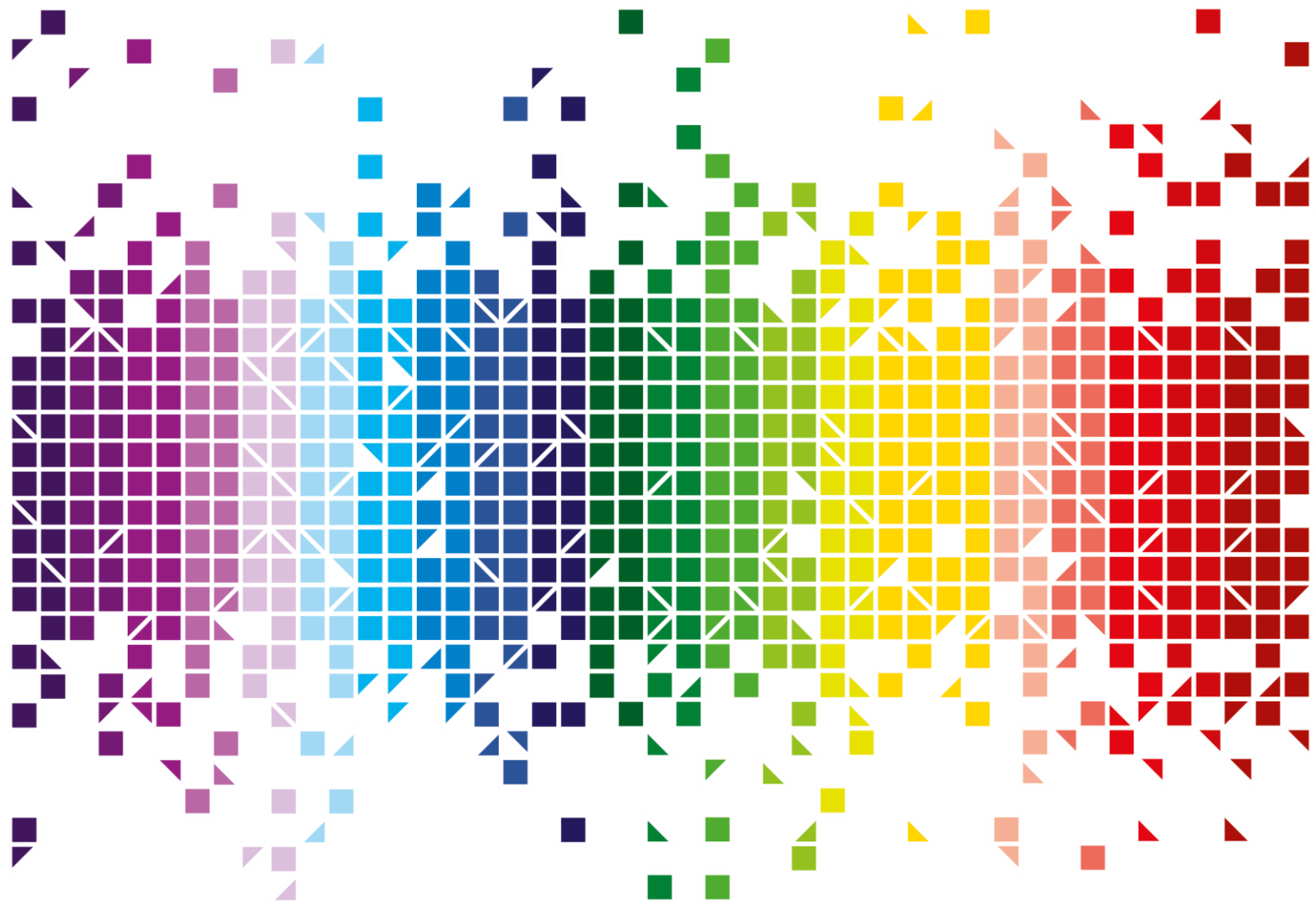


Gas Settlement Performance Assurance Framework Guidance

12 December 2017





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1. INTRODUCTION

This document has been produced to provide an overview of the Gas Performance Assurance Framework (PAF) to industry parties.

Its aim is to support industry parties understand the processes and procedures, roles and responsibilities and objectives of the PAF.

