

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
Ben Mulcahy (Secretary)	(BM)	Joint Office
David Morley (Proposer)	(DMo)	OVO Energy
Andy Clasper	(AC)	Cadent
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
Guv Dosanjh	(GD)	Cadent Gas
Ian Dunstan	(ID)	Wales & West Utilities
Julie Chou	(JC)	Wales & West Utilities
Matt Marshall	(MM)	Cadent Gas
Michelle Brown	(MB)	Energy Assets
Paul O'Toole	(PO)	NGN
Peter Morgan	(PM)	SGN
Sandi Bradshaw	(SB)	Xoserve
Shiv Singh	(SS)	Cadent Gas
Steve Mulinganie	(SM)	SEFE
Tom Stuart	(TS)	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/0843/110723>

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 (20 June 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

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

Update: David Morley (DMo) shared that he had a conversation with Ofgem about reimbursing a negative shrinkage charge but did not get any additional insight into the matter. He advised that the issue is considered in the Modification's current Business Rules and that he was happy to discuss it further with DNOs if they wished to contact him directly, though he was mindful of the need to progress matters, he asked that any DNO wishing to do so contacted him soon.

Action Closed

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

Update: DMo informed the workgroup that he had not received any further communications on this item from the DNOs. RHa confirmed that the Joint Office had not received anything further either and it was subsequently agreed to close this action.

Action 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: (Also Item 2 on Agenda) Papers had been provided to the Joint Office to discuss later in this meeting.

Closed

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

Update: This was also covered under Item 2 on the agenda.

Closed

Steve Mulinganie (SM) noted that with the date the Workgroup was to report to the Modification Panel rapidly approaching it made it necessary to pragmatically close actions and progress to considering the Legal Text, Rough Order of Magnitude (ROM) and other considerations quickly, advising that if Parties did want to discuss anything they needed to highlight it as soon as possible.

2. Overview of current Shrinkage Process

Julie Chou (JC) talked the workgroup through a slide presentation that WWU had provided to the Joint Office for the meeting, (this slide can be found at <https://www.gasgovernance.co.uk/0843/110723>).

This gave an overview of the 2022 / 2023 shrinkage process. She advised that the initial shrinkage proposal was published on the Joint Office website in December 2021, enabling representations to be received until 01 February 2022 when these are reviewed and consulted on, leading to the final shrinkage proposal being published on 01 March 2022. Then, from 01 April 2022, WWU's contracted Shipper started to procure daily shrinkage volumes based on the notified quantity (proving the Authority had not disapproved the figures). Later, from 15 May 2023, data on shrinkage is collated to populate the 2022/2023 Shrinkage and Leakage Model, leading to the publishing of the subsequent shrinkage assessment and adjustment report on 31 July 2023. Looking ahead, in September 2023 a pricing template will be sent to the CDSP for 2023/2024 to enact the identified credit/debits required for the 2022/2023 shrinkage adjustment, with the difference then credited/debited in October 2023.

DMo commented that the CDSP achieve this through the Amendment invoice process.

SM asked if each DNO has its own shrinkage Shipper to make the adjustments through, which JC confirmed was the case. SM also asked if DNOs purchase on the basis of a determination or a later figure as he was trying to understand why credits/debits exist, and asked if it was because they are based on estimates.

JC replied that it was due to the figures being based on anticipated volumes, with DNOs performing mains replacement work, pressure management and the like during the year, that are all considerations when the volumes are forecasted. At the end of the period the assessment reporting calculates how the DNOs have performed and produces the resultant credits/debits.

SM acknowledged this, suggesting a scenario as an example in which an adjustment would be made due to 80 kilometres of mains replacement being delivered of an anticipated total of 100 kilometres in the original planning, necessitating a correction to the final figures.

Matt Marshall (MM) confirmed this, noting that the weather can also have an impact, with increased consumption during cold weather periods causing elevated network pressures which impacts shrinkage.

RHa summarised the understanding that the quantities purchased throughout the year are based on forecasted estimates, with the figures then finalised in July with a final output being an amendment invoice.

SM noted that there was a Shipper involved in this process that procured on behalf of the DNOs and asked if that Shipper procured any extra required by the adjustment report or if the CDSP just perform a reconciliation.

