

**TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0467**  
"Suspension of the Neutrality and Compensation Value Audit"  
Version 3.0

**Date:** 14/05/2001

**Proposed Implementation Date:** 01/08/2001

**Urgency:** Non-Urgent

**Justification**

Under current provisions within its' Network Code, Transco is required to appoint a third party auditor to carry out a Neutrality and a Compensation Value Audit (NCVA) for each year or 'relevant period'.

Transco proposes that NCVA provisions within the Network Code are modified to permit the suspension of the NCVA process until it may be deemed appropriate to re-establish and undertake a further Neutrality and/or Compensation audit.

**Nature of Proposal**

Following the completion of 3 years of satisfactory NCVA audit reviews, for the period March 1996 and March 1999, it was noted that any future audits would necessitate a fully competitive tender for the award of subsequent NCVA contracts. During the period March 1999 and September 1999 an extension to NCVA, by the current auditor, was entered with the understanding that this would close the review period at the end of the gas year. Subsequently a single source tender was awarded to the current auditor, for a further 3 months, to examine changes in the regime caused by the introduction of Review of Gas Trading Arrangements (RGTA) and Modification 204 - Amendment to Standards of Service. It was acknowledged that this audit extension was the final occasion that the single source contract for the audit could be awarded. Should the audit remain a requirement, Transco would be obliged to carry out a fully competitive tender with all the resource commitment that this would necessitate, from both shippers and Transco.

In July 2000, following publication of the latest NCVA, the NCVA sub-committee considered it an appropriate opportunity to review the current status of the audit. In particular weighing up the cost of the audit, (approximately £200,000 to shippers), against the benefits and material value of the errors identified.

The NCVA sub-committee concluded that it considered it appropriate at this point to recommend the suspension of future audits. This recommendation was based on the proviso that alternative measures were in place that may afford shipper confidence in Transcos' compliance with the Neutrality & Compensation Audit provisions in the Network Code. It was agreed that Transco would present an overview of its audit processes to the next sub committee. Unfortunately a quorate meeting of the NCVA Sub Committee was unable to be convened hence this overview

was presented to the Network Code Committee. Following the presentation the chairman of the Network Code Committee raised the matter of future audits with the Network Code Committee. The Committee agreed that there was little interest in pursuing a tender for a third party auditor and accepted that a Modification Proposal, to suspend the NCVA, should be raised.

### **Purpose of Proposal**

The Network Code Committee has expressed the view that it is reasonably confident that Transco internal controls and processes are sufficiently thorough that suspending the NCVA merits consideration. This proposal has therefore been raised to effect such suspension.

It should be noted that existing information, in respect of controls/processes for compensation, incentives and neutrality, are currently available to shippers via standards of service reports on SIS and the Liabilities Sub-Committee reports.

It is viewed that this modification proposal would better achieve the relevant objectives in that it would afford more economic operation of the pipeline. This would be achieved by reducing neutrality costs whilst maintaining shipper confidence in Transcos compliance with the Neutrality and Compensation Value provisions in the Network Code.

### **Consequence of not making this change**

If the status quo remains Transco would be obliged to carry out a fully competitive tender for a third party Auditor. Transco considers that the appointment process may require significant commitment of both shipper and Transco resources.

The Auditor would be appointed by Transco, on behalf of the community, and the cost of such an appointment would be born by neutrality.

### **Area of Network Code Concerned**

The Audit provisions are included in section V of the Network Code. Paragraph 12.1.2 refers to the Neutrality Auditor and paragraph 13.6 refers to the Audit and Compensation Value Audit.

### **Proposed Legal Drafting to support this Modification Proposal:-**

#### **Section V:**

#### **Paragraph 12.1.1**

Amend to read:-

12.1.1 Transco will, subject to paragraphs 12.1.3 and 12.1.4, appoint .....

#### **Paragraph 12.1.3**

Add the following new paragraph:-

12.1.3 A Neutrality Auditor may not be appointed for a relevant period:-

- (a) where Transco proposes after consultation with the Network Code Committee or any relevant Sub-committee and where the Director (upon Transco's application) gives Condition 7(4) Approval that such Neutrality Auditor not be appointed; or
- (b) where:-
  - (i) pursuant to this paragraph 12.1.3 a Neutrality Auditor was not appointed for the immediately prior relevant period; and
  - (ii) Transco reasonably determines that such Neutrality Auditor should not be appointed after consultation with the Network Code Committee or any relevant Sub-committee, unless (upon the application of Transco or any User made within 10 Business Days after Transco notified to Users the decision of the Committee or Sub-committee) the Director in any case shall give Condition 7(4) Disapproval.

#### **Paragraph 12.1.4**

Add the following new paragraph:-

12.1.4. In the event that a Neutrality Auditor is appointed for a relevant period following relevant period(s) where (pursuant to paragraph 12.1.3) the Neutrality Auditor was not appointed, he may not review any prior relevant period unless expressly instructed by the Network Code Committee in accordance with paragraph 12.2.1.

#### **Paragraph 13.8.1**

Amend to read:-

13.8.1 Transco will, subject to paragraphs 13.8.3 and 13.8.4, appoint .....

#### **Paragraph 13.8.3**

Add the following new paragraph:-

13.8.3 A Compensation Value Auditor may not be appointed for a relevant period:-

- (a) where Transco proposes after consultation with the Network Code Committee or any relevant Sub-committee and where the Director (upon Transco's application) gives Condition 7(4) Approval that such Compensation Value Auditor not be appointed; or
- (c) where:-
  - (i) pursuant to this paragraph 13.8.3 a Compensation Value Auditor was not appointed for the immediately prior relevant period; and
  - (ii) Transco reasonably determines that such Compensation Value Auditor should not be appointed after consultation with the Network Code Committee or any relevant Sub-committee, unless (upon the application of Transco or any User made within 10 Business Days after Transco notified to Users the decision of the Committee or Sub-committee) the Director in any case shall give Condition 7(4) Disapproval.

#### **Paragraph 13.8.4**

Add the following new paragraph:-

13.8.4. In the event that a Compensation Value Auditor is appointed for a relevant period following relevant period(s) where (pursuant to paragraph 12.1.3) the Compensation Value Auditor was not appointed, he may not review any prior relevant period unless expressly instructed by the Network Code Committee in accordance with paragraph 13.9.1.

#### **Proposer's Representative**

Julian R Majdanski (Transco)

#### **Proposer**

Tim M Davis (Transco)

#### **Signature**