Joint Office of Gas Transporters

Stage 01: Modification

0483:

Performance Assurance Framework Incentive Regime

This modification is to introduce a top-down cost reflective risk based incentive regime to incentivise Shippers to ensure they reconcile appropriate volumes of Energy within their portfolio.

The Proposer recommends that this modification should be:

- assessed by a Workgroup

High Impact:
Shippers

At what stage is this document in the process?

01 Modification

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

Contents

About this document:

This modification will be presented by the proposer to the panel on 20 February 2014.

The panel will consider the proposer's recommendation and agree whether this modification should be referred to a workgroup for assessment.

Any questions?

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1 Summary

Is this a Self-Governance Modification?

Self Governance does not apply because this change could have a material effect on:

Competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes;

Why Change?

The new regime introduced as part of the Project Nexus arrangements is expected to offer wide benefits to the industry, however it is also recognised that new risks may be introduced. The gas Performance Assurance Workgroup (PAW) was established by the Uniform Network Code (UNC) Modification Panel to consider the development of a framework that can help to ensure the gas settlement risks are understood, and to provide assurance that the actions of parties are not inappropriately passing costs to others.

Given the value of energy that is delivered in GB each day, any small percentage inaccuracy in aggregate allocation is potentially significant. The volume of un-reconciled energy after any period is dependent on accurate and timely data provision, including asset and available consumption data.

Solution

This modification proposes an incentive regime that encompasses the allocation of energy and its subsequent reconciliation to actual usage by meter point, enabling the gas industry to set performance targets designed to incentivise behaviours that are consistent with the risk placed on other market players.

Relevant Objectives

This modification would have a positive impact on relevant objectives d) Securing of effective competition and f) Promotion of efficiency in the implementation and administration of the Code.

Implementation

~~[01 October 2015 if an Authority decision is made by 31 March 2014~~

~~01 April 2016 if an Authority decision is made by 30 September 2014~~

~~With a backstop lead-time of 18 months (549 calendar days) should the Authority makes its decision after 30 September 2014. This is noting that no implementation would take place in the winter operations period for the Gemini system being 02 October – 31 March and any implementation must be on the first of the month].~~

No implementation date is proposed, although it is desirable that this change is linked to the go-live date of Project Nexus

2 Why Change?

As part of the outcome of the last Gas Distribution price control review, it was agreed that funding should be available to support a major IT systems investment programme by the Transporters agent, Xoserve. This major systems investment for UK-Link Replacement provides an opportunity to consider whether the existing UNC existing requirements remain appropriate. Rather than asking Xoserve to procure replacement systems that deliver the existing functionality, there is an expectation that introducing regime enhancements at this stage would be the most economic time to implement any such change. The requirements gathering exercise for the enhancements is entitled Project Nexus and has now progressing to the system development stage.

Whilst the new regime is expected to offer benefits, it is also recognised that new risks may be introduced. As a result the gas Performance Assurance Workgroup (PAW) was established by the Uniform Network Code (UNC) Modification Panel to consider the development of a framework that can help to ensure the gas settlement risks are understood, and to provide assurance that the actions of some parties are not inappropriately passing costs to others.

Given the value of energy that is delivered in GB each day, any small percentage inaccuracy in aggregate allocation is potentially significant. The volume of un-reconciled energy after any period is dependent on accurate and timely data provision, including asset and available consumption data. Therefore PAW has identified the necessity for a performance target methodology and for an enduring incentive regime that encompasses the allocation of energy and its subsequent reconciliation to actual usage by meter point.

3 Solution

The following areas are to be completed by the Performance Assurance Workgroup (PAW).

