

**Workgroup 0379**  
**- Provision for an AQ Review Audit -**  
**Minutes**  
**Tuesday 17 May 2011**  
**via teleconference**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Abid Sheikh	(AS)	Ofgem
Alan Raper	(AR)	National Grid Distribution
Chris Warner	(CW)	National Grid Distribution
Darren Lindsay	(DL)	E.ON
David Watson	(DW)	British Gas
Gareth Evans	(GE)	Waters Wye Associates
George Glen	(GG)	ScottishPower
Joel Martin	(JM)	Scotia Gas Networks
Linda Whitcroft	(LW)	Xoserve
Sean McGoldrick	(SMc)	National Grid NTS
Steve Mulinganie	(SM)	Gazprom
Sue Prosser	(SP)	Xoserve

**1. Introduction**

*Copies of all papers are available at [www.gasgovernance.co.uk/0379/170511](http://www.gasgovernance.co.uk/0379/170511).*

BF welcomed attendees to the meeting.

**2. Outline of Modification 0379 – Provision of an AQ Review Audit**

DW briefly outlined the proposal. In essence this was looking to obligate the DNs to provide for an audit of a Shipper's use of the AQ Review process in the event that a Shipper's aggregate kWh reduction in AQ values resulting from the AQ Review process is more than 1% over the mean in any one AQ Review year, and/or the difference between the total number of AQ reductions compared to AQ increases is more than 7.5% over the mean, ie material variations in those two metrics, which may indicate a need for further scrutiny. The audit will assess compliance with all rules relevant to the operation of the AQ Review Process and include an assessment of the degree to which any AQ movement was inappropriate.

A new obligation on the DNs would also be introduced to ensure that, in the event that a Shipper has been found to have breached the provisions of the UNC relating to use of the AQ Review process and financially benefited as a result of erroneous cost reallocation, to the detriment of other Shippers, they will arrange for the auditor to quantify the extent of that benefit and then raise an ad-hoc correction to correct the misallocation of costs. The audit and any subsequent corrections must be made before the end of the subsequent Gas Year in which an offence took place.

A brief discussion took place. DW indicated that if any extraordinary Shipper performance was noted then the audit should provide reassurance to other parties that no gaming had taken place. SM questioned if there should be a test in terms of aggregate value? Small players may well perform outside of the average, depending on their market/portfolio, and may be subject to more exaggerated swings in AQs; they could be subject to numerous and inappropriate audits. DW recognised this and will reconsider so that they are not inappropriately disadvantaged by the modification.

Drawing attention to the BSC approach, AS referred to materiality of risk and consideration of proportionate scale, and suggested looking at their risk based approach. Was potential non-compliance always material in financial terms? A niche supplier who was outperforming, but in terms of materiality this was insignificant, could be dealt with differently. He believed that much could be learned from the BSC experience. DW recognised that any control should be proportionate across the market.

GG queried the reference to the AQ Appeals process (Modification 0379, page 3, The Case for Change). DW noted this and confirmed that the modification was only looking at the AQ Review process; he will discuss internally to see if there was any appetite to include this, but would amend the modification in the meantime.

CW asked what the scope of the audit might be. DW responded that his views were flexible as to how it might be completed; the Transporters or external auditors could perform it; it could include site visits. A process was required to confirm that there was no misuse and this could be clarified and developed. Currently no party has transparency over the actions within the AQ process, and the level of current risk is quite considerable at present. A Shipper wants to pick up costs that are as accurate as possible.

The Workgroup was encouraged to provide any further comments or suggestions to DW as soon as possible.

It was noted that ScottishPower had felt it appropriate to raise an alternative modification, and this had been submitted to this month's UNC Modification Panel for consideration.

### **3. Consider Terms of Reference**

The Terms of Reference were reviewed and BF drew attention to the specific items that the UNC Modification Panel had requested be considered in addition to the more general topics. BF then asked if there were any other particular points the Workgroup might want to consider.

CW suggested consideration of how the liability mechanism might work.

DW suggested consideration of how monies might be recovered, in the event of misuse of the process being established.

It was also suggested that consideration be given to materiality of risk and what that means for the scale of solution across market participants.

BF amended the Terms of Reference to reflect the comments made; any further suggestions would be welcome.

The Terms of Reference will be reviewed with a view to approving at the next meeting.

**4. Discussion – Next Steps**

Having discussed aspects of the modification (see 2, above) the following actions were agreed:

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

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

At the next meeting:

- the revised modification will be reviewed
- the materiality of risk based approach used by the BSC will be considered
- the Terms of Reference will be reviewed/approved.

**5. 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 Monday 06 June 2011 at 31 Homer Road, Solihull B91 3LT and will be accommodated during the business proceedings of the Distribution Workgroup.

**Action Log - Workgroup 0379**

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
WG 0501	17/05/11	4	Revise modification to reflect comments/suggestions.	British Gas (DW)	By 26 May 2011
WG 0502	17/05/11	4	Consider the materiality of risk based approach used by the BSC and report to Workgroup.	British Gas (DW)	