



ENERGYAUSTRALIA

Regulatory Audits of Customer Billing

May 2014



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1 COMMISSION OVERVIEW

The Essential Services Commission (the **Commission**) directed EnergyAustralia Pty Ltd to undertake two independent audits in response to the Commission's concerns about continuing problems in EnergyAustralia's billing operations. Both audits were performed by Ernst & Young, and were completed in late 2013 and early 2014.

The first audit covered EnergyAustralia's billing processes in general. The second audit followed up the remedial action that EnergyAustralia took in response to the key finding of the first audit, and tested the accuracy and reliability of information reported to the Commission. The auditor issued a summary report covering both audits, which is published on the Commission's website.¹

This report explains the background to the audits and the particular reasons for which they were undertaken. It outlines the most significant findings and the response of the Commission to those findings. It also identifies the next steps that the Commission proposes to take in ensuring compliance with relevant obligations in the industry.

1.1 BACKGROUND – BILLING ISSUES AND UNDERTAKINGS

In March 2011 TRUenergy, an energy retailer licensed to operate in Victoria, acquired the retail operations of a NSW government-owned entity then known as EnergyAustralia, which later changed its name to Ausgrid. Under its new name, the entity continues to process billing and related operations for the EnergyAustralia customers taken on by TRUenergy.

¹ See [EnergyAustralia - Customer Billing - Remediation Procedures](#)

As part of a project to replace its existing billing system, known as **CISPlus**, and deal with a number of recurrent billing issues, the retailer undertook to correct a large number of its customer records. Significant delays in billing occurred, as the correction and rebilling exercise progressed. The Commission monitored the situation closely, requiring fortnightly reports of the number of significantly delayed bills.

The retailer introduced the new billing system, known as **C1**, at the start of September 2012. In October 2012, TRUenergy started to operate under the name of EnergyAustralia (and is referred to as such in the remainder of the report).

UNDERTAKINGS

The bills issued from C1 (or, previously, from CISPlus) did not provide all the information that the Energy Retail Code (the **Code**) requires retailers to provide for customers with smart meters. Accordingly, the Commission required EnergyAustralia to give two administrative undertakings: to print index reads on the bills by December 2012, and print the remaining smart meter information by June 2013. EnergyAustralia reported that it met the undertakings by the required dates.

But as unforeseen issues were encountered in the new system, the total number of customer accounts that EnergyAustralia had not billed for 30+ and 90+ days ('late bills') rose sharply, more than doubling by the end of 2012. The number of late bills declined more slowly as EnergyAustralia dealt with the issues. In August 2013, the Commission sought an administrative undertaking from EnergyAustralia, to continue to report the number of late bills each fortnight to the Commission, and to halve that number by 15 September 2013. EnergyAustralia provided that undertaking and later reported to the Commission that the undertaking had been met.

The Commission required EnergyAustralia to undertake an independent audit of its customer billing, primarily to confirm that it had indeed met all three undertakings and that the Commission could rely on its reports of late billing.

1.2 FIRST AUDIT – BILLING PROCEDURES

1.2.1 SCOPE

The audit was conducted in June–August 2013. The scope covered EnergyAustralia’s compliance framework in general, and areas of its business processes, IT systems and administration related to customer billing. Also covered were its ability to demonstrate compliance with regulatory obligations, and its technical capacity to remain compliant through business changes.² The period under review was from April 2012 to March 2013, covering the cutover to the new billing system and the months through which EnergyAustralia had reported the greatest number of late bills. The results were reported in October 2013.

1.2.2 AUDITOR’S FINDINGS AND COMMISSION’S RESPONSES

NON-COMPLIANCE

The principal finding of the first audit (reported in the auditor’s Executive Summary under the heading of **C.1 Billing Cycles**) showed that fortnightly reports of the number of late bills during the second and third quarters of 2012 could not be reconciled to supporting detailed records. Consequently:

- EnergyAustralia could not demonstrate as required the accuracy of its fortnightly reports of its current level of compliance with the obligation to bill customers at least every two months (for gas) or three months (for electricity).
- Equally, EnergyAustralia could not demonstrate as required that it had successfully met the undertaking, referred to above, to halve the number of its late bills by 15 September 2013.

² EnergyAustralia had provided the Commission with adequate assurances that billing by Ausgrid was monitored effectively and complied generally with regulatory obligations. Although the bills for smart meter customers did not show start and end index reads, EnergyAustralia reported that it would move those customers’ accounts to the ‘C1’ system in a matter of months. Consequently, Ausgrid billing was excluded from the audit of billing procedures.

EnergyAustralia's management responded to the audit finding, stating that it had demonstrated that it could report and monitor the late bills at a point in time, but it could no longer retrieve the data on which past reports had been based. EnergyAustralia stated that its initial focus had been on establishing normal processing in the new C1 system. Now, it would devote more resources to improving its ability to monitor and report on its performance and compliance.

The Commission remained concerned that EnergyAustralia had not been able to show that it accurately reported or adequately managed its late bills, and that it might not in fact have met its 15 September undertaking.

In response to this finding, therefore, the Commission required assurance through a follow-up audit, summarised below in section 1.3, to confirm that EnergyAustralia's reports of late bills were as reliable and accurate as the Commission required.

PARTIAL COMPLIANCE

Other findings in the October 2013 audit report dealt with areas where the auditor found that EnergyAustralia demonstrated only partial compliance. As well as some deficiencies in formal procedures, the auditor found the following.

