

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

Wednesday 22 February 2024

via Microsoft Teams

| Attendees | | |
|-------------------------|-------|------------------------|
| Rebecca Hailes (Chair) | (RHa) | Joint Office |
| Ben Mulcahy (Secretary) | (HCu) | Joint Office |
| David Morley (Proposer) | (DMo) | OVO Energy |
| Anne Jackson | (AJ) | PAFA/Gemserv |
| Andy Clasper | (AC) | Cadent |
| Catriona Ballard | (CB) | Brook Green Supply |
| Charlotte Gilbert | (CG) | BU UK |
| Colin Wainwright | (CW) | SGN |
| Dan Simons | (DS) | Joint Office |
| David Addison | (DA) | Xoserve (CDSP) |
| Edward Allard | (EA) | Cadent |
| Elisa Panciu | (EP) | Corona Energy |
| Ellie Rogers | (ER) | Xoserve (CDSP) |
| Harmandeep Kaur | (HK) | Joint Office |
| James Lomax | (JL) | Cornwall Insight |
| Josie Lewis | (JL) | Xoserve (CDSP) |
| Katheryn Adeseye | (KA) | Xoserve (CDSP) |
| Louise Hellyer | (LH) | Total Energies |
| Mark Jones | (MJ) | SSE Energy Solutions |
| Matt Marshall | (MM) | Cadent Gas |
| Oorlagh Chapman | (OC) | Centrica |
| Sally Hardman | (SH) | SGN |
| Steve Mulinganie | (SM) | SEFE Energy UK |
| Tom Stuart | (TSt) | Wales & West Utilities |
| Tracey Saunders | (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/0843/220224>.

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 (25 January 2024)

The minutes from 25 January 2024 were approved.

1.2 Approval of Late Papers

There were no late papers for this meeting.

1.3 Review of Outstanding Actions

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

Update: RHa advised the Workgroup that enquiries were underway and that the aim was to provide feedback in the next Workgroup, scheduled for 06 March 2024.

Action carried forward.

2. GDN Analysis of ISE Appendix Analysis

Tom Stuart (TSt) was invited to present the paper provided on behalf of the GDN constituency that detailed their commentary on the studies listed within Appendix 1 as academic papers on methane measurement. The GDN paper, in the form of an Excel spreadsheet, details each study/paper listed and provides an entry-by-entry GDN response to each. It can be referenced in the 25 January 2024 Workgroup meeting paper pack published on the Joint Office website at www.gasgovernance.co.uk/0843/250124 entitled "4.0 ISE Appendix Analysis – All GDNs V2". TSt talked the Workgroup through the spreadsheet, reading each response in turn.

Whilst reviewing the GDN responses TSt identified the commentary in Cell C9 as incomplete notes for himself, making reference to the GDN Digital Platform for Leakage Analytics (DPLA) project, which RHa advised Workgroup Participants Cadent would be providing an update on in the next UNC Shrinkage Forum on 18 March 2024 (see www.gasgovernance.co.uk/SF/180324)

The cell C9 also included the note "*Trigger (delta in temp) surveys and winter trigger (below 0C) surveys*" which TSt explained referred to the practice of specified registered temperatures being the trigger for engineers to be sent to proactively survey gas mains for leakages. RHa asked if this practice was true of all GDNs, which Colin Wainwright (CW) confirmed, adding that the procedures including variables such as tracking temperatures over 12 and 24-hour periods and taking into account pipeline specifications, verifying RHa's supposition that this included considerations such as the materials and sealants used.

David Morley (DMo) acknowledged the feedback from the GDNs and advised the Workgroup that the intention of providing the references in Appendix 1 was not so much as to underpin or fully rationalize the Modification but to provide a wider view of the challenges faced with Methane emissions. RHa suggested that, in light of that intention, it was probably worth adding a paragraph before the Appendix providing such context.

Tracey Saunders (TSa) noted that the opening paragraphs of the Modification Summary on page 3 refers to Appendix 1 whilst making the case that Shrinkage is continually underreported by the GDNs. TSa asked that this commentary be amended to be consistent in the understanding that the appendix is not provided in the context of being evidence that shrinkage is flawed.

RHa acknowledged this and asked DMo to review the Modification to ensure any references to Appendix 1 are consistent with the context just shared in this Workgroup. DMo agreed, stating he had already undertaken this exercise within the next version of the Modification, and that this was the only reference within the document that required the change.

