

0506 0506A:

Gas Performance Assurance Framework and Governance Arrangements

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

These modifications seek to introduce a Gas Performance Assurance Framework to be used to facilitate assurance and incentivisation of settlement accuracy post-implementation of Project Nexus.

These modifications only apply to energy and supply points within LDZs (including Connected System Exit Supply Points), they do not apply to the National Transmission System and supply meter points connected to it.



The Workgroup recommends that these modifications should now proceed to consultation.












High Impact:
Shippers and Transporters



Medium Impact:
None



Low Impact:
None

| Contents | | ? | Any questions? |
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| 7 | Legal Text | 12 | Proposer 0506: Angela Love |
| 8 | Recommendation | 12 |  angela.love@scottishpower.com |
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| About this document: | | |  0141 614 3365/07725 999391 |
| This report will be presented to the panel on 15 October 2015. | | | Proposer 0506A: Mark Jones |
| The panel will consider whether the modification should proceed to consultation or be returned to the workgroup for further assessment. | | |  mark.jones@sse.com |
| The Workgroup recommends the following timetable: | | |  029 2024 9135 |
| Initial consideration by Workgroup | 05 August 2014 | | Transporter: Wales & West Utilities |
| Amended Modifications considered by Workgroup | 01 October 2015 | |  steven.j.edwards@wvutilities.co.uk |
| Workgroup Report presented to Panel | 02 October 2015 | | |
| Draft Modification Report issued for consultation | 16 October 2015 | | Systems Provider: Xoserve |
| Consultation Close-out for representations | 06 November 2015 | |  commercial.enquiries@xoserve.com |
| Final Modification Report published for Panel | 09 November 2015 | | |
| UNC Modification Panel decision | 19 November 2015 | |  commercial.enquiries@xoserve.com |

1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that these are not self-governance modifications, because they are likely to have material effect on competition and the uniform network code governance procedures as these modifications propose to put in place a framework to incentivise the accuracy of data that is used in settlement regime and establish a UNC committee to manage the framework. The Workgroup agreed that these modifications are likely to have a material impact on competition and therefore agreed with the Modification Panel views that these are not self-governance modifications.

Is this a Fast Track Self-Governance Modification?

These are not Fast Track Self-Governance modifications as they are not proposing house keeping changes.

Why Change?

Unlike the electricity market, under the current gas settlement arrangements there is no performance assurance regime and there are a number of areas where the Ofgem and industry have discussed the benefits of having performance incentives to improve settlement accuracy and reduce risk. In addition Ofgem has on a number of occasions advised that they want to see a Performance Assurance Scheme developed in the gas market – including in their recent determination on Modifications 0473/A¹.

At the same time to coincide with the planned replacement of the main UKLINK systems, improved gas allocation and reconciliation processes (together referred to as “settlement”) will be introduced through the Project Nexus suite of modifications. Whilst Project Nexus enhancements are expected to offer benefits, the new settlement arrangements introduce an element of risk, for example through the introduction of site specific meter point reconciliation for all meter points which may lead to cashflow problems for shippers. As with the current regime there is also a risk that the energy will never be reconciled before the line in the sand date is reached (presently 3-4 years).

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

The volume of un-reconciled energy after any period is dependent upon industry participant performance – including accuracy of offtake metering data, 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 in an optimal manner and provide assurance that gas settlement has accurate measurement, allocation, reconciliation, control and self-monitoring and governance post-Project Nexus implementation, so that calculations are accurate and no unfair commercial advantage can be derived from settlement by any Shipper User.

Solution

A Performance Assurance Framework (PAF) is to be introduced into the gas market arrangements to facilitate the monitoring and reporting of Transporter, Shipper and Transporter Agency performance and incentivise parties to reduce settlement risk and improve accuracy. The PAF proposed under Modification 0506 encompasses Transporter, Shipper and the Transporter Agency activity that impacts energy once it has entered the Local Distribution Zone. The PAF is to include CSEP Supply Points and CSEP Supply Meter Points following implementation of Modification 0440 Project Nexus – iGT Single Service Provisions.

