

Modification proposal:	Independent Gas Transporters' Uniform Network Code (IGT UNC) IGT132: Introduction of IGT Code Credit Rules (IGT132VV)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	IGT UNC Panel, Parties to the IGT UNC and other interested parties		
Date of publication:	14 December 2022	Implementation date:	To be confirmed by the code administrator

Background

An Ofgem consultation and decision in 2005 set out guidelines for introducing common credit cover arrangements and principles to apply across the gas and electricity markets.³ Those credit cover arrangements were subsequently implemented into the Uniform Network Code (UNC) and Distribution Connection and Use of System Agreement (DCUSA).

The IGT UNC does not include credit cover arrangements because Independent Gas Transporters (IGTs) contract directly with gas shippers instead of gas suppliers to provide their gas transportation services. Without a bad debt pass-through, the bad debts incurred by the IGTs used to be borne by the shareholders. In that context, it would be normal business practice for the owners to assess the level of risk they were prepared to take, because shareholders would bear any bad debt cost. Individual IGTs can also develop and incorporate bespoke credit cover arrangements into their own network codes.

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

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ The [Ofgem guidelines on credit cover arrangements \(February 2005\)](#) are published on the Ofgem website.

However, in 2018 a gas shipper defaulted and IGTs recognised the risks of not having robust credit cover arrangements in place to cover potential defaults by gas shippers. Robust credit cover arrangements could reduce exposure to bad debt. A recent consent granted to IGTs on 1 June 2022⁴ put in place a bad debt recovery process for IGTs, bringing IGTs in line with Gas Distribution Networks (GDNs), Electricity Distribution Network Operators (DNOs) and Independent Distribution Network Operators (IDNOs). As a result, energy consumers now fund efficiently incurred bad debts, in respect of gas transportation charges, arising from the failure of gas shippers, in line with other network codes. Energy consumers need the protection that they would get from IGTs following approved credit cover arrangements.

The modification proposal

IGT UNC modification proposal IGT132 ('the Proposal') was raised by BUUK ('the Proposer') in October 2019. The Proposal seeks to incorporate standard credit cover arrangements into the IGT UNC. The proposed credit cover arrangements in the IGT UNC would mirror those in the UNC and DCUSA.

The original Proposal was varied twice as a result of new issues raised during the industry consultation. The Final Modification Report (FMR) for the twice-varied Proposal (IGT132VV) was presented to the IGT UNC Panel in April 2021. The Panel recommended by a majority vote that the Authority approve the implementation of the Proposal. On 2 July 2021, Ofgem sent back⁵ the FMR seeking further information prior to its re-submission. Following send back of the FMR, the Proposal workgroup completed a Request for Information (RFI) to IGTs and shippers in October 2021 to obtain further information and consulted on the additional analysis requested. The responses to the RFI are summarised in the re-submitted FMR.⁶

IGT UNC Panel⁷ recommendation

At the IGT UNC Panel meeting on 25 March 2022, a majority of the IGT UNC Panel considered that the Proposal would better facilitate the IGT UNC Relevant Objectives and therefore recommended its approval.

⁴ <https://www.ofgem.gov.uk/sites/default/files/2022-10/IGT%20Bad%20Debt%20consent%20letter%20dated%201%20June%202022.pdf>

⁵ [Direction to send back Independent Gas Transporters \(IGT\) UNC 132VV \(IGT132VV\): 'Introduction of iGT Code Credit Rules' | Ofgem](#)

⁶ [IGT132VV - Introduction of IGT Code Credit Rules - IGT UNC \(igt-unc.co.uk\)](#)

⁷ The IGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the IGT UNC Modification Rules

Our decision

We have considered the issues raised by the modification proposal and the re-submitted FMR dated 28 March 2022. We have considered and taken into account the responses to the industry consultations on the proposal which are attached to the FMR.⁸

We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the IGT UNC⁹; and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁰

Reasons for our decision

We consider this Proposal will better facilitate IGT UNC Relevant Objectives (a), (b), (c), (d) and (f), and has a neutral impact on the other IGT UNC Relevant Objectives.

(a) The efficient and economic operation of the pipe-line system to which this licence relates.

A respondent to the consultation considers that the proposal will better facilitate relevant objective (a) because it will allow IGTs to better manage cash flows from shippers, lowering the risk of bad debt occurring. The Panel also agreed that the proposal will have a positive impact.

The aim of the proposal is to establish a standard methodology for credit cover and credit risk management to be applied in the IGT UNC. We consider that embedding a standard methodology into the IGT UNC that all IGTs can use will ensure its consistent application and support the efficient and economic operation of the IGTs' pipeline systems. Having credit cover rules in place will reduce risk from bad debt and help IGTs manage their cashflow economically. This will be the case for both existing and potential new IGTs.

For these reasons, we consider that the proposal better facilitates relevant objective (a).

⁸ IGT UNC modification proposals, modification reports and representations can be viewed on the IGT UNC website at <http://www.igt-unc.co.uk/>

⁹ As set out in Standard Condition 9 Gas Transporters Licence, available at: [Gas Transporter Standard Licence Conditions 08 04 2021 \(ofgem.gov.uk\)](http://www.ofgem.gov.uk/gas-transporter-standard-licence-conditions-08-04-2021)

¹⁰ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

(b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of the pipe-line system of one or more other relevant gas transporters.

The Proposer considers that the Proposal would better facilitate relevant objective (b) because the implementation of the credit cover principles that are in the UNC and DCUSA would ensure efficient and fair treatment across all gas networks. This view is shared by respondents to the consultation and the Panel.

