

UNC Workgroup 0843
Establishing the Independent Shrinkage Charge and the Independent Shrinkage Expert
Tuesday 23 May 2023
via Microsoft Teams

Attendees

Rebecca Hailes (Chair)	(RHa)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
David Morely (Proposer)	(DM)	OVO Energy
Andy Clasper	(AC)	Cadent
Ben Jones	(BJ)	Wales & West Utilities
Charlotte Gilbert	(CG)	BU-UK
Colin Wainwright	(CW)	SGN
David Mitchell	(DMi)	SGN
David Morley	(DMo)	Ovo Energy
Deborah Sherlock	(DS)	Xoserve
Ellie Rogers	(ER)	CDSP
Edd Green	(EG)	E.ON
Emma Buckton	(EB)	NGN
Emma Robinson	(ERo)	E.ON
Fiona Cottam	(FC)	CDSP
Ian Dunston	(ID)	Wales & West Utilities
Julie Chou	(JC)	Wales & West Utilities
Kathryn Adeseye	(KA)	CDSP
Mark Field	(MF)	Sembcorp
Matt Marshall	(MM)	Cadent
Oorlagh Chapman	(OC)	Centrica
Paul O'Toole	(POT)	Northern

This Workgroup meeting will be considered quorate provided at least two Transporter and two Shipper User representatives are present.

Please note these minutes do not replicate/include detailed content provided, therefore it is recommended that the published material is reviewed in conjunction with these minutes. Copies of all papers are available at: <https://www.gasgovernance.co.uk/0843/230523>

The Workgroup Report is due to be presented at the UNC Modification Panel by 20 July 2023

1. Introduction and Status Review

Rebecca Hailes (RHa) welcomed all parties to the meeting.

1.1 Approval of Minutes (27 April 2023)

The minutes from the previous meeting were approved.

1.2 Approval of Late Papers

A proposed amendment to the currently published Modification was provided by the Proposer during the meeting for review. RHa requested material for future Workgroup meetings are

provided at least 5 days ahead. The Workgroup agreed to consider the suggested changes to the Modification.

1.3 Review of Outstanding Actions

0401: Proposer (DMo) to consider regionalisation of the charges.

Update: David Morely (DMo) confirmed text had been added to the Modification to clarify that regionalisation will be no less granular than by LDZ. **Closed**

0402: Proposer (DMo) to provide the rationale as to why National Gas is out of the scope of this Modification.

Update: DMO confirmed that it is not intended for Transmission (NTS) Shrinkage to be within scope, as Transmission already accounts for Shrinkage as appropriately incentivised by Ofgem under RIIO. **Closed**

0403: Proposer (DMo) to consider an Appeal process for the authority approval mechanism.

Update: Added to Modification. **Closed**

0404: Proposer (DMo) to consider how the ISE and AUGÉ will interact to avoid dual governance.

Update: Added to Modification. **Closed**

0405: Proposer (DMo) to update the Modification in line with Workgroup discussions.

Update: Modification updated. **Closed**

0406: Proposer (DMo) to prepare a Proposer's [written](#) response to answer the question raised at UNC Modification Panel, 'Impact on price control incentives'.

Update: DMO noted that Ofgem declined to stipulate whether the ISC would be a pass-through cost, and they noted that they would probably need to issue a consultation to discover impacts. The written response will be for inclusion into the Workgroup Report so that Workgroup can then respond to this. **Carried Forward**

2. Modification Assessment

DMo presented the proposed amendments to the Modification, providing a line-by-line overview and a brief explanation of the changes made.

These included:

- Removal of the multiplication factor
- Publication of an Independent Shrinkage Statement
- Details of a timetable the Independent Shrinkage Expert (ISE) will adhere to
- The formation of a UNCC Shrinkage Sub-Committee
- Greater granularity
- Interactions between the Allocation of Unidentified Gas Expert (AUGE) and Independent Shrinkage Expert (ISE)
- Mid-Year framework changes
- An appeal process.

A question was raised on how the Independent Shrinkage Charge (ISC) will be calculated, including the ability to have negative Shrinkage and how the DNs would be reimbursed. It was noted that the Modification was unclear on whether a change in emissions would require/oblige the DNs to report the change. It was noted to the Proposer that if DNs will be obliged to report

a change in emissions this would require a licence change. It was agreed that further clarity was required on the mechanisms and management of negative Shrinkage.

