

<b>Subject</b>	<b>Gas (Downstream Reconciliation) Rules 2008</b> <b>Guideline note for rules 65 to 75: the commissioning and carrying out of performance audits and event audits</b>
<b>Version</b>	<b>3.0</b>
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## **1. Introduction**

- 1.1 Rule 65 of the Gas (Downstream Reconciliation) Rules 2008 (the Rules) requires Gas Industry Co to commission performance audits of allocation participants<sup>1</sup> at regular intervals and upon notification of a proposed major system change. The purpose of a performance audit is to review the performance of an allocation participant, and its associated systems and processes, in terms of compliance with the Rules.
- 1.2 Rule 66 of the Rules provides that Gas Industry Co may commission event audits, either on its own initiative or in response to a request from an allocation participant. The purpose of an event audit is to ascertain the cause or causes of any particular issue or event that has arisen in relation to the allocation of gas under the Rules.
- 1.3 There is no requirement in the Rules for Gas Industry Co to determine or publish the processes and criteria it intends to use for audits. This guideline note has been issued to assist allocation participants in understanding the processes that will be adopted by Gas Industry Co when commissioning audits in accordance with the Rules.
- 1.4 This note is explanatory in nature and is not legally binding. It needs to be read in conjunction with the Rules and the general approach set out for participants in no way reduces the requirement upon participants to know and comply with their obligations under the Rules. This note may be amended from time to time.

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<sup>1</sup> For the purposes of this guideline note only, any reference to 'allocation participant' in this guideline note also includes the allocation agent.

## **2. Appointment and expectations of auditors**

### *Auditor approval*

- 2.1 Rule 68 sets out the provisions governing who may be appointed as an auditor. Auditors must be independent to, and not have a conflict of interest with, the party to be audited. Auditors may not be officers or employees of Gas Industry Co.
- 2.2 In addition to the requirements set out in the Rules, auditors must be able to demonstrate competency in the following areas:
  - (a) Understanding of the process of downstream reconciliation and allocation;
  - (b) Understanding of the systems and processes used by allocation participants;
  - (c) Report writing and communication skills; and
  - (d) Investigative skills.
- 2.3 Due to the complex, technical nature of the Rules, Gas Industry Co is developing a register of approved persons who have the industry knowledge, experience and skill required to act as auditors. To be considered for inclusion on the register, auditors must have completed at least one audit under the Rules to the complete satisfaction of Gas Industry Co. Gas Industry Co has sole discretion on whether to include an auditor on the register.
- 2.4 Auditors who are not on the approved register but who satisfy the selection criteria listed above may be appointed to undertake an audit. Audit reports from unapproved auditors will be peer reviewed (by an approved auditor).
- 2.5 Gas Industry Co will evaluate audit reports on an ongoing basis. Auditors who submit unsatisfactory audit reports may be removed from the approved register at Gas Industry Co's sole discretion. Gas Industry Co also has the discretion to remove an auditor from the approved register for any reason at any time.

### *Auditor appointment*

- 2.6 Subject to the requirements of the Rules, the process to be used for appointing an auditor will be at the discretion of Gas Industry Co. Factors influencing this decision include the size of the audit (a major and relatively costly audit is more likely to be subject to a contestable process), the degree of specialisation of skills and background knowledge involved, and the urgency of the audit.
- 2.7 As provided in rule 68, Gas Industry Co will ask each allocation participant to nominate an auditor to be considered to undertake its performance audit. The selection of an auditor is at Gas Industry's Co's discretion, but it is anticipated that a participant's choices will be

accepted, subject to the nominated auditor fulfilling the necessary criteria. The approval of an auditor has been delegated to the Chief Executive by the Board of Gas Industry Co.

