

## Performance Assurance Workgroup Minutes Tuesday 10 June 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            | (AM)  | British Gas    |
| Andy Miller              | (AMi) | Xoserve        |
| Angela Love              | (AL)  | Scottish Power |
| Colette Baldwin          | (CB)  | E.ON UK        |
| Ed Hunter                | (EH)  | RWE Npower     |
| Emma Lyndon              | (EL)  | Xoserve        |
| Fay Morris               | (FM)  | Xoserve        |
| Jonathan Kiddle          | (JK)  | EDF Energy     |
| Mark Jones               | (MJ)  | SSE            |
| Rob Johnson              | (RJ)  | Wingas         |
| Steve Concannon          | (SC)  | Xoserve        |
| Susan Helders            | (SH)  | Xoserve        |

Copies of all papers are available at: [www.gasgovernance.co.uk/PA/100614](http://www.gasgovernance.co.uk/PA/100614)

### 1. Introduction and Status Review

#### 1.1. Minutes (21 May 2014)

AL requested that the following changes be made to the minutes:

Under 2.4 Business Rules, Composition/governance (page 3, paragraph 6):

“ ..... What was the optimum size for a Committee? Attendees thought that this would be a maximum of 10. Balance was important but expertise was more important than a ‘constituency label.’”

Under 2.4 Business Rules, Composition/governance (page 3, paragraph 7):

“ .....It was suggested sufficient flexibility was required at the outset to function effectively and once constituted, the Committee could then refine what was an acceptable voting framework once it better understood what decisions it was called upon to make. It was agreed that the UNCC would consider composition and suitability of individuals on an annual basis and would suggest changes as necessary. It was also felt that Committee members should be appointed for 3 years and then could apply for re-appointment (for another 3 years).”

Under 2.4 Business Rules, Duties of the UNC Modification Panel in relation to the Performance Assurance scheme (page 4, paragraph 2):

“Quoracy was considered; it was usually set at a minimum of 2 Shippers and 2 Transporters. AL however noted that as the Committee was not to have constituencies and as members were there as industry experts that this should not be an issue. It was suggested that meetings should be able to proceed with a minimum of 3 members capable of voting present. It was suggested that physical attendance at meetings should not be an issue – much could be done through the circulation of communications and taking views/votes through that means, or by teleconference. It was proposed that voting would

be a simple majority and if there was a tie a default would be that the proposal was not approved.”

Under 3.1 0483 - Performance Assurance Framework Incentive Regime (page 5, paragraph 5):

“.....The principles of ‘polluter pays’ had been discussed at the previous meetings; what the incentive should be was still to be agreed. The administrator of payments would be Xoserve.”

The minutes of the previous meeting were then approved and a revised version will be published.

## 1.2. Actions

**PA0802: Tender Advertisement** - Provide a link to the dedicated area on Ofgem’s website.

**Update:** Ofgem representative not present; no update provided. **Carried forward**

**PA0301:** Ofgem to discuss and agree funding considerations with ENA, Energy UK and ICOSS and provide an update.

**Update:** Ofgem representative not present; no update provided.

In the meantime, AM advised that he has provided a paper to the Energy UK Retail Committee, proposing an arrangement for costs. If this was approved then Ofgem will be able to commence a procurement process. If not, then the alternative might be to consider the raising of a User Pays modification, which would extend the delay in getting anything started still further. AMi pointed out that Xoserve may not be able to accommodate this course as it is not a Transporter activity and costs cannot be passed through. Xoserve can refuse to do this. It was suggested that Workgroup participants consider alternative routes to achieve progress in sourcing funding. **Carried forward**

**NEW Action PA0601: Academic Study Funding - Workgroup participants to consider alternative routes for sourcing funding.**

**PA0403: Third Party contracting** - Confirm what role the Transporters might be prepared to fulfil.

**Update:** AMi reported that this was under discussion but as yet no conclusion had been reached. **Carried forward**

**PA0406: Modification 0483** - Develop models of settlement patterns to help inform Modification 0483.

**Update:** Believing that circumstances had moved on, AM questioned if this action was still relevant. A brief discussion followed, and it was concluded that the action should remain open. **Carried forward**

## 2. Discussion

### 2.1. Value Chain Development - Workshop

This item was addressed and concluded in advance of the Workgroup’s general business proceedings.

