

UNC Workgroup 0828R Minutes
Introduction of an Independent Shrinkage Expert
Friday 02 December 2022
via Microsoft Teams

Attendees		
Bob Fletcher (Chair)	(BF)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Colin Wainwright	(CW)	SGN
David Mitchell	(DM)	SGN
David Morley	(DMo)	Ovo Energy
Ellie Rogers	(ER)	Xoserve
Emma Buckton	(EB)	Northern Gas Networks
Gregory Edwards	(GE)	Centrica
Ian Dunstan	(ID)	Wales & West Utilities
Julie Chou	(JC)	Wales & West Utilities
Louise Hellyer	(LH)	TotalEnergies Gas & Power
Magali Aurand	(MA)	Guidehouse
Mark Jones	(MJ)	SSE
Mark Perry	(MP)	Xoserve
Matt Marshall	(MM)	Cadent
Paul O'Toole	(PO)	Northern Gas Networks
Richard Pomroy	(RP)	Wales & West Utilities
Shiv Singh	(SS)	Cadent
Steve Mulinganie	(SM)	SEFE Energy Limited

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0828/021222>

The Workgroup Report is due to be presented at the UNC Modification Panel by 15 June 2023.

Please note these minutes do not replicate/include detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of all papers are available at: <https://www.gasgovernance.co.uk/0828/021222>.

1.0 Outline of Modification

David Morley (DMo) introduced the Request and explained it was initially raised as a Modification, when UNC Panel considered it on 17 November 2022, it was suggested that the Modification should be re-written into a Request to allow the industry to consider other solution options.

Purpose:

A recent independent study notes that, from early 2018 onwards, gas leaks above cities are 30-35% higher than is reported by Gas Distribution Networks. To lower greenhouse gas emissions, increase the robustness of RIIO-GD2 incentivisation, and reduce end-consumer costs, this Modification proposes to introduce a new role to the UNC: The Independent Shrinkage Expert (ISE). The ISE will be responsible for the production of the Shrinkage and Leakage Model (SLM), including updating or replacing the National Leakage Tests (NLT) through innovation, and will be led by principles of impartiality, environmentalism, and best outcomes for end-consumers.

When BF (Bob Fletcher) invited comments from Workgroup, it was agreed that discussion should centre around the questions raised from UNC Modification Panel on 17 November 2022.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

2.1.1. Consider interaction of licence and hierarchy of licence/UNC.

SM (Steve Mulinganie) noted that the interaction between the Transporters Licence and the UNC is fundamental and said that whenever Shrinkage has been discussed over the years, it tends to be restricted by Licence conditions that tends to be a blocker to discussions. He urged that this point needs to be resolved early on in the development of this Request Workgroup as there needs to be a way forward together with consideration of the dual governance, (Licence and UNC).

Workgroup agreed that the interactions between Transporters Licence requirements and Ofgem's considerations on Shrinkage needs to be understood.

DMo noted that this may prevent Ofgem approving a Modification, but it should not prevent development of this Request as it does not commit parties to any changes.

Ian Dunstan (ID) clarified that the Shrinkage Forum, which is chaired by Joint Office, discuss the Shrinkage Model and any proposed amendments.

RP (Richard Pomroy) agreed the Licence issue needs to be resolved and noted that given the licence conditions, any discussions can only be advisory (at best). He also noted that the Workgroup is in danger of spending a lot of time discussing this Request to develop a Modification that cannot be implemented.

It was clarified that the Shrinkage Forum, although chaired by Joint Office, is a Transporter forum and is not a UNC forum/committee.

It was suggested that a view is sought from Ofgem to seek a view on their attendance to the Workgroup and to identify if there are any blockers to the Request or development of related Modifications.

When RP noted that Transporters have to have somewhere to discuss the licence condition and have to make sure they comply with their licence. DMo clarified that this Request is not proposing the Shrinkage Forum is abolished or that it is superseded.

DMo shared his screen to show Workgroup the *Special Condition 4.4 Shrinkage Management output delivery incentive* (<https://www.ofgem.gov.uk/publications/decision-proposed-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licence-conditions-1-april-2022>) and highlighted the following clauses:

Part C: Maintenance of the Shrinkage and Leakage Model

4.4.7 The licensee, together with all other DN Operators, must have in place a Shrinkage and Leakage Model approved by the Authority.

4.4.8 The licensee must have in place a methodology to apply the Shrinkage and Leakage Model in a way that is consistent with all other DN Operators, such that the resulting Shrinkage and Leakage volumes are comparable.

Part D: Modification of the Shrinkage and Leakage Model and methodology

4.4.14 The licensee must keep the Shrinkage and Leakage Model under review and propose such revisions to it as may be appropriate in order to ensure that it maintains or improves the accuracy of its calculation of Shrinkage and Leakage.

DMo suggested that DNOs are failing in the obligation where the Shrinkage and Leakage Model must be kept under review and propose such revisions to it as may be appropriate.

