

RED ENERGY AUDIT REPORT SUMMARY

RETAIL AUDIT PROGRAM

The Essential Services Commission ("the Commission") commenced the retail audit program in late 2014. The purpose of the audit program is to provide the Commission and energy consumers, with independent assurance that energy retail licensees have appropriate policies, systems and processes in place to comply with their regulatory obligations, that they are complying with their regulatory obligations and that when non-compliance occurs, it is able to be quickly identified and remedied by the licensee.

Under the conditions of their licence, retail businesses are required to appoint independent auditors to conduct compliance audits when required by the Commission to do so.

The auditors assess the business' compliance with the regulatory obligations set out in the audit scope set by the Commission.




As required by the Commission, audits are based on the general principles stated in the Standard on Assurance Engagements ASAE 3100 Compliance Engagements.

While the auditors may identify specific breaches during the audit process, the role of the auditor is to test and assess process and controls and to form an overall view of the retailer's level of compliance in each of the areas audited. In order to do this, auditors were required to obtain sufficient appropriate evidence on which to base their

conclusions. Such evidence could be gathered through enquiry and observation, tests of controls and representations received from management.

BASIS FOR ASSESSMENT

A traffic light system is used to indicate overall compliance with obligation areas as follows:

Grade	Description	Definition
	Non-compliance	The requirements of the obligation have not been met, or adequate, relevant and suitable information to form an objective determination on compliance was not available to demonstrate compliance. Findings noted are considered material in nature and require urgent remedial action.
	Partial Compliance	Key requirements of the obligation have been met but only minor achievements in compliance have been demonstrated. Findings noted are considered significant and require substantial effort to correct.
	General Compliance	Most requirements of the obligation have been met with some minor failures or breaches. Findings noted are considered minor and require routine efforts to correct in the normal course of business.

RED ENERGY AUDIT

As part of the Essential Services Commission's compliance audit program, Ernst & Young ('EY") were engaged to conduct a compliance audit of Red Energy (Red). The audit consisted of 10 key areas:

- Compliance Program

- Financial Hardship Program
- Complaints and Dispute Resolution
- Disconnection and Reconnection
- Outsourcing
- Retail Licence
- Life support and Sensitive load
- Billing
- Marketing
- Advanced Metering Infrastructure.

All areas were graded General Compliance, meaning that “most requirements of the condition have been met with some minor failures or breaches. Findings noted are considered minor and require routine efforts to correct in the normal course of business”.

Although EY assessed Red as having complied satisfactorily with the majority of its obligations during the audit period, there were some minor breaches and there were some matters that required remedial action.

The section below outlines the key findings, the actions taken by Red to address each issue and the Commission's response.

(a) Financial hardship program

The auditors reported that the majority of customers referred to the hardship program during the audit period were identified via Red’s Credit team. The auditors suggested that this may indicate that the customer has already accrued substantial debt prior to being placed on the hardship program and that there may be no proactive measures employed to assist customers facing financial difficulties.

Commission staff entered into discussions with Red about this potential issue to see whether any changes were required. Red stated that customers who are in debt will always be called by Red and complete their process for identifying those customers who are facing payment difficulties and need to be transferred to the hardship program. The Commission does not require any further action from Red at this time.

(b) Disconnections

Disconnection notices must inform the customer of the procedures for re-connection. The auditors viewed Red's disconnection notices and found that they did not include this information. Red disagreed with this finding, saying that the procedure for reconnection is that the customer must contact Red and either pay the outstanding amount or reach agreement as to payment and then reconnection can be arranged.

Commission staff were unclear from Red's response as to whether the disconnection notices informed customers about the process for reconnection and so also viewed the notices. Upon viewing the notices, Commission staff disagreed with Red's view as the notices do not refer to reconnection at all, except to say that if the customer is disconnected he/she will be liable for reconnection fees.

The Commission are of the view that at a minimum, a statement advising the customer to contact the retailer to arrange for reconnection is required. Red has agreed to add this information to its disconnection letters. The Commission is satisfied with this response.

