

Stage 01: Modification

0506:

Gas Performance Assurance Framework and Governance Arrangements

At what stage is this document in the process?



This modification seeks to introduce a Gas Performance Assurance Framework to be used to facilitate assurance and incentivisation of settlement accuracy post-implementation of Project Nexus



The Proposer recommends that this modification should be assessed by a Workgroup



High Impact:
Shippers and Transporters



Medium Impact:
None



Low Impact:
None

0506

Modification

12 June 2014

Version 1.0

Page 1 of 10

Contents

1	Summary	3
2	Why Change?	4
3	Solution	4
4	Relevant Objectives	9
5	Implementation	10
6	Legal Text	10
7	Recommendation	10

About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 17th July 2014 and consider whether the modification should be referred to the Performance Assurance workgroup.


Any questions?
Contact: Code Administrator
 enquiries@gasgovernance.co.uk
 0121 288 2107
Proposer: Angela Love
 angela.love@scottishpower.com
 0141 614 3365/07725 999391
Transporter: Wales & West Utilities
 steven.j.edwards@wwutilities.co.uk
Systems Provider: Xoserve
 commercial.enquiries@xoserve.com

1 Summary

Is this a Self-Governance Modification?

This modification will have a material impact on Shippers, Transporters and on Xoserve operations and is therefore considered not to meet the criteria for self governance.

Why Change?

To coincide with the planned replacement of the main UKLINK systems, an improved gas allocation and settlement process will be introduced through the Project Nexus suite of modifications. Whilst Project Nexus enhancements are expected to offer benefits, moving to a new approach introduces an element of risk, for example through potential large reconciliations.

Given the value of energy that is delivered in Great Britain each day, any small percentage of error in aggregate allocations is potentially significant.

The volume of un-reconciled energy after any period is dependent upon industry participant performance – including quality of asset data and available meter readings. 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 provide assurance that gas settlements has accurate allocation, control and self monitoring and governance post-Project Nexus implementation, so that no unfair commercial advantage can be derived from settlement by any Party.

Solution

This modification proposes that there will be a new Performance Assurance Framework (PAF) introduced into the gas market arrangements. For the avoidance of doubt it is proposed that the Performance Assurance Workgroup will keep the implementation date of the PAF under review during development of this modification. The Transporters' Agency, Xoserve, are presently developing performance assurance reports for the current regime, if the PAF can be introduced ahead of that date, then the framework could be used for the current process.

The Performance Assurance Framework is expected to use the risk assessment process, as set out in another modification (at the present time MOD483 has been raised with the risk assessment process included). Such modification would therefore be complementary to this modification, but not an alternative to it.

Relevant Objectives

This proposal should have a positive effect on Relevant Objectives (a), (c), (d) and (f) as it is expected to lead to more accurate and up to date information being held on Xoserve's system and therefore improve accuracy of settlement.

The proposed Business Rules make use of the existing UNC Framework and was structured as such to keep costs of introducing a Performance Assurance Framework low and ensuring that dovetailing with current arrangements reduces complexity.

Implementation

No implementation timescales are proposed. However, this Proposal should be implemented as soon as possible after an Ofgem decision to do so, ahead of Project

0506
Modification

12 June 2014

Version 1.0

Page 3 of 10

Nexus Go-Live or at an earlier date and in time to allow the industry to establish the proposed Committee and supporting arrangements.

This modification is expected to be one of a series of modifications around Performance Assurance, which should be able to be developed independently and implemented at different times. For the avoidance of doubt it is intended that this modification can be implemented without any modification on risk assessment being approved

2 Why Change?

To coincide with the planned replacement of the main UKLINK systems, an improved gas allocation and settlement process will be introduced through the Project Nexus suite of modifications. Whilst Project Nexus enhancements are expected to offer benefits, moving to a new approach introduces an element of risk, for example through potential large reconciliations. The Gas Performance Assurance Workgroup (PAW) was established by the UNC Modification Panel on 20 December 2012 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.

