

Reconciliation Participant and Distributor Audit Guidelines

Consultation Paper

20 June 2008

Glossary of abbreviations and terms

Board	Electricity Commission Board
Commission	Electricity Commission
Guidelines	Reconciliation Participant and Distributor Audit Guidelines
Regulations	Electricity Governance Regulations
Rules	Electricity Governance Rules 2003

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1. Introduction and purpose of this report

1.1 Introduction

- 1.1.1 The purpose of this paper is to obtain feedback from interested parties within the electricity industry on the Reconciliation Participant and Distributor Audit Guidelines (Guidelines) The objective of the Guidelines is to set out the pre audit and post audit requirements and the items that should be audited to comply with the Electricity Governance Rules 2003 (Rules) and Electricity Governance Regulations (Regulations).
- 1.1.2 This paper does not constitute the formal consultation and submission process required by section 172E(2) of the Electricity Act and is not a formal statement of proposal under section 172F(2) of the Electricity Act. If, after receiving submissions on this discussion paper the Commission considers that it will progress proposed amendments to the Regulations or Rules, the required consultation and other processes will be carried out in accordance with the Electricity Act.
- 1.1.3 These Guidelines will not be legally binding; rather they are intended to be advisory. In line with its objective to persuade and promote rather than regulate, the Electricity Commission (Commission) will recommend that the Guidelines be followed.
- 1.1.4 This document needs to be read in conjunction with the Rules and Regulations, which are binding on all electricity participants including retailers, distributors, embedded network owners, metering equipment owners, and test houses.

2. Background

2.1 Summary of the proposal

- 2.1.1 There are a number of requirements contained in the retail sections of the Rules for audits to take place. The Rules require some audits to be conducted periodically while others are undertaken at the discretion of the Commission or as a condition of specific service provider agreements.
- 2.1.2 The sections of the Rules that govern processes and systems used for the measurement and settlement of electricity volumes are very complex. The amount of information that flows from these processes and systems into the reconciliation manager is very large.
- 2.1.3 Any errors within a participant system may have a financial consequence on other participants, and it is not possible from market results to ascertain where and if errors were made.
- 2.1.4 In order to minimise the risk of errors (participants are required to comply with the Rules) audits are used as a way to demonstrate to the Commission Board (Board) or market administrator that a participants processes and systems meets the requirements of the Rules, prior to the issues of certifications or approvals are given
- 2.1.5 The Commission is committed to ensuring all retail audits take place in a fair and efficient manner. During 2005/2006, to facilitate this, the Commission developed a retail audit programme which:
- (a) detailed the responsibilities of the market administrator and the Board in relation to retail workstream audits; and
 - (b) developed, consulted, and released a series of guidelines on how each audit should take place.
- 2.1.6 On 1 May 2008, a suite of rule changes drafted to facilitate the improved reconciliation process came into effect. These are the new part J, and revised parts A, D, E, G and H of the Rules (known as the reconciliation rules).
- 2.1.7 As a result of these new reconciliation rules, the guidelines currently in place to provide direction to auditors when conducting reconciliation audits need to be updated and extended. Reconciliation audits were previously focused on the requirements of data administrators ('Guidelines for Data Administration Audits V4.0'), but with the restructuring and revision of the reconciliation rules, audits are defined, and participants are certified or approved, according to the functions that the participants perform.

- 2.1.8 Consultation was carried out on revised guidelines in September 2007. The Commission invited submitters to provide any feedback on the Guidelines and seven submissions were received. The Guidelines have subsequently been amended, and given the extent of the changes made, the Commission has decided to call for another round of consultation.

3. Development of the guidelines

3.1 Reconciliation participant audit guidelines

3.1.1 The obligations for reconciliation participants were extracted from the revised reconciliation rules and grouped according to the tasks requiring certification as set out in rule 19 of part J of the Rules:

- (a) maintaining registry information and performing customer and embedded generator switching;
- (b) gathering and storing raw meter data;
- (c) creating and managing (including validating, estimating, storing and correcting and archiving) volume information;
- (d) calculating ICP days;
- (e) providing submission information for reconciliation; and
- (f) providing metering information to the pricing manager.

