

EDL Pilbara Pty Ltd

Electricity Retail Licence

(ERL16)

2016 Performance Audit

(Independent Assurance)

November 2016 report



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Senior Commercial Manager
Energy Developments Pty Ltd
Level 9, 14-16 Victoria Avenue
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30 November 2016

Dear Geoff

EDL Pilbara Electricity Retail Licence (ERL16) Performance Audit Report

We have completed the Electricity Retail Licence Performance Audit for EDL Pilbara Pty Ltd (**EDL Pilbara**) for the period 1 September 2013 to 31 August 2016 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 me on 9365 7024.

Yours sincerely



Partner
Deloitte Risk Advisory Pty Ltd

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1 Independent Auditor's report

With the approval of the Economic Regulation Authority (**ERA**), Energy Developments Pty Ltd (**EDL**) engaged Deloitte Risk Advisory Pty Ltd (**Deloitte**) to conduct a performance audit of EDL Pilbara Pty Ltd's (**EDL Pilbara**) compliance with the conditions of its Electricity Retail Licence ERL16 (the **Licence**).

Deloitte conducted the performance audit 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 Pilbara's responsibility for compliance with the conditions of the Licence

EDL Pilbara is responsible for:

- 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 conditions of the Licence
- Implementing processes for assessing its compliance requirements and for reporting its level of compliance to the ERA
- Implementing corrective actions for instances of non-compliance (if any).

Deloitte's responsibility

Our responsibility is to express a conclusion in respect of EDL Pilbara's compliance with the conditions of the Licence based on our audit procedures. The reasonable assurance audit has been conducted in accordance with the Audit 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 Pilbara has complied, in all material respects with the conditions of its Licence as specified in the approved Audit Plan (dated November 2016) for the period 1 September 2013 to 31 August 2016.

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 (the **Manual**) as a guide to the development of a risk assessment
- Document review to assess controls
- Development of an Audit Plan for approval by the ERA and an associated work program, set out in Appendix A
- Interviews with and representations from relevant EDL Pilbara 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
- Sample testing where relevant for obligations rated as an audit priority 3 and above in the approved Audit Plan.

Limitations of use

This report is made solely for the information and internal use of EDL Pilbara 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 this report will be provided to the ERA for the purpose of reporting on the performance audit for the Licence. We agree that a copy of this report may be provided to the ERA for its information in connection with this purpose, but only on the basis that we accept no duty, liability or responsibility to the ERA in relation to the report. We accept no duty, responsibility or liability to any party, other than EDL Pilbara, in connection with the report or this engagement.

Inherent limitations

Our engagement provides 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:

- Use of selective testing and testing as at a point of time

- Inherent limitations of internal control
- Fact that much of the evidence available to us is persuasive rather than conclusive
- 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

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Conclusion

In our opinion, based on the procedures performed, EDL Pilbara has complied, in all material respects, with the conditions of the Licence as outlined in the approved Audit Plan (dated November 2016) for the period 1 September 2013 to 31 August 2016.

DELOITTE RISK ADVISORY PTY LTD



Richard Thomas

Partner

Perth, November 2016

2 Executive summary

2.1 Introduction and background

The Economic Regulation Authority (the **ERA**) has, under the provisions of *the Electricity Industry Act 2004* (the **Act**), issued to EDL Pilbara Pty Ltd (**EDL Pilbara**), a wholly owned subsidiary of Energy Developments Pty Ltd (**EDL**), an Electricity Retail Licence (the **Licence**). EDL Pilbara owns and operates a liquefied natural gas facility (the **Facility**) at the Maitland Industrial Estate in WA's Pilbara region. As the Facility's existing electricity generation capacity currently exceeds its needs, the Licence relates to EDL Pilbara's commercial arrangements to supply electricity to Supagas Pty Ltd (**Supagas**), a business co-located on the Facility's leasehold land. The Licence commenced from 27 August 2011.

As the volume of electricity supplied to Supagas exceeds 160MWh p.a., Supagas is not a Small Use Customer as defined by the *Code of Conduct for the Supply of Electricity to Small Use Customers*. EDL Pilbara does not supply electricity to any other customer.

Section 13 of the Act requires EDL Pilbara to provide the ERA with an audit (the **audit**) conducted by an independent expert acceptable to the ERA not less than once in every 24 month period (or any longer period that the ERA allows). The ERA set the period covered by the audit as 1 September 2013 to 31 August 2016.

At the request of EDL, Deloitte Risk Advisory Pty Ltd (**Deloitte**) has undertaken a reasonable assurance audit of EDL Pilbara's compliance with its Licence conditions.

The audit has been conducted in accordance with the April 2014 edition of the *Audit Guidelines: Electricity and Gas Licences* (**Audit Guidelines**).

2.2 Observations

In considering EDL Pilbara'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 EDL Pilbara has:

- Established a Compliance Task register, used to track compliance tasks
- Demonstrated a commitment to regulatory compliance
- Maintained procedures and controls designed to help facilitate compliance with its Licence obligations and to uphold the integrity of reporting to the ERA on matters specific to its Licence obligations.

Owing to the specific nature of the commercial arrangements between EDL Pilbara and Supagas, EDL Pilbara's regulatory obligations on its operations as a retailer are minimal, with the majority of the Licence obligations applicable to EDL Pilbara operations being generic to the requirements of all electricity licence holders.

