

Performance Assurance Workgroup Minutes
10:30 Wednesday 09 April 2014
Elxon, 4th Floor, 350 Euston Road, London NW1 3AW

Attendees

| | | |
|--------------------------|-------|----------------------------|
| Bob Fletcher (Chair) | (BF) | Joint Office |
| Lorna Dupont (Secretary) | (LD) | Joint Office |
| Andrew Margan | (AM) | British Gas |
| Andy Clasper | (AC) | National Grid Distribution |
| Angela Love | (AL) | Scottish Power |
| Colette Baldwin | (CB) | E.ON UK |
| Ed Hunter | (EH) | RWE Npower |
| Emma Lyndon | (EL) | Xoserve |
| Jonathan Kiddle | (JK) | EDF Energy |
| Lorna Lewin | (LL) | DONG Energy |
| Mark Jones | (MJ) | SSE |
| Matt Jackson | (MJa) | British Gas |
| Rob Johnson | (RJ) | Wingas |
| Steve Mulinganie* | (SM) | Gazprom |

*via teleconference

Copies of all papers are available at: www.gasgovernance.co.uk/PA/090414

1. Introduction and Status Review

1.1. Minutes (01 April 2014)

The minutes of the previous meeting were approved.

1.2. Actions

0802: Tender Advertisement - Provide a link to the dedicated area on Ofgem's website.

Update: BF reported that JD had requested the action be carried forward. **Carried forward**

0301: Ofgem to discuss and agree funding considerations with ENA, Energy UK and ICOSS and provide an update.

Update: BF reported that JD was still waiting for response from Energy UK, and had requested the action be carried forward. **Carried forward**

0401: EL to look at existing arrangements (incentives/sanctions, etc) relating to invoicing under the current Market Exit process operated by Xoserve.

Update: EL reported that she will be discussing this with the Xoserve Credit Manager. **Carried forward**

0402: Appropriate mechanism for the incentive re-allocation – Look at treatment under the electricity model and consider.

Update: Under consideration. **Carried forward**

0403: Third Party contracting - Confirm what role the Transporters might be prepared to fulfil.

Update: Under consideration. **Carried forward**

0404: Consider other options for a special purpose vehicle (SPV) for the next meeting.

Update: Under consideration; it was noted that setting up an SPV might involve additional costs. **Carried forward**

2. Workgroups

The Workgroup had agreed at its meeting on 04 March 2014 that, rather than having separate Modification Workgroup meetings, all discussions should be contained with the main Performance Assurance Workgroup and the elements considered should be captured within the appropriate modification(s).

2.1. 0483 - Performance Assurance Framework Incentive Regime

(Report to Panel consideration 16 October 2014) – Papers at:

www.gasgovernance.co.uk/0483

Noting that further development of the modification depended on the outcome of the higher level discussions at the Performance Assurance Workgroup, AM had not redrafted the modification since the previous week's meeting.

General Discussion

The reconciliation process on the electricity side was discussed. This closed out after 14 months, but took a lot longer to do so on the gas side. MJ explained the Settlement targets in electricity, and suggested something similar could be applied to the gas side. MJa explained LSP market reconciliation, observing that the bulk of reconciliation would take place in the first year.

AM reiterated the purpose of the modification (reconciliation of energy), confirming it does not directly include data quality, but that it would contribute to an improvement in this. Once lower level reporting was in place it should be possible to see if any retrospective updates are required; customer impact and costs of addressing can then be assessed, and a view could be taken as to whether any incentives were required to make beneficial improvements. It was observed that the more that was put into the modification the harder it would be to deliver.

CB expressed her disappointment at the lack of progress regarding Action 0301; until the academic study was in train and delivering results, the Performance Assurance Workgroup would be able to make very little headway. EL pointed out that the October reporting will start delivering some indications, and this will begin to provide a picture. Some enhancements are being made to the reports, and EL was intending to present these at the next meeting, eg Phase 1.

Outstanding topics under this modification included an incentive mechanism, governance, and invoicing.

EL will provide a presentation on USRVs/filter failures for the next meeting, and will investigate Modification 0460 to clarify if this offered an appropriate model.

Action 0405: Modification 0483 - Provide a presentation on USRVs/filter failures for the next meeting (21 May), and investigate Modification 0460 to clarify if this offers an appropriate model.

Making reference to discussions at DESC, AM noted that a minimum of 12 months' data would be required to produce a rolling 12 month model, and asked if parties would be happy with a 12 month grace period. The advantages and disadvantages were discussed.

The rolling period would need to allow for seasonality and a different target each month. Electricity worked on a period that was not rolling, and on the value of energy and not meter points.

