**Stage 02:** Workgroup Report

# 0379:

## Provision for an AQ Review Audit

At what stage is this document in the process?

01 Modification

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

This modification will obligate the Network Owners to audit Shipper's use of the AQ Review window under certain circumstances.

The Workgroup recommends that this modifications should be returned to Workgroup for further assessment

High Impact:
Shippers

Low Impact:
Network Owners

## Contents



## About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 18 October 2012, on whether Modification 0379 is sufficiently developed to proceed to the Consultation Phase and to submit any further recommendations in respect of the definition and assessment of this modification.

**Any questions?**


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# 1 Summary

## Is this a Self Governance Modification

The Panel have determined that this modification does not meet the self-governance criteria.

## Why Change?

The AQ Review process helps assign £billions of cost in the gas market and any issues or misuse of it can therefore have a material impact on the accuracy of cost allocation and therefore consumer's bills. Some Workgroup participants consider the current controls on Shipper's use of the AQ Review process are not proportionate to the potential damage that would be done to competition were the process to be misused.

## Solution

This proposal will obligate a Small Supply Point (SSP) Shipper with more than 50,000 small supply points to contract with an Auditor when the AQ values resulting from the AQ Review process is more than 80% greater than the median AQ Reduction, or the SSP Shipper has sent more than 10% greater downward amendments than the median, as shown on a developed Mod 81 Release 3 report, and the Shipper has also achieved a greater AQ reduction than the median of SSP Shippers.

By Small Supply Point (SSP) Shipper we only refer to a Shipper's SSP portfolio and a supply point that remains as a Small Supply Point for the whole gas year. It is understood that some shipper organisations have a single shipper ID and some have many shipper IDs. In this context, a "Shipper" is defined as an individual "Shipper ID" or "State" on the Mod 81 report.

It is proposed that in the event that the audit identifies any misuse of the AQ Review process, the audit where possible, should provide a high level assessment as to whether any activity undertaken by the shipper may have resulted in them achieving an unfair financial benefit and the costs associated with the provision of the audit would be paid in full by the audited Shipper.

## Impacts & Costs

This modification will place an obligation on the Shipper who will be responsible for agreeing and entering into a contractual relationship with the auditor. Audit costs will be allocated to the SSP market through the User Pays mechanism.

All NDM Shippers will be required to fund this audit provision, because the NDM benefit from the audit, regardless of whether they themselves are audited. As above should the audit identify any misuse of the Shippers AQ Review process the costs associated with the provision of the audit would be paid in full by the audited Shipper.

## Implementation

This modification should be implemented as soon as possible following an Ofgem direction to do so.

**Where can I find more information about how the AQ amendments process works?**

The rules which govern the AQ amendments processes can be found in UNC section G, from paragraph 1.6 onwards. Link here.

## The Case for Change

By improving the control and assurance framework around the AQ amendment process the industry will have more confidence that the process is working effectively, Shippers will be dissuaded from any potential misuse of the process and the industry will be better able to identify and resolve any misuse.

In turn will ensure that cost allocation in the gas market will be as accurate as possible thus facilitating effective competition between Shippers. In addition, we consider this modification will provide greater transparency over the degree to which Shippers are compliant with the existing Code obligations not to misuse the AQ amendment process, thus facilitating efficiency in the implementation and administration of the Code. This modification will therefore facilitate Relevant Objectives (d) and (f).

## Recommendations

The Workgroup considers that the Modification is not sufficiently developed and should be returned to the Workgroup for further assessment. The proposer has indicated that they would like to present further analysis to the Workgroup based on questions raised by industry participants.

# 2 Why Change?

## Context

In the Non-Daily Metered (NDM) market the allocation of gas costs are allocated based on an estimate of how much gas a site has used. These estimated costs are then aggregated up for all the sites on a Shipper's portfolio to calculate the charges that Shipper is liable for.

The estimate referred to above is known as the Annual Quantity (AQ) value, and it is derived from historic consumption at a site. As with any other estimate, the AQ is not absolutely accurate and therefore the AQ Review process exists to allow Shippers to correct any material variations between the AQ and the consumption they see at the site.

