
Performance Assurance Workgroup Minutes
Wednesday 21 August 2013
Ofgem, 9 Millbank, London SW1P 3GE

Attendees

Bob Fletcher (Chair)*	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Angela Love	(AL)	ScottishPower
Anne Jackson	(AJ)	SSE
Colette Baldwin	(CB)	E.ON UK
Edward Hunter	(EH)	RWE npower
Erika Melen	(EM)	Scotia Gas Networks
Jon Dixon	(JD)	Ofgem
Jonathan Kiddle	(JK)	EDF Energy
Lorna Lewin	(LL)	DONG Energy
Marie Clark	(MC)	ScottishPower
Matt Jackson	(MJ)	British Gas
Rob Johnson	(RJ)	Wingas
Steve Mulinganie	(SM)	Gazprom

**via teleconference*

1. Introduction

BF welcomed all to the meeting.

1.1 Review of Minutes

The minutes from the previous meeting were approved.

1.2 Review of Actions

PA07/01: *Terms of Reference* – Ofgem to develop and circulate for comment.

Update: Under preparation (see 2, below). **Carried forward**

PA07/02: *Framework Scope* – Provide a one page summary.

Update: Provided for discussion at this meeting (see 2, below); action agreed closed.
Closed

PA07/03: *Academic Study* – Provide appropriate selection criteria for tender/appointment process.

Update: Provided for discussion at this meeting. **Closed**

PA07/04: *Industry Funding Communication* - Letter to ENA, Energy UK and ICoSS seeking provisional agreement to funding of academic study.

Update: Under preparation (see 2, below). **Carried forward**

2. Discussion

2.1 Development of Framework

Declaration of interest by any Party who would look to carry out the academic study or PAF Administrator role

Following interim discussions, JD reported that both Xoserve and Phidex would not attend these meetings unless invited, as they may want to be considered as potential service providers in a future regime.

Administrative management of confidential information by the Joint Office

A secure area on a website was suggested. BF observed that the Joint Office website was operated as open access. It might be possible to provide a 'closed' area that was accessible only to nominated parties but that was not a direction that the Joint Office would normally support.

CB referred to the suggestion (made by the Chair at the previous meeting) of applying password protection to sensitive documents that required publication. This was supported.

Update from Ofgem on PAF letter to Shippers and Transporters and funding

Responding to Actions PA07/01 and PA07/04, JD observed that fulfilment was driven by the outcomes of these discussions; once the scope and other details were agreed the actions will then be quickly completed. The drafted documents will be circulated to the Workgroup participants before issue; the letter should be straightforward in content, and there should be nothing to surprise. References to budget figures were discussed and it was agreed that an appropriately pitched figure would be included rather than a potential underestimate, to avoid seeking further funding contributions at a later date. It was suggested that reference could be made to an overall programme cost, of which X might be the allocation for the academic study. This would better enable the parties to sign up to any Memorandum of Understanding (MoU). Whatever is agreed needed to have sufficient flexibility whilst meeting procurement best practice.

Review and discussion of proposed scope and supporting document for academic study

AL had circulated a Scope document in response to Action PA07/02, and this was reviewed section by section. Discussion centred on how best to define and clarify the expectations of the study, without exerting too much influence over the direction it should take. The document was edited to include suggested alternative wording as discussions progressed.

Communication routes for the acquisition of further information were considered. It was felt that 'individual' conversations should be avoided and that this should be fulfilled through 'agreed channels'. MC believed any such group should be representative of all market sectors. It was pointed out this was an open Workgroup and it was suggested that some form of Panel might be set up. Observing that Ofgem requests and procures market information on a frequent basis, JD suggested the appointed party should channel requests for further information through Ofgem, who would then approach appropriate parties.

Key outputs were reviewed. The interpretation of bullet point 5 was discussed. The model will price the risk, ie determine the risk premium (pence per kWh associated with imbalance, and potential redistribution of the risk), and needed to be dynamic to be able to take account of changing factors. It should be capable of recognising the variability over time/prescribed reconciliation periods. It might not be the actual measurement but the time period that is most critical.

