

# **Verve Energy**

**Electricity Generation Licence  
(EGL 7)**

**2013 Performance Audit  
(Independent Assurance) Report**

**July 2013**

Mr Andrew Everett  
Manager Trading and Regulation  
Verve Energy  
15-17 William Street  
Perth WA

31 July 2013

Dear Andrew

## **Electricity Generation Licence (EGL 7) Performance Audit Report**

We have completed the Electricity Generation Licence Performance Audit for Electricity Generation Corporation t/a Verve Energy for the period 1 April 2010 to 31 March 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 Andrew Baldwin on 9365 7236 or myself on 9365 7024.

Yours sincerely

**Richard Thomas**  
Partner  
Deloitte Touche Tohmatsu

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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 Verve Energy's (**Verve Energy**) 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**).

## Verve Energy's responsibility for compliance with the conditions of the Licence

Verve Energy 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 Verve Energy'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*<sup>1</sup> 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 will provide reasonable assurance as defined in ASAE 3500.

## Limitations of use

This report is intended solely for the information and internal use of Verve Energy, 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 Verve Energy for our work, for this report, or for any reliance which may be placed on this report by any party other than Verve Energy.

## 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.

## Independence

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

<sup>1</sup> 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*.

## Conclusion

In our opinion, based on the procedures performed, except for the effect of the issue set out below, Verve Energy has, in all material respects, complied with the conditions of its Licence for the period 1 April 2010 to 31 March 2013.

## Exceptions

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

	Reporting manual no. & Licence condition	Issue
123	<p><b>Licence condition 15.1</b></p> <p>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.</p>	<p>Verve Energy's Licence condition 15.1(c)(iv) and (v) requires Verve Energy to report relevant information to the Authority in the event that it changes the description of its generating works, or the nameplate capacity of its generating works.</p> <p>Verve Energy had considered its communications with the Authority's Secretariat regarding the description of generating works and total nameplate capacity within its Licence to have been sufficient to comply with this requirement. However, the Secretariat has now confirmed that it expects all changes to the description and nameplate capacity of individual generating works to be reported to the Authority, including any additions or removals from Verve Energy's portfolio of generating works.</p> <p>Within the versions of the Licence applicable during the period subject to audit, the broad references to the generating works at each location had accommodated changes within Verve Energy's portfolio of generating works.</p> <p>However, for the generating works at the Kwinana Licence area, Verve Energy did not advise the Authority of the specific change in nameplate capacity at the time Stage A was decommissioned and the High Efficiency Gas Turbines were commissioned. The net effect of these works was a lower total nameplate capacity. Verve Energy did subsequently notify the Authority.</p>

DELOITTE TOUCHE TOHMATSU

**Richard Thomas**  
Partner  
Perth, July 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 Electricity Generation Corporation (t/a Verve Energy) (**Verve Energy**) an Electricity Generation Licence (EGL7) (**the Licence**).

The licence relates to Verve Energy's operation of generating works at its Collie, Muja, Kwinana, Cockburn, Pinjar, Mungarra, Geraldton and Kalgoorlie power stations. The licence also relates to Verve Energy's wind farms at Albany, Grasmere, Esperance, Exmouth and Kalbarri and wind diesel systems in Bremer Bay, Coral Bay, Denham and Hopetoun.

Verve Energy has bilateral contractual obligations to supply electricity to other participants in the Wholesale Electricity Market (**WEM**). Verve Energy currently provides about 53% of the generating capacity in the South West Interconnected System (**SWIS**) and also had, for the duration of the audit period, the responsibility of providing default balancing and ancillary services which underpin the reliability of the SWIS network.

Section 13 of the Act requires Verve Energy 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 Authority has elected to extend the period to be covered by the audit to the 36 month period ending 31 March 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 Verve Energy'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 Verve Energy has:

- Allocated responsibilities to specific staff for meeting key Licence obligations
- Demonstrated a general awareness of, and commitment to, regulatory compliance
- 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 Verve Energy'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 <sup>3</sup>	Not rated <sup>4</sup>	Non-compliant		Compliant			
Audit Priority <sup>2</sup>				1	2	3	4	5
Priority 1			-	-	-	-	-	-
Priority 2			-	-	-	-	1	1
Priority 3			-	-	-	-	-	-
Priority 4		12	-	1	1	-	10	24
Priority 5		6 (1)	-	-	-	-	9 (2)	15 (3)
N/A	9 (3)							9 (3)
<b>Total</b>	<b>9 (3)</b>	<b>18 (1)</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>20 (2)</b>	<b>49 (6)</b>

\*The numbers in brackets refer to the obligations that were applicable for only part of the audit period.

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 Verve Energy’s response to previous audit recommendations

The audit considered Verve Energy’s progress in completing the single action plan detailed in the 2010 performance audit report.

We observed that Verve Energy completed the action plan detailed in the 2010 performance audit report by requesting the Authority to remove Rockingham PV and Wellington Hydro from its Licence.

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

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

<sup>3</sup> Obligations assessed as not applicable to Verve Energy’s operations are detailed in the Audit Plan at Appendix A

<sup>4</sup> 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
103	<p>A licensee must notify details of the asset management system and any substantial changes to it to the Authority.</p> <p><i>Electricity Industry Act section 14.1(b)</i></p>	Priority 4	Compliant 3	<p>Through discussions with the Manager Portfolio Development &amp; Optimisation and Manager Trading and Regulation; and consideration of the flow diagram (DM3516075), which presents a one page visual outline of Verve Energy's Asset Management System, we determined that Verve Energy's asset management system has:</p> <ul style="list-style-type: none"> <li>• Evolved considerably since the Authority was the last advised of the details of the system</li> <li>• Been further enhanced during the period subject to this audit.</li> </ul> <p>There is some doubt as to whether changes to the asset management system during the audit period are sufficiently substantial as to require specific notification to the Authority in accordance with the requirements of section 14(1) of the Act.</p> <p>As it may be reasonable to form a view either way, we consider Verve Energy has not breached the requirements of the Act. We note that the clause 20.3 of the Licence specifies a 10 business day timeframe for providing such a notification.</p>
	<p><b>Recommendation 1/2013</b></p> <p>Verve Energy:</p> <p>(a) Notify the Authority of the current details of its asset management system for setting out the measures to be taken for the proper maintenance of assets used in the operation of its generating works</p> <p>(b) Establish a protocol for determining what constitutes a "substantial change" in its asset management system and for duly notifying the Authority.</p>			<p><b>Action Plan 1/2013</b></p> <p>Verve Energy will:</p> <p>(a) Notify the Authority of the current details of its asset management system for setting out the measures to be taken for the proper maintenance of assets used in the operation of its generating works</p> <p>(b) Establish a protocol for determining what constitutes a "substantial change" in its asset management system and for duly notifying the Authority.</p> <p><b>Responsible Person</b> Manager Portfolio Development &amp; Optimisation</p> <p><b>Target Date</b></p> <p>(a) September 2013 (b) December 2013.</p>

