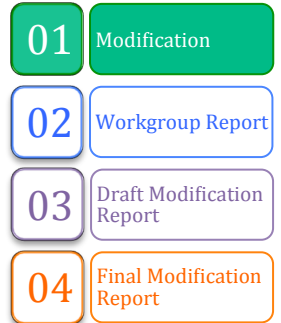


Stage 01: Modification

0483:

Performance Assurance Framework Incentive Regime

At what stage is this document in the process?



This modification is to introduce a top-down cost reflective risk based incentive regime to incentivise Shippers to ensure they reconcile appropriate volumes of Energy within their portfolio.



The Proposer recommends that this modification should be:

- assessed by a Workgroup



High Impact:
Shippers

0483

Modification

12 November 2014

Version 2.0

Page 1 of 9

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Contents

1	Summary	3
2	Why Change?	4
3	Solution	4
4	Relevant Objectives	8
5	Implementation	8
6	Legal Text	8
7	Recommendation	8

About this document:

This modification will be presented by the proposer to the panel on 20 February 2014.

The panel will consider the proposer's recommendation and agree whether this modification should be referred to a workgroup for assessment.



Any questions?

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0483

Modification

12 November 2014

Version 2.0

Page 2 of 9

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1 Summary

Is this a Self-Governance Modification?

Self Governance does not apply because this change could have a material effect on:

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;

Why Change?

The new regime introduced as part of the Project Nexus arrangements is expected to offer wide benefits to the industry, however it is also recognised that new risks may be introduced. The gas Performance Assurance Workgroup (PAW) was established by the Uniform Network Code (UNC) Modification Panel to consider the development of a framework that can help to ensure the gas settlement risks are understood, and to provide assurance that the actions of parties are not inappropriately passing costs to others.

Given the value of energy that is delivered in GB each day, any small percentage inaccuracy in aggregate allocation is potentially significant. The volume of un-reconciled energy after any period is dependent on accurate and timely data provision, including asset and available consumption data.

Solution

This modification proposes an incentive regime that encompasses the allocation of energy and its subsequent reconciliation to actual usage by meter point, enabling the gas industry to set performance targets designed to incentivise behaviours that are consistent with the risk placed on other market players.

Relevant Objectives

This modification would have a positive impact on relevant objectives d) Securing of effective competition and f) Promotion of efficiency in the implementation and administration of the Code.

Implementation

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

2 Why Change?

As part of the outcome of the last Gas Distribution price control review, it was agreed that funding should be available to support a major IT systems investment programme by the Transporters agent, Xoserve. This major systems investment for UK-Link Replacement provides an opportunity to consider whether the existing UNC existing requirements remain appropriate. Rather than asking Xoserve to procure replacement systems that deliver the existing functionality, there is an expectation that introducing regime enhancements at this stage would be the most economic time to implement any such change. The requirements gathering exercise for the enhancements is entitled Project Nexus and has now progressing to the system development stage.

Whilst the new regime is expected to offer benefits, it is also recognised that new risks may be introduced. As a result the gas Performance Assurance Workgroup (PAW) was established by the Uniform Network Code (UNC) Modification Panel to consider the development of a framework that can help to ensure the gas settlement 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 GB each day, any small percentage inaccuracy in aggregate allocation is potentially significant. The volume of un-reconciled energy after any period is dependent on accurate and timely data provision, including asset and available consumption data. Therefore PAW has identified the necessity for a performance target methodology and for an enduring incentive regime that encompasses the allocation of energy and its subsequent reconciliation to actual usage by meter point.

3 Solution

The following areas are to be completed by the Performance Assurance Workgroup (PAW).

