

UNC Workgroup 0843
Establishing the Independent Shrinkage Charge and the Independent Shrinkage Expert
Thursday 25 January 2024
via Microsoft Teams

Attendees		
Rebecca Hailes (Chair)	(RHa)	Joint Office
Nikita Bagga (Secretary)	(NG)	Joint Office
Aidan Lo	(AL)	Joint Office
Andy Clasper	(AC)	Cadent Gas
Catriona Ballard	(CB)	Brookgreen Supply
Charlotte Gilbert	(CG)	BU-UK
Colin Wainwright	(CW)	SGN
Dan Simons	(DS)	Joint Office
Dave Addison	(DA)	CDSP
David Mitchell	(DMi)	SGN
David Morley	(DMo)	Ovo Energy
Edward Allard	(EA)	Cadent Gas
Ellie Rogers	(ER)	CDSP
Fiona Cottam	(FC)	CDSP
James Lomax	(JLo)	Cornwall Insight
Julie Chou	(JC)	Wales & West Utilities
Josie Lewis	(JL)	CDSP
Lee Greenwood	(LG)	Centrica
Louise Hellyer	(LH)	TotalEnergies Gas & Power
Mark Cockayne	(MC)	Joint Office
Matt Marshall	(MM)	Cadent Gas
Paige Leigh-Wilkes	(PW)	Cadent Gas
Steve Mulinganie	(SM)	SEFE Energy Limited
Susan Helders	(SH)	NGN
Tom Stuart	(TSu)	Wales & West Utilities
Tracey Saunders	(TS)	NGN

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/0843/250124>.

The Workgroup Report is due to be presented at the UNC Modification Panel by 18 April 2024.

1. Introduction and Status Review

Rebecca Hailes (RHa) welcomed all parties to the meeting. David Morley (DMo) provided a recap to the Workgroup on what the Modification involves, advising that when all metered gas volumes are subtracted from gas volumes that flow into LDZs, there are two mechanisms via which to account for any missing gas: Shrinkage and Unidentified Gas (UIG). First Shrinkage is

removed from the total missing gas and the rest is allocated to UIG. Shrinkage consists of Own Use Gas, Theft of Gas, and gas leaks. The Modification states that quantities of UIG are shrinkage model error. To account for what the Proposer perceives to be the under-reporting of shrinkage, the proposal is to create a new role (an Independent Shrinkage Expert) who would create a new forecast of what the error is and remove this quantity from UIG. The process is intended to work alongside the shrinkage process and at the end of the year, the values will be reconciled and updates made via the amendment invoice.

RHa highlighted to the Workgroup that this Modification has not been discussed since September and the text of the Modification is version 9.

1.1 Approval of Minutes (27 September 2023)

The previous minutes were approved.

1.2 Approval of Late Papers

There were no late papers to approve however there was an amended version of the Modification, version 9, to review.

1.3 Review of Outstanding Actions

0901: Ofgem (VT) and Proposer (DMo) to meet offline to consider the potential interactions for the process with Ofgem in considering an additional Independent Shrinkage Charge (ISC).

Update: DMO provided an update, advising of the concerns certain individuals had regarding obligations being placed on the Authority. Several changes had been made to the Modification including the deletion of the deadline. **Closed.**

0902: GDNs to confirm what actionable information is required which would allow industry enhancements/improvements.

Update: Julie Chou (JC) suggested that the ISE could provide information as follows:

- Location of leaks
- Quantification of leaks.

This will help DNOs to prioritise risks. DMO stated that quantification will be included within the Independent Shrinkage Statement but he is unsure if the expert will consider location, although the presumption is that he will. RHa raised that the purpose of the investigation by the expert is to reduce the leaks so the information relating to the location will be required. In relation to estimations provided by the expert, DMO confirmed that negative values are given their own consideration and that these figures won't be applied but they will be reported. RHa proposed closing this action. **Closed.**

2. Amended Modification / Framework / Business Rules

The Workgroup reviewed the amended Modification published, with DMO providing an overview of the changes made.

