Performance Assurance – v – Market Error

Presented by Angela Love

Background

- There are three stages in reaching final reconciliation of gas volumes –

    - Allocation
    - Settlement
    - Reconciliation

- Post Project Nexus implementation all sites should be reconciled to actual meter readings

- There will always be a resultant volume which cannot be attributed to individual supply points - in particular as, unlike the electricity market, gas volumes have to be calculated and are not actually recorded

- The resultant "unattributed" volume could be termed as "Residual Error" or the cost of operating in the market

Is there any reason why the cost of operating in the market should be different for different segments of the market?

Performance Assurance Regime

- To date evolution of the Performance Assurance regime has been focused on settlement accuracy through a top-down model of settlement risk

- Achieving settlement accuracy, or at least aspiring to be as accurate as possible, relies on a number of factors:
  - Data
  - Meter Reading accuracy
  - Timing of information
  - Obligations
  - Recognition of assets
  - Correct registration of information
  - Accurate calculation of volumes

- Once the PAF is operating efficiently it should be able to shine a light on the true cost of operating in the market. The current cost of operating in the market should change through:

  (A) Introduction of the Nexus model
  (B) Introduction of PAF

We therefore need to ask – what does the PAF need to encompass to assure settlement accuracy?

Market Error (the cost of operating in the market)

• Under Project Nexus it is proposed that there will be an industry wide smear for volumes that are not attributable through reconciliation

• There will always be residual error in the market, which cannot be attributed to anyone supply point/ Shipper for example because of:

- Profiling errors
- Calculation issues
- Physical attributes compared to assumed attributes
- Legislative requirements

How do we ensure that residual error is the true cost of market operation?

Concept of Assurance Post-Nexus

PERFORMANCE ASSURANCE REGIME

SETTLEMENT ACCURACY

* Data
* Timing
* Obligations
* Recognition of assets
* Correct register of information (incl. Shipper ID)
* Meter Reading accuracy

Controllable by market participants and Xoserve – but how do we ensure this?

SAFETY NET

(could incorporate an annual MOD431 exercise)

INDUSTRY WIDE SMEAR

MARKET ERROR

* Calculations
* Physical Attributes
* Metering
* Legislation

Unforeseen cost of operating in the market, which is uncontrollable

A "Safety Net" could be introduced to pick up anything that falls outside of PAF, but impacts on market error e.g. enforcing Transporter MBR functions, managing unregistered sites

Other things to think about

- Could the "Safety Net" include a dispute process? For example Shippers will get 12 months of data when a supply point transfers – could a process be introduced to flag any settlement/reconciliation type issues? The electricity market has the Trading Disputes Committee

- Is there anything that could be done in relation to Line in the Sand issues?

- From the electricity market it would appear that the Supplier Volume Allocation Group is similar to DESC – is there anything else that could be done to increment what DESC does?

- Could we consider the appropriateness of the obligations that could be impacting settlement accuracy?

- Are there any incentives that could be applied to the Transporters to keep the cost of operating in the market to a minimum e.g. benchmarking by LDZ?

- Are there any audit needs around market error?