

UNC Workgroup 0843
Establishing the Independent Shrinkage Charge and the Independent Shrinkage Expert
Tuesday 20 June 2023
via Microsoft Teams

Attendees

Rebecca Hailes (Chair)	(RHa)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
David Morely (Proposer)	(DMo)	OVO Energy
Andy Clasper	(AC)	Cadent
Anne Jackson	(AJ)	IGT UNC
Ben Jones	(BJ)	Wales & West Utilities
Charlotte Gilbert	(CG)	BU UK
Colin Wainwright	(CW)	SGN
David Mitchell	(DMi)	SGN
Deborah Sherlock	(DS)	Xoserve
Ellie Rogers	(ER)	Xoserve/CDSP
Fiona Cottam	(FC)	Corella/CDSP
Jenny Rawlinson	(JR)	BU UK
Julie Chou	(JC)	Wales & West Utilities
Kathryn Adeseye	(KA)	Xoserve
Matt Marshall	(MM)	Cadent Gas
Peter Morgan	(PM)	SGN
Richard Pomroy	(RP)	Wales & West Utilities

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/0843/200623>

The Workgroup Report is due to be presented at the UNC Modification Panel by 17 August 2023

1. Introduction and Status Review

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

1.1 Approval of Minutes (23 May 2023)

The minutes from the previous meeting were approved.

1.2 Approval of Late Papers

No late papers to approve.

1.3 Review of Outstanding Actions

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: David Morley (DMo) confirmed a written response had been provided, to note 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. **Closed**

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.

Update: DMo confirmed the intention is that the LDZ Shrinkage quantities mechanism will be mirrored. The Modification will be updated to include details. Reconciliation will be managed through the Amendment Invoice. Ellie Rogers (ER) explained the high-level process for applying charges to DNs through Commodity charging, managed using Gemini. Richard Pomroy (RP) explained that this charge is separate from Commodity related Transportation charges, this is a commodity energy purchase which enters the Gemini energy settlement process. This is all assigned in Gemini and there is a contract in place with a Shipper to purchase Gas for Shrinkage purposes. It was expected this would need to follow the exact process as laid out in the Transporters Licence. The restricted procurement activities were explained in Standard Special Standard Condition D4. DMo confirmed that the timetable will be aligned.

RP enquired why negative Shrinkage had been excluded from the Modification. It was understood there is no mechanism to adjust the Shrinkage value in a negative direction if for example, the Shrinkage Leakage Model (SLM) provides 10 but the Independent Shrinkage Expert (ISE) suggests 8, there is no mechanism to adjust the amount in a negative direction and this would be against the licence. DMo explained this need not be excluded if the DNs could assist with outlining how this could be managed. **Closed**

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

Update: DMo explained that the Modification had been amended not to adjust the DN reported Shrinkage values if the ISE records a lower value to the DNs. It was challenged that if the ISE provided either a negative or positive difference both eventualities should be accounted for. As Shrinkage is a DN pass-through item, it was questioned how a positive difference would be passed-through. DMo explained how the Independent Shrinkage Charge (ISC) would account for the additional gas not accounted for. It was suggested this may need to be considered within the price control review. DMo understood the current licence would not allow an adjustment for a negative value. DMo asked the DNs to provide a proposal on how a negative payment could be managed for consideration and inclusion within the Modification. **Carried Forward**

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

Update: DMo explained that the ISC is not a DN pass-through item. If GDNs want to pass it through, it would need to be considered within the Revenue = Incentives + Innovation + Outputs (RIIO) price control review, RIIO-3.”

RP noted again the restricted procurement activities in Standard Special Standard Condition D4, which prohibits DNs from purchasing gas. It was noted that Ofgem is considering when the RIIO-3 period will commence which may not be 01 April 2026. It was understood there is no mechanism for costs to be passed through until RIIO-3. RIIO-3 will not prevent 0843 being implemented. **Carried Forward**

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.

Update: The Workgroup considered the cost/benefit case for consumers, and if there would be reduced cost savings. DMo noted that, as this is not a pass through cost, and as this would be removed from UIG, there would be a direct saving for consumers. It was not clear how much the procurement exercise would cost or what the ongoing ISE costs would be, until the procurement of a new service provider takes place. How the costs for an expert will be managed and the efficiency of the process was considered. It was envisaged costs would be comparable to the AUGE process and managed in the same way.

It was speculated that if the ISE reported a difference in Shrinkage, Ofgem would not allow the Shrinkage Leakage Model (SLM) to continue if there is evidence it is not accurate. It was envisaged that Ofgem would want to adjust the SLM.

It was questioned how the ISE would accurately measure shrinkage differently, Peter Morgan (PM) further challenged that if the measurement was deemed more accurate why the DNs wouldn't use it. Julie Chou (JC) enquired how the ISE would measure leaks to challenge the model and if the sources of data would involve shrinkage surveys to detect leaks. DMO clarified that it would not be stipulated how the expert should measure shrinkage; it will be the decision of the expert to utilise a method that provides the most accuracy.