3.1.2 It is worth noting here that, whilst it is proposed that the distributor audits will be conducted separately from the reconciliation participant audits, if a distributor performs any of the above reconciliation tasks on behalf of a reconciliation participant (for example, an embedded network owner), it would be required to be audited as a reconciliation participant and be required to be certified to perform that task.

3.2 Distributor guidelines

3.2.1 The requirement to conduct distributor audits is set out in rule 10 of part E of the Rules, where it states that the distributor's processes and procedures that must be audited include:

- (a) the creation of ICPs;
- (b) the maintenance of distributor provided ICP information provided to the Registry; and
- (c) the creation and maintenance of loss factors.

3.1.4 The distributor obligations under each of these categories were outlined, and obligations in the 'Guidelines on the calculation and use of loss factors for reconciliation purposes' (currently being finalised) were also included.

4. Previous consultation

- 4.1.1 As noted above, consultation was carried out on the earlier version of the guidelines in September 2007. Seven submissions were received and, where appropriate, amendments were made to the guidelines as a result of these submissions.
- 4.1.2 There were a number of issues and suggestions raised by submitters during the consultation round, namely:
- (a) compliance should be assessed on the basis of market impact and/or materiality;
 - (b) the guidelines should state that auditors check adequate processes are in place, but the market administrator should monitor actual performance;
 - (c) there are a number of obligations in the reconciliation participant guidelines that should be in the distributor guidelines, as well as some additional rules that need to be included in the distributor guidelines; and
 - (d) a review cycle for the guidelines should be introduced to provide certainty of audit requirements and allow the industry to provide the Commission with feedback.
- 4.1.3 There were also a number of suggestions made by submitters to increase clarification. This has been done where appropriate.
- 4.1.4 One key area of change from the previous versions is that the rules requirements relevant to the reconciliation participant guidelines have been divided into eight functional areas with processes listed under each of these functions. The Rules requirements relevant to the distributor guidelines have been divided into seven functions.
- 4.1.5 For each process, the relevant Rules have been identified and indicative review procedures described. Each process has been allocated a priority depending on the potential market impact of non compliance with the underlying Rules. Auditing and testing methods for each level of regulation priority and potential review approaches have been suggested.
- 4.1.6 The draft Reconciliation Participant Guidelines and draft Distributor Guidelines are attached as Appendix one and two respectively.

5. Discussion

5.1.1 The Commission invites submitters to provide any feedback they may have on the Guidelines, but also has the following specific questions:

- (a) Do you think that the Rules requirements have been divided into the correct functions and processes? Please comment on any areas that you think should have been included and have not been (and vice versa).
- (b) Do you think the correct priority has been assigned to each process? Please specify any changes you would make.
- (c) Do you think Appendix 3 of the Guidelines provide sufficient guidance on sample size selection? If not, why not?

6. Submissions

- 6.1.1 The Commission invites submissions on this paper. Submissions must be received by **5pm on 25 July 2008**. Submissions received after this date may not be considered. The Commission requires one electronic copy (Microsoft Word) or one hard copy of each submission.
- 6.1.2 The electronic version should be emailed with “Audit guidelines” in the subject line to submissions@electricitycommission.govt.nz. The hard copy should be posted to:
- Electricity Commission
Level 7, ASB Bank Tower
2 Hunter Street
PO Box 10041
WELLINGTON
Tel: (04) 460 8860
Fax: (04) 460 8879
- 6.1.3 The Commission will acknowledge receipt of all submissions electronically. Please contact the Commission if you do not receive electronic acknowledgement of your submission within two business days.
- 6.1.4 Your submission is likely to be made available to the general public on the Commission’s website. Submitters should indicate any documents attached in support of the submission in a covering letter, and clearly indicate any information that is provided to the Commission on a confidential basis. However, all information provided to the Commission is subject to the Official Information Act 1982.
- 6.1.5 The Rules are available on the Commission’s website at:
<http://www.electricitycommission.govt.nz/rulesandregs/rules>.

Appendices

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Appendix 1 Draft Guidelines for Reconciliation Participant Audits

Appendix 2 Draft Guidelines for Distributor Audits