





Modification	At what stage is this document in the process?
<h1>IGT138:</h1> <h2>Performance Assurance Techniques and Controls</h2>	<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>Purpose of Modification:</p> <p>To provide an effective framework for the governance of industry performance that gives industry participants mutual assurance in the accuracy of settlement volume allocation</p>	
	<p>The Proposer recommends that this modification should:</p> <ul style="list-style-type: none"> be assessed by a Workgroup be subject to Authority decision <p>This modification will be presented by the Proposer to the Panel on 28th February 2020. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>
	<p>High Impact:</p>
	<p>Medium Impact:</p> <p>Shippers</p>
	<p>Low Impact:</p> <p>Independent Gas Transporters</p>

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The Proposer recommends the following timetable:			Other: Insert name
Initial consideration by Workgroup	13 March 2020		 email address
Amended Modification considered by Workgroup	dd month year		 telephone
Workgroup Report presented to Panel	26 June 2020		
Draft Modification Report issued for consultation	2 nd July 2020		
Consultation Close-out for representations	23 rd July 2020		
Variation Request presented to Panel	dd month year		
Final Modification Report available for Panel	30 th July 2020		
Modification Panel decision	28 th August 2020		

1 Summary

This Modification is proposed by Scottish Power following discussion with and the support of the Performance Assurance Committee (PAC).

What

In operating the PAF (Performance Assurance Framework) the PAC (Performance Assurance Committee) have identified some weaknesses and limitations in the performance assurance regime which are impacting the effectiveness of the performance assurance model.

Why

The PAC have a number of examples where performance issues have been identified and have not been remedied over a prolonged period. This has resulted in settlement inaccuracy over extended periods.

PAC are keen to prevent such situations occurring (through new performance assurance principles, proportionate incentive mechanisms and a progressive series of escalating controls) and when performance issues occur, they are curtailed speedily.

How

The Proposer on behalf of PAC proposes to modify the UNC to define the following outcomes:

- I. Require UNC Parties to adhere to a basic principle that their negligence, poor performance or bad behaviours must not distort settlement even when such behaviours have not specifically been proscribed within the UNC.
- II. Determine additional tools and processes available to the PAC in its work in the provision of performance assurance within the code.
- III. Allow the Performance Assurance regime to be more agile and responsive to the information it is receiving by empowering the PAC to determine and action an appropriate response at any time.
- IV. Provide PAC and PAFA (PAF Administrator) access to any standard reports already being provided to individual UNC Parties within performance packs e.g. shipper performance packs.
- V. Require UNC Parties to take action to improve their performance and remedy issues if it is identified and requested by the PAC.
- VI. Require UNC Parties to provide and adhere to any plans of action they provide.
- VII. Ensure that where it is proposed adding to or changing UNC performance standards within the UNC and performance monitoring is required, the report requirement must be added to the modification.

The CDSP will be required to provide a ROM (rough order of magnitude) for the production of the monitoring reports needed for that proposal, for the modification workgroup to determine if the cost of a report is not deemed prohibitive.
- VIII. Specify the tools available to the PAC to incentivise, drive and require performance behaviours and to document these in a new ancillary document under UNCC (UNC Committee) governance.
- IX. Suitably empower the PAC, as an elected, independent body, to make decisions for and on behalf of the UNCC in respect of Performance Assurance matters.
- X. Ensure that the PAC budget does not act to constrain the duties and requirements of the PAC.

- XI. Provide clarity that UNC parties (Gas Transporters (GTs), Independent GTs (IGTs), Shippers etc.) fall under the remit of the PAC and the performance assurance measures to be applied.

The proposer would like parties to the IGT UNC to be subject to these changes in the same way that UNC parties would be subject to these changes under the equivalent modification under UNC governance (UNC Mod 0674 Performance Assurance Techniques and Controls)

2 Governance

Justification for Normal Procedures and for Authority Decision

The modification will impact the performance assurance regime, which ultimately seeks to have a positive material impact on parties and therefore competition between them. It also seeks to increase the authority of the PAC, to allow it more decision-making powers which is likely to materially impact specific parties.

The modification:

- i. is likely to have a material effect on:
 - a. 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
 - b. the uniform network code governance procedures and the network code modification procedures;
- ii. is likely to discriminate between different classes of parties to the uniform network code/relevant gas transporters, gas shippers or DN operators depending on their individual performance.
- iii. Is likely to impact consumers through competition in tariffs, due to the implications of a settlement process that is not fair and equitable across parties.

Requested Next Steps

This modification should:

- be considered to be a material change and **not** subject to self-governance
- be assessed by a Workgroup with awareness of discussions in the workgroup for UNC Mod 0674 Performance Assurance Techniques and Controls.

