

VERITEK



# Gas Registry and Switching Performance Audit Final Report

For

**Contact Energy Limited**



Prepared by

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Julie Langford: Langford Consulting

Date of Audit: 26/10/16 & 27/10/16

Date Audit Report Complete: 04/01/17

## 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 Contact Energy (Contact) 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 Contact's control environment is "effective" for nine of the areas evaluated, "adequate" for three areas and "not adequate" for two areas.

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

- The registry was not populated within two business days for 1,463 ICPs.
- Registry updates are not occurring as soon as practicable.
- Validation does not occur for all registry fields and some discrepancies have been in existence for long periods, therefore I conclude that the "best endeavours" threshold has not been met in all cases. As a result, consumption information has not yet been corrected for 53 ICPs with incorrect meter pressure.
- A small number of errors are present in GTN files.

As a result of this performance audit I recommend the following:

- Contact has supplied registration information; however the person recorded on the register is on extended leave, therefore I recommend Contact updates the register with more generic information to ensure details do not need changing in future. The email address and phone number is diverted to relevant parties, so I have not recorded this matter as a breach of the rules.
- The list file contains 434 ICPs at the ready status where Contact is the expected retailer. 87 of these were created prior to 2016 and 35 of the 87 were created prior to 2015. I checked a sample of ten ICPs in SAP and none of them have current customers. Although these ICPs are monitored by the distributors, I recommend Contact analyses the list of 87 older ICPs to confirm whether they are still required.
- The annualised consumption figure is calculated from the most recent "normalised consumption" figure divided by the number of days in that month, times 365 days. This will often result in incorrect information, because the snapshot of time is small and sometimes

there may not be consumption in the most recent period but there may be consumption in earlier months. I recommend Contact uses actual consumption data over the longest possible period (up to 12 months) and only estimates periods where consumption data does not exist.

## Summary of Report Findings

Issue	Section	Control Rating (Refer to Appendix 1 for definitions)	Compliance Rating	Comments
Participant registration information	2	Adequate	Compliant	A recommendation is made that Contact uses generic contact details rather than a specific person.
Obligation to act reasonably	3	Effective	Compliant	No examples of Contact acting unreasonably were found.
Obligation to use registry software competently	4	Effective	Compliant	No examples of Contact using registry software incompetently were found.
ICP identifier on invoice	5	Effective	Compliant	The ICP identifier is shown on Contact's invoices.
Uplift of READY ICP	6	Not adequate	Not compliant	The registry was not updated within two business days due to system and process issues. I recommend ICPs at Ready status for long periods are examined to determine whether they are still required.
Maintenance of ICP information in registry	7	Adequate	Not compliant	Not all registry updates were made within a reasonable timeframe.

Resolving discrepancies	8	Not adequate	Not compliant	<p>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 not been met in relation to the following two areas:</p> <ol style="list-style-type: none"> <li>1. Validation does not occur between SAP and the registry for meter pressure and serial number.</li> <li>2. Some ICPs have an incorrect registry status where they are recorded as ACTC but with removed meters.</li> </ol>
Initiation of consumer switch/switching notice	9.1	Effective	Not Compliant	One GNT file was sent later than two business days of entering into a supply contract.
Response to a gas switching notice	9.2	Effective	Compliant	No issues were found with this process.
Gas acceptance notice	9.3	Effective	Compliant	No issues were found with this process.
Gas transfer notice	9.4	Adequate	Not Compliant	A small number of errors were found with GTN 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	Effective	Compliant	No issues were found with this process.

## Persons Involved in This Audit

Auditors:

Steve Woods  
**Veritek Limited**

Julie Langford  
**Langford Consulting**

Contact personnel assisting in this audit were:

Name	Title
Bernie Cross	Energy Reconciliation Manager
Jeff Elliot	IDM Team Leader
Joel Kisteria	Reconciliation Process Analyst
Avtar Singh	Switching Team Leader

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# 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 October 26<sup>th</sup> and 27<sup>th</sup> 2016 at Contact's offices in Wellington.

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 Contact 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 Contact 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.<sup>1</sup>

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.

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<sup>1</sup> 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 Contact under the Gas (Switching Arrangements) Rules 2008.

### 1.3.2 Breach Allegations

Contact has 12 alleged switching breaches recorded by the Market Administrator since July 2014, with 193 underlying breaches. 173 breaches occurred in 2014 and only 20 occurred in 2015. There have not been any breaches during 2016.

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

Breach Allegation	Rule	Section in this report
Registry not populated within two business days for 1,463 ICPs.	54.1	6
Registry updates not occurring as soon as practicable.	61.1	7
The best endeavours threshold has not been met in relation to the following two areas:  3. Validation does not occur between SAP and the registry for meter pressure and serial number.  4. Some ICPs have an incorrect registry status where they are recorded as ACTC but with removed meters.	62.1	8
One late GNT file	66.1	9.1
Incorrect date of last reading for one ICP	72.1.5	9.4
Incorrect identification of one meter reading	72.1.8(d)	9.4
Switch date earlier than requested switch date for 3 ICPs	72.2	9.4

## 1.4 Provision of Information to the Auditor (Rule 91)

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

Information was provided by Contact 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.

