

Notes of the 1st April 2014 discussion on the Gas Performance Assurance Framework

In initial discussion it was agreed there needs to be two aspects to the Performance Assurance regime to address issues that are in the market now and assure settlement under the Nexus regime. In particular Ofgem highlighted the issues that they have seen when considering smart metering and the change of Supplier process. The matrices below outline the aspects considered at the 1st April “workshop” meeting, the discussion that took place and the bones of business rules that would enact what the PAW envisage. The matrices also include some of the outstanding questions that remain to be considered. It is proposed that these are considered at the next meeting on 9th April 2014.

What’s included?

| Aspect | Included? | Discussion | Business Rules | Outstanding Questions |
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| Market Entry Testing | No | <ul style="list-style-type: none"> • We discussed the development in electricity of the “Supplier in a box” development – where companies will offer an off the shelf means of entering the electricity market. This was perceived as having both positive and negative aspects to it • It was noted that there are multiple agents in the electricity market and therefore it is probably more important to have entry testing • If introduced in the gas market it was felt that entry testing could be a barrier to entry • We discussed education in the market and it was felt that Xoserve could address a lot of the issues, perhaps aiding new entrants to understand risks of entry | <ul style="list-style-type: none"> • No business rules required | None |
| Performance monitoring/assurance | Yes | <ul style="list-style-type: none"> • It was felt that reporting would give visibility | <ul style="list-style-type: none"> • Include reporting in the PAF | <ul style="list-style-type: none"> • Who would create the reporting? • Is the reporting that as outlined |

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| | | | | <p>in the Xoserve document?</p> <ul style="list-style-type: none"> • Should there be an annual appraisal of effectiveness or more often? |
| Peer comparison | Yes | <ul style="list-style-type: none"> • It was noted that the group had in the past agree that anonymity should not be used in future under a PAF • There was discussion that some parties seen benefits of peer comparison and some did not. It was also discussed who the intended audience was for any reporting here. There was a general view that at least in the first instance information should only be made available to Parties of the UNC • It was also noted that consideration would have to be made on where the information was published • It was highlighted that the reporting would allow companies to compare themselves to their peers • The group thought that there were merits of having a dashboard type approach and it was noted Elexon did something similar • There was discussion that this reporting could allow new targets of performance to be set, however it was noted that an assessment of the need and benefit of revising targets would have to be considered and that targets should only change where it was efficient to do so • It was noted that it might be beneficial to look at compliant information from customers to understand where some of | <ul style="list-style-type: none"> • Reports of performance by Shipper and Transporter will be produced monthly and be issued in a “dashboard” form • Reports will identify the Party by Licencee • Reporting will be provided to UNC Parties only • Consumer Futures should have representation on the Performance Assurance Overview Board • The setting of targets should consider industry complaint data to understand issues that are impacting on customer service | <ul style="list-style-type: none"> • How often should targets be re-considered and how would this be done? • How do we assure that targets are proportionate and cost effective? • Who agrees “targets/measures” on data quality elements that do not come out of the independent study? |

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| | | the targets might focus. It was also noted that data quality improvements could be assessed against the change in unidentified gas | | |
| Market Exit | Yes | <ul style="list-style-type: none"> • It was noted that Xoserve already have exit processes • There was discussion around whether there was an exposure in the proposed incentive scheme if a Shipper ceased trading – it was felt that invoicing would follow the normal UNC process, which caters for non-payment and has sanctions included¹ | <ul style="list-style-type: none"> • TBC – Xoserve have an action to consider other incentive schemes and how they operate if a party leaves the market | <ul style="list-style-type: none"> • |
| Qualification | No | <ul style="list-style-type: none"> • We talked about a technical assurance process, but believed that this was part of an audit | None | |
| Disputes/error resolution | Covered in UNC, although “fire sale” portfolio may need to be considered | <ul style="list-style-type: none"> • Initially it was felt that there were two areas where disputes/errors could occur – central issues and issues with a contracted party. On the first issue it was believed that the usual suspensions would take place if a breach on the core elements of settlement/data were to occur and on the second element it was felt that this should be backed off in commercial contracts that the Shipper enters into. • It was then noted that there might be force majeure or mitigating circumstances, such as where there is a “fire sale” of a portfolio | <ul style="list-style-type: none"> • TBC | <ul style="list-style-type: none"> • What do we need to include in relation to “fire sale” activity? • Is this the only aspect would disputes/error resolution would be needed |

¹ Xoserve agreed to look at existing arrangements and report back

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| Breach/default | Covered in UNC | <ul style="list-style-type: none"> It was agreed that this had been covered in discussion on market exit and that there are processes in the UNC | None | |
| Error monitoring | Yes | <ul style="list-style-type: none"> There was a view that an Oversight Body for the scheme could contract with an auditor, such as the way in which the RbD Audit Committee does. It was noted that the Elexon audit is different each year, sometimes seeing a “deep dive” taking place, but that the approach is Suppliers by volume, based on the risk register (i.e. a risk based approach). It was agreed that this could be looked at for gas, but that the mechanics of looking at an audit would need to be consider i.e. which legal entity could contract with an auditor? | <ul style="list-style-type: none"> The Performance Overview Board would be able to instruct an audit, including the right to “deep dive” on issues of materiality | <ul style="list-style-type: none"> Does there need to be a Performance Overview Board and a Performance Overview Body? If there is no Overview Body or limited entity how can contracts be let in relation to the PAF e.g. audit? |

