

Alcoa of Australia Ltd
Electricity Generation Licence
(EGL 14)
2013 Performance Audit
(Independent Assurance) Report
November 2013



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14 November 2013

Dear Robert

Electricity Generation Licence (EGL 14) Performance Audit Report

We have completed the Electricity Generation Licence Performance Audit for Alcoa of Australia Ltd (Alcoa) for the period 1 July 2010 to 30 June 2013 and are pleased to submit our report to you.

I confirm that this report is an accurate presentation of the findings and conclusions from our audit procedures.

If you have any questions or wish to discuss anything raised in the report, please contact Ben Fountain on 9365 7270 or myself on 9365 7200.

Yours sincerely

Darren Gerber
Partner
Deloitte Touche Tohmatsu

Contents

1	Independent Auditor's report	1
2	Executive summary	3
	2.1 Introduction and background	3
	2.2 Observations	3
	2.3 Findings	3
	2.4 Alcoa's response to previous audit recommendations	4
	2.5 Recommendations and action plans	5
	2.6 Scope and objectives	5
	2.7 Approach	5
3	Summary of findings	6
4	Detailed findings, recommendations and action plans	9
	4.1 Electricity Industry Act 2004	10
	4.2 Electricity Licences – Licence Conditions and Obligations	12
	4.3 Electricity Industry Metering Code 2005	15
5	Follow-up of previous audit action plans	20
	Appendix A – Audit Plan	22
	Appendix B – References	23
	Appendix C – Post Audit Implementation Plan	24

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1 Independent Auditor's report

With the Economic Regulation Authority's (**the Authority**) approval, Deloitte Touche Tohmatsu (**Deloitte**) was engaged to conduct a performance audit of Alcoa of Australia Ltd.'s (**Alcoa**) compliance with the conditions of its Electricity Generation Licence (**Licence**).

The audit was conducted in accordance with the specific requirements of the Licence and the August 2010 issue of the *Audit Guidelines: Electricity, Gas and Water Licences* (**Audit Guidelines**) issued by the Authority for the period 1 July 2010 to 30 June 2013.

Alcoa's responsibility for compliance with the conditions of the Licence

Alcoa is responsible for:

- Putting in place policies, procedures and controls, which are designed to ensure compliance with the conditions of the Licence
- Implementing processes for assessing its compliance requirements and for reporting its level of compliance to the Authority
- Implementing corrective actions for instances of non-compliance (if any).

Deloitte's responsibility

Our responsibility is to express a conclusion on Alcoa's compliance with the conditions of the Licence based on our audit procedures. We will conduct our engagement in accordance with the Audit Guidelines and the Australian Standard on Assurance Engagements (**ASAE**) 3500 *Performance Engagements*¹ issued by the Australian Auditing and Assurance Standards Board (**AASB**), in order to state whether, in our opinion, based on the procedures performed, the conditions of the Licence have been complied with.

Our engagement provides reasonable assurance as defined in ASAE 3500. Our procedures were set out in the Audit Plan reviewed by and agreed with the Authority (refer to Appendix A).

Limitations of use

This report is made solely to the management of Alcoa for the purpose of its reporting requirements under section 13 of the Electricity Industry Act 2004 (**the Act**). We disclaim any assumption of responsibility for any reliance on this report to any person other than the management of Alcoa, or for any purpose other than that for which it was prepared. We disclaim all liability to any other party for all costs, loss, damages, and liability that the other party might suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party, or the reliance on our report by the other party.

Inherent limitations

Reasonable assurance means a high but not absolute level of assurance. Absolute assurance is very rarely attainable as a result of factors such as the following: the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to us is persuasive rather than conclusive and the use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence.

We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, readers of our report should not rely on the report to identify all potential instances of non-compliance which may occur.

¹ ASAE 3500 also provides for our engagement to be conducted in accordance with relevant requirements of ASAE 3100 *Compliance Engagements* and ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Independence

In conducting our engagement, we have complied with the independence requirements of the Australian professional accounting bodies.

Conclusion

In our opinion, based on the procedures performed, except for the effect of the issue set out below, Alcoa has, in all material respects, complied with the conditions of its Licence for the period 1 July 2010 to 30 June 2013.

Exceptions

The following performance criterion was assessed as non-compliant (rating 2):

Reporting manual no. & Licence condition		Issue
124	Generation Licence Condition 16.1- A licensee must provide the Authority, in the manner prescribed, any information the Authority requires in connection with its functions under the Electricity Industry Act.	Although Alcoa presented the required compliance reports to the Authority, the hard copy version of the compliance report for the year ended 30 June 2010 was provided to the Authority after the 31 August due date.

DELOITTE TOUCHE TOHMATSU

Darren Gerber

Partner

Perth, November 2013

2 Executive summary

2.1 Introduction and background

The Economic Regulation Authority (**the Authority**) has under the provisions of the Electricity Industry Act 2004 (**the Act**), issued to Alcoa of Australia Ltd (**Alcoa**) an Electricity Generation Licence (**the Licence**). The Licence relates to Alcoa's operation of generating works at its Kwinana, Pinjarra and Wagerup facilities. These works are managed by Alcoa's WA powerhouse operations within the WA Operations (**WAO**) business unit. When the licence was first granted to Alcoa, it was anticipated Alcoa's net inflow and outflow would net to nil. Alcoa is now a net importer of 9MW electricity per annum due to increased consumption, predominately related to refinery and mining activity at its Pinjarra facility.

Section 13 of the Act requires Alcoa to provide to the Authority a performance audit (**the audit**) conducted by an independent expert acceptable to the Authority not less than once in every 24 month period. The audit will be the third to be performed since the issue of the Licence in 2006. As a result of the 2010 audit and review, the Authority increased Alcoa's audit period to 36 months. With the Authority's approval, Deloitte Touche Tohmatsu (**Deloitte**) has been appointed to conduct the audit for the period 1 July 2010 to 30 June 2013.

The audit has been conducted in accordance with the August 2010 issue of the *Audit Guidelines: Electricity, Gas and Water Licences* (**Audit Guidelines**).

2.2 Observations

In considering Alcoa's internal control procedures, structure and environment, its compliance culture and its information systems specifically relevant to those licence obligations subject to audit, we observed that Alcoa has:

- Allocated responsibilities to specific staff for meeting key Licence obligations, namely the Energy Services Manager and the Principal Mechanical Engineer WAO Powerhouse
- Continued to demonstrate an awareness of and commitment to regulatory compliance, although some further attention is still required to ensure that monitoring processes are implemented in an effective and consistent manner (e.g. ASATs and asset integrity audits)
- Maintained consistent procedures and controls designed to:
 - Ensure compliance with its licence obligations
 - Uphold the integrity of its reporting to the Authority and other statutory organisations on matters specific to its Licence obligations.

2.3 Findings

The following table summarises the assessments made by the audit on Alcoa's compliance with the obligations of the Licence. On a scale of 1 to 5, "5" is the highest compliance rating possible (defined as "Compliant with no further action required to maintain compliance") with the rating scale moving down through lower levels of compliance to "1", the lowest rating possible (defined as "Significantly non-compliant: Significant weaknesses and/or serious action required").

Table 2 at section 3 of this report provides further detail to the compliance rating scale.

Table 1: Summary of findings, by audit priority and compliance rating

No. of Obligations	Compliance Rating							Total
	N/A ³	Not rated ⁴	Non-compliant		Compliant			
Audit Priority ²			1	2	3	4	5	
Priority 1		-	-	-	-	-	-	-
Priority 2		-	-	-	-	-	-	-
Priority 3		-	-	-	-	-	-	-
Priority 4		19	-	1	-	1	8	29
Priority 5		5	-	-	-	-	6	11
N/A								9
Total	9	24	-	1	-	1	14	49

* The number of obligations listed at Table 1 includes six obligations that were applicable for part of the audit period only. Refer to Appendix A – Audit Plan for further detail.

Specific assessments for each licence obligation are summarised at **Table 3** in the “Summary of findings” section of this report.

Detailed findings, including relevant observations, recommendations and action plans are located in section 4 “Detailed findings, recommendations and action plans” of this report.

2.4 Alcoa’s response to previous audit recommendations

The audit considered Alcoa’s progress in completing the one action plan detailed in the 2010 performance audit report and the two action plans from the 2008 performance audit report.

We observed that Alcoa has finalised negotiations of the new Electricity Transfer Access Contract (ETAC) and incorporated specific reference to dispute proceedings, by referencing Part 8 of the Metering Code (addressing action plan 8/2008). However, specific reference to metering responsibilities (per s.6.1(2) of the Metering Code) between Alcoa and Western Power has not been formally documented. Action Plan 1/2010 is therefore marked as ‘in progress’.

As the revised Action Plan for 6/2008 is the same action required to address 1/2010, it has been ‘closed out’.

Refer to **section 5** of this report for further detail.

² Audit priority for each licence obligation was determined as an outcome of the risk assessment approach outlined in the Audit Plan at Appendix A

³ Obligations assessed as not applicable to Alcoa’s operations are detailed in the Audit Plan at Appendix A

⁴ Obligations for which there was no relevant activity during the audit period; therefore a compliance assessment could not be made

2.5 Recommendations and action plans

Reporting manual no. & Licence condition ref.	Audit Priority	Compliance Rating	Issue 1/2013
124 Generation Licence Condition 16.1 - A licensee must provide the Authority, in the manner prescribed, any information the Authority requires in connection with its functions under the Electricity Industry Act.	Priority 4	Non-compliant - 2	Although Alcoa presented the required compliance reports to the Authority, the hard copy version of the compliance report for the year ending 30 June 2010 was provided to the Authority after the 31 August due date. We do however acknowledge that Alcoa provided an electronic version of the 2010 compliance report to the Authority via email prior to the 31 August deadline. As the non-compliance is a minor technicality and given all subsequent compliance reports have been provided to the Authority before the 31 August due date, no further corrective action is required.
Recommendation 1/2013 n/a – no further action is required.		Action Plan 1/2013 n/a – no further action is required.	

2.6 Scope and objectives

The audit is designed to gain reasonable assurance regarding Alcoa's compliance with the conditions of its Licence during the period 1 July 2010 to 30 June 2013.