AMi introduced the session and SC explained the objectives of the Workshop, presenting some introductory slides. FM and SH gave a brief overview of the value chain model devised for Xoserve as an example of what might be arrived at through this exploratory process. A brainstorming session then commenced, led by SC.

The output from this session will be collated and provided to the Workgroup for its review and consideration in its development of the role of Performance Assurance Sub-committee and the functioning of its members and activities.

At the conclusion of this item SC, SH and FM left the meeting. AMi remained, in his capacity as a Transporter representative nominated by A Raper, National Grid Distribution.

## **2.2. Declaration of Interest**

None made.

## **2.3. Ofgem Update**

Ofgem representative not present; actions to be carried forward.

## **2.4. Draft Modification**

### **2.4.1 Introduction of a Gas Performance Assurance Framework**

AL presented a draft modification. This was reviewed onscreen and comments and suggestions were added for consideration in the revision of the draft.

It was suggested that it should be noted in the modification that the modification was one of a suite of modifications that will be required to deliver the Performance Assurance Framework. A minor change to the title was also suggested.

#### *Page 3 Section 1- Summary*

*Why Change? (paragraph 3)* - AMi suggested that it should be explained what the identified standards are.

*Solution* – It was suggested that references to Modification 0483 should be removed. Alignment to the Project Nexus go live date and the start of the Gas Year was discussed and a number of revisions suggested to the wording of this section.

*Relevant Objectives* – Facilitation of (f) was considered to be debateable.

*Implementation* – BF gave advice on what should be included at this section and why.

#### *Page 4 Section 2 - Why Change?*

Quantification of risk and reconciliation between LSPs and SSPs was discussed. Suggestions for consideration included:

- Include source of information/justification for any figures cited
- Cross reference to supply information produced for Modification 0432
- Quantification of the risk should be more clearly defined (how much is the 'cake' and the perceived value of any percentage of misallocation)
- Consider cost reflectivity, competition, removing barriers to entry/competition, and pricing risk
- Consider, is it just about energy reconciliation, or something more; what are the additional benefits to wider areas, e.g. network planning, SMART and Nexus benefits, smaller players and new market entrants (removal of degrees of risk), increase in market openness and transparency.

#### *Page 4 Section 3 - Solution*

It was suggested that the reference to Modification 0493 [*sic*] be removed, and a change be made to the text in the pictogram.

It was questioned whether a separate guidance document, that would set out how the activities are to be delivered/effectuated, should be provided as an appendix (as

accompanied the AUGGE modification). AM was of the view that the Administrator role would be defined by the Performance Assurance Sub-committee in the future, ie once it was formed, rather than be included in this modification. The modification creates the governance for how the Sub-committee is formed and its main responsibilities/functions. This referred back to Action 0403 – Third Party contracting capability. CB suggested that perhaps extending the remit of the Standards of Service (SoS) Sub-committee was another option.

Independence of member views/actions and roles of parties was discussed briefly. Disparate views were expressed and remained as to whether or not the Administrator role should be included within this modification and how the secretariat would operate.

AMi pointed out that the modification will need to create the permissions in UNC for data to be released to party/parties in particular forms. It was suggested that AL consider UNC TPD Section 5, regarding information and confidentiality.

AL will reconsider the draft modification in light of the Workgroup's comments and suggestions and revise where appropriate.

It is proposed to formally submit this modification to the July UNC Modification Panel for its consideration.

## **2.5. Business Rules – Review of draft**

AL will revise the Business Rules to reflect the Workgroup's discussions.

## **2.6. Project Plan Update**

*Items 42, 43 and 44:* It was suggested that, due to time constraints, consideration of these be deferred to the July meeting.

The Project Plan was briefly reviewed and the lack of progress of various activities was noted. RJ suggested including additional columns to track delays between proposed start and actual start.

The absence of Ofgem representation and the limited Transporter representation was noted, and extreme disappointment was expressed by those present at the perceived lack of participation, support and interest that appeared to be contributing to the delays. What was recognised to be an important issue for industry was perceived to be being hampered by poor engagement and lack of activity by the Authority and the Transporters.

