

EDL NGD (WA) Pty Ltd
Electricity Integrated Regional
Licence (EIRL1)
2014 Performance Audit
January 2015

Mr Geoff Hobley
Senior Commercial Manager
EDL NGD (WA) Pty Ltd
PO Box 4046
Eight Mile Plains QLD 4113

30 January 2015

Dear Geoff

Electricity Integrated Regional Licence (EIRL1) Performance Audit Report

We have completed the Electricity Integrated Regional Licence Performance Audit for EDL NGD (WA) Pty Ltd for the period 1 August 2011 to 31 July 2014 and are pleased to submit our report to you.

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

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

Yours sincerely

Darren Gerber
Partner
Deloitte Touche Tohmatsu

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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 relating to EDL NGD (WA) Pty Ltd's (**EDL**) compliance with the conditions of its Electricity Integrated Regional Licence (**the Licence**).

The performance audit was conducted as a reasonable assurance engagement and in accordance with the specific requirements of the Licence and the April 2014 issue of the *Audit and Review Guidelines: Electricity and Gas Licences* (**Audit Guidelines**).

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

EDL is responsible for ensuring compliance with the conditions of the Licence. This responsibility includes the following:

- Ensuring that it has complied, in all material respects, with the requirements of the Licence
- Establishing and maintaining an effective system of internal control over its systems designed to achieve compliance with the Licence requirements
- 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 EDL's compliance with the conditions of the Licence based on our audit procedures. The reasonable assurance engagement has been conducted in accordance with the Guidelines and the Australian Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Australian Auditing and Assurance Standards Board, in order to state whether, in our opinion, based on the procedures performed, EDL has complied, in all material respects with the conditions of its Licence as outlined in the approved Audit Plan (dated September 2014) for the period 1 August 2011 to 31 July 2014.

ASAE 3100 also requires us to comply with the relevant ethical requirements of the Australian professional accounting bodies.

Our procedures consisted primarily of:

- Utilising the Audit Guidelines and the Electricity Compliance Reporting Manual (**Reporting Manual**) as a guide for development of a risk assessment, and document review to assess controls
- Development of an Audit Plan for approval by the Authority and an associated work programme
- Interviews with and representations from relevant EDL staff to gain an understanding of process controls
- Review of documents and walkthrough of processes and controls to assess the overall compliance and effectiveness in accordance with Licence obligations. We also performed sample testing where relevant for obligations rated as an Audit Priority 3 in the approved Audit Plan.

Limitations of use

This report is intended solely for the information and internal use of EDL 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 understand that a copy of the report will be provided to the Authority for the purpose of reporting on the performance audit for EDL's electricity integrated regional licence. We agree that a copy of this report may be provided to the Authority for its information in connection with this purpose but

only on the basis that we accept no duty, liability or responsibility to the Authority in relation to the report. We accept no duty, responsibility or liability to any party, other than EDL, in connection with the report or this engagement.

Inherent limitations

Our engagement will provide reasonable assurance as defined in ASAE 3100. 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 and testing as at a point of time
- The inherent limitations of internal control
- The fact that much of the evidence available to us is persuasive rather than conclusive
- The use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence.

Because of the inherent limitations of any compliance procedure, it is possible that fraud, error or non-compliance may occur and not be detected. A reasonable assurance engagement is not designed to detect all instances of non-compliance, as the engagement is not performed continuously throughout the period and the procedures performed in respect of compliance are undertaken on a test basis.

The conclusion expressed in this report has been formed on the above basis. Any projection of the evaluation of the level of compliance to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with management procedures may deteriorate.

Independence

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

Conclusion

In our opinion, based on the procedures performed, except for the effect of the issue set out below, EDL has complied, in all material respects, with the conditions of its Licence as outlined in the approved Audit Plan (dated September 2014) for the period 1 August 2011 to 31 July 2014.

Exceptions

The following performance criteria were assessed as non-compliant (rating 2):

Reporting manual no. & Licence condition		Issue
124	<p><i>Electricity Generation Licence condition 16.1</i></p> <p>A licensee must provide the Authority, in the manner prescribed, any information the Authority requires in connection with its functions under the Electricity Industry Act.</p>	<p>We sighted the 2012 and 2013 letters for EDL's submission of the 2011/12 and 2012/13 annual compliance reports and observed that the compliance reports were submitted on time. However, we noted that EDL submitted its 2010/11 compliance report to the Authority late and as a result, reported the non-compliance in its 2011/12 compliance report.</p>

DELOITTE TOUCHE TOHMATSU

Darren Gerber

Partner

Perth, January 2015

2 Executive Summary

2.1 Introduction and background

The Economic Regulation Authority (the **Authority**) has under the provisions of the Electricity Industry Act (the **Act**), issued to EDL NGD (WA) Pty Ltd (**EDL**) an Electricity Integrated Regional Licence (EIRL1) (**the Licence**) to operate a natural gas power station, which is connected to the North West Interconnected System (**NWIS**). EDL has a Power Purchase Agreement (**PPA**) with Horizon Power to supply electricity to the Broome town site and surrounding areas.

