

**UNC Shrinkage Forum Minutes**  
**Tuesday 25 October 2016**  
**Consort House, 6 Homer Road, Solihull B91 3QQ**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Angela Love	(AL)	ScottishPower
Colette Baldwin	(CB)	E.ON UK
David Simpson	(DS)	Scotia Gas Networks
Greg Edwards*	(GE)	British Gas
John Morrison	(JM)	Northern Gas Networks
Mark Jones*	(MJ)	SSE
Matt Marshall	(MM)	National Grid Distribution
Peter Morgan	(PM)	Scotia Gas Networks
Shahin Ali	(SA)	Wales & West Utilities

\*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/sf/251016>

**1. Introduction and Status Review****1.1. Approval of Minutes (30 August 2016)**

The minutes of the previous meeting were approved.

**1.2. Actions Outstanding**

**SF0201b:** AL to investigate iGT licence conditions and iGT code provisions for reporting iGT Shrinkage and Leakage.

**Update:** AL advised that the AiGT had advised her that the requirement for iGTs to manage shrinkage had been linked to a minimum number of meter points which they had not reached based on a letter from Ofgem. AL had requested the AiGT to provide the Ofgem letter confirming this. However, it appears that Ofgem are of the view that until the figures breach 1 million or possibly 5 million meter points, iGTs will not be considered for shrinkage – to date a copy of the Ofgem letter has not been forthcoming.

**Carried Forward**

**SF0301: Interference Damage Modification** – National Grid Distribution (MM) to provide an update on how large interference damage incidents will be factored into the Interference Damage Model.

**Update:** When AL provided a brief resume of the post meeting note included within the 30 August 2016 meeting minutes, it was suggested that the action could now be closed as the matter is to be included as a standing agenda item for the time being. **Closed**

**SF0601: Fuel Poverty Statistics (current)** - AL to confirm/provide statistical sources to DNV GL.

**Update:** In explaining that she has been unable to source the requested information, AL wondered whether Ofgem might hold it and suggested that it might be better if DNV GL speak with Ofgem direct on the matter. **Closed**

**SF0602:** GDNs to confirm what commercial arrangements are in place for the shipping of biomethane gas.

a) Each GDN to confirm where it has NEAs in place in relation to biomethane entry and the location of biomethane sites.

**Update:** On behalf of NGN, JM explained that he had provided a link to a copy of the commercial arrangements information on NGN's web site in an email to the Joint Office which has been published as a supporting document as part of this meeting's materials. JM also indicated that NGN has a total of 9 connected biomethane sites.

DS then advised that as far as SGN was concerned, it has 29 connected biomethane sites split into 18 for the Southern and 11 for the Scottish area. **Closed**

b) Each GDN to confirm how CV variances are addressed (i.e. how CV is ensured to be consistent with the rest of the network and what approvals are in place - CV and Wobbe ranges, etc) and what obligations the GDNs have to support/control low CV gas entering the system(s).

**Update:** During a discussion the GDNs confirmed that the 'target CV's' are provided to biomethane sites on a daily basis in the form of a 'Day Ahead' notification in order to avoid potential capping related issues.

When considering CV ranges and how biomethane gas could impact the system, the GDNs confirmed that this concern is offset in part by the utilisation of ballasting gas such as propane that ensures that the biomethane injected into the system is within the target CV parameters. Some parties wondered whether this is really needed if the (biomethane) gas is already meeting GSMR standards anyway as CV is not a factor. In addition, it may be possible in certain circumstances to use blending but this was dependant on a number of factors so it is not always a reliable option.

When the participants undertook a quick onscreen review of the DNV GL presentation provided to the 08 June 2016 forum<sup>1</sup>, MM provided a brief explanation around how CV capping mechanisms apply in respect of biomethane, and how the management of CV seeks to avoid invoking capping arrangements. **Closed**

**New Action SF1001: National Grid Gas Distribution Limited (MM) to invite a representative of DNV GL to attend the December forum meeting to provide an update on the future billing methodology initiative.**

**SF0603: Shrinkage Forum Terms of Reference** - GDNs to produce a draft proposal for review/discussion at the August meeting.

