

Performance Assurance Workgroup Minutes
10:30 Tuesday 01 April 2014
Energy Networks Association
52 Horseferry Road, London SW1P 2AF

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Andrew Margan	(AMa)	British Gas
Andy Clasper	(AC)	National Grid Distribution
Angela Love	(AL)	Scottish Power
Colette Baldwin	(CB)	E.ON UK
Ed Hunter	(EH)	RWE Npower
Emma Lyndon	(EL)	Xoserve
Jon Dixon	(JD)	Ofgem
Jonathan Kiddle	(JK)	EDF Energy
Lorna Lewin	(LL)	DONG Energy
Mark Jones	(MJ)	SSE

Copies of all papers are available at: www.gasgovernance.co.uk/PA/010414

1. Introduction and Status Review

1.1. Minutes (04 March 2014)

The minutes of the previous meeting were approved.

1.2. Actions

0802: Tender Advertisement - Provide a link to the dedicated area on Ofgem's website.

Update: JD requested the action be carried forward. **Carried forward**

0201: ScottishPower (AL) and E.ON (CB) to consider the existing governance arrangements (i.e. sub-committee/guidelines), including governance in other Codes to consider options (i.e. strengths/weaknesses).

Update: Covered under meeting discussions, see 3.3 below. **Closed**

0204: ScottishPower (AL) to provide an update on the stages agreed and comments made and to also provide clarity in relation to any elements that ScottishPower have raised, but where Xoserve need additional clarity. Additionally, AL is to also flag any areas of concern that relate to the proposal raised by British Gas to A Margan.

Update: Action superseded by other events. **Closed**

0206: Xoserve (EL) to discuss with her Xoserve colleagues and provide an interim update on potential enhancements to the current reporting provisions (including splitting the report into Phase 1 and 2 aspects) and double checking what elements of the SPAA reports may be worth capturing under PAF reporting going forward.

Update: EL confirmed the reports could be split; there was nothing much to add to the reports apart from the iGT ones (this was under review). For SPAA the only missing item will be the RGMA statistics (eg resubmissions). EL suggested that further consideration might be given to the M Number creation process, ie confirm within a certain timescale, and this was briefly discussed. CB described instances where a valid delay could occur

within the processes. EL added that she will be discussing these areas further with the Shipperless and Unregistered Sites Workgroup. **Closed**

0207: Xoserve (EL) to provide an update on what reporting elements of UNC Modification 0434 'Project Nexus – Retrospective Adjustment' would need to be included going forward.

Update: EL confirmed that all is included in the Business Requirements Document (BRD). **Closed**

0208: ScottishPower (AL) to update plan, in particular adding three additional lines for the potential Modifications (risk analysis/incentives, framework and administration) and Xoserve's work on reporting under the current regime.

Update: Updated and circulated. **Closed**

0301: Ofgem to discuss and agree funding considerations with ENA, Energy UK and ICOSS and provide an update.

Update: JD requested the action be carried forward. **Carried forward**

0302: Required role functions to be built into the business rules.

Update: Added. **Closed**

2. Workgroups

2.1. 0483 - Performance Assurance Framework Incentive Regime
(Report to Panel consideration 16 October 2014) – Papers at:
www.gasgovernance.co.uk/0483

The minutes of the previous meeting were accepted.

Noting that further development of the modification depended on the outcome of the higher level discussions at the Performance Assurance Workgroup, AM had provided a draft revised version of the modification and requested any comments be sent to him ready to address in more detail at the next meeting planned for 09 April 2014.

AL queried the change to the implementation date. BF suggested that it might be better to state that no implementation timescales were proposed, but that this should be considered in light of the outcome of UNC Modification 0491 decision.

3. Discussion

3.1. Declaration of Interest

None made.

3.2. Ofgem Update

Work ongoing and actions to be carried forward; nothing further to report.

3.3. Workshop – Framework Options

Presentation 1: Performance Assurance – Framework for the regime (Angela Love)

AL gave a presentation, outlining the guiding principles and identifying a number of different aspects that might be included/excluded for consideration.

AM queried the negative statement that some Shippers had expressed a desire not to be accountable to their peers, suggesting that a 'light touch' approach to performance problems resolution was to be preferred rather than a desire for non-accountability. A data

cleansing exercise would be required to support the objective of meeting targets relating to improved data quality. Accountability is still required in some form but keeping the model simple would mean it does not require an appeals process. EH added there was a disputes process already in existence if a party refused to pay. AL thought this might need further consideration depending on the complexity of the model eventually established. CB noted concerns raised in previous discussions, whereby a party could choose to pay the 'fine' and make no attempt to improve data quality; such an outlet would not encourage better practice, and stored up potential performance problems for the next party to inherit the site.