The Authority has summarised the requirements of the applicable legislation that it expects to be reported and included in the scope of the audit in its Electricity Compliance Reporting Manual (**Reporting Manual**). The audit considered the following revisions of the Reporting Manual: June 2010, May 2011, February 2013 and June 2013.

The Audit Plan set out at Appendix A lists those Licence conditions confirmed to be included in the scope of the audit, along with the risk assessments made for, and audit priority assigned to, each licence obligation.

2.7 Approach

Our approach for this audit involved the following activities, which were undertaken during the period August to September 2013:

- Utilising the Audit Guidelines and Reporting Manuals (June 2010, May 2011, February 2013 and June 2013 versions) as a guide, development of a risk assessment, which involved discussions with key staff and document review to assess controls
- Development of an Audit Plan (see **Appendix A**) for approval by the Authority and an associated work program
- Interviews with and representations from relevant Alcoa staff to gain understanding of process controls (see **Appendix B** for staff involved)
- Review of documents and walkthrough of processes and controls to assess the overall compliance and effectiveness of those processes and controls in accordance with Licence obligations (see **Appendix B** for reference listing)
- Assessment of Alcoa's progress in implementing any previous audit action plans
- Reporting of findings to Alcoa for review and response.

3 Summary of findings

Table 2 sets out the rating scale defined by the Authority in the Audit Guidelines for the assessment of the level of compliance with the conditions of the Licence. For the highest possible compliance rating to be achieved, Alcoa was required to demonstrate it has maintained mature processes and controls, which facilitate compliance with relevant obligations.

Table 2: Compliance rating scale

Level	Rating	Description
Compliant	5	Compliant with no further action required to maintain compliance
Compliant	4	Compliant apart from minor or immaterial recommendations to improve the strength of internal controls to maintain compliance
Compliant	3	Compliant with major or material recommendations to improve the strength of internal controls to maintain compliance
Non-compliant	2	Does not meet minimum requirements
Significantly non-compliant	1	Significant weaknesses and/or serious action required
Not applicable	N/A	Determined that the compliance obligation does not apply to Alcoa's business operations
Not rated	N/R	No relevant activity took place during the audit period; therefore it is not possible to assess compliance.

The remainder of this report provides:

- A summary of the findings for the compliance obligations (**Table 3** below).
- Detailed findings, including relevant observations (**Section 4**).

Note that the risk assessment presented in the audit plan (refer **Appendix A**) remains unchanged. No issues or concerns were identified that would indicate a need to modify the nature and levels of testing.

The risk assessment has been included in this summary to give context to the ratings that have been determined.

Table 3: Compliance Summary

Refer to Detailed Findings at section 4 and Audit Plan at Appendix A for descriptions of the obligations

#	Obligation reference	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Risk/Priority	Compliance Rating				
							NR	1	2	3	4
12 Electricity Industry Act											
101	13(1)	Minor	Unlikely	Low	Strong	Priority 5					✓
102	14(1)(a)	Minor	Unlikely	Low	Strong	Priority 5					✓
103	14(1)(b)	Moderate	Unlikely	Medium	Moderate	Priority 4					✓
104	14(1)(c)	Minor	Unlikely	Low	Strong	Priority 5					✓
105	17(1)	Moderate	Unlikely	Medium	Strong	Priority 4					✓
106	31(3)	Minor	Unlikely	Low	Strong	Priority 5					✓
107	41(6)	Moderate	Unlikely	Medium	Strong	Priority 4	✓				
13 Electricity Licences - Licence Conditions and Obligations											
119	12.1	Moderate	Unlikely	Medium	Strong	Priority 4					✓
120	13.4	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
121	14.2	Moderate	Unlikely	Medium	Strong	Priority 4					✓
122	20.5	Moderate	Unlikely	Medium	Strong	Priority 4					✓
123	15.1	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
124	16.1	Moderate	Unlikely	Medium	Strong	Priority 4			✓		
125	17.1 & 17.2	Moderate	Probable	Medium	Moderate	Priority 4	✓				
126	18.1	Moderate	Unlikely	Medium	Strong	Priority 4					✓
15 Electricity industry Metering Code											
Part 3 Meters and metering installations											
345	3.3B	Moderate	Probable	Medium	Moderate	Priority 4	✓				
360	3.11(3)	Moderate	Probable	Medium	Strong	Priority 4					✓
385	3.27	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
Part 4 The metering database											
392	4.4(1)	Minor	Probable	Low	Moderate	Priority 5	✓				
393	4.5(1)	Minor	Unlikely	Low	Strong	Priority 5					✓
394	4.5(2)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
Part 5 Metering services											
409	5.4(2)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
422	5.16	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
423	5.17(1)	Not applicable to Alcoa's operations as Alcoa does not provide energy to customers.									
426	5.18	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
427	5.19(1)	Clause 5.19 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, these obligations are not applicable to Alcoa's operations.									
428	5.19(2)										
429	5.19(3)										
431	5.19(6)										
Part 7 Notices and confidential information											
437	5.21(5)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
438	5.21(6)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				

#	Obligation reference	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Risk/Priority	Compliance Rating				
							NR	1	2	3	4
Part 8 Dispute resolution											
456	5.27	Clause 5.27 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, this obligation is not applicable to Alcoa's operations.									
Part 6 Documentation											
469	6.1(2)	Moderate	Probable	Medium	Moderate	Priority 4				✓	
Part 7 Notices and confidential information											
472	7.2(1)	Minor	Unlikely	Low	Strong	Priority 5					✓
474	7.2(4)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
475	7.2(5)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
476	7.5	Moderate	Probable	Medium	Strong	Priority 4					✓
477	7.6(1)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
Part 8 Dispute resolution											
478	8.1(1)	Minor	Unlikely	Low	Moderate	Priority 5	✓				
479	8.1(2)	Minor	Unlikely	Low	Moderate	Priority 5	✓				
480	8.1(3)	Minor	Unlikely	Low	Moderate	Priority 5	✓				
481	8.1(4)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
482	8.3(2)	Minor	Unlikely	Low	Moderate	Priority 5	✓				
Obligations removed from the May 2011 Reporting Manual, but included in the July 2010 Reporting Manual (3 obligations below apply to Alcoa's Electricity Generation Licence for the period 1 July 2010 to 30 April 2011)											
103	12.2	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
104	12.3	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
326	3.5(6)	Not applicable to Alcoa's operations as Alcoa is not the network operator as defined by the Electricity Industry Metering Code.									
Obligations removed from the 2013 Reporting Manual, but included in the May 2011 and July 2010 Reporting Manual (3 Obligations below apply to Alcoa's Electricity Generation Licence for the period 1 May 2011 to 31 December 2012)											
361	3.16(5)	Not applicable to Alcoa's operations as this clause refers to Western Power's production of a "notional wholesale meter" value through the conversion of non-interval meter consumption to a notional interval meter quantity. As Western Power's tariff meters are all interval meters, such conversion is not required. Accordingly, a related service level agreement is also not required.									
395	5.5(3)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
412	5.19(4)	Clause 5.19 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, these obligations are not applicable to Alcoa's operations.									

4 Detailed findings, recommendations and action plans

The following section is categorised into the relevant Codes and Regulations that require an assessment of Alcoa's compliance. The Codes and Regulations relevant to Alcoa's licence are:

1. Electricity Industry Act 2004
2. Electricity Licenses - Licence Conditions and Obligations
3. Electricity Industry Metering Code.

Each section contains:

- **Not applicable obligations** – an outline of and the reasons as to why the obligations were assessed as not applicable
- **Not rateable obligations** – the obligations assessed as not rated for the audit period and reasons for this assessment
- **Assessment of compliance** – the conclusions from our audit procedures and a determination of Alcoa's compliance with the applicable obligations. These tables include:
 - *Findings* – the auditor's understanding of the process and any issues that have been identified during the audit
 - *Recommendations* – recommendations for improvement or enhancement of the process or control
 - *Action plans* – Alcoa's formal response to audit recommendations, providing details of action to be implemented to address the specific issue raised by the audit, assignment of the actions to appropriate staff and corresponding completion dates for the actions.

4.1 Electricity Industry Act 2004

Obligations determined to be not applicable

All relevant obligations were deemed applicable to Alcoa's operations for the period subject to audit.

Obligations determined to be not rateable

Alcoa's compliance with the following obligation could not be rated as there was no relevant activity in the period subject to audit.

Obligation	Reason
107	The Energy Services Manager confirmed that during the period 1 July 2010 to 30 June 2013, Alcoa has not purchased an interest or easement over land. Alcoa owns the land on which its three powerhouses are located.

Assessment of compliance

The table below summarises the audit's assessment of Alcoa's compliance with the relevant obligations of the Electricity Industry Act 2004.

N/A	N/R	Non-compliant		Compliant			Total
		1	2	3	4	5	
	1					6	7

The following table provides detailed findings for the applicable and rateable obligations with an individual assessment of compliance. Note that separate findings are not provided for the obligations that are not applicable or cannot be rated, as detailed in the table above.