All generation units under the West Kimberly Power Project (WKPP), except for the Broome Power Station, were removed from EDL's licence following a request from EDL. Under the Electricity Industry Exemption Order 2005 (the Order), these generation units, each of which produced less than 30 MW of electricity per connection point, were exempt from the requirement to be licensed. Also, as a result of the order published by the Office of Energy on 9 October 2009 removing the transmission line component of EDL's Broome operations, the Licence only relates to EDL's generation works at the Broome Power Station. Note that EDL currently operates its West Kimberly power stations as a portfolio; known as the West Kimberly Power Project (**WKPP**).

Section 13 of the Act requires EDL 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 three year period 1 August 2011 to 31 July 2014.

2.2 Observations

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

- Demonstrated a reasonable awareness of its regulatory requirements relating to its Licence
- Allocated the primary responsibility for meeting key Licence obligations to the Senior Commercial Manager (in the Environmental Specialist's absence) and other responsible managers
- Maintained procedures and controls designed to help:
 - Facilitate 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.
- Implemented control improvements associated with elements of non-compliance and areas for improvement since the last audit.

2.3 Findings

The following tables summarise the assessments made during the audit on EDL's compliance with and the adequacy of controls in place for EDL to manage its compliance with the relevant obligations or conditions of the Licence:

- On a scale of 1 to 4, "1" is the highest compliance rating possible (defined as "Compliant") with the rating scale moving through to "4", the lowest rating possible (defined as "Non-compliant – major impact on customers or third parties")
- On a scale of A to D, "A" is the highest control adequacy rating (defined as "Adequate controls – no improvement needed") with the rating scale moving through to "D", the lowest control adequacy rating possible (defined as "No controls evident").

Table 3 at section 3 of this report provides further detail on the compliance and control adequacy rating scales. The above rating scale is defined by the Authority in its Audit Guidelines.

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

Audit Priority	Compliance rating				NR	Total
	1	2	3	4		
Priority 1	-	-	-	-	-	-
Priority 2	-	-	-	-	-	-
Priority 3	1	1	-	-	-	2
Priority 4	6	-	-	-	20	26
Priority 5	4	-	-	-	7	11
Total:	11	1	-	-	27	39

Table 2: Summary of findings, by audit priority and controls adequacy

Audit Priority	Control adequacy rating				NP ¹	Total
	A	B	C	D		
Priority 1	-	-	-	-	-	-
Priority 2	-	-	-	-	-	-
Priority 3	2	-	-	-	-	2
Priority 4	-	-	-	-	26	26
Priority 5	-	-	-	-	11	11
Total:	2	-	-	-	37	39

Specific assessments for each licence obligation are summarised at **Table 4** in section 3 “Summary compliance ratings” of this report.

Note that, in accordance with the new Audit Guidelines, obligations assessed as being “not applicable” to EDL’s operations have not been included within this report. Further, an assessment of control adequacy is not required for obligations with an audit priority of 4 or 5 and a compliance rating of 1.

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 EDL’s response to previous audit recommendations

This audit considered EDL’s progress in completing the action plans detailed in the 2011 performance audit report.

Based on our examination of relevant documents, consideration of our findings from the 2012 Post Audit Implementation review, discussions with staff and the results of this audit’s testing against the associated licence obligations, we determined that both action plans detailed in the 2011 performance audit report have been completed, with no further action required.

Refer to section 5 of this report for further detail.

¹ Refers to the obligations for which a control assessment was not required (obligations with an audit priority greater than 3 and a compliance rating of 1).

2.5 Recommendations and action plans

Table of Current Audit Non Compliances/Recommendations			
Resolved during current Audit period			
Manual Ref.	Non-Compliance/Controls improvement	Date Resolved (& management action taken)	Auditors comments
124	<p><i>Electricity Generation Licence condition 16.1</i></p> <p>We sighted the 2012 and 2013 letters for EDL's submission of the 2011/12 and 2012/13 annual compliance reports and observed that the compliance reports were submitted on time. However, we noted that EDL submitted its 2010/11 compliance report to the Authority late and as a result, reported the non-compliance in its 2011/12 compliance report.</p>	In 2012, EDL implemented a SharePoint based compliance scheduling system, which is designed to provide reminders and alerts to responsible staff to complete compliance activities.	No further action is required by EDL.
Unresolved at end of current Audit period			
Reference (no./year)	Non-Compliance/Controls improvement	Auditors' Recommendation	Management action taken by end of Audit period
n/a	n/a	n/a	n/a