The detailed business rules in this modification have been reviewed by the UNC Mod 0674 Performance Assurance Techniques and Controls workgroup to ensure there are no unintended consequences or loop holes in the governance requirements that would thwart the performance assurance intent of this modification. Additionally, the modification should act as an incentive to meet the required performance levels and ideally ensure that parties do not make commercial decisions that detrimentally impact competing parties. The UNC workgroup has also reflected on and understood the materiality implications of poor performance both for the offending parties and those impacted as a result, to ensure that incentives can be set appropriately.

This is a complex Modification Proposal and will require stakeholder engagement. The contractual requirements of the PAFA (Performance Assurance Framework Administrator) may also be impacted. The ancillary documents must also be drafted for initial adoption.

3 Why Change?

The electricity performance assurance regime in the Balancing and Settlement Code (BSC) costs approximately £3m to provide the regime.¹ This modification does not advocate this level of expenditure nor the more prescriptive style of this regime, but it does advocate that the Code supports some additional investment to deliver a ‘harder-hitting’ assurance that parties anecdotally indicate they require and which will deliver better returns from improved performance and less settlement uncertainty.

The existing Performance Assurance Reports do not provide context and the potential impact of performance behaviours on settlement accuracy. The PAC has an annual budget of £50k for additional support and / or reports from the CDSP (Central Data Services Provider). To put this in context – the PAC explored amending one of the existing PARR reports and the CDSP indicated that one option for doing so would use £45k of the annual budget (Ref: [PAC minutes 20 November 2018 ROM](#)). Such a budget limitation can constrain the PAC’s ability to identify, assess and bring to account poor behaviour.

Since the implementation of Project Nexus on 01 June 2017, a number of issues have impacted settlement allocations. These and the length of time issues have been endured have had a direct effect on the financial and commercial health of market participants and ultimately customers. The absence of a stronger PAF, is likely to have prolonged settlement distortion and therefore, in part, high and volatile UIG.

To date performance remedies are limited to PAC instructing the CDSP to engage with the failing participant proactively and asking the PAFA to write a formal letter requesting the issue be resolved.

This is having limited effect in some instances but is simply ignored in others.

To cite 3 examples:

- There have been significant issues with the reconciliation of mandatory DM (daily metered) sites since the implementation of Nexus in June 2017. As at November 2018, there were still 32 sites that have not had a retrospective consumption adjustment since June 2017. Actions taken to remedy this situation have included direct engagement by the CDSP (Xoserve) and a letter from Ofgem to involved parties. It took nearly a year to resolve the root causes for 177 DM meters.
- Product Class 3 read performance, despite Xoserve’s engagement with the involved Shippers, is still well below the performance target.
- All shippers have access to shipper information packs and dashboards that highlight performance in many other areas. Where processes are failing and the shipper has the management information indicating that, there are no consequences of Shippers failing to act on these reports and no controls that PAC can employ to support Shippers in improving their performance.

Ofgem, the PAC and the industry have discussed the benefits of incentives to improve settlement accuracy and reduce risk. For example, in the level of reads accepted into settlement.

Ofgem has on a number of occasions advised that they want to see improvements to the performance assurance scheme developed in the gas market – including in their determination on Modifications 0473/A and 0506V.

¹Page 42 [Annual BSC Report 2017/18](#)

Additionally, Ofgem, in their decision letters on Modifications 0619/A/B, requested that industry parties increase “the frequency and quality of meter read data being submitted to the Central Data Services Provider” and in their decision letter on Urgent Modifications 0642/0642A/0643 they requested that “To the extent that Xoserve depends on data provided by third parties, including the provision of frequent and accurate meter readings, it is expected to work with those parties and the PAC to ensure that these requirements are identified and being met.” There is currently no effective mechanism for meeting these challenges, aside from relying on Shippers best intentions, which is not currently delivering adequate read performance or settlement certainty.

Despite introducing a risk-based PAF, the PAF is currently limited to monitoring performance reports and writing letters to the Market Participants displaying poor performance.

Neither the UNC or IGT UNC obligations provide consequences for failing to meet obligations or target measures, where they exist, and no incentives to meet them. There is no mechanism to hold to account the performance of failing parties; and target measures provide no indication of how they might impact settlement quality nor is there evidence that impact on settlement is considered in making decisions to modify UNC obligations.

4 Code Specific Matters

Reference Documents

Performance Assurance Framework and other UNC Performance Assurance ancillary documentation.

Knowledge/Skills

Knowledge of settlement risk or other performance regimes would be an advantage.

