

Review of participant audit regime

Decisions and reasons paper: Responses to submissions

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Version control

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1 The Authority has reviewed the participant audit regime

- 1.1 The Electricity Authority (Authority) is an independent Crown entity charged with promoting competition in, reliable supply by, and the efficient operation of the electricity industry for the long-term benefit of consumers.
- 1.2 The participant audit regime is the audit, certification, and approval processes that apply to auditors, participants, and the Authority under Parts 10, 11, and 15 of the Electricity Industry Participation Code 2010 (Code).
- 1.3 Between 10 November and 22 December 2015, the Authority consulted on a proposal to:
 - (a) clarify the purpose of the audit regime, and ensure it is well defined and aligned with the Authority's statutory objective
 - (b) improve the governance of the audit regime and better align it with international audit best practice
 - (c) improve the operational efficiency of the audit regime and support for the decisions being made as a result of audits.
- 1.4 This paper is an appendix to the Authority's decisions and reasons paper for the review of the participant audit regime.¹ This paper provides the Authority's response to each submission and provides transparency regarding the decisions made as a result of the consultation. Some of the submission points included in the tables below have been responded to in the decisions and reasons paper. We request that readers consider this paper and the decisions and reasons paper as a whole in terms of providing responses to submitted points
- 1.5 For avoidance of doubt the decisions outlines in the decisions and reasons paper take precedence.

¹ Review of participant audit regime decisions and reasons paper can be found at:
<http://www.ea.govt.nz/development/work-programme/retail/review-of-participant-audit-regime/development/decisions-and-reasons-paper-and-summary-of-submissions-published>

Responses to questions asked in the consultation paper

A.1 This Appendix provides in tabular form the Authority's responses to submissions that were made relating to the 32 questions that were asked in the November 2015 consultation paper and two additional questions asked in January 2016. In general, a brief style of response has been provided.

Authority's responses to answers provided to the questions asked in the consultation paper

Question 1

Do you agree the opportunities to improve the audit regime identified by the Authority are worthy of attention?

Submitter	Comment [sic]	Authority's response
AMS	Agree	Noted.
Contact Energy	Contact agrees that there is an opportunity to consolidate and standardise the regulatory audit purpose and approach across all participants to ensure the industry as a whole has confidence in the fair and equitable settlement of electricity market.	Noted.
Genesis Energy	Yes. But we disagree with (a) – conveying the purpose of the audit regime to stakeholders will not be improved by changing the audit regime itself.	<p>We understand that this submission refers to a need for an education focus within the audit regime.</p> <p>The Authority believes that the purpose of the audit regime has not been clearly conveyed to stakeholders in the past.</p> <p>We believe by having a clear purpose there will be a consistent principle under which to make decisions that support that purpose, including decisions on education requirements. A clear purpose will also allow any future changes to the audit regime to be aligned with achieving this purpose.</p>
Meridian Energy	Yes.	Noted.

Submitter	Comment [sic]	Authority's response
Mighty River Power	We partially agree with this. We disagree that the audit needs to align with international best practice. We don't believe that this along with any of the proposals that will increase costs or complexity of the audit will better align with the Authority's Statutory Objective.	<p>Noted.</p> <p>All proposed changes have been assessed against the Authority's statutory objective. Please refer to the regulatory statement in the consultation paper for more information regarding the assessment against the Authority's statutory objective.</p> <p>Aligning with international best practice will allow the Authority to apply the learnings from other audit regimes when making decisions regarding changes to the participant audit regime.</p> <p>Alignment is not replication and it is intended to only apply those changes that will be for the long term benefit of consumers in New Zealand context.</p>
Momentous Consulting	We agree there are opportunities to improve the audit regime.	Noted.
Nova Energy	Yes.	Noted.
Orion NZ	<p>The Authority considers that the following opportunities exist to improve the audit regime:</p> <p>(a) the purpose of the audit regime has not been clearly conveyed to stakeholders</p> <p>(b) opportunities exist to improve the governance of the audit regime and better align it with international audit best practice</p> <p>(c) opportunities exist to improve the operational efficiency of the audit regime and better align it with the Authority's statutory objective.</p> <p>We agree that opportunities exist to improve:</p> <p>the governance of the audit regime and better align it with international audit best practice</p> <p>the operational efficiency of the audit regime and better align it with</p>	Noted.

Submitter	Comment [sic]	Authority's response
	<p>the Authority's statutory objective</p> <p>We disagree that the purpose of the audit regime has not been clearly conveyed to stakeholders, however that is not to say that further clarity of the purpose cannot be achieved.</p>	Disagree. Apart from clause 11.10(3) the purpose of audits has not been explicitly conveyed to stakeholders.
Paul Troon Consultancy	Yes.	Noted.
Powerco	Yes – positive to focus on the material impacts audited entities' actions can have on the accurate settlement of the wholesale market, and move to risk-based audits that provide meaningful impact assessments for any alleged breaches.	Noted.
Powershop	<p>Powershop agrees that these are relevant opportunities to improve the current audit regime. However, there needs to be consideration for the number of auditable participants and approved auditors. Unlike other industries with rigorous audit requirements (e.g. finance, health and safety, electrical, manufacturing) there may not be enough work to encourage more auditors to enter this space. Without a greater auditor pool, some of the suggested requirements are unreasonable on participants and auditors.</p>	<p>Noted.</p> <p>The Authority supports increased competition in the provision of audits. If participants have a preferred auditor that is not currently approved steps can be taken to guide them through the approval process.</p>
Strategic Lighting Partners	Yes.	Noted.
TEG & Associates	Yes.	Noted.
Transpower NZ	Yes.	Noted.

Submitter	Comment [sic]	Authority's response
Trustpower	Trustpower does not see the audit regime as fundamentally inefficient but if it clarifies expectations and reduces workload/costs in the sector then the exercise is worthwhile	Noted.
Unison Networks	Yes – there are a number of aspects of the current audit regime that notably need improvement ² and Unison supports the findings of the two accompanying reports.	Noted.
Veritek Limited	Yes.	Noted.
WELL	Yes we agree.	Noted.

Question 2

Do you agree that the problems identified with the existing purpose of the audit regime are correct? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.
Contact Energy	<p>Contact does not agree with the statements in paragraph 3.2.1 on the perceived problems with the current audit process. Since the current audit regime was implemented in 2008, Contact has had few, if any, non-compliances identified by audit that have then gone on to be formally investigated by the Authority's compliance team.</p> <p>Any changes proposed to the existing audit regime should focus on the consistency audits across all participants and what compliance activities should be monitored by way of monthly reporting and</p>	<p>The current focus of the audit regime is to assess whether an audited entity has complied with the Code. This is a problem because:</p> <ul style="list-style-type: none"> • An assessment of if a participant has / has not complied with the Code does not fulfil the Authority's statutory objective. • It does not give the Authority enough information to make an informed decision. <p>Assessment of compliance is binary (yes/no), however</p>

² Unison considers that these issues have been captured well in the accompanying documents provided by the Authority: *Benchmarking of audit regime against audit best practices*, and *Summary of consultation with audit experts*.

Submitter	Comment [sic]	Authority's response
	<p>monitoring and what activities are required to form part of an audit.</p> <p>For example - switching activities should be monitored monthly by way of registry reporting to the Authority's market administrator function and the participants concerned. Participants would then be required to respond back to the market administrator with reason why compliance was not met. This process will allow the Authority and participants to proactively monitor switching performance and provide feedback where the issue is a one-off event such as a firewall stopping all data traffic due to a spam attack. This is a similar approach to how the Gas Industry addresses switching performance and also means that most switching tasks do not require review as part of a performance audit thereby reducing the overall effort to complete participant audits.</p>	<p>there is a need to understand the underlying issues in order to make an informed decision as a result of the audit.</p> <p>The comments regarding focussing on consistency are noted and intended to be addressed through proposed changes to the governance of the audit regime.</p> <p>Disagree that monitoring of compliance via monthly statistical reports is a preferred alternative to the audit process. The audit process allows for deeper understanding as to why a breach has occurred and the corrective actions taken to address the breach.</p>
Genesis Energy	<p>No. There is an underlying problem with the framework of certification, assessment and enforcement.</p> <p>The audit regime currently requires 100% compliance with the Code; even with the proposed changes to the purpose of the audit regime, the issue of how the Authority can consistently and appropriately handle non-compliances in proportion to the impact of the non-compliance will continue to be problematic.</p>	<p>Noted.</p> <p>We disagree that the audit regime requires 100% compliance with the Code – it is the Electricity Act that requires compliance. Regardless of the changes to the audit regime, participants are required to comply with all relevant rules and regulations at all times.</p> <p>The existing purpose of the audit regime is to assess a participant's compliance with the Code against the 100 % requirement. We believe this is an underlying issue with the objective of the regime that can be addressed through this consultation.</p> <p>The manner in which breaches are handled within the context of the audit regime, including consideration of the impact of the non-compliance are intended to be addressed through improved governance and risk assessment.</p>

Submitter	Comment [sic]	Authority's response
Meridian Energy	Yes.	Noted.
Mighty River Power	No, the points raised are already happening. The Authority is currently enquiring about actions taken to ensure compliance with the Code. Timeframes for resolution are always going to be problematic where system changes are required, due to technology investigation and cost.	As part of the current audit process the Authority enquires about the actions taken to ensure compliance with the Code. This is done in order to make an informed decision regarding certification or next audit date. However the current purpose of assessing if compliance has occurred does not provide this information, and is a problem the Authority believes can be better addressed through clarifying the purpose of the audit regime.
Momentous Consulting	We agree with the problems identified, in particular the focus is problematic because it does not provide sufficient information, reasoning and resolution. Audits currently focus on the interpretation of the audit guidelines by the individual auditors and participants resulting in inconsistent or inefficient information. We would also add that one of the problems is there is no consistency in the approach by both auditors and participants resulting in different levels of audit information.	Noted. The comments regarding consistency are noted and intended to be addressed through proposed changes to the governance of the audit regime.
Nova Energy	Yes.	Noted.
Orion NZ	The Authority considers that the current focus of the audit regime to assess whether an audited party has complied with the Code is problematic because the Authority considers this current focus does not fully satisfy the Authority's statutory objective. We disagree. We consider that the problem with the current focus of the audit	Noted. The question of if the Code itself aligns with the Authority's statutory objective is outside of the scope of this proposal.

Submitter	Comment [sic]	Authority's response
Powerco	Yes – and particularly agree with the need for EA to know reasons for non-compliance, actions being taken to rectify and timeframe for resolution.	Noted.
Powershop	Powershop does not agree as ISO 9001 certification (or equivalent) should provide the EA with assurance that a participant has rigorous change control and continuous improvement processes.	This submission is unclear within the context of the question asked. Further decisions regarding ISO 9001 certification are covered in responses to questions 19 and 20 below.
Strategic Lighting Partners	Yes.	Noted.
TEG & Associates	Yes, I do agree that the correct audit regime does not fully satisfy the Authority statutory objectives. It is important to note that the current audits already provide a lot of information to the Authority which could be utilise to benefit of a customer but it is not happening. There are on-going repetitive issues with compliance highlighted in the reports and suggestions made by audited parties but they are not being addressed.	Noted.
Transpower NZ	We agree with the Authority's conclusions.	Noted.
Trustpower	Yes, although in practical terms they might be overstated. The pro forma report used by the Authority covers clause 3.2.2 without the Code needing to spell out the requirements.	Noted.
Unison Networks	Yes, as noted above in response to question one.	Noted.
Veritek Limited	Partially agree. Most audit reports provided to the Authority within the last year	Noted. As part of the current audit process the Authority

Submitter	Comment [sic]	Authority's response
	contain the information listed in 3.2.2. We agree that consistency is required and that all audit reports should contain this information.	enquires about the actions taken to ensure compliance with the Code. This is done in order to make an informed decision regarding certification or next audit date. However the current purpose of assessing if compliance has occurred does not provide this information, and is a problem the Authority believes can be better addressed through clarifying the purpose of the audit regime.
WELL	We agree with the problems identified. However, fully addressing these problems could require significant additional resource on behalf of participants.	Noted.

Question 3

Do you agree with the proposed purpose of the audit regime? If not, why not?

Submitter	Comment	Authority's response
AMS	Agree.	Noted.
Contact Energy	No. The proposed changes to the purpose of the audit regime conflicts with the Authority's Compliance Philosophy. ³ The audit and certification frequency should remain at annual intervals and certification should remain in force until revoked by the Authority once a participant's level of non-compliance has been deemed material by the compliance team (post investigation) and a recommendation to the Rulings Panel for a participant's certification period to be reduced or revoked.	Disagree. The compliance function of the Authority is set out in the Electricity Industry Enforcement Regulations 2010. The role of the Authority in enforcing compliance with the Code is and needs to remain separate from its role in fulfilling obligations under the Code (for example determining next audit date or approving auditors).

³ Authority's Compliance Philosophy: <http://www.ea.govt.nz/code-and-compliance/compliance/about-compliance/>

Submitter	Comment	Authority's response
	Additionally where the compliance team determine additional audits are required then this requirement can form part of a settlement agreement via the compliance process.	<p>To create the situation where the team responsible for enforcing compliance with the Code is also responsible for fulfilling obligations under the Code is undesirable.</p> <p>Under the existing Code, reconciliation participants can be certified for a period of less than 12 months.</p> <p>The need for any policy decisions regarding the role of certification will be considered once the purpose of the audit regime is clear.</p>
Genesis Energy	Yes. Note the comment above; the requirement for 100% compliancy can put participants in conflict with the aim of efficiency for the long term benefit of consumers.	<p>Noted. We understand this submission refers to the need for risk and materiality to be taken into account when determining if a participant has complied with the Code. As legally binding tertiary legislation the Code will always require 100% compliance.</p> <p>Considering any issues identified in the audit within the context of the purpose of the audit regime will help ensure that outcomes are for the long term benefit of consumers.</p>
Meridian Energy	Yes.	Noted.
Mighty River Power	Yes, we agree that non-compliance severity is taken into consideration when the Authority seeks additional feedback, as raising low severity issues detracts resources from more significant issues.	Noted.
Momentous Consulting	Agree.	Noted.
Nova Energy	Yes.	Noted.
Orion NZ	No. We consider that the purpose of the Audit process can be	The purpose includes the statement ... <i>to help ensure</i>

Submitter	Comment	Authority's response
	<p>enhanced if an additional focus of the audit process is to identify and report areas of the Code that are resulting in ongoing trivial Code breaches or require inefficient work-arounds, or ambiguities in the Code.</p> <p>Due to the different purpose requirements regarding participants that require certification and those that don't, we consider that the purpose statement may need to be split to cover the different purposes that apply to different participants this may require more than one purpose statement or at least a qualified purpose statement. We do not consider that the purpose statement needs to consider the frequency of audits.</p>	<p><i>the ongoing accurate and efficient operation of the wholesale electricity market.</i> Identifying areas of the Code where there are inaccuracies or inefficiencies will help fulfil this purpose.</p> <p>Disagree that there are different purposes for participants requiring certification, approval and next audit date decisions. The purpose looks at efficient operation of the wholesale market, and the decisions the Authority makes as a result of the audit reports submitted.</p> <p>Disagree that the purpose statement does not need to consider the frequency of audits. The Authority is receiving the audit report for a reason, and this reason includes making a decision as a result of the audit. If the Authority was not required to make a decision as a result of the audit, then the purpose statement would not need to consider the frequency of audits.</p>
Paul Troon Consultancy	Yes - although it could be more targeted in terms of solving the problems described above.	Noted.
Powerco	Yes. However the proposed audit regime purpose definition should also incorporate efficiency and accuracy of audited entities operations and processes to ensure the ongoing efficient operation of the wholesale electricity market settlement process.	<p>Disagree. There are commercial incentives for audited entities to have efficient operations and processes. The Authority is not in a position to regulate the efficiency of these systems and processes.</p> <p>The accuracy of participants' processes and systems is covered by the reference to the accurate operation of the wholesale market.</p>
Powershop	No comment.	Noted.

Submitter	Comment	Authority's response
Strategic Lighting Partners	Yes.	Noted.
TEG & Associates	Yes.	Noted.
Transpower NZ	No, we consider the current compliance focus is appropriate with an audit report providing the assurance of that extent. The additional 'purposes' or 'objectives' may be better framed as ex-post Authority processes that attach to the results of the independent audit.	Disagree. The current compliance focus provides a binary compliant / not compliant assessment of the participant. This does not fully satisfy the Authority's statutory objective or give the Authority enough information to make an informed decision as a result of the audit. Creating an ex-post process where the Authority seeks further information in order to satisfy the statutory objective and obtain enough information to make an informed decision suggests that the audit is flawed and not providing the required information in the first place.
Trustpower	Yes. It is worthwhile noting that continuous improvement is a more important driver for the business than watching what competitors are doing, or how competitors are performing.	Noted.
Unison Networks	Yes, this makes sense.	Noted.
Veritek Limited	Yes.	Noted.
WELL	Yes, we agree.	Noted.

Question 4

Do you agree with the proposed purpose of the audit regime being incorporated into guidelines but not the Code? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.
Contact Energy	No – where obligations are being imposed on participants (in particular the proposed requirement to provide a compliance plan as part of its recertification application) then changes to the audit purpose / regime needs to be incorporated into the Code.	Disagree. The Code is outcome based and describes the outcomes required. The Code amendments, including the provision of a compliance plan are outcomes that should be met. The purpose is not an outcome and would not be enforceable even if it was incorporated into the Code.
Genesis Energy	No. The purpose of the audit should be explicit in the code. An audit regime should provide market stakeholders with assurance that the market is operating in accordance with the rules, and participant's obligations should be clear and explicit. On that basis, the purpose of the audit regime should remain in the code as it should not be prone to further change or simply act as guidance.	Noted. Disagree that putting the purpose of the audit regime within the Code will have any impact on the operation of the market, as it will not create an obligation. The proposal that the purpose of the audit regime is to provide assurance that the market is operating in accordance with the rules is noted. The consultation paper proposed to address this through defining the purpose in terms of the efficient operation of the market, as 100% compliance with the Code may not result in an efficiently operating market that can deliver long term benefits to consumers. Concerns regarding the ability to readily change the purpose of the audit regime without consultation are noted, and agree that any changes should be made in collaboration with affected parties. However the purpose is only guidance so should not be incorporated into the Code.

Submitter	Comment [sic]	Authority's response
Meridian Energy	Yes.	Noted.
Mighty River Power	Yes, as this will mean that any amendments would not require a Code change and can therefore respond to issues faster. Any amendments should require relevant participant consultation.	Noted. Agree that any changes to the purpose should be made with industry consultation.
Momentous Consulting	Agree the Code sets out the duties and responsibilities not the purpose.	Noted.
Nova Energy	Yes.	Noted.
Orion NZ	We consider that the purpose of the audit regime should be incorporated in Code, not into guidelines. As with other legislation/regulation there may be an over-riding purpose such as that set out in the Act for the Electricity Authority and this may well be the purpose of the Code, but different parts of the Code could have their own purpose statement which guides the interpretation of the relevant part. We consider that if the purpose statement is incorporated in guidelines it loses its impact and standing.	<p>The Code is outcome based and describes the outcomes required. The Code amendments, including the provision of a compliance plan are outcomes that should be met. The purpose is not an outcome and would not be enforceable even if it was incorporated into the Code.</p> <p>The purpose statement referred to (such as exists in the Act) describes the purpose of the legislation, not the purpose of the regime.</p> <p>For example: <i>The purpose of this Act is to provide a framework for the regulation of the electricity industry.</i></p> <p>The Authority intends to shift the Code amendments to Part 16A of the Code. The Authority can add a purpose to Part 16A of the Code, however this will not be the purpose of the audit regime.</p> <p>Action: Create a purpose for Part 16A of the Code.</p>
Paul Troon	No: Participants generally dont read guidelines and they cannot be	Noted. While there is no obligation on participants to

Submitter	Comment [sic]	Authority's response
Consultancy	enforced. However implementation of the audit can be controlled by the Authority by managing auditors.	read the Code or guidelines it will enable auditors and the Authority have a consistent and communicated approach to audits and decisions made as a result of audits.
Powerco	Yes as it allows for easier modification and explanatory comments if it is in a Guideline.	Noted.
Powershop	No comment	Noted.
Strategic Lighting Partners	Yes.	Noted.
TEG & Associates	I don't quite understand why the audit regime will be incorporated into guidelines not into the Code. If it is a case, the Code should say that the guidelines will be a binding documents.	<p>It is the purpose of the audit regime that will be incorporated into guidelines, not the audit regime in its entirety.</p> <p>The audit regime is the audit certification and approval process under Parts 10, 11, and 15 of the Code. This encompasses the Code, guidelines and associated systems and processes.</p>
Transpower NZ	No. We consider that the audit purpose statement should sit at the head of a dedicated Code part for audit processes e.g. 'Part 16'.	<p>Agree that the audit Code amendments should have a dedicated part. We recognise that putting the audit requirement in Part 15A creates an implied association with Part 15 and the reconciliation process, when the audit process applies to Parts 10, 11, and 15.</p> <p>Action: Shift the Code amendments to Part 16A of the Code.</p> <p>This will remove any potential association as Part 16 has been revoked (but cannot be re-used).</p>

Submitter	Comment [sic]	Authority's response
		<p>Disagree that audit purpose statement should sit at the head of the Part of the Code. The purpose statement referred to (such as exists in the Act) describes the purpose of the legislation, not the purpose of the regime.</p> <p>For example:</p> <p><i>The purpose of this Act is to provide a framework for the regulation of the electricity industry.</i></p> <p>The Authority can add a purpose to Part 16A of the Code, however this will not be the purpose of the audit regime.</p> <p>Action: Create a purpose for Part 16A of the Code.</p>
Trustpower	<p>Yes as guidelines are more readily kept up to date when the sector/technology or resources change. It will be important to have industry input into the guidelines and clear consultative processes for how they are updated. An agreement will need to be reached on the enforcement of guidelines.</p>	<p>Noted.</p> <p>Agree that changes to audit guidelines should include consultation.</p>
Unison Networks	<p>No – the Authority has not provided evidence or given examples of how the proposed purpose of the audit regime would apply more broadly than the new Part 15A (as noted in paragraph 3.3.5). Notably, the new Part 15A does not currently contain a purpose section as such, only a contents section outlining the types of audits conducted. In Unison's view, the proposed purpose would apply to all these audits (including ad hoc Authority or Participant requested audits) and should therefore be included as a clause in Part 15A of the Code.</p>	<p>Disagree that audit purpose statement should sit at the head of the Part of the Code. The purpose statement referred to (such as exists in the Act) describes the purpose of the legislation, not the purpose of the regime.</p> <p>For example:</p> <p><i>The purpose of this Act is to provide a framework for the regulation of the electricity industry.</i></p> <p>The Authority can add a purpose to Part 16A of the Code, however this will not be the purpose of the audit regime.</p>

Submitter	Comment [sic]	Authority's response
		<p>Action: Create a purpose for Part 16A of the Code.</p> <p>The proposed purpose of the Audit regime would be used more widely in the decisions made as a result of audits.</p> <p>For example:</p> <ul style="list-style-type: none"> • a focus on the accurate and efficient operation of the wholesale market, could be met by taking a risk-based approach to auditing where there is a greater focus on high risk areas and lesser focus on low risk areas • the decisions made by the Authority as a result of the audit would be made in light of the purpose, including if action is required to address a non-compliance, or if there was an issue with the Code that needs to be addressed.
Veritek Limited	Yes.	Noted.
WELL	Yes, the proposed purpose should be outside of the Code.	Noted.

Question 5

Do you agree with the problems identified with the governance arrangements of the audit regime? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.

Submitter	Comment [sic]	Authority's response
Contact Energy	<p>Contact agrees with the issues identified and has previously provided feedback regarding issues B.1.1 (governance of audit regime) and B.3.1 (appointment of auditor) as part of Proposal #62 second round consultation (Feb 2006).</p> <p>Contact believes Issue B.2.1 is a result of the format and structure of the existing audit guidelines and can be easily remedied through the redrafting of these at any point be the Authority.</p>	<p>Noted. This feedback on Proposal#62 describes Contact Energy's preference for the regulator to select the auditor or alternatively for approved auditors to form an audit group which not only selects the auditor for an audit but also support each other.</p> <p>Disagree that issue B.2.1 is the result of the format and structure of the existing guidelines. This issue is a result of the purpose of the audit regime focussing on binary (yes/no) compliance with the Code. In light of the new purpose of the audit regime, considering risk and materiality is now relevant to the assessment and decisions made as a result of audits.</p>
Genesis Energy	<p>No. The code currently defines the scope of audits, and allows for the Authority to focus audits on particular areas if needed.</p> <p>If there is an issue with the quality of audits then this should be addressed through the audit approval process.</p>	<p>Disagree. The Code defines the obligations that are within scope of each audit, but does not define the scope or the manner in which audits are conducted.</p> <p>We understand you are referring to the auditor approval process.</p> <p>We agree and the intention is to address issues with the quality of audits through the auditor approval process and use of formal assurance requirements.</p>
Meridian Energy	Yes.	Noted.
Mighty River Power	<p>We agree that there should be a materiality threshold, we note though that with the current indicative impact system that no and low impacts are being raised as concerns. We would want to see more information around how materiality would be handled, as there is no point in introducing this if low risk issues are still going to be raised in follow up requests.</p> <p>The Authority already have the ability to give the auditors direction,</p>	<p>Noted.</p> <p>Information regarding how risk and materiality could be handled can be found in the Supplementary Information - Draft risk-based planning principles. This will be used as the basis for the basis of guidelines for handling risk and materiality.</p> <p>Under the draft risk-based planning principles low risk</p>

Submitter	Comment [sic]	Authority's response
	and have done so in the past.	<p>areas would not result in immediate follow-up, unless they were on-going or deliberate breaches of the Code.</p> <p>While the Authority has given direction to auditors in the past, there is no obligation on participants or auditors to heed these requests.</p>
Momentous Consulting	Agree.	Noted.
Nova Energy	Yes.	Noted.
Orion NZ	<p>We agree that the problems with the current governance arrangements are problematic. The Authority has identified the following problems. The Authority:</p> <p>(a) has limited control over the scope, direction, and outputs of audits</p> <p>(b) does not have the ability to prescribe formal assurance requirements.</p> <p>(c) risk and materiality are not considered by the auditor or Authority when setting the scope of an audit, the focus of audit activities, or when reporting audit findings.</p> <p>(d) cannot appoint auditors or require an audited participant to rotate the auditor it engages.</p>	Noted.
Paul Troon Consultancy	Yes.	Noted.
Powerco	Yes – agree with all 3 problems raised	Noted.
Powershop	No comment.	Noted.
Strategic Lighting	Yes.	Noted.

Submitter	Comment [sic]	Authority's response
Partners		
TEG & Associates	Yes.	Noted.
Transpower NZ	<p>We consider the problems presented could be managed by the Authority in its role in approval.</p> <p>What is not clear is whether the current audit practice is revealing a level of non-compliance that is creating problems (a lack of confidence) in market measurements and reconciliation processes.</p>	<p>Disagree. Under the existing auditor approval process the Authority approves auditors but does not set governance standards, prescribe the approach to focus effort, or manage auditor independence and objectivity.</p> <p>The current audit practice is not robust and is not providing enough information to give the Authority confidence that there are no issues, or that issues are being identified and resolved in a timely manner.</p> <p>Any level of non-compliance identified that creates problems in market measurements and reconciliation process is also a matter of Code compliance.</p>
Trustpower	<p>No. The scope of the audits is clearly defined. It concerns an assessment of the business's compliance with the Code. Quality of the audits themselves should be managed through the Authority's audit and auditor approval processes. Taking a standards based approach to running the audit programme should assure the Authority of the quality of the audits, auditors and management of ongoing competency. Risk and materiality should be considered in the audit regime, this is standard practice in many sectors. This could be achieved by using standardised audit plans and report templates, and using an agreed matrix to assess risk and impact in each audit area. Guidance for auditors performing the audits by the EA should yield improved consistency.</p>	<p>Disagree that the scope of audits is clearly defined. The Code defines the obligations that are to be audited, but does not define the scope or the manner in which audits are conducted.</p> <p>Agree that the quality of audits can be managed through the auditor approval process and setting of auditor standards.</p> <p>Use of standardised audit plans, report templates and risk matrix noted.</p>
Unison Networks	Yes.	Noted.
Veritek	Mostly disagree with the problem definition, but agree that the	Disagreement noted.

Submitter	Comment [sic]	Authority's response
Limited	<p>solutions will result in improved audit effectiveness.</p> <p>These matters are all addressed in the existing framework, specifically within the Auditor Approval Policy and Auditor Terms and Conditions. We comment on each of the three issues below:</p> <p><u>Issue B.1.1: Governance of the audit regime</u></p> <p>This section states that the Authority has limited control over the scope, direction, and output of audits and does not have the ability to prescribe formal assurance requirements.</p> <p>The audit guidelines provide sufficient details regarding the scope and direction of audits and the Auditor Approval Policy and Auditor Terms and Conditions contain detailed auditor competence, independence and objectivity clauses to ensure the Authority's objectives are met. The only area where an issue exists is Approved Test House audits, where the Authority has not updated the audit guideline for "new Part 10".</p> <p><u>Issue B.2.1: Approach used to focus effort</u></p> <p>This section states that risk and materiality are not considered by the auditor or Authority when setting the audit scope</p> <p>Non-compliance issues are rated in the audit reports; however the rating matrix needs to be expanded because it currently only considers financial impact. We agree that risk and materiality require more robust consideration prior to the commencement of audits.</p> <p><u>Issue B.3.1: Appointment of Auditors</u></p> <p>This section states that the Authority cannot appoint auditors or require rotation of auditors, leading to a lack of assurance regarding auditor independence and objectivity.</p> <p>The Auditor Terms and Conditions require auditors to "act honestly, fairly, independently and objectively".</p> <p>The Auditor Approval Policy enables the Authority to manage performance and remove auditors based on performance and quality of audit reports. These clauses appear sufficient for the Authority to</p>	<p><u>Issue B.1.1: Governance of the audit regime</u></p> <p>The audit guidelines provide a list of auditable obligations but do not define the scope or manner in which audits are conducted.</p> <p>The terms and conditions set expectations with regards to auditors' competence, independence and objectivity but do not describe how these can be assured or measured.</p> <p><u>Issue B.2.1: Approach used to focus effort</u></p> <p>Agree that financial impact is assessed when a breach is identified and that financial impact differs from risk and materiality.</p> <p><u>Issue B.3.1: Appointment of Auditors</u></p> <p>Disagree that setting a condition that auditors act honestly, fairly and objectively is sufficient to ensure independence and objectivity requirements are met.</p> <p>Controls need to be in place to help provide assurance. A best practice approach to addressing these concerns is to regularly change the auditor responsible for the audit.</p>

Submitter	Comment [sic]	Authority's response
	ensure independence and objectivity requirements are met.	
WELL	We agree that the current regime does not differentiate between significant and minor issues.	Noted.