2.6 Other matters requiring attention

<p>Issue 1/2014</p> <p><i>Electricity Industry Metering Code – Licence Conditions and Obligations</i></p> <p>As a result of the exemption amendment order and the subsequent update to EDL’s Licence, we determined that, the obligations of the Metering Code are not relevant to EDL’s operations for the period 1 August 2011 to 31 July 2014. However, we do believe that EDL needs to be proactive in ensuring that the above position remains acceptable to the Authority, and if so, update its asset management plans to clearly articulate the metering responsibilities it has both from the Metering Code and the PPA.</p>	
<p>Recommendation 1/2014</p> <p>EDL should confirm that the current approach is acceptable and achieves the intent of the Regulation. If:</p> <p>(a) The arrangement is still appropriate, EDL should update its Asset Management Plan to reflect its metering responsibilities, considering both the Metering Code (e.g. EDL does not have any obligations under the Metering Code) and the PPA</p> <p>(b) The arrangement has or needs to be altered; EDL should consult with the Authority, Horizon Power and the Office of Energy regarding its responsibilities under the Metering Code and PPA as a generator.</p>	<p>Action plan 1/2014</p> <p>EDL agrees with the recommendation and will action accordingly.</p> <p>Responsible Person: Geoff Hobley</p> <p>Target Date: 28 February 2015</p>

2.7 Scope and objectives

As described in our engagement letter dated 22 August 2014, we have conducted a reasonable assurance audit in order to state whether, in our opinion, based on our procedures, EDL has complied, in all material respects, with the conditions of its Licence as outlined in the approved Audit Plan (dated September 2014) during the period 1 August 2011 to 31 July 2014.

The Authority has summarised the requirements of the applicable legislation that it expects to be reported upon and included in the scope of this audit in its *July 2014 Electricity Compliance Reporting Manual (Reporting Manual)*.

The Audit Plan approved by the Authority for this audit sets out the Licence conditions confirmed to be included in the scope of the audit, along with the risk assessments and audit priority assigned to each licence obligation. Note that under the current Audit Guidelines, the audit report is not required to include reference to those obligations assessed as “Not Applicable” to EDL’s operations.

The scope of this audit was limited to EDL’s generating operations at its Broome Power Station because of the Licence amendment in November 2012 and the Office of Energy exemption order approved in October 2009.

2.8 Approach

Our approach for this audit involved the following activities, which were undertaken during the period August and November 2014:

- Utilising the Audit Guidelines and Reporting Manuals (May 2011, February and June 2013, May and July 2014 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 for approval by the Authority and an associated work programme
- Interviews with and representations from relevant EDL staff to gain an understanding of process controls (see **Appendix A** for staff involved)
- Review of relevant documents and walkthrough of relevant processes (see **Appendix A** for reference listing)
- Sample testing for obligations assessed as an audit priority 3 (or above) and where there was relevant activity to determine whether transactions complied with the requirements of the obligation
- Reporting of findings to EDL for review and response.

3 Summary of compliance ratings

Table 3 below 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 and the adequacy of controls for licence obligations with audit priorities of 1, 2 or 3 and those that are rated as non-compliant by this audit.

Table 3: Performance audit compliance and controls rating scales

Adequacy of controls rating ²		Compliance rating	
Rating	Description	Rating	Description
A	Adequate controls – no improvement needed	1	Compliant
B	Generally adequate controls – improvement needed	2	Non-compliant – minor impact on customers or third parties
C	Inadequate controls – significant improvement required	3	Non-compliant – moderate impact on customers or third parties
D	No controls evident	4	Non-compliant – major impact on customers or third parties
NP ³	An assessment of controls was not provided	NR	No relevant activity existed during the period for an assessment of compliance to be made.

The remainder of this report provides:

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

Note that 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 level of testing.

² Assessment of adequacy of controls is not part of the reasonable assurance conclusion

³ In accordance with the Audit Guidelines, an assessment of control adequacy is not required for obligations with an audit priority of 4 or 5 and a compliance rating of 1.

Table 4: Compliance ratings

The table below provides the compliance rating for each relevant Licence condition. The compliance ratings are assigned as per the rating scale in Table 3.

