



VERITEK

Gas Registry and Switching Performance Audit Final Report

For

Megatel

Prepared by

Steve Woods: Veritek Limited

Date of Audit: 29/06/20

Date Audit Report Complete: 26/10/20



Executive Summary

This Performance Audit was conducted at the request of the Gas Industry Company (GIC) in accordance with Rule 88 of the 2015 Amendment Version of the Gas (Switching Arrangements) Rules 2008.

The purpose of this audit is to assess the systems, processes and performance of Megatel Energy (Megatel) in terms of compliance with these rules.

The audit was conducted in accordance with terms of reference prepared by GIC.

Megatel is owned by Nova and many of their functions are performed by Nova. Megatel is responsible for customer liaison and they manage switching and registry updates.

The summary of report findings in the table below shows that Megatel's control environment is "effective" for 11 of the areas evaluated, "adequate" for two areas and "not adequate" for one area.

Ten of the 14 areas evaluated were found to be compliant. Four breach allegations are made in relation to the remaining areas. They are summarised as follows:

- registry updates are not occurring as soon as practicable in some cases,
- one GAN file was sent late,
- GTN files contained incorrect last reading dates; this is expected to improve now that Megatel is determining the GTN file content and sending this to Nova to manually create GTN files, and
- there were several meter reading estimates incorrectly identified as actuals in GNC files.

Two recommendations are made, as follows:

1. Two GTN read types were incorrect. Rule 72.1.8(d) requires GTN notices to state whether the register reading is an actual reading or an estimated reading, but it does not stipulate that this field must be accurate. I recommend Megatel reviews the process to ensure accuracy.
2. The annualised consumption figure was incorrect for 11 GTN files. Orion calculates annualised consumption over a 12-month period and if the ICP switches to Megatel from Nova or vice versa, the annualised consumption will include a period where the ICP was with another retailer. Rule 72.1.3 requires GTN notices to contain "an annualised consumption (in gigajoules) estimate for the ICP", but it does not stipulate that the estimate must be accurate. I recommend Megatel reviews the annualised consumption calculation to ensure accuracy.

Summary of Report Findings

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Participant registration information	2	Effective	Compliant	Participant registration information is correct.
Obligation to act reasonably	3	Effective	Compliant	No examples of Megatel acting unreasonably were found.
Obligation to use registry software competently	4	Effective	Compliant	No examples of Megatel using registry software incompetently were found.
ICP identifier on invoice	5	Effective	Compliant	The ICP identifier is shown on Megatel's invoices.
Uplift of READY ICP	6	Effective	Compliant	One new connection occurred, and compliance was achieved.
Maintenance of ICP information in registry	7	Adequate	Not compliant	Not all registry updates were made as soon as practicable.
Resolving discrepancies	8	Effective	Compliant	This rule requires the responsible retailer to use "best endeavours" to resolve discrepancies between their data and registry data. I have concluded that the best endeavours threshold has been met because Nova has validation in place and there were no discrepancies identified.
Initiation of consumer switch/switching notice	9.1	Effective	Compliant	All GNT files were compliant.
Response to a gas switching notice	9.2	Effective	Not compliant	One GAN file was sent late.

Gas acceptance notice	9.3	Effective	Compliant	No issues were found with this process.
Gas transfer notice	9.4	Not adequate	Not Compliant	Annualised consumption was incorrect for 11 ICPs. The date of the last reading was incorrect for 17 ICPs. Identification of read type was incorrect for two ICPs. The accuracy of GTN files is expected to improve now that Megatel is determining GTN content and sending this to Nova to manually create files.
Accuracy of switch readings	9.5	Effective	Compliant	Switch readings are accurate.
Gas switching withdrawal	9.6	Effective	Compliant	No issues were found with this process.
Switch reading negotiation	9.7	Adequate	Not compliant	Identification of read type was incorrect for six ICPs.