Business Rule 5

The Workgroup discussed Business Rule 5 which is in relation to the absence of a decision being made by Ofgem.

Ellie Rogers (ER) discussed that this is covered in the Framework and Rough Order of Magnitude (ROM) so there may not be a need to explicitly include it in the Business Plan and Information Rules (BPIR) and Legal Text. From a business perspective, the shrinkage factor will be loaded into Gemini to ensure it is working as it should from April. In the Framework, it is explicit that the values need to be loaded correctly 2 weeks (10 working days) before but ER

raised that this deadline cannot be drafted into the Code.

RHa asked if CDSP are happy with the wording in Business Rule 5 “cognisant of timescales”. ER states for now this wording is sufficient however, a review of the Legal Text will be required to see how it will be translated into the Legal Text.

JC questioned why this would apply in the absence of a decision from Ofgem. RHa explained that ISC are independent and in the event a Modification is directed for approval, ISC will be able to utilise their independent power and authority to obtain the numbers and implement them. This mechanism gives the Authority a veto but the default position is that it will go ahead.

RHa asked if there is anything in the Business Rules regarding an Ofgem decision being made after the deadline. DMo stated in the event this happens it would go into the invoice. DMo stated that he would review the Business Rules to ensure that there is a provision stating it will go into the amendment invoice.

Ed Allard (EA) raised that there is no mention of a limit on a discrepancy between ISC and the figure calculated by the Shrinkage and Leakage Model (SLM). DMo confirmed there is no limit. EA raised the materiality of a Modification in the event Ofgem does not make a decision. RHa confirmed that ISC has the authority to conduct investigations themselves, issue a report and determine the charge. ISC will have been given considerable scope, even when dealing with a material Modification.

EA asked whether DMo had obtained Ofgem’s views on the position of Ofgem not providing approval and the default position that the ISC is approved. DMo confirmed he had not discussed this particular point with Ofgem. DMo advised that consultation may be the best place to consider this and RHa advised that a specific question can be raised with Vik Tuffen if required.

SM raised that a question for consultation, at a point in the future when the Modification is in a more stable position, maybe to consider how Ofgem interacts and whether they want to interact at all. Specific confirmation of how Ofgem want to be involved will need to be obtained.

Business Rule 8

DMo provided an overview, explaining that previously, Business Rule 8 stated that the transporter had to communicate with the shipper but for shrinkage, they need to engage with the shrinkage provider. The rationale is to keep activities under this Modification separate from shrinkage so a new defined term was suggested to be created for Independent Shrinkage Provider (in this v9.0 of the Modification). DMo asked the Workgroup whether this newly defined term should remain. Both RHa and SM confirmed they agree the newly defined term provides clarity.

There is now a reference to the fact that the Independent Shrinkage Provider will be purchasing gas.

Charlotte Gilbert (CG) questioned the ability of IGT to have an independent shrinkage charge provider and whether this would require IGT to be set up on Gemini. DMo confirmed that they still can contract with Shippers, should they require. ER provided an insight into the on boarding process on Gemini, explaining that the current process involves DNO members contracting with the shrinkage provider, who would be the shipper members, to purchase on their behalf. If IGT members wished to do this themselves, ER is unsure of how this would be done on Gemini.

Tracey Saunders (TS) explained that her understanding is that DNO members cannot purchase gas for themselves (due to licence restrictions), it can be purchased through a provider for the purpose of shrinkage, there is a specific contract between the DNOs and a third party specifically relating to shrinkage. The assumption is that the position with IGTs would mirror this but it is currently tied into the licenses. Whether DNOs can contract with two providers will be dependent on the license. TS advised that she does not believe, under the license, that there is an ability to contract with the Independent Shrinkage Provider to purchase gas as they are only able to purchase gas in relation to shrinkage so a Change would be required. DMo confirmed there is further guidance on this.

ER explained that DNOs provide their daily shrinkage charge and if the Modification went live,

the ISC values would be added on top of the charge and this would be loaded into the system as the total value, this is what the ROM is based on. RHa questioned whether the independent shrinkage charge provider would need to be the same party if the value is combined in Gemini.

