

P330 'Allowing ELEXON to tender for the Uniform Network Code Gas Performance Assurance Framework Administrator (PAFA) role'

Uniform Network Code (UNC) Modification 506 seeks to introduce performance assurance arrangements into the gas market for the first time and will require a competitive tender exercise to appoint an independent Gas PAFA.

The P330 Proposer believes that ELEXON has significant experience and understanding of performance assurance techniques in the energy industry and has transferable skills and knowledge that potentially meet the criteria for the appointment of the PAFA, should Ofgem approve MOD506. This Modification therefore seeks to amend the BSC arrangements to allow ELEXON to bid for the Gas PAFA contract.



ELEXON recommends P330 is progressed to the Assessment Procedure for an assessment by a Workgroup

This Modification is expected to impact:

- BSCCo
- All BSC Parties



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About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 10 December 2015. The Panel will consider the recommendations and agree how to progress P330.

There are two parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P330 Proposal Form.

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1 Why Change?

Gas Performance Assurance Framework

Unlike the electricity market, there is currently no performance assurance regime in place in the gas market. Ofgem have discussed the benefits of having a regime with the industry and have, on a number of occasions, expressed a view that a Performance Assurance Framework (PAF) should be introduced into the gas market.

Under the Uniform Network Code (UNC) there are two Modifications, MOD506 and MOD506A, both of which seek to introduce the desired gas PAF arrangements to facilitate the monitoring and reporting of Transporter, Shipper and Transporter Agency performance. This will incentivise parties operating in the gas market to reduce settlement risk and improve accuracy. MOD506 and MOD506A are both currently with Ofgem for decision.

The PAFs proposed under each Modification are broadly similar, with details of the differences below. The prospective PAFs encompass a new Sub-Committee under the Uniform Network Code Committee (UNCC), a Performance Assurance Framework Administrator (PAFA) role, and supporting business rules (as set out in Appendix 1).

Appointment of the Performance Assurance Framework Administrator

Both UNC Modifications seek to introduce a PAFA role. The PAFA will run the performance assurance scheme under the oversight of the UNCC and/or any relevant sub-committee.

MOD506 will require Gas Transporters to appoint a PAFA by competitive tender. Conditions for such appointment will be set out in the [UNC Related Document 'Guidelines for Energy Settlement Performance Assurance Regime'](#). The MOD506 solution is an enduring solution.

MOD506A will require the Gas Transporters to appoint the Transporter Agency (Xoserve) as the PAFA, rather than appoint the PAFA by a competitive tender process. It also creates arrangements that cease three years after the implementation of Project Nexus ([MOD440](#)).

If the Authority approves MOD506A, P330 will be withdrawn from the Modifications process, as this Modification is only relevant if a competitive tender process is introduced by the approval of MOD506. To be clear, MOD506 and MOD506A are mutually exclusive.

Further information on both Modifications can be found on the [MOD506](#) page of the Gas Governance website.

Issue 62

ScottishPower raised [Issue 62 'Amending the BSC arrangements to allow ELEXON to tender for the Uniform Network Code Gas Performance Assurance Framework Administrator \(PAFA\) role'](#) on 2 November 2015. Issue 62 is now closed.

The Issue 62 Proposer believes that ELEXON has significant experience and understanding of performance assurance techniques in the energy industry and has transferable skills and knowledge that may potentially meet the criteria for the appointment of the PAFA, should Ofgem approve UNC MOD506. The Proposer raised Issue 62 to explore the potential for the BSC arrangements to be changed to allow ELEXON to bid for the Gas PAFA contract.

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The Proposer requested that the Issue Group consider the following questions when looking at whether ELEXON should participate in a competitive PAFA tender:

Questions considered under Issue 62	
1	Based on Ofgem's suggested criteria under P284, when assessing whether to propose ELEXON's participation in the gas assurance arrangements, consider the following: <ul style="list-style-type: none"> • how would BSC Parties benefit from any diversification; • how the arrangements could ensure that there is no disproportionate risk placed on BSC Parties (what ring fencing provisions are required?); • how standards of service under the BSC should be maintained; and • how to assure that ELEXON's BSC role does not give it any undue competitive advantage in a contestable activity.
2	What are the potential synergies (and benefits) associated with ELEXON providing settlement assurance services for both gas and electricity?
3	Is there a time constraint on when a Modification would be required to allow ELEXON to participate in the provision of gas assurance services?
4	What are the relevant applicable BSC objectives associated with ELEXON's participation in gas assurance services?
5	Do Parties believe ELEXON should provide services on a not for profit basis, akin to the BSC?
6	Who would decide if ELEXON would submit a bid (Panel, BSC Parties, Board)?
7	How could a bid from ELEXON be funded?
8	Are there any other factors that need to be considered for a Modification to be developed that would permit ELEXON's participation in the provision of gas assurance services?

