

## Stage 01: Modification

# 0506:

## Gas Performance Assurance Framework and Governance Arrangements

At what stage is this document in the process?



This modification seeks to introduce a Gas Performance Assurance Framework to be used to facilitate assurance and incentivisation of settlement accuracy post-implementation of Project Nexus.

[This modification proposal only applies to energy and supply points within LDZs, it does not apply to the National Transmission System and supply points connected to it<sup>\[1\]</sup>.](#)



The Proposer recommends that this modification should be assessed by a Workgroup



High Impact:  
Shippers and Transporters<sup>[2]</sup>



Medium Impact:  
None



Low Impact:  
None

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## About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 17<sup>th</sup> July 2014 and consider whether the modification should be referred to the Performance Assurance workgroup.



Any questions?

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# 1 Summary

## Is this a Self-Governance Modification?

This modification will have a material impact on commercial activities connected with the shipping and transportation of gas and is, therefore considered not to meet the Self-Governance criteria (bb) detailed below: Shippers, Transporters and on Xoserve operations and is therefore considered not to meet the criteria for self-governance.

### Self-Governance criteria

#### The modification:

(i) Is unlikely to have a material effect on:

(aa) existing or future gas consumers; and

(bb) 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

(cc) the operation of one or more pipe-line system(s); and

(dd) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and

(ee) the uniform network code governance procedures or the network code modification procedures; and

(ii) Is unlikely to discriminate between classes of parties to the uniform network code/relevant gas transporters, gas shippers or DN operators.

## Why Change?

To coincide with the planned replacement of the main UKLINK systems, ~~an~~ improved gas allocation and reconciliation processes (together referred to as "settlement")~~settlement process~~ will be introduced through the Project Nexus suite of modifications. Whilst Project Nexus enhancements are expected to offer benefits, the new settlement arrangements introduce moving to a new approach introduces an element of risk, for example through the later reconciliation of allocated energy which can lead to cashflow problems for shippers and inaccuracies in unallocated gas. There is also a risk that the energy will never be reconciled before the line in the sand date is reached.~~potential large reconciliations.~~

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. [3]

The volume of un-reconciled energy after any period is dependent upon industry participant performance – including 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 settlements has accurate allocation, reconciliation, control and self-monitoring and governance post-Project Nexus implementation, so that no unfair commercial advantage can be derived from settlement by any Party[4].

## Solution

~~This modification proposes that there will be a new~~ Performance Assurance Framework (PAF) is to be introduced into the gas market arrangements. The Performance Assurance Framework proposed under MOD506 encompasses Transporter, Shipper and Xoserve activity [5]that impacts energy once it has entered

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the Local Distribution Zone, i.e. from and including the upstream meter into the LDZ through to the downstream meters delivering to consumers. Gas transported through the National Transmission System (NTS) and supply 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 1[6]). There will be a requirement for the Transporter Agency to provide data and information to the Performance Assurance Administrator and assist in interpretation of information.

The proposed solution includes a competitive tender process for the Performance Assurance Framework Administrator role. For the avoidance of doubt it is proposed that the Performance Assurance Workgroup will keep the implementation date of the PAF under review during development of this modification. The Transporters' Agency, Xoserve, are presently developing performance assurance reports for the current regime, if the PAF can be introduced ahead of that date, then the framework could be used for the current process.

A review is to be conducted within the first year (from modification implementation date) by the Sub-Committee, and any decision to terminate the Performance Assurance Administrator contract advised to the Transporters 2 months prior to the first anniversary of the contract commencement. This review will consider both the effectiveness of the Performance Assurance Framework introduced by this modification and the service provided by the party contracted for the role of the Performance Assurance Administrator. If the Sub-Committee determine that:

- changes are required to the Performance Assurance Framework, then it would be for a Party to the UNC to raise a Modification Proposal to change the scheme
- the contracted Performance Assurance Administrator Party is not meeting the requirements of the contract, then the Transporters would terminate the contract and work with the Sub-Committee to appoint an alternative provider. [7]

The Performance Assurance Framework is expected to use the risk assessment process, as set out in another modification (at the present time MOD483 has been raised with the risk assessment process included). Such modification would therefore be complementary to this modification, but not an alternative to it.

