

Performance Assurance – Update of Model Considerations

12th June 2013

A presentation by ScottishPower to update on discussions to establish
“common ground” on a Gas Performance Assurance Framework



Performance Assurance - Scope

Stages Considered – Stage 1

- Stages 1 and 2 to determine scope
- **Stage 1(a)** – to theoretically verify assumption that there is a problem and determine potential scale of accuracy issues
 - Undertake an academic study
 - An “in theory” risk register on materiality of process and data issues across the end-to-end settlement spectrum
 - Could then be split Transporter/Shipper/Xoserve/MAM
 - Could also be split LSP/SSP (although less relevant post Nexus)
 - Could also be split smart and dumb
 - Should the academic study concentrate only on the post Nexus process or pre-Nexus process?
 - Need to consider what other area that it might be useful to split out or what else needs added
- **Stage 1(b)** – industry should then consider:
 - If there are data quality initiatives that are addressing the problems
 - Where the level of “acceptable risk” sits, for example comparing the academic study and benchmarking with other industries e.g. finance, water, electricity

This could be the basis for the scope of the academic piece, with a view to looking at what the current level of risk is against what would be viewed as “acceptable” – the PAF then needs to work to this

Stages Considered – Stage 2

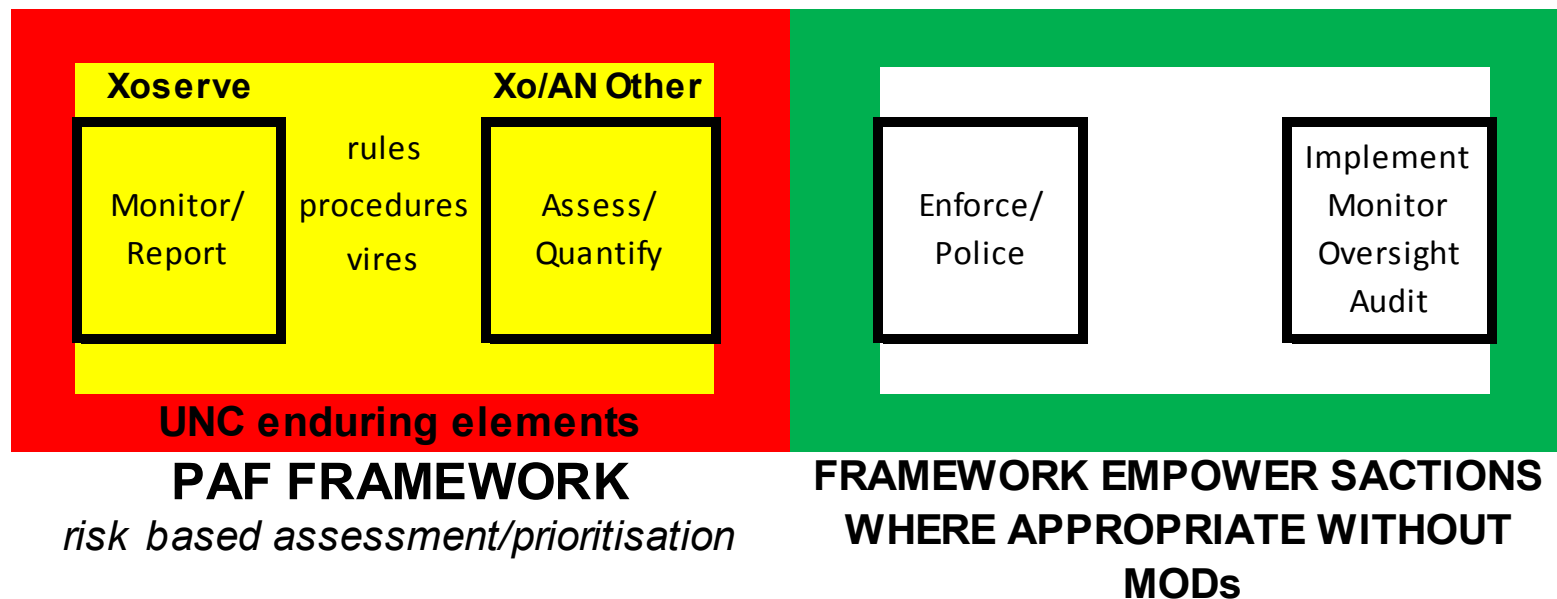
- **Stage 2** – to determine what is the actual problem, taking the theory and looking at reality, and then determining in the first instance risk/materiality and what should be monitored
 - ANOther to assign risk and score them based on academic analysis, but against “in practice” performance materiality
 - ANOther to create risks proposed to be reported on, managed and where applicable incentivised
 - ANOther carries out a consultation to agree with Parties:
 - to assess and agree with the risk and materiality found by ANOther
 - propose incentive process
 - agreed how often the risk register needs to be re-assessed
 - agree the mechanism proposed
 - The ANOther would then report on the consultation phase and responses

Following this stage a MOD(s) could be created to facilitate the adoption of a stage 2 process into the UNC, which would allow a risk/materiality process to be used under a PAF regime



Performance Assurance - Framework

What Ofgem is looking for...

