

## Stage 01: Modification

# 0506:

## Gas Performance Assurance Framework and Governance Arrangements

This modification seeks to introduce a Gas Performance Assurance Framework to be used to facilitate assurance and incentivisation of settlement accuracy post-implementation of Project Nexus.

This modification proposal only applies to energy and supply points within LDZs (including Connected System Exit Supply Points), it does not apply to the National Transmission System and supply points connected to it.



The Proposer recommends that this modification should be assessed by a Workgroup



High Impact:  
Shippers and Transporters



Medium Impact:  
None



Low Impact:  
None

At what stage is this document in the process?



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- 2 Why Change?
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## About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 17<sup>th</sup> July 2014 and consider whether the modification should be referred to the Performance Assurance workgroup.

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# 1 Summary

## Is this a Self-Governance Modification?

This modification will have a material impact on commercial activities connected with the shipping and transportation of gas and is, therefore considered not to meet the Self-Governance [criteria](#).

## Why Change?

Unlike the electricity market, under the current gas settlement arrangements there is no performance assurance regime and there are a number of areas where the Ofgem and industry have discussed the benefits of having performance incentives to improve settlement accuracy and reduce risk. In addition Ofgem has on a number of occasions advised that they want to see a Performance Assurance Scheme developed in the gas market – including in their recent determination on Modifications 473/A<sup>1</sup>.

At the same time to coincide with the planned replacement of the main UKLINK systems, improved gas allocation and reconciliation processes (together referred to as “settlement”) will be introduced through the Project Nexus suite of modifications. Whilst Project Nexus enhancements are expected to offer benefits, the new settlement arrangements introduce an element of risk, for example through the introduction of site specific meter point reconciliation for all meter points which may lead to cashflow problems for shippers. As with the current regime there is also a risk that the energy will never be reconciled before the line in the sand date is reached (presently 3-4 years).

Given the value of energy that is delivered in Great Britain each day, any small percentage of error in aggregate allocations or poor performance in reconciliation activity is potentially significant.

The volume of un-reconciled energy after any period is dependent upon industry participant performance – including accuracy of offtake metering data, quality of asset data and available meter readings. Data quality is driven by the requirements placed on industry parties, and also on those parties meeting those requirements. A framework is therefore needed to establish performance requirements in an optimal manner and provide assurance that gas settlement has accurate measurement, allocation, reconciliation, control and self-monitoring and governance post-Project Nexus implementation, so that calculations are accurate and no unfair commercial advantage can be derived from settlement by any [Shipper User](#).

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## Solution

A Performance Assurance Framework (PAF) is to be introduced into the gas market arrangements to facilitate the monitoring and reporting of Transporter, Shipper and Transporter Agency performance and incentivise parties to reduce settlement risk and improve accuracy. The Performance Assurance Framework proposed under MOD506 encompasses Transporter, Shipper and the Transporter Agency activity that impacts energy once it has entered the Local Distribution Zone (including Connected System Exit Point Supply Points), i.e. from and including the upstream meter into the LDZ through to the downstream meters delivering to consumers.

Gas transported through the National Transmission System (NTS) and supply points connected to the NTS are excluded from the arrangements created by this modification.

This framework encompasses a new UNCC Sub-Committee, an administrator role (Performance Assurance Framework Administrator), and supporting business rules (as

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<sup>1</sup> <http://www.gasgovernance.co.uk/sites/default/files/UNC473D.pdf> (page 1 - summary)

set out in a UNC Related Document – see Appendix 1). There will be a requirement for the Transporter Agency to provide data and information to the Performance Assurance Administrator and assist in interpretation of information.

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**Comment:** Does the PAFA scope need to be a UNC Related Document as well?

The proposed solution requires that the Gas Transporters appoint a Performance Assurance Framework Administrator by competitive tender. Conditions for such appointment will be set out in the UNC Related Document "Guidelines for Energy Settlement Performance Assurance Regime".

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## Relevant Objectives

This modification proposal is expected to have a positive effect on Relevant Objectives d) and (f) as it is expected to lead to more accurate and up to date information being held on Xoserve's system and therefore improve accuracy of settlement. In addition the creation of the UNCC Sub-Committee and the UNC Related Document will facilitate the implementation of other modifications related to the Performance Assurance Framework.

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## Implementation

No implementation timescales are proposed. However, this proposal should be implemented as soon as possible after an Ofgem approval.