## Relevant Objectives

This modification proposal is expected to ~~should~~ have a positive effect on Relevant Objectives (a), (c), [8](d) and (f) as it is expected to lead to more accurate and up to date information being held on Xoserve's system and therefore improve accuracy of settlement.[9] In addition the creation of the UNCC Sb-Committee and the UNC Related Document will facilitate the implementation of other modifications related to

~~The proposed Business Rules make use of the existing UNC Framework and was structured as such to keep costs of introducing a the Performance Assurance Framework low and ensuring that dovetailing with current arrangements reduces complexity.~~

## Implementation

No implementation timescales are proposed. However, this Pproposal should be implemented as soon as possible after an Ofgem ~~approval decision to do so, ahead of~~

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~~Project Nexus Go-Live or at an earlier date and in time to allow the industry to establish the proposed Committee and supporting arrangements.~~

This modification is expected to be one of a series of modifications ~~to create a around~~ Performance Assurance ~~regime.~~ ~~which should be able to~~ Each modification can be developed independently and implemented at different times. For the avoidance of doubt it is intended that this modification can be implemented without any modification on risk assessment being approved. ~~It is expected that this modification will be a platform for existing modifications and those in the future relating to performance assurance.~~

## 2 Why Change?

To coincide with the planned replacement of the main UKLINK systems, ~~an~~ improved gas allocation and reconciliation processes (together referred to as “settlement”) ~~settlement process~~ will be introduced through the Project Nexus suite of modifications. Whilst Project Nexus enhancements are expected to offer benefits, ~~the new settlement arrangements introduce moving to a new approach introduces~~ an element of risk, for example through ~~the later reconciliation of allocated energy which can lead to cashflow problems for shippers and inaccuracies in unallocated gas. There is also a risk that the energy will never be reconciled before the line in the sand date is reached.~~ ~~potential large reconciliations. Essentially to be most efficient data quality, quantity, frequency etc., must be optimal from all parties or transporter or shipper 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 probably if there is no monitoring or incentives in place to address them.~~ [10]

The ~~Gas~~ 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 aggregate allocations ~~or poor performance in reconciliation activity~~ [11] 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 ~~Pp~~ parties to ensure that 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 ~~Pp~~ parties through the settlement process.

The Proposer also believes that introducing a PAF could bring benefits to consumers through the ~~C~~change of ~~S~~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 risk and giving absolute clarity about industry expectations of new entrants~~[12].

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### 3 Solution

The ~~During detailed discussions of the~~ Performance Assurance Framework is limited to energy once it has entered the Local Distribution Zone. 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 proposed solution is to create a Performance Assurance Framework within the UNC. This Performance Assurance Framework comprises:

- A UNCC Sub-Committee (the Performance Assurance Committee). (Note, a UNC modification is not required to create this and so this Sub-Committee does not need to form part of the legal text)
- An administrator role (the Performance Assurance Framework Administrator) to provide settlement performance information to the Sub-Committee
- Business rules setting out the roles and responsibilities of the Sub-Committee and Performance Assurance Framework Administrator. These are documented in a UNC Related Document (Guidelines for the Energy Settlement Performance Assurance Regime) included as Appendix 1.
- A requirement for the Transporter Agency to provide data and information to the Performance Assurance Administrator and assist in interpretation of information.

This modification proposal creates the platform on which other performance assurance modifications can be implemented, e.g. modification 520.

The proposed solution includes a competitive tender process for the Performance Assurance Framework Administrator role.

A review is to be conducted within the first year (from modification implementation date) by the Sub-Committee, and any decision to terminate the Performance Assurance Administrator contract advised to the Transporters 2 months prior to the first anniversary of the contract commencement. This review will consider both the effectiveness of the Performance Assurance Framework introduced by this modification and the service provided by the party contracted for the role of the Performance Assurance Administrator. If the Sub-Committee determine that:

- changes are required to the Performance Assurance Framework, then it would be for a Party to the UNC to raise a Modification Proposal to change the scheme the contracted Performance Assurance Administrator Party is not meeting the requirements of the contract, then the Transporters would terminate the contract and work with the Sub-Committee to appoint an alternative provider. [13]

The role of the UNCC Sub-Committee and of the Performance Assurance Framework Administrator are set out in the UNC Related "Guidelines document for the Energy Settlement Performance Assurance Regime" shown in Appendix 1.

