Economic Regulation Authority

Notice

13 February 2018

Electricity Generation and Retail Corporation (trading as Synergy)

2017 PERFORMANCE AUDIT OF ELECTRICITY RETAIL LICENCE ERL1

The Economic Regulation Authority (**ERA**) has published the report on the 2017 performance audit of electricity retail licence ERL1 held by the Electricity Generation and Retail Corporation (trading as Synergy).

Action by the ERA

The audit found that Synergy had not complied with 53 of the 283 obligations applicable to its licence. Six of these non-compliances materially affected customers.[1]

The ERA considers that Synergy needs to improve compliance with its licence. The ERA has decided to maintain an audit period of 24 months. The next audit will cover 1 July 2017 to 30 June 2019, with the report to be provided to the ERA by 30 September 2019.

Forty non-compliances were caused by call centre staff making errors or not following standard operating procedures. The auditor recommended that Synergy undertake further root-cause analysis of the incidents and automate tasks where feasible to reduce the risk of error.

Ten non-compliances were due to changes in Synergy's customer management and billing system, because there was no formal change management process to ensure that the compliance team was consulted as part of any system change. Synergy has begun to implement improvements to its change management processes.

The ERA has asked Synergy to provide a plan by 28 February 2018 detailing the measures it will take to address these non-compliances. The ERA will monitor progress with the plan through receiving regular updates.

Background to the ERA's decision

Audit ratings and recommendations

The auditor's assessment of the 283 obligations applicable to Synergy's licence found:

- three were rated B3 (generally adequate controls, non-compliant with moderate impact);
- 43 were rated B2 (generally adequate controls, non-compliant with minor impact);
- seven were rated A2 (adequate controls, non-compliant with minor impact);
- six were rated A1 (adequate controls, compliant);
- 156 were rated NP/1 (controls were not assessed, compliant);

[1] For example, 95 customers were wrongfully disconnected and 1,000 customers did not receive the concessions they were entitled to.

- one was rated A/NR (adequate controls, compliance not assessed);[2] and
- 67 were rated NP/NR (controls and compliance were not assessed).

The audit found 53 non-compliances. Six of the non-compliances were carried forward from the 2015 audit, because they were not resolved until some point in the 2017 audit period. There was also a single non-compliance from the 2017 audit that was resolved during the audit period.

Effects of non-compliance on customers

The ERA is particularly concerned that six of the non-compliances[3] materially affected some customers. These customers experienced one or more of the following:

- wrongful disconnection;
- going into payment difficulties or financial hardship;
- being incorrectly charged late payment fees, or interest charges on outstanding debt;
- not receiving the concessions they were entitled to; and
- being without power for longer periods than they should have been.

Audit recommendations and post-audit implementation plan

The auditor made eight recommendations to address the 46 remaining unresolved non-compliances. Synergy has completed two recommendations since the audit was completed,[4] leaving six recommendations yet to be completed.

A large proportion of the unresolved non-compliances are addressed by more than one recommendation. The auditor took this approach because the audit identified common causes for several non-compliances. This is discussed further later in this notice.

The post-audit implementation plan prepared by Synergy[5] states that, where a date is provided,[6] the actions to address the recommendations are due to be completed by 30 April 2018.

Causes of non-compliance

The causes of the non-compliances can be grouped into three general areas:

- Customer service agents (CSAs) in Synergy's call centre failing to follow standard operating procedures.[7]
- Errors introduced by process and system changes to Synergy's customer management and billing system (SAP).[8]
- Synergy's failure to adequately manage its contract with its call centre contractor, Stellar Asia Pacific (Stellar), to ensure its CSAs meet the performance standards required under the contract.[9]

Each cause is discussed in more detail below.

Failure to follow standard operating procedures

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[2] Compliance could not be assessed because there was no activity during the audit period to exercise the obligation.

[3] Licence obligations 154, 155, 156, 202, 229 and 243.

[4] Recommendations 5/2017 and 7/2017.

[5] The plan is in Appendix C (pages 234 to 242) of the audit report.

[6] Some of the action plans to address the auditor's recommendations are in multiple parts. In some cases there are parts that are described as "business as usual activity", because the action to address the recommendation is in the form of ongoing performance monitoring.

[7] See issues 1/2017 and 2/2017 on pages 17 to 19 of the audit report.

