

MODIFICATION 0843

ESTABLISHING THE INDEPENDENT SHRINKAGE CHARGE AND THE INDEPENDENT SHRINKAGE EXPERT

[Draft] Proposed Legal Text

TRANSPORTATION PRINCIPAL DOCUMENT

SECTION E: DAILY QUANTITIES, IMBALANCES AND RECONCILIATION

Amend paragraph 7.3 to read as shown below:

7.3.1 A reconciliation shall be carried out ...

- (a) ...; or
- (b) ...; or
- (c) pursuant to Section N5.5, an adjustment is made to the aggregate amount of LDZ Shrinkage for any LDZ in any [Formula Year], in respect of an amount as provided in the [].

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SECTION H – DEMAND ESTIMATION AND DEMAND FORECASTING

Amend paragraphs 2.6.1 and 2.6.2 to read as shown below:

2.6.1 The "Unidentified Gas" (UIG) for a LDZ and a Day shall be determined as follows:

UIG = (LDQO – AULOQ) - (DISLQ + DISIQ)

where:

- LDQO is the LDZ Daily Quantity Offtaken;
- AULOQ is the aggregate for all Users of the User LDZ Offtake Quantities for the Day;
- DISLQ is the Daily IS LDZ Quantity for the Formula Year in which such Day falls (as determined in accordance with Section N5.43);
- DISIQ is the aggregate of the Daily IS IGTS Quantity for the Formula Year in which such Day falls for each IGTS connected to the LDZ.

2.6.2 The "Forecast Unidentified Gas" (FUIG) at any time for a LDZ and a Day shall be determined as follows:

FUIG = (ALFD– AULNQ) - (DISLQ + DISIQ)

where:

Commented [Dentons1]: Not a new type of UNC 'charge' as such, rather (at least for DN) a requirement to purchase additional shrinkage gas quantities in accordance with existing processes?

Commented [DM2R1]: No, 0843 creates a new type of charge. 0843 does not create additional Shrinkage. The proposal under 0843 removes shrinkage model error from UIG and charges it to DNs as the Independent Shrinkage Charge.

Commented [Dentons3]: For now drafting for LDZ and IGT changes all in one place, what needs to change in IGTAD, i.e. to the existing rules between DN and IGTS can be considered once more known about proposed mechanism for IGTS contracting with Shippers to purchase IGTS shrinkage gas.

Commented [DM4R3]: 0843 proposes that GDN/IGT ISCs are purchased on behalf of the GDNs by a shipper(s). Within the work groups, we discussed the inclusion of an LDZ Shrinkage Provider in the BRs to cover this function. However, the proposal for an LDZ Shrinkage Provider was not adopted. 9.2 of the BRs therefore says: "For the avoidance of doubt, the ISE, within the ISS, will divide the Yearly GDN ISC into Daily GDN ISC (365 equal parts), and will divide the Yearly IGT ISC into Daily IGT ISC (365 equal parts). CDSP will load the Daily ISC amounts into Gemini and GDNs and IGTS will contract with a Shipper(s) to purchase the respective ISCs."

Commented [Dentons5]: BR 10 and 11: To discuss, not 100% sure what is being 'reconciled' under BR10 and 11, the difference between estimated and assessed LDZ Shrinkage under N3.1 and 3.3 for FY, i.e. the 'error' and ISE's view of estimated shrinkage for the FY? So a new separate reconciliation under E7.3 which may follow any reconciliation pursuant to N3.4.1? To be confirmed.

Commented [DM6R5]: To answer your first question: no.

Commented [Dentons7]: And to consider impacts on 7.3.2.

Commented [DM8R7]: As per above comment, there are no impacts to 7.3.2

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Commented [Dentons9]: BR8: To be confirmed this is what is intended, i.e. UIG is reduced in the LDZ by (1) the difference between the Transporter's and the ISE's shrinkage

Commented [DM10R9]: 1)Yes, in doing so, this rule removes shrinkage model error from UIG 2)Yes, same as (1)

Commented [Dentons11]: BR8.