¹ <http://www.gasgovernance.co.uk/sites/default/files/UNC473D.pdf> (page 1 - summary)

Modification 0506A proposes a similar PAF to that proposed in Modification 0506 above, with the exception that Transporter Agency activity is excluded from the regime.

The PAF encompasses a new UNCC Sub-Committee, an administrator role (Performance Assurance Framework Administrator), and supporting business rules (as set out in a UNC Related Documents – see Appendix 1 for Modification 0506 and [Appendix 2 for Modification 0506A](#)).

Modification 0506 puts a requirement on the Transporter Agency to provide data and information to the Performance Assurance Framework Administrator and assist in interpretation of information.

In addition Modification 0506 requires that the Gas Transporters appoint a Performance Assurance Framework Administrator by competitive tender. Conditions for such appointment will be set out in the UNC Related Document “Guidelines for Energy Settlement Performance Assurance Regime”.

[Modification 0506A requires that the Gas Transporters appoint the Transporter Agency as the Performance Assurance Framework Administrator.](#)

Gas transported through the National Transmission System (NTS) and supply points and supply meter points connected to the NTS are excluded from the arrangements created by these modifications.

Relevant Objectives

These modifications are expected to have a positive effect on Relevant Objectives d) and f) as they could be expected to lead to more accurate and up to date information being held on Transporters systems and therefore improve accuracy of settlement. In addition the creation of the UNCC Sub-Committee and the UNC Related Documents should facilitate the implementation of other modifications related to the Performance Assurance Framework.

Implementation

No implementation timescales are proposed for either modification. However, it would be desirable that the successful modification should be implemented as soon as possible after Ofgem approval so that the UNCC sub-committee can be established prior to the implementation of Project Nexus.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

Both of these modifications seek to implement a Performance Assurance Framework in time for the implementation of Project Nexus. However, there is no interdependency for implementation as they could be implemented ahead of Project Nexus.

2 Why Change?

Unlike the electricity market, under the current gas settlement arrangements there is no performance assurance regime and there are a number of areas where the Ofgem and industry have discussed the benefits of having performance incentives to improve settlement accuracy and reduce risk. In addition Ofgem has on a number of occasions advised that they want to see a Performance Assurance Scheme developed in the gas market – including in their recent determination on Modifications 0473/A².

At the same time to coincide with the planned replacement of the main UKLINK systems, improved gas allocation and reconciliation processes (together referred to as “settlement”) will be introduced through the Project Nexus suite of modifications. Whilst Project Nexus enhancements are expected to offer

² <http://www.gasgovernance.co.uk/sites/default/files/UNC473D.pdf> (page 1 - summary)

benefits, the new settlement arrangements introduce an element of risk, for example through the introduction of site specific meter point reconciliation for all meter points which may lead to cashflow problems for shippers. As with the current regime there is also a risk that the energy will never be reconciled before the line in the sand date is reached (presently 3-4 years). Essentially to be most efficient data accuracy, quality, quantity and frequency, must be optimal from all parties or Transporter, Shipper and the Transporters Agency activity could expose other parties to settlement risk either deliberately or accidentally through their performance. To address these issues the industry must consider the optimal performance levels to reduce overall risk to settlement accuracy and determine which risks are most material and most probable if there is no monitoring or incentives in place to address them.

The 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 accuracy of offtake metering data, aggregate allocations or poor performance in reconciliation activity 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 measurement, 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 Workgroup agrees that introducing a PAF could bring benefits to consumers through the change of supplier process by ensuring that targets for switching times are met and erroneous transfers are minimised, 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 by reducing cost uncertainty.

3 Solution

Introduction

Modifications 0506 and 0506A both create a framework for Performance Assurance comprising a UNCC sub-committee with terms of reference and supporting Guidelines documents detailing the structures and processes to support the arrangements.

Modifications 0506 and 0506A are limited to gas once it has entered the LDZ, they do not apply to the National Transmission System or supply points connected to it.

Modifications 0506 and 0506A create a framework for the performance assurance arrangements, allowing them to develop as required and agreed by the industry. Any such further development requires a modification, this can be raised on an informed basis at the time.

Modification 0506 is enduring.

