

# Participant audit guideline

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## Guidelines

2 May 2017



## Version control

Version	Date amended	Comments
1	25 October 2016	Draft for consultation
1.1	2 May 2017	Finalise following consultation

## Executive summary

This guideline has been produced by the Electricity Authority (Authority) to provide an overview of the audit process for participant audits required under Parts 10, 11, 15, and 16A of the Electricity Industry Participation Code 2010 (Code).

The audit information submitted to the Authority supports the Authority's decision-making processes for approval, certification, and next audit date decisions.

This guideline covers:

- the audit process
- material change audits
- distributed unmetered load audits
- compliance plans
- initial audit requirements.

The information in this guideline is not intended to be definitive and should not be used instead of legal advice. If there is any inconsistency between this information and the Code, the Code takes precedence.

All clause references in this guideline refer to clauses of the Code.

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# 1 About participant audits

- 1.1 The audit regime comprises of the audit, certification, and approval processes that apply to auditors, participants, and the Authority under Parts 10, 11, 15, and 16A of the Code.
- 1.2 This guideline provides an overview of the audit process for participant audits required by the audit regime.
- 1.3 The following participants are subject to audits under the audit regime:
- approved test houses (Class A and Class B)
  - dispatchable load purchasers
  - distributors
  - metering equipment providers (MEPs)
  - reconciliation participants.
- 1.4 Audited participants must arrange regular audits and provide their audit reports to the Authority.

## Purpose and goals of the audit regime

- 1.5 The purpose of the audit regime is to:
- evaluate participants' compliance with the Code provisions that are audited under the regime
  - enable the Authority to make informed decisions regarding the certification, approval, and audit frequency of participants
  - support the efficient operation of the electricity industry.
- 1.6 The key goals of the audit regime, or the things that the Authority wants to achieve with the audit regime, are:
- the timely and accurate settlement of the wholesale electricity market
  - timely and error-free ICP switching
  - for participants to provide accurate and complete information to others in a timely manner.

## Being audited in light of the purpose

- 1.7 When conducting an audit, the auditor will complete the following for each auditable Code clause:
- (a) assessment of compliance, including:
    - (i) whether the audited participant complied with its obligations under each Code clause
    - (ii) the extent of the audited participant's compliance over the audit period.
  - (b) if the audited participant has not complied with the Code, an assessment of the overall impact of the breach including the:
    - (i) direct market impact on all participants and consumers
    - (ii) potential market impact on all participants and consumers

