

# **Gas Performance Audit Final Report**

For

**EMS  
Allocation Agent**

**Prepared by Steve Woods – Veritek Ltd**

**Date of Audit:** 18 and 19 September 2019

**Date Audit Report Complete:** 28 April 2020

## Executive Summary

Under Part 4 of the Gas (Downstream Reconciliation) Rules 2008 (the Downstream Reconciliation Rules), Gas Industry Co must arrange performance audits of the Allocation Agent and allocation participants at regular intervals.

In addition, under Part 6 of the Allocation Agent Service Provider Agreement (general terms) Gas Industry Co may audit the Allocation Agent.

This audit has considered compliance with the relevant Downstream Reconciliation Rules and with the Allocation Agent Service Provider Agreement. The audit was conducted in accordance with terms of reference provided by Gas Industry Co and in accordance with the "Guideline note for rules 65 to 75: the commissioning and carrying out of performance audits and event audits" V3.

The audit found a high level of compliance with the Downstream Reconciliation Rules. Only one breach allegation is made. Rule 10 of the Downstream Reconciliation Rules requires EMS to have professional indemnity insurance cover and this is not in place. This is discussed in **section 3.9**, where I have also noted non-compliance with the Allocation Agent Service Provider Agreement (general terms).

I identified three instances where EMS had not fully met the requirements of the Allocation Agent Service Provider Agreement (ongoing services). There was one portal outage of 2.5 hours, which is greater than the stipulated threshold of two hours. I do not consider this matter needs any specific remedial action. This issue was a "one off" and there is no evidence is a systemic issue. There were two issues related to service management, where EMS had not met the requirements of the Allocation Agent Service Provider Agreement (ongoing services), but it appears they have met Gas Industry Co's expectations. I recommend the Allocation Agent Service Provider Agreement (ongoing services) is evaluated with a view to changing it to meet the current service level. The issues identified are as follows:

- Annual meetings were not held within 20 business days of the end of the financial year.
- Service desk reporting is not included in monthly reports.

Two issues were identified in the allocation process in relation to accuracy to a certain number of decimal places. Allocation totals in the GAR070 are accurate to two decimal places but should be accurate to three decimal places. Monthly UFG in the GAR070 is accurate to five decimal places but should be accurate to six decimal places.

## Summary of Report Findings

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Business Continuity Planning (Section 3.5 – Allocation Agent Service Provider Agreement ongoing services)	3.1	Effective	Compliant	
Personnel (Section 3.7 – General Terms)	3.2	Effective	Compliant	I recommend a training and competency matrix is developed.
Subcontracting (Section 3.8 – General Terms)	3.3	Effective	Compliant	
Invoicing and Payment (Section 5.2 & 5.4 – General Terms)	3.4	Effective	Compliant	
Record Keeping (Section 7.1 – General Terms)	3.5	Effective	Compliant	

<b>Issue</b>	<b>Section</b>	<b>Control Rating (Refer to Appendix 1 for definitions)</b>	<b>Compliance Rating</b>	<b>Comments</b>
Access to Other Information (Section 7.2 – General Terms)	3.6	Effective	Compliant	
Confidential Information (Section 8.2 – General Terms)	3.7	Effective	Compliant	
Media and Marketing (Section 8.4 – General Terms)	3.8	Effective	Compliant	
Insurance Coverage (Rule 10 & Section 13 – General Terms)	3.9	Not adequate	Not compliant	EMS does not have professional indemnity insurance cover.  EMS has not provided certificates of insurance to the Industry Body.
Force Majeure (Section 14 – General Terms)	3.10	Effective	Compliant	
Dispute Resolution (Section 15 – General Terms)	3.11	Effective	Compliant	

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Disengagement Plan (Section 17 – Allocation Agent Service Provider Agreement (general terms))	3.12	Effective	Compliant	
Contract Variations (Section 18 – Allocation Agent Service Provider Agreement (general terms))	3.13	Effective	Compliant	
Allocation Agent Website (Rule 9 of the Downstream Reconciliation Rules)	4.1	Effective	Compliant	
Performance Standards (Rule 11 of the Downstream Reconciliation Rules)	4.2	Effective	Compliant	
Allocation Agent Self Reviews (Rules 12 & 13 of the Downstream Reconciliation Rules)	4.3	Effective	Compliant	

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Information Exchange File Formats (Rule 25 of the Downstream Reconciliation Rules)	4.4	Effective	Compliant	
Determination of G1M Gas Gates (Rule 25C of the Downstream Reconciliation Rules)	4.5	Effective	Compliant	
Good Practice Standards (Section 2.2 – Allocation Agent Service Provider Agreement (ongoing services))	4.6	Effective	Compliant	
Industry Body Guidelines (Section 2.3 – Allocation Agent Service Provider Agreement (ongoing services))	4.7	Effective	Compliant	

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Infrastructure Services (Section 3 - Allocation Agent Service Provider Agreement (ongoing services))	4.8	Effective	Not compliant	One outage of more than two hours in April 2019
Regulatory Functions (Section 4.1 – Allocation Agent Service Provider Agreement (ongoing services))	4.9	Effective	Compliant	
Additional Obligations (Section 4.2 – Allocation Agent Service Provider Agreement (ongoing services))	4.10	Effective	Compliant	
Allocation Operations Manual (Section 4.3 – Allocation Agent Service Provider Agreement (ongoing services))	4.11	Effective	Compliant	

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Additional Services (Sections 5 & 6 – Allocation Agent Service Provider Agreement (ongoing services))	4.12	Effective	Compliant	
Service Management (Section 7 – Allocation Agent Service Provider Agreement (ongoing services))	4.13	Adequate	Not compliant	Annual meetings not held within 20 business days of the end of the financial year.  Service desk reporting not included in monthly reports.
Monthly Charges (Section 8.1 – Allocation Agent Service Provider Agreement (ongoing services))	4.14	Effective	Compliant	
Provision of Information to the Critical Contingency Operator (Regulation 40A of the Critical Contingency Management Regulations)	4.15	Effective	Compliant	



Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Major Change Audits (Rule 65.4 of the Downstream Reconciliation Rules)	4.16	Effective	Compliant	
Event Audits (Rule 66.3 of the Downstream Reconciliation Rules)	4.17	Effective	Compliant	
Use of Estimates (Rule 43 of the Downstream Reconciliation Rules)	5.1	Effective	Compliant	
Correction of Allocations (Rule 44 of the Downstream Reconciliation Rules)	5.2	Effective	Compliant	
Global Method of Allocation (Rules 45, 48, 49 & 50 of the Downstream Reconciliation Rules)	5.3	Effective	Not compliant	Allocation totals in the GAR070 are accurate to two decimal places but should be accurate to three decimal places.
Calculation of UFG Factor (Rule 46 of the Downstream Reconciliation Rules)	5.4	Effective	Compliant	Monthly UFG in the GAR070 is accurate to five decimal places but should be accurate to six decimal places.

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Correction of an Annual UFG Factor (Rule 46A of the Downstream Reconciliation Rules)	5.5	Effective	Compliant	
Force Majeure Event During Consumption Period (Rule 47 of the Downstream Reconciliation Rules)	5.6	Effective	Compliant	
Special Allocation (Rule 51 of the Downstream Reconciliation Rules)	5.7	Effective	Compliant	
Annual Reconciliation (Rule 52 of the Downstream Reconciliation Rules)	5.8	Effective	Compliant	
Allocation Agent Reports (Rule 53 of the Downstream Reconciliation Rules)	5.9	Effective	Compliant	

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Deemed Profiles (Rules 54 to 62 of the Downstream Reconciliation Rules)	5.10	Effective	Compliant	
Breach Notifications (Regulation 11 of the Compliance Regulations)	5.11	Effective	Compliant	
Service Levels	5.12	Effective	Compliant	

### **Persons Involved in This Audit**

Auditor:

Steve Woods  
**Veritek Limited**

EMS personnel assisting in this audit were:

Name	Title
Ed Oosterbaan	Business Analyst

### **Draft Audit Report Comments**

A draft audit report was provided to the industry body (GIC), the allocation agent, and allocation participants that I considered had an interest in the report. In accordance with rule 70.3 of the Gas (Downstream Reconciliation) Rules 2008, those parties were given an opportunity to comment on the draft audit report and indicate whether they would like their comments attached as an appendix to the final audit report. No comments were provided; therefore, I have not made any changes to this report.

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## 1. Scope of Audit

Under Part 4 of the Gas (Downstream Reconciliation) Rules 2008 (the Downstream Reconciliation Rules), Gas Industry Co must arrange performance audits of the Allocation Agent and allocation participants at regular intervals. The purpose of the performance audit is to assess:

- (a) the performance of the Allocation Agent or that allocation participant in terms of compliance with these rules;
- (b) the systems and processes of the Allocation Agent or that allocation participant that have been put in place to enable compliance with these rules;
- (c) whether, after the implementation of an intended change notified under rule 65.4, the Allocation Agent or that allocation participant will be, or will be able to be, compliant with these rules.

In addition, under Part 6 of the Allocation Agent Service Provider Agreement (general terms), Gas Industry Co may audit the Allocation Agent, in accordance with Part 4 of the Downstream Reconciliation Rules and either together with or separately from any other audit under that Part, for the purpose of:

- (a) auditing the accuracy of the Allocation Agent's invoices under the Agreement and/or the Allocation Agent's reporting of its performance against the service levels and other performance standards under the Allocation Agent Service Provider Agreement; and/or
- (b) otherwise allowing the auditor to satisfy itself that the Allocation Agent is complying with its obligations under the Allocation Agent Service Provider Agreement.

This audit has considered compliance with the relevant Downstream Reconciliation Rules and with the Allocation Agent Service Provider Agreement. The audit was conducted in accordance with terms of reference provided by Gas Industry Co and in accordance with the "Guideline note for rules 65 to 75: the commissioning and carrying out of performance audits and event audits" V3.



## 2. General Compliance

### 2.1 Summary of Previous Audit

This is the first audit conducted for EMS as the Allocation Agent.

### 2.2 Breach Allegations and Compliance Issues

In this section I've recorded breach allegations in relation to the Downstream Reconciliation Rules and "issues" where findings did not meet the requirements of certain agreements or specifications.

The tables below show that only one breach allegation is made, in relation to insurance cover. There were six examples where the audit findings did not match the requirements of the Allocation Agent Service Provider Agreement. Manual calculations of a selection of allocation outputs found that the results did not match to the required number of decimal places in two cases.

Breach Allegation	Rule	Section in this report
EMS does not have professional indemnity insurance cover.	10	2.8

Issue	Section in Service Provider Agreement	Section in this report
EMS has not provided certificates of insurance to the Industry Body.	13.1(a) – general terms	3.9
EMS does not have professional indemnity insurance cover.	13.1(b) – general terms	3.9
One outage of more than two hours in April 2019	3.5 – ongoing services	4.8
Annual meetings not held within 20 business days of the end of the financial year.	7.1 – ongoing services	4.13.1
Service desk reporting not included in monthly reports.	7.1(b) – ongoing services	4.13.1
Allocation totals in the GAR070 are accurate to two decimal places but should be accurate to three decimal places.	Section 7.5 of the functional specification	5.3
Monthly UFG in the GAR070 is accurate to five decimal places but should be accurate to six decimal places.	Section 7.5 of the functional specification	5.4

## **2.3 Provision of Information to the Auditor (Rule 69)**

In conducting this audit, the auditor may request any information from the Allocation Agent, the Industry Body and any Allocation Participant.

Information was provided by EMS in a timely manner in accordance with this rule.

## **3. Contractual Obligations**

### **3.1 Business Continuity Planning (Section 3.5 – Allocation Agent Service Provider Agreement (ongoing services))**

Section 3.5 of the Allocation Agent Service Provider Agreement (general terms) requires the Service Provider to document, implement and maintain Good Practice business continuity (including disaster recovery) arrangements.

