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Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

COUNTRY ENERGY SUBMISSION: COMPLIANCE AUDIT FRAMEWORK FOR THE ELECTRICITY SECTOR

Country Energy is grateful for the opportunity to comment on the Commission's proposed Compliance Audit Framework for the Electricity Sector, and offers the following.

In general, Country Energy agrees with the Commission's view that it is not necessary to institute a change in the basic compliance framework developed through *Electricity Industry Guideline No. 4*, although we accept the Commission's rationale that a more robust approach to compliance auditing would compliment the existing compliance reporting framework when applied under clear circumstances.

Country Energy urges the Commission to have regard to the additional compliance costs that will be imposed by any such alterations made to the existing compliance reporting framework, ensuring an appropriate balance is met.

APPROACH TO COMPLIANCE AUDITING

Regarding the general approach to compliance auditing outlined by the Commission, each of the four steps outlined in the discussion paper are addressed in turn below.

(i) Defining audit scope

In making the decision to undertake a compliance audit on one or more licensees, Country Energy supports the Commission's adoption of a risk management framework similar to those used in both Victoria and New South Wales. Country Energy agrees that audits should be clearly justified – either through the impact of any non-compliance on consumers or existing evidence of non-compliance. This should be a guiding principle in the Commission's attempts to keep the audit regime cost-effective.

(ii) Appointment of auditor

Country Energy agrees with the Commission that an audit defined by the criteria above should involve an external auditor. However, in selecting the auditor, consideration needs to be given to the financial burden of such audits, especially where an arrangement already exists between a third party and a licensee in the conduct of any internal auditing.

Given Country Energy's considerable outlay on existing audit arrangements, it would seem appropriate that the Commission fund, at least in part, any obligation over and above that already undertaken. As such we would consider the adoption of a tripartite agreement similar to that outlined by the Essential Services Commission of Victoria (ESCV) in its Guideline No. 9 inadequate unless such an agreement was extended to include some sharing of costs. In addition to simply being more equitable, such an agreement would ensure an added discipline within the Commission in the exercise of its auditing priorities.

(iii) Conduct of audit

Country Energy accepts that the conduct of audits must incorporate certain minimum requirements and we would view the ESCV's Guideline No. 9 as a good example of such requirements. An important objective in the design of that document was 'to foster a culture of continuous improvement by minimising the probability that significant non-compliance would go undetected, and providing licensees with an opportunity to rectify non-compliance before the Commission considers enforcement action.' In conducting any future audits under the proposed regime, Country Energy would consider this a useful and beneficial principle for the Commission to apply.

(iv) Reporting the results of the audit

Again, Country Energy supports the proposed reporting of audit results – including the provision of a draft report to the licensee and the Commission, as well as requiring a statement from the Board of the licensee regarding any action proposed to address non-compliance. This would be consistent with the Commission seeking to promote a culture of continuous improvement in regulatory compliance.

APPLICATION OF THE COMPLIANCE FRAMEWORK

Country Energy appreciates the need to ensure that policy objectives are being satisfied, especially concerning FRC compliance and the integrity of performance data. However, Country Energy would consider the application of an audit program at this early stage of the contestable retail market to be of limited benefit. In keeping with the Commission's own view concerning specific regulatory obligations, Country Energy considers it appropriate that the *Electricity Industry Guideline No. 4* be given a chance to operate in regard to both these areas. However, our comments are necessarily qualified by the fact that Country Energy is currently not engaged in the marketing or sale of electricity to small customers in South Australia.

If you have any questions or require further information in relation to this matter please contact Michael Lysaght, Manager Licence Compliance and Analysis on (02) 6589 8611.

Yours sincerely



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