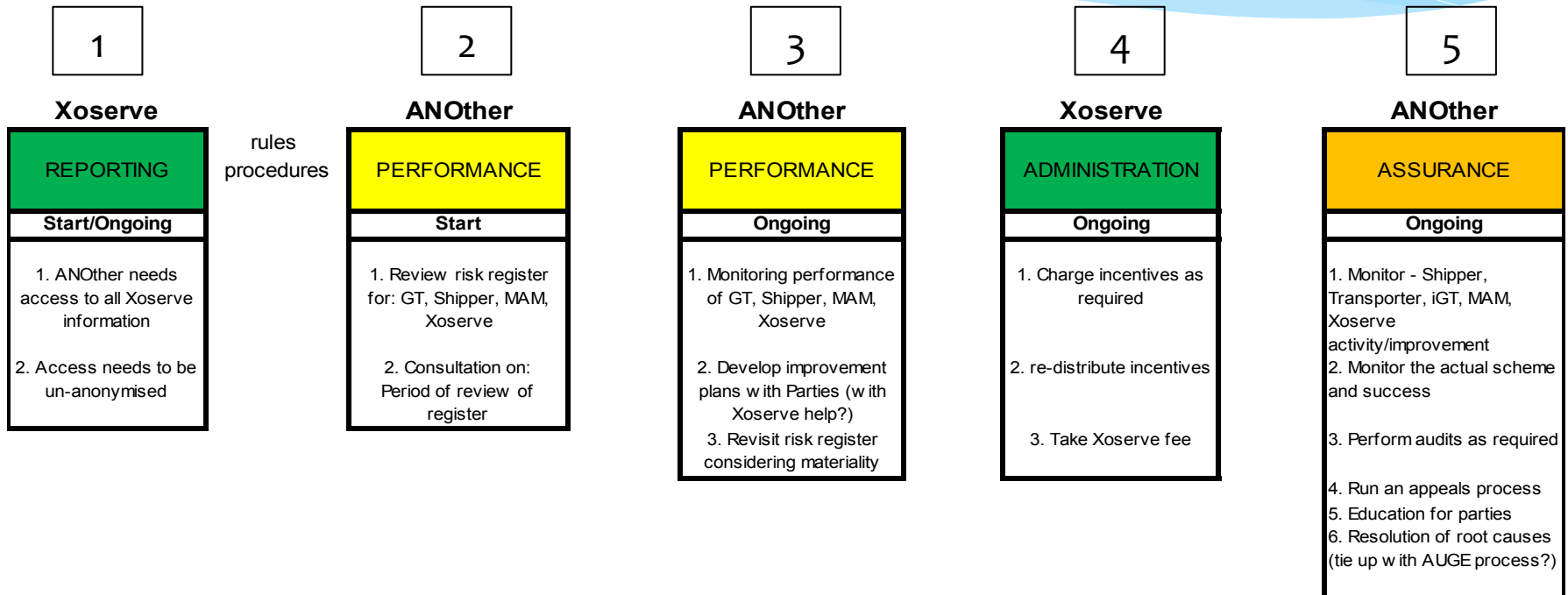


Ofgem is keen to ensure that any framework does not require continual and complex modifications to bring in performance monitoring or implement behavioural changes



How could it work in practice?

Feedback to date



It would seem important that Xoserve are part of the performance regime and that their performance is monitored and assured to give comfort to industry – this would exclude them from being ANOther

Questions/Aspects to Consider

1. Xoserve Reporting

Need to ensure confidentiality within the industry to information around risk

2. ANOther – initial Performance Monitoring

Who decides on final version?

Should there be standards set for the data?

The period of review may be driven by funding available

3. ANOther – Ongoing Performance Monitoring

Should there be a grace period?

Should the period up to Nexus be the grace period?

Is there an escalation process needed?

Should there be an appeal route?

Questions/Aspects to Consider

5. ANOther – Assurance

Is there a need for the oversight of the overall scheme and the performance of ANOther – do not want ANOther to make work for themselves

Who would pay for the audit?

What parties could be audited and why?

Should modifications be raised to address root causes?

Should the ANOther feed into market development e.g. commenting on proposed MODs or raising MODs?

Should there be an annual report on the scheme?

Should ANOther be changed every few years to get fresh perspective?

Should there be a separate contract review of ANOther?

Should there be steps introduced to limit risk?

Is it at this stage, or is it needed, that a friend role would be introduced?

Is a Panel required under the Assurance area?

Next Steps?

- ScottishPower has proposed they create two action plans to agree how to deliver the outline for the Performance Assurance Framework and the Performance Assurance Scope:
 - On the Framework, we believe that it is important to establish the requirements/preferences of Shippers [and Transporters], taken with Ofgem’s proposals to determine a “common ground”
 - We believe that this needs to be “stress tested” to ensure that the proposals are proportionate and strike the right balance between effective and efficient – keeping in mind not all Shippers/Suppliers are present at the meetings – this is the purpose of this presentation
 - On the Scope, we believe that an initial view from Xoserve on what they believe it is important to monitor may be telling on what the scope may need to include
 - However, as suggested in this presentation, in the interests of progress, there could be an option for appointing an academic study of material elements impacting settlement accuracy. This may lead to a distinct idea of what should be monitored and how incentives could be targeted, but would also need an in practice assessment of risk – could this be commissioned by Ofgem?

It has been suggested that the Performance Assurance Framework should be determined first to ensure that the metrics do not lead to parties taking entrenched positions