Persons Involved in This Audit

Auditor:

Steve Woods
Veritek Limited

Megatel personnel assisting in this audit were:

Name	Title
Ria Na	Operations Manager

Contents

Executive Summary	2
Summary of Report Findings	3
Persons Involved in This Audit	5
Contents	6
1. Pre-Audit and Operational Infrastructure Information	7
1.1 Scope of Audit	7
1.2 Audit Approach	8
1.3 General Compliance	9
1.3.1 Summary of Previous Audit	9
1.3.2 Breach Allegations	9
1.4 Provision of Information to the Auditor (Rule 91)	10
1.5 Draft Audit Report Comments	10
2. Participant Registration Information (Rules 7 and 10)	11
3. Obligation to Act Reasonably (Rule 34)	11
4. Obligation to Use Registry Software Competently (Rule 35)	11
5. ICP Identifier on Invoice (Rule 36)	11
6. Uplift of Ready ICP (Rule 54)	12
7. Maintenance of ICP Information in the Registry (Rules 58 to 61)	12
8. Resolving Discrepancies (Rule 62.1)	14
9. Switching	14
9.1 Initiation of Consumer Switch / Switching Notice (Rules 65 to 67)	14
9.2 Response to a Gas Switching Notice (Rules 69 to 75)	15
9.3 Gas Acceptance Notice (Rule 70)	15
9.4 Gas Transfer Notice (Rule 72)	15
9.5 Accuracy of Switch Readings (Rule 74)	16
9.6 Gas Switching Withdrawal (Rules 74A, 75, 76, 78)	16
9.7 Switch Reading Negotiation (Rule 79, 81)	17
10. Bypass of Distributor (Rule 82)	18
11. Recommendations	19
Appendix 1 – Control Rating Definitions	20
Appendix 2 – Megatel Comments	21

1. Pre-Audit and Operational Infrastructure Information

1.1 Scope of Audit

This Performance Audit was conducted at the request of the Gas Industry Company (GIC) in accordance with Rule 88 of the 2015 Amendment Version of the Gas (Switching Arrangements) Rules 2008.

- 88. Industry body to commission performance audits
 - 88.1 The industry body must arrange performance audits of registry participants at intervals of no greater than five years.
 - 88.2 The purpose of a performance audit under this rule is to assess in relation to the roles performed by a registry participant -
 - 88.2.1 The performance of the registry participant in terms of compliance with these rules; and
 - 88.2.2 The systems and processes of that registry participant that have been put in place to enable compliance with these rules.

The audit was conducted in accordance with terms of reference prepared by GIC.

The audit was carried out on 29/06/20 at Megatel's offices in Auckland.

The scope of the audit includes compliance with the "switching arrangements" rules only. There is a separate report for downstream reconciliation.

1.2 Audit Approach

As mentioned in **section 1.1** the purpose of this audit is to assess the performance of Megatel in terms of compliance with the rules, and the systems and processes that have been put in place to enable compliance with the rules.

This audit has examined the effectiveness of the controls Megatel has in place to achieve compliance, and where it has been considered appropriate sampling has been undertaken to determine compliance.

Where sampling has occurred, this has been conducted using the Auditing Standard 506 (AS-506) which was published by the Institute of Chartered Accountants of New Zealand. I have used my professional judgement to determine the audit method and to select sample sizes, with an objective of ensuring that the results are statistically significant.¹

Where compliance is reliant on manual processes, manual data entry for example, the sample size has been increased to a magnitude that, in my judgement, ensures the result has statistical significance.

Where errors have been found or processes found not to be compliant the materiality of the error or non-compliance has been evaluated.

¹ In statistics, a result is called statistically significant if it is unlikely to have occurred by chance. (Wikipedia)

1.3 General Compliance

1.3.1 Summary of Previous Audit

This is the first audit for Megatel under the Gas (Switching Arrangements) Rules 2008, because they are a new participant.

1.3.2 Breach Allegations

Megatel has one alleged switching breach recorded by the Market Administrator during the audit period. This breach was for an incorrect requested switch date for one ICP.

As noted in the Summary of Report Findings, non-compliance was found in four sections of this audit. Breach allegations are made in relation to these matters.