Question 6

Are there any other gaps in auditing best practices not identified here that should be addressed as part of this review?

Submitter	Comment [sic]	Authority's response
AMS	Under the proposal there is no requirement for auditors to be audited. The process for auditor approval is not clear.	<p>The Auditor protocol includes an 'Engagement Quality control review'. This review will look at the auditor's compliance with the protocol.</p> <p>The consultation paper did not seek to change the process for auditor approval, which is available from the Authority website at: http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/approved-auditors/</p>
Contact Energy	<p>Contact believes that the process to initially approve auditors needs to be reviewed and refined to ensure auditors:</p> <ul style="list-style-type: none"> • have a full understanding of the Code; • are competent and confident in applying audit practices; • can clearly articulate audit findings and issues in an audit report. <p>Contact recommends that the Authority require new auditors to be joined by a representative of the Authority for their first audit so their audit approach and practices can be assessed prior to being fully approved by the Authority. A similar approach could be applied to the re-approval process for existing auditors.</p>	<p>Disagree. The process to approve auditors already includes tests for the requirements stated.</p> <p>The approval process can include a written examination that looks at the applicants understanding of the Code and ability to clearly articulate audit findings and issues.</p> <p>A follow-up interview with the Authority auditor selection panel includes assessment of the applicant's competence and confidence in applying audit practices and validating the understanding of the Code as assessed through the written examination.</p>

Submitter	Comment [sic]	Authority's response
	The audit regime should also look to identify issues of conflict within the Code or where outcomes from complying with the Code results in the inefficient operation of the market. The audit regime should provide for auditors to make Code change proposals to allow for the fact that changes in technology may outpace the Code.	<p>Disagree with the proposal to require new auditors to be joined by a representative of the Authority for their first audit. We believe the Engagement Quality control review and variable auditor approval period is a more suitable solution for assessing auditor ability.</p> <p>Agree that the regime should look to identify issues of conflict with the Code and the purpose of the audit regime recognises this.</p> <p>Mechanisms already exist for auditors and participants to make Code change proposals.</p>
Genesis Energy	No comment.	Noted.
Meridian Energy	No.	Noted.
Mighty River Power	<p>Materiality Ratings</p> <p>While we agree with the need for better materiality ratings, however there needs to be a materiality threshold for issue resolution/follow up purposes, as mentioned in question 5.</p>	<p>Information regarding how risk and materiality could be handled can be found in the Supplementary Information - Draft risk-based planning principles. This will be used as the basis for the basis of guidelines for handling risk and materiality.</p> <p>Under the draft risk-based planning principles low risk areas would not result in immediate follow-up, unless they were on-going or deliberate breaches of the Code.</p>
Momentous Consulting	<p>This section does not note any issues in relation to the requirements for the auditors to be actually appointed, their qualifications or whether the process is considered robust.</p> <p>We do note the following sections consider that as well as a more robust requirements for auditors Governance (noted in 4.3) that</p>	<p>Agree. We had not identified any issues or opportunities to improve the auditor appointment process.</p> <p>The process of approving auditors was considered when identifying opportunities to improve the audit regime.</p>

Submitter	Comment [sic]	Authority's response
	<p>auditors need more assessment to ensure that they meet requirements.</p> <p>We recommend that as part of this review the process of appointing auditors be thoroughly reviewed to ensure that auditors are qualified to carry out the functions of auditing not just the application of the Code.</p>	<p>The approval process can include a written examination that looks at the applicants understanding of the Code and ability to clearly articulate audit findings and issues.</p> <p>A follow-up interview with the Authority auditor selection panel includes assessment of the applicant's competence and confidence in applying audit practices and validating the understanding of the Code as assessed through the written examination.</p> <p>At this stage we do not consider that any auditors are not qualified to carryout out the functions of auditing, however their approaches to auditing are diverse and could benefit from standardisation.</p>
Orion NZ	No Comment.	Noted.
Paul Troon Consultancy	Yes. Focus on purposes and materiality rather than the wording of the code.	<p>Noted. As legally binding legislation the Code will always require 100% compliance.</p> <p>Risk can be considered as part of defining the scope and depth of the audit, as well as aiding in decisions regarding any breaches of the Code that are identified.</p>
Powerco	No.	Noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes there are, please refer to submission above.	<p>We assume this refers to paragraphs 10 and 12 in your covering letter:</p> <p><i>10. We submit however that more changes are required in order for the Electricity Authority's statutory objectives and goals ("to promote competition in, reliable supply by, and the efficient operation of, the</i></p>

Submitter	Comment [sic]	Authority's response
		<p><i>electricity industry for the long-term benefit of consumers"4) to be met through the auditing process. Regulatory practices have not kept pace with technology and international industry practice in road lighting which is, as the EA suggests, the "most commonly recognised form of DUML"5. We submit that road lighting is in fact the largest proportion of all DUML.</i></p> <p><i>12. These changes are bringing about, and have the potential to make, major economic and social improvements to society, but current electricity regulatory frameworks – beyond the auditing processes - are hindering the introduction of these substantial benefits. However, this submission necessarily restricts its scope to that specified by the Electricity Authority consultation paper on auditing and therefore recommends:</i></p> <p><i>(iv) That auditing requirements for DUML and road lighting, in particular, be changed to anticipate the rapid introduction of new solid state lighting technologies and control systems which will result in making the current Electricity Authority preferred changes (endorsed above by SLP in paragraph 8) redundant. Nevertheless the current proposed changes are critically important as they provide an important foundation for the transition to the new technologies.</i></p> <p>The key theme we have taken from this submission is that the participant audit regime needs to have more consideration regarding current and future rapid</p>

Submitter	Comment [sic]	Authority's response
		<p>changes in technology.</p> <p>This feedback is noted and will be considered when finalising the drafting of any Code changes.</p>
TEG & Associates	No.	Noted.
Transpower NZ	No comment.	Noted.
Trustpower	<p>The Authority has chosen to use ISAE (NZ) 3000 standard to guide audit practice. It is Trustpower's opinion that ISO 19011:2011 more fully describes the attributes of a well organised management system audit programme. To assess auditor performance, a periodic participant survey could be completed by auditees. If audit plans and report formats are standardised, it will be easier to Engagement Quality control review if concerns are raised by the auditee or Electricity Authority.</p> <p>A review of the table of contents of ISO 19011 in comparison with ISAE (NZ) 3000 shows the ISO standard covers many of the topics canvassed in this submission. It is more comprehensive and offers suggested approaches to auditing issues.</p>	<p>Proposal to consider ISO 19011:2011 standard noted. Disagree with the full application of this standard</p> <p>The ISO 19011 standard is more appropriate for a centrally managed programme of audits, where the focus is on assessing the adequacy and effectiveness of a management system.</p> <p>The current audit regime is overseen but not managed by the Authority, with multiple auditors performing audits across multiple participants.</p> <p>The focus of the current audit regime is on assuring Code compliance. Internationally, audits of market rule compliance are typically aligned with the ISAE 3000 standard.⁴</p> <p>That the draft Auditor Guidelines may benefit from incorporating certain aspects of the ISO 19011 standard.</p> <p>Action: Incorporate appropriate aspects of the ISO 19011 standard into the auditor protocol.</p>

⁴ Examples include: Audits of the AEMO's compliance with electricity and gas market rules in Eastern and Western Australia, audits of the meter data provider compliance with electricity market rules in Eastern Australia, audit of Balancing and Settlement Code agents (i.e. retail market participants) in the United Kingdom, audit of the market operator and retail market registrar's compliance with electricity market rules in the Philippines.

Submitter	Comment [sic]	Authority's response
Unison Networks	No.	Noted.
Veritek Limited	No.	Noted.
WELL	There seems to be some differences in approach and reporting process between auditors.	Agreed.

Question 7

Do you agree with the proposed used of tailored Auditor Protocol? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.
Contact Energy	Contact agrees that the protocol would introduce some form of audit standards to ensure that all auditors approach the audit the same way. Having an audit standard would align with the intention of auditor appointment rotations.	Noted.
Genesis Energy	No comment.	Noted.
Meridian Energy	The Auditor Protocol appears reasonable. However, we note that a key component of the Auditor Protocol is the Risk-based Planning Procedures, which have not been developed yet. We request that participants also have the opportunity to review and comment on the Risk-based Planning Procedures prior to these being finalised.	The Supplementary Information - Draft risk-based planning principles contained information that would be used as the basis for the risk-based planning procedures. There will be an opportunity for participants to comment on the risk-based planning procedures prior

Submitter	Comment [sic]	Authority's response
		to finalisation.
Mighty River Power	We mostly agree with the tailored Auditor Protocol. We recommend that this protocol be tested first, before it is put in place. There is a risk that once in place this may not be as practical as hoped. Once in place it may be discovered that changes are required, which would require further consultation. This would leave a system in place that may not work with the industry, as well as not align with the Authority's Statutory Objective. Our industry is already highly competitive and strives for compliance with the Code.	Noted. The recommendation to test the protocol prior to implementation will be considered when planning implementation of the changes resulting from this consultation.
Momentous Consulting	Agree.	Noted.
Nova Energy	Yes.	Noted.
Orion NZ	We suggest that rather than develop specific professional standards the Authority should consider that all of the EA's authorised auditors should be subject to XRB standards. This could facilitate the use of financial auditors that already meet appropriate standards rather than having an Authority specific arrangement. Financial auditors, if they are willing to take on this work, have an advantage in that they will be familiar with the individual companies systems.	Disagree. The full ISAE (NZ) 3000 (revised) standard includes additional requirements that would impose additional cost and not add value to the electricity industry. As the standard is based on ISAE (NZ) 3000 (revised) any organisation auditing to the full ISAE (NZ) 3000 (revised) standard will automatically be meeting the requirements of the auditor protocol. Financial auditors are already able to be approved as Code auditors under the current Auditor approval process, and this will not change.
Paul Troon Consultancy	Yes.	Noted.
Powerco	Yes – looks much more professional and should also ensure a consistent high quality standard of auditing regardless of which auditors are used.	Noted.

Submitter	Comment [sic]	Authority's response
Powershop	Powershop agrees that there is benefit for all parties to introduce the auditor protocol.	Noted.
Strategic Lighting Partners	Yes.	Noted.
TEG & Associates	Yes, it sounds like good idea to standardise how evidence is obtained, evaluated etc. It should provide more clear picture of non-compliance and allow to quantify it.	Noted.
Transpower NZ	The protocol may be an effective tool for setting expectations for Authority appointment of auditors. However it cannot be viewed as a tool for 'compliance' (guidelines are not legally binding) and nor should it be.	Agreed. The focus of the consultation paper was on improvements to the audit regime, not the Electricity Industry Enforcement Regulations (2010). Approved auditors are bound by the terms and conditions for approval. ⁵ Not meeting the requirement of the protocol could lead to a decision to revoke and auditor's approval.
Trustpower	It is Trustpower's opinion that the wrong auditing standard has been selected. ISO 19011:2011 Guidelines for auditing management systems would be more suitable for the scope and scale of the changes proposed. This is big risk, high consequence area for the businesses and the sector. There should be no downsizing of the scope or requirements for auditors. They should be operating at high levels of skill and professionalism.	Proposal to consider ISO 19011:2011 standard noted. Please refer to the Authority's response to question 6.
Unison Networks	Yes.	Noted.
Veritek Limited	Yes. Whilst we do not entirely agree with the problem definition in	Noted.

⁵ <http://www.ea.govt.nz/dmsdocument/85>

Submitter	Comment [sic]	Authority's response
	Question 5, we believe the tailored Auditor Protocol will result in improvements to the effectiveness of audits.	
WELL	Yes, we believe this will improve consistency of approach between auditors.	Noted.

Question 8

Do you have any feedback on the proposed tailored Auditor Protocol attached as Appendix D?

Submitter	Comment [sic]	Authority's response
AMS	No.	Noted.
Contact Energy	Contact believes the performance of any Engagement Quality Control Review should be done on site, during the actual audit and not be a post audit review.	Disagree that the Engagement Quality Control Review should be done onsite. While this is appropriate for large and complex arrangements, the audits undertaken under the audit regime are not overly large or complex in nature compared to some types of audits, the benefits of an on-site review are unlikely to outweigh the costs. Additionally the auditor's on-site activities can be reviewed after the audit has been completed by conducting auditor interviews, and/or by reviewing audit templates/forms/interview notes. The auditor protocol includes clear audit trail requirements.
Genesis Energy	No comment.	Noted.
Meridian Energy	See response to Question 7.	Noted.

Submitter	Comment [sic]	Authority's response
Mighty River Power	No.	Noted.
Momentous Consulting	<p>The Draft Auditor Protocol fails to reference timing or Code requirements to meet timeframes.</p> <p>We suggest the inclusion of a clause in "Reporting of audit findings" (D.23) that instructs " that the audit report of findings will meet the required timeframes of the Code, if there are none specified then a within the time frame specified by the Authority.</p> <p>Under "identifying and addressing threats and conflicts of interest, the use of "immediate" can lead to different interpretations, to clarify amend D.30(a) as follows:</p> <p>D.30 (a) declare that threat or conflict to the Authority within 2 business days of becoming aware of the conflict.</p>	<p>Disagree that the draft auditor protocol needs to reference the timing or Code requirements. The auditor protocol focusses on the standards the auditor needs to meet to support audit best practice. Timing and Code requirements would be held in other documents such as audit guidelines which have a more general audience.</p> <p>Disagree that the auditor protocol should specify a timeframe for reporting threats or conflicts of interest. Any timing would be contextual and the auditor should exercise judgement in determining when the conflict should be reported to the Authority.</p>
Nova Energy	<p>A tailored auditor protocol solution is preferable to a full application of the ISAE (NZ) 3000 standard.</p> <p>If the reason for not adopting a full application of the standard is due to a lack of documentation regarding formal codes and policies by smaller firms, then:</p> <p>A timeframe should be set for smaller firms to implement (a) formal codes of conduct and conflict detection (b) formal policies (c) robust confidentiality, data protection and quality control policies and procedures.</p> <p>Confidentiality and data protection are covered under the Privacy Act 1993 and evidence that consumers interests are protected are essential.</p> <p>Codes of conduct and conflict detection polices assist in ensuring that the authorities objectives of promoting the efficient operation of the electricity industry for the long term benefit of consumers are</p>	<p>The reason for not adopting a full application of the ISAE (NZ) 3000 standard is because the full standard includes requirements for monitoring of the firm's quality control system. Larger firms have internal auditors who can monitor compliance.</p> <p>Requiring smaller firms to comply with such requirements would impose undue cost on them and on the audit regime.</p> <p>The auditor protocol includes requirements that are largely consistent with the ISAE 3000 standard. The Engagement Quality Control Review can be used to verify compliance with these requirements.</p>

Submitter	Comment [sic]	Authority's response
	<p>incorporated into operational practices in a firm regardless of size. It is not enough to say a small firm is exempt from having requisite policies and procedures that ensure robust processes are in place.</p> <p>In developing a tailored solution, especially in the matter of using a risk assessment of participants to specify the scope and focus areas for audits, consultation should be undertaken to identify and agree to the formulation of the risk assessments (risk v materiality) prior to applying these assessments to firms.</p>	<p>We agree that the risk assessment guidelines should be consulted on. Information regarding the risk assessment was included in the Supplementary information - risk-based planning principles included with the consultation paper. These principles will be applied when developing a risk-based planning procedure.</p>
Paul Troon Consultancy	The notion of "controls" to monitor and manage compliance is not something generally implemented by participants. This requires greater focus and attention in the compliance and audit regime.	Noted.
Powerco	Yes, it is anticipated that audit fees will increase due to complexity and also be more variable. As such an, indication of audit fee/cost if tailored protocol is implemented would be useful.	<p>The CBA included costs for "Auditors keeping up with auditor guidelines based on ISAE 3000 (NZ) standard", which is the cost of keeping up to date with the tailored Auditor Protocol.</p> <p>This is not a per audit cost, but rather a cost that will be spread across all auditors. The CBA assumed that the cost would be a 1 hour increase in auditor time initially (a one-off cost) and then an additional 1 hour per auditor per annum (where an auditor costs \$175 per hour).</p>
Powershop	No comment.	Noted.
Strategic Lighting Partners	Only that it is an excellent protocol.	Noted.
TEG &	Has been evaluated by how much it will increase the cost of audit to	The CBA included costs for "Auditors keeping up with auditor guidelines based on ISAE 3000 (NZ) standard",

Submitter	Comment [sic]	Authority's response
Associates	a participant?	<p>which is the cost of keeping up to date with the tailored Auditor Protocol.</p> <p>This is not a per audit cost, but rather a cost that will be spread across all auditors. The CBA assumed that the cost would be a 1 hour increase in auditor time initially (a one-off cost) and then an additional 1 hour per auditor per annum (where an auditor costs \$175 per hour).</p>
Transpower NZ	We could not find any Code direction for the Authority's approval process to have regard to / take into account the protocol.	This will be covered by amendment to the terms and conditions for auditor approval.
Trustpower	The use of professional standards described in ISO 19011 should be a minimum without any downsizing of skills or requirements. Auditors charge professional fees for their work and should be meeting professional standards. There is no justification for downsizing their professional requirements.	<p>Please refer to the Authority's previous responses to Trustpower's comments to question 6.</p> <p>The auditor protocol should not result in the downsizing of auditor requirements as it is based on internationally accepted auditing standards.</p>
Unison Networks	No.	Noted.
Veritek Limited	<p>Yes.</p> <p>The principles in this Auditor Protocol are largely contained in the Auditor Approval Policy, Auditor Terms and Conditions and audit guidelines; however they are stated more clearly in the Auditor Protocol and there is some advantage in having all of these requirements in one document.</p>	Noted.
WELL	We particularly welcome the increased focus on materiality.	Noted.

Question 9

Do you agree with the proposal for the Authority to set audit scope, focus and materiality levels through risk-based planning? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.
Contact Energy	In general terms Contact agrees with the concept of risk based planning and audit scope. However, the Authority needs to be pragmatic in determining whether monitoring the compliance of certain processes should be undertaken by the provision of monthly statistical reports provided to the market administrator (switching performance, meter reading compliance, billed vs submitted comparisons) as opposed to being included in a scheduled audit. The Gas Industry Company apply this approach in relation to switching compliance and it works effectively in ensuring switching timeframes are materially complied with by all participants.	Disagree that monitoring of compliance via monthly statistical reports is a preferred alternative to the audit process. The audit process allows for deeper understanding as to why a breach has occurred and the corrective actions taken to address the breach.
Genesis Energy	Yes. We support a risk based approach. Materiality levels must be discussed with effected participants but it is essential that the scope of this does not extend past the Authority's regulatory mandate.	Support noted. Scope of materiality will be limited to the Authority's regulatory mandate. This includes, but is not limited to the efficient operation of the market for the long term benefit of consumers.
Meridian Energy	Meridian supports in principle the Authority applying a risk-based audit approach. We agree there is potential to reduce time and effort spent on auditing low risk areas. Again, we would like the opportunity to review and comment on the Risk-based Planning Procedures prior to these being finalised.	Support noted.
Mighty River Power	We agree with this proposal. We reiterate our proposal to question 5, that a materiality threshold be introduced as well to ensure that time and effort are not wasted on low risk areas.	Support noted. Information regarding how risk and materiality could be handled can be found in the Supplementary Information - Draft risk-based planning principles. This

Submitter	Comment [sic]	Authority's response
		<p>will be used as the basis for the basis of guidelines for handling risk and materiality.</p> <p>Under the draft risk-based planning principles low risk areas would not result in immediate follow-up, unless they were on-going or deliberate breaches of the Code.</p>
Momentous Consulting	<p>We agree that the Authority needs a more robust method of risk assessment but do wonder if the tables provided are sufficient to take into account previous and ongoing issues.</p> <p>Likelihood of risk is forward based. Consequence of risk manifestation is based on the risk assessment future calculated.</p> <p>We suggest that the tables be amended to take into account past noncompliance and impact of ongoing issues. This can raise what is considered a minor or moderate occurrence within an audit period to a higher rating taking into account the accumulative effect and ability to include corrections into the revision process over more than one audit period.</p> <p>We consider breach materiality levels include a criteria – “breach has been recurring for a period of more than one audit period that would have a significant accumulating financial impact on the participant or on the market.”</p> <p>As it is not always easy to calculate the financial impact we recommend the inclusion of some guideline based on volume criteria (e.g. kWh or ICP quantities affected), similar to the audit sample levels in the existing guidelines.</p>	<p>Concern regarding ongoing issues noted. How to incorporate compliance history into the assessment of risk and materiality will be considered when developing the guidelines.</p> <p>Action: Consider how history of on-going non-compliance can be included in terms of risk and materiality in the risk and materiality guidelines.</p> <p>Consider if the consequence of risk manifestation being future calculated is appropriate as risks that have already manifested are no longer risks.</p>
Nova Energy	Yes. Conditional upon:	Noted.

Submitter	Comment [sic]	Authority's response
	<p>These assessments should not be too onerous or tedious by creating additional obligations.</p> <p>There is a question of how materiality levels will be set. What will the drivers be?</p>	<p>Materiality assessment is unlikely to create additional Code obligations, and will be conducted in light of the purpose of the audit regime.</p> <p>The drivers for materiality are the impact or ability to impact customers, participants and the accurate settlement of the wholesale market.</p>
Orion NZ	We agree with the proposal for the Authority to set audit scope, focus and materiality levels through risk-based planning. This is a familiar process for EDB's who use it for their asset management practices.	Noted.
Paul Troon Consultancy	Yes.	Noted.
Powerco	Yes.	Noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes, and we note that this risk-based approach has not been followed for road lighting as addressed by our submission above.	<p>It is not clear where in the submission Strategic Lighting Partners has identified that a risk-based approach has not been followed for road lighting.</p> <p>The most likely candidate for this discussion is paragraphs 24 and 30 [sic]:</p> <p><i>24. We therefore recommend that the auditing requirements of Electricity Industry Participation Code 2010 be amended for road lighting to recognise these modern metering systems that are embedded within the commercially available road lighting controls. The current Code never anticipated metering of such small loads on the network. It acts as a barrier to Territorial Local Authorities being able to economically apply</i></p>

Submitter	Comment [sic]	Authority's response
		<p><i>smart lighting systems that provide accurate measurements (in place of unmetered load estimates) and that will allow for the introduction of incentives to reduce wasteful practices in electricity use .</i></p> <p>We assume your concerns refer to the issue that road lighting is individually small, and the audit regime should consider the potential and actual risk of market impact when assessing the scope and size of DUML audits.</p> <p>30. <i>It is therefore important for the regulatory framework to remove barriers to these desirable benefits wherever possible. We therefore recommend that the regulatory framework for road lighting include more focused consultation with Territorial Local Authorities and the road lighting industry.</i></p> <p>We assume this submission considers that the risks associated with road lighting need to include more focused consultation with Territorial Local Authorities and the road lighting industry.</p> <p>Disagree that a focussed consultation with Territorial Local Authorities and the road lighting industry is needed to set audit scope, focus and materiality levels through risk-based planning. The risk and materiality needs to be framed within the context of the purpose of the audit regime, which focusses on the settlement of the wholesale electricity market.</p> <p>While Territorial Local Authorities and the road lighting</p>

Submitter	Comment [sic]	Authority's response
		industry provide agent services to participants they are not subject to Code obligations and are not responsible for the accurate settlement of streetlight volumes.
TEG & Associates	Good idea.	Noted.
Transpower NZ	Yes we support the concept for audit scope to focus more on those aspects where non-compliance produces the largest impact. This approach should be developed in advance of any Code amendments to better understand costs and compliance risk.	It is unclear if you are referring to the Code amendments proposed in this paper, or future Code amendments due to other Authority initiatives. Disagree that there is a need to develop the approach to focus on aspects of compliance risk and impact prior to developing the Code amendments for the audit regime. The Code focusses on the outcomes. The approach will be developed to deliver on these outcomes. Agree that risk and impact should be considered when considering future Code amendments that will affect the audit regime.
Trustpower	Yes, this is audit programme best practice. Some guidelines for materiality would need to be developed with the EA and auditors to cover the grey areas, where size or scale of the issues identified are small but impact possibly high. Controls should also be considered to ensure that the audits are efficient. If risk is high and controls are lacking a more substantive audit should take place. If controls are good, more limited checks are required to ensure that those controls are operating as expected, even if the risk is high. Emphasis and focus areas should be set in conjunction with the auditors and participants.	Noted. Agree that controls should be considered as part of assessing risk.
Unison Networks	Yes, this makes sense. However, we have specific feedback around the Draft Risk Based Planning Principles attached to the consultation document:	a) Agree. Action: Amend the auditor protocol and ensure the risk-based planning guidelines specify the

Submitter	Comment [sic]	Authority's response
	<p>a) Paragraphs 9 (a) and (b) should refer to 'inherent' risks'; whereas 9 (c) should refer to the 'residual' risk.</p> <p>b) Table 2 on page 3 discusses the consequence of risks with examples. It would be useful to define these measures in terms of both quantitative and qualitative examples.</p> <p>c) Table 3 on page 4 sets out the adequacy of controls. Unison recommends these controls are also assessed in terms of preventative and detective measures.</p> <p>d) Table 4 on page 4, Inherent risk rating matrix, is a 5x4 table. The standard practice for risk matrices is to use a 5x5 table to include the extreme scenarios and capture the 'fat tail of risk'. Unison recommends that the consequence side of the matrix include another column which would result in a 5x5 matrix.</p>	<p>difference between inherent risk and residual risk.</p> <p>b) Agree. Examples will be included in the risk-based planning guidelines.</p> <p>c) Agree. The Risk-Based Planning Guidelines will specify that control strength should be assessed with respect to both detective and preventative measures.</p> <p>d) Disagree with proposal to use a symmetric risk matrix. In the context of the audit regime, risks with a "significant/catastrophic" consequence rating are unlikely to exist.⁶. The addition of an additional dimension of consequence is unlikely to add much value to the risk assessment.</p>
Veritek Limited	Yes.	Noted.
WELL	Yes, we agree.	Noted.

Question 10

Do you agree with the proposed changes to auditor appointment? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Agree, as long as audited entity has retains right to select auditor in the first instance.	<p>Noted.</p> <p>The Code will enable the participant to select the auditor in the first instance.</p>

⁶ e.g. risk may lead to death/injury, power system emergencies, insolvency of a participant due to repeated settlement errors.

Submitter	Comment [sic]	Authority's response
Contact Energy	<p>Contact has previously advocated that Authority should appoint auditors; similar to the Gas Industry approach. An alternative to the proposed changes is for an Engagement Quality Control Review to be undertaken rather than authority having ability to decline auditor as this would have impacts to a participants ability to have audit completed in time if a participant is required to engage a different auditor at short notice where their preferred auditor has been declined by the Authority.</p>	<p>Disagree. An Engagement Quality Control Review looks at the auditor's compliance with the auditor protocol once an audit is completed.</p> <p>Agree that in the context of the proposed changes to the audit regime the ability for the Authority to decline the use of an auditor is counter-intuitive. The Authority has approved auditors to conduct audits. This should be sufficient to consider the auditor competent enough to conduct the audit.</p> <p>In the event of a conflict of interest or poor quality audit a shorter next audit date can be set to enable the audited participant to provide a good quality audit that is free from any conflicts of interest.</p> <p>Action: Amend the Code proposal to remove the requirement for Authority to approve nomination of auditor.</p>
Genesis Energy	<p>No. Changing audit companies to achieve impartiality comes at the cost of continuous improvement. A new audit company will need to build its base knowledge of the business which takes time, and audits are likely to be less informative for participants during the learning period.</p> <p>We support 2-yearly rotation of the lead auditor as we believe this will achieve the same result without loss of business acumen.</p>	<p>Noted.</p> <p>The definition of auditor in Part 1 of the Code refers to a person who is approved by the Authority carry out an audit.</p> <p>This can include an individual, a corporation sole, a body corporate, and an unincorporated body however to date the Authority has only approved individuals.</p> <p>The proposal is that the auditor that has been approved by the Authority will be rotated every 2 audits. This can include using different approved auditors working for the same organisation.</p> <p>Action: Update timeframe for auditor rotation to every 2 years (or 2 audits whichever is longer) excluding material change audits, 'unless agreed otherwise by the Authority'</p>

Submitter	Comment [sic]	Authority's response
Meridian Energy	<p>No. We note that there are currently only four approved auditors who can complete both a reconciliation participant and metering equipment provider audit. We have concerns that the forced rotation of auditors may not allow Meridian to select the most appropriate auditor available for the task at hand. This is unreasonable given we pay the cost of an auditor.</p> <p>The proposed approach also undermines the competitive pressure in the market for auditors by having a central body influence how much work a particular auditor receives.</p> <p>We recommend participants continue to have to option to select their own auditor without the need for Authority approval.</p>	<p>Disagree. Retaining the status quo will not address the issues around auditor objectivity and familiarity.</p> <p>With four auditors available there remains three other auditors to choose from once rotation is required.</p> <p>Agreed.</p> <p>Action: Amend the Code proposal to remove the requirement for Authority to approve nomination of auditor.</p>
Mighty River Power	No.	Noted.
Momentous Consulting	We agree with the issues raised and the preferred solution. We however raise concern that there may not be sufficient auditors within the market to provide availability for audits given the bottle necks that have been evident with the current regime. The Authority would need to ensure any schedule of audits allows for allocation of auditors as they are needed.	Concern regarding scheduling of audits noted. Next audit dates will be assessed in terms or the participant's compliance and risk to the market. The timeframes for the next audit date is a maximum, not a target and participants should be planning audits with their auditor in a manner that allows them to meet their next audit date.
Nova Energy	Yes.	Noted.
Orion NZ	<p>We agree with the Authority's suggestions that it should:</p> <p>(a) Require participants to change auditors at regular intervals. We would suggest that this should be no more frequently than every three years as there is a cost overhead for a business (and auditors) in this change. We also suggest that an alternative to changing the auditors completely is that the director of the audit is rotated every</p>	Noted.