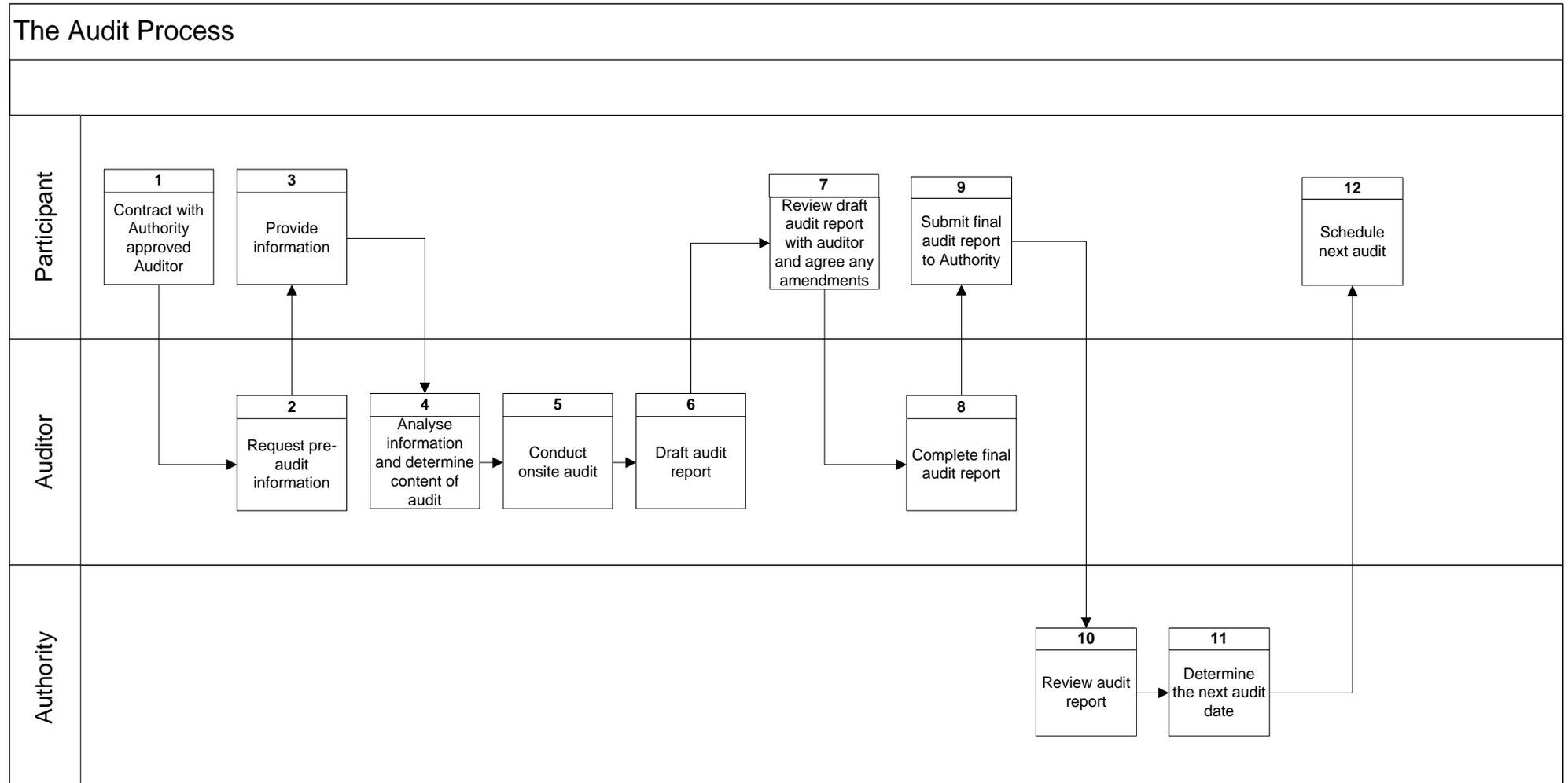
- (iii) controls the audited participant has in place
  - (iv) risk of future breaches by the audited participant.
  - (c) if the breach was unavoidable, or the wording of the Code is leading to inefficient market outcomes, the auditor will provide an assessment describing this and will:
    - (i) report breaches for participants whose breach of the Code has resulted in the audited participant being in breach<sup>1</sup>
    - (ii) raise issues where there is an issue that may require regulatory intervention.
- 1.8 If the auditor identified a non-compliance with the Code, the audited participant will have the opportunity to provide further details regarding the breach in the audit report, including:
- (a) the actions being taken to correct the breach
  - (b) actions taken to prevent recurrence
  - (c) the timeframe for implementing any corrective actions.
- 1.9 The Authority will consider the information provided under paragraphs 1.7 and 1.8 when making a decision about the audited participant's certification, approval, and next audit date.

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<sup>1</sup> For example: where an MEP has not complied the timeframe for updating the registry, but this is a consequence of the trader not nominating the MEP within the timeframes specified in the Code.

## 2 The Audit process

2.1 This section describes the general process that is followed to schedule and undertake a planned audit.



**Table 1: Summary of audit process**

Step	Responsible party	Process	Sections
1	Participant	Contract with Authority approved auditor	2.5–2.9
2	Auditor	Request pre-audit information	2.10
3	Participant	Provide information	2.11, 2.12
4	Auditor	Analyse information and determine content of audit	2.13
5	Auditor	Conduct onsite audit	2.14–2.16
6	Auditor	Draft audit report	2.17–2.21
7	Participant	Review with auditor and agree amendment	2.22–2.26
8	Auditor	Complete final audit report	2.27–2.29
9	Participant	Submit audit report to Authority	2.30–2.37
10	Authority	Review the audit report	2.38–2.41
11	Authority	Determine next audit date	2.42, 2.43
12	Participant	Schedule next audit	2.44–2.48

## Before you start

2.2 Before beginning the audit process, an audited participant should know:

- the due date of its audit report<sup>2</sup>
- its auditable obligations<sup>3</sup>
- its participant identifier(s).

2.3 An audited participant should also:

- have access to the registry<sup>4</sup>
- know how to run registry reports
- ensure it can login to the audit portal (<https://audit.ea.govt.nz>)
- have ready access to any relevant agent audit reports.<sup>5</sup>

<sup>2</sup> For the date of the initial audit see Appendix A.

<sup>3</sup> See audit guidelines for each class of participant available from the Authority website (<http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/audit-regimes/>)

<sup>4</sup> Except for ATHs and dispatchable load purchasers (DLPs).

<sup>5</sup> If an audited participant uses an agent to perform regulatory functions, the audited participant can either arrange for the agent to be audited as part of the participant audit, or provide a copy of an audit conducted by an approved auditor for the lead auditor to incorporate into the audit report. The agent audit should be no more than seven months old when submitted to the Authority with the lead audit.

- 2.4 Audited participants should contact [marketoperations@ea.govt.nz](mailto:marketoperations@ea.govt.nz) with any questions about the requirements described above.

## Engage an auditor

### 1: Contract with Authority approved auditor

- 2.5 Before an audit can be conducted, the participant responsible for submitting the audit should contract with an approved auditor to provide audit services.
- 2.6 This contract can include the deliverables, timing, and any other aspects of the audit the participant wants to specify, including deliverables such as the audit report and working documents.
- 2.7 A list of approved auditors is available on the Authority website at <http://www.ea.govt.nz/dmsdocument/6129>.
- 2.8 Auditor engagement commonly occurs approximately two months before the onsite portion of the audit and three months before the audit must be submitted to the Authority.
- 2.9 However, these timeframes are only a guide. The Authority recommends that audited participants engage with auditors early to ensure the chosen auditor is available and the audit is completed on time.

## Provide pre-audit information

### 2: Request for pre-audit information

- 2.10 Prior to the onsite portion of the audit, the auditor will ask the participant for information to aid in preparation for the onsite audit. This can include, but is not limited to:
- registry data extracts, such as the PR-010, PR-030, and PR-255
  - registry compliance reports, such as the PR-040
  - copies of any communication related to the previous audit
  - copies of any previous audit reports
  - information regarding any breaches and breach investigations of the participant during the audit period.

### 3: Provide information

- 2.11 Audited participants are required to provide this information no later than 15 business days after receiving the request.<sup>6</sup>
- 2.12 Audited participants should discuss information the auditor needs in advance of the auditor's request. This will ensure that resourcing and mechanisms for delivering the information are in place before the auditor requests the information.

### 4: Analyse information and determine content of audit

- 2.13 The auditor will analyse the pre-audit information to:
- determine compliance levels for some obligations (such as timeliness of population of registry information)

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<sup>6</sup> Clause 16A.3.

- identify areas and examples where further information will be required during onsite portion of the audit (eg, to determine the accuracy of information populated on the registry).

## Conduct the audit

### 5: Conduct onsite audit

- 2.14 The auditor will visit the audited participant's premises to conduct the onsite portion of the audit, and may:
- review and discuss processes as they relate to auditable activities
  - view systems and records
  - interview staff
  - review records for specific examples identified during the pre-audit analysis.
- 2.15 Each onsite audit should begin with an 'entry meeting' to discuss:
- scope of the audit
  - topics and timing for the period of the onsite audit
  - auditor's expectations of the audited participant around resource availability.
- 2.16 Each onsite audit should conclude with an 'exit meeting' to discuss:
- the outcome of the onsite audit
  - any outstanding actions or questions that need to be answered
  - key issues or points identified during the onsite portion of the audit
  - the next steps in the audit process, including timeframes for those steps.

## Draft the audit report

### 6: Draft audit report

- 2.17 Following the onsite portion of the audit, the auditor will complete a draft audit report, following the style and format prescribed by the Authority.
- 2.18 The audit will follow the relevant audit guideline.
- 2.19 For each of the audited participant's obligations under the Code, the auditor should assess the audited participant as compliant or non-compliant.
- 2.20 The auditor will evaluate the audited participant's compliance in accordance with the auditor protocol and the risk and materiality guidelines.
- 2.21 If the auditor has insufficient information to assess whether the audited participant is compliant or non-compliant, the auditor will need to request additional information from the audited participant. The audited participant must provide this information to the auditor within 15 business days.<sup>7</sup>

### 7: Review draft audit report with auditor and agree any amendments

- 2.22 When the draft audit report has been completed, the auditor will provide a copy to the audited participant for its review and comment.