	Reporting manual no. & Licence condition ref.	Audit Priority	Compliance Rating	Issue 2/2013
123	<p>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.</p> <p><i>Licence condition 15.1</i></p>	Priority 4	Non-compliant - 2	<p>Verve Energy's Licence condition 15.1(c)(iv) and (v) requires Verve Energy to report relevant information to the Authority in the event that it changes the description of its generating works, or the nameplate capacity of its generating works. Verve Energy had considered its communications with the Authority's Secretariat regarding the description of generating works and total nameplate capacity within its Licence to have been sufficient to comply with this requirement.</p> <p>However, the Secretariat has now confirmed that it expects all changes to the description and nameplate capacity of individual generating works to be reported to the Authority, including any additions or removals from Verve Energy's portfolio of generating works.</p> <p>Within the versions of the Licence applicable during the period subject to audit, the broad references to the generating works at each location had accommodated changes within Verve Energy's portfolio of generating works. However:</p> <ul style="list-style-type: none"> <li>A. For the generating works at the Kwinana Licence area, Verve Energy did not advise the Authority of the specific change in nameplate capacity at the time Stage A was decommissioned and the High Efficiency Gas Turbines were commissioned. The net effect of these works was a lower total nameplate capacity. Verve Energy did subsequently notify the Authority</li> <li>B. There is doubt as to whether Verve Energy sufficiently met the Authority's requirement to be notified of the details of changes to the generating works specific to Grasmere wind farm and Muja AB. The doubt lies in the level of detail of those changes, including the description the generating works and relevant commencement/cessation dates, of which the Authority expects to be notified.</li> </ul> <p>Verve Energy recognises 'nameplate capacity' to be the Maximum Continuous Rating per the design plant generated capacity at the ambient condition of 15 degrees Celsius. As the uprating achieved at Muja C related to the 41 degrees Celsius sent out rating of the unit, there was no change to the 15 degrees Celsius design plant generated capacity (nameplate capacity). However Verve Energy has not consulted with the Authority to determine the suitability of its recognition of 'nameplate capacity'.</p>

<p><b>Recommendation 2/2013</b></p> <p>(a) For the avoidance of doubt over the requirements of Licence condition 15.1 (c)(iv) and (v), Verve Energy consult with the Authority to confirm:</p> <p>(i) The level of detail of changes in its licenced generating works of which the Authority expects to be notified</p> <p>(ii) In the event of future changes in generating works' sent out rating, the appropriate definition of 'nameplate capacity'</p> <p>(b) Where necessary, Verve Energy revise its procedures to ensure the Authority is formally advised in sufficient detail of the addition or removal of individual generating works to/from Verve Energy's portfolio of generating works.</p>	<p><b>Action Plan 2/2013</b></p> <p>Verve Energy will:</p> <p>(a) For the avoidance of doubt over the requirements of Licence condition 15.1 (c)(iv) and (v), consult with the Authority to confirm:</p> <p>(i) The level of detail of changes in its licenced generating works of which the Authority expects to be notified</p> <p>(ii) In the event of future changes in generating works' sent out rating, the appropriate definition of 'nameplate capacity'</p> <p>(b) Where necessary, revise its procedures to ensure the Authority is formally advised in sufficient detail of the addition or removal of individual generating works to/from Verve Energy's portfolio of generating works.</p> <p><b>Responsible Person</b> Senior Regulatory Analyst</p> <p><b>Target Date:</b></p> <p>(a) September 2013</p> <p>(b) December 2013.</p>
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## 2.6 Scope and objectives

The audit is designed to gain reasonable assurance regarding Verve Energy's compliance with the conditions of its Licence during the period 1 April 2010 to 31 March 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 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.

### 2.6.1 Risk assessment revision

Metering Code clause 5.19(4) (obligation 412), which was applicable to 6 December 2012 and related to the provision of metering services and collection of customer information, was included in the audit plan as an applicable requirement. During the audit, we recognised that Metering Code clause 5.19 in its entirety is not applicable to Verve Energy's operations as Verve Energy does not directly supply energy to customers and therefore does not collect customer information. Accordingly, this obligation was assessed as "Not applicable".

## 2.7 Approach

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

- Utilising the Audit Guidelines and Reporting Manuals (March 2008, June 2010, May 2011 and February 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 Verve Energy 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 Verve Energy's progress in implementing any previous audit action plans
- Reporting of findings to Verve Energy 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, Verve Energy 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 Verve Energy'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, recommendations and action plans (section 4).

Note that other than the revision noted at 2.6.1 above, the risk assessment presented in the audit plan 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	5
<b>12 Electricity Industry Act</b>												
101	13(1)	Minor	Unlikely	Low	Moderate	Priority 5						✓
102	14(1)(a)	Minor	Unlikely	Low	Moderate	Priority 5						✓
103	14(1)(b)	Moderate	Unlikely	Medium	Moderate	Priority 4				✓		
104	14(1)(c)	Minor	Unlikely	Low	Moderate	Priority 5						✓
105	17(1)	Minor	Unlikely	Low	Moderate	Priority 5						✓
106	31(3)	Major	Probable	High	Moderate	Priority 2						✓
107	41(6)	Moderate	Unlikely	Medium	Moderate	Priority 4						✓
<b>13 Electricity Licences - Licence Conditions and Obligations</b>												
119	12.1	Moderate	Unlikely	Medium	Moderate	Priority 4						✓
120	13.4	Moderate	Unlikely	Medium	Moderate	Priority 4	✓					
121	14.2	Moderate	Unlikely	Medium	Moderate	Priority 4						✓
122	20.5	Moderate	Unlikely	Medium	Moderate	Priority 4						✓
123	15.1	Moderate	Unlikely	Medium	Moderate	Priority 4			✓			
124	16.1	Moderate	Probable	Medium	Moderate	Priority 4						✓
125	17.1, 17.2	Moderate	Probable	Medium	Moderate	Priority 4	✓					
126	18.1	Moderate	Unlikely	Medium	Moderate	Priority 4						✓
<b>15 Electricity Industry Metering Code</b>												
<b>Part 3 Meters and metering installations</b>												
345	3.3B	Moderate	Probable	Medium	Moderate	Priority 4	✓					
360	3.11(3)	Moderate	Probable	Medium	Moderate	Priority 4						✓
385	3.27	Moderate	Unlikely	Medium	Moderate	Priority 4	✓					
<b>Part 4 The metering database</b>												
392	4.4(1)	Minor	Probable	Low	Moderate	Priority 5						✓
393	4.5(1)	Minor	Probable	Low	Moderate	Priority 5						✓
394	4.5(2)	Moderate	Probable	Medium	Moderate	Priority 4	✓					
<b>Part 5 Metering services</b>												
409	5.4(2)	Minor	Probable	Low	Moderate	Priority 5	✓					
422	5.16	Moderate	Unlikely	Medium	Moderate	Priority 4	✓					
423	5.17(1)	Not applicable to Verve Energy's operations. As Verve Energy does not directly supply energy to customers, it does not bill customers or supply metering services to customers.										
426	5.18	Moderate	Probable	Medium	Moderate	Priority 4	✓					
427	5.19(1)	Not applicable to Verve Energy's operations. As Verve Energy does not directly supply energy to customers, it does not collect customer information.										
428	5.19(2)											
429	5.19(3)											
431	5.19(6)											
<b>Part 7 Notices and confidential information</b>												
437	5.21(5)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓					
438	5.21(6)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓					
<b>Part 8 Dispute resolution</b>												
456	5.27	Not applicable to Verve Energy's operations. As Verve Energy does not supply electricity to customers, it does not collect customer information.										

#	Obligation reference	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Risk/ Priority	Compliance Rating										
							NR	1	2	3	4	5					
<b>Part 6 Documentation</b>																	
469	6.1(2)	Moderate	Probable	Medium	Moderate	Priority 4										✓	
<b>Part 7 Notices and confidential information</b>																	
472	7.2(1)	Minor	Unlikely	Low	Moderate	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	Moderate	Priority 4										✓	
477	7.6(1)	Moderate	Probable	Medium	Moderate	Priority 4	✓										
<b>Part 8 Dispute resolution</b>																	
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	✓										
<i>Obligations removed from the May 2011 Reporting Manual, but included in the June 2010 Reporting Manual<sup>2</sup> (3 Obligations below apply to Verve Energy's operations for the period 1 April 2010 to 30 April 2011)</i>																	
<b>13 Electricity Licences - Licence Conditions and Obligations</b>																	
103	12.2	Minor	Unlikely	Low	Moderate	Priority 5										✓	
104	12.3	Minor	Unlikely	Low	Moderate	Priority 5										✓	
<b>15 Electricity Industry Metering Code</b>																	
326	3.5(6)	Not applicable to Verve Energy's operations as Verve Energy is not the network operator in accordance with the Electricity Industry Metering Code 2005.															
<i>Obligations removed from the February 2013 Reporting Manual, but included in the May 2011 and June 2010 Reporting Manual (3 Obligations below apply to Verve Energy's operations for the period 1 May 2011 to 6 December 2012)</i>																	
<b>15 Electricity Industry Metering Code</b>																	
361	3.16(5)	Not applicable to Verve Energy'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)	Minor	Unlikely	Low	Moderate	Priority 5	✓										
412	5.19(4)	Not applicable to Verve Energy's operations. As Verve Energy does not supply electricity to customers, it does not collect customer information.															

