

# ONLINE POWER AND GAS AUDIT REPORT SUMMARY AND COMMISSION RESPONSE

## RETAIL AUDIT PROGRAM

The Essential Services Commission ("the Commission") commenced the retail audit program in late 2014. The purpose of the audit program is to provide the Commission and energy consumers with independent assurance that energy retail licensees have appropriate policies, systems and processes in place to comply with their regulatory obligations, that they are complying with their regulatory obligations and that when breaches occurs, the retailer is able to quickly identify and remedy that breach.




Under the conditions of their licence, a retail business is required to appoint an independent auditor to conduct compliance audits when the Commission requires them to do so.

The auditor assesses the retailer's compliance with the regulatory obligations set out in the audit scope set by the Commission. In conducting the audit, the auditors are required to adhere to the requirements contained in the *Standard on Assurance Engagements ASAE 3100 Compliance Engagements*.

The role of the auditor is to test and assess processes and controls and to form an overall view of the retailer's level of compliance in each of the areas audited. In order to do this, auditors are required to obtain sufficient appropriate evidence on which to base their conclusions. Such evidence could be gathered through enquiry and observation, tests of controls and representations received from management. In conducting the audit, auditor may also identify specific instances of non-compliance.

## BASIS FOR REPORTING

A traffic light system is used to report the auditor’s assessment of overall compliance with obligation areas as follows:

Grade	Description	Definition
	Non-compliant	The requirements of the obligation have not been met, or adequate, relevant and suitable information to form an objective determination on compliance was not available to demonstrate compliance. Findings noted are considered material in nature and require urgent remedial action.
	Partially Compliant	Key requirements of the obligation have been met but only minor achievements in compliance have been demonstrated. Findings noted are considered significant and require substantial effort to correct.
	Generally Compliant	Most requirements of the obligation have been met with some minor failures or breaches. Findings noted are considered minor and require routine efforts to correct in the normal course of business.

## ONLINE POWER AND GAS AUDIT

Grant Thornton (“GT”) was engaged to conduct the compliance audit for Online Power and Gas (“OPG”).

Twelve areas were subject to audit:

- One area was graded Non-Compliant <sup>1</sup> - this was for the area of Performance Indicators.
- Seven areas were graded Partially Compliant<sup>2</sup> - these included Compliance Program, Billing, Advanced Metering Infrastructure, Financial Hardship Program,

<sup>1</sup> Meaning that “The requirements of the condition have not been met, or adequate, relevant and suitable information to form an objective determination on compliance was not available to demonstrate compliance. Findings noted are considered material in nature and require urgent remedial action”.

<sup>2</sup> Meaning that “Key requirements of the condition have been met but only minor achievements in compliance have been demonstrated. Findings noted are considered significant and require substantial effort to correct”.

Marketing Conduct, Life Support & Sensitive Load and Deemed Customer Arrangements.

- All other areas were graded Generally Compliant<sup>3</sup>- these included Disconnections and Reconnections, Complaints and Dispute Resolution, Tariff Variation Determinations and Customer Transfers.

## KEY FINDINGS

The following sections outline the key findings, the actions taken by OPG to address each issue and the Commission's response.

### (a) *Performance indicators*



The audit identified a number of issues in relation to OPG's data collection and reporting practices. These included:

- OPG did not have a guiding document clarifying the interpretation of the performance indicators to ensure accuracy and consistency.
- Raw data had to be manipulated manually in order to calculate the performance indicators, increasing the likelihood of errors.
- Limited segregation of duties between performing operational day to day processes and calculation of the indicators.
- Figures were not independently verified prior to submission.

The auditor recommended that OPG:

- Develop a document that describes its KPI compilation procedures.
- Conduct an independent validation on raw data and reported numbers prior to submission, and conduct validation on figures reported to date.

OPG accepted all recommendations and has completed remediation.

The Commission acknowledges the findings and will monitor OPG's compliance to the reporting of key performance indicator data in future submissions.

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<sup>3</sup> Meaning that "Most requirements of the condition have been met with some minor failures or breaches. Findings noted are considered minor and require routine efforts to correct in the normal course of business".

**(b) Compliance Program**



The audit identified that:

- OPG's processes are not reflective of the Compliance Framework.
- Some business areas did not have sufficient monitoring or quality assurance controls in place to provide assurance over levels of compliance.
- The certification process used to compile breach reports and monitor compliance requires improvements to ensure OPG's obligations register is up to date and includes all relevant regulatory instruments.