JD commented that data quality issues were being addressed in other areas of the industry, and he was keen not to 'reinvent the wheel'; he will maintain a watching brief on progress made in other groups. Ofgem supported improvements in overall data quality, not just in settlement accuracy, and it may be that more than one solution can be applied to individually address identified problems of settlement accuracy and to enforce data cleansing. A holistic and co-operative view might be required to minimise problems and achieve improvements. Any incentives applied should drive the expected behaviour to cleanse the data. If the Framework is right and rigorous enough, the PAF Board should have the power to address any emerging issues; it should be 'issues driven', eg via a log or register, and perhaps be mandated to tackle the top three, and then move down as appropriate. Concerns were raised as to who and how would set any such agenda – how any such decisions might be weighted, who would decide level of materiality/scale/likelihood, etc, and the targeting of which activity to address. Scope creep should be avoided, and it was important to control the position and manage effectively. AM suggested perhaps other related forums could be centralised to provide updates/overviews to PAF Board so overall transparent and efficient control can be exercised.

AL asked how would behaviour change be incentivised? Is there a requirement to actively address data quality? Penalties/rewards was suggested as something the Board should look at.

Inclusion/exclusion of aspects from other Codes

AL had considered other Codes and identified a number of aspects that might be included/excluded; these were individually considered and discussed.

Market Entry

Previous consideration of the Elexon and BSc processes was referred to. At market entry an assumed level of competency was deemed to be more important in the gas regime. Examples were given under the Elexon process whereby testing had proved not to be infallible and could even be a barrier to entry. When a party signs the Accession to the UNC it is signing it is fully aware of the consequences. However, signing agreements to confirm a new party's understanding of risks and liabilities involved if they get it wrong, was also not infallible. Interactions in gas are different to electricity, and a middle ground solution might be better. It was suggested that an initial education pack underpinned with a supportive period of 'hand holding' would be of more benefit.

It was agreed that no market entry testing should be required and this should be excluded from the Framework.

Performance monitoring/assurance

Reporting will give assurance and provide greater visibility to any errors. Different levels are required, eg lower level around data and incentives, and at a higher level to identify impacts to customer transfers, etc.

It was agreed that this should be included in the Framework.

Peer comparison

This had been discussed at earlier meetings; mixed views were expressed on visible comparisons. CB thought that comparisons at some levels might be of interest and useful to consumers. More thought was required regarding what information relating to which activities should be published, and the levels of visibility that may be available to the industry and consumers. JD observed that sensitive information should not be disclosed, but whatever was published should be appropriate/sufficient to provide a sense of assurance that the market is working as it should. Traffic light and percentage ranges were discussed, and the need for target review in the event of exceeding those set. JD added that consumer complaint statistics could feed into this and help to drive improvements, depending on the reasons for the complaints. It was suggested that a Consumer representative might be engaged to offer insight into consumer issues and be able to share appropriate information/contribute to a risk register; he/she could also have a role in setting the target activities to address.

It was agreed that this should be included in the Framework.

Market exit

Xoserve manages this as part of the Customer Life Cycle processes.

It was questioned whether any accrued liabilities or liquidated damages in the incentive regime should be waived under exit circumstances. Should there be an incentive to cleanse data before exit – this would help to mitigate any inherited problems/performance issues for the acquiring party. Should there be a distinction between voluntary discontinuance (exit in a controlled manner) and where a party has ceased trading (sudden cessation of activities). How would settlement work in these cases? Are the expectations very different? Various scenarios were discussed. Would this fall to Xoserve to address on behalf of the Transporters?

AM suggested a debit invoice could be issued 15 days after the billing period, and a credit invoice 45 days after, to give collection opportunities before sharing out to 'live' parties.

The principle of 'pay first, dispute after' already exists. In reality if a party is in breach of UNC requirements then sanctions can be applied to the systems to prevent further exacerbation, and limit the remaining parties' exposure.

Action 0401: AL to look at existing arrangements (incentives/sanctions, etc) relating to invoicing under the current Market Exit process operated by Xoserve.

It was agreed that this should be included in the Framework.

Qualification

CB described the Elexon process.

It was agreed that this should be excluded from the Framework.

Disputes/error resolution

It was questioned whether the energy or transportation route examples might be followed. How would any route be managed and who would sit in judgement? CB gave examples of 'performance failures' that were outside a party's control, eg a central service provider fault, where a party could not exert any influence to ameliorate. How would this be treated under any mechanism; should there be certain circumstances identified for exclusion?

It was suggested that the PAF Board might be invested with certain powers, including the ability to suspend the settlement regime/current arrangements for a period of time.

How would Force Majeure be treated?

How would inherited data issues from a newly acquired portfolio (eg as a Supplier of Last Resort) be treated?

Would there be a dispute process for all scenarios?

It was agreed that this should be included in the Framework.