**Update:** During an onscreen review of the draft Shrinkage Forum Terms of Reference document, those in attendance believed that the ToR should also look to incentivise the iGTs to take a more proactive role in the forum going forwards, even though it is acknowledged that care is needed in considering any potential derogation related aspects.

It was also noted that historically the iGTs have claimed that they do not have an issue with leakage (a view which has apparently been supported by Ofgem) or theft for that matter. It was also pointed out that the iGT networks are predominately made up of (newer) PE pipework and that the iGTs tend to run their networks at a higher nominal working pressure than the GDNs.

Whilst undertaking onscreen amendments to the draft ToR inline with the forums discussions, BF also pointed out that in the post FGO / UNC Modification 0440 world, the iGTs will become more integrated within the Uniform Network Code environment and provisions.

Concluding, it was also agreed to include a standing invitation to iGTs within the ToR. **Closed**

<sup>1</sup> A copy of the June 2016 DNV GL presentation is available to view and/or download from the Joint Office web site at: <http://www.gasgovernance.co.uk/sf/080616>

**SF0801: Annual Shrinkage and Leakage Model** - AL to gather views from the Shipper community regarding any further information to be considered for inclusion in the GDNs' joint report and relay to DS (by 17 October 2016).

**Update: When** AL advised that she had been unable to gather Shipper views, DS informed those present that the GDNs would be meeting to discuss various related matters, including potential SMLR impacts after the conclusion of this meeting. **Closed**

## 2. AGI Venting Project - Update

MM reported that the first draft of the proposed AGI Venting Model changes has been provided to the other GDNs for views/comments. Thereafter, DS confirmed that SGN had now completed their (30 to 40) site surveys whilst the NGN and WWU representatives in attendance indicated that they are still collating their information.

During a brief discussion on how any model changes are consulted on, MM advised that the model is reviewed on a yearly basis, which may or may not, be supported by more frequent change proposals, as and when these are deemed necessary. The consensus of those in attendance was that it would/could be beneficial to move to a more 'industry' orientated view on Shrinkage Model changes going forward. It was also suggested that there might be merit in Shippers providing more 'up front' views on what they would like to see included in future (model) reviews. DS then indicated that the Annual Shrinkage and Leakage model consultation would commence in November.

When asked, MM confirmed that the consultation report takes into account the Energy UK paper and recommendations and would also include a new dashboard approach – GDNs believe that the process would naturally develop over time.

When asked, parties agreed to retain the AGI Venting update on the agenda for the foreseeable future.

## 3. Annual Shrinkage and Leakage Model - Update

It was agreed that this matter had been covered sufficiently under discussions on item 2.0 above.

## 4. Low Carbon Gas Preheating (LCGP) Project - Update

When JM indicated that he believed that it had previously been agreed to remove this agenda item, DS advised that SGN are still considering the LCGP matter as part of their annual review process. He also pointed out that a preheating article had been published in a recent IGEM paper.

When asked, those in attendance agreed to retain this agenda item for the foreseeable future.

## 5. Interference Damage Modification - Update

MM provided a brief verbal update during which he reported that this matter has been the subject of two previous consultations (September 2015 and May 2016) and that National Grid have subsequently collated and considered views provided in responses.

AL was concerned that she was not aware of the May consultation and would investigate further to see how it had been missed.

Following on from these consultations the subject matter has also been signposted in the more recent Shrinkage Forum meetings and supported by various communications issued by the Joint Office.

## 6. Shrinkage Model Presentation

MM opened discussions on the joint GDN Shrinkage Overview presentation.

Initial focus centred around the '*What is Shrinkage?*' slide(s), during which some parties questioned the wisdom behind purchasing equal quantities of gas each day of the year – the GDNs agreed to undertake a new action to consider a possible alternative gas purchasing

strategy. Concerns were also voiced that the model is being utilised for GDN allowance purposes that can potentially impact upon Shippers, namely in the form of passed on costs.