2.3 Findings

Tables 2 and 3 below summarise the assessments made by the audit on EDL Pilbara's compliance and the adequacy of controls in place for EDL Pilbara to manage its compliance with the relevant obligations or conditions of the Licence.

Table 1 below sets out the rating scale defined by the ERA in the Audit Guidelines for the assessment of the level of compliance and the adequacy of controls in place.

Table 1: Compliance and control adequacy rating scale

Adequacy of Controls Rating		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

- 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 2: 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
Priority 4	5	-	-	-	4	9
Priority 5	1	-	-	-	1	2
Total:	7	-	-	-	5	12

Table 3: Summary of findings, by audit priority and control adequacy

Audit Priority	Control adequacy rating				NP ¹	Total
	A	B	C	D		
Priority 1	-	-	-	-	-	-
Priority 2	-	-	-	-	-	-
Priority 3	1	-	-	-	-	1
Priority 4	-	-	-	-	9	9
Priority 5	-	-	-	-	2	2
Total:	1	-	-	-	11	12

Specific assessments for each Licence obligation are summarised at **Table 4** 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 EDL Pilbara’s response to previous audit recommendations

Not applicable. The EDL Pilbara 2013 Electricity Retail Performance Audit Report dated November 2013 identified one non-compliance, associated with *Obligation 124 – Retail Licence Condition 16.1*, which required EDL Pilbara to submit compliance reports to the ERA by 31 August each year. No recommendations were presented as EDL Pilbara had allocated responsibility to its Senior Environmental and Compliance Advisor for monitoring compliance with this obligation. No further action was considered necessary.

2.5 Recommendations and action plans

This audit does not make any recommendations in relation to EDL Pilbara’s compliance with the conditions of the Licence.

¹ Refers to the obligations for which a control assessment was not required (obligations with an audit priority of 4 or 5 and a compliance rating of 1, or which were not rateable).

2.6 Scope and objectives

As described in our engagement letter dated 28 September 2016, we have conducted a reasonable assurance audit in order to state whether, in our opinion, based on our procedures, EDL Pilbara has complied, in all material respects, with the conditions of the Licence as outlined in the approved Audit Plan (dated November 2016) during the period 1 September 2013 to 31 August 2016.

Our engagement was conducted in accordance with the Australian Standard on Assurance Engagements (ASAE) 3100 *Compliance Engagements* issued by the Australian Auditing and Assurance Standards Board and provides reasonable assurance as defined in ASAE 3100. The procedures we performed are described in more detail in section 2.7 below.

A reasonable assurance engagement in accordance with ASAE 3100 involves performing procedures to obtain evidence about the compliance with the conditions of the Licence. The nature, timing and extent of procedures selected depend on the assurance practitioner's professional judgement, including the assessment of the risks of material misstatement in compliance with the conditions of the Licence. In making those risk assessments; we considered internal controls in relation to compliance with the conditions of the Licence.

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

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

The Audit Plan approved by the ERA for this audit sets out the 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. 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 Pilbara's operations.

2.7 Approach

Our approach for this audit involved the following activities, which were undertaken during the period October to November 2016:

- Utilising the Audit Guidelines and Reporting Manuals as a guide to the development of a risk assessment, which involved discussions with key staff
- Document review to assess controls
- Development of an Audit Plan (see **Appendix A**) for approval by the ERA and an associated work program
- Interviews with and representations from relevant EDL Pilbara 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)
- Sample testing where relevant for obligations rated as an audit priority 3 and above
- Reporting of findings to EDL Pilbara for review and response.

3 Summary of findings

Table 1 in section 2 above sets out the rating scale defined by the ERA 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, EDL Pilbara was required to demonstrate it has maintained mature processes and controls, which facilitate compliance with relevant obligations.

The remainder of this report provides:

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

Note that the risk assessment presented in the audit plan (refer **Appendix A**) remains unchanged. No issues or concerns were identified that indicated 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 4: Compliance and Controls Summary

Refer to Detailed Findings at section 4 and Audit Plan at Appendix A for descriptions of the obligations. Note that detailed findings are not presented for those obligations assessed to be not applicable to EDL Pilbara's operations for the period subject to audit - refer to the Audit Plan at Appendix A for further explanation

#	Obligation reference (condition/clause)	Consequence	Likelihood	Inherent Risk Rating	Control assessment	Adequacy of controls rating					Compliance rating				
						A	B	C	D	NP	Audit Risk/ Priority	1	2	3	4
11. Electricity Industry Act – Licence Conditions and Obligations															
101	13(1)	Minor	Unlikely	Low	Moderate					✓	Priority 5				✓
105	17(1)	Minor	Probable	Low	Moderate					✓	Priority 5	✓			
106	31(3)	Minor	Unlikely	Medium	Moderate					✓	Priority 4	✓			
107	41(6)	Moderate	Unlikely	Medium	Moderate					✓	Priority 4	✓			
110	76	Moderate	Unlikely	Medium	Moderate					✓	Priority 4				✓
12. 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	Moderate					✓	Priority 4				✓
123	15.1	Moderate	Unlikely	Medium	Moderate					✓	Priority 4				✓
124	16.1	Moderate	Probable	Medium	Weak	✓					Priority 3	✓			
125	17.1 & 17.2	Moderate	Unlikely	Medium	Moderate					✓	Priority 4	✓			
126	18.1	Moderate	Probable	Medium	Strong					✓	Priority 4	✓			

4 Detailed findings, recommendations and action plans

This section has been structured into subsections for the relevant Codes and Regulations against which we assessed EDL Pilbara's compliance. The Codes and Regulations relevant to EDL Pilbara's operations are:

1. Electricity Industry Act 2004
2. Electricity Licences - Licence Conditions and Obligations.

Each section contains:

Assessment of compliance and control adequacy – the conclusions from our audit procedures and an assessment of EDL Pilbara'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, if appropriate. Note that this audit did not make any recommendations
- **Action plans** – EDL Pilbara'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. Note that since this audit did not make any recommendations, no action plans were developed.

