken down even further, with two final sets of questions issued to industry (one for Shippers and one for IGTs)

Below sets out the questions issued as part of the RFI (grouped under the relevant Ofgem question), information received from respondents and observations drawn by the Workgroup at its December 2021 meeting.

IGT RESPONSES

Ofgem Question: What is the risk of not doing this?
1. How long do outstanding transportation invoice payments build up before action is taken by your organisation? **a) As soon as the payment is late** **b) Less than 3 months** **c) Greater than 3 months** **d) Other (please specify)** All three respondents stated “as soon as the payment is late”. Workgroup Observation: The responses demonstrate that IGTs proactively manage late payment and debt.
2. Please explain what debt procedures your organisation would apply for unpaid invoices?

Three responses were provided as follows:

• One day past the due date an update is requested by email or telephone; Three days past the due date a follow up by email or telephone; Continued follow ups daily until payment received; The processes tend to be sufficient, except for when a Shipper's business fails and is therefore unable to pay.

• Contact the Shipper with a notice of "speaking to legal" regarding the debt after 2 months; and • A notification is sent to the Shipper advising that Late Payment interest is now being applied to that invoice total and a request is sent again for payment to be made. If payment is not received after that sanction options would be explored.

Workgroup Observation: The responses show that there is not a consistent system that is being used by IGTs for debt procedures with regards to unpaid invoices. In addition to this there are limited actions that IGTs can take. The Workgroup thinks it should be noted that although two licensed IGTs have credit arrangements within their individual network codes, these processes are not being used.

3. What sanctions are available to your business and when would it apply them in the case of debt?

Three responses were provided as follows:

• IGT UNC Section G clause 14 allows us to apply sanctions preventing a Shipper from registering additional MPRNs into their portfolio where outstanding debt exceeds £10,000. However, it provides no protection against further debt accruing on their existing portfolio;

• Late payment fees are invoked. If the debt is over £10,000 we can stop companies from connecting to our networks through Xoserve; and

• Options are available to limit and contain potential debt. From calling in a solicitor and other third parties to collect the debt, to preventing registrations of the Shipper party via the Gas CDSP.

Workgroup Observation: The responses show that there is not a consistent system in place and although various action could take place to limit further debt it does not help relinquish the current debt that has been built up. Although IGTs can apply sanctions to prevent Shippers taking additional MPRNs on their networks, this is limited to debt over £10k. This limit may not be applicable for smaller IGTs/Shippers or Suppliers. Additionally, preventing consumers from switching has potential detrimental impacts for said consumers.

4. What are the impacts of debts not being paid on your business?

Three responses were provided as follows:

• Any unpaid debts will have an immediate impact on cash and cash forecasts. Depending on materiality of the amounts involved it may impact funds available for future investment in gas networks;

• The impact of debts not being paid to our business would be cashflow problems and Suppliers

loss; and

• In the short term there is limited direct impact from debts building up. However, in the longer term such events (where bad debt in particular builds up) are then accounted for in annual budget planning which ultimately requires the balance sheets to allow the licenced entity to continue to function at the potential expense of some of its activities. These are to be assessed as and when required.

Workgroup Observation: The responses show that cashflow will be affected for all the respondents when debts are not paid and a potential ramification could be that IGTs may not be able to finance other licensed activities (which could impact the consume). However, this varies with each IGT as they each handle cashflow in different ways.

8. What are the impacts of Shipper failures on your organisation?

Three responses were provided as follows:

• It could result in up to 2 months of non-recoverable transportation revenues. This has an immediate impact on cash, and cashflow forecasts;

• Increase in bad debt within the organisation and results in a loss of cashflow; and

• Affects the organisations cashflow and thus ability to fund its licenced activities from a loss of revenue without a means of recovering bad debt. Large and multiple such Shipper failures therefore represent a risk that resources are required to be taken away from the end consumer in operational tasks like interruptions and maintenance with these required to maintain the business as a whole.