Ways to increase performance were briefly discussed and, as noted at previous meetings it was reiterated that organisations made decisions that best suited their own business model, whether that be improvement or penalty acceptance. JD indicated that the report should be neutral in the presentation of its findings, and not make any recommendation in respect of the course(s) of action that might be taken. It may trigger a review of the appropriateness of targets; the findings of the report will be assessed and any points raised may/may not merit further consideration and action.

Considering what is in/out of scope, JD pointed out that the nature and performance of gas itself presents the industry with a margin of error in various areas that the industry has to accept as 'normal'. A number of areas will therefore be out of scope, eg areas of policy, and it should be recognised that there may be other variables beyond control. Was there an aspirational level of accuracy for the industry? Is it to incrementally improve it year on year? Conversely, if findings indicate an existing level of 'over performance' should scaling back be considered to save 'unnecessary' costs? Should the level of performance always be centred around the 'sweet spot'? AL reiterated that no party should be obtaining an undue commercial advantage from whatever pertained. It will need to be fairly decided at what level we should 'assure' at, and we should help the market to progress in achieving that. MC suggested setting incentives for the achievement and maintenance of a set level of accuracy. There was a market price for risk and parties must be willing to accept that. It was observed that parties cannot work in isolation – the penalties that one party chooses to absorb might not be acceptable to the next Supplier in the chain, especially if there are knock on effects – a raft of associated issues may only become evident once a portfolio has been acquired.

SM reiterated that the objective was to establish the value of settlement risk and then review performance around that. The report should provide this information, and this consideration of the findings should indicate whether further action to initiate change is required. JD added that different views might emerge as to where changes might be required, eg asset data, and these could be looked at separately. AL saw the report as a single accessible piece of work, the findings from which could be progressed by any party, in whichever direction seemed most appropriate.

Delivery timescales were considered. It was suggested that the re-running of the model on a periodic basis should be priced in. Knowledge transfer was important; sufficient information should be available to the industry so that the model could be reviewed as and when necessary, eg if inputs changed. The Terms of Reference (ToR) could be enhanced to include this.

Timescales associated with the tender process were indicated.

Review and discussion of the selection criteria for any study partner

In response to Action PA07/03 AL had circulated a document to meeting participants prior to the meeting. The table was explained and reviewed. Weighting percentage for each criterion was discussed. It was considered that higher weighting against some criteria might preclude some parties from tendering and thereby limit the range of choice available to any selection panel. Following discussions it was agreed to remove criterion 3, reducing the criteria to 4 rather than 5, and adjust the percentages accordingly.

AL then explained how the evaluations would work when assessing potential tenderers.

AL will update the document in line with today's discussions and provide to Ofgem (JD).

Action PA08/01: *Selection Criteria Document - Update and provide to Ofgem.*

Referring to the procurement exercise that Ofgem was to carry out on behalf of parties, JD indicated that he would appreciate the participation/involvement of parties with procurement and/or settlement backgrounds to assist in the setting of questions for the selection process.

The composition of a selection panel was discussed and it was suggested that a representative from each of the funding parties might form this. A pre-selection process might be carried out by this Workgroup to reach an appropriate short list for final selection by the Selection Panel.

The tender will be advertised on a dedicated area of Ofgem's website and JD will provide a link when set up.

Action PA08/02: *Tender Advertisement* - Provide a link to the dedicated area on Ofgem's website.

Review and discussion of the proposed scope and supporting document for the PAF Administrator

It was noted that AL intended to circulate this for review in advance of the next meeting (25 September 2013).

Discussion on action plan for Performance Assurance Framework

The action plan had been updated and this was reviewed.

Item 9 – Was there a need to involve SPAA EC at this point in the process. This was discussed and it was suggested that SPAA EC might be better approached further down the process once the scale of an issue (if any) is assessed. It will be reworded to widen the scope of engagement.

It was suggested that sight of the report might be required to engage the wider range of parties, and most proposed actions might be subject to the outputs. Was there anything else that might usefully be done/accomplished in the interim between the start and conclusion of the study?

JD observed that the report would quantify the consequences, where and to what extent, and may usefully provide a 'gap analysis', which can be considered and will prompt further actions.

AJ suggested it would be useful to increase cognizance of the existing regimes to understand what is in place, roles, obligations to provide information etc, and whether/to what level this is being currently met. Checks can be made under SPAA and it can be assessed to see if it is working properly.

