

**UNC Workgroup 0843
Establishing the Independent Shrinkage Charge and the Independent
Shrinkage Expert**

13:00 Wednesday 05 June 2024

via Microsoft Teams

Attendees		
Rebecca Hailes (Chair)	(RHa)	Joint Office
Nikita Bagga (Secretary)	(HCu)	Joint Office
David Morley (Proposer)	(DMo)	OVO Energy
Amy Rawding	(AR)	Northern Gas Networks
Anne Jackson	(AJ)	PAFA/Gemserv
Andy Clasper	(AC)	Cadent
Charlotte Gilbert	(CG)	BU UK
Colin Wainwright from 13:50	(CW)	SGN
David Mitchell	(DMi)	SGN
Edward Allard	(EA)	Cadent
Eilidh McNally	(EM)	Last Mile
Ellie Rogers	(ER)	Xoserve (CDSP)
Josie Lewis	(JL)	Xoserve (CDSP)
Julie Chou	(JC)	Wales & West Utilities
Katheryn Adeseye	(KA)	Xoserve (CDSP)
Louise Hellyer	(LH)	Total Energies
Niall Simmons	(NS)	Smartest Energy
Oorlagh Chapman until 15:10	(OC)	Centrica
Paul O'Toole	(PO)	NGN
Susan Helders	(SH)	NGN
Tom Stuart	(TSt)	Wales & West Utilities
Tracey Saunders from 14:25	(TSa)	Northern Gas Networks

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/0843/050624>.

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

1. Introduction and Status Review

Rebecca Hailes (RHa) welcomed everyone to the meeting.

1.1 Approval of Minutes (23 April 2024)

The minutes from 23 April 2024 were approved.

1.2 Approval of Late Papers

There were 3 papers provided late for this meeting which included the timeline document, the Amended Modification and the Legal Text. These papers were approved for consideration and review by the Workgroup.

1.3 Review of Outstanding Actions

0404: DMo and RHa to consider adding a single-page diagram of the ISC creation time cycle.

Update: David Morley (DMo) provided this document which was reviewed during the Workgroup. It was therefore agreed to close this action.

Action Closed.

0406 CDSP (ER) to confirm how Shrinkage is currently removed from UIG and if the LDQO approach proposed in the LT works correctly

Update: Ellie Rogers (ER) provided an update, advising this action had been addressed by the Legal Text. Amendments had been made however some updates were still required to the calculations. Please see the discussion at section 6. It was therefore agreed to close this action.

Action Closed.

0407: DMi to provide an explanatory table detailing where each BR is enacted in the LT and maps each BR definition to its corresponding LT definition.

Update: David Mitchell (DMi) advised that due to the Legal Text not yet being finalised, this action should be carried forward to the next Workgroup for further discussion.

Action Carried Forward.

2. Amended Modification

DMo provided an update on the amendments to the Modification since the last Workgroup meeting on 23 April 2024.

DMo discussed Business Rule 6, explaining that this has been updated to reflect that the Independent Shrinkage Statement (ISS) will need to be sent to the Joint Office for publication and to the CDSP and Ofgem.

Business Rule 10 has been amended to do the same as Business Rule 6 in relation to the Reconciliation Statement (send to the Joint Office, the CDSP and Ofgem).

DMo confirmed that text had been removed from the Framework document on page 26 in relation to section 3.2, DMo explained that this is in relation to the procurement exercise conducted by CDSP. Sub-section (c) has been removed following advice from CDSP and updated to reflect the position that CDSP can approach the UNC for additional control over the procurement process, in the event the initial procurement exercise is unsuccessful. The original drafting of this section appeared to be too prescriptive.

Amendments have been made to section 10 of the Framework document to confirm that publications are to be sent to the Joint Office.

DMo advised that Step 13 had been amended to now include a date and asked whether reference to the Joint Office should be included in this section. RHa advised that her recommendation would be to include it in this section, although DMo stated that this detail was already contained within the Business Rules.

