VERITEK

Langford Consulting

SWITCHING AUDIT

Genesis Energy Limited 26 September 2016

Under the Gas (Switching Arrangements) Rules 2008 the Gas Industry Company commissioned Langford Consulting and Veritek Ltd to undertake a performance audit of Genesis Energy Limited.

Auditors Steve Woods and Julie Langford

Executive Summary

Under the Gas (Switching Arrangements) Rules 2008 (the Rules) the Gas Industry Company (GIC) commissioned Langford Consulting and Veritek Ltd to undertake a performance audit of Genesis Energy Limited (Genesis).

The purpose of the audit is to:

- assess compliance with the Rules
- assess the systems and processes put in place to enable compliance with the Rules

The audit scope included all three of the Genesis retailer participant codes GENG, GEOL and GEND. It was conducted within the terms of reference supplied by the GIC and within the guideline note *Guideline note for rules 65 to 75: the commissioning and carrying out of performance audits and event audits, version 3.0* (http://www.gasindustry.co.nz/dmsdocument/2858).

The summary of report findings shows that Genesis' control environment, for the fourteen areas evaluated, is "effective" for eight areas, "adequate" for five areas and "not adequate" for one area, the uplift of ready ICPs.

Fifteen breach allegations are made in relation to Genesis regarding the adequate and not adequate areas and are summarised in the following table. The following observations and recommendations were also made:

OBSERVATION It would appear that a number of retailers are using the GNW (switching withdrawal notices) DF (date fail) option to reject legitimate GNTs (notices to transfer). These instances have been raised as breach allegations for participant codes CTCT and MEEN and have been added to the determination of material issues raised table in section 17.

RECOMMENDATION That GEOL, GENG and GEND import the meter location information from the registry into their systems for use by the meter readers and to pass on to subsequent retailers.

Summary of report findings

Issue	**Section**	**Control Rating** (refer to appendix 1 for definitions)	**Compliance Rating**	**Comments**
Participant registration information	2	Adequate	Not compliant	Genesis had not updated its address in the registry
Obligation to act reasonably	3	Effective	Compliant	
Obligation to use registry software competently	4	Effective	Compliant	
ICP identifier on invoice	5	Effective	Compliant	
Uplift of READY ICP	6	Not adequate	Not compliant	Registry notification of new connections was late for all GEOL instances and most GENG instances. A large proportion of status updates take more than 30 business days to complete.
Maintenance of ICP information in registry	7	Adequate	Not compliant	Some status events are taking more the 30 business days to be registered
Resolving discrepancies	8	Effective	Compliant	
Initiation of consumer switch/switching notice	9	Adequate	Not Compliant	A small number of late contract notifications were found against GENG
Response to a gas switching notice	10	Effective	Compliant	
Gas acceptance notice	11	Effective	Compliant	
Gas transfer notice	12	Adequate	Not Compliant	GEOL had provided some incorrect last actual read dates and there were discrepancies between 'actual' and 'estimate' flags
Accuracy of switch readings	13	Effective	Compliant	
Gas switching withdrawal	14	Adequate	Not Compliant	Sampling found GEOL used the wrong code when initiating 2 withdrawals and GENG made 3 invalid withdrawals
Switch reading negotiation	15	Effective	Compliant	

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1. Introduction

Under the Gas (Switching Arrangements) Rules 2008 (the Rules) the Gas Industry Company commissioned Langford Consulting and Veritek Ltd to undertake a performance audit of Genesis Energy Limited (Genesis). The engagement commenced on 29 June 2016, involved a site visit to the retailer on 23 to 25 August, and the production of a draft audit report on 29 September 2016.

The purpose of the audit is to:

- assess compliance with the Rules
- assess the systems and processes put in place to enable compliance with the Rules

The audit was undertaken in parallel with a performance report under the Gas (Downstream Reconciliation) Rules which is reported on separately.