DMO explained that the original concept was to scrap the SLM and provide a new model provided by the SLM, however, the Modification had been adapted to work with the current process to adjust the outcome if appropriate.

Debbie Sherlock (DS) understood the ISE will give a figure and where the linkage is. JC enquired if the ISE will be looking to reduce emissions and customer bills and where the ISE will get information from. It was questioned if the ISE will conduct some scientific and physical measurements, as opposed to a desk-top exercise. It was suggested that clarification is added to the Modification to effectively make this more than a desk-top exercise.

The Workgroup considered the financial incentives for Shrinkage and the capping of pass-through costs, exploring whether RIIO-2 pass-through is capped. It was suggested that pass-through for total Shrinkage is not capped, this is calculated, reported on, and passed through as a distinct cost. It was clarified that there is an incentive for DNs to reduce emissions and leakage through the DNs mains replacement program.

The need for IGT Modification IGT165 was reviewed. Anne Jackson (AJ) explained the IGT cost recovery mechanism and that to get gas back into the network (gas entry) this would need to be incorporated into the UNC Modification, as entry is upstream of the IGT Networks.

The Workgroup considered how the ISC will account for shrinkage model error and how this could or would not pass-through. If the ISC is not classified as Licence Shrinkage, it was unclear if it would be allowed to pass-through and if RIIO3 needed to account for this.

JC enquired how the ISE will provide incentives for DNs to reduce emissions, explaining that for the Modification to have a positive effect on emissions and decreased shrinkage, the DNs will need something that can be acted on. To reduce emissions DNs need to target physical replacement at a street level (specific, granular data). DMO clarified that by virtue of being charged for shrinkage model error, GDNs will be incentivised to reduce Shrinkage.

A GDN asserted that there may be no consumer benefit if the values that go into the varying pots are simply re-distributed. DMO clarified that there is no pass through mechanism for the ISC.

The Workgroup considered the procurement exercise, the role of the stakeholder panel, the method for coming up with Shrinkage values and identifying areas for improvement.

DMO explained the concept of the ISE, comparing it to the role of the AUGE. It was noted that the AUGE reports on data but does not recommend areas in which the industry could improve. The sources that feed into UIG such as improved read performance, and correct registration of sites missing sites will improve UIG. The ISE will identify shrinkage over and above the current model. The additional shrinkage, if not passed-through, would in turn incentivise DNs to provide better accuracy in the SLM if they bear the additional gas costs.

It was highlighted that the mains replacement programme is set with Ofgem, which targets shrinkage. It was questioned if the ISE will be able to provide information to DNs that enables the DNs to focus their attention over and above what is in the mains replacement plans.

Matt Marshall (MM) asked about any post-reconciliation for a re-evaluation based on the predicted values against the actual values. DMO explained this would operate as it does now,

there will be a reconciliation. It was agreed to close this action and for DNs to consider what additional information is required for the Workgroup Report. **Closed.**

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

Update: DMo confirmed a comparison will be made with an existing appeal process within UNC for incorporation. **Closed**

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.

Update: See action 0504. Options will be to continue with the set-up as it is now or mandate a charge is placed on the IGTs under IGT165. **Closed**

0507: 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.

Update: It was noted that this action had been recorded to aid a better understanding of the existing process and how this Modification would work alongside it. It was suggested that DNs could use this document with additional information to explain the process to Workgroup:

https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2023-01/Shrinkage%20Briefing%20Pack%20%28Joint%20GDN%29_RIIO-2.pdf **Carried Forward**

2. Amended Modification

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

DMo noted that negative shrinkage had been removed from the Modification due to the impact on DN licence obligations. It was explained that there is an obligation in the licence to purchase Shrinkage gas in line with what the SLM provides, if the Independent Shrinkage Model (ISM) is a lower value there is no mechanism to allow the purchase of less gas.

It was suggested that ideally, a negative or positive ISM needs to be accounted for but there would need to be mechanisms to support this. This could be through an Independent Shrinkage Payment or an Independent Shrinkage Charge. DMo requested that in support of the DNs receiving a credit payment if the DNs could provide a proposal on how this could be managed. The Workgroup considered the ability to incorporate negative payments to DNs within the scope of this Modification, in an alternative Modification or follow-up Modification.

New Action 0601: DNs to advise the Proposer on how a Shrinkage Payment (negative Shrinkage value) could be managed.

Dave Mitchell (DMi) enquired how the Authority will determine which model (the SLM or ISM) is more reflective of Shrinkage. It was suggested this would be outside the scope of this Modification and will be for Ofgem to consider and recommend the appropriate action.

The Workgroup considered the requirements under the UNC for the management of data (UNC TPD Section 5 – protected information). Fiona Cottam (FC) confirmed that the AUGE is provided anonymised encrypted data to fulfil its role.