(c) Deemed customers

The audit report identified deficiencies in Red's provision of information to deemed customers.¹ Initially, Red represented that it did not enter into deemed contracts with deemed customers and so considered that the obligation to provide information to these customers did not apply. Commission staff were concerned that Red misunderstood the deemed customer obligations and so reviewed Red's letters and discussed the matter with Red to ensure compliance. Red have agreed to amend their letters to provide all required information and so the Commission does not require anything further in relation to this issue.

¹ Deemed supply arrangements apply to ensure that there is a contractual basis for supply of customers who have not entered into a formal contractual arrangement (eg. customers who have moved in to energised premises and carry-over customers whose previous contract has expired).

(d) Billing

Red did not include the website address www.switchon.vic.gov.au on their bills. A fix was undertaken by Red upon identification of this issue and the bills now display this information.

The auditors also identified one instance where Red did not include an undercharged amount as a separate item on a customer's bill as required. The Commission accepts that this was due to human error in that the operator selected the incorrect letter template and does not require any further action from Red in relation to this issue.

(e) Marketing

Although the auditors did not identify any breaches by Red in the area of marketing, the Commission felt that Red could implement changes in relation to its door to door sales activities to improve the customer experience and guard against potential future breaches. In particular, the Commission noted that door to door sales representatives are only quality audited during the first two weeks of their commencement and that after this time random checks will only be performed if that sales representative has had several complaints made against him or her. In response, Red stated that it believed its processes provide sufficient protection, but said that it had made recent changes to sales technology which would assist in this area. A review of this will be conducted before 31 March 2016 to identify any other changes that could be made.

(f) Life Support

When a customer provides an energy retailer with confirmation from a medical practitioner that a person residing at their premise requires life support equipment, the retailer must do a number of things including registering the premise as requiring life support, advising the distributor of this and giving the customer an emergency telephone number for the distributor.

The auditors identified one instance where the customer's account was not registered until 3 days after connection. Although the account was not 'flagged' by Red, the distributor had been notified of the premises' life support status. This was due to human error and was subsequently identified by Red's life support team and rectified. Although there was a breach in this instance, the Commission recognises that the risk

of human error cannot be completely eliminated. The Commission also noted that Red had self-identified this breach and rectified it shortly after it occurred. As the auditor's concluded that there are adequate manual controls in place to reduce the risk of disconnecting a life support customer and that these are operating as designed, the Commission requires no further action from Red in relation to this finding.

The auditors noted that there were nine instances where Red had not received a life support notification form from customers. Although the obligation is on the customer to provide such notification, best practice is for energy retailers to follow up those customers who have notified them of their life support status but not provided medical confirmation. In response, Red stated that it now regularly (weekly) follows up the outstanding forms. The Commission is pleased that Red has commenced this process as it is important to ensure accurate records are obtained and kept, particularly in relation to life support.

Although there were no further breaches by Red of its life support obligations, the auditors made a number of recommendations to Red in order to achieve best practice in this area. The Commission supports these recommendations.

First, the auditors recommended that Red consider implementing a process by which the generation of a life support notification form automatically flags a customer's account as requiring life support. In response, Red advised that as of 29 February 2016 it now has the capacity to do this.

Second, the auditors recommended that Red could immediately send all customers who inform them of their life support status an acknowledgment letter which includes the distributor's details. Red has advised as of 16 February 2016 it has made changes to its system to do this.

(g) Record keeping

When a transaction requires that explicit informed consent be obtained from a customer, records should be kept evidencing that consent was given. The auditors found that there were a number of instances where call recordings were unable to be retrieved by Red. While in most other cases adequate alternative evidence was available, the auditors recommended that Red undertake a review of the systems used

to capture call recordings. In response, Red advised that it maintains a log of system outages and that since a recent system upgrade the outages have significantly reduced in frequency.

Conclusion

The Commission is satisfied that Red has implemented the required improvements to ensure ongoing compliance with its obligations and would like to thank both Red and EY for their cooperation during the audit process.