The audit scope included all three of the Genesis retailer participant codes GENG, GEOL and GEND.

In preparing the draft and final reports, the auditors used the processes set out in the guideline note issued on 1 June 2013: *Guideline note for rules 65 to 75: the commissioning and carrying out of performance audits and event audits, version 3.0* (http://www.gasindustry.co.nz/dmsdocument/2858).

2. Participant registration information (rules 7 and 10)

The participant registration information was reviewed.

- The physical address information for GENG, GEND and GEOL were found to be out of date.

3. Obligation to act reasonably (rule 34)

No examples of Genesis acting unreasonably were found.

4. Obligation to use registry software competently (rule 35)

No examples of Genesis using registry software incompetently were found.

5. ICP identifier on invoice (rule 36)

Examples of GEOL, GENG and GEND invoices were viewed and were found to show ICPs.

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 network portal (POCO or Vector's Seibel). Progress notifications are automatically generated and the connection details and registry details are loaded into Orion for GEOL and into Gentrack for GENG. The registry is populated manually for GEOL ICPs and an automated update occurs for GENG ICPs.

The billing team notify the new connection team of any sites that have been livened but with no metering recorded. These are investigated.

Consumption information may not be provided to the allocation agent until the registry is updated, which means that for some ICPs where the status has changed to ACTC, consumption information has not been provided to the allocation agent for the initial allocation.

GEOL

GEOL has only recently started dealing with new connections. There were six ICPs to examine and none had a registry update within the required two business days. The notification from the Distributor to GEOL was later than two business days for three of the six ICPs where the registry update was late.

Status New Connections	Total ICPs	Update greater than 2 days	Update greater than 30 days	Average update days	Percentage compliant
ACTC	2	2	0	11	0.0%
ACTV	1	1	1	95	0.0%
INACT	3	3	0	8.3	0.0%

- Status updates for new connections were not done within 2 business days of entering into a contract for all 6 ICPs

GENG

GENG had 1,209 new connections in the period January 1st to May 31st 2016. The event detail report was examined to check compliance with the requirement to populate the registry within two business days.

Status New Connections	Total ICPs	Update greater than 2 days	Update greater than 30 days	Average update days	Percentage compliant
ACTC	327	327	10	8.8	0.0%
ACTV	2	2	0	6.0	0.0%
INACT	880	759	48	8.2	13.8%

- Status updates for new connections were not done within 2 business days of entering into a contract for all 329 ACTC/ACTV new connections, or 759 of 880 INACT new connections.

GEND

There were three GEND new connections. The registry was populated within two business days for one of the ICPs but was populated late for the other two. There were four updates to Active that were not new connections and all of the changes were made within 30 business days. We consider these changes were made "as soon as practicable".

- Status updates for new connections were not done within 2 business days of entering into a contract for 2 ICPs.

GEOL – Other status event changes

The event detail report was examined for the period 1 January to 31 May 2016 to check the timeliness of other status event changes and the tables below show the results of these plus the new connections.

Status Updates	Total ICPs	Update greater than 2 days	Update greater than 30 days	Average update days
ACTC	1,231	1,064	113	13.4
ACTV	549	524	34	10.5
INACT	71	71	15	33.9
INACP	0	N/A	N/A	N/A

Status updates for events other than new connections do not have a time threshold. Rule 61.1 requires that information changes are made "as soon as practicable". In the auditors' opinion, updates greater than 30 business days are not made "as soon as practicable" and we recommend the associated processes are examined and improved to achieve shorter registry update timeframes.

- There were 162 instances of status event changes (other than new connections) exceeding 30 days

GEOL's Orion system does not automatically update status events on the registry. These are conducted manually on a monthly basis, by creating a batch file and uploading it. Other fields are updated daily or weekly and these changes are also made by creating a batch file and uploading it. When ICPs switch in to GEOL, the status in Orion is automatically ACTC, regardless of the registry status. These are identified through monthly validation. This validation only deals with a snapshot, not a historic "timeline", so if any fields change more than once in a month, the validation process does not deal with this. New ICPs and switched in ICPs have default values of "1" in Orion for altitude and network pressure. The registry notification files are used to populate Orion with the correct information, but it is possible billing and submission to the allocation agent may occur between the population of Orion and the updating of the data.