Breach Allegation	Rule	Section in this report
Registry updates not occurring as soon as practicable for eight ICPs.	61.1	7
One late GAN file.	69.1	9.2
Incorrect date of last reading for 17 ICPs.	72.1.5	9.4
Identification of read type incorrect for six ICPs	79.4.6	9.7

1.4 Provision of Information to the Auditor (Rule 91)

In conducting this audit, the auditor may request any information from Megatel, the industry body and any registry participant.

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

1.5 Draft Audit Report Comments

A draft audit report was provided to the industry body (GIC), the registry operator, and registry participants that I considered had an interest in the report. In accordance with rule 92.3 of the 2015 Amendment Version of the Gas (Switching Arrangements) 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. The following responses were received.

Party	Response	Comments provided	Attached to report
Megatel	Yes	Yes	Yes

The comments received were considered in accordance with rule 93.1, prior to preparing the final audit report. No changes were made to the report. Megatel's comments are included in each section where non-conformance is recorded.

2. Participant Registration Information (Rules 7 and 10)

All registry participants must supply registration information to the registry operator. Registration information consists of:

- the name of the registry participant,
- the registry participant's telephone number, physical address, facsimile number, email address, and postal address, and
- identification as to which class, or classes, of registry participant (retailer, distributor or meter owner) that the registry participant belongs.

Registration information must be given in the form and manner required by the registry operator as approved by the industry body. Every person who is a registry participant at the commencement date must supply the registration information within 20 business days of the commencement date. Every person who becomes a registry participant after the commencement date must supply the registration information within 20 business days of becoming a registry participant.

Megatel has supplied correct registration information.

3. Obligation to Act Reasonably (Rule 34)

No examples of Megatel acting unreasonably were found.

4. Obligation to Use Registry Software Competently (Rule 35)

No examples of Megatel using registry software incompetently were found.

5. ICP Identifier on Invoice (Rule 36)

The ICP identifier is shown on Megatel's invoices.

6. Uplift of Ready ICP (Rule 54)

The process was examined for the connection and activation of new ICPs.

New connections are managed via the networks' portals. Progress notifications are automatically generated, and the relevant details are manually loaded into IP BMS (Megatel's database) and into Orion.

There was only one new connection during the audit period, and it was claimed within two business days.

There are no ICPs at "Ready" where Megatel is the proposed retailer.

7. Maintenance of ICP Information in the Registry (Rules 58 to 61)

Retailers must use "reasonable endeavours" to maintain current and accurate information in the registry (Rule 58) and, if a responsible retailer becomes aware that information is incorrect or requires updating, they must correct or update the information "as soon as practicable" (Rule 61). The Rules do not define a specific time period but for the purpose of this audit I checked the reasons for late updates for all ICPs where the update was greater than five business days. I have recorded breach allegations where I consider the reason for the late update was within Megatel's control and additional steps could have been taken to prevent the late update.

Analysis of status events was undertaken to determine whether the registry was populated as soon as practicable. The table below shows the results of the analysis.

Status	Total ICPs	Update greater than 5 days	Update greater than 30 days	Average update days
ACTC	127	16	3	4.0
ACTV	2	1	1	14
INACT	1	0	0	1.0
INACP	0	0	0	N/A

I checked a selection of ICPs for each status to confirm whether compliance was achieved with the requirement to update the information "as soon as practicable".

Status	ICPs checked	Number of breaches
ACTC	30	7
ACTV	1	1
INACT	0	0

INACP	0	0
-------	---	---

ACTC updates				
ICP	Event date	Input date	Business days	Reason
1002038953QTEC3	11/07/2019	22/07/2019	7	Manual process missed the status change following a switch in.
0000383851QTB22	17/07/2019	14/08/2019	20	Manual process missed the status change following a switch in.
0000370281QTB16	10/07/2019	14/08/2019	25	Manual process missed the status change following a switch in.
1001251200NG228	1/07/2019	19/08/2019	35	Manual process missed the status change following a switch in.
0002340071QTD58	26/09/2019	14/10/2019	12	Automated process algorithm incorrect. Status change made manually once it was identified the update was not made.
0000226211QT629	23/10/2019	12/11/2019	13	Automated process algorithm incorrect. Status change made manually once it was identified the update was not made.
0001447675QT0F4	24/10/2019	18/11/2019	16	Automated process algorithm incorrect. Status change made manually once it was identified the update was not made.