We consider that implementation into the IGT UNC of the credit cover principles set out by Ofgem in our 2005 guidance and implemented in the UNC and DCUSA would contribute to efficient and fair treatment across all gas networks, especially as these are tried and tested and familiar to market participants.

For this reason, we consider that the proposal better facilitates relevant objective (b).

(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence

A respondent to the consultation states that the proposal will satisfy relevant objective (c) by reducing the risk of bad debt materialising. The Panel also agreed that the proposal will have a positive impact.

We consider that having credit rules allows IGTs to better manage cash flows from shippers, lowering the risk of bad debt occurring.

For this reason, we consider that the proposal better facilitates relevant objective (c).

(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between relevant shippers and between relevant suppliers

Workgroup participants agreed that the modification could increase competition and encourage IGTs to join the market as having credit cover as an option would allow all IGTs the ability to manage risks more efficiently. The workgroup also agreed that removing the ability for IGTs to apply code credit arrangements within their network codes would ensure a level playing field and could ensure consistent treatment by all IGTs. The Panel agreed with these views.

Workgroup participants determined that the proposal will have a neutral impact on shipper competition as the costs of credit cover are dependent on the size of a shipper organisation, which will have consequential impacts on competition, the shipper organisation and new entrants to the market. A respondent to the consultation shared this view but believed that the

proposal will have an overall positive impact because it will help ensure that only robust businesses join the market.

Workgroup participants agreed that the indirect impact on suppliers would come through costs being passed through from their shipper and that the impact would be neutral.

We agree with workgroup participants that the proposal could help to ensure a level playing field. It could also encourage more IGTs to enter the market and benefit competition in the gas market. We also agree that the proposal will have a neutral impact on supplier and shippers. There is no specific evidence that shippers would be adversely affected from dealing with more IGTs or that dealing with more IGTs would significantly increase shipper costs to manage credit cover.

For these reasons, we consider that the proposal better facilitates relevant objective (d).

(f) so far is consistent with sub-paragraphs (a) and (e), the promotion of efficiency in the implementation and administration of the code and/or the uniform network code referred to in paragraphs 2 and 5 respectively of this condition

The Proposer states that the proposed changes will better facilitate relevant objective (f) because providing the IGT UNC with the same credit cover principles as in the UNC and DCUSA will ensure efficient and fair treatment across all gas networks. The majority of the workgroup and the Panel shared this view. However, a Panel member argued that, from a shipper's point of view, the Proposal does not promote efficiency because if the credit is adopted in different ways and at different times there would be additional administration and monitoring required. This view was shared by a respondent to the consultation and was also highlighted by shipper users at the workgroup.

We agree with this concern; however, on balance we consider that the implementation of standard credit cover arrangements will result in wider benefits. Having a baseline set of standard credit cover arrangements which can change and evolve through the IGT UNC modification process will be more robust and would avoid the risks of non-recovery of bad debt and associated costs compared to the existing baseline. We accept there may be initial administration costs involved in establishing credit cover relationships bilaterally between shippers and IGTs but increased efficiency over time ought to arise as these arrangements become embedded. We also note that the workgroup observed that there is already some common ground between IGTs and shippers in terms of collateral options. The arrangements

can also be flexed in response to changing market conditions and potential gas market volatility.

For these reasons, we consider that the proposal will better facilitate relevant objective (f).

Legal text and related issues

We have found a number of typographical issues with the legal text; we recommend that these are corrected through the code modification process before the modification is implemented as these issues would undermine the code's clarity. The typographical issues are:

- 1) All references to Part K should read Part G except for the one in clause 21.8.2.
- 2) For consistency with clause 23.5(b)(ii) of Part K, the new defined term in Part M 'Credit Limit' should instead be 'Credit Code Limit', this will require that other references to 'Credit Limit' in the suggested text are amended to 'Credit Control Limit'.
- 3) the new definition of 'Payment Date' in Part M includes what seems to be two defined terms, 'Initial Account' and 'Reconciliation Account', however these terms are not defined anywhere in the suggested text or existing IGT UNC. These terms need to be defined.

We expect the drafting of proposed code modifications to be given appropriate scrutiny – procuring legal advice where required – to ensure that it is free of errors and correctly fulfils the intent of the modification proposed, prior to it being submitted to the Authority for approval (or, in the case of self-governance modifications, before the IGT UNC Panel issue a decision). Such an approach would have avoided the errors above.

We think the proposal could be improved and clarified in respect of which charges credit cover should be held for. We also note that the credit cover rules included in DCUSA and the UNC are mandated obligations which must be applied, whereas the credit cover rules proposed in this modification are not mandatory for IGTs. We recommend industry parties consider steps that can be taken under the Modification Rules¹¹ to bring the credit cover rules into alignment with DCUSA and the UNC.

Implementation date

¹¹ Modification Rules are included in Part L of the IGT UNC [Version 13 \(igt-unc.co.uk\)](http://igt-unc.co.uk)

The Panel recommended implementation as part of a scheduled IGT UNC release providing at least six months' lead time after approval of the proposal by the Authority. This will allow IGT UNC parties to agree and prepare credit cover arrangements before they come into effect.

We agree with using a scheduled IGT UNC release with a six-month lead time because a scheduled release provides parties with certainty and a six-month lead time provides sufficient time to plan and develop robust arrangements and make the required housekeeping modifications.

Decision notice

In accordance with Standard Condition 9 of the Gas Transporter Licence, the Authority hereby directs that modification proposal IGT132VV 'Introduction of IGT Code Credit Rules' be made.

Jourdan Edwards

Interim Deputy Director, Onshore Networks

Signed on behalf of the Gas and Electricity Markets Authority and authorised for that purpose