#	Obligation reference (condition/clause)	Consequence	Likelihood	Inherent Risk Rating	Adequacy of controls					Compliance rating						
					Control assessment	A	B	C	D	NP	Audit Risk Priority	1	2	3	4	NR
12. Electricity Industry Act – Licence Conditions and Obligations																
101	13(1)	Minor	Unlikely	Low	Strong						✓	Priority 5	✓			
102	14(1)(a)	Minor	Unlikely	Low	Moderate						✓	Priority 5	✓			
103	14(1)(b)	Moderate	Probable	Medium	Moderate						✓	Priority 4	✓			
104	14(1)(c)	Minor	Unlikely	Low	Strong						✓	Priority 5	✓			
105	17(1)	Moderate	Probable	Medium	Weak	✓						Priority 3	✓			
106	31(3)	Minor	Unlikely	Low	Strong						✓	Priority 5	✓			
107	41(6)	Moderate	Unlikely	Medium	Moderate						✓	Priority 4				✓
13. Electricity Licences – Licence Conditions and Obligations																
119	12.1	Moderate	Unlikely	Medium	Strong						✓	Priority 4	✓			
120	13.4	Moderate	Unlikely	Medium	Moderate						✓	Priority 4				✓
121	14.2	Moderate	Unlikely	Medium	Strong						✓	Priority 4	✓			
122	20.5	Moderate	Unlikely	Medium	Strong						✓	Priority 4	✓			
123	15.1	Moderate	Unlikely	Medium	Strong						✓	Priority 4	✓			
124	16.1	Moderate	Probable	Medium	Weak	✓						Priority 3		✓		
125	17.1 and 17.2	Moderate	Probable	Medium	Moderate						✓	Priority 4				✓
126	18.1	Moderate	Unlikely	Medium	Strong						✓	Priority 4	✓			
15. Electricity Industry Metering Code – Licence Conditions and Obligations																
Part 3 – Meters and metering installations																
324	3.3B	Moderate	Unlikely	Medium	Moderate						✓	Priority 4				✓
339	3.11(3)	Moderate	Probable	Medium	Moderate						✓	Priority 4				✓
364	3.27	Moderate	Probable	Medium	Moderate						✓	Priority 4				✓
Part 4 – The metering database																
371	4.4(1)	Minor	Unlikely	Low	Moderate						✓	Priority 5				✓
372	4.5(1)	Minor	Unlikely	Low	Moderate						✓	Priority 5				✓

#	Obligation reference (condition/clause)	Consequence	Likelihood	Inherent Risk Rating	Adequacy of controls						Compliance rating						
					Control assessment	A	B	C	D	NP	Audit Risk Priority	1	2	3	4	NR	
373	4.5(2)	Moderate	Unlikely	Medium	Moderate						✓	Priority 4					✓
Part 5 – Metering services																	
388	5.4(2)	Moderate	Unlikely	Medium	Moderate						✓	Priority 4					✓
401	5.16	Moderate	Unlikely	Medium	Moderate						✓	Priority 4					✓
405	5.18	Moderate	Unlikely	Medium	Moderate						✓	Priority 4					✓
416	5.21(5)	Moderate	Unlikely	Medium	Moderate						✓	Priority 4					✓
417	5.21(6)	Moderate	Unlikely	Medium	Moderate						✓	Priority 4					✓
Part 6 – Documentation																	
448	6.1(2)	Moderate	Probable	Medium	Moderate						✓	Priority 4					✓
Part 7 – Notice and confidential information																	
451	7.2(1)	Minor	Unlikely	Low	Strong						✓	Priority 5					✓
453	7.2(4)	Moderate	Unlikely	Medium	Strong						✓	Priority 4					✓
454	7.2(5)	Moderate	Unlikely	Medium	Strong						✓	Priority 4					✓
455	7.5	Moderate	Unlikely	Medium	Moderate						✓	Priority 4					✓
456	7.6(1)	Moderate	Unlikely	Medium	Moderate						✓	Priority 4					✓
Part 8 – Dispute resolution																	
457	8.1(1)	Minor	Unlikely	Low	Moderate						✓	Priority 5					✓
458	8.1(2)	Minor	Unlikely	Low	Moderate						✓	Priority 5					✓
459	8.1(3)	Minor	Unlikely	Low	Moderate						✓	Priority 5					✓
460	8.1(4)	Moderate	Unlikely	Medium	Moderate						✓	Priority 4					✓
461	8.3(2)	Minor	Unlikely	Low	Moderate						✓	Priority 5					✓
Obligations removed from the 2013 Reporting Manual, but included in the May 2011 Reporting Manual ⁴ (applicable for the period 1 August 2011 to 6 December 2012)																	
361	3.16(5)	Moderate	Probable	Medium	Moderate						✓	Priority 4					✓
395	5.5(3)	Moderate	Unlikely	Medium	Moderate						✓	Priority 4					✓

⁴ Numbering is based on the May 2011 Reporting Manual.

4 Detailed findings, recommendations and action plans

The following sub-sections are categorised by the relevant instruments that require an assessment of EDL's compliance. The instruments relevant to EDL's licence are:

- 4.1. Electricity Industry Act 2004
- 4.2. Electricity Licenses - Licence Conditions and Obligations
- 4.3. Electricity Industry Metering Code – Licence Conditions and Obligations.

Each sub-section contains an **assessment of compliance and control adequacy**, detailing the conclusions from our audit procedures, a determination of EDL's compliance with the applicable obligations and where applicable, assessment of the adequacy of internal controls.

