# Gas Performance Assurance Framework Position Paper

## Overview

To coincide with the planned replacement of the main UK Link systems, an improved gas allocation and settlement process is planned. While expected to offer benefits, moving to a new approach introduces an element of risk, for example through large retrospective allocations. The gas Performance Assurance Workgroup (PAW) was established by the UNC Modification Panel to consider the development of a framework that can help to ensure the risks are understood, and to provide assurance that the actions of some parties are not inappropriately passing costs to others.

## Business case

Given the value of energy that is delivered in GB each day, any small percentage error in aggregate allocations is potentially significant. As an indicator of scale, LSP sites are presently reconciled to their actual consumption. 95% of LSP energy reconciles within 12 months, leaving 5% of unreconciled energy (6 TWh). In future, it is proposed that all NDM sites will also be reconciled using actual consumption. If 5% of NDM energy were unreconciled after 12 months, 22TWh would be involved (about £500m). This would be reallocated as and when appropriate information is available, meaning that, across the market, Shippers could face positive or negative reallocations of many £m, many months after the consumption took place.

The volume of unreconciled energy after any period is dependent on data quality – including asset and available consumption data. Data quality is driven by the requirements placed on industry parties, and also on those parties meeting those requirements. A framework is therefore needed to establish performance requirements and to provide assurance that the identified standards are being met by all parties.

## Performance Assurance Framework Model

The PA Workgroup has agreed that a cost effective, self managing, dynamic, top-down, risk-based, assurance approach is required. This would inform and set cost-effective requirements, but also be capable of adjustment in the light of emerging evidence. The framework would also be calibrated to drive correct behaviours within the industry.

The immediate focus of the proposed assurance framework is the volume of unreconciled energy within Shipper portfolios. While managing this energy, and the risk that reallocation poses, remains the objective, the framework aims to establish and incentivise appropriate performance for the factors that drive allocation – e.g. asset data, site registration, meter reading, AQ calculation. It is proposed that a Performance Assurance Framework is in place when the UK Link replacement goes live. Performance reporting is expected to be transparent from this point, thereby helping to incentivise data cleansing ahead of go-live. Initially, it is proposed that performance will be monitored and reported upon. This will allow Shippers time to improve their performance and for the industry to review the appropriateness of the targets in light of what is seen in practice. In light of review, it may be appropriate to incorporate financial adjustments that will help to incentivise parties to meet the established requirements since, in the absence of adjustments, they would not face the costs of the risks that their actions impose on others.

**Targets**

To ensure independence and avoid any suggestion that the framework is being unduly influenced by particular parties, it is proposed that Ofgem lead in establishing terms of reference and contracting with a suitable independent expert to produce a statistical model of the settlement process. While the independent expert would be expected to set out the factors that drive settlement accuracy and its sensitivities, establishing a cost reflective set of targets for the inputs that drive the amount of unreconciled energy will require industry input – information will be necessary regarding the cost implications of achieving possible targets. A balance of costs and benefits could then be struck, with the potential for targets to be set dynamically if expected outcomes are not being achieved.

**Governance**

This initial setting of targets would be expected to be through a UNC Modification, potentially supported by an Ofgem Impact Assessment, allowing an opportunity for full consideration of the options. The Performance Assurance Workgroup is also considering the appropriate governance structure for monitoring and adjusting the framework over time. Consideration is being given to the role of an independent Performance Assurance Framework Administrator which might be required to operationalise the framework once established, ensuring the model is used and applied as intended. The potential role of an industry committee is also being considered, which might monitor and review both targets and performance under the new framework, and bring forward recommendations for change.

**Next Steps**

1. Develop the governance for a performance assurance framework
2. Contract and review the academic output
3. Create a risk matrix and issues register