Submitter	Comment [sic]	Authority's response
	<p>three years. This is the approach taken by auditors globally to reduce the risk of director "capture" and to ensure that a fresh view is taken on a regular basis.</p> <p>(b) Approve or decline the nomination of an auditor by a participant.</p> <p>(c) Require auditors, at time of initial appointment to the auditor pool and prior to starting any audit, to:</p> <p>(i) declare any conflicts of interests or other threats that may impact on their objectivity</p> <p>(ii) disclose any procedures they have to identify and address conflicts of interest and other threats.</p> <p>As noted in response to Q7 above we also consider that the Authority should consider approaching financial auditors.</p>	
Paul Troon Consultancy	<p>Yes - However, In the present regime a participant may select the auditor who finds the least non-compliance and simply stay with that auditor.</p> <p>The proposed regime allows a participant to select the two auditors who find the least non-compliance (perhaps 2 auditors from one firm who use the same thinking and methodologies, finding only the same non-compliance?).</p> <p>The primary objective would be best served with true rotation of auditors and a long term review of participant audits produced across all auditors.</p>	<p>Concerns noted.</p> <p>Changes to the audit governance framework including introduction of the auditor protocol and Engagement Quality Control Review are expected to improve audit consistency.</p>
Powerco	Yes.	Noted.
Powershop	<p>Powershop does not agree with the proposal to give the Authority the ability to approve or decline the nomination of an auditor by a participant, or with the requirement for participants to change auditors at regular intervals.</p> <p>The current auditor pool is limited and Powershop would take issue with being forced to commercially engage with non-preferred parties.</p>	<p>Disagree. Retaining the status quo will not address the issues around auditor objectivity and familiarity.</p> <p>Agree that in the context of the proposed changes to the audit regime the ability for the Authority to decline the use of an auditor is counter-intuitive. The Authority has approved auditors to conduct audits. This should be sufficient to consider the auditor competent enough</p>

Submitter	Comment [sic]	Authority's response
		<p>to conduct the audit.</p> <p>In the event of a conflict of interest or poor quality audit a shorter next audit date can be set to enable the audited participant to provide a good quality audit that is free from any conflicts of interest.</p> <p>With four auditors available there remains a pool of three auditors to choose from once rotation is required. Rotation does not require the auditor to conduct more than one audit, and the participant can return to their preferred auditor.</p> <p>Action: Amend the Code proposal to remove the requirement for Authority to approve nomination of auditor.</p>
Strategic Lighting Partners	Yes.	Noted.
TEG & Associates	<p>It is a hard question. As always there are advantages and disadvantages of each decision. I would expect that participants and the Authority point of view will differ significantly.</p> <p>The document specifies possibility of auditors being influenced by participants, over-familiarity, and conflict of interest. If the Authority currently has concerns about the first and the third issue, it is a huge concern to me and should be addressed straight away because it puts the whole process in question.</p> <p>Long standing relationship between an audited party and an auditor I see beneficial to both parties. From my point of view one of the purposes of audits is to assist a participant in achieving compliance and to provide additional education for them. Specially small companies do not have time to go through all amendments to the Code and discussion papers, so having the same auditor for number of years works to their benefit.</p>	<p>Noted. The proposed rotation of auditors will address the risks associated with over-familiarity and auditor objectivity.</p> <p>We do not consider that the benefits of a long standing relationship between auditor and participant will be lost as there remains the opportunity for the participant to use that auditor again at the next rotation.</p>

Submitter	Comment [sic]	Authority's response
	<p>Companies are always free to appoint a new auditor if they wish. It is part of company policy how they manage their compliance and auditing regime. There is always a danger that if you change auditors every 2 years some issues could be missed unless the Authority puts the process in place that each of us works the same way but each company structure their processes to meet compliance so it is not so straight forwards.</p>	
Transpower NZ	<p>There may be merit in rotation of the same company's auditors but every two years for different companies would seem far too frequent for operational efficiency and learning from repeat processes to be obtained. This aspect should remain flexible consistent with the objective for less frequent audit.</p> <p>We consider the argument for expanding the Authority's role in auditor appointment is not persuasive and no evidence has been presented for the issues outlined under 4.5.2. We do not support the Authority making decisions on who the auditor is for any particular participant.</p>	<p>Disagree that every 2 years to too frequent. The proposal was for every 2 audits; however in light of consultation submissions we consider the longer of every 2 years or 2 audits is more appropriate. This means that for participants with audit frequencies exceeding 12 months, the '2 audits' provision means that the auditor will be appointed for longer than 2 years.</p> <p>Action: Update timeframe for auditor rotation in clause 16A.7 to the greater of every 2 years or 2 audits (excluding material change audits).</p> <p>The issues outlined in Section 4.5.2 represent intimidation, familiarity and self-review threats/conflicts of interest. Professional and Ethical Standard (PES) (100.12, 100.17) lists these as potential threats to objectivity and require firms applying the ISAE 3000 standard to put in place measures to identify and address such threats and conflicts of interest.</p> <p>The Authority's preferred option set out in Section 4.5.7 has been developed to mitigate these threats.</p> <p>Support for participant choice of auditor noted. Under Part 16A participants will continue to be able to choose</p>

Submitter	Comment [sic]	Authority's response
		their auditor.
Trustpower	<p>No. Professional, trained auditors who maintain their competence are not likely to be influenced. If this is occurring it is more about the people that are being used. Rotation of auditors per se is a good thing as fresh ideas, and objectivity are helpful. However there needs to be a pool of professional competent people to choose from. We would ideally like to have the ability to choose another lead auditor from within the same organization or another organisation every 3 or 4 years. There needs to be set and communicated reasons why an auditor can be declined by the EA. If the EA is seeking the ability to decline an auditor appointment then there should be a robust process including criteria for declining. The reasons for should be made clear and communicated to affected parties.</p> <p>Conflict of interest should be managed by operating an effective audit management regime, a declaration of independence by the auditor should be made prior to commencement of the work.</p> <p>Similarly the Code does not need to prescribe the audit administration this can be done using the guideline and standards based approach to administration of the audit programme.</p>	<p>Noted. This proposal is about addressing a risk to auditor objectivity and independence and applying international best practice to how this risk is addressed.</p> <p>Recommendation to increase period for auditor rotation noted. We consider the longer of every 2 years or 2 audits is a more appropriate timeframe. This means that for participants with audit frequencies exceeding 12 months, the '2 audits' provision means that the auditor will be appointed for longer than 2 years.</p> <p>Action: Update timeframe for auditor rotation in clause 16A.7 to the greater of every 2 years or 2 audits (excluding material change audits).</p> <p>Agree that the Code does not need to prescribe audit administration as the auditor protocol and audit guidelines are designed to handle administration. The Code will address areas that require certainty or where there is a need to place an obligation on parties involved in the audit regime.</p>
Unison Networks	Unison supports the new auditor appointment changes, in combination with the other proposals in the paper that address governance, best audit practice, and the introduction of risk-based audit planning. In particular, we agree that the regular change of auditors will assist with audit objectivity, providing there is greater transparency of audit findings (issue C.2.1).	Support noted.
Veritek Limited	<p>Yes.</p> <p>Although we believe the current framework enables objectivity and conflicts of interest to be addressed, this proposal does meet "best</p>	Noted.

Submitter	Comment [sic]	Authority's response
	practice" and should result in audit effectiveness across the industry.	
WELL	We understand and to some extent support auditor rotation. However, there is merit in an auditor becoming familiar with a participant's processes in terms of audit efficiency and fully understanding process improvements.	Noted. Agree that familiarity can provide some benefits and the auditor requirements do not prevent changing back to a preferred auditor at the next rotation.

Question 11

Do you agree with the proposed Code amendments? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.
Contact Energy	<p>Although it is true that auditor rotation can contribute to greater assurance around auditor objectivity, it should be noted that participants consider and appoint auditors based on certain criteria.</p> <p>A proactive participant would prefer to engage the services of an auditor who they believe will be able to help improve their processes to comply rather than an auditor who would not.</p> <p>Having continuous education/training of auditors will help in establishing certain level of acceptability or standards.</p> <p>Contact believes alternative one is the best option for the industry and is also consistent with the Gas Industry approach.</p>	Support for alternative 1 noted. We disagree that the mandated appointment of auditors is the best solution as it will not deliver additional benefits and will result in additional costs through administrative overhead of managing the process.
Genesis Energy	No. It is currently unclear whether a change in audit company is required every two years, or if a change in the lead auditor (from the same audit company) will be acceptable – suggest amending to	Disagree this needs to be incorporated into the Code. The term approved auditor is defined in Part 1 of the Code and refers to the person that is approved.

Submitter	Comment [sic]	Authority's response
	include direct reference to 'lead auditor'.	<p>The proposal was to change the person approved by the Authority every two audits.</p> <p>Action: Authority to include clarification regarding auditor rotation expectations within participant audit guidelines.</p>
Meridian Energy	No. See response to Question 10. Furthermore, we consider the limitation on appointing a particular auditor more than two years in a row (15A.7) is overly restrictive given the small pool of auditors operating in New Zealand. We suggest this clause is removed.	Noted. This comment implies that the submitter has no viable alternative auditors other than the one they are currently using. We believe that the number of auditors currently operating does not unduly restrict options for audit.
Mighty River Power	<p>We agree with this. Worth noting is that clause 15A.7 risks increased costs to Participants who use an auditor that operates individually. The new auditors would have to spend a longer period of time due to having to learn how the systems work before being able to effectively audit them. There is also a risk that auditors will have reduced business as a result of this and this could lead to a reduction in the auditor pool. We recommend that the minimum period of 3 months in Clause 15A.14(1)(a) be lengthened. Currently audits are to be submitted 2 months prior to certification expiry and with the introduction of notice to use an auditor of 15 working days this leaves very little time to correct any issues and conduct an audit. This could pose a significant cost to a Participant through rushed system changes (which may not be as robust having had more time to develop), as well as auditor availability. We suggest that 6 months may be a more reasonable time.</p>	<p>Support noted. Agree that with any new engagement there will be a learning curve, however we believe this learning curve and fresh viewpoint will add value to the audit.</p> <p>Not all auditors rely on audits as their sole source of income and experience with the variability of the MEP audit regime shows that auditor can manage variability in the number of audits they conduct each year.</p> <p>Recommendation regarding minimum period noted.</p> <p>We disagree that there is a problem with a minimum audit period of three months. The certification period set out in Schedule 15.1 is independent from the next audit date set out in Part 16A.</p> <p>The proposal to require notification of an intention to use a specific auditor has been removed as a result of consultation feedback. The Authority has approved auditors to conduct audits. This means that the auditor should be competent enough to conduct the audit.</p>

Submitter	Comment [sic]	Authority's response
Momentous Consulting	<p>We suggest the following considerations for the Code amendments: 15A.3 (3) if the Authority rejects a participants choice - due to the circumstances the Authority may provide recommended auditors names from the list of approved auditors. This will assist the participant in making an informed choice and remove any chance of rejection recurring. Add that clause 15A.2(3) will apply.</p> <p>15A.7 Participant not to use same auditor more than twice consecutively – what is the alternative if there are no auditors available for the participant in the timeframe they are required to carry out an audit. Suggest allowing the Authority to extend or reduce (different auditor within a year) this obligation if there is a valid reason that an alternative auditor cannot be appointed. Add that clause 15A.2(3) will apply.</p>	<p>Disagree. Under the preferred solution consulted on the Authority could provide reasons for rejecting the auditor, however providing a list that is a subset of approved auditors could create the situation where the Authority effectively prescribes an auditor or auditors. This could adversely affect competition for audit services.</p> <p>This proposal has been amended and we now consider the ability for the Authority to decline the use of an auditor is counter-intuitive. The Authority has approved auditors to conduct audits. This should be sufficient to consider the auditor competent enough to conduct the audit.</p> <p>Agree that need to consider the situation where the auditor options are limited.</p> <p>Action: Amend the Code to include provision that allows use of auditor for more than 24 months or two consecutive audits if agreed by the Authority</p>
Nova Energy	Yes.	Noted.
Orion NZ	We have not commented on the detailed Code drafting as we consider that this should be considered in a separate technical drafting consultation following the Authority's decision on this consultation round. The current process pre supposes an outcome from the consultation that may not eventuate. We consider that it is inefficient for us to look at detailed code drafting which may change as a result of the Authority's decisions on the consultation.	The Authority is required, under section 39 of the Electricity Industry Act 2010, to publicise and consult on the proposed amendment and regulatory statement. The Authority complies with this obligation by releasing a consultation paper, including a draft of the proposed amendment on which we are consulting. Following consultation, the Authority will take into consideration any relevant feedback, including feedback on the proposed Code drafting and may amend the proposed Code amendment accordingly.

Submitter	Comment [sic]	Authority's response
		The questions in the consultation paper are formulated to invite submitters to provide their views on any of the options set out in the consultation paper, as well as any other information they consider relevant to the consultation. We include a mock-up of the proposed Code drafting with the consultation paper only as a convenience for submitters. It is provided to assist submitters to understand what the Code would look like based on the proposal at that time – in no way does this presuppose the outcome of the consultation.
Paul Troon Consultancy	Yes.	Noted.
Powerco	Yes. Frequency of audits C.1:5 page 38. Prefer Alternative 1.	Preference for fixed audit period for all audits noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	We have not had time to scrutinise the suggested improvements, but we strongly endorse the rationale for the proposed changes	Noted.
TEG & Associates	<p>I would like to see more details how the Authority is planning to rotate auditors, what would be criteria who is assign to which audit.</p> <p>The main issue which I see at the moment that the Authority is slow to review audits and get back to participants. For number of years, particularly distributors were not getting any feedback from the Authority.</p> <p>The Code change introduced how the date of next distributor audit is calculated introduced a “bottle neck” in the second part of the year.</p> <p>I suggest that we make current process working to everybody's satisfaction before the introduction of dramatic changes.</p>	<p>The rotation of audits will be at the discretion of the audited participant, with the requirement that the auditor be changed every 2 years or 2 audits (whichever is greater).</p> <p>We consider the longer of every 2 years or 2 audits is a more appropriate timeframe.</p> <p>Action: Update timeframe for auditor rotation in clause 16A.7 to the greater of every 2 years or 2 audits (excluding material change audits)</p> <p>Historically distributor obligations have been to submit an audit but there was no obligation on the Authority to make a decision as a result of the audit. As a result</p>

Submitter	Comment [sic]	Authority's response
		<p>there has been less regulatory focus on the outcomes of distributor audits.</p> <p>Agree that under the new Code there will be a bottleneck, with most distributor audits occurring in the second part of the year. Distributors can choose to arrange for the audit to occur at any point during the year to relieve this bottleneck.</p> <p>Disagree that we need to make the current process work before making changes. The purpose of these changes are to address efficiency issues that are preventing the current process from working to everybody's satisfaction.</p>
Transpower NZ	<p>No, see above. Guidelines are more flexible for setting expectations, providing for differing scope and risk levels.</p> <p>We do support a structural tidy up of the currently fragmented audit requirements into a dedicated part.</p>	<p>Guidelines are not enforceable and would result in the requirement for auditors to change to be ineffective.</p> <p>Support for structural tidy up noted.</p>
Trustpower	No. There is no need to change the Code to manage the audit programme. Aspects of administration of the audit programme should be contained in guidelines and the use of a standards based audit management system.	Disagree. Guidelines are not enforceable and would result in the requirement for auditors to change to be ineffective.
Unison Networks	Yes, for those amendments relating to section four of the consultation paper.	Support noted.
Veritek Limited	Yes.	Noted.
WELL	We are neutral on the proposed Code amendments.	Noted.

Question 12

Do you agree with the issues identified in this section and that the proposed solutions adequately address the issues?

Submitter	Comment [sic]	Authority's response
AMS	<p>Yes we agree with the issues identified and mostly agree with the preferred solutions except for the following;</p> <p>C.1.8: Retain the status quo – we believe there is no need to mandate the provision of information as failure to provide this will lead to incomplete audits and a shorter 'next audit date'.</p> <p>C.1.9: Mostly agree but would like to go further and see what costs (allocation) participants could likely expect from common scenarios.</p>	<p>C.1.8: Disagree. We have encountered two instances across two separate auditors where it has been in the participant's interest to withhold information that could lead to a breach allegation and have a shorter next audit date.</p> <p>C.1.9: Conditional support noted. To date this portion of the Code has not been exercised so there are no common scenarios regarding allocation of costs.</p>
Contact Energy	<p>C.1.1. Contact has no issue with participants having to provide a compliance plan where an issue has been assessed as being material as this will speed up any potential investigation by the Authority. Non material non-compliances should not be part of this requirement which is consistent with the Authority's Compliance Philosophy. Additionally Contact believes all audits should be annual. The Authority already has the ability to require additional audits be performed as part of the compliance / settlement process.</p> <p>C.1.2. Contact is encouraged to see the Authority recognise the need / benefit of an industry issues register rather than requiring participants to raise a proposed rule change where they believe a code issue exists (in isolation of the views of other participants). However the creation of an issues register will not deliver any benefit unless the Authority has a formal process in place to review and respond to the issues being identified by auditors. Contact recommends that the auditors as a working group perform this task in conjunction with the Authority on a quarterly review process. Also if the Authority will require the participants to submit a compliance</p>	<p>C.1.1. Disagree. Compliance with the Code is not optional and where there is breach information this needs to be provided to assess how this is being addressed. The proposed risk-based planning procedure includes information regarding prospective timeframes for resolution.</p> <p>Disagree that audits should be annual. The audit regime needs to recognise the risk participants pose to the market, and participants with higher risk having audits more frequently than the participants that pose lower risk to the market.</p> <p>The audit period is a maximum, not a target, so the proposed Code does not preclude participants from arranging annual audits if their audit period is greater than 12 months.</p> <p>C.1.2. Recommendation noted. Authority staff currently meet with auditors annually. We can consider how to integrate auditors into the issue review process however auditors have an operational rather than</p>

Submitter	Comment [sic]	Authority's response
	<p>plan (C1.1.), there should also be a process where the Authority is able to ascertain whether a participant's "compliance issue" is part of a wider compliance issue that may become part of their issues register. The Authority should be able to advise the participants of any discussion / recommendations that may impact their submitted compliance plan (e.g. if there is a potential code change that would make the participants compliant, then why would participant change their current process?).</p> <p>C.1.3. The current description seems accurate. However, the wording proposed in the Code amendment may require further work as the description of software changes may require all participants to undergo material change audits for modifying their systems for changes such as the provision of the Consumption Data Code Amendment effective February 2016.</p> <p>C.1.4. Contact believes audit timeframes should be kept at annual intervals – the risk based assessment can be used to determine the extent of an audit where participants who had materially compliant previous audits would have a high level controls audit performed but a participant who had a number of material non-compliances identified previously would undergo a fully comprehensive audit.</p> <p>C.1.5. Audit timeframes should remain as annual – where the Authority requires any additional audit then this can be enforced via the Authority's compliance team as part of a settlement agreement as has been applied historically.</p> <p>C.1.6. Contact believes the Authority should classify agents as a form of participant and formally include them in the audit framework. As most agents perform tasks for multiple existing participants this approach would simplify the audit reporting framework and participant certification process.</p>	<p>regulatory focus.</p> <p>C.1.3. Concern regarding software changed noted. Action: Amend the Code proposal to describe a material change as a change that is likely to affect the ability of the participant to comply with any relevant provision of the Code.</p> <p>C.1.4. Disagree that audits should be annual. The audit regime needs to recognise the risk participants pose to the market, with the participants with higher risk having audits more frequently than the participants that pose lower risk to the market.</p> <p>If a participant has an audit frequency of greater than 12 months this is a maximum, not a target, so there is nothing preventing the audit from occurring annually.</p> <p>C.1.5. Disagree that audits should be annual for the reasons set out in response C.1.4.</p> <p>C.1.6. Agents are not industry participants and cannot be regulated under the Code. Additionally agents act on behalf of a participant, so it is the participant who ultimately has responsibility for meeting their obligation under the Code.</p> <p>C.1.7. Disagree. Allowing a flexible approval period will provide administrative flexibility. Currently most auditors' approval differs for each participant type they are approved to audit and they must schedule reapplication for those times to avoid a period of not being approved.</p> <p>Additionally it will allow the Authority to approve new auditors for a shorter period of time and allow them to demonstrate full competence through their audits rather than relying solely on examination and interview.</p>

Submitter	Comment [sic]	Authority's response
	<p>C.1.7. Contact believes auditor approval timeframe should remain a uniform fixed term be it 24 or 36 months. Where the Authority has concerns regarding an auditors performance then the Engagement Quality Control Review process can be used to attempt to improve an auditors performance during the auditor approval period. Potentially reducing an auditors approval timeframe can be seen by the industry as a lack of confidence the Authority has with an auditor which could be viewed by the industry to not use this auditors services as a consequence.</p> <p>C.1.8. Contact agrees with the issue and also the preferred solution. Contact also believes the issue goes both ways and auditors should also be obligated to provide participants with all information / detailed analysis an auditor has used in determining any non-compliance or assessment of market impact. There should be some requirement from auditors to provide source information when an issue is identified against a participant – this is to compare both sources. This is likely to be resolved if additional reporting / monitoring is performed by the Market Administrator to look into trends / issues in a proactive manner rather than relying on annual audit issues.</p>	<p>C.1.8. Agree that auditors should provide their clients with full details regarding their analysis to determine any non-compliances identified. This would likely be in the terms of engagement between the participant and the auditor.</p>
Genesis Energy	<p>We support the compliance plan concept and encourage conversations with participants, especially around materiality and appropriate management of audit non-conformances.</p> <p>However we note a compliance plan is unlikely to be static, and there will be a need for the plan to align the wider business. Publishing a final version may be problematic, and is also unlikely to inform or be relevant to other participants.</p> <p>We encourage the Authority to consult with participants prior to setting criteria for variable audits and model shortened certification period prior to implementation. The Authority will also need to ensure breach materiality criteria does not extend past the scope of the code</p>	<p>Noted.</p> <p>Noted. The current wording of the Code allows for shortened certification period and audits for reconciliation participants, however guidelines for setting a shortened certification period have not been</p>

Submitter	Comment [sic]	Authority's response
	<p>– again, encourage consultation with participants.</p> <p>Audits required for material changes – support clarity but minor process improvements may be inadvertently captured by this definition, requiring a full audit disproportionate to the change.</p> <p>Consider option for participants to seek clarification and agreement with the Authority as to whether a full, partial, or no audit is required for changes.</p>	<p>set.</p> <p>Any guide for setting the next audit date is likely to be similar to that already used when determining the next audit date for MEPs</p> <p>Agree that under proposed clause may inadvertently capture 'minor' system changes.</p> <p>Agree that a process involving an independent party making a determination regarding if an audit is required would be useful in some cases. However there will always be cases where it is clear a material change audit is, or is not required. We intend to develop guidelines to support better decisions around identifying when a material change audit is required.</p> <p>This can involve a third party, such as an auditor when there is uncertainty as to if an audit would be required.</p> <p>Action: Amend the Code proposal to describe a material change as a change that is likely to affect the ability of the participant to comply with any relevant provision of the Code.</p>
Meridian Energy	<p>Meridian agrees with the issues and proposed solutions subject to the following comments:</p> <p>C.1.1: Any compliance plan should not be required to include matters that are not material.</p> <p>C.1.2: We support creation of an issues register. Meridian encourages the Authority to use such a register to identify problematic areas of the Code and address them.</p> <p>C.1.3: We consider the definition of “material change” (15A.11(2)) is</p>	<p>C.1.1. Disagree. Compliance with the Code is not optional and where there is breach information needs to be provided to assess how this is being addressed.</p> <p>C.1.2. Support noted.</p> <p>C.1.3. Agree that definition of material may have intended consequences.</p> <p>Action: Amend the Code proposal to describe a material change as a change that is likely to affect the ability of the participant to comply with any relevant provision of the Code.</p> <p>Action: Amend auditor guidelines to include criteria for</p>

Submitter	Comment [sic]	Authority's response
	<p>too broad and could encompass almost any change to a participant's systems or processes. We suggest the Authority consider incorporating reference to the change being "substantial" or "significant". It is also unclear whether a "material change" audit would have a different scope to a standard audit. Meridian considers a material change audit should be solely focussed on the areas related to the material change.</p> <p>C.1.5: Meridian questions why different timeframes are used for certification periods and audit periods. Will this simply result in a participant submitting the same audit report for recertification?</p> <p>C.1.6: Meridian notes that some agents are used by multiple participants. Could this obligation require agents to be audited multiple times within a short time span?</p> <p>C.1.8: Meridian suggests the proposed clause 15A.4(1) should be amended to "a participant must give the Authority or an auditor full access to all information that may be reasonably required for the purposes of carrying out an audit and that can be readily provided by a participant". We do not consider it would be reasonable for an auditor to request information that would require excessive effort to produce.</p> <p>C.1.9: We consider clause 15A.16(4)(b) should be amended so that costs are met by the participant that requested the audit where the audit found there to be no breach of the relevant provisions of the Code.</p>	<p>assessing if a change is material</p> <p>C.1.5. Different timeframes are used for certification and audit periods because audits are a verification of the participants' ability to meet the requirements of the Code. Certification is required in order to perform certain functions in compliance with the Code. The role of certification in the context of the audit regime will be considered further during the implementation of changes to the audit regime.</p> <p>C.1.6. Agents could be audited up to twice in a 12 month period. If an agent performed services for 12 participants and each participant was subject to an annual audit in a different month (i.e. one participant audited each month) this would result in audits being due at:</p> <ul style="list-style-type: none"> • 7 month • 14 months • 21 months • 28 months • 35 months • 42 months • 49 months • 56 months. <p>This is a maximum of 8 audits over a 5 year period. It is worth noting that the audit due date is a maximum not a target and there may be efficiencies in arranging for audits to occur within 7 months of the agent audit event if the next audit date is more than 7 months after</p>

Submitter	Comment [sic]	Authority's response
		<p>the agent audit.</p> <p>C.1.8. Concern noted. It is not necessary to expressly include the term "reasonable" in this clause because it is inherent. The Code is delegated legislation that sits within an administrative law framework. A fundamental principle of administrative law is the requirement for such requests to be reasonable.</p> <p>C.1.9. Disagree. Allowing the Authority to determine the allocation of costs ensures that the allocation of costs will be for the long term benefit of consumers. It also allows the Authority to take into account the responsibility for the circumstances surrounding the requested audit when determining allocation of costs.</p>
Mighty River Power	<p>We agree with most of the changes.</p> <p>Issue C1.1</p> <p>Compliance plans may not be practical to create, due to the timing between the issues being raised and the time required to submit the plan. Any system changes for most retailers require technology investigation and have to follow the set process, which may take some time.</p> <p>Issue C2.1</p> <p>We do not agree with publishing of audit reports and compliance plans, as this may contain confidential information. While we note that Clause 15A.15 does make provision for this, it doesn't state who determines whether or not information is deemed confidential. Costs will inevitably increase as auditors will seek additional Professional Indemnity Insurance to cover publication of their reports. We also doubt the value of publishing this information. We invite the Authority to outline who they think will read and use this reporting, and how this aligns with the Authority's statutory objective?</p>	<p>C.1.1. Concern noted however audit due date is a maximum not a target. If a participant is unable to determine the next steps required to address any non-compliances prior to the audit due date then this is an input into the Authority's decisions as a result of the audit.</p> <p>C.2.1. Concern noted. The Official Information Act (OIA) requires the Authority to make information available unless there are grounds under the OIA to withhold that information. The OIA emphasises making information available.</p> <p>Disagree that costs will increase as auditors are already required to hold professional indemnity insurance. The level of accountability and liability for auditors are will not change through publication.</p> <p>The Authority sees value in publication of this information. We believe that other participants, including prospective participants will read and use this report to understand the operation of the market and</p>

Submitter	Comment [sic]	Authority's response
		<p>issues experienced by participants, including where other participants are affecting the accurate settlement of the market or where multiple participants are having similar non-compliances indicating an industry issue. Publication of audit reports has had a positive impact on the operation of the Gas Industry.</p> <p>Publication of audits aligns with the Authority's statutory objective of efficient operation of the wholesale electricity market for the long term benefit of consumers through making more information regarding the effect the participant is having on the market available to a wider audience.</p> <p>Action: Include provision in the audit submission process to allow a participant to identify the specific information that should be withheld from publication, and the reasons that this information must be withheld. This will inform the Authority's decision as to what need to be withheld and why.</p>
Momentous Consulting	<p>We agree with the majority of issues and preferred solutions. For consideration we offer the following:</p> <p>C1.1. We consider that the preferred solution and alternative relate to entirely different functions. We also note that the proposed Code amendment supports alternative 1 for the requirement of the auditor to submit a draft audit (15A.12(1)(b) and (c). We support this requirement.</p> <p>The compliance plan is part of the audit outcome whereas the submission of a draft audit for comment is a process.</p> <p>Our recommendation is that the process does incorporate the review</p>	<p>C.1.1. Disagree. The proposed solutions are both designed to address the problem that it is unclear what actions have been taken as a result of the audit. The preferred solution achieves this through requiring the participant to communicate this information. The alternative achieves this through requiring the Authority to comment on the draft audit report.</p> <p>Action: Remove requirement from the Code proposal for draft audit to be submitted to the Authority.</p>

