

Modification	At what stage is this document in the process?
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IGT165:

Independent Shrinkage Expert and Independent Shrinkage Charge

01 Modification

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

Purpose of Modification:

[This enabling modification seeks to align the IGT UNC with UNC modification 0843. It will require that the IGT UNC places an obligation on IGT UNC Parties to:](#)

- [Comply with the Independent Shrinkage Expert \(ISE\) as stipulated within the IGTAD; and](#)
- [Not unreasonably withhold data where such data is requested by the ISE for use in the Independent Shrinkage Model Methodology \(ISMM\).](#)

~~To enable UNC appointed role of the Independent Shrinkage Expert (ISE) to create a methodology by which to estimate gas lost from the IGT pipeline system. Where gas is found to be lost via the methodology, the ISE will create the Independent Shrinkage Charge (ISC) to be applied to IGTs.~~

Please provide an initial view of the preferred governance route/pathway and impacted parties

The Proposer recommends that this modification should be

- assessed by a Workgroup
- proceed to Consultation

This modification will be presented by the Proposer to the Panel on **26th May 2023**. The Panel will consider the Proposer’s recommendation and determine the appropriate route.

Impacted Parties and Codes

	High Impact: Consumers
	Medium Impact: Shippers, Transporters
	Low Impact: None

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Any questions?

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Timetable

The Proposer recommends the following timetable:

Initial consideration by Workgroup	8 th June 2023
Amended Modification considered by Workgroup	-
Workgroup Report presented to Panel	25 th August 2023
Draft Modification Report issued for consultation	25 th August 2023
Consultation Close-out for representations	18 th September 2023
Variation Request presented to Panel	-
Final Modification Report available for Panel	22 nd September 2023
Modification Panel decision	29 th September 2023

1 Summary

What

It is currently estimated that gas lost from the system (i.e., shrinkage) for IGTs is 0. The IGT UNC currently makes reference to the Independent Gas Transporters Arrangements Document (IGTAD) for shrinkage. The IGTAD does not currently set out arrangements for the identification or estimation of IGT Shrinkage or for its allocation among CSEP Users. As a result, shrinkage is estimated to be 0.

For gas year 23/24, the Allocation of Unidentified Gas Expert (AUGE) forecasts that 19 Gwhs of Unidentified Gas is due to IGT Shrinkage. Allocating IGT Shrinkage to UIG rather than by applying a charge to Transporters means that Transporters are not incentivised to ensure that gas leaks from their pipeline system are controlled, damaging the environment. Furthermore, as UIG is a line item in the Price Cap, this has [a](#) direct impact on inflating customer bills.

Why

This change should be made to ensure that gas that is lost from the pipeline system is purchased by the party that owns the pipeline system.

How

[UNC Modification 0843](#) (Establishing the Independent Shrinkage Charge (ISC) and the Independent Shrinkage Expert (ISE)) proposes the role of the ISE and the ISC. This IGT Modification ~~ensures that the ISE has jurisdiction over IGT UNC Parties. would enable the ISE to calculate Shrinkage for IGTs and apply the ISC. The timelines and mechanisms for purchasing gas to cover the ISC which are proposed within UNC0843 shall apply for this IGT UNC Modification.~~

2 Governance

Justification for Normal Procedures

This Modification should follow normal procedures and be considered by the Authority for decision.

The Modification:

- (i) is likely to have a material effect on:
 - (aa) existing or future gas consumers; and
 - (bb) competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes; and
 - (cc) the operation of one or more pipe-line system(s); and
 - (dd) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
 - (ee) the uniform network code governance procedures or the network code modification procedures; and
- (ii) is unlikely to discriminate between different classes of parties to the uniform network code/relevant gas transporters, gas shippers or DN operators.

Requested Next Steps

This modification should:

- be assessed by a Workgroup
- proceed to Consultation

3 Why Change?

Correct ownership - Where the ISE and AUGE agree on Shrinkage volumes, this Modification would remove IGT Shrinkage from UIG, meaning that the party responsible for creating Shrinkage purchases gas to cover it.

