

Modification proposal:	<b>Uniform Network Code (UNC) 520/520A: Performance Assurance Reporting (UNC520/UNC520A)</b>		
Decision:	The Authority <sup>1</sup> directs that modification UNC520A be made <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	25 April 2016	Implementation date(s):	To be confirmed by the Joint Office

## Background

Accurate settlement is a key requirement of both the electricity and gas industries. However, whilst electricity settlement has been subject to a performance assurance regime since the inception of the Balancing and Settlement Code in 1998, no equivalent has been established in gas.

In December 2015 we accepted UNC506V<sup>3</sup>, which established the fundamentals of a Performance Assurance Framework (PAF) under the Uniform Network Code (UNC). In particular, a Performance Assurance Committee (PAC) will be established as a sub-committee of the UNC Committee (UNCC), supported by a PAF Administrator (PAFA). The PAFA will be appointed following a competitive procurement exercise undertaken by the Gas Transporters (GTs).

At its meeting of 21 April 2016 the UNCC approved the PAC Terms of Reference and determined that either UNCC members or a nominated alternate would act as an interim PAC ahead of formal voting procedures commencing in June. The interim PAC will help facilitate the procurement of the PAFA.

## The modification proposals

Both UNC520 and UNC520A seek to establish the basis of reporting into the PAC. In each case, the focus of the reports is on inputs which have an impact upon the accuracy of gas settlement.

Each modification proposes a register of reports, which when in effect, could only be amended by a modification. These reports broadly correlate with the risks to settlement accuracy identified in an independent report commissioned on behalf of the performance assurance workgroup.<sup>4</sup> For instance, each would require shippers to submit information on their meter reading performance and use of standard rather than site specific correction factors at large (>732 MWH) supply points. Both UNC520 and UNC520A envisage different schedule of reports for the pre- and post-Nexus environment.

Whilst the details of each schedule vary in part, the fundamental difference between the two is that UNC520 proposes that parties be named (by shipper short code), whereas UNC520A proposes to retain anonymity through use of pseudonyms. However, the identities of relevant shippers would be visible to members of the PAC.

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> UNC520V: '[Gas performance assurance framework and governance arrangements](#)'

<sup>4</sup> See: [www.gasgovernance.co.uk/pa/IndRiskStudy](http://www.gasgovernance.co.uk/pa/IndRiskStudy)

## **UNC Panel<sup>5</sup> recommendation**

At its meeting of 17 March 2016 the UNC Panel members considered whether each of the two proposals would further the relevant objectives of the UNC. Having concluded in each case that they would, the UNC Panel voted by a majority to recommend the implementation of UNC520, and unanimously to recommend that UNC520A be implemented.

## **Our decision**

We have considered the issues raised by modification proposals and the Final Modification Reports (FMRs), together with the consultation responses published alongside those FMRs<sup>6</sup>. We have concluded that:

- the implementation of either UNC520 or UNC520A would better facilitate the achievement of the relevant objectives of the UNC than the current baseline;<sup>7</sup>
- of the two proposals, UNC520A would best facilitate those relevant objectives; and,
- directing that UNC520A be made is consistent with our principal objective and statutory duties.<sup>8</sup>

## **Reasons for our decision**

We note the strong support for the establishment of the PAF reporting regime, with all ten respondents supporting one or both of the proposals, though there was a greater degree of support for UNC520A.

We agree with respondents and the UNC Panel that these proposals should be considered against relevant objective (d), but note that there were also comments provided against (a). We consider that UNC520 and UNC520A would have a neutral impact against the other relevant objectives.

### ***(a) efficient and economic operation of the pipeline system***

We note that some respondents considered that either UNC520 or UNC520A would better facilitate relevant objective (a), but did not explain their rationale. The workgroup report suggested that the proposals may benefit GTs insofar as they would help them better understand system requirements in areas of constrained capacity, but did not elaborate on this point. Other respondents, including some of the GTs, considered that there would be no benefit to system operation.

Whilst we consider that an effective PAF should be of benefit to GTs in due course, we are not convinced that the specific reporting arrangements set out in UNC520 and UNC520A

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<sup>5</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>6</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>7</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>8</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

would have any direct or immediate impact on constraints management; they are not designed for that purpose. However, we do consider that GTs should continue to bear a significant responsibility for the accuracy of gas allocation and settlement, and in particular they should be able to demonstrate that the costs reflect the amount of gas actually delivered. We therefore consider that relevant objective (a) is a legitimate consideration for PAF-related modifications and for the PAC itself, but that UNC520 and UNC520A would at this time have a neutral effect upon this relevant objective.