ER raised a question regarding the newly defined term and if it will have any impact on the proposal. If it does, the ROM will need to be reconsidered.

RHa questioned whether there is an ability to have two parties pay two parts of the same charge. If the two charges are loaded into Gemini as one number how can two Shippers buy that gas – how would it be divided? ER stated that she is not familiar with the process as it is outside the scope of the system process.

A lot of the detail discussed amongst the Workgroup may be covered in the ROM, in which case the Business Rules will need to become more streamlined and more for ‘avoidance of doubt’.

Following the discussion regarding Business Rule 9, DMO concluded that there is no value in creating a new role if it is not going to be utilised, DMO confirmed he would remove the new defined term (Independent Shrinkage Provider) from the Business Rules.

Business Rule 9

RHa drew attention to the use of “ISE” in Business Rule 9, DMO confirmed that this should be “ISC”. DMO explained that at the start of the year, ISC values are put forward by the ISE and at the end of the year the ISE does a reconciliation piece to see how actual values compared. If required there will be a reconciliation item in the amendment invoice.

If the Authority has vetoed the ISC prior to the year beginning, the reconciliation amount and the reconciliation report will be for information purposes only.

Louise Hellyer (LH) questioned why the volumes which come out of UIG go into the amendment invoice rather than the specific UIG ‘pot’ it came from in the event that the reconciliation process is incorrect. ER explained the process where if the Shrinkage gas purchased re is too much, this results in a debit to shippers, and if the shrinkage gas purchased was too little, this results in a credit to Shippers. DMO explained at the start of the year there will be a forecast which is attempted to be verified at the end of the year. UIG which is taken out at the start can also be put back in at the end.

The reconciliation report, if not being used, will show the workings. SM explained the use of the word “report” if it is being used for information purposes may cause confusion. DMO advised he would amend to include “for the avoidance of doubt, for information only”.

Further Solution Note 3 and 5

The Workgroup considered the Further Solution Notes and DMO discussed the different license changes for IGTs.

RHa noted that “GND” needs to be amended to “GDN”.

David Mitchell (DMi) queried whether a date needs to be included. DMO explained that these are included in the timetable which the Workgroup would be reviewing.

The Workgroup also flagged the wording of “it will reduce” in relation to the consumer benefit table, advising that this should be amended to “aims to” because it is less definitive language.

Review of the Framework for the Appointment and Operation of an Independent Shrinkage Expert (see Appendix 2 of the Modification)

DMO advised that most of the changes were as a result of feedback from CDSP.

RHa raised removing the word “Modification” as it causes confusion, SM agreed and DMO stated this would be replaced with a more suitable word.

New Action 0101: RHa to investigate references regarding what happens if UNCC approval has not been obtained.

The Workgroup discussed the addition of 3.2.2 c). SM advised this obligation could be inefficient if attempting to procure something no one is willing to provide. It makes sense to include this but it should be limited to a singular attempt.

ER explained this is something that has not been an issue previously but CDSP would not want to be in a position where there are continuous attempts at a process with no bids. DMO therefore raised further clarity is required.

ER stated she would discuss with the procurement team to see if they have any suggestions. They may have dealt with a similar situation previously and may be able to suggest a process to implement.

RHa discussed the option of rolling over a current ISC contract if there is not a new one in place following the termination of the current one as an option. SM advised this may not work, putting forward the argument that there will be an entitlement to terminate the contract. SM further clarified that the point of the obligation is that it gives another opportunity to re-open if initially the chance was missed or was not understood the first time around.

ER raised it could be a timing issue. DMO advised that the length of time is discretionary.

TS suggested changing “will” to “may” as currently drafted, it sounds too harsh.

ER raised that CDSP are to provision and appoint an ISE which is in DSC. If the framework states this and no one can be found, following a procurement exercise to bid, there might need to be a Modification to have this removed from the Code as there will be difficulty meeting this obligation.

SM raised that this is a contentious issue and that the wording needs to be amended. EA questioned if this section is around operational management and delivery procurement processes and how it would be structured within the Modification. DMO confirmed it would be the same as the AUG Framework.

