



EnergyAustralia

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Mr James Clinch
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne Victoria 3000

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Dear Mr Clinch

EnergyAustralia welcomes the opportunity to make a submission to the Essential Services Commission (the Commission) on the proposed changes to the draft Audit Guideline for Energy Businesses (Draft Guideline).

We are one of Australia's largest energy companies, with over 2.6 million household and business customer accounts in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market. In Victoria, we provide gas and electricity to around 20 percent of households. We also supply 12 percent of small business electricity needs and 19 percent of their gas needs.

Regulatory audit processes can be a resource intensive process in terms of time, staff and cost. The impact on resources is intensified where the regulatory process is unclear and badly defined. EnergyAustralia supports any amendments to the Audit Guideline that will provide improved certainty and transparency to the existing audit process.

EnergyAustralia has been subject to annual audits in recent years and, as a result, we have identified a number of opportunities for improvement in the process and provided the feedback to the Commission. It is pleasing to see that the feedback has been considered in the Draft Guideline. Specifically, the introduction of defined audit types in 5.1 of the Draft Guideline and the traffic light grading system is an improvement in providing clarity on the audit scope and outcomes. However, we have also identified a couple of residual concerns that we suggest the Commission consider.

We appreciate that scope of each audit will be determined on a case-by-case basis, but we believe there could be improvements to the process of finalising the scope so the scope is clearer and more stable. The cost of an audit is significant, and so changes to scope post the tendering process can have a large impact on the cost of the auditors and impact on internal resources supporting the audit work. The estimate provided by different auditors is a primary consideration in selecting an auditor.

We also note that the audit process is a tripartite arrangement between the licensee, the auditor and the Commission. Each party is subject to obligations under various instruments including the licence, legislation, Audit Guideline and the tripartite Deed. There are several improvements that could be made in relation to the audit arrangements:

- Prior to the commencement of the audit the tripartite Deed should be approved and signed by all parties.
- The timing of approval of the Deed should also be considered in the timeframe for the audit to be completed.
- Structured regular engagement between all three parties throughout an audit would provide a more streamlined and efficient audit completion plan.
- If the licensee has gone through the tender process and selected an auditor from the panel, there should be no penalty if the Commission does not approve use of the particular auditor for factors that were not known (or couldn't have been known) by the licensee. In these circumstances, the Commission and/or auditor should be able to remedy the situation without impacting the timeframe for the licensee to secure an auditor.

In terms of the timing of the audit process, we believe the Audit Guideline should include a provision to allow the Commission to extend the timeframes that are set out in the table on page 21. That way if the final scope is different from the initial scope, the Commission could consider granting an extension to the timeframes to allow the licensee to consider whether it needs to re-negotiate the quote and scope of work with the auditor.

EnergyAustralia welcomes the Commission's initiative to improve the audit process and we can see real improvements in the process, however as mentioned above we think some further tightening of the process for defining audit scope, defining the roles and responsibilities of the participating parties, and dealing with changes in initial timeframes if required.

Should you require further information regarding this submission please contact Samantha Nunan

Yours sincerely

Melinda Green
Industry Regulation Leader