**New Action 1002: Reference forecasting annual Shrinkage amounts – GDNs to consider whether or not it is viable to adopt a different gas purchasing strategy.**

During consideration of the ‘*Management of Shrinkage*’ slide(s), the GDNs confirmed that whilst the shrinkage model itself dates from circa 2000/2001 period, the last approved update (v1.4) was undertaken in 2014 – a blank copy of the model is available to view and/or download from the Joint Office web site.<sup>2</sup>

In considering the Data Acquisition Governance (DAG) procedure, GDNs explained that this applies across all Regulated Reporting Packs (RRPs) – the SGN DAG is circa 70 pages long.

It was noted that whilst baselines are based on forecasted mains replacement information, they are deemed neutral for GDN incentive purposes.

Moving on to consider the ‘*Basic Incentive Structure*’ slide(s), it was pointed out that the “*User price of gas and agreed pre-set shrinkage baseline to set annual allowance to purchase gas lost through shrinkage*” statement explains the rationale behind purchasing gas on a daily basis. BF asked if the principle incentive is the reduction of shrinkage volumes.

As far as the social cost of carbon is concerned, this takes the form of a fixed cost, as defined in DN licences and increase year on year.

When considering the 8 year incentive mechanism, DS pointed out that the GDNs only get the incremental benefits across the full (8 year) period, and that these apply regardless of the year in which the investment / improvements are undertaken. When it was commented that this arrangement might be seen as being unfair on Shippers, BF suggested that this is a RIIO pricing, rather than Shrinkage Forum discussion matter.

It was noted that the 8 year incentive mechanism is also reflected within the 0186 Reports presented at the consolidated Distribution Networks Charging Methodology Forum (DNCFM and DCMF) meetings.

DS then undertook a review of the second part of the presentation which focused on the components of shrinkage.

When asked, GDNs confirmed that the theft figures are based on a networks throughput, upstream of the meter and that a total value (in £’s) for shrinkage can be extrapolated from the data by parties, if needed.

In considering the pre-determined leakage rates, it was noted that these (and the model) are subject to regulatory oversight by Ofgem. When DS also pointed out that CSEPs are included within the DN demand forecasting, it was suggested that post Project Nexus the iGT aspects would hopefully become clearer anyway.

When it was suggested that provision of some analysis / supporting evidence behind the calculations might be beneficial, DS advised that the adjustment volumes are already published within the Assessment and Adjustment Reports – however, for some parties it remains a concern as to how theft of gas is assessed.

When it was enquired as to whether or not the GDNs recover the shrinkage associated with interference damage, DS explained that whilst they (the GDNs) do attempt to recover these costs, it is not always possible. MM advised that whilst the GDNs report to DEFRA on an annual basis it is not solely relating to interference damage aspects.

Moving on to consider above ground installations, DS pointed out that National Grid NTS also has a shrinkage incentive which primarily relates to compressor works.

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<sup>2</sup> A copy of the Shrinkage Model is available to view and/or download from the Joint Office web site at: <http://www.gasgovernance.co.uk/sf/publications>

In considering the calculation for LP mains, DS advised that a factor of 25% is included for average demand and that this is reflective of a percentage of peak demand figures and the peak 1:20 day – it was noted that the baselines are set as part of RIIO.

When AL questioned where the 88.5% pit cast and 18.5% spun cast (LP mains) predictions originate from when it is common knowledge that Transco did not fully know what was actually ‘in the ground’, DS advised that these are extracted from the GDNs asset base records, which are checked on a regular basis. JM explained that the majority of Northern Gas Networks leakage emanates from joints, rather than the pipes themselves.

In considering the eleven different medium pressure leakage rates, DS provided a brief explanation on how the Low Pressure profiling model works (including automation aspects) before advising that the GDNs are also looking to improve Medium Pressure modelling going forwards (possibly via an innovation style project).

