

Performance Assurance Workgroup Minutes
Monday 22 July 2013
Ofgem, 9 Millbank, London SW1P 3GE

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Alan Raper	(AR)	National Grid Distribution
Andrew Margan	(AM)	British Gas
Andy Clasper	(AC)	National Grid Distribution
Angela Love	(AL)	ScottishPower
Anne Jackson	(AJ)	SSE
Colette Baldwin	(CB)	E.ON UK
Edward Hunter	(EH)	RWE npower
Emma Lyndon	(EL)	Xoserve
Erika Melen	(EM)	Scotia Gas Networks
Gareth Evans	(GE)	Waters Wye
Jonathan Kiddle	(JK)	EDF Energy
Jon Dixon	(JD)	Ofgem
Marie Clark	(MC)	ScottishPower
Matt Jackson	(MJ)	British Gas
Richard Carnall	(RC)	Phidex
Rob Wallis	(RW)	Phidex
Steve Deery	(SD)	Xoserve
Steve Mulinganie	(SM)	Gazprom

A copy of all meeting papers can be found at: www.gasgovernance.co.uk/PA

1. Introduction

TD welcomed all to the meeting.

1.1 Review of Minutes

The minutes from the previous meeting were approved.

1.2 Review of Actions

PA05/02: Ofgem (JD) to provide a view on the potential regulatory impacts associated with development of a Performance Assurance Framework.

Update: Following the day's discussions it was agreed this action be closed. **Closed**

PA06/01: Ofgem (JD) to consider commissioning an Independent statistical analysis and propose how this should be funded.

Update: Following the day's discussions it was agreed this action be closed. **Closed**

PA06/02: Scottish Power (AL) to draft a high level paper describing the proposed approach.

Update: Circulated prior to the meeting. **Closed**

2. Discussion

Concerns were raised that if commercially sensitive issues are discussed, no party that might potentially wish to tender for work subsequent to developments should be present at these meetings as this might prejudice their opportunities and ability to participate in any future tenders. It was agreed that, at pertinent points in the discussions, affected parties would be invited to withdraw.¹

RC explained Phidex's business focus and activities and the reasons for wishing to attend.

High Level Proposed Approach Paper - *ScottishPower*

In response to action PA06/02, a paper had been circulated and was discussed.

It was suggested that the agreement reached regarding the need for 'ANOther' body should be more explicit in the paper. However, it was also argued that the type of role to be performed required further clarification, and it might feed into the Framework discussions, such that any reference at this stage would need to be generic.

MC observed that regular reassurance would be required that the model is performing appropriately and SM thought it should be made clear that there would be an ongoing review of the Framework in which the methodology will sit. SM added that the Framework should be established prior to devising the methodology and clarifying the governance/management arrangements.

AL considered that the context should be more detailed within the summary paper, and TD proposed some words. It was agreed that a revised paper would be published alongside these minutes and further comments invited.

Commissioning Independent Statistical Analysis and Funding Considerations Update - *Ofgem*

JD confirmed that Ofgem intend producing a letter to raise industry awareness of the Performance Assurance Workgroup and underline the high level support already in place for this proposed exercise. There was no deadline by which the letter must be sent out.

Responding to action PA06/01, JD confirmed that an independent statistical analysis could be commissioned and that Ofgem was prepared to act as the procurement authority and develop the Terms of Reference/Terms and Conditions, but that it did not have funding available to take forward the work.

At this point, the Phidex attendees withdrew from the meeting while funding was discussed (the Xoserve attendees had not yet arrived).

JD observed that until the industry provided some signal that parties were provisionally happy to contribute to the cost, it would be difficult to proceed with any further work. User Pays was identified as an alternative approach, as used for the AUGE process and for demand estimation studies. Responding to a question from TD, those present indicated that they would prefer Ofgem to act as procurer rather than Xoserve on behalf of the Transporters. JD explained in more detail how Ofgem might accomplish this role and that a schedule of payments expected from each contributor might be set out within the contract. Examples of where a similar approach had been followed were given. It was noted that at present contributing parties would just be 'buying' the report, the future use of which was yet to be determined.

¹ No Xoserve attendees were present at this time.

The Xoserve attendees arrived at this point, but were asked to await completion of the discussions on funding before joining the meeting.

