

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

Attendees		
Rebecca Hailes (Chair)	(RHa)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
Andy Clasper	(AC)	Cadent Gas
Ben Mulcahy	(BM)	Northern Gas Networks
Charlotte Gilbert	(CG)	BU-UK
Colin Wainwright	(CW)	SGN
David Mitchell	(DM)	Scotia Gas Networks
David Morley (Proposer)	(DMo)	Ovo Energy
Emma Buckton	(EB)	Northern Gas Networks
Fiona Cottam	(FC)	CDSP (Correla representing Xoserve)
Ian Dunstan	(ID)	Wales & West Utilities
Julie Chou	(JC)	Wales & West Utilities
Louise Hellyer	(LH)	TotalEnergies Gas & Power
Mark Field	(MF)	Sembcorp
Mark Jones	(MJ)	SSE
Mark Perry	(MP)	CDSP (Correla representing Xoserve)
Matt Marshall	(MM)	Cadent Gas
Oorlagh Chapman	(OC)	Centrica
Paul O'Toole	(PO)	Northern Gas Networks
Richard Pomroy	(RP)	Wales & West Utilities
<p><i>The Workgroup Report is due to be presented at the UNC Modification Panel by 15 June 2023.</i></p> <p><i>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/0828/210323</i></p>		

1. Introduction and Status Review

Rebecca Hailes (RHa) welcomed parties to the meeting.

1.1 Approval of Minutes (21 February 2023)

Fiona Cottam (FC) noted two amendments to record Correla attendees are representing Xoserve and removing the number 7 typo from page 7 section 4, 3rd paragraph.

The minutes from the previous meeting were then approved.

1.2 Approval of Late Papers

RHa noted 3 late papers were provided on the morning of the meeting, two proposed Modifications with differing solutions and a proposed Framework document for Workgroup discussion.

David Morley (DMo) provided a brief overview of the proposed option ideas introducing two differing solutions. The Workgroup agreed to consider the best way forward once the solution options had been reviewed, recognising both option ideas could not proceed as Alternatives from the same Proposer.

Richard Pomroy (RP) asked for clarity if these Modifications were being presented as pre-Modifications, expressing concern about the lateness and inability to consider these ahead of the meeting. It was suggested that the option ideas would benefit from a pre-Modification discussion at the Distribution Workgroup on 23 March 2023.

1.3 Review of Outstanding Actions

0205: *Reference a Shrinkage Stakeholder Evaluation Panel Role – Ovo 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.*

Update: See item 2.0. **Closed.**

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

Update: See item 2.0. **Closed.**

2. Framework for the Appointment of an Independent Shrinkage Expert

David Morley (DMo) introduced the framework document which he anticipated being referenced in UNC TPD Section N and treated as a UNC Related Document.

Rebecca Hailes (RHa) noting that suggested text had been provided by the Proposer, which is allowable within the Modification Rules, explained the process for Transporters to provide legal text. RHa also clarified that the introduction of the framework would need to be supported by a UNC Modification.

DMo explained that the proposed Independent Shrinkage Expert (ISE) will create an Independent Shrinkage and Leakage Model (ISLM) and an Independent Shrinkage and Leakage Model Methodology (ISLMM) to create an accurate account of Shrinkage for recommendation to Transporters and, if accepted, for approval by Ofgem. Transporters will be obliged to apply the multiplier to the volumes of Shrinkage calculated by their own SLM and the funding of the ISE would be covered by Shippers and Distribution Network Operators (DNOs) in the same way as the Allocation of Unidentified Gas Expert (AUGE).

Richard Pomroy (RP) challenged how the framework would fit with the current licence requirements for the Shrinkage Model "Special Condition 4.4 Shrinkage Management output delivery incentive" (extract provided below):

Part C: Maintenance of the Shrinkage and Leakage Model

4.4.7 The licensee, together with all other DNO 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 DNO 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

RP explained the process undertaken by DNOs for approving allowable revenue and that the DNOs would need to present a business plan to agree allowances, once the settlement is agreed, with Ofgem.

The Workgroup considered the funding of the ISE considering how the AUGE is funded.

Fiona Cottam (FC) explained that there is a UNC obligation for the CDSP to procure and secure an AUGE through the DSC Contract. FC clarified that there is no licence obligation for Transporters or Shippers for an AUGE or for the Performance Assurance Framework Administrator (PAFA). This is a UNC obligation.

The Workgroup considered the payment of procuring an ISE. DMO confirmed that the proposal would be for the Transporters to fund the appointment of the ISE and the ongoing cost of the process would be managed through a contract between the relevant parties.

It was clarified that the CDSP have a procurement and contracting function which is included within the CDSP's funding/budget. The ISE service procurement would be funded through this service and invoiced as part of the general service charge, which is 100% DNO and IGT funded.

The Workgroup briefly considered Modification 0473 - Project Nexus Allocation of Unidentified Gas (<https://www.gasgovernance.co.uk/0473>), which introduced the AUGE post Project-Nexus. It was noted that within the Final Modification Report for Modification 0473 the funding was 100% Users (i.e. Shippers), through the User Pays regime.