Most of the other late updates were due to backdated switching.

ACTV updates				
ICP	Event date	Input date	Business days	Reason
0001413484QT355	17/08/2019	18/09/2019	22	Correction of an event date error

Non-Conformance	Description	Audited party comment
<p>Regarding: Rule 61.1</p> <p>Control Rating: Adequate</p>	<p>Registry not updated as soon as practicable for eight ICPs.</p>	<p>Response: Acknowledge</p> <p>Comments:</p> <ul style="list-style-type: none"> • Automated process was applied in August 2019 • Further improvements to this process were administered in December 2019. • No further occurrences of this have been observed after December 2019.

8. Resolving Discrepancies (Rule 62.1)

Megatel's data is in IP BMS and in Orion. Validation reporting occurs in Orion and is conducted by Nova. Any discrepancies are provided to Megatel for resolution.

I checked several of the validation reports in detail, specifically those where errors could lead to incorrect submission of consumption information to the allocation agent. The reports checked in detail included the following:

- ICP status discrepancies, including status change dates,
- altitude – this is a monthly check between Orion and the registry, any adjustments flow through to the relevant submission and revision files,
- meter pressure discrepancies,
- allocation group, and
- gas gate.

There were no examples of outstanding discrepancies.

9. Switching

9.1 Initiation of Consumer Switch / Switching Notice (Rules 65 to 67)

Megatel has Use of System Agreements in place with all relevant Distributors.

I checked a sample of 20 GNT files to confirm they were sent within two business days of entering into a contract to supply gas to the consumer. No issues were identified. In most cases the contact from the customer was greater than two days from when they moved into the property.

NT files for two standard switches were sent prior to the event date, which was subject to a breach allegation as recorded in **section 1.3.2**.

No NT files were sent more than 10 business days in advance of the switch date. Compliance is confirmed.

9.2 Response to a Gas Switching Notice (Rules 69 to 75)

Within two business days of receiving a gas switching notice, the responsible retailer must provide to the registry:

1. a gas acceptance notice (GAN), or
2. a gas transfer notice (GTN), or
3. a gas switching withdrawal notice (GNW).

The switch breach report contained one late GAN file during the audit period. This occurred in July 2019 before Megatel was monitoring the daily switch breach report.

Non-Conformance	Description	Audited party comment
<p>Regarding: Rule 69.1</p> <p>Control Rating: Effective</p>	<p>One late GAN file.</p>	<p>Response: Acknowledged</p> <p>Comments:</p> <ul style="list-style-type: none"> • Megatel started trading in July 2019. • Within a month daily breach monitoring had been implemented. • No further occurrences of late switching since the monitoring system was adopted in Aug 2019.

9.3 Gas Acceptance Notice (Rule 70)

A sample of 20 GAN files was checked to confirm the accuracy of the content and that the expected switch date was not later than 10 business days as stipulated in Rule 70.2.2.

Compliance is confirmed.

9.4 Gas Transfer Notice (Rule 72)

The content of a sample of 23 GTN files was checked to confirm accuracy. GTN files used to be created automatically out of Orion. The process has changed and now Megatel notifies Nova of the required GTN file content and GTN files are created manually. This process is expected to improve the accuracy of GTN file content.

The following issues were found:

- 17 GTN files had an incorrect date of last reading. This was mainly caused by the incorrect identification of opening reads as actuals when they were estimates.
- Two read types were incorrect. Rule 72.1.8(d) requires GTN notices to state whether the register reading is an actual reading or an estimated reading, but it does not stipulate that this field must be accurate; therefore I have not alleged a breach but I recommend Megatel reviews the process to ensure accuracy.
- The annualised consumption figure was incorrect for 11 GTN files. Orion calculates annualised consumption over a 12-month period and if the ICP switches to Megatel from Nova or vice versa, the annualised consumption will include a period where the ICP was with another retailer. Rule 72.1.3 requires GTN notices to contain “an annualised consumption (in gigajoules) estimate for the ICP”, but it does not stipulate that the estimate must be accurate; therefore I have not alleged a breach but I recommend Megatel reviews the annualised consumption calculation to ensure accuracy.

