



2022 Allocation of Unidentified Gas Expert (AUGE) Management (MOD 0782)

Distribution

Final & Draft Report
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<u>Further Updates</u>	<u>31 March 2022</u>
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Executive Summary

1. Introduction

The requirement to publish the "Allocation of Unidentified Gas Document" is specified in Section V12.2 of the Transportation Principal Document (TPD) of the Uniform Network Code (UNC).

The Framework for the Appointment of an Allocation of Unidentified Gas Expert sets out the means by which the AUG Expert is appointed, how the AUG Statement is published on the Joint Office of Gas Transporters website and outlines the high-level process to be followed for the creation of a methodology to calculate the allocation factors to apportion Unidentified Gas.

Xoserve has contracted Engage Consulting Limited ("Engage") as the Allocation of Unidentified Gas Expert (AUGE) since June 2020. The contract is managed with Subject Matter Expert support from within Xoserve's service provider, Correla.

2. Objectives

The review has two main objectives:

1. To ensure that effective and efficient processes are in place for the appointment, management, and review of the AUG Expert to give assurance to customers and identify opportunity, scope and approach.
2. To assess the requirements and benefits of MOD 0782 requesting the appointment of an Independent AUGE Assessor (IAA) to oversee the current AUG Expert activities and validate the outcome of their proposals.

The scope of the review included:

- A review by Xoserve's Risk & Audit Manager of the management controls Xoserve has over Correla's Subject Matter Expert (SME) support for this activity;
- A review of the Correla SME's validation and assurance over the AUGE, Engage; and
- A review of the internal assurance Engage undertakes as the current AUG Expert and methodology applied as part of its published processes.

Specifically, the review considered the following areas of control:

- The process/activity is undertaken in accordance with legal and regulatory requirements.
- Operational procedures, including key controls, are documented and procedures are in place to update documentation such that it reflects current processes and associated controls.
- Appointment & AUG Statement process is robust, impartial and fact-based / measurable.
- Responsibility for the management and operation of the process is established.
- All parties have ensured people with appropriate skills, experience and calibre are appointed to operate and support the process.
- ~~Xoserve management, Correla SMEs and all interested Industry stakeholders are Management~~ ~~is~~ provided with adequate detailed information and opportunities to challenge throughout the performance of the process to assist decision making and ensure the final weighting calculations are balanced.
- The processes are subject to appropriate control and decisions are correctly communicated and documented.
- Risks associated with the process are effectively managed.
- The process achieves its objectives in an economic, efficient, and effective manner and that it is continually improved through monitoring of performance, feedback, and analysis.

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3. Key Findings

The AUGE has been professionally managed over the last year and Engage Consulting has adhered to its contractual requirements. There is some scope to further improve the management of the AUGE and some of the recommendations are listed below.

Xoserve believes that additional external input to the existing process proposed by UNC Modification 0782 would dilute the effectiveness and independent status of the current AUG expert, increase costs and cannot guarantee any additional accuracy or validity of the weighting within the published statement. As an alternative, Xoserve is proposing to extend the services of its external statutory auditor to include an annual detailed review and report on the Incumbent AUGE's compliance with its terms of reference and contractual obligations. See Appendix 1 for an outline of the assignment.

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Main Report

Recommendations

Ref	Recommendation	Management Response	Agreed Action, Person Responsible and Date
1.1	Procedures for the ongoing relationship management with the AUGÉ and output validation should be documented.	This shall be included within the Monthly DSC+ performance review between Xoserve & Correla	Action: Included in DSC+ performance meeting. Person Responsible: CD/FC Implemented: January 2022
1.2	Review DSC+ Schedule 10 for appropriateness following assessment of number of days support from Correla SME.	Implement Contract variation as required	Action: Contract review Person Responsible: CD/FC Date Due: February 2022
1.3	A lead within Xoserve should be identified who is responsible for managing the contract with the AUGÉ and keeping abreast of AUG matters.	Chris Dwyer & Sandi Bradshaw	Action: CD to attend Contract meetings Person Responsible: CD/SB Implemented: January 2022
1.4	Ensure Xoserve attendance continues at the monthly Service Management Board meetings with Engage.	Agreed. Xoserve shall be present at the Monthly meetings going forward.	Action: As above Person Responsible: Xoserve Implemented: January 2022
1.5	Ensure receipt of progress reports and day after reports by an assigned individual able to understand and challenge within Xoserve.	To be reviewed by David Turpin & Sandi Bradshaw with Correla	Action: Xoserve to review progress reports Person Responsible: CD/DT/SB/FC Date Due: February 2022
1.6	The submission of the industry MOD for validation of the AUGÉ's statement should be raised as a risk through the Xoserve corporate risk management framework and managed accordingly.	Added to Contract & Commercial Risk register	Action: Defined in Xoserve Risk log Person Responsible: HH Date Due: Immediate

