

**UNC Workgroup 0828R Minutes**  
**Introduction of an Independent Shrinkage Expert**  
**Wednesday 21 February 2023**  
**via Microsoft Teams**

<b>Attendees</b>		
Bob Fletcher (Chair)	(BF)	Joint Office
Mike Berrisford (Secretary)	(MiB)	Joint Office
Andy Clasper	(AC)	Cadent Gas
Ben Hanley	(BH)	Northern Gas Networks
Ben Mulcahy	(BM)	Northern Gas Networks
Colin Wainwright	(CW)	SGN
David Mitchell	(DM)	Scotia Gas Networks
David Morley	(DMo)	Ovo Energy
Ellie Rogers	(ER)	Xoserve
Emma Buckton	(EB)	Northern Gas Networks
Fiona Cottam	(FC)	Correla (on behalf of Xoserve)
Julie Chou	(JC)	Wales & West Utilities
Kathryn Adeseye	(KA)	Xoserve
Louise Hellyer	(LH)	TotalEnergies Gas & Power
Mark Field	(MF)	Sembcorp
Mark Jones	(MJ)	SSE
Mark Perry	(MP)	Correla (on behalf of Xoserve)
Matt Marshall	(MM)	Cadent Gas
Paul O'Toole	(PO)	Northern Gas Networks
Shiv Singh	(SS)	Cadent Gas
Steve Mulinganie	(SM)	SEFE Energy Limited
Tom Stuart	(TS)	Wales & West Utilities
Tracey Saunders	(TSa)	Northern Gas Networks

*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/0828/210223>*

## 1. Introduction and Status Review

Bob Fletcher (BF) welcomed parties to the meeting.

### 1.1 Approval of Minutes (01 February 2023)

When asked David Morley (DMo) provided an overview of his 'Commentary on December Minutes 0828R Minutes' paper during which the following key high-level discussion points were noted (by exception), and clarified in more detail after the meeting, as follows:

*"On section 1.1, whilst it was originally noted that changes to the SLM would be 2-3 years, it was later conceded that any changes to the SLM would be made after the 5 year implementation, and a more realistic implementation was 5-8 years.*

*If 35% is understated per year an additional 789.68 GWh of natural gas is lost to the atmosphere for 20/21. Over 5 years, 3,948.4 GWh. Over 8 years, 6,317.44 GWhs.*

*This is a dangerous and significant amount of gas that customers will be paying for directly in their bills and the environment will suffer from.”*

*and also*

*“On Section 2.1, paragraph 2, Concerns voiced that should this result in automatic updating or replacing information gained through the National Leakage Tests (NLTs). In addition, care would be needed to avoid the potential ‘steering’ of how an ISE might be appointed. - I think wording needs to be cleared up here.”*

When BF advised that the minutes from the previous meeting would be amended to reflect the above points and republished after this meeting, the minutes from the previous meeting were approved.

## 1.2 Approval of Late Papers

When BF observed that one (1) document had been submitted late (1.3 CDSP actions update), parties in attendance agreed to consider the document at short notice.

## 1.3 Review of Outstanding Actions

**0201:** *Reference UNC – IGT – UNC Cross Code Impacts – Xoserve (ER) to engage with the IGT parties to ensure suitable Cross Code monitoring is in place.*

**Update:** When BF noted that this action focuses primarily on IGT engagement and other forums are also considering similar aspects. Ellie Rogers (ER) noted that the action should be amended to reflect that she would not be coordinating cross code working but has provided an update on this workgroup to IGT parties so that they could engage with the process. ER confirmed that the ISE should be able, in a similar manner to the AUGE, to view information appertaining to all meter points, although the IGT’s would potentially need to consider appropriate funding aspects – a point to be considered further in due course.

BF suggested that there could be some potential Independent Gas Transporter Arrangements Document (IGTAD) impacts to consider even though for the most part, the IGTAD provisions reference across to the Uniform Network Code (UNC). When BF then went on to add that consideration of how any arrangements might sit across both Codes would be beneficial, ER pointed out that any potential solution could be more complicated than first thought and could go beyond a simple ‘mirror’ Modification approach – noting the points being raised, DMO suggested that once the UNC Modification requirements are outlined, he could then look top raise an equivalent IGT Modification.

When asked, parties in attendance agreed the action could now be closed. **Closed**

**0202:** *Reference Existing AUGE processes – Xoserve (ER) to provide an explanation on how the AUGE process works (inc. the feedback cycle, contractual arrangements and funding aspects).*

**Update:** During consideration of the ‘Contractual Arrangements’ slide, DMO enquired whether the AUGE procurement exercise undertaken by the CDSP took the form of a competitive tender, to which Fiona Cottam (FC) responded by advising that this was the case although the selection pool is quite small. In essence this was a legacy Transporter procurement obligation which following FGO is now discharged via the CDSP. However, it should be noted that the actual AUGE procurement takes the form of a competitive tender exercise.

When Steve Mulinganie (SM) pointed out that the REC model involved a competitive procurement process utilising an outside agency (possibly due to the lack of an appropriate skills base), DMO advised that he would look to write to the REC to seek clarification of their procurement process.

Tracey Saunders (TS) then explained that as Shrinkage is a Transporter Licence obligation, they (the Transporters) would have to procure the service directly, hence utilising the CDSP, and should parties wish to change the process, alternative funding arrangements would need to be considered and possibly a change to licence to require Transporters to provide an ISE.

TS warned that system changes would be required in order to manage data flows and access control, as any proposals would need to successfully 'feed into multiple DNO based processes which are different across the respective DNOs – in short, what is being considered is significantly different to the AUGÉ model and currently Shrinkage is based around a hard coded 'bottom figure' so any proposed changes would need to pass a cost v's benefit analysis.

In noting TS's points, SM reminded everyone present that metering had been unbundled in the past, so there is a precedent for changing complex processes where there is a desire to do so, although this should not be seen as a simple 'lift and drop' of the AUGÉ model.

Responding to the concerns being voiced, DMO reiterated that this is a proposal covering Shrinkage requirements going forward within which the SLM would NOT prevent the DNOs from utilising the data – in short, the ISE would / could produce an SLM that would provide data options or recommendations to be used by the DNOs or they can utilise their own SLM.

Continuing the discussion, TS advised that the data flow and data hand point timelines remain a major concern for the DNOs, especially when considering that the current 'in house' DNO process is extremely efficient and integrated into working processes – in short, whatever option it is adopted needs to be cost effective and avoid duplication.

Responding, DMO countered by pointing out that a cost of an estimated 4 – 6 TWh of shrinkage is, in itself, a significant cost and therefore he believes more than justifies these proposals.

Moving on to consider the '*AUG Timeline and feedback cycle*' slide, DMO advised that at the previous meeting parties in attendance had considered removing the feedback cycle, but on reflection, he now believes retaining it might prove advantageous – a point supported by ER and FC especially as this includes feedback on the expert's performance. When asked, whether there are any costs associated to this, ER responded by pointing out that UNC Modification 0831 'Allocation of LDZ UIG to Shippers Based on a Straight Throughput Method' is looking to remove the AUGÉ and will include a cost saving range assessment which this Workgroup could consider in due course.

When asked, parties in attendance agreed the action could now be closed. **Closed**

**0203:** *Reference the interaction between the SLM and Transporter Licence Obligations* – Ovo Energy (DMO) to clarify how the ISE provided SLM and approvals mechanisms will work and any interactions with the Transporter's licence obligations.

**Update:** When DMO advised that this action would be covered during consideration of the updated Framework document (see item 2. below), parties in attendance agreed the action could now be closed. **Closed**

**0204:** *Reference UNCC / Sub-Committee Approval Process* – Ovo Energy (DMO) to look to provide a high-level timeline plan.

**Update:** When DMO advised that this action had been completed and a timeline provided ahead of the meeting, parties in attendance agreed the action could now be closed. **Closed**

## 2. Consideration of Business Rules

## 2.1 Framework for the Appointment of an Independent Shrinkage Expert

DMo undertook a detailed onscreen review of the updated document (focusing on highlighted and commented text), during which the main high-level key points were noted (by exception), as follows:

### 1. Development of Rules

- Would Transporters need to vote on which option to utilise (RSLM or SLM)?;
  - RSLM will be a 'mirror' of the SLM, although utilising a more intelligent methodology by including other sources of data;
  - Some parties question the value of having two (2) Shrinkage models as it seems to be inefficient.
- Views differ as to whether the existing Shrinkage model works;
- It was noted that the formula is 'hard baked' with a bottom line fixed by licence;
  - Request 0828R is not looking for a solution to change licence formula;
  - Concerns voiced by Transporters that any potential licence changes would have a 'ripple effect' throughout their existing processes;
  - It was noted that whilst formula is hard baked, the associated data and its sources is not;
  - Transporters remain concerned about the potential impacts upon their internal / external data routes and whether any proposals would be cost effective and therefore until more detail becomes available. Transporters are struggling to understand the benefits of Request 0828R, and
- Whilst some parties believe the true benefits of Request 0828R remain unclear, others observe that it is looking to deliver improvements to the Shrinkage process via improved accuracy around the calculations and applying different levels of intelligence.

### 4. Tendering Process

- Referring to the new statement for paragraph 4.0, questions were asked around how any proposals would be funded, especially when procurement remains a Transporter obligation – a view challenged by the Proposer on the grounds that Request 0828R does not seek to explore processes that contravene Transporter Licence obligations;
- Reflecting on the existing AUGE framework provisions, reference was made to whether there should be a similar 'Stakeholder Evaluation Panel' role within the Shrinkage model (please refer to the '*Framework for the Appointment of an Allocation of Unidentified Gas Expert*' document published on the Joint Office web site at: <https://www.gasgovernance.co.uk/tpddocs>);

**New Action 0205:** Reference a Shrinkage Stakeholder Evaluation Panel Role – Ove Energy (DMo) to examine the AUG '*Framework for the Appointment of an Allocation of Unidentified Gas Expert*' document to ascertain whether there is value in having a similar role for appointing the Independent Shrinkage Expert.

- It was noted that who becomes responsible for the procurement of the ISE needs further consideration;
  - Referencing the PAC PAFA procurement process, Fiona Cottam (FC) suggested that ultimately Xoserve would likely be the single procurer – how funding is addressed will be a key consideration, especially as Stakeholder Evaluation Panel members do not sign the contract;

- Attention was drawn to the fact that a “*Stakeholder Evaluation Sub-Committee*” is a group of interested parties (including the CDSP), drawn from or nominated by The UNC Committee, who will participate in the development of procurement materials (including terms and conditions) and the selection of a preferred tenderer for the role of AUGE.
- It was noted that the AUGE procurement ‘initial’ timeline exceeded the proposed timeline within Request 0828R and therefore the Proposer and Workgroup need to consider in more detail – perhaps a 12 – 18 month window, and
- It was suggested that procurement work would commence as soon as a UNC Modification was implemented and if the implementation date was too late in the Shrinkage year, a transitional (interim) arrangement could be adopted. However, if this approach was deemed unsuitable then the Modification would need to include a ‘backdated’ element – it was suggested that perhaps 18 month lead time would be more suitable to conclude procurement of the ISE.

#### 5. Generic Terms of Reference for Appointed ISE

- Questions posed around who would fund the collation of data because if it is the DNOs then any significant spend would need to be included within their business plans which would then require Ofgem approval;
  - It was recognised that further consideration of DPLA (Digital Platform for Leakage Analysis Cadent project), data procurement and costs would be needed;
  - It was noted that AUGE spend is controlled through a competitive tender process for the service and what activities are included, whilst ‘other’ external data source provisions (i.e. CDSP / Shippers etc.) are free;
  - One option suggested was that funding could take the form of a ‘socialised’ increase to the customer cost baselines;
  - Could be included as a question within the tendering process which could highlight DPLA aspects to any potential service provider;

**New Action 0206:** *Reference ISE Funding Provision – Ove Energy (DMo) to consider how a suitable funding mechanism might work.*

- Whilst AUGE Framework document specifies the scope of the AUGE and possible sources of data, any ISE equivalent could expand on this and offer more discretionary options;
  - Service requirements and prescriptive aspects would / could be included in the tender and process – note, tendering processes have changed post Brexit;
  - Any tendering scope should be sensible, therefore care is needed to avoid constraining prospective ISE’s – whilst a ‘balance’ is needed, the complexity involved might influence the number of parties which would be willing to take part in the tender process;
  - Tendering confidentiality aspects need careful consideration;
  - Whilst AUGE have innovation options that fall under their funding provisions, care would be needed for an ISE in order to avoid parties incurring additional costs via contract variations without prior approval;
- Some parties question whether creating an ISE would benefit industry in-light of the fact that the DPLA project is already expected to deliver benefits;

- This statement challenged on the grounds that historically the SLM has not worked, which was not necessarily supported by others in attendance;
- Proposer reiterated that the aim of Request 0828R is to investigate all options including the DPLA and make Shrinkage calculations more accurate but also open to industry scrutiny;
- In referring to previous licence arguments and how DNV was involved in development of the AUGE processes, Steve Mulinganie (SM) observed that historically Transporters have been reluctant to rescind control for activities ring fenced by licence;
- Referring to paragraph 5.9.1.2, FC noted that the AUGE does not procure data as the CDSP actually provides this – the AUGE fee only ‘covers’ providing their analytical expertise. It should be noted that DNOs are more likely to be the source of Shrinkage than the CDSP;
  - The governance around spending money can often be opaque, and the decision making party should be involved in assessing potential expenditure;
  - When BF advised that 7 votes are required to achieve a simple majority at both UNCC and the DSC Contract Management Committee. DMO suggested leaving the provisions as UNCC for the time being until the contracting route and services is better understood;
- Referring to paragraph 5.1.14, FC suggested that the Workgroup would need to consider how to specify the requirements within the tender document, rather than within the framework document.

#### 7. Creation of RLSMM

- New section inserted, and
- Reference to ‘relevant projects’ to replace reference to DPLA.

#### 8. Creation of RSLM

- It was noted that RRP process commences March as the earliest and is also dependent upon the size of any data sets involved, but aims to complete circa 30 June for a 31 July publication – shrinkage is just one element of the RRP, and
- Ofgem approval timeline needs considering, and
- Reference to RSLM to be amended to read as ‘Independent SLM’ to avoid any misinterpretation of ‘Recommended SLM’.

#### Appendix

- New section inserted.

*Please refer to the change marked and updated version of the document published alongside these minutes for more details.*

### **3. Review of Licence Conditions**

DMo provided a brief update during which he drew attention to the fact that the ISE would produce a recommended or Independent SLM (ISLM) and supporting methodology which would be provided to both DNOs and Ofgem for their consideration. Thereafter, DNOs would have a choice as to whether to utilise the ISLM or follow their own SLM.



During a brief discussion Julie Chou (JC) suggested that as far as the proposed timelines are concerned, there would need to be facility for Ofgem approval, in order to ensure that the DNOs have all the information they would require in a timely manner. Responding, DMO advised that he would be happy to discuss the matter offline and provide a further update at the next Workgroup meeting.

#### **4. Further Considerations**

During a brief overview of the (draft) Timeline document, DMO advised that he would look to refine the various date triggers to better align with the discussions undertaken in consideration of item 2 above, and provide an updated timeline document for consideration at the March Workgroup meeting.

When asked whether a cost benefit analysis had been undertaken on the proposal for creation of the ISE, DMO responded by explaining that he had provided a cost benefit assessment at the point of creating Request 0828R.

When JC questioned whether the monies needed to establish and run the ISE would be better placed being spent on other industry initiatives to reduce shrinkage / leakage issues (i.e. electrification investments etc.) before suggesting that any potential benefits associated with Request 0828R proposals need clear clarification, SM reminded parties in attendance that better identification of shrinkage incentivises DNOs to address the matter and therefore would deliver (indirect) benefits – in short, it is about ‘fixing’ in appropriate targeting.

Concluding the brief discussion, BF noted that cost benefit analysis is more of a UNC Modification consideration (i.e. cost to implement v’s benefit), rather than a UNC Request stage process.

#### **5. Next Steps**

The Request Workgroup agreed, to consider the following future meetings:

- Undertake a further review of the updated Business Rules and Licence Conditions spreadsheet summary at the 21 March 2023 meeting.
- Review Licence Condition Interactions.
- Review Proposed Process Timelines.

#### **6. Any Other Business**

None.

#### **1.0 Diary Planning**

*Further details of planned meetings are available at: [www.gasgovernance.co.uk/events-calendar/month](http://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 21 March 2023	5pm 10 March 2023	Microsoft Teams	<ul style="list-style-type: none"> <li>• Transitional Issues</li> <li>• A PAFA type role for the Independent Shrinkage Expert</li> <li>• Creation of a Steering Committee with a group of parties overseeing the tasks</li> </ul>
10:00 Tuesday 18 or 25 April 2023		Microsoft Teams	<ul style="list-style-type: none"> <li>• Development of Workgroup Report</li> </ul>
10:00 Tuesday 16 or 23 May 2023		Microsoft Teams	<ul style="list-style-type: none"> <li>• Conclusion of Workgroup Report</li> </ul>

**Action Table (as of 21 February 2023)**

Action Ref	Meeting Date(s)	Minute Ref	Action	Reporting Month	Owner	Status Update
0201	01/02/23	1.3	<i>Reference UNC – IGT – UNC Cross Code Impacts – Xoserve (ER) to engage with the IGT parties to ensure suitable Cross Code monitoring is in place.</i>	February 2023	Xoserve (ER)	Update provided. <b>Closed</b>
0202	01/02/23	2.1	<i>Reference Existing AUGE processes – Xoserve (ER) to provide an explanation on how the AUGE process works (inc. the feedback cycle, contractual arrangements and funding aspects).</i>	February 2023	Xoserve (ER)	Update provided. <b>Closed</b>
0203	01/02/23	2.1	<i>Reference the interaction between the SLM and Transporter Licence Obligations – Ovo Energy (DMo) to clarify how the ISE provided SLM and approvals mechanisms will work and any interactions with the Transporter’s licence obligations.</i>	February 2023	Ovo Energy (DMo)	Update provided. <b>Closed</b>



0204	01/02/23	2.1	<i>Reference UNCC / Sub-Committee Approval Process – Ovo Energy (DMo) to look to provide a high-level timeline plan.</i>	February 2023	Ovo Energy (DMo)	Update provided. <b>Closed</b>
0205	21/02/23	2.1	<i>Reference a Shrinkage Stakeholder Evaluation Panel Role – Ove Energy (DMo) to examine the AUG 'Framework for the Appointment of an Allocation of Unidentified Gas Expert' document to ascertain whether there is value in having a similar role for appointing the Independent Shrinkage Expert.</i>	March 2023	Ovo Energy (DMo)	<b>Pending</b>
0206	21/02/23	2.1	<i>Reference ISE Funding Provision – Ove Energy (DMo) to consider how a suitable funding mechanism might work.</i>	March 2023	Ovo Energy (DMo)	<b>Pending</b>