The Issue 62 Group considered the questions set out above at its meeting on 30 November 2015. Issue Group members were supportive of ELEXON participating in a competitive tender process for the Gas PAFA role and there were no objections raised. They noted that ELEXON's experience and ability to run the electricity PAF arrangements and conduct the Performance Assurance Board (PAB) meetings could be of great benefit when introducing a PAF in the gas market. There were some concerns raised about the short timescales in which to raise a BSC Modification to enable ELEXON to tender.

The Issue 62 Report will be tabled at the January 2016 Panel meeting. The Issue 62 Report will be finalised and made available to the P330 Workgroup prior to its first meeting (unless this meeting is held substantially earlier than the proposed indicative date, i.e. in the week beginning 4 January 2016).

Proposed solution

[P330 'Amending the BSC to allow ELEXON to tender for the Uniform Network Code Gas Performance Assurance Framework Administrator role'](#) was raised by ScottishPower on 1 December 2015.

This Modification seeks enable ELEXON to bid for the role of Gas PAFA under the UNC (and perform the role if the contract is awarded to ELEXON) should MOD506 be approved by the Authority. The Proposer believes that the decision on whether to bid for the PAFA work should sit with the ELEXON Board.

The P330 solution will make changes to the BSC to ensure that ELEXON is ring-fenced from any costs and risks associated with performing the role of Gas PAFA, with ELEXON resources being shared.

Consideration will need to be given to how the bid is funded and whether the costs of the bid will be recovered, given that there is no guarantee that ELEXON will successfully win the PAFA contract (with one solution being that the costs are written off). As ELEXON operates as a not for profit organization, BSC Parties may be asked to fund a bid. The Proposer believes that there should be no cross subsidy between different ELEXON services for the cost of delivering the PAFA.

Proposer's rationale

The P330 proposer believes that ELEXON has significant experience and understanding of performance assurance techniques in the energy industry and has transferable skills and knowledge that potentially meet the criteria for the appointment of the PAFA, should Ofgem approve MOD506.

Other ELEXON activities outside the BSC

The Issue 62 Group noted that there are already two different models contained within the BSC where ELEXON conduct non-BSC related activities. One model sits under the Warm Home Discount (WHD) scheme and the other under the Electricity Market Reform (EMR) Settlement Service Provider work. It was also noted that the implementation of Modification [P284 'Expansion of ELEXON's role via the 'contract model''](#) introduced provisions for a contract model to be enacted.

Whilst the Proposer believes that both the WHD and EMR Settlement Service Provider arrangements could be used as a basis for this Modification Proposal, the P284 arrangements are seen as unnecessarily detailed, given the scale of the Gas PAFA work. It is worth highlighting that the tender and delivery for the Gas PAFA will be significantly less complex than the Data and Communications Company (DCC) work to which P284 originally referred. There is a working assumption under the UNC that the procurement for the Gas PAFA, if MOD506 is approved by Ofgem, will be under the current [Official Journal of the European Union](#) (OJEU) procurement [threshold value](#).

Applicable BSC Objectives

The Proposer believes that there are potential benefits to the energy industry and BSC Parties if ELEXON were able to bid for the role of the Gas PAFA. In particular it would be a step in moving to dual fuel arrangements in the energy market, where common processes are placed with a single entity to derive a common understanding, practices, synergies, cost efficiencies and ultimately consumer benefit.

The Proposer believes that P330 will better facilitate Applicable BSC Objective (d) as:

- sharing the fixed costs of ELEXON across the Gas PAFA service allows costs to the BSC Parties to be defrayed;
- some parties cite the simplicity of the gas market arrangements, when compared to electricity arrangements. Therefore, ELEXON getting first-hand experience may enable it to identify and implement changes to better the electricity arrangements in the future; and
- bidding for the Gas PAFA work may be able to give a view to BSC Parties of the competitiveness of ELEXON in delivering their existing obligations and be used to consider efficiencies.

Implementation

The Proposer notes that UNC Modifications 506 and 506A are seeking implementation as soon as possible, with a view to getting a Gas PAFA operational in time for the implementation of Project Nexus (re-development of the central gas settlement system) on 1 October 2016.

The Proposer therefore recommends that P330 be implemented ahead of Project Nexus. They also recognise that any solution developed under this Modification should carefully consider implementation timescales.

The Proposer and the Workgroup will determine the most appropriate Implementation Date as part of the assessment of this Modification.