The rules around the AQ Review process provide for the Network Owners to advise the Shipper, for each of the NDM sites in their portfolio, a provisional AQ value by 31st May in each year. Shippers than have until 13th August in each year to amend any AQ value which they consider to be inaccurate by submitting meter readings which substantiate the revised AQ it is seeking. Importantly, Shippers have an obligation to ensure that in the AQ Review they have applied a methodology which is consistent across their Supply Points, they have been even handed in their submission of AQ amendments – whether they be increases or decreases – and that it has not been selective over the AQs which it has finally amended.

The risk arising from misuse of this process is material: £billions of cost is allocated through the AQ process each year and we calculate that were a Shipper with a 10% NDM market share to avoid just 1% of their costs through misuse of the AQ Review process, the misallocation of costs would be worth ~£6.5m[1].

## The Issue

Despite the significant impact of the AQ Review process and the impact that would arise from any misuse of it, the controls around it are inappropriately weak. It could be considered a major flaw in industry governance that, given the amount of cost, which the process allocates in the NDM market, there is no provision for an audit of Shipper behaviour.

[1] Assuming approximate SSP aggregate AQ of 328 TWh at an average cost of approximately £20m p/TWh, or £6.5bn total value. 10% share of this cost is therefore approximately £650m, with 1% of that cost valued at approximately £6.5m.

# 3 Solution

This proposal will obligate all Small Supply Point (SSP) Shippers with greater than 50,000 small supply points to contract with an Auditor when the AQ values resulting from the AQ Review process is more than 80% greater than the median AQ Reduction, and the Shipper has sent more than 10% greater downward amendments than the median, as shown on Mod 81 Release 3 report, and the Shipper has also achieved a greater AQ reduction than the median of Shippers.

Immediately following an implementation of this Modification, the Network Owners will assess Shipper's performance in the next AQ Review period to have occurred. When the AQ values resulting from the AQ Review process is more than 80% greater than the median AQ Reduction, or the Shipper has sent more than 10% greater downward amendments than the median, as shown on a developed Mod 81 Release 3 report, and the Shipper has also achieved a greater AQ reduction more than the median of Shippers with more than 50,000 small supply points, a Shipper will be responsible for agreeing and entering into a contractual relationship with an approved auditor.

These trigger levels have been chosen as they signify what we consider to be material variations in those metrics which are worthy of further scrutiny. (See Appendix B for a detailed explanation of the trigger set levels).

It is understood that some shipper organisations have a single shipper ID and some have many shipper IDs. In this context, a "Shipper" is defined as an individual "Shipper ID" or "State" on the Mod 81 report.

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.

It is proposed that in the event that the audit identifies any misuse of the AQ Review process, the audit where possible, should provide a high level assessment as to whether any activity undertaken by the shipper may have resulted in them achieving an unfair financial benefit and the costs associated with the provision of the audit would be paid in full by the audited Shipper.

**Modification Proposal 0379: Provision for an AQ Review Audit**

**Business Rules**

**AQ Review Audit Trigger**

Following an AQ Review, a Small Supply Point (SSP) Shipper with greater than 50,000 small supply points, as at 1st October of the next gas year, will automatically trigger an AQ Review Audit when either the criterion in Trigger 1 or both criteria in Trigger 2 below are met.

By Small Supply Point (SSP) Shipper we only refer to a Shipper's SSP portfolio and a supply point that remains as a Small Supply Point for the whole gas year. The data utilised to determine the 'trigger' will be taken from a developed Mod081 report, published annually on the 1st November, by Xoserve.

It is understood that some Shipper organisations have a single Shipper ID and some have multiple Shipper IDs. For the purposes of these business rules, a "Shipper" is defined as an individual "Shipper ID" or "State" as per the Mod 81 report.

**Trigger 1**

The SSP Shipper's aggregate AQ reduction for their particular Shipper ID is more than 80% greater than the median AQ Reduction calculated for all SSP Shipper IDs with more than 50,000 small supply points.

**Trigger 2**

i) The SSP Shipper has sent more than 10% greater downward amendments than the median calculated for all Shipper IDs with more than 50,000 small supply points, as shown on the developed Mod 81 report , and;

ii) The SSP Shipper has also achieved a greater AQ reduction than the median of other SSP Shippers with more than 50,000 small supply points.

(See Appendix A for further detail).