[8] See issue 5/2017 on page 23 of the audit report.

[9] See issues 2/2017 and 3/2017 on pages 18 to 20 of the audit report.

Synergy relies on CSAs following a set of standard operating procedures that cover almost all of its customer activities, including regulated activities. CSAs' failure to follow the procedures, and the limited controls on the data changes that CSAs can make to SAP, has contributed to most of the non-compliances found in the audit.

For some time, Synergy's primary response to the CSAs' failure to follow procedures has been to provide feedback and coaching to the CSA, and to hold regular refresher training sessions with CSAs. The evidence of the past two audits shows that these responses have not materially reduced the level of non-compliances caused by CSA error.

Recommendations 1/2017 and 2/2017 require Synergy to consider implementing changes to SAP to automate tasks to reduce the risk of CSA error.

Errors caused by SAP system changes

There were 10 non-compliances that were the result of errors introduced by system changes on SAP. The auditor has identified a lack of consultation with compliance staff as part of the change management process to be the primary factor causing the non-compliances. Shortcomings in the testing of system changes have also contributed to the non-compliances.

Synergy has now appointed a Change Implementation Manager to oversee the change management processes for SAP. The ERA sees this as a positive step, which it hopes will lead to a substantial reduction in the level of non-compliances caused by system changes.

Contract with Stellar

The auditor's observations identified poor contract management processes by Synergy.

There was no formal framework in place for the monthly 'calibration' meetings with Stellar to review its performance under the contract. This resulted in poor record keeping and not having a tracking and reporting mechanism for action items arising at each meeting.

The auditor found that Synergy had not enforced the parts of the contract that deal with reporting on key performance indicators addressing regulatory compliance. The auditor also raised concerns about the basis for reporting regulatory compliance under the contract.[10] This is important because Synergy bases its reporting of non-compliance to the ERA on the data provided by Stellar.

The ERA considers that implementing recommendations 3/2017 and 4/2017 will improve Synergy's reporting on regulatory compliance performance and, if a rigorous root-cause analysis of high volume and systemic non-compliances is undertaken, reduce the level of non-compliance caused by CSA errors.

Compliance history

Synergy's overall compliance performance has not materially improved since the previous audit in 2015. Taken together, both audits cover a combined period of four years.

The 2015 audit found 51 non-compliances and the 2017 audit found 53 non-compliances, of which six had been carried forward from the 2015 audit because they were not rectified until the 2017 audit period. This leaves 47 new non-compliances during the 2017 audit period.

Thirty-two of the 47 new non-compliances in the 2017 audit were also non-compliances in the 2015 audit.

The ERA acknowledges that it is difficult for Synergy to fully comply with the licence obligations that affect a large number of customer transactions, such as issuing bills to customers on time. However, these obligations comprise a small proportion of the total applicable to Synergy.

[10] The auditor found the calculations were based on the percentage of population [of total transactions] versus the preferred method of percentage of the QA testing population [a sample of the total transactions].

ERA's response to the audit

Synergy's compliance with the licence has not improved since the 2015 audit.

The 2017 audit found that a large number of the non-compliances were caused by systemic issues with CSAs not following standard operating procedures and errors introduced by changes to the SAP system. Both of these issues were also responsible for a substantial number of the non-compliances in the 2015 audit.

The ERA considers the systemic problem with CSAs not following procedures was exacerbated by Synergy's failure to adequately monitor the performance of its call centre contractor, Stellar, and or to analyse the cause of non-compliances that were materially affecting customers.

The risk of errors being introduced by SAP system changes could have been reduced if Synergy had involved its compliance staff in its SAP change management process. This is now being addressed by the recent appointment of a Change Implementation Manager to oversee SAP system changes.

The auditor has recommended that Synergy undertake root-cause analysis of high volume incidents caused by CSAs' failure to follow standard operating procedures and, where feasible, automate tasks in SAP to reduce the risk of CSA error. The ERA supports this recommendation, but it should be extended to cover the obligations arising from the non-compliances that have materially affected customers over the period covered by the 2015 and 2017 audits.

In its post-audit implementation plan, Synergy has committed to undertaking the recommended root-cause analysis. The ERA has requested Synergy provide it with a detailed plan for the root-cause analysis. It will monitor progress with the plan by receiving regular updates from Synergy.

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