DMo explained that Step 14 has now been amended to include additional detail relating to the publication of the Reconciliation Statement being sent to the Joint Office and CDSP for publication, however, RHa highlighted that this amendment did not appear in the document. DMo advised that he would update the Modification to reflect this position.

DMo queried with CDSP as to whether this duplication needs to be included in the timeline or whether it is sufficient for the contract to be set up as in line with the drafting of the Business Rules.

DMo highlighted that Step 14 does not contain the various steps required of the Independent Shrinkage Expert (ISE) in relation to the development of the Reconciliation Statement, this detail is contained in the Business Rules. In light of this, DMo queried whether CDSP requires this detail to be pulled from the Business Rules into this section. ER advised that this would be useful detail for the Framework, discussing the process that occurs to the details once a Modification has been approved. ER advised that it would be useful to have this detail contained in the Framework to avoid having to find it in the Modification, if approved. Due to potentially following the same process as the GDNs, RHa stated that the additional detail may not be required. ER confirmed this is the understanding of CDSP, adding that if the Reconciliation Statement is approved or automatically applies, this will be put into the system as an adjustment on shrinkage. Section E of the Legal Text addresses this point.

The Workgroup then discussed the last step of the reconciliation process and the ability of Ofgem to disapprove. RHa queried what happens to the approved reconciled values and that there does not appear to be an additional step detailed in the Amended Modification to advise of this (addition to the amendment invoice). DMo explained that the contract with ISE will detail the activities undertaken.

New Action 0601: CDSP (ER) to confirm what happens with the ISE Reconciliation and clarify whether the Business Rules and Framework together provide enough to make the reconciliation happen.

3. Review flowcharts / timeline document

DMo provided an update on the timeline document, advising that this has been obtained from the AUGE timeline to understand the document produced by the ISE.

DMo provided an overview of the timeline from start to finish. Please refer to the published document for further detail: <https://www.gasgovernance.co.uk/sites/default/files/related-files/2024-06/Indicative%20ISE%20Timeline%2004%20June%202024.pdf>

RHa drew reference to the 2 boxes stating “Final Independent Shrinkage Statement (ISS) given to Ofgem and CDSP by 1st March” which appear to be duplicated. DMo advised that this will be amended.

ER suggested for another box to be added from the Reconciliation Statement process down to CDSP to explain what happens with the reconciliation, perhaps in the form of a notification to the CDSP.

Paul O’Toole (PO) queried what the ISE will be reviewing for publication, adding that the DNs currently produce an initial forecast for the following year during the same period. PO therefore asked how the DN forecast will align with the ISE forecast. DMo advised that the ISE forecast will not take place until the final consultation has been published in March.

DMo advised that once the actual data has been obtained, this will be compared against the forecast and any difference will be considered as the Shrinkage Model Error. RHa highlighted that there is no reference to this comparative exercise. DMo advised that there will be an amendment to include this step, RHa added that there should also be detail relating to GDN’s

iteration where there is reference to where the ISE provides a modified ISS.

New Action 0602: Ovo Energy (DMo) to consider amendments to the timeline in light of GDN's timing of publications.

PO highlighted that it may be useful to use colours to differentiate between the processes for ISE and GDN to illustrate how they will work alongside each other.

RHa discussed the last step in the process for ISE in relation to the preparation and publication of the Reconciliation Statement and queried why this step will take so long to complete. DMO advised that the amount of time taken to observe Shrinkage is a year, there will then be a subsequent period in which the Statement will be produced. The timeline is reliant on GDNs producing their own reconciliation piece which is why this is estimated to take place in August.

It was clarified that this relates to a regulatory year and not a gas year.

4. Rough Order of Magnitude (ROM)

ER provided an update advising that the Rough Order of Magnitude (ROM) does not have any further changes to be discussed. RHa advised that sections will be extracted to be included in the Workgroup Report.