The switch breach detail report confirmed all GTN files were on time.

Non-Conformance	Description	Audited party comment
<p>Regarding: Rule 72.1.5</p> <p>Control Rating: Not adequate</p>	<p>Incorrect date of last reading for 17 ICPs.</p>	<p>Response: Acknowledge</p> <p>Comments:</p> <ul style="list-style-type: none"> • The issue was identified during the audit. We have implemented a new process to validate all GTN information before sending it to Registry. • Completed May 2020.

9.5 Accuracy of Switch Readings (Rule 74)

The accuracy of switch readings is confirmed by the analysis conducted in **section 9.4**.

9.6 Gas Switching Withdrawal (Rules 74A, 75, 76, 78)

An analysis was undertaken of GNWs (switching withdrawal notices) to identify the number within each reason category. This was done as both the recipient of the GNW and as the initiator of the GNW. The results are shown in the tables below.

GNW files sent and received

NW Files	CR	DF	IN	MI	UA	WP	WS	Total	% of GNTs
GNW Sent (old)	2	1	0	0	0	4	0	7	24%
GNW Sent (new)	12	10	1	0	0	4	1	27	2.8%
GNW Received (old)	17	0	0	2	1	0	13	33	3.4%
GNW Received (new)	0	0	0	0	0	0	0	0	N/A

It is not clear whether the numbers above are typical or not because this is the first switching audit for Megatel.

I checked examples of 12 GNW codes where Megatel was the new retailer and where Megatel was the old retailer. In all cases, the correct codes were used and Megatel had sufficient information to support the withdrawal.

I checked eight examples where GNW files had been sent by other retailers and had been rejected by Megatel. In all cases, Megatel had sufficient information to support the rejection. 2.4% of GNW files received were rejected.

Two of 34 GNW files sent by Megatel (5.88%) were rejected. The information used by Megatel at the time the NW was sent was valid.

Most of the GNW files sent by other retailers were correct, based on a sample of 20 files, with the exception of four sent by one retailer where the "WS" code should have been used rather than the "DF" code.

9.7 Switch Reading Negotiation (Rule 79, 81)

There were 54 instances of Megatel sending a GNC. A sample of 20 of their GNCs were reviewed and all were found to be substantiated. No GNCs were rejected by other retailers. Six GNC files recorded estimated readings as actual readings.

Megatel rejected six GNC files. The reasons were checked and confirmed as reasonable.

Non-Conformance	Description	Audited party comment
<p>Regarding: Rule 79.4.6</p> <p>Control Rating: Adequate</p>	<p>Identification of read type incorrect for six ICPs.</p>	<p>Response: Acknowledge</p> <p>Comments:</p> <ul style="list-style-type: none"> • The issue was identified during the audit. We have implemented a new process to validate all GTN information before sending it to Registry. • Completed May 2020

10. Bypass of Distributor (Rule 82)

Megatel is not the retailer on a bypass network so they do not have responsibilities under this Rule.

11. Recommendations

Two recommendations are made, as follows:

3. Two GTN read types were incorrect. Rule 72.1.8(d) requires GTN notices to state whether the register reading is an actual reading or an estimated reading, but it does not stipulate that this field must be accurate. I recommend Megatel reviews the process to ensure accuracy.
4. The annualised consumption figure was incorrect for 11 GTN files. Orion calculates annualised consumption over a 12-month period and if the ICP switches to Megatel from Nova or vice versa, the annualised consumption will include a period where the ICP was with another retailer. Rule 72.1.3 requires GTN notices to contain “an annualised consumption (in gigajoules) estimate for the ICP”, but it does not stipulate that the estimate must be accurate. I recommend Megatel reviews the annualised consumption calculation to ensure accuracy.

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>

Appendix 2 – Megatel Comments