Modification 0506A creates arrangements that cease three years after the Project Nexus Implementation Date.

A further summary of the relationships for each modification can be found in Appendix 3 below.

Modification 0506

The purpose of this modification is to introduce a framework for a gas performance assurance regime and require the Gas Transporters to appoint a Performance Assurance Framework Administrator (PAFA) by a competitive tender process. The PAFA will run the scheme, under the oversight of the Uniform Network Code Committee (UNCC) or any relevant sub-committee.

Modification of the UNC is required to recognise the role of the Performance Assurance Framework (PAF), the Performance Assurance Scheme and the PAFA and incorporate appropriate arrangements to monitor performance of Shippers, Transporters and the Transporter Agency and allow an incentive regime to develop.

The PAF is limited to energy once it has entered the Local Distribution Zone (including Connected System Exit Point Supply Points). Gas transported through the National Transmission System (NTS) and supply points connected to the NTS are excluded from the arrangements created by this modification.

The PAF is to include CSEP Supply Points and CSEP Supply Meter Points following implementation of Modification 0440 Project Nexus – iGT Single Service Provisions.

Business Rules

1. A person, the PAFA, shall be appointed and engaged by the Gas Transporters through a PAFA Contract for the purposes of:
 - a) producing, publishing and maintaining a Performance Report Register and the creation, management and maintenance of the PAF Risk Register; and
 - b) determining performance levels attained by those subject to the Performance Assurance regime;
2. The Transporters will be required to publish a Framework Document “Guidelines for Energy Settlement Performance Assurance Regime”. The initial content of the Framework Document be that which is provided in Appendix 1 of this report.
3. The Gas Transporters will use reasonable endeavours to:
 - 3.1 Undertake a competitive tender for the appointment of the PAFA
 - 3.2 Use the criteria developed by the PAC to assess each tender bid as part of their assessment to select the preferred bidder
 - 3.3 Select, agree terms and appoint the PAFA. Where the selected PAFA does not accept the appointment, invite the next most favoured PAFA in turn; and
 - 3.4 Upon acceptance of appointment, establish the contract with the Prospective PAFA
4. The PAC shall provide the final versions of the document as set out in 8 of the Guidelines document to the Gas Transporters.
5. On receipt the Gas Transporters shall commence the tender process using reasonable endeavours to:
 - 5.1 Organise any meetings held in relation to the PAFA appointment;
 - 5.2 Provide legal resource to prepare a tender document;

5.3 Organise the advertisement of the tender to all interested parties, in accordance with national and European legislation;

5.4 communicate to Shipper Users the outcome of the tender process; invite the prospective PAFA to take up the appointment

6. The start date of the PAFA Contract will be as soon as reasonably practical.

7. The Gas Transporters will require that the PAFA:

7.1 Acts with all due skill, care and diligence when performing of its duties as the PAFA and shall be impartial when undertaking the function of the PAF, ensuring that any consideration of risks is equitable in their treatment of Shippers, Transporters and the Transporter Agency; and

7.2 Compiles the Performance Report Register and Risk Register in accordance with the Guidelines Document.

8. The Guidelines Document may be modified if UNCC votes by majority vote in favour of a proposed change.

9. The Transporters will be required to provide data and information to the PAFA and assist in interpretation of information.

10. For the avoidance of doubt, it is intended that this procurement and appointment for the PAFA process can be introduced ahead of the implementation of Project Nexus.

NOTE: A Uniform Network Code Committee Sub-Committee, the Performance Assurance Committee, will be established. Gas transported through the National Transmission System (NTS) and supply points connected to the NTS are excluded from the arrangements.

The role of the UNCC Sub-Committee and of the PAFA are set out in the UNC Related “Guidelines for the Energy Settlement Performance Assurance Regime” shown in Appendix 1.

Modification 0506A

The purpose of this modification is to introduce a Performance Assurance Framework (PAF) for a gas Performance Assurance Scheme into the gas market arrangements to facilitate the monitoring and reporting of Transporter and Shipper performance and incentivise parties to reduce settlement risk and improve accuracy. The Performance Assurance Framework proposed under MOD506A encompasses Transporter and Shipper activity that impacts energy once it has entered the Local Distribution Zone, The PAF is to include CSEP Supply Points and CSEP Supply Meter Points following the implementation of Modification 0440 Project Nexus – iGT Single Service Provision,.

