

## Workgroup Terms of Reference

### 0379 / 0379A: Provision for an AQ Review Audit

<b>Workgroup Report to Panel Meeting:</b>	19 January 2012
<b>Date referred from Panel:</b>	0379 - 21 April 2011 0379A – 19 May 2011

### Background – Why Change?

Please refer to Modifications 0379 and 0379A at: [www.gasgovernance.co.uk/0379](http://www.gasgovernance.co.uk/0379)

### Solution

#### 0379

British have proposed to obligate the Network Owners to provide for an audit of a Shipper's use of the AQ Review process in the event that a Shipper's aggregate kWh reduction in AQ values resulting from the AQ Review process is more than 1% over the mean in any one AQ Review year, and/or the difference between the total number of AQ reductions compared to AQ increases is more than 7.5% over the mean.

These levels have been chosen as they signify what the Proposer considers to be material variations in those two metrics, which are worthy of further scrutiny.

The audit will be tasked with assessing compliance with all rules relevant to the operation of the AQ Review Process and include an assessment of the degree to which any AQ movement was inappropriate.

Furthermore, it is proposed to also introduce a new obligation on the Network Owners to ensure that, in the event that a Shipper has been found to have breached the provisions of the UNC relating to use of the AQ Review process and financially benefited as a result of erroneous cost reallocation, to the detriment of other Shippers, they will arrange for the auditor to quantify the extent of that benefit and then raise an ad-hoc correction to correct the misallocation of costs. The audit and any subsequent corrections must be made before the end of the subsequent Gas Year in which an offence took place.

## 0379A

Scottish Power have proposed to introduce a requirement for Shippers to have meter reading performance levels to result in at least 85% (subject to periodic review) of their AQs updating during the Review process. This would include those sites, which update by the T04 stage and those sites where the Shipper proposes an amendment. Performance would take into account all sites in the Shipper portfolio including vacants, dead and capped etc.

If a Shipper does not achieve an 85% or more performance level, then Ofgem, via the Transporters Agent (xoserve) would instruct an audit of the Shipper and the Shipper would be required to meet the cost of that audit. The auditor would work with the Shipper/Supplier to understand their meter reading strategy, meter reading submission process and AQ Review approach, including their approach to amendments, and in the case of LSP site, their appeals. The auditor would then recommend an improvement plan for the Shipper, to aid them achieving the 85% performance level.

If at the following year's AQ Review the Shippers performance was still below the 85% level, then the auditor would apply "Supplier Charges" and another audit would be instructed by Ofgem, again with the Shipper paying for this. The level of "Supplier Charges" would have to be worked out, but at this stage we would propose that this follows the rationale for those which apply in the electricity Balancing and Settlement Code (BSC). The rationale being that those Suppliers who have met the 85% performance level should receive the re-distribution of the Supplier Charges, based on their market share and performance (net of the cost of Xoserve for carrying out the audit).

## Topics for Discussion

- Understanding the objective
- Assessment of alternative means to achieve objective
- Development of Solution (including business rules if appropriate)
- Obligations on code parties and none code parties
- Possible incentive regime
- Assessment of potential impacts of the modification
- Assessment of implementation costs
- Assessment of legal text
- Scope and timing of the audit
- Responsibility for undertaking the audit
- Consideration of whether or not the audit should be included within the AUG process
- Consideration of whether a budget should be set for the audit and what value it should be
- Consideration of the materiality of the risk and how this impacts the potential solution when considering individual market participants.

## **Outputs**

Produce a Workgroup Report for submission to the Modification Panel, containing the assessment and recommendations of the Workgroup.

## **Composition of Workgroup**

The Workgroup is open to any party that wishes to attend or participate.

A Workgroup meeting will be quorate provided at least two Transporter and two User representatives are present.

## **Meeting Arrangements**

Meetings will be administered by the Joint Office and conducted in accordance with the Code Administration Code of Practice.