

Modification proposal:	Uniform Network Code (UNC): RbD Audit Governance Arrangements (UNC 211)		
Decision:	The Authority ¹ directs that proposal 211 be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	18 July 2008	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

The UNC TPD (Section V 9.5.2) places an obligation on Gas Transporters who are party to the Code to appoint an eligible person to act as a Reconciliation by Difference (RbD) Auditor. The RbD Auditor is required to conduct an annual review (the RbD Audit) to assess whether the Transporters have conducted the RbD settlement arrangements in accordance with the provisions of the UNC.

The RbD Audit is limited to the internal processes operated by Xoserve (acting as agent for the Transporters) and therefore does not assess whether shippers, in submitting information to Xoserve, are acting in accordance with UNC provisions.

To date, the RbD Auditor has found that the processes operated by Xoserve comply with the UNC requirements.

The modification proposal

UNC211 proposes that the UNC be modified to permit the UNCC to vote (by Panel Majority) on whether or not to suspend the appointment of an RbD Auditor in the following year. The proposal was based on advice from the RbD Audit Sub-Committee that the scope and findings of the annual RbD Audit was adding little benefit in terms of assurance for Code parties. With the approval of the Authority, the UNCC can seek to suspend the RbD audit for a period other than the following gas year.

UNC Panel³ recommendation

The UNC Panel considered the Modification Proposal at its meeting on 19th June 2008. The Panel recommended implementation of the proposal.

The Authority's decision

The Authority has considered the issues raised by the modification proposals and the Final Modification Report (FMR) dated 08th July 2008. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposals which are attached to the FMR⁴. The Authority has concluded that:

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁴ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com.

1. Implementation of the modification proposal UNC211 will better facilitate the achievement of the relevant objectives of the UNC⁵; and
2. Directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁶.

Reasons for the Authority's decision

We note that this proposal attracted unanimous support from respondents and agree with the findings of the Panel that this proposal will better facilitate Relevant Objective (f) of the UNC: *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.*

UNC211 would permit the UNCC to vote on the option on whether or not to require that an RbD Audit is required to provide confidence that Transporters are operating the RbD settlement arrangements in accordance with the requirements of the UNCC and to suspend the RbD Audit where, for example, the benefits are outweighed by the costs. We note that the RbD Audit has consistently demonstrated that Xoserve are operating those arrangements appropriately and that respondents to the consultation indicated that they did not consider an annual audit was adding any value.

Where the UNCC considered that an RbD Audit for a particular year was unnecessary, there would be a savings in audit fees. It was noted that were the UNCC to seek an audit in any subsequent year, audit fees may increase to reflect the lack of continuity, but it was considered that such an increase would be outweighed by savings accrued from previous savings in audit fees.

A number of respondents to the consultation noted that the RbD Audit was of limited value as its scope was restricted to how the RbD calculation is performed rather than examining the quality of the data that is used for that calculation. They went on to note that discussions in the RbD Audit Committee had identified that there were greater risks associated with the accuracy of the data submitted to Xoserve. Some respondents indicated that it may be appropriate to consider future modifications to the UNC to enable a wider audit of that data. We would encourage consideration of a wider audit in order to assure the accuracy of data feeding into the RbD process, and the subsequent allocation of costs. Our decision on UNC211 in no way precludes such an examination of audit requirements.

We note the comments of one respondent, who sought clarity on whether the RbD audit should be funded through transportation charges, or be considered to fall under the User Pays regime and any cost savings associated with this proposal returned to shippers. The RbD audit is not one of the service lines which appear on the Agency Charging Statement to be funded through User Pays charges, and should therefore be considered a "core service" to be funded through transportation revenue⁷. However, this would not necessarily preclude Users from contributing to the funding of an RbD audit, particularly if its scope is to extend beyond those parts of the RbD process for which the Transporters are directly responsible.

⁵ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547.

⁶The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

⁷ See Gas Distribution Price Control review – Final proposals, December 2007 <http://www.ofgem.gov.uk/NETWORKS/GASDISTR/GDPCR7-13/Documents1/final%20proposals.pdf>

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC211: '*RbD Audit Governance Arrangements*' be made.



Kersti Berge
Head of GB Markets

Signed on behalf of the Authority and authorised for that purpose.