Submitter	Comment [sic]	Authority's response
	<p>of the audit and/or compliance plan prior to the completion of the final audit.</p> <p>While we appreciate that the Authority should be making decisions based on the actions the participant is taking, there is still a need to understand the underlying issue, if the issue has been presented accurately and why the participant considers the actions will resolve the issue. There is also a need to evaluate the compliance issue to assess if this is an industry or Code problem, this may only be visible by taking into context the whole audit.</p> <p>As part of the audit process we are fully aware of the number of clarifications required from both the auditor and participant to ensure the audit not only meets requirements and the issue is understood but also that the resolution is fit for purpose and not likely impact others in the market.</p> <p>We don't see this as handling the audit twice in order to make a decision, but part of the process to execute complete and informative audits. There is more to be gained from opening communication channels than trying to reduce a process because it may be considered double handling.</p>	
Nova Energy	<p>C.2.1 – The proposed release of detailed audit findings is problematic.</p> <p>Audits are commercially sensitive. A key question that arises is; how will this information be protected from misuse by participants ie. used in adverse marketing information creating a reputational risk for a participant? It would be preferable to continue along the path of creating an issues register which would be informative as opposed to what also seems to be an underlying punitive measure to encourage compliance.</p>	<p>Disagree. Publication of audit reports is in place for similar national and international audit regimes, including the gas industry. None of the issues raised by the submitter were identified as problems in the regimes that publish audit reports.</p> <p>As noted in the consultation paper the information in the audit report must be made available by the Authority if requested under the Official Information Act 1982.</p>

Submitter	Comment [sic]	Authority's response
	<p>There is also intellectual property involved. In a participant has developed a unique, and highly effective method of dealing with a particular business process, it is that business' right to keep that confidential.</p> <p>Publishing all details creates an antagonistic rather than constructive relationship in the presentation of the audit report, i.e. it can be counter-productive.</p> <p>The published report should be a high level summary that helps highlight areas of weakness across market participants that perhaps require addressing.</p> <p>Market participants are not be subject to the OIA just because the Authority is. There are adequate protections under the OIA that allow the Authority to withhold commercially sensitive information from release, and these should be applied as appropriate.</p>	
Orion NZ	<p>C.1.1: It is unclear what actions have been taken as a result of the audit.</p> <p>We agree that it may be unclear what actions have been taken as a result of the audit. We agree that the preferred solution to require participants to submit a compliance plan is appropriate. We consider that the compliance plan should include timeframes for completion. However in some cases it will be issues with the Code that are the problem and a Code amendment required. While the participant could include as part of its compliance plan that it would be applying for a Code amendment within a certain timeframe, we consider that a better approach is that the Authority takes a pro-active role via its issues register in facilitating corrections and improvements to the Code.</p> <p>We do not consider that the proposed alternative 1 is appropriate. The Authority should be receiving the Audit report and the auditor should identify in that report areas where more information is required.</p> <p>C.1.2: Participants do not always know if an alleged breach is</p>	<p>C.1.1. Support noted. Agree that there may be situations where the remedial action is a Code amendment.</p> <p>C.1.2. Support noted. Disagree that a breach cannot be alleged for an item on the issues register. The Code is legally binding legislation, and a breach of the Code is not contingent on the issue being material or not on an issues register.</p> <p>C.1.3. Concern regarding material change noted.</p> <p>Action: Revise wording of the Code proposal to allow an auditor to verify if a change is material enough to require an audit.</p> <p>C.1.4. Support noted. Disagree with requirement for audit to be completed within 2 months of this date. The Authority set targets for when the audit must be completed by, however it is up to each participant as to exactly when and how this is achieved.</p>

Submitter	Comment [sic]	Authority's response
	<p>isolated or part of a wider industry discussion.</p> <p>We agree that participants do not always know if an alleged breach is isolated or part of a wider industry discussion. We agree with the proposal to create an issues register. We consider that where an issue has been identified and is on the register then auditors should be made aware of these issues and their audits should not result in an alleged breach of the Code. Rather they would be required to provide additional evidence to the Authority.</p> <p>We disagree with (C.1.3) definition of material change insofar as it impacts on a distributor's ability to introduce changes to their own systems.</p> <p>We consider that such a change will inhibit /delay our introduction of changes. Auditors who review financial information systems as part of statutory audits do not typically review the process changes at point of implementation – rather, a significant change is a key area of audit focus during the next cyclical audit. At that time the auditor will review the system change, the transfer of data, and the quality of the implementation. We support the retention of the status quo on this issue.</p> <p>C.1.4: Definition of a next audit date</p> <p>We agree that there should be a definition of a next audit date and suggest that an improvement would be to add a requirement that the audit must be completed within 2 months of that date.</p> <p>C.1.5: Frequency of audits</p> <p>We disagree with the Authority's preferred solution to have a variable audit period for all participants. We consider that any audit period of less than 12 months is inappropriate and inefficient. We question whether any participant's misbehaviour could be so serious that it would be allowed to continue to participate if it required an audit every 3 months. We consider that in such a case other more immediate action would be required rather than a 3 monthly audit. It is also unclear for how long 3 monthly audits would be required</p>	<p>C.1.5. Disagree that an audit period of less than 12 months is inappropriate and inefficient. Audit periods of less than 12 months have been successfully applied for metering equipment providers and reconciliation participants. Regular audits can help participants manage issues impacting the market, for example demonstrating progress in addressing serious system issues that are preventing the accurate population of registry information.</p> <p>C.1.6: Disagree. The participant needs to be audited for all obligations that they are responsible for. Where this is performed through an agent, the agent needs to be audited to demonstrate their actions will result in the participant complying with the Code.</p> <p>This can be assessed through auditing the agent as part of the participant audit, or through a separate audit of the agent that can be provided to the participant's lead auditor.</p> <p>For example some agents provide non-half hour meter reading services to multiple participants. It is more efficient for the agent to be audited once and provide this audit report to all participants they provide services for than to be audited separately for each participant they are an agent for.</p> <p>C.1.7: Noted.</p> <p>C.1.8: Noted. Disagree that requirement for Authority to be provided information should not be in the Code.</p> <p>Section 46 of the Act provides the Authority with the power to require participants to provide information only for the specific reasons listed in section 45. This is a one-off power that must be exercised on a case by case basis, whereas the proposed Code amendment imposes an obligation on audited participants to</p>

Submitter	Comment [sic]	Authority's response
	<p>before other action is taken.</p> <p>We consider that the alternative to amend the Code to require all participants to be audited at fixed yearly intervals is a better solution. In addition should the Authority proceed with automation of compliance information as outlined in section C.4.1 of the paper then reduction of the frequency of audits to every two or three years may be appropriate.</p> <p>C.1.6: Timing of agent audits</p> <p>We disagree with the requirement to audit distributor's agents. It is the participant processes and results that are being audited. The appropriate audit would be to ensure that the participant had an appropriate contract with the agent and that the outcomes of the agent's actions on behalf of the participant comply with the rules. The onus is on the participant to make sure its methods and processes are robust whether in-house or if it chooses to use an agent, and it is up to the participant to ensure that its agents provide a quality service and quality data.</p> <p>C.1.7: Fixed auditor approval term</p> <p>We agree with the Authority's preferred solution to amend the Code to allow the authority to approve auditors for up to 36 months.</p> <p>C.1.8: Limited access to information to enable audit to be conducted</p> <p>We partially agree with the preferred solution. We agree to the requirement to provide auditors full access to information that may be required to carry out the audit. We already expect this from our financial auditors, who carry out their obligations in line with the International Standards on Auditing – which includes confidentiality. Further, in a letter of representation to the auditor, directors certify that all relevant information has been made available to the audit team, unrestricted access and that any known instances of non-compliance have been disclosed. We do not consider that this access should be conferred on the Authority who already have extensive information gathering powers for the purpose of monitoring</p>	<p>provide access to information for the purposes of an audit.</p> <p>C.1.9: Noted.</p>

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	<p>compliance with the Act (including Part 3), the regulations, and the Code; under s46 of the Act.</p> <p>C.1.9: Inconsistent allocation of payment of auditor's costs for Authority and participant requested audits</p> <p>No Comment</p>	
Paul Troon Consultancy	No - auditor rotation is not assured, hence participant compliance is not exposed to full scrutiny.	<p>It is unclear how this response relates to the questions raised.</p> <p>We disagree that auditor rotation is not assured. The Code amendments include a requirement for participants to change auditors every 2 years (or 2 audits whichever is longer).</p>
Powerco	Yes – particularly happy with material change audit	Support noted. Other submissions have identified potential issues with the wording of material change audit that will result in changes to policy and wording of the Code proposal.
Powershop	Powershop does not agree the issues identified.	Disagreement with the issues identified noted. It is unclear on what grounds Powershop disagrees with the issues.
Strategic Lighting Partners	Yes, we strongly endorse the "Preferred" solutions (not the others)	Support noted.
TEG & Associates	<p>C.1.1. agree with Preferred Solution.</p> <p>C.1.2. great idea, as above. I would expect that it is already in place but not as official document.</p> <p>C.1.3 – agree with Preferred Solution. Does change of personnel requires a material" change audit"?</p>	<p>C.1.1: Noted.</p> <p>C.1.2: Noted.</p> <p>C.1.3: Noted. Your question is addressed through the examples in 15A.11(3). A change to internal staff would not trigger a material change (for example where a staff member is replaced), however a shift to outsource the role is likely to trigger a material change.</p>

Submitter	Comment [sic]	Authority's response
	<p>C.1.4 I don't see as an issue.</p> <p>C.1.5 Yes, I do agree. I see that some participant with 1 or 2 ICPs will benefit greatly being audited every 24 or 36 months instead every 12 months.</p> <p>C1.6 Is it really a problem? From my point of view currently all agents are audited every 12 months.</p> <p>C. 1.7 I support Preferred Solution.</p> <p>C.1.8 I support Preferred Solution.</p> <p>C.1.9 Don't have view on it.</p>	<p>This will be covered in more detail in audit guidelines.</p> <p>C.1.4: Noted.</p> <p>C.1.5: Noted.</p> <p>C.1.6: Yes. Currently there are some agents that are audited 11 months before the participant. This means the information being looked at in relation to the agent could show compliance when changes to systems and processes since can mean the Authority only becomes aware of an issue with a participant's agent 23 months after the event.</p> <p>C.1.7: Noted.</p> <p>C.1.8: Noted.</p> <p>C.1.9: Noted.</p>
Transpower NZ	<p>We accept that there are issues but these do not seem sufficiently material to warrant new Code obligations as their solution. It may be more efficient to rely on non-Code approaches such as Authority's governance at approval and improvements to the nature of the reports expected from the audit process. The Authority also has existing powers under section 45 of the EIA to make closer enquiries of participants where any issues lie.</p>	<p>Disagree. Without amendments to the Code, existing obligations will remain in force, limiting the decisions that can be made and quality of information available to make these decisions.</p> <p>Where the change requires industry certainty (such as publication of information) it is preferable to put this in the Code to make it clear what the Authority must do.</p> <p>Where a non-Code solution can deliver a more effective result (for example creation of new guidelines), these have been selected as the preferred solution.</p>
Trustpower	<p>Yes for the following;</p> <p>C.1.1 A brief compliance plan, which can be followed up on would be appropriate. Consideration should be given to the nature of the non-compliance, the circumstances surrounding it and controls already in</p>	<p>C.1.1: Noted.</p> <p>C.1.2: Disagree. Auditors have different insights based on the participants they audit. Keeping the information 'siloes' within each auditor is unlikely to deliver benefits</p>

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	<p>place. For instance a late file or registry update due to a cancelled or back dated switch, should be treated differently to instances where most registry updates are consistently late due to poor processes and controls.</p> <p>C.1.2 Creation of a register could be time consuming and difficult to interpret without significant time, effort and cost spent defining categories of issues so that similar ones are appropriately grouped and analysis. We find that our EA auditor is very aware of issues affecting multiple participants, and this knowledge may be more valuable than a register. Automation of reporting could enable a register to be developed. The information then needs to inform rule changes and responses from the EA and be made available to participants. Careful consideration needs to go into its design.</p> <p>C.1.3 Agree that clarification of the definition of material change would be helpful, the wording in Appendix A 15A.11 appears reasonable.</p> <p>C.1.4 Agree with the preferred solution.</p> <p>C.1.5 Agree that audit scheduling should take into account any significant rule changes resulting in process changes for participants as well as compliance levels of participants. Participants with more stable processes such as test houses, should be allowed to have longer audit periods.</p> <p>C.1.7 Agree with the preferred solution.</p> <p>C.1.8 Trustpower and EDNZ have always been willing to provide whatever information is required for audits, but this change could cause issues for some participants if the information required is time consuming or difficult to retrieve. Perhaps a caveat could be added where it is very difficult or time consuming to retrieve the data requested.</p> <p>C.1.9 Agree with the preferred solution.</p> <p>No for C.1.6, An agent audit should have been conducted within the previous calendar year. There is no justification for insisting on a</p>	<p>or enable fully informed decisions to be made.</p> <p>C.1.3: Support noted. Other submissions have identified potential issues with the wording of material change audit that will result in changes to policy and wording of the Code proposal.</p> <p>C.1.4: Noted.</p> <p>C.1.5: Noted. Agree that decisions related to audit timeframes can consider factors that are not strictly related to the level of compliance identified in the audit.</p> <p>C.1.7: Noted.</p> <p>C.1.8: Concern regarding difficulty of providing information noted. Any requests made under the Code must be reasonable. The Code is delegated legislation that sits within an administrative law framework. A fundamental principle of administrative law is the requirement for such requests to be reasonable.</p> <p>C.1.9: Noted.</p> <p>C.1.6: Noted however disagree. Under the existing arrangements agents may be audited 11 months before the participant. In worst case scenario where the agent makes a system or process change that does not achieve compliance soon after the audit there will be up to a 23 month lag between an issue occurring and the Authority being notified of the issue via the next participant audit. This can result in decisions being made based on out dated or poor quality information.</p>

Submitter	Comment [sic]	Authority's response
	<p>shorter audit frequency for agents. Where the agent acts for more than one participant there could conceivably be many more audits needed to keep the agent within the seven month period for each of the participant audits. The agent has no control over when the participant audits are conducted. For work flow purposes the Authority is unlikely to want bunching up of participant audits just so agent audits can be efficiently applied to participant reports.</p>	
Unison Networks	<p>Feedback on Selected Decision-Making Issues and Solutions:</p> <p>a) C.1.1 proposes participants submit a compliance plan to the Authority along with the Audit. While Unison agrees with the issue identified here (it is currently unclear what actions have been taken as a result of the audit), we do not believe it is necessary to introduce a new compliance plan. The current distributor audit template has a field where the audited party can respond to audited comments and recommendations. Unison uses this field as a place to outline our proposed actions, which form the basis of our own internal plan of action to remedy identified non-compliance. Unison submits that the Authority consider an alternative solution whereby the audit template is modified to capture similar information that would be contained in a high-level compliance plan, rather than creating a new document.</p> <p>b) C.1.2 proposes the creation of an issues register to capture wider industry issues. Unison strongly supports the creation and publication of an issues register, providing it is regularly reviewed and updated.</p> <p>c) C.1.5 proposes a variable audit period for all participants. Unison strongly supports this proposal in conjunction with an application of the risk based planning principles to determine compliance risk areas. This will likely reduce compliance costs for participants where any non-compliance is relatively minor and/or infrequent.</p> <p>d) C.1.8 proposes a Code amendment to require participants to</p>	<p>C.1.1: Noted. Currently, some distributor audits use a format that is very similar to the envisaged compliance plan. The purpose of the compliance plan is to have a single document where this information can be held centrally rather than dispersed throughout an audit report.</p> <p>C.1.2: Support and need for maintenance noted.</p> <p>C.1.5: Support noted.</p> <p>C.1.8: there are genuine reasons for including a requirement to provide information. We have two different instances across two different auditors where the participant has not provided enough information to the auditor to allow an assessment of compliance to be assessed.</p>

Submitter	Comment [sic]	Authority's response
	provide access to information. While Unison does not object to this proposal outright, we question whether there is evidence of participants not providing auditors access to information to support this new amendment to the Code. The Authority's direction (through the appointed auditor) for information to be disclosed should be a strong enough directive. Unison would be interested to learn more about the driver behind this proposal.	
Veritek Limited	Yes	Noted.
WELL	Broadly, yes. We support the 'issues register' concept. Developing a thorough compliance plan would be very resource intensive for participants. Setting variable audit periods will need clear and specific criteria for each period.	Support noted. It is anticipated that the compliance plan would contain high level information similar to the information provided in the participant's response to a breach allegation. Setting of variable audit periods will include specific criteria for each period, similar to what is in place for MEP audits.

Question 13

Are there any other solutions that the Authority should be considering in relation to the decision-making process?

Submitter	Comment [sic]	Authority's response
AMS	See comments above.	Noted.
Contact Energy	C2.1 – We have no concerns regarding the full publication of participant audit report. The participant audit frequency and certification periods should be aligned to be yearly in all cases. The Authority already has the ability to instruct participants to undergo additional audits where the compliance process determine this need.	Support noted for publication of audits noted. This has been covered by additional questions 13A and 13B below. Request for annual audit frequency noted. Agree that

Submitter	Comment [sic]	Authority's response
		<p>under the existing Code the Authority has the ability to certify reconciliation participants for a period of no more than 12 months This means that reconciliation participants will undergo audits at least once every 12 months.</p> <p>This is a maximum, not a target, so the proposed Code does not preclude participants from arranging annual audits if their audit period is greater than 12 months.</p>
Genesis Energy	See response to Q12 above.	Noted.
Meridian Energy	See response to Question 12.	Noted.
Mighty River Power	No.	Noted.
Momentous Consulting	<p>C.1.6 With regards to agent audits we suggest that auditors are required to evaluate samples of work carried out by an agent for the participant they are auditing. This is so that full reliance is not placed on the audit of the agent, by the lead auditor, where the agents audit is usually a general audit of all participants that agent acts on behalf of.</p> <p>Lists of noncompliant participants identified in agent audits be made available to the Authority to ensure that noncompliance is against the appropriate participant and not overlooked by a lead auditor.</p>	<p>Concern regarding lead auditors evaluating a sample of an agent's work noted. This can be considered when developing audit guidelines.</p> <p>Action: Include auditing requirements for lead auditors when evaluating agent audits in auditor guidelines.</p> <p>Concern regarding lack of information regarding which participants an agent has placed in breach noted. This can be considered when developing audit guidelines for agent audits.</p> <p>Action: Include requirement for auditors to identify participants in breach where agent is causing a sub-set of participants to be in breach in guidelines for agent audits.</p>
Orion NZ	See our response to Q12 which includes some alternative solutions.	Noted.

Submitter	Comment [sic]	Authority's response
Paul Troon Consultancy	No comment.	Noted.
Powerco	No.	Noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes, in general they are addressed by the above submission.	<p>We assume this refers to the recommendations made in the submission:</p> <p><i>12. These changes are bringing about, and have the potential to make, major economic and social improvements to society, but current electricity regulatory frameworks – beyond the auditing processes - are hindering the introduction of these substantial benefits. However, this submission necessarily restricts its scope to that specified by the Electricity Authority consultation paper on auditing and therefore recommends:</i></p> <p><i>i. That the strategic benefits capable of being delivered by modern road lighting warrants greater targeted consultation with stakeholders - including Local Government and industry - on auditing standards for DUML and specifically road lighting;</i></p> <p><i>ii. That the Code be modified to provide auditing standards applicable to the new road lighting control systems currently available on the market that meter electricity use by each luminaire in the range of 15W to 300W. Such a modification should supplement current code standards , that were drafted for metering loads of orders of magnitude greater than this;</i></p> <p><i>iii. That the auditing requirements of the Code be modified to require road lighting distribution assets to be transparently identified in order to justify the</i></p>

Submitter	Comment [sic]	Authority's response
		<p><i>distribution charges levied on local government customers. We submit that there is substantial evidence to show there is no rational transparent justification for distribution charges, although this is an Electricity Authority pricing objective;</i></p> <p><i>iv. That auditing requirements for DUML and road lighting, in particular, be changed to anticipate the rapid introduction of new solid state lighting technologies and control systems which will result in making the current Electricity Authority preferred changes (endorsed above by SLP in paragraph 8) redundant. Nevertheless the current proposed changes are critically important as they provide an important foundation for the transition to the new technologies.</i></p> <p><i>24. We therefore recommend that the auditing requirements of Electricity Industry Participation Code 2010 be amended for road lighting to recognise these modern metering systems that are embedded within the commercially available road lighting controls. The current Code never anticipated metering of such small loads on the network. It acts as a barrier to Territorial Local Authorities being able to economically apply smart lighting systems that provide accurate measurements (in place of unmetered load estimates) and that will allow for the introduction of incentives to reduce wasteful practices in electricity use .</i></p> <p><i>30. It is therefore important for the regulatory framework to remove barriers to these desirable benefits wherever possible. We therefore recommend that the regulatory framework for road lighting include</i></p>

Submitter	Comment [sic]	Authority's response
		<p><i>more focused consultation with Territorial Local Authorities and the road lighting industry.</i></p> <p>12(i): In order to fit the criteria for DUML the load must be managed in accordance with the Code. The Code is outcome based and is agnostic to the technology used.</p> <p>12(ii): If each light is metered then there is no longer a requirement for it to be audited as DUML and the auditing standards for DUML are no longer necessary. Code amendments to the metering accuracy and certification requirements are outside of the scope of this consultation.</p> <p>12(iii): The auditing of road lighting charges is outside of the scope of this consultation. The audit regime is defined in terms of the audit, certification and approval process followed by approved auditors, participants and the Authority in accordance with Parts 10, 11 and 15 of the Code.</p> <p>12(iv): It is unclear how the rapid introduction of solid state lighting will affect DUML. If traders wish to treat new technology as unmetered load then the DUML requirements need to be met. If traders wish to utilise metering functionality within each luminaire then it is no longer DUML and the metering requirements of Part 10 must be met.</p> <p>24. Code amendments to the metering accuracy and certification requirements are outside of the scope of this consultation.</p> <p>30. Desire to have wider consultation on DUML issues noted, however the focus of this consultation is the</p>

Submitter	Comment [sic]	Authority's response
		auditing requirements for DUML, not the underlying obligations subject to audit. Additionally the Authority is only able to regulate industry participants so a wider discussion on DUML with territorial authorities is unlikely to result in a change in obligation on traders who are responsible for purchasing volumes consumed by DUML ICPs. Discussion with territorial authorities can form part of a wider discussion on DUML, not just DUML audit requirements.
TEG & Associates	I don't have any suggestion at this point.	Noted.
Transpower NZ	Yes, that guidelines and education can ensure audit reports provide sufficient information for the Authority to act effectively. We note the existing guidelines could be a starting point.	Noted. However guidelines do not place obligations on participants and are not enforceable.
Trustpower	No, generally well thought out processes.	Noted.
Unison Networks	<p>Yes – please see Unison's response to proposal C.1.1. in question 12 above.</p> <p>We have added a question to respond to the Transparency / Accountability Proposals:</p> <p><i>Do you agree with the issues identified in this section (Transparency / Accountability) and that the proposed solutions adequately address the issues?</i></p> <p><u>Feedback on Selected Transparency and Accountability Issues and Solutions:</u></p> <p>C.2.1 proposes that all information relating to audit reports is published. Unison appreciates the transparency issue identified here and notes the current publication of audit summary reports is unhelpful and provides little useful information. However, Unison has strong concerns regarding the publication (e.g. in the public domain) of the full audit reports and accompanying information such as</p>	<p>Noted.</p> <p>C.2.1 Disagree that the proposed Code will not address privacy, intellectual property and commercial sensitivity issues. The amendment is based on the OIA which defines the criteria under which the Authority can withhold information.</p> <p>Copies of audit reports are currently available on request, and the proposed change is to actively publish this information rather than require parties to ask for it under the OIA.</p> <p>Proposal to publish a condensed table noted, however this is unlikely to provide transparency and help organisations understand the decisions the Authority is</p>

Submitter	Comment [sic]	Authority's response
	<p>compliance plans, if these are implemented. The audited party comments often include information that would raise privacy, intellectual property and commercial sensitivity issues. Unison is concerned that this information could be used and taken out of context by other parties such as the media who may not fully understand the complexities of the Code and its audits.</p> <p>As an alternative, Unison submits that the Authority consider publishing a condensed table that identifies non-compliance and the descriptions provided by auditors. This information is not commercially sensitive, but would still greatly improve the transparency of audit findings.</p>	making as a result of the audit report.
Veritek Limited	No.	Noted.
WELL	None comes to mind.	Noted.

Supplementary Question 13A

Do you agree with the issue identified in section 5.3 (issue C.2 transparently and accountability) and that the proposed solutions adequately address the issue?

Submitter	Comment [sic]	Authority's response
AMS	<p>Partially agree.</p> <p>We agree with the EA's proposal to publicise the lead audit report and the participants next audit date.</p> <p>We would not support publication of the EA's follow up audit questions and participant responses. We think this would affect the way in which participants could/would likely respond, and potentially include information inappropriate for the public arena (such as issues</p>	<p>Support noted.</p> <p>The proposal does not include publication of follow-up audit questions or communication between the Authority and audited party following the audit.</p>

Submitter	Comment [sic]	Authority's response
	<p>with specific ICPs).</p> <p>Without seeing the EA's template of the proposed Compliance plan, we will refrain from commenting on this.</p>	
Contact Energy	<p>Contact Energy agrees with the need to deliver increased transparency across the Audit process.</p> <p>Contact Energy does not support any of the proposed solutions suggested by the authority. In particular we see no need to include details of a participants compliance plan as part of this process.</p> <p>Where a participant's non-compliance is considered sufficiently material to warrant further investigation by the authority's compliance team, then such non compliances will managed via the existing breach allegation, investigation and publication of settlement agreement (including a participants proposed compliance plan) processes.</p>	Support for improved transparency and opposition to publication of compliance plan noted.
Genesis Energy	<p>Genesis Energy agrees there is currently a lack of transparency in the regime, particularly in regards to audit non-compliances and the decision-making process. We support improving transparency, but do not fully agree that the proposed solution fully addresses the issue.</p> <p>Genesis Energy opposes making the compliance plan publicly available (Alternative 1).</p> <p>A compliance plan is likely to contain commercially sensitive information preventing its publication. The plan could be redacted, but we suggest this will make it meaningless to other participants. Depending on the level of detail expected, publishing the compliance plan will also be cumbersome to the Authority as the document is</p>	<p>Support for improved transparency and opposition to publication of compliance plan noted.</p> <p>The compliance plan is intended to be an overview regarding actions and timeframes for achieving compliance.</p>

Submitter	Comment [sic]	Authority's response
	unlikely to remain static and would need to be updated over time. Any actions agreed will be dependent on wider business plans, significantly impacting on the process timeline.	
Meridian Energy	Meridian has concerns with the Authority's proposal to require publication of a participant's audit report. This will make public a substantial level of information on a participant's systems and processes. There may be a risk of this information being misinterpreted by members of the public e.g. a minor compliance breach seen to be 'breaking the law'.	Concerns noted. We believe that the risks of misinterpretation are small and there is no evidence of this risk manifesting in other audit regimes, including the New Zealand gas industry.
Mighty River Power	<p>No. 5.3.2 mentions that transparency is an area for improvement, however as the initial feedback was not published, we cannot see what issues were raised in the submissions. Where issues in the audit findings are widespread the EA is already aware of these from the information they receive post audit and look into working with the industry to resolve these. An example of this is where retailers have 5 days to change a site to "Active", however this cannot be done until MEP's send through completion notification and they have 10 days to update the metering details on the registry. There is no value in publishing this information and the EA should instead direct its efforts to address the root causes of these systemic issues.</p> <p>The EA mentions that changes in staff could cause participants to not know when their next audit is, or what actions they agreed to undertake. A simple email reminder would be adequate.</p>	<p>The feedback from audited parties was one of three avenues pursued by the Authority to better inform the development of a consultation. While there was no intent to publish the raw feedback received through any of the three avenues, it was made clear that we would be required to provide copies of submissions if requested.</p> <p>The issues raised were summarised and if you do not agree that there are issues with transparency in the audit regime then this consultation is the place to provide formal feedback on this.</p> <p>While the Authority is aware of general issues, audited parties will not be aware if these problems they are experiencing are isolated or part of a wider problem unless information is made public.</p> <p>The example provided by the submitter is incorrect. The Authority is not looking to make changes to address what is a deliberate design feature. Traders have had 5 business days to update the registry with the status of the ICP to 'active' since 2010⁷. Prior to</p>

⁷ Part E Schedule E1 Clause 3.2

Submitter	Comment [sic]	Authority's response
		<p>this date the obligation was for the trader to update the registry with the status of the ICP within 3 business days.⁸ This obligation remains independent of the MEPs obligation to update the registry with the metering information within 10 business days.</p> <p>Addressing the root cause of the issue described by the participant can only be achieved through the participant in breach taking action to obtain and populate the information within the timeframes specified in the Code.</p> <p>With regards to staff changes automated e-mail reminders are sent out, unless the audited party has updated the audit portal with the new contact details, these e-mails will go to the old contact.</p>
Momentous Consulting Limited	<p>Agree. We also consider that increase transparency through publishing more of the audit results and informaiton will provide further incentive for participants to maintain high compliance levels.</p> <p>The indentification of widespread issues is not clear (5.3.3 (b) should also note that it is not clear from audits what issues are related to Code impracticalities that can be identified through the audit process.</p>	Support noted.
Powershop	Powershop agrees with the issue but does not agree with the proposed solution, and instead supports Alternative 2.	<p>Support for publication of next audit date only noted.</p> <p>Publication of the next audit date does not address the concerns raised around the transparency of audits and audit findings.</p>
Transpower NZ	We agree with the proposal for transparency around audit information.	Support noted.

⁸ Part E Clause 12

Submitter	Comment [sic]	Authority's response
Trustpower	<p>It would be good if summary audit report information could be used for industry and business analysis. I.e. to spot trends within the sector and within a business.</p> <p>No to the question to respond to the idea of publishing of the full audit report. The sector might find this challenging. If commercially sensitive reports are made publicly available then much of the report could be redacted. There would need to be a rigorous process for approval to publish such reports, and how the Authority would agree the content to be published. The definition of commercially sensitive information would need to be carefully considered. There is already one further step proposed, as the Authority wants to see the report in its draft form, public publishing might make a further check step before the report can go on line. Consideration of automated report writing, where the report is populated in many parts, with commentary in free text form might help smooth the process.</p> <p>We are concerned that publication of reports particularly DUML reports will open us to competitors when the effort has been made to achieve compliance.</p>	<p>Agree that there may be further opportunities to use information from the audit regime beyond what has been discussed in the consultation.</p> <p>Disagreement to C.2.1 noted. The Authority is subject to the Official Information Act 1982. Section 9(2)(b)(ii) of that Act allows the Authority to withhold information from being made publicly available if it "would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information" by releasing such information. It is worth noting that experience from New Zealand and international audit regimes where audits are published has not identified any areas where publication of audits has resulted in issues.</p> <p>The complications regarding the use of draft audit reports is noted and will be considered when finalising the audit process and associated Code.</p> <p>Action: Remove the requirement for the provision of the draft audit.</p> <p>Concern regarding DUML competition noted, however believe that competition will have positive effects on the market.</p>
Unison Networks	<p><u>Feedback on Selected Transparency and Accountability Issues and Solutions:</u></p> <p>C.2.1 proposes that all information relating to audit reports is published. Unison appreciates the transparency issue identified here and notes the current publication of audit summary reports is</p>	<p>Concern noted. Issues around privacy and commercial sensitivity are covered by the proposed Code amendment. Processes exist to handle official information act requests and these would be utilised for the publication of audits.</p>

Submitter	Comment [sic]	Authority's response
	<p>unhelpful and provides little useful information. However, Unison has strong concerns regarding the publication (e.g. in the public domain) of the full audit reports and accompanying information such as compliance plans, if these are implemented. The audited party comments often include information that would raise privacy, intellectual property and commercial sensitivity issues. Unison is concerned that this information could be used and taken out of context by other parties such as the media who may not fully understand the complexities of the Code and its audits.</p> <p>As an alternative, Unison submits that the Authority consider publishing a condensed table that identifies non-compliance and the descriptions provided by auditors. This information is not commercially sensitive, but would still greatly improve the transparency of audit findings.</p>	<p>Action: Develop a mechanism that will allow participants to notify the Authority of any items in the audit report or compliance plan that are likely to meet the OIA criteria for withholding information.</p> <p>Currently anyone can request information, including copies of audit reports under the OIA. There is no control over what the parties receiving this information do with the information.</p> <p>Experience from New Zealand and international audit regimes where audits are published has not identified any areas where publication of audits has resulted in misinterpretation of the audit findings.</p> <p>Alternative to publish only non-compliances noted. This will help in identifying common issues, however does not support making information more freely available where some participants are doing things well.</p>
Veritek Limited	Yes.	Support noted.

Supplementary Question 13B

Are there any other solutions that the Authority should be considering in relation to issue C.2 transparency and accountability?

Submitter	Comment [sic]	Authority's response
AMS	No.	Noted.
Contact Energy	Contact Energy recommends a hybrid of the authority's preferred solution, but without the publication of the participants compliance	Recommendation to proceed with proposed solution, excluding the compliance plan noted.

Submitter	Comment [sic]	Authority's response
	plan.	
Genesis Energy	<p>We suggest the Authority publish an informative summary of the Authority's decision, which would include:</p> <ul style="list-style-type: none"> - a brief description of the decision and reasoning - a brief description of any non-compliances - any agreed actions with the Authority - the next audit date. <p>Shortened or extended certification periods could be noted along with the reason for this decision.</p> <p>We also support publication of the audit report to improve transparency between participants.</p>	<p>Agree that it would be beneficial for the Authority to provide an information reason for any decision made. The content and format of this information can be considered as part of the implementation of the changes.</p>
Meridian Energy	<p>We consider that collation and publication of an issues register is likely to achieve much of the transparency benefits described by the Authority, without creating this risk. We suggest the Code should be amended to require publication of an issues register but should continue to only require publication of a summary of the audit report.</p>	<p>Disagree. Publication of an issues register is unlikely to deliver the benefits described and will not support learnings from other participants.</p>
Mighty River Power	<p>No, the status quo should be maintained. Surely the EA is able to construct a simpler, more cost effective solution to this issue than publishing redacted versions of entire audit reports. The proposal to include 2 versions of an audit report (in the event of confidential information) would increase the audit cost substantially, as this would increase the auditors time and the participants resources spent on the report. These costs will ultimately be borne by the customers.</p>	<p>Preference for the status quo noted.</p> <p>Request for a simpler more cost effective solution noted. The intention is to follow the existing OIA process as closely as possible. This will include modifying the existing solution to require information regarding what sections should be redacted and why, rather than a second redacted report.</p>
Momentous Consulting Limited	<p>We fully support the preferred solution.</p> <p>However, we suggest if there is objection to the preferred solution,</p>	<p>Support noted.</p> <p>Alternative to publish the executive summary and table</p>

Submitter	Comment [sic]	Authority's response
	<p>that a further alternative is to publish a full summary (similar to the executive summary found in most audits) along with a table of noncompliant issues. This removes the need to publish the whole audit but still provides a summarised account of the participants audit results. This would provide more information than is published now and a little more than that noted in alternative 1.</p> <p>A further possible solution would be for the Authority to maintain a spreadsheet/table that lists participants noncompliance issues by participant and Code reference. This would provide a good overall picture of issues at a glance.</p>	<p>of non-compliance issues noted.</p> <p>The publication of an executive summary is unlikely to deliver the same benefits as the full audit and it will not help participants understand where audited entities are successfully complying with the Code.</p> <p>Alternative to maintain a spreadsheet of non-compliances noted. This proposal aligns with the proposals made regarding automation of audit reports.</p>
Transpower NZ	No.	Noted.
Trustpower	Rather than publish the full report an executive summary taken from the report could be used for publication.	<p>Alternative to publish the executive summary noted.</p> <p>The publication of an executive summary is unlikely to deliver the same benefits as the full audit and it will not help participants understand where audited entities are successfully complying with the Code.</p>
Veritek Limited	No.	Noted.

Question 14

Do you agree there is a need for improving education within the audit regime and has the issue been correctly identified?

Submitter	Comment [sic]	Authority's response
AMS	Agree, More proactivity from the EA would be helpful.	Noted.
Contact	Contact does agree that there is a need to improve the knowledge	Support for alternative proposal of auditor working

Submitter	Comment [sic]	Authority's response
Energy	<p>and understanding of all parties involved in the settlement of the wholesale market.</p> <p>However Contact does not agree with the proposed options for improving this area. Contact has previously advocated for an auditor group be set up by the authority involving all approved auditors plus representatives from the authority. This group would then refine and maintain any audit guidelines, scope, templates for reports, review all audit reports and provide feedback to the authors regarding quality of audit findings. This group would essentially provide a mentoring mechanism for all auditors approved by the authority and also champion the continuous improvement framework identified in the authorities compliance philosophy.</p> <p>Additionally this group can also be used identify conflicts in the code and also where the current code is not keeping up with technology changes and make code change recommendations for consideration by the authority delivering a more efficient mechanism to deliver code improvements to the current proposed rule change register.</p>	<p>group noted.</p> <p>The Authority disagrees that setting up a working group of all approved auditors is a better alternative. The Authority has the responsibility to manage the audit regime and make informed decision as a result of audits. Auditors are commercially driven and are unlikely to volunteer their time and effort to manage the operational aspects of the audit regime, including education of participants. Believe that the issues with identifying conflicts with the Code and technology changes can be identified through the proposed issues register and deliver improvements to the Code through the Code change register.</p>
Genesis Energy	<p>We disagree that the issues identified are related to lack of education – most participants understand the purpose of the audit is to assess compliance with the code, and the actions required to rectify non-compliances.</p> <p>Support transparency of the decision making process and publication of audit reports.</p>	<p>Disagreement noted.</p> <p>While most participants understand the purpose of the audit, some do not understand the audit process and what is required of them when being audited. We consider this lack of understanding is an issue that can be addressed through improving education.</p>
Meridian Energy	<p>Meridian agrees with the issues and proposed solutions subject to the following comments:</p> <p>C.3.1: We note that breach materiality ratings will be defined under the Risk-based Planning Procedures. Again, we would like the opportunity to review and comment on the Risk-based Planning Procedures prior to these being finalised.</p>	<p>C.3.1: Desire to review and comment on the risk-based planning procedures prior to finalisation noted. The draft risk-based planning principles on which risk-based planning procedures would be based were made available to review as supplementary information to the consultation paper.</p>

Submitter	Comment [sic]	Authority's response
	<p>C.3.2: We are interested to understand what factors may cause the Authority to request that an audit focusses on particular areas.</p> <p>C.3.3: Meridian supports development of guidelines but requests that draft guidelines are consulted on. Guidelines will also need to be updated as relevant Code provisions change.</p> <p>C.3.4: Meridian questions whether clause 15A.10 allows for a different auditor to be appointed for an agent audit than for a participant's own audit. If this is allowed, will clause 15A.10(b) require one auditor to incorporate in its report the work of another auditor?</p>	<p>C.3.2: Factors that may cause the Authority to request that an audit focus on a particular area may include:</p> <ul style="list-style-type: none"> • Information from other participants or participant audits which suggests an issues with a particular area (such as switch reads) that are associated with that participants • A global focus on compliance following a change (for example the changes to HHR switching rules) • Concerns raised in a previous audit that the Authority wishes to seek more details assurance with. <p>C.3.3: Request for consultation on guidelines noted and updating of guidelines as part of Code change process noted.</p> <p>C.3.4: 15A.10 will allow a different auditor to audit the agent. If 15A.10(a) is met then the participant auditor must incorporate the agent auditor's work into the participant's audit.</p>
Mighty River Power	Yes.	Noted.
Momentous Consulting	We agree there is a need for improving education in particular we support these preferred solutions as they will assist in ensuring consistency and better attention to where investigation is required. This will enable an auditor to concentrate on the issues.	Noted.
Nova Energy	Yes.	Noted.

Submitter	Comment [sic]	Authority's response
Orion NZ	<p>C.3.1: Breach materiality classification is not practical</p> <p>We agree in principle with the preferred solution to redefine the breach materiality criteria in terms of the action or potential impact the breach has on the participants or other participants.</p> <p>We consider that Authority needs to provide further information on the detail of how this may work. This is potentially a difficult area as the magnitude and risk are not necessarily the issue but the size of the participant. For example a small retailer with \$2m turnover getting a \$100k wrong could be material but a large retailer with \$100m turnover getting a \$100k wrong would not be material.</p> <p>C.3.2: Authority not involved in setting the scope of the audit or level of investigation</p> <p>We agree in principle that the Authority should be involved in setting the scope and level of investigation required for each audit. In the same way that we would expect the office of the auditor general to instruct all the auditors it appoints to undertake EDB audits to have particular areas of focus in a given year.</p> <p>Therefor we consider that the Authority should be able to set the focus of an audit. We have concerns about the proposed ability to require an individual audit to have a particular emphasis on any particular concern. We consider that the authority should have the ability to require auditors (all auditors) to have a particular emphasis on an industry issue.</p> <p>C.3.3: The audit and audit review process is not always clear</p> <p>We agree with the preferred solution to develop a guideline for participants who are audited. We note that the Authority has not developed a guideline that describes the audit and audit review process as the content is dependent on the outcome of the consultation. We consider that this same principle should apply to any Code amendments as these too are dependent on the outcome of the consultation process.</p> <p>C.3.4: Agent audit requirements are unclear</p>	<p>C.3.1: Noted. The draft risk-based planning principles provided as supplementary information to the consultation paper outline the approach that will be used to define risk and materiality.</p> <p>Agree that materiality needs to be considered in terms of the impact on the participant and table 8 provides guidance as to how to assess materiality without having to quantify the value of the breach in dollar terms.</p> <p>C.3.2: Noted. The requirement to have a specific focus for a specific participant will enable the Authority to make better informed decisions where there are specific concerns regarding specific participants.</p> <p>C.3.3: Noted. Disagree that there is an obligation to perform a series of at least two consultations before amending the Code. The Authority is required, under section 39 of the Electricity Industry Act 2010, to publicise and consult on the proposed amendment and regulatory statement. The Authority complies with this obligation by releasing a consultation paper, including a draft of the proposed amendment on which we are consulting, for all interested persons. Following consultation, the Authority will take into consideration any relevant feedback and may amend the proposed amendment accordingly.</p> <p>C.3.4: Noted. Please see response to C.1.6. If an agent is audited as part of the participant's audit, there is no requirement for the agent to be audited separately.</p>

Submitter	Comment [sic]	Authority's response
	<p>As noted in response to C.1.6: Timing of agent audits. We disagree with the requirement to audit distributor's agents. It is the distributor that is being audited and the way that we request our contractors should be audited together with information that we receive and accept from our contractors, but not the contractor.</p> <p>We consider that an alternative is to update guidelines to clarify that while the agent is acting on behalf of a distributor it is the distributor that is subject to the audit.</p>	
Paul Troon Consultancy	<p>Two questions here, hence two answers.</p> <p>Yes, and</p> <p>No, not adequately.</p>	Concern that the issue has not been correctly identified noted.
Powerco	Yes.	Noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes, and we endorse the Authority's proposals.	Noted.
TEG & Associates	<p>C.3.1. I support Preferred Solution.</p> <p>C.3.2 My choice is Preferred Solution. Currently not often the Authority suggest which area should be more scrutinised but it has improved significantly in last 2 years. I find it very useful.</p> <p>C.3.3 Not quite clear what is proposed. Would be individual guidelines for each participant?</p> <p>C.3.4 I support Preferred Solution.</p>	<p>Noted.</p> <p>C.3.3: The participant focused guideline would be one guideline for all participants. Any participant class specific information could be included in the individual audit guidelines for each class of participant.</p>
Transpower NZ	Yes, education is a primary function of the Authority and could be an appropriate mechanism for ensuring effective and efficient audit processes including for agent audits.	Support noted.

Submitter	Comment [sic]	Authority's response
Trustpower	Yes although the problem is overstated and could be easily rectified by publishing clear guidelines and explanatory notes for participants.	Concern that problem is overstated is noted.
Unison Networks	<p>Feedback on Selected Education Issues and Solutions:</p> <p>a) C.3.1 proposes to redefine the breach materiality criteria in terms of the action or potential impact on participant or other participants. While Unison agrees there is a concern with the current breach materiality classification, we submit that the new definition needs to also consider materiality in terms of impact on the overall electricity market, not just individual participants.</p> <p>b) C.3.2 proposes the Authority set the scope and level of investigation required for each audit. Unison submits that participants need sufficient time to consider and implement changes ahead of a audit that may be more intense in terms of scope and investigation level. Unison considers that up to 9-months' lead time should be allowed for participants to implement any process/system changes to address areas of non-compliance in such cases.</p> <p>c) C.3.3 proposes a guideline be developed for participants who are audited. Unison strongly supports this proposal. A guideline would be a useful tool for both existing and new staff involved in audits. We look forward to viewing the proposed contents of the guideline once it is drafted.</p>	<p>C.3.1: Concern that breach materiality needs to consider not just individual participants but also the impact on the electricity market noted. The draft risk-based planning principles table 8 provides guidance as to how to assess materiality including impact on consumers and the market.</p> <p>C.3.2: Disagree. Participants are audited against their current ability to comply with the Code, and greater scrutiny on a specific area should not require pre-emptive corrective actions or process/system changes.</p> <p>C.3.3: Support noted.</p>
Veritek Limited	Yes.	Noted.
WELL	Yes, we agree.	Noted.

Question 15

What other improvements do you believe the Authority should consider?

Submitter	Comment [sic]	Authority's response
AMS	We believe this consultation covers potential improvements.	Noted.
Contact Energy	C.3.4 – Contact recommends the Authority define agents as participants under the Code which will resolve any agent audit requirements simply and effectively rather than imposing these via current participant obligations.	Disagree: Agents are not industry participants and cannot be regulated under the Code. Additionally agents act on behalf of a participant, so it is the participant who ultimately has responsibility for meeting their obligation under the Code.
Genesis Energy	When setting the audit scope, it would be useful for the Authority to provide the reasoning for any focus.	Agree. Action: Amend the Code proposal to require the Authority to provide reasoning for any audit focus.
Meridian Energy	See response to Question 14.	Noted.
Mighty River Power	No comment at this time.	Noted.
Momentous Consulting	We consider that to achieve consistent understanding by both the auditor and the participant as to what is to be audited, the auditor and responsible parties agree on the scope in a letter signed off by senior management of the party to be audited prior to commencement of the audit. Apart from documenting the scope and expected outcome of the audit this ensures transparency for all parties involved as to what is to take place.	Agree that inclusion of documenting and sign-off of scope statement by parties involved in the audit could improve clarity for all parties involved. Action: Amend the auditor protocol to include step relating to sign-off of scope as part of auditor engagement.
Orion NZ	No comment.	Noted.
Paul Troon Consultancy	No comment.	Noted.

Submitter	Comment [sic]	Authority's response
Powerco	-	-
Powershop	No comment.	Noted.
Strategic Lighting Partners	We have suggested some which are identified in the submission above, but there are several more that fall outside of the scope of consultation for the auditing regime, so we have not therefore included them	<p>We assume this refers to the recommendations made in the submission:</p> <p><i>12. These changes are bringing about, and have the potential to make, major economic and social improvements to society, but current electricity regulatory frameworks – beyond the auditing processes - are hindering the introduction of these substantial benefits. However, this submission necessarily restricts its scope to that specified by the Electricity Authority consultation paper on auditing and therefore recommends:</i></p> <p><i>i. That the strategic benefits capable of being delivered by modern road lighting warrants greater targeted consultation with stakeholders - including Local Government and industry - on auditing standards for DURL and specifically road lighting;</i></p> <p><i>ii. That the Code be modified to provide auditing standards applicable to the new road lighting control systems currently available on the market that meter electricity use by each luminaire in the range of 15W to 300W. Such a modification should supplement current code standards , that were drafted for metering loads of orders of magnitude greater than this;</i></p> <p><i>iii. That the auditing requirements of the Code be modified to require road lighting distribution assets to be transparently identified in order to justify the distribution charges levied on local government customers. We submit that there is substantial evidence to show there is no rational transparent</i></p>

Submitter	Comment [sic]	Authority's response
		<p><i>justification for distribution charges, although this is an Electricity Authority pricing objective;</i></p> <p><i>iv. That auditing requirements for DUML and road lighting, in particular, be changed to anticipate the rapid introduction of new solid state lighting technologies and control systems which will result in making the current Electricity Authority preferred changes (endorsed above by SLP in paragraph 8) redundant. Nevertheless the current proposed changes are critically important as they provide an important foundation for the transition to the new technologies.</i></p> <p><i>24. We therefore recommend that the auditing requirements of Electricity Industry Participation Code 2010 be amended for road lighting to recognise these modern metering systems that are embedded within the commercially available road lighting controls. The current Code never anticipated metering of such small loads on the network. It acts as a barrier to Territorial Local Authorities being able to economically apply smart lighting systems that provide accurate measurements (in place of unmetered load estimates) and that will allow for the introduction of incentives to reduce wasteful practices in electricity use .</i></p> <p><i>30. It is therefore important for the regulatory framework to remove barriers to these desirable benefits wherever possible. We therefore recommend that the regulatory framework for road lighting include more focused consultation with Territorial Local Authorities and the road lighting industry.</i></p> <p><i>Please refer to our previous comments regarding this</i></p>

Submitter	Comment [sic]	Authority's response
		submission.
TEG & Associates	No comment.	Noted.
Transpower NZ	Wrt section 5.3 we agree with the principle of transparency and the discussion that audit reports be made public (assume by the Authority on its site).	Support for publication of audit reports noted. This has also been covered by additional questions 13A and 13B.
Trustpower	If education and understanding is considered a problem then day seminars, perhaps twice a year, could be run for participants to attend. Perhaps at no cost, or small fee to cover expenses. Clear guidelines concerning the audit process and interpretation should be developed. Alignment and understanding across the approved auditors should be sought.	Support for guidelines and alignment of understanding noted. Proposal of day seminars noted and can be considered when planning the Authority's wider education programme and industry forums.
Unison Networks	None.	Noted.
WELL	None comes to mind.	Noted.

Question 16

Do you agree with the issues leading to the requirement to automate systems?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.
Contact Energy	C.4.1 – Contact agrees with the production of compliance reporting to be delivered directly from the Registry. Contact does not agree that participants should be the only recipients of this information or that this information is then used by auditors in the respective participant audits. The Authority should adopt a similar approach to	C.4.1: Support for additional compliance reporting and monitoring from the registry noted. Support for wider publication and availability of compliance reporting noted.

Submitter	Comment [sic]	Authority's response
	<p>the GIC where regular monthly reporting is provided by the relevant industry service providers (Gas Registry, Allocation Agent) to its market administration function (in addition to the participants concerned). The market administrator then follow up with the participants regarding any non-compliance issues identified. Participants can then respond to allow the market administrator to determine if the issue is minor / material, one off / ongoing, process / system failure. This approach ensures potential issues are identified and mitigated much earlier than currently under the existing framework for the benefit of the industry as a whole.</p> <p>From this the market administrator can determine if a formal investigation is required by the compliance team or whether the non-compliance should just be added to the non-compliance register.</p> <p>This approach would reduce the size and scope of the annual audit and provide timely feedback to the market administrator regarding industry related issues (for example recent issues relating to switching of AMI metered ICPs). If the Authority believes this monitoring task is too large for this function to manage then Contact suggests this task could be delegated to the audit group Contact has recommended be formed in response to Question 14.</p> <p>C.4.2 The provision of a template for all auditors to apply is a good improvement to the current audit process. However, this approach is inconsistent with the proposals identified in table 2, issue C1.1 where the authority proposes either a compliance plan be provided by the participant or a draft audit report be present for the authority to review. Contact recommends that audit report templates plus other tools e.g. query tools to identify issues, be developed as online tools for use by auditors but the audit report still be submitted between parties via the authority's online tool once finalised. This will allow</p>	<p>Disagree that this can be used to reduce the size of the audit as registry reporting will not provide information regarding the underlying reasons for any issues and if the actions being taken are likely to address the issues identified by the reporting. The independent view of the auditor is the best option for assessing this.</p> <p>C.4.2: Disagree that this proposal is inconsistent with the proposals identified in table 2, issue C.1.1. The prescribed form of the audit report focuses on the detail provided. The compliance plan is the actions being taken to address any non-compliances identified during the audit.</p> <p>Recommendation that audit report templates and other tools be developed as online tools noted.</p> <p>With regards to the separate audit database. The audit and approval functions are separate from compliance function. Because the Code places obligations on the Authority, it is possible for the Authority to fail to meet its Code obligations. As a result these need to be managed by a team that is not also responsible for the enforcement of the Code.</p> <p>The separate audit database already exists, and is used to manage the audit workflow process and certificates.</p>

Submitter	Comment [sic]	Authority's response
	<p>the automated population of the audit database to continue.</p> <p>Contact is unsure of the need for an audit database in addition to the existing non-compliance database run by the compliance team. Contacts suggests one database, maintained by the compliance team, could be used for both purposes.</p>	
Genesis Energy	No comment.	Noted.
Meridian Energy	Yes.	Noted.
Mighty River Power	Yes.	Noted.
Momentous Consulting	Agree.	Noted.
Nova Energy	<p>Yes, but it is unclear as to who will be able to access this information. (Auditors & Authority only or does this include making the material public as well). There should have to be a credible business reason to search another participants report if these are to be made accessible to participants. It is inappropriate to publish full details of participants' internal operations.</p> <p>As in C2.1, the register would enable the authority to identify and collate industry wide issues, but should only be made available to participants in a non-identifiable manner. This would ensure that participants will work collaboratively in a transparent manner with auditors and provide full disclosures when audits are carried out.</p>	<p>The intention is for the information to be available to participants in the same way as existing registry data and reports are made available.</p> <p>Concerns regarding publication of information that would allow participants compliance to be identified is noted. The proposal has been updated to enable the Authority to withhold information if publicising the information likely unreasonably to prejudice the commercial position of the person who supplied or is the subject of the information.</p>
Orion NZ	<p>C.4.1: Inconsistent analysis of registry information by auditors</p> <p>We are not aware of any inconsistent analysis of registry information by auditors but the Authority is in a better position than participants</p>	C.4.1: Support noted. Concerns regarding accuracy of registry information noted, however there is a reliance on participants populating correct information on the

Submitter	Comment [sic]	Authority's response
	<p>to obtain the information to judge this. We consider that a suite of compliance information received from the registry on a regular basis could enhance the information currently provided in exception reports. It is imperative however that this information is correct and cannot be misinterpreted resulting in extensive manual checking to ascertain the issue. We consider that improved clarity and precise definitions would improve compliance, also it is important that the registry correctly reflects the Code and it would be useful if it had some built in checking to prevent incorrect information being entered. We agree that Alternative 2 and 3 should be rejected.</p> <p>C.4.2: Unclear prescribed form for audit reports</p> <p>We agree in principle with this proposal but consider that there needs to be a process to change/correct the information if required. Possibly the Authority would approve any such changes/corrections.</p>	<p>registry.</p> <p>C.4.2: Support noted. Agree that information should be able to be corrected until audit is finalised and submitted to Authority.</p>
Paul Troon Consultancy	Yes.	Noted.
Powerco	Yes.	Noted.
Powershop	Powershop agrees with the issues.	Noted.
Strategic Lighting Partners	Yes.	Noted.
TEG & Associates	<p>C.4.1 My choice is Alternative 1. From my point of view it would be beneficial to evaluate what tools (reports) could be provided from the registry to auditors to assist them in evaluation of compliance, for example of switching or MEPs nomination etc. At present not much is provided by the registry, which holds all information. Some reports provided by the registry are very difficult to work with for example EDA file.</p> <p>It is important to keep in mind that any work contracted to Jade</p>	<p>C.4.1: Preference for alternative 1 noted. Agree that next step would be to evaluate what reports could be provided to the auditors.</p> <p>Costs associated with Jade have been considered when performing the cost-benefit analysis for the proposed solution.</p> <p>Disagree that allowing users to customise the output will address the problem of inconsistent analysis of</p>

Submitter	Comment [sic]	Authority's response
	comes with very high cost. We need to consider other options which allow users to customise the output.	registry analysis.
Transpower NZ	<p>We assume that is not a new Code obligation (although the use of the word 'requirement' suggests otherwise).</p> <p>We can see the benefit of the Authority in assisting audit efficiency by creating a standardised registry report. We assume the costs of the registry upgrade will be funded by the Authority.</p> <p>There may also be efficiency benefits from making auditors submit online and the search function sounds useful. There would need to be provision for this information to be read offline by a wide audience. Again we would expect this cost to be met by the Authority.</p>	<p>The requirement for auditors to analyse registry files is not a Code obligation but rather the approach auditors need to use in order to make an informed assessment as to compliance with obligations relating to registry populate and use.</p> <p>Recommendation to allow for off-line access to audit reports and draft audit reported noted.</p> <p>Action: Consider functionality to access audits and draft audits offline as part of detailed design of audit database.</p> <p>Any changes made by the Authority are funded by the levy.</p>
Trustpower	<p>C.4.1 Disagree, different approaches can arrive at the same result. As long as the auditors are suitably qualified and skilled, and have guidance on what is to be audited, analysis should be sufficient.</p> <p>C.4.2 It depends how useful to the EA it is to have flexible format. For instance, do they compare the same report sections between participants? As participants only receive their own report at present, there is no advantage to us.</p>	<p>C.4.1. Disagree. While different approaches can arrive at the same result, different approaches can also result in different results. Without standardisation it is possible for conflict and misunderstanding to occur and for incorrect conclusions to be made.</p> <p>C.4.2: The Authority does compare sections between participants and across audit reports.</p>
Unison Networks	Yes.	Noted.
WELL	Yes, we agree.	Noted.
Veritek Limited	Yes.	Noted.

Question 17

Do you agree with the requirement to automate systems? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.
Contact Energy	<p>Contact believes that the standardisation of audit report templates and analysis / query tools and publication of these online will deliver more benefits than fully automating these systems.</p> <p>Contact recommends that full automation of these processes is not undertaken now but is deferred until the majority of the other proposed changes have been implemented and bedded in.</p>	<p>Belief that standardisation of audit report templates and publication of analysis / query tools will deliver more benefits than full automation noted. As outlined in the consultation paper the Authority disagrees that publication of tools will deliver the same benefits. Publication also creates issues regarding maintenance of tools and version control.</p> <p>Agree that full automation needs to be considered when developing an implementation plan for changes to the audit regime.</p>
Genesis Energy	No comment.	Noted.
Meridian Energy	Yes. Meridian requests that the Authority consult with participants on the design of any registry compliance reports.	Request noted. The Authority will seek feedback to changes to registry functionality through its standard registry change process. ⁹
Mighty River Power	Yes.	Noted.
Momentous Consulting	Agree.	Noted.
Nova Energy	Yes, but only to the extent that access is restricted to generic issues	Disagree. Each participant and their auditor needs

⁹ <http://www.ea.govt.nz/development/work-programme/retail/operational-changes-to-the-registry-functional-specifications/>

Submitter	Comment [sic]	Authority's response
	and audit results, and not to the details of every participant's operations.	access to their own results in order to more readily identify and address issues.
Orion NZ	See our response to Q16.	Noted.
Paul Troon Consultancy	Yes.	Noted.
Powerco	Yes – support idea to receive a suite of compliance information from the Registry on a regular basis. However further analysis performed by the auditors on registry data when conducting an audit should be included as part of the audit process to support findings.	Agree that registry reports will provide a standardised suite of information and the auditor is needed in order to provide context to the information and understand the cause of any issues identified.
Powershop	Powershop agrees with the requirement.	Noted.
Strategic Lighting Partners	Yes.	Noted.
TEG & Associates	It should be automated but not using Jade. They don't deliver value for money.	Noted.
Transpower NZ	If the Authority wishes to fund the automation of systems to assist its own compliance monitoring function we have no problem with that.	Noted.
Trustpower	<p>We believe it would be better for the EA to meet with the auditors and discuss their processes/issues, they will each already have tools for analysing registry and participant data.</p> <p>The preferred solution will only address a subset of the compliance checks required – it will identify late processing, but not discrepancies between the retailers own records and the Registry. Some of the existing registry reports relating to breaches could be enhanced to report business days overdue rather than calendar</p>	<p>This was discussed with the auditors as part of the issue identification process and it was determined that there was no standard for analysing registry information.</p> <p>It is correct that the preferred solution will only look at information that is available from the registry. Auditors add value to the process by being able to use this information as the basis for further analysis that is not</p>

Submitter	Comment [sic]	Authority's response
	<p>days.</p> <p>We would need more information about the proposal to form a clear opinion of the benefits.</p>	<p>automated or standardises, such as comparing retailer records to registry records.</p> <p>Request for more information regarding the proposal is noted, however it is unclear what additional information can be provided without going into detailed design. Detailed design has not yet begun and will be considered as part of implementing changes to the audit regime.</p>
Unison Networks	Yes – option C.4.1 makes sense and would also help audited parties to run compliance reports in between audits to identify any potential issues.	Support noted.
Veritek Limited	Yes.	Noted.
WELL	Yes, we agree.	Noted.

