

Workstream Report
RbD Audit Governance Arrangements
Modification Reference Number 0211

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The Distribution Workstream and RbD Audit Sub-Committee consider that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream and RbD Audit Sub-Committee do not recommend that the Panel requests the preparation of legal text for this Modification Proposal. Given the comprehensive nature of the discussions that have already taken place, the Workstream and RbD Audit Sub-Committee recommend a consultation period of ten Business Days. This should ensure that the June 2008 Panel Meeting would be able to make its recommendation.

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Following this, Modification Proposal 0135 (To extend the scope of the RbD Auditor's Role) was raised and subsequently withdrawn as there was no general agreement as to what the current audit provisions allowed for.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 coordinated, 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 sub-paragraph (a), the (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 sub-paragraphs (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 sub-paragraphs (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 sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) 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 sub-paragraphs (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 is required.

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 are 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

None

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 Workstream Report)

No written representations have been received.

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

No such requirement has been identified.

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

No such requirement has been identified.

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

No programme for works has been identified.

15 Proposed implementation timetable (including timetable for any necessary information systems changes)

Implementation could be immediate on receipt of a decision.

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. Workstream recommendation regarding implementation of this Modification Proposal

The Distribution Workstream and RbD Audit Sub-Committee consider that the

Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream and RbD Audit Sub-Committee do not recommend that the Panel requests the preparation of legal text for this Modification Proposal. Given the comprehensive nature of the discussions that have already taken place, the Workstream and RbD Audit Sub-Committee recommend a consultation period of ten Business Days. This should ensure that the June 2008 Panel Meeting would be able to make its recommendation.