These tables include (where relevant):

- *Background* – a summary of EDL's circumstances in relation to the relevant section (where applicable)
- *Findings* – the auditor's understanding of the process and any issues that have been identified during the audit
- Reference to recommendations and action plans at sections 2.5 and 2.6 of this report:
 - *Recommendations* – recommendations for improvement or enhancement of the process or control
 - *Action plans* – EDL's formal response to audit recommendations, providing details of action to be implemented to address the specific issues raised by the audit, assignment of actions to appropriate staff and corresponding completion dates for the actions.

The audit compliance and control adequacy ratings have been summarised below for each sub-section.

Controls adequacy rating						Compliance rating					
A	B	C	D	NP	Total	1	2	3	4	NR	Total
4.1. Electricity Industry Act 2004											
1	-	-	-	6	7	6	-	-	-	1	7
4.2. Electricity Licenses - Licence Conditions and Obligations											
1	-	-	-	7	8	5	1	-	-	2	8
4.3. Electricity Industry Metering Code – Licence Conditions and Obligations.											
-	-	-	-	24	24	-	-	-	-	24	24
2	-	-	-	37	39	11	1	-	-	27	39

4.1 Electricity Industry Act 2004

No	Obligation under Condition	Findings	
101	<i>Electricity Industry Act section 13(1)</i> 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.	This is the third performance audit of EDL's Licence since its issue in August 2005. The previous performance audit was conducted by Deloitte, with the Authority's approval for the period 1 August 2008 to 31 July 2011. Deloitte was appointed with the Authority's approval to undertake the performance audit for the period 1 August 2011 to 31 July 2014.	
	Priority: 5	Controls rating: NP	Compliance rating: 1
102	<i>Electricity Industry Act section 14(1)(a)</i> A licensee must provide for an asset management system.	<i>Obligations 102 and 103</i> The Asset Manager confirmed that, for the period 1 August 2011 to 31 July 2014, EDL:	
	Priority: 5	Controls rating: NP	Compliance rating: 1
103	<i>Electricity Industry Act section 14(1)(b)</i> A licensee must notify details of the asset management system and any substantial changes to it to the Authority.	<ul style="list-style-type: none"> • Provided for a functioning asset management system, for its generating facility (note that the 2014 Asset Management System review will report on the effectiveness of that system for the period) • Advised the Authority of details of its asset management system via the issue of its Asset Management Plan (AMP) in 2008 • Has not made any amendments to its asset management system since the advice was provided to the Authority in 2008 • Has not changed its asset management philosophy. Based on our examination of EDL's AMP, we determined that:	
	Priority: 4	Controls rating: NP	Compliance rating: 1
104	<i>Electricity Industry Act section 14(1)(c)</i> 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.	The review is the third review of the asset management system in accordance with EDL's Licence since its issue in August 2005. The previous asset management system review was conducted by Deloitte, with the Authority's approval for the period 1 August 2008 to 31 July 2011. Deloitte was appointed with the Authority's approval to undertake the asset management system review for the period 1 August 2011 to 31 July 2014.	
	Priority: 5	Controls rating: NP	Compliance rating: 1

No	Obligation under Condition			Findings
105	<p><i>Electricity Industry Act section 17(1)</i></p> <p>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.</p>			<p>Through discussions with the Environment and Compliance Advisor and walkthrough of EDL's compliance scheduling system, we identified that EDL has implemented the following controls to ensure compliance with time-related licence obligations:</p> <ul style="list-style-type: none"> • Designated responsibility to the Environment and Compliance Advisor (in the absence of the Senior Environmental and Compliance Advisor), Senior Commercial Manager (in relation to the current audit and review) and other relevant staff to manage compliance obligations • Developed an excel-based scheduling system to alert relevant staff of upcoming regulatory commitments, including payment of Licence fees • The excel-based system was replaced in 2012 by an electronic compliance system using SharePoint, which has been configured to automatically notify relevant staff of upcoming compliance actions. <p>By obtaining EDL's records of its payment of the 2011, 2012 and 2013 licence fees, we determined that payments were made within the one month period of EDL's Licence anniversary date, as required by section 17(1) of the Act (i.e. by 12 September).</p> <p>We note that EDL reported in its 2011/12 compliance report that it was non-compliant with obligation 105 owing to late payment of its Licence fee. On further investigation, it appears that EDL incorrectly reported the non-compliance and payment was actually made within the timeframes required by the Act.</p>
	Priority: 3	Controls rating: A	Compliance rating: 1	