4.4.17 Before proposing any revisions to the Shrinkage and Leakage Model or its methodology, the licensee must:

(a) consult other DN Operators, Gas Shippers and other interested parties for their views on whether the proposed revisions would better achieve the objective set out in paragraph 4.4.9;

It was confirmed that if there are no changes to the Model, then there would be no requirement to consult.

DMo noted that there should be an incentive to reduce methane emissions as there were commitments made by participants at COP26 to do so.

It was noted that Ofgem were considering the DNO proposals for the DPLA (Digital Platform for Leakage Analytics) and how this should be taken forward and funded.

EB (Emma Buckton) confirmed there are internal audit processes in place so that nothing is changed within the Model without it being notified to relevant parties.

Part E: Review requirements in respect of modifications

4.4.21 Except where the Authority otherwise consents, the licensee must, together with other DN Operators, and before the end of the period of 12 months beginning with the date of implementation of a modification to the Shrinkage and Leakage Model, appoint an independent expert to review and report on that implementation.

Clarification was provided that an independent expert is only appointed if a change is proposed to the Model, and this has not happened in recent years.

Action 1201: Transporters to provide details of an Ofgem contact who can then be invited to attend the Workgroup.

When DMO asked, RP confirmed that if a future Modification solution were to enable Code parties to be able to make/suggest changes to the Shrinkage and Leakage Model, this would need to be coupled with an amendment to the Transporters Licence as it would amend the defined process.

BF noted that putting in place a process to enable parties to suggest changes to the Model would require an understanding of how the model works.

ID clarified that if the DPLA project comes to fruition, that would provide the evidence that would be assessed and consulted on, Ofgem would then accept or reject changes to the Model based on the proposals and consultation responses.

ID also confirmed that a report is produced annually which shows the parts of the model that is being reviewed in the current and following year.

2.1.2. Consider funding arrangements

When Paul O'Toole (PO) asked how the contract with the AUGE (Allocation of Unidentified Gas Expert) works, ER clarified that CDSP procure and appoint the AUGE on behalf of Shippers which is a framework established in Code There is a corresponding DSC service line which gives the obligation to procure the AUGE and establishes the funding by Shippers.

When RP noted that some parts of the industry view that the current arrangements are not working very well, and a Modification has been raised to remove the role. DMO clarified the validity of the AUGE role is outside of the scope of this Review.

BF highlighted that Shippers have more say in terms of the scope of the AUGE because they fund it and asked how Shippers will get involved in terms of a Shrinkage Expert.

Workgroup considered making any future Modification a more principle-based approach (with a targeted reduction in shrinkage).

BF advised there would be a need to have an understanding of what level of Shrinkage was in order to encourage reductions and asked how it would be physically demonstrated? PO noted,

for example, this would be by mains replacements; tracking of emissions when replacing iron mains.

SM noted that if shrinkage is managed at an industry level with the assistance of a Shrinkage Expert, this would produce a link by which PAC (Performance Assurance Committee) could manage performance against established targets.

SM noted his support for a principle-based approach as a way forward and questioned how the AUGE is allowed to undertake other activities not in the scope of the current contract

ER advised that the AUGE framework sets out, if there is additional money outside of the contract it would go through DSC Contract Management Committee to approve the release of the funds.

ID noted that consideration of the funding recommendations should include any impact on the Price Control.

It was noted that an AUGE Guidelines document was produced as part of the AUGE set up and it was clarified that as the Proposer of a draft Modification, DMO with support from the CDSP and Workgroup, would need to set out the principles and/or guidelines required for a Shrinkage Expert procurement.

New Action 1202: Proposer (DMO) to draft a set of ISE procurement principles for consideration by Workgroup.

2.1.3. Consider intended benefits to consumers

DMO advised this is covered in the Request and states that if there are quantities of UIG that should more accurately be reflected in Shrinkage there will be more emphasis to repair gas leaks as economically and efficiently as possible, this will improve the consumer experience in terms of the environment damage and more accurate cost allocation.

It was noted that the benefit from a more accurate Shrinkage Model would be in the consequential actions of identification of Shrinkage, from that there would need to be a cost benefit analysis to justify if the proposed amendment was justified.

The reciprocal reduction in UIG would increase shrinkage which is included in Transportation charges. DMO clarified his understanding that this is covered in pass-through costs, but at the very least Transporters would be incentivised to repair gas leaks for efficiently due to regulatory oversight.

RP noted that UIG is determined at D+5 and is uncertain whether it is positive or negative UIG, if the Shrinkage Model was more accurate on a daily basis there would be less impact on an environmental basis but this would be difficult to establish. DMO challenged that the benefit would be dependent on further actions which could be potentially be expensive and would have to be justified on the basis of the benefit, which is not necessarily a direct benefit to consumers.

Mark Perry (MP) clarified, if at D+5 the Shrinkage volume could be improved by a better answer, currently UIG mops everything up, so that D+5 position and the point at which Shrinkage gets adjusted, makes sense there would be less shrinkage error included in UIG.