I reviewed EMS's business continuity plan, which is comprehensive and includes checklists for all relevant tasks. Allocation can be conducted remotely if the premises cannot be accessed. This arrangement was tested when EMS's new premises were unable to be accessed due to a water leak at the time they moved buildings.

There is a nightly backup of the production environment onto disk. Every two weeks the nightly backups are saved to tape, which is stored securely. The production environment is located in Auckland and there is an alternative disaster recovery environment in Christchurch.

Disaster recovery tests are conducted at least annually. Successful tests were conducted in June 2018, March 2019 and August 2019.

### **3.2 Personnel (Section 3.7 – Allocation Agent Service Provider Agreement (general terms))**

Section 3.7 of the Allocation Agent Service Provider Agreement (general terms) requires the Service Provider to ensure its personnel comply with all policies, procedures and codes of conduct notified by the Industry Body, including those dealing with conduct, security and confidentiality. The Service Provider will notify the Industry Body immediately on becoming aware of any non-compliance with the Industry Body's policies, requests or instructions by any of its Personnel. The Industry Body may at any time, on reasonable grounds, request that the Service Provider removes any of its Personnel from provision of any or all of the Services or Deliverables, and the Service Provider will immediately comply with that request unless it can demonstrate that the removal of the Personnel will have a material and detrimental effect on the Service Provider's ability to perform the Services (in which case the parties will use all reasonable endeavours to promptly agree on a satisfactory way to resolve the situation).

I checked employment agreements and training processes to determine compliance. Employment agreements contain a confidentiality clause, which requires employees not to disclose confidential information. Confidential information is clearly defined in the employment agreements. EMS has a

detailed and robust training program, which ensures several people can conduct allocation tasks. I recommend EMS develops a training and competency matrix showing all relevant personnel and the dates they were trained and deemed competent.

**Recommendation – Training and competency matrix**

Develop a training and competency matrix showing all relevant personnel and the dates they were trained and deemed competent.

No examples of non-compliance were identified.

### **3.3 Subcontracting (Section 3.8 – Allocation Agent Service Provider Agreement (general terms))**

The Service Provider may appoint a subcontractor to perform any of their responsibilities under the Agreement provided the subcontract is only for goods or services that are incidental to, or do not otherwise represent a material part of, the Service Provider’s obligations.

Some IT functions are outsourced, but EMS does not subcontract any of their core responsibilities.

### **3.4 Invoicing and Payment (Section 5.2 & 5.4 – Allocation Agent Service Provider Agreement (general terms))**

The Service Provider will invoice the Charges in accordance with clause 8.1 of the Allocation Agent Service Provider Agreement (ongoing services) and will ensure that each such invoice is a valid tax invoice under the Goods and Services Tax Act 1985. The Service Provider will include sufficient details in each invoice to enable the Industry Body to identify the particular Deliverables and Services which are the subject of the invoice, and the Charges for each item.

EMS provided a copy of a recent “monthly fee” invoice, which I confirmed was a valid tax invoice. EMS also provided supporting documentation for a recent operational change. This documentation contained a description of the change, impact assessment, plan and an approval section. I consider this meets the requirement to identify the deliverables and services.

### **3.5 Record Keeping (Section 7.1 – Allocation Agent Service Provider Agreement (general terms))**

The Service Provider will keep full, true and up-to-date accurate records, books of account and documentation in relation to all material aspects of its activities under the Agreement, the Services, the Deliverables, and the Charges, to a level of detail, completeness and accuracy consistent with Good Practice. The Service Provider will retain the same for not less than three years after the end of the Term.

Allocation information is stored in an orderly manner. All approved change requests are managed through the change management tool, which I reviewed during the audit. EMS demonstrated that records were available for all allocation related activities for the entire period of the agreement.

### **3.6 Access to Other Information (Section 7.2 – Allocation Agent Service Provider Agreement (general terms))**

The Service Provider will provide the Industry Body or its duly authorised agents (as the case may be) with any documentation, information and explanations requested by the Industry Body on reasonable notice, regarding the Services and Deliverables and/or any invoice issued under the Agreement

The Industry Body has not requested any information in accordance with this clause.

### **3.7 Confidential Information (Section 8.2 – Allocation Agent Service Provider Agreement (general terms))**

The Service Provider will ensure confidential information is not disclosed and will ensure it is secure against theft, loss or unauthorised disclosure.

As mentioned in **section 3.2**, EMS has appropriate clauses in employment agreements regarding confidentiality. EMS ensures only public information is shared during communication with industry participants. I checked an example where consumption information was shared during an investigation and the information was limited to publicly available GAR070 figures.

EMS has password protection and virus protection in place.

### **3.8 Media and Marketing (Section 8.4 – Allocation Agent Service Provider Agreement (general terms))**

The Service Provider will consider any potential media issues that may arise in relation to the supply of the Services and provide the Industry Body with reasonable notice of any such potential media issues.

EMS does not conduct any marketing activity. Their policy does not allow anyone except the Communications Team to liaise with the media.

### **3.9 Insurance Coverage (Rule 10 & Section 13 – Allocation Agent Service Provider Agreement (general terms))**

The Rules require that the Service Provider must at all times maintain any insurance cover that is required by the Allocation Agent Service Provider Agreement, on the terms and in respect of risks prescribed by the Industry Body, with an insurer approved by the Industry Body. The Allocation Agent Service Provider Agreement requires the insurance coverage to include:

- (a) general third-party liability insurance cover for an amount not less than \$10 million per event; and
- (b) professional indemnity insurance cover for an amount not less than \$10 million per event.

EMS has third party liability insurance for a higher amount than is stipulated, but they do not have professional indemnity insurance. Clause 13.2 of the Allocation Agent Service Provider Agreement (general terms) requires EMS to provide Gas Industry Co with a certificate of insurance within one

month of signing the Allocation Agent Service Provider Agreement and following each policy renewal. EMS has not provided these confirmations.