#### *Expectations of auditors*

2.8 Gas Industry Co has the following expectations of auditors:

- (a) Auditors must ensure that they have sufficient resources to enable them to perform their auditing obligations as set out in the Rules in relation to any audits they agree to carry out;
- (b) Subject to any specific terms and conditions in their letter of appointment, auditors may use suitably qualified employees or subcontractors to assist them in carrying out parts of the audit tasks. However, they will be responsible for the accuracy and quality of the final audit;
- (c) Auditors must comply with the External Reporting Board's Auditing Standard ISA (NZ) 610 (and any subsequent revisions or replacement standards) if they are relying on the work of an internal auditor of the allocation participant being audited; and
- (d) Auditors are expected to protect the confidentiality of information where information is provided on a confidential basis (refer also to the section on confidential information below).

### **3. Audit reports**

#### *Content of audit reports*

3.1 Audit reports must address all the matters raised in the terms of reference, in a logical order, with appropriate headings.

3.2 In addition, audit reports must include the following information:

- (a) The auditor responsible for the audit;
- (b) All persons used to perform the audit;
- (c) Comments on the extent to which information was made available to the auditor;
- (d) Clear identification of any alleged rule breaches identified in the course of the audit; and
- (e) Any other matters that the auditor considers relevant to the allocation process or to the event being audited.

#### *Confidential information*

3.3 In providing information to the auditor under rule 69, an allocation participant may indicate where such information is considered to be confidential. Rule 69.5 stipulates that information is confidential if the allocation participant who either owns or holds the information considers that the information is commercially sensitive. Rule 72 provides that such information may be excluded from the draft and final audit reports provided to other allocation participants. It is at the discretion of the auditor as to whether any version of their audit report excludes confidential information (refer rule 72.2). A complete version of the report must be provided to the industry body.

#### **4. Performance audits**

4.1 Performance audits are carried out in relation to allocation participants. Where an allocation participant is a single entity that carries out more than one allocation participant function (eg retailer and transmission system owner or retailer and meter owner) and is the subject of an audit, the audit will generally only relate to the allocation participant function or issue being audited.

##### *Schedule of regular performance audits*

4.2 Rule 65 requires Gas Industry Co to arrange performance audits of allocation participants at regular intervals.

4.3 Gas Industry Co anticipates that performance audits of allocation participants will generally be performed at about two-yearly intervals. This timing will allow all allocation participant actions to be considered within the ambit of at least one audit, as the Rules disallow the auditing of information from earlier than 30 months prior to the commissioning of the audit. However, the timing of subsequent audits for individual allocation participants will depend upon the findings of the baseline audits. If compliance concerns are raised for a particular participant, then Gas Industry Co may choose to increase the frequency of subsequent audits for that participant.

4.4 Gas Industry Co intends to schedule performance audits in a way that accommodates participants' scheduling constraints, to the extent practicable and without delaying the audit programme.

4.5 It is intended that new entrant retailers and new entrant meter owners will be subject to baseline audits within six months of becoming allocation participants.

##### *Terms of reference*

4.6 It is intended that the terms of reference for audits will be substantially similar within each class of allocation participant in order to promote consistency between audits and comparability between audit reports. The terms of reference for subsequent audits are

anticipated to be a combination of generic items and participant-specific issues raised in previous audit reports.

#### *Performance audits outside the regular programme*

- 4.7 Performance audits of an allocation participant may also be initiated in response to a particular issue or event, including the findings of an event audit or another performance audit.
- 4.8 Such extraordinary performance audits will be conducted according to terms of reference that are tailored to suit the particular circumstances of the need for a performance audit. Due to the sensitive nature of such audits, it is anticipated that the resulting audit reports will routinely be peer reviewed to ensure the robustness and integrity of the auditing process.