***(d) the securing of effective competition between relevant shippers and relevant suppliers***

As set out in our UNC506V decision, we consider that the accuracy of gas settlements is an important facilitator of effective competition. If costs are misallocated, this can lead to an unfair advantage for parties that have avoided those costs and reduce the advantage that should appropriately be gained by efficient operators. In order to be effective, the PAC must be provided with relevant information and be able to take appropriate actions to address any deficiencies. UNC520 and UNC520A would address the first requirement, though there is still further work required in order to establish what actions may be appropriate, and to empower the PAC to take them (see below).

We therefore consider that either UNC520 or UNC520A would better facilitate relevant objective (d) than the current UNC baseline, insofar as they are a further step towards establishing an effective performance assurance regime. However, as they are mutually exclusive options, we further consider which of the two would best meet this objective.

Reporting schedules

We note that there are some differences in the nature of reports that would be required under each modification, though we have not undertaken an individual assessment of each of the proposed reports. We consider that this would properly be a matter for the PAC, who should appropriately satisfy themselves that the reports are in each case fully understood and required, before the requirements are put into effect and parties are required to adhere to them.

Transparency

The publication, or otherwise, of parties' relative performance is the key difference between the two proposals and the basis for several respondents preferring UNC520A over UNC520. Some respondents suggested that some of the information that would be made available in the reports would be commercially sensitive, though they did not substantiate these points. Others focused more on the unfamiliarity of the new Nexus arrangements, and that a 'soft landing' should be allowed before company specific performance is published. We have some sympathy with these arguments.

Whilst in principle we support full transparency wherever possible, we consider that this should be properly assessed on a case by case basis for each report, rather than all reports necessarily being classified the same. We also consider that peer comparison may be a powerful tool at the PAC's disposal, with the threat of disclosure itself being an incentive to improve or maintain performance. However, there may be diminishing returns to this approach if not used in a targeted manner, for instance if a party's peers are also performing below expectations or the act of publication ceases to draw additional focus.

Further, we have previously raised concerns that erroneous conclusions may be drawn from published reports, for instance the annual 'Mod081' AQ reports.<sup>9</sup> In the case of this report, city names replace a shipper name or ID in order to preserve anonymity. This is partially successful, insofar as it is still possible to identify certain parties due to their size and/or market sector presence. However, several organisations hold multiple shipper short codes, which if not aggregated can give a distorted impression of their overall performance.

## Conclusion

Given the above, whilst we consider that either UNC520 or UNC520A would better facilitate relevant objective (d), we agree with those respondents who consider that a soft landing would be appropriate. We also note that whilst some respondents suggested that the UNC520A arrangements are more in keeping with the arrangements for electricity, there are in fact a number of published reports which set out a clear comparison of performance between named peers, whether suppliers or their agents.<sup>10</sup> We see no reason in principle why gas reporting should not be at least as transparent as electricity. However, we consider that it would be appropriate for the PAC to review these reporting requirements and use its discretion as to how and when to publish the performance of named companies, ensuring in each case that it is both proportionate and likely to achieve the desired effect. We consider that of the two proposals, UNC520A would be more in keeping with these principles.

## **Further work**

We note that gas settlement was one of the areas identified by the Competition and Markets Authority (CMA) as having a potentially adverse effect on competition. Alongside the implementation of the Project Nexus systems, the CMA identified the need for an effective performance assurance regime as part of its provisional decision on remedies.<sup>11</sup>

In particular, the CMA set out a provisional recommendation that Ofgem take responsibility for the development and delivery of a performance assurance framework, including the establishment of a project plan and supervision of its implementation. We support these CMA recommendations and subject to any changes in the CMA's final report, we will shortly write to industry stakeholders setting out our proposals for taking this work forward. We would expect to work closely with the (interim) PAC on this.

## **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC520A: '*Performance Assurance Reporting*' be made.

**Angelita Bradney**  
**Head of Smarter Markets**

Signed on behalf of the Authority and authorised for that purpose

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<sup>9</sup> See: [www.ofgem.gov.uk/sites/default/files/docs/2014/05/aq\\_letter\\_2014\\_v03\\_-\\_final.pdf](http://www.ofgem.gov.uk/sites/default/files/docs/2014/05/aq_letter_2014_v03_-_final.pdf)

<sup>10</sup> See: See: [www.elexon.co.uk/reference/market-compliance/peer-comparison/](http://www.elexon.co.uk/reference/market-compliance/peer-comparison/)

<sup>11</sup> CMA energy market investigation – provisional decision on remedies, paragraph 5.181. See: <https://assets.digital.cabinet-office.gov.uk/media/5706757340f0b6038800003b/Provisional-decision-on-remedies-FM1.pdf>