Paul O'Toole (PO) answered that he believed that the Shipper procured values throughout the year and the final reconciliation is through the CDSP, noting that the DNOs received templated reports with a final October invoice that charges the credit/debit.

JC drew the Workgroup's attention to further documentation she had provided for the meeting, the Standard Special Conditions SpC4.4 Shrinkage Management Output Delivery Incentive and SSCD4 Prohibited Procurement Activities (both of which are available at <https://www.gasgovernance.co.uk/0843/110723>) as further details on the process and emphasised the prohibition on DNOs procuring gas.

DMo noted that this might necessitate a proposal to make a licence change to enable DNOs to purchase the gas to cover the correction figure this Modification 0843 would create and asked how he would do this.

RHa shared her understanding that this would not be an action DMo could take and that, as Proposer, he would need to highlight in the Modification that the change would be required.

SM agreed, noting the importance of calling it out in the Final Modification Report to provide clarity to the Authority that they would need to consider making such changes.

Ellie Rogers (ER) asked if there was a timescale to this process, which RHa replied that it would be for the Authority to determine.

SM thought it unlikely the Authority would make a determination on this Modification until the licence change could be completed, noting that time would be needed to be set aside for the appeals process for licence changes, though noting that some parts of these processes could be done concurrently.

DMo suggested it might be prudent to wait for SM's [Modification 0850 - Amendments to Allocation of Unidentified Gas Expert \(AUGE\) arrangements to introduce a new Residual Upstream Contributor](#) to also complete its lifecycle for efficiency.

SM advised that Modification 0850 had been written with the intention to be agnostic as to the source of any shrinkage and to sweep up any residual shrinkage figure, with no judgement as to where it is from and just pointing it as being upstream. He admitted he had not yet read the latest version of Modification 0843 and committed to do so to ensure there is no conflict between the two, as he was looking to report no conflict when presenting Modification 0850 to the

Modification Panel on 20 July 2023. He advised DMO that he expected Modification 0850 will take some time to develop so he was happy to defer its development.

3. Potential for Negative Shrinkage Charge

This was discussed under Actions 0503, 0601 and Item 2 above.

4. Amended Modification

RHa shared visibility of the draft amended Modification 0843 (available at <https://www.gasgovernance.co.uk/0843/110723>) which DMO talked the workgroup through. He advised that some of the changes made were for clarification and were not material.

In the Section 1 Summary changes had been made to make it clear that the Modification does not seek to change to LDZ Shrinkage Quantities as calculated by DNOs or the Shrinkage and Leakage Model (SLM), Instead the Modification deals with Shrinkage error., This amendment is made in response to DN concerns raised in last meeting.

DMo commented that the new draft detailed the business case in a clearer manner and confirmed that instances of more combative language had also been removed.

RH asked if DMO had ever responded to any of the previous Shrinkage consultations mentioned in the Item 2 DNO presentation of the current Shrinkage process. DMO replied that he believed that the responses that had been issued to the representations of others were indicative of the type of response he was likely to have received and was therefore the reason why he had not issued his own representation.

In reviewing the amended Modification, SM noted that there was now a lot of synergies with Modification 0850, with both clear that the unknown factor is the responsibility of the DNOs. He shared that in writing Modification 0850, the view was that Modification 0843 would be unlikely to arrive at an agreed Model so the basis used in Modification 0850 was to approach the matter from a different direction with the intent to affirm the principle that the issue had to be addressed upstream.

RHa noted that from what she had seen, Modification 0850 was a very different way of dealing with UIG, and that the Modifications did not appear to be mutually exclusive i.e. it looked like both could be implemented at the same time. She noted that Modification 0850 looks for a specific amount whereas Modification 0843 looks at a methodology, noting that if they could be implemented together, they would likely not be Alternatives, adding that this was her view as Panel Secretary, and the Modification Panel may have a different view.

SM confirmed that he believed this was the case, but that he needed to read the latest amended version of Modification 0843 to check that this was still so, with Modification 0850 targeting residuals and not considering their source.