No	Obligation under Condition			Findings
106	<p><i>Electricity Industry Act section 31(3)</i></p> <p>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.</p>			<p>Through discussions with the Asset Manager and Operations Manager, examination of EDL's business continuity and contingency plans and consideration of the plant's design, we identified that:</p> <ul style="list-style-type: none"> • Routine condition monitoring, as part of the preventative maintenance programme, is performed by EDL to identify potential faults • EDL has an established contingency and emergency response planning process, which includes: <ul style="list-style-type: none"> ○ Emergency response plan, reviewed in 2014 ○ LNG Supply interruption contingency plan, reviewed in November 2013 and more recently in September 2014 ○ Annual scenario testing of the LNG contingency planning processes, recently performed in October 2014. • EDL has arrangements in place with other WKPP power stations to access spare parts in times of contingency, as well as access to other spares from its Queensland operations • Each plant has multiple contingencies built into its design (such as spares on site, access to spare parts from other WKPP sites and short term diesel supply agreements), which are in place to prevent full asset failure. <p>Through discussions with the Operations Manager, and examination of the WKPP incident management processes, we determined that EDL has a mature incident management system designed to minimise the extent or duration of interruption, suspension or restriction of supply.</p> <p>These processes were developed in accordance with the requirements of clause 12 of the PPA with Horizon Power.</p>
	Priority: 5	Controls rating: NP	Compliance rating: 1	
107	<p><i>Electricity Industry Act section 41(6)</i></p> <p>A licensee must pay the costs of taking an interest in land or an easement over land.</p>			<p>The Financial Controller confirmed that during the period 1 August 2011 to 31 July 2014, EDL:</p> <ul style="list-style-type: none"> • Continued to lease the land on which its Broome Power Plant is located • Did not obtain any further interest or easement over land. <p>As EDL has not obtained ownership in or easement over land during the period subject to audit, there has been no requirement for EDL to pay for the associated costs.</p>
	Priority: 4	Controls rating: NP	Compliance rating: NR	

4.2 Electricity Licences – Licence Conditions and Obligations

No	Obligation under Condition			Findings
119	<i>Electricity Generation Licence condition 12.1</i> A licensee and any related body corporate must maintain accounting records that comply with the Australian Accounting Standards Board Standards or equivalent International Accounting Standards.			<p>The Financial Controller confirmed that for the period 1 August 2011 to 31 July 2014:</p> <ul style="list-style-type: none"> EDL was compliant with the Australian Accounting Standards Board (AASB) standards There were no significant accounting transactions or items that could jeopardise EDL's compliance with the AASB standards. <p>EDL's financial statements for the WKPP are audited every six months by Ernst & Young, which is also responsible for auditing the annual statutory accounts of EDL for compliance with Australian International Financial Reporting Standards (A-IFRS).</p> <p>Annual Financial Reports for EDL for the years ending 30 June 2012, 2013 and 2014 were examined. The Independent Auditor's reports attached to each report confirmed compliance with Australian Accounting Standards and were unqualified.</p>
	Priority: 4	Controls rating: NP	Compliance rating: 1	
120	<i>Electricity Generation Licence condition 13.4</i> A licensee must comply with any individual performance standards prescribed by the Authority.			<p>The Environment and Compliance Advisor confirmed that for the period 1 August 2011 to 31 July 2014, EDL has not been prescribed individual performance standards by the Authority</p>
	Priority: 4	Controls rating: NP	Compliance rating: NR	
121	<i>Electricity Generation Licence condition 14.2</i> A licensee must comply, and require its auditor to comply, with the Authority's standard audit guidelines dealing with the performance audit.			<p><i>Obligations 121 and 122</i></p> <p>The audit and review plans, approved by the Authority on 19 September 2014, commit EDL and Deloitte (auditor and expert) to complying with the prescribed audit guidelines and reporting manual issued by the Authority.</p> <p>Deloitte confirms that the audit and review were undertaken utilising the framework from the <i>Audit Guidelines: Electricity, Gas and Water Licences</i>, dated April 2014.</p>
	Priority: 4	Controls rating: NP	Compliance rating: 1	
122	<i>Electricity Generation Licence condition 20.5</i> 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.			
	Priority: 4	Controls rating: NP	Compliance rating: 1	

No	Obligation under Condition			Findings
123	<p><i>Electricity Generation Licence condition 15.1</i></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>EDL's Licence clause 15.1 requires EDL to report relevant information to the Authority in the event that it:</p> <ul style="list-style-type: none"> • Is under external administration • Experiences a change in its corporate, financial or technical circumstances upon which this licence was granted; and that change may materially affect EDL's ability to perform its obligations under this licence • Changes its name, ABN, address, description of the generating works or nameplate capacity of the generating works. <p>The Financial Controller confirmed that, for the period 1 August 2011 to 31 July 2014, EDL:</p> <ul style="list-style-type: none"> • Was not under external administration • Did not experience any change in its corporate, financial or technical circumstances upon which the Licence was granted
	Priority: 4	Controls rating: NP	Compliance rating: NR	<ul style="list-style-type: none"> • Did not change its name, ABN or address, description of the generating works or nameplate capacity of the generating works.