Subject	Report Section	Clause/Rule	Issue
Insurance cover	3.9	Rule 10 of the Downstream Reconciliation Rules. Section 13.1(b) of the Allocation Agent Service Provider Agreement (general terms)	EMS does not have professional indemnity insurance cover.
Insurance cover	3.9	Clause 13.1(a) of the Allocation Agent Service Provider Agreement (general terms)	EMS has not provided certificates of insurance to Gas Industry Co.

### **3.10 Force Majeure (Section 14 – Allocation Agent Service Provider Agreement (general terms))**

No force majeure events have occurred.

### **3.11 Dispute Resolution (Section 15 – Allocation Agent Service Provider Agreement (general terms))**

No disputes have occurred.

### **3.12 Disengagement Plan (Section 17 – Allocation Agent Service Provider Agreement (general terms))**

A disengagement plan has not been required or requested.

### **3.13 Contract Variations (Section 18 – Allocation Agent Service Provider Agreement (general terms))**

There have not been any contract variations.

## **4. Service Management**

### **4.1 Allocation Agent Website (Rule 9 of the Downstream Reconciliation Rules)**

The Allocation Agent must operate a website for the purpose of publishing information under the rules. The website must be functional and available to the public. The Allocation Agent must ensure the information on the website is accurate and up to date. The Allocation Agent must publish on the

website all information provided to it by the Industry Body. The Allocation Agent must not publish any information that it considers is confidential or commercially sensitive.

EMS has a website at <https://www.gasreconciliation.co.nz/home>. The website is available to the public. I confirmed that the “downloads” were up to date for GAR060, GAR070, GAR080 and GAR090 files. The “Resources” page was checked and is up to date. Gas Industry Co confirmed that EMS has published all information they have been requested to publish.

## **4.2 Performance Standards (Rule 11 of the Downstream Reconciliation Rules)**

The Industry Body and the Allocation Agent must, at the beginning of the term of the appointment and at the beginning of each financial year, seek to agree on a set of performance standards against which the Allocation Agent's performance must be reported and measured at the end of the financial year.

Performance standards were agreed in October 2013 and these are documented in the Allocation Agent Service Provider Agreement (ongoing services) dated 04/10/13. There have not been any changes to these services since that date.

## **4.3 Allocation Agent Self Reviews (Rules 12 & 13 of the Downstream Reconciliation Rules)**

The Allocation Agent must conduct, on a monthly basis, a self-review of its performance, concentrating on compliance with the rules, terms of the Allocation Agent Service Provider Agreement and any performance standards agreed with the Industry Body. A report must be provided to the Industry Body on the last business day of each month.

I checked the last 12 monthly reports, confirming that self-reviews are conducted. The content of the reports includes compliance with the Downstream Reconciliation Rules and the Allocation Agent Service Provider Agreement, as required by Rule 13.

## **4.4 Information Exchange File Formats (Rule 25 of the Downstream Reconciliation Rules)**

The Industry Body may give notice specifying one or more information exchange file formats that the Allocation Agent must provide information in. The new format must be used within three months of receiving notification.

Gas Industry Co confirmed there have been no recent changes to information exchange file formats.

## **4.5 Determination of G1M Gas Gates (Rule 25C of the Downstream Reconciliation Rules)**

The Allocation Agent will determine and publish the G1M gas gates in accordance with the G1M criteria for each gas year, by the 1st business day of July in the previous gas year.

The G1M gas gates were determined and published on the Allocation Agent website prior to July 1<sup>st</sup> for the previous two years.

#### 4.6 Good Practice Standards (Section 2.2 – Allocation Agent Service Provider Agreement (ongoing services))

The Service Provider will provide all Services in accordance with Good Practice; and ensure all Deliverables meet Good Practice.

I checked EMS’s controls with regard to ongoing services and change management to determine compliance. EMS has strong controls in place to ensure all allocation activities are accurate and timeliness targets are met. Checklists are used to ensure all tasks are undertaken as required. The change management and change control systems contain details of all incidents, including their resolution. This system is also used to monitor and track changes to systems or processes.

#### 4.7 Industry Body Guidelines (Section 2.3 – Allocation Agent Service Provider Agreement (ongoing services))

The Service Provider will use all reasonable endeavours to comply with all guidelines on the Downstream Reconciliation Rules and Switching Rules that may be published by the Industry Body from time to time.

The only relevant guideline is the “Market Administrator Guidelines on the Materiality of Breaches of the Gas (Switching Arrangements) Rules 2008 and the Gas (Downstream Reconciliation) Rules 2008”, clarifying when the Allocation Agent should allege breaches of rule 37. EMS has complied with this guideline.

#### 4.8 Infrastructure Services (Section 3 - Allocation Agent Service Provider Agreement (ongoing services))

The Allocation Agent is required to provide, operate and support appropriate infrastructure to ensure the service levels in Section 3.5 of the Allocation Agent Service Provider Agreement (ongoing services) are met.

**Section 3.1** describes the business continuity, disaster recovery and data security arrangements.

**Section 4.1** records that the website design and provision meet the required standards.

The table below shows the agreed service levels and lists one issue from the last two years.

Service	Definition	Calculation	Level	Exceptions
Availability	The period of time during which the Allocation System is fully functioning and available with the Application Data to all	Per calendar month (excluding Agreed Maintenance Windows in	No more than one Outage, and that Outage must last for less than 2 hours.	2.5-hour portal outage on 16/04/19.

	Users at the boundary of the Allocation System. An Outage is the period of time that the Allocation System fails to achieve that standard.	accordance with clause 7.7).		
Reliability	The number of Outages, of any duration.	Per calendar month (excluding Agreed Maintenance Windows in accordance with clause 7.7).	No more than: 1 Outage a calendar month;	There were no months with more than one outage.
Recovery Point	The maximum amount of data that may be lost when the Allocation System is restored (measured as a length of time before the failure).	Per Outage.	1 hour	No data was lost during any of the outages.

Subject	Report Section	Section/Rule	Issue
Service levels	4.8	Section 3.5 of the Service Provider Agreement	One outage of more than two hours in April 2019.

#### **4.9 Regulatory Functions (Section 4.1 – Allocation Agent Service Provider Agreement (ongoing services))**

The Service Provider will have the functions, duties, rights, powers, and obligations of the Allocation Agent as set out in the Rules; and comply with all duties, functions and obligations of the Allocation Agent set out in any other Applicable Gas Governance Arrangement. To the extent this Service Description is inconsistent with the functions, rights, powers, and obligations of the Allocation Agent under any Applicable Gas Governance Arrangement, the Applicable Gas Governance Arrangement will prevail.

I examined this requirement through interview. There were no examples of inconsistent requirements or service descriptions.

#### **4.10 Additional Obligations (Section 4.2 – Allocation Agent Service Provider Agreement (ongoing services))**

The Service Provider will perform the following Services:



Where the retailer concerned consents, the Service Provider will make available to the distributors at a gas gate, the allocation results and reports provided to the retailer for that gas gate under rules 48, 49 and 50 of the Downstream Reconciliation Rules. The allocation results and reports must be provided in the information exchange file formats notified in writing to the Service Provider by the Industry Body, provided that the Industry Body has consulted with the Service Provider before giving such notice.

The Service Provider will provide the Industry Body with a report in respect of any alleged breach of the Rules and, to the extent possible, within five business days of the Service Provider becoming aware of the alleged breach.

I checked an example from August 2019, where a retailer approved EMS to provide reports to a distributor. The information was provided in the correct format.

#### **4.11 Allocation Operations Manual (Section 4.3 – Allocation Agent Service Provider Agreement (ongoing services))**

The Allocation Agent's obligations under this clause 4 (Allocation Agent Services) will be clarified in an operations manual, to be agreed between the parties in accordance with the Contract Variation Process (the *Allocation Operations Manual*). The Allocation Operations Manual is a Living Document. The Service Provider will comply with the agreed Allocation Operations Manual at all times.

The operations manual has not been agreed between the parties; however, a manual exists, which was referred to when I observed the allocation process during the audit. This manual is comprehensive and has sufficient detail to guide the operator through the allocation process step by step.

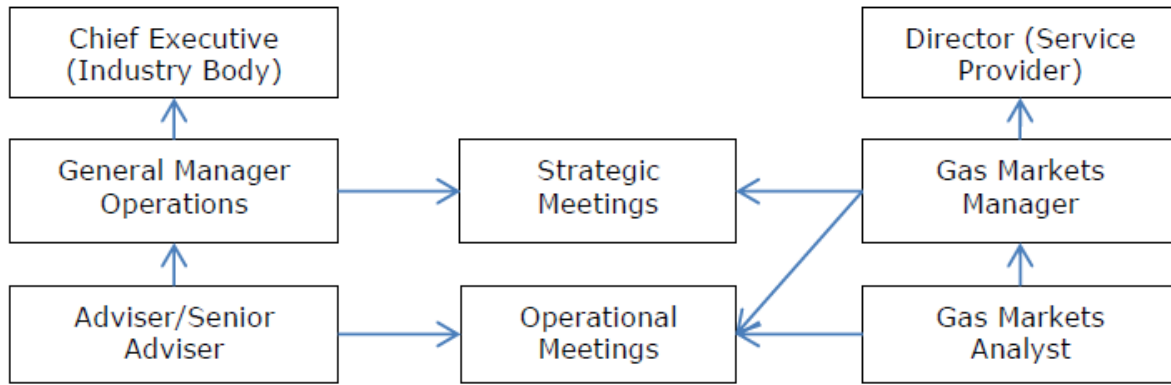
#### **4.12 Additional Services (Sections 5 & 6 – Allocation Agent Service Provider Agreement (ongoing services))**

Sections 5 and 6 of the Allocation Agent Service Provider Agreement (ongoing services) relate to informal, formal and future services. There have been no requests by Gas Industry Co in relation to these clauses.

#### **4.13 Service Management (Section 7 – Allocation Agent Service Provider Agreement (ongoing services))**

##### **4.13.1 Governance**

Services will be governed in accordance with the following model. Either party may change its governance appointees on written notice to the other party. I confirmed that EMS's governance appointees structure has not changed.



The Service Provider is required to convene and attend monthly operations meetings within 10 business days of the end of each calendar month or otherwise as agreed by the Industry Body. The agenda is to include the following four points:

- a) Activity;
- b) Issues;
- c) Risks; and
- d) Agreed actions.

I checked the agenda for the last three meetings. The agenda contains the following items:

- Issues register;
- Change request register; and
- General business.

I consider these agenda items meet the requirements of the Service Provider Agreement. Attached to the agenda are the details from the issues register and the change register.

The Service Provider is required to convene an annual meeting within 20 business days of the end of the financial year (June 30<sup>th</sup>). The agenda is to include the following four points:

- a) Relationship objectives;
- b) Year in review;
- c) Future influences; and
- d) Agreed actions.

The annual meetings have occurred at the same time as a scheduled monthly meeting. The meetings do not occur within 20 business days of the end of the financial year. The 2016/2017 meeting occurred on November 9<sup>th</sup>, 2017 and the 2018/2019 meeting is scheduled for October 24<sup>th</sup>, 2019. The minutes of the 2016/2017 meeting confirmed the four points above were included in the agenda.

Subject	Report Section	Section/Rule	Issue
Annual meeting	4.13.1	Section 7.1 of the Service Provider Agreement	Annual meetings not held within 20 business days of the end of the financial year.

The Service Provider is required to provide an annual report and monthly reports. I checked the 2018 and 2019 monthly reports. They contain the “operations” requirements of the Service Provider Agreement, but they do not contain the “service desk” requirements, which are shown below:

### Service Desk

For the period by Priority Level, and on a summary basis for all previous periods:

- (a) number of new Incidents/Service Requests.
- (b) number of Incidents/Service Requests remaining open at the end of the period
- (c) number of Incidents/Service Requests escalated beyond the Service Desk.
- (d) number and % of Incidents/Service Requests incorrectly assigned to the Service Desk
- (e) number of Incidents Resolved by the Service Desk without being notified by a User.

Subject	Report Section	Section/Rule	Issue
Monthly report	4.13.1	Section 7.1(b) of the Service Provider Agreement	Service desk reporting not included in monthly reports.

I reviewed the most recent annual report for the year ended June 2019. The content achieves compliance with the requirements of the Service Provider Agreement.

## 4.13.2 Operational Documents

The Service Provider is required to provide the following three documents:

1. User and Administrator Guide;
2. Training Materials; and
3. Operations Manual.

The User and Administrator Guide is available on the website. The Operations Manual was reviewed during the audit and is discussed in **section 4.11**. This document is also used as the basis for training. Test and UAT environments are available and used to facilitate training and test significant tasks like the GAR090 publication and special allocations.

## 4.13.3 Service Desk

EMS has a Service Desk function, where parties can log issues. They use “Gotoassist” as an incident and change management system. EMS provided a login to this system for the purposes of reviewing the functionality during the audit. Incidents are logged by EMS, other parties cannot directly asses this to log issues. As reported in **section 4.13.1**, reporting is not provided on service levels; however, there have not been any incidents raised in relation to service desk response times.

#### 4.13.4 Incident Management

As mentioned in **section 4.13.3**, EMS uses “Gotoassist” as an incident and change management system. Gotoassist has appropriate functionality to ensure incidents are recorded and managed.

The Service Provider Agreement (Ongoing Services) requires incidents to be categorised between P1 and P4 depending on severity. Incidents are categorised into five different 'incident types', as shown below, which achieves compliance.

1. Defect;
2. Service Request;
3. Query;
4. Enhancement; and
5. Gas Gate Query

Defects and items on the issues register are reported to the Gas Industry Co automatically in the monthly meetings.

#### 4.13.5 Change Management

EMS has sound change management practices. Changes are managed in Gotoassist, which was reviewed as part of the audit.

#### 4.13.6 Security Management

Business continuity is discussed in **section 3.1**. EMS has appropriate virus protection and appropriate password protection to ensure security of data and systems.

#### 4.13.7 Service Level Management

This area is discussed in **sections 4.13.1, 4.13.3 and 4.13.4**.

#### 4.13.8 Service Continuity Management

This area is discussed in **section 3.1**.

### 4.14 Service Levels (Section 4.4 – Allocation Agent Service Provider Agreement (ongoing services))

Section 4.4 of the Allocation Agent Service Provider Agreement (ongoing services) stipulates the service levels EMS must meet. They are shown in the table below. I checked the monthly reports and found no breaches were reported for the period January 2019 to August 2019.

	Definition	Calculation	Level	Breaches
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<b>Allocation Timeframes</b>	Extent to which the timeframes for Allocation Agent actions as set out in the Rules have been performed on time.	Number of met timeframes / number of timed actions required. Calculated per calendar month.	100% on time.	None
<b>Website Updates</b>	Time taken for information on the Website to be updated, after it has become inaccurate or invalid for any reason.	Number of met timeframes / number of times changes to the Website were required. Calculated per calendar month.	100% within one Business Day.	None
<b>Calculation Accuracy</b>	Extent to which allocations are correctly calculated (i.e. in accordance with the Rules).	Number of allocations correctly calculated / number of allocations. Calculated per calendar month.	100% correct.	None
<b>Allocation Participant Reports</b>	Extent to which reports to Allocation Participants contain the required information and are securely directed to the right participant.	Number of correct reports / number of reports. Calculated per calendar month.	100% correct	None
<b>Public Reports</b>	Extent to which reports required to be publicly available contain the right information and are publicly available on the Website.	Number of correct reports / number of reports. Calculated per calendar month.	100% correct	None

#### **4.15 Monthly Charges (Section 8.1 – Allocation Agent Service Provider Agreement (ongoing services))**

Monthly invoicing occurs in accordance with the Allocation Agent Service Provider Agreement (ongoing services).

There have not been any adjustment requests or inflation adjustment requests.

#### **4.16 Provision of Information to the Critical Contingency Operator (Regulation 40A of the Critical Contingency Management Regulations)**

The critical contingency operator may, to assist with more detailed load modelling, request from the Allocation Agent consumption data that the allocation agent holds.

EMS confirmed that there have been no requests in accordance with this regulation.

#### **4.17 Major Change Audits (Rule 65.4 of the Downstream Reconciliation Rules)**

If the Allocation Agent or an allocation participant intends to make a change to any of its systems, processes or procedures that could reasonably be considered to be likely to have a major impact on the allocation agent's or allocation participant's compliance with these rules, it must, at least 90 days before the change is to take place, advise the Industry Body of the proposed change.

EMS confirmed there have not been any major changes subject to a major change audit.

#### **4.18 Event Audits (Rule 66.3 of the Downstream Reconciliation Rules)**

The allocation agent or any allocation participant may request the Industry Body to cause an event audit to be performed under rule 66.1.

The most recent event audit was conducted for GMM08001. This audit was commissioned by Gas Industry Co. EMS has not requested any event audits be performed.

## **5. Allocation Process**

### **5.1 Use of Estimates (Rule 43 of the Downstream Reconciliation Rules)**

For the purpose of performing allocations under the Downstream Reconciliation Rules, the Allocation Agent must estimate:

The consumption information if a retailer has failed to provide the consumption information for the relevant allocation by the times and on the days specified in rules 31 to 33 of the Downstream Reconciliation Rules; and

The daily metered energy quantities if a transmission system owner has failed to provide the daily metered energy quantities for the relevant allocation by the times and on the days specified in rule 41 of the Downstream Reconciliation Rules; and

The daily metered energy quantities for unmetered gas gates and oversized metered gas gates in accordance with the following formula:

If, in accordance with rule 43.1 of the Downstream Reconciliation Rules, the Allocation Agent uses estimated information or quantities in the allocation process, the Allocation Agent must include a notation with the allocation results that the allocation results include information or quantities that have been estimated by the Allocation Agent.