The Workgroup requested that the Chair report on these expressed views to the UNC Modification Panel at its next meeting.

**Action PA0602: *Workgroup attendance/support* – Report on expressed views to the UNC Modification Panel.**

## **3. Workgroups**

The Performance Assurance Workgroup had agreed at its meeting on 04 March 2014 that, rather than having separate Modification Workgroup meetings, all discussions should be contained with the main Performance Assurance Workgroup and the elements considered should be captured within the appropriate modification(s).

### **3.1 0483 - Performance Assurance Framework Incentive Regime**

([www.gasgovernance.co.uk/0483](http://www.gasgovernance.co.uk/0483) - Report to Panel due on 16 October 2014)

In light of the earlier discussions it was questioned whether this modification should be divorced from the need for an academic study.

The Workgroup then went on to review the revised draft modification published prior to the meeting. AM reiterated the focus of the modification, and outlined the strawman proposals he had set out within Section 3 Solution for consideration by the Workgroup. A discussion of the points ensued.

---

*Identify the system and data to measure and monitor industry performance*

How will the study deal with the SSP sites? How will the amount of energy to be reconciled be managed? Statistical modelling should identify what the appropriate targets should be and the level of risk to the industry. It was questioned what would actually be measured. Aqs could be erroneous. Would the study be looking at that much data, and how far down would it be drilling? CB referred to energy unreconciled post Nexus implementation and questioned can this be done pre Nexus? Various suggestions were offered.

*Establish appropriate methodology for target setting*

AMi queried was it acceptable to suggest that a site remains unread – surely the target must be to read 100% of sites? Whilst recognising the validity of the comment, CB pointed out that 100% was acknowledged as not being a realistic target as sites were not read for a number of different and valid reasons. The target must also be centred on a sensible cost/benefit ratio to make it worthwhile and should be predicated on sound analysis. It was recognised that it should be proportional amount to be read to ensure the best level of accuracy for the market in relation to the cost of achieving it; realistically every site will not be read or reconciled. In the future, the installation of SMART meters will lead to an increase in the proportion capable of being read and it may be that 100% might be then be the target.

*Establish appropriate target and incentive rate*

The table would be set out in an ancillary document capable of change without resorting to raising a UNC Modification each time.

*Determine appropriate mechanism for the incentive re-allocation*

AMi suggested removal of the timescale (15 days) and to leave the statement indicating that the invoice will be issued. The mechanism might be similar to Neutrality and it was suggested that AM consider similar rules to inform this.

BF observed that this modification related to Shipper performance. AM confirmed that a further modification would be raised to address Transporters' performance. It was questioned should an incentive for Transporters be different to that for Shippers. Reference was made to DM sites; 18 were above the mandatory threshold that are not registered as DM and Xoserve and the Transporters would be discussing these with Shippers. It was noted that the volume of energy represented by DM sites is significant and can distort reconciliation; not reading these would be placing a much higher risk across the whole industry. AM noted the position of DMs for further consideration.

The following questions posed by AM were considered:

- a) *How is the settlement performance reporting function managed? - Assumed to be covered by Xoserve reporting project, but does this still need to be codified?*

EL explained what the methodology proposed would include. It was questioned whether a separate report would be required. AMi observed the target set on reads submission is the primary target. CB questioned how would it would be known if a party had achieved 100% of reconciliation – this assumes that the Aqs are accurate and that meters are reading the amount of energy used accurately, and that shrinkage, leakage and theft are all known quantities, etc.

- b) *How will the appropriate incentive target and rate be signed off? – Assumed this is covered in the Governance modification.*

Where should the rules sit? CB was concerned that the independence of parties could be compromised; despite best intentions an overturning of decisions because of market interests might still occur. CB referred to the electricity industry as an example for further consideration.

*Implementation*

The other modification should be implemented before this one.

*General*

Measurement by read submission is the leveler (they must be validated and accepted by the system), not the value of energy reconciled; 100% reading is required.

