

UNC Workgroup 0622 Minutes
Correct allocation of Shrinkage Error as identified by the AUGE
Thursday 22 June 2017
at Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW

Attendees

Andrew Margan	(AM)	British Gas
Andy Clasper	(ACI)	Cadent
Andy Smith*	(AS)	British Gas
Angela Love	(AL)	ScottishPower
Bob Fletcher (Chair)	(BF)	Joint Office
Carl Whitehouse*	(CW)	First Utility
Chris Warner	(CW)	Cadent
Colette Baldwin	(CB)	E.ON Energy
Craig Neilson*	(CN)	Cadent
David Addison	(DA)	Xoserve
David Reilly	(DR)	Ofgem
Deborah Brace*	(DB)	National Grid NTS
Fiona Cottam	(FC)	Xoserve
Fraser Mathieson	(FM)	Scotia Gas Networks
Gareth Evans	(GE)	Waters Wye
Gavin Anderson*	(GA)	EDF Energy
Gethyn Howard*	(GH)	Uniper
Hilary Chapman	(HC)	Scotia Gas Networks
John Welch	(JW)	npower
Jon Dixon	(JD)	Ofgem
Karen Visgarda (Secretary)	(KV)	Joint Office
Lorna Lewin	(LL)	DONG Energy
Mark Jones	(MJ)	SSE
Matt Marshall*	(MS)	Cadent
Rachel Hinsley	(RH)	Xoserve
Richard Pomroy	(RP)	Wales & West Utilities
Rob Johnson	(RJ)	ESP
Sallyann Blackett	(SB)	E.ON
Shanna Key	(SK)	Northern Gas Networks
Tom Andrews*	(TA)	Cornwall Energy

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0622/220617>

The Workgroup Report is due to be presented at the UNC Modification Panel by 17 August 2017.

1.0 Outline of Modification

GE introduced the modification and explained it had been raised in order to remove the cross-subsidy that currently exists where it is proposed that Shippers pay for shrinkage losses via Unidentified Gas (UIG) costs, by continuing the corrective payments process that existed prior to Project Nexus that corrected for UIG costs being recovered solely from the SSP sector. He

further explained that the intention was for the UNC to be modified to correctly allocate shrinkage to Transporters.

He added that it was also proposed that the AUG table for the Gas Year 2017/18 that was presented by the AUGGE on 12 May 2017 (as below) where no shrinkage error had been included in the calculations. The values are as follows:

	Product 1	Product 2	Product 3	Product 4
01B	0.000	5.098	5.102	11.240
02B	0.000	5.193	5.185	11.800
03B	0.000	5.422	5.418	11.674
04B	0.000	5.601	5.610	5.455
05B	0.000	5.546	5.570	5.936
06B	0.000	5.072	5.108	5.424
07B	0.000	3.995	4.034	3.932
08B	0.000	2.130	2.157	1.823
09B	0.000	0.000	0.000	0.000

GE said that the proposal was for Shippers to be compensated for the additional costs they were presently incurring for the element of the shrinkage error that was additional to that identified by Transporters Shrinkage arrangements and that the AUGGE had identified, by including provisions which provide for the allocation to the Gas Transporters that part of UIG that pertains to "Shrinkage Error" as specified in the AUGS. He said that in this solution, the Shrinkage Error would be defined as the "Shrinkage Error Value" and the corrective charge as "Shrinkage Error Charge." He then overviewed the proposed new process that would be followed, which was as follows:

The following new process would be used:

- *The Shrinkage Error value would be determined by the AUGS as part of its wider work on UIG and take effect at the same time as the revised scaling factors for the apportionment of UIG, i.e. finalised by 1 July each year. In the absence of any specified value being set out in the AUGS, a value of 500GWh will be used.*
- *As soon as the values are finalised, the Shrinkage at M+1, the monthly Shrinkage Error Charge, will be calculated for the relevant calendar month ("M"). For the avoidance of doubt the first monthly charge period will be 1 October -31 October 2017.*
- *At M+1 the LSP Shrinkage Error Charge will be levied on the DNO User in proportion to their total throughput of all LDZs, as derived by Xoserve.*
- *Xoserve will then raise debit invoices to all DNO Users for their proportion of the Shrinkage Error Charge. It is not envisaged that there will be any specific query process however standard invoice query rules would apply.*
- *The reallocation of the accrued Shrinkage Error Charge payments to shippers will be made on the basis of their total LDZ throughput that relates to Product 4 sites that are located within EUC Bands 01B-03B. For the avoidance of doubt the ability/methodology for the transporters to recover these costs from the industry is outside of the scope of this modification.*

GE was keen that the cost of Shrinkage UIG should be placed on Transporters as they were in a position to manage it and reduce it over time. He also explained that a report had been produced by the Imperial College regarding the specifics of Unidentified Gas (UIG) and the Shrinkage Error, which had followed the same format at the previous RBD model.

A lengthy general discussion then took place regarding the proposed new process and the way the UIG was recorded and monitored, specifically from the NDM's and cross subsidy market perspective from the allocation of costs process. MJ asked how would it be possible to 'retro-fit' the updated table into the modification and GE said this would not present an issue, as the table would not be effective until October. SB asked what would happen in the interim, as the Shrinkage costs were paid for anyway. GE said that there had never been an allocation of Settlement Errors to the DN's market before and he stated that he was not going to alter or amend the modification, despite the views put forward during the Workgroup discussions.

A further lengthy debate then took place surrounding the 'Legal' or licence impacts of the proposal and JD said that from the Ofgem view point their Lawyers had confirmed that the content did not preclude the proposal moving forward, where the AUGE would incorporate the DN's, however, he said that Ofgem were not in a position to offer any view on the proposal itself, especially in light of the content within the Imperial College Report. CW also said that the Legal Text could not yet be produced as further discussions needed to take place with regards to the wider AUGE and AUGS Guidelines and Section E of the post Nexus conditions, in line with the overall Licence requirements.

GE again reiterated that the modification would not be amended further and discussions took place surrounding the cost allocation process and how the Transporters would be allocated some of the costs, due to the fact the Shippers have to pay for the Shrinkage Error costs. GE said the costs would be reallocated and addressed via an invoicing process. RJ, said he would have a discussion as to why this was not appropriate on any level for costs to be apportioned to the DN's.

A debate then took place on the value and content of the Imperial College Report itself, and the Workgroup had differing views on the context and benefit of this report and MM said that a Shrinkage expert had analysed a previous Energy UK Report and there had been some questions as to the age and number of the tests that been carried out, and this did not robustly 'stack up'. AL said that there should be an independent body who was available to analyse the data, and RP said this was covered by the overall Licence stipulations and GE also said that the Transporters had very clear Licence conditions and agreements.

GE said that he did not want this modification to be delayed and reminded the Workgroup that it needed to be presented to the August Panel to allow sufficient time for it to be implemented prior to October.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

None raised.

2.2. Initial Representations

None received.

2.3. Terms of Reference

The standard UNC Workgroup Terms of Reference will apply and is available at <http://www.gasgovernance.co.uk/mods>

3.0 Next Steps

BF confirmed that any comments regarding the proposed solution should be sent directly to GE prior to the next meeting on 27 July 2017 and that the aspiration as the next meeting was to review the amended modification, consider the Legal Text and develop the Workgroup Report.

4.0 Any Other Business

None.

5.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 Thursday 27 July 2017	Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW	Detail planned agenda items. <ul style="list-style-type: none"> • <i>Amended Modification</i> • <i>Consideration of Business Rules</i> • <i>Consideration of User Pays</i> • <i>Review of Impacts and Costs</i> • <i>Review of Relevant Objectives</i> • <i>Consideration of Wider Industry Impacts</i> • <i>Consideration of Legal Text</i> • <i>Development of Workgroup Report</i>