

14 December 2016

Submissions

Electricity Authority
PO Box 10041
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by email: submissions@ea.govt.nz

Submission on requirements and processes for audits: New 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: New guidelines.
2. This submission responds to the paper's request for views on the draft guidelines and the purpose of the audit regime with reference to the Electricity Industry Participation Code Amendment (Requirements and Processes for Audits) 2016 Part 16A.2 purpose.
3. Our submission is in three parts:
 - 3.1. our response to general issues;
 - 3.2. our response to general issues with the Electricity Industry Participation Code Amendment (Requirements and Processes for Audits) 2016; and
 - 3.3. our response to specific questions.

General Issues

4. It is unclear from the paper whether the Authority is proposing to change the purpose of Part 16A or not. On the one hand the paper suggest that it is not seeking to make changes to the wording of Part 16A of the Code.

"This purpose was to be incorporated into guidelines, but not the Code.

A separate purpose was incorporated into Part 16A of the Code, to clarify the purpose of Part 16A of the Code. The Authority is not seeking to change the wording of Part 16A of the Code."

5. While on the other hand the paper states that the Authority is proposing to amend the purpose of the audit regime to the following:

The purpose of the participant audit regime is to:

- *evaluate participants' compliance with the Code provisions that are audited under the regime*
- *enable the Authority to make informed decisions regarding the certification, approval, and audit frequency of participants*
- *support the efficient operation of the electricity industry.*

We submit that the purpose in part 16A be changed to correct the 'flaw' identified by the Authority.

General issues with the Electricity Industry Participation Code Amendment (Requirements and Processes for Audits) 2016

While the consultation on the guidelines does not specifically cover new Part 16A we consider it necessary to raise a number of issues now we have reviewed the Guidelines.

6. Part 16A proposes the continued use of the term "publicise" as a defined term. Subsequent minor changes proposed to the Code in your Code Review Programme 2016 proposed the removal of the term "publicise" in favour of "publish". Will this change flow through to the Electricity Industry Participation Code Amendment (Requirements and Processes for Audits) 2016 which comes into effect on 1 June 2017? The guidelines also use the term "publicise" although not as a defined term. We submit that for consistency with the Act the term "publicise" should be used.
7. Part 16A.6 indicates that in the instance of an auditor approval expiry or cancellation "...an **audit** completed after the date on which the **Authority** cancelled the **auditor's** approval, or after the date on which the **auditor's** approval expired, is not a valid audit for the purposes of this Code."
8. We note that 16A.14(2) indicates that "an **audit** is complete when the **participant** that is the subject of the **audit** gives the **Authority** the final **audit** report and a compliance plan (if any)".
9. This indicates that while an audit may have been undertaken, if the auditor approval is expired or cancelled prior to the report being provided to the Authority then the participant must recommence the audit process with a new approved auditor. We question whether this is the intent of Part 16A.6 as we consider this would be operationally inefficient. We propose that the wording of Part 16A.6 should substitute 'completed' with 'commenced'.
10. As an example Orion's anniversary date is 22 August. We need to commence our audit prior to August and have it completed by late September. Looking at the current approved auditor listing, this indicates that of the 5 possible auditors 3 have approvals that expired in August. Therefore we cannot commence an audit with these auditors as we will be unable to ensure that we can complete the audit as defined in 16A.14 before potential expiry of their approval (given that we do not know that the outcome of the re-approval process will be positive). This then restricts us to only 2 potential auditors and one of these expires in June.
11. We also submit that a participant should be exempt from its requirement to carry out an audit unless at least 3 auditors are approved to carry out an audit at the time the participant is required to commence its audit.
12. New Clause 17.295C, a transitional provision which comes into force on 1 June 2017, makes reference to Clause 11.10(1)(b), which will be superseded by new Clause 11.10, also at 1 June 2017. Is a transitional provision necessary?

Concluding remarks

13. 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.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'DP', with a long horizontal flourish extending to the right.

