



21 March 2017

## Submissions

Electricity Authority  
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### **Submission on requirements and processes for audits: Inherent risk registers and update to audit guidelines**

1. Orion New Zealand Limited (Orion) welcomes the opportunity to comment on the Electricity Authority's (the Authority) consultation paper (the paper) on requirements and processes for audits: Inherent risk registers and update to audit guidelines.
2. Our submission is in two parts:
  - a. our response to general issues;
  - b. our response to specific questions.

#### **General Issues**

3. The inherent risk register guidelines provide no guidance on the meaning of the "likelihood" categories provided for in Table 1 page 2. This makes it difficult to assess the inherent risk registers provided in terms of the ratings allocated because the full context of the rating is unknown. For this reason any answer to question 4 of the consultation must be read in the context of this feedback.
4. In addition the likelihood categories have changed from those proposed in the Risk and Materiality Guidelines page 1 provided as part of the first phase of consultation- Requirements and processes for audits: New Guidelines. A new category of 'probably' has been introduced while the 'highly unlikely' category has been removed. For this reason any answer to question 4 of the consultation must be read in the context of this feedback.
5. Both the Guideline for Distributor Audits and the Distributor Inherent Risk Register attempt to mandate a guideline, specifically the Guideline on the calculation and the use of loss factors for reconciliation purposes, as part of the audit regime.
6. The audits in question are with respect to Code compliance, and the way distributors calculate loss factors is not part of the Code. Orion does not support mandating the loss factor guideline requirements via a Code link to Clause 11.2.

7. We refer you to Orion's submission on Loss Factors dated 16 April 2013. Many of the points raised in this submission remain valid even in 2017. In particular we point you to matters relating to technical and non-technical losses in paragraph 6-19 of our submission.
8. As a consequence of point 5, 6 and 7 above we encourage the removal of Function 7 Calculation of Loss Factors in the Guideline for Distributor Audits and the Distributor Inherent Risk Register.

**Concluding remarks**

9. Thank you for the opportunity to make this submission. We do not consider that any part of this submission is confidential. If you have any questions please contact Dayle Parris (Regulatory Manager), DDI 03 363 9874, email [dayle.parris@oriongroup.co.nz](mailto:dayle.parris@oriongroup.co.nz).

Yours sincerely



Dayle Parris  
**Regulatory Manager**

## Appendix I Format for submissions

Submitter	Orion New Zealand Limited
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#	Question	Comment
Question 1	Do you agree that the inherent risk registers address the issues of identifying inherent risk in the context of the audit regime?	We agree that the inherent risk register provides an auditor benchmark for inherent risk in the context of the audit regime subject to note 7 in the consultation paper “As the Code regulates areas that have the potential to materially impact the market and/or consumers, most inherent risks have been assessed as “medium” or “high”. This is expected to reduce when controls are identified and the participants residual risk is assessed by the auditor.”
Question 2	Do you agree that the inherent risk registers should be reviewed regularly? If so, how often?	<p>The inherent risk register should undergo a full review every 5 years or a partial review when a substantial change to any section of The Code occurs which affects a clause existing in the inherent risk register or where new clause requirements arise.</p> <p>We recommend that the Authority include a review of Inherent Risk Registers as part of any Code change consultation. This will provide participants with an opportunity to consider the impact of Code changes on the Inherent Risk Register and the corresponding risk ratings.</p>
Question 3	Are there any additional inherent risks or inherent risk registers that should be covered? If yes, please provide details in terms of the risk, associated clauses and key goals at risk?	No

#	Question	Comment
Question 4	Do you agree with the Authority’s assessment of the inherent risks? If not, please provide details.	<p>Subject to the general issues raised in our submission letter we have the following additional comments in relation to the Distributor Inherent Risk Register;</p> <ul style="list-style-type: none"> <li>• Function 2- Process, Electrical connection of NSP has been rated as High however all aspects relating to NSPs under Function 5 have been rated as Medium. We find it difficult to reconcile a higher inherent risk rating under Function 2 especially given that Clause 10.30(2) cannot occur without Clause 10.30 (1) which is initiated by other participants. We recommend that Function 2- Process, Electrical connection of NSP be rated as Medium.</li> <li>• Function 3- Process, ICP deenergisation has been rated as Medium. This situation while likely to exist would be present in the small minority of situations and in addition the impact on reconciliation is likely to be immaterial as it would affect one or two customers and would be rectified in short order (in the instance of an outage). These connection configurations are normally very historical and the cost of reconfiguring physical connections can often outweigh the benefit including in some instances the cost of additional fixed charges for consumers. We recommend that Function 3- Process, ICP deenergisation be rated as Low.</li> <li>• Function 6- Process, Notifying parties of ICPs with shared unmetered load has been rated as High. The consequence allotted should relate to the participant class and specifically to <b>shared</b> unmetered load not unmetered load in general. We believe the reconciliation consequence is more likely to be minor and therefore recommend that Function 6- Process, Notifying parties of ICPs with shared unmetered load should be rated as Medium. (The reconciliation participant inherent risk register Function 5- Process, Maintaining shared unmetered load should be reassessed accordingly).</li> </ul>

#	Question	Comment
		<ul style="list-style-type: none"> <li>Function 7- Calculation of Loss Factors <b>should be removed</b> from the Distributor Inherent Risk Register. The audits in question are with respect to Code compliance, and the way distributors calculate loss factors is not part of the Code. Orion does not support mandating the loss factor guideline requirements via a Code link to Clause 11.2. Also see our answer to Question 6 below.</li> </ul>
Question 5	Do you agree that the audit guidelines should be updated to align with changes to the audit regime?	Yes we agree this is a prudent step.
Question 6	Do you agree with the proposed changes to the audit guidelines attached to this paper? If not, please provide details.	No. Section A.6, Function 7- Calculation of Loss Factors <b>should be removed</b> from the Guideline for Distributor Audits. The audits in question are with respect to Code compliance, and the way distributors calculate loss factors is not part of the Code. Orion does not support mandating the loss factor guideline requirements via a Code link to Clause 11.2. Also see our answer to Question 4 above.
Question 7	Are there any additional areas or obligations that should be covered by any of the audit guidelines? If yes, what additional areas or obligations are required?	No, subject to our comments 3 and 4 under general issues in our submission letter.