For the purposes of rules 45, 46 and 53 of the Downstream Reconciliation Rules, any references to daily metered energy quantities and consumption information in those rules include any necessary estimates by the Allocation Agent of such quantities or information made in accordance with this rule.

The last estimate was conducted for January 2015 because the TSO failed to provide complete daily metered energy quantities on time for PAH23101, WTT20301 and KAP12901.

I checked the methodology used and it matched that stipulated in rule 43.1.3 of the Downstream Reconciliation Rules.

### **5.2 Correction of Allocations (Rule 44 of the Downstream Reconciliation Rules)**

The Allocation Agent may amend any allocation result provided under these rules if, by 1730 hours on the next business day after the allocation result was provided, the Allocation Agent makes the amendment and notifies all affected allocation participants of the amended allocation result.

If an error is subsequently discovered later than the deadline specified in rule 44.3 of the Downstream Reconciliation Rules, and the Allocation Agent acting reasonably considers that correction of that error would have resulted in a materially different allocation, then:

- the Allocation Agent shall as soon as practicable pass the relevant information on to the appropriate allocation participants and the Industry Body; and
- the Industry Body must consider whether or not to direct a special allocation in accordance with rule 51 to rectify the error.

There were no examples of corrections being conducted by 1730 the next business day.

I checked a correction made for 22 gas gates for August 2017 following instruction from the Gas Industry Co. The special allocation was run in the same way a normal allocation would run, therefore there was no manual intervention required. The results were available to allocation participants through the portal. Communication with allocation participants was managed by Gas Industry Co.

### **5.3 Global Method of Allocation (Rules 45, 48, 49 & 50 of the Downstream Reconciliation Rules)**

I audited this requirement by observing the allocation process and by checking manual re-calculations of certain outputs. The allocation process is documented with step by step instructions and there is a checklist to ensure all tasks are conducted. Robust quality control is in place, which includes manually checking the graphs of each gas gate to identify potential anomalies.

The Rules prescribe the “Global Method of Allocation”.

This was demonstrated during the audit and a manual re-calculation of the GAR070 was conducted for PTR32601 for May 2019. I also considered Section 7.5 of the Gas Industry Company Limited Allocation Agent Functional Specification, Version 2.9, dated 20 July 2019, which stipulates accuracy is required to three decimal places. The relevant section is shown below:

#### **7.5 Rounding of numbers**

*Where numeric values contained in GAR outputs are used by the allocation system in subsequent processes (i.e. the allocated GJ in GAR010; the gas gate residual profile in GAR040; the AUFG and MUFG factors in GAR070), the system shall use the level of accuracy contained in the reports as the level of accuracy inputted into the subsequent process or processes (i.e. the aggregated GAR020 and GAR030 quantities will sum the 3 decimal place inputs from GAR010; the AUFG factor calculated in GAP010 will be 4 decimal places; the MUFG factor calculated in GAP080 and the G1M MUFG factor calculated in GAP060 will be 6 decimal places; the gas gate residual profile calculated in GAP100 will be 3 decimal places). In all other instances, the system shall use the number of decimal places contained in its specification.*

My interpretation of this requirement is that the GAR070 should be accurate to three decimal places because the inputs to the GAR070 have at least three decimal places.

The table below shows that the manually calculated “AQ” totals match the GAR070 totals to two decimal places but not to three decimal places. Further checking by EMS found that this issue was present in the system prior to them becoming the Allocation Agent.



Gas Gate		PTR32601							
Subs	AG2	AG4	AG6	AQ	GAR070	AQ	DIFF	% difference	
CTCT		227.509	192.748	422.797	CTCT	422.796	-0.00145	-0.0003%	
GENG		131.878	699.091	835.992	GENG	835.991	-0.00121	-0.0001%	
GEOL			18.308	18.419	GEOL	18.421	0.002328	0.0126%	
GNGC	5309.697			5335.184	GNGC	5335.182	-0.00155	0.0000%	
GNVG		202.204	68.533	272.374	GNVG	272.375	0.001395	0.0005%	
MEEN			82.494	82.993	MEEN	82.993	0.000324	0.0004%	
PUNZ			2.444	2.459	PUNZ	2.460	0.001226	0.0499%	
TRUS			100.944	101.554	TRUS	101.556	0.001794	0.0018%	
			<b>TOTAL</b>	<b>7071.771</b>	<b>TOTAL</b>	<b>7071.774</b>	<b>0.00286</b>	<b>0.00004%</b>	
MUFG factor [GAR070]	1.006045								
AUFG factor [GAR090]	1.0048								
INJECTION [GAS030]	7071.769								

The process above was repeated for KIN02601, which is a G1M gas gate. The results are shown below, and the same issue is present where the totals match to two decimal places but not three.

KIN02601									
Subs	AG2	AG4	AG6	AQ	GAR070	AQ	DIFF	% difference	
CTCT			0.877	0.957	CTCT	0.959	0.002	0.244%	
GENG			7.047	7.687	GENG	7.687	0.000	-0.001%	
GNVG	2220.689		1.632	2210.261	GNVG	2210.263	0.002	0.000%	
MEEN			8.255	9.005	MEEN	9.005	0.000	0.002%	
		<b>TOTAL CONS</b>	<b>2238.5</b>	<b>TOTAL</b>	<b>2227.910</b>	<b>TOTAL</b>	<b>2227.914</b>	<b>0.004</b>	<b>0.00019%</b>
MUFG factor [GAR070]	0.995269	0.995269	<- formula check						
AUFG factor [GAR090]	0.999800	0.995269							
INJECTION [GAS030]	2227.909								

The SADSV file (GAR060) was recalculated for May 2019 for ASH34301 (no TOU), KIN02601 (G1M) and FOX22101 (standard gas gate with TOU). The daily values matched the GAR060 to three decimal places.