No	Obligation under Condition			Findings
124	<p><i>Electricity Generation Licence condition 16.1</i></p> <p>A licensee must provide the Authority, in the manner prescribed, any information the Authority requires in connection with its functions under the Electricity Industry Act.</p>			<p>Through discussions with the Environment and Compliance Advisor, we determined that EDL has processes in place to respond to requests for information from the Authority. We observed that EDL has:</p> <ul style="list-style-type: none"> • Assigned responsibility to designated staff members for managing communications with and obligations to the Authority. Currently, the Environmental and Compliance Advisor (in the absence of the Senior Environmental and Compliance Advisor) is responsible for: <ul style="list-style-type: none"> ○ Maintaining records of communication with the Authority, including timing for submission of required information and reports ○ Monitoring compliance with EDL's licence obligations ○ Developing and submitting the Annual Compliance reports to the Authority by 31 August each year. • In 2012, implemented a SharePoint based compliance scheduling system to log compliance related tasks and alert relevant staff of upcoming regulatory commitments, including payment of licence fees • In addition to the above, sent staff reminder emails (from the Environment and Compliance Advisor) to alert them of compliance actions due within the next month. <p>The Environment and Compliance Advisor confirmed that the Authority did not request EDL to provide any other information in connection with its functions under the Electricity Industry Act.</p> <p>We sighted the 2012 and 2013 letters for EDL's submission of annual compliance reports and observed that the 2011/12 and 2012/13 compliance reports were submitted on time. However, we noted that EDL submitted its 2010/11 compliance report to the Authority late and as a result, reported the non-compliance in its 2011/12 compliance report. As EDL has enhanced its control environment by implementing the SharePoint based scheduling system, including demonstration of achievement of compliance regarding submission of its 2011/12 and 2012/13 compliance reports, no further recommendations have been made.</p>
	Priority: 3	Controls rating: A	Compliance rating: 2	
125	<p><i>Electricity Generation Licence condition 17.1&2</i></p> <p>A licensee must publish any information it is directed by the Authority to publish, within the timeframes specified.</p>			<p>The Environment and Compliance Advisor confirmed that, for the period 1 August 2011 to 31 July 2014, the Authority did not direct EDL to publish any information with regards to its Licence (other than information associated with annual compliance reports and the performance audit report).</p>
	Priority: 4	Controls rating: NP	Compliance rating: NR	

No	Obligation under Condition			Findings
126	<i>Electricity Generation Licence condition 18.1</i> Unless otherwise specified, all notices must be in writing.			The Environment and Compliance Advisor confirmed that, during the period 1 August 2011 to 31 July 2014, EDL: <ul style="list-style-type: none"> • Maintained records of formal communications (including notices) with the Authority • Responded to the Authority's requests in writing, unless otherwise requested • Did not receive any formal requests from the Authority for which a notice was required to be sent.
	Priority: 4	Controls rating: NP	Compliance rating: 1	

4.3 Electricity Industry Metering Code – Licence Conditions and Obligations

In accordance with EDL's Power Purchase Agreement (PPA) with Horizon Power, it is contracted to supply electricity via a network line (which was deemed a 'distribution network') connecting its Broome Power Station to the Horizon Power sub-station. EDL owns and manages its own metering arrangements (located in EDL Broome Substation adjacent to the Horizon Power Substation). The metering arrangements are calibrated on a periodic basis in accordance with the EDL Maintenance Management System (as required in the contract between EDL and Horizon Power).

On 9 October 2009, the Office of Energy issued an exemption amendment order with the effect that the distribution network connecting the Broome Power Station with Horizon Power's sub-station is not to be considered as a 'network' in its own right. On 5 February 2010, EDL made an application to the Authority requesting an amendment of its Licence, consistent with the Office of Energy's exemption amendment order. The exemption amendment order provided that EDL is exempt from section 7(3) of the *Electricity Industry Act 2004* for the underground distribution network, which joined the power station to the substation. EDL's Licence was updated by the Authority in February 2010 to reflect this amendment.

The exemption amendment order has had the following effect on EDL's Metering Code obligations:

- As the distribution element of EDL's Licence is now exempt from section 7(3) of the Act, the obligations subject to audit are those that relate to a generator only, even though EDL holds an integrated regional licence
- Owing to the removal of the distribution system element from EDL's Licence, any reference to a 'network' is now not relevant, as there is no related distribution network, nor a relevant network operated by Horizon Power, as defined by the Metering Code
- Section 1.3 of the Metering Code defines a 'network operator' to be a person who holds a distribution licence, integrated regional licence or transmission licence under Part 2 of the Act for either or both of the construction and operation of the network. As there is technically no network, there is no network operator under the current arrangements
- EDL, for the purposes of the Metering Code, can only be a Code participant due to the application of section 1.2(1)(c) of the Metering Code, capturing EDL as a generator
- Obligations that are relevant to a Code Participant are also not relevant as there is no network operator with whom EDL must engage or provide information.

