

Performance Assurance Workgroup Minutes

Wednesday 25 September 2013

At Gazprom's offices, 20 Triton Street (off Osnaburgh Street),
London NW1 3BF

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)	ScottishPower
Colette Baldwin	(CB)	E.ON UK
Edward Hunter	(EH)	RWE npower
Jon Dixon	(JD)	Ofgem
Lorna Lewin	(LL)	DONG Energy
Mark Jones	(MJ)	SSE
Rob Johnson	(RJ)	Wingas
Steve Mulinganie	(SM)	Gazprom

1. Introduction

BF welcomed all to the meeting and thanked Gazprom for provision of a venue and its hospitality.

2. Review of Minutes and Actions

2.1 Minutes

The minutes from the previous meeting were approved.

2.2 Actions

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

Update: Under preparation; JD will circulate for comment shortly. **Carried forward**

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

Update: Under preparation; JD will circulate for comment shortly. **Carried forward**

PA08/01: *Selection Criteria Document* - Update and provide to Ofgem.

Update: AL has provided this to Ofgem and can circulate to others on request.

Closed

PA08/02: *Tender Advertisement* - Provide a link to the dedicated area on Ofgem's website.

Update: To be provided. **Carried forward**

PA08/03: Xoserve Reports – Obtain list of reports and additional information (purpose, uses, provision to SPAA, associated obligations, generic/compliance standards) for further assessment by this Workgroup.

Update: The list that had been compiled in response to the Nexus Workgroup action had been made available to this Workgroup. It was noted that it did not include reports covered in the Nexus BRDs or, for example, the Mod 81 report. Others may also have been omitted. **Closed**

3. Discussion

3.1 Declaration of interest by any Party who would look to carry out the academic study or PAF Administrator role

None made.

3.2 Update from Ofgem on PAF letter to Shippers and Transporters

Responding to Actions PA07/01 and PA07/04, JD reported that he would be circulating the ToR and the letter for comment very shortly.

3.3 Consider the need for a sub-group to aid in procurement/management of independent study

It was observed that the criteria had already been set and that a more detached position might be preferred. The Workgroup reaffirmed its support for the process and would be happy to respond to any questions fielded to it by Ofgem.

3.4 Consider current reporting by Xoserve and underpinning obligations

BF pointed out that the Project Nexus Workgroup was referring to this Workgroup for views/opinions on the development of a performance assurance regime.

There were views expressed on whether certain reports might have to be 'hard-coded' and mandatory; and a meeting later in the process might debate and establish what is to be required. JD felt they should be an element of caution around hard coding as no one wanted to continue receiving a report, which due to later industry developments became superfluous.

It was suggested that there was scope for a separate piece of work looking at further activities that could be explored in greater depth and this may generate further reporting requirements.

AL referred to the list of reports provided by Xoserve, and BF reiterated that it had focused on all the reports that were not currently set out in the Project Nexus BRDs. JD observed this would be a good time to revisit reporting requirements and establish if these were still necessary or of value, or whether something new was required. Participants felt it would be preferred not to have specific reports mentioned in the UNC (this would enable Xoserve to respond more dynamically) but put into an ancillary document that sits outside the UNC but with appropriate governance that may be controlled by a sub-group. The origins/sources of the existing reports would need to be discovered and purpose, value and validity re-examined.

It was suggested that a master spreadsheet be created to capture this and any new requirements.

It was suggested that BF ask the Project Nexus Workgroup and Xoserve to give views on what they thought they were producing in respect of reports. SM commented that Project Nexus was not adjusting any of the parameters but was designing the systems to give the capability to allow parties to extract business specific reports. JD observed that this Workgroup might need to cover what was not covered by the Settlement side. SM summarised that the group should go through the reports and consider the

structures and any sanctions/additional sanctions and address/obviate any perverse incentives.

Action PA09/01: *Reporting* - Ask Xoserve to give views on what they were producing in respect of reports for Project Nexus and wider.

Action PA09/02: *Reporting* - Ask Xoserve to update the current reports list to include all the reports encompassed in the BRDs, and then circulate for review.

3.5 Consider what may be out of scope, eg legislative requirements that result in error

JD suggested a tiered approach. Some factors clearly could not be influenced, eg meter accuracy. Other factors were decided and set elsewhere, eg Shrinkage formula, but may be amenable to a suggested change. Others were less clear-cut, in that they might or might not be drawn into scope, such as offtake metering and its inspection regime. There may be many other areas that should be given consideration and appropriate justifications established as to whether to include/exclude from scope. How outputs from various areas feed into Settlement and contribute to or affect degrees of accuracy might need a better understanding. The relationships between certain factors and accuracy tolerances may have changed over time and this may be a good time to review them.