To aid discussions strawman proposals are set out below -

The following are key components of a top-down cost reflective risk based incentive regime to incentivise Shippers to ensure they reconcile appropriate volumes of Energy within their portfolio –

1. Identify the system and data to measure and monitor industry performance
2. Establish appropriate incentive model ~~methodology for target setting~~
3. Establish appropriate incentive rate and target
4. Determine appropriate mechanism for the incentive re-allocation
5. UNC Performance Assurance Sub-committee

The following areas are to be completed at the Performance Assurance Workgroup (PAW). To aid discussions strawman proposals are set out below -

1. Identify the system and data to measure and monitor industry performance

- It is proposed that data on shipper performance is extracted from the Nexus System
- Shipper performance will be measured against the volume of energy reconciled within their portfolio
- Energy reconciled will be a percentage of energy within a shipper organisations collective portfolio
- Percentage of energy reconciled will be reported monthly

Draft Formula

Reconciled Energy / Un-reconciled Energy = Performance Percentage
~~AQ Portfolio / Reconciled Energy = Rolling Percentage Reconciled~~

2. **Establish appropriate methodology for target setting**

Further clarity of the methodology and the performance target will be provided by the independent study which will –

- ~~Report on the financial risk to market participants that the Nexus settlement processes may present, based upon analysis of the Project Nexus Business Requirement Documents~~
- ~~Quantify the scale and timelines in which risk is presented and dissipates~~
- ~~Deliver a model of the settlement process which can be used by the PAW to demonstrate the risk at different levels of input~~
- Create a model to determine equitable redistribution of cost based on risk presented (size in kWh and age of un-reconciled energy are expected to be the key attributes of the model)
- Detail of what needs to be measured to ensure accuracy of inputs (e.g. Transporter offtake metering, shrinkage, Shipper-provided meter readings, AQ calculation rates)
- Full documentation of the methodology and supporting information and assumptions

- The model is to be approved by the Performance Assurance Workgroup or relevant UNC Sub-committee

3. **Establish appropriate incentive rate and target**

The academic study is tasked to deliver an incentive rate, so to incentivise Shipper's behaviour that are consistent with the risk decisions they place on other market players. Following the completion of this work it is proposed this section is populated with the result.

- Once the model has been approved the incentive rate and target will be calculated and published by the Independent Study
- Subsequent years Transporters will apply the annualised model rules against the relevant industry data
- The model output 'incentive rate and target' should be published 3 months before implementation
- Transporters will be obligated to publish the model outputs and populate the Performance Assurance Incentive (PAI) table
- The PAI table must be approved by a UNC Sub-committee [Performance Assurance Sub-committee PAS]
- If there is reason to believe there is a manifest error with the PAI data, the UNC Sub-committee can majority vote to reject it. The existing table data will be carried forward. Transporters will have a maximum of 6 months to re-run the report data and re-present the PAI data to the UNC Sub-committee for their approval
- The table will be published under the Uniform Network Code

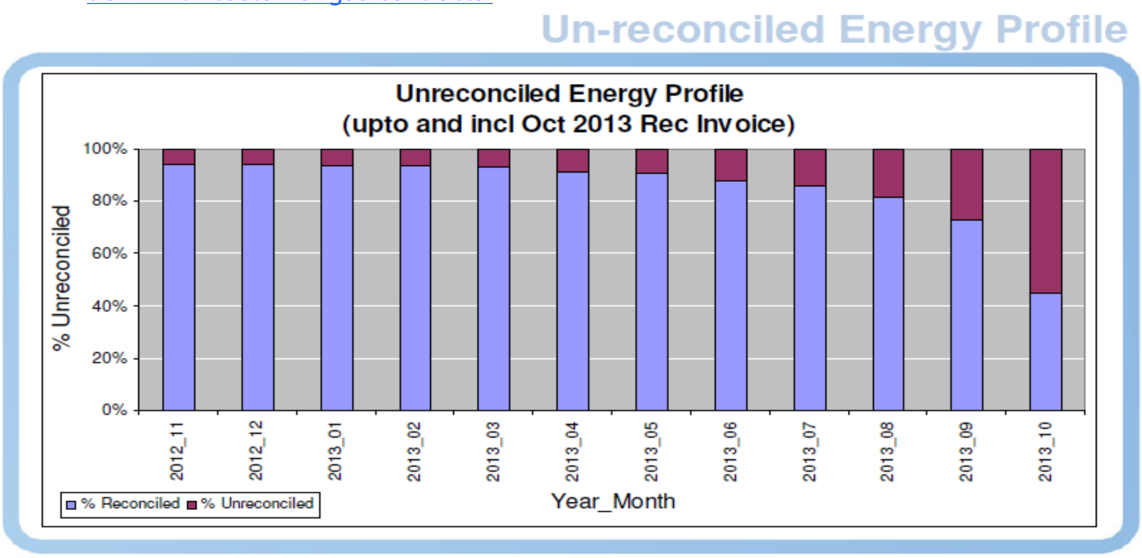
UNC Performance Assurance Incentive (PAI) Table format