Anne Jackson (AJ) highlighted that it may be useful to highlight the impacts to Independent Gas Transporters (IGTs) in the ROM, ER advised that references have not been made to individual parties as the ROM relates to general system impacts as a result of the Change, however, the CDSP has advised of the main system impacts as a result of accounting for IGTs.

AJ queried the checks and balances process to ensure that an amount of gas has been purchased to cover the shrinkage model error for both GDNs and IGTs and whether there is anything in place. ER explained that DNOs will have whatever they have determined for Shrinkage for an LDZ in addition to the ISC amount (a volume at a daily level) which would need to be purchased. The process for IGTs in terms of purchasing will be whatever is valued by the ISE with checks being conducted. ER highlighted that it is the latter part which CDSP are looking to clarify from the perspective of Shippers. RHa queried whether AJ wanted this discussion to be captured in the Workgroup Report however AJ confirmed she did not.

CDSP will be looking to provide an update in relation to the instruction to IGT to purchase gas to cover their ISC at the next Workgroup.

AJ further added that in the IGT-UNC, IGT will be required to support the expert by providing anything that is required under its remit within the UNC, this may extend to data or instructions to provide gas. Parties to the IGT-UNC will be required to follow instructions under governance from the expert that is provided under UNC. AJ further highlighted that although IGTs are required to purchase gas through Shippers, there is no visibility as to whether this has been done or not.

RHa queried what the significance of the statement in the Modification relating to the 19 GWh of IGT Shrinkage from a cross-code impact perspective is. DMO advised that this is captured under the UNC and could therefore be removed from the Modification. RHa confirmed that this will therefore not be included in the Workgroup Report.

AJ highlighted that there is a lot of use of the word "Shrinkage" and queried whether that is the error against the Shrinkage Model which IGT are paying for. AJ explained that there is a Shrinkage Model which works by putting Shrinkage into the system, therefore the reference to the 19GWh of IGT Shrinkage refers to the error against the current Shrinkage Model. DMO confirmed that this position is correct, adding that it is a contributor to the UIG amount, paid by Shippers in accordance with the Weighting Factors.

5. Consideration of IGT Impacts

This item was covered above in section 4.

6. Legal Text Review

The Workgroup conducted a review of the draft version of the Legal Text dated 21 May 2024. The Workgroup had not had the opportunity to consider this version of the Legal Text ahead of the meeting. It was agreed amongst the Workgroup that it would be beneficial to consider the Legal Text from start to finish for the purpose of completeness.

Heading

The Workgroup discussed the heading of the document. DMO advised that the original drafting caused confusion and explained that this would need to go back to the lawyer to advise on whether there should be any changes made to TPD S and Annex S-1. ER added that Section S relates to invoicing. A separate charge would not be required from a UK Link Manual perspective.

RHa summarised the discussions of the Workgroup, explaining that the title of the Modification states that the Modification seeks to establish an Independent Shrinkage Charge and the ISE. RHa's understanding is that there may be a new charge, however, when the system implementation is complete, the new charge will link to the existing charge such that it will not be distinguishable between the two when an invoice is received.

ER added that Shrinkage is assigned in Gemini as gas being required to be purchased by the DN.

DMO concluded that the reference to the Charge can remain, overall this is a colloquial term. This was discussed in the meeting of 23 April 2024, please see page 9 of the previous minutes for 23 April 2024 for further detail relating to this point.

AJ highlighted the scenario where the DN defaults under the existing agreement and fails to provide the amount of gas required under the Code, this was discussed by the Workgroup. PO discussed the reconciliation process and comparing the forecast against the actual data received. AJ queried whether the contractual obligations between DN and Shippers when purchasing gas falls to the DNs or the Shippers when ensuring that the amount required has been met. PO advised that he was unable to confirm the position on this point.

ER summarised that the reconciliation process will remain the same. DNs will be required to send an .ORDfile with the reconciliation figures and what they hope to happen. The ISE will then provide their figures and adjustments will be made where necessary.

