

0483:

Performance Assurance Framework Incentive Regime

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

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



The Proposer recommends that this modification should be:

- assessed by a Workgroup



High Impact: Shippers

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About this document:

This ~~is an amended~~ 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.~~

The Proposer recommends the following timetable:

Initial consideration by Workgroup	04 March 2014
Amended Modification considered by Workgroup	16 December 2014
Workgroup Report presented to Panel	16 April 2015
Draft Modification Report issued for consultation	tbc
Consultation Close-out for representations	tbc
Final Modification Report presented to Panel	tbc
UNC Modification Panel decision	tbc



Any questions?

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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.

[As a result the Performance Assurance Workgroup considers it appropriate to incentivise appropriate reconciliation of energy with a Users portfolio by introducing a Performance Assurance Target and Performance Assurance Incentive rate.](#)

Solution

This modification proposes an incentive [target and](#) 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~~ ~~It is desirable that~~ 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 ~~Framework is linked to the Project Nexus go live and~~ the avoidance of doubt it is intended that this modification can be implemented without any modification on risk assessment being approved. ~~detail of this will be assessed by the Workgroup.~~](#)

2 Why Change?

Background

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.

Change Overview

[To deliver the benefits of the UK Link Replacement System \(Nexus\), which include individual meter point reconciliation and more accurate cost allocation, appropriate volumes of energy must be reconciled within a User's portfolio. This can be achieved by Users sending in reads, which will update the AQ, which will reconcile the deemed consumption to actual consumption.](#)

[The smaller the volume of unreconciled energy and the shorter the period of unreconciled energy will result in lower risk for the gas industry. Increased risk adds additional cost to the industry. Through the Performance Assurance Workgroup it has been identified that appropriate target setting and incentives can help manage the risk of unreconciled energy.](#)

[Therefore this change sets out the obligation on Users to reconcile appropriate volumes of energy through a Performance Assurance Target and a Performance Assurance Incentive rate. The modification also places an obligation on the relevant Transporter to administer the target setting and the incentive invoicing arrangements.](#)

[To ensure the performance targets and the incentives can be easily updated the Transporters will be obligated to manage a performance target and incentive ancillary document, which documents the Performance Assurance Target \(PAT\) and the Performance Assurance Incentive \(PAI\) rate.](#)

UNC Performance Assurance table format

Year	%target	p/kWh
2016		
2017		
2018		

2019		
Etc		

User reconciliation performance reporting will capture the relevant Users reconciliation performance. The User performance will be measured on a rolling 12 month basis. The User performance will be measured from the 'Nexus Go-live date', although a period of 12 months grace will precede any incentives being applied. After this period any User who misses the target will be liable for incentives. Other Performance Assurance reporting is covered under the UNC 0420 Performance Assurance Reporting Modification¹.

Incentive invoicing and the Performance Assurance Neutrality pot will be managed by the relevant Transporter. Non-compliance will result in the Transporter issuing a debit invoice after the non-compliance billing period to the relevant User.

The debit invoice payment will be paid into the Performance Assurance Neutrality pot. The preceding month the Transporter will issue a credit invoice to the relevant Users. The credit invoice smear will be the issues to applicable Users based on their AQ market share for that non-compliance monthly billing period. The invoice payment arrangements will follow the normal UNC invoicing arrangements.

In subsequent years, to review and update the Performance Assurance Target and Performance Assurance Incentive rate, the relevant Transporter will re-run the Engage Consulting Performance model with the relevant year's data. A sub-group of the UNCC will review the output and recommend to the UNCC if the Performance Assurance Target and Performance Assurance Incentive rate need to be updated.

3 Solution

Obligations

It is proposed that an obligation is place on Users ~~The following areas are to meet~~ **be completed by** the Performance Assurance ~~Workgroup (PAW).~~

~~To Target (PAT) or be liable~~ **aid discussions strawman proposals are set out below--**

~~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 methodology for target setting~~
- ~~3. Establish appropriate incentive rate~~
- ~~4. Determine appropriate mechanism for the incentive re-allocation~~

~~The following areas are to be completed at~~ the Performance Assurance **Incentive (PAI).** ~~Workgroup (PAW). To aid discussions strawman proposals are set out below--~~

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

It is proposed that ~~an obligation is placed~~ **data** on ~~the~~ relevant Transporters to administer the Performance Assurance invoicing and Performance Assurance Neutrality pot.