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1.7	Xoserve should continue to increase the level of transparency and confidence in the management of the AUGÉ contract. To be facilitated through increased interactions between the AUGÉ and Xoserve/Correla technical experts throughout the year.	Continued scrutiny of the Incumbent AUG Expert's processes and review of methodology and data sources. Establish a panel of internal subject matter experts across Correla/Xoserve to provide more in-depth review and support to the AUGÉ at regular intervals during the development/update of the methodology and selection of data. Panel could request additional detail on particularly high value or contentious areas.	<p>Action: Implement additional reviews of AUGÉ output</p> <p>Person Responsible: Xoserve/Correla SME</p> <p>Date Due: Immediate</p>
1.8	Xoserve should consider procuring an independent annual review of the Incumbent AUGÉ's compliance with its terms of reference and contractual obligations, by a suitably qualified professional services provider. The report findings to be made available to industry parties.	Xoserve will seek to extend the services of its external statutory auditor to include an annual detailed review and report on the Incumbent AUGÉ's compliance with its terms of reference and contractual obligations. See Appendix 1 for an outline of the assignment.	<p>Action: Extend the existing Xoserve Statutory Audit scope</p> <p>Person Responsible: CD</p> <p>Date Due: June 2022</p>

Review of Control Activities

This section provides the tests undertaken and the outcome of these tests. Findings and recommendations have been documented where an identified or potential weakness in the control environment or its application has been identified.

Ref	Control Activity	Testing Outcome	Actions Required
The process is undertaken in accordance with internal policy, legal and regulatory requirements.			
1.1	Industry requirements in relation to the allocation of unidentified gas is detailed within the Uniform Network Code.	<p>The requirement to publish the "Allocation of Unidentified Gas Document" is specified in Section E 9.1.1 of the Transportation Principal Document (TPD) of the Uniform Network Code (UNC).</p> <p>The Framework for the Appointment of an Allocation of Unidentified Gas Expert sets out how the AUG Expert is appointed, how the AUG Statement is published and outlines the high-level process to be followed for the creation of a methodology to calculate the allocation factors to apportion Unidentified Gas.</p>	None identified.

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Ref	Control Activity	Testing Outcome	Actions Required
1.2	Contractual obligations regarding the appointment, management and review of the AUG Expert are defined within the Data Services Contract.	<p>DSC service lines within service areas 1 and 9 detail requirements in relation to this process including:</p> <ul style="list-style-type: none"> • Appointment of an organisation to the position of Allocation of Unidentified Gas Expert. • Management of, and exercise of rights under, the AUG Expert Contract. • Annual review of the activities and performance of the AUG Expert; and • Provision of data to the AUG Expert. <p>All DSC service lines are audited to ensure compliance on at least a three-yearly cycle.</p>	None identified.
1.3	A contract is in place with the appointed AUGE, Engage.	<p>A contract is in place between Xoserve and Engage Consulting Limited dated 28th May 2020. The contract is effective from 1st June 2020 and will continue for a period of five 'contract' years unless terminated early by Xoserve or by agreement to extend further by both parties.</p> <p>The contract specifies in detail the services to be provided which are based on the Request for Proposal requirements includes all the UNC and AUGE framework obligations.</p>	None identified.
2. Operational procedures, including key controls, are documented and procedures are in place to update documentation such that it reflects current processes and associated controls.			
2.1	Process documentation is in place to support the internal activities undertaken.	<p>Documented procedures for the ongoing management of the AUGE and the validation checks of the work undertaken through the process were not available.</p> <p>The Correla Business Process Manager has documented what would be considered in review of the draft AUG statement. Including:</p> <ul style="list-style-type: none"> - UIG contributors; - Industry process understanding; - Conclusions from data; - Any data issues identified; - Assumptions validity; - Previous year comparison; and - Usability of document. 	Procedures for the ongoing relationship management with the AUGE and output validation should be documented.