GENG – Other status event changes

The timeliness of other status event changes was also checked and the table below shows the results.

Status Updates	Total ICPs	Update greater than 2 days	Update greater than 30 days	Average update days
ACTC	5,933	3,760	972	47.7
ACTV	5,085	2,061	246	13.7
INACT	1,997	1,163	54	8.8
INACP	74	65	26	65.7

In the auditors' opinion, updates greater than 30 business days are not made "as soon as practicable" and we recommend the associated processes are examined and improved to achieve shorter registry update timeframes.

- There were 1,298 instances of status event changes (other than new connections) exceeding 30 days

GENG's validation process includes all registry fields and discrepancies are investigated prior to change, to ensure they are not using registry information that may be incorrect.

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 (r58) 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" (r61). The Rules do not therefore define a specific time period but for the purpose of this audit updates that occurred more than 30 business days after the event have been considered an alleged breach.

An analysis of the Genesis participant status events was undertaken to see how promptly the registry was being updated.

GEOL

No of status events	Ave no of bus days	>5 bus days	>30 bus days
1,859	12.3	705	157

- 157 status events occurred more than 30 business days after the actual status change. These were considered an alleged breach in excess of the "as soon as practicable" test.

GEOL breakdown

	No of status events	Paired with
ACTC	1,233	GAS or GTD
ACTV	550	All GAS
INACT	74	GNC/GNM/GVC or GVM
Total	1,857	

The status codes were all paired with legitimate codes.

GENG

No of status events	Ave no of bus days	>5 bus days	>30 bus days
14,602	23.2	4,481	1,160

- 1,160 status events occurred more than 30 business days after the actual status change. These were considered a breach in excess of the "as soon as practicable" test.

GENG breakdown

	No of status events	Paired with
ACTC	6,580	GAS or GTD
ACTV	5,089	GAS
INACT	2,859	GNC/GNM/GVC/GVM
INACP	74	GPC or GPM
Total	14,602	

The status codes were all paired with legitimate codes.

GEND

No of status events	Ave no of bus days	>5 bus days	>30 bus days
6	12.8	3	0

No instances exceeded 30 business days.

GEND breakdown

	No of status events	Paired with
ACTC	5	GAS
INACT	1	GNM
Total	6	

The status codes were all paired with legitimate codes.

8. Resolving discrepancies (rule 62.1)

Genesis has a number of processes in place to identify and resolve discrepancies between the registry and their databases. These processes are run daily, weekly or monthly depending on the impact the discrepancy can have. These processes were examined during the audit and we consider Genesis is using their best endeavours to resolve discrepancies.

9. Initiation of consumer switch / switching notice (rules 65 to 67)

A sample of GNTs (notice to transfers) were reviewed for compliance with the timeframes in r66 and r67.

GEOL: No breaches were found.

GENG: Three breaches were found:

- ICP 0000392331QTE9D A contract date of 11/3/16 was not notified until 4/4/16, a breach of the 2 business day rule in r66.1
- ICP 0001567461QTCF5 A contract date of 22/1/16 was not notified until 25/4/16, a breach of the 2 business day rule in r66.1
- ICP 0003029076NG2A1 A contract date of 18/4/16 was not notified until 29/4/16, a breach of the 2 business day rule in r66.1

GEND: No breaches were found.

GEOL, GENG and GEND: Samples of GNTs for switch type S were reviewed for compliance with r67.3 to ensure switch dates were not being backdated. No breaches were found.

Note that the breach report for Genesis in 2015/2016 shows there was one breach reported by Jade against Genesis for a breach of r67.3, which was found not to be material by the market administrator. (See the table in section 10)

GEOL, GENG and GEND: Samples of GNTs for switch type S and SM were reviewed for compliance with r67.3A to check they weren't sent more than 10 business days prior to the switch date. No breaches were found.

10. Response to a gas switching notice (rules 69 to 75)

The breach report for Genesis for 2015 and 2016 was reviewed. In total this showed 6 breaches against Genesis for switching, all notified by Jade. These are detailed as follows:

	No of breach IDs	No of underlying breaches	Rule	Material?
Genesis	1	2	69.1	No
Genesis	1	1	67.3	No
Genesis	1	1	69.2	No
Genesis	2	4	70.2	1 No 1 Outstanding
Genesis	1	2	70.2,72.2	No

With the exception of the r67.3 breach noted in section 9 these were all related to the response to switching processes. However these were considered to be a relatively small number of breaches (6 breaches out of a total of 46,956 switches) suggesting that in general the Genesis processes showed a high level of compliance.

There were no switching breaches for GEOL on the breach report.

11. Gas acceptance notice (rule 70)

A sample of GANs (acceptance notices) initiated by the three participant codes were reviewed for compliance with the 2 business day rule in r69.1 and the switch date rules in r70.2 and r72.2. No breaches were found.

12. Gas transfer notice (rule 72)

A sample of GTNs (transfer notices) were reviewed for compliance with r72. A sample of both the audited participant as responsible retailer and of the audited participant as the receiving retailer were included within the sample reviewed.

GEOL: There were a number of GTNs where GEOL was the responsible retailer and the last actual read date they had provided to the registry was incorrect

- ICP0000011587GN869 last actual read date provided was 28 May 2016; should have been 24 April 2016
- ICP0000195321QT888 last actual read date provided was 15 January 2016; should have been 12 January 2016
- ICP000163557QT3DC last actual read date provided was 7 April 2016; should have been 29 March 2016
- ICP0004008868NGAD7 last actual read date provided was 20 May 2016; should have been 13 May 2016
- ICP1001248566NG714 last actual read date provided was 18 April 2016; should have been 15 March 2016

GEOL: There was one GTN where GEOL was the responsible retailer and the switch reading type they had provided to the registry was incorrect

- ICP0000021738GN02E on 18/5/16 the switch reading type provided was A; should have been E

GEOL: Where GEOL was not the responsible retailer there was one example where the read type they held in their system did not match that in the registry

- ICP1001247635QTF79 The read type in the registry was E; in GEOL system it was A

GENG: Where GENG is the responsible retailer, they sometimes have a description of A for the last read in their system but they send this as an E to the registry. This is because the read was earlier than the day prior to the switch and the site was vacant, so they are using an earlier actual read as an estimate as at the switch date. This was not considered to be a breach.

GEOL, GENG and GEND: Where GEOL, GENG or GEND were not the responsible retailer they did not import into their system the meter location information provided by the responsible retailer through the registry.

> RECOMMENDATION That GEOL, GENG and GEND do import the meter location information into their systems for use by the meter readers and to pass on to subsequent retailers.

13. Accuracy of switch readings (rule 74)

The accuracy of switch readings were examined as a part of the activities detailed in section 12 above and in section 16 below. There are no additional issues to report in this section.

14. Gas switching withdrawal (rule 74A, 75, 76, 78)

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

GNW (received by audited retailers)

	CR	DF	MI	UA	WP	WS	Total	% of GNTs
GENG	772	53	25	7	90	91	1038	20%
GEOL	118	25	4	0	24	85	256	11%
GEND	0	0	0	0	0	3	3	33%

GNW (initiated by audited retailers)

	CR	DF	IN	MI	UA	WP	WS	Total	% of GNTs
GENG	1974	14	1	4	1	57	188	2239	25%
GEOL	85	17	0	0	0	39	4	145	18%
GEND	0	0	0	0	0	0	0	0	NIL

As this is the first switching audit there are no industry comparisons to assess whether these results for Genesis are high, typical or low. Within the Genesis participant codes it can be seen that the GENG

percentages are significantly higher, both for them initiating the GNW and receiving the GNW, than it is for GEOL.

For GEND the sample is too small to be meaningful. The 3 instances of GNW WS were actually all related (3 ICPs resulting from 1 contract change). GEND accepted the GNW as they had used the wrong switch type.

Samples of these GNWs were then reviewed for the DF (date fail), WP (wrong premise) and WS (wrong switch type) codes as these categories suggest process failures.

GEOL received GNWs sample review

Of the sample of GNWs received by GEOL from other retailers using the DF code reviewed, only one was a legitimate DF issue accepted by GEOL. All the others were retailers not wanting to accept legitimate GNTs for switch dates in the future, but within the 10 day rule. As a consequence of this finding all of these DFs were reviewed and it was found 56% were rejections of legitimate GNTs within the 10 day rule. These have been added to the determination of material issues raised table in section 17.

> OBSERVATION It would appear that a number of retailers are using the GNW DF option to reject legitimate GNTs.

Of the sample of GNWs received by GEOL from other retailers using the WP code, the other retailers all had legitimate concerns.

Of the sample of GNWs received by GEOL from other retailers using the WS code, the other retailers had all made correct challenges.

GENG received GNWs sample review

Of the sample of GNWs received by GENG from other retailers using the DF code all were found to have reasonable grounds.

Of the sample of GNWs received by GENG from other retailers using the WP code, all were found to have reasonable grounds, although one of the sample used a wrong code (should have used CR not WP).

Of the sample of GNWs received by GENG from other retailers using the WS code, all were found to have reasonable grounds. Most related to GENG using S for a vacant site.

GEOL initiated GNWs sample review

Of the sample of GNWs initiated by GEOL using the DF code all were valid challenges.

Of the sample of GNWs initiated by GEOL using the WP code one was incorrect:

- ICP 17641QTA74 Should have used the CE code (not the WP code)

Of the sample of GNWs initiated by GEOL using the WS code one was incorrect:

- ICP 3032114NQ3D1 Should have used the WP code (not the WS code)

GENG initiated GNWs sample review

Of the sample of GNWs initiated by GENG using the DF, WP or WS codes all were valid challenges with the following exceptions:

- ICP 0000021153GN70C Code used DF. This was a rejection of a legitimate NT within the 10 day rule
- ICP 0003029886NG2BB Code used WP. Incorrect code, should have used CR.
- ICP 1001281442QTC99 Code used DF. GNW shouldn't have been sent.

Rejection of withdrawals

GEOL: There were 13 examples of GEOL rejecting withdrawals, which was 5% of all withdrawals. A sample of these were reviewed and it was found they all had reasonable grounds.

GEND: There were no examples of GEND rejecting a withdrawal.

GENG: There were 73 examples of GENG rejecting withdrawals, which was 7% of all withdrawals. A sample of these were selected for review and all of the rejections were found to have reasonable grounds.

15. Switch reading negotiation (rule 79, 81)

GEOL: There were 131 instances of GEOL sending a NC (notice of change). In discussions on-site it was explained that their incidence of NCs was relatively high as their system couldn't negative bill. A sample of their NCs were reviewed and all were found to be substantiated.

GENG: There were 254 instances of GENG sending a NC. A sample of their NCs were reviewed and all were found to be substantiated.

GEND: There were no instances of GEND sending a NC.

16. Bypass of distributor (rule 82)

Genesis is not the retailer on a bypass network so they have no responsibility under r82.

