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Dear Colleague,

Information and incentives project (IIP): Developing the audit framework

Introduction

As you will be aware Ofgem and Mott MacDonald/British Power International (MM/BPI) have been developing the audit framework that will be used for assessing whether the IIP information meets the required levels of accuracy for reporting. This has included:

- ◆ an initial report produced by MM/BPI and a workshop with all of the distribution companies; and
- ◆ an interim review of distribution companies' measurement systems and IIP information.

MM/BPI have produced a report on the interim review which consists of two main parts:

- ◆ a description of the changes to the audit framework in the light of issues raised by the distribution companies and the experience of the interim review; and
- ◆ a company specific annex that provides feedback to companies on their measurement systems and processes.

We have published the first part of the report by making it available on our website. The company specific annexes have been kept confidential at this stage as some companies are still in the process of making changes to their measurement systems. We consider that such concerns should not be relevant when Ofgem undertakes its first audit of IIP information in summer 2002.

Main findings of the interim review

MM/BPI found that all distribution companies are making good progress towards meeting the required levels of accuracy. No significant concerns were identified although a number of issues were raised which the distribution companies may want to focus on, including the extent and independence of internal audit.

One area of concern is the way in which distribution companies are measuring the speed of telephone response. These concerns focused on companies' interpretation of the Regulatory Instructions and Guidance (RIGs), which sets out the definitions and guidance for reporting IIP information, and how this interpretation was reflected in the way measurement systems recorded data. In the light of these issues, Ofgem decided to delay the introduction of financial incentives on the speed of telephone response until April 2003.¹

MM/BPI are in the process of finalising an information request that will seek to gain a better understanding of the different measurement systems that companies use for collecting data on the speed of telephone response and how they have implemented the definitions and guidance set out in the RIGs. A draft version of the information request will be sent to the distribution companies for comment in the near future.

Change to the audit framework

The main change that has been made to the audit framework has been to recognise the difficulties associated with weighting different elements of companies' measurement systems (such as audit processes training and data collection) in assessing whether the systems are capable of meeting the required levels of accuracy (stage 1 of the audit). MM/BPI and Ofgem consider that any shortcomings in these respects will be picked up by the audit of a sample of individual incidents (stage 3 of the audit). This will test whether the data that distribution companies have collated on incidents (such as the start time and the number of consumers affected) matches up to that which should be contained in their measurement systems and records.

Forward work plan

MM/BPI intend to undertake further work on developing the audit framework. This will focus on identifying the number of incidents that will need to be audited (i.e. the sample size for Stage 3 of the audit) to assess, with an appropriate level of confidence, whether a company has met the required level of accuracy for reporting. Four of the distribution companies are assisting MM/BPI in this work by providing data on incidents – these are:

- ◆ Seeboard Power Networks
- ◆ United Utilities
- ◆ ScottishPower; and
- ◆ Western Power Distribution.

¹ "Information and incentives project - Incentive scheme" Final Proposals December 2001 78/01

Ofgem expects to publish a further report on the audit framework in early May once the work on assessing sample sizes has been completed. The audit itself will be undertaken in summer 2002 after the distribution companies have submitted IIP information at the end of May.

Chris Watts will be responsible for taking forward this work as part of his remit covering quality of supply. If you have any questions regarding this report or the process going forward you should contact Chris on 020 79017333 or on email at chris.watts@ofgem.gov.uk

Yours sincerely

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