













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><b>Purpose of Modification:</b></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"> <li>be assessed by a Workgroup</li> <li>be subject to Authority decision</li> </ul> <p>This modification will be presented by the Proposer to the Panel on 28<sup>th</sup> 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	28 <sup>th</sup> August 2020		
Draft Modification Report issued for consultation	2 <sup>nd</sup> September 2020		
Consultation Close-out for representations	23 <sup>rd</sup> September 2020		
Variation Request presented to Panel	dd month year		
Final Modification Report available for Panel	30 <sup>th</sup> September 2020		
Modification Panel decision	23 <sup>rd</sup> October 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 been specifically 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. Allow PAFA access to such data as reasonably approved by PAC to allow PAFA and PAC to carry out performance assurance activities (e.g. risk assessment and performance monitoring).
- VI. Require UNC Parties to take action to improve their performance and remedy issues if it is identified and requested by the PAC.
- VII. Require UNC Parties to provide and adhere to any plans of action they provide.
- VIII. 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.
- IX. Specify the tools available to the PAC to incentivise, drive and require performance behaviours and to document these in a new ancillary document under PAC (UNC sub-Committee) governance.

- X. Suitably empower the PAC, as an elected, independent body, to make decisions for and on behalf of the UNC Parties in respect of Performance Assurance matters.
- XI. Ensure that the PAC budget does not act to constrain the duties and requirements of the PAC.
- XII. Provide clarity that UNC parties (Gas Transporters (GTs), Independent GTs (IGTs), Shippers etc.) and CDSP fall under the remit of the PAC and 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 a material change and not subject to self-governance
- be assessed by a Workgroup

The detailed business rules in this modification should be reviewed by a 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 UNC performance levels and a disincentive to make commercial decisions that detrimentally impact competing parties.

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.<sup>1</sup> 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.

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

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.

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

UNC TPD Section V

UNC General Terms B

UNC - Modification Rules (section 6.1.1)

### 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:

<b>TPD V16</b> Governance – OFGEM (via UNC Mod process)	<b>Parties subject to new Performance Assurance Objective &amp; Principles</b> <b>Provision of authorities to the PAC (with protections)</b> <b>Defines new UNC terms for PAC constitution</b> (per 'GT D4' for DSC) <b>Performance Assurance Committee section</b> <ul style="list-style-type: none"> <li>One-stop section with all necessary references</li> <li>Definitions, PAC Terms of Reference, Constitution, Appeals, etc</li> </ul> <b>Performance Assurance Framework Document</b> <ul style="list-style-type: none"> <li>Defines this PAC governed document (does not duplicate its contents)</li> </ul>
<b>GT B4</b> Governance – OFGEM (via UNC Mod process)	<b>PAC carve-out from 4.3.1 and 4.4.2</b> <ul style="list-style-type: none"> <li>PAC cannot 'cease to be established' by UNCC vote alone.</li> <li>Parties are obliged to provide information requested by PAC for PA purposes</li> </ul>
<b>PAF Document</b> Governance – PAC	<b>Performance Assurance Framework Document incorporating:</b> <ul style="list-style-type: none"> <li>PAFA scope, schedule of services, appointment, risk approach</li> <li>PATs (Performance Assurance Techniques), PARR, procurement</li> <li>Annual PAF Budget, Review, Plan and Consultation</li> </ul>

In summary the solution is to oblige UNC Parties (transporters, shippers) and CDSP (via DSC 3.5) 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 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, the Performance Assurance Objective (PAO)

The Performance Assurance Objective is :

- a. To ensure that Settlement is a timely, accurate and equitable share of energy for each shipper.
- 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 proscribed 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.
  - d. Parties will use these reports to self-monitor performance.
  - e. 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) Define the PAC in V16, as an autonomous UNC sub-Committee following the principle used in GT D4 for DSC sub-Committees. PAC and PAFD will no longer be governed under Section V12 of UNC..
- 6) Section V16 will include amongst other things the following:
- i. The UNC Performance Assurance Objective and other terms pertaining to PAC
  - ii. the composition of the Performance Assurance Committee membership;
  - iii. the basis on which Performance Assurance Committee members are to be appointed and from time to time removed and/or replaced
  - iv. the basis on which a person (not being a committee member) will be appointed to chair each meeting of the Performance Assurance Committee;
  - v. the basis on which a person (not being a committee member) will be appointed as secretary to the Performance Assurance Committee;
  - vi. the voting arrangements and the basis on which decisions of the Performance Assurance Committee will be made; and
  - vii. the basis on which decisions of the Performance Assurance Committee may be appealed to the Authority.
  - viii. Definition of the Performance Assurance Framework Document and its purpose and governance (removing it from V12 and moving it to a PAC-governed document)
  - ix. UNCC will have no power to overrule a decision of the PAC or its sub-committees, or to reduce or to qualify the scope of PAC's functions, powers and duties (per GTD4 treatment for DSC)
  - x. No decision of PAC shall be made if the decision would cause a party to breach UNC