Section 1.5.1

DMi highlighted that the lawyers had made amendments to the Legal Text regarding this section. CDSP's suggestions were to provide consistency, ER explained that the definition of LDQO covers the definition of LDZ, it therefore would make sense to include this in the Shrinkage Quantity.

It was agreed amongst the Workgroup to include a definition of ISE Shrinkage as this does not appear to be defined elsewhere. DMO added that this definition should be amended to Shrinkage Model Error and as the proposer, he intends to keep this separate from Shrinkage.

Section 7.3.1

DMi advised that this section had been removed by the lawyers and therefore wanted to check

if the Workgroup are comfortable with this proposal. DMO confirmed he was not happy, advising that the final position landed on in the last meeting was to amend this section to ensure it lines up with the suggestions provided by CDSP. DMO therefore requested for this section to be re-instated. ER agreed, adding that by re-instating section 7.3, this might negate the need for section 7.6.

RHa advised that Workgroup will await a further version of the text following DMi highlighting that the lawyers have not had the opportunity to consider the comments from DMO and CDSP. RHa further highlighted that Workgroup have not had the opportunity to review this document prior to this meeting and a review will be required during the meeting to capture any discussions or additional amendments to be made.

Section 7.6

DMi provided an overview of the current wording, highlighting that it relates to the implementation of either Business Rule 8 or Business Rule 10, it was not clear.

DMo queried whether it was necessary to retain the post-end of year reconciliation in Section E and Section N, he therefore suggested that DMi should check with the lawyers as to why this has been included in both sections.

RHa highlighted that Business Rule 8 relates to the effect on UIG and queried whether that is the purpose of Section 7.6. Due to the lack of clarity, RHa recommended that this section is revisited at the next meeting.

In relation to sub-section (iii), DMi advised that this will need to be discussed with the lawyers following clarity being obtained from DMO.

Section H – 2.6.1

ER highlighted that this links to the outstanding Action 0406, where it was suggested by CDSP to add the definition of the Shrinkage Model Error in LDQO to provide consistency. This therefore meant that the calculation did not need to be updated. By providing the definition at the top of the document and making the necessary amendments to Section 1.5.1, the calculation and the text within this section can be removed.

In relation to the definition of DISLQ and DISIQ, RHa queried the forecast quantities and whether this is covered elsewhere in the Legal Text. DMO confirmed that the definition for the GDN ISC and ISE ISC is contained under ISE Shrinkage, DMO highlighted that he is happy for this to be removed.

Section H – 2.6.2

Due to this section not being concluded, RHa suggested that DMi and DMO discuss this offline. DMO queried that it may be appropriate to discuss this during the Workgroup due to the fundamental question of asking DNs to purchase gas for IGTs.

ER confirmed that in terms of inputting data into Gemini, accounting for IGT shrinkage is separate from the purchasing. ER provided an overview of the process confirming that DNOs are assigned, there would then be a sub-set of LDZ where the ISE value has been approved. This would then be assigned to the relevant IGT for LDZ, depending on the DNO ISE value, this would be added to the existing Shrinkage value provided. IGTs would be expected to purchase gas as DNs do. RHa highlighted that it is not clear where the instruction regarding IGT purchasing gas sits. DMO clarified that this has not yet been drafted, adding that this section will need to be amended to reference the relationship between IGT and Shippers.

DMi advised that a whole new concept of a relationship between IGT and Shippers would need

to be created in the UNC.

AJ highlighted the complexity of this section, explaining that the actual Shrinkage Charge is being purchased on behalf of IGTs however, under the Modification, the Business Rule indicates that IGTs will need to take action separately. In terms of the proposed relationships, AJ stated that IGTs have limited relationships with Shippers under the IGT-UNC in the context of MPRNs served for those Shippers, as not all Shippers are signed up to the IGT Network Codes.

Workgroup's discussions appeared to confirm that the proposal sounds like IGT-UNC will compel a party who is not party to the UNC to do something.