17. Determination of material issues raised

Participant	Summary of issue	Rules potentially breached
GENG/GEND/GEOL	Physical address information on registry out of date for all 3 participant codes	r10.1.1
GEOL	Status updates for new connections were not done within 2 business days of entering into a contract for all 6 ICPs	r54.1
GEOL	There were 162 instances of status event changes (other than new connections) exceeding 30 business days	r61.1
GENG	Status updates for new connections were not done within 2 business days of entering into a contract for all	r54.1

	329 ACTC/ACTV new connections, or 759 of 880 INACT new connections.	
GENG	There were 1,298 instances of status event changes (other than new connections) exceeding 30 business days	r61.1
GEND	Status updates for new connections were not done within 2 business days of entering into a contract for 2 ICPs.	r54.1
GEOL	157 status events occurred more than 30 business days after the actual status change. These were considered a breach in excess of the "as soon as practicable" test.	r61.1
GENG	1,160 status events occurred more than 30 business days after the actual status change. These were considered a breach in excess of the "as soon as practicable" test.	r61.1
GENG	GNTs • ICP 0000392331QTE9D A contract date of 11/3/16 was not notified until 4/4/16, a breach of the 2 business day rule • ICP 0001567461QTCF5 A contract date of 22/1/16 was not notified until 25/4/16, a breach of the 2 business day rule • ICP 0003029076NG2A1 A contract date of 18/4/16 was not notified until 29/4/16, a breach of the 2 business day rule	r66.1
GEOL	GTNs • ICP0000011587GN869 last actual read date provided was 28 May 2016; should have been 24 April 2016 • ICP0000195321QT888 last actual read date provided was 15 January 2016; should have been 12 January 2016 • ICP000163557QT3DC last actual read date provided was 7 April 2016; should have been 29 March 2016 • ICP0004008868NGAD7 last actual read date provided was 20 May 2016; should have been 13 May 2016 • ICP1001248566NG714 last actual read date provided was 18 April 2016; should have been 15 March 2016	r72.1.5
GEOL	GTN • ICP 0000021738GN02E on 18/5/16 the switch reading type provided was A; should have been E	r72.1.8
GEOL	GTN • ICP1001247635QTF79 The read type in the registry was E; in GEOL system it was A	r72.1.8

CTCT	GNW DF • Code used DF. This was a rejection of a legitimate NT within the 10 day rule 0000089291QT433 0000137481QTA3D 0000376731QT961 0000376731QT961 0001778671QT506 1001260099NG915	r75.1.1
MEEN	GNW DF • Code used DF. This was a rejection of a legitimate NT within the 10 day rule 0000141741QT1A8 0001438310QT497 1000549911PGDE5	r75.1.1
GEOL	GNW WP • ICP 17641QTA74 Should have used the CE code (not the WP code)	r76.2
GEOL	GNW WS • ICP 3032114NQ3D1 Should have used the WP code (not the WS code)	r76.2
GENG	GNW DF • ICP 0000021153GN70C Code used DF. This was a rejection of a legitimate NT within the 10 day rule GNW WP • ICP 0003029886NG2BB Code used WP. Incorrect code, should have used CR. GNW DF • ICP 1001281442QTC99 Code used DF. GNW shouldn't have been sent at all.	r75.1.1 r76.2 r75.1.1

18. Conclusion

The summary of report findings shows that Genesis' control environment, for the fourteen areas evaluated, is "effective" for eight areas, "adequate" for five areas and "not adequate" for one area, the uplift of ready ICPs.

The table in section 17 details fifteen breach allegations in relation to Genesis for the adequate and not adequate areas. The following observations and recommendations were also made:

> OBSERVATION It would appear that a number of retailers are using the GNW (switching withdrawal notices) DF (date fail) option to reject legitimate GNTs (notices to transfer). These instances have been raised as breach allegations for participant codes CTCT and MEEN and have been added to the determination of material issues raised table in section 17.
>
> RECOMMENDATION That GEOL, GENG and GEND import the meter location information into their systems for use by the meter readers and to pass on to subsequent retailers.

Appendix 1 Control Rating Definitions

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