

**Workgroup 0379**  
**Provision for an AQ Review Audit**  
**Minutes**  
**Monday 06 June 2011**  
**at 31 Homer Road, Solihull B91 3LT**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Tim Davis (Secretary)	(TD)	Joint Office
Cesar Coelho	(CC)	Ofgem
Chris Warner	(CW)	National Grid Distribution
Darren Lindsay	(DL)	E.ON UK
David Watson	(DW)	British Gas
Gareth Evans	(GE)	Waters Wye
Joanna Ferguson	(JF)	Northern Gas Networks
Jon Wisdom	(JW)	RWE npower
Karen Kennedy	(KK)	Scottish Power
Linda Whitcroft	(LW)	Xoserve
Lisa Harris	(LH)	Shell
Mark Jones	(MJ)	SSE
Stefan Leedham	(SL)	EDF Energy
Steve Mulinganie	(SM)	Gazprom
Sue Prosser	(SP)	Xoserve

**1. Introduction and Status Review**

*Copies of all papers are available at [www.gasgovernance.co.uk/0379/060611](http://www.gasgovernance.co.uk/0379/060611).*

**1.1. Minutes from the previous meeting**

Minutes from the 17 May meeting were accepted.

**1.2. Review of actions from previous meetings**

**WG0501:** Revise modification to reflect comments/suggestions.

**Action Update:** DW confirmed changes would be made. **Carried Forward**

**WG0502:** Consider the materiality of risk based approach used by the BSC and report to Workgroup.

**Action Update:** DW indicated his intent was to amend the modification in order to introduce a threshold such that an audit will not occur for low materiality events, in terms of impact of AQ change on the market as a whole. This needed defining but was expected to take the very smallest players out of the scope of audits. CC suggested that an enduring, risk based, approach would be welcome, taking account of the potential move to rolling AQs for example. DW supported this, but emphasised that he did not want to delay introducing a change in the short term. KK added that one reason why Scottish Power had raised an alternative modification was to accommodate regime change. **Carried Forward**

## 2. Discussion

Scottish Power had raised an alternative modification and KK outlined the rationale behind this. In addition to seeking to provide a solution that accommodates regime change, the alternative seeks to reduce the risk that the industry would be incentivised to adjust performance to track the lowest performer. The intent was to drive improved performance.

DW suggested that both 0379 and 0379A could be implemented, and hence sought clarification as to why 0379A was being progressed as an alternative. TD clarified that the Modification Rules do not provide any specific process for alternatives and each will be considered independently, on its merits, at the point of decision, in exactly the same way as any other modification.

DW indicated that he is supportive of the principles behind the Scottish Power alternative and will consider bringing elements of it within Modification 0379.

SL suggested that the modifications need to address the root cause – which is data quality. LW indicated that Xoserve had carried out some further analysis to identify why AQs were not calculated. This showed there could be good reasons, such as new sites. KK responded with concerns about how to incentivise and ensure appropriate actions by Shippers, with unregistered sites being a good example of a problem that needs to be addressed. It was recognised that the devil is in the detail and the failure of AQs to update could be for a range of legitimate reasons. Identifying the data to look at was considered, such as roll-through percentages, as well as the number itself – e.g. is 85% a suitable trigger?

KK indicated that the suggested 85% comes from reports provided by Xoserve, which SL regarded as reasonable grounds for a starting point. Comparisons were made with the BSC, and GE questioned what the incentive would be to exceed the target and get to higher levels – his understanding of the electricity regime was that it does not create an effective incentive.

SM asked, with the 85% trigger, how many audits would have occurred historically. Xoserve did not believe they held information that would enable them to readily answer this. However, LW offered to consider if they could identify a means that might help to clarify the rough number of Shippers that might have breached the proposed 85% threshold had it applied historically.

**Action 0601: Xoserve (LW, SP) to consider whether or not Xoserve can identify a means that might help to clarify the rough number of Shippers that might have breached the proposed 85% threshold had it applied historically.**

SL suggested that the concept of a benchmark seemed appropriate, but identifying the benchmark needed thought. This would then trigger some action, and potentially incentives could apply. GE noted that differentiation was essential at this point if the consequences were to be both appropriate and proportionate.

SM was unclear why a Shipper that provides all reads as required by the UNC, with those reads being accepted and AQs calculated, should be subject to the possibility of further scrutiny. DW said that the impact of the data was so large that an audit process to avoid the risk of inappropriate behaviours was justified – there is no mechanism at present to assess if parties are complying with UNC obligations and not seeking to benefit by being selective with the actions taken. By contrast, GE was concerned that control of the data was passed to Xoserve and Shippers have no control over the actions which Xoserve take.

GE and SM did not believe the suggested approach, with a threshold, would deliver the intent. If there is inappropriate behaviour, it should be a regulatory role to identify and investigate this, based on the available information gathering

powers. KK felt that there was considerable merit in having transparency and published performance measures that could help to identify variations and so potentially highlight inappropriate outcomes, which could be the result of deliberate choices. SL agreed that the issue was to meet an initial test through a threshold – this did not mean there was any presumption of inappropriate behaviour but rather that a holistic view needed to be taken and other factors taken into account to establish if the performance outside tolerance is appropriate.

SM continued to believe that the root cause was read submission performance rather than the consequence – AQ issues arise from a lack of reads. SL emphasised that broader data quality is the issue rather than the number of reads submitted. GE continued that the key was to find an appropriate trigger and that it would be preferable to let the Regulator assess performance rather than introducing an audit process – the Regulator has powers that go beyond those of any other auditor. KK suggested that any audit should be very wide and look at actions across the whole period and not just within a specific window. SL supported looking at the process as a whole and all actions.