One response was confidential and is to be provided to Ofgem.

Workgroup Observation: The responses draw a similar picture to the responses received to question 3 from IGTs. Depending on how cashflow is managed by an IGT it may affect other licensed duties which in turn could affect the consumer. Recent Shipper failures have had impacts on IGTs. However, this information is confidential, and the Workgroup therefore recommended that IGTs indicate those impacts in their consultation responses and/or provide that information directly to Ofgem.

Ofgem Question: What does credit cover currently cost the market?

5. In the year 2020/21 how much do you charge each Shipper short code for transportation per month? What is the average, the minimum and the maximum per Shipper per month? (Potentially commercially sensitive)

Confidential responses provided, these will be passed onto Ofgem.

Workgroup Observation: The responses to this question demonstrate the financial risk to the IGTs in comparison to the Shippers costs for credit cover (see responses to Shipper question 1). Responses to this question and Shipper question 1 should be considered together as they show what the costs are for to the market. The Workgroup encourage IGTs to include as much information as possible on costs and impacts in their consultation responses and/or to provide the information directly to Ofgem.

6. Is your organisation likely to implement the credit cover offered by Modification 132VV (Introduction of IGT Code Credit Rules) if it is implemented? If so, how and in what capacity will it be implemented?

Three responses were provided as follows:

• We would ask all Shippers active on our network to provide some form of credit cover, in accordance with the provision of Modification IGT132VV; and

• We would implement this and we would write a process of how this would be implemented within finance.

One response was confidential and is to be provided to Ofgem.

Workgroup Observation: The responses show that the respondents would implement the credit cover offered by Modification IGT132VV if it was to be implemented. The responses show the extent to which IGTs may require credit cover in line with the Modification.

7. Which of these options would your organisation accept as credit cover? Multiple options may be applicable

- Parent company guarantee

- Letter of credit

- Cash

- Escrow account deposit

- Other (please specify)

All respondents stated “letter of credit”, two respondents stated “escrow account deposit” and two respondents stated “cash” and “parent company guarantee”. A respondent also stated that they would be open to a number of collateral options to accommodate the Shipper parties, but a “Letter of Credit” would be the preferred.

Workgroup Observation: The response to this question should be looked at in line with the Shipper responses to question 10, to work out the cost to Shippers. Shippers have stated that parent company guarantees, letters of credit and cash would all be accessible to them. It could therefore be drawn that there is shared ground between the IGTs and Shippers with regards to collateral options.

10. What factors in the credit process described in Modification IGT132VV (Introduction of IGT Code Credit Rules) will impact efficiency and why? Please provide the rationale.

- Positively

- Negatively

- Neutral

Two respondents stated it affected them positively:

• Having credit protections in place will provide greater certainty over cash inflows, and in turn greater certainty over funds available for investment in gas networks. The protections will allow for a reduced focus on time spent credit checking, chasing debt, and generally spent discussing the financial position of Shippers and potential implications of Shipper failures;

• It is acknowledged that Code Credit Rules aren't a silver bullet, and work to solely help limit the bad debt IGTs incur rather than remove it in its entirety. This does however present an improvement in the efficiency of how IGTs can manage the financial security of their networks with arrangements adopted and utilised in line with their counterparts in the Gas and Electricity markets; and

• In terms of the IGT UNC itself, efficiency is presented by this change due to stripping out individual network code credit rules to establish a standardised approach for all IGT and Shipper parties. Removing the option of differing approaches to be adopted and thus potentially causing confusion and increased costs for the market to contend with. One respondent stated it had a neutral affect.

Workgroup Observation: The responses show that the credit process described in the IGT132VV is mainly viewed positively, particularly as it would offer more clarity and certainty. The Workgroup observed that the credit codes rules would be a useful tool to manage risk and help to have a standardised process.

9. How many Shipper licenced entities (short codes) do you have agreements with? How many registered companies do they represent? How many company groups do they represent?

Confidential responses were provided, these will be shared with Ofgem.