**General points**

1. Only Shippers with a Small Supply Point portfolio with greater than 50,000 small supply points would be considered for an audit.
2. The Shipper's performance would be calculated per Shipper licence ID and not by licensed entity, irrespective of market segment.
3. Once the trigger for an audit has been reached there will be no opportunity for a Shipper to seek to simply provide an explanation pertaining to their performance issues and avoid the requirement for an audit to be conducted.
4. Where an audit has been undertaken and the AQ Review Audit Report has concluded that the AQ Review had been undertaken in accordance with the Uniform Network Code, the costs of any and all audit(s) undertaken would be smeared across the SSP market, by market share of AQ as at 1st October of the preceding gas year via a Users Pays invoice.
5. Where an audit has been completed and the AQ Review Audit Report has concluded that the audited Shipper did not undertake the AQ Review in accordance with the Uniform Network Code, the costs associated with the provision of the audit would be paid in full by the audited Shipper.
6. The auditor will have a requirement to prepare an AQ Review Audit Report in accordance with their defined terms of reference and will be required to issue this

report in full to the Shipper. The full report will make recommendation to improve performance. If required the full audit report will be available to Ofgem. An executive summary of the AQ Review Audit Report, detailing the auditor's conclusions would be provided to the relevant Uniform Network Code committee.

7. All reasonable steps should be undertaken to ensure that the audit and publication of the report should be completed within 5 months of the publication date of the MOD081 report (release 3 due on 1st November) and where possible completed before the commencement of the next AQ Review amendment process.

**Provision of an Auditor**

**8.** Prior to the publication of the MOD081 report (release 3) the Joint Office would invite each Shipper and Transporter to nominate up to three Gas Industry Auditors to appear on the Gas Industry Auditors List and the Transporters/Shippers must nominate these to the Joint Office.

**9.** The list of proposed Gas Industry Auditors will be collated by the Joint Office and provided to the Uniform Network Code Committee (UNCC).

**10.** The UNCC will establish an expert panel subgroup (or refer to an appropriate existing group) to consider the list of proposed auditors and will endorse or decline to endorse the auditor by considering the appropriateness of their expertise. A list of endorsed Gas Industry Auditors will then be formally established.

**11.** Once a Gas Industry Auditor has been placed onto the endorsed Gas Industry Auditor List the Joint Office will request them to confirm in writing to the Joint Office their desire to be registered as a Listed Gas Industry Auditor or not. Should the auditor wish to withdrawal from the list they will notify their request to the Joint Office.

**12.** Each year, parties detailed within the Gas Industry Auditor List will be communicated with to ensure that they still wish to be on the list. Transporters and Shippers will also be able to propose additional auditors for potential inclusion onto the list.

**Provision of the UNCC Subgroup**

13. (If a new sub group is required) Members of UNCC Subgroup will be nominated and voted for in accordance with rules to determine membership of other UNCC sub committees. Voting of the members for the UNCC Subgroup will occur annually. Members will stay in place for one year from the date the voting takes place.

**Assigning an Auditor**

14. Xoserve will be responsible for calculating Shipper performance in accordance with Mod379 requirements and the production of a report detailing performance per qualifying Shipper.
15. This report will identify which Shipper ID(s), if any, have triggered the requirement for an audit.
16. Xoserve will be responsible for issuing a copy of the report, in a timely manner, to all parties that are eligible to receive the Mod81 report. The report will also be issued to the UNCC who will notify the relevant UNCC Subgroup requesting action to be undertaken as required.
17. The UNCC Subgroup will vote for a preferred auditor, from the Gas Industry Auditor List in accordance with the following principles.
    - Each UNCC Subgroup Member present at the meeting will be eligible to partake in the vote.
    - Each member will nominate up to 3 parties from the Gas Industry agreed auditor list and will provide their nominations to the Subgroup Chairman on the appropriate nomination form.
    - The Subgroup Chairman will receive and collate the nominations and list the unique parties nominated.

- Upon receipt from the Subgroup Chairman of the list of all unique parties nominated, each member will using an appropriate voting form, rank in order of preference (1 to n, where 1 is the least favoured and n is the most favoured) and provide to the Subgroup Chairman.
- The Subgroup will take practical steps to ensure the Audit costs are reasonable through the ability to review and challenge the proposal of the cost to protect industry parties.
- The Subgroup Chairman will collate the aggregated scores for each nominated party and advise the Subgroup of the result of the vote.
- In the event of a tie, members will vote specifically upon the tied parties. Where this results in a further tie, the Subgroup Chairman shall have the casting vote.