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

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3 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal, and which a Workgroup should consider as part of its assessment of P330. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

Capping, recovering and Panel approval of bidding costs

Based on the discussions of the Issue 62 Group, and keeping in mind the short proposed timetable for the Modification, it appears clear that any solution taken forward under P330 will need to be conducted on a not for profit basis. We consider that substantial changes to BSC governance cannot be achieved in the timescales available for the progression of this Modification.

The Issue 62 Group determined that any bid by ELEXON for the Gas PAFA role will need to be funded by BSC Parties and that, should ELEXON be successful, the bid funds will be returned to Parties. However, it should be noted that if ELEXON is unsuccessful in its bid the funds provided by BSC Parties will be sunk. Given the size of the PAFA role we expect the cost of bidding to have a minimal impact on Parties. However, regardless of the cost the Workgroup should consider the impact.

ELEXON believe the Workgroup should also consider whether the cost of bidding for the PAFA role should be capped and if so, whether the value should be public or confidential. We also recommend that the Workgroup consider whether to include a provision requiring the cost of bidding for the PAFA role to be approved by the Panel.

Issue 62 findings

The Issue 62 Group discussed a number of aspects associated with ELEXON bidding for the Gas PAFA role, including potential risks and benefits. ELEXON recommend that the P330 Workgroup consider the views and discussions of Issue 62 Group members. The Issue 62 Report will be tabled at the January 2016 Panel meeting and provided to the P330 Workgroup in time for its first meeting.

Areas to consider

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P330:

Areas to Consider
What are the potential benefits (and synergies) associated with ELEXON providing settlement assurance services for both gas and electricity?
What risks are there to current services should ELEXON take on the Gas PAFA role? What can be done (for example, through reporting) to mitigate these risks?
Should the cost of bidding be capped? Alternatively, should the Panel be required to approve the cost of bidding separately to this Modification?

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Areas to Consider

What is the most appropriate Implementation Date, taking into account the tender timescales and implementation of Project Nexus?

What changes are needed to BSC documents, systems and processes to support P330 and what are the related costs and lead times?

Are there any Alternative Modifications?

Does P330 better facilitate the Applicable BSC Objectives than the current baseline?

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4 Proposed Progression

Next steps

We recommend that P330 is progressed to an Assessment Procedure for consideration by a Workgroup.

The Proposer has not requested that P330 be treated as a Self-Governance Modification or an Urgent Modification. However, they note that the Modification should be progressed in a timely manner to ensure there is opportunity for ELEXON to submit a bid for the Gas PAFA role should the Modification be approved.

Workgroup membership

We recommend that the P330 Workgroup is comprised of members of the Issue 62 Group, individuals with an understanding of performance assurance, PAB members and any other relevant experts and interested parties.

Timetable

We recommend that P330 undertakes a three month assessment procedure. This will not only allow for the Modification to be progressed (taking into account the holiday period), but also allow sufficient time for ELEXON to participate in a competitive tender should the Modification be approved. We recommend the following timetable:

Proposed Progression Timetable for P330	
Event	Date
Present Initial Written Assessment to Panel	10 Dec 15
Workgroup Meeting	W/B 4 Jan 16
Assessment Procedure Consultation	15 Jan – 5 Feb 16
Workgroup Meeting	W/B 15 Feb 16
Present Assessment Report to Panel	10 Mar 16
Report Phase Consultation	11 Mar – 1 Apr 16
Present Draft Modification Report to Panel	14 Apr 16
Issue Final Modification Report to Authority	15 Apr 16

5 Likely Impacts

Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
All BSC Parties	As ELEXON operates on a not for profit basis, Parties may be asked to fund a bid submitted for the Gas PAFA role.

Impact on Transmission Company

There is no direct impact however the Transmission Company may have an interest as a BSC Party.

Impact on BSCCo

Area of ELEXON	Potential Impact
	ELEXON will be required to implement the proposed changes to the BSC should the Modification be approved. Though it is not a direct implementation impact, if the Modification is approved, ELEXON will need to determine whether to bid for the PAFA role (following the process introduced) and, if it does bid, participate in the tender process.

Impact on BSC Systems and processes

BSC System/Process	Potential Impact
	There are no system impacts associated with this Modification. There are also no immediate process changes required to implement P330. However, process changes may be required at a later date should ELEXON be awarded the role of Gas PAFA. Although these will not be directly related to this Modification.

Impact on Code

Code Section	Potential Impact
Section C	Changes will be required to implement this Modification.
Section X Annex X-1	

Impact on Code Subsidiary Documents

CSD	Potential Impact
	Impacts on Code Subsidiary Documents will be determined as part of the Assessment of this Modification.