How should assurance be achieved?

| Aspect | Included? | Discussion | Business Rules | Outstanding questions |
|---------------------------------|---------------|--|--|--|
| Detection – assessment/analysis | Yes – Phase 2 | <ul style="list-style-type: none"> It was noted that there was no point publishing performance if this was going to be used to improve settlement There was a suggestion that there could be a contract to carry out additional analysis, with an oversight body having the power to enact such a contract It was also noted that any analysis could be used to set performance targets, but any new targets should be proportionate to risk There was agreement that this aspect would better feature in a “Phase 2”, but | <ul style="list-style-type: none"> The PAF Overview Board/Body would be able to place a contract for analysis of the performance results, once the PAF has commenced The PAF Overview Board/Body will undertake analysis of performance results and consider if new targets or enhanced existing targets are appropriate | <ul style="list-style-type: none"> How would new targets or enhanced targets be assessed, justified and agreed? |

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| | | that the initial regime should allow for this aspect and give the power to the oversight body | | |
| Preventative Measures | Yes | <ul style="list-style-type: none"> The group was unclear what could be done, but considered trend analysis and early warning indicators. It was noted that Xoserve does reporting and that there may be a future tool around this.² It was also noted that Xoserve support parties through education, but perhaps this could be added to, maybe through the Operational Support Managers. | <ul style="list-style-type: none"> Performance reporting will include trend analysis and the Performance Overview Board will also consider Early Warning Indicators | <ul style="list-style-type: none"> How can existing arrangements be bolstered and what is missing? |
| Education | Bolster existing arrangements – not a priority | <ul style="list-style-type: none"> The group considered if more aspects were required to the service already provided by Xoserve. It was proposed that the data enquiry service proposed around Project Nexus system changes could be an option. | <ul style="list-style-type: none"> Xoserve will provide education to Parties to aid their performance | <ul style="list-style-type: none"> How can existing arrangements be bolstered and what is missing? |
| Reporting/monitoring (e.g. serials) | Yes – phase 1 | <ul style="list-style-type: none"> It was noted that the Xoserve document on reporting, which the group had formulated would be good starting point. It was however noted that the specific elements would need to be considered, as some aspects might just be “nice to have” | <ul style="list-style-type: none"> The Performance Overview Board will keep reporting requirements under review | <ul style="list-style-type: none"> How often does reporting have to be considered? |
| Improvement Plans | Yes – phase 2 | <ul style="list-style-type: none"> The group discussed that improvement plans could be a pre-cursor to default and that in the electricity market this tool is seen as valuable. It was agreed that it would be beneficial to | <ul style="list-style-type: none"> Within 12 months of the PAF scheme commencing the PAF Overview Board will determine the benefits of introducing Improvement Plans | <ul style="list-style-type: none"> How would an escalation process work and under what scenarios would escalation be required/take place? |

² Xoserve to look at existing arrangements

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| | | <p>have a provision for improvement plans, but wait 12 months until the PAF had been in operation to understand what benefit there would be.</p> <ul style="list-style-type: none"> • It was however noted that an escalation process would need to be considered. | | |
| Escalation | Covered later | <ul style="list-style-type: none"> • TBC | <ul style="list-style-type: none"> • TBC | <ul style="list-style-type: none"> • |
| Audit | Covered in UNC | <ul style="list-style-type: none"> • It was agreed that the PAF overview body could have the ability to do an audit on a risk based approach. | <ul style="list-style-type: none"> • The PAF Overview Body will have the ability to undertake audits, on a risk based approach | <ul style="list-style-type: none"> • How will the risk based approach be established? • What data and from where would the approach be considered? |
| Error monitoring | Yes | <ul style="list-style-type: none"> • There was a view that an Oversight Body for the scheme could contract with an auditor, such as the way in which the RbD Audit Committee does. • It was noted that the Elexon audit is different each year, sometimes seeing a “deep dive” taking place, but that the approach is Suppliers by volume, based on the risk register (i.e. a risk based approach). • It was agreed that this could be looked at for gas, but that the mechanics of looking at an audit would need to be consider i.e. which legal entity could contract with an auditor? | <ul style="list-style-type: none"> • Where the Oversight Body/Overview Board determine that there are errors either from one Party, or a number of Parties impacting either customer service/experience in the market or settlement accuracy they will be able to instruct an audit • The Overview Board will establish an annual risk register | <ul style="list-style-type: none"> • Do we envisage the audit being of Parties or central processes or both? |