



Performance Reporting Compliance Audit

In March 2020 the Australian Energy Regulator (AER) required M2 Energy Pty Ltd (M2 Energy) to carry out a limited assurance compliance audit in connection with its performance reporting obligations under the National Energy Retail Law and the *AER (Retail Law) Performance Reporting Procedures and AER Guidelines*.

M2 Energy was required to assess the adequacy and effectiveness of its compliance policies, procedures and systems in a number of key areas.

Below is a summary of the key findings and recommendations made by M2 Energy's nominated auditor, Ndevr Environmental Pty Ltd. M2 Energy has considered the recommendations and is implementing remediation plans to improve on each of the key areas.

Findings	Recommendations
Reporting requirements for regulated entities	
Finding 1: M2 Energy's Performance Reporting procedure and supporting documents were outdated. The main document had not been amended since 3 March 2017 and referred to indicators from Version 2 of the Guidelines rather than Version 3. This means that new indicators were not referenced, and Schedule sections were referenced incorrectly.	Recommendation 1: It is recommended that M2 Energy update its internal Performance Reporting Procedures document to reflect the most current version of AER Guidelines, including updating references to the indicators that require reporting.
Finding 2: Staff responsible for reporting do not utilise M2 Energy's Internal Procedures document when undertaking reporting procedures, but refer directly to the AER	Recommendation 2: It is recommended that M2 Energy maintain clearly detailed processes and procedures to create and record all datasets for M2 energy brands' Performance indicators.

Findings

Guidelines as the framework for reporting.

Finding 3:

M2 Energy trades as two separate businesses, Commander Power & Gas (CPG) and Dodo Power & Gas (DPG), and as such the regulated entity's performance data is extracted from different databases. The audit team found that for several schedule 3 and 4 indicators CPG data was not included in the final Q2 Report.

Finding 4:

Despite having internal templates in place for some of the Q2 reporting indicators, the Audit team requested clarification on the origin of those templates and found that they were created in 2017. No version control of those files was found as evidence of updates occurring since their creation.

Finding 5:

The Audit team found that, in general, each compliance team member understands their role and responsibilities within the reporting process. However, no evidence of specific training on AER reporting was found. Personnel involved in the compliance of AER performance reporting confirmed that their familiarity with the requirements come from experience and ad hoc 'on-the-job' learnings.

Date(s) by which information and data must be submitted

Finding 1:

Processes to validate extraction and completeness of data comprise of visual sense-checks of compiled data by Manila Operations staff, the Operational Compliance Lead and Operational Manager. These procedures were insufficient in ensuring that reported data was accurate and complete as demonstrated in Section 3.2.

Finding 2:

M2 Energy's documented performance reporting policies and documents were not utilised, but the AER Guidelines are considered the sole guiding framework for reporting

Recommendations

Recommendation 3:

It is recommended that M2 Energy applies document management best practices to ensure the version control is adequately tracked in all internal documentation.

Recommendation 4:

It is recommended that M2 Energy reviews its record keeping processes, ensuring that a copy of all records and documents prepared for or in connection with each AER Performance Report are saved and adequately protected to ensure compliance with Section 1.9 of the National Energy Rules.

Recommendation 5:

It is recommended that M2 Energy undertake an annual and as needed training session with staff involved with the performance reporting process, to plan the reporting process and update relevant teams on any changes to the legislation or AER Guidelines. Where new reporting staff are hired this training should make up part of the onboarding process.

Recommendation 1:

It is recommended that M2 Energy update its internal Performance Reporting Procedures document to ensure that data extraction, storage, calculation and reporting processes are clearly outlined such that a new staff member could utilise these instructions to produce Performance Reports with minimal guidance.

