UNC Modification	At what stage is this document in the process?
# UNC 0674: Performance Assurance Techniques and Controls	01 Modification 02 Workgroup Report 03 Draft Modification Report 04 Final Modification Report

Purpose of Modification:

To provide an effective framework for the governance of industry performance that gives industry participants mutual assurance in the accuracy of settlement volume allocation

	The Proposer recommends that this modification should be: • assessed by a Workgroup This Modification will be presented by the Proposer to the Panel on 15 November 2018. The Panel will consider the Proposer's recommendation and determine the appropriate route.
	High Impact:
	Medium Impact: Shippers
	Low Impact: Transporters

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Timetable

The Proposer recommends the following timetable:

Initial consideration by Workgroup	08 April 2019
Workgroup Report presented to Panel	19 September 2019
Draft Modification Report issued for consultation	19 September 2019
Consultation Close-out for representations	10 October 2019
Final Modification Report available for Panel	14 October 2019
Modification Panel decision	17 October 2019 *(at short notice)*

Any questions?

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Please Note: a positive decision has been taken not to change mark the redrafted modification.

The solution has not changed from the original draft. However, in order to provide the clarity required by Panel, the original text has changed significantly or been deleted. It is felt that it would be more beneficial for parties to read the new drafting as a whole.

1 Summary

This Modification is being raised on behalf of the Performance Assurance Committee.

What

In operating the PAF (Performance Assurance Framework) the PAC (Performance Assurance Committee) have identified some weaknesses and limitations in the performance assurance regime which are impacting the effectiveness of the performance assurance model.

Why

The PAC have a number of examples where performance issues have been identified and have not been remedied over a prolonged period. This has resulted in settlement inaccuracy over extended periods.

PAC are keen to prevent such situations occurring (through new performance assurance principles, proportionate incentive mechanisms and a progressive series of escalating controls) and when performance issues occur, they are curtailed speedily without resorting to a modification.

How

The Proposer on behalf of PAC proposes to modify the UNC to define the following outcomes:

I. Require UNC Parties to adhere to a basic principle that their negligence, poor performance or bad behaviours must not distort settlement even when such behaviours have not specifically been precluded through prescription within the UNC.

II. Determine additional tools and processes available to the PAC in its work in the provision of performance assurance within the code.

III. Allow the Performance Assurance regime to be more agile and responsive to the information it is receiving by empowering the PAC to determine and action an appropriate response at any time.

IV. Provide PAC and PAFA (PAF Administrator) access to any standard reports already being provided to individual UNC Parties within performance packs e.g. shipper performance packs.

V. Require UNC Parties to take action to improve their performance and remedy issues if it is identified and requested by the PAC.

VI. Require UNC Parties to provide and adhere to any plans of action they provide.

VII. Ensure that where it is proposed adding to or changing UNC performance standards within the UNC and performance monitoring is required, the report requirement must be added to the modification.

The CDSP will be required to provide a ROM (rough order of magnitude) for the production of the monitoring reports needed for that proposal, for the modification workgroup to determine if the cost of a report is not deemed prohibitive.

VIII. Specify the tools available to the PAC to incentivise, drive and require performance behaviours and to document these in a new ancillary document under UNCC (UNC Committee) governance.

IX. Suitably empower the PAC, as an elected, independent and representative (skills) body, to make decisions for and on behalf of the UNC in respect of Performance Assurance matters.

X. Ensure that the PAC budget does not act to constrain the duties and requirements of the PAC.

XI. Provide absolute clarity which UNC parties (Gas Transporters (GTs), Independent GTs (IGTs), Shippers etc.) fall under the remit of the PAC and performance assurance measures to be applied.

2 Governance

Justification for Authority Direction

The modification will impact the performance assurance regime, which ultimately seeks to have a positive material impact on parties and therefore competition between them. It also seeks to increase the authority of the PAC, to allow it more decision-making powers which is likely to materially impact specific parties.

The modification:

i. is likely to have a material effect on:

   a. competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes; and

   b. the uniform network code governance procedures and the network code modification procedures;

ii. is likely to discriminate between different classes of parties to the uniform network code/relevant gas transporters, gas shippers or DN operators depending on their individual performance.

iii. Is likely to impact consumers through competition in tariffs, due to the implications of a settlement process that is not fair and equitable across parties.

Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance
- be assessed by a Workgroup

The detailed business rules in this modification should be reviewed by a workgroup to ensure there are no unintended consequences or loop holes in the governance requirements that would thwart the performance assurance intent of this modification. Additionally, the modification should act as an incentive to meet the required performance levels and ideally ensure that parties do not make commercial decisions that detrimentally impact competing parties. The workgroup is also needed to understand materiality implications of poor performance both for the offending parties and those impacted as a result to ensure that incentives can be set appropriately.

This is a complex Modification Proposal and will require stakeholder engagement. The contractual requirements of the PAFA (Performance Assurance Framework Administrator) may also be impacted. The ancillary documents must also be drafted for initial adoption.

3 Why Change?

The electricity performance assurance regime in the Balancing and Settlement Code (BSC) costs approximately £3m to provide the regime.[1] This modification does not advocate this level of expenditure nor

[1]Page 42 Annual BSC Report 2017/18

the more prescriptive style of this regime, but it does advocate that the Code supports greater investment and a 'harder-hitting' approach more commensurate with the results that parties anecdotally indicate they require. This modification promotes a regime that has greater ability to identify poor performance, the power and authority to require remedy and the agility to bring issues to a quicker conclusion, thereby reducing consequential impacts on parties and providing the assurance that is required. Essentially parties need to invest more to get better and greater returns and to provide more robust assurance in gas settlements.

Evidence suggests that the actuality of identifying performance issues is limited to the reports on the PARR, which are two dimensional in nature and do not provide the context of the companies and therefore the potential impact of their behaviours on settlement accuracy. The PAC has an annual budget of £50k for additional support and / or reports from the CDSP (Central Data Services Provider). To put this in context – the PAC explored amending one of the existing PARR reports and the CDSP indicated that one option for doing so would use £45k of the annual budget (Ref: PAC minutes 20 November 2018 ROM). The budget can act to constrain the PAC as the budget is relatively low and therefore the ability for the PAC to identify poor behaviour.

Since the implementation of Project Nexus on 01 June 2017, a number of issues have impacted settlement allocations. These and the length of time issues have been endured have had a direct effect on the financial and commercial health of market participants and ultimately customers. The absence of a stronger PAF, is likely to have prolonged settlement distortion and therefore, in part, high and volatile UIG.

To date performance remedies are limited to PAC instructing the CDSP to engage with the failing participant proactively and asking the PAFA to write a formal letter requesting the issue be resolved.

This is having limited effect.

To cite 3 examples:

- There have been significant issues with the reconciliation of mandatory DM (daily metered) sites since the implementation of Nexus in June 2017. As at November 2018, there were still 32 sites that have not had a retrospective consumption adjustment since June 2017. Actions taken to remedy this situation have included direct engagement by the CDSP (Xoserve) and a letter from Ofgem to involved parties. It took nearly a year to resolve the root causes for 177 DM meters.
- Product Class 3 read performance, despite Xoserve's engagement with the involved Shippers, is still well below the performance target.
- All shippers have access to shipper information packs and dashboards that highlight performance in many other areas. Where processes are failing and the shipper has the management information indicating that, there are no consequences of Shippers failing to act on these reports and no controls that PAC can employ to support Shippers in improving their performance.

Ofgem, the PAC and the industry have discussed the benefits of having performance incentives to improve settlement accuracy and reduce risk. For example, in the level of reads accepted into settlement.

Ofgem has on a number of occasions advised that they want to see improvements to the performance assurance scheme developed in the gas market – including in their determination on Modifications 0473/A and 0506V.

Additionally, Ofgem, in their decision letters on Modifications 0619/A/B, requested that industry parties increase "the frequency and quality of meter read data being submitted to the Central Data Services Provider" and in their decision letter on Urgent Modifications 0642/0642A/0643 they requested that "To the extent that Xoserve depends on data provided by third parties, including the provision of frequent and accurate meter readings, it is expect to work with those parties and the PAC to ensure that these requirements are identified

and being met." There is currently no effective mechanism for meeting these challenges, aside from relying on Shippers best intentions, which is not currently delivering adequate read performance or settlement certainty.

Despite introducing a risk-based PAF, the PAF is currently limited to monitoring performance reports and writing letters to the Market Participants displaying poor performance. Presently there are a number of issues with some of the data and reports which means that even this 'tool' can only be used to a limited extent.

The UNC obligations provide no consequences for failing to meet obligations or target measures where they exist and no incentives to meet them. There is no mechanism to hold to account the performance of failing parties; and target measures provide no indication of how they might impact settlement quality nor is there evidence that impact on settlement is considered in making decisions to modify UNC obligations.