Commented [DM12R11]: Fine

Commented [Dentons13]: BR14: So applying LDZ and relevant IGTS deductions at the LDZ level, which seems to be what is intended. To be confirmed.

Commented [DM14R13]: Yes, your statements above are correct. Your reference should be to N5.4 here, not N5.3.

- AFLD is the Forecast LDZ Demand for the Day (in accordance with paragraph 5.2.7(a) at that time, adjusted to exclude forecast LDZ shrinkage and forecast stock change;
- AULOQ is the aggregate for all Users of the User LDZ Nomination Quantity for the Day at that time;

and DISLQ and DISIQ shall have the meanings given in paragraph 2.6.1.

SECTION N - SHRINKAGE

Renumber existing paragraph 5 as a new paragraph 6.

Insert new paragraph 5 to read as follows:

5 INDEPENDENT SHRINKAGE EXPERT

5.1 Interpretation

5.1.1 For the purposes of this paragraph 5:

- (a) the "Independent Shrinkage LDZ Quantity" or "ISLQ" is, in respect of an LDZ and a Formula Year, the quantity identified as such in the IS Annual Statement for the Formula Year;
- (b) the "Independent Shrinkage IGTS Quantity" or "ISIQ" is, in respect of an IGT System and a Formula Year, the quantity identified as such in the IS Annual Statement for the Formula Year;
- (c) the "IS Document" is the document entitled '[]' which sets out:
- (i) the procedure for the appointment of the IS Expert;
 - (ii) the qualifications and competencies which the IS Expert is required to hold;
 - (iii) the criteria for selection of the IS Expert;
 - (iv) the terms of the IS Expert Contract;
 - (v) procedures for establishing and updating the IS Model and the IS Methodology and preparing the IS Annual Statement; and
 - (vi) [such other matters (consistent with this paragraph 5) as the Committee and the Transporters may agree;
- (d) the "IS Expert" is the person from time to time appointed as such expert pursuant to paragraph 5.2;
- (e) the "IS Expert Contract" is the contract between the CDSP and the IS Expert pursuant to which the IS Expert agrees to [];
- (f) the "IS Methodologies" are the techniques used by the IS Expert to retrieve data to utilise in relation to the IS Modely" is [];

Commented [DM15]: Why are the definitions for the "Annual IS LDZ Quantity" and the "Annual IS IGTS Quantity" (which is the synonym used by Dentons for the GDN ISC and IGT ISC respectively) not here? Suggest for clarity's sake that all definitions are in one location, and not spread across section 5.

Commented [Dentons16]: BR17.8: Do we want to say this is the quantity which the ISE estimates to be the LDZ shrinkage?

Commented [DM17R16]: Yes, that is correct. This definition needs expanding to include that detail.

Commented [Dentons18]: BR17.9: That is gas which the ISE determines the IGT uses in the operation of, and/or which is unaccounted for, in the IGTS.

Commented [DM19R18]: See above comment for BR17.8

- (g) the **"IS Model"** is the way in which IS Methodologies are utilised to create a forecast of IS Quantities [];
- (h) **"IS Quantities"** means the Independent Shrinkage LDZ Quantity and the Independent Shrinkage IGTS Quantity for a Formula Years determined in accordance by with the IS Methodology and the IS Model;]
- (i) the **"IS Annual Statement"** is the statement prepared by the IS Expert for a Formula Year (and in advance of such Formula Year) pursuant to paragraph 5.4; and
- (j) **"IS Reconciliation Statement"** is the statement prepared by the IS Expert for a Formula Year (following the end of such Formula Year) pursuant to paragraph 5.5.

5.1.2 The IS Document is a UNC Related Document and a reference to the IS Document is to such document as from time to time in force.]