SM suggested identifying the areas that required reporting against, and then determining suitable incentives. A model was required that can describe how the target operates/the mechanics. Should it be over 12 months or 4 years? AM observed that if the rolling target was missed then it was perhaps better for an organisation to pick up a smaller monthly charge, rather than face a potentially much larger amount at the end of a year – it would then have the option of putting in place improvements which may then avoid incentive payments earlier than with an annual model.

MJa offered to create some models of settlement patterns to help inform Modification 0483.

Action 0406: *Modification 0483* - Develop models of settlement patterns to help inform Modification 0483.

3. Discussion

3.1. Declaration of Interest

None made.

3.2. Ofgem Update

Actions were to be carried forward; nothing further to report.

3.3. Business Rules

A number of questions had surfaced regarding how the body or bodies, eg a Performance Assurance Board (PAB) and potentially an Administrator, should be appointed and be appropriately empowered to act. Various existing models were discussed in some depth, and the required roles and potential responsibilities/powers were considered.

PAB Composition/Powers/Ability to request/access information to support investigations

Under Project Nexus any party will have the ability/access to create its own reports; would that be extended to a PAB so that cross party access would be possible? Access to information other than to a representative's own organisation's information immediately gives rise to issues of confidentiality/commercial sensitivity.

Information requests could be made under 'closed' sessions of a meeting. Potential processes for requesting information were discussed. The PAB might approach Xoserve and request production of a report, or an Administrator might have the authority to directly extract this from the Data Warehouse repository. Would such direct/cross industry access be possible/permitted?

Action 0407: *PAB Powers/Data Warehouse Information Access* - EL to check on permissible levels/ranges of access by third parties to cross-industry information.

A potential process might be to:

- Identify issues through the PAB assessment of reports, or attention to an issue drawn by an industry party
- PAB decides what additional data is required for further investigation
- PAB or Administrator requests information/analysis from Xoserve (level of granularity to be decided case by case)
- PAB assesses outcome/incentive/penalty/no case to answer, and provides high level report (name not supplied) to industry.

It was apparent that whatever process/participants were employed to carry out the PAB role it would raise issues of independence, neutrality, and confidentiality. Referring to the Energy Balancing Credit Committee, BF explained this had a similar role on behalf of the industry – it had defined members, closed meetings, declarations of interest, etc., and suggested that elements of its rules could be extracted to inform the composition/operation of the PAB.

AM confirmed that he had based Modification 0483 on the current UNC Modification Panel model, but recognised that other models were possible, and gave some examples. He believed it should have a limited number of members, who were recognised and respected experts, both in their skill levels and their holistic understanding of the appropriate markets. Board composition was discussed. Such persons need to be able to assess an industry risk, gauge the materiality of any impact across all sectors, decide an appropriate action and determine a suitable incentive.

The PAB would need to drive general performance across the industry and also be able to address specific and individual problems. A surplus of members may be required to be 'on call' to fill the gap, in cases of declared/conflict of interest.

Members might be:

- From a cross section of industry – expertise and skills were key
- Bound by certain obligations/confidentiality arrangements
- Required to exercise and enforce incentives against an individual party/the market
- Required to maintain a Risk Register and a Risk Operating Plan to address the Top 5 material issues
- Required to consult the industry on various risks.

The consensus was that greater emphasis should be placed on integrity, experience, knowledge and skill. It was key to understand what issues could adversely affect the wider market.

It was suggested that appointments should be by nomination through a selection process, be rolling/staggered to maintain continuity, over a fixed, eg two year, term with an opportunity for extension as appropriate, and be dynamic to start with – so that replacement could be made simply and where necessary.

Representation might be a relevant independent person with recent experience (this might carry a payment), an employer, or an employed person, and from any sector. It may or may not include a consumer representative (non voting) depending on the level of interest.

In the first instance the PAWG might need to define the selection criteria and any particular specifications, and then determine a recruitment strategy/appointment process/delivery vehicle (Organisation, Board, Sub-committee) - but would an SPV have to be in place first?

3.4. Framework Options

It was recognised that there should be two aspects to the Performance Assurance regime, in order to address current market issues and also to assure settlement under the Project Nexus regime.

Following the last meeting, AL had captured the outstanding elements/questions in a matrix for further consideration, with the aim of finalising the Framework at this meeting.

These were discussed and the Workgroup's views were noted.

What's included?

Performance monitoring/assurance

- *Who would create the reporting?*

Discussed above.

- *Is the reporting that as outlined in the Xoserve document?*

Xoserve's reporting is the starting point and should be flexible.