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<sup>7</sup> Clause 16A.3.

- 2.23 The auditor and audited participant should discuss the content of the draft audit report and agree on any changes to the content of the report before the auditor completes the final audit report.
- 2.24 The audited participant should also respond to any recommendations and issues identified by the auditor in the draft audit report.
- 2.25 If the draft audit report raises a breach the audited participant must complete a compliance plan. The compliance plan must include the:
- status of the remedial action<sup>8</sup>
  - actions taken by the audited participant to address the immediate breach
  - date the action to address the immediate breach will be in place
  - corrective actions taken by the audited participant to prevent future breaches of the clause
  - date the corrective actions to prevent future breaches will be in place.
- 2.26 Further information on the content and format of the compliance plan can be found in section 5 (Compliance plan).

## Finalise the audit

### 8: Complete final audit report

- 2.27 When the auditor and audited participant agree on the content of the audit report, the auditor must complete the final audit report.
- 2.28 The final audit report must:
- cover all aspects of the audited participant's operation that are relevant to the audit
  - include the audited participant's comments and compliance plan (if any)<sup>9</sup>
  - include the auditor's recommended next audit date<sup>10</sup>
  - list each agent the audited participant engaged to meet its audited Code obligations<sup>11</sup>
  - identify the extent to which the audited participant has failed to comply with the Code<sup>12</sup>
  - specify any conditions the audited participant must satisfy to comply with the Code<sup>13</sup>
  - specify any actions already taken to meet any conditions specified by the auditor<sup>14</sup>
  - identify any areas for improvement.<sup>15</sup>

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<sup>8</sup> Valid status indicators include: Disputed, Processes in place, Investigating, Unknown.

<sup>9</sup> Clause 16A.11(1)(e)(vi).

<sup>10</sup> Clause 16A.11(1)(e)(v).

<sup>11</sup> Clause 16A.11(1)(e)(i).

<sup>12</sup> Clause 16A.11(1)(e)(ii).

<sup>13</sup> Clause 16A.11(1)(e)(iv).

<sup>14</sup> Clause 16A.11(1)(e)(iv).

<sup>15</sup> Clause 16A.11(1)(e)(iii).

- 2.29 When all the relevant information is known, the auditor will finalise the audit report and provide it to the audited participant.

## Submit the final audit report

### 9: Submit final audit report to Authority

- 2.30 The audited participant must submit the final audit report to the Authority.<sup>16</sup>
- 2.31 Submission is made through the audit portal (<https://audit.ea.govt.nz>).
- 2.32 The Authority does not consider an audit to be complete until it is submitted to the Authority.<sup>17</sup> Audited participants must ensure that **audits are submitted on or before their 'next audit date'**.
- 2.33 When submitting a final audit report, an audited participant must advise the Authority (including its reasons) whether the report contains any information that would:
- (a) disclose a trade secret;<sup>18</sup> and/or
  - (b) unreasonably prejudice the audited participant's commercial position.<sup>19</sup>
- 2.34 The Authority will publicise information unless sufficient information is given to support a decision to withhold in accordance with the Code.
- 2.35 The Authority's decision is made based on the information in the final audit report and the audited participant's reasons.
- 2.36 The Authority will publicise an audited participant's complete compliance plan. Audited participants should not provide information in the compliance plan that would disclose a trade secret or unreasonably prejudice its commercial position.
- 2.37 If an audited participant wants to include an agent audit or other attachments, these must be included as part of the participant's submission of its final audit report to the Authority.

## Authority reviews the final audit report

### 10: Review audit report

- 2.38 On receipt of the final audit report, the Authority will:
- publicise the final audit report (subject to any exclusions described in paragraph 2.34)
  - publicise the compliance plan
  - lodge any alleged breaches with the Compliance team.
- 2.39 Most final audit reports are reviewed by two reviewers, one internal and one external, to assess:
- the quality of the audit
  - the completeness of the audit

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<sup>16</sup> Clause 16A.12(1).