5.1.3 A reference in this paragraph 5 to the Committee is to the Uniform Network Code Committee.

5.1.4 The Committee shall (inter alia) have the functions set out in this paragraph 5 and the IS Document.

5.2 Appointment of IS Expert

5.2.1 A person shall be appointed by the CDSP in accordance with this paragraph 5.2 for the purposes of:

- (a) developing and updating the IS Model and the IS Methodology;
- (b) in respect of a Formula Year and each LDZ, estimating the Independent Shrinkage LDZ Quantity;
- (c) in respect of a Formula Year and each IGT System, estimating the Independent Shrinkage IGTS Quantity;
- (d) in respect of a Formula Year and each IGT System, calculating the "Annual IS IGTS Quantity" and the "Daily IS IGTS Quantity" so that these values can be provided to the CDSP within the IS Annual Statement;
- (e)(e) in respect of a Formula Year and each LDZ, the "Annual IS LDZ Quantity" and the "Daily IS LDZ Quantity" so that these values can be provided to the CDSP within the IS Annual Statement;
- (d)(f) preparing the IS Annual Statement for each Formula Year; and
- (e)(g) [sending a copy of the IS Annual Statement for each Formula Year to the Authority].

5.2.2 The CDSP shall, subject to and in accordance with the IS Document and the requirements of the Committee:

- (a) prepare arrangements and documentation for a tender for the appointment of a person to act as the IS Expert;
- (b) conduct a tender on the basis of such arrangements and documentation;

Commented [Dentons20]: To be confirmed.

Commented [DM21R20]: Yes, that is correct.

Commented [Dentons22]: BR13.

Commented [DM23R22]: Why have we not included a reference to the ISE Sub-Committee?

Commented [DM24]: Why don't we have legal text for for BR 2.3 or BR2.4: "adhere to the timetable set out in the Framework" and "review the ISM on an annual basis, as per timetable set out in the Framework"

- (c) review and assess the proposals made by persons tendering for appointment as the IS Expert ('bidders') pursuant to the tender;
- (d) where appropriate (for the purposes of appointing a bidder as the IS Expert) enter into discussions with one of more bidders;
- (e) seek to enter into an IS Contract with the preferred bidder;
- (f) perform the CDSP obligations and exercise the CDSP rights in accordance with the IS Contract.

5.2.3 Without prejudice to the requirements of the IS Document, the CDSP may seek guidance or direction of the Committee in relation to any step the CDSP proposes to take (or not take) in relation to the activities to be undertaken by the IS Expert under paragraph 5.2.1, the CDSP's activities for the purposes of paragraph 5.2.2 [and in relation to the IS Contract].

5.2.4 This paragraph 5.2 shall apply on each occasion on which an IS Expert is to be appointed.

Commented [Dentons25]: BR1, 2 and 3.

5.3 Terms of engagement of IS Expert

5.3.1 Nothing in this paragraph 5 shall require the CDSP to enter into an IS Expert Contract on terms which in the CDSP's reasonable opinion:

- (a) would be unlawful for the CDSP; or
- (b) would give rise to the CDSP incurring any liability, other than in respect of its own wilful misconduct, gross negligence or fraud.

Commented [DM26R25]: Why have you not included "calculating the Independent Shrinkage Charge (ISC) for both GDNs and IGTs" from BR 2.2?

5.3.2 The CDSP may enter into an IS Expert Contract on terms which:

- (a) limit or exclude the liability (as to such matters as may be provided in such contract) of the IS Expert;
- (b) provide that if a Party or any supplier or consumer makes any claim or takes any legal proceedings (as to such matters as may be provided in such contract) against the IS Expert, the CDSP will indemnify the IS Expert in respect of such claim or proceeding,

and in such a case each Party undertakes that it shall not, and in the case of a User it shall procure that each supplier and consumer does not, make such a claim or take such proceedings against the IS Expert, and shall indemnify the CDSP in respect of any liability to the IS Expert if such Party or any such supplier or relevant customer does make such a claim or take such proceedings.

5.3.3 For the avoidance of doubt, the CDSP shall not be the agent or trustee of any Party for the purposes of the IS Expert Contract, and the CDSP shall owe no duties or responsibilities to any Party in respect of the IS Expert Contract other than as provided in this paragraph 5 and the IS Document.

5.3.4 The CDSP shall not agree to any amendment to the terms of the IS Expert Contract without the prior approval of the Committee.