18. Where an audit for more than one party is required, a separate voting procedure will be undertaken for each.
19. The Shipper which is to be subject to an audit will be informed of the result of the vote and be required to make contact with the specified auditor requesting confirmation of the auditors interest in performing the audit, in accordance with the standard Terms of Reference defined.
20. The Shipper will be responsible for agreeing and entering into a contractual relationship with the auditor for the purposes of conducting the audit, within the specific timeframe of March the following year.
21. Where contractual arrangements are not able to be agreed with the preferred auditor, the Shipper must explain the rationale for this and when directed but the UNCC Subgroup, approach the second ranked Auditor as per the initial vote undertaken.
22. A mechanism will be agreed with the Shipper to enable transparency of this process in terms of progress, timescales and costs, such that the Shipper to be audited can provide updates back to the relevant UNCC Subgroup.
23. The Auditor must assure the UNCC Subgroup that they can perform an independent audit against the specified Terms of Reference declaring any conflicts of interest to the UNCC subgroup.
24. The UNCC Subgroup will consider any declaration of conflicts of interest and determine the suitability of the auditor to undertake the audit and will instruct the Shipper to be audited accordingly.

**Audit Terms of Reference**

25. The auditor will be required to undertake an audit as detailed within the specified Terms of Reference.
26. The Shipper (and the relevant supplier) to be audited will be required to provide full co-operation with the auditor during the complete audit process.
27. The auditor will assess the overall compliance with all the relevant rules and obligations associated with the AQ Review Process as detailed within the Uniform Network Code as detailed within the Terms of Reference.
28. The Terms of Reference of the audit would include:
    a. A review of the approach taken by the Shipper regarding the AQ Review process and how amendments have been determined for both SSP, how amendments were prioritised and managed in accordance with the requirements defined within the UNC.
    b. The audit will determine whether a fair and balanced approach has been undertaken by the Shipper associated with the sending of all possible amendments, both upwards and downward amendments.

29. The auditor, where possible, should provide a high level assessment as to whether any activity undertaken by the shipper may have resulted in them achieving an unfair financial benefit.

**APPENDIX A**

**Business Rules AQ Review Audit Trigger detailed explanation**

Following an AQ Review, a Small Supply Point (SSP) Shipper, as at 1st October of the next gas year, will automatically trigger an AQ Review Audit when either the criterion in Trigger 1 or both criteria in Trigger 2 below are met.

The data utilised to determine the 'trigger' will be from a developed Mod081 report, published annually on the 1st November, by Xoserve.

It is understood that some Shipper organisations have a single Shipper ID and some have multiple Shipper IDs. For the purposes of these business rules, a "Shipper" is defined as an individual "Shipper ID" or "State" as per the Mod 81 report.

**Trigger 1**

The Small Supply Point (SSP) Shipper's aggregate AQ reduction for their particular Shipper ID is more than 80% greater than the median AQ Reduction calculated for all Shipper IDs with more than 50,000 small supply meter points.

**Detailed methodology:**

1. From Mod 81 Release 3 Report 10, sum columns "MPR_Count", "Previous_NDM_AQ ", and "Current_NDM_AQ" by "Current Shipper".

2. Discard any "Current Shipper" that are not SSP Shippers.

3. Calculate the percentage change between "Previous_NDM_AQ ", and "Current_NDM_AQ", i.e. [("Current_NDM_AQ" - "Previous_NDM_AQ ") / "Previous_NDM_AQ "], shown in column "% change" on the table below.

4. Calculate the median value in the column "% change".

5. Calculate the percentage difference for each "Current Shipper" between the median "% change" and the shipper's "% change", i.e. [("% change" – "Median % Change")/ "Median % Change"], shown in column "% Difference to Median" on the table below.

