

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

### **Business Rules**

#### **AQ Review Audit Trigger**

Following an AQ Review, a Shipper with greater than 50,000 meter points, as at 1<sup>st</sup> 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 taken from the Mod081 report, published annually on the 1<sup>st</sup> 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 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 meter points.

#### **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 meter points, as shown on Mod 81 Release 3 report 2, and;
- ii) The Shipper has also achieved a greater AQ reduction than the median of Shippers with more than 50,000 meter points.

See Appendix A for further detail.

### **General points**

1. Only Shippers with a specific Shipper ID with greater than 50,000 meter 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 NDM market, by market share of AQ as at 1<sup>st</sup> October of the preceding gas year.
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 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 1<sup>st</sup> 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 (via a mechanism to be determined – but which could be similar to that for appointing an Independent Technical Expert) for a preferred auditor, from the Gas

Industry Auditor List. Where an audit for more than one party is required a mechanism will need to be developed to enable for multiple auditors to be appointed.

18. 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.
19. The Shipper will be responsible for agreeing and entering into a contractual relationship with the auditor for the purposes of conducting the audit, within a specific timeframe (to be agreed).
20. 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.
21. A mechanism needs to be developed 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.
22. 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.
23. 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.
24. Note: further work required to work through the finer details of this proposed process.

#### **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 and LSP sites, 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 a financial benefit.
30. Note: further work required to develop detailed Terms of Reference.

#### **APPENDIX A**

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

Following an AQ Review, a Shipper with greater than 50,000 meter points, as at 1<sup>st</sup> 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 taken from the Mod081 report, published annually on the 1<sup>st</sup> 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 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 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" where "MPR\_Count" is less than 50,000.
3. Calculate the percentage change between "Previous\_NDM\_AQ", and "Current\_NDM\_AQ", i.e.  $[(\text{"Current\_NDM\_AQ"} - \text{"Previous\_NDM\_AQ"}) / \text{"Previous\_NDM\_AQ"}]$ , 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.  $[(\text{"% change"} - \text{"Median \% Change"}) / \text{"Median \% Change"}]$ , 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%	

## 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 meter points, as shown on Mod 81 Release 3 report 2, and;
- ii) The Shipper has also achieved a greater AQ reduction than the median of Shippers with more than 50,000 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" where "MPR\_Count" is less than 50,000.
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%