Independent Gas Transporter Uniform Network Code (IGT UNC) 165: Independent Shrinkage Expert and Independent Shrinkage Charge (IGT165)

Decision:	The Authority[1] has decided to reject this modification[2]
Target audience:	IGT UNC Panel, Parties to the IGT UNC and other interested parties
Date of publication:	15 April 2026
Implementation date:	To be confirmed by the code administrator

Background

Independent Gas Transporter ('IGT') Shrinkage refers to gas that is lost or unaccounted for on an IGT pipeline through leakage, theft or meter error.[3] The Independent Gas Transporter Arrangement Document ('IGTAD') states that there are no arrangements for the identification or estimation of IGT Shrinkage, or for its allocation among Connected System Exit Point ('CSEP') Users, also known as Shippers. As a result, all IGT Shrinkage is counted and treated as forming part of Unidentified Gas ('UIG').[4] In practice, this treatment of IGT Shrinkage is currently recognised as zero.

Under the current arrangements IGTs do not purchase gas to replace any volumes that are lost on their pipelines, while the Gas Distribution Networks ('GDNs') purchase all Shrinkage

[1] References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.
[2] This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.
[3] 'IGTS Shrinkage' is defined in Uniform Network Code – Independent Gas Transporter Arrangements Document (IGTAD) Section C – IGTS Shrinkage.
[4] 'Unidentified Gas' is defined in Uniform Network Code TPF H2.6.1.

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gas on the Local Distribution Zones ('LDZs'). IGTs are required to share Shrinkage data with the GDNs.[5] They also co-operate with the Allocation of Unidentified Gas Expert ('AUGE') who publishes Shrinkage and UIG data, as well as apportion the costs of UIG to Shippers.[6]

The modification proposal

On 3 September 2025, OVO Energy ('The Proposer') raised IGT UNC modification 165: 'Independent Shrinkage Expert and Independent Shrinkage Charge'.

The Proposer believes that as IGT Shrinkage is currently treated as zero and any lost gas volumes are accounted as UIG, IGTs are not incentivised to ensure gas leaks from their pipelines are controlled. This contributes to damaging the environment and inflates consumer bills. The Proposer cites that for Gas Year 2023/24 the AUGE forecasted that 19 GWhs of UIG was due to IGT Shrinkage. The modification proposal intends to ensure that the lost gas is accounted for under IGT Shrinkage as well as require IGTs to be responsible for purchasing gas to replace that which is lost on their network. The proposed solution is to establish an Independent Shrinkage Expert ('ISE') and Independent Shrinkage Charge ('ISC'). This IGT modification would ensure the ISE would have jurisdiction over IGT UNC Parties. The Proposer also raised UNC0843: 'Establishing the Independent Shrinkage Charge and the Independent Shrinkage Expert'.

The ISE would establish an Independent Shrinkage Model ('ISM') and Independent Shrinkage Model Methodology ('ISMM') to calculate its own Shrinkage forecasts and actual figures. This would serve as an independent mechanism to correct IGT Shrinkage accounting. If the ISE reports a greater volume of IGT Shrinkage than the pipeline owner (currently set at 0 by the IGTs), the value of the difference would be assigned to the IGT via an ISC. The IGT would

[5] IGT UNC Part F.
[6] The AUGE develops a methodology and a table of weighting factors, the AUG Table, that is used to assign UIG to different classes of meter points. For more information on the AUGE, see Uniform Network Code TPD E.9 Unidentified Gas – Allocation Factors, and the Joint Office website: AUG Information 2021 to 2026 | Joint Office of Gas Transporters - Gas Governance

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be obligated to purchase this additional volume of gas on the Gemini system to cover the amount identified through the ISM. The ISC would be subject to approval by the Authority. This modification includes the obligation that IGT parties must reasonably comply with any data requests from the ISE.

The Proposer believes that this modification proposal would better facilitate UNC Relevant Objectives ('ROs') (e) and (g).
In regards to RO (e), The Proposer states that increased accounting accuracy of Shrinkage volumes and GB's gas inventories will better facilitate security of supply. The Proposer also claims that accurate cost allocation of IGT Shrinkage will incentivise IGTs to reduce gas emissions. In turn, this would better facilitate the fulfilment of the UKs Net Zero legal obligations, which the Proposer believes are covered by RO (g).

IGT UNC Panel[7] recommendation

At the IGT UNC Panel on the 29 August 2025, a majority of the IGT UNC Panel considered that IGT165 would not better facilitate the IGT UNC ROs, and the Panel therefore did not recommend its approval, with 3 out of 4 Panel Members voting against the implementation of this modification proposal. The Panel unanimously agreed that IGT165 would have a negative impact on ROs (a), (b), (e), (f) and (g).

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report ('FMR') dated 03 September 2025. We have considered and taken account of the responses to the industry consultation on the IGT165 modification proposal which are attached to the FMR[8]. We have concluded that:

[7] The IGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the IGT UNC Modification Rules
[8] IGT UNC modification proposals, modification reports and representations can be viewed on the IGT UNC website at Welcome to IGT UNC

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- implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the IGT UNC[9]
- directing that the modification is not made is consistent with our principal objective and statutory duties.[10]

Reasons for our decision

We consider this modification proposal would negatively impact IGT UNC objectives (a), (b) and (f) and would have a neutral impact on objectives (e) and (g).