6. If "% Difference to Median" is greater than 80%, an audit is triggered.

| Current Shipper | MPR Count | Previous_NDM_AQ | Current_NDM_AQ | % Change | % Difference to Median |
|---|---|---|---|---|---|
| Athens | 73,633 | 24,952,343,281 | 24,808,515,295 | -0.6% | -57.9% |
| Auckland | 1,400,624 | 21,058,788,422 | 20,703,943,317 | -1.7% | 23.0% |
| Christchurch | 199,286 | 3,204,135,437 | 3,224,894,084 | 0.6% | -147.3% |
| Copenhagen | 108,160 | 5,229,022,333 | 5,198,563,597 | -0.6% | -57.5% |
| Delhi | 678,889 | 10,762,449,636 | 10,621,815,898 | -1.3% | -4.6% |
| Frankfurt | 9,191,078 | 157,873,373,985 | 155,873,478,401 | -1.3% | -7.5% |
| Geneva | 78,621 | 2,575,026,362 | 2,522,740,299 | -2.0% | 48.2% |
| Helsinki | 346,970 | 6,995,902,463 | 6,832,893,074 | -2.3% | 70.1% |
| Lisbon | 241,441 | 4,460,624,926 | 4,413,487,953 | -1.1% | -22.9% |
| Mexico City | 2,209,801 | 35,989,893,677 | 35,428,185,207 | -1.6% | 13.9% |
| Montreal | 1,712,605 | 26,626,264,183 | 26,233,477,787 | -1.5% | 7.7% |
| Oslo | 1,491,652 | 23,048,824,000 | 22,922,261,862 | -0.5% | -59.9% |
| Port Elizabeth | 88,692 | 1,393,387,863 | 1,374,296,344 | -1.4% | 0.0% |
| Stockholm | 132,078 | 2,339,784,797 | 2,291,352,027 | -2.1% | 51.1% |
| Sydney* | 3,367,063 | 55,659,748,277 | 53,821,715,290 | -3.3% | 141.0% |
| Median | | | | -1.4% | |

* Indicative data from 2011 indicates one Shipper has triggered an audit

**Trigger 2**

i) The Shipper has sent more than 10% greater downward amendments than the median calculated for all Shipper IDs with more than 50,000 small supply meter points, as shown on the developed Mod 81 report, and;

ii) The Shipper has also achieved a greater AQ reduction than the median of Shippers with more than 50,000 small supply meter points.

**Detailed methodology:**

1. From Mod 81 Release 3 Report 10, sum columns "MPR_Count", "Previous_NDM_AQ ", and "Current_NDM_AQ" by "Current Shipper".
2. Discard any "Current Shipper" that are not SSP Shippers .
3. From Mod 81 Release 3 Report 2, for the shippers remaining after step 2, take the data from columns "Accepted", "Decreasing_AQs", and "Increasing_AQs".
4. Calculate for each "Current Shipper" the percentage of downward amendments, i.e. "Decreasing_AQs" / "Accepted", shown in column "Downward" on the table below.
5. Calculate the median value in the column "Downward".
6. Calculate for each "Current Shipper" the percentage difference between the shippers downward amendments and the median downward amendments, i.e. [("Downward" – "Median Downward") / "Median Downward"], shown in "Difference to Median" column on the table below.
7. If, for a particular Shipper, "Difference to Median" is greater than 10%, and in the table above "% Change" is less than the median (i.e. shows a greater AQ reduction), an audit is triggered.

| Shipper | MPR Count | Accepted | Decreasing_ AQs | Increasing_ AQs | Downward | Difference to Median |
|---|---|---|---|---|---|---|
| Athens | 73,633 | 4,536 | 2,911 | 1,612 | 64% | 10% |
| Auckland | 1,400,624 | 153,029 | 82,918 | 70,071 | 54% | -7% |
| Christchurch | 199,286 | 9,844 | 6,125 | 3,719 | 62% | 7% |
| Copenhagen | 108,160 | 23,080 | 12,792 | 10,280 | 55% | -5% |
| Delhi | 678,889 | 76,673 | 42,196 | 34,447 | 55% | -6% |
| Frankfurt | 9,191,078 | 1,007,417 | 587,687 | 413,857 | 58% | 0% |
| Geneva* | 78,621 | 572 | 373 | 198 | 65% | 12% |
| Helsinki | 346,970 | 29,889 | 18,569 | 11,318 | 62% | 6% |
| Lisbon | 241,441 | 14,154 | 8,135 | 6,011 | 57% | -1% |
| Mexico City | 2,209,801 | 174,651 | 101,185 | 73,462 | 58% | -1% |
| Montreal | 1,712,605 | 114,218 | 70,114 | 44,001 | 61% | 5% |
| Oslo | 1,491,652 | 76,589 | 48,127 | 28,449 | 63% | 8% |
| PortElizabeth | 88,692 | 9,492 | 5,246 | 4,238 | 55% | -5% |
| Stockholm | 132,078 | 14,654 | 8,539 | 6,114 | 58% | 0% |
| Sydney | 3,367,063 | 344,428 | 206,334 | 137,928 | 60% | 3% |
| Median | 346,970 | 29,889 | 18,569 | 11,318 | 58% | 0% |