# 4 Detailed findings, recommendations and action plans

The following sections are categorised into the relevant Codes and Regulations that require an assessment of Verve Energy's compliance. The sections relevant to Verve Energy's licence are:

1. Electricity Industry Act 2004
2. Electricity Licences - Licence Conditions and Obligations
3. Electricity Industry Metering Code 2005.

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 Verve Energy'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* – Verve Energy'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 Verve Energy's operations for the period subject to audit.

### Assessment of compliance

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

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

The following table provides detailed findings for the applicable and rateable obligation with an individual assessment of compliance.

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.	Compliant - 5	Deloitte was appointed with the Authority's approval to undertake the performance audit for the period 1 April 2010 to 31 March 2013. This is the third audit conducted by an independent expert since the granting of the Licence in March 2006. The 2010 performance audit report was provided to the Authority in July 2010.
102	A licensee must provide for an asset management system.	Compliant - 5	<i>Obligations 102 and 103</i> The Manager Trading and Regulation confirmed that:
103	A licensee must notify details of the asset management system and any substantial changes to it to the Authority.	Compliant - 3	<ul style="list-style-type: none"> <li>• Verve Energy (in its former status of Western Power Corporation Generation Business Unit) notified the Authority of its asset management system as part of its Licence application</li> <li>• For the duration of the period 1 April 2010 to 31 March 2013 Verve Energy had: <ul style="list-style-type: none"> <li>○ Provided for a functioning asset management system, which was applicable to all of its generating works (note that the 2013 Asset Management System Review will report on the effectiveness of that system for the period)</li> <li>○ Not required its asset management system to be modified to accommodate new generating works or new technologies</li> <li>○ Not changed its asset management philosophies.</li> </ul> </li> </ul> <p>In accordance with section 14(2) of the Act, which requires Verve Energy's asset management system to set out the measures to be taken for the proper maintenance of assets used in its operation of its generating works, the initial notification to the Authority of the details of Verve Energy's asset management system included a summary description of the:</p> <ul style="list-style-type: none"> <li>• Key documents and processes relevant to the asset management system</li> <li>• Aim of Verve Energy's asset operation and maintenance philosophy</li> <li>• Essential elements of the computerised maintenance management system. The system version at that time was MIMS, an earlier version of the current Ventyx Ellipse system.</li> </ul> <p>Through discussions with the Manager Portfolio Development &amp; Optimisation and Manager Trading and Regulation; and consideration of the flow diagram, which presents a one page visual outline of Verve Energy's Asset Management System, we determined that Verve Energy's asset management system has:</p> <ul style="list-style-type: none"> <li>• Evolved considerably since the Authority was the last advised of the details of the system</li> <li>• Been further enhanced during the period subject to this audit. Examples of those enhancements include: <ul style="list-style-type: none"> <li>○ The combination of the Engineering Risk Assessment Process, Plant Life Utilisation System and Optimum Maintenance Spend Plan applied to the management of each generating asset</li> <li>○ More sophisticated information being sought and used in the asset management process.</li> </ul> </li> </ul>

No	Obligation under Condition	Compliance Rating	Findings
	<i>Obligation 103 (cont.)</i>		<p>There is some doubt as to whether changes to the asset management system during the audit period are sufficiently substantial as to require specific notification to the Authority in accordance with the requirements of section 14(1) of the Act.</p> <p>As it may be reasonable to form a view either way, we consider Verve Energy has not breached the requirements of the Act. We note that the clause 20.3 of the Licence specifies a 10 business day timeframe for providing such a notification.</p>
	<p><b>Recommendation 1/2013</b> Verve Energy:</p> <p>(a) Notify the Authority of the current details of its asset management system for setting out the measures to be taken for the proper maintenance of assets used in the operation of its generating works</p> <p>(b) Establish a protocol for determining what constitutes a “substantial change” in its asset management system and for duly notifying the Authority.</p>		<p><b>Action Plan 1/2013</b> Verve Energy will:</p> <p>(a) Notify the Authority of the current details of its asset management system for setting out the measures to be taken for the proper maintenance of assets used in the operation of its generating works</p> <p>(b) Establish a protocol for determining what constitutes a “substantial change” in its asset management system and for duly notifying the Authority.</p> <p><b>Responsible Person</b> Manager Portfolio Development &amp; Optimisation</p> <p><b>Target Dates</b> (a) September 2013 (b) December 2013.</p>
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.	Compliant - 5	Deloitte was appointed, with the Authority’s approval, to undertake the asset management system review for the period 1 April 2010 to 31 March 2013. Deloitte, with the Authority’s approval, engaged KT & Sai Associates to address technical aspects of the review. This is the third review of the asset management system since the granting of the Licence in March 2006. The 2010 asset management system review report was provided to the Authority in July 2010.
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.	Compliant - 5	By obtaining evidence of payment of the 2010/11, 2011/12 and 2012/13 licence fees, we confirmed that payments were made within the one month period required by section 17(1) of the Act.

No	Obligation under Condition	Compliance Rating	Findings
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.	Compliant -5	<p>Through discussions with the Manager Trading and Regulation and the Senior Regulatory Analyst; and consideration of Verve Energy's documented policies and procedures, we determined that Verve Energy:</p> <ul style="list-style-type: none"> <li>• Has developed a business continuity management framework and incident management system, which are designed to minimise the extent of interruptions to its generating units. That framework includes: <ul style="list-style-type: none"> <li>▪ A Crisis Response Plan and Business Continuity manual outlining the processes to be applied in the event of an unavoidable outages</li> <li>▪ Emergency Management manual</li> <li>▪ Emergency response plans and guidelines</li> </ul> </li> <li>• Subjects its Crisis Management and Business Continuity system and processes together with the handling of recent incidents to a detailed annual review by the Manager Audit and Risk and the Executive Business Continuity Sponsor. Based on Verve Energy's risk management framework, a list of potential crises is also reviewed annually to ensure provisional crisis control plans are developed for the most critical scenarios</li> <li>• Where relevant and possible, subjects its emergency response plans to testing in accordance with timeframes specified in the relevant plan. Testing takes the form of periodic 'live exercises' as well as desk top training. We sighted evidence of a crisis management exercise conducted on 11 April 2011</li> <li>• Does not run some of some of its generating units at maximum output in order to provide for spinning reserve. The reserve may then accommodate any additional usage required during times of unplanned outages.</li> </ul> <p>We observed evidence of Verve Energy's review and testing of system recovery and restart plans. Particularly, we sighted the report of a detailed review conducted in February 2012 and reported to the Audit and Risk Management Committee (ARMC) in September 2012.</p>
107	A licensee must pay the costs of taking an interest in land or an easement over land.	Compliant – 5	<p>The Property Services Coordinator confirmed that Verve Energy:</p> <ul style="list-style-type: none"> <li>• Owns a number of properties or has interest in a number of easements over land on which it conducts its operations</li> <li>• Had taken easement over additional land during the period 1 April 2010 to 31 March 2013.</li> </ul> <p>We examined payment records and determined that Verve Energy had paid the costs of taking an additional interest in or easement over land during the period 1 April 2010 to 31 March 2013.</p>

## 4.2 Electricity Licences – Licence Conditions and Obligations

### Obligations determined to be not applicable

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

### Obligations determined to be not rateable

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

Obligation	Reason
120	The Manager Trading and Regulation confirmed that, for the period 1 April 2010 to 31 March 2013, Verve Energy was not prescribed individual performance standards by the Authority.
125	The Manager Trading and Regulation confirmed that, for the period 1 April 2010 to 31 March 2013, the Authority did not direct Verve Energy to publish any information.