- In reviewing the information provided to customers, under the heading **B.3 Information on a bill**, the auditor noted that during part of the period under review, EnergyAustralia had not printed the start and end index reads and an analysis of average daily cost as required by the Code. But the auditor confirmed that the bills did show the required information by the dates agreed with the Commission.
- In reviewing procedures for correcting for late or inaccurate bills, under **C.2 Clause 6.2 – Undercharging**, the auditor found that EnergyAustralia's policy when sending a late bill was to enclose a letter offering extra time to pay. But this was done only if the bill was more than 60 days late (and not a final bill) and EnergyAustralia had not always kept records to show that the letters had been sent. However, the auditor confirmed that records were kept, once processing transferred to the C1 system. EnergyAustralia's management responded that it was taking remedial action.

The Commission considered that EnergyAustralia had met its December 2012 and June 2013 undertakings related to providing the required information on a bill, and that no immediate follow-up action was required for these findings.

GENERAL COMPLIANCE

In other areas of the scope, the auditor reported that EnergyAustralia generally complied with its obligations, although there were improvement opportunities in processes and controls.

1.3 SECOND AUDIT – REMEDIATION PROCEDURES

The Commission was concerned to verify that it could rely on EnergyAustralia's reports of its late billing, and to confirm that EnergyAustralia had reduced the number of late bills to the level required by the undertaking that it had given in September 2013.

1.3.1 SCOPE

The Commission therefore directed the auditor to test certain of EnergyAustralia's fortnightly reports of late bills. Those selected were:

- the report that EnergyAustralia cited when it stated that it had met its undertaking and on which the Commission therefore relied; and
- two subsequent reports, from October and November 2013, for confirmation that EnergyAustralia's remedial action continued to be effective.

EnergyAustralia had reported a number that was 5.6 per cent better than the target that its undertaking required. The Commission sought 95 per cent assurance that the number found by the auditor would be within 5 per cent of the true number.

1.3.2 AUDITOR'S FINDINGS

The second audit found that EnergyAustralia showed partial compliance, for reasons that included the following.

- EnergyAustralia could not provide source data as at Friday 13 September 2013, the date of the report which EnergyAustralia cited as evidence of meeting the undertaking. Instead, it provided source data as at Tuesday 17 September 2013. This data had been retained in an older data store, since discontinued.

- EnergyAustralia’s reports contained a small number of errors, due to data omission or inconsistency. In particular, six accounts were reported as late-billed although in fact they were not late but, conversely, one late-billed account was incorrectly excluded from two reports. The net effect was to overstate the number of late bills. The auditor did not extrapolate from the errors in the sample to estimate the extent of this overstatement.

The auditor confirmed that EnergyAustralia had set up a new Retail Data Warehouse to replace the previous data store, and source data was available to support the October and November reports.

In response to the auditor’s findings, EnergyAustralia identified a number of reasons for delays in its billing. Some of these, which it considered controllable items, related to system defects, mistakes made in setting up new accounts or delays in changing meter details. Other problems were beyond EnergyAustralia’s control, such as delayed or missing data from the distributors, or incorrect details held in the industry MSATS data.

1.3.3 COMMISSION’S RESPONSES

The Commission notes that the auditor calculated the number of late bills on 17 September 2013 to be 11 per cent lower than EnergyAustralia reported to the Commission for 13 September 2013. EnergyAustralia attributed the difference to account movements between the two dates.

The Commission has considered the above result and:

- the rate at which the number of late bills appeared to fall, between EnergyAustralia’s report for 30 August 2013 and the auditor’s calculation for 17 September 2013;
- the auditor’s finding that data errors had caused EnergyAustralia to overstate the number of late bills; and
- the 95 per cent confidence level sought by the Commission.

From these considerations, it appears that the audit has confirmed that EnergyAustralia met its undertaking for 15 September 2013. It also appears that EnergyAustralia has improved its monitoring processes, as stated in its response to the main finding of the

earlier audit, to the extent that it retains data to support the reported numbers. Consequently, the Commission can accept the accuracy of these reports for the purpose of monitoring the retailer's late-billing performance levels.

Nevertheless, the incidence of errors found by the auditor using the new Retail Data Warehouse continues to give concern.

2 NEXT STEPS

2.1 ENERGYAUSTRALIA

The Commission is satisfied that EnergyAustralia has significantly improved its level of compliance with the obligation to issue bills on time to customers, and with its current requirement to report its compliance regularly to the Commission. The Commission also understands that some issues related to the quality or completeness of smart meter data may affect EnergyAustralia more than other retailers.

The Commission will continue to monitor EnergyAustralia's progress in these areas.

The next audit of EnergyAustralia will consider Energy Australia's follow up actions in response to the billing audits reported here, as well as a wider range of regulatory obligations.

2.2 OTHER RETAILERS

The Code expresses the requirement to issue bills at least every two months (for gas) or three months (for electricity) as a compliance obligation, rather than as a performance target.

Nevertheless, the Commission appreciates that some data quality issues are beyond a retailer's ability to control. Hence some customers will continue to receive their bills late. But delayed billing, followed by back-billing and bill shock, can cause significant payment problems to some customers.

The Commission will therefore include in the next audits of other retailers an assessment of how well they measure billing delays and how effectively they respond to them.