Breach/default

Treatment might be as for market exit, and according to any processes set out in UNC TPD S Invoicing.

It was agreed that this should be included in the Framework.

Error monitoring

The possibilities of auditing both processes and parties were discussed. CB referred to the BSC approach, based on a Risk Register, involving technical assurance checks and 'deeper audits'; some were risk based and others were process based. Materiality of impact (financial, customer) was considered.

It was agreed that this should be included in the Framework.

Aspects to include, to achieve assurance

AL had identified a number of aspects that might be included to achieve assurance; these were individually considered and discussed.

Detection – assessment, analysis

Was reporting sufficient? Who would review the reporting information and decide if analysis (settlement accuracy, data quality) was required? Would this require a business case to be raised? How would this be contracted? Would the PAF Board require enabling powers? It was suggested this needed further consideration under Phase 2, after the initial set up.

It was agreed that this should be included in the Framework.

Preventative measures

Education at market entry was suggested, whereby a new party's awareness of industry expectations and consequences should be increased.

Advance warnings of 'imminent failure' should be given before breaches occur.

Analysis of previous trends may help to identify problems and provide early warning indicators.

It was agreed that this should be included in the Framework.

Education

Education at market entry was suggested (as above); Xoserve could play a formative role at this point in bringing significant areas to the attention of new parties, and underlining the importance to the industry of good practice concerning data quality.

It was agreed that this should be included in the Framework.

Reporting/monitoring (e.g. serials)

It was agreed that this was needed in Phase 1, and that key items should be agreed.

EL pointed out that there will be enhancements made to current reporting, and a modification may be required.

Improvement Plans

It was suggested this might be considered more fully under Phase 2. It should go hand-in-hand with accountability and preventative measures, mechanisms for mitigation, and any appeals process. The use of an improvement plan as a precursor *before* triggering an

incentives mechanism was discussed. Is there anything in existence currently that performs a similar function? It should not necessarily be coupled with escalation. To whom should any escalation be made?

It was agreed that this should be included in the Framework.

Audit

It was agreed that this should be included in the Framework.

Enactment of the Performance Assurance Regime

AL had noted further aspects/questions for discussion and outlined three options for consideration, and explained how management/governance, change management and costs might be addressed under each option.

Option 1 – Framework set out and governed under the UNC

Ofgem preferred self-management. All parties would need to be represented on the Sub-committee, and different models of representation were discussed, with particular reference being made to the operation of the Master Registration Agreement Executive Committee (MEC).

At this point the focus of the meeting was directed towards Presentation 2.

Presentation 2: Gas Performance Assurance Framework Incentive Regime (Mod 0483) (Andrew Margan)

AM gave a presentation outlining requirements and principles, and offering a view on how these might be met. Various elements were discussed, and comments noted.

Appropriate incentive model (Slide 4)

Reference was made to bullet point 2, observing that it did not address other issues that cause customer problems.

Appropriate incentive rate and target (Slide 5)

Output could be presented in a simple table that can be easily populated by the party tasked with the responsibility. It might be linked to the Gas Year. It was suggested this could initially be subject to audit to give reassurance.

Appropriate mechanism for the incentive re-allocation (Slide 6)

Using current methodology, a rolling 12 month performance to be used, and invoiced monthly. It was not clear how using a rolling figure would affect the perception of accuracy. AM explained why an annualised target might be better for parties and their portfolio reconciliation. “Cliff edge”, retrospective adjustments and Code Cut Off Dates were briefly discussed. Concerns were raised as to how this sort of model would deal with adjustments ‘after the event’. This might depend on the period/level of error the industry was prepared to accept.

It was suggested that the formula illustrated on Slide 3 – Principles, might need to change. AM noted this for further consideration. It was also suggested that further consideration of the timescales for performance and settlement periods might be necessary. Weather and rolling AQ and actual energy usage were discussed. AM suggested the formula could be populated after the independent study has concluded.

Scenarios 1, 2 and 3 were explained and discussed. Should degrees of non-compliance be considered? Was it fairer not to exclude anyone? How would it work for Transporters – this might be a separate issue to be addressed through other means, eg shrinkage incentive, at a later date.

It was suggested that AM consider the electricity model and see how this was treated.

Action 0402: *Appropriate mechanism for the incentive re-allocation – Look at treatment under the electricity model and consider.*

UNC Performance Assurance Sub-committee – Principles (Slide 7)

UNC Sub-committees can make recommendations but have no decision-making powers, and have no power to contract with third parties. This raises issues regarding procurement, funding and contracting. It was agreed that an Overview Board should have some powers, level to be defined, and consideration needed to be given as to how these could be invested. How other areas of the industry managed this was briefly discussed.

Attention was then refocused on Presentation 1 (Slide 8).

