

Modification proposal:	<b>Uniform Network Code (UNC) 0674V: Performance Assurance Techniques and Controls (UNC 0674V)</b>		
Decision:	The Authority <sup>1</sup> directs this modification be made <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	29 July 2022	Implementation date:	01 November 2022

## Background

The Performance Assurance Committee (PAC) operate the Performance Assurance Framework (PAF) for the Uniform Network Code (UNC). The PAC have identified issues with the PAF which have led to settlement inaccuracies. These issues have persisted over a prolonged period and are impacting the effectiveness of the PAF.

The UNC does not provide a codified framework of measures to address where Market Participants fail to meet obligations or target measures under the PAF. There are also no incentives in place to meet obligations or target measures. There is no mechanism within the current PAF to hold to account the failing Market Participants and ensure their compliance with the UNC. The PAF is currently limited to publishing performance reports and writing letters to Market Participants who do not meet obligations or target measures.

Since the implementation of Project Nexus on 01 June 2017, which replaced the UK Link system used for settlements and other functions of the GB gas market, a number of issues have impacted settlement allocations. These issues can directly affect the financial and commercial health of Market Participants and ultimately customers. The absence of a robust PAF, is likely to have prolonged settlement distortion and therefore contributed, in part, to high and volatile unidentified gas (UIG).

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<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

## **The modification proposal**

UNC0674 'Performance Assurance Techniques and Controls' was raised by Scottish Power (the "Proposer") on 8 April 2019. At the UNC Panel meeting on 18 June 2021, the Panel Members unanimously agreed that new issues were identified as part of the consultation and that UNC0674 should be issued to Workgroup for a Supplemental Report. The Proposer presented a variation request to the UNC Panel on 21 April 2022 and Panel Members unanimously agreed that the varied modification, UNC0674V 'Performance Assurance Techniques and Controls', should be sent out for consultation.

UNC0674V proposes to increase the authority of the PAC to allow it more decision-making power to address settlement performance issues and identify those areas of performance (whether in code or not) which impact the objectives of the UNC. This will require UNC Parties to improve in those areas and will allow the PAC to impose sanctions where performance is below the required level, and to engage in discussion with relevant non-Parties where it is reasonably considered that they are impacting the Performance Assurance Objective (PAO) which is to ensure settlement takes places with such accuracy as would be expected if all UNC obligations were met.

The PAO to be inserted into the UNC as part of the modification is:

- "To ensure in relation to a Day accurate and timely Settlement for the Day; such accuracy as would be expected if all UNC obligations were met."

UNC0674V proposes to modify the UNC to define the following outcomes:

- Require UNC Parties to adhere to a basic principle that poor performance must not distort settlement even when such behaviours leading to this are not described within the UNC.
- Determine additional tools and processes available to the PAC in its work in the provision of performance assurance within the code.
- Allow the PAF to be more agile and responsive to the information it receives by empowering the PAC to determine and action appropriate responses.
- Allow the PAF Administrator (PAFA) access to such data as reasonably approved by PAC to allow PAFA and PAC to carry out performance assurance activities.

- 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.
- 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.
- Ensure that the PAC budget does not act to constrain the duties and requirements of the PAC.
- Provide clarity that UNC parties (Gas Transporters (GTs), Independent GTs (IGTs), Shippers etc.) and the CDSP fall under the remit of the PAC and performance assurance measures to be applied.

### **UNC Panel<sup>3</sup> recommendation**

At the UNC Panel meeting on 16 June 2022, the UNC Panel unanimously considered that UNC0647V would better facilitate the UNC objectives and recommended its approval. The UNC Panel considered that UNC0674v would better facilitate UNC Relevant Objectives (d) and (f).

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 June 2022. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR<sup>4</sup>. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;<sup>5</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>6</sup>

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<sup>3</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>4</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>5</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>6</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

## **Reasons for our decision**

We consider this modification proposal will better facilitate UNC objectives (d) and (f) and has a neutral impact on the other relevant objectives.

***(d) so far as is consistent with sub-paragraphs (a) to (c) the 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***

The Proposer considers that more meter reads entering settlement will lead to the accuracy of rolling Annual Quantity (AQs), formula year AQs and therefore cash-out and transportation charges. This will reduce uncertainty, reduce UIG, and could lead to lower bills. However, the Workgroup also noted that the absolute benefit would be difficult to quantify. They consider that reducing volume uncertainty would reduce the likelihood of Shippers building risk premiums into budgets and customer contracts, which should result in standardising costs for Shippers in meeting UNC obligations. It would also work toward ensuring that one party's commercial decisions do not adversely impact other parties.

We recognise that current settlement performance is impacted by a number of issues including those identified in the modification. We agree with the Proposer that the implementation of a PAO and providing the PAC with the powers to increase settlement accuracy through compliance and performance improvements. This approach will benefit both Suppliers and Shippers and reduce potential barriers to entry for new shippers, and in turn better facilitate the applicable objective.

***(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code***

***We believe the proposal will have a positive impact on UNC objective (f)***

The Proposer asserts that the modification solution will improve the effectiveness of the PAF and therefore promote more efficient implementation and administration of the Code.

Panel Members also agreed that the modification will have a positive impact on UNC objective (f) as it will give the PAC powers to take appropriate action to improve settlement accuracy

Concerns were raised by the Workgroup and consultation respondents around the lack of transparency of the PAC. To remedy this, the modification proposal seeks to use the industry model set out for the committees under the Data Services Contract which, although independent of the UNC, are constrained by UNC General Terms D. We agree that this provides a level of transparency and oversight of the PAC to operate the PAF.

We agree that the current PAF is not suitable, and this modification proposal seeks to ensure a more robust PAF is in place to support the work of the PAC. This modification will help to ensure that expenditure on the PAC delivers a suitable return on investment. The solution will also lead to improvements in settlement driven by the increased powers given to the PAC, which will benefit shippers, suppliers, and consumers.

We consider that UNC674V will improve the effectiveness of the PAF and will better facilitate UNC objective (f).

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC0674V Performance Assurance Techniques and Controls be made.

### **Michael Walls**

Head of Retail Market Operations

Signed on behalf of the Authority and authorised for that purpose