It was suggested that Ofgem write to Energy Networks Association, Energy UK and ICoSS to canvas support for potential joint funding of an academic study. To ensure organisations were not being asked to sign on to a blank cheque, an indication of the maximum commitment level would need to be agreed, although not revealed to the potential service providers – and the Workgroup agreed a figure that could be used.

The potential costs were then discussed, noting that this would inevitably depend upon the eventually determined scope. AL believed it to be an important point that the Framework and the academic study should be devised in tandem, albeit separately, so the potential exertion of undue influence to reengineer can be avoided. Whilst acknowledging that some guidance might be required depending on their experience, MC pointed out it was important that the commissioned party was seen and known to be fully independent - rather than having access to any particular party, any discussions of scope and background should be transparent.

Apportionment of cost was considered. AM indicated he would expect to accept a proposal that costs be allocated between Shippers based on the number of meter points served. GE confirmed that ICoSS members would also be happy with this. It was suggested that the Transporters should bear part of the cost, although EM and AR were not clear that this would be appropriate. TD asked Shippers whether they would be prepared for the work to go ahead and fund it themselves if the Transporters did not contribute. It was confirmed that the Shippers would expect to be prepared to meet the whole cost in order to ensure the project progresses.

Potential interaction of the Workgroup with the appointed party was queried. It was expected that an interim or draft report might be made towards the end of the study timeframe. Concerns were expressed about a potential paucity of information before that point was reached. JD indicated that he would be happy to provide progress updates to the Workgroup. The level of transparency required was discussed. The updates will have to demonstrate that the work is on track and the final report will be delivered on time.

It was suggested that the report should be commissioned from an independent expert with recognised industry standing. JD indicated that he would welcome a framework to assist in the selection of an appropriate party – for example, the selection criteria could be determined by the Workgroup.

Attention then turned towards the scope, and AL reiterated the discussions from the previous meeting. It was believed that it should be a purely statistical and unbiased exercise. GE thought this might be hard to achieve as, in his opinion, any such analysis needed to take account of the difficulties that industry parties faced in meeting performance standards.

TD asked what was the output being sought - what would a good settlement post-Nexus look like? It was considered that the volume of unsettled energy presents the key risk to the market, and this was explained by MJ.

Other questions were formulated. Does the model need to include the costs of any potential change? Should the frequency of updating the model be considered? Should it be a technical expert or an academic party?

At this point Phidex and Xoserve were invited to rejoin the meeting.

EL presented a Topic Matrix and explained the details of where data issues exist, pointing out where data could be improved relatively easily to provide some 'quick wins'. She suggested these could be rated and prioritised. It was observed that this gave a view of materiality but that it was difficult to reach conclusions without the associated energy values. It was hard to put a value on some of these areas. CB thought that the academic study should indicate if an area was worth addressing.

Phidex and Xoserve were asked to give an idea of their understanding and the industry's requirements. RC noted the key points to focus on to make improvements; the reconciled data would be analysed and errors would be identified. It was questioned whether this might be granular rather than strategic; root causes would be brought out by the academic study. SM believed it should be thought about strategically - an understanding of what settlement risk looks like at an aggregate level and what the cost of improving it might be, and then whether it was efficient and made sense economically to make a change (it might not always be that change is cost effective). It was questioned how a methodology might be created to achieve the 'right' level of improvements. AL suggested the aim is to gain an understanding of what was impacting settlement risk; and what effect any incremental improvements to accuracy has on the identified risk (degree and shift); it might be that there may be very little significant difference to be achieved by a 1% or 5% improvement – it might be basically the same. What level of degradation of accuracy is acceptable?

TD suggested that the model should encompass identification of variables and any sensitivities that affected these. It might be that it is more efficient to maintain performance rather than improve to a 'better' level. No one actually knows, for example, if meter read frequencies are critical. A report would provide a better view and give support to whatever approach is determined should be taken. TD added that this was not looking at building a model on the existing UNC processes/rules but rather should look at the proposed regime.

A dataset could be analysed for root causes contributing to an unreconciled position and recommendation of methods for adoption to address the findings. Root causes could be addressed through UNC modifications if appropriate. The model should be capable of being refreshed and be flexible enough to take account of the impact of any UNC modifications that might be implemented. There would be an enduring requirement for the model to be tested on a regular basis.