2. THE PERFORMANCE ASSURANCE FRAMEWORK

2.1. INDUSTRY CHANGES & THE IMPLEMENTATION OF A PAF

In November 2015, the Uniform Network Code Modification Panel approved [modification 0506V](#) to be implemented on 29 January 2016. In March 2016, the Panel approved another modification, [0520A](#) to be implemented on 1 January 2017 to support the implementation of modification 0506V.

Modification 0506V sought to introduce a risk based gas Performance Assurance Framework (PAF), to be used to facilitate assurance and incentivisation of settlement accuracy following the implementation of Project Nexus (the replacement of the main UKLINK system to improve gas allocation and reconciliation) on 1 June 2017. Modification 0520A sought to introduce low level reporting arrangements for the key industry inputs which impact accurate settlement allocation and reconciliation.

Prior to the implementation of these changes, the gas market had no performance assurance regime in place and there were a number of areas where both Ofgem and industry parties discussed and noted the benefits of having performance incentives to improve settlement accuracy and reduce risk.

2.2. WHAT IS THE PERFORMANCE ASSURANCE FRAMEWORK?

The PAF is the overarching framework for the gas Energy Settlement Performance Assurance Regime. The goal of the PAF is to provide “a demonstrably effective settlement regime for the gas industry where no one party adversely impacts another party as a result of its failure to operate to the defined settlement regime”. The PAF is limited to energy and supply points within Local Distribution Zones (LDZ), it does not extend to energy transported through the National Transmission System and supply meter points connected to it.

The PAF operates on an annual basis, each PAF year runs from 1 October to 30 September.



2.3. THE PERFORMANCE ASSURANCE COMMITTEE (PAC)

The PAC is defined as a sub-committee of the Uniform Network Code Committee (UNCC), with certain rights and responsibilities relating to the management of the PAF.

The PAC meetings are chaired by the Joint Office and is attended by PAC Members, an Ofgem representative and a representative from the Central Data Service Provider (CDSP) as an observer. From time to time, the PAC may invite other individuals to attend, in a non-voting capacity. Ofgem are entitled to send a nominated representative to the meeting, who will attend in a non-voting capacity and shall be not be excluded from any part of the meeting.

Effective from 1 October 2017, the PAC comprises 5 Shipper User Members and 5 Transporter appointed Members (comprising 4 large distribution transporters and 1 AiGT nominee), all of who have voting rights.

PAC Members are representatives in their own right and **do not represent** the company by which they are employed. No more than one Shipper User PAC Member per company. All PAC Members and their alternates are required to sign a Confidentiality Assurance Document and their employer shall also be required to sign an Employer Assurance Document (Nominating Party Assurance Document) to assure that the Member will be attending and voting at the PAC in the interests of the GB gas industry and not representing any commercial interest or commercial body.

A list of all PAC Members and standing alternates is published on the [Joint Office website](#).

The PAC came into force on 1 October 2017 and meets on a monthly basis to discuss the assessment of a number of risks (held in a PAF Risk Register), industry reporting and potential activities to be undertaken as part of the PAF by particular parties or groups of parties. The PAC can also create sub groups to discuss and address specific areas and issues arising.

The PAC's roles and responsibilities are:

- Overseeing the work of the Performance Assurance Framework Administrator (PAFA),
- Overseeing the PAF Risk Register,
- Determining reporting and analysis to inform a reliable assessment of the performance of gas settlement,
- Reviewing relevant settlement performance data, and
- Where settlement performance deficiencies are identified, proposing (and, where within the PACs control, implementing) methods of resolution to improve settlement performance.

2.4. THE PERFORMANCE ASSURANCE FRAMEWORK ADMINISTRATOR

Gemserv was appointed by competitive tender to undertake the role of the PAFA by the PAC on 1 July 2017 and was one of the initial deliverables of the PAC when it was first established in June 2016. The PAFA's role is to



manage and update the PAF Risk Register based on the outcomes of the PAC risk discussions, actions and controls, and where necessary will close the risks.