Question 18

Apart from the proposed solutions given in the table, are there any other improvements that the Authority should consider?

Submitter	Comment [sic]	Authority's response
AMS	We would like to see a live dashboard available to the participant to enable them to monitor their compliance on a day to day basis.	Noted. This can be considered along with registry enhancements.
Contact Energy	Align audit and certification processes to compliance philosophy – certification and audit frequencies should not be set by market operations in isolation, particularly where the compliance team have not determined any material non-compliance. By providing certainty in the frequency of audit and certification participants can focus on ensuring information provided for settlement of the wholesale market	<p>It is unclear how alignment of certification and audit process to audit frequency will address the issues identified with manual processes raised in this section.</p> <p>Agree that audit and certification frequencies should not be set in isolation, however as these are</p>

Submitter	Comment [sic]	Authority's response
	<p>is complete and accurate.</p> <p>If the Authority does create an auditor group as proposed by Contact in Question 14, then this group can develop best practice recommendations to meeting compliance of specific parts of the Code and provide mentoring and support to participants. This would enable participants to improve their existing processes to fully meet their compliance expectations.</p>	<p>obligations on the Authority the compliance team should not be responsible for both fulfilling a Code obligations and investigating instances where parties have not fulfilled their Code obligations.</p> <p>Believe that by focussing on ensuring information provided is complete and accurate, the decisions regarding audit frequency will be more certain, not the other way around.</p>
Genesis Energy	No comment.	Noted.
Meridian Energy	No.	Noted.
Mighty River Power	No.	Noted.
Momentous Consulting	Not at this stage.	Noted.
Orion NZ	We consider that cost-benefit should always be a consideration in any move towards automation.	Agree.
Paul Troon Consultancy	No comment.	Noted.
Powerco	-	-
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes, a more extensive programme to gather, integrate, automate and report on all aspects of the sector's compliance. The power of IT systems needs to be more recognised.	Noted.

Submitter	Comment [sic]	Authority's response
TEG & Associates	Nothing at this point.	Noted.
Transpower NZ	No comment.	Noted.
Trustpower	<p>It would be good if summary audit report information could be used for industry and business analysis. I.e. to spot trends within the sector and within a business.</p> <p>No to the question to respond to the idea of publishing of the full audit report. The sector might find this challenging. If commercially sensitive reports are made publicly available then much of the report could be redacted. There would need to be a rigorous process for approval to publish such reports, and how the Authority would agree the content to be published. The definition of commercially sensitive information would need to be carefully considered. There is already one further step proposed, as the Authority wants to see the report in its draft form, public publishing might make a further check step before the report can go on line. Consideration of automated report writing, where the report is populated in many parts, with commentary in free text form might help smooth the process.</p> <p>We are concerned that publication of reports particularly DUML reports will open us to competitors when the effort has been made to achieve compliance.</p>	<p>Agree that there may be further opportunities to use information from the audit regime beyond what has been discussed in the consultation.</p> <p>Disagreement to C.2.1 noted. The Authority is subject to the Official Information Act 1982. Section 9(2)(b)(ii) of that Act allows the Authority to withhold information from being made publicly available if it "would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information" by releasing such information. It is worth noting that experience from New Zealand and international audit regimes where audits are published has not identified any areas where publication of audits has resulted in issues.</p> <p>The compilations regarding the use of draft audit reports is noted and will be considered when finalising the audit process and associated Code.</p> <p>Action: Remove the requirement for the provision of the draft audit.</p> <p>Concern regarding DUML competition noted, however believe that competition will have positive effects on the market.</p>
Unison Networks	No.	Noted.

Submitter	Comment [sic]	Authority's response
Veritek Limited	<p>Yes.</p> <p>We recommend that Auditors are provided with access to the registry and reconciliation manager data so they can request the reports and receive them directly. This will reduce the time taken in gathering information and will ensure the correct information is provided and used.</p> <p>Some existing reports are inaccurate. We recommend these reports be identified and the inaccuracy issues resolved.</p>	<p>Disagree. While unrestricted access can be provided it creates an incentive to be approved as an auditor in order to get access to information for purposes other than auditing. Access should only be provided when the auditor has an arrangement with the participant and at this time the participant can provide access.</p> <p>Existing monitoring reports will be reviewed as part of determining what registry information can be automated for audit purposes.</p>
WELL	None comes to mind.	Noted.

Question 19

Do you agree with the issues identified in this section?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.
Contact Energy	<p>Issues C.5.1 and C.5.2. are not necessarily correct. The ISO management system is a generic management system where the scope can include:</p> <ul style="list-style-type: none"> -the whole organisation -specific (or group) functions of the organisation -specific (or group) of areas/sections of the organisation. <p>Therefore, the organisation can limit or restrict the application of the requirement of the Standards based on the scope.</p>	<p>C.5.1: Disagree. Under the current wording of the Code ISO scope does not need be relevant. Reconciliation participants can meet the requirement to hold quality certification by holding it for functions that are not relevant to clause 15.38. It is not clear what should be expected for ISO scope and how to word meaningful ISO scoping statements.</p> <p>C.5.2: Information provided during issue identification suggested that ISO auditors were requiring scope that extends beyond the expectation of what would be needed for certification.</p>

Submitter	Comment [sic]	Authority's response
	<p>(Sample "Specific" scope: The provision of half hour and non-half hour Reconciliation Participant Services functions in accordance with the Code".)</p> <p>Regardless of the scope, the 1st two requirements from the Standards states:</p> <p>(1) Scope (1.1) General</p> <p>This international Standard specifies requirement for quality management system where an organisation:</p> <p>needs to demonstrate its ability to consistently provide product that meets customer and applicable statutory and regulatory requirements</p> <p>aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements</p> <p>We would interpret this to mean that where an organisation restricts the quality management system scope to clearly articulate only the reconciliation function or more, there is an inherent requirement to comply to applicable statutory and regulatory requirements (in this case the Code) which, both group of auditors (ISO and Authority approved) should give effect to, so as not to overlook and ignore this, as part of their respective audits.</p> <p>Contact believes the issue lies with how the:</p> <p>Authority auditors are trained to utilise quality management system's internal and external audit reports; and</p> <p>the real effectiveness of the quality management system of the</p>	<p>With regards to issues regarding how Authority auditors use ISO audit reports; there is not requirement for Authority auditors to use ISO audit reports, beyond verifying that ISO 9001:2008 (or approved equivalent) is held.</p> <p>Concerns regarding the real effectiveness of the quality management system of the organisation noted.</p> <p>Support for collaboration between ISO auditors, approved auditors and the Authority noted.</p> <p>As noted in response below the Authority intends to remove the requirement for reconciliation participants and dispatchable load purchasers to hold quality certification from the Code.</p>

Submitter	Comment [sic]	Authority's response
	<p>organisation. This part can be mitigated through an organisation's proactive approach to quality (eg, requesting for thorough quality audit affecting statutory compliance).</p> <p>The intended collaboration with ISO auditors/certifying body may be a good activity as it can aid in the understanding of both audit groups collectively. Any training provided by the Authority around quality management systems should include both ISO auditors and also all Authority approved auditors.</p>	
Genesis Energy	<p>No. We disagree with the understanding of ISO accreditation as described in this paper.</p> <p>Genesis Energy supports Alternative 1 – status quo.</p>	<p>Noted. We understand that the submitter considers that ISO 9001:2008 does not look at processes but rather the management of the quality system that supports the documented processes.</p> <p>It is unclear which alternative the submitter is supporting. The only 'Alternative 1 - status quo' in section C.5 relates to C.5.4 Approved Test House ISO requirements.</p>
Meridian Energy	<p>Meridian agrees with the issues and proposed solutions subject to the following comments:</p> <p>C.5.2: Meridian agrees that the ISO standard applying to quality certification audits is not well aligned to Code requirements. However, we consider simply holding training sessions with auditors may fail to adequately address this issue. Rather, we consider the Authority, in conjunction with auditors and participants, should develop an electricity industry version of the ISO standard to apply. The aim of creating an electricity industry version should be to fully leverage existing relevant ISO standards while ensuring that there is clear and consistence guidance as to how the standard should be applied for the purposes of the Code. Meridian considers such a standard could sit inside or outside the Code.</p>	<p>C.5.2: Disagree. Developing an ISO standard specific to the electricity industry is alternative solution 2 and is not the preferred solution as it would be very similar to the existing ISO 9001:2008 standard with the key difference being the party conducting the audit.</p>

Submitter	Comment [sic]	Authority's response
Mighty River Power	We agree that these issues exist, however disagree with the proposed, preferred solution. ISO 9001 has not been adding value to audits nor customer experience, in this context it simply incurs unnecessary time and costs.	Proposal for removing ISO 9001 noted. Action: Remove the requirement for reconciliation participants and dispatchable load purchasers to hold quality certification from the Code. Action: Amend the audit guidelines to include requirement for auditors to report on the existence and effectiveness of documented processes. Documented processes to be considered as part of the decisions to determine the certification period and next audit date.
Momentous Consulting	Agree.	Noted.
Nova Energy	Yes.	Noted.
Orion NZ	No comment.	Noted.
Paul Troon Consultancy	No - ISO quality certification is not relevant and is the wrong tool to ensure quality in the industry.	Proposal for removing ISO 9001 noted. Action: Remove the requirement for reconciliation participants and dispatchable load purchasers to hold quality certification from the Code. Action: Amend the audit guidelines to include requirement for auditors to report on the existence and effectiveness of documented processes. Documented processes to be considered as part of the decisions to determine the certification period and next audit date.
Powerco	Yes.	Noted.
Powershop	Powershop agrees with the issues.	Noted.
Strategic	Yes.	Noted.

Submitter	Comment [sic]	Authority's response
Lighting Partners		
TEG & Associates	C.5.1 and C.5.2 I don't see that ISO certification assists in compliance with the Code. C.5.3 I support Preferred Solution. C.5.2. I support Preferred Solution.	C.5.1 and C.5.2: Noted. The intention is for the quality certification to support consistent outputs for reconciliation. C.5.3: Noted. C.5.2: Noted. Based on the order of comments, assume this comment refers to C.5.4 not C.5.2.
Transpower NZ	We support the use of guidelines to convey scope statements along with the and the timely use of (likely to be repeated) training.	Support of guidelines and non-Code approaches noted.
Trustpower	It is not necessary for the Authority to take over training and competency of the ISO auditors, who all work for JASANZ approved agencies. If the performance of the auditors is poor a complaint to the audit agency and JASANZ should be made. Scope statements need to meet certain standards, also prescribed by international rules, that JASANZ oversees.	Alternative approach to management of ISO noted. Removing the requirement for certified reconciliation participants to hold ISO 9001 means that this will only be relevant for approved test houses in the future. Agree that Authority is not placed to manage competence of ISO auditors or complaints against ISO auditors. Based on discussion with JASANZ ¹⁰ we understand there is a complaints process that can be followed to address concerns regarding the quality and scope of the audit. There are approximately eight New Zealand bodies available to audit to the ISO 9001 standard and a further 13 Australian organisations that also operate in New Zealand.
Unison Networks	Yes.	Noted.

¹⁰ <http://www.jas-anz.com.au/>

Submitter	Comment [sic]	Authority's response
Veritek Limited	Yes.	Noted.
WELL	Wellington Electricity is not a reconciliation participant.	Noted.

Question 20

Are there other possible solutions that the Authority should consider in regards to the requirements to hold quality certification?

Submitter	Comment [sic]	Authority's response
AMS	No.	Noted.
Contact Energy	Please note: ISO 9001:2015 (published 22/09/2015) has now superseded 9001:2008. There's a three year transition period to allow those certified against 9001:2008 to move to the new version.	Noted. We are aware that ISO 9001:2015 superseded ISO 9001:2008 and were waiting for the decision on if AS/NZS ISO 9001:2008 would be updated. We understand that internationally there is a shift to ISO 9001:2015 and there are benefits to transitioning to this standard even if it is not an AS/NZS standard. The Authority has (on 10 March 2016) deemed ISO 9001:2015 as an equivalent to ISO 9001:2008.
Genesis Energy	See response to Q19.	The response to Q19 does not appear to provide any other possible solutions the Authority should consider in regards to the requirements to hold quality certification.
Meridian Energy	See response to Question 19.	Noted.
Mighty River Power	ISO 9001 (ISO) should be removed for retailers. ISO audits and certification incur unneeded costs and training ISO auditors will as mentioned incur further costs. We disagree that ISO audits are	Concerns regarding the alignment of requiring the use of a quality management standard with the Authority's statutory objective noted.

Submitter	Comment [sic]	Authority's response
	subject to a higher level of rigor, as while it is 30 pages long ISO is a very vague standard. The proposed audit changes and the current level of competition in the Market ensure that retailers need to continuously improve to stay ahead of the competition. ISO does not contribute to the Authority's statutory obligation, nor does it add value to retailers. Any quality short comings would be quickly picked up in our Authority audits, as they are more meticulous.	<p>Action: Remove the requirement for reconciliation participants and dispatchable load purchasers to hold quality certification from the Code.</p> <p>Action: Amend the audit guidelines to include requirement for auditors to report on the existence and effectiveness of documented processes. Documented processes to be considered as part of the decisions to determine the certification period and next audit date.</p>
Momentous Consulting	Not at this stage.	Noted.
Nova Energy	<p>Yes, Nova recommends the requirement to hold ISO 9001 accreditation is removed.</p> <p>Certification to the ISO 9001:2008 is being superseded by ISO 9001:2015. Businesses are expected to transition to the new standards within 3 years. Any changes to include ISO in the code would need to reflect this change.</p> <p>Nova Energy has robust frameworks and processes in place for the points raised in 5.6.5. However this is a reflection of the commitment Nova has to its business and not to the framework of the ISO certification.</p> <p>The current Electricity Industry Participation Code audit regime delivers the benefits specific to Certification of a Reconciliation participant.</p>	<p>Recommendation regarding removal of requirement to hold quality certification noted.</p> <p>Action: Remove the requirement for reconciliation participants and dispatchable load purchasers to hold quality certification from the Code.</p> <p>Action: Amend the audit guidelines to include requirement for auditors to report on the existence and effectiveness of documented processes. Documented processes to be considered as part of the decisions to determine the certification period and next audit date.</p>
Orion NZ	No comment.	Noted.
Paul Troon Consultancy	Yes - Relevant quality matters should be incorporated into the participant audit regime and should report on the controls participants have in place to ensure compliance.	<p>Noted. Agree that Code audits need to include controls participants have in place to ensure future compliance.</p> <p>Action: Amend the audit guidelines to include requirement for auditors to report on the existence and effectiveness of documented processes. Documented</p>

Submitter	Comment [sic]	Authority's response
		processes to be considered as part of the decisions to determine the certification period and next audit date.
Powerco	Yes, agree with ATH holding quality certification to ensure consistent output and system's control.	Support noted.
Powershop	<p>The requirement for ISO certification was introduced into the industry at a time when the Code audits and auditor approval process were not as rigorous as they are today. The Code is now supported by the audit guidelines, and auditors are appointed through the approval process.</p> <p>The introduction of the other suggested changes in this consultation paper (e.g. clarifying purpose, aligning with best practices, clarifying focus) will further justify the removal of the compulsory requirement for ISO certification.</p> <p>Allowing the option for participant documentation and change control processes to be audited by an EA approved auditors will allow for a reduction in costs, and increase efficiency and effectiveness of the audit process.</p> <p>The detailed requirements would not need to be outlined in the Code, but instead as a reference to a guideline. The work required to water down the lengthy quality guidelines would not be as onerous as preparing the auditor protocol document.</p>	<p>Proposal for removing compulsory requirement for ISO noted.</p> <p>Action: Remove the requirement for reconciliation participants and dispatchable load purchasers to hold quality certification from the Code.</p> <p>Action: Amend the audit guidelines to include requirement for auditors to report on the existence and effectiveness of documented processes. Documented processes to be considered as part of the decisions to determine the certification period and next audit date.</p> <p>Proposal for documentation and change control processes to be audited by Authority approved auditor noted. Discussions with JASANZ the body that approves ISO 9001 auditors indicates that Code auditors can be approved for ISO 9001 audits.</p> <p>The costs associated with accrediting an auditor for ISO 9001 are estimated to be in the order of \$25,000 for the first year and \$12,000 - \$14,000 annually.</p> <p>There is no need to develop an equivalent Code mandated standard.</p>
Strategic Lighting Partners	The Authority's proposal appears to be very complete, we can add nothing.	Noted.
TEG & Associates	No comment.	Noted.

Submitter	Comment [sic]	Authority's response
Transpower NZ	MEPs appear to not be bound by the quality standards desired and we are unclear if this is deliberate or an oversight.	This was a deliberate decision made during the development of the new Part 10. Only reconciliation participants, dispatchable load purchasers and test houses are required to hold quality certification.
Trustpower	Quality certification covers aspects of systems and management that the Code does not. It would be difficult to operate a consistent and effective business without using ISO 9001 or similar standard. In principle the standard should assist in Code compliance.	Support for continued use of quality standards noted.
Unison Networks	No, Unison supports the proposals described in this section.	Support noted.
Veritek Limited	Yes. ISO 17025 is necessary for Class A Approved Test Houses; however we have seen little or no benefit to participants in holding ISO 9001. The current Electricity Industry Participation Code audit regime appears to deliver significantly more benefit than the ISO audit regime and with the improvements proposed in this consultation document, there is even less of an argument for keeping ISO 9001. Some participants (mostly ATHs) are part of a larger organisation with ISO 9001, and do not participate in regular meetings nor are they subject to audit. We recommend the requirement to hold ISO 9001 is removed.	Recommendation to remove quality certification from the Code noted. Disagree that approved test houses should not be required to hold ISO 9001 quality certification. The outcomes of the approved test house are not subject to the same level of review and control as reconciliation participants. Documentation and management review process helps support consistently applied meter certification field work.
WELL	Wellington Electricity is not a reconciliation participant.	Noted.

Question 21

Do you agree with the proposed solutions to assist new entrants? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Mostly: The Authority must ensure that the new entrant understands their code requirements before they are allowed to trade. This will prevent unnecessary impact to other participants and consumers should a new entrant fails to come up to standard.	Noted. The proposal includes requirements to obtain Authority approval before performing certain functions. ¹¹ The Authority does not licence traders and it is the participants' obligation to ensure they meet the requirements of the Code.
Contact Energy	<p>C.6.1 – Contact agrees with the proposed solution.</p> <p>C.6.2 – Contact agrees with the proposed solution.</p> <p>C.6.3 – Contact does not agree that the thresholds identified are sufficient to ensure a new entrant retailer does not adversely impact the market prior to being required to be formally audited and certified. Contact believes additional thresholds should also be included such as:</p> <p>Participants' ICP market share at an NSP exceeds 10% (addresses situations where a new entrant trades a material number of ICPs at an ICP, therefore has the potential to impact settlement quantities / UFE allocations, especially if the NSP is an embedded network and the embedded network is reconciled by difference).</p> <p>25% of CS files exceeds five business day timeframe during a calendar month.</p>	<p>C.6.1: Noted.</p> <p>C.6.2: Noted.</p> <p>C.6.3: Noted however disagree. The limit of 100 ICPs with only category 1 metering installed will address concerns by limiting the overall submission volumes that the trader is responsible for.</p> <p>Disagree that switching monitoring is needed. All participants must comply with the Code regardless of whether certification is held.</p>
Genesis Energy	Yes, minor amendments to solutions suggested below.	These minor amendments have been considered when finalising the drafting of the Code.

¹¹ Clause 2B of Schedule 15.1

Submitter	Comment [sic]	Authority's response
Meridian Energy	<p>Meridian agrees with the issues and proposed solutions subject to the following comments:</p> <p>C.6.1: Meridian considers that, in approving a new entrant retailer's access to market system, the Authority should still undertake a robust assessment of the retailer's knowledge and readiness for market participation.</p>	C.6.1: Disagree. The Authority does not licence traders and it is the participants' obligation to ensure they meet the requirements of the Code. The approval to access market systems focuses on the ability to meet the requirements of the Code and demonstrate it understands its obligations under the Code.
Mighty River Power	Yes, except for number 2, as per above we propose the removal of ISO.	Preference to remove ISO certification noted and discussed above.
Momentous Consulting	<p>The document is not clear as to how a new entrant would demonstrate an understanding and ability of the market systems and not impact the market or other participants, would this be an initial audit scoped specifically or similar process?</p> <p>C.6.3 We express concern at a 12 month certification for new entrants regardless of number of ICPs. A six month time frame should be able to provide trading and process history to identify any issues and obtain ISO certification. Twelve months is too long if the participant has issues.</p> <p>For consistency all new entrants should be required to meet a 6 month certification period regardless of number of ICPs.</p>	<p>The Code does not prescribe the process required to satisfy the Authority only the outcomes. The 'How to be a retailer' guidelines would include a section covering this requirement and examples of how the Authority could be satisfied.</p> <p>C.6.3: Concern noted. Twelve months is consistent with historical exemptions granted by the Compliance Committee relating to exemption from holding certification.</p>
Nova Energy	Yes.	Noted.
Orion NZ	<p>C.6.1: Initial audit requirements</p> <p>We consider that the preferred solution to obtain Authority approval before accessing market systems. We agree with the rationale the paper puts forward to support this proposal. We consider that the preferred solution is superior to the other two options.</p> <p>C.6.2: Quality certification requirement and timeframes.</p>	<p>C.6.1: Support noted.</p> <p>C.6.2: Noted</p> <p>C.6.3: Disagree. The status quo is resulting in limited information being available at the time of audit (during the first month of trading, prior to the first reconciliation revision). Providing a lengthened period to get the audit will allow for more informed audits to be provided,</p>

Submitter	Comment [sic]	Authority's response
	<p>No Comment</p> <p>C.6.3: Timeframes for holding certification</p> <p>We disagree with this proposal. We consider that for the same reasons that the Authority is requiring Authority approval and an ability to demonstrate an understanding and use market systems in a manner that complies with the Code a new entrant retailer should apply for certification in the first month of trading and hold certification before 3 months (ie, the status quo).</p>	<p>and as a result better decisions to be made regarding certification and/or next audit date.</p>
Paul Troon Consultancy	No comment.	Noted.
Powerco	N/A to Powerco.	Noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes.	Noted.
TEG & Associates	<p>C.6.1 I fully support Preferred Solution.</p> <p>C.6.2. I don't see a need to hold ISO or Q-base certification.</p> <p>C.6.3. I don't agree with Preferred Solution. 100 ICPs without certification for up to 12 months is too risky from the market point of view. I would propose to give new entrant 6 months to apply for certification but do not ask to provide report 2 months before certification date.</p> <p>At the moment the Code asks to apply for certification within 3 months, but report must be filed 2 months before which gives only 1 month for conducting audit. It is one of the reasons why so many new entrants apply for exemption.</p>	<p>C.6.1: Noted.</p> <p>C.6.2: Preference for removal of requirement to hold quality certification noted.</p> <p>C.6.3: Disagree. The level of risk has already been considered by the Authority and the functionality in this Code proposal has already been applied to seven reconciliation participants through the exemption process.</p>

Submitter	Comment [sic]	Authority's response
	Usually it is basic desktop audit, when a new entrant has only a few ICPs. Current audit regime really does not allow to assess properly a company readiness to enter the market.	
Transpower NZ	No comment.	Noted.
Trustpower	Yes. There would be a need to develop some guidelines or rules around what was considered sufficient information to be provided to the Authority before accessing the market systems. Twelve months might be quite tight to meet the 14 month revision rules should errors be found at the certification audit.	Support noted. Information regarding sufficient information will be available in the how to be a retailer guidelines. 12 months is the due date for certification. Audit would be submitted 2 months prior to certification being required and likely started 1 month prior to this. We would expect this provides a 5 month window to correct issues prior to the 14 month revision.
Unison Networks	Unison has no comment on this section of the paper.	Noted.
Veritek Limited	Yes.	Support noted.
WELL	We are neutral on this issue.	Noted.

Question 22

Are there other possible solutions that the Authority should consider?

Submitter	Comment [sic]	Authority's response
AMS	None that we can see.	Noted.
Genesis	Schedule 15.1, clause 2 (1) (a) – suggest addition of third criteria to	Noted.

Submitter	Comment [sic]	Authority's response
Energy	<p>capture volume of energy purchased. A new entrant may have small ICP counts but deal in large volumes.</p> <p>Suggest creation of a schedule of actions a new entrant must prove it is able to complete prior to the date on which it first performs a function specified in clause 15.38(1).</p>	<p>The volume of electricity is intended to be addressed through the proposed limitation to number and scope of metering. (100 Category 1 metering installations). This can be monitored in the registry.</p> <p>The proposed limitation on the total volumes is considered impractical to monitor.</p> <p>Noted. This type of information would be included in the guidelines provided to parties that wish to become an electricity retailer or certified reconciliation participant.</p>
Meridian Energy	See response to Question 21.	Noted.
Mighty River Power	No.	Noted.
Momentous Consulting	Not at this stage.	Noted.
Paul Troon Consultancy	No comment.	Noted.
Powerco	N/A to Powerco.	Noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	This is not an area of our expertise, so we are unaware of any.	Noted.
TEG & Associates	No comment.	Noted.

Submitter	Comment [sic]	Authority's response
Transpower NZ	No comment, other than to recognise that this issue seems to be a real candidate for Code Change as it has arisen from the evidence of the number of exemptions being applied for.	Recognition noted.
Trustpower	Quality certification should not be removed, as there are standards such as Q-Base which small businesses can use. ISO 9001:2008 is often used by small businesses of five staff.	Support for retaining quality certification requirement noted.
Unison Networks	Unison has no comment on this section of the paper.	Noted.
Veritek Limited	Yes. As noted in our answer to Question 20, we recommend the requirement to hold ISO 9001 is removed.	Support for removal of quality certification requirement noted.
WELL	A clear definition of what constitutes a 'new entrant retailer'.	A new entrant retailer refers to a reconciliation participant that intends to sell to end consumers and is in the process of entering the market but has not yet become a certified reconciliation participant.

Question 23

Do you agree with the issues identified in this section for DUML?