**Action PA0603: Modification 0483 - AM to consider splitting out by product type and 100% meter reads/reading frequency.**

**4. Any Other Business**

**4.1 Sub-deduct metering**

BF reported that Phil Broom (GDF SUEZ) had written to the Joint Office and asked for the following issue regarding primes and subs to be included in the Workgroup discussion:

*“One issue we come up against quite often is with Prime & Sub meter arrangements. The issue is that with mixed (DM & NDM) arrangements, reads will only be accepted with 5 days of a re-sync, which only occurs annually. Because the date the re-sync is going to happen is not provided in advance by the Network to Xoserve then it is often too late to read the meter within this 5 day period (by the pedestrian Meter Reader) and therefore these prime and sub arrangements can go for periods without being read. This could have a significant detrimental effect on the performance levels being monitored and is not addressed under the current proposal.”*

AM explained that he had spoken with Phil Broom about this and had indicated that the Workgroup was focused on an earlier stage in the process and was not looking to resolve this issue. Once the Sub-committee was in place it would consult on all issues. AM suggested that in order not to lose sight of the issue it be captured on the Issues Log.

AMi offered to take up and address this issue immediately, if GDF Suez were advised to raise it with Xoserve.

**5. Diary Planning**

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Workgroup meetings will take place as follows:

| <b>Time/Date</b>        | <b>Venue</b>   | <b>Workgroup Programme</b> |
|-------------------------|--|----------------------------|
| 10:30<br>01 July 2014   | Room 4 - Energy Networks Association (ENA), 6 <sup>th</sup> Floor, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF | <i>To be confirmed</i>     |
| 10:30<br>05 August 2014 | 31 Homer Road, Solihull B91 3LT  | <i>To be confirmed</i>     |

|                               |   |                        |
|-------------------------------|---|------------------------|
| 10:30<br>23 September<br>2014 | Room 3 - Energy Networks Association (ENA), Dean Bradley House, 52 Horseferry Road, London SW1P 2AF | <i>To be confirmed</i> |
| 10:30<br>October 2014         | <i>To be confirmed</i>  | <i>To be confirmed</i> |
| 10:30<br>November 2014        | <i>To be confirmed</i>  | <i>To be confirmed</i> |
| 10:30<br>December 2014        | <i>To be confirmed</i>  | <i>To be confirmed</i> |

**Action Table**

| <b>Action Ref</b> | <b>Meeting Date</b> | <b>Minute Ref</b> | <b>Action</b>   | <b>Owner</b>                    | <b>Status Update</b>   |
|-------------------|---------------------|-------------------|---|---------------------------------|------------------------|
| <b>PA0802</b>     | 21/08/13            | 2.1               | <i>Tender Advertisement</i> - Provide a link to the dedicated area on Ofgem's website.                          | Ofgem (JD)                      | <b>Carried Forward</b> |
| <b>PA0301</b>     | 04/03/14            | 1.1               | Ofgem to discuss and agree funding considerations with ENA, Energy UK and ICOS and provide an update.           | Ofgem (JD)                      | <b>Carried Forward</b> |
| <b>PA0403</b>     | 01/04/14            | 3.3               | <i>Third Party contracting</i> - Confirm what role the Transporters might be prepared to fulfil.                | National Grid Distribution (AC) | <b>Carried Forward</b> |
| <b>PA0406</b>     | 09/04/14            | 2.1               | <i>Modification 0483</i> - Develop models of settlement patterns to help inform Modification 0483.              | British Gas (MJa/AM)            | <b>Carried Forward</b> |
| <b>PA0601</b>     | 10/06/14            | 1.2               | <i>Academic Study Funding</i> - Workgroup participants to consider alternative routes for sourcing funding.     | ALL                             | <b>Pending</b>         |
| <b>PA0602</b>     | 10/06/14            | 2.6               | <i>Workgroup attendance/support</i> – Report on expressed views to the UNC Modification Panel.                  | Chair (BF)                      | <b>Pending</b>         |
| <b>PA0603</b>     | 10/06/14            | 3.1               | <i>Modification 0483</i> - AM to consider splitting out by product type and 100% meter reads/reading frequency. | British Gas (AM)                | <b>Pending</b>         |