Lowering bills - Removing IGT Shrinkage from UIG would have a knock-on impact on the [Price Cap](#), lowering customer bills.

Methane reduction - By allocating IGT Shrinkage to IGTs, this may also serve to incentivise IGTs to lower IGT Shrinkage. Shrinkage mainly consists of methane. Methane is widely accepted to be 84x more potent than CO2 as a greenhouse gas. Methane reduction aligns with UK government's [Net Zero Strategy](#).

4 Code Specific Matters

Technical Skillsets

Insight and understanding of shrinkage may be useful. Including how it is managed in the UNC and IGT UNC and within the Transporters' regulatory and Licence framework.

Reference Documents

[UNC0843 Modification Documentation](#)

[AUG Statement 2023/24](#)

5 Solution

The solution and business rules for the Independent Shrinkage Expert (ISE) and the Independent Shrinkage Charge (ISC) are covered under UNC0843. In brief, the ISE will forecast the amount of gas that has not been included in the calculation of Shrinkage, and is not UIG, and apply that as a charge to be recouped by pipeline owners.

To enable the ISE to apply the ISC to IGTs:

- [BR1: The UNC-ISE, as established under 0843, will have jurisdiction over the IGT Pipelines and IGT UNC Parties. Detail on how IGT UNC Parties must comply with the ISE will be contained within the IGTAD, and IGT UNC will enable this to be applied to IGT UNC Parties by stipulating that the ISE will have jurisdiction over the IGT Pipelines and IGT UNC Parties.](#)
- ~~IGTs will use Gemini to purchase gas (via the CDSP or another party) to cover the ISC~~

~~(the mechanism used by UNC GDNs). The relevant obligations will largely be contained in UNC – UNC will need to stipulate that the ISE must consider Shrinkage from IGTs.~~

- ~~BR2: We will need some text within IGT UNC to stipulate that the IGT parties must reasonably comply with any data requests from the ISE and pay the ISC.~~

6 Impacts & Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No

Consumer Impacts

What is the current consumer experience?

Currently, IGT Shrinkage is paid for by Shippers as UIG. UIG is a line item in the price cap. Therefore, customers will experience increased bills. Furthermore, methane as a green house has numerous negative impacts - the impacts of global warming are well documented.

What would the new consumer experience be?

By apportioning IGT Shrinkage to the party that causes it, this modification would remove IGT Shrinkage from the price cap and incentivise IGTs to lessen emissions.

Impact of the change on Consumer Benefit Areas	
Area	Identified Impact
<p style="color: #00a651;">Improved safety and reliability</p> <p>As it will potentially incentivise leak reduction this could increase safety and reliability</p>	Positive
<p style="color: #00a651;">Lower bills than would otherwise be the case.</p> <p>Shifting IGT Shrinkage out of UIG should lower the Price Cap</p>	Positive
<p style="color: #00a651;">Reduced environmental damage.</p> <p>As it will potentially incentivise methane leak reduction this could reduce environmental damage</p>	Positive
<p style="color: #00a651;">Improved quality of service</p> <p>Removing UIG that should be IGT Shrinkage from Shippers and charging it to Transporters should enable parties to focus on priorities</p>	Positive

<p>Benefits for society as a whole</p> <p>Climate change is a very real and present threat. Methane leak reduction should assist in the UK meeting its climate goals. Customer bills are also near record highs – reducing customer bills will benefit society as a whole.</p>	<p>Positive</p>
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Cross-Code Impacts

UNC0843 sets up the role of ISE in UNC, though there is no direct impact on the UNC expected. IGT Shrinkage is acknowledged as being dealt with by UNC TPD Section H2.6 - consideration of this will be needed in the workgroup.

UNC	<input type="checkbox"/>
REC	<input type="checkbox"/>
Other	<input type="checkbox"/>
None	<input type="checkbox"/>

Environmental Impacts

As described above, Methane is 84x more potent a greenhouse gas than carbon dioxide. AUGÉ forecasts that 19 Gwhs of methane will be leaked into the atmosphere in gas year 23/24.