The PAFA is responsible for the administration of the PAF to support the delivery of its objectives, which are:

- To determine the appropriate reporting and analysis to measure energy settlement performance and risks to it,
- To create a PAF Risk Register and supporting analysis to assess risks and determine mitigation activities for energy settlement performance through an assurance framework,
- To report as necessary, and
- To create a regime incentivising the required performance if necessary by proposing modifications to the UNC.



3. PAF OBLIGATIONS

3.1. WHO THE PAF APPLIES TO

The PAF applies to the UNC parties that directly contribute to energy settlement performance. This includes all Gas Transporters, the Central Data Service Provider (CDSP) and Shipper Users.

3.2. LEGAL OBLIGATIONS

You can find the legal regulations and obligations in relation to the PAF in [Section V of the Transportation Principle Document](#). Pertinent sections are:

- Para 16.1 – Interpretation
- Para 16.2 – The PAC
- Para 16.3 and 16.4 – The PAFA appointment
- Para 16.5 – Monthly Reports

You can also find other useful information on the operation of the PAF in the [Performance Assurance Framework document](#) on the Joint Office website.



4. GAS SETTLEMENT RISKS

A risk can be defined as an uncertain event or set of events that, should it occur, will impact the achievement of the desired objectives. For performance assurance, a risk is the probability that an event or action may adversely affect the performance and gas settlement arrangements.

The management of gas settlement risks through this PAF provides a process within which business critical risks can be identified, assessed, managed and reported in a visible, structured, consistent and continuous manner. Effective risk management helps to create and focus management action plans to mitigate against risk.

The PAF Risk Register sets out operational and financial risk to gas settlement. The PAF and subsequently the PAF Risk Register is limited to energy and supply points within LDZs. It does not extend to energy transported through the National Transmission System and supply meter points connected to it.

Risks within the register are valid for a PAF year, with the initial PAF Risk Register (version 2017.01) reflecting the 1 October 2017 to 30 September 2018 period. The PAC approved the PAF Risk Register for 2017/2018 at its meeting on 10 October 2017. An industry consultation will follow, a final PAF Risk Register is expected to be approved at the 12 December PAC meeting.

The PAF Risk Register is assessed monthly by the PAC and administered by the PAFA and any within period revisions will be made to it with industry consultation. On an annual basis (at the end of the PAF year) the PAFA will perform a full review of the PAF Risk Register and any proposed changes will be heard by the PAC and consulted upon with industry.

Detailed information on how the gas settlement risk scores are calculated and on how to raise a risk, are detailed in the [Performance Assurance Framework Risk Register Guidance](#). Additional information can also be found in the [Risk Register Approach](#) document. An overview of the process is also provided in the following section of this document.

4.1. THE RISK MANAGEMENT PROCESS

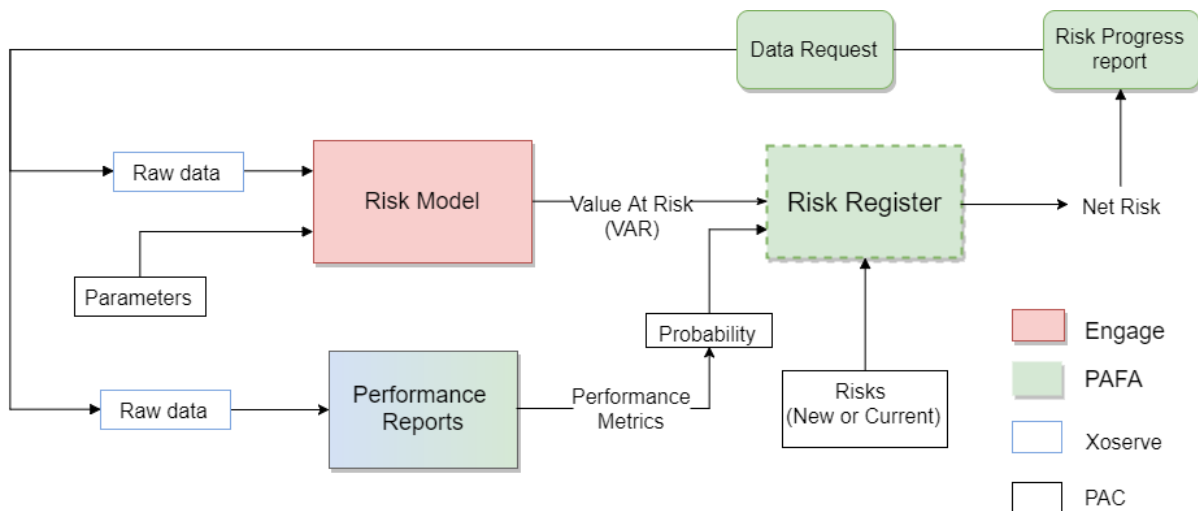
Using the primary objectives of the PAF and the Risk Register Approach set out in the modification documents, the PAFA developed procedures to support the administration of the risk management process and the decision-making process for the PAC.