Note that this section does not further address the following Codes and Regulations as they do not include any obligations applicable to EDL Pilbara's operations as a retailer (refer to the Audit Plan at Appendix A for further explanation):

- Electricity Industry Customer Transfer Code
- Electricity Industry (Customer Contracts) Regulations
- Code of Conduct for the Supply of Electricity to Small Use Customers
- Electricity industry Metering Code.

The compliance and control adequacy ratings are summarised below for each sub-section.

Controls adequacy rating						Compliance rating					
A	B	C	D	NP	Total	1	2	3	4	NR	Total
<i>4.1 Electricity Industry Act – Licence Conditions and Obligations</i>											
-	-	-	-	5	5	3	-	-	-	2	5
<i>4.2 Electricity Licences – Licence Conditions and Obligations</i>											
1	-	-	-	6	7	4	-	-	-	3	7

4.1 Electricity Industry Act 2004

No.	Obligation under condition	Findings	
101	A licensee must provide the ERA with a performance audit conducted by an independent expert acceptable to the ERA, not less than once every 24 months. <i>Electricity Industry Act section 13(1)</i>	Deloitte was appointed with the ERA's approval to undertake the performance audit for the period 1 September 2013 to 31 August 2016. This is the second audit conducted by an independent expert since the granting of the Licence in August 2011. The 2013 performance audit report was provided to the ERA in November 2013.	
	Priority: 5	Controls rating: NP	Compliance Rating: NR
105	A licensee must pay the prescribed licence fee to the ERA within one month after the day of grant or renewal of its licence and within one month after each anniversary of that day over the term of the licence. <i>Electricity Industry Act section 17(1)</i>	By obtaining system evidence of payment for the 2013, 2014 and 2015 licence fees, we confirmed that all payments had been made within one month of the anniversary of the issue of the Licence, as required by section 17(1) of the Act.	
	Priority:5	Controls rating: NP	Compliance Rating: 1
106	A licensee must take reasonable steps to minimise the extent, or duration, of any interruption, suspension or restriction of the supply of electricity due to an accident, emergency, potential danger or other unavoidable cause. <i>Electricity Industry Act section 31(3)</i>	<p>Through discussion with the Senior Commercial Manager, Energy Developments Remote Energy and LNG Duty Plant Manager, and consideration of EDL Pilbara's plant operating and re-start procedures, we determined that in the event of an emergency or other unavoidable cause for interruption to EDL Pilbara's operations, EDL Pilbara's plant operating and re-start procedures provide guidance for orderly and safe plant shut-down and re-start:</p> <ul style="list-style-type: none"> • Those procedures are contained in EDL's Safe Work Instructions (SWIs), to which all EDL Pilbara employees have access through EDL's Sharepoint page (intranet) • SWIs are document controlled, such that only the current approved version is available. <p>The Commercial Manager, Energy Developments Remote Energy confirmed that during the period 1 September 2013 to 31 August 2016, EDL Pilbara:</p> <ul style="list-style-type: none"> • Maintained arrangements for securing fuel supplies to operate its gas fired turbines and diesel generating unit • Met its obligations to Supagas in relation to communicating and rectifying any interruption to supply of electricity. <p>The audit concludes that EDL Pilbara had taken 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>	
	Priority: 4	Controls rating: NP	Compliance Rating: 1

No.	Obligation under condition	Findings	
107	A licensee must pay the costs of taking an interest in land or an easement over land. <i>Electricity Industry Act section 41(6)</i>	The Senior Commercial Manager, Energy Developments Remote Energy confirmed that EDL Pilbara sub-leases its property from EDLLNG, which in turn leases from the WA Government and that the lease payment has been duly allocated to EDL Pilbara's (via Remote Energy) accounts.	
	Priority:4	Controls rating: NP	Compliance Rating: 1 We sighted evidence of payment of the head lease, which covers EDL Pilbara's retention of land for a three year period.
110	If a designation under section 71(1) of the Electricity Industry Act is in force, a licensee must perform the functions of a retailer of last resort and must carry out the supplier of last resort plan if it comes into operation under section 70 of the Electricity Industry Act. <i>Electricity Industry Act section 76</i>	The Senior Commercial Manager, Energy Developments Remote Energy confirmed that during the period 1 September 2013 to 31 August 2016, EDL Pilbara had not been designated as a retailer of last resort under section 71(1) of the Electricity Industry Act.	
	Priority:4	Controls rating: NP	Compliance Rating: NR

