

# EnergyAustralia

## Essential Services Commission Victoria - Customer Billing - Remediation Procedures

7 April 2014






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# Executive summary







## Background


EnergyAustralia Pty Ltd ("EA") is the holder of certain gas and electricity retail licences in Victoria. EY was engaged to undertake certain review procedures in response to the findings of a previous Regulatory Audit of certain aspects of EA's customer billing activities ("the previous Regulatory Audit") for the period ended 31 March 2013.

In the previous Regulatory Audit, a traffic light system was used to grade the overall compliance with an obligation. Traffic light gradings were applied in accordance with draft Energy Industries Guideline No 22 ("EIG 22") and are outlined in the table below:

| Grade   | Description        | Definition  |
|---|--------------------|---|
|  | Non-Compliance     | 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. |
|  | Partial Compliance | Key requirements of the condition have been met but minor achievements in compliance have been demonstrated. Findings noted are considered significant and require substantial effort to correct.   |
|  | General Compliance | 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.   |

The findings outlined in the previous Regulatory Audit were as follows:

| Scope   | Grading   | Key Findings  |
|---|---|---|
| A.1 Cl.14: Electricity, Cl.15: Gas - Compliance |  | <ul style="list-style-type: none"> <li>▶ General compliance - EA has continued progress to build a compliance culture within the Retail business</li> </ul>   |
| B.1 Tariff Variations                           |  | <ul style="list-style-type: none"> <li>▶ General compliance - correction of one customer's tariff information as a result of the system change from CISPlus to C1</li> </ul>  |
| B.2 Meter readings and Estimations Clause       |  | <ul style="list-style-type: none"> <li>▶ General compliance - potential exists to review estimated read reports periodically</li> </ul>   |
| B.3 Information on a bill                       |  | <ul style="list-style-type: none"> <li>▶ Partial compliance - a policy is required to be developed for information on a bill (which should be reviewed periodically). Index reads and average price per tariff are not consistently displayed on bills during the period (since remediated in line with dates provided to the Commission).</li> </ul>   |
| C.1 Billing cycles                              |  | <ul style="list-style-type: none"> <li>▶ Non-compliance - information required to support reported data on late-billed and unbilled accounts was unavailable</li> </ul>   |
| C.2 Clause 6.2 - Undercharging                  |  | <ul style="list-style-type: none"> <li>▶ Partial compliance - a policy is required to be developed for business rules on delayed billing. Customers receiving delayed bills &lt; 60 days (or delayed final bills) were not being advised of entitlement to pay over an equal period. Letters issued in CISPlus were not retained (corrected in the new C1 system).</li> <li>▶ Potential exists to convert the project-based review of delayed bills into business as usual monitoring processes.</li> </ul> |

|                               |   |   |
|-------------------------------|---|---|
| C.3 Payment and payment plans |  | <ul style="list-style-type: none"> <li>▶ General compliance – a policy is required to be developed for business rules on delayed billing. Letters issued in CISPlus were not retained (corrected in the new C1 system). Potential exists to convert the project-based review of delayed bills into business as usual monitoring processes.</li> </ul> |
|-------------------------------|---|---|

In our Audit Report dated 29 October 2013 (findings summarised in the table above), EnergyAustralia's compliance with item C1 regarding "bill frequency" was graded with a red traffic light (non-compliance - consistent with established grading procedures). The Essential Services Commission of Victoria ("the Commission" or "ESC") requested that certain Agreed-upon Procedures (the "Procedures") be undertaken over data subsequently provided to it by EA relating to this identified issue. These Procedures were agreed between the Commission, EnergyAustralia and ourselves and were outlined in the Statement of Work attached to the letter titled "Extension to Tripartite Audit Deed dated 6 September 2013" ("Extension Deed") dated 25 November 2013. The performance of these procedures comprises the body of this report.

## Scope

This report has been prepared for distribution to EnergyAustralia and the Commission for the purpose of assessing EnergyAustralia's compliance with clause 3.1 of the Energy Retail Code (requiring that "A retailer must issue a bill at the required frequency"). The Procedures performed were agreed in the Statement of Work attached to the Extension Deed.

Our procedures have been conducted in accordance with Australian Auditing Standard ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*. Our procedures included examination, on a test basis, of the areas described in the summary of findings.

This report has been prepared in accordance with the requirements of EIG 22, the Tripartite Audit Deed dated 6 September 2013 ("Audit Deed") and the Extension Deed.

As set out in our tri-partite arrangement dated 6 September 2013, EnergyAustralia's management is responsible for establishing and maintaining an effective internal control system, record keeping, management, decision-making and other management functions. An effective internal control system reduces the likelihood that errors, irregularities and instances of non-compliances will occur and remain undetected; however, it does not eliminate that possibility.

Our Procedures do not guarantee that errors, irregularities or instances of non-compliance will not occur and may not detect all errors, irregularities or instances of non-compliance should they occur. Further, the internal control structure within which the control procedures that we have reviewed operate has not been subject to audit, and no opinion is expressed on its effectiveness. Our Procedures were not designed to detect all weaknesses in the system of internal control because it was not performed continuously during the period subject to audit, and the tests performed are on a sample basis as agreed with the Commission and EnergyAustralia.