Commented [Dentons27]: BR4.

5.4 IS Statement and the IS Quantities

- 5.4.1 For each Formula Year the IS Expert shall prepare a statement, in accordance with the timetable set out in the IS Document, which:
- (a) sets out the basis on which the IS Expert has utilised the IS Methodology and the IS Model to determine the ISLQ for an LDZ and the ISIQ for an IGT System;
 - (b) identifies the ISLQ for each LDZ;
 - (c) identifies the ISIQ for each IGTS System; and
 - (d) includes such other information as specified in the IS Document.

5.4.2 In respect of a Formula Year and an LDZ:

- (a) the "Annual IS LDZ Quantity" is the Independent Shrinkage LDZ Quantity for the Formula Year and the LDZ, less the LDZ Shrinkage Quantity for the Formula Year and LDZ (estimated by the relevant Transporter and notified to the Authority in accordance with paragraph 3.1.7 (or as otherwise determined pursuant to paragraph 3.1.8));
- (b) the "Daily IS LDZ Quantity" is:
 - (i) where the Annual IS LDZ Quantity is positive, a quantity equal to the Aggregate IS LDZ Quantity divided by [365];
 - (ii) where paragraph (i) does not apply, zero.

5.4.3 In respect of a Formula Year and an IGTS:

- (a) the "Annual IS IGTS Quantity" is the Independent Shrinkage IGTS Quantity for the IGTS and the Formula Year;
- (b) the "Daily IS IGTS Quantity" is:
 - (i) where the Annual IS IGTS Quantity is positive, a quantity equal to the Annual IS IGTS Quantity divided by [365];
 - (ii) where paragraph (i) does not apply, zero.

5.4.4 The IS Expert will send the IS Annual Statement to the Authority in accordance with the timetable set out in the IS Document.

5.4.5 The Annual IS LDZ Quantity for each LDZ and the Annual IS IGTS Quantity for each IGTS in respect of a Formula Year shall be the quantities identified in the IS Annual Statement, unless upon application of the Transporter or any User made no later than [] the Authority shall give Condition 11(18) Disapproval to the [Transporter] to disapprove the application of the Annual IS LDZ Quantity or Annual IS IGTS Quantity, in which case the Annual IS LDZ Quantity or the Annual IS IGTS Quantity for the Formula Year shall be that applying to the Preceding Formula Year (or in the absence of any such quantity, zero).

5.4.6 [Where the Annual IS LDZ Quantity is positive, for the purposes of paragraph 4.4.3(b) the Nomination Quantity for each Output Nomination to be made by a LDZ Shrinkage Provider/User shall be employed by the Transporter to purchase the sum of the Annual IS LDZ Quantity, LDZ Shrinkage Quantity and the Daily IS LDZ Quantity.]

Commented [Dentons28]: BR17.4.

Commented [DM29R28]: This is good. Only comment is the similarity in the phrasing between "Annual IS LDZ Quantity" and "IS LDZ Quantity" could lead to this being interpreted incorrectly and would prefer an easier defined term. E.g. GDN ISC.

Commented [Dentons30]: BR9.2: This is a daily quantity to be deducted from the daily UIG quantity for the LDZ calculated under H2.6.1. To be confirmed.

Commented [DM31R30]: Yes, that is correct.

Commented [Dentons32]: Or number of days in relevant Formula Year?

Commented [DM33R32]: Question for WG

Commented [Dentons34]: BR17.10.

Commented [DM35R34]: Fine.

Commented [Dentons36]: BR7: so if zero or negative no reduction in UIG at H2.6.1.

Commented [DM37R36]: Yes.

Commented [Dentons38]: BR17.6.

Commented [DM39R38]: See comment for BR17.4 above.

Commented [Dentons40]: BR9.2: This is a IGTS daily quantity to be deducted from the daily UIG quantity for the LDZ calculated under H2.6.1. To be confirmed.

Commented [DM41R40]: Yes

Commented [Dentons42]: BR17.10.