It was suggested that Offtake errors might be better socialised, and this was briefly discussed (installation errors, accuracy of equipment, inspection frequency). Commercial and consequential risks needed to be assessed and taken into account as well as the duty of care and its cost. A proportional balance between parties might be considered.

It was suggested that it might be useful to prepare a paper, or a log, to bring forward and document these areas/issues for consideration under which such questions can be considered and either justified or discounted in terms of a Performance Assurance Framework. AL indicated that she had started to compile an Issues Log, which could usefully provide a starting point, and offered to circulate this.

Action PA09/03: *Issues Log* - AL to circulate Issues Log.

3.6 Review and discussion of the proposed scope and supporting document for the PAF Administrator

This was reviewed. SM thought it might be a little premature to agree this; as the study progresses different perspectives may crystallise and it will need to be revisited. Some closer cohesion with Project Nexus may also be required once the full effects on Settlement are understood.

AL suggested inviting Elexon to give an explanation of its activities to see if the Workgroup could consider any learning points e.g. what is the 97% performance target based on

Action PA09/04: Invite Elexon to explain from a factual viewpoint the reporting carried out in the electricity market, and what might be done differently if starting from scratch.

3.7 Consider and agree action plan for Performance Assurance regime

The action plan had been updated and this was reviewed. AL explained the perceived status of items/tasks to date as captured on the spreadsheet and noted comments and suggestions for inclusion/amendments as discussions progressed.

1 Independent Study of Performance Risk

SM believed Energy UK and ICoSS were comfortable with the intended approach, but was not certain of ENA's view as yet. It was observed that the actual split of costs had yet to be discussed.

Timescales were discussed. The addressed parties will be given a month to approve/sign off the commitment to fund the process. Once the responses are received it will progress to the procurement team. The ITT will be expected to be launched this autumn with a view to getting a concluded report by Easter 2014, and potentially a modification in place for autumn 2014 to follow on once Project Nexus is in place.

Item 8 – JD confirmed this will be covered in the ToR and will be agreed by the time the ITT is issued.

Item 10 – This will be held open for an appropriate length of time; information is likely to be published around the beginning of November, and selection will be made as soon as possible.

Item 15 – An aspirational date for any conclusion would be Easter.

Items 17, 18, 19 and 20 – Likely to be a separate piece of work on reporting – adjust dates – after study conclusion – July time? Separate out into a Reporting stream.

21 Performance Assurance Development Framework

22 Reporting

Items 23, 24, 25 and 26 – BRD reports need to be added and any additional reporting decided as a result of the study's conclusions, and any controls required around the model and reporting.

SM suggested there could be two separate streams – one of controls and how to manage Settlement methodology, and a reporting stream. The reporting stream could be looked at in parallel while the study is proceeding.

Xoserve to populate the BRD reports into the list and give to the PAF.

Item 27 - Monthly report and annual assessment of risk? Annualised?

Item 29 – Conclude by end of study so can consider against conclusions.

30 Overall Governance Arrangements

Should we consider sorting out the UNC aspects first, before considering other parties? JD suggested that there was a need to go back to the source to discuss the root cause(s) of any defects and this may mean recognition that this goes beyond the UNC. Under Single Service Provision it may be easier to apply and remove difficulties with other parties as some will by then have become subject to the same standards. Acknowledging that control over outside agencies was variable, there was concern that the 'tail should not wag the dog'. It was concluded that UNC parties should be included for the present.

Item 31 – amend.

Item 37 – amend.

Item 41 – Was an escalation route required for recalcitrant parties who breached the rules? It was felt there should be some strength in any actions and these could be tied in with existing UNC provisions and sanctions – it should be proportionate, quick to apply and very focused. It was suggested an intelligent body or panel was required that can make a reasoned judgment on the validity of any cause/argument/extenuating circumstances put forward as explanation/justification and to assess cause, effects,

and appropriate sanctions if necessary. JD indicated that Ofgem's involvement should be minimal, and only if all else fails.

Perhaps the strength and course of action needed to address such consequences should be considered once all the documents have been sorted out.

44 Day to Day Governance Arrangements

How do you request new reports? Add this question to the plan for consideration.

AL referred to the suggested Ancillary Document and asked if this should cover Items 21 – 46. SM believed that might depend on how much should be included in the UNC, and suggested designing the Ancillary Document to include everything and then decide what could be eliminated and effectively incorporated into the UNC, whilst retaining flexibility and control such that a modification would not be required every time a minor change was addressed.

