

UNC Workgroup 0379 Minutes Provision for an AQ Review Audit

Thursday 22 March 2012

Elaxon, 350 Euston Road, London NW1 3AW

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Tim Davis (Secretary)	(TD)	Joint Office
Alan Raper	(AR)	National Grid Distribution
Alex Ross	(ARo)	Northern Gas Networks
Alison Jennings	(AJe)	Xoserve
Andrew Green	(AG)	Total Gas and Power
Andrew Margan	(AM)	British Gas
Anne Jackson	(AJ)	SSE
Anthony Wright	(AW)	Shell Gas Direct
Brian Durber	(BD)	E.ON UK
Cesar Coelho	(CC)	Ofgem
Chris Warner	(CW)	National Grid Distribution
David Addison	(DA)	Xoserve
Edward Hunter*	(EH)	RWE npower
Elaine Carr	(EC)	ScottishPower
Erika Melèn	(EM)	Scotia Gas Networks
Marie Clarke	(MC)	Scottish Power
Matt Smith	(MS)	Xoserve
Rob Cameron-Higgs	(RCH)	Wales & West Utilities
Steve Mulinganie	(SM)	Gazprom

* *by teleconference*

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0379/220312>

1. Review of Minutes and Actions

1.1 Minutes

The minutes of the previous meeting were accepted.

1.2 Actions

1201: Wales & West Utilities to provide 0379 and 0379A Legal Text for consideration.

Update: BF confirmed that Scottish Power have provided amended business rules and British Gas had provided a draft which will need to be incorporated into the modification. RCH confirmed that WWU had now initiated the production of text based on the Business Rules as provided. **Carried Forward.**

2. Business Rules

AM ran through the Business Rules for 0379 and invited comments, suggesting more consideration of the triggers may be justified. CC asked if analysis was available to show the impact of the triggers based on the latest AQ Review, which AM explained is covered in the Appendix to the Business Rules.

AG asked why 50,000 meter points had been chosen as the limit below which an audit would not be considered, and why it was not increased to 100,000 or 125,000 as is being touted in other arenas to define smaller parties. AM explained that analysis within British Gas suggested 50,000 is appropriate as it removes the most volatile changes and portfolios which may be dominated by a small number of sites. AG emphasised that volatility may also be evident in I&C portfolios with more than 50,000 sites. EC asked whether the intention was to focus on domestic supply? BD also wished to understand why the limit had been selected, and the alternative of looking at SSP sector only was raised.

AM reiterated that British Gas is looking for an appropriate trigger and remained of the view that 50,000 is appropriate. CC suggested that the principle should be one of proportionality – would it be proportionate to initiate an audit for smaller suppliers. He would also like to understand why a volume as well as site number limit should not be applied for the trigger. Others noted that the largest sites are daily metered and outside the AQ review, such that supplying a large volume is not necessarily a clear ground for including Shippers within the scope of any audits. AM agreed to look at alternatives of a higher threshold, and also the implication of including an energy element.

Action 0301: British Gas (AM) to consider alternatives to those supplying less than 50,000 meter points being excluded from the scope of audits, and provide a justification for the proposed threshold

MC asked about the case when changes are the result of a data cleansing exercise. AM explained that if an audit were triggered and there was a clear reason for the variance seen, the Shipper could expect to be given a clean bill of health and so face no penalty nor direct cost.

AR questioned why a list of auditors and a process to identify the auditor to be used is necessary as opposed to each company appointing its own choice of an auditor. He suggested that the key was to set the terms of reference as opposed to the auditing organisation. AM believed the proposed process is clear and simple, providing assurance that the auditor is independent, understands the terms of reference, and is happy to work to them. SM added that auditors would wish to protect their own reputation and set out facts as specified in the terms of reference, not to reach conclusions. If action was to be taken against the Shipper, this would be a matter for Ofgem to decide based on the evidence presented by the auditor. CC said that the hurdle for Ofgem action is relatively high and Ofgem would need to consider whether a licence breach had occurred.

CC asked whether the industry would look at the auditor reports and take a view on whether further action is justified, or if it would go straight to Ofgem for their assessment as to whether an investigation should be launched. SM suggested the intent is to potentially avoid the sledgehammer of an Ofgem investigation, but that the terms of reference are fundamental in ensuring what output is produced. It was clearly undesirable if the output created scope for litigation and costs, as opposed to presenting facts for others to judge. He felt that, being central to the issue, generic terms of reference should be included within the modification. AM explained that this had been the intention, but that the terms of reference would need to be established and shaped by a UNCC sub-committee rather than being included as part of the modification at this stage. In fact the detail had been removed from the Business Rules at the request of others in earlier discussions. MC noted that generic terms of reference had been published for Modification 0379A.