Sensitivities and risk premiums were briefly discussed. It was acknowledged that each Shipper determines its own risk strategy to satisfy the risk premium (take action or pay up). It would be helpful to clarify the influences and make them known, and then (as now) it would be up to individual parties to address or not, having reflected on their own business position. Education and/or escalation routes might be required in certain circumstances, but this was not necessarily the case.

It was questioned if access would be expected to central systems data and/or Shipper data. Some concern was expressed at the appointed party holding bi-lateral dialogues with Shippers, and it was suggested that the route to acquire information should either be through Ofgem (a request to a Shipper for provision of information) or made to the Workgroup. Any questions/answers should be funnelled through this Workgroup for consideration and discussion.

The model is an exercise to inform the debate. Performance should be assessed against value, and the cost overlaid on top of that, with an assessment of the incentives required to achieve what is needed. What level of accuracy will affect settlement and to what extent? How much do you invest in getting to a certain level? Will it be worth making that investment or should the status quo remain?

TD suggested that a 'representative' dataset was required to operate the model rather than necessarily assuming that current, actual, data is essential. There was a two stage process – devise the statistical model to identify the sensitivities, and then decide what, if anything, to do with the model (any change to targets would require the raising of a modification), and include a dynamic framework. The next steps would therefore be to commission a study, clarify what is expected, and set it in motion.

The Gas Performance Assurance Framework Position Paper was then revisited, and the wording of the section 'Targets' was reviewed. AM suggested there should be a feedback loop between the analyst and the Workgroup, ie analyst brings requirements to Workgroup and information could be made available through this forum for use by the analyst. The Transporters should be able to establish what central data can be made available if necessary. JD indicated that an initial dataset could be generic and produced by Xoserve - the 'expert' would ask for what was required to identify a set of risks. It was noted that reads have a different effect now to what was anticipated under Nexus. Also the information that Xoserve is holding may be subtly different to what a Shipper might be holding. AR confirmed that Ofgem would not be expected to go to the trouble of producing a formal RFI, and that Transporters would work with Xoserve to provide what was required for the study.

Timescales were discussed, and Phidex suggested that a study might be expected to take of the order of 6 months analysis time. A preliminary indication was therefore about a year from commissioning to completion. The requirement of an interim report towards the end of the process would form part of the proposal requirements. It was accepted that Ofgem would handle the tender aspects.

TD then referred to the "Monitoring Strawman" provided as a late paper by British Gas (available on the website). There were no comments.

Before the Workgroup moved on to consider the potential role, scope and cost of a supporting service provider once the model has been developed, Phidex attendees left the meeting. Xoserve were asked if they would wish to be considered for this role and EL confirmed that they would wish to do so. The Xoserve attendees therefore also left the meeting rather than risk being compromised and potentially unable to be considered for the service provider role if and when the proposed framework is established.

Update on Framework and Scope Action Plans - *ScottishPower*

The framework action plan relates to the ongoing service provider(s), and the scope to the academic study.

SM suggested the potential ongoing service provider should be referred to as 'the PAF Administrator'.

It was questioned how the PA Workgroup would interact with the Administrator role. It was suggested the Workgroup would perform an overseer role in respect of the Administrator role and activities; the Standards of Service Sub-committee was referred to as an example.

Different potential aspects of the Administrator's role were considered. Would it publish failures; were there opportunities for manipulation of the process; should the role include that of 'whistleblower/policeman'; would it expect to dictate to a failing party the corrective action to be taken; would it perform an educational role.

The role should include running the model and reporting (on whatever aspects were agreed) and production of anonymised reports, perhaps with failures notified through a reporting route to Ofgem. MC pointed out that incentives may change and cease to be reflective over a period of time; should a year pass before any re-run of the model? Scenarios were discussed. An annual cycle was favoured – with a view to striking a sensible balance between volatility and accuracy. It was questioned should the same party operating the mechanism be involved in the assurance function. JD suggested clarifying the boundaries to the primary role before considering whether more than party was required to fulfil differing functions.

Performance of an annual review of the working of the process would be required (to ensure no 'scope creep'. Signals should be issued when continuing assessment of circumstances indicated that the model needed refreshing.