The following are key components of a top-down cost reflective risk based incentive regime to incentivise Shippers to ensure they reconcile appropriate volumes of Energy within their portfolio –

1. Identify the system and data to measure and monitor industry performance
2. Establish appropriate incentive model
3. Establish appropriate incentive rate and target
4. Determine appropriate mechanism for the incentive re-allocation

1. Identify the system and data to measure and monitor industry performance

- It is proposed that data on shipper performance is extracted from the Nexus System
- Shipper performance will be measured against the volume of energy reconciled within their portfolio
- Energy reconciled will be a percentage of energy within a shipper organisations collective portfolio
- Percentage of energy reconciled will be reported monthly

2. Establish appropriate methodology for target setting

Further clarity of the methodology and the performance target will be provided by the independent study which will –

- Report on the financial risk to market participants that the Nexus settlement processes may present, based upon analysis of the Project Nexus Business Requirement Documents
- Quantify the scale and timelines in which risk is presented and dissipates
- Deliver a model of the settlement process which can be used by the PAW to demonstrate the risk at different levels of input

0483

Modification

12 November 2014

Version 2.0

Page 4 of 9

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- Create a model to determine equitable redistribution of cost based on risk presented (size in kWh and age of un-reconciled energy are expected to be the key attributes of the model)
- Detail of what needs to be measured to ensure accuracy of inputs (e.g. Transporter offtake metering, shrinkage, Shipper-provided meter readings, AQ calculation rates)
- Full documentation of the methodology and supporting information and assumptions
- The model is to be approved utilised by the Performance Assurance Workgroup or relevant UNC Sub-committee to establish the appropriate performance target and incentive rate.

3. Establish appropriate incentive rate and target

The academic study is tasked to deliver an incentive rate, so to incentivise Shipper’s behaviour that are consistent with the risk decisions they place on other market players. Following the completion of this work it is proposed this section is populated with the result.

- Once the model has been approved the incentive rate and target will be calculated
- Subsequent years Transporters will apply the annualised model rules against the relevant industry data
- The model output ‘incentive rate and target’ should be published 3 months before the start of each gas year
- Transporters will be obligated to publish the model outputs and populate the Performance Assurance Incentive (PAI) table

UNC Performance Assurance Incentive (PAI) Table format

Year	p/kWh	%target
2015		
2016		
2017		
2018		
2019		
Etc		

* Please note the output of the independent study, may result in the above PAI and table being amended]

4. Determine appropriate mechanism for the incentive re-allocation and invoicing

- The Performance Assurance Target (PAT) will be measured against a rolling 12 month performance, for each shipper organisations collective portfolio. (This will allow for the accumulation of industry data, as per the current reconciliation reporting process under DESC).
- The performance target should be set at the start of each gas year, which is the 1st October, to tie in with customer gas contracts

Invoicing

- The Transporter will invoice monthly any shipper party that does not meet the PAT
- The invoice will be an ad hoc debit invoice
- [The invoice charge calculation will be derived from the Engage Consulting work]
- The debit invoice will be issued to the relevant User 15 business days after the non-compliance billing period and be payable within 12 business days of the invoice issue date.
- The corresponding credit invoice will be issued to the relevant industry Users 45 business days after the non-compliance billing period and be credited with 12 business days after the invoice issue date.

Reallocation

- The Transporter will manage the Performance Assurance Neutrality pot on behalf of the gas industry
- The shipper debit payments will be paid into the Neutrality pot
- One month after receipt of the performance debit invoice is received the Transporter will allocate the Neutrality pot to all shippers by the AQ allocation market share, down to two decimal places

[Appeals and non-payments

- **No appeal** will be available to parties for non-compliance of the PAT
- A shipper is not able to defer or make a non-payment of the PAT debit invoice
- *Failure to pay the PAT debit invoice results in -
 - 1) no action will be taken
 - 2) will be escalated to the PAC
 - 3) shipper licence will suspended and escalated to PAC

Please note the above is to be developed at the PAW]

0483

Modification

12 November 2014

Version 2.0

Page 6 of 9

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User Pays

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

The creation of the incentive regime is classified as a User Pays Modification.

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.

Costs split will need to be defined at PAW

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

Shipper charges will split by Shipper market share throughput

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

A cost estimate will need to be requested by PAW before this section can be completed

0483

Modification

12 November 2014

Version 2.0

Page 7 of 9

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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.	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

This modification would have a positive impact on relevant objectives d) Securing of effective competition and f) Promotion of efficiency in the implementation and administration of the Code.

5 Implementation

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

6 Legal Text

Legal Text to be provided by National Grid.

0483

Modification

12 November 2014

Version 2.0

Page 8 of 9

7 Recommendation

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The Proposer invites the Panel to Progress to Workgroup assessment.

0483

Modification

12 November 2014

Version 2.0

Page 9 of 9

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