





Draft Modification Report	At what stage is this document in the process?
<h1>IGT164:</h1> <h2>Alignment with DCP349 and Provision of Unsecured Credit</h2>	<div style="display: flex; flex-direction: column; gap: 10px;"> <div style="border: 1px solid green; border-radius: 10px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid green; border-radius: 50%; padding: 2px 5px;">01</span> Modification         </div> <div style="border: 1px solid blue; border-radius: 10px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid blue; border-radius: 50%; padding: 2px 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid purple; border-radius: 10px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid purple; border-radius: 50%; padding: 2px 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid orange; border-radius: 10px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid orange; border-radius: 50%; padding: 2px 5px;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>Following Ofgem’s approval of IGT132VV this ‘mirror’ Modification works to align the provisions of Code Credit Rules introduced by IGT132VV with the changes made under DCP349, which were also approved by the Authority. The changes under DCP349 impact the calculations around good payment history where credit is not available.</p>	
	<p>This Draft Modification Report is issued for consultation responses at the request of the Panel. All parties are invited to consider whether they wish to submit views regarding this Self-Governance Modification.</p> <p>The close-out date for responses is <b>18<sup>th</sup> April 2023</b>. Responses should be sent to <a href="mailto:IGTUNC@Gemserv.com">IGTUNC@Gemserv.com</a>. A response template, which you may wish to use, can be found on the <a href="#">IGT UNC website</a>.</p> <p>The Panel will consider the responses and agree whether or not this Self-Governance Modification should be made.</p>
	<p>High Impact: None</p>
	<p>Medium Impact: None</p>
	<p>Low Impact: Pipeline Operators, Pipeline Users and Suppliers</p>

## Contents

<b>1 Summary</b>	<b>3</b>
<b>2 Governance</b>	<b>3</b>
<b>3 Why Change?</b>	<b>4</b>
<b>4 Code Specific Matters</b>	<b>4</b>
<b>5 Solution</b>	<b>4</b>
<b>6 Impacts &amp; Other Considerations</b>	<b>5</b>
<b>7 Relevant Objectives</b>	<b>7</b>
<b>8 Implementation</b>	<b>8</b>
<b>9 Legal Text</b>	<b>9</b>
<b>10 Recommendations</b>	<b>9</b>

Any questions?

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## Timetable

### Modification timetable:

Initial consideration by Workgroup	9 <sup>th</sup> March 2023
Amended Modification considered by Workgroup	-
Workgroup Report presented to Panel	24 <sup>th</sup> March 2023
Draft Modification Report issued for consultation	24 <sup>th</sup> March 2023
Consultation Close-out for representations	18 <sup>th</sup> April 2023
Variation Request presented to Panel	-
Final Modification Report available for Panel	21 <sup>st</sup> April 2023
Modification Panel decision	28 <sup>th</sup> April 2023

## 1 Summary

### What

Good payment history has been identified as insufficient on its own to highlight when a party may be in financial difficulty. DCP349 was raised to address this matter, the outcomes of which are proposed to be incorporated into the IGT UNC Code Credit Rules, which will be implemented into Code through approved Modification IGT132VV.

### Why

IGT132VV was originally drafted and modelled after the DCUSA arrangements, including those from the initial proposals of DCP349. However, during the development of DCP349 some changes were made to the Legal Text that were not captured in the work carried out to progress IGT132VV as these changes happened while IGT132VV was with the Authority for decision. With the intent to harmonise between Codes, and based on a recommendation from the Authority in the [IGT132VV decision letter](#), the IGT UNC needs to ensure that its Code Credit Rules align to the DCUSA regarding the use of good payment history in the calculation of unsecured credit.

### How

With regards to aligning the IGT132VV Legal Text to the DCUSA. It should be noted that there is not a direct match in the legal drafting provided under this Modification. This is because the DCUSA inputted a 'with effect from 24 June 2022' condition to negate the need for parties to carry out an exhaustive retrospective calculations exercise in their credit cover arrangements. As the IGT UNC Code Credit Rules are being newly implemented, this requirement is not necessary and as such the Legal Text for this Modification is different to account for this.

Its worth noting that due to the calculations involved it is possible, although not guaranteed, that if this Modification is not implemented into the IGT UNC within 36 months of the IGT132VV implementation, there could be a material impact affecting the good payment history calculation, and thus raising the prospect of needing a condition like that in the DCUSA to avoid retrospective calculations being necessary. The need for such a step would be dependent on individual party circumstances. Such as how long it takes to implement credit arrangements after IGT132VV's implementation, and whether good payment history is used in those initial calculations.

## 2 Governance

### Justification for Self-Governance Procedures

The Modification is unlikely to have a material impact on the end customer or discriminate between industry parties as it works to align industry codes ensuring common provision across the industry that are already in place and approved by the Authority.

### Requested Next Steps

This Modification should:

- be assessed by a Workgroup; and
- be progressed by the Panel through Self-Governance arrangements.

## Workgroup Discussions

The Workgroup considered the recommendation and rationale provided by the Proposer with regards to governance.