4.2 Electricity Licences – Licence Conditions and Obligations

No.	Obligation under condition	Findings			
119	<p>A licensee and any related body corporate must maintain accounting records that comply with the Australian Accounting Standards Board Standards or equivalent International Accounting Standards.</p> <p><i>Integrated Regional Licence condition 12.1 or 24.1</i></p>	<p>EDL's Group Financial Controller confirmed:</p> <ul style="list-style-type: none"> Financial accounts or activity of EDL Pilbara Pty Ltd continue to be consolidated into the Energy Developments Remote Energy and EDL Group financial accounts (or other consolidation arrangements) EDL has maintained accounting records that comply with Australian Accounting Standards during the period 1 September 2013 to 30 June 2016 There are no significant accounting transactions or items that would currently jeopardise EDL's compliance with accounting standards. <p>EDL's audited Financial Statements for the year ended 30 June 2015 and 30 June 2016 were unqualified, with respect to all subsidiaries of EDL.</p>			
	<table border="1"> <tr> <td>Priority:4</td> <td>Controls rating: NP</td> <td>Compliance Rating: 1</td> </tr> </table>	Priority:4	Controls rating: NP	Compliance Rating: 1	
Priority:4	Controls rating: NP	Compliance Rating: 1			
120	<p>A licensee must comply with any individual performance standards prescribed by the ERA.</p> <p><i>Integrated Regional Licence condition 13.4 or 25.4</i></p>	<p>The Senior Commercial Manager, Energy Developments Remote Energy confirmed that the ERA had not prescribed any individual performance standards during the period 1 September 2013 to 31 August 2016.</p>			
	<table border="1"> <tr> <td>Priority:4</td> <td>Controls rating: NP</td> <td>Compliance Rating: NR</td> </tr> </table>	Priority:4	Controls rating: NP	Compliance Rating: NR	
Priority:4	Controls rating: NP	Compliance Rating: NR			
121	<p>A licensee must comply, and require its auditor to comply, with the ERA's standard audit guidelines for a performance audit.</p> <p><i>Integrated Regional Licence condition 14.2</i></p>	<p>The audit plan approved by the ERA on 14 November 2016 committed EDL Pilbara and Deloitte (independent expert) to complying with the prescribed audit guidelines issued by the ERA. Deloitte confirms that the audit was undertaken utilising the framework from the Audit Guidelines: Electricity and Gas Licences, dated April 2014.</p>			
	<table border="1"> <tr> <td>Priority:4</td> <td>Controls rating: NP</td> <td>Compliance Rating: NR</td> </tr> </table>	Priority:4	Controls rating: NP	Compliance Rating: NR	
Priority:4	Controls rating: NP	Compliance Rating: NR			
123	<p>In the manner prescribed, a licensee must notify the ERA, if it is under external administration or if there is a significant change in the circumstances that the licence was granted which may affect the licensee's ability to meet its obligations.</p> <p><i>Integrated Regional Licence condition 15.1</i></p>	<p>The Senior Commercial Manager, Energy Developments Remote Energy confirmed that:</p> <ul style="list-style-type: none"> Neither EDL Pilbara nor any of its parent entities were under external administration during the period 1 September 2013 to 31 August 2016 No significant change has occurred in the circumstances in which the Licence was granted, which would affect EDL Pilbara's ability to meet its Licence obligations. 			
	<table border="1"> <tr> <td>Priority:4</td> <td>Controls rating: NP</td> <td>Compliance Rating: NR</td> </tr> </table>	Priority:4	Controls rating: NP	Compliance Rating: NR	
Priority:4	Controls rating: NP	Compliance Rating: NR			

No.	Obligation under condition	Findings	
124	<p>A licensee must provide the ERA, in the manner prescribed, with any information that the ERA requires in connection with its functions under the Electricity Industry Act.</p> <p><i>Integrated Regional Licence condition 16.1</i></p>	<p>EDL Pilbara is required to submit compliance reports to the ERA by 31 August each year. Through discussion with the Senior Commercial Manager, Energy Developments Remote Energy and consideration of EDL Pilbara's compliance management processes, we determined that:</p> <ul style="list-style-type: none"> • EDL Pilbara maintains a Compliance Task Register to track compliance tasks, with a weekly alert issued to the assigned person up to 60 days before the due date of the task • EDL Pilbara's requirement to submit annual compliance reports is captured in the Compliance Task Register. <p>We sighted evidence of EDL Pilbara's submission of its 2014, 2015 and 2016 compliance reports to the ERA by 31 August each year. We note that on 15 September 2016, a correction was made to the 2016 compliance report.</p>	
	<p>Priority:3</p>	<p>Controls rating: A</p>	<p>Compliance Rating: 1</p>
125	<p>A licensee must publish any information as directed by the ERA to publish, within the timeframes specified.</p> <p><i>Integrated Regional Licence condition 17.1and 17.2</i></p>	<p>The Senior Commercial Manager, Energy Developments Remote Energy confirmed that for the period 1 September 2013 to 31 August 2016, the ERA did not direct EDL Pilbara to publish any information with regards to its Licence.</p>	
	<p>Priority:4</p>	<p>Controls rating: NP</p>	<p>Compliance Rating: 1</p>
126	<p>Unless otherwise specified, all notices must be in writing.</p> <p><i>Integrated Regional Licence condition 18.1</i></p>	<p>We observed that EDL Pilbara maintains central, electronic records to evidence formal communications with the ERA, which have been made via post or email.</p> <p>The Senior Commercial Manager, Energy Developments Remote Energy confirmed that records of correspondence with the ERA contain all requests or instructions that have been made by the ERA in relation to EDL Pilbara's Licence.</p>	
	<p>Priority:4</p>	<p>Controls rating: NP</p>	<p>Compliance Rating: 1</p>