The Workgroup continued to review the amended draft, with DMO referencing the changes under the 'Why' that whilst seeking to assign Shrinkage model error to the parties responsible for shrinkage, emphasis was made that the Modification was not looking to change the Shrinkage model in any way.

DMo also highlighted the additional text under 'How' adding clarification to the methodologies used by the Independent Shrinkage Expert (ISE), noting that this was in consideration of the discussions held in the previous Workgroup in which the purview of the ISE's methodologies was explored. The text makes it clear that the ISE can select their preferred methodologies, and whilst they might use the same measures as DNOs, they were not restricted to them. The ISE would evidence these in their tender bids to the CDSP as part of the procurement of the service.

DMo advised that he had looked to have any additional budget later requested by the ISE after the tender process be reviewed and authorised by the DSC Contract Management Committee, but that he had received feedback from the CDSP that the Independent Shrinkage Sub-

Committee would probably be a better place to do this, citing Non-Disclosure Agreements (NDAs) as a consideration.

ER added that Shrinkage was a specialist subject, and this could be viewed as similar in some ways to the Performance Assurance Committee (PAC). She advised that in DSC Contract Management Committee there could be parties that are not close to Shrinkage having to vote on detailed considerations, irrespective of their involvement or interests, as such a specialist group who had completed NDA's might be better suited.

RHa noted that putting the ISE into DSC Contract Management Committee would provide broader coverage with a wider industry view and stated that she understood from the Modification that the Independent Shrinkage Sub-Committee was not intended to have a voting capacity.

DMo agreed this was his original intention but he was happy to update the Terms of Reference (ToR) for the Sub-Committee if the DSC Contract Management Committee was not suitable.

ER expanded on her earlier commentary and explained that the CDSP's concern was that DSC Contract Management Committee members who may not have been involved in the ISE process at all could be asked to review detailed information and that would be better suited to a specialist group. She acknowledged that the Independent Shrinkage Sub-Committee did not currently have the aegis to do this but could be empowered to discuss ISE requests for additional spending and, like PAC, members could all sign NDAs, enabling more detailed discussion. She added that it was for these reasons that it was felt within the CDSP that a specialist committee was more appropriate than a more BAU one.

RHa asked that as the CDSP will be managing the contract, are there not mechanisms already in existence to manage contract variance anyway, as is the case for PAC, which does not get visibility of costs to assess their appropriateness.

ER confirmed that this was true of the AUGÉ too, but this Modification's Business Rules look to address such additional funding differently.

When DMo confirmed that the ISE would be funded by the DNOs, in counterpoint to the Shipper funding of AUGÉ, ER commented that funding approval and discussions should go to the parties funding it, meaning it would be the DNOs the CDSP would seek approval from.

DMo felt this would be problematic, as they would be asked to approve paying additional costs for a service they appeared not to be fully supportive of.

SM observed that the DSC Contract Management Committee do manage that sort of conflict all the time and openly discusses them, though the voting rights would need to be considered.

The workgroup discussed the previous creation of the CSS Group that was formed to allow a Shipper subgroup of the DSC Contract Management Committee to discuss CSS bid parameters, with DNOs ultimately abstaining from votes to enable the resolution of the matter.

SM commented that whilst there was a Governance Framework required to address these points, he thought that DSC Contract Management is where such oversight should go with the challenges presented by the voting rights needing to be addressed elsewhere, as such, he asked if a Business Rule was still required to go into any further detail.

RHa confirmed that the DSC Contract Management Committee could receive this and could form a subcommittee to consider it. SM agreed, noting that he sits on that committee and that he was aware that the detail is key.

ER commented that she needed to think through the significance of DSC parties not getting visibility of costs other than those involved in the procurement process within the Business Plan and noted that the CDSP already has processes for commercial contract variations which would need to be considered within any resultant procedures. She resolved to review the

considerations offline with the CDSP Contract Manager and reach out to DMO if anything arose from those discussions.

DMO asked if it would be wiser to scrap the requirement entirely and leave it to the existing CDSP variation process.

ER confirmed that this was the approach for the AUGÉ but that she would defer internally within the CDSP as to whether this has benefits or creates issues.

Sandi Bradshaw (SB) suggested that challenges could be raised by other parties who tendered for the ISE role about such additional funding requests unless there is a firm remit.