Subject	Report Section	Clause/Rule	Issue
Global method of allocation	5.3	Section 7.5 of the functional specification	Allocation totals in the GAR070 are accurate to two decimal places but should be accurate to three decimal places.

## 5.4 Calculation of UFG Factor (Rule 46 of the Downstream Reconciliation Rules)

When performing an initial allocation, an interim allocation or a final allocation, the Allocation Agent must calculate the UFG factor in accordance with this rule.

The monthly UFG factor should be accurate to six decimal places. The monthly UFG factor for PTR32601 for May 2019 is 1.006045 in the GAR070. I manually recalculated this figure and the result was 1.006044, which is accurate to five decimal places but not six.

The annual UFG factor was manually recalculated and the result was the same as the published figure of 1.0048.

Subject	Report Section	Clause/Rule	Issue
Monthly UFG	5.4	Section 7.5 of the functional specification	Monthly UFG in the GAR070 is accurate to five decimal places but should be accurate to six decimal places.

## 5.5 Correction of an Annual UFG Factor (Rule 46A of the Downstream Reconciliation Rules)

The Industry Body may require the Allocation Agent to correct and republish an annual UFG factor up to 15 months after that annual UFG factor has been determined and published.

The AUFG Factor was recalculated for GMM08001 for 2017 and 2018 due to a special allocation to correct a material error. The re-calculated figures are correct and were published as required.

## 5.6 Force Majeure Event During Consumption Period (Rule 47 of the Downstream Reconciliation Rules)

There have not been any “force majeure” events.

## 5.7 Special Allocation (Rule 51 of the Downstream Reconciliation Rules)

At any time during the period after an initial allocation has been performed up to 12-months after a final allocation has been performed, the Industry Body may require the Allocation Agent to perform a special allocation for the relevant consumption period in addition to, or replacing, an initial allocation, an interim allocation, or a final allocation for that same consumption period.

A special allocation was conducted for 22 gas gates for August 2017. The process and results complied with the relevant rules.

## **5.8 Annual Reconciliation (Rule 52 of the Downstream Reconciliation Rules)**

The purpose of an annual reconciliation is to verify, on a monthly basis, the accuracy and completeness of consumption information provided to the Allocation Agent for the previous 12 billing months against the energy quantities billed to consumers during that period.

For the purposes of an annual reconciliation, the Allocation Agent must, by 1700 hours on the 13th business day of each month, compare:

(a) the sum of the total energy quantities billed provided by each retailer for each allocated gas gate in accordance with rule 52.2.1 of the Downstream Reconciliation Rules for the 12 months up to and including the previous invoice month; with

(b) the sum of best available consumption information provided by each retailer for each allocated gas gate in accordance with rules 31 to 33 of the Downstream Reconciliation Rules for the 12 months prior to (but not including) the previous invoice month.

The Allocation Agent must publish the results of the comparison performed under rule 52.2.2 of the Downstream Reconciliation Rules by 0800 hours on the 14th business day of each month.

The GAR080 was manually recalculated for one allocation participant for the periods September 2018 to August 2019 and August 2018 to July 2019. The totals per gas gate matched to three decimal places.

## **5.9 Allocation Agent Reports (Rule 53 of the Downstream Reconciliation Rules)**

No later than one business day after each initial allocation, interim allocation, final allocation or special allocation, the Allocation Agent must publish the seasonal adjustment daily shape values for every allocated gas gate. In respect of each allocated gas gate, by no later than one business day after each initial allocation, interim allocation, final allocation or special allocation, the Allocation Agent must publish the following reports for each allocation:

The sum of the daily metered energy quantities injected at each allocated gas gate for each of the relevant consumption periods as provided by the transmission system owner under rule 41 of the Downstream Reconciliation Rules; and

The sum of the quantities of gas allocated to each retailer in the previous month, in respect of each of the relevant consumption periods, under rules 48 to 51 of the Downstream Reconciliation Rules; and

The total amount of, and the percentage of, UFG at each allocated gas gate for the previous month and previous 12-months.

By 1200 hours on the 5th business day of each month, in respect of each consumption period for which a final allocation has been performed in the previous 12-months, the Allocation Agent must provide a report for each allocated gas gate to retailers and the Industry Body on the percentage of error in the accuracy between:

The aggregated consumption information for consumer installations in allocation groups 3 to 6 provided under rule 31 of the Downstream Reconciliation Rules by each retailer to the Allocation Agent for initial allocation; and

The aggregated consumption information for consumer installations in allocation groups 3 to 6 provided under rule 33 of the Downstream Reconciliation Rules by each retailer to the Allocation Agent for final allocation.

I checked EMS's monthly reports for 2018 and 2019 and there were no reported breaches of the timeliness requirements.

### **5.10 Deemed Profiles (Rules 54 to 62 of the Downstream Reconciliation Rules)**

There are no deemed profiles in use.

### **5.11 Breach Notifications (Regulation 11 of the Compliance Regulations)**

EMS has appropriate processes in place to determine materiality and to report breaches to the market administrator. I checked an example where the process was followed.

## Appendix 1 – Control Rating Definitions

Control Rating	Definition
Control environment is not adequate	<p>Operating controls designed to mitigate key risks are not applied, or are ineffective, or do not exist.</p> <p>Controls designed to ensure compliance are not applied, or are ineffective, or do not exist.</p> <p>Efficiency/effectiveness of many key processes requires improvement.</p>
Control environment is adequate	<p>Operating controls designed to mitigate key risks are not consistently applied, or are not fully effective.</p> <p>Controls designed to ensure compliance are not consistently applied, or are not fully effective.</p> <p>Efficiency/effectiveness of some key processes requires improvement.</p>
Control environment is effective	<p>Isolated exceptions identified when testing the effectiveness of operating controls to mitigate key risks.</p> <p>Isolated exceptions identified when testing the effectiveness of controls to ensure compliance.</p> <p>Isolated exceptions where efficiency/effectiveness of key processes could be enhanced.</p>