Appendix A – Audit Plan

EDL Pilbara Pty Ltd
Electricity Retail Licence (ERL16)

2016 Performance Audit

Audit Plan

November 2016

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1 Introduction

Overview

Energy Developments Pty Ltd (**Energy Developments**), through its subsidiary EDL Pilbara Pty Ltd (**EDL Pilbara**) owns and operates a liquefied natural gas facility (the **Facility**) at the Maitland Industrial Estate in WA's Pilbara region. As the Facility's existing electricity generation capacity currently exceeds its needs, EDL Pilbara sought and was granted an Electricity Retail Licence ERL 16 (the **Licence**) to supply electricity under a commercial arrangement to Supagas Pty Ltd (**Supagas**), a business co-located on the Facility's leasehold land. The Licence commenced from 27 August 2011.

As the volume of electricity supplied to Supagas exceeds 160MWh p.a., Supagas is not a Small Use Customer as defined by the *Code of Conduct for the Supply of Electricity to Small Use Customers 2016*. EDL Pilbara does not supply electricity to any other customer.

Section 13 of the Electrical Industry Act (2004) requires EDL Pilbara to provide the Economic Regulation Authority (**ERA**) with a performance audit (the **audit**) conducted by an independent expert acceptable to the ERA within 24 months after the Licence commencement date. With the ERA's approval, Deloitte Touche Tohmatsu (**Deloitte**) has been appointed to conduct the audit for the period 1 September 2013 to 31 August 2016.

The audit will be conducted in accordance with specific requirements of the Licence and the ERA's April 2014 edition of the *Audit Guidelines: Electricity and Gas 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 Energy Developments and presented to the ERA for approval.

Objective

The performance audit is defined as an examination of the measures taken by EDL Pilbara 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 EDL Pilbara'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 reporting to the ERA
- *Compliance with any individual licence conditions* - the requirements imposed on EDL Pilbara by the ERA or specific issues for follow-up that are advised by the ERA.

Scope

The ERA provides guidance on those aspects of the Licence and EDL Pilbara'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 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 EDL Pilbara's operations and used as the basis for determining the performance criteria to be considered for the audit.

The audit period is 1 September 2013 to 31 August 2016.

Since EDL Pilbara’s previous ERL performance audit in 2013, the Reporting Manual has undergone four revisions. The five versions of the Reporting Manual applicable to EDL Pilbara are outlined below, however we do note that there has been no substantial change relevant to EDL Pilbara’s operations.

Table 1: Reporting Manual Revisions since July 2013

Reporting Manual	Relevance of revision to Licence
June 2013	n/a – this version of the Reporting Manual was current at the commencement of the audit period.
May 2014	The May 2014 version of the Reporting Manual was superseded by the July 2014 version. As none of the changes between the two versions have an impact on EDL Pilbara’s licence obligations, this audit will not specifically reference the obligations listed in May 2014 version.
July 2014	The July 2014 version of the Reporting Manual was primarily published to accommodate changes to the <i>Code of Conduct for the Supply of Electricity to Small Use Customers (Code of Conduct)</i> , which took effect from 1 July 2014. Note that EDL Pilbara currently does not have any obligations under the Code of Conduct as it does not supply electricity to small use customers.
September 2014	The September 2014 version of the Reporting Manual was primarily published to expand on obligation 236 into an additional obligation (236A) relating to life support equipment at a customer’s supply address. Again, EDL Pilbara currently does not have any obligations under the Code of Conduct as it does not supply electricity to small use customers.
July 2016	The July 2014 version of the Reporting Manual was primarily published to: <ul style="list-style-type: none"> Accommodate further changes to the Code of Conduct, which were effective from 1 July 2016: Remove the option to deliver performance reports and compliance reports by hand Make clarifying edits, streamline wording and replace “Authority” with “ERA”. The current version of the Reporting Manual is the primary reference for this audit, particularly for the obligation numbering.

Summary of Licence compliance obligations

The following table summarises the relevant compliance obligations applicable to EDL Pilbara’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 (July 2016) Reporting Manual.

Note that obligations are listed as not applicable to EDL Pilbara’s operations where there is:

- No application to Retail Licensees, or where the obligation only applies to Retail Licensees with small use customers.
- No network or network operator, or there is no relevant activity to report against the requirement.

Table 2: Application of legislative elements to EDL Pilbara’s operations

Legislative element	Obligations applicable to EDL Pilbara’s operations (in scope)	Obligations not applicable to EDL Pilbara’s operations (out of scope)
Type 1 Reporting Obligations for all Licence Types	None	All type 1 obligations fall under the Code of Conduct, which is applicable to EDL Pilbara’s operations as EDL Pilbara does not supply electricity to small use customers.