<b>Party</b>	<b>Response</b>	<b>Comments provided</b>	<b>Attached as appendix</b>
Contact Energy	Yes	Yes	Yes
Metrix	Yes	No	No
Gas Industry Company	Yes	Yes	No

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

<b>Report Section</b>	<b>Change to Report</b>
8	Clarification that some of the meter pressure discrepancies are due to incorrect information populated in the registry by meter owners.
9.4	Inclusion of a comment that Contact intends to investigate alternative methodologies for calculating annualised consumption.

## **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; 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. 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.

Contact has supplied registration information; however the person recorded on the register is on extended leave, therefore I recommend Contact updates the register with more generic information to ensure details do not need changing in future. The email address and phone number is diverted to relevant parties, so I have not recorded this matter as a breach of the rules.

## **3. Obligation to Act Reasonably (Rule 34)**

No examples of Contact acting unreasonably were found.

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

No examples of Contact using registry software incompetently were found.

## **5. ICP Identifier on Invoice (Rule 36)**

The ICP identifier is shown on Contact'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 loaded into SAP.

One of the main issues with the new connections process is that the physical connection is made at the property when the ICP is still at the "Ready" status, and at this point the consumer hasn't necessarily registered with a retailer. A number of customers do not sign into ICP's until a "vacant disconnection" letter is sent. This is also seen with reconnections. SAP now prompts the call centre to check for dual supply with all new customers.

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. I checked 18 ICPs where the update to the registry was later than 50 business days and I found that submission of consumption information to the allocation agent occurred at the beginning of the following month for 15 of 18 and for the remaining three ICPs, submission information was not provided for the initial allocation but was provided by the time of the interim allocation. A system issue caused late updates for nine of the 18 ICPs; late field notification caused four late updates and processing issues caused the remaining five issues.

The "Maintenance Breach History Report (RET breaches)" report was examined for the period April 2015 to September 2016. This report contained 1,463 ICPs where the initial registry update was later than two business days.

I also examined the event detail report for the period January to September 2016. The table below summarises the registry population timeframes for new connection status changes.

New Connections					
Status	Total ICPs	Update greater than 2 days	Update greater than 30 days	Average update days	Percentage compliant
ACTC	700	699	46	15.1	0.1%
ACTV	10	10	7	30.4	1.0%

The list file contains 434 ICPs at the ready status where Contact is the expected retailer. 87 of these were created prior to 2016 and 35 of the 87 were created prior to 2015. I checked a sample of ten ICPs in SAP and none of them have current customers. Although these ICPs are monitored by the distributors, I recommend Contact analyses the list of 87 older ICPs to confirm whether they are still required.

## 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 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.

Analysis of status events was undertaken to determine whether the registry was populated within a reasonable timeframe. The table below shows the results of the analysis and confirms that not all updates were within a reasonable timeframe.

Status	Total ICPs	Update greater than 5 days	Update greater than 30 days	Average update days	Percentage compliant
ACTC	764	322	44	8.9	94.2%
ACTV	2,273	103	16	0.8	99.3%
INACT	770	11	1	1.7	99.9%
INACP	1	1	1	71	0.0%

## 8. Resolving Discrepancies (Rule 62.1)

Contact has a set of validation processes and reports to identify and resolve discrepancies; which was demonstrated during the audit. The validation compares SAP data to registry data for relevant fields, except meter pressure and meter serial number. Contact intends to add these two fields to their validation process.

I compared Contact's meter pressure data in SAP to the meter pressure field in the registry. There were 102 ICPs with a difference greater than 0.1 kPa. 65 of the 102 discrepancies will result in conversion errors greater than the 1.0% allowed by Table 3 of NZS 5259. Further analysis of this data following the preparation of the draft audit report identified that 12 of the 102 ICPs had a meter pressure on the registry of zero. All 12 ICPs were represented in the 65 ICPs where conversion errors were greater than 1.0%, therefore this number should be 53 because zero is not a valid meter pressure and I have concluded that the meter owner data is incorrect.

Contact's approach to performing historic corrections for incorrect meter pressure was to make a correction where the impact of the incorrect meter pressure resulted in the combined error of all factors exceeding 1.5%. This generally occurred where the meter pressure mismatch exceeded 4 kPa. This policy resulted in corrections occurring for meter pressure conversion errors greater than approx. 4% but correction did not occur for meter pressure conversion errors between 1% and 4%. Meter pressure errors were identified by the “Registry Amendments Implementation Group” (RAIG) in late 2014. Contact had a total of 1,020 errors, but correction only occurred for 41 ICPs where the

error was greater than 4kPa. There were a further 189 ICPs with errors between 1kPa and 4 kPa. Contact has changed their threshold to 1.0% since the date of the audit.

There are 49 gas gate discrepancies between SAP and the registry. These are caused by a system error at the time of switch in. The system is loading data from the registry for the earliest network event date rather than for the switch date, and the gas gate is sometimes different at the earlier date than the switch date. Submission to the allocation agent is occurring against the correct gas gates for these ICPs because the gates in question are all part of notional gas gates where submission occurs at the notional gate level. Contact is in the process of resolving this matter.