This modification is expected to be one of a series of modifications to create a Performance Assurance regime. Each modification can be developed independently and implemented at different times. For the avoidance of doubt it is intended that this modification can be implemented without any modification on risk assessment being approved. It is expected that this modification will be a platform for existing modifications and those in the future relating to performance assurance.

## 2 Why Change?

Unlike the electricity market, under the current gas settlement arrangements there is no performance assurance regime and there are a number of areas where the Ofgem and industry have discussed the benefits of having performance incentives to improve settlement accuracy and reduce risk. In addition Ofgem has on a number of occasions advised that they want to see a Performance Assurance Scheme developed in the gas market – including in their recent determination on Modifications 473/A<sup>2</sup>.

At the same time to coincide with the planned replacement of the main UKLINK systems, improved gas allocation and reconciliation processes (together referred to as "settlement") will be introduced through the Project Nexus suite of modifications. Whilst Project Nexus enhancements are expected to offer benefits, the new settlement arrangements introduce an element of risk, for example through the introduction of site specific meter point reconciliation for all meter points which may lead to cashflow problems for shippers. As with the current regime there is also a risk that the energy will never be reconciled before the line in the sand date is reached (presently 3-4 years). Essentially to be most efficient data accuracy, quality, quantity and frequency must be optimal from all parties

or Transporter or Shipper activity could expose other parties to settlement risk either deliberately or accidentally through their performance. To address these issues the industry must consider the optimal performance levels to reduce overall risk to

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<sup>2</sup> <http://www.gasgovernance.co.uk/sites/default/files/UNC473D.pdf> (page 1 - summary)

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settlement accuracy and determine which risks are most material and most probably if there is no monitoring or incentives in place to address them.

The Performance Assurance Workgroup (PAW) was established by the UNC Modification Panel on 20 December 2012 to consider the development of a framework that can help to ensure the risks are understood, and to provide assurance that the actions of some parties are not inappropriately passing costs to others.

Given the value of energy that is delivered in Great Britain each day, any small percentage of error in accuracy of offtake metering data, aggregate allocations or poor performance in reconciliation activity is potentially significant. The Proposer believes that it is imperative that the amount of energy paid for by Shippers should be representative of their customers' usage at the point of time for which the charges relate and that incentives should be in place on all parties to ensure that measurement, reconciliation and allocation amounts are closely matched to allow this to happen. Equal to that under the Project Nexus arrangements there is an opportunity to ensure that there are controls put in place to improve asset data and the provision of meter readings and narrow any scope for Shippers inappropriately passing costs onto other parties through the settlement process.

The Proposer also believes that introducing a PAF could bring benefits to consumers through the change of supplier process by ensuring that targets for switching times are met and erroneous transfers are minimised, and help facilitate the realisation of benefits expected both from Project Nexus changes and the roll out of smart metering. In addition if accuracy of settlement and reduction of error can be improved through the introduction of PAF then it should improve market attractiveness and possibly encourage new entrants into the market by reducing,

### 3 Solution

The purpose of this Modification Proposal is to introduce a framework for a gas performance assurance regime and require the Gas Transporters to appoint a Performance Assurance Administrator by a competitor tender process. The Performance Assurance Framework Administrator (PAFA) will run the scheme, under the oversight of the Performance Assurance Committee (a sub-Committee of the Uniform Network Code Committee).

Modification of the UNC is required to recognise the role of the Performance Assurance Framework Administrator and incorporate appropriate arrangements to monitor performance of Shippers, Transporters and the Transporter Agency and allow an incentive regime to develop.

The Performance Assurance Framework is limited to energy once it has entered the Local Distribution Zone (including Connected System Exit Point Supply Points). Gas transported through the National Transmission System (NTS) and supply points connected to the NTS are excluded from the arrangements created by this modification.

#### Business Rules

1. A person, the Performance Assurance Framework Administrator (PAFA), shall be appointed and engaged by the Gas Transporters through a PAFA Contract for the purposes of:

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- a) producing, publishing and maintaining a Performance Report Register and the creation, management and maintenance of the PAF Risk Register; and
- b) determining performance levels attained by those subject to the Performance Assurance regime;
2. The Transporters will be required to publish a Framework Document "Guidelines for Energy Settlement Performance Assurance Regime". The initial content of the Framework Document be that which is provided as an Appendix to this modification proposal.
3. The Gas Transporters will use reasonable endeavours to:
- 3.1 Undertake a competitive tender for the appointment of the PAFA
- 3.2 Use the criteria developed by the PAC to assess each tender bid as part of their assessment to select the preferred bidder.
- 3.3 Select, agree terms and appoint the PAFA. Where the selected PAFA does not accept the appointment, invite the next most favoured PAFA in turn; and
- 3.4 Upon acceptance of appointment, establish the contract with the Prospective PAFA
4. The PAC shall provide the final versions of the document as set out in [XX] of the Guidelines document to the Gas Transporters.
5. On receipt the Gas Transporters shall commence the tender process using reasonable endeavours to:
- 5.1 Organise any meetings held in relation to the PAFA appointment;
- 5.2 Provide legal resource to prepare a tender document;
- 5.3 Organise the advertisement of the tender to all interested parties, in accordance with national and European legislation;
- 5.4 communicate to Shipper Users the outcome of the tender process; invite the prospective PAFA to take up the appointment
6. The start date of the PAFA Contract will be as soon as reasonably practical.
7. The Gas Transporters will require that the PAFA:
- 7.1 Acts with all due skill, care and diligence when performing of its duties as the PAFA and shall be impartial when undertaking the function of the PAF, ensuring that any consideration of risks is equitable in their treatment of Shippers, Transporters and the Transporter Agency; and
- 7.2 Compiles the Performance Report Register and Risk Register in accordance with these Guidelines.
8. The Guidelines Document may be modified if Uniform Network Code Committee votes by majority vote in favour of a proposed change.
9. The Transporters will be required to provide data and information to the Performance Assurance Administrator and assist in interpretation of information.

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10. For the avoidance of doubt, it is intended that this [procurement and appointment for the PAFA](#) process can be introduced ahead of the implementation of Project Nexus.

NB A Uniform Network Code Committee Sub-Committee, the Performance Assurance Committee, will be established.

The role of the UNCC Sub-Committee and of the Performance Assurance Framework Administrator are set out in the UNC Related "Guidelines document for the Energy Settlement Performance Assurance Regime" shown in Appendix 1.

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#### User Pays

Classification of the modification as User Pays, or not, and the justification for such classification.

This modification proposal creates additional services in the UNC to be provided by the Transporter Agency and to be defined in Appendix 1 of the Agency Charging Statement.

Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.

As Users are the beneficiaries of the services created by this modification proposal 100% of the costs are to be recovered from Users.

The charging basis for Users is:

Total SOQ for all LDZs for the relevant billing period for each Shipper (as at the end of the relevant billing period (30<sup>th</sup> September) as a percentage of the total SOQ for all LDZs for the relevant billing period for all Shippers (as at the end of the relevant billing period (30<sup>th</sup> September))

Proposed charge(s) for application of User Pays charges to Shippers.

*tbc*

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.

*tbc*

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## 4 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	<u>None</u>
b) Coordinated, 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.	None
c) Efficient discharge of the licensee's obligations.	<u>None</u>
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) 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.	None
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 Co-operation of Energy Regulators.	None

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This modification proposal should have a positive effect on Relevant Objectives (d) and (f). It is intended that the Performance Assurance Framework will allow for the monitoring of Shipper performance in elements related to settlement accuracy and facilitate an incentive regime to improve performance and reduce settlement risk.

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This is expected to lead to more accurate and up to date information being held on Xoserve's system and therefore improve accuracy of settlement and information in relation to system utilisation and capacity needs.

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Introducing a PAF should help facilitate the realisation of benefits expected both from Project Nexus changes and the roll out of smart metering. In addition by introducing a competitive tender exercise to appoint the Performance Assurance Administrator this should ensure that there is competitive pressure on the cost of this service.

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If accuracy of settlement and reduction of error can be improved and the PAF meets its objective of ensuring that no unfair commercial advantage can be derived from

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settlement market attractiveness should also improve and this may encourage new entrants to the market. This should therefore further Relevant Objective (d).

The creation of the UNCC Sub-Committee and UNC Related Document will facilitate the implementation of other modifications related to the Performance Assurance Framework, this modification proposal also furthers Relevant Objective (f).

## 5 Implementation

No implementation timescales are proposed. However, this modification proposal should be implemented as soon as possible after Ofgem approval.

This modification is expected to be one of a series of modifications around Performance Assurance, which should be able to be developed independently and implemented at different times. For the avoidance of doubt it is intended that this modification can be implemented without any modification on risk assessment being approved.

*Note: the UNCC can create the Performance Assurance Framework Sub-Committee at any point in time, this may be prior to the modification implementation.*

## 6 Legal Text

Legal text to be provided by the Gas Transporters.

## 7 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self governance; and
- Progress to Workgroup for assessment.

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