Consultation Response

IGT132V:Introduction of IGT Code Credit Rules

Responses invited by: 16 Mar 2022

Respondent Details

Name: Clare Manning

Organisation: E.ON

Support Implementation	☐
Qualified Support	☐
Neutral	☐
Do Not Support	☒

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

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.

Our reasonings are as follows:

- The model is dependent on choice rather than a requirement for all IGTs, we don't believe this should be an opt-in approach, there should be consistency and it 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 proposers reasons for this we still believe this will cause confusion, especially to new entrants. This could be even more confusing if not all IGTs adopt the model.
- We still don't see in the text who communications/requests will be sent to, this small detail could cause issues for both the IGTs and Shippers.
- We don't believe the benefits outlined against the relevant objectives consider the time/effort it will take to establish and administer this process; it could have been designed more efficiently and because of this we believe it has a negative impact to Shippers.
- We have suggested further legal text changes – see legal text section.

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

Self-Governance Statement

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

We agree that this Modification requires Authority decision.

Please state any new or additional issues that you believe should be considered

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.

Relevant Objectives

How would implementation of this modification impact the relevant objectives?

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.

Impacts and Costs

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

There will be impacts to our credit costs as 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.

Implementation

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

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

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

Legal Text

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

We have reviewed the text and have the following comments:

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

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

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

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

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

~~(d~~e) any other form of Collateral as agreed between the Pipeline Operator and the Pipeline User from time to time, including but not limited to performance bonds, bilateral insurance, and independent security. The Pipeline Operator may rate the effectiveness of such Collateral as being between 0% and 100%. Where the effectiveness of such Collateral is rated as less than 100%, its contribution to the aggregate level of Cover provided shall be reduced accordingly.

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

21.3.6 The Pipeline Operator shall give the Pipeline User one month's written notice of its intention to use a new Annual Transportation Revenue value to calculate the Credit Allowance according to Clause 21.2.3. Such notice shall state the new Annual Transportation Revenue value and the date on which the Pipeline Operator will begin to use that value in such calculation, with no more than two changes to the Annual Transportation Revenue value per calendar year, with no less than 6 months between the changes.

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

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

4) 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.

Further Comments

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

We have no further comments