- *Should there be an annual appraisal of effectiveness or more often?*

If an SPV were used would a periodic scheme audit be required? The Risk Register is to be consulted on. It was suggested that different types of audit might be required at PAB's discretion, and rules would be necessary to clarify scope of power/jurisdiction - when and in what circumstance an audit could be enacted, eg who assesses the cost/benefit of doing so; who instructs, arranges, undertakes, reports, pays for; when/frequency, etc. How would the materiality be assessed – would it be an investigation or an audit – perception/interpretation of this needed more thought, especially in respect of cost, control and independence?

Peer comparison

- *How often should targets be re-considered and how would this be done?*

Gas Years and contracts are linked, so targets should also be aligned appropriately, ie annually.

- *How do we assure that targets are proportionate and cost effective?*

Manage through the Risk Register (risk based and cost reflective). Who would assess the costs? Would consultation be required? Who would assess the accuracy of the estimated industry cost to solve an issue and decide the value? It was suggested the PAB would assess and decide. It was pointed out that parties had different business models/drivers and assess/price risk differently. Who could investigate this, and under what powers?

- *Who agrees "targets/measures" on data quality elements that do not come out of the independent study?*

Any information provided for investigation should be warranted; benchmarking could be one of a number of tools used for assessment. It was suggested the PAB should create a methodology for a risk based cost reflective approach.

It was noted that the PAB might have to overcome the industry's general reluctance to provide information on costs to any party other than Ofgem. Ofgem could be called upon to use its powers if the materiality was such that an RFI was deemed appropriate.

AL reminded of the need to avoid the loading of unnecessary costs onto the industry, and that targets should be appropriate.

It was noted that Consumer Futures has now been incorporated into and been renamed as Citizens Advice.

Disputes/error resolution

- *What do we need to include in relation to “fire sale” activity?*
- *Is this the only aspect where disputes/error resolution would be needed?*

Corrupt data could be inherited/acquired by a number of routes, not just as Supplier of Last Resort (SoLR). Perhaps this could be managed by exception.

Error monitoring

- *Does there need to be a Performance Overview Board and a Performance Overview Body?*

A Board and an Administrator/Secretariat.

- *If there is no Overview Body or limited entity how can contracts be let in relation to the PAF e.g. audit?*

It was noted there was an outstanding action relating to consideration of an SPV. Perhaps this could be given further discussion at the next meeting.

How should assurance be achieved?

Detection – assessment/analysis

- *How would new targets or enhanced targets be assessed, justified and agreed?*

Through the methodology, and consultation on the Risk Register.

Preventative Measures and Education

- *How can existing arrangements be bolstered and what is missing?*

Clearly define the triggers. Make sure parties aware of the process/reporting. Follow a tiered approach – make aware of problem before it expands in materiality.

Proactively support and communicate through Xoserve’s ‘Stakeholder Partners’ and Customer Lifecycle Team (new entrants).

Xoserve to proactively educate parties of the regime ahead of Project Nexus.

PAB to develop rules to address any shortcomings.

Reporting/monitoring (e.g. serials)

- *How often does reporting have to be considered?*

Frequency to be decided by PAB.

Improvement Plans

- *How would an escalation process work and under what scenarios would escalation be required/take place?*

Clearly define the triggers. Make sure parties aware of the process/reporting. Follow a tiered approach – make aware of problem before it expands in materiality.

Audit

- *How will the risk based approach be established?*
- *What data and from where would the approach be considered?*

(See earlier discussions, above.)

Error monitoring

- *Do we envisage the audit being of Parties or central processes or both?*

(See earlier discussions, above.)

Next Steps

AL will draft some Business Rules for review/discussion at the next meeting (21 May 2014).

3.5. Reporting Update

Referring back to the spreadsheet presented at the previous meeting (01 April 2014) [Copy of PAF Reporting Considerations split phase \(provided by Xoserve\)](#), EL gave a brief outline of some of the reports, explaining what information was to be provided against each report. Performance reporting would be at Shipper level and at whole industry level. Concerns were expressed regarding visibility of commercial sensitivities. It was good to be able to benchmark against the market, but not so that it inadvertently discloses sensitive information.

SM observed that these concerns have ramifications in deciding who sits on the Board, access to information, and for reporting to the wider market. EL suggested that once it is known what reports can be made available then issues of confidentiality and access can be addressed.

A further discussion ensued, comparing the process and access to information that existed on the electricity side. Reports will be available for this year and so will need to be suitable for the current environment. They will be as presented by A Miller earlier this year.