### Assessment of compliance

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

N/A	N/R	Non-compliant		Compliant			Total
		1	2	3	4	5	
-	2	-	1	-	-	7	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	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.	Compliant - 5	<p>The Financial Controller confirmed that for the period 1 April 2010 to 31 March 2013:</p> <ul style="list-style-type: none"> <li>• Verve Energy was compliant with the Australian Accounting Standards Board (AASB) standards</li> <li>• There are no significant accounting transactions or items that would currently jeopardise Verve Energy's compliance with accounting standards</li> </ul> <p>The Office of the Auditor General (OAG) is responsible for auditing the annual statutory accounts of Verve Energy for compliance with Australian International Financial Reporting Standards (A-IFRS).</p> <p>The published Financial Statements of Verve Energy for the years ending 30 June 2010, 30 June 2011 and 30 June 2012 were examined. Those statements were unqualified.</p>
121	A licensee must comply, and require its auditor to comply, with the Authority's standard audit guidelines dealing with the performance audit.	Compliant - 5	<p><i>Obligations 121 and 122</i></p> <p>The audit and review plans approved by the Authority on 13 May 2013, commit Verve Energy 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 was undertaken utilising the framework from the audit guidelines.</p>
122	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.	Compliant - 5	<p>Deloitte has undertaken the audit and review utilising the <i>Audit Guidelines: Electricity, Gas and Water Licences</i>, dated August 2010.</p>
123	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.	Non-compliant - 2	<p>Verve Energy's Licence condition 15.1 requires Verve Energy to report relevant information to the Authority in the event that it:</p> <ol style="list-style-type: none"> <li>(a) Is under external administration</li> <li>(b) Experiences a change in its corporate, financial or technical circumstances upon which this licence was granted; and that change may materially affect Verve Energy's ability to perform its obligations under this licence</li> <li>(c) Changes its (i) name, (ii) ABN, (iii) address, (iv) the description of its generating works, or (v) the nameplate capacity of its generating works.</li> </ol> <p>During the period 1 April 2010 to 31 March 2013, Verve Energy was not under external administration; had not undergone any significant change in circumstances upon which its Licence was granted, which may affect its ability to meet its Licence obligations; and had not changed its name, ABN or address. Accordingly, in relation to Licence condition 15.1 (a), (b) and (c)(i) to (iii), Verve Energy was not required to report relevant information to the Authority.</p>

No	Obligation under Condition	Compliance Rating	Findings
	<i>Obligation 123 (cont.)</i>		<p>In relation to Licence condition 15.1 (c)(iv) and (v), Verve Energy had considered its communications with the Authority’s Secretariat regarding the description of generating works and total nameplate capacity within its Licence to have been sufficient to comply with this requirement. However, the Secretariat has now confirmed that it expects all changes to the description and nameplate capacity of individual generating works to be reported to the Authority, including any additions or removals from Verve Energy’s portfolio of generating works.</p> <p>The Senior Regulatory Analyst confirmed that:</p> <ul style="list-style-type: none"> <li>• During the period 1 April 2010 to 31 March 2013, there were no changes to the nameplate capacity of any of its generating works</li> <li>• Verve Energy recognises ‘nameplate capacity’ to be the Maximum Continuous Rating per the design plant generated capacity at the ambient condition of 15 degrees Celsius</li> <li>• The uprating achieved at Muja C related to the 41 degrees Celsius sent out rating of the unit i.e. not the 15 degrees Celsius design plant generated capacity.</li> </ul> <p>Within the versions of the Licence applicable during the period subject to audit, the broad references to the generating works at each location had accommodated changes within Verve Energy’s portfolio of generating works. However:</p> <p>A. For the generating works at the Kwinana Licence area, Verve Energy did not advise the Authority of the specific change in nameplate capacity at the time Kwinana Stage A was decommissioned and the Kwinana High Efficiency Gas Turbines were commissioned. The net effect of these works was a lower total nameplate capacity. Verve Energy did subsequently notify the Authority</p> <p>B. There is doubt as to whether Verve Energy sufficiently met the Authority’s requirement to be notified of the details of changes to the following generating works. The doubt lies in the level of detail of those changes (including the description the generating works and relevant commencement/cessation dates) that the Authority expects to be notified of:</p> <ul style="list-style-type: none"> <li>○ Grasmere wind farm. Verve Energy had previously included the proposed Grasmere wind farm (as part of the Albany wind farm) in its notification to the Authority of total nameplate capacity and in 2011, requested the words “proposed” to be removed from the Licence map title</li> <li>○ Muja AB. Verve Energy considers that the Licence’s description of generating works at Muja as “coal fired thermal station” adequately accommodates activity surrounding the Muja AB retirement, placement on care and maintenance, and subsequent recommissioning.</li> </ul>

No	Obligation under Condition	Compliance Rating	Findings
	<p><b>Recommendation 2/2013</b></p> <p>(a) For the avoidance of doubt over the requirements of Licence condition 15.1 (c)(iv) and (v), Verve Energy consult with the Authority to confirm:</p> <ul style="list-style-type: none"> <li>(i) The level of detail of changes in its licenced generating works of which the Authority expects to be notified</li> <li>(ii) In the event of future changes in generating works' sent out rating, the appropriate definition of 'nameplate capacity'</li> </ul> <p>(b) Where necessary, Verve Energy revise its procedures to ensure the Authority is formally advised in sufficient detail of the addition or removal of individual generating works to/from Verve Energy's portfolio of generating works.</p>		<p><b>Action Plan 2/2013</b></p> <p>Verve Energy will:</p> <p>(a) For the avoidance of doubt over the requirements of Licence condition 15.1 (c)(iv) and (v), consult with the Authority to confirm:</p> <ul style="list-style-type: none"> <li>(i) The level of detail of changes in its licenced generating works of which the Authority expects to be notified</li> <li>(ii) In the event of future changes in generating works' sent out rating, the appropriate definition of 'nameplate capacity'</li> </ul> <p>(b) Where necessary, revise its procedures to ensure the Authority is formally advised in sufficient detail of the addition or removal of individual generating works to/from Verve Energy's portfolio of generating works.</p> <p><b>Responsible Person</b> Senior Regulatory Analyst</p> <p><b>Target Date:</b></p> <ul style="list-style-type: none"> <li>(a) September 2013</li> <li>(b) December 2013.</li> </ul>

No	Obligation under Condition	Compliance Rating	Findings
124	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.	Compliant - 5	<p>Through discussions with the Senior Regulatory Analyst, we determined that Verve Energy has processes in place to respond to requests for information from the Authority. We note that:</p> <ul style="list-style-type: none"> <li>• Since the establishment of the position in April 2012, the Senior Regulatory Analyst has been responsible for: <ul style="list-style-type: none"> <li>▪ Maintaining a log of communication with the Authority, including timing for submission of required information and reports. All such correspondence is saved into the Document Management System, which records who the correspondence has been received from or sent to</li> <li>▪ High level monitoring of compliance with Verve Energy's licence obligations</li> </ul> </li> <li>• Verve Energy received a number of requests to provide information to the Authority during the period 1 April 2010 to 31 March 2013 <ul style="list-style-type: none"> <li>▪ When a request is made by the Authority, a Verve Energy representative (request owner) is assigned responsibility for managing the request</li> <li>▪ The request owner will develop a response and will submit the information to the Authority on behalf of Verve Energy</li> <li>▪ The request owner will be responsible for managing request deadlines, and if it is anticipated that further time is required, a request for time extension will be submitted by the request owner to the Authority</li> </ul> </li> <li>• Verve Energy is required to submit compliance reports to the Authority by 31 August each year. Verve Energy submitted its 2011 and 2012 compliance reports to the Authority on-time.</li> </ul>
126	Unless otherwise specified, all notices must be in writing.	Compliant - 5	<p>The Senior Regulatory Analyst confirmed that:</p> <ul style="list-style-type: none"> <li>• Verve Energy maintains records to evidence formal communications with the Authority, which have been made via post or email</li> <li>• All responses to requests are made in writing, unless otherwise requested.</li> </ul> <p>Of a sample of notices that were requested by the Authority, we evidenced that all were made in writing with supporting evidence maintained in the Document Management System.</p>