5 Solution

The current Performance Assurance regime described in the UNC is represented diagrammatically below:

As Is

UNC – V Section 16

PAF (Performance Assurance Framework)

- Scope
- PAFA appointment procedure
- Functions of PAFA

PAC (Performance Assurance Committee)

- Decision making
- ToR (under UNCC but not in section 12)

PAFA (Performance Assurance Administrator)

- How and who to appoint PAFA
- Monthly reports

UNCC – V Section 12

Ancillary Documents

- PAF
- PARR (Performance Assurance Reports Register)

The modification will move the Performance Assurance regime to a new regime represented diagrammatically here:

UNC – V 16

Subject to:

- UNC mod process

Performance Assurance Objective

- New overarching principle / objective

PAF (Performance Assurance Framework)

- Amend Scope – document sets out performance assurance scheme

PAC (Performance Assurance Committee)

- Provision of Authority to the PAC (with protections)

PAFA (Performance Assurance Framework Administrator)

- No change

PAFA contract

- No change

Parties

- Be subject to the Performance Assurance Ancillary Documents

UNCC – V 12

Subject to:

- Change by any UNC party
- and
- UNCC governance

Ancillary Documents

- Performance Assurance Framework (amended)
- PATS (Performance Assurance Techniques)
- PAC appointment and requirements
- Appeal Procedure
- Annual PAF Review and Consultation

In summary the solution is to oblige UNC Parties (transporters, shippers, CDSP) to comply with an objective of equitable settlement and to cooperate with other Parties to further this objective.

It will also give PAC some additional authority to identify those areas of performance (whether in Code or not) which impact the objective, to require UNC Parties to improve in those areas and to impose sanctions where performance is below the required level. It will also require the Proposer of a modification which adds or changes UNC performance standards or might impact a Party's performance against such standards to specify an appropriate monitoring report. The CDSP will be required to provide a ROM (rough order of magnitude) for workgroup consideration

The requirements below will be incorporated into the UNC.

(Associated changes will be made to the Performance Assurance Framework documents).

- 1) Introduce a new objective to the UNC for Performance Assurance to clarify its purpose, the Performance Assurance Objective (PAO).

The objective of Performance Assurance (the Performance Assurance Objective) under the UNC is to ensure:

- a. that settlement is an accurate and equitable share of energy for each shipper, reflecting the real underlying gas consumption of all meter points to which the shipper is, or should be, registered
- 2) Introduce a new overarching principle to the UNC and IGT UNC
 - a. The Modification Panels, UNCC, sub-committees and Parties must always ensure that acts (or omissions) contribute to, and do not prejudice, the achievement of the Performance Assurance Objective even when such acts or omissions are not explicitly precluded under UNC
 - b. The performance of any other party (such as another shipper, supplier or their agent) does not absolve any other party of their performance requirements under the UNC.
 - c. Parties acknowledge that reports provided by PAFA or PAC shall constitute evidence of a Party's performance with regard to UNC and IGT UNC compliance, and shall be accepted as such unless evidenced to the contrary. Parties will use these reports to self-monitor performance. Parties will also respond to PAFA/PAC enquiries with the requested information, timeously and in accordance with such process as may be specified in PAF Document from time to time.
- 3) Introduce a new overarching principle to the UNC of collective co-operation towards the specified objective.
 - a. All UNC Parties acknowledge that each is dependent on the others for the achievement of the PAO and will cooperate wherever is necessary (whether explicitly required in UNC or not) to achieve the PAO
- 4) Move responsibility for PAF document preparation and maintenance from DNO to PAC (and submitted to UNCC for information).

5) Give PAC authority in the UNC and IGT UNC, with relevant protections noted below, to include:

- In making decisions about how and when the performance assurance monitoring and incentive tools shall be applied to a Party are used, PAC may take into consideration some, all or none of the following and not in any particular order:
 - Statistical performance measures.
 - Current and historical management of performance in the area of issue
 - Willingness and speed in remedying the issue
 - General co-operation in reviewing their case
 - Any other holistic information that would reasonably inform a prediction of the extent of performance improvements
- Require parties to respond to and meet PAC requests reasonably made in the context of performance matters and in pursuit of the Performance Assurance Objective.
- Deploy Performance Assurance Techniques (PATs) described in the ancillary document as they deem appropriate.
- Apply further techniques described in the ancillary document, following the failure of any Party to make improvements as agreed.
- Determining the materiality of performance issues which will be included in their decision-making process using appropriate expertise.
- Request reports or data that it deems required to understand performance issues, causes and materiality of impact on the Performance Assurance Objective. This includes the authority to make any changes to PARR without requiring prior approval of UNC. PAC will advise UNCC of the change.
- Authority to instruct DSC Change Management Committee to approve CDSP to increase their budget rather than constrain priorities to meet budget.
- Access any standard performance reports that are provided by CDSP to Parties; or any other standard reports as it deems relevant.
- Requesting the remedy of performance issues, where there is no explicit prescriptive performance standard specified in the code, where that performance issue is limiting or preventing the achievement of the achievement of Performance Assurance Objective (PAO)
- Specify in the ancillary documents the process from time to time by which errors in the allocation of settlement between shippers will be rectified. Such process to include but not limited to the evidence required, engagement with affected parties, timescales, limitations, assessment method, settlement basis for levying charges and credits to affected Parties.

