

VERITEK

Gas Distributor Audit Report

For



GasNet Limited

Prepared by: Steve Woods – Veritek Ltd

Date of Audit: 06/12/2017

Date Audit Report Complete: 02/03/2018

Executive Summary

This Performance Audit was conducted at the request of the Gas Industry Company (GIC) in accordance with Rule 88 of the Gas (Switching Arrangements) Rules 2008 in effect from 14 September 2015.

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

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

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

Three of the areas evaluated were found to be non-compliant. Breach allegations are made in relation to these. They are summarised as follows:

- One of 151 updates to "Ready" not made within 2 business days
- 13 load shedding category discrepancies were identified
- Not all registry updates made as soon as practicable.

As a result of this performance audit I recommend GasNet implements monitoring of consumption and allocation groups to identify potential load shedding category discrepancies.

Some discussion was held regarding the best information to use for determining load shedding categories and how often updates should occur for ICPs where the consumption may regularly change between categories. I do not believe the allocation group should be relied upon, I think evaluation of consumption information from GIEP files is the best source of data. This is an area where distributors could benefit from a guideline note from GIC to clarify expectations, including the consumption period to use.

With regard to registry updates, I have chosen 30 days as the threshold over which the "as soon as practicable" requirement has not been met. The 30 days is an arbitrary number chosen to provide some consistency across the audit process. I believe a rule change should be considered to provide a specific timeframe for registry population. My suggested approach is to set achievable timeframes recognising that exceptions can occur and in some cases there is reliance on the actions of another participant before the registry can be populated. Changes to decommissioned status are a good example where the distributor is reliant on the retailer to change their status first. I suggest a two tiered rule structure, for example "90% of updates within 5 business days and the remaining 10% within 10 business days".

The matters raised are shown in the tables below.

Summary of Report Findings

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
General obligations	2	Effective	Compliant	GasNet's participant information is correct. There were no examples of unreasonable actions or improper use of the registry.
New connections	3	Effective	Not compliant	All of a sample of 20 ICPs were created within 3 business days One of 151 updates to "Ready" was not made within 2 business days. One incorrect event date
Network pressure	4.1	Effective	Compliant	Network pressure information is correct
ICP altitude	4.2	Effective	Compliant	ICP altitude is correct
Gas gate	4.3	Effective	Compliant	Gas gate information is correct
Load shedding category	4.4	Not adequate	Not compliant	13 load shedding category discrepancies. Additional validation recommended.
Maximum hourly quantity	4.5	Effective	Compliant	This field is not used to determine network charges and is not required to be populated

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Physical address	4.6	Effective	Compliant	All ICPs have unique and complete information
Decommissioned status	4.7	Effective	Compliant	The decommissioned status is correctly used
Connection statuses	4.8	Effective	Compliant	Event dates are correct
Registry validation and correction	4.9	Adequate	Not compliant	Not all registry updates made as soon as practicable.
Creation and decommissioning of gas gates	5	No examples of changes	No examples of changes	
Management of network price category codes	6	Effective	Compliant	
Management of loss factor codes	7	Effective	Compliant	
Disclosure on application	8	No examples of changes	No examples of changes	

Persons Involved in This Audit

Auditor:

Steve Woods
Veritek Limited

GasNet personnel assisting in this audit were.

Name	Title
Deylene Payne	Finance and Administration Supervisor

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1. Pre-Audit and Operational Infrastructure Information

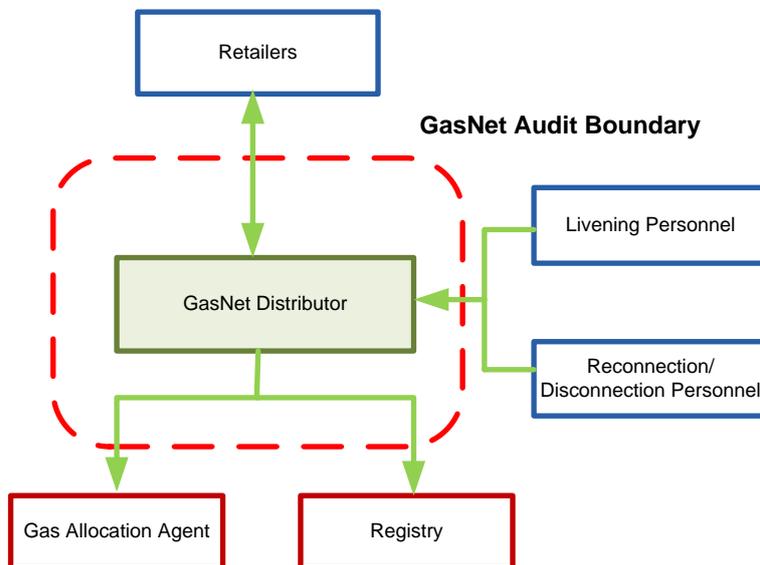
1.1 Scope of Audit

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

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

The audit was carried out on 6 December 2017 at GasNet's office in Whanganui.

The scope of the audit includes the distributor responsibilities only, as shown in the diagram below.



1.2 Audit Approach

As mentioned in Section 1.1 the purpose of this audit is to assess the performance of GasNet 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 GasNet 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 considered statistically significant if it is unlikely to have occurred by chance. (Wikipedia)

1.3 General Compliance

GIC confirmed there are no previous breach allegations for GasNet in relation to the scope of this audit.

1.4 Provision of Information to the Auditor (Rule 91)

In conducting this audit, the auditor may request any information from GasNet, and any registry participant or operator.

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

Information was not required from any other participant in relation to this audit. I consider that GasNet have complied with the requirements of this rule.

1.5 Breach allegations

As noted in the Summary of Report Findings, this audit identified non-compliance in three sections. The following breach allegations are made in relation to these matters.

Breach Allegation	Rule	Section in this report
One late change to Ready	53.1	3.2
13 load shedding category discrepancies	58.1	4.4
Not all registry updates made as soon as practicable.	61.1	4.9

1.6 Gas Gate and ICP Data

GasNet owns and manages the Gas network in the Whanganui region.

There have been no gas gates created or decommissioned in the last year. The table below lists the relevant Gas Gates:

Gas Gate	Description
FLH21901	Flockhouse
LAB20201	Lake Alice
MTN23801	Marton
WAG21501	Wanganui
WTT20301	Waitotara

1.7 ICP data

GasNet provided a list of all ICPs as at September 2017 by way of a registry “list file”. A summary of this data by “ICP status” is as follows:

ICP Status	Number of ICPs 2017
New	665
Ready	378
Active Contracted (ACTC)	9,676
Active Vacant (ACTV)	256
Inactive Transitional (INACT)	2,002
Inactive Permanent (INACP)	3
Decommissioned (DECR)	849

1.8 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 92 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 response was received.

Party	Response	Comments provided	Attached as appendix
GasNet	Yes	Yes	Included in the audited party comments box for each non-conformance and recommendation. Additional comments are attached as appendix 2.

The comments received were considered in accordance with rule 93.1, prior to preparing the final audit report. The following changes to the report were made after considering the comments:

Report section	Requested by	Change
Appendix 2 – GasNet Comments	GasNet	General comments provided by GasNet.

2. General obligations

2.1 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; and
- 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. A person who becomes a registry participant after the commencement date must supply the registration information within 20 business days of becoming a registry participant.

GasNet’s details are correct, compliance is confirmed.

2.2 Obligation to act reasonably (Rule 34)

Every registry participant must act reasonably in relation to its dealings with the registry and, in doing so, must use its reasonable endeavours to co-operate with other registry participants.

No examples of GasNet acting unreasonably were found.

2.3 Obligation to use registry software competently (Rule 35)

Each registry participant must ensure that any software for the registry is used in a proper manner by competent employees or by persons under the supervision of those employees.

No registry participant may request, permit, or authorise anyone other than the registry operator to provide support services in respect of any software for the registry.

Each registry participant must appoint a nominated manager to be responsible for all that registry participant's communications with the registry.

No examples of GasNet using registry software incompetently were found.

3. New connections

3.1 ICP creation (Rules 5.2, 43.1 and 43.2)

ICPs should be created as a unique 15-character identifier assigned to each ICP, having the format `yyyyyyyyyyxxccc`, where:

`yyyyyyyyyy` is the gas connection number specified by the distributor and unique to that connection in the distributor's records
`xx` is an alphabetic combination, determined by the industry body, for use by the distributor when creating the ICP identifier
`ccc` is an alphanumeric checksum generated by an algorithm specified by the industry body

ICPs must be assigned for each consumer installation connected to GasNet's distribution system. The ICP must represent a single point of connection, which:

- May be isolated from the distribution system or transmission system without affecting any other consumer installation;
- Has a single loss factor and a single network price category;
- Has its gas volume measured directly by a single set of metering equipment complying with NZS 5259:2015, or measured indirectly by a method approved by the industry body.

GasNet's process to create compliant ICP numbers was examined. All ICPs are in the correct format, have one loss factor; one price category; one GMS and no ICPs are downstream of other ICPs. GasNet has a process to check for ICP or installation conflicts, indicating that a property already has a gas connection or that an address may be incorrect. Compliance is confirmed.

3.2 ICP assignment (Rule 51.1, 51.2, 51.3, 53.1 and 53.4)

Distributors must assign an ICP within three business days of receiving a request for an ICP from a retailer, or advise the retailer why they are unable to assign an ICP.

Once confirmation is received that the consumer installation is connected, the following information must be updated on the registry within two business days:

- ICP identifier
- ICP creation date
- Responsible distributor code
- Physical address of the consumer installation.

All remaining distributor ICP parameters (apart from ICP and connection status) must be entered on the registry within two business days of confirming those values.

The distributor may change the ICP status to new at any time before the retailer changes the ICP status.

Applications for ICPs are made by retailers by using GasNet forms or their own forms.

New connections are completed by GasNet's technicians and contractors, and fieldwork is managed using the fieldGo system. GasNet's technicians use hand held devices to record job details, and contractors keep paper records. Files from the devices, and scanned copies of paperwork are received daily by the GasNet administration team, who update MIDaS. Sign off sheets are used to ensure that all applicable data is updated for each job completed. As data is entered it is checked for reasonableness, and any anomalies are queried with the technicians. Changed data flows from MIDaS to the Registry each day.

Rule 51.3 requires the registry to be populated within two business days of the distributor receiving confirmation that a consumer has been connected. GasNet creates ICPs at New in the registry once the customer acceptance is received. I checked a sample of 20 new ICPs created between 19/03/15 and 16/05/17 and they were all created within two business days. The sample included one AG1, one AG4 and 18 AG6 ICPs.

Changes to Ready are required to be conducted within two business days. 12 of 151 updates to Ready were later than two business days. Many of these status changes inadvertently occurred at the time other updates were made to the registry. GasNet only has one file format for Network, Pricing and Address changes, so when one set of information changes, it appears the other information is also changing. Ten of the 12 changes to Ready status were a result of other fields being changed, but the file included the proposed retailer field, which automatically changed the status to Ready. The status was subsequently changed back to New for these ICPs. One update was genuinely late (5 days instead of 2).

Non Conformance	Description	Audited party comment
<p>Regarding: Rule 53.1</p> <p>Control Rating: Effective</p>	One late change to Ready	<p>Response: Agree with findings</p> <p>Comments:</p> <ul style="list-style-type: none"> We have changed procedures so that we now conform

4. Registry information management (Rule 58.1 and 58.2)

The distributor must use its reasonable endeavours to maintain current and accurate information in the registry in relation to the ICPs and the ICP parameters for which it has responsibility.

Each fortnight there is a validation carried out between GasNet's records and the Registry. This validation checks for any mismatched fields such as price or loss category. All fields are checked. It was noted that the validation does not check for relational mismatches such as load shedding category against allocation group. I recommend the validation process is reviewed. Further comment is made in the sections below.

4.1 Network pressure

When new ICPs are created, the relevant details from the GIS (including network pressure) are populated.

I checked the accuracy of network pressure by running a query to identify ICPs where less than 60% of the ICPs on a particular street had one pressure and the remaining ICPs had a different pressure. This analysis identified 52 ICPs with possible discrepancies. GasNet analysed these ICPs and the results showed that GasNet's information was correct in all instances.

4.2 ICP altitude

It is a distributor responsibility to populate the registry with correct altitude information to support compliance with NZS 5259.

NZS 5259 Amendment No1 contains the following points, which affect the way altitude information should be managed:

1. The maximum permissible error is $\pm 1.0\%$ where the meter pressure is below 100kPa and $\pm 0.5\%$ where the meter pressure is greater than 100kPa.
2. The following note is also included "To minimise uncertainty due to altitude factor the aim should be to determine the altitude to within 10m where practicable."

GasNet provided a registry list file. A pivot table was created including all ICPs at ACTV and ACTC. Any outlying ICPs across all Gas Gates were checked on Google Earth. The "google earth" data is

based on the “Shuttle Radar Topography Mission” (SRTM) results and a number of recent studies indicate an accuracy of $\pm 10\text{m}$ for altitude. An evaluation against this data is considered an appropriate test for “reasonableness”. Altitude figures that are within approximately 90m of the actual altitude will ensure an accuracy of $\pm 1.0\%$. Point 2 above recommends altitude figures are determined to within 10m where practicable. An evaluation of altitude data on the registry was conducted to check whether this recommendation had been met. As noted above, the margin of error of the “google earth” data appears to be approximately $\pm 10\text{m}$, therefore, to allow for this margin, I have checked that the registry data is within 20m of “google earth” data.

I manually checked 40 ICPs selected at random and the altitude was within 20m for them all.

4.3 Gas gate

This field was checked by running a query to identify examples where between 1% and 60% of ICPs on a road/gate combination were different to the remaining ICPs. This query did not identify any discrepancies.

4.4 Load shedding category

The load shedding category identifies the position of the ICP’s consumer installation in the hierarchy for emergency curtailment of gas. Load shedding categories and codes are determined and published by the industry body from time to time and are consistent with the curtailment bands under Schedule 3 of the Gas Governance (Critical Contingency Management) Regulations 2008.

The categories are shown below.

Category Code	Consumption in Gigajoules (GJ) or Terajoules (TJ)	Load Shedding Category (ie Curtailment Band) Description
0	N/A	Any consumer installation, to the extent that gas is used for injection into gas storage
1	More than 15 TJ per day	Any consumer installation supplied directly from the transmission system and that has an alternative fuel capability
2	More than 15 TJ per day	Any consumer installation supplied directly from the transmission system and that does not have an alternative fuel capability
3	More than 10 TJ per annum and up to 15 TJ per day	Large industrial or commercial consumer installation
4	More than 250 GJ per annum and up to 10 TJ per annum	Medium-sized industrial or commercial consumer installation
5	More than 2 TJ per annum	Any consumer installation (whether or not in bands 0 to 4), to the extent that an essential services designation applies to the installation
6	250 GJ or less per annum	Small commercial consumer installation
7	Any	Any consumer installation (whether or not in any of curtailment bands 0 to 4), to the extent that a critical care designation applies to the consumer installation
DOM	Any	Domestic consumers

I checked the list file for obvious discrepancies between allocation groups, price category codes, property descriptions and load shedding categories. This analysis identified some potential discrepancies, which are summarised in the table below. GasNet investigated all of these discrepancies and the “Actual” column shows the genuine discrepancies; a total of 13.

Scenario	Possible	Actual
Load shedding category DOM with price category and property description indicating otherwise	6	6
Load shedding category 6 with allocation group 4	18	4
Load shedding category 4 with allocation group 1 (it appears the allocation group is incorrect for this ICP)	1	1
Load shedding category 4 with allocation group 6	4	1
Load shedding category 0 where storage is not present (this is a motor lodge)	1	1

I recommend GasNet implements monitoring of consumption and allocation groups to identify potential load shedding category discrepancies.

Non Conformance	Description	Audited party comment
<p>Regarding: Rule 58.1</p> <p>Control Rating: Inadequate</p>	13 load shedding category discrepancies	<p>Response: Agree with findings</p> <p>Comments:</p> <ul style="list-style-type: none"> This is under review and further assistance maybe sought from GIC

Some discussion was held regarding the best information to use for determining load shedding categories and how often updates should occur for ICPs where the consumption may regularly change between categories. I do not believe the allocation group should be relied upon, I think evaluation of consumption information from GIEP files is the best source of data. This is an area where distributors could benefit from a guideline note from GIC to clarify expectations, including the consumption period to use.

4.5 Maximum hourly quantity

The maximum hourly quantity is the maximum quantity of gas, in cubic metres, that the gas-consuming equipment at the consumer installation is capable of drawing per hour. The value is distinct from the capacity of the gas service pipe or metering equipment serving the consumer installation. This field is mandatory only where MHQ is used to determine the distributor’s network charges and it may be conveyed by means of a ‘disclosure on application’ code in accordance with rule 50.

The MHQ is not used to determine network charges. There are 40 ICPs with the MHQ populated but this information is not used for any purpose, therefore I did not check it for accuracy. It is only populated based on advice from retailers.

4.6 Physical address

The physical address assigned by the distributor to the ICP's consumer installation, so that the ICP can be unambiguously identified with the consumer installation, in the registry.

The list file analysis found all addresses were unique with sufficient information to locate the consumer installation.

4.7 Decommissioned status (Rules 59.11 and 59.12)

Decommissioned status may only be assigned where:

- The ICP is removed from future switching and reconciliation processes; and
- Any associated consumer installation is no longer connected to the distribution system.

The decommissioned ICP status may only be changed to inactive-permanent.

GasNet provided an event detail report for the period January 2016 through to October 2017. 40 ICPs were "DECOMMISSIONED". The average registry update timeframe is 18.8 days. Eight were updated later than 30 business days and six of the eight late updates were due to waiting for the retailer to change their status in the registry to allow the ICP to be changed to decommissioned.

GasNet's process includes a step where plans are updated, then MIDaS is updated but the registry can only be updated once the retailer has changed their status field. GasNet checks a list of ICPs fortnightly where they are waiting on retailers to update the registry.

The registry is required to be updated "as soon as practicable". Whilst some updates were late, they were all made as soon as practicable because other events prevented an earlier update.

4.8 Connection statuses (Rule 60)

The distributor must ensure the correct status change date is recorded in the registry. All event dates appear to be correct.

There were two ICPs at the status INACP-GPM. By the time of the audit one ICP was decommissioned and one is now Active. ICPs at this status are monitored.

There are 665 ICPs at the New status. 661 of these were created in 2008 and would have had EDNZ as the retailer initially, but EDNZ is no longer a retailer so the proposed retailer field is blank, meaning GasNet cannot check whether the ICPs are still required.

There are 378 ICPs at Ready and many of these have EDNZ as the proposed retailer, so as with the New ICPs, GasNet is unable to check with the retailer whether the ICPs are still required. The recently created ICPs at the Ready status are actively managed and many were changed to Active between the date of the analysis and the date of the on-site audit.

4.9 Registry validation and correction (Rules 61.1 and 62)

If the distributor becomes aware that registry information is incorrect or requires updating, the responsible distributor must update or correct the registry as soon as practicable.

The distributor registry report should be reviewed, and any corrections required should be entered on the registry by 4pm on the 15th business day of the month.

GasNet carries out a fortnightly validation to identify and resolve discrepancies identified. The validation process appears to be comprehensive and robust.

The other event I examined was the updating of price codes. 13,086 price code changes were made in the period January 2016 to October 2017 and 34 of these appeared to be greater than 30 business days later than the event date. I have concluded that updates over 30 business days are unlikely to achieve the requirement to update “as soon as practicable”. Further analysis showed that most of the changes were for other events, leading to a pricing change at the same time because there is only one file that is sent to the registry. 26 of the late updates were to the MHQ, which is not used by other participants. Seven of the remaining eight updates were due to other events and one ICP appears to have had a late price code update.

The 30 days is an arbitrary number chosen to provide some consistency across the audit process. I believe a rule change should be considered to provide a specific timeframe for registry population. My suggested approach is to set achievable timeframes recognising that exceptions can occur and in some cases there is reliance on the actions of another participant before the registry can be populated. Changes to decommissioned status is a good example where the distributor is reliant on the retailer to change their status first. I suggest a two tiered rule structure, for example “90% of updates within 5 business days and the remaining 10% within 10 business days”.

Non Conformance	Description	Audited party comment
Regarding: Rule 61.1 Control Rating: Adequate	Not all registry updates made as soon as practicable.	Response: Agreed Comments: <ul style="list-style-type: none">Changes to procedures have been made

5. Creation and decommissioning of a gas gate (Rule 45.1 and 45.2)

If a distributor intends to create or decommission a gas gate, the distributor must, at least 20 business days before the creation or decommissioning takes effect, give notice of that gas gate creation or decommissioning. The notice must contain the gas gate codes, the creation or decommissioning date, the parent gas gate if applicable and the ICP identifiers affected.

GasNet are aware of the notification requirements. GasNet commenced development of the Papamoa2 network, but this was sold to First Gas prior to commissioning, therefore the responsibility for notification in accordance with this rule was with First Gas not with GasNet.

6. Management of network price category codes (Rule 46)

Each distributor must determine, publish and maintain a schedule of its network price categories and the respective network price category codes and, except where the distributor requires disclosure on application in accordance with rule 50, the charges associated with each of those codes.

Price category codes are maintained and published. Some updates were made on 09/08/16 for an effective date of 01/10/16.

7. Management of loss factor codes

7.1 Distributors to determine loss factor codes (Rule 47.1 and 47.2)

Each distributor must publish and maintain a schedule of all the loss factors (if any) which apply to gas gates on the distributor's distribution system; and maintain the respective codes for those loss factors.

There is only one loss category code which is published.

The loss factor codes were examined on the Gas Registry and I found that no codes had been added or updated since 2009.

7.2 The addition or deletion of loss factor codes (Rule 48)

If a distributor intends to add or delete any loss factor codes, the distributor must give at least 20 business days' notice to the registry operator, the allocation agent, and all retailers that will be affected by the change.

GasNet are aware of the notification requirements. No loss factor codes have been created or deleted.

8. Disclosure on application (Rule 50)

Disclosure on application may only be used where the participant does not have a reasonably practicable alternative method of protecting its commercial interest in that information, and to the extent necessary to reasonably protect that interest.

Requests for disclosure on application must be responded to within one business day, to confirm whether the information will be provided. The information must be provided within a further business day.

There were no examples of information disclosed on application.

9. Recommendations

As a result of this performance audit I recommend GasNet implements monitoring of consumption and allocation groups to identify potential load shedding category discrepancies.

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 – Additional GasNet Comments

- New Connections - Procedures have been changed so that this happens in the appropriate time frame
- Load Shedding Category's – GasNet have taken on board your recommendations.

Additional comments:

- If an issue is due to software we are and have been in discussions with our software supplier to eliminate or rectify the issue(s) of concern – Rules 53.1, 58.1 & 58.2
- With regards to Registry information 4.9, if the file is altered or adjusted thus resent to the Registry those adjustment / additions are now categorised as a new event.
- Section 4.9 – We agree updates over 30 days isn't acceptable, procedures have been changed so that this happens in the appropriate time frame.
- Section 6 – price updates are now done closer to the effective date