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

No <sup>5</sup>	Obligation under Condition	Compliance Rating	Findings
103	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.	Compliant – 5	<p>Verve Energy undertook the following expansions/reductions in its generating works during the period 1 April 2010 to 31 March 2013:</p> <ul style="list-style-type: none"> <li>• Greenough River Solar Farm was added to Verve Energy's Licence on 17 March 2011 and subsequently removed on 14 August 2012</li> <li>• Grasmere Wind Farm extension changed from proposed to operating on 30 March 2011</li> <li>• Ownership of the Kwinana Tiwest Cogeneration power plant was transferred to Tiwest and removed from Verve Energy's Licence on 1 March 2011.</li> </ul>
104	A licensee must not expand the generating works, distribution systems or transmission systems outside the licence area.	Compliant – 5	<p>As Verve Energy operates a portfolio of assets, the asset management system has been designed to capture and apply to all of its assets. Verve Energy did not purchase any new assets during the audit period that would not be applicable to its current asset management system (e.g. power based on new technology such as hydroelectric).</p> <p>The Manager Trading and Regulation confirmed that all expansions performed during the period 1 April 2010 to 31 March 2013 occurred within Verve Energy's licence area.</p>

<sup>5</sup> Obligation number taken from the June 2010 Compliance Reporting Manual

## 4.3 Electricity Industry Metering Code 2005

### Obligations determined to be not applicable

Note that due to a change in the Reporting Manual's obligation numbering (for the purpose of this audit, relevant to Metering Code obligations only) from the date on which the Audit Plan was approved, this report lists the updated numbering first, with the previous numbering listed in brackets.

The following obligations are not applicable to Verve Energy's operations:

Obligation	Reason
326 <sup>6</sup>	Clause 3.5(6) is not applicable to Verve Energy's operations as Verve Energy is not the Network Operator according to the Electricity Industry Metering Code 2005.
361 <sup>7</sup>	Clause 3.16(5) is not applicable to Verve Energy'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, no conversion is required. Accordingly, a related service level agreement is also not required.
423 (420)	Clause 5.17 is not applicable to Verve Energy's operations as Verve Energy does not bill customers directly or supply metering services.
427 – 429 (424 – 426), 431 (428), 456 (453), 412 <sup>8</sup>	Clause 5.19 of the Metering Code relates to the provision of customer information. As Verve Energy does not directly supply energy to a customer; it does not collect customer information. Accordingly, obligations relating to customer information are not applicable to Verve Energy's operations.

### Obligations determined to be not rateable

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

Obligation	Reason
345 (342)	A new obligation introduced to the Metering Code (clause 3.3B), effective 7 December 2012 requires Verve Energy to inform Western Power of any change to a metering point within two business days, where the meter has become subject to bi-directional electricity flows.  The Manager Trading and Regulation confirmed that during the period 7 December 2012 to 31 March 2013, there have been no changes in a metering point's circumstances that would result in bi-directional electricity flows that did not previously exist.
385 (382)	The Senior Trading Analyst confirmed that for the period 1 April 2010 to 31 March 2013, Verve Energy had no involvement with the installation of meters onto any network operated by Western Power or Horizon Power.
394 (391)	The Manager Trading and Regulation confirmed that for the period 1 April 2010 to 31 March 2013, Verve Energy did not have access to, nor influence over tariff meter standing data or data held in the metering database. Therefore, requirements to notify the network operator and the provision of information were not relevant to Verve Energy's operations for the period subject to audit.
409 (406)	The Senior Trading Analyst confirmed that all meters installed on Verve Energy's premises are designated as interval meters within the Network Operators' metering database. Therefore, until such time meters are installed or designated as accumulation meters, an assessment of compliance with this obligation cannot be made for the period subject to audit.

<sup>6</sup> Obligation number based on the June 2010 Manual

<sup>7</sup> Obligation number based on the May 2011 Manual

<sup>8</sup> Obligation number based on the May 2011 Compliance Reporting Manual

Obligation	Reason
422 (419)	The Senior Trading Analyst confirmed that for the period 1 April 2010 to 31 March 2013, Verve Energy did not collect energy data for Western Power (network operator). Therefore, an assessment of Verve Energy's compliance with this obligation cannot be made for the period subject to audit.
426 (423)	The Manager Trading and Regulation confirmed that during the period 1 April 2010 to 31 March 2013, Verve Energy did not collect or review information regarding the energy status of metering points. Therefore an assessment of Verve Energy's compliance with these obligations cannot be made for the period subject to audit.
437 – 438 (434 – 435)	The Manager Trading and Regulation confirmed that, during the period 1 April 2010 to 31 March 2013, Verve Energy did not request a test or audit of the items at s.5.21(1) of the Metering Code. Therefore an assessment of Verve Energy's compliance with these obligations cannot be made for the period subject to audit.
471 – 472 (474 – 475)	The Manager Trading and Regulation confirmed that, during the period 1 April 2010 to 31 March 2013, Western Power or Horizon Power did not make a request of Verve Energy to provide its contact details. Therefore an assessment of Verve Energy's compliance with these obligations cannot be made for the period subject to audit.
477 (474)	The Manager Trading and Regulation confirmed that, during the period 1 April 2010 to 31 March 2013, Verve Energy was not required to permit the disclosure of confidential information provided under or in connection with the Metering Code. Therefore an assessment of Verve Energy's compliance with this obligation cannot be made for the period subject to audit.
478 – 482 (475 – 479)	For the purposes of the Metering Code, 'disputes' refers to metering disputes between Verve Energy as a Code Participant, a retailer, another generator, the network operator (Western Power and Horizon Power), a user or the IMO. As the definition of Code Participant applies, the two possible parties with whom Verve Energy may have a dispute are Western Power and Horizon Power.  The Senior Regulatory Analyst confirmed that no metering disputes have arisen between Verve Energy and Western Power or Horizon Power during the period 1 April 2010 to 31 March 2013. Accordingly, an assessment of compliance with s.8.1 of the Metering Code cannot be made for the period subject to audit.
395 <sup>9</sup>	For the period 1 April 2010 to 31 March 2012, Verve Energy 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 Verve Energy's compliance with the relevant obligations of the Electricity Metering Code 2005.

N/A	N/R	Non-compliant		Compliant			Total
		1	2	3	4	5	
9	17	-	-	-	-	6	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.

<sup>9</sup> Obligation number based on the May 2011 Compliance Reporting Manual

No	Obligation under Condition	Compliance Rating	Findings
360 (357)	A Code participant who becomes aware of an outage or malfunction of a metering installation must advise the network operator as soon as practicable.	Compliant - 5	<p>Through discussions with the Manager Trading and Regulation and Operations Superintendent, Gas Turbines and Sustainable Operations; and consideration of Verve Energy's metering procedures, we determined that:</p> <ul style="list-style-type: none"> <li>• Western Power owns and operates all of Verve Energy's meters within the SWIN, and is responsible for the collection and maintenance of metering data</li> <li>• Verve Energy's procedures for receiving metering data from Western Power are: <ul style="list-style-type: none"> <li>▪ Metering data received from Western Power every month is monitored by the Senior Trading Analyst who reconciles to data obtained from the IMO</li> <li>▪ If Verve Energy identifies that a meter is either not reading or there is a temporary outage, Verve Energy notifies Western Power.</li> </ul> </li> <li>• Meters located on wind diesel plants (outside of the SWIN) are owned and maintained by the network operator (transferred from Western Power to Horizon Power in 2011), who is also responsible for the collection and maintenance of metering data from those plants. Horizon Power also provides metering data to Verve Energy every month</li> <li>• The Operations Superintendent, Gas Turbines and Sustainable Operations confirmed that during the period 1 April 2010 to 31 March 2013, Verve Energy was not aware of any outage or malfunction of a metering installation at a wind diesel plant that the network operator was not otherwise aware of</li> <li>• Verve Energy became aware of an outage to a metering installation at the Albany Wind Farm in October 2012. We noted that Verve Energy notified Western Power of the outage and worked with Western Power to resolve the issue and obtain substitute data.</li> </ul>

No	Obligation under Condition	Compliance Rating	Findings
392 (389)	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.	Compliant – 5	<p>Through discussions with the Senior Trading Analyst and consideration of the meter data reconciliation process, we determined that Verve Energy has the following procedures in place to resolve meter data discrepancies:</p> <ul style="list-style-type: none"> <li>• Reconciliations of Western Power’s meter data is performed on a monthly basis</li> <li>• Data is received via email (for SCADA data) or through the metering database (for Metron data)</li> <li>• All data is uploaded to a consolidated worksheet</li> <li>• The worksheet is reviewed to identify any potential discrepancies (e.g. high read or reads with “0” displayed that do not correlate with dates on the planned outage schedule)</li> <li>• Verve Energy compares any discrepancies with live data from the Generation Plant Status and Statistics System (<b>GPSS system</b>)</li> <li>• Any further discrepancies are queried and directly resolved with Western Power.</li> </ul> <p>We examined records of an outage to a metering installation at the Albany Wind Farm in October 2012 as an example of the manner in which Verve Energy recognised a discrepancy and worked with Western Power to resolve the issue and obtain substitute data.</p>
393 (390)	A Code participant must not knowingly permit the registry to be materially inaccurate.	Compliant - 5	<p>Through discussions with the Senior Trading Analyst and consideration of the meter data reconciliation process, we determined that Verve Energy has the following procedures in place:</p> <ul style="list-style-type: none"> <li>• Verve Energy identifies discrepancies in meter data via the monthly reconciliation process</li> <li>• If any material discrepancies arise, using the prescribed tolerance ranges contained in table 3 of appendix 1 in the Metering Code as a guide, Verve Energy resolves the issue directly with Western Power</li> <li>• Powerhouse Managers have KPIs around the accuracy of meter data, which encourages them to frequently monitor meter data.</li> </ul> <p>The Senior Trading Analyst confirmed that during the period 1 April 2010 to 31 March 2011, Verve Energy was not aware of any material inaccuracy in the metering database maintained by Western Power.</p> <p>The Manager Trading and Regulation confirmed that for the period 1 April 2010 to 31 March 2013, Verve Energy did not have access to, nor influence over tariff meter standing data or data held in the registry. Accordingly, Verve Energy was not in a position to determine the accuracy of standing data held in the registry.</p>

No	Obligation under Condition	Compliance Rating	Findings
469 (466)	A user must, in relation to a network on which it has an access contract, comply with the rules, procedures, agreements and criteria prescribed.	Compliant - 5	<p>Section 6.1(2) of the Metering Code requires Verve Energy (as a user) to comply with the network operator's:</p> <ul style="list-style-type: none"> <li>• Communication rules</li> <li>• Metrology procedure</li> <li>• Service Level Agreements (if any)</li> <li>• Mandatory Link Criteria.</li> </ul> <p>As Verve Energy does not have a specific Service Level Agreements (SLA) in place with Western Power or Horizon Power, the Metering Code model SLA provides the most relevant reference for the provision of metering services.</p> <p>We did not observe any evidence to indicate non-compliance with the requirements of Western Power's or Horizon Power's Metrology procedure, Communication rules or Mandatory Link Criteria. The Manager Trading and Regulation confirmed that Verve Energy is aware of and complies with the relevant requirements prescribed within the above documents.</p>
472 (469)	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.	Compliant - 5	<p>Through discussions with the Senior Regulatory Analyst and consideration of Verve Energy's business practices, we determined that Verve Energy maintains electronic and voice communication channels commensurate with the expectations of a major business.</p> <p>Verve Energy's access contract with Western Power contains its current contact details, including details for all the above communication methods.</p>

No	Obligation under Condition	Compliance Rating	Findings
476 (473)	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.	Compliant - 5	<p>Through discussions with the Senior Regulatory Analyst and examination of relevant policies and procedures, we determined that Verve Energy has the following controls and processes in place to ensure the confidentiality of information:</p> <ul style="list-style-type: none"> <li>• Verve Energy adopts the definition contained in the Metering code to define what is considered as confidential information (such as standing data or energy data)</li> <li>• All confidential information is stored either in Verve Energy's Document Management System (DMS) or a secure database</li> <li>• Files located on the DMS and the database are access restricted to certain levels or individual employees</li> <li>• All employees are bound by a confidentiality agreement, which is required to be signed during induction</li> <li>• Further training and information regarding confidentiality of information is contained in the Staff Handbook and the Record Keeping policy</li> <li>• Disciplinary procedures for breaching confidentiality requirements are contained in Verve Energy's HR Manual under <i>section 9.2 Underperformance and Misconduct</i> and the <i>Guidelines for Managing Underperformance and Misconduct</i>.</li> </ul> <p>The Senior Regulatory Analyst confirmed that, for the period 1 April 2010 to 31 March 2013, Verve Energy is not aware of any instances of confidential information being disclosed.</p>

## 5 Follow-up of previous audit action plans

Rec. No	Ref	Recommendation	Previous Audit Action Plan	Status	Revised action plan
1/2010	103	The Licensee should follow up on the removal of the Rockingham PV system from the licence and request the Authority to remove the Wellingtons Dam Hydro plant from the licence.	Will request ERA to amend licence by paying fee on receipt of Tax Invoice to remove Rockingham PV and Wellington Hydro from licence. <b>Responsible Person:</b> Chief Operating Officer <b>Target Date:</b> 31 December 2010	<b>Complete</b> Verve Energy requested the Authority to remove Rockingham PV and Wellington Hydro from the licence. On 30 March 2011, both Wellington Hydro and Rockingham PV were removed from the licence.	N/A

# Appendix A – Audit Plan

# **Verve Energy**

**Electricity Generation Licence  
(EGL7)**

**2013 Performance Audit**

**Audit Plan**

**13 May 2013**

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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 Electricity Generation Corporation (**Verve Energy**) an Electricity Generation Licence (**the Licence**).

Section 13 of the Electricity Act requires Verve Energy 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. With the Authority's approval, Deloitte Touche Tohmatsu (**Deloitte**) has been appointed to conduct the audit for the period 1 April 2010 to 31 March 2013. Note that the Authority increased Verve Energy's audit period to 36 months based on the findings of the 2010 performance audit.

Verve Energy has been granted a licence to construct and operate, or operate existing electricity generating works throughout the South West Interconnected System (SWIS) network. Verve Energy is the largest electricity generator in the SWIS network.

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 Verve Energy and presented to the Authority for approval.

## Objective

The performance audit is defined as an examination of the measures taken by Verve Energy 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 Verve Energy'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 Verve Energy 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 Verve Energy's performance criteria, which it expects to be reported upon and included in the scope of the performance audit in its *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 Verve Energy's operations and used as the basis for determining the performance criteria to be considered for the audit.

The audit period is 1 April 2010 to 31 March 2013.

Since Verve Energy's previous EGL performance audit in 2010, the Reporting Manual has undergone three revisions. For the period subject to audit, the four versions of the Reporting Manual are applicable to the periods outlined below:

Reporting Manual version	Applicable period
March 2008	1 April to 30 June 2010
July 2010	1 July 2010 to 30 April 2011
May 2011	1 May 2011 to 31 December 2012 <b>Metering Code:</b> 1 May 2011 to 6 December 2012
February 2013	1 January to 31 March 2013 <b>Metering Code:</b> 7 December 2012 to 31 March 2013

The 2010 performance audit used the March 2008 version of the Compliance Reporting Manual as a base. This manual was amended in July 2010 although no significant amendments were made to obligations relevant to electricity generation licences.