Commented [Dentons43]: BR7: As above.

Commented [Dentons44]: Assume not open ended?

Commented [Dentons45]: To think about whether Authority could disapprove for some but not all LDZs and also about the disapproval mechanism in context of an IGT.

Commented [Dentons46]: BR6: See GTC2.8 which sets out operation of the Condition A11(18) Disapproval process, and note for this to operate (each) DN needs to (1) notify Shippers it intends taking the relevant 'step' (so reduce UIG and increase shrinkage purchase in line with ISE's estimates), (2) then determine to take the 'step' and (3) not take the step if the Authority disapproves.

Commented [DM47R46]: "Condition 11(18) Disapproval" is linked to the Transporters licence. The disapproval within 0843 is not linked to the transporters licence. Please update so there is no link to the licence for disapproval.

Commented [Dentons48]: BR5 and 6.

Commented [Dentons49]: So the Daily IS LDZ quantity having moved out of the UIG pot is placed in the shrinkage pot instead. To be confirmed.

Commented [Dentons50]: BR9.

Commented [DM51R50]: 0843 does not mandate the utilisation of an LDZ Shrinkage Provider. We did discuss

5.4.7

5.4.8 Where the Annual IS IGTS Quantity is positive, a User shall be employed by the Independent Gas Transporter to purchase the sum of the Annual IS IGTS Quantity

5.4.75.4.9 []

5.5 Reconciliation

5.5.1 During the Formula Year the IS Expert shall observe contributors to Shrinkage, so that, no later than [] in each after the Formula Year concludes, the IS Expert shall, in respect of the Preceding Formula Year, [review the assessed LDZ shrinkage for each LDZ established under paragraph 3.3.1, the estimated LDZ for each LDZ established under paragraph 3.1 and the Independent Shrinkage LDZ Quantity for each LDZ], provide an updated view of ISLQ. The IS Expert shall subtract the updated LDZ Shrinkage Quantities, as published under step 5.5.3, from the IS Expert's updated view of the ISLQ.

(a) Where the observed ISLQ remain the same, but LSQ reduce then the Annual IS LDZ Quantity will increase; or

(b) Where the observed ISLQ increases, and LSQ decreases then the Annual IS LDZ Quantity will increase by the sum of the two variances; or

(c) Where observed ISLQ decreases below the LSQ, then the Annual IS LDZ Quantity will be 0.

5.5.1(d)

5.5.2 Following the review under paragraph 5.5.1 the IS Expert shall prepare a statement ("Reconciliation Statement"), in accordance with the timetable set out in the IS Document, which shall specify:

(a) [] The calculations for 5.5.1a-c and

(a)(b) any rationale(s)

(b)(c) []

5.5.3 By no later than 31 July in a Formula Year the Transporters shall provide a copy of the Reconciliation Statement in respect of the Preceding Formula Year to each User.

5.5.4 Where in respect of an LDZ and a Formula Year the Reconciliation Statement [identifies a difference between the [Independent Shrinkage LDZ Quantity] so determined under 5.5.1 and [the quantity which is the relevant quantity for the purposes of a reconciliation undertaken in accordance with paragraph 3.4.1] a further reconciliation will be undertaken in accordance with the [methodology set out in the []] for the Formula Year].

5.5.5 Where reconciliation described in 5.5.4 increases the Annual IS LDZ Quantity and/or the Annual IS IGTS Quantity, increased Daily IS LDZ Quantity and/or the Daily IS IGTS Quantity will need to be recovered by the GDNs and/or IGTs. Where reconciliation decreases Daily IS LDZ Quantity and/or Daily IS IGTS Quantity, this will go into the Amendment Invoice – the Amendment Invoice is detailed in UNC Section S.

Commented [Dentons52]: LDZ SP purchases gas (in accordance with the rules in N4.1/4.2) so as to match the output nominations made on its behalf by NGT. What mechanism is proposed for IGT buying gas and acting as a shrinkage provider for the IGTS, as this seems to be what is intended under BR9.2?