The Commission and EnergyAustralia are responsible for the adequacy of the Procedures agreed to be performed by us. The Commission and EnergyAustralia are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which the Commission or other intended users wish to draw on the subject matter.

Our responsibility is to report factual findings obtained from conducting the procedures agreed. The findings and gradings expressed in this report have been formed on the above basis.

Any projection of the gradings and findings regarding the internal control system to future periods is subject to the risk that the internal control procedures may become inadequate, or that the degree of compliance with them may deteriorate, and therefore should not be undertaken.

Our fieldwork and draft report was completed on 13 December 2013. No work has been undertaken since that date and up to and including the date of this report.

## Approach to sampling

Where considered appropriate, we performed procedures on a sample basis (based on sample sizes agreed with the Commission and EnergyAustralia).


Selection of the sample itself involved a random or judgemental selection from a population of items provided by EnergyAustralia personnel. We have been informed by EnergyAustralia personnel that these populations represent all items relevant to the period of our Procedures. We then selected the agreed sample based on those populations. We have not sought to corroborate the completeness of the population of data presented to us other than as defined in the Procedures. This is consistent with the fact that we do not test the internal control environment nor undertake an audit of the underlying systems and processes used to generate data.

As agreed with the Commission and EnergyAustralia, we have not selected any customers or instances within the obligations relating to customer billing by Ausgrid under the Transitional Services Agreement.

The following provides the bases for each of the agreed sample sizes:

- Testing of the source data against customer information in C1 was agreed to include a sample of 59 records from each report. This is based on 95% confidence that the results are within a 5% range while expecting zero errors.
- Testing of the source data against customer information in C1 was agreed to include 45 records from each report. This was based on 90% confidence that the results are within a 5% range while expecting zero errors.
- Testing from other data populations to assess completeness included a sample size of 25 as agreed with the Commission and EnergyAustralia.

## Summary of findings

| Summary of procedures   | Summary of findings  | Grading   |
|---|--|---|
| <p>Our procedures included certain procedures relating to the delayed bill reports provided to the Commission in connection with the undertaking agreed between EnergyAustralia and the ESC (to reduce the number of delayed bills). In particular, the procedures included:</p> <ul style="list-style-type: none"> <li>▪ Obtaining copies of the delayed bill reports provided to the Commission</li> <li>▪ Reconciling these reports to underlying billing system source data</li> <li>▪ Performing random sample testing over the source data back to actual customer account information</li> <li>▪ Performing random sample testing of customers not included in delayed bill reports so as to assess completeness of the reports</li> <li>▪ Analysing trends between delayed bill reports and obtaining explanation from EnergyAustralia for exceptions.</li> </ul> | <p>Our finding of “Partial Compliance” reflects the detailed findings outlined in Section: 2 “Key Findings”. In particular, we noted:</p> <ul style="list-style-type: none"> <li>▪ The undertaking agreed between EnergyAustralia and the ESC to reduce the number of delayed bills</li> <li>▪ Minor exceptions (which did not impact compliance with the undertaking) when reconciling certain delayed bill reports to underlying source information</li> <li>▪ Certain exceptions identified by sample testing, six of which had the effect of overstating delayed bills and one which had the effect of understating delayed bills.</li> <li>▪ No exceptions identified as part of sample testing to assess completeness of delayed bill reports</li> </ul> <p>Specifically the findings in relation to data used to calculate the number of delayed bills (including aging) indicated that the reports provided to the ESC by EnergyAustralia are likely to be overstated (not understated). This was primarily due to source information retained from a different point in time.</p> | <p>Partial Compliance</p>  |

The summary of findings in the table above have been derived from the detailed findings in section 2 of this report.

*ESC Note: Ernst & Young here refers to section 2 of their (unpublished) confidential report*

## Other matters

The billing system that was in operation during the period of the Procedures is Oracle C1 which has operated from 6 September 2012 to the current date.

It should be noted that we have not been engaged to perform comprehensive testing of the Information Technology environment, its general controls or controls specific to any aspect of the C1 billing system. In performing the agreed Procedures we have tested sample items to the underlying records in the C1 system and EnergyAustralia management have represented that these records are complete and representative of actual bills / notices sent to customers. Accordingly we provide no assurance as to the completeness or accuracy of records displayed in the C1 system, nor over the general or specific controls of the Information Technology environment other than as required in the agreed Procedures.

## Limitation of use

This report is for the use of EnergyAustralia management and the Commission. We disclaim any assumption of responsibility for any reliance on this report, to any party other than EnergyAustralia or the Commission or for any purpose other than that for which it was prepared.

## Auditor's statement

In our opinion, EIG 22, the Auditor Approval Deed dated 6 September 2013 and the Extension to Tripartite Audit Deed dated 25 November 2013 between Ernst & Young, EnergyAustralia and the Essential Services Commission of Victoria have been complied with in all material and relevant respects, in conducting the agreed procedures, making findings and preparing the report.

The key findings set out above reflect in all material respects the professional opinion of the auditor to the level of confidence specified by the Essential Services Commission of Victoria and consistent with the audit approach and methodology described in this report (specifically Australian Auditing Standard ASRS 4400 *Agreed-Upon procedures Engagements to Report Factual Findings*).



Ernst & Young  
Melbourne  
7 April 2014

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