



10 June 2004

Mr Lew Owens  
Essential Services Commission of South Australia  
GPO Box 2605  
ADELAIDE SA 5001

Dear Mr Owens

**COMPLIANCE AUDIT FRAMEWORK FOR THE ELECTRICITY SECTOR**

Thank you for the opportunity to provide comment on the Compliance Audit Framework for the Electricity Sector - Discussion Paper.

Origin Energy has reviewed the paper and provides the following comments in the attached submission.

Please contact Glenda Parsons on 8217 5462 should you require any additional information.

Yours sincerely

A handwritten signature in blue ink that reads "Sinikka Perkins".

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**Response to ESCoSA**

**Compliance Audit Framework  
for the Electricity Sector**

**Discussion Paper**

**Submission by Origin Energy**

**June 2004**

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# 1. Introduction

Origin Energy Electricity Limited (Origin) welcomes the opportunity to provide Essential Services Commission of South Australia with comments on its "Compliance Audit Framework for the Electricity Sector - Discussion Paper".

In this submission, Origin will provide general comments as well as comment on the specific issues raised by the Commission.

Origin has a strong compliance focus, and recognises that it is important to establish a robust framework for both reporting and auditing, to ensure that licensees maintain high levels of compliance with their regulatory obligations.

## General Comments:

- Origin strongly supports the ability to obtain credits towards, or exemptions from, audits through:
  - internal regulatory compliance audits
  - external audits in other jurisdictions
- Timeframes
  - should be based on an audit program which takes into consideration any internal or external audits conducted by licensees themselves
  - any other audit requirements should be on a needs basis

## 2. Specific Issues

### 2.1 Use of compliance audits

*The Commission seeks comments on the general approach to compliance auditing, using an independent external auditor, as encompassed in the four steps outlined above. With reference to the appointment of the auditor, the Commission also seeks comments on the appropriateness of a tripartite agreement between the relevant parties (as required by ESCV Guideline No. 9) or any other alternative.*

As noted by the Commission, external audits are costly and resource intensive, and as such Origin supports the structured “risk assessment” approach to auditing which would complement the existing compliance reporting requirements.

Regulatory Compliance audits should also be tailored, based on the nature of the licence condition and the implication of a breach. In addition to a tailored regulatory compliance audit program, the ESCoSA has the ability to undertake ad-hoc investigations, but this should only be exercised when significant breach of licence obligation is suspected.

#### 2.1.1 Defining audit scope

Origin supports the Commission’s view that compliance audits should be reserved for matters of significant regulatory importance, which may have significant consumer impact.

Whilst ESCoSA should play a role in defining the scope of the audits and the manner in which they are conducted to ensure consistency, strong consideration should be given to the benefits and costs associated in conducting audits. Audits should have clear objectives and focus on a small number of critical and targeted obligations.

The scope of any audit should:

- be clearly defined
- in line with other jurisdictions
- be targeted and minimal
- add value
- be market driven (customer complaints etc.)
- be agreed with the licensees through consultation process

Timeframes for audits should take into consideration:

- existing reporting being provided on a regular basis to ESCoSA
- outcomes of other regulatory compliance audits conducted by or for the licensees
- any impact and/or possible disruption to day to day running of business
- seasonal factors which may have impact on business
- costs associated with audits

Origin believes that the licensees’ compliance should be measured on their own merits and unnecessary burden should not be placed on any licensee due to failure of compliance obligation by another.

## 2.1.2 Appointment of auditor

To ensure that reputable audit firms are appointed by the licensees, Origin supports for ESCoSA to take on the role of approving the auditors. ESCoSA could conduct this approval process a number of ways. This could be achieved by establishing a pre-approved shortlist of audit firms from which the licensees could then choose, or alternatively the licensees could be asked to submit names of preferred auditors in a form of a shortlist to ESCoSA for approval.

Remuneration of the external auditor should be considered on a case-by-case basis, based on the scope of the audit.

Origin does not support a Tripartite agreement between the licensee, the auditor and the Commission, and considers such agreements to be cumbersome and of no benefit. Audits should be conducted as per the briefing provided, and in the manner required by the Commission.

## 2.1.3 Conduct of audit

Origin supports the current best practice audit methodology which incorporates:

- Analysis of documented procedures
- Interviewing of responsible staff
- Analysis of quality controls
- Analysis of a sample of cases
- Assessment of the licensee's plans to ensure compliance

## 2.1.4 Reporting the results of the audit

In accordance with normal auditing practices, Origin will expect to review and provide comment on a draft audit report, prior to the final report being delivered to the Commission.

