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11<sup>th</sup> June 2004

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

Dear Mr Owens

### **Compliance Audit Framework for the Electricity Sector Discussion Paper**

AGL welcomes the opportunity to comment on the above discussion paper. Several key issues pertinent to the proposed approach are discussed below. AGL also takes this opportunity to reiterate its concerns with the Guideline No 4 Annual Compliance Report sign off options<sup>1</sup>, to which reference is made in the above paper.

### **General Approach to Compliance Auditing**

AGL agrees in principle to the proposed compliance audit framework, including the proposed use of external auditors to conduct compliance audits. However AGL would like to reiterate its objection to the requirement for an External Director to sign the Annual Compliance Report. The compliance reporting scheme is intended to reduce the need for costly and resource intensive external audits, yet this requirement constrains the retailers' options. We suggest possible alternatives could include:

- Demonstration of a credible internal audit process;
- General demonstration of AGL's internal compliance control mechanisms; and
- Full Board approval of the annual compliance reports.

Specific comments in relation to section 2.3 of the discussion paper are as follows:

#### Defining Audit Scope

AGL welcomes the opportunity to contribute to the scope of any future compliance audits. AGL notes that the process of identifying risks will include submissions from interested parties. Whilst such submissions may raise potential areas of retailer non-compliance they should be considered as only one input into the assessment of audit

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<sup>1</sup> ESCOSA Compliance Systems and Reporting, Electricity Guideline No 4, Section 3.1.5



scope. AGL acknowledges that the discussion paper makes a fair and reasonable reflection of the licensee's role in determining a compliance audit's scope.

#### Appointment of Auditor

As noted in the discussion paper, section 2.3 (ii), a tripartite agreement approach was adopted by the ESCV. AGL would support the proposal to implement a simpler appointment scheme. Previous experience in Victoria has found the tripartite agreement to be unnecessarily onerous, resulting in liability and indemnity issues between the retailers and the auditors. AGL supports the suggested approach that licensees appoint auditors with the Commission's approval.

#### Conduct of Audit

Section (iii) of 2.3 raises the expectation that a sample of cases would be reviewed to establish a compliance level. It is noted that any external audit approved by the Commission will utilise statistical confidence levels that vary between 90 and 95 per cent. It is reasonable that AGL wishes to minimise the impact an external compliance audit may have upon business functions and staff time. Any discussion on sample size formulation and confidence levels would be welcomed. AGL's preferred approach is to adopt a standard throughout all compliance audits.

### **Application of the Compliance Framework**

AGL recognises the value of accurate and credible performance data. As has been agreed in discussions with the Commission the quality of performance data is enhanced when data requirements are clearly defined. AGL notes that the revised Guideline No 2 has provided definitions that are clear and concise and that the revision has resolved issues of interpretation relating to previously supplied performance data. AGL agrees that the performance information provided by licensees should be accurate and compiled in accordance with the relevant guideline.

AGL supports the view that implementation of the revised Guideline No 2 will provide a consistent basis for any potential future performance data audits. The clarity of definitions contained within the Guideline will provide an appropriate foundation and scope for such an audit.

Section (iii) of 2.3 refers to sampling techniques being used to determine population compliance. Given the large number of Key Performance Indicators currently reported to the Commission by retailers compared to Victoria (a two to one ratio) the preferred option would involve the sampling approach of section 2.3 being applied to potential audits of performance data.

#### FRC Compliance

AGL supports the general comments made in section 3.2 as to the need for consumer confidence in Full Retail Contestability. As a result of FRC retailers have implemented many procedural, compliance and system changes. AGL proposes consideration of a compliance audit to be delayed until such time that the FRC initiated changes have been fully established and implemented.

AGL notes that customer complaints and external submissions are a part of the process for identifying critical regulatory obligations. AGL welcomes further clarification of the extent to which such submissions contribute to the identification process noting that

complaints which are adequately addressed through existing mechanisms for this purpose are indicative of a sound and credible compliance scheme.  
A transparent approach, as taken by the Commission in the past, in relation to any future determination is welcomed by AGL.

Should you have any queries in regard to the above response, please do not hesitate to contact Pia Bentick, Manager Regulatory Services on (08) 8299 4172.

Yours sincerely

Sean Kelly  
General Manager Retail Regulation