It was requested that the Legal Text provider (SGN) consider the Legal Text aspects offline in readiness for producing the Legal Text. Jenny Rawlinson (JR) enquired about the need to consider what would be relevant in terms of data and that data provided to the ISE can only be relevant to the role and not any data. It was agreed this would be made clear in the Business Rules. The risk of data being withheld was considered and how this could impede the role of the ISE. It was briefly considered whether it was worthwhile tabling the data an ISE would need.

The Workgroup also considered:

- The establishment of the Shrinkage Sub-Committee and formalising its Terms of Reference.

- The ability for the ISE to look at lower-level data (lower than at an LDZ level).
- The exclusion of certain sites.
- Applying the Shrinkage charge to a lower level (lower than LDZ).
- Identifying the source of leaks.
- IGTs having a zero Shrinkage value.
- That DNs cannot purchase gas for IGTs.
- There is no mechanism for IGTs to purchase gas.

RP explained that DNs recover their own Shrinkage Costs, purchase gas, and claim back through pass-through.

AJ enquired what the purpose was for setting the IGTs shrinkage to zero, and if this was to enable it to be changed. It was clarified that there is no mechanism for IGT Shrinkage; this would be managed through UIG (the error term) if there is a damaged main resulting in Shrinkage. It was considered whether IGT shrinkage should be excluded from this Modification with the potential for a further Modification to address IGT shrinkage separately. For example, how to quantify IGT shrinkage, how to accommodate this within Gemini and the ability for IGTs to purchase gas. RP reiterated that DNs cannot purchase Shrinkage gas for IGTs this would be against the licence conditions. It was recognised that if extra gas is not purchased and therefore accounted for in the pass-through this would be a hit on the DNs/IGTs.

The Workgroup considered the creation of the Independent Shrinkage Model Methodology (ISMM). It was understood that the cost of creating an ISMM will be incorporated into the tendering process. The stakeholder's evaluation panel will consider the costs and where the costs are materially above those anticipated this could be escalated to the UNCC.

Confidentiality, the involvement of the CDSP and impacts on DSC contracts were briefly considered. It was debated whether the contracting issues would be a matter for the DSC Contract Management Committee as opposed to the UNCC. It was agreed that variations to the contract would be managed through the DSC Contract Management Committee. The Modification currently proposes a DSC contract fully funded by the GDNs.

3. Draft Framework

The draft Framework was briefly reviewed. It was noted that flow charts had been provided and will be published alongside the minutes. These were provided for reference only to help Participants visualise the process.

Ellie Rogers (ER) noted that comments had been provided for consideration by the Proposer. It was agreed the Framework would be further reviewed at the July meeting.

4. Impacts on UNC Section Y

Section Y changes are not anticipated on the basis that charges are separate from Commodity related Transportation charges. The charge is for a commodity energy purchase which enters the Gemini energy settlement process.

5. Next Steps

- Panel extension to be requested until October (2 months additional)
- DNs to provide an overview of the current Shrinkage Process
- DNs to provide views on potential Shrinkage Payments
- Application of charge/payment (incl Gemini inputs)
- Formal Modification Amendment
- Framework Overview (feedback to be considered/incorporated)
- Consideration of IGT impacts
- Rough Order of Magnitude (ROM) to be requested
- Legal Text drafting to commence.

6. Any Other Business

None raised.

7. 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
10:00 Tuesday 11 July 2023	5pm 03 July 2023	Microsoft Teams	<ul style="list-style-type: none"> • DN Overview of current Shrinkage Process • Application of charge/payment • Modification Amendment • Framework Review
10:00 Tuesday 08 August 2023	5pm 31 July 2023	Microsoft Teams	<ul style="list-style-type: none"> • Rough Order of Magnitude (ROM) • IGT Impacts • Legal Text Review
10:00 Wednesday 27 September 2023	5pm 19 September 2023	Microsoft Teams	<ul style="list-style-type: none"> • Legal Text Review • Completion of Workgroup Report

Workgroup 0843 Action Table						
Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
0406	27/04/23	2.0	Proposer (DMo) to prepare a Proposer's written response to answer the question raised at UNC Modification Panel,	June 2023	Proposer (DMo)	Closed

Workgroup 0843 Action Table						
Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
			'Impact on price control incentives'.			
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)	Closed
0502	23/05/23	2.0	Proposer (DMo) to consider how negative Shrinkage will be managed and the mechanism for reimbursing the DNs.	July 2023	Proposer (DMo)	Carried Forward
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).	July 2023	Proposer (DMo)	Carried Forward
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)	Closed
0505	23/05/23	2.0	Proposer (DMo) to consider how an appeals process will operate.	June 2023	Proposer (DMo)	Closed
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 IGT UNC would be	June 2023	Proposer (DMo)	Closed

Workgroup 0843 Action Table						
Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
			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.	July 2023	DNs (ID WWU lead)	Carried Forward
0601	20/06/23	2.0	DNs to advise the Proposer on how a Shrinkage Payment (negative Shrinkage value) could be managed.	July 2023	DNs	Pending