The auditor recommended that OPG:

- Define all obligations under the Energy Retail Code ("ERC") and other relevant legislation, clearly document these obligations in the obligations register and assign a responsible owner for each.
- Undertake a risk assessment of all obligations and determine an appropriate review frequency based on the risk profile.
- Develop a compliance plan that lists all compliance activities for the year and allocates responsibility for each activity.
- Establish compliance KPIs and develop processes to extract data to report against the indicators.
- Develop QA processes for other key areas (currently this is only undertaken on EIC and disconnections).
- Define a reporting process for compliance matters which includes operational management reporting to the CEO and Board.

OPG accepted all recommendations and has completed remediation.

The Commission acknowledges the findings and seeks no further action as the breach has been remediated.

**(c) Billing**



The auditor noted issues with OPG's management of undercharged accounts. In particular:

- Quarterly billed customers were not being billed on a timely basis due to system failures.
- The Unbilled Revenue Report was not used to check for timeliness of billing and did not capture customers who were not billed because their meter was not read.
- Testing identified that from a sample of 30 bills, 1 bill failed to include the fault number, and the billing period was not populated in another instance.

The auditor recommended that:

- OPG develop a report which can extract unbilled customers from the system requiring investigation.
- OPG develop a specific template for consolidated bills to account for cases where different fault numbers may be associated with different NMIs on the consolidated bill and review all bill templates to ensure compliance to the ERC.

OPG accepted all recommendations and has completed remediation.

In follow up discussions with OPG, the Commission identified the need for further improvement to OPG's billing template. In particular, the Commission has recommended that OPG update its billing information, so that transparency and clarity can be provided to customers across date ranges, estimated or actual reads, and any overcharged or undercharged amounts.

OPG expects bill template changes to be completed by 31 December 2016.

The Commission acknowledges all findings and will monitor the completion of the bill template improvements and seek evidence of completion.

#### **(d) Advanced Metering Infrastructure**



The audit identified that:

- OPG do not actively offer flexible tariffs, and consequently the EIC scripting did not include the requirements of the AMI Tariff Order.

The auditor recommended that OPG should:

- Update its EIC script to ensure it includes advice to the customer that they are consenting to be on a flexible tariff.
- Develop training material on the particulars of AMI tariffs and the obligations of the AMI Tariff Order, and deliver this training to agents.

OPG accepted all recommendations and has completed remediation of this issue.

The Commission acknowledges the findings and seeks no further action as the breach has been remediated.

#### **(e) Financial Hardship Program**



The audit identified a number of issues in relation to OPG's customer hardship program. In particular the auditor noted that:

- There was no clear distinction or guidance for staff on differentiating between customers requiring payment extensions and customers experiencing genuine hardship.
- OPG's system lacked the ability to flag hardship customers.
- Periodic reviews of hardship customers had not been undertaken.

The auditor recommended OPG should:

- Differentiate customers who are experiencing short-term financial difficulties from those who are experiencing hardship, by developing specific criteria to allow a participant to enter the hardship program.
- Provide direction to staff to assess customers' financial situations.
- Place a flag on a customer's account when they are entered into the hardship program.
- Develop scripts to prompt agents outlining options available when they are entering a customer into the hardship program.
- Send a welcome letter to a hardship customer upon entry into the program to ensure the customer is aware they have been placed in the hardship program.
- Reassess hardship customers at least every 3 months in order to identify if customers situations have changed.
- Consider developing criteria for removing customers from the hardship program due to non-compliance with the agreed payment plan.

OPG accepted all recommendations and has completed remediation of this issue.

The Commission acknowledges the findings and seeks no further action as the breach has been remediated.

**(f) Marketing Conduct**



The auditor found that:

- In two instances customers did not give EIC after signing up with OPG.
- A customer had received the welcome pack one month after signing up.
- OPG's contracts did not include a section allowing customers to indicate a life support equipment requirement.

The auditor recommended OPG:

- Seek retrospective EIC from customers.
- Develop a process to ensure EIC is obtained from all customers who sign up via email, either by recording a verbal EIC or asking the customer to sign the contract.
- Conduct spot checks across all on-boarded customers to ensure welcome packs are issued appropriately.
- Include a clause allowing customers to indicate a life support equipment requirement in the paper contract.

OPG accepted all recommendations and has completed remediation of this issue.

