

Business Rules – Provision for an AQ Review Audit

1. The calculation of AQ update performance will include all sites in a Shipper's portfolio, including: Capped, Clamped, Cut Off, Dead, Extinct, Faulty, Inactive, Live, Missing Meter, Other, Removed, Spin Capped and Unknown status, as held by Xoserve and reported on at the AQ Operational Forum in the Warnings Report at a national level, post work carried out by Xoserve.
2. All sites that have been subject to any AQ Appeal activity in the current gas year will be categorised as successfully updating and be included within the 85% target.
3. New Connection sites will be excluded from the 85% target, if they are established in the last year.
4. The performance by Shipper would be on a per Shipper ID basis and not by Licenced entity¹ and is the same level, irrespective of market segment.
5. If a Shipper does not meet the 85%² performance criteria they would be subject to an audit.
6. A grace period for "Supplier Charges" will apply from the point of application of the scheme, such that where performance is below 85% the Shipper will have until the next Review is reported upon to improve beyond the 85%. If at the stage of reporting at the next Review the Shipper has not improved sufficiently, then they will face charges as set out in these Business Rules. The scheme grace period would only apply to a Shipper once and only be applicable in the first 5 years of the scheme.
7. New market entrants will not be subject to the scheme until after at least 12 months from the point of registering sites, as during that time the majority of their sites will be gains and they will have no meter reading history. New entrants will therefore be excluded from paying and receiving any charges in at least their first year and then will be subject to the same first year grace as other Shippers, if required. For the avoidance of doubt the grace period for a new Shipper would run back to back with the scheme's initial grace period, unless the new entrant achieves 85% performance in year one. If 85% performance is achieved by the new entrant in year one, then they will be included within the redistribution of charges together with all other Shippers who have met the target.
8. There would be no ability to purely explain performance issues without an audit being conducted and paid for.
9. Xoserve would identify Shipper performance and indicate the number of Shippers where performance was below the 85% and by how much. This report would be provided to industry on an anonymous basis at the same time as the MOD081 final report.
10. Prior to the issue of the MOD081 reports the Joint Office would invite each Shipper and Transporter to nominate up to three (3) Gas Industry Consultants/Auditors to appear a Listed Gas Industry Consultant/Auditors and the Transporter/Shippers must nominate these to the Joint Office.
11. The list of proposed Gas Industry Consultants/Auditors will be collated by the Joint Office and provided to the Uniform Network Code Committee for them to consider. The UNCC will

¹ This mirrors the BSC electricity process around performance assurance.

² 85% has been chosen, as it represents an improvement in the current SSP performance rate and will see a significant increase in LSP performance, bringing it more in line with current SSP performance [83%]

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Comment [1]: All site status are included with the performance target, as any overstatement of AQs could lead to inefficient network investment by the Transporters and any understatement of AQs could cause issues in relation to security of supply.

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Comment [2]: For the avoidance of doubt the 85% target includes all sites updated at the T04 stage and all amendment activity carried out by the Shipper.

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Deleted: Xoserve would, on annual basis, approach a number of auditors or gas industry consultants, outlining the scope of the work that the companies would be expected to undertake and the day rate that they would be paid (such day rate being in line with that paid to the SME in relation metering errors).

consider the list of proposed Gas Industry Consultants/Auditors and will endorse or decline to endorse the individuals/companies by considering the appropriateness of their expertise. A list of endorsed Gas Industry Consultants/Auditors will then be established.▲

12. Once a Gas Industry Consultant/Auditor has been placed on the Listed Gas Industry Consultant/Auditor list the Joint Office will request them to confirm in writing to the Joint Office and the nominating party their desire to be registered as a Listed Gas Industry Consultant/Auditor or not. Should the Gas Industry Consultant/Auditor wish to withdraw from the list they will notify their request to the Joint Office.▲

13. Once it is known which Shippers require an audit to be carried out, as their performance is below 85%, then Xoserve will notify those Shippers where an audit is required and ask them to appoint a Gas Industry Consultant/Auditor from the approved List. The Shipper will then appoint and contract with one of the organisations/individuals listed on the UNCC approved list. The payment of the Consultant/Auditor will be the responsibility of the Shipper.▲

14. The Shipper must assure that the Gas Industry Consultant/Auditor is not engaged or employed by them, within the audit report sent to Ofgem].▲

15. These rules would require that the Shipper (and the relevant Supplier) co-operates with the “auditor” and the report from the “auditor” should outline if this has happened to their satisfaction.

16. For the avoidance of doubt the “auditor” engaged by the Shipper subject to an audit requirement would be merely aiding the Shipper in improving performance and will not be held responsible for improving the performance of the Shipper (and the relevant Supplier).