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| <p>New Action 0201: DMo to ensure messaging as to the intent of the inclusion of Appendix 1, being to reflect the wider challenges of Methane emissions, is consistent.</p> |
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Steve Mulinganie (SM) asked how best to weave this GDN Commentary into the later Panel considerations, presuming it would be added to the Workgroup Report (WGR), though not so much as a table but potentially as text detailing the parties' narrative and counter-narrative cases. RHa agreed that it was indeed best to put such references within the WGR and asked that an Action be recorded for the GDNs to consider as to what should be added for which DMO can then add a further rebuttal or response.

DMo thanked the Workgroup for its contributions and summarised that his understanding was that an equal and relevant comment would be placed against each within the WGR to facilitate a Modification Panel decision, adding his support for providing full insight to enable the correct decision. RHa asked DMO if he would provide responses to the GDN commentary, which he believed he had already produced, though he thought it was likely for an earlier meeting that was subsequently cancelled so he committed to reviewing his documents and ensuring a copy was forwarded to the Joint Office.

TSt asked if it was acceptable for the text commentary the GDNs would provide could be itemised for each study included, effectively collating Columns B and C in the current spreadsheet, and then enabling the counterarguments to do the same, feeling that responding collectively in a single paragraph would be too generalised. RHa agreed with the value of doing so and committed to discussing this further with DMO as the Proposer.

New Action 0202: GDNs to provide collated text commentary responses to the studies referenced within Appendix 1 for inclusion within the WGR

New Action 0203: RHa to discuss with DMO the format and structure for the inclusion of GDN Commentary on Appendix 1 studies within WGR and DMO's subsequent responses.

3. Amended Modification

RHa highlighted that a draft change-marked copy of the Modification, provided by DMO, had been published on the Joint Office webpage for this meeting, for Workgroup review and consideration (www.gasgovernance.co.uk/0843/220224). A 'clean' copy was also available in which these proposed changes had been accepted as an insight as to how the Modification would appear should these changes be included unaltered in the next version of the Modification.

The Workgroup briefly revisited the fact that the commentary within the Summary alluding to Appendix 1 needed reconsidering in light of the stated purpose of Appendix 1, with TSA noting additional references on Pages 3 and 5. RHa confirmed that this was for DMO to consider.

DMo provided a context to the changes, stating that many were the result of discussions between himself and David Mitchell (DMi) of SGN (the Legal Text provider for this Modification) after DMi had a detailed discussion with his appointed lawyers. Consequently, as a result of the agreed approach to the Business Rules (BRs), a lot of revisions were made where statements were cut out of the BRs to become instead 'for the avoidance of doubt' statements, and as such, much of the changed content, DMO explained, was moved material rather than new or removed. He added that the second main driver for the changes was that some aspects originally given as BRs had been identified as contractual for the ISE in a manner similar to the AUGE.

DMo then provided a review of the Changes, starting at Section 5, the Solution.

He advised that the Mission statement had been relocated further down in the section under 'Further solution notes' and the definitions originally under 2.2 were now moved to the Glossary that featured in the same section.

DMo also noted that the BRs, particularly BR5, now had Ofgem approval removed and had moved to a 'disapproval' model in alignment with TPD N 3.1.8.

Sally Hardman (SH) voiced concern that the disapproval mechanism that currently exists was within a Licence obligation and did not sit within the UNC, and as such she was not convinced it would work, noting it still was placing a requirement on The Authority to provide an action, albeit a negative rather than positive one. DMO responded that he believed Ofgem could still execute disapproval irrespective of being in the Licence. SH noted that The Authority would be required to respond within a timeframe to provide such disapproval, asking if the premise was that if no response was provided would this be considered, in effect, approval. DMO confirmed it was, noting that this was the same as the existing mechanism in Shrinkage.

TSa reflected that Shrinkage was a Licence process that Ofgem themselves had produced, adding that in her experience any Modification that was deemed to place an obligation on Ofgem was rejected on principle, and cited as an example UNC Modification 0760 - *Introducing the concept of a derogation framework into Uniform Network Code (UNC)*, (www.gasgovernance.co.uk/0760), which she had proposed, and was subsequently rejected by the Authority, in part, due to proposing time limited obligations on Ofgem. She suggested that it was advisable to avoid including stipulations that had led to rejections in the past.

DMo shared that he had sought commentary from Ofgem, and they had responded that as far as agreeing on timescales, it was not clear if they would agree or not to any without further consultation. As such DMO suggested it was not beholden on the Workgroup participants as to whether Ofgem would or would not accept this. He further added that on this basis, he would not look to go back to Ofgem and would leave the matter as is. RHa advised that she add a note in the WGR that the obligation may trip up the Modification.

Katheryn Adeseye (KA) stated that, whilst mindful of the conversations already had around Ofgem timelines, from a CDSP perspective when considering BR5, they would need to know what values to upload 10 Business Days (BD) before the first day of the formula year, and with that in mind, the BR needed to state this 10BD requirement, as it was not practicable to wait to the start of the formula year. RHa asked to clarify if the CDSP was asking for the 10BD requirement currently stated at the end of BR5 thus needed to be included in the process breakdown given earlier in the BR.

KA explained that if the CDSP is provided with the values to be used 10BD before, as requested, they would need to commence the process of implementing them, but if Ofgem were then, in mid-April, to disapprove, then the CDSP would then have to undo the changes made, which, she explained, they can consider developing a process for if this was a potential scenario intended, but it strengthened the case for a new Rough Order of Magnitude (ROM) be produced. She added that the CDSP were already conscious that the original ROM had been created in October 2023 and were aware of the many developments since then, so they were mindful of the case for a new ROM anyway.

RHa checked her understanding that ROMs had a six-month life expectancy as standard. Ellie Rogers (ER) confirmed this was stated on all ROMs issued, and added to manage Workgroup expectations that producing a new ROM did not in itself mean everything within it would change.

KA shared that she had already raised the 'disapproval' considerations and BR5 with SME colleagues within the CDSP and was awaiting their feedback, adding that because of the time that has passed it would be sensible to do another ROM, irrespective of that feedback. ER reiterated that the new ROM could prove very little changed from the original, but it was an advisable step to take.

RHa stated that the next ROM should be based on version 11 of Modification 0843 and that if the CDSP wanted the 10BD lead time specified earlier in the BR they should wait for the Proposer to make that change. DMo commented that executing disapproval mirrors the Shrinkage model and believed it put the least amount of obligation on Ofgem and was thus minded to leave the text as it was. ER acknowledged this and the perception that this was therefore an existing concept, adding that the CDSP would consider the matter to ensure it is reflected in the ROM, affirming that this principle was not in the original ROM.

Licence Changes Required?

RHa added the text from Licence Condition 3.1.8 and related Condition A11(8) was then added to the meeting chat functionality to assist with Workgroup with context. In doing so RHa shared her awareness that, in contrast, Modification 0843 did not have a Licence condition:

3.1.8 The LDZ Shrinkage Quantity for each LDZ applicable to the Formula Year shall be the estimate submitted under paragraph 3.1.7 unless upon the application of the Transporter or any User, made no later than 15 March, the Authority shall give Condition A11(18) Disapproval to the Transporter applying a particular estimate of the LDZ Shrinkage Quantity, in which case the LDZ Shrinkage Quantity in the relevant LDZ shall be that applying in the Preceding Formula Year.

A11 (18) Where a provision of the network code prepared by or on behalf of the licensee(excluding the terms of the uniform network code incorporated within it) and/or the uniform network code requires that, in circumstances specified in the provision, a determination by the licensee pursuant to that provision in a particular case should be such as is calculated to facilitate the achievement of the relevant objectives, any question arising thereunder as to whether the licensee has complied with that requirement shall be determined by the Authority

SM asked if an opinion had been obtained from Ofgem as to the appropriateness of BR5 regarding the Licence obligations in 3.1.8, stating that he shared the concerns that Ofgem would refuse to be held to targets in the Code by approval, tacit or otherwise, meaning the Modification would just fail. DMo commented that such provisions already existed in the Licence, so it would be a change, not an addition, that would be needed to be considered by Ofgem in approving the Modification. When SM asked if a 'minded to' position could be sought from Ofgem DMo stated that whilst he could approach them again, he expected he would get the same response as before.

SM then asked if the Modification was rejected by Ofgem on this basis, was it possible to simply remove BR5 and retain the functionality of the rest of the Modification rules, with BR5 proving, in effect, self-contained.

