

Modifications 506 and 506A - Gas Performance Assurance Framework and Governance Arrangements

1. Introduction

This summary has been produced to provide an overview of the arrangements that would be created by modifications 506 and 506A, if either proposal is approved by Ofgem. There is much more detail in each of the modification documents referenced in this summary.

2. Overview

Modifications 506 and 506A both create a framework for Performance Assurance comprising a UNCC sub-committee with terms of reference and supporting Guidelines documents detailing the structures and processes to support the arrangements.

Modifications 506 and 506A are limited to gas once it has entered the LDZ, they do not apply to the National Transmission System or supply points connected to it.

Modifications 506 and 506A create a framework for the performance assurance arrangements, allowing them to develop as required and agreed by the industry. Any such further development requires a modification, this can be raised on an informed basis at the time.

Modifications 506 and 506A are both User Pays, with Shippers paying 100% of any User Pays costs incurred.

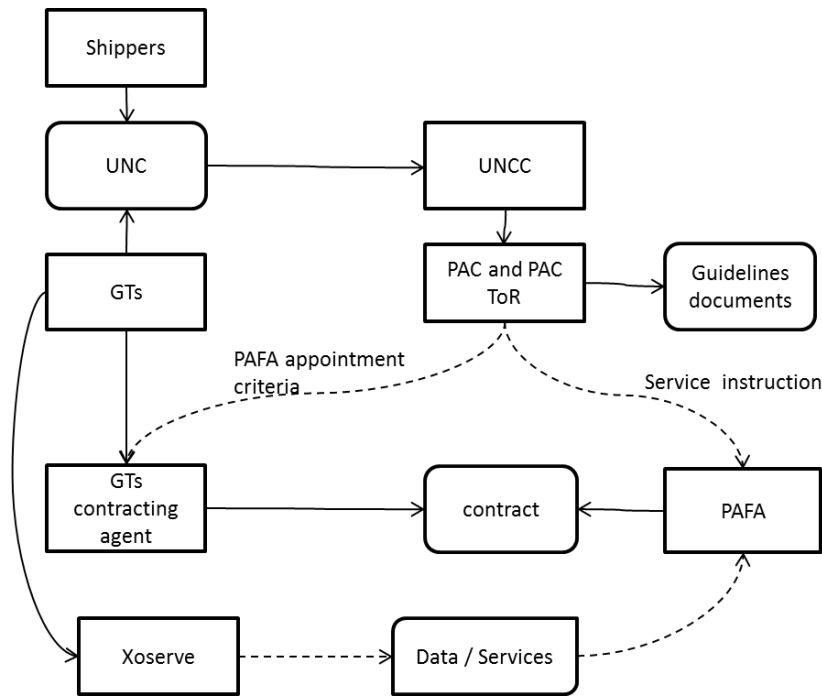
Modification 506 is enduring.

Modification 506A creates arrangements that cease three years after implementation.

3. Contractual structure

2.1 Modification 506 contractual structure

The diagram below sets out the contractual structure.



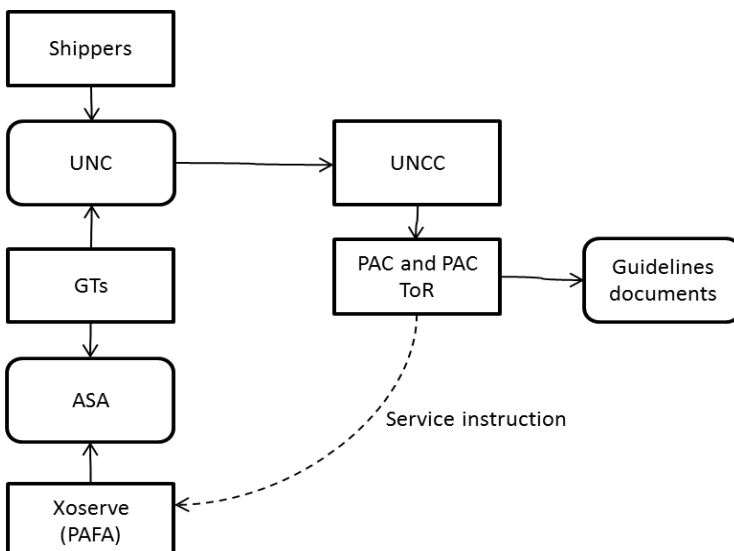
Modification 506 places an obligation on the GTs to tender for and appoint the PAFA.

The PAC submit service instructions to the PAFA for services, with the PAFA providing a quotation for services and the PAC approve this before the service is provided. The industry will only incur costs where the PAC has approved the work and the services delivered by the PAFA.

Some services provided by the PAFA will require data or services from Xoserve e.g. the provision of report information.

Charges for the PAFA procurement and PAFA services are recovered under the User Pays arrangements.