No	Obligation under Condition	Compliance Rating	Findings
101	A licensee must, not less than once every 24 months, provide the Authority with a performance audit conducted by an independent expert acceptable to the Authority. <i>Electricity Industry Act s.13(1)</i>	Compliant - 5	This is the third audit conducted by an independent expert since the granting of the Licence in June 2006. Deloitte was appointed, with the Authority's approval to undertake the audit for the period 1 July 2010 to 30 June 2013. The 2010 performance audit report was provided to the Authority in December 2011, within the allowed timeframe.
102	A licensee must provide for an asset management system. <i>Electricity Industry Act s.14(1)(a)</i>	Compliant - 5	Through our examination of the finalised and approved Powerhouse Asset Strategies for Pinjarra, Wagerup and Kwinana and Alcoa's Self-Assessment Testing (ASAT) performed in 2011, we observed that Alcoa has provided for a functioning asset management system.
103	A licensee must notify details of the asset management system and any substantial changes to it to the Authority. <i>Electricity Industry Act s. 14(1)(b)</i>	Compliant - 5	Alcoa has previously notified the Authority with details of the asset management system in place at Alcoa's powerhouses. The asset management system is primarily administered via its Powerhouse Asset Strategies for each of the facilities. We confirmed that Alcoa has received formal acknowledgement from the Authority of that notification of the asset management system. The Principal Mechanical Engineer WAO Powerhouse confirmed that for the period 1 July 2010 to 30 June 2013 there have been no substantial changes to the asset management system.
104	A licensee must provide the Authority with a report by an independent expert as to the effectiveness of its asset management system every 24 months, or such longer period as determined by the Authority. <i>Electricity Industry Act s. 14(1)(c)</i>	Compliant - 5	Deloitte was appointed, with the Authority's approval to undertake the asset management system review for the period 1 July 2010 to 30 June 2013. Deloitte, with the Authority's approval, has engaged KT & Sai Associates to address technical aspects of the review. This is the third review of the asset management system in accordance with Alcoa's licence. The 2010 asset management system review report was provided to the Authority in December 2011, within the allowed timeframe.
105	A licensee must pay to the Authority the prescribed licence fee within one month after the day of grant or renewal of the licence and within one month after each anniversary of that day during the term of the licence. <i>Electricity Industry Act s.17(1)</i>	Compliant - 5	By obtaining evidence of payment for the 2010/11, 2011/12, 2012/13 and 2013/14 licence fees, we confirmed that all payments had been made within one month, as required by section 17(1) of the Act.
106	A licensee must take reasonable steps to minimise the extent or duration of any interruption, suspension or restriction of the supply of electricity due to an accident, emergency, potential danger or other unavoidable cause. <i>Electricity Industry Act s.31(3)</i>	Compliant - 5	Through discussions with the Principal Mechanical Engineer WAO Powerhouse, and consideration of Alcoa's documented policies and procedures, we determined that Alcoa has a mature incident management system designed to minimise the extent of disruptions to assets on Alcoa premises. Alcoa has also developed business continuity planning documentation (e.g. black and brown start) to aid the recovery of systems, processes and assets in the event of a particular outage. These procedures are reviewed on a frequent basis to determine currency and applicability.

4.2 Electricity Licences – Licence Conditions and Obligations

Obligations determined to be not applicable

All relevant obligations were deemed applicable to Alcoa's operations for the period subject to audit.

Obligations determined to be not rateable

Alcoa's compliance with the following obligations could not be rated as there was no relevant activity in the period subject to audit.

Obligations applicable for the period 1 July 2010 to 30 June 2013

Obligation	Reason
120	The Energy Services Manager confirmed that, for the period 1 July 2010 to 30 June 2013, Alcoa has not been prescribed individual performance standards by the Authority.
123	During the period 1 July 2010 to 30 June 2013, Alcoa was not under external administration and had not undergone any significant change in circumstances upon which its Licence was granted, which may affect its ability to meet its Licence obligations. Accordingly, there was no obligation to report to the Authority.
125	The Energy Services Manager confirmed that, for the period 1 July 2010 to 30 June 2013, the Authority did not direct Alcoa to publish any information with regards to its Licence (other than information associated with annual compliance and performance audit reports).

Obligations applicable for the period 1 July 2010 to 30 April 2011

Obligation	Reason
103 - 104	The Principal Mechanical Engineer WAO Powerhouse confirmed that for the period 1 July 2010 to 30 April 2011 there have been no expansions or reductions to Alcoa's generating works on its Wagerup, Pinjarra and Kwinana sites.

Assessment of compliance

The table below summarises the audit's assessment of Alcoa's compliance with the relevant obligations of its Licence.

N/A	N/R	Non-compliant		Compliant			Total
		1	2	3	4	5	
	5		1			4	10

The following table provides detailed findings for the applicable and rateable obligation with an individual assessment of compliance. Note that separate findings are not provided for the obligations that are not applicable or cannot be rated, as detailed in the table above.

No	Obligation under Condition	Compliance Rating	Findings
119	<p>A licensee and any related body corporate must maintain accounting records that comply with the Australian Accounting Standards Board Standards or equivalent International Accounting Standards.</p> <p><i>Generation Licence Condition 12.1</i></p>	Compliant - 5	<p>The Australian Financial Accounting Manager confirmed that:</p> <ul style="list-style-type: none"> • Alcoa of Australia is compliant with Australian – International Financial Reporting Standards (A-IFRS) and also compliant with US Generally Accepted Accounting Principles • PricewaterhouseCoopers reviews Alcoa's quarterly financial information and audits the Annual Statutory Accounts for the financial years ending 31 December, assessing compliance with Australian financial reporting standards • There are no significant accounting transactions or items that would currently jeopardise Alcoa's compliance with accounting standards. <p>The published Financial Statements of Alcoa Inc. (Alcoa of Australia's parent company) for the years ending 31 December 2010, 2011 and 2012 were examined. Those statements were unqualified, with respect to all subsidiaries of Alcoa Inc.</p>
121	<p>A licensee must comply, and require its auditor to comply, with the Authority's standard audit guidelines dealing with the performance audit.</p> <p><i>Generation Licence Condition 14.2</i></p>	Compliant - 5	<p><i>Obligations 121 and 122</i></p> <p>The audit and review plans approved by the Authority on 16 August 2013, commit Alcoa and Deloitte (independent expert) to complying with the prescribed audit guidelines and reporting manual issued by the Authority. Deloitte confirms that the audit and review were undertaken utilising the framework from the <i>Audit Guidelines: Electricity, Gas and Water Licences</i>, dated August 2010.</p>
122	<p>A licensee must comply, and must require the licensee's expert to comply, with the relevant aspects of the Authority's standard guidelines dealing with the asset management system.</p> <p><i>Generation Licence Condition 20.5</i></p>	Compliant - 5	

No	Obligation under Condition	Compliance Rating	Findings
124	<p>A licensee must provide the Authority, in the manner prescribed, any information the Authority requires in connection with its functions under the Electricity Industry Act.</p> <p><i>Generation Licence Condition 16.1</i></p>	Non-compliant - 2	<p>Through discussions with the Energy Services Manager, we determined that Alcoa has processes in place to respond to requests for information from the Authority. We note that:</p> <ul style="list-style-type: none"> Alcoa is required to submit annual compliance reports to the Authority by 31 August each year Alcoa submitted the 2010 compliance report on 27 August 2010 via email advising that the originals would be sent in the mail. As the originals did not reach the Authority until after the 31 August deadline, the Authority advised that Alcoa should include a non-conformance in the 2011 compliance report. We also noted that due to changes in the Reporting Manual, Alcoa was required to re-submit the 2010 report to reflect updated requirements. The revised compliance report was provided to the Authority in October 2010 The 2011 and 2012 compliance reports were submitted to the Authority on 28 July 2011 and 28 August 2012 respectively. <p>The Energy Services Manager confirmed that for the period 1 July 2010 to 30 June 2013, no information requests have been made of Alcoa in regards to its Generation Licence other than the performance audit and asset management system review reports.</p> <p>No further action is warranted as Alcoa has already implemented improvements to improve compliance.</p>
	<p>Recommendation 1/2013 n/a – no further action is required.</p>		<p>Action Plan 1/2013 n/a – no further action is required.</p>
126	<p>Unless otherwise specified, all notices must be in writing.</p> <p><i>Generation Licence Condition 18.1</i></p>	Compliant - 5	<p>The Energy Services Manager confirmed that, during the period 1 July 2010 to 30 June 2013:</p> <ul style="list-style-type: none"> Alcoa maintained records to evidence formal communications with the Authority, which have been made via post or email All responses to notices are to made in writing, unless otherwise specified No additional requests or instructions have been made of Alcoa in regards of its Generation Licence.

4.3 Electricity Industry Metering Code

Obligations determined to be not applicable

The following obligations are not applicable to Alcoa's operations:

Obligations applicable for the period 1 July 2010 to 30 June 2013

Obligation	Reason
423	Clause 5.17 is not applicable to Alcoa's operations as Alcoa does not provide energy to customers.
427 – 429, 431	Clause 5.19 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, these obligations are not applicable to Alcoa's operations.
456	Clause 5.27 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, this obligation is not applicable to Alcoa's operations.

Obligations applicable for the period 1 July 2010 to 30 April 2011

Obligation	Reason
326	Clause 3.5(6) is not applicable to Alcoa's operations as Alcoa is not the network operator according to the Electricity Industry Metering Code.

Obligations applicable for the period 1 May 2011 to 31 December 2012

Obligation	Reason
361	Clause 3.16(5) is not applicable to Alcoa's operations as this clause refers to Western Power's production of a "notional wholesale meter" value through the conversion of non-interval meter consumption to a notional interval meter quantity. As Western Power's tariff meters are all interval meters, such conversion is not required. Accordingly, a related service level agreement is also not required.
412	Clause 5.19 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, these obligations are not applicable to Alcoa's operations.

Obligations determined to be not rateable

Alcoa's compliance with the following obligations could not be rated as there was no relevant activity in the period subject to audit.

Obligations applicable for the period 1 July 2010 to 30 June 2013

Obligation	Reason
345	The Principal Mechanical Engineer WAO Powerhouse advised that each of Alcoa's three powerhouses can import and export power at various times depending on operational circumstances. For the period 1 June 2010 to 30 July 2013, there have been no changes to the ability of these sites to import/export power and Alcoa is not aware of any bi-directional flows occurring at each metering point; as such, an assessment of compliance with this obligation cannot be made.
385	The Energy Services Manager confirmed that, for the period 1 June 2010 to 30 July 2013, Alcoa has had no involvement with the installation of meters onto Western Power's network.
392, 394	The Energy Services Manager confirmed that for the period 1 July 2010 to 30 July 2013, Alcoa did not become aware of any discrepancy between energy data held in the tariff meters installed at Alcoa's facilities and data held in the metering database. Therefore, neither Alcoa nor Western Power was required to liaise with the other to resolve the discrepancy.