A Workgroup member asked whether this Modification would have an impact on small Suppliers. The Chair advised that it may have an impact but added that this Modification allows them time to build up a credit rating. If a party is unable, in the 3 years allotted, to build up good credit it could impact them as their rating will decline. The Proposer agreed but added that the Modification may have an impact on both small Suppliers and large Suppliers but acknowledged that due to their size, the impact may be felt more by a smaller Supplier, though they didn't necessarily see it as detrimental.

The Workgroup considered the governance route of this Modification, noting the discussions above and unanimously agreed that the Modification should be treated as a Self-Governance Modification Proposal and agreed with the rationale provided by the Proposer.

## Panel Discussions (March 2023)

[Insert text here]

## 3 Why Change?

The initial drafting of Legal Text for DCP349 was incorporated into the approved IGT132VV, however while the DCUSA change was well received it did require development from Supplier and Distributor parties which evolved the solution, and thus the Legal Text, to provide calculations that were more useful to the aims of credit arrangements. These developments were not captured as part of the final IGT132VV iteration and as such this Modification is working to address that so that the IGT UNC Code Credit Rules can continue to align with other industry credit arrangements and improve on the unsecured credit process.

## 4 Code Specific Matters

### Technical Skillsets

N/A

### Reference Documents

- [IGT132VV - Introduction of IGT Code Credit Rules](#)
- [IGT132VV Authority Decision](#)
- [DCP349 - Effectiveness of the current provision of unsecured cover under Schedule 1](#)

## 5 Solution

The DCP349 workgroup concluded that good payment history accruing steadily over five years was not an efficient means of providing adequate support. I.e., a party can show no signs of having financial difficulty until they are suddenly able to stop paying their bills. Therefore, rather than having the 'Payment Record Factor' rise each year the Legal Text was adapted for DCP349 to provide a rise for the first three years, and then steadily lower again before the end of the five year mark. This provided parties without a

means of secured credit a way of gaining a stronger credit cover rating in the methodology, while also incentivising said party to gain a secured credit rating and not rely on good payment history alone. The outcomes of these discussions and decisions from the final DCP349 version have therefore been accommodated in the Legal Text provided for this Modification.

### Workgroup Discussions

The Proposer took the Workgroup through the IGT163 solution and intent of DCP349, noting that this Modification was straightforward and only looked to better align the IGT132VV Legal Drafting with the approved DCP349 Code Credit Rules. Without this Modification they felt there would be a variance of the application of Code Credit Rules.

The Workgroup considered the intent of the Modification and the information provided by the Proposer with regards to DCP349 and raised no questions or issues.

### Panel Discussions (March 2023)

[Insert text here]

## 6 Impacts & Other Considerations

### Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

There are no Significant Code Review (SCR) or other significant industry change projects impacted as a result of this change.

### Consumer Impacts

#### What is the current consumer experience?

Currently there is a risk that when a Supplier fails costs are passed through to consumers.

#### What would the new consumer experience be?

This Modification, specifically the introduction of further incentives for parties to have more robust finance processes in place, could have a positive impact on Consumers as it could reduce the likelihood of party failure and the potent increased costs to consumers that may result from a failure.

Impact of the change on Consumer Benefit Areas	
Area	Identified Impact
<p>Improved safety and reliability</p> <p><i>Will this change mean that the energy system can operate more safely and reliably now and in the future in a way that benefits end consumers?</i></p> <p><i>This area would relate to changes which balance the system safely, securely and at optimum cost, particularly for consumers in vulnerable situations. It would also consider changes which introduce flexibility across the market to flow energy at the most efficient profile, lower operational costs and make sure GB consumers can access the cheapest sources of energy.</i></p>	None
Lower bills than would otherwise be the case	Potential positive

<p><i>Will this change lower consumers' bills by controlling, reducing, and optimising spend, for example on balancing and operating the system?</i></p> <p><i>This area would relate to changes that are likely to benefit end consumers. This could include any change where it has been demonstrated that it could lower bills for end consumers.</i></p> <p><i>If possible, this section should include any quantifiable benefits.</i></p>	
<p>Reduced environmental damage</p> <p><i>Will this proposal support:</i></p> <ul style="list-style-type: none"> <li>• <i>new providers and technologies?</i></li> <li>• <i>a move to hydrogen or lower greenhouse gases?</i></li> <li>• <i>the journey toward statutory net-zero targets?</i></li> <li>• <i>decarbonisation?</i></li> </ul> <p><i>This area would relate to changes which demonstrate innovative work to design solutions which ensure the system can operate in an environmentally sustainable way both now and in the future.</i></p>	None
<p>Improved quality of service</p> <p><i>This area would focus on demonstrating why and how the change can improve the quality of service for some or all end consumers. Improved service quality ultimately benefits the end consumer due to interactions in the value chains across the industry being more seamless, efficient and effective.</i></p>	None
<p>Benefits for society as a whole</p> <p><i>This area would relate to any other identified changes to society, such as jobs or the economy.</i></p>	None

**Cross-Code Impacts**

There are no cross-code impacts, other than to align the IGT UNC with other gas and electric code credit rules.