#### Major change requiring performance audit

- 4.9 Under rule 65.5, Gas Industry Co must arrange a performance audit of an allocation participant upon notification of a proposed change to any of the allocation participant's systems, processes or procedures that could reasonably be considered to be likely to have a major impact on the allocation participant's compliance with the Rules.
- 4.10 Gas Industry Co has identified the following examples or circumstances which may be considered to be system changes that have a major impact. Due to the variety and complexity of allocation participants' systems, this list is by no means exhaustive and allocation participants should seek confirmation from Gas Industry Co:
- (a) implementing a new system or replacing one software package with another, for example:
    - (i) an upgrade from a spreadsheet based system to an integrated solution; or
    - (ii) a move from one software provider to another such as Gentrack to SAP;
  - (b) implementing or replacing a specific system component or module which directly impacts downstream reconciliation, for example introducing a new TOU or mass market billing engine to an existing system.
- 4.11 Changes such as version upgrades to existing software, bug fixes, or upgrades to database management operating systems, communications and other third party software are not regarded as changes causing a major impact.
- 4.12 It will be satisfactory for notifications from the allocation participant to Gas Industry Co to be in the form of an email addressed to [info@gasindustry.co.nz](mailto:info@gasindustry.co.nz). Notifications should contain the following information:

- (a) the nature and cause of the change to systems, processes or procedures that is considered to have a major impact on compliance with the Rules;
- (b) the magnitude of the impact on compliance with the Rules;
- (c) the expected go-live date of the change to systems, processes or procedures;
- (d) the name and contact details of one or more auditors nominated pursuant to rule 68.3 (if any).

4.13 It is likely, given the magnitude of the changes anticipated to be covered by the auditing provision, that allocation participants will undertake substantial testing/auditing independently from the requirement in the Rules. The purpose of an audit under rule 65.5 is not to duplicate any system testing or UAT for the proposed change, but instead to focus on whether the allocation participant's system will be rules-compliant after the implementation of the change. It is likely that the auditor would use any test plans, scenarios and results as an input into his or her own audit.

4.14 The Rules only require that an allocation participant submits to a pre go-live audit, however Gas Industry Co considers that it is good practice for an allocation participant to also conduct a post go-live audit of system changes. If a post go-live audit is not conducted then the performance (in terms of compliance with the Rules) of the allocation participant's system since the change can be addressed in the next regular performance audit under rule 65.1 or, to the extent that a system change triggers a breach, through the compliance regime.

## **5. Event audits**

5.1 Rule 66 allows Gas Industry Co to decide whether and when an event audit should occur. An allocation participant can request that an audit be carried out, but Gas Industry Co has sole discretion to decide whether to commission the event audit and must not grant a request if it considers that request to be frivolous, vexatious or not made in good faith.

5.2 While an 'event' is not defined in the Rules, it may cover a broad range of circumstances related directly or indirectly to the allocation of gas under the Rules, including both long-term issues and one-off events. This approach is consistent with the purpose of an event audit, which is to ascertain the causes of a particular issue or event that has arisen in relation to the allocation of gas under the Rules.

5.3 Particular issues or events that may result in an event audit being commissioned include, without limitation:

- (a) A significant step change in the total actual level/percentage of UFG at a gas gate in a particular consumption period or series of consumption periods, which might indicate a

disruption to the normal pattern of supply and/or significant meter<sup>2</sup> or meter read errors either at the gas gate or at the consumer installation;

- (b) A persistently high positive or negative level/percentage of UFG at a gas gate; or
- (c) Any information or incident that indicates that inaccurate or incomplete data, whether due to meter or meter read errors, data estimation errors, allocation participant system or process errors, or otherwise, is materially influencing the accurate allocation of gas at a gas gate or may be contributing materially to a persistently high positive or negative level/percentage of UFG at a gas gate.

5.4 With regard to item (b) above, Gas Industry Co periodically reviews the gas gates that have high levels of UFG, whether positive or negative, and commissions event audits where necessary to determine the cause(s) of the UFG.

5.5 In relation to other issues or events that may arise but are not mentioned above, Gas Industry Co will generally not consider commissioning an event audit unless specifically requested to do so by an allocation participant under rule 66 and the issue or event is having a significantly adverse or unfair effect on the allocation of gas under the Rules.

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<sup>2</sup> Including corrector register.