

CODE MODIFICATION PROPOSAL No 0211
RbD Audit Governance Arrangements
Version 2.0

Date: 08/05/2008

Proposed Implementation Date: 1st October 2008

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this 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Following this, Modification Proposal 0135 (To extend the scope of the RbD Auditor's Role) was raised and subsequently withdrawn as there was no general agreement as to what the current audit provisions allowed for.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.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Urgent procedures are not requested for this Modification Proposal

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

The basis for this Modification Proposal originated from the RbD Audit Sub-Committee. The Proposer recommends that this Modification Proposal proceeds directly to the Consultation Phase allowing sufficient time for the Proposal to be discussed at the April 2008 Distribution Workstream meeting and the April RbD Sub-Committee meeting (both being held on 24th April 2008). For purposes of clarity, suggested legal text will be provided separately.

2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of 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 sub-paragraph (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 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 will not only reduce the cost to the industry, 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.

We therefore believe that implementation of this Modification Proposal will better facilitate this relevant objective by the promotion of efficiency in the administration of the UNC.

3 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No such implications on security of supply or operation of the Total System have been identified

4 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

No implications for operation of the system have been identified

b) The development and capital cost and operating cost implications:

There are no development and capital cost or operating cost implications associated with implementation of this Proposal

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

No cost recovery mechanism is required

- d) **The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

No such consequences has been identified

- 5 **The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)**

Implementation is not required in order to facilitate compliance with any notice issued under Standard Condition A11 (14)

- 6 **The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users**

There are no development, or other, implications for Transporter or Users systems

- 7 **The implications for Users of implementing the Modification Proposal, including:**

- a) **The administrative and operational implications (including impact upon manual processes and procedures)**

No such implications have been identified

- b) **The development and capital cost and operating cost implications**

There will be operating cost savings for the industry as a third party auditor will no longer be required, on an annual basis, and the time and industry involvement will also be reduced (xoserve & RbD Sub-Committee members).

- c) **The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

Implementation of this Modification Proposal will have no consequence on the level of contractual risk of Users under the Uniform Network Code.

- 8 **The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

No such implications have been identified for any other relevant persons

- 9 **Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

No such consequences have been identified

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

- Removes an obligation on the Transporters that has been deemed to have little benefit on an annual basis
- Proposal allows for the reinstatement of the RbD Audit
- The reinstated 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

11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

12 Detail of all other representations received and considered by the Proposer

13 Any other matter the Proposer considers needs to be addressed

No other matters need to be addressed in relation to this Proposal

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

The Proposer recommends that this Proposal should be implemented on 1st August 2008

15 Comments on Suggested Text

16 Suggested Text

To be provided separately for the Consultation Phase

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) Section V 9.5

Proposer's Representative

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Proposer

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