17. The scope of the audit would include:

- a. A review of the approach taken by the Shipper (and the relevant Supplier) to the AQ Review and how amendments have been determined for both SSP and LSP sites (and in the case of an LSP Shipper (and the relevant Supplier) the appeals)
- b. A review of processes, and that they are managed in line with UNC requirements:
 - i. Meter reading strategy, validation and submission
 - ii. Meter exchange strategy, validation and submission
 - iii. Data exceptions for reads, exchanges, disconnections, reconnections, new connections and their resolution
 - iv. Vacant site management process
 - v. Isolation and withdrawal process³

The Gas Industry Consultant/Auditor will also highlight to Ofgem where the UNC requirements have not been met.

18. For future years Shippers (and/or the relevant Supplier) would be required to keep a log of the processes noted above and the corrective action taken on a monthly basis.⁴

19. The audit reports created by each auditor against the Shippers (and the relevant Supplier) who did not make the 85% update performance would be provided to Ofgem for their information, together with a certification by the Shipper and relevant Supplier and the Gas

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Comment [3]: This is a feature of the appointment of metering expert. It is also the usual regulation of auditors to ensure independence and freedom from conflict

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Deleted: allocate the auditors/gas industry consultants to each of the Shippers who have not met the performance target. Xoserve would receive and pay the cost of all of the audits and re-charge the audit costs across each of the Shippers audited according to the costs of the audit for each of the companies. Xoserve would also charge these Shippers the costs for their time in undertaking the audit arrangements in equal proportions, depending on the number of Shippers who require an audit.

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³ For the avoidance of doubt this list is not conclusive

⁴ The log would be held, to be made available to Ofgem should they wish to look at what the Shipper has done to improve performance, in particular if they do not improve performance year on year

Industry Consultant/Auditor to verify that the Consultant/Auditor is not presently engaged or employed by the Shipper or relevant Supplier.

20. The Shipper (and the relevant Supplier) who receives the audit will then be able to make changes to their processes to ensure that their performance improves by the next AQ Review.
21. If at the time of the next AQ Review the Shipper (and the relevant Supplier) has not improved performance, then "Supplier Charges" will be applied to them.
22. "Supplier Charges" will be levied on the basis of an appropriate incentive charge.
23. Where a Shipper's performance is below the 85% AQ update level after the grace period, and in the case of a new entrant the second grace period, Supplier Charges will be applied. The "Supplier Charge" will be $(\text{Total number of Shipper MPRNs} - \text{the number of Shipper MPRNs where the AQ updated}) * \text{£20}$
24. The charges to those Shippers who have failed to meet the performance criteria will be issued on an ad-hoc invoice as a one off charge in the next available invoice.
25. There will be a re-distribution of the "Supplier Charges" to all of those NDM Shippers who have had greater than 85% performance (with the exception of new entrants in the first two years, if applicable). These charges will be distributed to NDM Shippers on the basis of overall national market shares, as at the 1st October of the Gas Year following the AQ Review, relative to all those other Shippers/Suppliers who have met or exceeded the 85% performance level.
26. The re-distribution will take place in the next available invoice.
27. Where there are no Shippers who meet the 85% performance level there will be no charges applied and any costs incurred by Xoserve will be smeared across the industry on the basis of market share. For the avoidance of doubt in the first year of the scheme, where monitoring takes places, but there are no Supplier charges applied any costs incurred by Xoserve will also be smeared across the industry on the basis of market share.
28. For the avoidance of doubt Daily Metered and Unique Sites will be excluded from this process.

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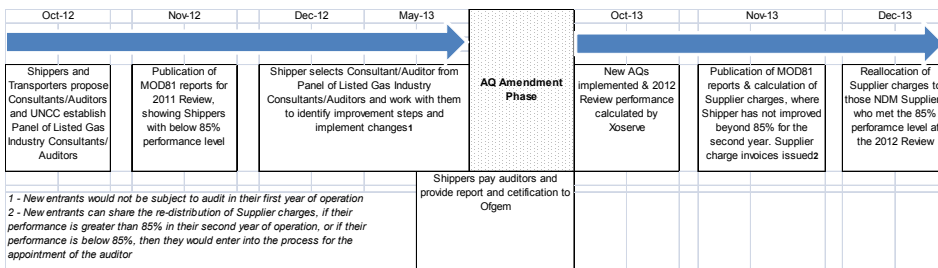
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Oct-11	Nov-11
Xoserve tender and create Panel of Expert	Publication of MOD81 reports to 2011 Review

1 - New entrants would not be subject to audit
2 - New entrants can share the re-distribution performance is greater than 85% in their second year of operation, or if their performance is below 85%, then they would enter into the process for the appointment of the auditor

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The process is demonstrated in the chart on the following page.



1 - New entrants would not be subject to audit in their first year of operation
2 - New entrants can share the re-distribution of Supplier charges, if their performance is greater than 85% in their second year of operation, or if their performance is below 85%, then they would enter into the process for the appointment of the auditor