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
(A) Efficient and economic operation of the pipe-line system	Positive
(B) Co-ordinated, efficient and economic operation of (i) the combined pipe-line system; and/or (ii) the pipe-line system of one or more other relevant gas transporters	Positive
(C) Efficient discharge of the licensee’s obligations	Positive
(D) Securing of effective competition: (i) between relevant shippers. (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation agreements with other relevant gas transporters) and relevant shippers	Neutral
(E) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are	Positive

satisfied as respects the availability of gas to their domestic customers	
(F) Promotion of efficiency in the implementation and administration of the Code	Positive
(G) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Cooperation of Energy Regulators	Positive

Proposer Rationale

- A and B) incentivising methane reduction should enable the efficient and economic operation of the pipeline system;
- C) eg. 16.1(c) of the Transportation SLCs: “*The licensee shall, subject to section 9 of the Act, plan and develop its pipe-line system so as to enable it to meet, having regard to its expectations as to [...] the extent to which the supply of gas to those premises might be interrupted or reduced*”;
- E) this Modification assist in the security of the pipeline system through incentivising leak reduction.
- F) is achieved by charging IGT shrinkage to the responsible party; and
- G) this aligns with the Global Methane Pledge set at COP 26.

8 Implementation

This should be implemented at the same time as UNC0843.

9 Legal Text

Text Commentary

Legal text to be confirmed.

Suggested Approach

Legal text to be developed as part of the progression of the Modification. However, we recommend the following:

- The role of the ISE is defined under UNC, and the definition contained therein shall prevail in the event of ambiguity. However, for reference within the IGT UNC this can be defined as:
 - Independent Shrinkage Expert: the ISE will be governed by the UNC and will use independently developed methodologies to forecast the amount of gas that can be considered Shrinkage but has not been purchased by pipeline owners to cover, and therefore has entered into UIG in error.
 - Independent Shrinkage Charge: the ISC is the value of gas that must be purchased by pipeline owners. It is the difference between the amount of gas

that pipeline owners calculate to be lost via Shrinkage and that which is calculated by the ISE.

- Where reasonable, the IGT parties shall comply with data requests made to IGT parties by the ISE.
- Where the Authority agrees with the ISC that is applicable to IGTs as calculated by the ISE, IGTs must purchase gas to cover the ISC, in [accordance with the IGTAD](#).

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Refer this proposal to a Workgroup for assessment.

Appendix: GDN's Shrinkage Reconciliation Process

- GDNs will assess the level of Shrinkage in the coming year in their network, in kWh terms.
 - For example / reference, please see the link which shows the Cadent Final LDZ Shrinkage Quantity Proposals Formula Year 2023/24
 - On p4 you can see the daily amounts by LDZ.
- Once the value has been agreed (and not disallowed by Ofgem), DNOs will send the daily values to the CDSP who will load them into Gemini.
- Each day, that Shrinkage energy quantity gets assigned within Gemini, to the DNO who has to buy that much gas.
 - The GDNs will have a contract with a Shipper to be their Shrinkage provider to go on the market and buy the gas for them.
 - This is briefly mentioned on Slide 16 of the UIG Education Pack (xoserve.com) and it is the first step in calculating daily UIG (i.e. total LDZ usage - Shrinkage etc).
 - This means that Shrinkage is not part of UIG but any under or over estimation, UIG would pick up the difference.
- Shrinkage does not appear on any itemised bills for the Shipper: it's gas that the DNOs need to buy to keep the network running, so it's part of the DNOs allowed costs and rolled up in Transportation pricing.
- After the end of the Financial Year, the GDN evaluates their original estimates and may do a reconciliation if they have bought the wrong amount of gas.
 - This goes onto the Amendment invoice as a change to the UIG energy amount on the Amendment invoice, using daily SAP prices, and looks very similar to an LDZ measurement error.
 - Each GDN publishes a document showing their workings out: Assessment and Adjustment 2021-22 | Joint Office of Gas Transporters (gasgovernance.co.uk)
 - That's the only time that anything to do with Shrinkage appears on an invoice the CDSP issue.