Submitter	Comment [sic]	Authority's response
AMS	N/A	-
Contact Energy	Contact acknowledges that the Authority has identified a number of symptoms related to the effective settlement of distributed unmetered load (DUML). However we do not believe the Authority has identified the main issue.	Recommendation that DUML responsibility be shifted to distributors noted. This consultation focuses on the audit requirements for DUML. Responsibility for DUML is outside of the scope

Submitter	Comment [sic]	Authority's response
	<p>Contact believes the current Code requirements around responsibility for DUML are fundamentally flawed, resulting in traders not being able to influence sufficient compliance from DUML database owners. The short tenure traders have with DUML customers makes it difficult to build the required relationships and also apply sufficient commercial pressure to encourage DUML customers to develop their assets registers to meet DUML database regulatory requirements.</p> <p>The Authority should consider transferring the responsibility for DUML to distributors as these participants have an enduring relationship with the DUML customers (by way of approving the connections of any new streetlight connections via new connection requirements and standards). Distributors also have access to asset registers and GIS systems to record and manage this information to an acceptable level if DUML customers are shown to be unable to effectively manage this information to an acceptable level. The Authority should observe, as a model, the effective management of DUML by Network Tasman on behalf of traders on their network to see how such an approach can be effectively applied. Currently around 50% of DUML ICPs traded by Contact are associated with DUML databases managed by distributors.</p> <p>Distributors also have the ability to recover costs associated with managing DUML load and its associated database via line charge mechanisms whereas traders have limited means to recover audit costs and also administration costs from the DUML customers. Distributors have a vested interest in ensuring DUML is accurately accounted for as part of its UFE monitoring and management.</p> <p>Additionally by having distributors responsible for DUML the</p>	<p>of this consultation.</p> <p>C.7.1: Disagree. While DUML should be included within the scope of quality certification, the audits referred to here are audits against compliance with the Code.</p> <p>Concerns regarding the practicality of regular full field audits is noted. The purpose of this proposal was to introduce a mechanism to demonstrate that the volumes reconciled match the actual volumes consumed. An alternative to separate field audits is to require a statistically significant sample in each DUML audit. If the sample shows a probability of error then corrective action would be required to update the database so that records are correct. This could include a full field audit of all items of load which is used to update the database.</p> <p>Action: Amend the Code proposal to remove the requirement for separate full field audits. Include requirement for statistically significant sampling to be conducted during each audit of the DUML database.</p> <p>C.7.2: The Authority has not published or consulted on proposed guidelines for DUML audits. The Authority is aware some auditors use an independently developed guideline when conducting DUML audits.</p> <p>C.7.3: Disagreement noted. The proposed change is to include a requirement to publish DUML audits. Disagree that it is impractical to impose an audit timeframe on the gaining trader. Under the proposal</p>

Submitter	Comment [sic]	Authority's response
	<p>application of emerging technologies for more effective use of street lighting ensures direct involvement of distributors to ensure a consistent application of these emerging technologies network wide.</p> <p>C.7.1. Contact does not agree with independent DUML audits. As a participant having a quality management system should be able to cover compliance requirements of DUML (whether it is considered as an “outsourced” process or not in the participant’s quality certification scope). In its current state, as currently described in the Code, management of DUML is an internal process. Therefore a participant having an ISO certification should/would have processes in place to manage the DUML as per the Code since this activity forms part of ISO requirements to manage processes scoped within the participant function. Most DUML databases will fall under “outsourced” process, as per ISO standards, therefore should be included in both internal and external quality audits.</p> <p>The Authority proposes a ‘full’ field audit is performed as part of an independent audit. To undertake a full field audit of a Council such as Auckland City on a regular basis is impracticable and would drive excessive costs into the industry.</p> <p>C.7.2. There is a proposed audit guideline already, although improving it to eliminate further “interpretation” should be undertaken. In order for the guideline to contribute positively there needs to be a standardised table of wattages (C.7.4).</p> <p>C.7.3. Contact does not agree. There is no requirement to publish these reports. Although, DUML issues can be included as part of the issues register – where it should satisfy the requirement. It is impracticable to impose an audit timeframe onto a gaining trader when the gaining trader has no relationship with the DUML database</p>	<p>the gaining trader will have access to the last audit report and be aware of the next audit date. This will allow the gaining trader to make a commercial decision if they wish to switch the ICP and allocate resource to perform any pending audits.</p> <p>DUML exists to provide a simpler alternative to creating and maintaining individual unmetered load ICPs for each point of connection to the network.</p> <p>C.7.4: Support for standardised table of wattages noted. Agree there is a need to maintain the standardised table of wattages, and this will require better communication between the Authority and traders. If the traders start using a lamp that is not on the table then the Authority should be advised by the trader responsible for the DUML so that the table can be updated accordingly.</p>

Submitter	Comment [sic]	Authority's response
	<p>owner and would also need to identify a resource to perform this audit. If distributors were be responsible for DUML then this issue would not exist.</p> <p>C.7.4. Contact agrees and recommends the Authority make this a priority. The industry has advocated for such a standardised table since 2008, participants have also in the past provided initial populated tables for the Authority to review and publish without success.</p> <p>Contact also recommends that the Authority establish governance processes to ensure this register / standard is accurate and reliable and well maintained rather than maintained only "as needed".</p> <p>Participants should be able to utilise this in the same way they would use the Registry for source of information.</p>	
Genesis Energy	<p>Yes.</p> <p>We disagree with the additional requirement for "full field audits of all items of load" – this will be unrealistic to implement, especially if the DUML customer is due to be audited and recently changed suppliers.</p>	<p>Noted.</p> <p>If a DUML customer is due to be audited, then this obligation is a commercial decision that the gaining retailer will need to consider when deciding to contract with the DUML customer. DUML exists to provide a simpler alternative to creating and maintaining individual unmetered load ICPs for each point of connection to the network.</p> <p>Concern regarding full field audit of load noted.</p> <p>Action: Amend the Code proposal to remove the requirement for separate full field audits. Include requirement for statistically significant sampling to be conducted during each audit of the DUML database.</p>
Meridian Energy	Yes.	Noted.
Mighty River	We partially agree with this, but we don't agree with varying audit	Disagreement with varying audit timeframes and full

Submitter	Comment [sic]	Authority's response
Power	timeframes nor increasing audit scope to full field visits. This would increase the cost to serve of these sites and doesn't solve the problem of getting DUML customers to fix any issues.	<p>field audits noted.</p> <p>The problems with getting DUML customers to fix issues with DUML and DUML databases is a contractual issue between the trader and party they use to manage and maintain the DUML database. DUML exists to provide a simpler alternative to creating and maintaining individual unmetered load ICPs for each point of connection to the network. The Authority does not regulate non-industry participants. All DUML obligations are placed on traders.</p> <p>Concern regarding full field audit of load noted.</p> <p>Action: Amend the Code proposal to remove the requirement for separate full field audits. Include requirement for statistically significant sampling to be conducted during each audit of the DUML database.</p>
Momentous Consulting	Agree.	Noted.
Nova Energy	C.7.3 – Do not believe it is necessary to publish full details. Alternative 1 is sufficient, particularly if the losing trader is required to fully inform the gaining trader the detailed information required to pursue detailed actions.	C.7.3: Disagree. In order to make an informed decision regarding switching a DUML ICP the gaining trader needs to know not just the state of compliance of the DUML database, but also the ongoing actions required to correct the issues and any risks that exist that are not specific to compliance.
Orion NZ	C.7.1: Code Requirements for DUML audits unclear We do not consider that the Authority has produced any evidence that separating the audit of the DUML database from the audit of the participant will improve the accuracy of the DUML data. We would have considered that if the participant's certification was at risk then this would be a significant incentive to ensure that there were no issues with their DUML data base.	<p>C.7.1: Agree. Improving the accuracy of the DUML data was not the primary benefit of the proposal to shift to separate DUML audits.</p> <p>The reason for shifting to separate DUML audits was to deliver efficiency benefits.</p> <p>One of the most common causes of inaccurate submission information is DUML. If the DUML audits</p>

Submitter	Comment [sic]	Authority's response
	<p>It is also unclear on how extensive the requirements for a full field audit will be. We suggest that the Authority should provide guidance on sample size.</p> <p>We do not consider that alternative 1 to remove DUMML as an option for the quantification of electricity is a practical solution to the issues raised. We also consider that if the Authority did consider continuing with this approach then an appropriate cost benefit analysis would need to be carried out and the issue separately consulted on.</p> <p>C.7.2: Audit requirements</p> <p>We agree that the Authority should publish guidelines for auditors of DUMML databases to follow.</p> <p>C.7.3: Level of compliance of DUMML customers not transparent</p> <p>We consider that the preferred option or a summary would be an improvement on the status quo.</p> <p>C.7.4: Use of consistent and accurate streetlight data</p> <p>We do not consider that the introduction of a standardised table of wattages for use by all participants would provide any improvement to the DUMML database that we administer. We also consider that the potential for a rapid uptake and replacement to LED lighting will improve the accuracy of any historic information and also reduce the impact of any errors.</p>	<p>remain part of the trader audit then this would be need to be considered as part of the overall risk the trader poses to the market and could result in more frequent trader audits solely to better monitor and manage DUMML issues.</p> <p>The proposal for full field audits would require a review of all items of load, not a sample of load.</p> <p>C.7.2: Noted.</p> <p>C.7.3: Noted.</p> <p>C.7.4: Disagree. Without a standardised table there will continue to be discrepancies between the load recorded as consumed by identical lamp types between traders and DUMML databases. A standardised table of wattages will provide a central source of information on which auditors can use to determine if there are any inaccuracies in the lamp wattages recorded in the DUMML database.</p>
Paul Troon Consultancy	Yes.	Noted.
Powerco	Yes.	Noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes, we strongly endorse the Authority's approach which satisfy a transition to a future which the Authority and the Code has not considered – which we deal with in our submission above.	We assume this refers to the following sections of your submission:

Submitter	Comment [sic]	Authority's response
		<p>9. We strongly endorse all the preferred changes recommended by the Electricity Authority in Issue C.7 Distributed Unmetered Load (DUML) especially as it reflects best practice for road lighting in other jurisdictions such as Australia.</p> <p>10. We submit however that more changes are required in order for the Electricity Authority's statutory objectives and goals ("to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers") to be met through the auditing process. Regulatory practices have not kept pace with technology and international industry practice in road lighting which is, as the EA suggests, the "most commonly recognised form of DUML". We submit that road lighting is in fact the largest proportion of all DUML.</p> <p>11. We submit that the Electricity Authority needs to make further changes to the audit regime because road lighting is undergoing a world-wide "solid state" revolution. This is for several reasons including large improvements in energy efficiency (greater than 50%), large reductions in maintenance costs (greater than 50%), improved lighting quality leading to improved safety and security, introduction of solar PV and electricity storage technologies, and most significantly, the integration of sensors and communications with control systems and metering – for every separate light or luminaire.</p> <p>Support and need for the audit regime to keep pace with technology noted.</p> <p>Proposal that there are further changes to the audit</p>

Submitter	Comment [sic]	Authority's response
		regime needed is noted, however it is not clear what further changes are required. The submission provided included proposals that did not seek to change the audit regime, but rather to change the way street lighting is recognised and handled under the Code. The metering and management of DUMML is outside of the scope of this consultation.
TEG & Associates	<p>C.7.1. I support Alternative 3. The Preferred Solution is too expensive. It is already implemented by some traders who trade I networks.</p> <p>C.7.2. I support Preferred Solution.</p> <p>C.7.3. I support Preferred Solution.</p> <p>C.7.4. I support Preferred Solution.</p>	<p>C.7.1: Support for the status quo noted. Disagree with the status quo as it will not deliver the same benefits as the shifting to separate DUMML audits. Separate DUMML audits will deliver efficiency benefits to the audit regime.</p> <p>One of the most common causes of inaccurate submission information is DUMML. If the DUMML audits remain part of the trader audit then this would be need to be considered as part of the overall risk the trader poses to the market and could result in more frequent trader audits solely to better monitor and manage DUMML issues.</p> <p>C.7.2: Noted.</p> <p>C.7.3: Noted.</p> <p>C.7.4: Noted.</p>
Transpower NZ	As a reconciliation participant we agree that DUMML is a significant source of error in the settlement process.	Noted.
Trustpower	<p>Yes to all but C.7.1. Uncoupling would be a good idea.</p> <p>However No to C.7.1. A full audit of all items of load in a DUMML database is not sensible nor realistic.</p>	<p>C.7.1: Concern regarding full field audit of load noted.</p> <p>Action: Amend the Code proposal to remove the requirement for separate full field audits. Include requirement for statistically significant sampling to be conducted during each audit of the DUMML database.</p>

Submitter	Comment [sic]	Authority's response
Unison Networks	Yes.	Noted.
Veritek Limited	Yes.	Noted.
WELL	*****	-

Question 24

Are there other possible solutions that the Authority should consider in regards to DUML audits?

Submitter	Comment [sic]	Authority's response
AMS	N/A	-
Contact Energy	<p>The Authority touched on frequency of DUML audits in C.7.1 basing the frequency on aligning this with other audits in a participants' audit regime. Uncertainty regarding DUML audit frequencies will discourage competition for DUML load among traders who are already struggling to use very limited tools to encourage DUML owners to improve their systems and processes. This will result in higher costs to the customer as a consequence.</p> <p>Contact suggests an alternative approach to DUML audit frequencies, one which is based on an assessment of annual load and the potential impact to the market if a database was found to be inaccurate.</p> <p>DUML annual load less than 10,000 kWh per annum (typical static DUML such as retirement villages, housing estates) – 5 years.</p>	<p>Concerns noted. We have not included the costs associated with complying with the Code requirements for DUML as this is an existing obligation that traders must comply with. Introducing a more transparent DUML audit regime will enable traders to make a more informed decision regarding if they wish to compete for DUML customers.</p> <p>Variable DUML audits and publication of information will allow traders to make efficient decisions through having a better idea of the cost to serve prior to contracting with the customer.</p> <p>Proposal regarding considering the size of the DUML and potential impact is noted. We agree that this should be considered when making a decision regarding the next audit date.</p>

Submitter	Comment [sic]	Authority's response
	<p>DUML between 10,000 and 30,000 kWh per annum – 3 years.</p> <p>DUML between 30,000 and 50,000kWh per annum – 2 years.</p> <p>DUML over 50,000 – annual.</p>	<p>Action: Include a mechanism to consider the size of the DUML and its overall impact when determining the next audit date.</p>
Genesis Energy	We agree with solutions proposed, with removal or reconsideration of full field audit requirement.	<p>Noted.</p> <p>Action: Amend the Code proposal to remove the requirement for separate full field audits. Include requirement for statistically significant sampling to be conducted during each audit of the DUML database.</p>
Meridian Energy	<p>We agree a review of distributed unmetered load (DUML) is required. However, we do not agree with the Authority's proposed solution to introduce separate DUML audits. We consider the proposed requirement for a full field audit (rather than allowing sample audits) could have significant cost implications, and potentially unintended consequences.</p> <p>Our view is that this issue needs to be thought through further before finalising a solution. We would support formation of a DUML working group (Alternative 2) to undertake this work. While we acknowledge that the voluntary working group has not substantially progressed this issue, we believe a working group led by the Authority and with a clear focus and mandate would be the most constructive way to find a long-term and durable solution to this issue.</p>	<p>Support for alternative 2, a DUML working group is noted. Disagree that this will address issues with DUML audits and is likely to look at the policy decisions regarding DUML.</p> <p>The wider issue of a working group to look at DUML issues (rather than DUML audit issues) can be considered as part of the Authority's programme of work.</p> <p>Concerns regarding full field audit noted. It is likely that full field audits will be needed where there are significant inaccuracies in the database that cannot be addressed any other way.</p> <p>Action: Amend the Code proposal to remove the requirement for separate full field audits. Include requirement for statistically significant sampling to be conducted during each audit of the DUML database.</p>
Mighty River Power	Authority should have DUML sites directly accountable arrange and pay for audits, as opposed to the Retailers. This would be the only way that DUML customers would have incentive to correct issues if	Disagree. The Authority cannot regulate non-industry participants. The incentive lies with the trader, and based on this the trader can made a commercial decision if they wish to trade DUML, and under what

Submitter	Comment [sic]	Authority's response
	the audit frequency is changed.	terms they will trade DUML customers. There is no obligation for traders to use the customer's DUML database and alternative options to fulfilling their Code obligations exist, including maintaining their own DUML database.
Momentous Consulting	C.7.1 We fully support the requirements to bring field audits into scope of the audit however consideration to include requirements for a full field audit of all items of load may not be practical with some larger DUML. We suggest that Code allow for sampling to be carried out of load. That each audit period must include a separate sample and an appropriate size be determined.	Concerns regarding full field audit noted. Action: Amend the Code proposal to remove the requirement for separate full field audits. Include requirement for statistically significant sampling to be conducted during each audit of the DUML database
Paul Troon Consultancy	No comment.	Noted.
Powerco	-	-
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes, this is our area of expertise and we deal with this in our submission above.	We assume this refers to the recommendations made in the submission: <i>12. These changes are bringing about, and have the potential to make, major economic and social improvements to society, but current electricity regulatory frameworks – beyond the auditing processes - are hindering the introduction of these substantial benefits. However, this submission necessarily restricts its scope to that specified by the Electricity Authority consultation paper on auditing and therefore recommends:</i> <i>i. That the strategic benefits capable of being delivered by modern road lighting warrants greater targeted consultation with stakeholders - including</i>

Submitter	Comment [sic]	Authority's response
		<p><i>Local Government and industry - on auditing standards for DUML and specifically road lighting;</i></p> <p><i>ii. That the Code be modified to provide auditing standards applicable to the new road lighting control systems currently available on the market that meter electricity use by each luminaire in the range of 15W to 300W. Such a modification should supplement current code standards , that were drafted for metering loads of orders of magnitude greater than this;</i></p> <p><i>iii. That the auditing requirements of the Code be modified to require road lighting distribution assets to be transparently identified in order to justify the distribution charges levied on local government customers. We submit that there is substantial evidence to show there is no rational transparent justification for distribution charges, although this is an Electricity Authority pricing objective;</i></p> <p><i>iv. That auditing requirements for DUML and road lighting, in particular, be changed to anticipate the rapid introduction of new solid state lighting technologies and control systems which will result in making the current Electricity Authority preferred changes (endorsed above by SLP in paragraph 8) redundant. Nevertheless the current proposed changes are critically important as they provide an important foundation for the transition to the new technologies.</i></p> <p><i>24. We therefore recommend that the auditing requirements of Electricity Industry Participation Code 2010 be amended for road lighting to recognise these modern metering systems that are embedded within the commercially available road lighting controls. The</i></p>

Submitter	Comment [sic]	Authority's response
		<p><i>current Code never anticipated metering of such small loads on the network. It acts as a barrier to Territorial Local Authorities being able to economically apply smart lighting systems that provide accurate measurements (in place of unmetered load estimates) and that will allow for the introduction of incentives to reduce wasteful practices in electricity use .</i></p> <p><i>30. It is therefore important for the regulatory framework to remove barriers to these desirable benefits wherever possible. We therefore recommend that the regulatory framework for road lighting include more focused consultation with Territorial Local Authorities and the road lighting industry.</i></p> <p>Please refer to our previous comments regarding this submission.</p>
TEG & Associates	Have a nationwide DUMML database. It will solve a lot of issues and have only a single audit. Of course it will require cooperation with different City Councils, which could be challenging but more of them starting using RAMM dbase.	<p>Noted. This is not a preferred option as it would limit innovation with regards to how DUMML databases are managed and comply with the Code.</p> <p>Some participants trading on DUMML have invested time and effort into developing compliant solutions, so prescribing a centralised solution would not address the issue.</p> <p>Additionally this solution will not address the issues around the auditing of items of load in the field.</p>
Transpower NZ	We suggest a variation of 'alternative 1' which is to treat DUMML the same as any other type of unmetered load. This would ensure that all physical connections to a network are identified and have an appropriate capacity applied (essentially what the DUMML should be doing). ICPs could be set to "reconciled elsewhere" and the volumes	<p>Agree. This is currently a valid alternative to maintaining a DUMML database under the existing Code.</p> <p>The trader would be responsible for maintaining the UML load at each ICP, creating new ICPs when new</p>

Submitter	Comment [sic]	Authority's response
	consolidated and reconciled using the existing pseudo ICPs. The parties that currently maintain the DUML databases could be provided with the ability to maintain capacities on the registry and run reports. ICPs could be selected at random and capacities verified in the field.	items of load are connected and ensuring the volumes are accurately reconciled.
Trustpower	Suggest the Authority approve the use of statistical methods to sample DUML databases/loads for verification. An ISO standard such as ISO 8550-2 Sampling by attributes is a scientifically validated method to check the accuracy of the databases and loads.	Agree that statistically robust methods of sampling DUML would be a viable alternative to full field audits. This will be included in guidelines for DUML audits. Action: Include requirement for statistically significant sampling to be conducted during each audit of the DUML database in DUML audit guidelines.
Unison Networks	No, Unison supports the proposals described in this section.	Support noted.
Veritek Limited	Yes. There are two errors in the proposed code amendments: 1. Clause 11(2)(a). The changed wording requires the items of load to be recorded but removes the requirement to record the ICP. Correct wording should be "ICP identifier for each item of distributed unmetered load" 2. Clause 11(2)(d) should require capacities to be recorded in watts not kW. kW is too coarse, for example a 70 watt lamp with a 13 watt ballast is 83 watts. This is 0.08kW rounded to 2 decimal places and will result in inaccurate data. Watts is the current standard for database population and needs to be reflected in the Code. With regard to field audits, we recommend that consideration be given to accepting "outage patrols" as field audits, provided that the patrols occur at regular intervals and they include a database accuracy check as part of the lamp replacement program	1. Agree. Code proposal will be amended based on this submission. 2. Agree. Code proposal will be amended based on submission. The proposed Code did not prescribe how field audits should be conducted. If conducted appropriately outage patrols could meet the field audit requirements. Based on submissions we intend to remove the requirement for a full field audit and replace it with statistically significant sampling that would demonstrate the accuracy of the database. Outage patrols would likely be considered as a control used to ensure the database remains accurate that could positive impact the next audit date of the DUML database.
WELL	*****	-

Question 25

Do you agree with the objectives of the proposed amendment? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.
Contact Energy	<p>No. Contact does not agree with a number of the proposed changes to the audit regime. Specifically:</p> <p>Participant certification periods and audit frequencies should remain at annual intervals unless the compliance team determine a reduced frequency is required as an outcome of an investigation of a material breach of the Code.</p> <p>Proposed changes do not foster a continuous improvement / learning environment but rather one of pass / failure where failure is punished, we think more thought needs to be given to creating a continuous improvement / learning environment.</p> <p>Responsibility for DUML should shift to Distributors.</p> <p>We think the Authority should select auditors in the same manner as the Gas Industry Company.</p> <p>Where monthly reporting from the Registry / Reconciliation Manager can be used to identify issues, then these areas should be monitored by the market administrator in the same manner as the Gas Industry Company and these areas removed from the audit regime.</p>	<p>Disagreement noted.</p> <p>The submitter's assertion that certification periods and audit frequency are annual is inaccurate. While it is common for reconciliation participants to be certified for the maximum 12 months the Authority is able to, and has certified participants for a shorter period. The compliance team exists to address issues related to compliance and it is expected that compliance action would be taken when there is not a satisfactory resolution through the audit process.</p> <p>It is unclear how the proposed changes do not foster continuous improvement. We believe one of the issues with the existing regime is the pass/fail assessment of compliance. We believe the increased transparency and decision making process will support a continuous improvement environment.</p> <p>Disagree that responsibility for DUML should shift to distributors. Traders have the commercial relationship with the customer and are responsible for the accurate quantification of electricity at each ICP they trade on.</p> <p>Disagree that the Authority should select auditors.</p>

Submitter	Comment [sic]	Authority's response
	The introduction of new guideline for (6.1.2.b.ii) DUML audit should be for the participants' internal audit process (if it continues to sit with the retailer scope) rather than as suggested in C.7.1 where it will have an independent DUML audit.	<p>Submissions have supported the ability for the participant to choose their auditor. Requiring the Authority to assign auditors would add additional administrative requirements with no discernible benefits.</p> <p>Disagree that areas that can be monitored through automated processes should be removed from the audit regime. Monitoring does not look at the cause of any breaches or wider issues that may be affecting participants.</p> <p>Disagree that the Authority should be writing a guideline for participants' internal audit processes. Participants' internal audit processes sit outside of the Code and are optional. Participants are able to modify the audit guideline for the DUML audit required under the Code for their internal processes.</p>
Genesis Energy	Yes.	Noted.
Meridian Energy	Yes.	Noted.
Mighty River Power	Yes.	Noted.
Momentous Consulting	Agree.	Noted.
Nova Energy	Yes.	Noted.
Orion NZ	We agree with the objectives of the proposed amendment	Noted.

Submitter	Comment [sic]	Authority's response
	<p>(a) to ensure the purpose of the audit regime is clear, well-defined, and aligned with the Authority's statutory objective</p> <p>(b) to improve participants' compliance with the Code</p> <p>(c) to increase the operational efficiency of the audit regime.</p> <p>We consider that a number of the proposals will help achieve these objectives while a few will not as discussed above. We do not consider that the Authority should have proposed Code at this stage of the consultation as it could be seen as pre-empting the outcome of the consultation.</p>	<p>Disagree that the Authority should conduct a two-stage consultation in order to remove any perceptions that this is pre-empting the outcome of the consultation.</p> <p>Section 39 of the Electricity Industry Act 2010 (Act) requires the Authority to publicise and consult on the proposed amendment before amending the Code. In accordance with section 39, the Authority only releases the consultation paper when it considers it has a proposed amendment.</p>
Paul Troon Consultancy	Yes.	Noted.
Powerco	<p>Yes.</p> <p>Introduction of standardised table of streetlight wattages should be helpful.</p>	Noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes, but as we submit above, the objectives need to be substantially expanded.	<p>We assume this refers to the following sections of the submission:</p> <p><i>10. We submit however that more changes are required in order for the Electricity Authority's statutory objectives and goals ("to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers") to be met through the auditing process. Regulatory practices have not kept pace with technology and international industry practice in road lighting which is, as the EA suggests, the "most commonly recognised form of DUML". We submit that road lighting is in fact the largest proportion of all</i></p>

Submitter	Comment [sic]	Authority's response
		<p><i>DUML.</i></p> <p><i>11. We submit that the Electricity Authority needs to make further changes to the audit regime because road lighting is undergoing a world-wide "solid state" revolution. This is for several reasons including large improvements in energy efficiency (greater than 50%), large reductions in maintenance costs (greater than 50%), improved lighting quality leading to improved safety and security, introduction of solar PV and electricity storage technologies, and most significantly, the integration of sensors and communications with control systems and metering – for every separate light or luminaire .</i></p> <p>Please refer to our previous comments regarding this submission.</p>
TEG & Associates	Yes.	Noted.
Transpower NZ	On the whole we do not support a reach for new Code when there are already established avenues to manage the issues such as improvements to the Authority's approval process and applying a risk-based lens to audit scope. We do support improving structure and location of the currently fragmented provisions, and creating consistency across all participant types.	<p>Lack of support for new Code noted. Disagree that this Code amendment proposal is unnecessary as unless it is implemented the existing inefficiencies in the old Code will continue.</p> <p>Support for improving the structure and location of provisions and creating consistency across all participant types noted.</p>
Trustpower	The objectives as outlined in section 6.2, notwithstanding some of the comments made within this feedback. The audits should be used to inform the Code, guidelines and improvements within the sector.	Agree.

Submitter	Comment [sic]	Authority's response
Unison Networks	Yes.	Noted.
Veritek Limited	Yes.	Noted.
WELL	Yes, we agree.	Noted.

Question 26

Can you see any options or implications that have not been considered as part of this consultation paper? If so please elaborate.

Submitter	Comment [sic]	Authority's response
AMS	No, not that we can see.	Noted.
Genesis Energy	<p>Yes.</p> <p>We ask that the Authority reconsider the need for re-certification. Re-certification adds an unnecessary layer of complexity to the regime. We suggest it can be effectively replaced by placing a condition on initial certification that audits must be completed in accordance with 15A for certification to remain valid.</p> <p>The shift from a tick-box assessment (100% code compliance) to engaging with participants to understand audit non-compliance is a step in the right direction. But further detail as to how decisions will be made consistently in practise is needed, especially in regards materiality.</p>	<p>Noted.</p> <p>Certification and re-certification was not identified as an issue in the request for feedback and changes to the role of re-certification in the context of the audit regime have not been considered as part of this consultation.</p> <p>The role and requirements for certification can be considered as part of a future program of work.</p> <p>Action: Consider the role of certification in the audit regime during implementation of changes.</p> <p>Information relating to how decisions will be made consistently will be incorporated into guidelines.</p> <p>Information regarding how materiality could be assessed is included in the Supplementary Information - Draft risk-based planning principles and will be</p>

Submitter	Comment [sic]	Authority's response
		incorporated into guidelines.
Meridian Energy	No, subject to the comments we have already made above.	Noted.
Mighty River Power	Removal of ISO 9001, as mentioned above this standard is not essential to Retailers and only adds additional costs, which is eventually passed on to customers. This cost will increase if the Authority decide to retain ISO and provide additional training to ISO auditors.	Proposal to remove ISO 9001 noted. Action: Remove the requirement for reconciliation participants and dispatchable load purchasers to hold quality certification from the Code. Action: Amend the audit guidelines to include requirement for auditors to report on the existence and effectiveness of documented processes. Documented processes to be considered as part of the decisions to determine the certification period and next audit date.
Momentous Consulting	As part of education, especially if proposed changes go ahead, training be given to participants along with guidelines created specifically for the expectations and requirements of an audit process. This document would be separate to auditor guidelines.	Agree. Participant education will be considered as part of the implementation of changes to the audit regime.
Nova Energy	Audits are most effective when they can be conducted in a constructive manner and are used as a guide to improving internal processes and allocation of resources. Creating an environment where all 'dirty laundry' is to be published has a contrary effect and incentivises the party being audited to minimise revealing any weaknesses or past errors. The benefits of publishing all the details has not been demonstrated, and the suggestion that the OIA applies is incorrect as there is sufficient justification for commercially sensitive material to be withheld.	Agree that audits need to be constructive however believe publication of audits supports an industry wide mechanism to improve processes compliance with the Code. The benefits of transparency have been demonstrated in both international settings and the New Zealand gas industry audit regime. The OIA focusses on the provision of information and it is the Authority that must decide what information is made available. Where information is withheld the Authority needs to provide a full explanation as to why the information has been withheld and a link back to the relevant section of the OIA. Action: Include provision in the audit submission process to allow a participant to identify the specific

Submitter	Comment [sic]	Authority's response
		information that should be withheld from publication, and the reasons that this information should be withheld. This will inform the Authority's decision as to what should be publicised.
Paul Troon Consultancy	<p>Yes - A fundamental problem is the highly technical and complex nature of the industry - this does not lend itself well to measurement of outcomes in a yes / no fashion (outcome based regulation).</p> <p>We believe principle based regulation where the regulator puts effort into defining and describing the principles rather than a rigid set of rules would provide improved outcomes for consumers.</p>	Noted. A shift from outcome based regulation to principle based regulation is outside of the scope of this consultation.
Powerco	-	-
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes, but the consultation scope does not allow us to address them	Noted.
TEG & Associates	No.	Noted.
Transpower NZ	No comment.	Noted.
Trustpower	<p>No notwithstanding some of the comments made within this feedback. The consequences and desired outcomes of the proposal are to improve the standard of the audit process.</p> <p>Improve the operational efficiency and QUALITY of the audit regime.</p>	Noted.

Submitter	Comment [sic]	Authority's response
Unison Networks	No.	Noted.
Veritek Limited	No.	Noted.
WELL	None comes to mind.	Noted.

Question 27

Do you consider that the Authority has captured all the costs of the proposed changes? If not, what other costs to you expect will be incurred due to the proposed changes?