4 Code Specific Matters

Reference Documents

Performance Assurance Framework

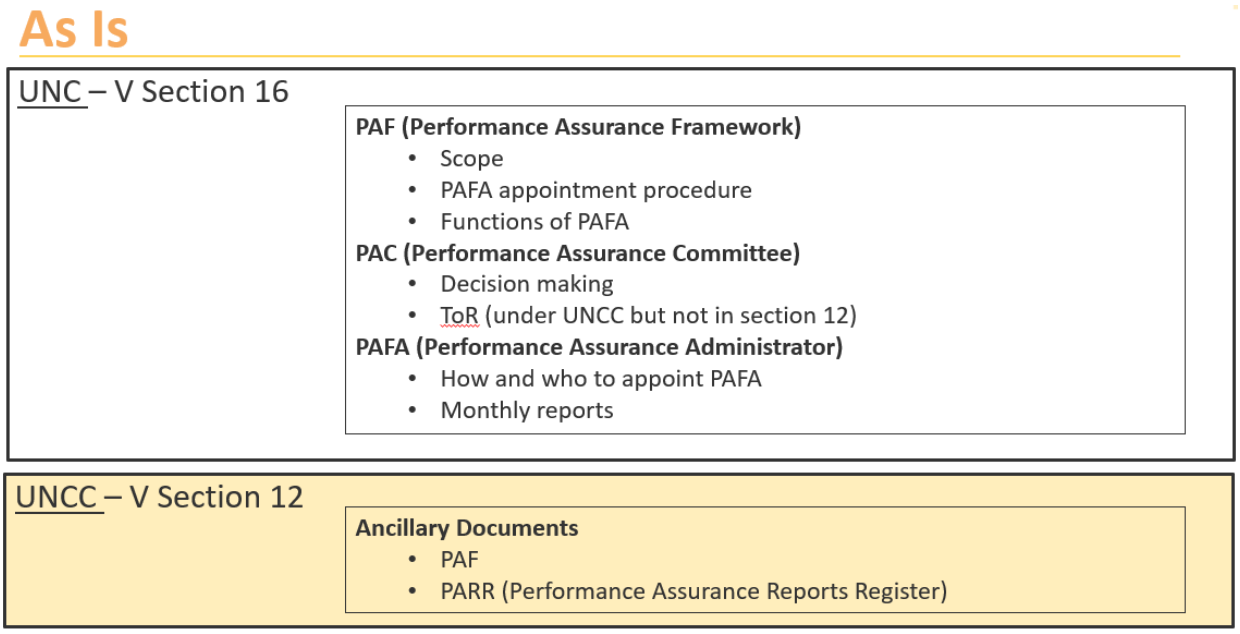
UNC TPD Section V

Knowledge/Skills

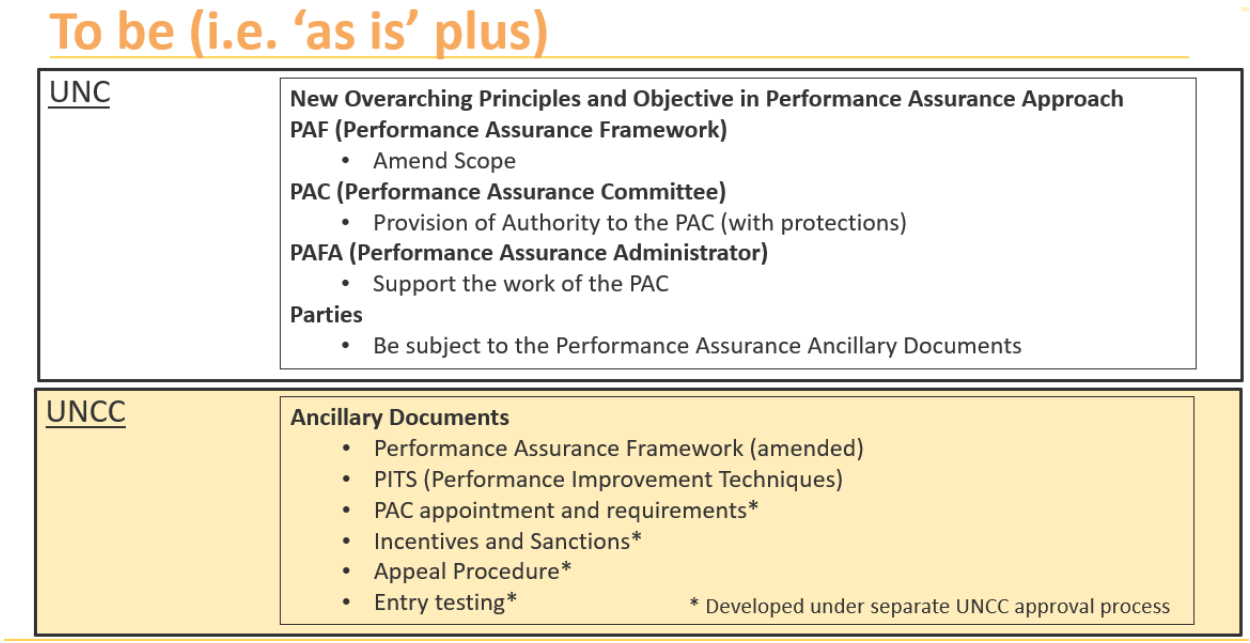
Knowledge of settlement risk or other performance regimes would be an advantage.