Obligation	Reason
409	Alcoa's Western Power Account Manager advised that all meters installed on Alcoa premises are designated as interval meters within the Western Power Metering Database. Therefore, until such time meters are installed or designated as accumulation meters, an assessment of compliance with this obligation cannot be made.
422	The Energy Services Manager confirmed that, for the period 1 July 2010 to 30 June 2013, Alcoa did not collect or receive energy data for Western Power (the network operator). Therefore, an assessment of Alcoa's compliance with this obligation cannot be made.
426	The Energy Services Manager confirmed that, for the period 1 July 2010 to 30 June 2013, Alcoa did not collect or receive information regarding the energy status of metering points. Therefore, an assessment of Alcoa's compliance with this obligation cannot be made.
437 – 438	The Energy Services Manager confirmed that during the period 1 July 2010 to 30 June 2013, Alcoa did not request a test or audit of the items at s.5.21(1) of the Metering Code. Therefore, an assessment of Alcoa's compliance with these obligations cannot be made.
474 – 475	The Energy Services Manager confirmed that during the period 1 July 2010 to 30 June 2013, Western Power did not make a request of Alcoa to provide its contact details. We also noted that Alcoa did not change its primary contact details as outlined in the agreed ETAC. Therefore an assessment of Alcoa's compliance with this obligation cannot be made.
477	The Energy Services Manager confirmed that during the period 1 July 2010 to 30 June 2013, Alcoa was not required to disclose or permit the disclosure of confidential information provided under or in connection with the Metering Code. Therefore, an assessment of Alcoa's compliance with this obligation cannot be made.
478 – 482	For the purpose of the Metering Code, "disputes" refers to metering disputes between Alcoa as a Code Participant, a retailer, another generator, the network operator (Western Power), a user or the IMO. As the definition of the Code Participant applies, the only possible party with whom Alcoa would have a dispute is Western Power. The Energy Services Manager confirmed that no metering disputes have arisen between Western Power and Alcoa during the period 1 July 2010 to 30 June 2013. Accordingly, an assessment of compliance with s.8.1 of the Metering Code cannot be made.

Obligations applicable for the period 1 May 2011 to 31 December 2012

Obligation	Reason
395	For the period 1 July 2010 to 31 December 2012, Alcoa did not have access to data provided for in the Metering Code, for which to impose a charge for providing to another party.

Assessment of compliance

The table below summarises the audit's assessment of Alcoa's compliance with the relevant obligations of the Electricity Metering Code.

N/A	N/R	Non-compliant		Compliant			Total
		1	2	3	4	5	
9	18				1	4	32

The following table provides detailed findings for the applicable and rateable obligation with an individual assessment of compliance. Note that separate findings are not provided for the obligations that are not applicable or cannot be rated, as detailed in the table above.

No	Obligation under Condition	Compliance Rating	Findings
360	<p>A Code participant who becomes aware of an outage or malfunction of a metering installation must advise the network operator as soon as practicable.</p> <p><i>Metering Code cl.3.11(3)</i></p>	Compliant - 5	<p>Western Power and Alcoa operated under a Network Access Agreement until the introduction of the Electricity Transfer Access Contract (ETAC) in March 2012. Under the Network Access Agreement, the metering equipment installed under the agreement, even if affixed to Alcoa premises, was the property of Western Power. Therefore, Western Power is responsible for the maintenance and monitoring of the tariff meters installed at Alcoa's facilities. The ETAC operates under the same model.</p> <p>Through discussions with the Principal Electrical Engineer WAO Powerhouse and consideration of Alcoa's metering procedures, we determined that Alcoa has the following processes in place to manage the notification process upon becoming aware of an outage or malfunction:</p> <ul style="list-style-type: none"> • In August 2008, Alcoa implemented a check process at Kwinana, Pinjarra and Wagerup powerhouses that compares the Alcoa transducer pulse signal to Western Power meter data • In instances where the check process identifies anomalies: <ul style="list-style-type: none"> ○ An alarm sounds and is recorded by the control system ○ The Powerhouse Operator contacts the appropriate Alcoa engineer to rectify the alarm. If the problem is found to be with Western Power, the issue is escalated to the Powerhouse Electrical Engineer • To facilitate timely notification, each of Alcoa's control rooms has a Western Power hotline number displayed in a prominent position. <p>We were advised by the Energy Services Manager that on 17 February 2013, Alcoa Powerhouse operators identified a discrepancy between Alcoa's transducers and the Western Power meters. Western Power was notified in accordance with the above process.</p>
393	<p>A Code participant must not knowingly permit the registry to be materially inaccurate.</p> <p><i>Metering Code cl.4.5(1)</i></p>	Compliant - 5	<p>Through discussions with the Principal Electrical Engineer WAO Powerhouse and examination of the ETAC, we determined that Western Power has the primary responsibility for ensuring the accuracy of energy data held in the registry (metering database), recorded from the tariff meters installed at Alcoa's facilities</p> <p>The Energy Services Manager confirmed that during the period 1 July 2010 to 30 June 2013, Alcoa was not aware of any material inaccuracy in the metering database maintained by Western Power.</p>

No	Obligation under Condition	Compliance Rating	Findings
469	<p>A user must, in relation to a network on which it has an access contract, comply with the rules, procedures, agreements and criteria prescribed.</p> <p><i>Metering Code cl.6.1(2)</i></p>	Compliant – 4	<p>Section 6.1(2) of the Metering Code requires Alcoa (as a user) to comply with the network operator’s metrology procedure, communication rules, mandatory link criteria or Service Level Agreements (SLA) (if any).</p> <p>Alcoa has entered into an ETAC with Western Power (March 2012), which indicates that the meters installed on the network are the property of Western Power. The ETAC is a continuation of the pre-existing relationship with Western Power, whereby Western Power own, operate and maintain the meters. However, from examination of the ETAC, we determined:</p> <ul style="list-style-type: none"> • The ETAC does not delineate the responsibilities of Alcoa and Western Power in relation to the metering activities, specifically relating to the compliance requirements of the communication rules, the metrology procedure or any relevant service level agreement • Alcoa plays a limited role relating to the metering of its energy data at its three facilities. However, Alcoa does retain the responsibility to understand and ensure compliance with obligations under the communication rules and the metrology procedure in place for the electricity network operated by Western Power. <p>These matters were detailed in the 2008 and 2010 performance audit report and an action plan was devised by Alcoa to incorporate the required references and responsibilities into a revised access agreement. Alcoa finalised the negotiation of the ETAC with Western Power in March 2012. However, specific reference to metering responsibilities between Alcoa and Western Power has not been formally documented. Alcoa is currently liaising with Western Power to confirm expectations of Alcoa’s role in maintaining and monitoring compliance with the requirements of s.6.1(2) of the Code.</p> <p>Although we did not observe any evidence to indicate non-compliance with requirements of the Metering Code, without the clear definition of the responsibilities of Alcoa and Western Power and sufficient monitoring, it is difficult for Alcoa to demonstrate compliance with s.6.1(2) of the Metering Code.</p> <p>As such, post audit implementation plan 1/2010 is currently ‘in progress’ with specific actions to document and obtain agreement with Western Power on compliance responsibilities. Depending on the outcome of the agreement with Western Power, Alcoa may need to implement monitoring arrangements to confirm compliance with requirements of s.6.1(2) of the Code.</p>

No	Obligation under Condition	Compliance Rating	Findings
472	<p>Code participants must use reasonable endeavours to ensure that they can send and receive a notice by post, facsimile and electronic communication and must notify the network operator of a telephone number for voice communication in connection with the Code.</p> <p><i>Metering Code cl.7.2(1)</i></p>	Compliant - 5	<p>Through discussions with the Principal Mechanical Engineer WAO Powerhouse and consideration of Alcoa's business practices, we determined that Alcoa maintains electronic and voice communication channels commensurate with the expectations of a major business.</p> <p>Schedule 3 of the ETAC lists Alcoa's telephone numbers for each of the powerhouses for voice communication in connection with the code.</p>
476	<p>A Code participant must subject to subclauses 5.17A and 7.6 not disclose, or permit the disclosure of confidential information provided to it under or in connection with the Code and may only use or reproduce confidential information for the purpose for which it was disclosed or another purpose contemplated by the Code.</p> <p><i>Metering Code cl.7.2(1)</i></p>	Compliant - 5	<p>Through discussions with the Principal Mechanical Engineer WAO Powerhouse and considerations of Alcoa's business practices, we determined that:</p> <ul style="list-style-type: none"> • Alcoa stores confidential commercial information on both its protected Alcoa portal and the WAO Powerhouse portal. However, Alcoa does not hold metering database information or other confidential information provided under or in connection with the Metering Code • All Alcoa staff, including contractors, are required to maintain confidentiality according to the provisions of their employment/service contracts • Logical security access to Oracle, including eAM, is managed through the Access Request Facility (ARF) system, where all users are assigned a unique user account and password • Account password requirements have been enhanced during the audit period to include a minimum of eight characters, which includes a mixture of alphabetical, numerical and special characters. <p>The Energy Services Manager confirmed that for the period 1 July 2010 to 30 June 2013, Alcoa did not disclose or permit the disclosure of confidential information provided under or in connection with the Metering Code.</p>

5 Follow-up of previous audit action plans

Recommendations and action plans from the 2010 audit

Rec. No	Ref	Recommendation	Previous Audit Action Plan	Status	Revised action plan
1/2010	416	Once the requirements of s.6.1 (2) of the Metering Code are incorporated into Alcoa's Network Access Agreement with Western Power, Alcoa refresh its ASAT review to accommodate any change or clarification in relevant responsibilities and obligations.	<p>Alcoa will:</p> <ol style="list-style-type: none"> (1) Incorporate the requirements of section 6.1 (2) of the Metering Code into their Network Access Arrangement (when finalised) (2) Review its ASAT process for EGL compliance and update if deemed necessary to strengthen/clarify the relevant responsibilities and obligations upon Alcoa with regard to (1). <p>Responsible Person(s):</p> <ol style="list-style-type: none"> (1): Procurement Specialist – Energy (2): Principle Mechanical Engineer – WAO Powerhouses <p>Target Date: 31 July 2011</p>	<p><i>In progress</i></p> <p>Alcoa finalised the negotiation of the ETAC with Western Power in March 2012. However, specific reference to metering responsibilities between Alcoa and Western Power has not been formally documented.</p> <p>Alcoa is currently liaising with Western Power to confirm expectations of Alcoa's role in maintaining and monitoring compliance with the requirements of s.6.1(2) of the Code.</p> <p>Should Alcoa have responsibilities (which appears unlikely given current operating arrangements), ASATs will need to be developed to monitor compliance.</p>	<p>Alcoa will:</p> <ol style="list-style-type: none"> (1) Obtain formal agreement with Western power regarding metering responsibilities, specifically relating to s.6.1(2) of the Code (2) Should Alcoa have metering responsibilities, ASATs to monitor compliance will be developed and rolled-out. <p>Responsible Person(s): Principal Mechanical Engineer WAO Powerhouse</p> <p>Target Date: 31 March 2014</p>