<sup>17</sup> Clause 16A.12(1).

<sup>18</sup> Clause 16A.14(3)(a).

<sup>19</sup> Clause 16A.14(3)(b).

- the likelihood that the audited participant's corrective actions to address non-compliances will improve market outcomes
- any concerns of the audited participant about information in the final audit report that would disclose a trade secret or unreasonably prejudice its commercial position
- any issues raised in the final audit report.

2.40 Each reviewer will make a recommendation about:

- the audited participant's next audit date
- any follow up or direction for emphasis for the audited participant in the next audit
- any items for inclusion in the issues register
- any items that could be a compliance issue
- whether there is any information in the final audit report that should not be publicised.

2.41 Reviewers will also provide feedback to the auditor about the audit.

## **Authority determines the next audit date**

### **11: Determine the next audit date**

2.42 The Authority will consider the information provided by the reviewers and will make decisions regarding:

- the audited participant's next audit date
- any follow up or direction for emphasis for the audited participant in the next audit
- any items for inclusion in the issues register
- any items to escalate for compliance activities
- whether there is any information in the final audit report that should not be publicised.

2.43 The Authority will then:

- notify the audited participant of the next audit date and reasons for the next audit date decision
- publicise a copy of the final audit report
- publicise the compliance plan
- publicise the audited participant's next audit date
- update the issues register.

## **Schedule next audit**

### **12: Schedule next audit**

2.44 The Authority will email the audited participant's primary contact to notify it of the Authority's decision about the next audit date.<sup>20</sup>

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<sup>20</sup> Participants can manage the primary contact information via the audit portal login (<https://audit.ea.govt.nz>).

- 2.45 This decision will be updated in the list of next audit dates publicised on the Authority website.<sup>21</sup>
- 2.46 The audited participant should consider the Authority's feedback and reasons for the next audit date decision before taking any corrective actions.
- 2.47 The audited participant should engage with an Authority approved auditor (step 1) and ensure a final audit report is delivered to the Authority by the next audit date.
- 2.48 If the audited participant has used the same auditor consecutively for more than 24 months or more than two audits (whichever is later), the participant must change the lead auditor for at least one audit.<sup>22</sup>

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<sup>21</sup> It can take several days for the website to be updated once notification is received.

<sup>22</sup> Clause 16A.6(1). Please note this requirement takes effect from 1 July 2017. This means that participants will not be required to change auditors until at least 1 July 2019 (24 months after the Electricity Industry Participation Code Amendment (Requirements and Processes for Audits) 2016 comes into force).

### 3 Material change audits

3.1 Clause 16A.10 requires changes that are likely to affect the participant's ability to comply with the Code to be audited.

#### What is a material change

3.2 A 'material change' is a change to a system or process that is likely to affect the ability of the participant to comply with any relevant provision of the Code.

3.3 Some examples of a material change include:

- (a) a participant deciding to outsource the performance of a function that the participant previously performed itself
- (b) a reconciliation participant—
  - (i) changing the software it uses to comply with Code obligations that an audit relates to
  - (ii) updating its system to accommodate additional registry file formats
  - (iii) updating its algorithm for the calculation of ICP days
- (c) a distributor changing the process it follows in relation to new connections.

3.4 A useful approach is to consider the size of the change when determining whether it is a 'material change'. If the change will require planning or expenditure, then an auditable assessment should be made to determine whether the change is material and likely to affect the participant's ability to comply with the Code.

3.5 The *Risk and materiality guidelines* include more information regarding how to assess materiality for the purposes of a material change audit.

3.6 The Authority recommends that any participant who is unsure about the materiality of any given change should consult an approved auditor.

## 4 Distributed unmetered load audits

4.1 Distributed unmetered load (DUML) is:

- unmetered load
- with a single profile
- supplied to a single customer
- across more than one point of connection.

4.2 The most common form of DUML is streetlights.

4.3 The trader is responsible to:

- (a) submit DUML volumes from a DUML database for reconciliation
- (b) arrange for DUML audits.<sup>23</sup>

### DUML next audit date

4.4 The Authority is independent of the trader responsible for the DUML ICP, and determines the next audit date for DUML.<sup>24</sup>

4.5 For example:

- (a) a DUML database has a next audit date of 1 July 2017
- (b) the DUML database switches on 1 June 2017
- (c) the new trader has until 1 July 2017 to ensure a DUML's final audit report is completed and submitted to the Authority.

