

Modification Report
RbD Audit Governance Arrangements
Modification Reference Number 0211
Version 3.0

This Modification Report is made pursuant to Rule 9.3.1 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Following this, Modification Proposal 0135 (To extend the scope of the RbD Auditor's Role) was raised and subsequently withdrawn as there was no general agreement as to what the current audit provisions allowed for.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)

Representations were received from the following nine parties:

Organisation	Position
British Gas	Support
EDF Energy	Support
EON UK	Support
National Grid Distribution	Support
National Grid NTS	Support
RWE npower	Support
Scotia Gas Networks	Support
Scottish and Southern Energy	Support
Wales & West Utilities	Support

All nine responses indicated support for implementation of the Modification Proposal.

National Grid Distribution identified that the cost of procuring an auditor may be increased as a result of implementing the Proposal, with offsetting savings through less audits being undertaken.

EDF Energy questioned why this proposal does not fall under the remit of User Pays, a concept introduced by Ofgem as part of the GDPCR and not limited to instances when xoserve's costs increased. It would appear that implementation of this proposal would reduce the costs borne by the Gas Transporters who previously were responsible for funding the audit, and the User Pays mechanism would appear to be the appropriate tool to return this cost saving to the Shippers whose risk will be increased by this proposal's implementation.

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

At the Modification Panel meeting held on 19 June 2008, of the nine Voting Members present, capable of casting ten votes, ten votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommended implementation of this Proposal.

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

Legal Text for UNC Modification Proposal 0211

UNC TPD SECTION V: GENERAL

Amend paragraph 9.1.2 to read as follows:

9.1.2 For the purposes of ~~this paragraph~~ paragraphs 9.1 to 9.3:

- a) **"Neutrality Charges"** means Balancing Neutrality Charges and Reconciliation Neutrality Charges;

- b) "**Relevant Incentive Charges**" are Capacity Neutrality Charges (under Section B2.11.9(a)) and User Daily Incentive Amounts (under Section D3.4.2(b));
- c) "**relevant period**" means each Gas Year or any other period (whether shorter or longer than a Gas Year) proposed by National Grid NTS after consultation with the Uniform Network Code Committee or any relevant Sub-committee where the Authority (upon National Grid NTS's application) gives Condition A11(18) Approval to National Grid NTS's implementing this paragraph 9.1 on the basis of such other period;
- d) the person appointed under paragraph 9.1.1 in respect of a relevant period is the "**Neutrality Auditor**".

Amend paragraph 9.5.1 to read as follows:

9.5.1 Subject to paragraphs 9.5.3 and 9.5.4, The the Transporters will appoint in accordance with paragraph 9.6 a person eligible for appointment as a company auditor (within the meaning of Part II of the Companies Act 1989) to conduct a review (after the relevant period) of whether, in the opinion of such person, in each relevant period, the Transporter has complied in all material respects with applicable provisions of the Code.

Amend paragraph 9.5.2 to read as follows:

9.5.2 For the purposes of these paragraphs 9.5 to 9.7:

- a) "**Aggregate NDM Reconciliation Charges**" means User Aggregate Reconciliation Clearing Values and User Aggregate Transportation Charge Adjustments; and
- b) the person appointed under paragraph 9.5.1 in respect of the relevant period shall be the "**RbD Auditor**"; and
- c) "**relevant period**" means each Gas Year or any other period (whether shorter or longer than a Gas Year) proposed by the Transporters after consultation with the Uniform Network Code Committee or any relevant Sub-committee where the Authority (upon the Transporters' application) gives condition A11(18) Approval to the Transporters implementing paragraphs 9.5 to 9.7 on the basis of such other period.

Insert new paragraphs 9.5.3 and 9.5.4 as follows:

9.5.3 An RbD Auditor may not be appointed for a relevant period where the Uniform Network Code Committee determines by Panel Majority in respect of any relevant period that such RbD Auditor not be appointed.

9.5.4 In the event that an RbD Auditor is appointed for a relevant period following relevant period(s) where (pursuant to paragraph 9.5.3) the RbD Auditor was not appointed, he may not review any prior relevant period unless expressly instructed by the Uniform Network Code Committee in accordance with paragraph 9.6.1.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters