

## Compliance Plan for Buller Electricity Distributor – May 2020

Requirement to provide complete and accurate information			
Non-compliance	Description		
Audit Ref: 2.1 With: 11.2(1)  From: 01-Oct-17 To: 29-Feb-20	Registry information not complete and accurate in all instances. Potential impact: Low Actual impact: Low Audit history: Twice Controls: Strong Breach risk rating: 1		
Audit risk rating	Rationale for audit risk rating		
<b>Low</b>	The controls are rated as strong as the processes currently in place will prevent future discrepancies. The audit risk rating is low as the discrepancies identified have a minor impact on other participants.		
Actions taken to resolve the issue		Completion date	Remedial action status
<b>1. One ICP with an unmetered load discrepancy</b> BEL is working with the existing Retailer to establish if this site is a telecom cabinet or phone box. Once this is determined the Retailer & Distributor unmetered load Registry data will be aligned.		30/6/2020	Investigating
<b>2. Seven missing initial electrical connection dates</b> These are historic cases dating back to 2013-14 which were not identified in previous audits. Registry has been populated with appropriate dates supported by BEL internal documents which are consistent with the first Active date. These updates were made with Registry Event Date 18/5/2020.		18/5/2020	
<b>3. 12 ICPs with duplicate address information</b> Power account holders are being requested to provide location details and BEL site visits will be undertaken if required.		30/6/2020	
Preventative actions taken to ensure no further issues will occur		Completion date	
The new Audit Compliance Report available from the Registry will be checked on a 3-monthly basis to supplement our own existing internal existing BEL Registry data controls/checks.		30/6/2020	

Timeliness of Provision of Initial Electrical Connection Date		
Non-compliance	Description	
<p>Audit Ref: 3.5</p> <p>With: Clause 7(2A) of Schedule 11.1</p> <p>From: 21-Mar-19</p> <p>To: 29-Feb-20</p>	<p>Late population of the initial electrical connection date for three ICPs.</p> <p>Potential impact: Low</p> <p>Actual impact: Low</p> <p>Audit history: Multiple times</p> <p>Controls: Strong</p> <p>Breach risk rating: 1</p>	
Audit risk rating	Rationale for audit risk rating	
<b>Low</b>	<p>I have recorded the controls as strong in this area as the BUEL process has been improved to prevent late updates.</p> <p>The audit risk rating is low as the volume of ICPs affected is small.</p>	
Actions taken to resolve the issue		Completion date
The cases identified occurred in March 2019 during the period of the last Audit and prior to the implementation of new checks put in place in mid-2019 as recommended in the last Audit.		30/6/2019
Preventative actions taken to ensure no further issues will occur		Completion date
The preventive measures were put in place in mid-2019 and no further cases have occurred.		30/6/2019
		Cleared

Changes to registry information			
Non-compliance	Description		
<p>Audit Ref: 4.1</p> <p>With: Clause 8 Schedule 11.1</p> <p>From: 01-Mar-19</p> <p>To: 05-May-20</p>	<p>Two pricing updates, eight decommission status updates, one distributed generation update and three address events were updated more than three business days after the event date.</p> <p>Seven NSP updates backdated more than eight business days.</p> <p>Potential impact: None</p> <p>Actual impact: Low</p> <p>Audit history: Multiple times</p> <p>Controls: Moderate</p> <p>Breach risk rating: 2</p>		
Audit risk rating	Rationale for audit risk rating		
Low	<p>I have recorded the controls as strong in this area as the BUEL process has been improved to prevent late updates.</p> <p>The audit risk rating is low as the volume of ICPs affected is small.</p>		
Actions taken to resolve the issue		Completion date	Remedial action status
<p>BEL undertakes the vast majority of Registry updates correctly and on time. While some Registry updates are still input manually using the Registry web interface, the majority are now automated from our internal systems with appropriate date &amp; error checking controls. BEL staff are clearly aware of the requirements for updating the Registry correctly as evidenced by the vast majority updates being compliant. Human error in terms of attention to detail remains and on-going issue, especially when the Registry web interface is used for updates.</p>		18/5/2020	Identified
Preventative actions taken to ensure no further issues will occur		Completion date	
<p>BEL processes and the requirements for Registry updates are to be reiterated with BEL staff. Where appropriate our internal controls will be fine-tuned to further limit the risk of human error occurring. The management of the ICP Decommissioning process is to be reviewed and improved.</p>		30/6/2020	

Notice of NSP for each ICP		
Non-compliance	Description	
Audit Ref: 4.2 With: Clauses 7(1),(4) and (5) Schedule 11.1  From: 20-Aug-19 To: 28-Apr-20	Two ICPs with incorrect NSPs. Potential impact: Low Actual impact: Low Audit history: Once Controls: Strong Breach risk rating: 1	
Audit risk rating	Rationale for audit risk rating	
<b>Low</b>	The controls are recorded as strong because they mitigate risk to an acceptable level. The impact on settlement and participants is minor; therefore, the audit risk rating is low.	
Actions taken to resolve the issue		Completion date
The two incorrect NSP assignments have been identified and cleared. As previously stated, any ICP on the BEL Network can be supplied from either of our 2 GXP's at any point in time under normal operating conditions. The NSPs are assigned to the be the one which is electrically closest as per the Authority's advice.		18/5/2020
Preventative actions taken to ensure no further issues will occur		Completion date
The new Audit Compliance Report available from the Registry will be checked on a 3-monthly basis to supplement our own existing internal BEL controls/checks. The upgrading of BEL's GIS system and the later inclusion of electrical tracing functionality will allow BEL to more easily identify incorrect NSP assignments (the timeframe for this upgrade is 1-2 years)		30/6/2020
		Cleared

ICP location address		
Non-compliance	Description	
Audit Ref: 4.4 With: Clause 2 Schedule 11.1  From: 01-Jan-19 To: 15-Apr-20	12 ICPs with duplicate address information. Potential impact: Low Actual impact: Low Audit history: None Controls: Strong Breach risk rating: 1	
Audit risk rating	Rationale for audit risk rating	
<b>Low</b>	The controls are recorded as strong because they mitigate risk to an acceptable level. The impact on settlement and participants is minor; therefore, the audit risk rating is low.	
Actions taken to resolve the issue		Completion date
A number of the duplicate address identified have been correctly updated as of 18/5/2020. For the remaining cases power account holders are being requested to provide location details and site visits will be undertaken by BEL if required.		30/6/2020
Preventative actions taken to ensure no further issues will occur		Completion date
The new Audit Compliance Report available from the Registry will be checked on a 3-monthly basis to supplement our own existing internal BEL controls/checks.		30/6/2020
		Investigating

Distributors to Provide ICP Information to the Registry manager			
Non-compliance	Description		
<p>Audit Ref: 4.6</p> <p>With: Clause 7(1) Schedule 11.1</p> <p>From: 05-Sep-13</p> <p>To: 05-May-20</p>	<p>One ICP with an unmetered load discrepancy.</p> <p>Seven missing initial electrical connection dates.</p> <p>Potential impact: Low</p> <p>Actual impact: Low</p> <p>Audit history: None</p> <p>Controls: Strong</p> <p>Breach risk rating: 1</p>		
Audit risk rating	Rationale for audit risk rating		
<b>Low</b>	<p>The controls are rated as strong as the processes currently in place will prevent future discrepancies.</p> <p>The audit risk rating is low as the discrepancies identified have a minor impact on other participants.</p>		
Actions taken to resolve the issue		Completion date	Remedial action status
<p><b>1. One ICP with an unmetered load discrepancy</b> BEL is working with the existing Retailer to establish if this site is a telecom cabinet or phone box. Once this is determined the Retailer &amp; Distributor unmetered load Registry data will be aligned.</p> <p><b>2. Seven missing initial electrical connection dates</b> These are historic cases dating back to 2013-14 which were not identified in previous audits. Registry has been populated with appropriate dates supported by BEL internal documents which are consistent with the first Active date. These updates were made with Registry Event Date 18/5/2020.</p>		30/6/2020	Investigating
Preventative actions taken to ensure no further issues will occur		Completion date	
The new Audit Compliance Report available from the Registry will be checked on a 3-monthly basis to supplement our own existing internal existing BEL controls/checks.		30/6/2020	

Creation of loss factors	
Non-compliance	Description
Audit Ref: 8.1 With: Clause 11.2  From: 05-Sep-13 To: 05-May-20	Loss factors were not accurate as indicated by the reconciliation losses.  Potential impact: Medium Actual impact: Medium Audit history: None Controls: Strong Breach risk rating: 2
Audit risk rating	Rationale for audit risk rating
<b>Medium</b>	The controls are rated as strong because the loss factors are reviewed annually, using a compliant process. Loss factors have been revised from 01/04/20 and are expected to bring the losses to within the compliance threshold.  UFE is allocated to participants; therefore there is no adverse impact on settlement; however traders may use published losses in pricing decisions, therefore the use of inaccurate loss factors could lead to incorrect pricing, which is considered to have a medium impact.
<div>Actions taken to resolve the issue</div> <div>Completion date</div>	

<p>BEL has queried the Authority on the exact criteria the Auditor should be using to assess compliance and the email received in response is attached. BEL draws the Auditor's attention to the following content of this email:</p> <ul style="list-style-type: none"> <li>• The auditor will be looking at the blue line (rolling 12 month average). The information uses the latest available revision information. That means the red line shows the most recently provided data from the R1, R3, R7 and R14 revisions. The 12 month rolling average will use a combination of R7 and R14 data.</li> <li>• We expect the Auditor will have used the UFE information as a starting point to determine if further investigation is required.</li> <li>• Based on the rolling 12 month UFE average it looks like UFE is tracking between 1% and 2% and currently sitting at around 1.2%. This exceeds the 1% threshold for determining if more information is required to assess compliance.</li> <li>• The Auditor will be asking questions around Buller's regular loss factor reviews and when losses were last updated on the registry (and why).</li> <li>• Alternatively if Buller has taken no action to review and assess the accuracy of losses on its network (and the loss factors on the registry), and the 12 month average losses are on average tracking over 1% then it is likely that there is a non-compliance for not ensuring the loss factors published on the registry are complete and accurate.</li> </ul> <p>The steps BEL has undertaken to ensure Loss Factor calculation compliance:</p> <ul style="list-style-type: none"> <li>• BEL has previously incorrectly assigned the Generation Loss Factor for ICP 0003146255BU6E0 which caused the UFE to significantly exceed +1% for a number of years. This has been disclosed and documented in our 2019 Distributor Audit report.</li> <li>• BEL had fully expected the R7 &amp; R14 rolling year UFE to permanently fall below +1% over the past year as per the previous down trend in the R7 &amp; R14 curves. It is noted that R7 UFE was below +1% for the month range April 2018 – January 2019. At the time of the last Distributor Audit in mid-2019 R7 &amp; R14 were in clear down trends.</li> <li>• Over the past 2-3 years BEL has been aware of an increasing rolling year network Loss Ratio calculated using Retailer Billing data and R7 &amp; R14 NZX Reconciliation Manager as per the DISTSUB (GR-260) report. As the BEL network operating conditions have essentially remained unchanged since the Holcim Cement works ceased operation in mid-2016, BEL is currently of the view that the increase in the Loss Ratio is attributable to an increase in non-technical losses.</li> </ul>	<p>24/5/2020</p>
--	------------------



- BEL undertook work in conjunction with Rod Crone Consulting in mid-2018 to investigate the cause of the increasing Loss Ratio. An analysis was undertaken to compare Retailer Billing data against NZX Reconciliation Manager DISTSUB (GR-260) to determine alignment on a rolling year basis. No obvious discrepancies were discovered. This comparison is now undertaken on a 3-6 months basis.
- In early 2020 BEL undertook further work in conjunction with Malcolm Souness (221b Limited) to investigate Retailer Billing and NZX Reconciliation data in attempt to identify the source of our increasing Loss Ratio and UFE. Retailer Billing data was also analysed at the ICP level (Revenue Assurance) in an attempt to identify sites which may be contributing to an increase in non-technical losses. While a number of billing errors were discovered, no significant under reporting of electricity volumes was identified that would explain the increase in the Loss Ratio and UFE over the past 2-3 years.
- BEL intends to undertake further Revenue Assurance analysis work in 2020 and to make this an on-going part of our standard business process.
- In January 2019 BEL determined that it was appropriate to increase the Consumption Loss Factors from 1<sup>st</sup> April 2020 as documented by the Auditor above.

Issues related to the management of UFE are detailed below:

- UFE trends can realistically only be observed on a rolling year basis at a 7-14 month delay. Furthermore, it is unusual for the Loss Factors to be updated more often than once a year, unless there is a known change in network operating conditions and technical losses (not the case in this situation).
- BEL is also conscious of not being too reactionary in terms of making changes to the Loss Factors as we are of the view that it is more appropriate to act in a measured and delayed manner, rather than later finding ourselves in a position where we are having to unwind changes which were unnecessary in the long run. This is especially the case when the cause of increasing UFE is unknown.
- Determining the source of non-technical losses is not a straightforward task for a Distributor given that we are not responsible and have limited visibility of the metering and billing processes undertaken by Retailers & Meter Equipment Providers.
- It is also noted that Smart Meter penetration remains at approximately 50% of ICPs on our network. This impacts the overall quality of the meter data Retailers collect compared with other networks, and the need for manual meter reads and estimates.

In summary BEL has been aware of an increasing trend in the network Loss Ratio and UFE over the past 2-3 years and we

<p>have undertaken significant work to identify the cause and address this issue. While we have not been able to identify a definite cause, we have significantly improved our industry knowledge and business processes.</p> <p>BEL welcomes any advice from the Authority in terms of how we can improve our business processes and our Loss Factor compliance.</p>	
<b>Preventative actions taken to ensure no further issues will occur</b>	<b>Completion date</b>
BEL is of the view that our existing process for the calculation of Loss Factors is compliant.	24/5/2020