- Indicative data from 2011 indicates one Shipper has triggered an audit

**APPENDIX B**

**Detailed explanation of Trigger set levels**

**Trigger 1**. More than 80% greater than the median AQ Reduction.

The industry would expect the aggregate AQ change for each SSP shipper to be similar, and in most cases they are within +/- 50% (column L on the spreadsheet). The 80% figure was chosen based on historical data – any differences in AQ change above this tolerance are really unusual and anomalous.

In 2011, Sydney obtained an AQ reduction of 3.3%, 114% greater than the mean of 1.5%. If Sydney had achieved an AQ reduction equivalent to the mean, their AQ reduction would have been 980 GWh less. 980 GWh is roughly equivalent to £20m at 2p/kWh.

In 2008, Copenhagen would have met the criteria for trigger 1. If they had achieved the mean AQ reduction, their AQ reduction would have been 270 GWh less, or £5.4m.

**Trigger 2**, i) More than 10% greater downward amendments than the median, and ii) the Shipper has also achieved a greater AQ reduction than the median of SSP Shippers.

Again from the Mod 81 report historical data we found that most shippers submit a proportion of downward AQ amendments within +/- 10% of the mean value, so any proportion of downwards amendments outside of the trigger is anomalous. We combined this with the overall AQ reduction to make sure that only shippers who possibly benefited from submitting a greater proportion of downward amendments were audited.

In 2011, Geneva would have met the criteria for trigger 2. By the same calculations as above they achieved a 13 GWh greater reduction than if they had achieved the mean AQ reduction, or £260k.

In 2010, Montreal and Oslo both met the criteria for trigger 2, achieving 310 GWh (£6.2m) and 246 GWh (£4.9m) greater reductions than the mean.

# 4 Relevant Objectives

Impact of the modification on the **Relevant Objectives:**

| Relevant Objective | Identified impact |
|---|---|
| a) Efficient and economic operation of the pipe-line system. | None. |
| b) Coordinated, efficient and economic operation of<br>(i) the combined pipe-line system, and/ or<br>(ii) the pipe-line system of one or more other relevant gas transporters. | None. |
| c) Efficient discharge of the licensee's obligations. | None. |
| d) Securing of effective competition:<br>(i) between relevant shippers;<br>(ii) between relevant suppliers; and/or<br>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | Yes, see below. |
| e) 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. | None. |
| f) Promotion of efficiency in the implementation and administration of the Code | None |
| g) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators | None |

The Workgroup consider that:

***d) Securing of effective competition:***

Some Workgroup participants consider the provision of an audit mechanism around the SSP AQ review process will give the industry more confidence that the process is working effectively, dissuade Shippers from any potential misuse of the process and better enable the industry to identify and resolve any misuse.

In turn this will ensure that cost allocation in the gas market will be as accurate as possible, thus facilitating effective competition between Shippers. However, some Workgroup participants were concerned that Shippers who are audited and not found been found to be in error, may be disadvantaged by having to pay costs to support the audit.

Some Workgroup participants were concerned that a Shippers reputation may be degraded or damaged if they are required to undertake an audit and subsequently found to be behaving correctly.

Some Workgroup Participants consider the 50000 cap should be in line with the usual industry cap of 250000 supply meter points to identify smaller industry participants, as the lower level may disadvantage smaller Shippers.

Some Workgroup Participants were concerned that there is no cap on the costs of an audit and this could unduly impact smaller Shippers. However, the proposer felt that the UNCC would provide a suitable auditor to undertake the audit and these costs would be reasonable.