DMO stated that the remit would be known from the outset and that he would consider rewording the Modification to state that this process would be managed under the CDSP Contract Variation process, and then asked if it was an impartial process.

ER suggested that it would be as it is managed between Xoserve and the provider.

RHa noted it was still funded by the DNOs though and questioned which DNO fund this would be drawn from, suggesting a cynical view would be that cost variations would not be well received.

ER responded that this was not always the case if there was sufficient justification and value within it.

SM commented that this was the rationale behind his belief that the ISE should be Shipper funded, as they have an interest in getting it correct rather than those who don't appear to believe that there is an issue. He suggested the cost of funding is scalable and small compared to the cost of the energy at issue.

ER suggested an approach to the initial procurement could include a range of differing elements and approaches the ISE could use, with the procurement process ensuring any elements with unreasonable costs are omitted, leaving an agreed list of mechanisms available to the ISE to choose from as they require.

SB responded that the approach had merits though noted that if proposals with such options were received it would add difficulties to variances part way through as parties could tender a low opening bid and then later use the agreed list of mechanisms to repeatedly add costs to this service.

DMO noted that the current structure has the stakeholder procurement panels agreeing to the initial contract and asked who approves the contract variance?

ER replied that in the case of the AUGÉ, it was the CDSP, whereas with PAC it is referred to PAC as a case for additional services.

DMO suggested that it sounded as if having it managed by the CDSP would be the most impartial.

SM commented that the DNOs own the CDSP and by taking this approach it would be asking the CDSP to make decisions that their shareholders might not be happy with, alluding that whilst the CDSP implies impartiality, it is a vehicle owned by DNOs.

ER replied that whilst the CDSP is not a transporter vehicle, it does come back to this being likely to be contentious and that if DNOs are funding the ISE it they are more likely to say they are unhappy with funding issues, with the core contention being Shippers are potentially more accepting of the costs as they want the assurance of a more accurate model while as DNOs are

adverse to such additional costs as they are minded that the current model works, with the CDSP in the middle.

JC noted that DNOs have a license obligation to ensure the accuracy of the Shrinkage Model, with the biggest challenge being cost which needs to be justified to Ofgem, stating that DNOs would always look to be as accurate as possible under these parameters.

SB asked that if the decision is made for the CDSP to manage this, what skills would it need to be able to fulfil the role of the informed buyer, adding that the CDSP can certainly make informed decisions, but would it be right in making them alone?

SM suggested that the AUGE is a good example, stating that this matter was as 'Marmite' as it gets, in that stating to the DNOs that their model is erroneous, it is, by definition, stating they are not meeting their licence requirements. If additional costs are required, they need to be considered fairly and therefore the need to find a suitable home for the decision making.

DMo asked that if the ISE was not Shipper funded would the DSC Contract Subcommittee exclude shippers.

RHa advised that within the DSC Contract Management Committee, all votes are for all parties, with the aforementioned CSS-related voting a controversial situation whereby the transporters abstained.

ER asked if a sub-committee would keep that voting structure.

SM suggested that the Sub-committee could issue recommendations to the DSC Contract Management Committee which would suggest a route of appeal if the vote went against a recommendation.

RHa informed the workgroup that the DSC Contract Management Committee can set up any Sub-committee it needs and can set the Terms of Reference as it perceived was required. In noting the previous reference to the Modification being 'Marmite' in nature she noted that requiring DNOs to fund the service was exacerbating the situation and suggested the Proposer seek CDSP advice on the Service Area funding structure options that exist.

ER explained that DSC Change Management Committee can also change Service Area funding for specific projects to deviate from the preset structures. She explained that in DSC Change Management Committee meetings voting rights are only issued to parties impacted by the Change, so even if this process was 100% DNO funded, as Shippers are impacted they would still get a vote, noting that this differs from DSC Contract Management Committee voting structure where every member gets a vote.

DMo stated that he will consider the matter of whether variances would be managed under the CDSP contract variation process or the DSC Contract Management Committee further offline in the interests of time remaining to the workgroup.

SM said that he thought it would be helpful to set out the principles and expectations of how the Committee manages its business, setting requirements that it deals equitably with concerns and similar parameters to seek the optimal balance between being too prescriptive or too vague.