A fit for purpose risk management approach must address all aspects of risk, from successful identification through to evaluation and the ability to close risks, should it become necessary. It must also include any associated information to enable this.

The PAF risk management process is a cyclical one with the PAF Risk Register at its centre supported by the performance assurance reports and associated analysis presented to the PAC for consideration, discussion and action.



The performance reports provide the information for the PAC to assess and use to inform the PAF Risk Register. These reports are pre-specified (detailed in the PARR, see section 'Reporting and Monitoring' for more information) and provided by the CDSP. The PAFA analyses and produces a progress report for the PAC to consider at its monthly meeting. Any actions or updates, as a result of the PACs consideration, is then worked through the Risk Model and updates are made to the PAF Risk Register. The PAC can then use the information to decide on next steps and actions to mitigate emerging or current risk. The diagram below shows an overview of how the process is facilitated.



4.2. THE RISK REGISTER: CREATION, CHANGE & CLOSURE OF A RISK

The PAFA is responsible for managing and maintaining the PAF Risk Register and facilitating the Risk Register Process. In October 2017 and following the framework proposed by the PAC and the risk management process detailed in the modification documentation, the PAFA created an initial risk register and this was approved by the PAC and consulted upon by Industry. All updates and changes to the PAF Risk Register will require industry consultation.

Detail on how a risk is identified, detailed and subsequently added to the PAF Risk Register can be found in the [Performance Assurance Framework Risk Register Guidance](#). A high-level view of how a risk is identified, detailed and subsequently added to the PAF Risk Register is summarised below.

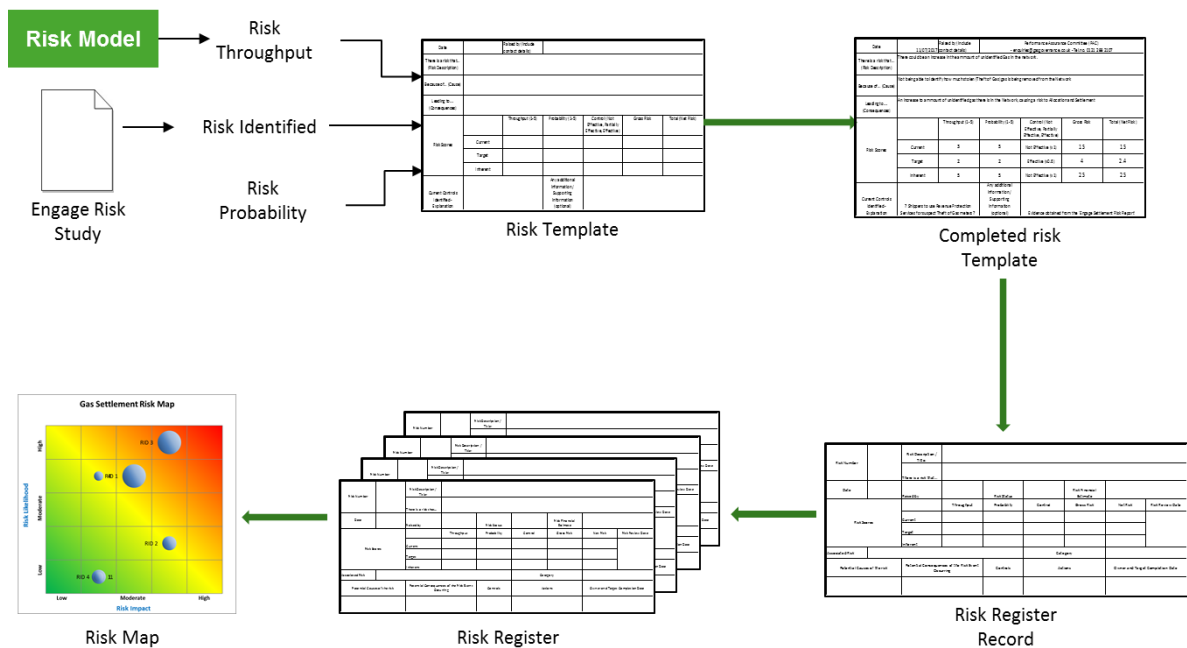
Risks can be identified by any PAC stakeholder using the Risk Template and submitted to the PAFA for validation. The PAFA will then present the proposed risk to the PAC for consideration, assessment and quantification (using the PAF Risk Register Approach process) and provide recommendations for potential methods for mitigation and reporting. If the PAC agree that the risk should be added to the PAF Risk Register, the PAFA will administer such changes and submit the PAF Risk Register for industry consultation with a commentary to explain all changes.