- xi. Specify PAC controlled documents as being Performance Assurance Reports Register (PARR), The Risk Register, PAC letters of confirmation and company agreement, PAFA scope, PAFD
  - xii. Definition of the Performance Assurance Party being a party who will be subject to Performance Assurance Objective (either a Party to UNC, CDSP or any other party whose performance or non-performance of activities governed directly or indirectly under UNC) and whose acts or omissions could impact another PAP's contribution to the Performance Assurance Objective
- 7) Give PAC authority in the UNC and IGT UNC, with relevant protections noted below, to include:
- 8) To determine the performance and applicable assurance monitoring and incentive tools to be applied to a Party, consistent with those defined in the PAFD, as amended by PAC from time to time
- PAC will be added to “UNC – Modification Rules 6.1.1” as a Proposer to raise performance-related modifications. This has the benefit that the proposal is bi-partisan, and in the interests of the industry not a single UNC Party. Controls over this power will be that the proposal is
    - subject to agreement by a simple majority of all PAC members, (this might require ex-Committee voting if not all members have attended the meeting), and
    - restricted to changes reasonably considered to impact on the achievement of the Performance Assurance Objective (for example where rules on process or performance are proven to be unnecessary / ineffective).
    - Subject to the same process as for any other modification through UNC Mod Panel

[Just for context, such mods could be drafted by (but not limited to) CDSP (include this as a Direct Function) or PAFA (include as a Document 4 service). *(This will make industry change more agile ... for example UNC721 & 722 could have been raised by PAC and drafted by Xoserve or PAFA immediately following the 24th March PAC meeting when the prospect of overstated allocation was first raised)]*

- PAC will define those areas of a Party's or of Parties' performance which impact the PA Objective. PAC will set the tolerance threshold and determine those levels at which Performance Assurance Techniques will apply. PAC will require UNC Parties to improve in those areas and will have powers to impose sanctions where performance is below the required level, provided the thresholds, areas and sanctions/techniques are consistent with what is defined from time to time in the PAFD
- 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. This requires a carve-out under GT Section B4.4.2
- Deploy Performance Assurance Techniques (PATs) described in the PAFD as they deem appropriate, including applying derogations where reasonable and appropriate (for example where performance is impacted by pandemic, events of force majeure or industry developments).
- Parties acknowledge that such techniques could include publishing on the Joint Office website the company names and performance (only) of Parties to allow peer comparison. Such information will be limited to the performance measures outlined in PAFD from time to time. In so doing, PAC will not divulge any information on the Parties' specific commercial or

operational arrangements, the reasons for the level of performance or any details of the improvement plans.

- The Proposer of a modification will be required to seek a ROM from Xoserve for workgroup consideration of the impact of their modification proposal where such proposal
  - adds or changes UNC performance standards or
  - impacts a Party's performance against such standards to specify an appropriate monitoring report.
- Definition of the Performance Assurance Framework Document and its purpose and governance (including PAC authority to change and the voting arrangements for such amendments to PAFD)
- Remove the UNC requirements for UNC approval of changes to PARR. PARR becomes an Annex to PAFD subject to PAC Governance. The principle here is to remove unnecessary barriers to data access which reduce the effectiveness of performance assurance.
- Request reports or data that it deems required to understand performance issues, causes and materiality of impact on the Performance Assurance Objective.
- PAC will advise UNCC of any changes to data access rights. PAC may establish a sub-committee for such purposes (within the scope of its functions, powers and duties) and comprising such members and on such terms as it decides
- PAC may submit DSC Change Proposals which may include internal and/or external costs. Such requests are:
  - limited to investigations and analysis of settlement, performance of PAPs and related matters reasonably considered to impact on the achievement of the Performance Assurance Objective (for example where rules on process or performance are proven to be unnecessary / ineffective), and
  - subject to agreement by a simple majority of all PAC members, (this might require ex-Committee voting if not all members have attended the meeting), and
  - Subject to the same process as for any other proposals through DSC Change Management
- Requesting the remedy of performance issues, even where there is no explicit prescriptive performance standard specified in the code, where that performance issue is limiting or preventing the achievement of the Performance Assurance Objective (PAO)

## 9) 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, JO and CDSP personnel and any other party 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
  - Using an approach similar to Section X for EBCC (which **avoids the need for each and every Party to provide separate indemnities**), Members (being persons) of PAC, PAFA and CDSP connected with a performance assurance decision should be protected from any litigation connected with the operation of the performance assurance regime
- 10) PAC will be an elected and impartial committee with appropriate expertise to make assessments and judgements using the tools and evidence provided to inform actions in pursuit of the Performance Assurance Objective.
- 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.
- 11) 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.
- 12) PAC is a UNC sub-committee, established under TPD V16 and cannot be amended without Authority approval; and it cannot under GTB4.3.1. 'cease to be established' by UNCC.

## 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. It should also level the playing field between shippers in the costs of meeting UNC obligations and ensure that one party's commercial decisions do not adversely impact other parties. Together these will improve competition between Shippers (and potentially Suppliers) and reduce a potential barrier to entry for new Shippers.

f) The current PAF is having limited effect and therefore the value from associated expenditure is sub-optimal. 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.

## 11 Appendix 1 – Proposed PAF Document