DMo recommenced talking through the amended Draft Modification, advising that the Independent Shrinkage Charge (ISC) is the value proposed by the ISE which is renamed the ISM Variation Gas (IVG) within the Modification to avoid conflating it with DNO purchase of gas to cover the ISC. However, in reading this DMo thought this approach was probably too complicated and that having a 'Proposed ISC' and an 'Approved ISC' would be a better alternative to be clear that it is addressing Shrinkage error and not the Shrinkage Model, thus deciding to remove IVG completely.

DMo asked the Legal Text provider if a Licence Change requirement would need to be detailed in the solution, as the Approved ISC would be managed by DNOs purchasing via their Shipper.

David Mitchell (DM) replied that the Solution is really the Proposer's 'recipe' to produce the Legal Text, so each part needs to be approached with this consideration. For example, DMo may want the Licence-related text to go into the opening paragraph to describe what is required but it

would not need to be in a Business Rule, as the lawyer will need to understand how it all fits together.

Ian Dunstan (ID) questioned the statement that this Modification will lower bills as it is just transferring costs between DNOs and Shippers that the customer eventually still pays, with the DNOs needing to seek recovery of the funding.

RHa commented that the Modification is agnostic as the DNOs would need to decide how to fund this and whether to seek approval of such from Ofgem, who would then make their own decision in turn.

DMo observed that he could amend the text to state it may reduce bills.

In continuing to review the amended draft Modification DMO noted that an enabling Modification would be raised under the IGT UNC to enable the ISE to have jurisdiction over IGTs. As such the Modification will need to have the Legal Text for the IGT UNC to refer to.

Rh noted nobody in the workgroup felt this Modification should not be Authority Direction.

The workgroup moved on to Section 5 Solution

RHa noted that in the text of the Modification discussed earlier in the meeting, the phrase was creating an independent account of Shrinkage Model error and not the Model itself, but within the Solution, it is proposing the development of an Independent Shrinkage Model and Methodology. DMO agree to change this for consistency.

JC noted that Business Rule 2 Principles included environmentalism which did not seem impartial as the ISE is reporting on emissions and what the error could be, with the best outcomes for consumers anything that is done would be at a cost, noting this was similar to what ID alluded to earlier.

Tom Stuart (TS) commented that the ISE was to be independent of the causation of the assumed errors which are extensions of other factors. Known elements that address shrinkage, such as pipe replacement, are driven by other factors like safety. In this, he said his concern was that the industry would be working on the basis of two differing principles. If the ISE were to use data that the DNO's current shrinkage is based on and is calculating through such a different lens, he could not see how the ISE would be a reasonable comparison to how it is currently calculated.

SM suggested that the principles are different as it is creating something alternate to highlight where the existing formulae falls short.

DMo suggested that maybe the principles did not need to be stated as a Business Rule in the Solution as they were just to explain the intention.

RHa asked if there is an Objective Statement for the ISE in the Framework,

DMo did not think that was the case but that he could add such, which meant he could then replace the principles in the Solution with a purpose above and beyond the BRs, committing to converting the principles to an ISE Objective Statement and adding it to the framework.

JC felt that an Objective Statement would help address how this would be delivered and what is expected of the DNOs.

DMo commented that the Modification would not be suggesting any DNO actions and enables them to do as they like within reason.

DMo turned to Business Rule 3 of the Solution which details the methodologies used to create the model and noted that they are the purview of the expert and not necessarily desk based

where the ISE thought it was appropriate to collate other data, which would need to be detailed in advance as part of the tender details.

ER expounded that the parties bidding would need to provide these details and they would form part of the procurement documents that are created with the Stakeholder Evaluation Panel.

DMo noted that he will amend the section here about additional costs when he has decided how oversight of this would be managed.

DMo highlighted the commentary regarding how TPD Section E stipulates the terms of engagement and cost recovery for the AUGE and that an equivalent Legal Text was needed for the ISE, and that interested parties can engage with the ISE during the consultation process or additional data can be shared with the ISE outside of consultation via the Independent Shrinkage Sub-committee.

DM asked how the Independent Shrinkage Sub-committee would decide which topics are considered for discussion.