2.2 Modification 506A contractual structure



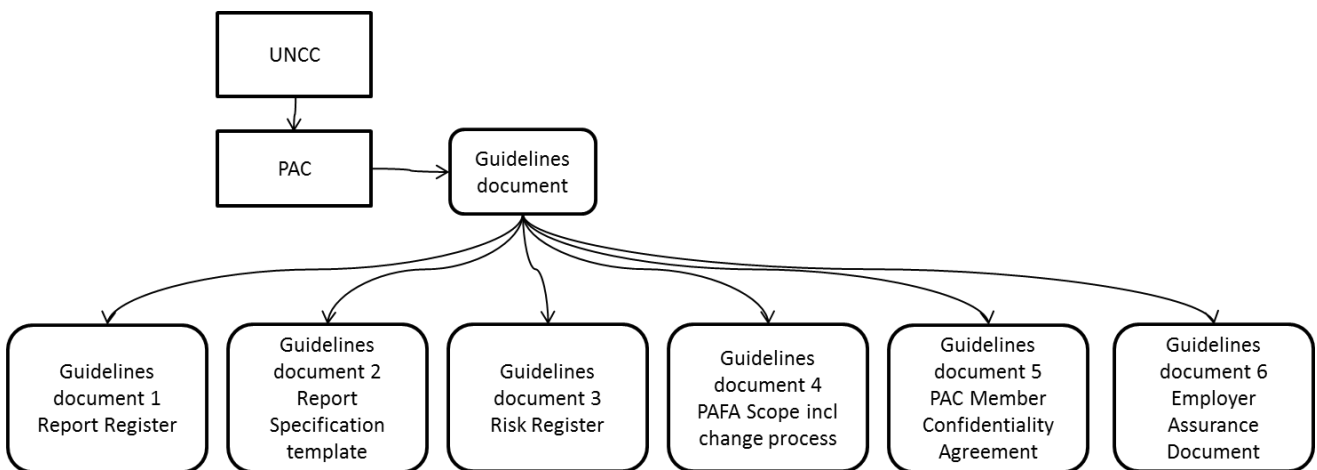
The Performance Assurance Framework Administrator (PAFA) is Xoserve. The PAC submit service instructions to Xoserve for services, Xoserve provide a quotation for services and the PAC approve this before the service is provided and costs incurred.

Charges for PAFA services are recovered under the User Pays arrangements.

4. Guidelines structure

4.1 Modification 506

The diagram below sets out the arrangements under the UNCC.



4.1.1 Performance Assurance Committee (PAC)

The PAC is a sub-committee of the UNCC. A set of PAC terms of reference have been developed to be adopted by the UNCC as and when the modification is implemented.

The PAC Terms of Reference set out the PAC structure, decision making process and the roles and responsibilities of the PAC.

PAC members are required to sign a confidentiality agreement and their employer to sign an Employer Assurance Document. This is to ensure that PAC members are attending the meetings with the objective of securing the interests of the gas industry and accuracy of settlement processes. MOD506 envisages that individual named Shipper performance data may be discussed at the PAC and therefore arrangements are also required to protect this information. This is along similar lines to the Electricity industry Balancing and Settlement Code Performance Assurance Board.

4.1.2 Guidelines Document

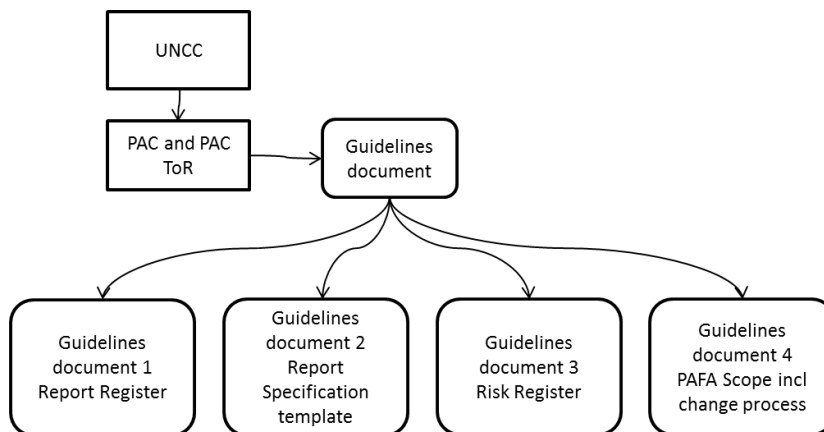
The Guidelines document sets out details on the Framework, the Scheme (Shippers, GTs and the Transporter Agency are subject to the Scheme), the PAC (referencing the PAC Terms of Reference) and the scope of the PAFA.

The Guidelines also set out the governance of the Performance Assurance Committee Documents: Report Register, Report Specification Template, Risk Register, PAFA Scope, PAC Member Confidentiality Agreement and Employer Assurance Document. These are operational documents to facilitate the operation of the Scheme.

The Guidelines themselves are subject to UNCC governance, whereas the Performance Assurance Committee Documents are subject to PAC governance, that is that the PAC can agree changes to these documents without reference to the UNCC or the need for a UNC modification.

4.2 Modification 506A

The diagram below sets out the arrangements under the UNCC.



4.2.1 Performance Assurance Committee (PAC)

The PAC is a sub-committee of the UNCC. A set of PAC terms of reference have been developed to be adopted by the UNCC as and when the modification is implemented.

The PAC Terms of Reference set out the PAC structure, decision making process and the roles and responsibilities of the PAC.

MOD 506A does not initially create arrangements for information by named parties. If and when this is required any confidentiality matters can be addressed.

4.2.2 Guidelines Document

The Guidelines document sets out details on the Framework, the Scheme (Shippers and GTs are subject to the Scheme), the PAC (referencing the PAC Terms of Reference) and the scope of the PAFA.

The Guidelines also set out the governance of the Performance Assurance Committee Documents: Report Register, Report Specification Template, Risk Register, PAFA Scope. These are operational documents to facilitate the operation of the Scheme.

The Guidelines themselves are subject to UNCC governance, whereas the Performance Assurance Committee Documents are subject to PAC governance, that is that the PAC can agree changes to these documents without reference to the UNCC or need for a UNC modification.