Recommendations and action plans from the 2008 audit

Rec. No	Ref	Recommendation	Revised action plan (from 2010 audit)	Status	Further action required
6/2008	416	<p>(a) In consultation with Western Power, establish an effective mechanism for facilitating Alcoa's understanding of and compliance with all obligations relating to the communication rules and the metrology procedure</p> <p>(b) Allocate roles and responsibilities for managing Alcoa's metering obligations</p> <p>(c) Consider re-negotiating the network access agreement with Western Power to explicitly accommodate the relevant requirements of the Metering Code.</p>	<p>Alcoa will:</p> <p>(1) Continue negotiating a new Access Arrangement with Western Power, and will incorporate the requirements of section 6.1 (2) of the Metering Code into the Network Access Arrangement</p> <p>(2) Review its ASAT process for EGL compliance and update if deemed necessary to strengthen/clarify the relevant responsibilities and obligations upon Alcoa with regard to (1).</p> <p>Responsible Person(s): Action (1): Procurement Specialist – Energy Action (2): Principle Mechanical Engineer – WAO Powerhouses</p> <p>Target Date: 31 July 2011</p>	<p>Closed out</p> <p>Action plan has been superseded by post audit action plan 1/2010. Refer to action plan and current status above.</p>	N/A
8/2008	424 to 428	<p>In consultation with Western Power, ensure that any disputes relating to metering installations, metering data or other aspects of the Metering Code are accommodated in either:</p> <ul style="list-style-type: none"> Existing dispute resolution procedures, such as those established under the Network Access Agreement Specific metering dispute resolution procedures. 	<p>Alcoa will continue to negotiate the Network Access Arrangement with Western Power and in the new arrangement, include the requirements of Part 8 of the Metering Code to ensure relevant dispute resolution procedures exist.</p> <p>Responsible Person: Procurement Specialist – Energy</p> <p>Target Date: July 31 2011</p>	<p>Complete</p> <p>Alcoa and Western Power have negotiated an ETAC, which incorporates dispute practices aligned with Part 8 of the Metering Code.</p>	N/A

Appendix A – Audit Plan

Alcoa of Australia Ltd
Electricity Generation Licence
(EGL14)
2013 Performance Audit
Audit Plan
August 2013

Contents

1	Introduction	3
	Overview	3
	Objective	3
	Scope	3
	Responsibility	5
2	Approach	6
	Risk assessment	6
	Systems analysis/walkthrough	8
	Testing/review	8
	Reporting	9
3	General information	10
	Key Alcoa contacts	10
	Deloitte staff	10
	Timing	10
	Appendix 1 – Risk assessment key	11
	Appendix 2 – Risk assessment	13
	Appendix 3 - New and superseded obligations	19
	Appendix 4 - Previous audit recommendations	20

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1 Introduction

Overview

The Economic Regulation Authority (**the Authority**) has under the provisions of the Electricity Industry Act 2004 (**the Act**), issued to Alcoa of Australia Ltd (**Alcoa**) an Electricity Generation Licence (**the Licence**). The License relates to Alcoa's operation of generating work at its Kwinana, Pinjarra and Wagerup facilities. These works are managed by Alcoa's WA Powerhouse operations within the WA operations business unit.

Section 13 of the Act requires Alcoa to provide to the Authority a performance audit (**the audit**) conducted by an independent expert acceptable to the Authority not less than once in every 24 month period. The audit will be the third to be performed since the issue of the Licence in 2006. As a result of the 2010 audit and review, the Authority increased Alcoa's audit period to 36 months. With the Authority's approval, Deloitte Touche Tohmatsu (**Deloitte**) has been appointed to conduct the audit for the period 1 July 2010 to 30 June 2013.

The audit will be conducted in accordance with the August 2010 issue of the *Audit Guidelines: Electricity, Gas and Water Licences* (**Audit Guidelines**). In accordance with the Audit Guidelines this document represents the Audit Plan (**the Plan**) that is to be agreed upon by Deloitte and Alcoa and presented to the Authority for approval.

Objective

The performance audit is defined as an examination of the measures taken by Alcoa to meet the performance criteria specified in its Licence.

The audit is designed to provide reasonable assurance regarding the assessment of appropriateness, effectiveness and efficiency associated with Alcoa's compliance with its Licence. The audit will specifically consider the following:

- Process compliance - the effectiveness of systems and procedures in place throughout the audit period, including assessing the adequacy of internal controls
- Outcome compliance - the actual performance against standards prescribed in the Licence throughout the audit period
- Output compliance - the existence of the output from systems and procedures throughout the audit period (that is, proper records exist to provide assurance that procedures are being consistently followed and controls are being maintained)
- Integrity of performance - the completeness and accuracy of the performance and compliance reporting to the Authority
- Compliance with any individual licence conditions - the requirements imposed on Alcoa by the Authority or specific issues for follow-up that are advised by the Authority.

Scope

The Authority provides guidance on those aspects of the Licence and Alcoa's performance criteria, which it expects to be reported upon and included in the scope of the performance audit in its *February 2013 Electricity Compliance Reporting Manual* (**Reporting Manual**).

The audit approach applies the singular audit priority assessment approach to identify all applicable licence obligations. Each of the compliance requirements identified in the Reporting Manual have been evaluated for applicability to Alcoa's operations and used as the basis for determining the performance criteria to be considered for the audit.

The period subject to audit is 1 July 2010 to 30 June 2013.

Since Alcoa's previous performance audit for the period ending June 2010, the Reporting Manual has undergone two revisions. For the period subject to audit, the three versions of the Reporting Manual applicable to the periods are defined below:

Reporting Manual version	Applicable period
July 2010	1 July 2010 to 30 April 2011
May 2011	1 May 2011 to 31 December 2012 Metering Code: 1 May 2011 to 6 December 2012
June 2013	1 January to 30 June 2013 Metering Code: 7 December 2012 to 30 June 2013

The May 2011 version of the Reporting Manual was published to accommodate, among other changes, the removal of three obligations specific to electricity generation licences (two relating to Electricity Licences and one relating to the Metering Code).

The current version of the Reporting Manual was released in June 2013 to accommodate the following revisions (specific to electricity generation licences) to the Metering Code:

- Addition of one obligation, which became applicable from 7 December 2012
- Removal of three obligations, which were applicable to 6 December 2012.

This audit will consider all obligations that existed at any point during the audit period. Refer to **Appendix 3** for further detail on obligations introduced and superseded through relevant revisions to Codes and licences.

Table 1 below outlines the compliance requirements that apply to Alcoa's operations during the period subject to audit. Where necessary, further explanation is provided to describe the extent of application of those obligations. The assessment is made against the current (June 2013) Reporting Manual. Note that five additional obligations are applicable for part of the audit period, where the obligation was removed from the relevant Code or Licence Condition during the period.

Table 1 – Application of legislative elements to Alcoa's operations

Legislative element	Application to Alcoa's operations
Electricity Industry Act	Seven of the 13 Electricity Industry Act obligations are applicable to Alcoa's operations.
Electricity Licences	Eight of the 15 Electricity Licence obligations are applicable to Alcoa's operations. Note that two Electricity Licence obligations were removed in 2011 and are relevant for the period 1 April 2010 to 30 April 2011.
Electricity Industry Metering Code	22 of the 145 Metering Code obligations are applicable to Alcoa's operations. Note that four Metering Code obligations were removed during the audit period, of which two (obligations 326 and 361) were not applicable to Alcoa's operations.

Responsibility

Alcoa's responsibility for compliance with the conditions of the Licence

Alcoa is responsible for:

- Putting in place policies, procedures and controls, which are designed to ensure compliance with the conditions of the Licence
- Implementing processes for assessing its compliance requirements and for reporting its level of compliance to the Authority
- Implementing corrective actions for instances of non-compliance.

Deloitte's responsibility

Our responsibility is to express a conclusion on Alcoa's compliance with the conditions of the Licence based on our procedures. We will conduct our engagement in accordance with the Audit Guidelines and the Australian Standard on Assurance Engagements (ASAE) 3500 *Performance Engagements*¹ issued by the Australian Auditing and Assurance Standards Board, in order to state whether, in our opinion, based on the procedures performed, the conditions of the Licence have been complied with. Our engagement will provide reasonable assurance as defined in ASAE 3500.

Limitations of use

This report is intended solely for the information and internal use of Alcoa, and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report. We do not accept or assume responsibility to anyone other than Alcoa for our work, for this report, or for any reliance which may be placed on this report by any party other than Alcoa.

Inherent limitations

Reasonable assurance means a high but not absolute level of assurance. Absolute assurance is very rarely attainable as a result of factors such as the following: the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to us is persuasive rather than conclusive and the use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence.

We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, readers of our report should not rely on the report to identify all potential instances of non-compliance which may occur.

Independence

In conducting our engagement, we will comply with the independence requirements of the Australian professional accounting bodies.

¹ ASAE 3500 also provides for our engagement to be conducted in accordance with relevant requirements of ASAE 3100 *Compliance Engagements* and ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

2 Approach

The audit will be conducted in three distinct phases, being a risk assessment, system analysis/walkthrough and testing and review. From the audit results, a report will be produced to outline findings, overall compliance assessments and recommendations for improvement in line with the Audit Guidelines. Each step of the audit is discussed in detail below.