Legislative element	Obligations applicable to EDL Pilbara's operations (in scope)	Obligations not applicable to EDL Pilbara's operations (out of scope)
Electricity Industry Customer Transfer Code – Licence Condition and Obligations	None	<p>The objective of the Customer Transfer Code is to:</p> <ul style="list-style-type: none"> • “set out rules for the provision of information relating to contestable customers and the process for transferring contestable customers from one retailer to another retailer in order to promote retail competition; and • protect the interests of contestable customers by ensuring that a contestable customer’s verifiable consent is obtained before— <ul style="list-style-type: none"> (i) a retailer may request the contestable customer’s historical consumption data; or (ii) a transfer of that contestable customer may proceed”. <p>The entire Customer Transfer Code is not applicable to EDL Pilbara’s operations for the following reasons:</p> <ul style="list-style-type: none"> • The logistics of EDL Pilbara’s arrangement with Supagas make it highly unlikely for the customer to be practically contested in the future and therefore there is no likelihood of transfer • There is no network or network operator to facilitate such a transfer.
Electricity Industry (Customer Contracts) Regulations	None	As the Regulations only apply to small use customers (of which EDL Pilbara has none), the Regulations do not apply to EDL Pilbara’s current circumstances and will not be subject to audit.
Electricity Industry Act – Licence Conditions and Obligation	<p>Of the nine obligations relevant to electricity retail license holders, the following are applicable to EDL Pilbara’s operations:</p> <ul style="list-style-type: none"> • 101 • 105 – 107 • 110. 	<p>The following obligations refer to supply to small use customers and are not applicable to EDL Pilbara’s operations:</p> <ul style="list-style-type: none"> • 108 • 109 • 111. <p>In the absence of a network, the following obligation does not apply to EDL Pilbara’s operations:</p> <ul style="list-style-type: none"> • 113.
Electricity Licences – Licence Conditions and Obligations	<p>Of the 12 obligations relevant to retailers the following regulations apply to EDL Pilbara’s operations:</p> <ul style="list-style-type: none"> • 119-121 • 123-126 	<p>The following obligations refer to supply to small use customers and are not applicable to EDL Pilbara’s operations:</p> <ul style="list-style-type: none"> • 114-118.
Code of Conduct for the Supply of Electricity to Small Use Customers	None	All obligations of electricity retailers under the Code of Conduct are not applicable to EDL Pilbara’s operations as EDL Pilbara does not supply electricity to small use customers.

Legislative element	Obligations applicable to EDL Pilbara's operations (in scope)	Obligations not applicable to EDL Pilbara's operations (out of scope)
Electricity Industry Metering Code	None	<p>All obligations relevant to retailers are considered to be not applicable to EDL Pilbara's operations due to one of the following conditions:</p> <ul style="list-style-type: none"> • There is no network operator and therefore no network • The obligation refers to the Electricity Retail Corporation • There is no requirement for a registry in the absence of a network • The obligations refer to "User" obligations.

Responsibility

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

EDL Pilbara is responsible for:

- Ensuring that it has complied in all material respects with the requirements of the Licence as specified by the Audit Guidelines
- Establishing and maintaining an effective system of internal control over its systems designed to achieve its compliance with the Licence requirements
- Implementing processes for assessing its compliance requirements and for reporting its level of compliance to the ERA
- Implementing corrective actions for instances of non-compliance.

Deloitte's responsibility

Deloitte's responsibility is to express a conclusion on EDL Pilbara's compliance with the conditions of the Licence based on our procedures. The reasonable assurance audit will be performed in accordance with the Audit 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 Pilbara has complied, in all material respects with the conditions of its Licence as specified in the Audit Guidelines for the period 1 September 2013 to 31 August 2016.

Limitations of use

The resulting report is intended solely for the information and internal use of EDL Pilbara, 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 EDL Pilbara for work produced, for the report, or for any reliance that may be placed on this report by any party other than EDL Pilbara.

We understand that a copy of the report will be provided to the ERA for the purpose of reporting on the performance audit for EDL Pilbara's Licence. We agree that a copy of the report may be provided to the ERA for its information in connection with this purpose but, as will be made clear in the report, only on the basis that we accept no duty, liability or responsibility to the ERA in relation to the report. We accept no duty, responsibility or liability to any party, other than EDL Pilbara, in connection with the report or this engagement.

Inherent limitations

The assurance 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.

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 the report should not rely on the report to identify all potential instances of non-compliance which may occur. Our report will contain a statement of responsibility that will draw attention to management's responsibility for establishing and maintaining an effective control structure.

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 the performance review, we will comply with the independence requirements of the Australian professional accounting bodies.

2 Approach

The audit will be conducted in three distinct phases, being a risk assessment, systems analysis/walkthrough and testing and review. From the audit results, a report will be produced to outline findings, overall compliance assessments, overall control adequacy 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 EDL Pilbara's licence obligations. The risk assessment gives specific consideration to any matters of significance raised by the ERA and/or EDL Pilbara. 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 EDL Pilbara not complying with its licence obligations, in the absence of mitigating controls. As the Reporting Manual is prescriptive in its criteria for classifying the consequences of non-compliance (refer to **Appendix 1-1**) the risk assessment applies the Reporting Manual's classifications for each obligation subject to audit. Reference is also made to the consequence rating descriptions listed at Table 15 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 EDL Pilbara not complying with its obligations is assessed using the likelihood rating listed at Table 16 of the Audit Guidelines (refer to **Appendix 1-3**). The assessment of likelihood is based on the expected frequency of EDL Pilbara's non-compliance with the relevant licence obligation over a period of time.

