

Modification 483 - Performance Assurance Framework Incentive Regime

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Background

- The Performance Assurance Workgroup was formed in January 2013
- The Performance Assurance Framework incentive Regime (Mod 483), raised in March 2014, seeks to introduce a top-down cost reflective risk based incentive target and regime to incentivise Shippers to ensure they reconcile appropriate volumes of energy within their portfolio.
- Ofgem contract with Engage Consulting in November 2014 to produce an independent study of the most significant settlements risks, including the production of a risk based model.
- The Engage report and settlement risk model was approved by PAW on the 4th February 2015.

Issue

- Whilst the Engage Gas Market Settlement Risk report met its objectives, it did not define an appropriate energy reconciliation portfolio target or appropriate incentive.
- Without independent analysis demonstrating the appropriate target, any target will be arbitrary and subjective
- Options –
 1. Progress Mod 483 methodology, based on reconciliation of energy within a shippers portfolio
 2. Develop the Engage Risk Model further to develop appropriate energy settlement targets and incentives

Issue and Option 1

Without progressing an incentive framework, this risks parties not participating fully within Nexus arrangements and not reconciling appropriate volumes of energy

Option 1

Continue to develop an incentives regime, based on introducing a shipper energy reconciliation target

An arbitrary target could be set, but no incentive applied to the target

The PAC could be tasked with reviewing the target and setting an appropriate incentive, once Nexus data allows for sufficient analysis

Issue and Option 2/3

Option 2

Engage are contracted with to extend the settlement risk-based model, and develop appropriate incentive arrangements.

This will better inform the PAC of which performance targets and incentives are required.

Option 3

Engage are contracted over a 3 year period, (reviewed after 2 years), to run and maintain the model and act as an independent expert.

Options Matrix

	Option 1 Reconciliation target	Option 2 Engage risk model development	Option 3 Engage enduring soln
Advantage	Introduces Rec energy target Allows for incentive to be developed Conclude quickly	Builds on established risk model Independent analysis Delivery in line with establishment of PAC	Builds on established risk model Independent analysis Delivery in line with establishment of PAC Delivers ongoing benefits
Disadvantage	Target is arbitrary	Timescales Funding	Timescales Funding

Recommendation and Funding Considerations

Recommend Engage undertake further development of the settlement risk model

Funding options

1. EUK/ICOSS
2. User Pays
3. Transporters

Contracting Party

1. Trade associations
2. Ofgem
3. Transporters
4. Joint Office
5. Xoserve

Next steps

Discuss requirements with key stakeholders

Pending PAW consideration, raise paper for funding