Workgroup (PAW) the group has agreed that a cost effective, self managing, dynamic, top-down, risk-based assurance approach is required. To that end the group has

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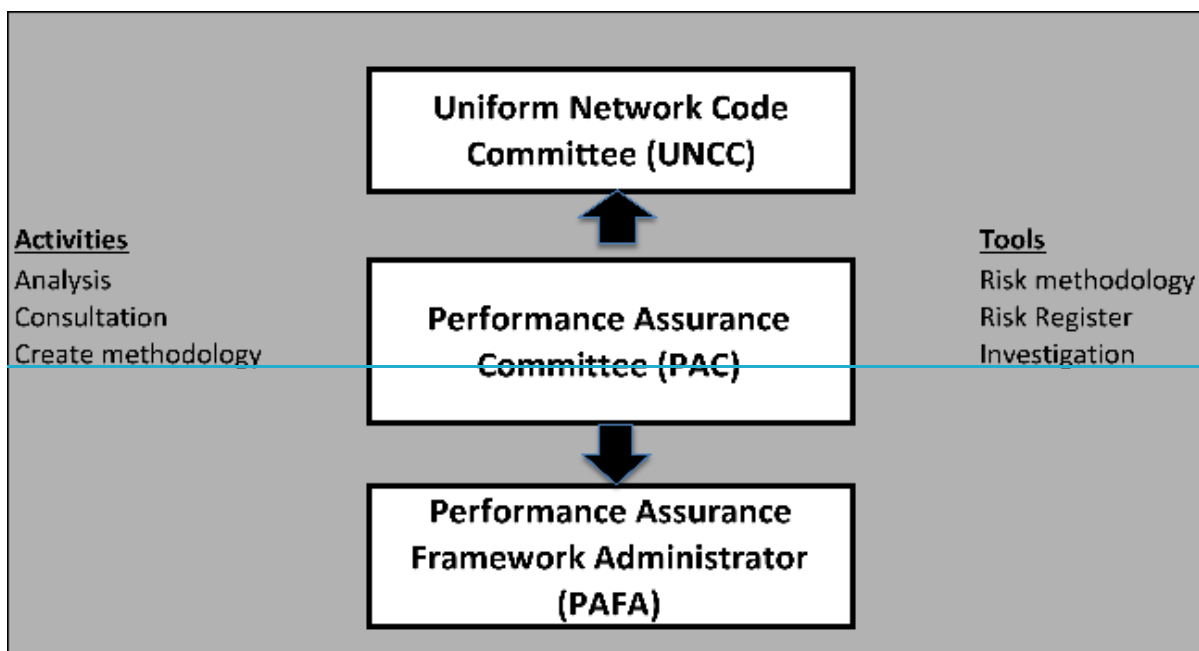
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proposed that there should be an independent study of settlement risk under the post-Nexus settlement rules.

The PAW has also been considering a proportionate and effective framework, which could underpin the Performance Assurance regime. Depicted below is a schematic of how the Workgroup envisage a PAF working and also the conclusion of discussion about how the framework will operate. The Proposer hopes that these can be used in developing full Business Rules for this MOD:



\* As a UNCC Sub-Committee the PAC would be supported by the Joint Office

#### Framework Principles

- There will be a Performance Assurance Committee (PAC), but members will be subject to strict confidentiality provisions
- There will be a Performance Assurance Framework Administrator (PAFA), which will be tendered for by the PAC and contracted by the Gas Transporters
- There will be a Performance Assurance risk based methodology created, which will be consulted upon on an annual basis, but is expected to be updated monthly
- The PAC will be a Sub-Committee of the Uniform Network Code Committee (UNCC)

Performance Assurance Committee composition/governance

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~~The Performance Assurance Committee will:~~