4.6 Traders should consider the state of the DUML database and the DUML's next audit date when deciding whether to become the trader responsible for the DUML ICPs and DUML database.

4.7 Copies of DUML audits and the DUML next audit date are available from the Authority's website.

### DUML audit process

4.8 DUML audits follow the same general audit process as described in Section 2: The Audit process and include:

- (a) a review of the DUML database<sup>25</sup>
- (b) a review of the processes and controls followed when maintaining the DUML database
- (c) an assessment of the accuracy of the DUML database, compared to load installed in the field.<sup>26</sup>

4.9 The trader responsible for the DUML ICPs must ensure the final audit report is submitted to the Authority on or before the next audit date for the DUML database.

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<sup>23</sup> Clause 15.37B.

<sup>24</sup> Clause 16A.25.

<sup>25</sup> To assess if database meets the requirements in clause 11 of Schedule 11.3.

<sup>26</sup> One (but not the only) option to achieve this is to conduct a statistical sample of items of load in the field. This is covered further in the *DUML statistical sampling guidelines*.

## 5 Compliance plan

- 5.1 Clause 16A.13(2) requires the audited participant to provide a copy of the compliance plan to the Authority at the same time as submitting the final audit report.
- 5.2 A compliance plan is an audited participant's plan to achieve compliance in each area where the auditor has identified a breach.
- 5.3 An audited participant has the opportunity to comment on each breach identified and inform the Authority about any actions it is taking to address the issue(s).
- 5.4 The audited participant needs to specify the following information in the compliance plan:
- corrective actions being taken to address the breach
  - timeframe to implement the corrective actions
  - actions being taken to prevent future breaches
  - timeframe to implement actions to prevent future breaches.
- 5.5 Corrective actions should also describe any controls the audited participant has in place to manage compliance risk and prevent future breaches from occurring.

**Figure 1: Format for compliance plan**

Auditor completes sections in **blue**. Participant completes sections in **yellow**.

Non-compliance	Description		
With: <CLAUSE BREACHED>	< DESCRIPTION OF THE NON-COMPLIANCE>		
From/to:<DATES BREACH OCCURED>	Potential impact: <AUDITOR TO COMPLETE>		
	Actual impact: <AUDITOR TO COMPLETE>		
	Audit history: <AUDITOR TO COMPLETE>		
	Controls: <AUDITOR TO COMPLETE>		
	Breach risk rating: <AUDITOR TO COMPLETE>		
Audit Risk Rating	Rationale for audit risk rating		
<Audit Risk Rating>	<AUDITOR TO COMPLETE>		
Actions taken to resolve the issue		Completion date	Remedial action status
[1. Participant comments]		[2. proposed or actual completion date]	<AUDITOR TO COMPLETE>
Preventative actions taken to ensure no further issues will occur		Completion date	
[3. Participant comments]		[4. proposed or actual completion date]	

- 5.6 The Authority uses the information in the compliance plan to help inform its decision about the audited participant's next audit date.<sup>27</sup>

<sup>27</sup> Refer to paragraphs 1.7 to 1.9.

- 5.7 Non-compliance with the Code that are serious, ongoing, or in dispute may be escalated to the Authority Compliance team for further assessment.

## Appendix A Initial audits

A.1 An initial audit refers to the audited participant's first audit.

### Initial audit timeframes

A.2 Each audited participant must arrange for, and submit to the Authority, an initial audit report within the timeframes specified by the Code.

A.3 The initial audit timeframes are different for each type of participant and are described below.

### Initial audit timeframe for reconciliation participants

5.8 Reconciliation participants must submit an initial audit to the Authority at least **two months** before the participant is required to hold certification.<sup>28</sup>

5.9 In general this means that the due date of the audit is:

- (a) four months after the participant started trading,<sup>29</sup> or
- (b) ten months after the participant started trading, if the participant only trades on less than 100 ICPs with only category 1 metering installations.<sup>30</sup>

5.10 Participants that intend to defer certification for the first 12 months of trading (under clause 2(1) of Schedule 15.1) must ensure that they comply with the restrictions under clause 2(1) and 2(2) of Schedule 15.1 until they obtain certification.