Risk assessment

The audit will focus on identifying or assessing those activities and management control systems to be examined and the matters subject to audit. Therefore, the purpose of conducting the risk assessment as a preliminary phase enables the auditor to focus on pertinent/high risk areas of Alcoa's licence obligations. The risk assessment gives specific consideration to the changes to Alcoa's systems and processes and any matters of significance raised by the Authority and/or Alcoa. The level of risk and materiality of the process determines the level of audit required i.e. the greater the materiality and the higher the risk, the more audit effort to be applied.

The first step of the risk assessment is the rating of the potential consequences of Alcoa not complying with its licence obligations, in the absence of mitigating controls. As the Reporting Manual is prescriptive in its criteria for classifying the consequences of non-compliance (refer to **Appendix 1-1**) the risk assessment applies the Reporting Manual's classifications for each obligation subject to audit. Reference is also made to the consequence rating descriptions listed at Table 10 of the Audit Guidelines (refer to **Appendix 1-2**), providing the risk assessment with context to ensure the appropriate consequence rating is applied to each obligation subject to audit.

Once the consequence has been determined, the likelihood of Alcoa not complying with its obligations is assessed using the likelihood rating listed at Table 11 of the Audit Guidelines (refer to **Appendix 1-3**). The assessment of likelihood is based on the expected frequency of Alcoa's non-compliance with the relevant licence obligation over a period of time.

Table 2 below (sourced from Table 12 of the Audit Guidelines) outlines the combination of consequence and likelihood ratings to determine the level of inherent risk associated with each individual obligation.

Table 2: Inherent risk rating

	Consequence		
Likelihood	Minor	Moderate	Major
Likely	Medium	High	High
Probable	Low	Medium	High
Unlikely	Low	Medium	High

Once the level of inherent risk has been determined, the adequacy of existing controls is assessed in order to determine the level of control risk. Controls are assessed and prioritised as weak, moderate or strong dependant on their suitability to mitigate the risks identified. The control adequacy ratings used by this risk assessment are aligned to the ratings listed at Table 14 of the Audit Guidelines (refer to **Appendix 1-4**).

Once inherent risks and control risks are established, the audit priority can then be determined using the matrix listed at Table 15 of the Audit Guidelines (refer to **Table 3** below). Essentially, the higher the level of risk the more substantive testing is required.

Table 3: Assessment of Audit Priority

	Adequacy of existing controls		
Inherent Risk	Weak	Moderate	Strong
High	Audit priority 1	Audit priority 2	
Medium	Audit priority 3	Audit priority 4	
Low	Audit priority 5		

The following table outlines the audit requirement for each level of audit priority. Testing can range from extensive substantive testing around the controls and activities of particular processes to confirming the existence of controls through discussions with relevant staff.

Table 4: Audit Priority Table

Priority rating and resulting audit procedures	
Rating	Audit requirement
Audit Priority 1	<ul style="list-style-type: none"> • Controls testing and extensive substantive testing of activities and/or transactions • Follow-up and if necessary, re-test matters previously reported.
Audit Priority 2	<ul style="list-style-type: none"> • Controls testing and moderate substantive testing of activities and/or transactions • Follow-up and if necessary, re-test matters previously reported.
Audit Priority 3	<ul style="list-style-type: none"> • Limited controls testing (moderate sample size). Only substantively test transactions if further control weakness found • Follow-up of matters previously reported.
Audit Priority 4	<ul style="list-style-type: none"> • Confirmation of existing controls via observation and walk through testing • Follow-up of matters previously reported.
Audit Priority 5	<ul style="list-style-type: none"> • Confirmation of existing controls via observation, discussions with key staff and/or reliance on key references (“desktop review”).

The risk assessment has been discussed with stakeholders to gain their input as to the appropriateness and factual accuracy of risk and control ratings and associated explanations. The key sources considered in reaching our preliminary assessment of the risk and control ratings were based on:

- Prior assessments of the state of controls during the 2010 EGL Performance audit
- Consideration of annual compliance reports
- Our understanding of Alcoa’s regulatory environment
- Any other factors that may have an effect on the level of risk or strength of controls.

At this stage, the risk assessment can only be a preliminary assessment based on our professional judgement. It is possible that the ratings and risk assessment comments may be revised as we conduct our work and new evidence comes to light. Accordingly the risk assessment for the performance audit is a preliminary draft, not a final report, and no reliance should be placed on its findings. It is however an invaluable tool for focussing the audit effort.

The performance audit risk assessment is attached at **Appendix 2**.

Systems analysis/walkthrough

The systems analysis required will be determined utilising the audit priority scale outlined above. Once the priority level has been defined the testing component will take place by way of interviewing key operational and administrative staff who will outline information that displays compliance with the Licence requirements.

In performing our analysis/walkthrough of Alcoa's systems and processes, we will consider the following:

- The control environment: Alcoa's management philosophy and operating style, organisational structure, assignment of authority and responsibilities, the use of internal audit, the use of information technology and the skills and experience of key staff members
- Information systems: the appropriateness of Alcoa's information systems (in particular, those relating to customer service, network management & control, metering services and resource planning) to record the information needed to comply with the licence, the accuracy of data, the security of data and documentation describing the information system
- Control procedures: the presence of systems and procedures to ensure compliance with the licence, effectiveness of Alcoa's internal control structure to detect and correct non-compliance. Specific consideration will be given to any significant changes in relevant systems and procedures implemented during the period subject to audit
- Compliance attitude: action taken by Alcoa in response to any previous audit recommendations. Consideration will be given to the timing of action taken during the period subject to audit and whether the action has an impact on Alcoa's level of compliance
- Outcome compliance: actual performance against standards prescribed in the licence throughout the audit period.

Where required, an observation of processes, procedures and operations and review of key documents will occur to assist in the determination of Alcoa's compliance with Licence obligations. Key documents, which may be subject to audit, are not specifically disclosed in this plan. A list of documents examined will be included in the audit report.

Testing/review

Using the results of the risk assessment and systems analysis, detailed testing and analysis will be performed to compare those standards maintained by Alcoa with the relevant sections and schedules of the Licence.

Controls testing is performed for those licence obligations with an audit priority 3 and above, and where there is relevant activity. This method of testing will involve:

- Understanding the population of transactions
- Selecting a sample of transactions to examine compliance with relevant sections of applicable Codes/Regulations
- Comparing the sample selected to expected requirements as mandated by relevant sections of applicable Codes/Regulations.

A full work program will be completed to record the specific aspects of our testing and analyses for each licence obligation. This work program will be based on:

- The audit priority determined by the risk assessment to be applicable each licence obligation
- The results of the systems analysis performed, as described above
- Deloitte's pre-determined sampling methodology, which takes account of the volume and frequency (e.g. daily, weekly, monthly, annual) of relevant transactions. Sample sizes typically range from 1 to 30, increasing with the volume and frequency of transactions
- The location of personnel and transactions to be tested.

Reporting

In accordance with the Audit Guidelines, all aspects of compliance with the Licence will be assessed according to the rating scale based on the work performed. Refer to **Table 5** below for the compliance levels that will be used for the performance audit.

Table 5: Operational/performance compliance rating scale

Name	Rating	Description
Compliant	5	Compliant with no further action required to maintain compliance
Compliant	4	Compliant apart from minor or immaterial recommendations to improve the strength of internal controls to maintain compliance
Compliant	3	Compliant with major or material recommendations to improve the strength of internal controls to maintain compliance
Non-compliant	2	Does not meet minimum requirements
Significantly non-compliant	1	Significant weaknesses and/or serious action required
Not applicable	N/A	Determined that the compliance obligation does not apply to the licensee's business operations
Not rated	N/R	No relevant activity took place during the audit period; therefore it is not possible to assess compliance.

The performance audit report will also be structured to address all key components expected by the Audit Guidelines, including:

- An executive summary containing all elements listed in section 11 of the Audit Guidelines
- Response to previous audit recommendations (refer to **Appendix 4**)
- Performance/compliance summary and rating for each licence condition – in tabular form
- Audit observations
- Where appropriate, recommendations on actions required to address areas of non-compliance.

Where appropriate, Alcoa will provide a post audit implementation plan for incorporation into the report.

3 General information

All aspects of the audit will undergo quality assurance and review procedures as outlined in our previous communications. Before delivery of a final report, full quality procedures will be applied, including second partner review.

Key Alcoa contacts

The key contacts for this audit are:

- Energy Services Manager
- Principal Mechanical Engineer WAO Powerhouse
- Senior Management Accountant WA Operations
- Environmental Manager Pinjarra
- Audit Manager.

Deloitte staff

Deloitte staff who will be involved with this assignment are:

- Darren Gerber Partner
- Ben Fountain Account Director
- Amit Grover Senior Analyst
- Richard Thomas QA Partner

Resumes for key Deloitte staff are outlined in the proposal accepted by Alcoa and subsequently presented to the Authority.

Timing

The initial risk assessment phase was completed on 7 August 2013. On 9 August 2013, the audit plan and detailed risk assessment were presented to the Authority for review and comment.

The remainder of the fieldwork phase is scheduled to be performed in late August 2013 and early September 2013.

Deloitte's time and staff commitment to the completion of the audit is outlined in the proposal accepted by Alcoa and subsequently presented to the Authority.

Appendix 1 – Risk assessment key

1-1 Criteria for classification

Source: Electricity Compliance Reporting Manual February 2013

Rating (type)	Classification of Non-Compliance	Criteria for classification
1	Major	<p>Classified on the basis that:</p> <ul style="list-style-type: none"> ▪ the consequences of non-compliance would cause major damage, loss or disruption to customers; or ▪ the consequences of non-compliance would endanger or threaten to endanger the safety or health of a person.
2	Moderate	<p>Classified on the basis that:</p> <ul style="list-style-type: none"> ▪ the consequences of non-compliance impact the efficiency and effectiveness of the licensee's operations or service provision but do not cause major damage, loss or disruption to customers; or ▪ the regulatory obligation is not otherwise classified as a Type 1 or a Type NR non-compliance. <p>Reclassification of Type 2 as a Type 1 may occur in circumstances of systematic non-compliance.</p>
NR	Minor	<p>Classified on the basis that:</p> <ul style="list-style-type: none"> ▪ the consequences of non-compliance are relatively minor – i.e. non-compliance will have minimal impact on the licensee's operations or service provision and do not cause damage, loss or disruption to customers; or ▪ compliance with the obligation is immeasurable; or ▪ the non-compliance is required to be reported to the Regulator under another instrument, guideline or code 6; or ▪ the non-compliance is identified by a party other than the licensee ; or ▪ the licensee only needs to use its reasonable endeavours or best endeavours to achieve compliance or where the obligation does not otherwise impose a firm obligation on the licensee. <p>Reclassification of Type NR as a Type 2 may occur in circumstances of:</p> <ul style="list-style-type: none"> ▪ systemic non-compliance; or ▪ a failure to resolve non-compliance promptly.