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 February 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 Verve Energy'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 (February 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 Verve Energy's operations**

Legislative element	Application to Verve Energy's operations
Electricity Industry Act	Seven of the 13 Electricity Industry Act obligations are applicable to Verve Energy's operations.
Electricity Licences	Eight of the 15 Electricity Licence obligations are applicable to Verve Energy'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.

Legislative element	Application to Verve Energy's operations
Electricity Industry Metering Code	21 of the 145 Metering Code obligations are applicable to Verve Energy's operations.  Note that four Metering Code obligations were removed during the period, of which one (361) was not applicable to Verve Energy's operations.

## Responsibility

### Verve Energy's responsibility for compliance with the conditions of the Licence

Verve Energy 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 Verve Energy'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*<sup>1</sup> 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 Verve Energy, 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 Verve Energy for our work, for this report, or for any reliance which may be placed on this report by any party other than Verve Energy.

### 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.

### Independence

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

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<sup>1</sup> 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 Verve Energy's licence obligations. The risk assessment gives specific consideration to the changes to Verve Energy's systems and processes and any matters of significance raised by the Authority and/or Verve Energy. The level of risk and materiality of the process determine 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 Verve Energy 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. An exception to this approach to rating consequence is for obligation 106 (Electricity Industry Act s 31(3)), where the consequence rating is revised from "minor" to "major" at the request of the Secretariat. 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 Verve Energy 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 Verve Energy'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**

Likelihood	Consequence		
	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**

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

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 Verve Energy’s regulatory environment
- Observations of the Authority’s Secretariat
- 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 reading of documentation and interviews by the auditors. 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 Verve Energy's systems and processes, we will consider the following:

- The control environment: Verve Energy'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 Verve Energy'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 Verve Energy's internal control structure to detect and correct non-compliance. Specific consideration will be given to and significant changes in relevant systems and procedures implemented during the period subject to audit
- Compliance attitude: action taken by Verve Energy 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 a permanent impact on Verve Energy'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 Verve Energy'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 Verve Energy with the relevant sections and schedules of the Licence.

Controls testing is performed for those licence obligations with an audit priority 3 and above (refer to table 4), 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.

All audit fieldwork is expected to be performed at each of Verve Energy’s and Deloitte’s Perth CBD offices, unless a need is identified to visit a facility for the purpose of testing a specific code or licence obligation.

## 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, Verve Energy will provide a post audit implementation plan for incorporation into the report.



# 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"> <li>▪ the consequences of non-compliance would cause major damage, loss or disruption to customers; or</li> <li>▪ the consequences of non-compliance would endanger or threaten to endanger the safety or health of a person.</li> </ul>
2	Moderate	<p>Classified on the basis that:</p> <ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ the regulatory obligation is not otherwise classified as a Type 1 or a Type NR non-compliance.</li> </ul> <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"> <li>▪ 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</li> <li>▪ compliance with the obligation is immeasurable; or</li> <li>▪ the non-compliance is required to be reported to the Regulator under another instrument, guideline or code 6; or</li> <li>▪ the non-compliance is identified by a party other than the licensee ; or</li> <li>▪ 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.</li> </ul> <p>Reclassification of Type NR as a Type 2 may occur in circumstances of:</p> <ul style="list-style-type: none"> <li>▪ systemic non-compliance; or</li> <li>▪ a failure to resolve non-compliance promptly.</li> </ul>

## 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 listed 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	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.	Minor	Unlikely	Low	Moderate	Priority 5
102	Electricity Industry Act section 14(1)(a)	A licensee must provide for an asset management system.	Minor	Unlikely	Low	Moderate	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.	Moderate	Unlikely	Medium	Moderate	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.	Minor	Unlikely	Low	Moderate	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.	Minor	Unlikely	Low	Moderate	Priority 5
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.	Major	Probable	High	Moderate	Priority 2
107	Electricity Industry Act section 41(6)	A licensee must pay the costs of taking an interest in land or an easement over land.	Moderate	Unlikely	Medium	Moderate	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.	Moderate	Unlikely	Medium	Moderate	Priority 4
120	Generation Licence condition 13.4	A licensee must comply with any individual performance standards prescribed by the Authority.	Moderate	Unlikely	Medium	Moderate	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.	Moderate	Unlikely	Medium	Moderate	Priority 4
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.	Moderate	Unlikely	Medium	Moderate	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.	Moderate	Unlikely	Medium	Moderate	Priority 4

No	Obligation reference	Obligation description	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
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.	Moderate	Probable	Medium	Moderate	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.	Moderate	Probable	Medium	Moderate	Priority 4
126	Generation Licence condition 18.1	Unless otherwise specified, all notices must be in writing.	Moderate	Unlikely	Medium	Moderate	Priority 4
15. Electricity Industry Metering Code - Licence Conditions and Obligations							
342	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.	Moderate	Probable	Medium	Moderate	Priority 4
357	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.	Moderate	Probable	Medium	Moderate	Priority 4
382	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.	Moderate	Unlikely	Medium	Moderate	Priority 4
389	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.	Minor	Probable	Low	Moderate	Priority 5
390	Electricity Industry Metering Code clause 4.5(1)	A Code participant must not knowingly permit the registry to be materially inaccurate.	Minor	Probable	Low	Moderate	Priority 5
391	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.	Moderate	Probable	Medium	Moderate	Priority 4
406	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).	Minor	Probable	Low	Moderate	Priority 5
419	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.	Moderate	Unlikely	Medium	Moderate	Priority 4
420	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 Verve Energy's operations. As Verve Energy does not directly supply energy to customers, it does not bill customers or supply metering services to customers.				
423	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.	Moderate	Probable	Medium	Moderate	Priority 4

No	Obligation reference	Obligation description	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
424	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.	Not applicable to Verve Energy's operations. As Verve Energy does not directly supply energy to customers, it does not collect customer information.				
425	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.					
426	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.					
428	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.					
434	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.	Moderate	Unlikely	Medium	Moderate	Priority 4
435	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.	Moderate	Unlikely	Medium	Moderate	Priority 4
453	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.	Not applicable to Verve Energy's operations. As Verve Energy does not directly supply energy to customers, it does not collect customer information.				
466	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.	Moderate	Probable	Medium	Moderate	Priority 4
469	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.	Minor	Unlikely	Low	Moderate	Priority 5
471	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.	Moderate	Unlikely	Medium	Moderate	Priority 4
472	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.	Moderate	Unlikely	Medium	Moderate	Priority 4
473	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.	Moderate	Probable	Medium	Moderate	Priority 4
474	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.	Moderate	Probable	Medium	Moderate	Priority 4

No	Obligation reference	Obligation description	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
475	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.	Minor	Unlikely	Low	Moderate	Priority 5
476	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.	Minor	Unlikely	Low	Moderate	Priority 5
477	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.	Minor	Unlikely	Low	Moderate	Priority 5
478	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.	Moderate	Unlikely	Medium	Moderate	Priority 4
479	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).	Minor	Unlikely	Low	Moderate	Priority 5
Obligations removed from the May 2011 Reporting Manual, but included in the June 2010 Reporting Manual <sup>1</sup> (applicable for the period 1 April 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.	Minor	Unlikely	Low	Moderate	Priority 5
104	Generation Licence condition 12.3	A licensee must not expand the generating works, distribution systems or transmission systems outside the licence area.	Minor	Unlikely	Low	Moderate	Priority 5
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 Verve Energy's operations as Verve Energy is not the network operator according to the Electricity Industry Metering Code 2005.				
Obligations removed from the 2013 Reporting Manual, but included in the May 2011 and June 2010 Reporting Manual <sup>2</sup> (applicable for the period 1 May 2011 to 6 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 Verve Energy'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.	Minor	Unlikely	Low	Moderate	Priority 5
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.	Minor	Unlikely	Low	Moderate	Priority 5

<sup>1</sup>Numbering based on the June 2010 Reporting Manual

<sup>2</sup>Numbering based on the May 2011 Reporting Manual

# Appendix 3 - New and superseded obligations

Legislative Element	New obligations <sup>2</sup> Relevant period: 7 Dec '12 – 31 Mar '13	Superseded obligations <sup>3</sup> Relevant period: 1 Apr '10 – 30 Apr '11	Superseded obligations <sup>4</sup> 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	342: Clause 3.3B	326: Clause 3.5(6)	361: Clause 3.16(5) 395: Clause 5.5(3) 412: Clause 5.19(4)

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

<sup>3</sup> Obligation number is based on the June 2010 Electricity Compliance Reporting Manual

<sup>4</sup> Obligation number is based on the May 2011 Electricity Compliance Reporting Manual

# Appendix 4 - Previous audit recommendations

## Issue 1 – Obligation 103: Amend AMS on expansion or reduction

The Licensee has advised the Authority of the intent to remove the Rockingham PV from the licence but has to pay the licence fee to amend the Licence. The Licensee requires a Tax Invoice to pay and has requested one but it has not been received to date. Non Payment is a breach of Licence condition 5.1 but there is no reporting manual item to cover this issue presumably as it was not regarded as significant to require reporting.