5.11 This means that the reconciliation participant should not:

- (a) trade on any ICPs with unmetered load, including shared unmetered load
- (b) trade on any ICPs with metering other than category 1 metering installations, including metering installations with mixed categories of metering
- (c) trade on more than 99 ICPs, including 'active' and 'inactive' status ICPs.

5.12 If a reconciliation participant breaches the requirement of clause 2 of Schedule 15.1, even temporarily, it must ensure that an audit report is submitted within four months of first becoming a reconciliation participant.

### Initial audit timeframe for distributors

5.13 Distributors must submit an initial audit no more than three months after becoming responsible for an NSP or ICP.<sup>31</sup>

5.14 A distributor usually becomes responsible for an NSP or ICP when the first ICP is transferred to the distributor or created on the distributor's network.

5.15 For example, if part of an existing distributor's network is sold to a new distributor, that new distributor will have three months from the date on which they are responsible for the ICPs on the registry to arrange for and submit a final audit report to the Authority.

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<sup>28</sup> Clause 4(1) of Schedule 15.1.

<sup>29</sup> Clause 2(1)(b) of Schedule 15.1.

<sup>30</sup> Clause 2(1)(a) of Schedule 15.1.

<sup>31</sup> Clause 16A.21(a).

### **Initial audit timeframe for embedded networks**

- 5.16 An embedded network is both a distributor and a reconciliation participant. As a result, an embedded network is required to submit two audit reports with two different initial audit timeframes.
- 5.17 As a distributor, the embedded network must submit a distributor audit report to the Authority no later than three months after the first ICP is transferred or created on the embedded network.
- 5.18 As a reconciliation participant responsible for the submission of gate meter volumes to the reconciliation manager, the embedded network must apply for certification and submit a final audit report to the Authority no later than four months after the embedded network NSP volumes are required to be collected for reconciliation.
- 5.19 These two timeframes are deadlines, not targets. It is common for an embedded network to arrange for both distributor and reconciliation participant audits to be conducted and submitted simultaneously.
- 5.20 The Authority will consider and make decisions on the next audit date for the distributor audit and the reconciliation participant audit separately. However, the Authority will take into consideration the efficiencies associated with aligning the distributor and reconciliation participant next audit dates.

### **Initial audit timeframe for metering equipment providers**

- 5.21 Metering equipment providers (MEP) must submit an initial audit to the Authority within three calendar months of becoming an MEP.<sup>32</sup>
- 5.22 This means that within three months of installing the metering on an ICP (even if not yet nominated as the MEP in the registry) the MEP must have undergone and submitted a final audit report to the Authority.
- 5.23 For example, if a trader nominates an MEP on a 'inactive - new connection in progress' ICP on 24 May and the MEP installs the meter on 27 May, the MEP has three months from 27 May to arrange for and submit their MEP final audit report to the Authority.

### **Initial audit timeframe for approved test houses**

- 5.24 Before being approved as a test house, the test house must submit a final audit report to the Authority.
- 5.25 The final audit report must be submitted at least two months before the date the test house intends to be approved from.<sup>33</sup>

### **Initial audit timeframe for dispatchable load purchasers**

- 5.26 A dispatchable load purchaser must submit a final audit report to the Authority no later than four months after the date on which the system operator approves the dispatchable load purchaser's first set of dispatch-capable load station devices.
- 5.27 For example, if the system operator approved the dispatch-capable load station's devices from 1 March, the dispatchable load purchaser must submit its dispatchable load purchaser final audit report to the Authority by 1 July. .

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<sup>32</sup> Clause 16A.16(a).

<sup>33</sup> Clause 16A.18(a).

## Glossary of abbreviations and terms

ATH	approved test house
audit regime	The audit, certification, and approval processes that apply to auditors, participants, and the Authority under Parts 10, 11, 15, and 16A of the Electricity Industry Participation Code 2010
Code	Electricity Industry Participation Code 2010
DLP	dispatchable load purchaser
DUML	distributed unmetered load
MEP	metering equipment provider