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6 Recommendations

We invite the Panel to:

- **AGREE** that P330 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P330 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

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Appendix 1: Business Rules for UNC MOD506

The purpose of the UNC Modification 506 is to introduce a framework for a gas performance assurance regime and require the Gas Transporters to appoint a PAFA by a competitive tender process.

The PAFA will run the scheme, under the oversight of UNCC or any relevant sub-committee. Modification of the UNC is required to recognise the role of the PAF, the Performance Assurance Scheme and the PAFA and incorporate appropriate arrangements to monitor performance of Shippers, Transporters and the Transporter Agency and allow an incentive regime to develop.

The PAF is limited to energy once it has entered the Local Distribution Zone (including Connected System Exit Point (CSEP) Supply Points). Gas transported through the National Transmission System (NTS) and supply points connected to the NTS are excluded from the arrangements created by this modification.

The PAF is to include CSEP Supply Points and CSEP Supply Meter Points following implementation of Modification 0440 Project Nexus – iGT Single Service Provisions.

Business Rules

1. A person, the PAFA, shall be appointed and engaged by the Gas Transporters through a PAFA Contract for the purposes of:
 - a) producing, publishing and maintaining a Performance Report Register and the creation, management and maintenance of the PAF Risk Register; and
 - b) determining performance levels attained by those subject to the Performance Assurance regime.
2. The Transporters will be required to publish a Framework Document “Guidelines for Energy Settlement Performance Assurance Regime”. The initial content of the Framework Document be that which is provided in Appendix 1 of the Final Modification Report for MOD506.
3. The Gas Transporters will use reasonable endeavours to:
 - a) Undertake a competitive tender for the appointment of the PAFA;
 - b) Use the criteria developed by the Performance Assurance Committee (PAC) to assess each tender bid as part of their assessment to select the preferred bidder;
 - c) Select, agree terms and appoint the PAFA. Where the selected PAFA does not accept the appointment, invite the next most favoured PAFA in turn; and
 - d) Upon acceptance of appointment, establish the contract with the Prospective PAFA.
4. The PAC shall provide the final versions of the document as set out in 8 of the Guidelines document to the Gas Transporters.
5. On receipt the Gas Transporters shall commence the tender process using reasonable endeavours to:
 - a) Organise any meetings held in relation to the PAFA appointment;
 - b) Provide legal resource to prepare a tender document;
 - c) Organise the advertisement of the tender to all interested parties, in accordance with national and European legislation; and

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- d) communicate to Shipper Users the outcome of the tender process; invite the prospective PAFA to take up the appointment.
6. The start date of the PAFA Contract will be as soon as reasonably practical.
 7. The Gas Transporters will require that the PAFA:
 - a) Acts with all due skill, care and diligence when performing of its duties as the PAFA and shall be impartial when undertaking the function of the PAF, ensuring that any consideration of risks is equitable in their treatment of Shippers, Transporters and the Transporter Agency; and
 - b) Compiles the Performance Report Register and Risk Register in accordance with the Guidelines Document.
 8. The Guidelines Document may be modified if UNCC votes by majority vote in favour of a proposed change.
 9. The Transporters will be required to provide data and information to the PAFA and assist in interpretation of information.
 10. For the avoidance of doubt, it is intended that this procurement and appointment for the PAFA process can be introduced ahead of the implementation of Project Nexus.

Appendix 2: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
BSC	Balancing and Settlement Code
CSD	Code Subsidiary Document
CSEP	Connected System Exit Point
DCC	Data and Communications Company
EMR	Electricity Market Reform
NTS	National Transmission System
OJEU	Official Journal of the European Union
PAB	Performance Assurance Board
PAC	Performance Assurance Committee
PAF	Performance Assurance Framework
PAFA	Performance Assurance Framework Administrator
UNC	Uniform Network Code
UNCC	Uniform Network Code Committee
WHD	Warm Home Discount

External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	UNC Guidelines for Energy Performance Assurance Regime	http://www.gasgovernance.co.uk/0506
3	UNC Modification 440 webpage	http://www.gasgovernance.co.uk/0440
3	UNC Modifications 506 and 506A webpage	http://www.gasgovernance.co.uk/0506
3	Issue 62 webpage	https://www.elexon.co.uk/smg-issue/issue-62/
5	P330 webpage	https://www.elexon.co.uk/mod-proposal/p330/
5	P284 webpage	https://www.elexon.co.uk/mod-proposal/p284/

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External Links		
Page(s)	Description	URL
5	Official Journal of the European Union webpage	http://www.ojec.com/
5	Official Journal of the European Union procurement thresholds	http://www.ojec.com/thresholds.aspx

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