5 Solution

The current Performance Assurance regime is represented diagrammatically below:



The modification will move the Performance Assurance regime to a new regime represented diagrammatically here:



The requirements below will be incorporated into the UNC, the Performance Assurance Framework and other new ancillary documents:

1) Introduce a new objective to the UNC and the PAF for the Performance Assurance Regime to clarify its purpose as an outcome – the Performance Assurance Objective (PAO).

2) Introduce a new overarching principle to the UNC that parties to the code may not distort settlement through any act (negligent, deliberate or otherwise).

3) Introduce a new overarching principle to the UNC of collective co-operation towards the specified objective.

4) Give PAC authority in the UNC, with relevant protections, to include:

   - making decisions about how and when the performance assurance monitoring and incentive tools specified in an **ancillary document** are used – see **Appendix A** for Performance Improvement Techniques (PITs) that might be deployed.
   - Determining the materiality of performance issues which will be included in their decision-making process using the models and appropriate expertise available.
   - Accessing the data that it needs to understand performance issues and to determine the materiality of performance levels on the accuracy of settlement.
   - Requesting performance reports as it deems relevant, in their opinion, based on their experience and expertise.
   - Requesting the remedy of performance issues, where there is no explicit prescriptive performance standard specified in the code, where that performance issue is impacting the Performance Assurance Objective (PAO)

5) Ensure that in the UNC that the PAC election process should be conducted in a way that provides for continuity of personnel and experience, so that appropriate performance measures being deployed are maintained and seeks to ensure impartiality / independence.

   It is assumed (as already required in the UNC) that PAC is an elected and representative committee with appropriate expertise to make assessments and judgements using the tools and evidence provided. It is required that where individuals have an interest in any matter being discussed that this will be declared and / or identified by the PAFA. It is assumed that the PAC will apply their expertise without discrimination.

6) Provide explicit clarity in the UNC that parties are responsible for adhering to the UNC requirements, for managing their processes and ensuring that they have appropriate management information to verify their adherence. The PAFA and CDSP will provide support to parties in meeting this requirement where requested by the parties.

7) Provide explicit clarity in the UNC that any party's performance that distorts settlement may be sanctioned even if the UNC is agnostic to that behaviour.

8) Ensure in the UNC that all PAC decision criteria will be available to the parties impacted by that decision.

9) Provision a mechanism to appeal decisions where PAC decisions that have a direct material consequence (i.e. above a value criteria to be determined) can be appealed by the impacted party. The decision criteria will be made available as part of that process to the appeal body (Additional **ancillary document** to be drafted separately)

10) Provide explicit clarity in the UNC that parties are required to act on reasonable requests from the PAC in terms of information requests and expected outcomes in terms of performance.

11) Where PAC requests an interview with a party, the party is required to attend and send an individual(s) of the requested seniority and calibre.

12) Amend the PAF to provide clarity that parties must determine how they improve their performance and PAC will determine what performance measures need to improve.

13) Amend the PAF to indicate that PAC will prioritise its approach based on the levels of risk and materiality. These will be regularly reviewed and dynamic.

6 Impacts & Other Considerations

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

None identified.

Consumer Impacts

No direct impacts identified.

Cross Code Impacts

There may be an IGT UNC impact.

There may be an impact on the DSC and the contract between the PAFA and CDSP.

EU Code Impacts

None identified.

Central Systems Impacts

Some development to support new reporting and invoicing processes.