UNC	<input type="checkbox"/>
REC	<input type="checkbox"/>
DCUSA	X
None	<input type="checkbox"/>

**Environmental Impacts**

There are no environmental impacts as a result of this change.

## Workgroup Discussions

The Workgroup reviewed and considered the potential impacts of IGT164. The Proposer noted that the Modification incentivises parties to ensure that they have more robust financial processes in place, and questioned whether there should be a positive impact on Consumers as a result.

The Workgroup considered the potential impact on Consumers. A member advised that the scale of the impact depended on whether the mitigation outweighs the impact of costs being passed to the consumer.

The WG considered DCP349 in the context of the above discussions, noting specifically the following from the Summary section of the [DCP349 Change Report](#):

- *“Reduce the maximum amount of qualifying months of good payment history together with a time limit after which a form of secured cover must be used e.g. Letter of Credit / Parent Company Guarantee;*
- *Introduce a common good payment performance matrix to demonstrate the impact late payment could have on the maximum amount of qualifying months of good payment history; and*
- *By adopting one of the principles of the Uniform Network Code, which states. “The Transporter will set the Users Unsecured Credit Limit no higher than the lower of the credit value recommended within the Independent Assessment and the value calculated by applying the Independent Assessment Score to the Transporter’s Maximum Unsecured Credit Limit.”*

The Chair noted that DCP349 looks to align DCUSA with the UNC transportation principles and IGT164 looks to better align IGT132VV with DCUSA.

The Code Administrator asked the Workgroup whether this Modification has a positive impact on Consumers, as it looks to mitigate against party failure by introducing incentive. The Proposer advised that this Modification could mitigate against a party failure as it provides incentive for parties to have more robust finances in place.

The Workgroup ultimately agreed that this Modification could have a positive impact on consumers, as set out above. They had no further comments with regards to impacts and agreed that the above, as set out, is reflective.

## Panel Discussions (March 2023)

[Insert text here]

## 7 Relevant Objectives

### Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
(A) Efficient and economic operation of the pipe-line system	None
(B) Co-ordinated, efficient and economic operation of <ul style="list-style-type: none"> <li>(i) the combined pipe-line system; and/or</li> <li>(ii) the pipe-line system of one or more other relevant gas transporters</li> </ul>	None
(C) Efficient discharge of the licensee’s obligations	None

<p>(D) Securing of effective competition:</p> <ul style="list-style-type: none"> <li>(i) between relevant shippers;</li> <li>(ii) between relevant suppliers; and/or</li> <li>(iii) between DN operators (who have entered into transportation agreements with other relevant gas transporters) and relevant shippers</li> </ul>	None
<p>(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</p>	None
<p>(F) Promotion of efficiency in the implementation and administration of the Code</p>	Positive
<p>(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</p>	None

As effectively a ‘housekeeping’ Modification to implement a cohesive and clear approach to IGT UNC Credit Cover Arrangements, this change better facilitates Objective (F) as it will ensure accurate and effective running of the Code.

### Workgroup Discussions

The Workgroup considered the impact of IGT164 on the Relevant Objectives. The Workgroup unanimously agreed that IGT164 would have a positive impact on Objective (F) for the reasons provided by the proposer.

### Panel Discussions (March 2023)

[Insert text here]

## 8 Implementation

This Modification would benefit from sharing the implementation date of IGT132VV and subsequent Modification [IGT163 - Code Credit Rules housekeeping updates following IGT132VV approval](#). However as per the comments made in the ‘How’ section it is possible to have an implementation date after this time without any adverse impacts to the credit cover calculations. It would however be prudent to aim for an implementation date of not later than 24 months after the implementation date of IGT132VV to still give adequate time and foresight into how good payment history is factored into unsecured credit cover calculations.

### Workgroup Discussions

The Workgroup considered the proposed implementation approach and agreed with the approach as set out above. They also unanimously agreed that this Modification should be implemented on same day as IGT132VV if possible, but where that is no possible should be implemented no later than 24 months after the implementation of IGT132VV.



## Panel Discussions (March 2023)

[Insert text here]

## 9 Legal Text

### Text Commentary

The proposed Legal Drafting uses the approved drafting for IGT132VV and subsequent Modification IGT164 and the provided highlighted amendments in red to show the additions/changes made to fulfil the requirements of the Modification.

### Suggested Text

The proposed Legal Drafting for this Modification can be found on the IGT164 [webpage here](#).

### Workgroup Discussions

The Workgroup considered the proposed Legal Drafting. The Workgroup unanimously agreed that the Legal Drafting delivers the intent of the solution and had no further comments on the drafting.

## Panel Discussions (March 2023)

[Insert text here]

## 10 Recommendations

### Panel's Recommendation to Interested Parties

[The Panel have recommended that this report is issued to consultation and all parties should consider whether they wish to submit views regarding this Self-Governance Modification Proposal.]