

# Review of participant audit regime

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## Request for feedback

Submissions close: 5:00 pm 3 March 2015

27 January 2015



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# **1. Introduction and purpose of this paper**

## **1.1 Context**

1.1.1 The Electricity Authority (Authority) is reviewing the participant audit regime (audit regime). This review includes:

- (a) ensuring the purpose of participant audits is well defined
- (b) aligning the audit regime with audit 'best practice'
- (c) pursuing changes to the audit regime that align with the project outcomes and the Authority's statutory objective.

## **1.2 Rationale**

1.2.1 The existing audit regime has been in place since 2008 and has never been formally reviewed. This review of the audit regime will establish how the audit regime can best promote the Authority's statutory objective.

1.2.2 Reviewing the current audit regime will help the Authority evaluate possible changes to the regime and determine how the regime could be improved.

## **1.3 Outcomes**

1.3.1 The goals of this review are to:

- (a) improve compliance with the Code
- (b) reduce the costs associated with the audit regime
- (c) reduce the effort associated with the audit regime.

## **1.4 Purpose of this paper**

1.4.1 The purpose of this paper is to seek feedback from participants and persons that the Authority thinks are representative of the interests of persons likely to be substantially affected by the audit regime.

1.4.2 This feedback will be used to develop a formal consultation on specific proposals to change the audit regime.

## 1.5 Submissions

The Authority's preference is to receive feedback in electronic format (Microsoft Word). It is not necessary to send hard copies of submissions to the Authority, unless it is not possible to do so electronically. Submissions in electronic form should be emailed to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz) with *Review of participant audit regime* in the subject line.

If submitters do not wish to send their submission electronically, they should post one hard copy of their submission to the address below.

Submissions  
Electricity Authority  
PO Box 10041  
Wellington 6143

Submissions  
Electricity Authority  
Level 7, ASB Bank Tower  
2 Hunter Street  
Wellington

Tel: 0-4-460 8860

Fax: 0-4-460 8879

- 1.5.1 Submissions should be received by 5:00 pm on 3 March 2015.
- 1.5.2 The Authority will acknowledge receipt of all submissions electronically. Please contact the Submissions' Administrator if you do not receive electronic acknowledgement of your submission within two business days.
- 1.5.3 If possible, submissions should be provided in the format shown in Appendix A.
- 1.5.4 While there is no intention to publish the feedback received, all information provided to the Authority is subject to the Official Information Act 1982. Submitters should indicate any documents attached, in support of the submission, in a covering letter and clearly indicate any information that is provided to the Authority on a confidential basis.

## 2. Background

### 2.1 Participants are subject to regular audits

- 2.1.1 The Code requires audits of participants involved in determining inputs into the wholesale settlement of the electricity market.
- 2.1.2 The Authority uses these audits in its decision making process to:
- (a) approve test houses<sup>1</sup>
  - (b) certify reconciliation participants and dispatchable load purchasers<sup>2</sup>
  - (c) determine the next audit date for metering equipment providers.<sup>3</sup>
- 2.1.3 The Authority also receives distributor audits.<sup>4</sup> Distributor audits submitted under this clause are part of the audit regime, however there is no Code obligation on the Authority to make a decision based on the information contained in the audit.
- 2.1.4 The audit regime is the audit, certification and approval process followed by auditors, participants and the Authority in accordance with Parts 10, 11 and 15 of the Code.
- 2.1.5 A focus of the audit regime is to assess participants' compliance with the Code and determine what actions each participant is taking to address any relevant Code breaches.

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<sup>1</sup> Clause 1(3) of Schedule 10.3

<sup>2</sup> Clause 5(1) of Schedule 15.1

<sup>3</sup> Clause 1(1)(b) of Schedule 10.5

<sup>4</sup> Clause 11.10(1)



## 3. Analysis

### 3.1 Authority's proposal

3.1.1 The Authority seeks to identify and implement changes to the participant audit regime that will:

- (a) improve participants' compliance with the Code
- (b) reduce the cost associated with the audit regime
- (c) reduce the effort associated with the audit regime.

3.1.2 The Authority intends to achieve this by:

- (a) ensuring the purpose of the audit regime is well defined
- (b) identifying recognised good auditing practice
- (c) seeking proposals to change the audit regime
- (d) evaluating proposals against the purpose of the audit regime and good auditing practice
- (e) consulting on a suite of proposals to improve the audit regime
- (f) implementing the proposals to improve the audit regime that are consistent with the Authority's statutory objective.

3.1.3 The purpose of the audit regime and any changes to the audit regime need to align with the Authority's statutory objective *to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.*

### 3.2 Timeline

3.2.1 This review has three key stages:

Table 1 Key stages in review of participant audit regime

Stage	Description	Action	Estimated start date
1	Request for feedback	Defining the purpose of the audit regime and seeking ideas for improving the audit regime	January 2015
2	Consultation	Consulting on suite of proposed changes to audit regime	June 2015
3	Implementation	Implementing proposed changes to audit regime	October 2015

## **4. Request for feedback on participant audit regime**

4.1.1 We are seeking feedback from industry participants and other industry stakeholders that are affected by the audit regime on:

- (a) the purpose of the audit regime
- (b) opportunities to improve the audit regime to promote the efficiency of the electricity industry for the long-term benefit of consumers.

4.1.2 The format for feedback submissions can be found in Appendix A

### **4.2 Question 1: What do you believe the purpose of the audit regime should be?**

4.2.1 The purpose of the audit regime is the underlying reason why the audit regime exists. What outcomes should the audit regime be seeking to achieve? Any changes made to the audit regime should align with the purpose of the audit regime.

### **4.3 Question 2: What proposals do you have to improve the audit regime?**

4.3.1 Proposals should include supporting information, including quantification (where possible) of the extent to which the proposal would improve compliance with the Code, reduce the cost of audits or reduce the effort associated with audits.

### **4.4 Question 3: Do you have any other general feedback regarding the audit regime?**

4.4.1 Please provide any general feedback regarding the audit regime, which does not directly answer the purpose of the audit regime or proposals to improve the audit regime.

## Appendix A Format for feedback

What you believe the purpose of the audit regime should be

Purpose of the audit regime	Key outcomes of audit regime	Reasons

### Proposals to improve the audit regime

Proposal to improve audit regime	How will this proposal improve compliance, reduce cost to the industry or reduce effort associated with participant audits (please quantify where possible)?	How does this proposal align with the Authority's statutory objective?	What costs do you estimate would be incurred by the industry in implementing this proposal?


**Any general feedback regarding the audit regime**

<b>General feedback</b>