AJ raised that the lawyers have concerns regarding this section and the contractual relationships between IGTs and Shippers. AJ further highlighted that although IGT are required to comply with the whole of the UNC, they don't feature in other areas of Codes, this would therefore be the first time an obligation will be placed on this party. The lawyers will need to consider this from a legal perspective.

RHa highlighted that this Modification will be predicated on a number of license changes.

New Action 0603: SGN to ensure that the Legal Text enables the implementation of IGT covering its ISE obligations.

Section H – 2.6.2

ER highlighted that no amendments will be required to the calculation if the definition is included, as discussed already. Furthermore, Workgroup agreed that the definitions for DISLQ and DISIQ were not required as they will be considered in Section 2.6.1.

Section N – 5.1.1(a)(i)

ER clarified that the forecast relates to what the UIG will be a day ahead and on the day the actual UIG is obtained, this is used to balance the system and builds on the LDZ offtake. DMO therefore highlighted that it would make sense to have the Shrinkage Model Error captured.

ER highlighted the discussions had with Fiona Cottam where they suggested the inclusion of definitions to avoid amendments to the calculations.

ER referred to the "Annual IS IGTS Quantity" and the "Daily IS LDZ Quantity", highlighting that these appeared to be the wrong way round, due to the drafting of sub-section (b).

In relation to sub-section (ii)(A), RHa queried the inclusion of the value of "three hundred and sixty five", DMO clarified that this had been included following discussions from the last meeting.

Section N – 5.1.1(d)

DMO advised that this section refers to the grouping of steps and charges at an LDZ level where an IGT has multiple steps. RHa queried what happens in the event there is more than 1 IGT and ER clarified that this would be mapped in Gemini and the detail is included in the ROM.

Workgroup clarified that "grouping together" referred to grouping with multiple LDZ charges, for example, 1 IGT with multiple LDZ charges due to the IGT operating in multiple LDZs.

DMO advised that he would review his comment added to the Legal Text to ensure that it makes sense.

Section N – 5.1.1(f)

Workgroup confirmed that the name for the document is contained within Appendix 2 of the

Modification as “Framework for the Appointment and Operation of an Independent Shrinkage Expert”. It is this wording that is to be included in the square brackets of this section of the Legal Text.

In relation to sub section (f)(iv), ER highlighted that it does not set out all of the commercial terms of the contract and therefore recommended that this sub-section is removed from the Legal Text. In the event Workgroup decide to keep this sub-section, ER suggested that the wording is amended to “some” terms as opposed to “material” terms.

DMi advised that he will query with the lawyers as to why this has been renamed.

Section N – 5.1.3

DMo advised that a sub-committee would need to be set up by UNCC via UNC GT Section B4.3.

Section N – 5.2.3

ER advised that her comment in relation to this section has been addressed by DMO when he discussed the Framework of the Modification.

Section N – 5.3.4

ER highlighted that this relates less to the Legal Text and more to the Modification. ER explained that this links to where the Business Rule discusses the data retrieval exercise requiring more funding, which would need to be requested via the UNCC.

ER further discussed the position under regulated procurement, advising that if above 10% of the contract value, there will need to be a notice for the comments or change. If above 50% of the contract value, it will be deemed as a material change and will need to be sent out for procurement again.

If data retrieval is a requirement, parties should not amend their quotes unless there is a new requirement.

RHa highlighted that DMO may wish to consider whether an amendment is needed for Business Rule 4 or in the Framework to state this position to align with the regulated procurement.

RHa suggested that the sub-committee should have at least one non-voting representative from CDSP on the procurement side and queried with Workgroup whether it has been decided who will sit on the Committee.

Section N – 5.4.3

RHa queried with DMO which part of this section requires an amendment.

RHa further added that the reference to ‘Transporter’ should be made plural.

The Workgroup discussed amendments to this section to include ‘Transporter, CDSP and the Joint Office’. Business Rule 6 states the proceeding year’s amount applying if needed.

Charlotte Gilbert (CG) queried whether this section should state IGT, highlighting that this has been included separately elsewhere. RHa stated that ‘Transporter’ should encompass ‘IGT’.