Given the value of energy that is delivered in Great Britain each day, any small percentage of error in aggregate allocations is potentially significant. The Proposer believes that it is imperative that the amount of energy paid for by Shippers should be representative of their customers' usage at the point of time for which the charges relate and that incentives should be in place on all Parties to ensure that reconciliation and allocation amounts are closely matched to allow this to happen. Equal to that under the Project Nexus arrangements there is an opportunity to ensure that there are controls put in place to improve asset data and the provision of meter readings and narrow any scope for Shippers inappropriately passing costs onto other Parties through the settlement process.

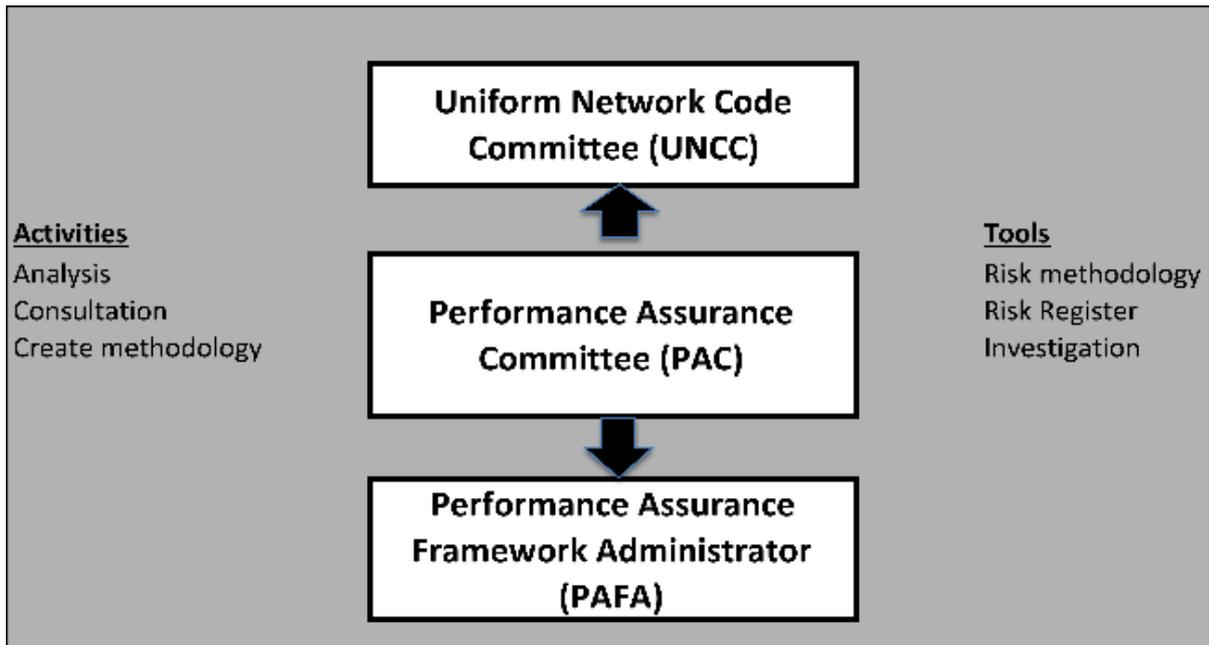
The Proposer also believes that introducing a PAF could bring benefits to consumers through the Change of Supplier process and help facilitate the realisation of benefits expected both from Project Nexus changes and the roll out of smart metering. In addition if accuracy of settlement and reduction of error can be improved through the introduction of PAF then it should improve market attractiveness and possibly encourage new entrants into the market.

3 Solution

During detailed discussions of the Performance Assurance Workgroup (PAW) the group has agreed that a cost effective, self managing, dynamic, top-down, risk based assurance approach is required. To that end the group has proposed that there should be an independent study of settlement risk under the post-Nexus settlement rules.