MC then ran through the changes made to Modification 0379A, including the Business Rules that have been incorporated within the modification. AM asked why the audit should not be mandatory? MC explained that there are incentives in place, and they had taken account of concerns raised by Ofgem.

MC presented the justification for the thresholds proposed in 0379A, with 85% being achieved in the SSP but not the LSP sector. AR was unsure why the analysis presented should not be restricted to live sites. MC recalled that Xoserve had presented data at an operational forum that indicated that dead sites with a large AQ existed, and consequently the Shipper should want to take some action – with 0379A creating an appropriate incentive for portfolio cleansing. AJ questioned why extinct sites should be considered – since these arise from duplicates. MC felt there was still an exercise to go through to deal with the status. Others felt that decisions to undertake data cleansing should remain internal to an organisation since these dead or extinct sites have no impact on the remainder of the market and are not relevant to AQ review performance.

CC suggested that it would be helpful to demonstrate the benefits to the wider industry of any data cleansing exercise that is undertaken. He would also welcome evidence as to why the proposed way forward was the best way to set triggers, and would welcome an action for the industry to provide an explanation as to why performance should be different between the LSP and SSP sector. BD said that this had been covered in earlier Workgroup 0379 meetings and reflected a range of factors. CW suggested that potential explanations are, first, the different meter read performance requirements, with more LSP reads leading to more Aqs being calculated.

SM interjected that some rational analysis is needed and, for example, one factor is that the LSP sector sees a change of Supplier at a site more frequently and that access to legacy reads can be an issue affecting performance. However, DA said this should not impact Xoserve calculating Aqs since they would have the data needed to calculate Aqs even if the Shipper did not have the data necessary to challenge it.

AJ asked for assurance that the data presented by Scottish Power is accurate since it is, to some extent, counter-intuitive. DA agreed to check this.

Action 0302: Xoserve (DA) to confirm the data on AQ performance extracted to support the proposed 0379A thresholds is accurate

AM questioned why a grace period has been proposed, and MC suggested this was seen as sensible to allow time for action to be taken if necessary and in particular for new entrants who may be growing a portfolio quickly.

SM noted that if a new Supplier entered the market but used an established Shipper, then that new entrant would not be excluded from the process – which could be regarded as discriminatory. CC questioned whether any exclusion should apply to new sites as opposed to a new Shipper.

MC then presented the proposed level of supplier charges, which are designed to give consistent incentives. If any alternative were put forward, she would be happy to consider it. She also addressed questions about how the process would operate in a range of scenarios.

AM asked for assurance that if a Shipper is compliant with the UNC – providing 70% of reads in a year – that this is aligned with the 85% proposed threshold. It was argued that the two were not necessarily linked. CC suggested you must hit 85% read submissions in order to generate an AQ and so meet the threshold. CW suggested it would be worth validating this, although MC emphasised that the SSP sector is already achieving the suggested threshold. CC repeated that Ofgem would need to see analysis of the expected impacts of the modification on the wider industry and not be limited simply to the impact on AQ performance. AJe agreed to investigate read performance in the previous year.

Action 0303: Xoserve (AJe) to ascertain meter read performance in the context of 0379A and the proposed threshold

AM questioned whether there was potential for a cross-subsidy to be created if a reward is gained by the LSP sector. MC felt it entirely appropriate and equitable for the LSP sector to benefit if they are shown to be behaving appropriately.

AM noted that 0379 looks at energy as well as supply point numbers and this is a key difference to 0379A. MC responded that Scottish Power sees 0379A as a first step towards developing a more comprehensive performance assurance framework.

AM agreed to reconsider the Business Rules and incorporate them within Modification 0379, which MC has already done for 0379A.

3. Workgroup Report

BF confirmed that the Panel had extended the time by when the Workgroup should report to July 2012.

4. Any Other Business

None raised.

5. Diary Planning for Workgroup

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place within the Distribution Workgroup on:

Thursday 26 April 2012, 31 Homer Road, Solihull, B91 3LT

Thursday 24 May 2012, Elexon, 350 Euston Road, London NW1 3AW.

Thursday 28 June 2012, Elexon, 350 Euston Road, London NW1 3AW.

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Workgroup 0379 – Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1201	05/12/11	2.0	Wales & West Utilities to provide 0379 and 0379A Legal Text	WWU (RCH)	Carried Forward
0301	22/03/12	2	British Gas to consider alternatives to those supplying less than 50,000 meter points being excluded from the scope of audits, and provide a justification for the proposed threshold	British Gas (AM)	Pending
0302	22/03/12	2	Xoserve to confirm the data on AQ performance extracted to support the proposed 0379A thresholds is accurate	Xoserve (DA)	Pending
0303	22/03/12	2	Xoserve to ascertain meter read performance in the context of 0379A and the proposed threshold	Xoserve (AJe)	Pending