The Workgroup considered the treatment of negative Unidentified Gas (UIG). Fiona Cottam (FC) explained if UIG is negative it becomes a negative allocation within the Gemini System, it then becomes a deduction and will flow through the system through the amendment invoice.

It was envisaged that the Shrinkage mechanism to deal with a negative reported figure would be managed through the UIG mechanism and there would be an adjustment. Physically UIG cannot be negative. This indicates there is a need for correction. This is mainly due to the overallocation of Non-Daily Metered (NDM) demand. Ellie Rogers (ER) understood this Modification would address the misalignment with under/over-reporting Shrinkage.

The Workgroup considered the benefits case for Shrinkage (and UIG) to better “the cost-benefit analysis case” which will drive down costs. It was challenged that if the overall emissions will not change, only the breakdown between UIG and Shrinkage, what the overall benefit would be. Andy Clasper (AC) believed that the thought process for additional shrinkage is that it should be funded by the networks and costs not passed on to consumers. It was clarified that for Shrinkage there is currently no pass through mechanism.

New Action 0501: Proposer (DMo) to show how the Shrinkage charge will be derived, and how it will be paid to illustrate the management of positive and negative Shrinkage.

New Action 0502: Proposer (DMo) to consider how negative Shrinkage will be managed and the mechanism for reimbursing the DNs.

New Action 0503: Proposer (DMo) and DNs to collectively consider how the Independent Shrinkage Charge (ISC) can be managed (potentially a pass through).

New Action 0504: Proposer (DMo) to provide further clarity within the Modification on the justification case for additional costs if the Modification will not change the cost-benefit case for consumers.

The Workgroup considered the formation of a UNCC Shrinkage Sub-Committee and how this could be managed in the same way as the AUG Sub-Committee to avoid members being able to over-turn or fetter the Independent Shrinkage Expert’s discretion.

Consideration was given to having locational charging for specific areas for example by post-codes rather than by LDZ, if there are areas where Shrinkage is not evident. It was clarified that the Independent Shrinkage Expert (ISE) will be able to specify any locational application it deems appropriate, but this would be no less than by LDZ. The CDSP requested in detail what was envisaged and how the granularity can be dealt with within systems. DMO explained that he would like more granularity greater than LDZ to make the assessment more granular in the future. To facilitate consideration of systems change required by the Modification more detail will be required.

The engagement between the AUGE and ISE was considered, how this could be captured and whether this would sit within the framework or as an obligation in the UNC to engage. The Workgroup considered the need to avoid double counting but also to ensure both parties remained independent. It was clarified that the AUGE is not a party to the UNC, it was therefore suggested that the AUGE framework would need to cover how the Shrinkage element is accounted for. How the AUGE manages this would then be carried through as a contract variation. The Workgroup also considered having a change mechanism for any mid-year changes to the ISE framework and how these would need to be managed through a contract variation.

The Workgroup discussed the need for an appeal process and how this would work. This was compared to the Shrinkage Consultation process and the point at which an appeal could be

lodged. It was agreed that further consideration would be required as to whether this would be managed directly with Ofgem and not within the UNC.

It was noted that OVO Energy had raised an IGT Modification, IGT165 - *Independent Shrinkage Expert and Independent Shrinkage Charge*, requiring an Authority Decision, which will be presented to the IGT UNC Panel at its meeting on 26 May 2023. The Workgroup considered how the Legal Text would be drafted for IGTs and whether separate text would be drafted to carve out the rules for IGTs or whether the IGT UNC would refer to the UNC.

New Action 0505: Proposer (DMo) to consider how an appeals process will operate.

New Action 0506: Proposer (DMo) and Legal Text Provider (DM) to consider Business Rule 16 and how the legal text could be managed to allow for IGT165 and how the IGT UNC would be amended to capture IGT Shrinkage.

The Workgroup reviewed the timetable provided in the Modification's Appendices, the timing of forecasts, the purchase of Shrinkage, the reconciliation against actuals, and how the reconciliation process will work. An overview of the current forecasting process was provided where the forecast is made, DNs purchase gas based on the forecasts and is later reconciled.