The PAW has also been considering a proportionate and effective framework, which could underpin the Performance Assurance regime. Depicted below is a schematic of how the Workgroup envisage a PAF working and also the conclusion of discussion about how the framework will operate. The Proposer hopes that these can be used in developing full Business Rules for this MOD:

0506
Modification
12 June 2014
Version 1.0
Page 4 of 10



** As a UNCC Sub-Committee the PAC would be supported by the Joint Office*

Framework Principles

- There will be a Performance Assurance Committee (PAC), but members will be subject to strict confidentiality provisions
- There will be a Performance Assurance Framework Administrator (PAFA), which will be tendered for by the PAC and contracted by the Gas Transporters
- There will be a Performance Assurance risk based methodology created, which will be consulted upon on an annual basis, but is expected to be updated monthly
- The PAC will be a Sub-Committee of the Uniform Network Code Committee (UNCC)

Performance Assurance Committee – composition/governance

The Performance Assurance Committee will:

- be made up of a maximum of 10 industry experts, who will provide expert determination on the reports produced in relation to performance assurance monitoring. These members will be industry representatives and they (individually) and their company, if relevant, will be required to sign an undertaking on confidentiality and to warrant that the individuals will be representing the interests of the market, rather than any company commercial position
- consider that their meetings are quorate if at least three Committee members are in attendance
- be established via an appointment process established under the UNC and will seek to appoint Committee members, based on the agreed person specification created by the UNCC
- include a consumer representative, but this would not be a voting role
- have members appointed in advance of the Performance Assurance regime starting. No Committee member shall hold the position for more

0506

Modification

12 June 2014

Version 1.0

Page 5 of 10

than [3] years. Following a period of 3 years, if the Committee member is willing to be considered for a further term of office (3 years), then they shall apply to the UNCC to be considered for a further terms of office

- be able to co-opt industry experts, if the need arises to do so
- be chaired by the Joint Office of Gas Transporters, as with any other UNC Committee
- take decisions by simple majority on a 1 member, 1 vote basis
- after 1 year of operation consider how well, or otherwise, the voting arrangements have worked
- allow members to abstain from a vote, where they declare an interest, but such abstentions will be scrutinised on an ongoing basis by the UNCC

Duties of the Performance Assurance Committee

The Performance Assurance Committee will:

- receive performance reports from the PAFA
- seek to contract/enlist external expertise to aid in their consideration of issues which are deemed material under the risk register
- tender for and appoint a PAFA
- manage the PAFA
- instruct that the Performance Assurance Agent audits the Performance Assurance scheme. The frequency of such audits shall be at the Committee's discretion, but should be undertaken at intervals where the Board believe it is most efficient to do so
- allow the PAFA to request additional reports only where this is necessary to aid in understanding or further analysis of issues, which is deemed material under the risk register
- determine on the recommendation from the PAFA on a Performance Assurance Methodology and ask that the MOD Panel consult on this on an annual basis
- receive representations made on the Performance Assurance Methodology and provide to the PAFA for consideration
- require the PAFA to create and maintain a Risk Register based on the Performance Assurance Methodology on an annual basis and consider the PAFA's proposals
- receive issues from any Party recognised as having a role under the UNC and consider, with the help of the PAFA, whether they are material enough for inclusion in the Risk Register and determine whether further information needs to be obtained to be able to determine materiality. And where determined as not material provide a response to the proposer setting out the reasons for the Committee's determination
- review and determine within the first year if there is a need to have the right to fully investigate UNC Parties behaviour via an audit and set out the proposed approach and justification for such a right. Should the Committee seek such a right it shall consult formally on the proposed approach with all UNC Parties and consider raising a UNC modification if there is support for the right of audit
- review and determine within their first year whether there is a need for improvement plans and preventative measures and set out a proposed approach and justification for such a right, before consulting on it with UNC Parties. Should the Committee seek such a right it shall consult formally on the proposed approach with all UNC parties and consider raising a UNC modification if there is support for improvement plans/preventative measures

0506

Modification

12 June 2014

Version 1.0

Page 6 of 10

- work with the PAFA to define performance targets, which would be linked to the start of each Gas Year (1st October)

Duties of the UNCC in relation to the Performance Assurance scheme

The UNCC will:

- assess the effectiveness and cost benefit of the PAC after 1 year of operation and consult with UNC Parties on any issues that they have experienced with the process and its effectiveness
- create a “person specification(s)” for the PAC members, taking into account the experience and expertise that will be needed for the PAC to operate effectively
- oversee the appointment of PAC members, using where necessary HR and legal support if required
- Give UNC Parties the opportunity to raise and set out any concerns about individuals proposed for the role e.g. if they believe the individual has any conflict of interest
- determine the selection criteria to be used for the appointment of PAC members
- consider the PAC person specification and composition to determine suitability every 12 months, whilst looking at the future work and challenges for the PAC over the same period
- have the right to propose changes to the composition of the PAC
- scrutinise the abstention by Committee members and have the right to remove a PAC member if they believe that they are unable to offer subjective input into the PAC

Role of the Performance Assurance Framework Administrator

The Performance Assurance Administrator will:

- identify and receive issues that are of material significance in relation to settlement accuracy or customer experience/service
- assess issues against the Risk Register using the approved Performance Assurance Methodology
- consider with the PAC what data is needed to be able to carry out its role
- carry out analysis on material issues as directed by the PAC
- consider with the PAC what action, if any needs to be taken
- be able to request reports from Xoserve where it has been agreed with the PAC that such reports are necessary to look into an issue in more detail and the issue is of material impact
- work with the PAC to define performance targets, which would link to the start of the Gas Year (1st October)
- create a Performance Assurance Methodology and provide to the PAC giving a detailed explanation of the proposal and the benefits of it
- take into account any representations made on the Performance Assurance Methodology and provide a response to all representations received

0506

Modification

12 June 2014

Version 1.0

Page 7 of 10

- create a Risk Register based on the Performance Assurance Methodology on an annual basis
- If requested by the PAC undertake audits of the Performance Assurance scheme

Input of UNC Parties

All UNC Parties must be able to:

- to raise issues with the PAC for them to consider, with the PAFA, if the issue is material
- provide feedback to the annual consultation on the Risk Register Methodology
- provide responses to consultations undertaken by the PAC
- participate and co-operate in the Performance Assurance regime

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
No User Pays service would be created or amended by implementation of this modification and it is not, therefore, 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.
<i>None</i>
Proposed charge(s) for application of User Pays charges to Shippers.
<i>None</i>
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
<i>None</i>

0506

Modification

12 June 2014

Version 1.0

Page 8 of 10

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.	Positive
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.	Positive
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 proposal should have a positive effect on Relevant Objectives (a), (c), (d) and (f). It is intended that the framework will allow for the monitoring of Shipper performance in elements related to settlement accuracy and facilitate an incentive regime to improve performance and reduce settlement risk.

This is expected to lead to more accurate and up to date information being held on Xoserve's system and therefore improve accuracy of settlement and information in relation to system utilisation and capacity needs. This should further Relevant Objective (a), in particular if more up to date and accurate data allows the Transporters to understand system requirements in areas of constrained capacity.

Introducing a PAF should help facilitate the realisation of benefits expected both from Project Nexus changes and the roll out of smart metering and thus providing benefits under Relevant Objective (c).

If accuracy of settlement and reduction of error can be improved and the PAF meets its objective of ensuring that no unfair commercial advantage can be derived from

0506
Modification

12 June 2014

Version 1.0

Page 9 of 10

settlement market attractiveness should also improve and this may encourage new entrants to the market. This should therefore further Relevant Objective (d).

By creating a model for the PAF that couples with existing arrangements, under the UNCC, and utilising the Joint Office for secretarial provision this proposal also furthers Relevant Objective (f).

5 Implementation

No implementation timescales are proposed. However, this Proposal should be implemented as soon as possible after an Ofgem decision to do so, in time for Project Nexus Go-Live or at an earlier date and in time to allow the industry to establish the proposed Committee and supporting arrangements.

The Performance Assurance Committee (PAC) may also be able to consider reporting by Xoserve of the performance of Parties under the current settlement arrangement, which they expect to release at the start of the 2014/15 Gas Year, if this proposal is finalised and approved at an earlier date.

This modification is expected to be one of a series of modifications around Performance Assurance, which should be able to be developed independently and implemented at different times. For the avoidance of doubt it is intended that this modification can be implemented without any modification on risk assessment being approved.

6 Legal Text

Legal text to be provided by the Gas Transporters.

7 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self governance; and
- Progress to Workgroup for assessment.