# 5 Impacts and Costs

## Consideration of Wider Industry Impacts

The modification is unlikely to have wider industry impacts.

## Impacts

This modification will impact both Shippers and Network Owners. The modification seeks to reduce the impact on smaller Shippers by introducing a cap set at 50000 SSP supply points, thus ensuring shippers with small portfolios are not adversely impacted.

Improved AQs should result in improved initial energy allocation.

The Workgroup reviewed the cost estimate and concerns were raised about the potential costs of implementation, which were in the region of £140,000 to £320,000.

## Costs

| Indicative industry costs – User Pays |
|---|
| Classification of the modification as User Pays or not and justification for classification |
| User Pays |
| Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification |
| Shippers will pay 100% of the costs associated with this. This is justified, as the anticipated benefit will be entirely in the Shipper market. The costs of the audit(s) are to be smeared across the entire NDM market, by market share of AQ via User Pays. Where an AQ Review Audit Report identifies that a Shipper did not undertake the AQ Review in accordance with the relevant section of the UNC, the costs associated with the provision of the audit would be paid in full by the audited Shipper. |
| Proposed charge(s) for application of Users Pays charges to Shippers |
| Not known |
| Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve |
| To be provided |

## Impacts

| Impact on Transporters' Systems and Process | |
|---|---|
| Transporters' System/Process | Potential impact |

| | |
|---|---|
| UK Link | • None |
| Operational Processes | • To be confirmed in the ROM |
| User Pays implications | • To be confirmed in the ROM |

| Impact on Users | |
|---|---|
| Area of Users' business | Potential impact |
| Administrative and operational | • Shippers facing an audit will need to provide operational support and other resource, as necessary, for the duration of the audit.<br>• Smaller Shippers may need to review their current processes to ensure their records are sufficient to support this process. |
| Development, capital and operating costs | • Potential cash flow risk to cover audit costs. |
| Contractual risks | • None. |
| Legislative, regulatory and contractual obligations and relationships | • None. |

| Impact on Transporters | |
|---|---|
| Area of Transporters' business | Potential impact |
| System operation | • None |
| Development, capital and operating costs | • None |
| Recovery of costs | • None |
| Price regulation | • None |
| Contractual risks | • None |
| Legislative, regulatory and contractual obligations and relationships | • None |
| Standards of service | • None |

| Impact on Code Administration | |
|---|---|
| Area of Code Administration | Potential impact |
| Modification Rules | • None. |

| Impact on Code Administration | |
|---|---|
| UNC Committees | • None. |
| General administration | • None. |

| Impact on Code | |
|---|---|
| Code section | Potential impact |
| | |

| Impact on UNC Related Documents and Other Referenced Documents | |
|---|---|
| Related Document | Potential impact |
| Network Entry Agreement (TPD I1.3) | None. |
| Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4) | None. |
| Storage Connection Agreement (TPD R1.3.1) | None. |
| UK Link Manual (TPD U1.4) | None. |
| Network Code Operations Reporting Manual (TPD V12) | None. |
| Network Code Validation Rules (TPD V12) | None. |
| ECQ Methodology (TPD V12) | None. |
| Measurement Error Notification Guidelines (TPD V12) | None. |
| Energy Balancing Credit Rules (TPD X2.1) | None. |
| Uniform Network Code Standards of Service (Various) | None. |

| Impact on Core Industry Documents and other documents | |
|---|---|
| Document | Potential impact |
| Safety Case or other document under Gas Safety (Management) Regulations | None. |
| Gas Transporter Licence | None. |

| Other Impacts | |
|---|---|
| Item impacted | Potential impact |

| | |
|---|---|
| Security of Supply | None. |
| Operation of the Total System | None. |
| Industry fragmentation | None. |
| Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties | There is a potential benefit to the balancing charges that Suppliers charge consumers. |

# 6 Implementation

The Workgroup consider it is important that the implementation date should be before the commencement of 2013 AQ amendment window.

# 7 The Case for Change

None identified in addition to those set out above.

# 8 Legal Text

Text was reviewed by the Workgroup and no comments were provided.

# 9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0379 should be returned to Workgroup for further assessment.