1-2 Consequence ratings

Source: Audit Guidelines: Electricity, Gas and Water Licences August 2010

	Rating	Examples of non-compliance			
		Supply Quality	Supply Reliability	Consumer Protection	Breaches of legislation or other licence conditions
1	Minor	Minor public health and safety issues. Breach of quality standards minor - minimal impact on customers.	System failure or connection delays affecting only a few customers. Some inconvenience to customers.	Customer complaints procedures not followed in a few instances. Nil or minor costs incurred by customers.	Licence conditions not fully complied with but issues have been promptly resolved.
2	Moderate	Event is restricted in both area and time e.g., supply of service to one street is affected up to one day. Some remedial action is required.	Event is restricted in both area and time e.g., supply of service to one street is affected up to one day. Some remedial action is required.	Lapse in customer service standards is clearly noticeable but manageable. Some additional costs may be incurred by some customers.	Clear evidence of one or more breaches of legislation or other licence conditions and/or sustained period of breaches.
3	Major	Significant system failure. Life-threatening injuries or widespread health risks. Extensive remedial action required.	Significant system failure. Extensive remedial action required.		

1-3 Likelihood ratings

Source: Audit Guidelines: Electricity, Gas and Water Licences August 2010

	Level	Criteria
A	Likely	Non-compliance is expected to occur at least once or twice a year
B	Probable	Non-compliance is expected to occur every three years
C	Unlikely	Non-compliance is expected to occur at least once every 10 years or longer

1-4 Adequacy ratings for existing controls

Source: Audit Guidelines: Electricity, Gas and Water Licences August 2010

Rating	Description
Strong	Strong controls that are sufficient for the identified risks
Moderate	Moderate controls that cover significant risks; improvement possible
Weak	Controls are weak or non-existent and have minimal impact on the risks

Appendix 2 – Risk assessment

Obligation numbers and references referred to below are sourced from the February 2013 Reporting Manual. Refer to Appendix 3 of the Audit Plan for details of obligations added and removed during the audit period.

No	Obligation reference	Obligation description	Type	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
12 Electricity Industry Act - Licence Conditions and Obligations								
101	Electricity Industry Act section 13(1)	A licensee must, not less than once every 24 months, provide the Authority with a performance audit conducted by an independent expert acceptable to the Authority.	NR	Minor	Unlikely	Low	Strong	Audit Priority 5
102	Electricity Industry Act section 14(1)(a)	A licensee must provide for an asset management system.	NR	Minor	Unlikely	Low	Strong	Audit Priority 5
103	Electricity Industry Act section 14(1)(b)	A licensee must notify details of the asset management system and any substantial changes to it to the Authority.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
104	Electricity Industry Act section 14(1)(c)	A licensee must provide the Authority with a report by an independent expert as to the effectiveness of its asset management system every 24 months, or such longer period as determined by the Authority.	NR	Minor	Unlikely	Low	Strong	Audit Priority 5
105	Electricity Industry Act section 17(1)	A licensee must pay to the Authority the prescribed licence fee within one month after the day of grant or renewal of the licence and within one month after each anniversary of that day during the term of the licence.	2	Moderate	Unlikely	Medium	Strong	Audit Priority 4
106	Electricity Industry Act section 31(3)	A licensee must take reasonable steps to minimise the extent or duration of any interruption, suspension or restriction of the supply of electricity due to an accident, emergency, potential danger or other unavoidable cause.	NR	Minor	Unlikely	Low	Strong	Audit Priority 5
107	Electricity Industry Act section 41(6)	A licensee must pay the costs of taking an interest in land or an easement over land.	2	Moderate	Unlikely	Medium	Strong	Audit Priority 4
13. Electricity Licences - Licence Conditions and Obligations								
119	Generation Licence condition 12.1	A licensee and any related body corporate must maintain accounting records that comply with the Australian Accounting Standards Board Standards or equivalent International Accounting Standards.	2	Moderate	Unlikely	Medium	Strong	Audit Priority 4
120	Generation Licence condition 13.4	A licensee must comply with any individual performance standards prescribed by the Authority.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
121	Generation Licence condition 14.2	A licensee must comply, and require its auditor to comply, with the Authority's standard audit guidelines dealing with the performance audit.	2	Moderate	Unlikely	Medium	Strong	Audit Priority 4

No	Obligation reference	Obligation description	Type	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
122	Generation Licence condition 20.5	A licensee must comply, and must require the licensee's expert to comply, with the relevant aspects of the Authority's standard guidelines dealing with the asset management system.	2	Moderate	Unlikely	Medium	Strong	Audit Priority 4
123	Generation Licence condition 15.1	A licensee must report to the Authority, in the manner prescribed, if a licensee is under external administration or there is a significant change in the circumstances upon which the licence was granted which may affect a licensee's ability to meet its obligations.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
124	Generation Licence condition 16.1	A licensee must provide the Authority, in the manner prescribed, any information the Authority requires in connection with its functions under the Electricity Industry Act.	2	Moderate	Unlikely	Medium	Strong	Audit Priority 4
125	Generation Licence condition 17.1 and 17.2	A licensee must publish any information it is directed by the Authority to publish, within the timeframes specified.	2	Moderate	Probable	Medium	Moderate	Audit Priority 4
126	Generation Licence condition 18.1	Unless otherwise specified, all notices must be in writing.	2	Moderate	Unlikely	Medium	Strong	Audit Priority 4
15. Electricity Industry Metering Code - Licence Conditions and Obligations								
345	Electricity Industry Metering Code clause 3.3B	A user who is aware of bi-directional flows at a metering point which was not previously subject to a bi-directional electricity flows or any changes in a customer's or user's circumstances in a metering point which will result in bi-directional electricity flows must notify the network operator within 2 business days.	2	Moderate	Probable	Medium	Moderate	Audit Priority 4
360	Electricity Industry Metering Code clause 3.11(3)	A Code participant who becomes aware of an outage or malfunction of a metering installation must advise the network operator as soon as practicable.	2	Moderate	Probable	Medium	Strong	Audit Priority 4
385	Electricity Industry Metering Code clause 3.27	A person must not install a metering installation on a network unless the person is the network operator or a registered metering installation provider for the network operator doing the type of work authorised by its registration.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
392	Electricity Industry Metering Code clause 4.4(1)	If there is a discrepancy between energy data held in a metering installation and data held in the metering database, the affected Code participants and the network operator must liaise together to determine the most appropriate way to resolve a discrepancy.	NR	Minor	Probable	Low	Moderate	Audit Priority 5
393	Electricity Industry Metering Code clause 4.5(1)	A Code participant must not knowingly permit the registry to be materially inaccurate.	NR	Minor	Unlikely	Low	Strong	Audit Priority 5

No	Obligation reference	Obligation description	Type	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
394	Electricity Industry Metering Code clause 4.5(2)	Subject to subclause 5.19(6), if a Code participant, other than a network operator, becomes aware of a change to, or an inaccuracy in, an item of standing data in the registry, then it must notify the network operator and provide details of the change or inaccuracy within the timeframes prescribed.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
409	Electricity Industry Metering Code clause 5.4(2)	A user must, when reasonably requested by a network operator, assist the network operator to comply with the network operator's obligation under subclause 5.4(1).	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
422	Electricity Industry Metering Code clause 5.16	If a user collects or receives energy data from a metering installation then the user must provide the network operator with the energy data (in accordance with the communication rules) within the timeframes prescribed.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
423	Electricity Industry Metering Code clause 5.17(1)	A user must provide standing data and validated, and where necessary substituted or estimated, energy data to the user's customer to which that information relates where the user is required by an enactment or an agreement to do so for billing purposes or for the purpose of providing metering services to the customer.	Not applicable to Alcoa's operations as Alcoa does not provide energy to customers.					
426	Electricity Industry Metering Code clause 5.18	If a user collects or receives information regarding a change in the energisation status of a metering point then the user must provide the network operator with the prescribed information, including the stated attributes, within the timeframes prescribed.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
427	Electricity Industry Metering Code clause 5.19(1)	A user must, when requested by the network operator acting in accordance with good electricity industry practice, use reasonable endeavours to collect information from customers, if any, that assists the network operator in meeting its obligations described in the Code and elsewhere, and provide that information to the network operator.	Clause 5.19 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, these obligations are not applicable to Alcoa's operations.					
428	Electricity Industry Metering Code clause 5.19(2)	A user must, to the extent that it is able, collect and maintain a record of the prescribed information in relation to the site of each connection point with which the user is associated.						
429	Electricity Industry Metering Code clause 5.19(3)	Subject to subclauses 5.19(3A) and 5.19(6), the user must within 1 business day after becoming aware of any change in an attribute described in subclause 5.19(2), notify the network operator of the change.						
431	Electricity Industry Metering Code clause 5.19(6)	The user must use reasonable endeavours to ensure that it does not notify the network operator of a change in an attribute described in subclause 5.19(2) that results from the provision of standing data by the network operator to the user.						