12. Does your organisation believe there are any key areas of concern in this Modification IGT132VV (Introduction of IGT Code Credit Rules) that have not been identified? Does your organisation have any other elements that you would like the Modification to include?

Two responses were provided as follows:

• What happens if the Shipper refuses to pay? How is this enforceable?; and

• It is felt the Workgroup have done well to assess the content of the Code Credit Rules and their

impact on the market. While it is acknowledged this Modification hasn't been accepted with welcome arms it has been widely acknowledged that its intent is supported with only the application and details of such arrangements requiring amending, which have been made through the Workgroup's efforts.

Workgroup Observation: The Workgroup agreed that the Modification relies on current code provisions for disputes in respect of enforcement. As part of the development of the Modification a disputes procedure (which had been incorporated within the solution in an earlier version) was removed following Workgroup discussions. (Also see Shipper response to question 13).

Ofgem Question: Will the proposal hurt competition?

11. How might Modification IGT132VV (Introduction of IGT Code Credit Rules) impact competition for IGT's and if so, how? (Please provide supporting evidence where possible)

Three responses were provided as follows:

• By removing some of the financial risks to IGTs may encourage more parties to enter the market; and

• It is not anticipated IGT132VV will have an impact on competition between IGTs. Because of the nature of the methodology within the code credit rules the requirement and cost to implement is theoretically scalable to the business. i.e., the cost for IGTs to maintain is based on administrative activities of the arrangements rather than the collateral itself which lies with the Shippers. This therefore allows for IGTs to assess and monitor the risk of debt to their business and implement code credit arrangements as and when that risk rises.

Workgroup Observation: The responses show that the potential credit rules will generally have a positive impact on competition by offering less financial risk and the ability to assess and monitor the risk of debt more accurately. This in turn should make competition better for IGTs.

SHIPPER RESPONSES

Ofgem Question: What are the costs of intervention?

1(a) What is the admin cost for introducing credit rules for new entities (e.g. new IGTs) for your organisation?

a) less than £10k

b) between £10k and £100k

c) over £100k?

The responses ranged between less than £10k and £10k and £100k. The costs would be for new

arrangements as these are new legal entities, Parent Company Guarantees or Letters of Credit (difficult to estimate cost as it depends on how much negotiating is needed) and new processes to monitor (the different collateral in place, the different rules, and the different renewal dates). One respondent stated that once credit cover is set up and it does not change regularly, these costs would be on an ad hoc basis.

Workgroup Observation: The Workgroup agreed that this response should be aligned with the confidential responses to question 5 for IGTs, in order to show the cost to risk comparison.

1(b) Are there any other factors influencing admin costs for introducing credit rules?

Two respondents agreed that this may vary depending on who takes this up and what type of collateral is required. Initial set up of reports in SAP will be dependent on who chooses to introduce credit cover as this change is not making it mandatory for an IGT to introduce credit cover. Other costs identified were staff resources to implement new procedures.

Workgroup Observation: The answer provided to Ofgem will give further confidential information about the size of the Shipper to give perspective to the responses.

2. What is the percentage rate for which you would obtain credit for IGTs?

One respondent was not comfortable to disclose this information, one respondent did not have an answer to this question at the time and a third respondent provided a confidential response which will be provided to Ofgem.

Workgroup Observation: The responses to this question should be read in line with the IGT responses to question 5.

3. For comparison: What is the cost of maintaining credit cover rules for the Gas Distribution Networks (GDNs) under the UNC?

a) less than £10k

b) between £10k and £100k

c) over £100k

The responses ranged between £10k and £100k and over £100k. These costs were made up of: • Monitoring credit exposure daily; • Updating credit where necessary and the cost of getting it signed off as there are approximately 6 people involved in every request; and • Letter of Credit coverage. One respondent stated there would be annual running costs for maintaining credit cover.

Workgroup Observation: The Workgroup agreed that this response should be aligned with the confidential response to question 5 for IGTs, to show the cost to risk comparison.

