Economic Regulation Authority

Notice

22 December 2015

Electricity Retail Corporation

2015 PERFORMANCE AUDIT

The report on the 2015 performance audit (Audit) for Electricity Generation and Retail Corporation's (t/a Synergy) electricity retail licence, ERL1, has been published by the Economic Regulation Authority (**ERA**). The report includes the post-audit implementation plan prepared by Synergy.

- 2015 Audit report

Action by the ERA

The ERA is concerned about Synergy's compliance with a number of its licence conditions during the audit period. However, the ERA acknowledges that Synergy has rectified a number of the non-compliances disclosed in the Audit, and has developed a plan to rectify the remainder by early 2016. Accordingly, the ERA has decided to maintain the period of time until the next Audit at 24 months. The next Audit will cover the period from 1 July 2015 to 30 June 2017, with the report on the Audit to be provided to the ERA by 30 September 2017.

BACKGROUND

2015 Audit Findings

The auditor assessed 279 licence obligations in the Audit, of which 51 obligations were not rated (NR) because no relevant activity occurred during the audit period; however, the auditor tested the effectiveness of the controls for 48 of these obligations and made recommendations to strengthen controls for nine of them.

Of the 228 obligations that were tested for both compliance and controls:

- 170 obligations achieved a rating of A1 (compliant with adequate controls);
- seven obligations were rated B1 (compliant with a controls improvement opportunity);
- 26 obligations were rated as A2 (minor non-compliance with adequate controls);
- 12 obligations were rated B2 (minor non-compliance with controls improvement needed);
- Five obligations were rated as A3 (moderate non-compliance with adequate controls);
- seven obligations were rated as B3 (non-compliance with moderate impact, controls improvement required); and
- one obligation was rated as B4, non-compliance with major impact, controls improvement required.

One obligation was rated as B4 because a system error disabled SAP (Synergy's billing and customer management system) task reminders to issue disconnection warning notices. This resulted in disconnection warning notices being issued outside the required timeframe, giving customers less time than prescribed by the Code of Conduct[1] to act on the warning notice.

The auditor gave a compliance rating of 3 to 13 obligations because each non-compliance either caused a relatively minor impact on a large number of customers, or had a moderate impact on a targeted, smaller group of customers. All except one of the 13 non-compliances that were rated 3 related to obligations under the Code of Conduct, and included non-compliances relating to billing, overcharging, temporary suspension of actions for customers in financial hardship, and arranging for disconnections and reconnections. The other non-compliance related to the maintenance of accurate and up to date records for each metering point under the *Electricity Industry (Metering) Code 2012* (Metering Code).

The ERA is of the view that the most concerning findings of the 2015 Audit were:

- A significant number of customers in receipt of government concessions either did not receive their concessions, or received bills that did not provide accurate information about their concessions.[2]

- A significant number[3] of customers did not receive accurate or timely bills, or were billed for consumption that they were not liable to pay for.[4]

- There were 3,210 customers who did not receive a financial hardship assessment within the three day period prescribed in the Code of Conduct. The report states that the average wait before for an assessment to be completed was four days, which implies that there were some customers who did not receive an assessment until much later than four days.

- Contraventions, other than those listed above, that have had an adverse impact on customers, with some customers receiving unwarranted payment reminders, notices of disconnection and, in a small number of cases, being wrongfully disconnected.

The non-compliances identified in the Audit can be divided into four groups of root causes:

1. Customer address details being incorrect in SAP due to human error in the customer set up stage;
2. Customer Service Representative (CSR) errors: entering incorrect data in SAP, or failing to follow operating procedures;
3. SAP process errors, where an automated process malfunctioned, often following a system change in SAP; and

[1] *Code of Conduct for the Supply of Electricity to Small Use Customers*
[2] The auditor was not able to report on the total number of customers affected.
[3] The auditor was not able to provide the total number of customers affected.
[4] The ERA notes that Synergy refunded monies that were wrongfully charged once it became aware of the error.

4. External causes, such as customers not notifying Synergy on time about move in/move outs, or Western Power not providing metering data to Synergy on time.

The ERA notes that, in May 2015, Synergy implemented changes to SAP intended to strengthen controls by automatically aligning the Land Information Authority (Landgate) address data and Western Power supply addresses (the cause of a number of non-compliances involving customer communication errors). The ERA is of the view that there might be scope to further reduce the incidence of data entry, or data process errors in SAP, by implementing changes to enhance the level of data validation at the point of entry.

The ERA is concerned by the fact that several non-compliances, some of which have affected large numbers of customers, resulted from system errors introduced by the application of a system change on SAP. As an example, Synergy implemented a system change to the My Account web system which adversely affected 7,900 customers in receipt of concessions (the customers did not receive correct information regarding their entitlements).

The auditor considered the written operating procedures to be accurate and up to date, CSR training/refresher training is being provided, and the overall design of SAP is compliant with the relevant regulatory obligations. This is consistent with the Audit findings that a majority of the non-compliances resulted from human error, which is difficult to fully mitigate in the complex regulatory environment that Synergy operates in, or when changes have been made to SAP functionality (the functions that have not been changed appear to be stable and compliant).

The ERA notes that Synergy has strengthened its internal compliance monitoring capability since the previous Audit (conducted in 2013). These improvements have increased Synergy's ability to proactively identify and remedy non-compliances on an ongoing basis, rather than relying on audits and annual Compliance Reports to the ERA to detect non-compliances. The control ratings provided by the auditor did not identify any instances of ineffective controls, even in relation to the obligations that were rated non-compliant.

The auditor made 40 recommendations to address the 33 non-compliances and 15 controls improvement opportunities that had not been addressed when the Audit was conducted. Synergy's post-audit implementation plan states that the actions to address the auditor's recommendations are due to be completed by 31 January 2016. The ERA will monitor Synergy's actions in addressing the auditor's recommendations.

The ERA decided to maintain the Audit period at 24 months because of the improvements to Synergy's internal compliance monitoring capability, the controls that are in place to manage compliance with the licence obligations, and the commitment to promptly rectifying the remaining outstanding non-compliances.

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