DMo replied that as a precedent, in the case of the AUGE, the committee can suggest topics or have suggestions in writing.

DM sought to clarify that, of the topics put forward which the ISE can then decide when or whether to investigate them.

SM agreed, stating that it would need to include considering any consequences, and if, for example, a topic be addressed in the next year cycle.

Rha noted that the ISE should consider it and come back with a response.

SB asked if there was going to be any overlap with the AUGE rules, so as to ensure that both do not cover the same issue.

DMo replied that it was covered somewhere, either in the BRs or the Framework.

ID commented that the current assessment is based on desktop analysis on a plus or minus statistical assessment, and asked if the procurement process should include due diligence given that it looked to be many millions of pounds spend.

DMo stated that he did not think that the costs were so high and that it was the DPLA data that was likely to cost many millions.

ID responded that the DPLA is being used for a revised model so the industry could end up with both processes based on the same figures.

SM asked if the point was more around value for money rather than due diligence, and that this is more of an assurance model to give that reassurance, with different people viewing the value differently.

ID expressed the concern that the work required is going to cost and that the industry could get a £10m bill that was not visible at the procurement stage, asking if the procurement exercise seeks just to appoint a party.

ER advised that it would include items and criteria that the CDSP would look for tendering parties to respond to and then the Stakeholder Evaluation Panel would look to assess the outputs

received and would need to ensure that the items and criteria have clear cost parameters, which ID acknowledged.

JC asked how the process would work should the ISE give a value range.

DMo replied that it would give an exact value which SM compared to the same being true of the AUGE. ER added that it would net off at the reconciliation at the end of the year anyway.

SM asked if it included a reconciliation in which the process looks back and revisits the numbers or if it came up with a number that would be reconciled.

DMo confirmed that it has its own reconciliation Model under Business Rule 9 in which it addresses any difference between the LDZ Shrinkage Quantities.

SM asked if the ISC is a constant or if it is recalculated. DMO explained that the calculations would be done at the start of the year and applied as a daily figure, leading to the end-of-the-year adjustment for the amendment invoice.

ID asked why it was not a reciprocal relationship in that it only sees shrinkage values that require payments from the DNOs and not the other way around.

DMo explained that there was a suggestion that it was against DNO Licence conditions, some thought it might not be so an action is on the DNOs to clarify.

RH advised a “for the avoidance of doubt” statement was required to make this clear.

SM agreed stating that the DNOs could pursue amendments to their licenses.

PO suggested that customers could be charged more if it is underestimated but because of the licence being netted off at zero.

SM suggested DNOs could use the ISE figure, and this would allow the licence to work and DMO noted that he would add a “for the avoidance of doubt” comment about DNOs being able to use the ISE figure to address the licence issue.

ER asked if the shrinkage value gets approved by Ofgem how it would work that DNOs could decide to use the ISE.

Andy Clasper (AC) responded that it was his understanding that DNOs could not accept the ISE figure as the license dictates using the SLM. So, if the ISE number was negative DNOs would still need to purchase the figure set by the SLM figure if that is a positive. He noted that a couple of meetings ago it was asked if the ISE was going to provide more granular data that DNOs could use to improve their Model and the answer was no, they would only provide a number, noting that DNOs would need granular data to improve the model.

SM suggested that if the value was negative it may lead to a conversation about suitable changes to the model, which could be applied prospectively.

RHa asked if there was no reconciliation process between the models.

DMo confirmed this was the case, stating that the Modification did not go below the LDZ level as it had proved too complex and needed to be at this level to enable the ISC to be deducted

from UIG. He detailed how the yearly figure would be converted to a daily figure and loaded by the CDSP.

ER explained that currently the day shrinkage value is obtained from DNOs and loaded into Gemini, with the DNOs then contracting with their Shipper to procure that volume. For the solution, they are considering how the SLM and/or ISE figure would be used.

RHa asked to clarify that currently the CDSP put DNO's values in, and if this Modification went ahead, they would add the DN value + the ISE figure.

DMo replied that the DNOs had advised they are not able to purchase any gas other than shrinkage, so he had added the requirement to change this licence requirement.