Table 3 below (sourced from Table 17 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 3: 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 19 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 20 of the Audit Guidelines (refer to Table 4 below). Essentially, the higher the level of risk the more substantive testing is required.

Table 4: 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		

Table 5 below 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 5: Audit priority table

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

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

- Deloitte’s assessment of the state of controls during the 2013 ERL Performance Audit
- Consideration of:
 - Previously identified non-compliances and action plans
 - Annual compliance reports
 - Follow up audits on progress of implementation of action plans
- Deloitte’s understanding of EDL Pilbara’s regulatory environment
- Any other factors that may have an effect on the level of risk or strength of controls.

At this stage, the risk assessment can only be a preliminary assessment based on reading of documentation and our understanding of EDL Pilbara’s control environment. 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. Note that for obligations assessed as having an audit priority of three or lower, a specific assessment on the adequacy of EDL Pilbara’s controls will be performed.

In performing our analysis/walkthrough of EDL Pilbara’s systems and processes, we will consider the following:

- **The control environment:** EDL Pilbara'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 EDL Pilbara's information systems (in particular, those designed to meet licence requirements, in addition to EDL Pilbara's record management system)
- **Control procedures:** the presence of systems and procedures to ensure compliance with the licence, effectiveness of EDL Pilbara'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 EDL Pilbara in response to any previous audit recommendations that may have an impact on EDL Pilbara's obligations. 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 EDL Pilbara'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 EDL Pilbara's compliance with Licence obligations. Key documents, which may be subject to audit, are not specifically disclosed in this plan. A list of key documents examined will be included in the audit report.

Testing and review

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

Controls testing is performed for those licence obligations with an audit priority of 1, 2 or 3 (refer to Table 5), 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 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 etc.) 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 in consultation with key staff at EDL Pilbara's Perth CBD office and EDL's Brisbane office.

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 6 below for the compliance levels that will be used for the performance audit.

Table 6: Compliance and control adequacy rating scale

Adequacy of Controls Rating		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.

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
- Performance/compliance summary and rating, including a rating for the adequacy of EDL Pilbara's controls, for each licence condition – in tabular form
- Audit observations
- Where appropriate, recommendations on actions required to address areas of non-compliance.

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

3 General information

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

Key EDL Pilbara contacts

The key contact for this audit is:

- Geoff Hobley Senior Commercial Manager, Energy Developments Remote Energy

Deloitte staff

Deloitte staff who will be involved with this assignment are:

- Richard Thomas Partner
- Andrew Baldwin Specialist Leader Regulatory Compliance
- Michael Tarn Senior Analyst
- Kobus Beukes QA Partner

Resumes for key Deloitte staff are outlined in the proposal accepted by EDL Pilbara and subsequently presented to the ERA.

Timing

The initial risk assessment phase was completed on 24 October 2016, after which the draft audit plan and detailed risk assessment were presented to EDL Pilbara for comment prior to submission to the ERA for review and approval.

The remainder of the fieldwork phase is scheduled to be performed in November 2016, enabling a report to be submitted to the ERA by the due date of 30 November 2016.

Deloitte's time and staff commitment to the completion of the audit is outlined in the proposal accepted by EDL Pilbara and subsequently presented to the ERA. In summary, the estimated time allocated to each activity is as follows:

Planning (including risk assessment):	15 hours
Fieldwork (including system analysis/walkthrough and testing/review):	21.5 hours
Reporting:	13 hours

Appendix 1 – Risk assessment key

1-1 Criteria for classification

Source: *Electricity Compliance Reporting Manual July 2016*

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

1-2 Consequence ratings

Source: Audit Guidelines: Electricity and Gas Licences April 2014

	Rating	Examples of non-compliance		
		Supply quality and reliability	Consumer protection	Breaches of legislation or other licence conditions
1	Minor	Breach of supply quality or reliability standards minor - affecting a small number of customers. Delays in providing a small proportion of new connections.	Customer complaints procedures not followed in a few instances. Small percentage of disconnections or reconnections not completed on time. Small percentage of bills not issued on time.	Legislative obligations or licence conditions not fully complied with, minor impact on customers or third parties. Compliance framework generally fit for purpose and operating effectively.
2	Moderate	Supply quality breach events that significantly impact customers; large number of customers affected and/or extended duration and/or damage to customer equipment. Supply interruptions affecting significant proportion of customers on the network for up to one day. Significant number of customers experiencing excessive number of interruptions per annum. Significant percentage of new connections not provided on time/ some customers experiencing extended delays.	Significant percentage of complaints not being correctly handled. Customers not receiving correct advice regarding financial hardship. Significant percentage of bills not issued on time. Ongoing instances of disconnections and reconnections not completed on time. Remedial actions not being taken or proving ineffective. Instances of wrongful disconnection.	More widespread breaches of legislative obligations or licence conditions over time. Compliance framework requires improvement to meet minimum standards.
3	Major	Supply interruptions affecting significant proportion of customers on the network for more than one day. Majority of new connections not completed on time/ large number of customers experiencing extended delays.	Significant failure of one or more customer protection processes leading to ongoing breaches of standards. Ongoing instances of wrongful disconnection	Wilful breach of legislative obligation or licence condition. Widespread and/or ongoing breaches of legislative obligations or licence conditions. Compliance framework not fit for purpose, requires significant improvement.

