
UNC Workgroup 0550 Minutes
Project Nexus: Incentivising Central Project Delivery
Friday 06 November 2015
31 Homer Road, Solihull B91 3LT

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Alex Ross Shaw	(ARS)	Northern Gas Networks
Andy Miller	(AM)	Xoserve
Angela Love*	(AL)	ScottishPower
Chris Warner	(CW)	National Grid Distribution
Colette Baldwin	(CB)	E.ON UK
Colin Blair*	(CBI)	ScottishPower
Edd Hunter	(EH)	RWE npower
Erika Melen	(EM)	Scotia Gas Networks
Phil Lucas	(PL)	National Grid NTS
Richard Pomroy	(RP)	Wales & West Utilities
Steve Mulinganie	(SM)	Gazprom
Sue Hilbourne*	(SH)	Scotia Gas Networks

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0550/061115>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 January 2016.

1.0 Review of Minutes and Actions

1.1 Minutes (20 October 2015)

The minutes of the previous meeting were approved.

1.2 Actions

0101: AL to investigate the precedents within the electricity industry by contacting Ofgem direct.

Update: It was agreed this action had been superseded and should be closed. **Closed**

1001: Transporters and Xoserve to provide the Transporter facing elements of the GONG criteria for consideration at the next meeting (06 November 2015).

Update: See Action 1003, below. **Closed**

1002: Xoserve to confirm whether information can be provided to the Proposer and the Workgroup regarding the Service Provider's existing contractual liabilities.

Update: AM reported that the client side independent adviser was Baringa, appointed by Xoserve to monitor and assure that the project was on track and provide reports to

Xoserve and the industry. Baringa monitors Xoserve's progress against project milestones - it does not identify or measure fault. There were liabilities, and there would be something in the contract that addresses failure, but such information was confidential between the contracting parties and not publicly available. **Closed**

1003: The Chair to contact PwC to source the GO/NG criteria and establish what is/is not relevant.

Update: LJ reported that it was PwC's view that there were no criteria that apply solely to the GTs and to no other parties. Broadly, they are treated as a party in a consistent manner with both Shippers and iGTs. **Closed**

2.0 Workgroup Report

2.1. Amended Modification

Following the previous Workgroup discussions EH had provided an amended draft modification proposal (v2.1) for further discussion, and explained the changes made.

The Workgroup reviewed the changes made to the various sections of the modification and EH noted the suggestions/comments for further consideration.

Section 3 Solution

It was observed that if the RAASP report was to continue to form the basis for the incentive then it would need to be defined in the UNC, having first obtained the support of PwC that it was happy for the information to be used/relied upon in this way. Concerns were reiterated regarding the reliability of the report/analysis. If PwC does not support its own analysis then this will be a significant issue for the foundation of the modification. EH was strongly encouraged to discuss this with PwC as this could make the modification untenable. EH indicated he was waiting for a response from PwC.

It was recognised that an appropriate methodology needed to be developed, but the Solution might have to evolve step by step; this was a 'holding' position, rather than a firm basis at present.

It was suggested that the value of the report would be the cap and a time limit would not be required. EH explained he accepted the principle of the cap, and for the present would place square brackets around the time limit.

Section 4 Relevant Objectives

Referring to the statements made, CW observed that the Transporters were not obligated under UNC to deliver the UKLP and that these statements may require revising "to provide the processes and services under UNC and this system is the chosen method."

It was suggested this Section 4 requires further work to clarify how this modification furthers relevant objective (f). EH will consider revisions.

Section 6 Impacts

Impacts on various parties were discussed - does it concern Shippers or consumers? CB believed it to be of benefit to Shippers and indirectly to consumers. RP noted the modification references both parties, but was not altogether clear. As stated previously, SM reiterated that Shippers would incur costs in having to retain resources, which would

ultimately devolve upon consumers; it was not cost relating to lost opportunities. AL believed there would be a lost customer benefit if delayed, but this modification was predicated on impacts on Shippers. LJ observed that by encouraging the party to deliver on time loss of benefit was avoided; if the programme were delivered late would the benefits case be the same?

EH will consider clarifications to this section.

Before moving to the next agenda item, LJ summarised that there were three big questions to be resolved:

- 1) How would 'transporter failure' be defined,
- 2) How would the incentive 'pot' be determined, and
- 3) How would the incentive 'pot' be allocated to shippers.

Once the answers to these questions had been established, the rules (how, when etc), that would ultimately become Legal Text, could be developed.

2.2. Triggering the Scheme - Definition of Transporter failure to deliver

LJ reiterated that there were no readily available criteria that apply solely to the Transporters and to no other parties, so it would be difficult to construct a definition.