All Framework text will be included in the Modification as an appendix as it is the first draft of the wording for the Framework. Once launched, it will contain its own processes for amendments. RHa confirmed somewhere it will need to state that it will be listed under UNC TPD Section V para 12.1 to confirm it will be a UNC-related document.

Timetable

The Workgroup then discussed the timetable within the Framework. DMO advised that “10 business days” has now been included in Step 13. The shrinkage reconciliation process needs to be completed by 31 July so the date has been amended to align with the reconciliation process.

DMO clarified that all references to the newly defined term of Independent Shrinkage Provider will be removed as discussed above.

RHa provided an overview of the amended dates in the timetable. It was confirmed that the process is akin to the AUG statement.

DMO highlighted that there has been a lot of back and forth with the shrinkage error and industry in terms of what the shrinkage error model will look like. There will be a report at the end of the ISE process each year, with meetings along the way. ER highlighted that the steps are similar to the AUG process in terms of implementation. The difference is the dates as AUG is tied to the gas year and this is tied to the financial year.

Review of the Uniform Network Code Committee Independent Shrinkage Sub-Committee Terms of Reference (see Appendix 3 of the Modification)

The Independent Shrinkage Sub-Committee, which is a sub-committee of the UNCC, operates in the same way as the AUG sub-committee. The timings have been amended under section 2.2 “Meetings”.

3. Rough Order of Magnitude (ROM)

ER provided an overview of the ROM to the Workgroup following the review of the Business Rules which included a discussion on a lot of the things mentioned within the ROM. There are 3 areas to be considered and assessed:

1. Loading and assigning daily shrinkage into Gemini. This is currently done for DNOs but not IGTs;
2. Ensuring we reflect that every appropriate shrinkage value is removed from UIG; and
3. Considering a reconciliation activity and how it works with ISE if approved.

The biggest point for discussion is procurement. There is no cost range specified within the ROM due to the fact there has not yet been a role similar to the one in the Modification. There is also no cost range being provided for the ongoing management as, at present, there is no idea of what the supporting activities would look like. This information is likely to be obtained during Detailed Design.

The impacted parties are DNO, Shippers and IGT. DNO and IGT members are identified as potentially purchasing additional gas to cover the ISC. Shipper Members will have an indirect impact due to changes in UIG.

There will be a direct impact on the Gemini system. The screens will need to be enhanced as daily Independent Shrinkage Charge values will need to be provided in addition to DNO values. Currently, this is done for DNOs but not yet for IGTs so this would need to be created. The proposal from a system perspective is that when a value is obtained from DNOs, if the ISC is approved, we would put it on top of the DNO amount so that it goes into the system as one number. For IGTs their shrinkage value is always 0 so the input into the system for IGTs will be the ISC value.

The main changes to the functionality in the system are to ensure it's mapped to LDZ. Currently, there is only a one-to-one relationship with DNO, this would therefore need to be mapped to have an IGT to LDZ relationship.

The biggest impact would be the screen updates and the mapping. In relation to reflecting shrinkage in UIG, there will need to be changes made to some calculations to ensure correct utilisation to ensure all has been accounted for and nothing has been missed.

ER also discussed the impact on reconciliation and the annual process provided at the end of the year. This is done via ORD-LDZ which is loaded into the UK Link Manual. If a DNO purchases too much gas, there is a credit to the Shipper and vice versa. This method is being considered to apply to IGTs. If the ISE reconciliation statement is approved by Ofgem, the proposal is to utilise the same format to ensure it is processed in the same way. It will need to be set up as being received from a different person. It will be done through the RTE process.

Please refer to the ROM example presentation slides published for the visual representation example provided by CDSP.

RHa raised the wording of “*assuming they have not been disapproved by Ofgem*”. In response, ER stated that the wording needs to be updated because of the “deemed approved” wording.

RHa highlighted that this ROM was published in October and has not been changed since, the Workgroup has had plenty of time to consider. Once the amended Modification has been published, the ROM may need to be updated.