### Recommendation 1

The Licensee should follow up on the removal of the Rockingham PV system from the licence and request the Authority to remove the Wellingtons Dam Hydro plant from the licence.

### Action plan 1

Will request ERA to amend licence by paying fee on receipt of Tax Invoice to remove Rockingham PV and Wellington Hydro from licence.

**Responsible Person:** Chief Operating Officer

**Target Date:** December 2010

# Appendix B – References

## Key Verve Energy contacts

- Manager Trading and Regulation
- Senior Regulatory Analyst
- Financial Controller
- Operations Superintendent, Gas Turbines & Sustainable Operations
- Property Services Coordinator
- Manager Risk & Audit
- Manager Portfolio Development & Optimisation.
- Senior Trading Analyst

## Deloitte staff

Name	Position	Hours
• Richard Thomas	Partner	5
• Andrew Baldwin	Account Director	34
• Emlyn King	Analyst	55
• Darren Gerber	Partner (Quality Assurance Review)	1.5

## Key Documents and other information sources

- Audited annual reports for 2009/10, 2010/11 and 2011/12
- Evidence of payment of licence fees
- Crisis Response Plan
- Business Continuity Policy
- Business Continuity Manual
- May 2011 Crisis Management Exercise Report – prepared by RiskCover
- September 2012 Risk Management Activity Report to ARMC
- Notification of expansions and reductions during the audit period
- May 2011 Electricity Transfer Access Contract
- ERA notification for approval of audit period extension
- Staff/Employee Induction Handbook
- HR Manual
- Confidentiality Agreement for handling of information
- Records of correspondence with Horizon Power relating to calibration of meters
- GPSS system screen shots relating to metering data reconciliations
- Records of correspondence with the Authority
- Asset Management System references
- Representations from:
  - Manager Trading and Regulation
  - Senior Regulatory Analyst
  - Operations Superintendent, Gas Turbines and Sustainable Operations
  - Financial Controller.

# Appendix C – Post Audit Implementation Plan

## Issue 1/2013

### Obligation 103: Electricity Industry Act s14(1)(b)

Through discussions with the Manager Portfolio Development & Optimisation and Manager Trading and Regulation; and consideration of the flow diagram (DM3516075), which presents a one page visual outline of Verve Energy’s Asset Management System, we determined that Verve Energy’s asset management system has:

- Evolved considerably since the Authority was the last advised of the details of the system
- Been further enhanced during the period subject to this audit.

There is some doubt as to whether changes to the asset management system during the audit period are sufficiently substantial as to require specific notification to the Authority in accordance with the requirements of section 14(1) of the Act.

As it may be reasonable to form a view either way, we consider Verve Energy has not breached the requirements of the Act. We note that the clause 20.3 of the Licence specifies a 10 business day timeframe for providing such a notification.

## Recommendation 1/2013

Verve Energy:

- (a) Notify the Authority of the current details of its asset management system for setting out the measures to be taken for the proper maintenance of assets used in the operation of its generating works
- (b) Establish a protocol for determining what constitutes a “substantial change” in its asset management system and for duly notifying the Authority.

## Action Plan 1/2013

Verve Energy will:

- (a) Notify the Authority of the current details of its asset management system for setting out the measures to be taken for the proper maintenance of assets used in the operation of its generating works
- (b) Establish a protocol for determining what constitutes a “substantial change” in its asset management system and for duly notifying the Authority.

### Responsible Person

Manager Portfolio Development & Optimisation

### Target Date

- (a) September 2013
- (b) December 2013.

**Issue 2/2013****Obligation 123: Licence conditions 15.1**

Verve Energy's Licence condition 15.1(c)(iv) and (v) requires Verve Energy to report relevant information to the Authority in the event that it changes the description of its generating works, or the nameplate capacity of its generating works.

Verve Energy had considered its communications with the Authority's Secretariat regarding the description of generating works and total nameplate capacity within its Licence to have been sufficient to comply with this requirement. However, the Secretariat has now confirmed that it expects all changes to the description and nameplate capacity of individual generating works to be reported to the Authority, including any additions or removals from Verve Energy's portfolio of generating works.

Within the versions of the Licence applicable during the period subject to audit, the broad references to the generating works at each location had accommodated changes within Verve Energy's portfolio of generating works. However:

- A. For the generating works at the Kwinana Licence area, Verve Energy did not formally advise the Authority of the specific change in nameplate capacity at the time Kwinana Stage A was decommissioned and the Kwinana High Efficiency Gas Turbines were commissioned. The net effect of these works was a lower total nameplate capacity. Verve Energy did subsequently notify the Authority
- B. There is doubt as to whether Verve Energy sufficiently met the Authority's requirement to be notified of the details of changes to the following generating works. The doubt lies in the level of detail of those changes (including the description the generating works and relevant commencement/cessation dates) that the Authority expects to be notified of:
  - Grasmere wind farm. Verve Energy had previously included the proposed Grasmere wind farm (as part of the Albany wind farm) in its notification to the Authority of total nameplate capacity and in 2011, requested the words "proposed" to be removed from the Licence map title
  - Muja AB. Verve Energy considers that the Licence's description of generating works at Muja as "coal fired thermal station" adequately accommodates activity surrounding the Muja AB retirement, placement on care and maintenance, and subsequent recommissioning.

Verve Energy recognises 'nameplate capacity' to be the Maximum Continuous Rating per the design plant generated capacity at the ambient condition of 15 degrees Celsius. As the uprating achieved at Muja C related to the 41 degrees Celsius sent out rating of the unit, there was no change to the 15 degrees Celsius design plant generated capacity (nameplate capacity). However Verve Energy has not consulted with the Authority to determine the suitability of its recognition of 'nameplate capacity'.

**Recommendation 2/2013**

- (a) For the avoidance of doubt over the requirements of Licence condition 15.1 (c)(iv) and (v), Verve Energy consult with the Authority to confirm:
  - (i) The level of detail of changes in its licenced generating works of which the Authority expects to be notified
  - (ii) In the event of future changes in generating works' sent out rating, the appropriate definition of 'nameplate capacity'
- (b) Where necessary, Verve Energy revise its procedures to ensure the Authority is formally advised in sufficient detail of the addition or removal of individual generating works to/from Verve Energy's portfolio of generating works.

**Action Plan 2/2013**

Verve Energy will:

- (a) For the avoidance of doubt over the requirements of Licence condition 15.1 (c)(iv) and (v), consult with the Authority to confirm:
  - (i) The level of detail of changes in its licenced generating works of which the Authority expects to be notified
  - (ii) In the event of future changes in generating works' sent out rating, the appropriate definition of 'nameplate capacity'
- (b) Where necessary, revise its procedures to ensure the Authority is formally advised in sufficient detail of the addition or removal of individual generating works to/from Verve Energy's portfolio of generating works.

**Responsible Person**

Senior Regulatory Analyst

**Target Date:**

- (a) September 2013
- (b) December 2013.