SM noted that a plus or minus UIG is a margin of error, the outcome may be more or less gas in UIG, but the Shrinkage % would be less if accurately identified and targeted.

2.1.4. Consider consequences of the Modification in terms of how to reduce greenhouse gas emissions and any impact on UIG.

SM noted that as this Request moves forward in a timely fashion, it could provide support to the DPLA project.

2.1.5. Consider data sources and accuracy/validity.

DMo advised he has asked PAC if DNOs calculate leakage rates, and his understanding is that they do not report on this rate to PAC. He suggested this is taken forward as a different Modification or PAC take it forward as an issue.

It was noted that the AUGE occasionally find improvements but do not have the vires to make changes to Shrinkage as it is out of scope. The AUGE also feeds into PAC on occasion.

Workgroup agreed that communication, in principle, with other groups such as AUG Committee, AUGE, PAC and REC (Retail Energy Code) performance board would be of benefit.

BF suggested that if Transporter performance is to be considered at PAC, their attendance should be considered to see if membership needs to be rebalanced.

It was acknowledged there is a potential IGT UNC cross code impact that should be considered.

When RP noted that the IGT (Independent Gas Transporter) Arrangements Document (IGTAD) says that IGT shrinkage will be taken account of in UIG and the assumption is that IGTs have plastic mains which do not leak, it was suggested that the DPLA might reveal that is an assumption that is invalid and IGTs should be considered as part of this review.

New Action 1203: Joint Office to notify the UNC Modification Panel that there might be an IGT UNC Cross Code impact and request IGT attendance at future meetings.

ER advised she will mention this Workgroup at the Cross Code Tracker meeting on Thursday 08 December 2022.

2.2. Initial Representations

None received.

2.3. Terms of Reference

The Terms of Reference is included in the Request www.gasgovernance.co.uk/0828.

New Action 1204: Joint Office to add DPLA consideration to the Terms of Reference.

3.0 Next Steps

DMo shared his presentation material which included:

Methane as a greenhouse gas

- Gas Leaks in the UK
- Studies that show that the Shrinkage and Leakage Model does not work
- The proposal
- Proposed Business Rules
- Further considerations

Workgroup noted the following clarifications:

When RP asked if the Independent Shrinkage Expert will use innovative means, is it envisaged that they only assess work (mains replacements) already done, DMo confirmed he is not suggesting the role is a consultative one.

ER noted that whilst the framework set out for the AUGE might not be suitable for this proposed ISE role, it can be used to take lessons learnt.

New Action 1205: Joint Office to publish the presentation material considered at the last Shrinkage Forum and publish on the meeting page for the next Workgroup 0828R meeting.

BF confirmed the next steps to be:

- Consideration of Action updates

- Consideration of proposed Business Rules
- Review of Further Consideration as noted in the presentation material provided by the Proposer.

4.0 Any Other Business

Workgroup considered transitional issues that may need consideration:

DMo suggested using a rolling 3-year contract taking into consideration the more agile and dynamic the framework is, the more costly it will be.

BF noted the fundamental difference between the PAFA (Performance Assurance Framework Administrator) and the AUGER is that the PAFA comes up with a view of how the wider industry might be impacted by industry performance and ways to address these issues, whereas the AUGER produces a specific methodology based on the framework goals.

Workgroup agreed, to consider at a future meetings:

- A PAFA type role for the Independent Shrinkage Expert
- Creation of a Steering Committee with a group of parties overseeing the tasks

5.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/events-calendar/month

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Tuesday 24 January 2023	5pm 13 January 2023	Microsoft Teams	Detail planned agenda items. <ul style="list-style-type: none"> • Action Updates • Consideration of Business Rules • Consideration of Further Considerations
10:00 Tuesday 21 February 2023	5pm 10 February 2023	Microsoft Teams	<ul style="list-style-type: none"> • Agenda TBC
10:00 Tuesday 21 March 2023	5pm 10 March 2023	Microsoft Teams	<ul style="list-style-type: none"> • Agenda TBC

Action Table (as of 02 December 2022)

Action Ref	Meeting Date(s)	Minute Ref	Action	Reporting Month	Owner	Status Update
1201	02/12/22	2.1.1	Transporters to provide details of an Ofgem contact who can then be invited to attend the Workgroup.	January 2023	Transporters	Pending

1202	02/12/22	2.1.2	Proposer (DMo) to draft a set of ISE procurement principles for consideration by Workgroup	January 2023	Proposer (DMo)	Pending
1203	02/12/22	2.1.5	Joint Office to notify the UNC Modification Panel that there might be an IGT UNC Cross Code impact and request IGT attendance at future meetings.	January 2023	Joint Office	Pending
1204	02/12/22	2.3	Joint Office to add DPLA consideration to the Terms of Reference.	January 2023	Joint Office	Pending
1205	02/12/22	3.0	Joint Office to publish the presentation material considered at the last Shrinkage Forum and publish on the meeting page for the next Workgroup 0828R meeting.	January 2023	Joint Office	Pending