The neutrality of the Administrator was important: running the model, reporting, invoicing, and reviewing the scheme, might be done by one party; review of the model might be undertaken separately by a different party.

AL made reference to page 8 of a presentation made at the previous meeting (Performance Assurance – Update of Model Considerations) which proposed 3 parties performing different functions - the first carrying out reporting and administration, the second looking at performance, and the third carrying out an assurance function. The relevant slide was displayed; roles were considered.

Various scenarios were discussed where data failure into the system was evident. Exposure of the market to the consequences of a party's action/inaction required further consideration. Reporting scenarios under Nexus were discussed – should any of the PA reporting be fed through to any other process/party?

SM emphasised that the consequence of failure should be a penalty; but how that was mitigated should be a business' own choice. AL observed that the industry should be helping each other to upgrade accuracy; the assurance role should be to point out what may be inappropriate actions/behaviour. It was recognised that, according to the outcome of its individual risk assessments, a business may actively choose not to make expensive system adjustments and elect instead to absorb the consequences of any penalty regime.

It was pointed out that the Settlement model would not be a panacea for all current ills, and different reports might be required for different purposes. JD explained his view as to how the process could work, without recourse to a modification.

The breadth of the activities that a PA Administrator is expected to perform will determine the costs. Another party should carry out the issue identification.

It was suggested that a Sub-committee (such as the Standards of Service Sub-committee) might be key to the overseer process and this could be managed according to agreed Terms of Reference. In the Box headed 'Assurance' it was suggested the Sub-committee could carry out functions (1) and (2). JD observed that it should be a self-governing process without involving Ofgem.

Referring back to the 'Scope Action Plan' (provided at the previous meeting), consideration was given as to how the PAF might be contracted and funded. A number of points were raised: Should it be done through the UNC? How appointed? Does it have to be contracted? Would it include administration of the review of the model, but not its management? Would an annual tender process be required with all its attendant costs, or would the appointment run for a set period. What would be the consequences of failure, ie asking the appointed party/expert to do something – perhaps outside their expertise – and it is found to be incorrect? How would that be addressed?

An annual review could be priced into the tender; as the model settles and experience is gained in interpretation of findings and the consequences, the frequency of review might diminish. Contracts could carry various incentives/penalties.

TD referred back to funding, and having an appropriate process in place for drawing down at any point.

It was suggested that the Workgroup should assist in devising the selection criteria and have a greater involvement in the contract(s). JD referred to similar procurement situations under the BSC and believed this process could be captured in the UNC to provide the industry with transparency and oversight; certain key terms would need including and a modification would be required.

General – operational considerations for future meetings

SM suggested that the structure of future meetings could feature defined Open and Closed sessions to enable parties with a declared interest to participate and contribute at points appropriate to their expertise and potential service provision.

AJ suggested that any commercially sensitive minutes from the meetings should be made available in a 'password protected' area of the website. TD suggested that documents themselves could be 'password protected', and this was supported.

Next Steps

It was suggested that the Issues Log and the Action Plan be updated to reflect progress made.

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

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

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

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

3. Any Other Business

None.

4. Diary Planning

The next meeting will take place at 10:30 on Wednesday 21 August 2013, at Ofgem, 9 Millbank, London SW1P 3GE.

Action Table – Performance Assurance Workgroup

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
PA05/02	14/05/13	2.	Provide a view on the potential regulatory impacts associated with development of a Performance Assurance Framework.	Ofgem (JD)	Closed
PA06/01	12/06/13	2.	Consider commissioning an Independent statistical analysis and propose how this should be funded.	Ofgem (JD)	Closed
PA06/02	12/06/13	2.	Draft a high level paper describing the proposed approach.	ScottishPower (AL)	Closed
PA07/01	22/07/13	2.	<i>Terms of Reference</i> – Develop and circulate for comment.	Ofgem (JD)	Pending
PA07/02	22/07/13	2.	<i>Framework Scope</i> – Provide a one page summary.	ScottishPower (AL)	Pending
PA07/03	22/07/13	2.	<i>Academic Study</i> – Provide appropriate selection criteria for tender/appointment process.	ScottishPower (AL)	Pending
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)	Pending