The Commission acknowledges the findings and seeks no further action as the breach has been remediated.

**(g) Life Support and Sensitive Load**



The auditor found that:

- Life support procedures were not included within OPG's Operations Manual.
- OPG had not conducted quarterly reconciliations with distributors to ensure all life support customers were correctly flagged by both parties.
- OPG self-identified that Customer Details Notifications (“CDN”) had not been sent to distributors to inform the distributor of a life support customer between February and September 2015, noting that the distributor was however contacted immediately after verbal confirmation of life support status and this AEMO breach was rectified in 2015.

The auditor recommended that OPG:

- Update the Operations Manual to include the procedures relating to life support customers.
- Review batch files on a monthly basis to confirm all life support CDNs have been issued and quarterly reconciliations of life support customers occurs with distributors.

OPG accepted all recommendations and has completed remediation of this issue.

The Commission acknowledges the findings and seeks no further action as the breach has been remediated.

**(h) Deemed customer arrangements**



The auditor found that five OPG accounts, from a sample of 25 accounts, had been created in error. There were three separate causes for these errors, either:

- There was already a live account with that NM;I or
- The customer had cancelled and the NMI had not been switched back to the previous retailer; or
- The customer had signed-up with another retailer.

The auditor also found one instance where a welcome letter did not contain standing offer details.

The auditor recommended that OPG:

- Conduct more robust checks on deemed NMIs prior to setting up a deemed customer account.
- Update letters sent to deemed customers to ensure they contain the standing offer details.

OPG accepted all recommendations and has completed remediation of this issue.

The Commission acknowledges the findings and seeks no further action as the breach has been remediated.

**(i) Complaints and Dispute Resolution**



The audit found that:

- The Complaints Handling Policy had not been benchmarked against the Australian Standard AS ISO 10002-2006 as required by the ERC.

The auditor recommended that OPG:

- Benchmark their policy against the Australian Standard.
- Update staff training manuals to include a section on the complaints handling process.
- Document trends in complaints.
- Identify and communicate remediation and business improvement strategies to senior staff.

OPG accepted all recommendations and has completed remediation of this issue.

The Commission acknowledges the findings and seeks no further action as the breach has been remediated.

**(j) Disconnections and reconnections**



The auditor found that:

- Reconnection information was not present on disconnection notices in 12 instances.

The auditor recommended that OPG:

- Update the Disconnection Warning template to include reconnection and that all existing letter templates should be reviewed to ensure they comply with the notice requirements specified in the ERC.

OPG accepted the recommendations and has completed remediation of this issue.

The Commission acknowledges the findings and seeks no further action as the breach has been remediated.

**(k) Customer Transfers**

The auditor noted that:

- OPG's sales report contained incorrect information with regards to 'cancellations in cool off'.

The auditor recommended that OPG:

- Investigate the causes of this issue.

OPG accepted the recommendation and has completed remediation of this issue.



The Commission acknowledges the findings and seeks no further action as the breach has been remediated.

**(I) *Tariff Variation Determinations***



The auditor found OPG to be generally compliant in this area and no improvement opportunities were recommended.

## **COMMISSION RESPONSE**

The audit identified a significant number of findings and areas for improvement which has raised concerns about OPG's technical capacity in terms of the systems, processes and controls in place to monitor and report on compliance, particularly as the retailer was not aware of most of the breaches identified by the auditor.

In assessing the seriousness of these concerns, the Commission noted the efforts taken by OPG to resolve the breaches identified and to prevent these failures from reoccurring. Additionally, OPG has worked cooperatively with the Commission and has responded in full to our inquiries and requests for information or progress updates. The Commission also acknowledges OPG's actions in voluntarily undertaking a further independent audit performed by GT to test the adequacy and effectiveness of the remediation plans taken to address the findings of this audit.

The Commission has monitored the remediation of all issues identified and has sought evidence of completion. It is proposed that OPG be included in the 2016-17 Retailer Audit Program commencing in November 2016. This audit will review the effectiveness of the actions taken to address the 2015 audit findings as well as key compliance priority areas. In addition, we will seek from OPG the independent report prepared by GT of its audit to test the adequacy of the remediation plans taken by the retailer to address the audit findings. Following the completion of the 2016-17 audit, instances of non-compliance will be assessed in light of the Commission's compliance and enforcement powers.

Finally, the Commission acknowledges both OPG's and GT's collaborative approach while working on this audit.