However, we believe that EDL should proactively consult with the Authority and the Office of Energy to validate that its current position is still an acceptable position.

Issue 1/2014

Electricity Industry Metering Code – Licence Conditions and Obligations

As a result of the exemption amendment order and the subsequent update to EDL's Licence, we determined that, the obligations of the Metering Code are not relevant to EDL's operations for the period 1 August 2011 to 31 July 2014. However, we do believe that EDL needs to be proactive in ensuring that the above position remains acceptable to the Authority, and if so, update its asset management plans to clearly articulate the metering responsibilities it has both from the Metering Code and the PPA.

Recommendation 1/2014

EDL should confirm that the current approach is acceptable and achieves the intent of the Regulation. If:

- The arrangement is still appropriate, EDL should update its Asset Management Plan to reflect its metering responsibilities, considering both the Metering Code (e.g. EDL does not have any obligations under the Metering Code) and the PPA
- The arrangement has or needs to be altered; EDL should consult with the Authority, Horizon Power and the Office of Energy regarding its responsibilities under the Metering Code and PPA as a generator.

Action plan 1/2014

EDL agrees with the recommendation and will action accordingly.

Responsible Person: Geoff Hobley

Target Date: 28 February 2015

Note that we have not included details (such as our findings, control adequacy ratings and compliance ratings) of the individual obligations applicable to generators under the Metering Code, as all of EDL's obligations have been determined to be "not rated".

5 Previous audit non-compliances and recommendations

Reference (no./year)	Legislative Obligation	Compliance rating	Details of the issue	Auditors' Recommendation or action taken	Date Resolved	Further action required
A. Resolved before end of previous audit period						
n/a	n/a	n/a	n/a	n/a	n/a	n/a
B. Resolved during current audit period						
1/2011 (85) 105	<i>Electricity Industry Act s.17(1)</i> - 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.	Non-compliant - 2	The annual licence fee due by 13 September 2009 and 2010 (being one month after the anniversary of the Licence issue) was not paid until 16 October 2009 and 22 October 2010 respectively, breaching the requirement of the Act.	EDL implement stronger controls to ensure that licence fees are paid in compliance with the Act.	August 2012	No
2/2011 (110) 126	<i>Generation Licence condition 18.1</i> - 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.	Non-compliant - 2	Although EDL presented all required compliance reports to the Authority, the required compliance reports for the years ending 30 June 2009 and 2010 were provided to the Authority after the 31 August due date. The 2009 compliance report also required amendment to capture matters of non-compliance not initially reported.	EDL implement stronger controls to ensure that compliance reports and other relevant information required by the Authority are provided to the Authority in the form required and by the date required.	June 2012	No
C. Unresolved at end of current audit period						
n/a	n/a	n/a	n/a	n/a	n/a	n/a

Appendix A – References

Key EDL contacts

- Senior Commercial Manager
- Environment and Compliance Advisor
- Asset Manager
- Finance Manager
- Manager Commercial & Risk
- EDL Station Manager

Deloitte staff

Name	Position	Hours
• Darren Gerber	Partner	1.5
• Ben Fountain	Account Director	20
• Emlyn King	Senior Analyst	50
• Carmen Grant	Analyst	21
• Richard Thomas	Partner (Quality Assurance Review)	1

Key Documents and other information sources

- WKPP Supply Interruption Contingency Plan
- Emergency response plans
- Audited Financial Statements for 2012, 2013 and 2014
- PPA with Horizon Power
- Asset Management Plan
- Evidence of payment of licence fees
- Annual Compliance Reports for 2010/11, 2011/12, 2012/13
- SharePoint scheduling system email alerts.

Appendix B – Post Audit Implementation Plan

Issue 1/2014

Electricity Industry Metering Code – Licence Conditions and Obligations

As a result of the exemption amendment order and the subsequent update to EDL's Licence, we determined that, the obligations of the Metering Code are not relevant to EDL's operations for the period 1 August 2011 to 31 July 2014. However, we do believe that EDL needs to be proactive in ensuring that the above position remains acceptable to the Authority, and if so, update its asset management plans to clearly articulate the metering responsibilities it has both from the Metering Code and the PPA.

Recommendation 1/2014

EDL should confirm that the current approach is acceptable and achieves the intent of the Regulation. If:

- (c) The arrangement is still appropriate, EDL should update its Asset Management Plan to reflect its metering responsibilities, considering both the Metering Code (e.g. EDL does not have any obligations under the Metering Code) and the PPA
- (d) The arrangement has or needs to be altered; EDL should consult with the Authority, Horizon Power and the Office of Energy regarding its responsibilities under the Metering Code and PPA as a generator.

Action plan 1/2014

EDL agrees with the recommendation and will action accordingly.

Responsible Person: Geoff Hobley

Target Date: 28 February 2015