The Post Project Nexus reports will be delivered once Project Nexus is in, and may require reassessment/revision once their value in contributing to measuring performance can be ascertained.

Line 43 - *Meter readings - accepted/rejected*: This will now be included in Phase 1.

Line 44 - *Must be Read* – This information is already provided in monthly reports. What is wanted in terms of an age profile may be an enhancement to consider, and may need a change to the query system to obtain different information. EL will check on the details and level of reporting.

Action 0407: PAF Reporting Considerations (Line 44) – Must be Read: Potential age profiles - EL to check on the details and level of reporting.

Line 53 - *Shipper and unregistered site reporting*: EL intended checking with the Unregistered Sites Group, as she is not sure if there are any enhancements to this. It might be better to establish Performance requirements here once Modification 0410 has gone in. She was also going to check her understanding of the position with T Moody (Xoserve).

iGT sites – JK advised that he had requested enhanced reporting on these sites to obtain greater visibility of rejections, mismatches, unregistered development sites, etc and how long it takes to resolve these sort of issues. It will be an industry report and will come back to this group to consider.

3.6. Project Plan – Update

No further update.

4. Any Other Business

BF reported that the Project Nexus Workgroup would like to receive an update on progress. AL noted this.

5. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

| Time / Date | Venue | Workgroup Programme |
|-------------------------|--|-----------------------------|
| 10:30 21 May 2014 | <i>Ice Blue Room - ELEXON, 4th Floor, 350 Euston Road, London NW1 3AW</i> | Review draft Business Rules |
| 10:30 10 June 2014 | <i>Room 3 - Energy Networks Association (ENA), 6th Floor, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF</i> | <i>To be confirmed</i> |
| 10:30 01 July 2014 | <i>To be confirmed</i> | <i>To be confirmed</i> |
| 10:30 05 August 2014 | <i>To be confirmed</i> | <i>To be confirmed</i> |
| 10:30 September 2014 | <i>To be confirmed</i> | <i>To be confirmed</i> |
| 10:30 October 2014 | <i>To be confirmed</i> | <i>To be confirmed</i> |
| 10:30 November 2014 | <i>To be confirmed</i> | <i>To be confirmed</i> |
| 10:30 December 2014 | <i>To be confirmed</i> | <i>To be confirmed</i> |

Action Table

| Action Ref | Meeting Date | Minute Ref | Action | Owner | Status Update |
|-------------------|---------------------|-------------------|---|---------------------------------|------------------------|
| PA0802 | 21/08/13 | 2.1 | <i>Tender Advertisement</i> - Provide a link to the dedicated area on Ofgem's website. | Ofgem (JD) | Carried Forward |
| PA0301 | 04/03/14 | 1.1 | Ofgem to discuss and agree funding considerations with ENA, Energy UK and ICOS and provide an update. | Ofgem (JD) | Carried forward |
| PA0401 | 01/04/14 | 3.3 | EL to look at existing arrangements (incentives/sanctions, etc) relating to invoicing under the current Market Exit process operated by Xoserve. | Xoserve (EL) | Carried forward |
| PA0402 | 01/04/14 | 3.3 | <i>Appropriate mechanism for the incentive re-allocation</i> – Look at treatment under the electricity model and consider. | British Gas (AM) | Carried forward |
| PA0403 | 01/04/14 | 3.3 | <i>Third Party contracting</i> - Confirm what role the Transporters might be prepared to fulfil. | National Grid Distribution (AC) | Carried forward |
| PA0404 | 01/04/14 | 3.3 | Consider other options for a special purpose vehicle (SPV) for the next meeting. | ALL | Carried forward |
| PA0405 | 09/04/14 | 2.1 | <i>Modification 0483</i> - Provide a presentation on USRVs/filter failures for the next meeting (21 May), and investigate Modification 0460 to clarify if this offers an appropriate model. | Xoserve (EL) | Pending |
| PA0406 | 09/04/14 | 2.1 | <i>Modification 0483</i> - Develop models of settlement patterns to help inform Modification 0483. | British Gas (MJa/AM) | Pending |
| PA0407 | 09/04/14 | 3.1 | <i>PAB Powers/Data Warehouse Information Access</i> - EL to check on permissible levels/ranges of access by third parties to cross-industry information. | Xoserve (EL) | Pending |

| Action Ref | Meeting Date | Minute Ref | Action | Owner | Status Update |
|-------------------|---------------------|-------------------|--|--------------|----------------------|
| PA0408 | 09/04/14 | 3.5 | <i>PAF Reporting Considerations (Line 44) – Must be Read:</i> Potential age profiles - EL to check on the details and level of reporting. | Xoserve (EL) | Pending |