7 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.	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

d) It is believed that these proposals will reduce settlement costs by reducing volume uncertainty at nomination and allocation, thereby reducing the likelihood of Shippers building in risk premiums into budgets and customer contracts. This will improve competition between Shippers and Suppliers and reduce a potential barrier to entry for new Shippers.

f) The current PAF is not effective and therefore the value from associated expenditure is questionable. It is believed that these proposals will improve the effectiveness of PAF and therefore promote more efficient implementation and administration of the Code.

8 Implementation

No implementation timescales are proposed. This Proposal could be implemented as soon as an authority direction is received and subject to DSC Change Management Procedures for any consequential system changes.

9 Legal Text

Text Commentary

To be provided by Transporters.

Text Commentary

To be provided by Transporters.

Initial pre-mod discussions with the IGT UNC Code Adminstrator that a reference in M5.9 and M5.10 to the required other provisions pursuant to this Modification could provide IGT UNC with the 'link' to the proposed performance assurance controls.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply
- Refer this proposal to a Workgroup for assessment.

11 Appendix 1 – Proposed Ancillary Document

Performance Improvement Techniques (PITs)

1. Monitoring

- REGULAR MONITORING
  - The Performance Assurance Framework Administrator (PAFA), on behalf of the PAC regularly monitor, on a monthly basis, the industry's performance against a set of pre-defined Performance Assurance Reports. The reports and the Performance Assurance Report Register (PARR) were implemented by UNC520A, which determined that data would be published anonymously to the industry but allowed PAC visibility of the identity of the poorest performing Shippers.
  - PAFA are responsible for the processing of the report data which is provided by the CDSP and uploading the reports to the Huddle platform in a timely manner.
  - PAFA are also responsible for providing further analysis using the data provided and creating a set of dashboards which look at historic performance and begin to compare the poorest performers against the industry average
- TARGETTED MONITORING
  - If a Shipper is identified as consistently underperforming, or a risk as defined in the Risk Register requires closer monitoring, PAFA will perform targeted monitoring. This will entail using both the PARR data and additional data requested from the CDSP, to perform a deeper level of analysis to build a clearer picture of behaviours and enable, with agreement of the PAC, performance improvement action to be taken.

2. Shipper communication

- PERFORMANCE OBSERVATION LETTER
  - If analysis of the PARR report data identifies a poor performing area of the industry, PAFA have the authority to write to all relevant Shippers, highlighting the area of concerns, reminding them of their obligations under code and requesting that an improvement is made.
- DATA CLEANLINESS OBSERVATION LETTER
  - PAFA can write to targeted Shippers requesting an improvement in data quality.
- POOR PERFORMANCE OBSERVATION - RESOLUTION REQUIRED
  - With the agreement of the PAC, PAFA will, on behalf of the PAC, write to the poorest performing Shippers requesting that;
    - They acknowledge receipt of the letter identifying their poor performance
    - The performance issues are address asap, PAC will review performance 4 months after the date of the letter
    - A resolution plan is provided which ensures that the performance issue does not reoccur

3. PAC Meeting / call in

- Failure to respond to a poor performance observation letter, or failure to provide a resolution plan can result in the PAC 'calling in' senior management of the offending Shipper to allow them to explain, in person, the reason for poor performance and why performance is not improving.

4. Publication of Stats/Name and Shame

- PAFA have the ability publish statistics on Shipper performance (in addition to the PARR reports) to the wider industry
- PAFA have the ability to name those Shippers who consistently poorly perform to the wider industry (In its notice of implementation for UNC 520A, Ofgem stated 'comparison maybe a powerful tool at the PACs disposal, with the threat of disclosure itself being an incentive to improve or maintain performance')

5. Report to Ofgem

- PAFA on behalf of the PAC can report to Ofgem on industry performance.
- Reports can include;
    - Targeted Shipper reports on performance across one or multiple PARR reports
    - detailed analysis of industry performance across one or multiple PARR reports
    - Detail of performance improvement plans proposed by Shippers
    - Resolutions actions taken to date

6. Other sanctions / incentives (Detailed in separate Ancillary Document)

- Proportionate measures such as:
    - Temporary suspension from shipping new business (potential consequential impact on suppliers and their customers)
    - Liquidated damage charges per failure or one-off charge for total consequence of failure over a period (Declared in advance, but possibly applied retrospectively and a genuine estimate of the consequential gains / losses to parties of a party's behaviour).
    - Punitive charge for failure to act or respond (Ofgem involvement)