I checked a sample of 28 ICPs that were ACTC but where meters were recorded as “removed” in the registry. Some ICPs have an incorrect status on the registry because SAP has them as inactive.

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 not been met in relation to the following two areas:

5. Validation does not occur between SAP and the registry for meter pressure and serial number.
6. Some ICPs have an incorrect registry status where they are recorded as ACTC but with removed meters.

## 9. Switching

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

I checked a sample of GNT files to confirm they were sent within two business days of entering into a contract to supply gas to the consumer. One GNT file was sent two days late out of ten that were checked. This does not achieve compliance with rule 66.1.

All NT files for standard switches were sent prior to the event date. Compliance is confirmed.

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 confirmed there were no late files during the audit period.

### 9.3 Gas Acceptance Notice (Rule 70)

A sample of 15 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 20 GTN files was checked to confirm accuracy. The following issues were found:

- One GTN file had an incorrect date of last reading.
- The same GTN file mentioned above had the reading labelled as an actual and it should have been labelled as an estimate.
- The annualised consumption figure is calculated from the most recent “normalised consumption” figure divided by the number of days in that month, times 365 days. This will often result in incorrect information, because the snapshot of time is small and sometimes there may not be consumption in the most recent period but there may be consumption in earlier months. I recommend Contact uses actual consumption data over the longest possible period (up to 12 months) and only estimates periods where consumption date does not exist. I checked ten ICPs where the annualised consumption was zero in the GTN file and zero was incorrect for four of the ten. This matter is not recorded as a breach because the rules do not stipulate an accuracy threshold for this field. A recommendation is made in section 11 that improvements are made in relation to this field. Contact intends to adopt this recommendation and investigations into alternative methodologies are underway.

The switch breach detail report contained three ICPs where the actual switch date was earlier than the requested switch date. This is a breach of rule 72.2.

### 9.5 Accuracy of Switch Readings (Rule 74)

The accuracy of switch readings is discussed in Section 9.4 above.

## 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
NW Sent (old)	816	18		19		41	174	1,068	11.73%
NW Sent (new)	139	100	1	4		48	17	309	3.39%
NW Received (old)	1,274	20		15		48	161	1,518	17.60%
NW Received (new)	196	12	1	9		89	2	307	3.56%

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

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

I checked examples where GNW files had been sent by other retailers and had been rejected by Contact. In all cases, Contact had sufficient information to support the rejection. 4.3% of GNW files received were rejected.

96 of 1,409 GNW files sent by Contact (6.8%) were rejected. Two of a sample of ten were rejected incorrectly and were then accepted when Contact discussed the matter with the relevant retailer.

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 250 instances of Contact sending a GNC. A sample of their GNCs were reviewed and all were found to be substantiated.

There were 241 GNCs sent by other retailers, indicating inaccurate switch reads by Contact.

There were 41 GAC files sent by Contact where they rejected the other retailer's switch read. There were 33 of 205 ICPs where the other retailer rejected Contact's proposed read.

I checked a sample of NC files sent by Contact and their read was confirmed as correct in all cases. The same is true for a sample of GNC files received by Contact, in all cases, Contact agrees with the proposed reading change.

Rejected GAC files were examined and I found that rejections were only occurring when there was disagreement with the reading provided and acceptance was then confirmed once a reading had been negotiated. The process is working as expected.

## 10. Bypass of Distributor (Rule 82)

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

## 11. Recommendations

As a result of this performance audit I recommend the following:

- Contact has supplied registration information; however the person recorded on the register is on extended leave, therefore I recommend Contact updates the register with more generic information to ensure details do not need changing in future. The email address and phone number is diverted to relevant parties, so I have not recorded this matter as a breach of the rules.
- The list file contains 434 ICPs at the ready status where Contact is the expected retailer. 87 of these were created prior to 2016 and 35 of the 87 were created prior to 2015. I checked a sample of ten ICPs in SAP and none of them have current customers. Although these ICPs are monitored by the distributors, I recommend Contact analyses the list of 87 older ICPs to confirm whether they are still required.
- The annualised consumption figure is calculated from the most recent “normalised consumption” figure divided by the number of days in that month, times 365 days. This will often result in incorrect information, because the snapshot of time is small and sometimes there may not be consumption in the most recent period but there may be consumption in earlier months. I recommend Contact uses actual consumption data over the longest possible period (up to 12 months) and only estimates periods where consumption data does not exist.

## 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 – Contact Energy Comments

In general terms Contacts switching performance has improved noticeably since the last performance audit which is pleasing to note.

### Section 8: Resolving Discrepancies

Contact's review of the exceptions to support your findings includes a number of instances where the meter pressure recorded on the registry is zero. Contact believes the registry value is incorrect and in these instances our meter pressure is correct. Can you please update for number of exceptions you have identified as Contact being in breach for. Additionally can you please include an appropriate comment highlighting that some of the meter pressure exceptions identified in this performance are attributable to incorrect meter owner information.

### Section 9.4 Gas Transfer notice

Contact agrees that we should be providing a better estimate of annualised consumption and have begun investigating an alternative methodology for calculating annualised consumption.