- ~~• be made up of a maximum of 10 industry experts, who will provide expert determination on the reports produced in relation to performance assurance monitoring. These members will be industry representatives and they (individually) and their company, if relevant, will be required to sign an undertaking on confidentiality and to warrant that the individuals will be representing the interests of the market, rather than any company commercial position~~
- ~~• consider that their meetings are quorate if at least three Committee members are in attendance~~
- ~~• be established via an appointment process established under the UNC and will seek to appoint Committee members, based on the agreed person specification created by the UNCC~~
- ~~• include a consumer representative, but this would not be a voting role~~
- ~~• have members appointed in advance of the Performance Assurance regime starting. No Committee member shall hold the position for more than [3] years. Following a period of 3 years, if the Committee member is willing to be considered for a further term of office (3 years), then they shall apply to the UNCC to be considered for a further terms of office~~
- ~~• be able to co-opt industry experts, if the need arises to do so~~
- ~~• be chaired by the Joint Office of Gas Transporters, as with any other UNC Committee~~
- ~~• take decisions by simple majority on a 1 member, 1 vote basis~~
- ~~• after 1 year of operation consider how well, or otherwise, the voting arrangements have worked~~
- ~~• allow members to abstain from a vote, where they declare an interest, but such abstentions will be scrutinised on an ongoing basis by the UNCC~~

~~Duties of the Performance Assurance Committee~~

~~The Performance Assurance Committee will:~~

- ~~• receive performance reports from the PAFA~~
- ~~• seek to contract/enlist external expertise to aid in their consideration of issues which are deemed material under the risk register~~
- ~~• tender for and appoint a PAFA~~
- ~~• manage the PAFA~~
- ~~• instruct that the Performance Assurance Agent audits the Performance Assurance scheme. The frequency of such audits shall be at the Committee's discretion, but should be undertaken at intervals where the Board believe it is most efficient to do so~~
- ~~• allow the PAFA to request additional reports only where this is necessary to aid in understanding or further analysis of issues, which is deemed material under the risk register~~

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- ~~• determine on the recommendation from the PAFA on a Performance Assurance Methodology and ask that the MOD Panel consult on this on an annual basis~~
- ~~• receive representations made on the Performance Assurance Methodology and provide to the PAFA for consideration~~
- ~~• require the PAFA to create and maintain a Risk Register based on the Performance Assurance Methodology on an annual basis and consider the PAFA's proposals~~
- ~~• receive issues from any Party recognised as having a role under the UNC and consider, with the help of the PAFA, whether they are material enough for inclusion in the Risk Register and determine whether further information needs to be obtained to be able to determine materiality. And where determined as not material provide a response to the proposer setting out the reasons for the Committee's determination~~
- ~~• review and determine within the first year if there is a need to have the right to fully investigate UNC Parties behaviour via an audit and set out the proposed approach and justification for such a right. Should the Committee seek such a right it shall consult formally on the proposed approach with all UNC Parties and consider raising a UNC modification if there is support for the right of audit~~
- ~~• review and determine within their first year whether there is a need for improvement plans and preventative measures and set out a proposed approach and justification for such a right, before consulting on it with UNC Parties. Should the Committee seek such a right it shall consult formally on the proposed approach with all UNC parties and consider raising a UNC modification if there is support for improvement plans/preventative measures~~
- ~~• work with the PAFA to define performance targets, which would be linked to the start of each Gas Year (1<sup>st</sup> October)~~

~~Duties of the UNCC in relation to the Performance Assurance scheme~~

~~The UNCC will:~~

- ~~• assess the effectiveness and cost benefit of the PAC after 1 year of operation and consult with UNC Parties on any issues that they have experienced with the process and its effectiveness~~
- ~~• create a "person specification(s)" for the PAC members, taking into account the experience and expertise that will be needed for the PAC to operate effectively~~
- ~~• oversee the appointment of PAC members, using where necessary HR and legal support if required~~
- ~~• Give UNC Parties the opportunity to raise and set out any concerns about individuals proposed for the role e.g. if they believe the individual has any conflict of interest~~
- ~~• determine the selection criteria to be used for the appointment of PAC members~~

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- ~~• consider the PAC person specification and composition to determine suitability every 12 months, whilst looking at the future work and challenges for the PAC over the same period~~
- ~~• have the right to propose changes to the composition of the PAC~~
- ~~• scrutinise the abstention by Committee members and have the right to remove a PAC member if they believe that they are unable to offer subjective input into the PAC~~