Gas transported through the National Transmission System (NTS) and supply points and supply meter points connected to the NTS are excluded from the arrangements created by this modification.

This framework encompasses a new UNCC Sub-Committee, an administrator role (Performance Assurance Framework Administrator), and supporting business rules (as set out in a UNC Related Document – see Appendix 2). The Performance Assurance Framework Administrator will run the scheme, under the oversight of the UNCC or any relevant sub-committee.

The proposed solution requires that the Gas Transporters appoint the Transporter Agency as the Performance Assurance Administrator.

Business Rules

1. This modification (and everything created by it) shall terminate 3 years after the Project Nexus Implementation Date.

2. This modification does not apply to gas transportation on the NTS and supply points and supply meter points connected to the NTS.
3. This modification creates the Performance Assurance Committee, which is the UNCC or any relevant sub-committee.
4. The terms of reference for the Performance Assurance Committee have been prepared and are an appendix to this modification.
5. The “ESPAR Guidelines” is the document entitled ‘Energy Settlement Performance Assurance Regime Guidelines’ which sets out the :
 - a. Performance Assurance Framework
 - b. Performance Assurance Scheme
 - c. Performance Assurance Committee
 - d. PAFA
 - e. Potential extension of these Guidelines as other UNC modifications are developed
 - f. Performance Assurance Committee Documents:
 - Document 1 Performance Assurance Framework – Performance Report Register
 - Document 2 Report Specification template
 - Document 3 Risk Register
 - Document 4 PAFA Scope definition, against which cost estimate to be provided, including the Change process

The ESPAR Guidelines, and its supporting documents, are published in appendix 2 in this report.

6. The ESPAR Guidelines are governed by the UNCC. Some aspects of the ESPAR Guidelines (as defined within the ESPAR Guidelines) are governed by the UNCC or any relevant sub-committee
7. The PAF means the overarching framework comprising the Performance Assurance Scheme and its operation, the Performance Assurance Committee and its operation, the scope, operation and provision of services to be provided by the PAFA
8. The Performance Assurance Scheme means the measure and any other indices against which Shipper or Transporter performance is monitored
9. The PAFA is the administrator of the Performance Assurance Scheme.
10. This modification creates the PAF, which is described in Section 3 of the ESPAR Guidelines.
11. The role and scope of the PAFA is described in Section 6 and Document 4 of the ESPAR Guidelines.
12. The PAFA is the Transporter Agency.
13. The PA Framework is to include CSEP Supply Points and CSEP Supply Meter Points following the implementation of Modification 0440 Project Nexus – iGT Single Service Provision.

| | |
|--|--|
| Classification of the modification as User Pays, or not, and the justification for such classification. | <p>Modification 0506 is a User Pays modification as it proposes to procure services for the PAFA. Modification 0506 also facilitates future services that would be chargeable under User Pays arrangements.</p> <p>In addition, for Modification 0506, the assignment is for the benefit of Shipper Users. An assignment service is facilitated by the implementation of this Modification and it is therefore classified as a User Pays Modification.</p> <p>Modification 0506A is not a User Pays modification as it does not create or amend an existing User Pays Service. However Modification 0506A facilitates future services that would be chargeable under User Pays arrangements.</p> |
| 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. | <p>As Users are the beneficiaries of the services created by this modification proposal 100% of the costs are to be recovered from Users.</p> <p>The charging basis for Users is:</p> <p>Total AQ for all LDZs for the relevant billing period for each Shipper (as at the end of the relevant billing period (30th September) as a percentage of the total AQ for all LDZs for the relevant billing period for all Shippers (as at the end of the relevant billing period (30th September))</p> |
| Proposed charge(s) for application of User Pays charges to Shippers. | <p>Modification 0506 – Transporters have provided a high level cost estimate for the procurement event should the Transporters Agency be used for procurement. Costs associated with PAFA activities wont be available until the PAC has defined the scope of services required.</p> <p>Modification 0506A – Costs associated with PAFA activities wont be available until the PAC has defined the scope of services required.</p> |
| Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve. | <p>Modification 0506 – the costs associated for procurement will be made available once the procurement event has been completed.</p> |