The IGT UNC Panel consulted interested parties on IGT165 on 20 June 2025. Of the 5 representations received, 1 was in support and 4 were not in support of this modification proposal.

(a) the efficient and economic operation of the pipe-line system to which this licence relates

The Panel agreed with the Workgroup that this modification proposal would have a negative impact on RO (a). The Workgroup and some consultation respondents stated that it would be more cost effective to review and amend the existing Shrinkage mechanisms than introduce a new process and external agent. They stated that creating a new mechanism would

[9] As set out in Standard Special Condition 9 of the Gas Transporters Licence, available at: Licences and licence conditions | Ofgem
[10] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

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introduce unnecessary costs to the system. The Workgroup and some consultation respondents also noted that there was no evidence to support the view that an external agent would provide a better-quality service than the existing mechanisms.

We consider that this modification proposal would have a negative impact on RO (a). In principle, we agree that accurate Shrinkage reporting and cost allocation better facilitates the efficient operation of the gas network. However, we have concerns over the introduction of additional complexity and cost into the operation of the IGT pipeline system. This modification proposal would introduce a parallel model and governance process alongside the existing mechanisms. It would also incur additional costs from system changes that would be required to enable IGTs to purchase relatively small volumes of gas on the Gemini system.

We note the views of the Workgroup and consultation responses, stating that it would be more cost effective to review the existing IGT Shrinkage mechanism to explore efficiencies, rather than to introduce an ISE. If there is appetite from stakeholders, we encourage industry to carry out such a review through the relevant Transporter forums.

(b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of the pipe-line system of one or more other relevant gas transporters

The Panel agreed with the Workgroup that the modification proposal would have a negative impact on RO (b). The Workgroup and some consultation respondents stated that it would be more cost-effective to review and amend the existing Shrinkage mechanisms than introduce a new process and external agent. They also noted that there was no evidence to support the view that an external agent would provide a better-quality service than the existing mechanisms.

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We consider that this modification proposal would have a negative impact on RO (b). In principle, we agree that accurate Shrinkage reporting and cost allocation better facilitates efficient and economic operation of the Distribution systems. However, we consider that establishing the ISE would introduce additional complexity, duplication and additional costs to the GDNs' management of Shrinkage. The GDNs currently operate the existing Shrinkage and Leakage Model ('SLM') with the associated governance process. The modification proposal would introduce a parallel model and process which would increase the operating costs of GDNs, which may then be passed onto IGTs. Further, it would be more efficient for any prospective innovations in leakage detection and accounting to be adopted under a single model and governance process. At this stage, we believe it would be more appropriate and cost effective for GDNs to tackle Shrinkage by continuing to develop innovative projects, without introducing an independent expert and model alongside them.

(e) so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers

The Proposer believes that this modification proposal will increase security in gas supply by improving the accounting of Shrinkage and GB's gas inventories. Therefore, they consider that this modification proposal would better facilitate RO (e). In contrast, Panel and all consultation respondents stated that the modification would not better facilitate RO (e).

We consider that the modification proposal would have a neutral impact on RO (e). This modification proposal intends to improve the targeted cost allocation of Shrinkage to the IGT parties responsible for Shrinkage on their pipeline system. As a result, this is meant to incentivise IGTs to reduce emissions. However, RO (e) is concerned with the provision of

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economic incentives for Suppliers to secure that gas supplies meet consumer demand, and as such does not apply to IGTs.[11] The Authority welcomes wider considerations presented by the modification proposal but does not consider that this proposal interacts with this RO as defined.

(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code referred to in paragraphs 2 and 5 respectively of this condition

The Panel agreed with the Workgroup that the proposal would have a negative impact on RO (f). One Workgroup member and some consultation responses considered that an ISE would create a dual governance issue, because there would be two parallel processes dealing with Shrinkage. The Proposer disagreed, stating that the ISE addresses Shrinkage model error as opposed to Shrinkage. One consultation respondent stated that the proposal introduces additional complexity to the code and its implementation of an ISE, particularly given there is not currently a method for measuring or reporting IGT Shrinkage.

We consider that this modification proposal would have a negative impact on RO (f). In our view, the proposal would increase the complexity in the implementation and administration of the Code which does not currently set out arrangements for the accounting of IGT Shrinkage. Further, the proposal establishes an external reporting model with associated governance processes. This would require additional Authority oversight and approval in the management of Shrinkage reporting, thus introducing additional procedural time and cost and increasing the regulatory burden on the system.

[11] 'Customer supply security standards' are defined in Standard Special Condition A11.1A: Network Code and Uniform Network Code.

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(g) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators

The Proposer believes that the proposal will facilitate the UKs Net Zero goals and therefore aid the fulfilment of the UKs Net Zero legal obligations, which they claim are covered by RO (g). Workgroup members, Panel and consultation respondents argued that there are already regulation and Licence Conditions in place that incentivise transporters to reduce emissions and there is no evidence that the proposal would impact Shrinkage. Further, the Workgroup highlighted that IGT Shrinkage is set at zero at present, because the value is considered trivial.