The presentation was then handed over to JM to provide a brief update around the proposed modifications slides.

JM indicated that it is hoped to be able to publish the alternative pre-heating technologies and system efficiencies comparison by Christmas 2016. He went on to point out that consideration of AGI venting proposals remains ongoing.

In concluding his part of the presentation, JM explained that currently NGN lags behind the other GDNs on their LP Pressure Profiling work before handing over to SA to provide the update on the annual lifecycle of shrinkage slides.

In considering the proposed content listing for the 2016/17 Shrinkage Leakage Model Annual Review document, it was suggested (and agreed by those in attendance) that innovation projects should also be added to this list.

## 7. Any Other Business

### 7.1. Terms of Reference

See update at Action SF0603, above.

### 7.2. How Shippers and GDNs are affected by Shrinkage - Overview (AL and GDNs)

Consideration deferred.

### 7.3. Network Innovation Project Update - Opening up the Gas Market

Consideration deferred.

### 7.4. Energy UK Gas Retail Group Shrinkage Study - Update

Consideration deferred.

## 8. Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Time/Date	Venue	Programme
14:00 - 15:00, Monday 19th December 2016	Teleconference - please note start time	<ul style="list-style-type: none"> <li>2017/18 Timetable and Initial Proposals</li> <li>Annual Shrinkage and Leakage Model Update (Ofgem Submission)</li> <li>Other items to be confirmed</li> </ul>
February 2017	Teleconference	<ul style="list-style-type: none"> <li>2017/18 Shrinkage Proposals</li> <li>Other items to be confirmed</li> </ul>

Action Table (25 October 2016)					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
SF0201b	31/03/16	1.2	AL to investigate iGT licence conditions and iGT code provisions for reporting iGT Shrinkage and Leakage.	Scottish Power (AL)	<i>Due 19 December 2016</i> <b>Carried Forward</b>
SF0301	31/03/16	3.0	<i>Interference Damage Modification</i> – National Grid Distribution (MM) to provide an update on how larger interference damage incidents will be factored into the Interference Damage Model.	National Grid Distribution (MM)	Update provided. <b>Closed</b>
SF0601	08/06/16	2.0	<i>Fuel Poverty Statistics (current)</i> - AL to confirm/provide statistical sources to DNV GL.	Scottish Power (AL)	Update provided. <b>Closed</b>
SF0602	(08/06/16) <i>Expanded</i> 30/08/16	2.0	GDNs to confirm what commercial arrangements are in place for the shipping of biomethane gas.  a) Each GDN to confirm where it has NEAs in place in relation to biomethane entry and the location of biomethane sites.  b) Each GDN to confirm how CV variances are addressed (i.e. how CV is ensured to be consistent with the rest of the network and what approvals are in place - CV and Wobbe ranges, etc) and what obligations the GDNs have to support/control low CV gas entering the system(s).	GDNs	Update provided. <b>Closed</b>  Update provided. <b>Closed</b>
SF0603	08/06/16	7.1	<i>Shrinkage Forum Terms of Reference</i> - GDNs to produce a draft proposal for review/discussion at the October meeting. ( <i>Draft to be provided to the Joint Office by 17 October 2016.</i> )	GDNs	Update provided. <b>Closed</b>
SF0801	30/08/16	3.0	<i>Annual Shrinkage and Leakage Model</i> - AL to gather views from the Shipper community regarding any further information to be considered	Scottish Power (AL)	Update provided. <b>Closed</b>

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			for inclusion in the GDNs' joint report and relay to DS <i>by 17 October 2016</i> .		
SF1001	25/10/16	1.2	To invite a representative of DNV GL to attend the December forum meeting to provide an update on the future billing methodology initiative.	NGGDL (MM)	<b>Pending</b>
SF1002	25/10/16	6.	<i>Reference forecasting annual Shrinkage amounts</i> – GDNs to consider whether or not it is viable to adopt a different gas purchasing strategy.	GDNs	<b>Pending</b>