This led SL to suggest a possible trigger would be to look at outcomes compared to the performance of others, as opposed to looking at the mean, which tends to be set by the largest Shipper. DW indicated that he intended to reconsider the suggested use of the mean, looking at the mode and median for example.

GE suggested that an audit process was potentially a large overhead. A minimum provision ought to be to allow an immediate response to explain why performance varies from any threshold and so means an audit should not automatically go ahead. DW agreed that a materiality test should be included to ensure that the smallest Shippers are not disadvantaged. GE repeated that providing an opportunity for Shippers to indicate why the threshold is inappropriate in their circumstances is appropriate. KK argued that the existing triggers within the AQ process already provide information about issues that may arise and allow Shippers to take action as necessary to avoid an audit. However, GE remained of the view that a process for avoiding the audit was important – avoiding abortive costs. DW suggested that an independent assessment of the reasons given was important.

SL asked if this pointed towards a performance assurance group being established to look at evidence that justifies action or otherwise. CC added that Ofgem is likely to support self-governance and an escalation process to look into the evidence presented and move to additional stages of investigation where this is felt to be justified, perhaps through a pre-audit stage, then an audit, and potentially an Ofgem investigation following the audit.

GE questioned what was meant by an audit – which he understood to be intrusive (full access to all computer systems and personnel) and so disproportionate as a first step in light of any breach of thresholds. SL supported this as being onerous and potentially undue – and suggested that if the audit confirmed that behaviour was appropriate, internal costs should be refunded as well as the auditors costs.

There was general agreement that materiality needed to be considered and that the steps taken needed to be proportionate. However, DW suggested that, given the sums involved, a visit from an auditor to assess internal processes did not seem disproportionate. He would not want to see a process where the party breaching a threshold could simply state their case and this was accepted. However, if this was substantiated to the satisfaction of the auditor, that could be different. GE suggested that this amounted to a pre-audit and was why the steps involved in the suggested audits needed to be set out and clarified within the modification.

DW agreed to reconsider the modification with a view to defining a pre-audit process; the appropriate triggers; and materiality to exclude the smallest players. KK indicated that she would do likewise, although she did not envisage major changes.

**Action 0602: British Gas (DW) to consider defining (within 0379) a pre-audit process; appropriate triggers; and materiality to exclude the smallest players.**

**Action 0603: Scottish Power (KK) to consider defining (within 0379A) a pre-audit process; appropriate triggers; and materiality to exclude the smallest players.**

SL offered to define some additional potential threshold triggers, which he would share with DW and present at the following meeting.

**Action 0604: EDF Energy (SL) to define additional triggers for presentation at next meeting.**

CW raised specific questions regarding how 0279A would work in terms of placing obligations on Ofgem and how the suggested supplier charges would be levied and applied. KK agreed to look into this, and to consider the electricity model as a potential precedent. MJ outlined the electricity process in support of this, which includes monthly processes rather than simply annual ones.

**Action 0605: Scottish Power (KK) to consider (within 0379A) how obligations would be placed on Ofgem; and how supplier charges would be applied.**

GE asked whether it was envisaged that Xoserve would be the auditor or an external body. CW and JF said they would not anticipate Xoserve carrying out this role - they are not qualified to act as auditors.

CW questioned whether DW would be defining liabilities and the flow of funds, and DW agreed to discuss this with CW before finalising the modification. The intent would be for any liabilities to flow to the Shipper community via RbD.

**Action 0606: British Gas (DW) to discuss with National Grid Distribution (CW) defining liabilities and the flow of funds within 0379.**

**3. AOB**

None raised.

**4. Diary Planning for Workgroup**

*Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)*

The next Workgroup 0379 meeting will take place on 6 July 2011 at 31 Homer Road, Solihull B91 3LT.

**Action Log - Workgroup 0379**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
WG 0501	17/05/11	4	Revise modification to reflect comments/suggestions.	British Gas (DW)	Due by 27 June for discussion on 6 July
WG 0502	17/05/11	4	Consider the materiality of risk based approach used by the BSC and report to Workgroup.	British Gas (DW)	Due by 27 June for discussion on 6 July
WG 0601	06/06/11	2	Consider whether or not Xoserve can identify a means that might help to clarify the rough number of Shippers that might have breached the proposed 85% threshold had it applied historically.	Xoserve (LW, SP)	Due by 27 June for discussion on 6 July
WG 0602	06/06/11	2	Consider defining (within 0379) a pre-audit process; appropriate triggers; and materiality to exclude the smallest players.	British Gas (DW)	Due by 27 June for discussion on 6 July
WG 0603	06/06/11	2	Consider defining (within 0379A) a pre-audit process; appropriate triggers; and materiality to exclude the smallest players.	Scottish Power (KK)	Due by 27 June for discussion on 6 July
WG 0604	06/06/11	2	Define additional triggers for presentation at next meeting.	EDF (SL)	Due by 27 June for discussion on 6 July
WG 0605	06/06/11	2	Consider (within 0379A) how obligations would be placed on Ofgem; and how supplier charges would be applied.	Scottish Power (KK)	Due by 27 June for discussion on 6 July
WG 0606	06/06/11	2	Discuss with National Grid Distribution (CW) defining liabilities and the flow of funds within 0379.	British Gas (DW)	Due by 27 June for discussion on 6 July