The Workgroup considered the inclusion of Independent Gas Transporters (IGTs). DMO anticipated the IGTs having values applied and needing to procure the gas in the same manner as DNOs. Charlotte Gilbert (CG) noting the difference in IGT pipework requested that this needs to be taken into consideration within the methodology. It was noted a separate IGT Modification would need to be raised.

The Workgroup re-considered the licence requirement for DNOs having in place a Shrinkage and Leakage Model approved by the Authority and that this must be kept under review to ensure it maintains or improves its accuracy. The Workgroup discussed what subsequent actions would be required if the ISE had a different view to DNOs if the licence obligation remained unchanged and how this could fit into the current process.

It was noted that the amount of gas the ISE recommends that the Transporters would need to procure for the purposes of settlement could be different, effectively divorcing the Shrinkage and Leakage Model approved by the Authority.

The Workgroup considered the reconciliation process. FC explained that Shrinkage is agreed in advance a year at a time, based on an assessment on the parameters that go into the model, for example DNO repair and replacement plans, through-put etc. A review is then undertaken followed by a reconciliation and an LDZ Shrinkage adjustment is made to reconcile any under/over the Transporters have procured.

The Workgroup considered the process and how it aligns to the licence requirements. The timing of the Shrinkage and Leakage Model review and the regulatory reporting process was discussed. It was suggested that the regulatory reporting process could include a view/recommendation from the ISE, as justification for changing the Model. Ofgem would then consider the evidence before deciding whether to approve a change to the adjustment.

The Workgroup considered the ability to amend the charge values. The concept was clarified in that the values required are to be purchased and there would be a new charge type to deal with the reconciliation process.

The Workgroup considered the role of the Stakeholder Evaluation Panel, the governance of the framework by the Uniform Network Code Committee (UNCC), the Terms of Reference for the ISE, and the tender process.

DMO noted several suggested changes, recommended by the Workgroup, for inclusion in the framework document.

3. Consideration of Modification Option Ideas

David Morley (DMo) summarised the differences between the two proposed Modifications presented as option ideas for the Workgroup to assess.

Modification Option 1 would establish the Shrinkage and Leakage Model Multiplication Factor. This would be set at 1.35 and Transporters would be obliged to apply the multiple to the volumes of Shrinkage estimated via the Shrinkage Leakage Model before purchasing any gas.

The Workgroup considered the impact of this Modification on the energy price cap and the detailed analysis provided in the 0828R Request to justify how the 1.35 Multiplication Factor was derived from the Imperial College London (ICL) study.

RHa noted the Proposer was suggesting an Urgent timetable and would need to justify why this change needs to be treated as Urgent.

The Workgroup considered the interference damage element of the model and the incentive on DNOs to sustain the development, safety and security of supply and the management of network emergencies.

Modification Option 2 would establish the Independent Shrinkage Expert, who will use methodologies to create an Independent Shrinkage and Leakage Model and oblige the DNOs to apply the methodology.

The framework would be considered a UNC Related Document referred to in Section N.

Following the brief discussion of the options and framework document, the Workgroup agreed to consider the two options further. These will be discussed as pre-Modifications at Distribution Workgroup on 22 March and then assessed at the next 0828R meeting to enable the Workgroup to consider with the Proposer which Modification should be raised and if the remaining Modification could be raised as an Alternative Modification, by a different proposer.

4. Consideration of Business Rules

Item deferred. Modification Business Rules to be considered when Modification(s) submitted.

5. Consideration of Transitional Issues

Item deferred. Further consideration when Modification(s) solution stabilised.

6. Consideration of PAFA Type Role for Independent Shrinkage Expert

The Workgroup considered the intent of this agenda item and whether it was related to monitoring performance assurance or if this was a comparison of the work undertaken by the Performance Assurance Framework Administrator (PAFA) to extract information and present it independently to a committee to review and take appropriate action.

It was recognised that the Performance Assurance Committee (PAC) have a role overseeing the impact of underperformance on settlement which needs to be monitored and investigated.

DMo agreed to consider what performance monitoring/assurance is required.

7. Consideration of Steering Group Establishment

Item deferred to April.

8. Next Steps

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

- Amended proposed Framework Document for the Independent Shrinkage Expert
- Performance Monitoring and PAC Interactions
- Steering Group Establishment
- Draft Request Workgroup Report
- Required Modification(s) (To be appended to the Request Workgroup Report)

9. Any Other Business

None.

1.0 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
13:15 – 16:15 Tuesday 25 April 2023	5pm 14 April 2023	Microsoft Teams	<ul style="list-style-type: none"> Amended Framework Document for the Independent Shrinkage Expert Performance Monitoring and PAC Interactions Steering Group Establishment Draft Request Workgroup Report Required Modification(s)
09:30 – 12:30 Tuesday 23 May 2023	5pm 12 May 2023	Microsoft Teams	<ul style="list-style-type: none"> Completion of Workgroup Report Draft Modification(s)

0828R Action Table

Action Ref	Meeting Date(s)	Minute Ref	Action	Reporting Month	Owner	Status Update
0205	21/02/23	2.1	<i>Reference a Shrinkage Stakeholder Evaluation Panel Role – Ovo 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)	Closed
0206	21/02/23	2.1	<i>Reference ISE Funding Provision – Ovo Energy (DMo) to consider how a suitable funding mechanism might work.</i>	March 2023	Ovo Energy (DMo)	Closed