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 updated audit regime purpose addresses the issue that the current scope excludes obligations that affect the efficient operation of the market, but not settlement of the wholesale market?	<p>No.</p> <p>A. It is unclear from the paper whether the Authority is proposing to change the purpose of Part 16A or not. On the one hand the paper suggest that it is not seeking to make changes to the wording of Part 16A of the Code.</p> <p><i>“This purpose was to be incorporated into guidelines, but not the Code.</i></p> <p><i>A separate purpose was incorporated into Part 16A of the Code, to clarify the purpose of Part 16A of the Code. The Authority is not seeking to change the wording of Part 16A of the Code.”</i></p> <p>B. While on the other hand the paper states that the Authority is proposing to amend the purpose of the audit regime to the following:</p> <p><i>The purpose of the participant audit regime is to:</i></p> <ul style="list-style-type: none"> • <i>evaluate participants’ compliance with the Code provisions that are audited under the regime</i> • <i>enable the Authority to make informed decisions regarding the certification, approval, and audit frequency of participants</i>

#	Question	Comment
		<ul style="list-style-type: none"> • <i>support the efficient operation of the electricity industry.</i> <p>C. The updated audit regime purpose should be incorporated into the Industry Participation Code Amendment (Requirements and Processes for Audits) 2016 as any purpose articulated in a guideline will be subservient to the Code.</p> <p>We submit that the purpose in part 16A be changed to correct the ‘flaw’ identified by the Authority.</p>
Question 2	Are there are any other changes or alternative wording for the purpose that will address the issues identified?	<p>The Authority is required under the Act to carry out a number of functions. Carrying out these functions will lead to the Authority achieving its objective. The Authority is required to monitor compliance with the Code 16(1)(c) and to undertake market facilitating measures such as providing guidelines 16(1)(f).</p> <p>With reference to our response to Question 1 above, we propose that clause 16A.2 of the Electricity Industry Participation Code Amendment (Requirements and Processes for Audits) 2016 be reworded as set out below and that Clause 1.5 and 1.6 of the Participant Audit Guideline refer to Clause 16A.2</p> <p>“1.0 The purpose of the audit regime, or the reason why audits are undertaken, is to:</p> <ul style="list-style-type: none"> • evaluate monitor participants' compliance with the Code provisions that are audited under the regime • enable the Authority to make informed decisions regarding the certification, approval, and audit frequency of participants • support the efficient operation of the electricity industry. <p>1.2 The key goals of the audit regime, or the things that the Authority wants to achieve with the audit regime, are:</p> <ul style="list-style-type: none"> • the timely and accurate settlement of the wholesale electricity market

#	Question	Comment
		<ul style="list-style-type: none"> • timely and error free consumer switching timeliness and accuracy of registry interactions and information • for participants to provide accurate and complete information to others in a timely manner for participants to hold accurate records and provide accurate, complete and timely information to others. “
Question 3	Do you agree that the <i>Participant audit guideline</i> addresses the issue of participants understanding the audit and audit review processes?	Yes. Note Clause 1.8 should remove the word ‘found’ for clarity and ease of reading.
Question 4	Are there any additional areas of the audit and audit review process that should be covered in the <i>Participant audit guideline</i> ? If yes, what additional processes are required?	No.
Question 5	Do you agree that the <i>Auditor protocol</i> addresses the issue of audit governance?	Yes, we agree with the principle however our response is subject to our answer to Question 6 below.

#	Question	Comment
Question 6	Are there any additional areas that should be covered by the <i>Auditor protocol</i> ? If yes, what additional areas are required?	<ul style="list-style-type: none"> A. The auditor protocol document would benefit from a flowchart providing an overview for readers. <i>See attached example.</i> B. Section 3.11 item (b) the words 'and are' should be removed for readability and clarity. C. Appendix B Table 2 has no reference in the text and is an abridged version of Table 10 in the Risk and Materiality Guidelines. We recommend deleting Table 2 and referring to Table 10 in the Risk and Materiality Guidelines. D. Appendix B item B.2(b)(iii) the word 'audits' should be added to the end of the second sentence for readability and clarity. E. Appendix B Table 4- It appears that the Breach Risk Rating is the same as the Residual Risk Rating. E.g. Table 4 correlates with Table 7 in the Materiality and Risk Guidelines. We would prefer that Table 7 is updated with the additional information (i.e. risk numbers but not colouring) from Table 4 and that Appendix B refer to Table 7 in the Risk and Materiality Guidelines. F. Appendix C- Audit Frequency Calculation- we note that the Indicative Audit Frequency table referred to in clause C.8 can only be found in the DUML Audit Guidelines. We recommend providing Table 5 in Appendix C to improve assessment efficiency. G. Appendix B Table 3 would benefit from a correlation with Table 6 Adequacy of controls in the Risk and Materiality Guidelines. Alternatively Table 7 could be updated and then referred back to in the Auditor Protocol. For instance- a revised Table 3 could look like this;