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3. Responsibility for the management and operation of the process is established.			
3.1	Roles and responsibilities have been clearly defined in relevant contract, policy and procedural documentation.	<p>The contract between Xoserve and the AUGE clearly details the obligations on both parties. Key contacts are also listed as Xoserve 'Business Process Manager' and 'Contract Manager'. A variation to the contract to add Correla as 'Managed Services Supplier' has been drafted for agreement and signature.</p> <p>Schedule 10 of the DSC+ between Xoserve and Correla lists 'Key Personnel', their position, expertise and utilisation cap.</p> <p>The Correla Business Process Manager – Customer Performance Analysis is listed as having detailed knowledge of UNC, AUGE / PAC (PAFA) & Industry Engagement with a utilisation cap of ten hours per month.</p>	Review DSC+ Schedule 10 for appropriateness following assessment of number of days support from Correla SME.
4. All parties have ensured people with the appropriate skills, experience and calibre are available to operate and support the process.			
4.1	Staff are competent and able to fulfil their roles appropriately.	<p>The Correla Business Process Manager – Customer Performance Analysis has extensive experience of this process having been involved in the appointment, management, and review of the AUGE over the last six years.</p> <p>The Correla Business Process Manager – Customer Performance Analysis also had a role in the Unidentified Gas taskforce which provides further insight into the industry issues in this area.</p>	A lead within Xoserve should be identified who is responsible for managing the contract with the AUGE and keeping abreast of AUG matters.

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5. Management are provided with information about the performance of the process that assists decision making			
5.1	Service Management Board meetings are held monthly between the AUGE and Correla.	Service Management Board meetings between Correla and the AUGE have been minuted during the period November 2021 to January 2022, although they have taken place on a regular basis prior to this. Xoserve is invited to attend these meetings and the minutes have been provided to Xoserve.	Ensure Xoserve attendance continues at the monthly Service Management Board meetings with Engage.
5.2	Progress Reports against service deliverables are provided by the AUGE.	Ten progress reports have been provided to Correla by Engage during the period February to October 2021. These detail status updates against each element of the service provided including Core, Innovation and Advisory. Financial reporting is also detailed of costs for the period and year to date.	Ensure receipt of progress reports and day after reports by an assigned individual able to understand and challenge within Xoserve.
5.3	The draft AUG statement is provided by the AUGE for Correla SME review.	The draft AUG statement 2022/23 was received from the AUGE on 10 th December 2021. Evidence was provided of the SME review and feedback given on this following receipt. Factors considered include: - UIG contributors; - Industry process understanding; - Conclusions from data; - Any data issues identified; - Assumptions validity; - Previous year comparison; and - Usability of document.	None identified.
5.4	Customers receive regular reports against progress from the AUGE.	The AUGE has provided monthly industry updates during the period May to December 2021 which are publicly available on the Joint Office website. These detail an overview and status updates against each element of the service provided including Core, Innovation and Advisory.	None identified.
5.5	Day After Reports are provided to Xoserve from Correla following each AUG Sub-Committee.	Day After Reports are provided to Xoserve by Correla following each AUG Sub Committee meeting. These detail: - Meeting attendees; - Matters discussed; - Any key issues/concerns for Xoserve attention; - Any actions on Xoserve; - Any actions on Correla; and - Date of next meeting.	Action identified at 5.2

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6. The processes are subject to appropriate control and decisions are correctly communicated and documented.			
6.1	Costs for services against budget are validated and reconciled appropriately.	<p>Reconciliation and goods receipting of income due to Engage is undertaken on a regular basis.</p> <p>Confirmation of services received in reference to payments due to Engage, is provided to Xoserve by the Correla Business Process Manager.</p>	None identified.
7. Risks associated with the process are effectively managed.			
7.1	Risks associated with the process have been identified and effectively managed.	<p>The AUGE highlights risks to their delivery of the service on their industry AUG Monthly Report and documents their mitigation/action plan.</p> <p>There are no risks in relation to this process or the submission of the industry MOD that have escalated through the corporate risk processes for either Xoserve or Correla.</p>	The submission of the industry MOD for validation of the AUGE's statement should be raised as a risk through the Xoserve corporate risk management framework and managed accordingly.