ER noted that when the CDSP does the impact assessment that this will be shown in the ROM as an approach that people could respond on and if any restrictions are called out, the CDSP would need to reconsider.

DMo asked DM, as Legal Text provider, to consider the reconciliation examples in Business Rule 9 of the Solution to ensure they cover the possible scenarios and were sufficient for the Legal Text.

DM asked if the amended invoice mentioned is a new or existing process. ER confirmed that it is the Amendment Invoice that is already used and is in Code under Section S, noting that it is at LDZ level to enable the ISC to be deducted from UIG.

JC commented that she thought it would need to be more granular than the LDZ level to enable the environmental benefit to address leaks.

ID concurred stating the view that the Modification cannot claim the benefit of reduced bills if it does not enable parties to address Shrinkage by providing more granular data.

DMo responded that by getting the ISC applied to an area, DNOs would then undertake activities to address that area.

JC explained that DNs know the leakage values in their areas and they know the proportions of metal pipes and the like but would need more information than held at the moment to materially address Shrinkage.

DMo replied that he thought for this Modification at least, that it needs to stay at LDZ level to keep the cost and complexity down and can then later revisit to address granularity.

JC stated that the claim of reduced costs needed to then be removed.

ID commented that the DNOs do what they can with the data they have, adding that this process proposed under Modification 0843 doesn't appear to give them anything new. He explained that there are incentives already under RIIO - both Reputational and Financial.

RH advised that the workgroup had had feedback from other DNOs suggesting otherwise.

ID acknowledged that there was no incentive for mains replacement and that it was network pressures incentivised to reduce total shrinkage. Adding that there is no incentive around fixing leaks although others such as HSE do put requirements on those.

DMo concluded that the Modification would stay as is.

ID confirmed that this was fine but advised that it was likely to be highlighted in the later consultation.

It was then agreed that the commentary on Transmission Shrinkage would be transferred to the top of the Solution section away from the Business Rules.

The workgroup moved on to Business Rule 15 Appeals, in the Solution.

DM asked if the appeals process mechanism in the UNC would be used, as he was not sure how Legal Text could be created without more to go on.

DMo explained that he did ask Ofgem how appeals to them would be processed but did not get an answer.

SM asked that if the ISE gets a figure and sends it to Ofgem, is it necessary to have an appeals process in the absence of an authority response.

DMo noted that he had added it looking to ensure reasonableness if parties wanted to appeal something they thought unfair.

SM did not think the UNC provides the means to do this, noting that if a party has an issue with Ofgem they take it to them, it is not necessary to codify it. He also suggested that the appeal could stand for long periods of time, so it would become necessary to look to build a process to fix the matter after so much time had passed.

DM agreed, stating he could see why this had been included but discharging it would be difficult.

RHa added that it felt perhaps a “for the avoidance of doubt” statement would be suitable.

SM commented that if parties have any concerns with any part they can approach the Authority, and as such it was not an appeals process per se.

DMo agreed to amend Business Rule 15 accordingly and moved on to Business Rule 16 which addresses IGT Shrinkage, and that the IGTAD would need to be amended to mandate IGTs to purchase daily ISC, so an enabling Modification was required with an amendment to IGTAD.

ER advised that IGTs currently in Gemini do not have the same mechanism as DNOs so the CDSP would have to consider this. With DN Shrinkage the amounts are applied by LDZ, but for IGTs, there could be multiple IGTs within each LDZ, and she suggested one solution would be for one IGT coordinate for each LDZ. She also noted that National Gas Transmission may have an interest from a Gemini development perspective. She asked if this work would come under the ROM for this Modification or the IGT Modification.

DMo replied that he believed it would come under the ROM for this Modification, with the IGT Modification pointing back to this one.

ER acknowledged this, considering aloud the potential of the CDSP doing a system-side assessment as part of the impact assessment coming under this Modification stipulated as DN funded. She concluded that it might not be a big issue with a caveat in the ROM and that a system cost would probably be required for IGTs in Gemini.

DMo noted that in Rule 19 it is specified that the work would be funded by DNOs and IGTs.

ER advised that it was more an extra impact she was considering as the Modification is stipulating the ISE is funded by DNOs, but the funding of the system impacts would need to be decided at DSC Change Management Committee.