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. | 0506 – Positive 0506A - 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. | 0506 – Impacted 0506A - Impacted |
| 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 |

Modification 0506

This modification should have a positive effect on Relevant Objectives (d) and (f). It is intended that the Performance Assurance Framework (PAF) will allow for the monitoring of Shipper, Transporter and the Transporters Agency 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 Transporters system and therefore improve accuracy of settlement and information in relation to system utilisation and capacity needs.

Introducing a PAF should help facilitate the realisation of benefits expected both from Project Nexus changes and the roll out of smart metering.

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

The creation of the UNCC Sub-Committee and UNC Related Documents will facilitate the implementation of other modifications related to the Performance Assurance Framework, this modification also furthers Relevant Objective (f) as it introduces a competitive tender exercise to appoint the Performance Assurance Administrator, this should ensure that there is competitive pressure on the cost of this service. The appointment process may identify a party that can provide services that offer different views or approaches to performance assurance, which improves the efficiency of the process.

Some participants consider this modification would introduce additional hand offs between the PAC, the PAFA and Transporters Agency adding additional complexity to the process and therefore would have a negative impact on Relevant Objective f).

Modification 0506A

This modification should have a positive effect on Relevant Objectives (d) and (f). It is intended that the PAF 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.

Introducing a PAF should help facilitate the realisation of benefits expected both from Project Nexus changes and the roll out of smart metering.

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

The creation of the UNCC Sub-Committee and UNC Related Document will facilitate the implementation of other modifications related to the Performance Assurance Framework, this modification furthers Relevant Objective (f) as it uses existing processes to manage the performance assurance framework.

Some participants consider the scope of this modification does not currently include the monitoring of Transporter and Transporter Agency performance and lacks transparency of the end to end process, therefore it fails to further Relevant Objective f).

Some participants consider the sunset provisions in this modification are inefficient as the industry may need to extend this or develop an alternative regime prior to the end of the 3 year term. Others disagreed with this view as the sunset clause allows the industry time to consider the appropriateness of the proposed regime before putting in place an enduring arrangements.

5 Implementation

No implementation timescales are proposed for either modification. However, it would be desirable that the successful proposal should be implemented as soon as possible after Ofgem approval.

These modifications are part of a number of modifications around Performance Assurance, which should be able to be developed independently and implemented at different times.

Note: the UNCC can create the Performance Assurance Framework Sub-Committee at any point in time and this may be prior to the modification implementation.

6 Impacts

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

Both of these modifications seek to implement a Performance Assurance Framework (PAF) in time for the implementation of Project Nexus. However, there is no interdependency for implementation as they could be implemented ahead of Project Nexus and they have no impact on the system build.

Other Impacts

It should be noted that any reports requested by the PAC should one of these modifications be implemented may not be available prior to or at the time Project Nexus is implemented.

Transporters have advised that it would be highly likely that they would use the Transporters Agency to procure the PAFA required by Modification 0506, this would mean that Xoserve would not be available to bid for the PAFA role and Transporters understand the consequence of this.

7 Legal Text

Text Commentary

Text Commentary for Modifications 0506 and 0506A is published alongside this report.

Text

The Text for Modifications 0506 and 0506A is published alongside this report has been prepared by Wales & West Utilities at the request of the Modification Panel.

8 Recommendation

The Workgroup invites the Panel to:

AGREE that these modifications should be submitted for consultation.

9 Appendices

Appendix 1 – Modification 0506 - Framework Document “Guidelines for Energy Settlement Performance Assurance Regime”. This document is published alongside this report.

Appendix 2 – Modification 0506A - Framework Document “Guidelines for Energy Settlement Performance Assurance Regime” This document is published alongside this report.

Appendix 3 - Summary of Modifications 0506 and 0506A - Gas Performance Assurance Framework and Governance Arrangements. This document is published alongside this report.