Recommendation 2:

M2 Energy develop a detailed, documented quality assurance checklist which could be followed by inexperienced staff to ensure that reported data is accurate, complete, reliable and reflects the requirements of the relevant version of the AER Guidelines and legislation (this could include a sample

Findings	Recommendations
	<p>based recreation of the Performance Report)</p> <p>Recommendation 3: M2 Energy develop a template whereby quality assurance procedures and subsequent correspondence can be documented and verified by an external party</p>
<p>Manner and form in which the information and data must be submitted</p>	
<p>Finding 1: The audit team found that for some indicators, the raw data for M2 Energy's two brands Commander Power & Gas (CPG) and Dodo Power & Gas (DPG) are extracted through different processes. The audit team sighted 16 supporting documents indicated to be part of the AER compliance process.</p> <p>Finding 2: M2 Energy's reporting process lacks sufficient assurance measures and controls to ensure that data being reported is accurate, reliable, complete, and reflects the requirements of the relevant version of the AER Guidelines;</p>	<p>Recommendation 1: M2 Energy prepares internal manuals for the specific AER performance reporting requirements. In the case M2 energy prefers to combine these manuals with other regulator's reporting obligations, M2 Energy should explicitly describe the applicable parameter per jurisdiction and Regulator within internal document.</p> <p>Recommendation 2: M2 energy update its existing internal templates and/or create new ones in line with the relevant AER performance reporting requirements.</p>
<p>Process for submission of reports</p>	
<p>Finding 1: Generally speaking, the Audit team found that M2 Energy followed the correct process in submitting its Quarter 2 Performance Report in accordance with Section 2.4 of the Guidelines.</p>	<p>None</p>
<p>Simulation activity: Q2 1 October to 31 December 2019 Quarterly Report</p>	
<p>Finding 1: M2 Energy did not implement the upper consumption thresholds applicable to NSW, QLD and SA jurisdictions for determining business customer status as a large or small customer. It was also found that for indicators in schedule 2, M2 Energy erroneously reported a combined figure for customers on standard contracts and those on deemed arrangements.</p> <p>Finding 2: The Audit team found that M2 Energy reported customers on deemed</p>	<p>Recommendation 1: The Audit team recommends that M2 Energy align its reporting procedures to the general reporting conventions and definitions of AER Reporting Guidelines Schedule 1. The regulated entity should ensure that the staff involved understand the applicable jurisdictional criteria, with particular reference to small and large customer.</p> <p>Recommendation 2: The Audit team recommends that M2 Energy review its processes to ensure</p>

Findings

arrangements as customers with standard retail contracts.

Finding 3:

The Audit team found that M2 Energy did not apply the consumption threshold determined by the relevant reported jurisdiction. The figures reported refer to small businesses as those with consumption of up to 40 MWh per year, instead of all the business customers who consumed energy below the upper consumption threshold of 100 MWh as defined in the National Energy Retail Regulations.

Finding 4:

The audit team requested that M2 Energy undertake an internal review and provide further detail on the nature of the above issue. A data source quality issue was identified as the reported figures were calculated from estimations based on historic daily consumption instead of actual consumption.

Finding 5:

The Audit team found that Electricity and Gas customers on Deemed arrangements were not reported as such, included instead as customers on a standard contract.

Finding 6:

Audit team calculations did not match the total number reported for indicators S3.5.a, S3.6.a, S3.7.a and S3.14.a. After further investigation, it was concluded that the 'single energy category', under which these indicators should be reported was misinterpreted as electricity only.

Finding 7:

The Compliance Analyst also noted that M2 Energy did not have a raw data file available to obtain CPG accounts which use Centrepay.

Recommendations

the number of customers reported in indicator S2.1.a.i should account for those on a standard retail contract only.

Recommendation 3:

The Audit team recommends that M2 Energy update its internal templates to include the customer categories definition according to the Retail Law and jurisdictional thresholds. M2 Energy should ensure that all key personnel understand and apply the required parameters for each relevant jurisdiction.

Recommendation 4:

The Audit team recommends that M2 Energy review its processes and data sources to ensure that actual consumption data is used as a base for calculating indicators S2.2 and S2.1.

Recommendation 5:

The Audit team recommends that M2 Energy update its internal templates and procedures to ensure the number of customers reported for indicator S2.6 are independently accounted for and included in the performance report.

Recommendation 6:

As part of its internal documentation update, M2 Energy should include a glossary clarifying the concept of 'single energy' category and other potential definitions not explicit in the AER Guidelines that may be subject to misinterpretation.

Recommendation 7:

M2 Energy reviews its billing solutions platform to ensure its capability in providing CPG data required to meet all the AER performance requirements.