



14/02/2019

C/19/2390

Mr B Redman
AGL Energy Limited
699 Bourke Street
DOCKLANDS VIC 3008

Dear Mr Redman

AGL Energy Limited performance indicator reporting

I write regarding the failure of AGL Energy Limited (AGL) to comply with section 23A of the *Electricity Industry Act 2000* and section 33 of the *Gas Industry Act 2001*. These failures constitute serious breaches of licence AGL's conditions. This failure led to AGL not providing accurate and timely retail performance data to the Essential Services Commission (the Commission) during 2018. As a consequence the commission was unable to publish a complete Victorian Energy Market Report as per our usual reporting timeframes.

Last September I wrote to you requesting a number of actions be immediately implemented to address these serious inadequacies. As a priority I sought the provision of 2017-18 performance data by 31 October 2018, with assurances from a properly qualified and independent third party on its reliability. In response you committed to provide 2017-18 performance data to us by the required due date, with assurances from PricewaterhouseCoopers. Additionally you committed to provide the Commission with further assurances from PricewaterhouseCoopers by no later than 14 December 2018. The data and further assurance were provided in accordance with those timelines.

Provision of independent assurance

I acknowledge the opinion expressed by PricewaterhouseCoopers that the performance indicators for AGL Sales Pty Limited and Powerdirect Pty Ltd, for the period 1 April 2018 to 30 June 2018, as submitted to the commission, have been prepared, in all material respects, in accordance with the requirements of Section 3 of the Interim Compliance and Performance Reporting Guideline for Energy Retail and Distribution Licence Holder (version 3, 2017).

Continued compliance to section 23A of the *Electricity Industry Act 2000* and section 33 of the *Gas Industry Act 2001*

It is the commission's firm expectation that future reports will be prepared in accordance with the Compliance and Performance Reporting Guideline. Failure to do so may result in the Commission assessing AGL's technical capacity as a licensed energy retail business in Victoria or whether further licence conditions need to be imposed.

Given the serious nature of AGL's noncompliance to its reporting obligations, we will audit AGL during the 2020-2021 financial year to obtain assurance that it continues to comply with its reporting obligations.

Publication of the independent assurance report

PricewaterhouseCoopers has approved the publication in full of the independent assurance report (14 December 2018) and it will be published on our website by 1 March 2019. The findings register will not be published.

2017 audit

Finally, during 2017 an audit was conducted by Grant Thornton which identified the attached findings relating to performance indicator reporting. We now request confirmation that these findings have been resolved. A response to this request is required by close of business 29 March 2019.

Should you have any questions regarding this letter please contact Sarah McDowell, Director, Energy on 03 9032 1364 or at sarah.mcdowell@esc.vic.gov.au.

Yours sincerely



Dr Ron Ben-David
Chairperson

cc: Elizabeth Molyneux, General Manager Energy Markets Regulation

Attachment 1 – 2017 audit findings

Finding

- 1 As part of the AGL/ Power Direct's obligations under the Interim Compliance and Performance Reporting Guideline for Energy Retail Licence Holders v2 (November 2016) they are required to report quarterly figures regarding Background, Disconnection and Reconnection, Financial Hardship Program and Customer Complaints Indicators.

Upon review, testing identified several areas of material variances (greater than 5%) across both AGL and Power Direct's ESC submissions in Q3 2016 (1 July to 30 September) when compared to the recalculated figures from the retailer's raw data. These variances can be seen under Disconnection and Reconnection, Financial Hardship and Customer Complaints Indicators.

The cause can be attributed to inconsistencies when retrieving the figures from SAP Business Warehouse through pre-coded queries.

The impact of this finding raises concern over the accuracy and validity of the figures the retailer has reported to the ESC.

- 2 AGL and Power Direct are required to provide figures on energy field audit data under the reporting obligation of Financial Hardship Program Indicators. As part of our audit we were unable to obtain evidence of any Energy Field Audit data through AGL's current standard reports/processes.

It is been suggested by Management that the data was obtained through verbal interaction throughout the audit period (1 July to September 30 2016). No written confirmation of numbers was observed.

The impact this has on the audit period is that none of the reported Energy Field Audit figures can be reconciled to underlying data; therefore we were not able to assess the accuracy or validity of the relevant data.

- 3 No data was held after Power Direct's migration from Silica to SAP (which occurred in June 2016). Therefore we could not perform testing on a number of areas of Power Direct's business prior to July 2016.