JD added that this would also provide an opportunity to assess not only if something is not working or can be improved, but also to review and determine whether something is still required or not (costs of compliance might need to be considered) and can be safely abandoned. A new set of rules might be required for specific performance standards, and some old ones might be recognised as being redundant. This could avoid unnecessary building of systems etc to accommodate extraneous functions, and avoid the creation of unnecessary and inappropriate incentives that may unintentionally drive behaviours.

SM commented that the Project Nexus Business Requirements Documents (BRDs) reflect the existing regime and do not address performance management problems. It would be useful to understand how the existing arrangements will be carried out in post-Nexus and how these might map.

It was noted that in response to an action assigned by the Project Nexus Workgroup, Xoserve was currently compiling a list of its reports for the next Project Nexus meeting on 10 September 2013 – this list could be utilised to map SPAA interactions etc. It would also be useful to better understand the purposes of and uses to which this information is put, and what is also passed to SPAA, and whether there are any associated obligations.

Existing performance monitoring was briefly discussed. Which was more critical – the date received, or the fact that something is done. Were there any performance standards around the reports? Would Xoserve be able to provide any generic and compliance standards in addition to the list of reports?

Action PA08/03: *Xoserve Reports* – Obtain list of reports and additional information (purpose, uses, provision to SPAA, associated obligations, generic/compliance standards) for further assessment by this Workgroup.

It was suggested that governance areas (action plan items 11,12,13 and 14) might be looked at while the study is being concluded, and that this could be explored further at a 'governance' meeting in October.

Update from Xoserve on data quality programme ahead of Project Nexus delivery

Update provided by email: Xoserve is continuing to work with the industry (at industry-wide and individual meetings) to progress the data cleansing topics presented at PNUNC and recent Performance Assurance Workgroups. An industry meeting is being arranged for 17 September 2013 to discuss data cleansing topics with Shipper operational representatives; this will follow on from the scheduled Xoserve Industry Engagement Forum. The Xoserve Industry Engagement Forum is a quarterly meeting and Xoserve expects to hold a specific data-cleansing meeting at each of these events.

Discussion on "grace periods"

Not discussed.

Discussion on SPAA inclusion

See comments under "Discussion on action plan for Performance Assurance Framework" above.

2.2 Next Steps

The Issues Log and the Action Plan will be updated to reflect progress made. Meeting arrangements will be made for September and October as discussed.

3. Any Other Business

None.

4. Diary Planning

Further meetings of the Performance Assurance Workgroup have been arranged as follows:

Date	Time	Venue	Programme
Wednesday 25 September 2013	10:30	Gazprom Offices, 20 Triton Street (off Osnaburgh Street), London NW1 3BF	To be confirmed
Wednesday 23 October 2013	10:30	Consort House, 6 Homer Road, Solihull B91 3QQ	Governance

Action Table – Performance Assurance Workgroup

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
PA07/01	22/07/13	2.	<i>Terms of Reference</i> – Develop and circulate for comment.	Ofgem (JD)	Carried forward
PA07/02	22/07/13	2.	<i>Framework Scope</i> – Provide a one page summary.	ScottishPower (AL)	Closed
PA07/03	22/07/13	2.	<i>Academic Study</i> – Provide appropriate selection criteria for tender/appointment process.	ScottishPower (AL)	Closed
PA07/04	22/07/13	2.	<i>Industry Funding Communication</i> - Letter to ENA, Energy UK and ICoSS seeking provisional agreement to funding of academic study.	Ofgem (JD)	Carried forward
PA08/01	21/08/13	2.1	<i>Selection Criteria Document</i> - Update and provide to Ofgem.	ScottishPower (AL)	Pending
PA08/02	21/08/13	2.1	<i>Tender Advertisement</i> - Provide a link to the dedicated area on Ofgem's website.	Ofgem (JD)	Pending
PA08/03	21/08/13	2.1	<i>Xoserve Reports</i> – Obtain list of reports and additional information (purpose, uses, provision to SPAA, associated obligations, generic/compliance standards) for further assessment by this Workgroup.	Ofgem (JD) and ScottishPower (AL)	Pending