

LUMO ENERGY 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 remedied that breach.




Under the conditions of their licence, retail businesses are required to appoint independent auditors to conduct compliance audits when the Commission requires them to do so.

The auditors assess 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 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, auditors 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.

LUMO ENERGY AUDIT

EY were engaged to conduct the compliance audit for Lumo Energy (Lumo). The audit consisted of 11 key areas.

Two areas were assessed as Partially Compliant:

- Billing - Undercharging practices
- Disconnection and Reconnection - Disconnection warning notices and Reminder notices

All other areas were assessed as Generally Compliant. These were:

- Compliance Program,

- Tariff Variation,
- Deemed Customer Arrangements,
- Energy Performance Indicators*,
- Advanced Metering Infrastructure,
- Financial Hardship Program,
- Marketing,
- Life Support* and
- Complaints and Dispute Resolution*.

**Opportunities for improvement identified.*

No areas were graded Non-Compliant.

KEY FINDINGS

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

(a) Billing

The audit identified a number of issues in relation to Lumo's processes to manage undercharged accounts, these included:

- The undercharged amount not specified clearly on the customer's bill as required by the Energy Retail Code;
- Customers are not being informed that they can pay the undercharged amount by agreed instalments; and
- Processes to manage undercharged accounts not appearing to be standardised but rather dependant on the situation and the staff member performing the recalculation.

The auditors recommended that Lumo develop a systemised, documented process to manage undercharged accounts, clearly identify on the bill the amount undercharged and allow customers to pay for the undercharged amount in instalments.

Lumo accepted all recommendations and expects remediation to be completed by 31 August 2016.

(b) *Disconnection Warnings*

The audit identified that disconnection warning notices did not explicitly state the reconnection procedures following disconnection. As this information is required to assist customers, the auditors recommended that Lumo update its disconnection warning notices. Lumo has committed to amend its disconnection warning notices by 30 June 2016.

(c) *Reminder Notices*

The auditors noted a breach where Reminder Notices displayed a reminder notice period which ended less than 6 business days from the date of issue. This breach had previously been reported by Lumo to the Commission. Although Reminder Notices were updated to ensure compliance in February 2016, the auditors recommended that Lumo review their system controls surrounding the reminder notice period in order to ensure compliance with the Energy Retail Code. Lumo have advised that this review will be completed by 30 June 2016.

OTHER FINDINGS

(a) *Performance reporting*

The auditors tested the accuracy of performance data reported by Lumo to the Commission. In doing so, the auditors noted that variances existed between the numbers reported by Lumo to the Commission and their recalculated numbers. The auditors recommended that Lumo review scripts and make revisions where appropriate and submit updated data to the Commission. Lumo updated its script upon identification of the inaccuracy and will resubmit data for the period 1 January 2015 to the current period.

(b) Complaints and Dispute Resolution

The audit identified that Lumo's full complaints policy was not published on its website, but rather a summary version was available. The auditor recommended that the policy be made available to ensure compliance with the Energy Retail Code. Lumo accepted the recommendation and placed the complaints policy on its website.

(c) Life Support

Although no breaches were identified in relation to the management of life support obligations, the auditors suggested a number of recommendations to improve business practices, including:

- The implementation of a system prompt when a disconnection is raised on a life support account. In response, Lumo have initiated a system change to create a prompt that will prevent staff raising a disconnection if an account is flagged as "life support". This is expected to be implemented by 31 October 2016;
- The implementation of a process to follow up life support applications. Lumo has commenced a monthly and quarterly review that will ensure outstanding forms are followed up in a timely manner; and
- Verbally advising customers upon advice of life support status of the distributor's contact number, Lumo commenced providing this information in April 2016. In addition, Lumo will also update the life support application letter sent to customers to include the distributor's contact number. This will be completed by 31 July 2016.

COMMISSION RESPONSE

The Commission is satisfied that Lumo is implementing the required improvements to ensure ongoing compliance with its obligations pertaining to the submission of performance data, billing practices for undercharged accounts, the publication of its complaints policy, advising customers of reconnection procedures and the implementation of process improvements in relation to life support.

Results of audits enable the Commission to form an assessment of a licensee's current technical capacity and in particular, the accuracy of the self-identified reported breaches made by licensees. The Commission is concerned that Lumo was unaware of four non-compliances identified by the auditors. As such we will seek further assurance from Lumo regarding the systems, processes and controls to monitor and report on compliance, as well as monitoring the completion of all outstanding actions arising from the audit.

Finally, the Commission would like to thank both Lumo and EY for their collaborative approach while working on this audit.