

**Draft Modification Report**  
**RbD Audit Governance Arrangements**  
**Modification Reference Number 0211**  
**Version 1.0**

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

**1            The Modification Proposal**

Section V9.5 of the UNC TPD requires the Transporters to appoint an Aggregate NDM Reconciliation Auditor (the 'RbD Auditor') to conduct an annual review (the 'RbD Audit') to determine whether the Transporters have complied in all material respects with the applicable provisions of the UNC.

Since the introduction of RbD and the RbD Audit (Transco Network Code Modification Proposals 0194 & 0327) the audit findings have confirmed that Transco (prior to 2005) and xoserve, on behalf of the Transporters, have consistently complied with the applicable provisions of the UNC.

In 2007 there were discussions at the RbD Audit Sub-Committee meetings regarding the possibility of widening the scope of the RbD Audit. Following this, Modification Proposal 0135 (To extend the scope of the RbD Auditor's Role) was raised and subsequently withdrawn as there was no general agreement as to what the current audit provisions allowed for. The current RbD Audit has been designed to look at a number of RbD feeder processes, i.e. activities that lead to information being passed to xoserve and subsequently into the RbD mechanism. RbD Sub-Committee members were looking to extend the scope of the RbD Audit to look further up the chain of these feeder processes to ensure that the source information being used within RbD has been generated accurately and appropriately. Further discussions took place at the RbD Audit Sub-Committee meetings in December 2007 and January 2008 and the group concluded that the current audit process has provided the necessary reassurance around RbD activities.

The RbD Audit Sub-Committee determined that a far wider reaching industry audit process would be more beneficial that looked at all feeder processes at source as well as the calculation covered by the current audit. As the current audit is limited to Transporter activities only, and that the majority of feeder processes are not in the Transporters control, it was concluded that further development of the UNC would be required to implement such an audit.

It was also concluded that the current RbD Audit, and the requirement for the appointment of the RbD Auditor, should be 'suspended'.

Implementation of this Modification Proposal will allow the suspension of future RbD Audits based on the Sub-Committee's view that to continue with an annual audit presents little benefit.

It is therefore proposed that each year the UNCC would be permitted to vote by Panel Majority on whether or not to suspend the appointment of an auditor in the following year.

Implementation of this Modification Proposal would therefore allow for the suspension of future RbD Audits based on the Sub-Committee's view that to

continue with an annual audit presented little benefit.

**2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

*Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the coordinated, efficient and economic operation of*

*(i) the combined pipe-line system, and/ or*

*(ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (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;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;*

The suspension of the RbD Audit would not only reduce the cost to the DNOs, by negating the need to appoint a third party RbD Auditor, but also the industry time involved in the process (xoserve, Transporters and Users). Even though the RbD Audit may be suspended, the industry still has protection mechanisms in place to ensure that RbD is being managed appropriately (e.g. verification process, supporting information) and the ability to retrospectively apply the audit gives added protection.

Implementation of this Modification Proposal would better facilitate this relevant objective by the promotion of efficiency in the administration of the UNC.

**3 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

**4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:**

**a) Implications for operation of the System:**

No implications for operation of the system have been identified.

**b) Development and capital cost and operating cost implications:**

Implementation may lead to reductions in operating costs. Development and capital costs would not be affected.

**c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

No cost recovery mechanism is proposed.

**d) Analysis of the consequences (if any) this proposal would have on price regulation:**

No such consequence is anticipated.

**5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

Any such consequence would be minor.

**6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

There is no development, or other, implications for Transporter or Users

systems.

**7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

*Administrative and operational implications (including impact upon manual processes and procedures)*

The industry involvement will be reduced (RbD Audit Sub-Committee members).

*Development and capital cost and operating cost implications*

No such implications.

*Consequence for the level of contractual risk of Users*

Implementation of this Modification Proposal would have consequences on the level of contractual risk of Users under the Uniform Network Code but the requirement for UNCC to review this annually would serve to mitigate this risk.

**8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

Similar implications that would apply to Users would also apply to Suppliers.

**9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

No such consequences have been identified.

**10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**Advantages**

- Proposal allows for the suspension of the RbD Audit following the decision of the UNCC that holding an RbD Audit for the following year would have little benefit.
- The RbD Audit can be applied retrospectively if it is felt necessary.

**Disadvantages**

- An annual audit of the RbD mechanism will no longer take place, however, the RbD Auditor has always reported that the Transporters have complied with the applicable parts of the UNC and other mechanisms are in place to give reassurance of RbD activities.

- Any issue would be investigated a year later than otherwise.

**11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

*Written Representations are now sought in respect of this Draft Report.*

**12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

**13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

**14 Programme for works required as a consequence of implementing the Modification Proposal**

No programme of works would be required as a consequence of implementing the Modification Proposal.

**15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)**

Proposal could be implemented with immediate effect following direction from Ofgem.

**16 Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

**17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

**18 Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity

Markets Authority in accordance with this report.

**19 Text**

**Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.**

For and on behalf of the Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive, Joint Office of Gas Transporters**