47 Introducing the PAF

At this point it should be relatively easy to develop any required modification(s).

50 Performance Assurance Framework Administrator

It was suggested that this would be easier to address post – Easter.

Item 57 - This will depend on what the entity is expected to do. If endowed with influence/powers it will certainly need transparency, clear accountability and formalised controls.

Next Steps

The action plan will be updated in light of the discussions and can be reviewed periodically as further progress is made.

ScottishPower were complimented on and thanked for their production of the action plan, which was greatly appreciated as a very valuable tool in helping to focus the purpose and progress of the Workgroup's meetings.

3.8 Discussion on “grace periods”

AL provided a discussion sheet and explained the background. A discussion ensued and it became evident that mixed views were held. It was recognised that Project Nexus was a big step change and that implementation was all in all probability unlikely to be perfect. Other areas of change were also in train for around the same time, and it was acknowledged that in the wake of such major regime changes business risk was likely to be much increased. This was of concern to a number of parties.

Reporting and sanctions were discussed, with most parties in favour of commencing reporting as early as possible as this would give an early indicator of what was working well and also early warning if something was failing. It would also steadily reduce the need to draw conclusions from and place reliance on 'old world' data.

Some parties favoured a transition phase, believing it to be a common sense approach given the scale and degree of change, and advocated delaying the introduction of sanctions/penalties until the regime had had time to settle down by which time market participants would have had sufficient time to address any major problems that had surfaced. (It could not be assumed that any problems discovered would be capable of being fixed quickly and appropriate time should be allowed to accommodate this

possibility.) Small suppliers might particularly appreciate a 12 month transition phase and reporting within that may show up what, if anything, needs to be speedily addressed.

Discussing the position of new entrants, it was suggested that Xoserve might have a stronger role to play following implementation, whereby resources used to prepare the implementation might afterwards be deployed, in a transition phase, to educate, support and assist any affected new entrants.

Considering timescales, concerns were evinced that Project Nexus might slip and it was important to adjust any timeframes to accommodate any such eventuality.

The anonymisation of reports was considered. JD considered that this approach was now archaic – most information was easily available through company reports and other documents in the public domain and identities were easily discovered. It was suggested that perhaps the assumption should be that reports would be open unless there was a very good reason for them not to be.

It was suggested that the question of anonymity should be added to the plan for consideration at a later point.

3.9 Next Steps

The Issues Log and the Action Plan will be updated to reflect progress made. Meeting arrangements will be made for November and December as discussed.

4. Any Other Business

None.

5. Diary Planning

Further meetings of the Performance Assurance Workgroup have been arranged as follows:

Date	Time	Venue	Programme
Wednesday 23 October 2013	10:30	Consort House, 6 Homer Road, Solihull B91 3QQ	Governance
11 November 2013	10:30	ENA, 52 Horseferry Road, London SW1P 2AF	To be confirmed
17 December 2013	10:30	Consort House, 6 Homer Road, Solihull B91 3QQ	To be confirmed

Action Table – Performance Assurance Workgroup

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
PA07/01	22/07/13	2.	<i>Terms of Reference</i> – Develop and circulate for comment.	Ofgem (JD)	Carried forward
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)	Carried forward
PA08/01	21/08/13	2.1	<i>Selection Criteria Document</i> - Update and provide to Ofgem.	ScottishPower (AL)	Closed
PA08/02	21/08/13	2.1	<i>Tender Advertisement</i> - Provide a link to the dedicated area on Ofgem's website.	Ofgem (JD)	Carried forward
PA08/03	21/08/13	2.1	<i>Xoserve Reports</i> – Obtain list of reports and additional information (purpose, uses, provision to SPAA, associated obligations, generic/compliance standards) for further assessment by this Workgroup.	Ofgem (JD) and ScottishPower (AL)	Closed
PA09/01	25/09/13	3.4	<i>Reporting</i> : Ask Xoserve to give views on what they were producing in respect of reports for Project Nexus and wider.	Joint Office (BF)	Pending
PA09/02	25/09/13	3.4	<i>Reporting</i> : Ask Xoserve to update the current reports list to include all the reports encompassed in the BRDs, and then circulate for review.	Joint Office (BF)	Pending
PA09/03	25/09/13	3.5	<i>Issues Log</i> - AL to circulate Issues Log.	ScottishPower (AL)	Pending

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
PA09/04	25/09/13	3.6	Invite Elexon to explain from a factual viewpoint the reporting carried out in the electricity market, and what might be done differently if starting from scratch.	ScottishPower (AL)	Pending