Submitter	Comment [sic]	Authority's response
AMS	All tangible costs captured.	Noted.
Contact Energy	<p>No. The Authority has understated the costs associated with an auditor performing an audit on a participant and seeing their systems and processes for the first time.</p> <p>Contact has experienced a 25% decrease in costs between the very first RPS audit and a subsequent audit with the same scope. Contact has also experienced a 50% spread in DUMML audit costs across approved auditors between auditors familiar with a DUMML party and one that is not.</p> <p>Additionally the Authority has not considered the cost implications to participants if the Authority was to reject a proposed auditor appointment and a participant needs to urgently find an alternative auditor in order for the audit to be completed in time so as not to breach the required lead time between the provision of a final audit</p>	<p>The Authority has considered the submission that auditors take 25% longer to audit a participant they have not audited before. This has been considered as part of a revised cost-benefit analysis.</p> <p>The spread in DUMML audit costs will affect the decision on which auditor to use. An increase in the costs of DUMML audits have been considered as part of a revised cost-benefit analysis. Information regarding variation in audit costs over time was not available when the CBA was created. The CBA has been revised based on this submission.</p>

Submitter	Comment [sic]	Authority's response
	report as part of the re-certification application.	
Genesis Energy	No. The proposed definition of material change will result in a significant increase in audit frequency and associated costs to participants. This has not been adequately captured.	Noted. As discussed above, the Code is proposed to be amended to address concerns that the requirement for material change audits is too broad. Action: The cost-benefit analysis has been revised based on this submission.
Meridian Energy	Yes, subject to the comments we have already made above.	Noted.
Mighty River Power	Partially agree, if auditors have to change this will increase costs due to increased audit length. ISO audits may also increase due to longer times spent on site.	Noted. The CBA has been revised based on this submission.
Momentous Consulting	We consider the Authority has provided a good estimate, not necessarily captured all costs as is stated in 6.4.3 the Authority has not separately estimated the costs and benefits for each area of the proposal. We recognise the fact that this is an estimate that there may be more costs for participants and Authority once the process of formulating actually options commences.	Noted.
Paul Troon Consultancy	No comment.	Noted.
Powerco	-	-
Powershop	No comment.	Noted.
Strategic Lighting Partners	Not for DUML auditing (our area of submission focus). The Authority's estimated costs look too low. However in addition, our submission would increase the costs as well, but dramatically	It is unclear how the DUML estimated costs are too low and what a more accurate estimate would be. DUML costs have been revised based on the amended

Submitter	Comment [sic]	Authority's response
	increase the economic benefits available to the economy which elsewhere have indicated conservative benefit cost ratios greater than four.	proposals for DUML audits.
TEG & Associates	It is hard to comment because I don't know how the cost was calculated. Some of them seems to be on high side for example enhancing the registry to allow participants to receive compliance information (40k). Overall the cost of implementation of 143k is high. Too say that auditors need to spent only one hour to maintain their knowledge of the new auditor protocol sounds really light.	<p>The costs were calculated based on a number of underlying assumptions regarding the costs and benefits. For example the costs to enhance the registry are based on discussions with the registry provider.</p> <p>The overall cost of implementation is based on summing the individual components identified in discussions.</p> <p>The CBA has been revised based on this submission.</p>
Transpower NZ	Suspect underplayed the costs of change especially in upskilling and automation of systems, and not included that variable frequency audits may be more inefficient (more costly) than regular frequency audits.	<p>It is not clear how variable frequency audits will be more inefficient and more costly than regular frequency audits. The obligations, scope and approach to auditing do not change with variable audits.</p> <p>Agree there may be a small increase in costs per audit where audits are less frequent and small decrease in costs per audit where audits are more frequent however this is likely to be less than the variability of the key assumptions.</p> <p>A revised cost-benefit analysis, including sensitivity testing to determine the impacting of changing assumptions (including where costs are higher and benefits are lower than expected) has been created.</p>
Trustpower	<p>Yes as far as can be determined within the scope of this feedback. Please consider the following comments;</p> <p>6.3.6(b) Considering risk and controls when setting the audit scope and focus will achieve greater efficiency than looking at risk alone.</p>	<p>6.3.6(b) Agree that controls need to be considered when setting audit scope and assessing risk.</p> <p>6.4.9(a) Feedback regarding issues register noted. The cost-benefit analysis has been updated based on this</p>

Submitter	Comment [sic]	Authority's response
	<p>6.4.9(a) It will take more than 10 hours per annum, to create, maintain, analyse and report meaningful data from the standard issues register. As suggested earlier I think it would be more efficient to rely on the experience of EA auditors when trying to identify industry wide trends.</p> <p>6.4.9(b and c) It may be difficult to schedule training for all the auditors on the same day.</p> <p>6.4.9(d) The auditors will also need to adjust their processes, systems and documentation to comply with the protocol. Time and cost is likely to be well in excess of one hour.</p> <p>In general, some of the cost increases are understated. For example, 6.4.28 table 9 B.1 and C.1 – it will take an auditor more than an extra 30 minutes to get up to speed with participants they have not audited before. Preparing a compliance plan is likely to take longer than 30 minutes to draft, review and submit depending on the number of issues raised.</p> <p>Costs have been calculated from the EA view point. 100% field audit for DUML will add significant costs to the participants.</p>	<p>submission. We disagree that relying on Authority auditors will deliver the same level of benefits as it will result in 'siloing' of information.</p> <p>6.4.9(b) and (c) Noted. However most auditors are able to attend auditor forums, commonly held in March / April.</p> <p>6.4.9(d) Feedback regarding auditor protocol register noted. We believe that most auditors will be conforming to the protocol either consciously or unconsciously. The cost-benefit analysis has been updated based on this submission.</p> <p>Feedback regarding general cost increases noted. The cost-benefit analysis has been updated based on this submission</p> <p>Disagree that a compliance plan will take more than an additional 30 minutes to draft, review and submit as most participants are providing this information, albeit dispersed throughout the audit report.</p> <p>Concerns regarding 100% field audit noted. Based on submissions we intend to remove the requirement for a full field audit and replace it with statistically significant sampling that would demonstrate the accuracy of the database.</p>
Unison Networks	Yes, however, we have concerns that the costs may be understated in terms of the time needed to analyse, upload to the website and publish audits and related information.	<p>Concern noted.</p> <p>Sensitivity analysis has been conducted and considered both an increase in costs and reduction in benefits.</p>

Submitter	Comment [sic]	Authority's response
WELL	Participant development of a thorough compliance plan each year, including the cost of internal senior management review and sign off.	Disagree that a compliance plan will take more than an additional 30 minutes to draft, review and submit as most participants are providing this information, albeit dispersed throughout the audit report.

Question 28

Do you consider that the Authority has captured all the benefits of the proposed amendment? If not, what other benefits do you expect the proposed changes to lead to?

Submitter	Comment [sic]	Authority's response
AMS	Yes we believe the Authority has captured all the benefits of the proposed amendment.	Noted.
Contact Energy	Contact believes the perceived benefits of reduced frequency of audits has been overstated. A review of trader RPS audit summaries confirms no trader is currently compliant therefore all traders are at risk on being moved to shorter audit intervals. However, few if any of the identified non-compliances have actually resulted in investigation from the Authority's compliance team.	Disagree. Under the existing audit regime reconciliation participants can already be subject to an audit period of less than 12 months so the risk of being moved to a shorter period is not greater than it is under the existing regime.
Genesis Energy	Yes.	Noted.
Meridian Energy	Yes.	Noted.
Mighty River Power	No, the benefit of ISO 9001 removal has not been taken into consideration.	Agree. A revised cost-benefit analysis has been conducted that considers this benefit.
Momentous Consulting	We consider the Authority has provided a good assessment of the benefits.	Noted.

Submitter	Comment [sic]	Authority's response
Paul Troon Consultancy	No comment.	Noted.
Powerco	Yes.	Noted.
Powershop	No comment..	Noted.
Strategic Lighting Partners	No, as identified in the answer to Q27.	<p>Answer to Q27: <i>Not for DUML auditing (our area of submission focus). The Authority's estimated costs look too low. However in addition, our submission would increase the costs as well, but dramatically increase the economic benefits available to the economy which elsewhere have indicated conservative benefit cost ratios greater than four.</i></p> <p>Please see our response to Q27.</p>
TEG & Associates	<p>I would add up to the cost of additional reports as described above.</p> <p>I don't agree with the proposal to increase frequency of audits for agents. I think it should be assessed based on their performance.</p>	<p>Detailed information regarding the costs and the underlying calculations were made available in the Supplementary Information - CBA Participant Audit Regime included with the consultation paper.</p> <p>Comments regarding frequency of agent audits are noted. Regardless of if a function is performed by an agent or in-house, the participant needs to have their compliance assessed for that function. Allowing agents to be audited up to 7 months before the participants sets a threshold for when an agents audit is considered relevant to that participant. The Authority does not directly regulate agents that participants choose to use.</p>

Submitter	Comment [sic]	Authority's response
Transpower NZ	<p>We do not consider that the 'benefits' are an assumption in an overall reduction in the cost of audits, we view these as still 'costs' under the new regime.</p> <p>The purpose of audit is assurance of compliance and that assurance provides benefits in the confidence of market participants that the processes and numbers are accurate. It is unclear whether the changes being made seek to achieve improvements to compliance as it is not clear whether there is any 'cost' from non-compliance currently as the problem has not been framed that way.</p>	<p>Agree that the reductions in the cost of audits will still be 'costs' under the proposed audit regime. However, the purpose of a CBA is to evaluate the proposal relative to the status quo (in this case, the current audit regime). The reduction in costs of undertaking audits is a benefit relative to the status quo.</p> <p>The Authority noted in paragraphs 6.4.50 - 6.4.53 of the Consultation Paper that the proposed changes are also expected to lead to other benefits that are more difficult to quantify in an economic sense. These benefits include better compliance with the Code by audited participants and improved accuracy.</p>
Trustpower	The Authority has understated the time that various changes will take, such as preparing corrective action plans. However it is likely that having improved clarity and planning processes around audits will reduce confusion and make the work flow smoothly.	<p>Noted. The CBA will be revised based on information provided in submissions.</p> <p>Disagree that preparing compliance plans costs are understated as most audits already contain this information, albeit dispersed throughout the audit report.</p>
Unison Networks	Yes.	Noted.
WELL	Yes, we believe so.	Noted.

Question 29

Do you agree the benefits of the proposed changes outweigh the costs? If not, why not?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.

Submitter	Comment [sic]	Authority's response
Contact Energy	<p>No. Contact does not agree.</p> <p>To improve education of both auditors and participants Contact believes greater benefits will be delivered by the Authority selecting lead auditors (and junior auditors where required) for each participant audit in a similar manner to the Gas Industry Company. Additionally the formation of an auditor working group consisting of all approved auditors and Authority representatives to mentor participants and auditors alike and perform tasks such as audit report reviews on behalf of the market administrator, proposed Code changes where Code conflicts or issues arise, monitor Registry / Reconciliation Manager reports identifying potential non compliances by participants and following these up with the participants concerned.</p> <p>The Authority has also not considered the cost associated with participants being forced to further automate a process which delivers 95% compliance through manual means (such as ANZSIC code maintenance) into a fully automated solution in order to attempt to fully achieve compliance and avoid an increase in audit timeframes and costs. The Authority has not considered the costs associated with the process / system changes required to attempt to achieve full compliance, especially when the Authority's compliance team assess these non-compliances as minor and immaterial.</p> <p>The overall outcome of the proposed changes to the audit regime will result in increased costs to participants / industry in general.</p>	<p>It is unclear on what grounds the submitter does not agree and why the proposed changes do not outweigh the costs.</p> <p>Disagree with the proposal for the Authority to select the auditor. This is expected to create additional administrative overhead with no additional benefits.</p> <p>Disagree with the formation of an auditor working group. Auditors are commercially driven and unlikely to volunteer their time and effort to mentor other auditors who will ultimately compete with them for audit services.</p> <p>The proposed changes to the audit regime do not alter the requirement for participants to comply with the Code. None of the proposed changes place an obligation on participants to automate their systems. The proposed changes focus on the audit regime and outcomes and decisions made as result of audits received by the Authority.</p> <p>Disagree that the proposed changes to the audit regime will result in increased costs. The reasoning and calculations demonstrating this have been provided in section 6 of the consultation paper.</p>
Genesis Energy	<p>We believe the benefits are currently overstated – financial benefits have been attached to intangibles which are unlikely to show a financial return, and some of the benefits identified are likely to</p>	<p>Noted. The cost-benefit analysis seeks to quantify economic benefits in dollar terms. Economic benefits are not always directly attributable to financial benefits and include quantifying intangibles such as efficiency</p>

Submitter	Comment [sic]	Authority's response
	<p>occur regardless of the proposed changes.</p> <p>Costs have been identified as hours spent; consideration has not been given to the additional capacity required.</p> <p>Also, some of the proposed changes to the DUMML regime may result in this becoming too expensive for smaller participants to participate, removing competition and increasing cost to customer.</p>	<p>gains through a reduction in staff time.</p> <p>We disagree that benefits are likely to occur regardless of the proposed changes. The existing audit regime is well established and the benefits delivered by this regime should have already been realised.</p> <p>Correct. The costs of additional capacity are not factored into an economic analysis, only the hours required.</p> <p>Noted. Disagree that competition will be reduced as all DUMML ICPs will have the same requirements regardless of who the trader is.</p>
Meridian Energy	Yes.	Noted.
Mighty River Power	<p>No. In our view the Authority has under estimated the additional costs on retailers through additional:</p> <p>Auditor Insurance costs</p> <p>Ongoing and escalating ISO 9001 costs</p> <p>Additional DUMML costs, and</p> <p>Escalating compliance costs through compression of the time to address non-compliances.</p>	<p>Noted.</p> <p>Disagree that there will be increased auditor insurance costs. Auditors are already required to hold professional indemnity insurance.</p> <p>Disagree that the costs associated with holding ISO 9001 would increase beyond what has been considered in the CBA of the consultation paper, however a revised CBA has been created that considers the impact of the revised proposal to remove the requirement to hold quality certification.</p> <p>Agree that the requirement for full field audits may be impractical. The CBA has been revised for the proposal to conduct statistical sampling of items of load and remove the requirement for full field audits.</p> <p>Disagree that there is any compression in the time to address non-compliances. The compliance plan will contain information regarding the timeframes to address non-compliances and this information will be</p>

Submitter	Comment [sic]	Authority's response
		used in the decision making process.
Momentous Consulting	Agree.	Noted.
Nova Energy	The overall initiative is positive, excepting the negative impact of making public all details of the results from audits.	Concern regarding publication of audit details noted and covered in responses above.
Paul Troon Consultancy	No comment.	Noted.
Powerco	Yes.	Noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes, but with our submission implemented, the benefits will outweigh the costs much more than the Authority has estimated	Disagree. Responses to submission are covered above.
TEG & Associates	Very interesting calculation in the Table 9. How for example was calculated that an auditor will spend less than 0.25 hours thanks to having standardised issues register?	This is an estimate based on the assumption that where an issue exists the auditor will be able to refer to the issues register rather than working through it with the participant.
Transpower NZ	<p>No we do not consider the CBA has been appropriately framed. The costs of the new regime are all the new costs including the (albeit reduced) costs of the actual audits. The benefits of the proposed audit process changes should be that the higher cost (higher quality) audits improve compliance assessments with flow-on assurances for market accuracy and reduced costs of re-work, checking, disputes etc (as outlined under 6.4.51).</p> <p>We also have reservations about claiming any cost reductions from 'variable frequency' audits. Repeatable, planned audits provide for opportunities to obtain operational efficiencies bought by 'repeat</p>	<p>With regards to the statement regarding the costs of the new regime, please see Authority's response to Transpower's comments in Q28.</p> <p>Disagree that variable frequency audits will not deliver cost savings, however the Code proposal does not preclude a participant from being audited more frequently than required if the participant believes it is more efficient and will deliver cost savings.</p> <p>The current audit regime creates a cost in the market</p>

Submitter	Comment [sic]	Authority's response
	game' learning. It is not clear how the current audit regime is creating cost in the market.	because it requires most participants to be audited annually, ¹² regardless of risk to the market or level of compliance. With the right information, an informed decision regarding the next audit date for the participant can result in reduced audit costs.
Trustpower	Yes improved processes, clarity and transparency will be good for the sector.	Noted.
Unison Networks	Yes.	Noted.
WELL	Not necessarily – see our response to Question 27 above.	Please see our response to Question 27 above.

Question 30

Do you agree the proposed changes are preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.

Submitter	Comment	Authority's response
AMS	Agree in most cases, see question 12.	Please see response to question 12.
Genesis Energy	Yes, as presented in this paper.	Noted.
Meridian Energy	Yes, subject to Meridian's responses to the questions above.	Noted.

¹² In the case of certified reconciliation participants and dispatchable load purchasers this is the maximum period rather than a set period.

Submitter	Comment	Authority's response
Mighty River Power	No. We favour the removal of the requirement for ISO 9001 certification.	Noted Action: Remove the requirement for reconciliation participants and dispatchable load purchasers to hold quality certification from the Code. Action: Amend the audit guidelines to include requirement for auditors to report on the existence and effectiveness of documented processes. Documented processes to be considered as part of the decisions to determine the certification period and next audit date.
Momentous Consulting	Agree with proposed changes and as noted above minor consideration is needed in a couple of areas.	Noted.
Nova Energy	Yes, retaining the status quo does not allow for the Authority or the industry to evolve and adopt best practices to ensure firms are compliant and reduce the risk of adverse financial and reputational impacts on the market.	Noted.
Orion NZ	We do not agree with all the proposed changes as noted in our responses to the various individual questions above. However in summary our concerns are that a number of the proposals in our opinion introduce further inefficiencies which would not be in the long term interest of consumers.	Concerns regarding the number of proposals that will introduce inefficiencies is noted. We disagree that this is the case as in many cases information is required to make an informed decision regarding the next audit date. We also believe that allowing the Authority more discretion on the next audit date for all types of audits will introduce benefits through reduced audit costs.
Paul Troon Consultancy	No comment.	Noted.
Powerco	Yes.	Noted.

Submitter	Comment	Authority's response
Powershop	Powershop believes that in some instances, an alternative solution (or status quo) is preferable.	Noted. This has been addressed under the questions where the submitter has supported an alternative solution.
Strategic Lighting Partners	Yes. We strongly endorse the approach taken by the Authority which is in our view highly consistent with the Authority's statutory objective. But if our submissions were implemented, we submit that the Authority would be in substantially GREATER compliance.	Noted. Disagree that the alternative submissions are more beneficial than what has been consulted on. This has been addressed under the questions where the submitter has supported an alternative solution.
TEG & Associates	Yes.	Noted.
Transpower NZ	No. Make better use of the processes in place such as tidy up guidelines according to intent for use of audit e.g. scope and where risk lies.	Disagree. Where Code amendments have been made, the purpose has been to create an obligation for the purpose of achieving an outcome. We do not believe the same outcomes could be as effective if implemented through guidelines or by retaining the existing Code obligations.
Trustpower	Yes, notwithstanding some of the comments made within this feedback.	Noted.
Unison Networks	Largely, yes. However, please refer to individual proposals Unison has responded to in questions 4, 9, 12, 13(a) and 14 above, which would result in alternative Code amendments.	Noted. Please refer to responses in questions 4, 9, 12, 13(a) and 14 above.
Veritek Limited	Yes in most cases. For problem C.5.2, we prefer Alternative 2, which is removal of the requirement to hold quality certification. This will reduce participants' overhead in terms of cost and resources, without compromising compliance. This improves efficient operation of the electricity industry.	Support noted. Support of C.5.2 Alternative 2 is noted and is addressed in comments above.

Submitter	Comment	Authority's response
WELL	Yes, we agree.	Noted.

Question 31

Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?

Submitter	Comment [sic]	Authority's response
AMS	Agree.	Noted.
Genesis Energy	No comment.	Noted.
Meridian Energy	Yes.	Noted.
Mighty River Power	No comment at this time.	Noted.
Momentous Consulting	Agree.	Noted.
Nova Energy	Yes.	Noted.
Orion NZ	See our response to Q30.	Noted.
Paul Troon Consultancy	No comment.	Noted.
Powerco	<p>Yes. We consider it appropriate for the Authority to have a role defining the requirements around;</p> <ul style="list-style-type: none"> • approving (or rejecting) choice of auditor, • requiring a change of auditor after 2 audits, 	Noted. Agree that when planning audits the participant will need to ensure internal resource is available to support the auditor.

Submitter	Comment [sic]	Authority's response
	<ul style="list-style-type: none"> • assisting in setting the scope • requiring a material change audit when material changes to systems or processes are made • participant providing final audit report to EA with a compliance plan • making decision on date of next audit • publicising the final audit report and compliance plan. <p>It should be noted that due to the size of Powerco's network and number of NSPs, serious consideration to timings of the provision of audit reports needs to be given.</p>	
Powershop	Powershop believes that many of the proposed amendments will only increase no/low beneficial administration work for all parties, which is counterproductive to being an "efficient operation".	<p>We disagree that this is the case as in many cases information is required to make an informed decisions regarding the next audit date.</p> <p>We also believe that allowing the Authority more discretion on the next audit date for all types of audits will introduce benefits through reduced audit costs.</p>
Strategic Lighting Partners	Yes. But if our submissions were implemented, we submit that the Authority would be in substantially GREATER compliance.	Noted. Please refer to our response to previous questions.
TEG & Associates	Yes.	Noted.
Transpower NZ	<p>We are not persuaded that the new Code that creates more obligations will promote efficient operation and could even have negative effects on competition for provision of audit services.</p> <p>We consider positive efficiency changes can be made through proposed Authority actions on approval, education and</p>	<p>View that the proposed Code does not promote efficient operation noted. Disagree with this conclusion.</p> <p>Efficient operation can be realised through being audited based on the risk the participant poses to the market. The proposed Code amendments seek to</p>

Submitter	Comment [sic]	Authority's response
	improvements to audit scope.	<p>deliver this efficiency through changes to standardise the decisions made as a result of audits and allow the Authority more discretion when setting the next audit date.</p> <p>Supporting obligations are required to ensure the decisions are made based on the best possible information.</p> <p>Where an obligation is not created we have sought to introduce changes / clarification through new and existing guidelines.</p>
Trustpower	Yes.	Noted.
Unison Networks	Yes.	Noted.
Veritek Limited	Yes.	Noted.
WELL	Yes, we agree.	Noted.

Question 32

Do you have any comments on the drafting of the proposed amendment?

Submitter	Comment [sic]	Authority's response
AMS	<p>Please check wording under 6.1.14, should second 'increase' read 'decrease?').</p> <p>Otherwise drafting is fine.</p>	<p>Assume this is referring to 6.4.14.</p> <p>The submitter is correct, The Authority expects that in the first year under the proposed changes, the average audit frequency for reconciliation participants and distributors will <i>increase</i> from 12-monthly to 19-monthly.</p>

Submitter	Comment [sic]	Authority's response
Contact Energy	Contact's interpretation of the proposed Code amendments would mean that all traders would be required to undergo a material change audit as a consequence of the consumption data project as all traders have been required to make changes to their software (clause 15A.11(3)(b)(i)) to deliver this new regulated process. We question if it is the intention of this Code amendment to capture scenarios such as this?	<p>Agree that the proposed amendment to the material change requirements may have unintended consequences.</p> <p>Action: Amend the Code proposal to describe a material change as a change that is likely to affect the ability of the participant to comply with any relevant provision of the Code.</p> <p>Action: Amend auditor guidelines to include criteria for assessing if a change is material.</p>
Genesis Energy	Yes. Please see Appendix B.	The Authority has considered these proposed drafting changes when making its decision regarding the final Code drafting.
Meridian Energy	<p>Meridian suggests the following changes to the Authority's Code drafting:</p> <ul style="list-style-type: none"> • Clause 15A.4(1) should be amended to "a participant must give the Authority or an auditor full access to all information that may be <u>reasonably</u> required for the purposes of carrying out an audit <u>and that can be readily provided by a participant</u>". We do not consider it would be reasonable for an auditor to request information that would require excessive effort to produce. • Clause 15A.11(2): We consider the definition of "material change" is too broad and could encompass almost any change to a participant's systems or processes. We suggest the Authority consider incorporating reference to the change being "substantial" or "significant". • Clause 15A.16(4)(b) should be amended so that costs are met by the participant that requested the audit where the audit found there to be no breach of the relevant provisions 	<p>15A.4(1): Disagree with the introduction of the word reasonably. It is not necessary to expressly include the term "reasonable" in this clause because it is inherent. The Code is delegated legislation that sits within an administrative law framework. A fundamental principle of administrative law is the requirement for such requests to be reasonable.</p> <p>Disagree with the addition of the phrase 'readily provided' as this creates an incentive on audited participants to develop systems that prevent information from being readily provided.</p> <p>15A.11(2). Agree that the proposed amendment to the material change requirements may have unintended consequences.</p> <p>Action: Amend the Code proposal to describe a material change as a change that is likely to affect the ability of the participant to comply with any relevant</p>

Submitter	Comment [sic]	Authority's response
	of the Code.	<p>provision of the Code.</p> <p>Action: Amend auditor guidelines to include criteria for assessing if a change is material.</p> <p>15A.16(4)(b): Disagree. The proposal was not to change the way that audit costs are allocated to participant(s) and the Authority, but rather to combine the various requirements into a single clause. If a participant is not found to be in breach then it is likely that the costs will need to be met by the participant that requested the audit.</p>
Mighty River Power	No comment at this time.	Noted.
Momentous Consulting	<p>We have the following further considerations for the proposed Code drafting:</p> <p>2A</p> <p>There is no time frame specified for the obtaining of the Authority approval?</p> <p>Remove examples or the wording "For example" (e.g. 15A.8, 15A.11) these are more appropriate in guidelines or should be made explicit requirements.</p> <p>15A.10 (a)</p> <p>remove "...would have been required if the participant had performed the obligations itself..." and replace with ..meets Code obligations relative to that agents processes.</p> <p>15A.12</p>	<p>2A: Assume this is referring to Schedule 15.1 clause 2A. The approval needs to be before performing the functions listed in clause 15.38.</p> <p>15A.8, 15A.11: Disagree, believe that these examples provide clarification about a participant's obligations under the Code.</p> <p>15A.10(a): Disagree. The Code can only impose obligations on participants. The Authority's proposed wording retains that focus.</p> <p>15A.12: Noted. This is intentional as the only timeframe that is important is the delivery of the final audit report. The participant and auditor can agree timeframes through their commercial agreement.</p> <p>15A.18: Disagree. This is not a new obligation and replicates the current wording of clause 2(a) to (d) of</p>

Submitter	Comment [sic]	Authority's response
	<p>Fails to include a time frames for the auditor to submit a draft once audit has been carried out, response by auditors (and participants for that matter) to the Authority following any feedback and producing a final report. 15A.2(b) to (e).</p> <p>15A.18 the points noted under 15A.18(a) to (d) would be more appropriate in guidelines, these are also covered by the relative parts of Code 10 and we do not see the benefit of further noting these in this part of the Code.</p>	<p>Schedule 10.5.</p>
Orion NZ	<p>We consider that the Authority is in danger of pre-empting the consultation process. As we have noted in response to earlier questions the Authority has not developed a guideline that describes the audit and audit review process as the content is dependent on the outcome of the consultation. We consider that this same principle should apply to any Code amendments as these too are dependent on the outcome of the consultation process.</p>	<p>Section 39 of the Electricity Industry Act 2010 (Act) requires the Authority to publicise and consult on the proposed amendment before amending the Code. In accordance with section 39, the Authority only releases the consultation paper when it considers it has a proposed amendment.</p> <p>The questions in the consultation paper are formulated to invite submitters to provide their views on any of the options set out in the consultation paper, as well as any other information they consider relevant to the consultation. We include a mock-up of the proposed Code drafting with the consultation paper only as a convenience for submitters. It is provided to assist submitters to understand what the Code would look like based on the proposal at that time – in no way does this presuppose the outcome of the consultation.</p> <p>Following consultation, the Authority analyses each submission and amends the proposed amendment as it considers appropriate based on any further</p>

Submitter	Comment [sic]	Authority's response
		<p>information provided by submitters.</p> <p>Please note that the purpose of consultation under section 39 of the Act is for the Authority to gain further information, rather than agreement, on the proposed amendment. For this reason, subsequent rounds of consultation usually only occur if there has been a change in the policy behind the proposal.</p>
Paul Troon Consultancy	No comment.	Noted.
Powerco	No.	Noted.
Powershop	No comment.	Noted.
Strategic Lighting Partners	Yes. The Authority's changes to the code are strongly supported but they do not go far enough to encourage uptake of innovative and more efficient technologies. The additional changes submitted by SLP will need the same professional quality effort that has been clearly demonstrated in the Authority's consultation documents and proposals.	<p>Noted. The Authority does not discriminate between solutions that can comply with the requirements of the Code.</p> <p>The use of efficient and innovative technology is a commercial decision that will be made by the traders responsible for reconciling volumes consumed or recorded by that technology.</p>
TEG & Associates	Not at this point.	Noted.
Transpower NZ	<p>Audit procedures could have a dedicated Code part.</p> <p>Further we suggest a tidy up of provisions with an objective for consistency between audited participants (unless there is good reason for inconsistent requirements between audited participants) e.g. 15A.18 is not necessary given proposal for guidelines or a negotiation process to convey scope.</p>	<p>Agreed.</p> <p>Action: Propose changing the Auditing arrangements from Part 15A to Part 16A to avoid any perception that the audit regime is solely related to Part 15.</p> <p>Agree that there should be consistency between audited participants. This consultation has not sought to change the scope of audited obligations, which have</p>

Submitter	Comment [sic]	Authority's response
		remained the same. For example clause 16A.18 is an existing obligation that can be found in clause 2(a) to (d) of Schedule 10.5.
Trustpower	<p>The preferred changes need to be agreed upon before deciding upon the Code changes.</p> <p>More guidelines should be developed rather than Code changes, although care needs to be taken to ensure they are consulted widely and worked on by the industry.</p>	<p>Disagree. The Authority is required to consult on the proposal before it makes any Code amendment. . The Authority will consider all submissions before making a decision regarding the changes that are for the long term benefit of consumers.</p> <p>This consultation includes proposals for amending the Code, guidelines and creation of new guidelines.</p>
Unison Networks	<p>Yes – please refer to our responses to questions 4, 9, 12, 13(a) and 14 above, which would result in alternative Code amendments.</p> <p>In addition, Unison notes that there has been a proposed amendment to the time required for participants to submit final audit reports to the Authority. Under the current clause 11.13(1), it reads: “a distributor must, <u>no later than 1 month after receiving a final audit report</u>, provide a copy of the final audit report to the Authority”. However, under the new clause 15A.13 it states that participants must give the final audit report (and compliance plan, if this is implemented) to the Authority “<u>...no later than the date by which the audit is due to be completed</u>”. Unison submits that the current timeframe to submit reports to the Authority (1 month from receiving the final audit) should be retained, unless the Authority has a strong rationale for amending this clause.</p>	<p>Noted. Please refer to our response to the submissions to questions 4, 9, 12, 13(a), and 14.</p> <p>Disagree with Unison proposal to retain the current requirement that audits be submitted one month after receiving the final audit report.</p> <p>The Authority has a strong rationale for amending this clause. The rationale for amending the requirement is:</p> <ul style="list-style-type: none"> • it standardises the next audit date and aligns it with how audits are treated across other participants • it removes an artificial one month delay between the finalisation of the audit and submission to the Authority • participants can continue to receive the final audit report earlier than the due date, as the ‘next audit date’ is defined in terms of submission to the Authority, not finalisation of the audit report.
Veritek Limited	No.	Noted.

Submitter	Comment [sic]	Authority's response
WELL	None further to our comments above.	Noted.

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
CBA	cost-benefit analysis
DUML	distributed unmetered load
NPV	net present value
OIA	Official Information Act 1982