5. What are the anticipated impacts of additional credit cover and what would be the level of impact to your business?

a) high

b) medium

c) low

Two respondents answered low and one answered medium. The respondents stated that it will depend on how many IGT's take this up, whether they will accept PCGs and how much credit is required. Other impacts recognised were additional resources required to monitor and maintain adequate LC facility. Cash requirements would be covered through existing financing set-ups.

Workgroup Observation: The Workgroup agreed that the responses were predictions and that it is difficult to anticipate impacts of a credit cover procedure that is not yet in place. It was also acknowledged that the existing finance set up would be able to take on the cash requirements and that is why two respondents answered that the impact would be low.

6. Are there any reasons why additional costs for IGT transportation credit cover would not be passed onto consumers? Please specify.

One respondent could not see any reason why additional costs could not be passed onto the consumers. Two respondents stated that consumers on a fixed contract could not have costs passed on as they are on fixed prices agreements. It may be that costs could not be passed on to the consumer until they have moved onto a new tariff.

Workgroup Observation: It was observed by the Workgroup that the additional costs would be passed onto to consumers and the only exemption highlighted by the respondents were that some consumers were contracted to a fix tariff, but these contracts will eventually need to be renewed. Therefore, Shippers should be able to get the money back for the credit cover costs but there is a potential delay in recovering cost due to the length of fixed price contracts and the terms of the current price cap.

The costs associated with credit cover, which would largely be incurred by the Shipper and passed on to Suppliers and eventually to consumers (subject to the price cap). However, there is currently no mechanism for IGTs to recover costs associated with their bad debt. IGT charges are set in accordance with Special Condition 1 of the IGT Licence, which does not include any provision for bad debt recovery.

11. What factors in the credit process described in Modification IGT132VV (Introduction of

IGT Code Credit Rules) will impact efficiency and why? Please provide the rationale.

- Positively

- Negatively

- Neutral

One respondent stated the Modification would have a neutral effect on the efficiency of their organisation. Two stated that it would have a negative impact on their organisations and the reasons for this are:

• That there would be no uniformity in the method each IGT uses, so more time will be spent figuring out the rules for each IGT and keeping track of what credit needs renewing and how it can be renewed;

• That this will all need to be documented and monitored on almost a permanent basis, there also could be a situation where multiple renewals happen at the same time; and

• This would be an added layer of administration for SoLR and given the current energy market crisis this is happening on a much more frequent basis.

Workgroup Observation: The Workgroup observed that there may not be uniformity in methods used by IGTs as there is currently no uniformity in place as things stand. The Workgroup noted that the purpose of this Modification is to introduce a form of credit cover uniformity, applicable to all Shippers and IGTs. The Workgroup observed that the IGT responses to question 7 indicated that their preference would be for a Letter of Credit and therefore there may not be a variety of approaches (as identified by one of the Shippers responses). There are other aspects of the Credit rules which could vary across IGTs.

13. Does your organisation believe there are any key areas of concern in this Modification IGT132VV (Introduction of IGT Code Credit Rules) that have not been identified? Does your organisation have any other elements that you would like the Modification to include?

One respondent provided no further information. One respondent stated that they understood the requirement for cover, but ideally it would be centrally managed. One respondent stated that it needs to be made clear within the Modification that this is for transportation charges only and not include any other charges such as ERC, Rental, Job and Must Read.

Workgroup Observation: This Modification seeks to make Credit cover applicable for transportation charges only. The Workgroup observed that this could be made clearer.

Ofgem Question: What does credit cover currently cost the market?

4. For comparison: What is the percentage rate for which you would obtain credit for the Gas Distribution Networks (GDNs)? (Potentially commercially sensitive)

Two did not respond to this question. One respondent provided a confidential response to be provided to Ofgem.