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8. The process achieves its objectives in an economic, efficient and effective manner and that it is continually improved through monitoring of performance, feedback, and analysis.			
8.1	Mechanisms exist to capture and follow up opportunities for improvement.	<p>Section 7.4 of the Framework for the Appointment of an Allocation of Unidentified Gas Expert and DSC Service Area 1 line 20 requires an annual review of the activities and performance of the AUG Expert.</p> <p>A report was issued to the UNC Committee which summarised the outcome of the Review of the AUG Expert Year 2020/21 (the preparation of the AUG Statement and Table of Weighting Factors to apply for the Gas Year 2021/22).</p> <p>The AUGE is currently assessing two Innovations raised through this process: https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2021-06/211.5%20AUG%20Year%20Review%202021%20Report.pdf</p>	None identified.
8.2	A review of the AUGE's compliance with contractual requirements is undertaken annually.	A presentation was published for the UNC Committee 15 th April 2021 which explained why Xoserve believed that the AUGE was compliant with contractual requirements for determining the final AUG table of UIG weighting factors for 2021/22. This was a collaborative assessment between Xoserve and Correla.	Xoserve will seek to extend the services of its external statutory auditor to include an annual detailed review and report on the Incumbent AUGE's compliance with its terms of reference and contractual obligations. See Appendix 1 for an outline of the assignment.
8.3	Quarterly review of AUGE calculations and applied weighting and output is undertaken.	The innovative methodology and comprehensive approach utilised by Engage has been determined as valid and compliant. It is also recognised that the Incumbent AUG experts' statements are robust, balanced and independent. We therefore recommend the continued scrutiny, challenge & review of methodology and outputs at regular milestones during each year shall be applied and updates communicated to customers.	Establish a panel of internal subject matter experts across Correla/Xoserve to provide more in-depth review and support to the AUGE at regular intervals during the development/update of the methodology and selection of data.

APPENDIX 1 – Outline Scope of the Proposed Audit of the AUGS Preparation Service

Background

To address the concerns raised by Shipper Users during the 2020/21 AUG process and those captured in UNC Modification 0782, Xoserve will seek to extend the services of its external statutory auditor to include an annual detailed review and report on the Incumbent AUGÉ's compliance with its terms of reference and contractual obligations.

Objective of the Annual Audit of the AUGS Preparation Service

The objective will be to provide an independent assessment of the AUGÉ's compliance with:

- Its contractual obligations
- The terms of the AUG Framework document
- All relevant UNC obligations

The review should also assess whether the AUGÉ has operated in an effective and efficient manner, covering the development of the methodology, selection of data, calculation of Weighting Factors and the AUGÉ's own internal quality assurance processes.

Areas of review would include:

- Development of the methodology
- Selection of data sources
- Interaction with industry parties
- Responses to industry feedback

Timing of the Audit

The Audit will need to be a continuous process throughout the year, timed to coincide with key periods of activity by the AUGÉ. Peak periods of activity are likely to be the selection of data sources in June/July, detailed calculations in October/November and responses to industry feedback in January/February.

Raising of Issues for investigation by the Auditor

Any industry party will be able to raise an issue for investigation by the Auditor, by highlighting this to Xoserve. The industry party should describe the issue, and the obligation to which it relates. Xoserve will pass this information on to the Auditor, who will investigate and report its findings in its next scheduled report.

Output of the Audit

A working assumption is that the Auditor would need to provide reports in line with the following milestones:

- In late December/early January following publication of the first Draft AUGS, to assist industry parties who are considering their feedback on the Draft AUGS
- By 31 March, to assist industry parties who are considering how to vote on the Statement and Table at April UNCC
- Final Report by end of April (if required) to summarise the full year's findings

The Audit Reports will be addressed to Xoserve as the commissioning party.

The Audit Report (and interim reports) will be made available to any interested parties [via the Joint Office website].

The Auditor would also provide [two-monthly] progress updates to communicate key messages and highlight any issues or concerns. The Auditor could use these updates to report on investigations into any specific issues raised by industry parties. These updates would be published on Joint Office website.

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Treatment of non-compliances identified by the Auditor

Any perceived non-compliances will first be discussed between the Auditor and the AUGE, and may also be discussed with Xoserve/Correla. If the AUGE addresses the non-compliance, this will be reported as resolved by the Auditor. If the AUGE disagrees with the non-compliance or chooses not to address it, this will first be reported to Xoserve. Xoserve will use the existing contractual escalation routes to raise the non-compliance with the AUGE and seek a resolution. If the non-compliance remains unresolved, the Auditor will report it to UNCC and AUG Sub-Committee, along with any commentary or rebuttal provided by the AUGE.

UNCC will be asked to vote by simple majority at its next scheduled meeting on whether it accepts or rejects any non-compliance. Although UNCC has no authority under UNC or the AUG Framework to instruct the AUGE (which is an independent expert) to make changes to its Statement or Table, the decision of UNCC and the AUGE's response would be in the public domain. UNCC members would take these non-compliances into account when considering the final AUGS at its April meeting.

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