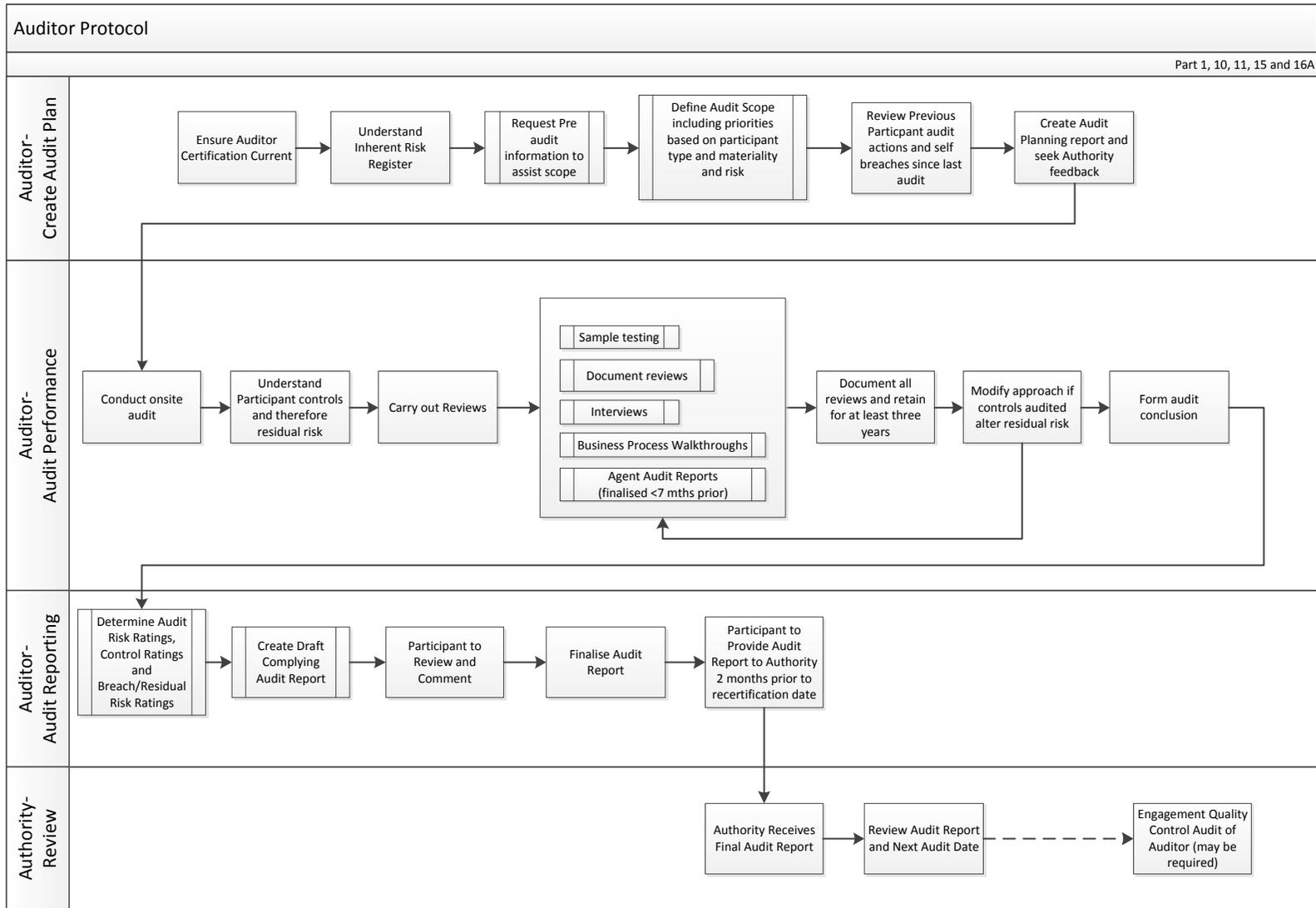
#	Question	Comment		
		Control Assessment	Description	Control Strength
		In place	Controls are in place and are effective	High
		Needs improvement	Controls are in place, but are not always effective in assuring compliance.	Medium
		None	There are no controls in place to ensure compliance.	Weak
		Unknown	The auditor is aware that there are controls in place, but has not been able to audit them.	Weak
Question 7	Do you agree that the <i>Risk and materiality guideline</i> addresses the issue of considering risk and materiality when setting audit focus?	<p>No. What is proposed could be considered as overly complex.</p> <p>A. Clause 4.4- We consider that the audit risk rating is a reassessment of the inherent risk rating in the context of the business and processes used by the participant being audited and as a result of the audit process. Presumably then the result of this reassessment (using Table 7) should then be finally assessed in accordance with Table 10. The relationship between Table 10 and Table 9 is unclear. It appears that Appendix B provides this linkage. It would be useful if the Commission reviewed Section 4 to improve clarity.</p> <p>B. Table 8: Level of examination required should show 'medium' as yellow for correlation with Table 7.</p>		