RHa shared her understanding that there were other Licence change considerations beyond BR5. TSa agreed, highlighting that should ISE values prove negative there was no way in the GDNs current Licences they could account for this, explaining that the Shrinkage methodology was based upon a set formula specified within the Licence affording no flexibility.

DMo commented that Negative ISC Values were indeed covered by BR6 adding that there was no purchasing requirement featured there. TSa noted that BR6 states that negative ISC can be applied by the GDNs as part of SLM, but without a Licence Change, GDNs would not be able to enact this. DMo stated that he would change this wording from 'can' to 'might' as this was not a Licence change called out in the Modification.

RHa summarised that there appeared to be three BRs that had potential Licence changing areas, BR5, BR6 and BR8 and that the WGR would state that Workgroup Participants considered these areas needed consideration of changes to the Licence.

DMo continued to review changes to the Modification's text, noting that 2.1.2 was a legacy numbering that he would remove.

In BR 2.3 he removed the 'recommending to the Authority' text.

BR 2.4 now condensed three rules into one, in that it flowed into BR2.5 and states there would be an annual review of the ISM.

ER added for clarification that where this text states the ISE would adhere to the timetable in the Framework, it was worth noting that the ISE would not be a UNC party and thus would be obligated via the commercial contract that would be in place with the CDSP, with the requirement therefore on the CDSP to ensure that is backed off and aligned to the obligations in the Framework. DMo suggested that BR2.4 should state that the CDSP will ensure the commercial contract aligns, which ER agreed with.

At this point in the proceedings, and aware of time constraints, RHa advised the Workgroup that after completing this review of the changes to the Modification's text all other items on the Workgroup Agenda would be deferred to the next meeting on 06 March 2024.

DMo advised that the principles featured previously in BR 2.5 had been moved as they were not legal text requirements. Conversely, BR3 was new and specified Liability arrangements, mirroring those for the AUGGE under TPD Section E9.3

DMo advised that the previous BR3 text regarding Methodologies had been moved to the Framework but that he had kept the part regarding costs as he did not think this could transition as Solution Notes or to the Framework either. ER noted that from the CDSP perspective, they were aware of the rules about cost recovery and ensuring contracts are legal and that they felt they made sense for an entirely new service.

DMo advised that BR3.5 related to contractual considerations and was therefore better served in the contract rather than the BRs so had been deleted. BR3.6 was better placed in the Terms of Reference (ToR) so had also been removed.

BR4 was unchanged, with BR5 changes reflecting the change to Authority disapproval. BR8 had also been updated to also reflect this.

Moving to BR9 DMo explained the change ensured the ISE would not be restricted in its observations. He added that DMi had given him a rationale to remove 9.2 but DMO had instead removed the values and thereby made the requirements qualitative rather than quantitative.

BR9.5 had also been changed to reflect the change to an Authority disapproval process.

BR10 had been moved to form BR2.5 as discussed earlier.

BR12 had been amended to refer to the timetable in the Framework.

BR13 had been moved to become BR13.1 as a 'for the avoidance of doubt' statement, noting that IGTs may operate in several LDZs, which he thought was acceptable, though was receptive if it proved to cause issues for the CDSP.

BR14 on IGT Shrinkage had additions for Legal Text (LT) purposes and a statement had been added for clarity that GDN ISC cannot be purchased by IGTs and IGT ISC cannot similarly be purchased by GDNs. DMo also noted that the IGTAD may need to be amended so a note was added here for the lawyers producing the Legal Text.

RHa noted that DMO was distilling what needed to be 'for the avoidance of doubt' statements and what are BRs for LT consideration, which would presumably be reflected in more clarity in

Version 11 of the Modification.

DMo continued his BR review, noting that the Timetable-related text previously in BR15 and BR16 has been moved to BR2.

Beyond BR15 the 'Further solution notes' are provided with all the pieces that had been moved from the BRs discussed detailed here. This included a Glossary intended to assist the Lawyers with all the new Defined Terms created in the Modification.

Once the Proposer has completed his review of the Solution Section (section 5), RHa then invited questions from the Workgroup.

TSa asked how the CDSP were looking to ensure the ISE would get the data they required as it was stored in DNs in a way that was not easily replicated or shared with third parties. She added to this the question if related timelines and costs had been considered and stated that she recognised that this was probably a wide discussion point so was happy to defer the discussion to a later Workgroup when she would also wish to pick up a question about one of the BRs.