1-3 Likelihood ratings

Source: Audit Guidelines: Electricity and Gas Licences April 2014

	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 and Gas Licences April 2014

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 July 2016 Reporting Manual.

No	Obligation reference	Obligation description	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
9 Electricity Industry Customer Transfer Code							
All obligations (1-71) are not applicable to EDL Pilbara's operations due to: <ul style="list-style-type: none"> The absence of a network and network operator Under current arrangements, no practical ability of customer transfer. 							
11. Electricity Industry (Customer Contracts) Regulations							
All obligations (78-100) are not applicable to EDL Pilbara's operations as EDL Pilbara does not supply electricity to small use customers and therefore is not required to use standard or non-standard form contracts.							
12. Electricity Industry Act							
Obligations 108, 109 and 111 are not applicable to EDL Pilbara's operations as EDL Pilbara does not supply electricity to small use customers. Obligation 113 is not applicable to EDL Pilbara's operations as there is no applicable network.							
101	Section 13(1)	A licensee must provide the ERA with a performance audit conducted by an independent expert acceptable to the ERA, not less than once every 24 months.	Minor	Unlikely	Low	Moderate	Priority 5
105	Section 17(1)	A licensee must pay the prescribed licence fee to the ERA within one month after the day of grant or renewal of its licence and within one month after each anniversary of that day over the term of the licence.	Minor	Probable	Low	Moderate	Priority 5
106	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.	Moderate	Probable	Medium	Moderate	Priority 4
107	Section 41(6)	A licensee must pay the costs of taking an interest in land or an easement over land.	Moderate	Probable	Medium	Moderate	Priority 4
110	Section 76	If a designation under section 71(1) of the Electricity Industry Act is in force a licensee must perform the functions of a retailer of last resort and must carry out the supplier of last resort plan if it comes into operation under section 70 of the Electricity Industry Act.	Moderate	Unlikely	Medium	Moderate	Priority 4
13. Electricity Licences - Licence Conditions and Obligations							
Obligations 114 to 118 are not applicable to EDL Pilbara's operations as EDL Pilbara does not supply electricity to small use customers.							
119	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	Strong	Priority 4
120	Condition 13.4	A licensee must comply with any individual performance standards prescribed by the ERA.	Moderate	Unlikely	Medium	Moderate	Priority 4
121	Condition 14.2	A licensee must comply, and require its auditor to comply, with the ERA's standard audit guidelines dealing with the performance audit.	Moderate	Unlikely	Medium	Moderate	Priority 4
123	Condition 15.1	In the manner prescribed, a licensee must notify the ERA, if it is under external administration or if there is a significant change in the circumstances that the licence was granted which may affect the licensee's ability to meet its obligations.	Moderate	Unlikely	Medium	Moderate	Priority 4
124	Condition 16.1	A licensee must provide the ERA, in the manner prescribed, any information the ERA requires in connection with its functions under the Electricity Industry Act.	Moderate	Probable	Medium	Weak	Priority 3
125	Conditions 17.1 & 17.2	A licensee must publish any information it is directed by the ERA to publish, within the timeframes specified.	Moderate	Probable	Medium	Moderate	Priority 4
126	Condition 18.1	All notices must be in writing, unless otherwise specified.	Moderate	Probable	Medium	Strong	Priority 4
14. Code of Conduct for the Supply of Electricity to Small Use Customers							
All obligations (129-316) are not applicable to EDL Pilbara's operations as EDL Pilbara does not supply electricity to small use customers.							
15. Electricity Industry Metering Code							
All obligations (317-461) are not applicable to EDL Pilbara's operations as there is no network or network operator to trigger any metering obligations.							

Appendix 3 – Previous audit recommendations

The EDL Pilbara 2013 Electricity Retail Licence Performance Audit Report dated November 2013 did not provide any recommendations in lieu of the identified non-compliance in relation to obligation 124 (Retail Licence Condition 16.1), which required EDL Pilbara to submit compliance reports to the ERA by 31 August each year.

No recommendations were presented as EDL Pilbara had taken corrective action by allocating responsibility to EDL's Senior Environmental and Compliance Advisor for monitoring compliance with the obligation.

Appendix B – References

EDL staff and representatives participating in the audit

- Senior Commercial Manager, Energy Developments Remote Energy
- LNG Duty Plant Manager
- Commercial Manager, Energy Developments Remote Energy
- Group Financial Controller, EDL.

Deloitte staff participating in the audit

Name	Position	Hours
• Richard Thomas	Partner	2
• Andrew Baldwin	Account Director	13
• Michael Tarn	Senior Analyst	37
• Kobus Beukes	Partner - Quality Assurance	1

Key documents and other information sources

- EDL Audited Financial Statements
- Power Purchase Agreement between EDL Pilbara Pty Ltd and Supagas Pty Ltd
- Evidence of EDL Pilbara’s communication with Supagas in relation to a supply interruption
- Screenshots of EDL’s SWI Library, including instructions for access and use
- EDL Pilbara correspondence with the ERA
- Evidence of annual licence fee payments
- Annual Compliance Reports: 2014-16
- Evidence of lease payments
- Representations from:
 - Senior Commercial Manager, Energy Developments Remote Energy
 - Commercial Manager, Energy Developments Remote Energy
 - Group Financial Controller, EDL
 - LNG Duty Plant Manager.