No	Obligation reference	Obligation description	Type	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
437	Electricity Industry Metering Code clause 5.21(5)	A Code participant must not request a test or audit under subclause 5.21(1) unless the Code participant is a user and the test or audit relates to a time or times at which the user was the current user or the Code participant is the IMO.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
438	Electricity Industry Metering Code clause 5.21(6)	A Code participant must not make a request under subclause 5.21(1) that is inconsistent with any access arrangement or agreement.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
456	Electricity Industry Metering Code clause 5.27	Upon request from a network operator, the current user for a connection point must provide the network operator with customer attribute information that it reasonably believes are missing or incorrect within the timeframes prescribed.	Clause 5.27 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, this obligation is not applicable to Alcoa's operations.					
469	Electricity Industry Metering Code clause 6.1(2)	A user must, in relation to a network on which it has an access contract, comply with the rules, procedures, agreements and criteria prescribed.	2	Moderate	Probable	Medium	Moderate	Audit Priority 4
472	Electricity Industry Metering Code clause 7.2(1)	Code participants must use reasonable endeavours to ensure that they can send and receive a notice by post, facsimile and electronic communication and must notify the network operator of a telephone number for voice communication in connection with the Code.	NR	Minor	Unlikely	Low	Strong	Audit Priority 5
474	Electricity Industry Metering Code clause 7.2(4)	If requested by a network operator with whom it has entered into an access contract, the Code participant must notify its contact details to a network operator within 3 business days after the request.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
475	Electricity Industry Metering Code clause 7.2(5)	A Code participant must notify any affected network operator of any change to the contact details it notified to the network operator under subclause 7.2(4) at least 3 business days before the change takes effect.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
476	Electricity Industry Metering Code clause 7.5	A Code participant must subject to subclauses 5.17A and 7.6 not disclose, or permit the disclosure of, confidential information provided to it under or in connection with the Code and may only use or reproduce confidential information for the purpose for which it was disclosed or another purpose contemplated by the Code.	2	Moderate	Probable	Medium	Strong	Audit Priority 4
477	Electricity Industry Metering Code clause 7.6(1)	A Code participant must disclose or permit the disclosure of confidential information that is required to be disclosed by the Code.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
478	Electricity Industry Metering Code clause 8.1(1)	If any dispute arises between any Code participants then (subject to subclause 8.2(3)) representatives of disputing parties must meet within 5 business days after a notice given by a disputing party to the other disputing parties and attempt to resolve the dispute by negotiations in good faith.	NR	Minor	Unlikely	Low	Moderate	Audit Priority 5

No	Obligation reference	Obligation description	Type	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
479	Electricity Industry Metering Code clause 8.1(2)	If a dispute is not resolved within 10 business days after the dispute is referred to representative negotiations, the disputing parties must refer the dispute to a senior management officer of each disputing party who must meet and attempt to resolve the dispute by negotiations in good faith.	NR	Minor	Unlikely	Low	Moderate	Audit Priority 5
480	Electricity Industry Metering Code clause 8.1(3)	If the dispute is not resolved within 10 business days after the dispute is referred to senior management negotiations, the disputing parties must refer the dispute to the senior executive officer of each disputing party who must meet and attempt to resolve the dispute by negotiations in good faith.	NR	Minor	Unlikely	Low	Moderate	Audit Priority 5
481	Electricity Industry Metering Code clause 8.1(4)	If the dispute is resolved by representative negotiations, senior management negotiations or CEO negotiations, the disputing parties must prepare a written and signed record of the resolution and adhere to the resolution.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
482	Electricity Industry Metering Code clause 8.3(2)	The disputing parties must at all times conduct themselves in a manner which is directed towards achieving the objective in subclause 8.3(1).	NR	Minor	Unlikely	Low	Moderate	Audit Priority 5
Obligations removed from the May 2011 Reporting Manual, but included in the July 2010 Reporting Manual ¹ (3 obligations below apply to Alcoa's operations for the period 1 July 2010 to 30 April 2011)								
103	Generation Licence condition 12.2	A licensee must amend the asset management system before an expansion or reduction in generating works, distribution systems and transmission systems and notify the Authority in the manner prescribed, if the expansion or reduction is not provided for in the asset management system.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
104	Generation Licence condition 12.3	A licensee must not expand the generating works, distribution systems or transmission systems outside the licence area.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4
326	Electricity Industry Metering Code clause 3.5(6)	A network operator may only impose a charge for providing, installing, operating or maintaining a metering installation in accordance with the applicable service level agreement between it and the user.	Not applicable to Alcoa's operations as Alcoa is not the network operator per the Electricity Industry Metering Code 2005.					
Obligations removed from the 2013 Reporting Manual, but included in the May 2011 and July 2010 Reporting Manual ² (3 Obligations below apply to Alcoa's operations for the period 1 May 2011 to 31 December 2012)								
361	Electricity Industry Metering Code clause 3.16(5)	A network operator or a user may require the other to negotiate and enter into a written service level agreement in respect of the matters in the metrology procedure dealt with under clause 3.16(4) of the Code.	Not applicable to Alcoa's operations as this clause refers to Western Power's production of a "notional wholesale meter" value through the conversion of non-interval meter consumption to a notional interval meter quantity. As Western Power's tariff meters are all interval meters, such conversion is not required. Accordingly, a related service level agreement is also not required.					
395	Electricity Industry Metering Code clause 5.5(3)	A user must not impose any charge for the provision of the data under this Code unless it is permitted to do so under another enactment.	2	Moderate	Unlikely	Medium	Moderate	Audit Priority 4

No	Obligation reference	Obligation description	Type	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
412	Electricity Industry Metering Code clause 5.19(4)	A user that becomes aware that there is a sensitive load at a customer's site must immediately notify the network operator's Network Operations Control Centre of the fact.						

Clause 5.19 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, these obligations are not applicable to Alcoa's operations.

¹Numbering based on the June 2010 Reporting Manual

²Numbering based on the May 2011 Reporting Manual

Appendix 3 - New and superseded obligations

Legislative Element	New obligations ² Relevant period: 7 Dec '12 – 31 Mar '13	Superseded obligations ³ Relevant period: 1 Apr '10 – 30 Apr '11	Superseded obligations ⁴ Relevant period: 1 May '11 – 6 Dec '12
Electricity Industry Act	N/A	N/A	N/A
Electricity Licences – Licence Conditions and Obligations	N/A	103: Condition 12.2 104: Condition 12.3	N/A
Electricity Industry Metering Code	345: Clause 3.3B	326: Clause 3.5(6)	361: Clause 3.16(5) 395: Clause 5.5(3) 412: Clause 5.19(4)

² Obligation number is based on the current (February 2013) Electricity Compliance Reporting Manual

³ Obligation number is based on the June 2010 Electricity Compliance Reporting Manual

⁴ Obligation number is based on the May 2011 Electricity Compliance Reporting Manual

Appendix 4 - Previous audit recommendations

Issue 1 – Obligation 416: Metering Code s 6.1(2)

Alcoa has not developed specific mechanisms (e.g. an ASAT requirement) to monitor and ensure compliance with the obligations specified by s 6.1(2) of the Metering Code.

Although we did not observe any evidence to indicate non-compliance with the requirements of the Metering Code, without clear definition of the responsibilities of Alcoa and Western Power and without sufficient monitoring arrangements in place, it is more difficult for Alcoa to demonstrate compliance with s 6.1(2) of the Metering Code.

Recommendation 1/2010

Once the requirements of s 6.1(2) of the Metering Code are incorporated into Alcoa's Network Access Agreement with Western Power, Alcoa refresh its ASAT review to accommodate any change or clarification in relevant responsibilities and obligations.

Action plan 1/2010

Alcoa will:

- (1) Incorporate the requirements of s 6.1(2) of the Metering Code into its Network Access Arrangement (when finalised)
- (2) Review its ASAT process for EGL compliance and update if deemed necessary to strengthen/clarify the relevant responsibilities and obligations upon Alcoa with regard to subsection 1.

Responsible Persons:

- (1) Procurement Specialist – Energy
- (2) Principal Mechanical Engineer – WAO Powerhouse.

Target Date: 31 July 2011

Appendix B – References

Key Alcoa contacts

- Energy Services Manager
- Principal Mechanical Engineer WAO Powerhouse
- Australian Financial Accounting Manager
- Alcoa’s Western Power Account Manager

Deloitte staff

Name	Position	Hours
Darren Gerber	Partner	3
Ben Fountain	Account Director	27
Amit Grover	Senior Analyst	15
Emlyn King	Analyst	15
Richard Thomas	Partner - Quality Assurance	2

Key Documents and other information sources

- Representations from:
 - Energy Services Manager
 - Principal Mechanical Engineer WAO Powerhouse
 - Financial Accounting Manager
 - Alcoa’s Western Power Account Manager
- 2010, 2011 and 2012 Annual Reports and audited financial statements
- 2010/11, 2011/12 and 2012/13 annual compliance reports to the Authority
- Powerhouse Asset Strategy documents
- Corporate Affairs Crisis Communication “Dealing with a Disaster or Crisis at an Alcoa Operating Location
- Alcoa correspondence with the Authority
- Electricity Transfer Access Contract (ETAC) with Western Power
- Evidence of annual licence payments to the ERA
- 2011 EGL Performance Audit ASAT
- Electricity Generation Licence EGL14
- Electricity Industry Metering Code
- Electricity Industry Act 2004.
- Electricity Networks Access Code 2004

Appendix C – Post Audit Implementation Plan

2010 Audit

<p>Issue 1/10</p> <p>Obligation 416 – Metering Code s.6.1(2)</p> <p>As Alcoa’s Network Access Agreement with Western Power does not yet incorporate the respective responsibilities of Alcoa and Western Power in relation to the requirements of s.6.1 (2) of the Metering Code, such responsibilities and obligations may not be fully reflected in ASAT review.</p>	
<p>Recommendation 1/10</p> <p>Once the requirements of s.6.1 (2) of the Metering Code are incorporated into Alcoa’s Network Access Agreement with Western Power, Alcoa refresh its ASAT review to accommodate any change or clarification in relevant responsibilities and obligations.</p>	<p>Action Plan 1/10</p> <p>Alcoa will:</p> <ol style="list-style-type: none"> (1) Alcoa will obtain formal agreement with Western power regarding metering responsibilities, specifically relating to s.6.1(2) of the Code (2) Should Alcoa have metering responsibilities, ASATs to monitor compliance will be developed and rolled-out. <p>Responsible Person(s): Principal Mechanical Engineer WAO Powerhouse</p> <p>Target Date: 31 March 2014</p>