7. What size is your Shipper organisation(s) (in total)?

a) Small - Less than 100k supply points

b) Medium - 100k to less than a million supply points

c) Large - a million supply points or above

Two respondents state that they are a large (a million supply points or above) Shipper organisation, and one was a medium (100k to less than a million supply points) Shipper organisation.

Workgroup Observation: The responses for this question should be looked at in line with the responses to IGT questions 5 and 9.

8. How many IGT licenced entities do you have agreements with? How many registered companies do they represent? How many company groups do they represent?

One respondent has agreements with 14 IGT's, one respondent has customer-vendor relationships with 8 IGT groups and the third respondent has 11 -13.

Workgroup Observation: The responses to this question give an idea of the amount of work that would be required, as not all Shippers have agreements with all IGTs.

10. Which of these would be options available to you? Multiple options may be applicable Credit rating

- Parent company guarantee

- Letter of credit

- Cash

- Escrow account deposit

- Other (please specify)

All three respondents stated these options would be available to them; parent company guarantees, letter of credit and cash. One respondent stated all the options would be available to them and in addition escrow account deposits too.

Workgroup Observation: The response for this should be looked at in line with responses to IGT question 7. Looking at both sets of responses there is an agreement of the collateral methods, therefore it could be drawn that there is shared ground between the IGTs and Shippers with regards to collateral methods.

Ofgem Question: Will the proposals hurt the competition?

9. Will the IGT UNC credit cover Modification (IGT132VV) significantly impact your organisation's overall credit position? Please explain how and whether that would be positive or negative.

Two respondents considered it unlikely to have a negative material impact to the overall company position or a negligible impact. One respondent stated that there would be a significant impact on their organisation, but it would be difficult to quantify until the amount of credit required is known. The respondent stated that the likelihood is that it will run into millions of pounds of extra credit which would be thousands if not tens of thousands of pounds of extra costs in fees alone as well as needing a member of staff who's role could purely be managing this credit cover, especially in the current times where things are extremely unpredictable.

Workgroup Observation: It was observed by the Workgroup that the overall credit position of a Shipper being affected by the Modification would be difficult to predict. It was also added that the size of the organisation needs to be taken into account.

It was assumed that the changes brought in by the Modification would impact the overall credit positions of the smaller Shippers more negatively. However, larger organisations have aired concerns with the Modification and see it as potentially having a negative impact on their overall credit position as well.

12. How might Modification IGT132VV (Introduction of IGT Code Credit Rules) impact competition for Shippers and if so, how? (Please provide supporting evidence where possible)

One respondent stated that they do not provide or ship to any other Supplier. The respondent stated if this is an issue for a large Shipper, it's likely to be an even bigger issue for medium and small Shippers as they will have less availability of credit, less cash and may not be able to afford the extra manpower. Another respondent stated the work involved in managing this is almost the same regardless of the size of the Shipper, so the smaller the Shipper the more the impact.

Workgroup Observation: The responses state that it is an extra measure, and that smaller Shippers may have the same costs for credit cover as the larger Shippers and this may therefore effect competition negatively.

QUESTION CATAGORISATION

What Are The Costs Of Intervention?
What costs could be passed through to consumers?
How many more IGT's would be likely to implement credit cover arrangements under new rules?
Will the level of credit cover required by IGT's currently increase or decrease?
What credit cover level will the new rules require IGT's to request from shippers?

What Does Credit Cover Currently Cost The Market?
What credit cover costs do shippers currently face?
Do credit cover costs get passed through to consumer bills via shipper fees?
What credit cover costs do consumers currently face?
How many IGT's currently require credit cover?

Will The Proposals Hurt Competition?
Will shippers face different levels of additional costs?
Do Smaller shippers face higher costs under new proposals?

What Is The Risk Of Not Doing This?
What costs do consumers face when IGT's face bad debt costs?
Are consumers impacted when a supplier fails?
What is the risk that further situations arise where IGT's are exposed to bad debt costs?
What is the risk that bad debt exposure leads to IGT failure?
What impact would an IGT failure have on consumers?
What impact would an IGT failure have on the market?