

Modification proposal:	Independent Gas Transporter (iGT) Uniform Network Code (UNC): Introduction of Credit Rules into the iGT UNC (iGT UNC 021)		
Decision:	The Authority ¹ has decided to reject this proposal		
Target audience:	Gemserv, Parties to the iGT UNC and other interested parties		
Date of publication:	05 January 2009	Implementation Date:	N/A

Background to the modification proposal

The iGT UNC currently provides that if a Pipeline Operator wishes to apply any credit arrangements, it should do so by the provision of Code Credit Rules which are to be provided in accordance with its own Pipeline Operators Network Code. At present, only IPL/QPL appear to have any form of credit rules in place.

In February 2005, Ofgem published Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover, Conclusions Document². In that document we indicated that in the interests of transparency, the key arrangements for credit provision should be set out in the commercial codes where appropriate.

The modification proposal

The proposal seeks to place an obligation on each Pipeline Operator to assign each Pipeline User a Code Credit Limit. It also provides that an iGT UNC Ancillary Document - the Code Credit Rules and Code Credit Limits, should be established which should detail the operation of the Code Credit Rules and the consequences of being assigned Code Credit Limits. The proposal provides a draft of this ancillary document and suggests adding it to Appendix K2 of the iGT UNC.

iGT UNC Panel³ recommendation

At its meeting on 19 November 2008 the iGT UNC Panel were unable to reach a majority decision, with three voting members of the panel in favour of the proposal and three opposed. Therefore the proposal was not recommended for implementation.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 13 October 2008. The Authority has considered and taken into account the responses to Gemserv's consultation on the modification proposal which are attached to the FMR⁴.

The Authority has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the iGT UNC⁵.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² The Best Practice Guidelines can be viewed [here](#)

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

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

⁵ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see:

Reasons for the Authority's decision

Given the establishment of competition in the supply of gas to customers, there is always a risk that a company supplying customers using a pipeline network may face financial difficulties. It is important that this financial risk is appropriately managed by credit arrangements and adequate payment terms.

Considering the absence of any such arrangements in the iGT UNC, in principle we support the proposers intentions to introduce such arrangements into the iGT UNC. However, we consider there to be too many deficiencies in iGT UNC 021 to consider it to better facilitate the iGT UNC Objectives.

IGT UNC 021 would have established an Ancillary Document which would be required to detail the operation of the Code Credit Rules. Governance of Ancillary Documents within the iGT UNC was introduced by modification iGT UNC 008⁶ which provided that Ancillary Documents were envisaged to cover matters that would be of a procedural nature only.

We consider the version of the Code Credit Rules provided by this proposal to contain matters that are beyond mere procedure or technical operation. For example, there are provisions detailing the circumstances for rejection or refusal of Supply Point Nominations/Confirmations. Moreover, there are many substantive aspects of credit provision that are absent from iGT UNC 021 such as;

- The approach to setting unsecured credit limits;
- How to assess unrated companies;
- Calculating value at Risk;
- Protection of Credit exposure; etc.⁷

We would expect overtime for these matters to be introduced into the iGT UNC by parties raising modification proposals but are concerned that if we approved iGT UNC 021 these substantive provisions would go into the ancillary document. We consider credit provision to be an important aspect of the commercial arrangements and should form part of the substantive provisions of the code.

We agree with many respondents views that the substantive provisions provided in the draft of the code credit rules in iGT UNC 021 do not comply with current agreed best practice. We would encourage that proposer and other parties to examine the equivalent provisions of the large transporters UNC and Ofgems best practice guidelines, referenced above and consider how these principles could be applied within the iGT UNC to better facilitate the iGT UNC objectives.



Maxine Frerk

Director of Industry Codes and Licensing, Corporate Affairs

Signed on behalf of the Authority and authorised for that purpose.

http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

⁶ The related documentation of iGT 008 can be viewed on the iGT UNC website at <http://www.igt-unc.co.uk/>

⁷ For a more fuller discussion of best practice principles see Ofgem's best practice guidelines.