Section N – 5.4.4

DMo advised that this section had been discussed previously and it was agreed collectively that this should apply only to Shippers.

RHa raised that it is not clear how quantities are accounted for by the DN and whether this section relates to pass-through.

DMi advised that he will obtain further detail from the lawyers to confirm this.

Section N – 5.5.1

ER highlighted that the comment for this section links to the start of the Legal Text regarding re-instating Section 7.3.1, this Section supports this amendment.

In relation to the reference to 'Transporters', DMO advised that the Business Rules will be updated.

Section N – 5.5.2

DMo highlighted that the lawyer's comments appear to state that IGTs are excluded. DMi advised that this goes back to earlier discussions about whether something can be included in the UNC to introduce a relationship between IGT and Shippers.

Section N – 5.5.2(a)

DMo advised that a question has been contained within the comments for the lawyers.

Section N – 5.5.2(c)

The Workgroup discussed the position regarding invoices with DMO referring to the wording in Business Rule 11. RHa advised that although referenced in the Business Rules, there will need to be something drafted into the Legal Text to implement Business Rule 11.

Section N – 5.5.3

RHa advised that the suggestion by DMO looks reasonable.

Section N – 5.5.4

RHa queried with DMi what the issue is and whether it has been rectified in relation to this section. DMi advised that he will flag this with the lawyers.

Section N – 5.6

DMi advised that he needs to pick this section up with DMO to ensure that he is clear when he refers the matter back to the lawyers.

Section N – 5.6.1

DMi advised that this section relates to withholding data and suggested re-wording to address the issue.

Section N – 5.6.2

Once the position regarding the relationship between IGT and Shippers has been confirmed, this comment can be removed.

Depending on the position regarding the relationship, DMi advised that further consequential changes may need to be made to other sections of the Code.

7. Development of Workgroup Report

RHa stated that she will endeavour to publish a draft version of the Workgroup Report for consideration at the next meeting.

8. Next Steps

RHa advised that Workgroup are to consider the following in the next meeting:

- Conduct a review of the amended Legal Text;
- Consider and review the draft Workgroup Report; and
- Consider and review the updates to the timeline document.

RHa further confirmed that she will request a 2 month extension from Panel

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 Tuesday 23 July 2024	5pm Monday 15 July 2024	Microsoft Teams	<ul style="list-style-type: none"> • Completion of Workgroup Report • Completion of the Legal Text
10:00 Tuesday 20 August 2024	5pm Monday 12 August 2024	Microsoft Teams	<ul style="list-style-type: none"> • Completion of Workgroup Report • Completion of the Legal Text
10:00 Tuesday 17 September 2024	5pm Monday 09 September 2024	Microsoft Teams	<ul style="list-style-type: none"> • Completion of Workgroup Report • Completion of the Legal Text

Workgroup 0843 Action Table

Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
0404	03/04/2024	3.0	DMo and RHa to consider adding a single-page diagram of the ISC creation time cycle.	June	DMo & RHa	Closed
0406	23/04/2024	6.0	CDSP (ER) to confirm how Shrinkage is currently removed from UIG and if the LDQO approach proposed in the LT works correctly	June	CDSP (ER)	Closed

Workgroup 0843 Action Table						
Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
0407	23/04/2024	6.0	DMi to provide an explanatory table detailing where each BR is enacted in the LT and maps each BR definition to its corresponding LT definition.	June	DMi	Carried Forward
0601	05/06/24	2.0	CDSP (ER) to confirm what happens with the ISE Reconciliation and clarify whether the Business Rules and Framework together provide enough to make the reconciliation happen.	July	CDSP (ER)	Pending
0602	05/06/24	3.0	Ovo Energy (DMo) to consider amendments to the timeline in light of GDN's timing of publications.	July	Ovo Energy (DMo)	Pending
0603	05/06/24	6.0	SGN to ensure that the Legal Text enables the implementation of IGT covering its ISE obligations.	July	SGN	Pending