We consider that this modification proposal would have neutral impact on RO (g). The Regulation referenced in RO (g) is linked to Regulation 2009/715/EC of the European Parliament and of the Council of 13 July 2009 on conditions for access to the national gas transmission networks. This can be found in the Gas Transporter licence condition Standard Special Condition (SSC) A3. The Authority welcomes the wider considerations presented by this modification proposal but does not consider that the proposal interacts with the Regulation as defined.

Our principal objectives and statutory duties

The Authority's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. Those interests include the reduction of gas-supply emissions of targeted greenhouse gases and associated costs.

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Consumer Interest

We have carried out analysis to consider the cost impact of the proposal on IGT consumers.[12] Our analysis indicates that the introduction of the ISE would result in a net increase in costs to IGT consumers. IGT consumers would pay for the IGT contribution to the cost of introducing the ISE, estimated at £0.10m.[13] In addition, consumers would bear the cost of any net positive difference between the ISC charge, and the reduction in UIG. Under a range of modelling IGT Shrinkage uplift scenarios (0%, 25%, 50%, 75%, 100%), we have tested the sensitivity of the assumption that an increase in IGT Shrinkage would be fully offset by a reduction in UIG costs and therefore result in a cost neutral impact on IGT consumers.[14] Given the realistic assumption that there would not be a 100% offset (or 'reallocation') of costs between IGT Shrinkage and UIG due to modelling and data limitations, our analysis demonstrates that the cost increase to IGT consumers would be more than the minimum implementation cost of the ISE.

Our analysis shows that for FY 2024/25 the consumer cost ranges from the minimum cost of £0.10m (100% reallocation across all improvement modelling scenarios, as consumers only pay for the ISE implementation cost); to the maximum cost of £0.78m (0% reallocation under the 100% improvement scenario).

For Ofgem to consider approval of this modification, any additional cost to the consumer would need to be substantially offset by benefits, such as a decrease in emissions or IGT Shrinkage costs. The proposal does not provide the supporting evidence or sufficient

[12] Please see the appendix to this letter for the full analysis report.
[13] For illustrative purposes, Xoserve provided an estimate that the total implementation cost of the ISE would be £2.4m. This estimate is on the basis of previous procurement and operation costs to set up the Allocation of UIG Expert (AUGE). For the IGT165 analysis, a notional IGT share of 1/25th of the total cost (approximately £0.096 million) has been applied in line with the Proposer's indication that IGTs would contribute a proportion consistent with their relative market size.
[14] The analysis includes the reasonable assumptions that the cost of the ISC would be passed on to consumers. Further, any reductions in UIG would be passed on as savings to consumers. For more details of the analysis see the Appendix to this letter.

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assurance in this regard. As such, we consider that approving this modification would not be in the consumer interest.

Security of Supply

The Proposer claimed that increasing the accounting accuracy of GB's gas inventories will increase security of supply. Whilst we agree that the accurate accounting of gas inventories is important in the operation of gas transportation, we disagree that this modification proposal would materially benefit GB's energy security. This proposal focuses on improving the accuracy of cost allocation between IGT Shrinkage and UIG, as well as improving the targeting of costs to the appropriate parties. In turn, this is intended to incentivise the reduction of emissions. We consider the remit of this proposal as too limited to have a material impact on national energy security.

Net Zero

The Proposer believed that accurate cost allocation of IGT Shrinkage will incentivise IGTs to reduce emissions. In contrast, some Panel Members and consultation respondents argued that for emissions to be reduced, the ISE would need to provide new locational and granular data to the IGTs that they do not already have access to in order to better inform their interventions, which is not guaranteed by the proposal. The Proposer claimed that the ISE would be bound by contractual obligations to provide data at a level that would allow parties to identify leaks while also noting that it is not yet known what kind of data ISE would provide in its statements.

The Proposal does not examine or reference an ISE methodology. As an ISE methodology is not examined by the proposal, we are limited in our ability to take a view on its efficacy towards Net Zero.

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In principle, we agree that improving the accuracy of Shrinkage reporting and targeted cost allocation benefits measures towards reducing lost gas and contributing to Net Zero targets. However, we also agree with stakeholders that in practice new data would need to be provided to have a material and direct impact on reducing emissions. It is not clear that the proposal would provide such actionable data or result in a direct impact on reducing emissions.

In our decision letter regarding the UNC modification proposal 0843: '*Establishing the Independent Shrinkage Charge and the Independent Shrinkage Expert*' we urged GDNs to work with the industry to commence a review into the SLM covering Distribution systems. We encourage IGTs to be involved in such a review where appropriate.

Decision notice

In accordance with Standard Condition 9 of the Gas Transporter Licence, the Authority has decided that modification proposal IGT UNC 165: '*Independent Shrinkage Expert and Independent Shrinkage Charge*' should not be made.

William Duff
Head of Gas Systems and Operation (GSO)
Signed on behalf of the Authority and authorised for that purpose

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