Origin strongly opposes the publication of comparison reports of the outcomes between the licensees and therefore the final reports should not be available for publication on ESCoSA's website. Origin believes such publication would:

- be damaging for licensees
- and provide no benefit to the public

It is expected that the Commission would address any non compliances and subsequent action plans with the relevant licensees. Origin also recommends that the distribution of the final report should be agreed before commencement of the audit.

## 2.2 Application of the Compliance Framework

***The Commission seeks comments on the application of the audit framework outlined in this paper to provide assurance regarding the quality of performance data supplied by licensees.***

### 2.2.1 Performance Data Quality Assurance

Origin recognises the importance of providing quality data to the Commission through the set reporting requirements, to facilitate the Commission's performance monitoring role.

However, if the Commission adopts a holistic approach and takes into consideration any internal or independent audits conducted by and for the licensees that validate the licensees systems, there should be no further requirement for the Commission to seek assurance regarding the quality of the data being supplied.

Internal and independent audits of the adequacy of compliance systems would also enhance the credibility of licensees' compliance, and should be taken into consideration.

## 2.3 FRC Compliance

***The Commission seeks comment on the application of the audit framework outlined in section 2 of this paper to FRC regulatory obligations of electricity licensees. Is it necessary at the present time to initiate a program of compliance audits relating to FRC obligations? If so, should the audits, at least in the first instance, be restricted to the indicative list of obligations contained in Table 3 above?***

### 2.3.1 The need for a program of compliance audits relating to FRC

Origin recognises and supports the need for appropriate consumer protection following full retail competition within the Electricity market in South Australia.

However, the introduction of additional regulatory requirements in South Australia should not necessitate a compliance audit of a broad range of these obligations.

Origin considers for it to be too early for ESCoSA to initiate a regulatory compliance audit relating to FRC obligations. This would only burden the licensees with unnecessary costs. Any FRC audits should only be market driven and based on some external triggers such as volume of customer complaints.

An early audit based on the requirements of FRC was conducted in New South Wales with no particular benefit being achieved. Victoria, however, did not audit these requirements within the first 12 months of FRC introduction in that State, with no adverse affect on customers.

### 2.3.2 List of obligations to be audited

Origin believes any FRC obligations to be audited should be based on:

- the level of customer complaints;
- areas in which non compliance by the licensee would have a significant impact on consumers;

rather than the list detailed in Table 3 on Page 19 of the discussion paper.

Origin agrees that the key areas for any FRC compliance audit should include marketing activities and customer consent.

## 2.4 Other

***The Commission seeks comment on the application of the audit framework outlined in this paper to the regulatory obligations associated with the three examples described above as well as to any other regulatory obligations of particular licensees. The Commission stresses again that it intends to use the Guideline No. 4 compliance reporting approach as the cornerstone of its overall compliance framework, and that the use of compliance audits would be restricted to key obligations as determined by means of a risk assessment approach.***

### 2.4.1 Retailer billing requirements

Origin supports the Commission's view in reviewing any process which have resulted in a high number of customer complaints, as referred to in section 2.3 of the discussion paper.

However, a customer complaint specific to a particular licensee should not necessitate a review of all licensees. Any non compliances or concerns should be addressed by the Commission with the relevant licensee.

### 3. Summary

In the interests of customer protection, Origin Energy restates its commitment to a high level of compliance to its regulatory obligations.

Origin supports the Commission's intention to use the Guideline 4 compliance reporting approach as the cornerstone of its compliance framework, with the use of compliance audits to be restricted to key obligations as determined by a risk assessment approach. The risk assessment method should be transparent, and embody the five steps outlined in Table 1 on Page 10 of the discussion paper.

Key issues:

- **Credits:**  
The licensee should be able to submit achieved compliance outcomes from other regulatory compliance audits conducted by or for the licensees that already validate processes or systems within planned/agreed audit scope.
- **Scope and Timeframes:**  
A holistic approach should be adopted, taking into account other internal or external audits which have been conducted, as well as market driven needs.
- **Flexibility:**  
The audit framework should be flexible between licensees, with the ability to apply different timeframes and audit scope to different licensees on a 'needs basis'.
- **Auditor:**  
ESCoSA to retain the role of approving the auditors appointed by licensees, or to establish a pre-approved shortlist of audit firms from which licensees could then choose.
- **Audit Reports:**  
Distribution lists and publication of Audit Reports should be restricted and comparisons between licensees avoided, with the Commission working with individual licensees to improve any areas of non compliance.