¹ <http://www.gasgovernance.co.uk/0520>

It is proposed that a performance target and incentive ancillary document be created by the Transporters, which will contain the published Performance Assurance Target (PAT) and Performance Assurance Incentive (PIA) rate.

Business Rules

General

- 1. Industry shipper performance data will be extracted from the UK Link Replacement (Nexus) system.
- 2. Performance will be measured against the volume of energy reconciled within a User organisation's portfolio.

The

Draft Formula

~~Cumulative AQ Portfolio volume / Reconciled Energy = Rolling Percentage Reconciled~~

~~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~~
- ~~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~~

~~3. Establish appropriate incentive rate~~

~~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.~~

~~4. Determine appropriate mechanism for the incentive re-allocation~~

~~Under the current UNC arrangements Section S— Invoicing and Payment details how charges and costs can be transferred between Shipper and Transporter parties. This includes Adjustment and Reconciliation invoicing. It is proposed these arrangements are built upon for—~~

- ~~Recovery of the incentive from a party who fails to meet the incentive target
 - ~~Debit invoice~~~~
- ~~Redistribution of incentive to parties [who meet the incentive target]
 - ~~Credit invoice~~~~
- 3. Transporters will be measured against a rolling 12 month issue the invoice 15 days after the billing period.

- 4. The User performance ~~redistribution mechanism~~ will be measured from ~~based on a shippers market share by throughput for~~ the 'Nexus Go-live date', although ~~a appropriate billing period of~~ 12 months grace will precede any incentives being applied.
- 5. User energy reconciliation performance reporting will be published monthly on a publicly available website.
- 6. Reports will contain each User organisations name and performance percentage.

Performance Target and Incentive

- 7. The Performance Assurance Target and Performance Assurance Incentive will be published in the performance target and incentive ancillary document using the following format.

UNC Performance Assurance table format

Year	User Pays	%target	rate
2016			
2017			
2018			
2019			
Etc			

- 8. The Performance Assurance Target for the 2016 gas year (1st Oct 2016 – 30 September 2017) is [TBC].
- 9. The Performance Assurance Incentive for the 2016 gas year (1st Oct 2016 – 30 September 2017) is [TBC].
- 10. Subsequent years Transporters will re-run the Performance Assurance model rules against the relevant annualised industry data.
- 11. This model output information will be presented to the relevant UNCC Sub-group to validate and approve.
- 12. Any recommendation from the relevant UNCC Sub-group to revise the Performance Assurance Target (PAT) and Performance Assurance Incentive (PAI) rate will be sent to the UNCC for approval.
- 13. The UNCC can by majority reject the relevant UNCC Sub-group recommendation. Any rejection will result in the previous Performance Assurance Target (PAT) and Performance Assurance Incentive (PAI) rate being carried forward.
- 14. Transporters will be obligated to update, populate and publish the Performance Assurance Incentive (PAI) table held within the performance target and incentive ancillary document.
- 15. The Performance Assurance Target (PAT) and Performance Assurance Incentive (PAI) rate should be published 3 months before the start of each gas year.

Incentive Invoice

- 16. The Transporter will invoice monthly any User party that does not meet the Performance Assurance Target.
- 17. The debit invoice calculation will be the volume of un-reconciled energy below the target (kWh) x Performance Assurance Incentive (PAI) rate.
- 18. 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.

Reallocation

19. [The Transporter will manage the Performance Assurance Neutrality pot.](#)
20. [The User debit payments will be paid into the Neutrality pot.](#)
21. [The corresponding Performance Assurance smearing credit invoice will be issued to the relevant Users 45 business days after the non-compliance billing period and be credited within 12 business days after the invoice issue date.](#)
22. [The credit invoice will be the total value of Performance Assurance Neutrality pot divided by User AQ Market share to two decimal places.](#)

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 be by Shipper market share throughput , need to align with the Performance Assurance model which allocates costs/benefits by throughput 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

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 <ol style="list-style-type: none"> (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: <ol style="list-style-type: none"> (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	None

of gas to their domestic customers.	
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 ~~It is desirable that~~ 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 ~~Framework is linked to the Project Nexus go-live and~~ the avoidance of doubt it is intended that this modification can be implemented without any modification on risk assessment being approved. ~~detail of this will be assessed by the Workgroup.~~

6 Legal Text

Legal Text to be provided by National Grid.

7 Recommendation

The Proposer invites the Panel to Progress to Workgroup assessment.