#	Question	Comment
Question 8	Are there any additional areas that should be covered in the <i>Risk and materiality guideline</i> ? If yes, what additional processes are required?	No.
Question 9	Do you agree that the <i>Distributed unmetered load audit guideline</i> clarifies DUML audit requirements?	Yes we agree with the principle however our response is subject to our answer to Question 10 below.
Question 10	Are there any additional areas or obligations that should be covered in the <i>Distributed unmetered load audit guideline</i> ? If yes, what additional processes are required?	<p>A. The DUML audit guidelines indicate in section 1.3 and 1.4 what is required in terms of DUML audit. Our understanding is that should Retailer 1 commence a DUML audit, but not complete prior to Retailer 2 gaining an ICP recorded in the DUML database, that Retailer 2 will need to submit an audit to meet the audit timeframe for the database where the ICP resides (either the original database or a new database depending on with whom the database resides) presumably by gaining a copy of Retailer 1's audit or commencing a new audit. Is this correct? If this is correct we suggest an increased time to complete new audits, for instance 3 months.</p> <p>B. Appendix B item B.2 states "The sum of the breach risk ratings determines the future risk rating." However the values required to make this assessment are contained in the Auditor Protocol Table 4. Table 4 correlates with Table 7 in the Materiality and Risk Guidelines. We would prefer that Table 7 is updated with the additional information (i.e. risk numbers but not colouring) from Table 4 and that Appendix B refer to Table 7 in the Risk and Materiality Guidelines. <i>(see our answer to Question 6 item E.)</i></p>

#	Question	Comment
		<p>C. Appendix B item B.3 we recommend that Table 5 is located in Appendix C of the Auditor Protocol and referred to in this Appendix B item B.3. <i>(see our answer to Question 6 item F.)</i></p> <p>D. Appendix A Function and processes- Table 2 Notes to code reference Schedule 15.3 clause 11(2)(a) and (aa) in the second paragraph should be corrected to say “The database needs to clearly identify each ICP and the times types of load that are associated.”</p>
Question 11	Do you agree that the <i>Standardised table of wattages</i> will support the use of consistent and accurate streetlight volumes for reconciliation of DUML in the market?	Yes.
Question 12	Are there any additional lamp wattage and ballast wattage combinations that should be included in the table? If yes, please provide details, including links to manufacturer's specifications.	<p>Yes, to some extent, however the wattage of lamps varies with age so any calculation will have inherent errors. Also, what is meant by the term “accurate”? Even if metered the streetlight volumes will have inherent metering errors. Where LEDs are dimmed it would be difficult to reflect this via a DUML database. A LED profile may address this.</p> <p>Orion can provide a full listing of our lamp and wattages (see spreadsheet sent separately).</p>

#	Question	Comment
Question 13	Do you agree that the <i>Distributed unmetered load statistical sampling guideline</i> and the DUML statistical sampling tool provide a robust mechanism for auditors to assess the accuracy of the DUML database compared to the load installed in the field?	Yes. Note: Clause 3.3 refers to clause 4.1 where it should refer to clause 3.1.
Question 14	Are there any additional items or concepts that should be covered in the <i>Distributed unmetered load statistical sampling guideline</i> ? If yes, please describe.	No.
Question 15	Do you agree that the <i>Approved test house audit guideline</i> addresses the issues identified above?	No comment.
Question 16	Are there any additional areas or obligations should be covered in the <i>Approved test house audit guideline</i> ? If yes, what additional areas or obligations are required?	No comment.

Question 6 Example Flowchart



Question 12 Lamp wattage and ballast wattage combinations

See excel file attached with submission