All risks are submitted to the PAC and will be subject to a Risk Progress Report. The Risk Progress Report is to provide an update of planned actions and risk management activities to help shape the target risk score and action progress. The PAFA will provide the Risk Progress Report to the PAC as required with recommendations on actions and risk management activities to take.

Risks will be given a status based on the score (Active/Monitoring/Closed). Where the risk is deemed to have little or no impact it will be closed and the Risk Originator will be informed, along with a suitable explanation. Risks that are identified as having a low score with controls in place may require monitoring and therefore may remain open with a status of 'monitoring'. As and when required, the PAC will update the risk score and determine the next steps, e.g. to escalate or close the risk.

The PAFA is responsible for administering and maintaining the PAF Risk Register. The PAFA will recommend updates to the PAF Risk Register based on the outcomes of the PAC risk discussions, actions and controls, and where necessary will close the risks.





4.3. THE RISKS

The 2017/2018 PAF Risk Register includes the following risks for the PAC (and Industry's) attention.

Further information on each risk can be found on the [PAFA filesharing portal](#).

PAC Risk	Risk Title
PACR0001	Theft of Gas
PACR0002	Use of the AQ Correction Process
PACR0003	Estimated reads used for daily metered sites (Product Classes 1 and 2)
PACR0004	Identified LDZ Offtake Measurement Errors
PACR0005	Incorrect or missing asset data on the Supply Point Register
PACR0006	Use of Winter Annual Ratio (WAR) for End User Category (EUC) 03-08
PACR0007	Undetected LDZ Offtake Measurement Errors
PACR0008	Unregistered Sites
PACR0009	Shipperless Sites
PACR0010	Meter readings fail validation (Product Class 3 and 4)
PACR0011	Late check reads on meters that derive a read
PACR0012	Meter read submission frequency for Product Class 4 meter points
PACR0013	Estimated reads at Change of Shipper
PACR0014	Failure to obtain a meter reading within the settlement window
PACR0015	Consistent approach to retrospective updates

4.4. RISK REPORTING & MONITORING

The PACs ability to assess the level and progress of any risk within the PAF Risk Register will be supported by the PAFA analysing industry performance reports. These reports are defined [here](#) in the Performance Assurance Report Register (PARR).

The information in each report both pre and post Project Nexus implementation will be made available to all UNC parties for peer review, however Shipper identity will not be disclosed. In addition, the PAC will review a set of fully disclosed reports produced for use to support the business of the PAC only.

The reports will be produced in two phases:

- Phase 1 – Schedule 1 is to provide reporting as soon as reasonably practicable pre Project Nexus Implementation.
- Phase 2 – Schedule 2 is to provide reporting at a date yet to be advised following the Project Nexus Implementation Date, although the information provided in the reports will be backdated from the Project Nexus Implementation Date

For every potential cause of a risk, a control needs to be identified. Where controls do not exist, an action will be created to reduce the Likelihood of occurrence of the risk. Some of the current risks in the PAF Risk Register have controls around producing and reviewing performance reports to monitor Shipper and Transporter



performance on a monthly basis. The specification for the current suite of reports is defined in [Performance Assurance Report Register](#).

The PAC will decide on the course of action to be taken for the identified risk and delegate these accordingly. Some of the currently actions in the PAF Risk Register is to investigate issues associated with each risk.