Year	p/kWh	%target
2015		
2016		
2017		
2018		
2019		
Etc		

4. **Determine appropriate mechanism for the incentive re-allocation**

- The Performance Assurance Target (PAT) will be measured against a rolling 12 month performance, for each shipper organisations collective portfolio. (This will allow for the accumulation of industry data, as per the current reconciliation reporting process under DESC).

- The performance target should be set at the start of each gas year, which is the 1st October, to tie in with customer gas contracts.



Source; *04 February 2014 Presentation - NDM Algorithm Performance (Gas Year 2012/13) Slide 8*

- The Transporter will invoice monthly any shipper party that does reach the PAT.
- The debit invoice will be issued to the relevant party 15 business days after the non-compliance billing period and be payable within 12 business days of the invoice issue date.
- The corresponding credit invoice will be issued to the relevant industry parties 45 business days after the non-compliance billing period and be credited with 12 business days after the invoice issue date.
- Incentive allocation will be allocated by shipper AQ allocation market share, down to two decimal place.

The polluter would not receive back any funds and the incentive would be allocated to the rest of the market by allocation share after the polluters share is taken out, e.g. Scenario 4

Shipper	Allocation (kwh)	PAT Compliance	Pays In (£)	Scenario 1 (£)	Scenario 2 (£)	Scenario 3 (£)	Scenario 4 (£)
A	50	Yes	0	100	50	50	66.7
B	25	No	90	0	5	25	3.3
C	25	No	10	0	45	25	30

For clarity in Scenario 4 the £90 that Shipper B pays in is split between A and C in a 2:1 ratio based on the allocation share, therefore £60 goes to A and £30 goes to C. The £10 that Shipper C pays in is also split in a 2:1 ratio between A and B with A getting £6.7 and B getting £3.3. Therefore A gets £66.7 back, B gets £3.3 and C gets £30.

- **No appeal** will be available to parties for noncompliance of the PAT

5. UNC Performance Assurance Sub-committee

- The Performance Assurance Sub-committee (PAS) will be established to review and manage the Performance Assurance regime.
- The PAS will be a sub-group of the UNCC
- The constituency of the PAS is 6 shippers, 5 Transporters, 1 IGT and 1 Consumer Rep
- The powers of the PAS include –
  - Contract with third parties e.g. new independent report
  - Review the process and recommend any improvements
  - Request audits of the process
  - Raise new PA modifications
  - Suspend the PA process
  - TBC
- The PAS decisions will be approved by majority vote
- The PAS will meet as and when required (initially monthly), but as a minimum annually

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
The creation of the incentive regime is a classified as a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
Costs spilt will need to be defined at PAW
Proposed charge(s) for application of User Pays charges to Shippers.
Shipper charges will split by Shipper market share throughput
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
A cost estimate will need to be requested by PAW before this section can be completed

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	Positive
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

This modification would have a positive impact on relevant objectives d) Securing of effective competition and f) Promotion of efficiency in the implementation and administration of the Code.

5 Implementation

No implementation date is proposed, although it is desirable that this change is linked to the go-live date of Project Nexus

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6 Legal Text

Legal Text to be provided by National Grid.

7 Recommendation

The Proposer invites the Panel to Progress to Workgroup assessment.