Michelle Brown (MB) advised the Workgroup that IGTs were meeting at the IGT Workstream on 13 July so she would take this to discuss and come back with their feedback.

New Action 0701: IGTs (MB) to provide feedback from IGT Workstream on 13 July

DMo advised that Appendix 4 GDN’s Shrinkage Reconciliation Process was provided by the CDSP to detail the current process to inform IGTs.

Business Rule 18 refers to the UNC Related Document and a reference to “Committee” was agreed to be replaced with one to UNCC.

ER asked that as the funding Business Rule was going into Legal Text would it bypass any decision on the ongoing funding of the ISE at the DSC Change Management Committee.

RHa highlighted that Business Rule 19 stated the role of the ISE and ‘related activity’ is GDN funded and that maybe it would be better to consider each of the costs and how that should apply. She noted that the Business Rules were still evolving and with no Legal Text and ROM

as of yet, it did not seem that the Workgroup could report to the Modification Panel in August as currently expected, asking DMO for a view.

DMO concurred, suggesting a 3-month extension could be required.

SM noted that Workgroups are permitted to report early so it made sense not to ask for incremental monthly extensions.

DMO commented that he did not think it would be necessary to go to December but as it is possible to report back to the Modification Panel early this seemed fine.

ER commented that after the IGT discussions on 13 July, the CDSP could start drafting a ROM but she could not commit to providing it for the August meeting, and whilst she did not think the Business Rules were going to change greatly, the CDSP did need to see the next version, suggesting it may be possible to provide a ROM for the September meeting, assuming the extension is requested and agreed.

RHa noted that there were some amendments to the Modification that will take it from version 2 to version 3 for next month when the Framework could also be reviewed.

DMO confirmed there had been some changes to the Modification but many were required to the Framework.

The Workgroup reviewed Section 6 and the addition to the Cross Code Impacts of the Licence condition of the Transporter licence preventing DNOs from purchasing gas other than to cover Shrinkage needs to be addressed.

RHa noted that Relevant Objectives had all been noted as positive, with other Workgroup Participants commenting that Proposers normally select two, with one of them being the primary objective. DMO responded that it felt difficult not to put them all as positive.

RHa also suggested that Section 7 should include commentary about the Licence change requirement.

RHa asked that as the appointment of the Independent Shrinkage Expert is in the Framework document it would not be worked on by Legal Text provider. DMO confirmed this to be the case.

RHa advised the text currently provided in Section 8 (Legal Text) should be moved to the Solution section or deleted, noting that if any of the text should be wanted in the Solution then it should be moved into that section.

5. Framework Overview

This is located in Appendix 2 of the Modification.

DMO advised that the changes include an avoidance of doubt that any change to the Framework that requires a contractual change would be managed by the CDSP and he agreed to change the reference 'Shipper or Transporter' to 'Code Party'.

RHa concurred with the comments DMO had added to the document that the UNCC and subcommittee appointed by the UNCC to administer the Independent Shrinkage Expert process should be referred to separately.

Stakeholder Evaluation Panel nominations were discussed, with ER stating that the CDSP would canvas parties to see who would be interested to nominate.

SB was minded that nominations should be made by a committee, probably the DSC Contract Management Committee, noting that it does not have to be parties from the Committee itself, especially as this was the approach used previously in other subcommittees.

RHa agreed with this suggestion and noted that the allocated time for the Workgroup had been reached.

6. Development of Workgroup Report

Rha had made some notes which would be reviewed subsequently.

7. Next Steps

RHa noted the next steps as being: -

- DMO to consider amendments discussed to the Modification, and the more substantial changes to the Framework, which could then be submitted to the Joint Office as Version 3.
- That the CDSP, on publication of the new version of the Modification, look to providing a ROM in the September Workgroup.
- Consider the feedback from the 13 July IGT Workstream meeting.

8. Any Other Business

None raised.

9. 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
09:30 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
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)	Closed
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)	Closed

Workgroup 0843 Action Table

Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
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)	Closed
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	Closed
0701	11/07/23	2.0	IGTs (MB) to provide feedback from IGT Workstream on 13 July	August 2023	IGTs (Michelle Brown)	Pending