Option 2 - Framework set out in contract with third party

It would be necessary to understand who the contracting parties might be. Could contracting devolve to the Transporters? They were not funded for the activity – how would they recover costs? It was observed that involving third parties involved additional costs, and perhaps this was not necessary at this stage. The example of the AUGÉ was discussed. JD commented that a long-term aspiration was that unreconciled energy should be reducing year on year but it was necessary to know and understand the various causes that contributed to the problem so that improvements could be effected.

Other parties to fulfil a contracting role other parties might have to be considered.

Action 0403: *Third Party contracting - Confirm what role the Transporters might be prepared to fulfil.*

Action 0404: *Consider other options for a special purpose vehicle (SPV) for the next meeting.*

JD commented that current arrangements should not limit what can be done in the future; reforms are possible.

Next Steps

BF summarised that the aim should be to finalise the Framework at the next meeting (09 April 2014), and that consideration should be given to the raising of two new modifications.

3.4. Project Plan – Update

The Project Plan was reviewed.

Item 10: To be put back to mid May, and other dependent items to be put back to June – August.

Items 25 – 28: To be considered at the next meeting (09 April 2014).

Items 31 – 38: To be considered at the May meeting (21 May 2014).

Items 46 – 48: To be considered at the next meeting (09 April 2014).

3.5. Business Rules

The intention will be to consider the Framework at the next meeting on 09 April 2014 and to review the Business Rules provided at the 04 March meeting.

4. Any Other Business

None.

5. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Following a brief discussion the meeting dates for May and June were rearranged – see below for new dates confirmed.

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 09 April 2014	ELEXON, 4 th Floor, 350 Euston Road, London NW1 3AW	Business Rule development – Framework to be finalised - Consider new modifications required
10:30 21 May 2014	ELEXON, 4 th Floor, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:30 10 June 2014	Energy Networks Association (ENA), 6 th Floor, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	<i>To be confirmed</i>
10:30 01 July 2014	<i>To be confirmed</i>	<i>To be confirmed</i>
10:30 05 August 2014	<i>To be confirmed</i>	<i>To be confirmed</i>
10:30 September 2014	<i>To be confirmed</i>	<i>To be confirmed</i>
10:30 October 2014	<i>To be confirmed</i>	<i>To be confirmed</i>
10:30 November 2014	<i>To be confirmed</i>	<i>To be confirmed</i>
10:30 December 2014	<i>To be confirmed</i>	<i>To be confirmed</i>

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
PA0802	21/08/13	2.1	<i>Tender Advertisement</i> - Provide a link to the dedicated area on Ofgem's website.	Ofgem (JD)	Carried Forward
PA0201	18/02/14	3.4	To consider the existing governance arrangements (i.e. sub-committee/guidelines), including governance in other Codes to consider options (i.e. strengths/weaknesses).	ScottishPower (AL) and E.ON (CB)	Closed
PA0204	18/02/14	3.6	To provide an update on the stages agreed and comments made and to also provide clarity in relation to any elements that ScottishPower have raised, but where Xoserve need additional clarity. Additionally, AL is to also flag any areas of concern that relate to the proposal raised by British Gas to A Margan.	ScottishPower (AL)	Closed
PA0206	18/02/14	3.6	To discuss with her Xoserve colleagues and provide an interim update on potential enhancements to the current reporting provisions (including splitting the report into Phase 1 and 2 aspects) and double checking what elements of the SPAA reports may be worth capturing under PAF reporting going forward.	Xoserve (EL)	Closed
PA0207	18/02/14	3.6	To provide an update on what reporting elements of UNC Modification 0434 'Project Nexus – Retrospective Adjustment' would need to be included going forward.	Xoserve (EL)	Closed
PA0208	18/02/14	3.8	To update plan, in particular adding three additional lines for the potential Modifications (risk analysis/incentives, framework and administration) and Xoserve's work on reporting under the current regime.	ScottishPower (AL)	Closed

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
PA0301	04/03/14	1.1	Ofgem to discuss and agree funding considerations with ENA, Energy UK and ICSS and provide an update.	Ofgem (JD)	Carried forward
PA0302	04/03/14	3.2	Required role functions to be built into the business rules.	ScottishPower (AL)	Closed
PA0401	01/04/14	3.3	AL to look at existing arrangements (incentives/ sanctions, etc) relating to invoicing under the current Market Exit process operated by Xoserve.	ScottishPower (AL)	Pending
PA0402	01/04/14	3.3	<i>Appropriate mechanism for the incentive re-allocation</i> – Look at treatment under the electricity model and consider.	British Gas (AM)	Pending
PA0403	01/04/14	3.3	<i>Third Party contracting</i> - Confirm what role the Transporters might be prepared to fulfil.	National Grid Distribution (AC)	Pending
PA0404	01/04/14	3.3	Consider other options for a special purpose vehicle (SPV) for the next meeting.	ALL	Pending