*Role of the Performance Assurance Framework Administrator*

*The Performance Assurance Administrator will:*

- ~~• identify and receive issues that are of material significance in relation to settlement accuracy or customer experience/service~~
- ~~• assess issues against the Risk Register using the approved Performance Assurance Methodology~~
- ~~• consider with the PAC what data is needed to be able to carry out its role~~
- ~~• carry out analysis on material issues as directed by the PAC~~
- ~~• consider with the PAC what action, if any needs to be taken~~
- ~~• be able to request reports from Xoserve where it has been agreed with the PAC that such reports are necessary to look into an issue in more detail and the issue is of material impact~~
- ~~• work with the PAC to define performance targets, which would link to the start of the Gas Year (1<sup>st</sup> October)~~
- ~~• create a Performance Assurance Methodology and provide to the PAC giving a detailed explanation of the proposal and the benefits of it~~
- ~~• take into account any representations made on the Performance Assurance Methodology and provide a response to all representations received~~
- ~~• create a Risk Register based on the Performance Assurance Methodology on an annual basis~~
- ~~• If requested by the PAC undertake audits of the Performance Assurance scheme~~

*Input of UNC Parties*

*All UNC Parties must be able to:*

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- ~~• to raise issues with the PAC for them to consider, with the PAFA, if the issue is material~~
- ~~• provide feedback to the annual consultation on the Risk Register Methodology~~
- ~~• provide responses to consultations undertaken by the PAC~~
- ~~• participate and co-operate in the Performance Assurance regime~~

#### User Pays

Classification of the modification as User Pays, or not, and the justification for such classification.

~~No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification.~~ This modification proposal creates additional services in the UNC to be provided by the Transporter Agency and to be defined in Appendix 1 of the Agency Charging Statement.

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.

~~None~~ As Users are the beneficiaries of the services created by this modification proposal 100% of the costs are to be recovered from Users.

The charging basis for Users is:

Total SOQ for all LDZs for the relevant billing period for each Shipper (as at the end of the relevant billing period (30<sup>th</sup> September) as a percentage of the total SOQ for all LDZs for the relevant billing period for all Shippers (as at the end of the relevant billing period (30<sup>th</sup> September))-[14]

Proposed charge(s) for application of User Pays charges to Shippers.

~~None tbc~~

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.

~~None tbc~~

## 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.	Positive
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.	Positive
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

This [modification](#) proposal should have a positive effect on Relevant Objectives (a), (c), (d) and (f). It is intended that the [Performance Assurance Framework](#) 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. This should further Relevant Objective (a), in particular if more up to date and accurate data allows the Transporters to understand system requirements in areas of constrained capacity.

Introducing a PAF should help facilitate the realisation of benefits expected both from Project Nexus changes and the roll out of smart metering and thus providing benefits under Relevant Objective (c). [In addition by introducing a competitive tender exercise to appoint the Performance Assurance Administrator this should ensure that there is competitive pressure on the cost of this service.](#)

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).

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[The creation of the UNCC Sub-Committee and UNC Related Document will facilitate the implementation of other modifications related to the Performance Assurance](#)

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~~Framework, By creating a model for the PAF that couples with existing arrangements, under the UNCC, and utilising the Joint Office for secretarial provision this [modification](#) proposal also furthers Relevant Objective (f).~~

## 5 Implementation

No implementation timescales are proposed. However, this [modification](#) ~~proposal~~ should be implemented as soon as possible after ~~an~~ Ofgem [approval](#) ~~decision to do so, in time for Project Nexus Go-Live or at an earlier date and in time to allow the industry to establish the proposed Committee and supporting arrangements.~~

~~The Performance Assurance Committee (PAC) may also be able to consider reporting by Xeserve of the performance of Parties under the current settlement arrangement, which they expect to release at the start of the 2014/15 Gas Year, if this proposal is finalised and approved at an earlier date.~~

This modification is expected to be one of a series of modifications around Performance Assurance, which should be able to be developed independently and implemented at different times. For the avoidance of doubt it is intended that this modification can be implemented without any modification on risk assessment being approved.

*[Note: the UNCC can create the Performance Assurance Framework Sub-Committee at any point in time, this may be prior to the modification implementation.](#)*

## 6 Legal Text

Legal text to be provided by the Gas Transporters.

## 7 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self governance; and
- Progress to Workgroup for assessment.