All actions will have an assigned owner who is accountable for them with a defined target date. The PAFA will support the PAC to monitor and update the actions within the PAF Risk Register and will therefore liaise with all parties and owners of actions. The PAFA will recommend updates to the actions either monthly for high scoring (above 15) risks or quarterly for low scoring (less than 8) risks and inform the PAC. Any actions incomplete will be subject to regular scrutiny from the PAC.

The PAFA and the PAC has worked to develop a PAF model to support this, called the PRID(e) in Gas model.

5. THE PRID(E) IN GAS PAF MODEL

Whilst the PAC and the PAFA are considering how best to adopt this model, an overview of its objective and tools / methods is provided here.

The PRID(e) in Gas PAF model is based on simple, but robust, principles. Using reporting (the PARR), data analysis, risk management processes (risks defined in the PAF Risk Register) and subject matter experts, the PAC will assess the risk to gas settlement and apply any techniques that are deemed appropriate to better settlement performance at a party or industry level.

The principles of the PRID(e) in GAS PAF model are to:

- **Prevent** the possibility of negative outcomes before they occur
- **Remedy** negative outcomes through resolution processes
- **Incentivise** positive actions
- **Detect** conduct that requires additional investigation

These activities are underpinned by a second set of values which aim to set the correct behaviours:

- *education*: to inform and instruct parties in what is expected within the market
- *engagement*: to communicate with all stakeholders on a regular and informed basis
- *evolution*: to maintain relevance as the framework needs to adjust to changing requirements

The PAC is currently assessing, evaluating and approving the PAF Risk Register for the PAF year 2017/2018. Once this has been finalised the PAC will then look at how best to apply the PRID(e) assurance model.



5.1. PAF TECHNIQUES

The use of any techniques under this model is the decision and discretion of the PAC based on the information it receives through the PARR and the PAFA. The use of techniques *may* include those detailed below.

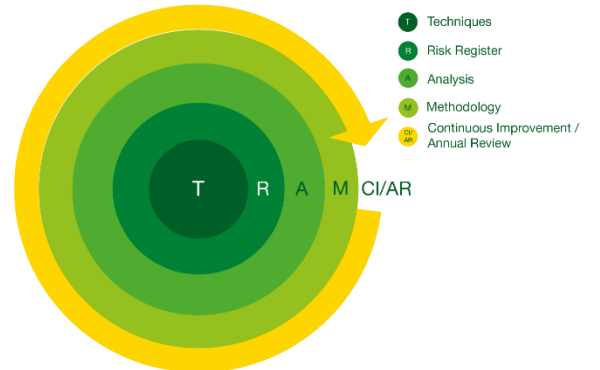
Technique Purpose	Techniques Description
Prevent the possibility of negative outcomes before they occur	<ul style="list-style-type: none"> • Monitor data for patterns proactively for both party and industry performance decline • Educate a UNC Party (or type or group of parties) where reporting shows parties to be falling short of a performance standard or is impacting negatively on Settlement allocation or reconciliation • Engage stakeholders on a regular and informed basis • Develop processes for parties to declare adherence to obligations
Remedy negative outcomes through resolution processes	<ul style="list-style-type: none"> • Require a UNC Party to assess an identified performance issue and propose a resolution plan for approval by the PAC • Require the PAFA or an industry working group to assess an industry performance issue and propose a resolution plan for approval by the PAC • Escalation to the PAC or UNC Panel
Incentivise positive actions	<ul style="list-style-type: none"> • Peer comparison reporting • Industry education sessions • Engage stakeholders on a regular and informed basis • Incentive Scheme (e.g. Liquidated Damages)
Detect conduct that requires additional investigation	<ul style="list-style-type: none"> • Performance monitoring and reporting • Audit and investigation



6. PERFORMANCE ASSURANCE APPROACH & REVIEW

The techniques described in the PRID(e) model are actioned against the PAF Risk Register, where the analysis of the PARR data will support what actions the PAC and Industry are required to take.

The performance assurance approach will be reviewed on an annual basis to take into account the changes that may occur in the industry during the PAF year and improvements to the PAF approach and PRID(e) model that have been identified.





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