Following a review of the Business Rules, ER confirmed that there have been no discussions

which will require amending the ROM. When the ROM has been updated, the link referring to the example will also need to be updated.

RHa noted the .ORD file flow is required.

In terms of the UIG reconciliation process, CDSP didn't see a requirement to distinguish between the amounts, these will be merged from a shipper perspective. If a lot of interest is obtained about whether it is IGT or DNO, this may need to be changed in the future. ER highlighted that this would be a fundamental change to the UK Link System, the benefit case will need to be assessed if this is required. It is thought that mainly Gemini will be impacted.

In terms of costs on the system side, there is a wide range to ensure everything can be managed. From a recourse support point of view and from representation at the meeting, ER could not confirm whether additional resources would be required. CDSP will need to await the Detailed Design to understand what is needed. In terms of the implementation, there will need to be a procurement exercise which will guide when it falls into place. From a system perspective, CDSP are advising an ad hoc, stand-alone release. Typically, there is a 12-month minimum lead time for the procurement exercise. Due to this Modification being new and CDSP not understanding the nature of it yet, a lot of consideration will need to be given to the requirements. CDSP believe that 18 months will be more realistic to take into account the 2-phased approach for procurement to obtain initial views and understand what is currently in the market, based on this, procurement will then be more tailored. This is an ongoing process, there will need to be 2 weeks lead time to get the ISC values loaded into Gemini.

In terms of the funding split, this is normally decided by DSC Change Management Committee. However since the Modification has been specific, then the split is whatever the Modification requires. DSC Change Management Committee would not have the authority to change who is responsible for the costs in this case.

4. GDN Assessment of Supporting Evidence

Deferred to 22 February 2024.

5. Consideration of IGT Impacts

Deferred to 22 February 2024.

6. Legal Text Review (1st Draft)

DMi asked the Workgroup whether they think this is a suitable point to request Legal Text.

SM suggested that the Modification requires further refinement. Bearing in mind an extension is going to be requested from Panel, the Workgroup need to be in a position where the Modification is being considered in its final form in order to reasonably ask for Legal Text to be produced. DMO advised that there does not seem to be any further significant changes to be made.

RHa suggested that if DMO can produce an amended Modification which would be version 10, for DMi to review prior to the Panel meeting, the request for Legal Text could be made at February Panel.

DMo advised that he can get a version of the amended Modification v10 out by the end of the week to allow DMi sufficient time to consider it prior to February Panel.

7. Development of Workgroup Report

The Workgroup Report will be considered following publication of version 10 of the Modification.

8. Next Steps

- DMO to finalise version 10 of the Modification by the end of the week for DMi to review and make a decision regarding the Legal Text request which is due to go to Panel on 15 February;
- ISE appendix analysis is to be included in the agenda to be discussed at the start of the next meeting on 22 February by Colin Wainwright (CW);

- PE leakage for INA to be considered; and
- Anne Jackson (AJ) to join next month's meeting to discuss IGT Impacts.

9. Any Other Business

No other business was raised.

10. Diary Planning

0843 Meetings are listed at: <https://www.gasgovernance.co.uk/0843>

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

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Thursday 22 February 2024	5 pm Wednesday 14 February 2024	Microsoft Teams	<ul style="list-style-type: none"> • Legal Text Review (if available) • PE leakage for INA • IGT impacts • ISE appendix analysis • Development of Workgroup Report
10:00 Thursday 28 March 2024	5 pm Wednesday 20 March 2024	Microsoft Teams	<ul style="list-style-type: none"> • Development of Workgroup Report

Workgroup 0843 Action Table

Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
0901	27/09/23	2.0	Ofgem (VT) and Proposer (DMo) to meet offline to consider the potential interactions for the process with Ofgem in considering an additional Independent Shrinkage Charge (ISC).	October	Ofgem (VT) / Proposer (DMo)	Closed
0902	27/09/23	8.0	GDNs to confirm what actionable information is required which would allow industry enhancements/improvements.	October	All GDNs	Closed
0101	25/01/2024	2.0	RHa to investigate references regarding what happens if UNCC approval has not been obtained.	January	RHa	Pending