6) PAC Protections

- All shippers shall be required to nominate a person in their organisation to act in capacity as First Point of Contact in relation to all PAC correspondence (the “PAP Authoriser”), such person to be of sufficiently seniority so as to understand and instruct action to be taken in regard to such communication
- PAC, PAFA and CDSP personnel attending closed PAC meetings may not reveal the workings or the decision-making process in reaching any decisions, save when required by law or due to an appeal from any affected party.

- PAC, PAFA and CDSP personnel attending closed PAC meeting are required to sign and adhere to undying non-disclosure agreements and any confidential material downloaded must be deleted when no longer required and when ceasing to attend the PAC (for whatever reason), whichever is sooner. [Dentons to confirm whether the letters signed by PAC members are sufficient or is some wider protection for both sides required]
 - PAC, PAFA and any parties connected with a performance assurance decision directed at any Party or any parties deemed to be responsible for the UNC should be protected from any litigation connected with the operation of the performance assurance regime. By
 - i. Identifying who would indemnify the PAC members against action taken in respect of a decision made by PAC. For example, under BSC, Elexon is obliged to indemnify committee members; or
 - ii. UNC signatories 'will not bring action against members of PAC when acting in their capacity as, or in connection with their role as, PAC member', as a possible alternative to an indemnity.
 - All PAC decision criteria will be made available to the parties impacted by that decision
 - Any decisions or recommendations made by PAC that fall in the scope of its authority and that require prior ratification or prior approval respectively by UNCC may only be rejected by a unanimous vote of a quorate meeting of UNCC, without which they are deemed to be approved. [this voting arrangement has precedent in the AUGÉ Statement]
- 7) Ensure that in the UNC that the PAC election process should be conducted in a way that provides for continuity of personnel and experience, so that appropriate performance measures being deployed are maintained and seeks to ensure impartiality / independence.
- PAC will continue to be an elected and impartial committee with appropriate expertise to make assessments and judgements using the tools and evidence provided. Individuals with an interest in any matter being discussed will declare it; PAFA will advise PAC if it becomes aware of potential conflict of interest. PAC members will apply their expertise without discrimination.
- 8) Where PAC requests an interview with a party, the party is required to attend and send an individual(s) with the required expertise and authority.

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

None identified.

Consumer Impacts

No direct impacts identified.

Cross Code Impacts

This modification is designed to support the implementation of UNC Mod 0674 to ensure that UNC Performance Assurance measures in respect of settlement risk are applicable to Parties to the IGT UNC as well as the Parties to the UNC.

There may be an impact on the DSC and the contract between the PAFA and CDSP.

Central Systems Impacts

Some development to support new reporting and invoicing processes.

7 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) Co-ordinated, 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 agreements 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 Cooperation of Energy Regulators	None

d) It is believed that these proposals will reduce settlement costs by reducing volume uncertainty at nomination and allocation, thereby reducing the likelihood of Shippers building in risk premiums into budgets and customer contracts. This will improve competition between Shippers and Suppliers and reduce a potential barrier to entry for new Shippers.

f) The current PAF is not effective and therefore the value from associated expenditure is questionable. It is believed that these proposals will improve the effectiveness of PAF and therefore promote more efficient implementation and administration of the Code.

8 Implementation

No implementation timescales are proposed.

This Proposal could be implemented as soon as an authority direction is received and subject to DSC Change Management Procedures for any consequential system changes.

Ideally the modifications should be implemented on the same date as UNC Mod 0674

9 Legal Text

The Proposer is welcome to put forward suggested legal text. If this is a proposed Fast Track Self-Governance modification then legal drafting and commentary must be provided. Otherwise the legal representative when requested to do so by the Modification Panel will provide formal legal text and commentary.

Text Commentary

In support of the legal text provided, the legal representative will provide a plain English explanatory note setting out the approach taken to converting the Solution into legal text, illustrating how the legal text delivers the intent of the Solution.

Insert text here

[Suggested] Text

The legal representative will provide the Text (to be inserted into Code) with instructions for the Code Administrator. The Text can be published alongside the main document.

Insert text here

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply
- Refer this proposal to a Workgroup for assessment.