A discussion ensued. Noting that Code obligations could not be placed on a non-UNC party such as PNSG, to make a decision on what constituted failure by the Transporters, LJ suggested looking instead at what factors might be construed as being under the Transporters' sole control, and perhaps use this as a check list.

There may be GONG criteria for the system itself, but any failure was unlikely to be solely attributable to the Transporters, and any stage gates with consequential liabilities attached were likely to be confidential between contracting parties.

AL suggested that anything received by Xoserve as compensation for third party failure could be shared back to industry, subject to independent audit.

SM believed the Value at Risk (VAR) needed to be known, and how the exercise of the clause in the contract would be determined; other details need to be more clearly understood.

The modification has to define how Transporter failure will be assessed and measured, and EH was encouraged to discuss this with the Transporters and to seek a broad view from PwC.

LJ reiterated that it was incumbent on the Proposer to determine how 'Transporter failure' could be determined, and that this needed to be documented in a way that could be converted into Legal Text for the Code.

2.3. Calculating Scheme sums - Incentive Pot and Distribution (to Shippers) mechanism

Incentive Pot

How the VAR might be calculated was discussed. If the PwC draft RAASP report was accepted as flawed how else might this be arrived at? SM reiterated his suggestions from the previous meeting, noting that some should be discounted.

RP believed more clarity was required as to the concept - was it compensation, incentives, etc. The modification should be clear with no ambiguity.

LJ suggested considering how Ofgem arrived at decisions (the 'right' number) relating to the various incentive schemes it has placed on the Transporters - perhaps this would assist EH in clarifying the arrangements.

AL observed that the Transporters had been given funding for this project under the Price Control - could an appropriate figure be derived using that information.

Whatever number is arrived at, the Proposer will need to clearly justify how and why it has been chosen.

Allocation/Distribution mechanism

This was discussed. CB observed this was recognising the consequences of failure, but was not about compensating Shipper loss; it was really to incentivise delivery.

Various allocation/distribution ideas were considered, including making an equal arbitrary share; a share based on how well a Shipper has performed in respect of data cleansing (could have the consequential benefit of assisting Shipper performance in this area to the benefit of all); distribution of any monies to charity defined by Ofgem (this may be considered a good objective as it does not require any allocation/distribution mechanism).

It was felt to be important that any allocation should not be seen to be 'rewarding' or 'compensating' for any other party's inefficiencies.

Should there be a minimum allowance for smaller parties; should there be a base payment plus a scaling factor, based on a sensible foundation, with a proportional uplift?

EH will consider the suggestions and provide some options for discussion at the next meeting.

2.4. Review of Relevant Objectives

AL believed relevant objective d) Securing of effective competition, might also be positively facilitated. EH noted this for consideration, but indicated that he would leave 'as is' for the present.

2.5. Impacts

See discussions at 2.1, above.

2.6. Legal Text

CW will prepare and draft the legal text once clarity and stability of the Solution has been achieved in a revised modification.

3.0 Next Steps

The Proposer will consider further amendments to the modification as suggested in discussions and provide a revised draft (v2.2) for consideration at the next meeting on 04 December 2015.

Participants felt that it was important to pursue early submission of the Workgroup Report, since Nexus Market Trials had started and an incentive scheme would help to focus on the desired behaviours early enough to make a difference. EH committed to developing his proposal, including the required Business Rules, to a stable position in time for the next meeting on 04 December, with the intention that a formal request for Text could then

be made at the December Panel and the report finalised during January 2016 (potentially with a short-notice submission to January Panel). LJ observed that this timeline was stretching but achievable providing everything was delivered in good time.

4.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
Friday 04 December 2015	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> Amended Modification Consideration of Business Rules Development of Workgroup Report
10:00, Monday 14 December 2015	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> Development of modification Review of legal text
10:00, Wednesday 13 January 2016	To be confirmed	<ul style="list-style-type: none"> Completion of Workgroup Report

Action Table (06 November 2015)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0101	04/09/15	1.0	AL to investigate the precedents within the electricity industry by contacting Ofgem direct.	ScottishPower (AL)	Closed
1001	20/10/15	2.1	Transporters and Xoserve to provide the Transporter facing elements of the GO/NG criteria for consideration at the next meeting (06 November 2015).	Transporters and Xoserve	Closed
1002	20/10/15	2.1	Xoserve to confirm whether information can be provided to the Proposer and the Workgroup regarding the Service Provider's existing contractual liabilities.	Xoserve (AM/HC)	Closed

Action Table (06 November 2015)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1003	20/10/15	2.2	The Chair to contact PwC to source the GO/NG criteria and establish what is/is not relevant.	Chair (LJ)	Closed