IGTs are not parties to the TPD (so for instance rules about Output Nominations, Trade Nominations and Transporter as a User which are used in relation to LDZ Shrinkage do not apply in context of an IGT) and the relationship between IGTs and Shippers is in the IGT Code, so neither TPD or IGTA provide basis for an IGT and Shipper contracting for shrinkage on an IGTS.

Commented [DM53R52]: Answer to question one: See my suggested drafting for 5.4.8.

Answer to question two: that is contrary to the view of 0843 workgroup, which was of the view that IGTs are parties to the UNC. To be discussed.

Commented [Dentons54]: Need to discuss what BR10 and 11 are proposing and understand what is being 'reconciled'.

Commented [DM55R54]: Happy to discuss. I have updated the drafting of 5.5.1 with suggestions that might make it clearer for you.

Commented [Dentons56]: BR10: To confirm if this is what is intended i.e. a review of the actual 'error', the difference between estimated and assessed shrinkage, and the ISE's estimate?

Commented [DM57R56]: See above comment. Including the commentary from BRs10.1-10.3 makes it clearer. In essence, if GDNs bring Shrinkage down in the reconciliation

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Commented [Dentons58]: To confirm what RS will specify and what intended by "...This will contain rationale

Commented [DM59R58]: Yes, I believe we are saying the same thing. If there is a difference between the new and t

Commented [DM60]: Do we need to reference this rule where it exists in N3.3.4 only?

Commented [Dentons61]: i.e. the difference between estimated and assessed LDZ Shrinkage.

Commented [DM62R61]: yes

Commented [Dentons63]: And to confirm BR10.5 and that where the Authority disapproves the IS Quantities

Commented [DM64R63]: If Ofgem disapprove the estimates for the upcoming year, the reconciliation will jus

Commented [Dentons65]: BR10 and 11.

Commented [DM66R65]: Think this section could do with realignment

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5.6 The IS Expert will produce a Reconciliation Statement, irrespective of whether the Authority at the start of the Formula Year disapproves the Annual IS LDZ Quantity and/or the Annual IS IGTS Quantity.

5.6.1 Where the Authority disapproved the Annual IS LDZ Quantity and/or the Annual IS IGTS Quantity at the start of the Formula Year. Authority approval will be needed if the Annual IS LDZ Quantity and/or the Annual IS IGTS Quantity in the IS Expert's Reconciliation Statement are to prevail.

5.6.2 Where the Annual IS LDZ Quantity and/or the Annual IS IGTS Quantity were not disapproved by the Authority at the start of the Formula year, the IS Expert's Annual IS LDZ Quantity and/or the Annual IS IGTS Quantity in the Reconciliation Statement will be automatically applied.

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~~5.5.45.6.3~~

5.6.5.7 Information

5.6.15.7.1 Each Transporter and User shall, to the extent provided for in the [IS Annual Statement], cooperate with and provide data to the IS Expert in connection with the preparation of the IS Annual Statement. UNC Party non-compliances can be escalated to the Authority by the ISE

Commented [Dentons67]: BR12.

Commented [DM68R67]: I've deleted "to the extent provided for in the IS Annual Statement", as the ISE will be requesting data far in advance of the IS Annual Statement, and is therefore illogical.

5.6.25.7.2 [] Gas Distribution Networks and IGTs will fund the role of the ISE.

Commented [DM69R67]: Why did we not include "UNC Party non-compliances can be escalated to the Authority by the ISE"?

INDEPENDENT GAS TRANSPORTER ARRANGEMENTS DOCUMENT

SECTION C – IGTS SHRINKAGE

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Commented [Dentons70]: BR15: To confirm what the funding proposal is - as funding will be addressed through BCM in the DSC. To be confirmed..

Commented [DM71R70]: The BR's require that this goes into code.

Commented [Dentons72]: Sets out arrangements between DNs and ITGs, and does not include rules applying between IGTs and Shippers.

Commented [DM73R72]: Noted.

Commented [Dentons74]: To consider what changes needed once changes to TPD Sections E, H and N better developed.

Commented [DM75R74]: Noted.