DMo sought to clarify if her question was in reference to BR12. TSa noted that the BR enabled ISE engagement via the Independent Shrinkage Committee but highlighted that the data required was with the GDNs and moved internally as part of GDN SLM processes that the CDSP was not involved in. RHa noted that BR11 puts the obligation on any party that has the data, not the CDSP.

SH observed that BR11 stated that the data would be provided 'promptly', adding that as the Framework provides timeframes it seemed reasonable to remove this unmeasurable term, to which DMo agreed.

TSa noted references to adding to the DPM which contributed to her question about the data, which ER explained was probably added in the early steps of Modification development and was for an 'avoidance of doubt' statement, as there is probably not a lot of data held by the CDSP of interest for the ISE, so from DPM perspective it probably didn't need much change.

KA requested to record in the minutes for the next discussion that in the Solution Notes there was a section on the Procurement side of the Modification, and from the CDSP perspective this would need some sort of 'carve out' if one procurement exercise was undertaken and an ISE was not found then a second exercise could be considered, but if that also did not result in an appointment the CDSP would not want to go through a third exercise and the matter may need then to come back to Workgroup for another Modification consideration.

ER added that it had been noted that there was a standard three-month hiatus period set as a standard between procurement exercises, but they were not sure why that was the case. She added that the CDSP had drafted some potential wording to use in the Framework with a caveat in the BRs, adding that whilst they did not like to be thinking about the worst-case scenario for everything, it did feel that this was an important one, requiring a steer from the Workgroup to not to keep running procurement exercises without end, and added that they would approach DMo in advance to share their thinking.

DMo noted that there was a further note of procurement, but it did not have a timeframe in which the procurement had to take place, adding that his only challenge would be if this was also true for AUGÉ and if not why that was the case.

ER acknowledged the question and stated that on the few procurements she had seen she had not seen this rule and believed this had only come up as it had been raised in Workgroup discussions, especially as the ISE is quite a niche role.

SM added that the point was well made but suggested that when using arrangements like the AUGÉ and PAFA the industry should not be spending its money repeatedly tendering for services with no response, and perhaps the best approach was to amend these as well to a best practice approach.

DmO suggested adding a note that the CDSP could use their discretion in this matter, to which ER responded that the CDSP would share the material they had complied with him to cover the obligations to which KA added that they thought something was needed in the solution rather than just the Framework.

RHa shared that it was necessary to bring this Workgroup to a close at this point, though appreciated that there was still lots more to discuss. She advised that the Workgroup on 06 March would start with a Framework overview and then pick up items 4,7 and 8 from the agenda and when the next formal version of the Modification is issued, would look towards the ROM.

4. Rough Order of Magnitude (ROM)

To be considered on 06 March 2024 Workgroup

5. Consideration of IGT Impacts

This item was not discussed due to time considerations.

6. Legal Text Review

This item was not discussed due to time considerations.

7. Development of Workgroup Report

To be considered on 06 March 2024 Workgroup.

8. Next Steps

To be considered on 06 March 2024 Workgroup.

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 |
|----------------------------------|---------------------------------|-----------------|---|
| 13:00 Wednesday 06 March 2024 | 5 pm Monday 26 February 2024 | Microsoft Teams | <ul style="list-style-type: none"> • Framework Overview • ROM (If new version of Mod provided in time) • Development of Workgroup Report |
| 13:00 Wednesday 03 April 2024 | 5pm Wednesday | 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 |
| 0101 | 25/01/2024 | 2.0 | RHa to investigate references regarding what happens if UNCC approval has not been obtained. | March | RHa | Pending |
| 0201 | 23/02/2024 | 2.0 | DMo to ensure messaging as to the intent of the inclusion of Appendix 1, being to reflect the wider challenges of Methane emissions, is consistent. | March | DMo | Pending |
| 0202 | 23/02/2024 | 2.0 | GDNs to provide collated text commentary responses to the studies referenced within Appendix 1 for inclusion within the WGR | March | GDNs | Pending |
| 0203 | 23/02/2024 | 2.0 | RHa to discuss with DMo the format and structure for the inclusion of GDN Commentary on Appendix 1 studies within WGR and DMo's subsequent responses. | March | RHa & DMo | Pending |