Consideration was also given to each stage of the framework, the current licence arrangements, industry engagement and Shrinkage consultations.

New Action 0507: DNs (ID WWU) to explain how the current Shrinkage process works for forecasting, gas purchase, reconciliation and current licence requirements to aid workgroup discussion and for inclusion in the workgroup report.

The costs associated with the procurement exercise, costs that will be incurred by DNs, impartiality, and risks were briefly considered. It was anticipated that a comparison could be made against the costs associated with the AUG framework.

New Action 0508: Joint Office (RHs) to capture the concerns raised about the potential costs involved with the Modification within the Workgroup Report.

3. Development of Workgroup Report

Deferred until stabilisation of the Modification.

4. Next Steps

- Proposer (DMo) to provide an Amended Modification at least 5 days ahead of the next meeting by 5pm Monday 12 June 2023
- Proposer (DMo) to provide an updated draft Framework to align it to the Amended Modification by 5pm Monday 12 June 2023
- Proposer (DMo) to update Modification Appendices by 5pm Monday 12 June 2023
- DNs to familiarise themselves with the draft Framework
- The Workgroup to consider any impacts to UNC Section Y.

5. Any Other Business

None raised.

6. 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
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10:00 Tuesday 20 June 2023	5pm Monday 12 June 2023	Microsoft Teams	<ul style="list-style-type: none"> • Amended Modification • Consideration of Business Rules • Consideration of User Pays • Review of Impacts and Costs • Review of Relevant Objectives • Consideration of Wider Industry Impacts • Consideration of Legal Text • Development of Workgroup Report
July date to be confirmed (potential 11 July 2023)		Microsoft Teams	<ul style="list-style-type: none"> •

0843 Action Table						
Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
0401	27/04/23	1.0	Proposer (DMo) to consider regionalisation of the charges.	April 2023	Proposer (DMo)	Closed
0402	27/04/23	1.0	Proposer (DMo) to provide the rationale as to why National Gas is out of the scope of this Modification.	April 2023	Proposer (DMo)	Closed
0403	27/04/23	1.0	Proposer (DMo) to consider an Appeal process for the authority approval mechanism.	April 2023	Proposer (DMo)	Closed
0404	27/04/23	1.0	Proposer (DMo) to consider how the ISE and AUGE will interact to avoid dual governance.	April 2023	Proposer (DMo)	Closed
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0406	27/04/23	2.0	Proposer (DMo) to prepare a Proposer's written response to answer the question raised at UNC Modification Panel, 'Impact on price control incentives'.	June 2023	Proposer (DMo)	Carried Forward
0501	23/05/23	2.0	Proposer (DMo) to show how the Shrinkage charge will be derived, and how it will be paid to illustrate the management of positive and negative Shrinkage.	June 2023	Proposer (DMo)	Pending
0502	23/05/23	2.0	Proposer (DMo) to consider how negative Shrinkage will be managed and the mechanism for reimbursing the DNs.	June 2023	Proposer (DMo)	Pending
0503	23/05/23	2.0	Proposer (DMo) and DNs to collectively consider how the Independent Shrinkage Charge (ISC) can be managed (potentially a pass through).	June 2023	Proposer (DMo)	Pending
0504	23/05/23	2.0	Proposer (DMo) to provide further clarity within the Modification on the justification case for additional costs if the Modification will not change the cost-benefit case for consumers.	June 2023	Proposer (DMo)	Pending
0505	23/05/23	2.0	Proposer (DMo) to consider how an appeals process will operate.	June 2023	Proposer (DMo)	Pending
0506	23/05/23	2.0	Proposer (DMo) and Legal Text Provider (DM) to consider Business Rule 16 and how the legal text could be managed to allow for IGT165 and how the	June 2023	Proposer (DMo)	Pending

0843 Action Table						
Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
			IGT UNC would be amended to capture IGT Shrinkage.			
0507	23/05/23	2.0	DNs (ID WWU lead) to explain how the current Shrinkage process works for forecasting, gas purchase, reconciliation and current licence requirements to aid workgroup discussion and for inclusion in the workgroup report.	June 2023	DNs (ID WWU lead)	Pending