

Electricity Generation and Retail Corporation trading as Synergy

**Electricity Generation Licence
(EGL7)**

2017 Performance Audit

Report

May 2017

Mr Simon Thackray
Manager Regulation and Compliance
Electricity Generation and Retail Corporation trading as Synergy
Forrest Centre, 219 St Georges Terrace
Perth WA 6000

16 May 2017

Dear Simon

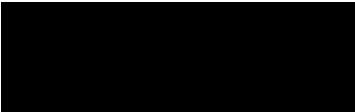
Electricity Generation and Retail Corporation T/A Synergy (Synergy) Electricity Generation Licence No. 7 (EGL7) – 2017 Performance audit report

We have completed the Electricity Generation Licence Performance audit for Synergy for the period 1 April 2013 to 31 October 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 0414 924 346 or me on 0411 603 644.

Yours sincerely



Richard Thomas
Partner
Deloitte Risk Advisory Pty Ltd

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1 Independent Auditor's report

With the approval of the Economic Regulation Authority (the **ERA**), the Electricity Generation and Retail Corporation T/A Synergy (**Synergy**) engaged Deloitte Risk Advisory Pty Ltd (**Deloitte**) to conduct a performance audit of Synergy's compliance with the conditions of its Electricity Generation Licence No. 7 (EGL7) (the **Licence**) for the period 1 April 2013 to 31 October 2016 (**audit period**).

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* issued by the ERA (**Audit Guidelines**).

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

Synergy 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 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 (if any).

Deloitte's responsibility

Our responsibility is to express a conclusion in respect of Synergy's compliance with the conditions of the Licence based on our procedures. The reasonable assurance engagement 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, to state whether, in our opinion, based on the procedures performed, Synergy has complied, in all material respects, with its Licence conditions as outlined in the approved Audit Plan (dated March 2017) for the audit period.

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 October 2016 Electricity Compliance Reporting Manual (the **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 ERA and an associated work program, set out in Appendix A
- Interviews with and representations from relevant Synergy 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 intended solely for the information and internal use of Synergy, 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 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, liability or responsibility to any party, other than Synergy, 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:

- Use of selective testing and testing as at a point of time
- Inherent limitations of internal controls
- 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, except for the effect of the issues set out in the Basis for qualified conclusion section below, Synergy has complied, in all material respects, with the conditions of the Licence as outlined in the approved Audit Plan (dated March 2017) for the period 1 April 2013 to 31 October 2016.

Basis for qualified conclusion

The following Licence conditions were assessed as non-compliant (rating 2). Synergy had identified and disclosed these matters (other than where indicated as *) in its 2013/14 annual compliance report to the ERA:

| Reporting Manual number and Licence condition | | Issue |
|---|---|---|
| 105 | <p>Electricity Industry Act section 17(1) A licensee must pay the prescribed licence fees 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 according to clauses 6, 7 and 8 of the Economic Regulation Authority (Licensing Funding) Regulations 2014.</p> | <p>Synergy did not pay its 2014 and 2015 annual electricity generation licence fees until 7 May 2014 and 15 May 2015* respectively, which did not comply with the requirement of the Act for the fee to be paid by 30 April each year (within one month after the day of licence renewal). Synergy identified and disclosed the 2014 late payment in its 2013/14 annual compliance report to the ERA.</p> |
| 123 | <p>Licence 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.</p> | <p>Synergy's Licence condition 15.1(c)(iv) and (v) requires Synergy to report relevant information to the ERA in the event that it changes the description of its generating works, or the nameplate capacity of its generating works at an individual unit level.</p> |

| Reporting Manual number and Licence condition | Issue |
|---|--|
| | <p>In 2008 (the former) Verve Energy sold Exmouth Mini Wind Farm to Horizon Power. At the time the change should have been reported to the ERA as an amendment to the description of generating works. Although the status change occurred in 2008, as Synergy had not provided notification of the significant change until part way through the current audit period, the breach is attributable to this audit period. Synergy remedied the non-compliance on 4 August 2014 with written notification to the ERA of its change in generating works. Synergy also disclosed this item in its 2013/14 annual compliance report to the ERA.</p> |

DELOITTE TOUCHE TOHMATSU



Richard Thomas
 Partner
 Perth, 16 May 2017

2 Executive summary

2.1 Introduction and background

The Economic Regulation Authority (the **ERA**) has under the provisions of the Electricity Industry Act 2004 (**Electricity Act**), issued to Electricity Generation and Retail Corporation T/A Synergy (**Synergy**) the Electricity Generation Licence No.7 (EGL7) (the **Licence**).

Section 13 of the Act requires Synergy to provide the ERA with a performance 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 to be covered by the audit as 1 April 2013 to 31 October 2016.

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

Synergy has been granted a licence to construct and operate, or operate existing electricity generating works throughout the South West Interconnected System (**SWIS**). Synergy is the largest electricity generator in the SWIS and also had for the duration of the audit period the responsibility of providing default balancing and ancillary services, which underpin the reliability of the SWIS.

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

2.2 Observations

In considering Synergy'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 Synergy maintains:

- A mature compliance process and control framework driven by experienced staff members
- An established tripartite contractual and reporting relationship with Western Power and the Australian Energy Market Operator (**AEMO**)
- Ongoing lines of communication with Western Power in relation to verification of metering data
- Consistent procedures and controls, such as a compliance calendar and assigned Regulation and Compliance team responsibilities, designed to:
 - Ensure compliance with its licence obligations
 - Uphold the integrity of its reporting to the ERA and other statutory organisations on matters specific to its Licence obligations.
- A Document Management (**DM**) system, which operates with uniform naming conventions and in-document cross referencing standards
- An incident management system to record regulatory obligations and controls and to investigate, remediate and report regulatory incidents.

2.3 Findings

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

Table 1 sets out the rating scale defined by the ERA in the Guidelines for the assessment of the level of compliance with the conditions of the Licence. For the highest possible compliance rating to be achieved, Synergy was required to demonstrate it has maintained mature processes and controls, which facilitate compliance with relevant obligations.

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 4 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 Guidelines.

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 | 1 | - | - | - | - | 1 |
| Priority 3 | 1 | 1 | - | - | - | 2 |
| Priority 4 | 10 | - | - | - | 12 | 22 |
| Priority 5 | 5 | 1 | - | - | 6 | 12 |
| Total: | 17 | 2 | - | - | 18 | 37 |

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 | 1 | - | - | - | - | 1 |
| Priority 3 | 2 | - | - | - | - | 2 |
| Priority 4 | - | - | - | - | 22 | 22 |
| Priority 5 | 1 | - | - | - | 11 | 12 |
| Total: | 4 | - | - | - | 33 | 37 |

Note that, in accordance with the current Guidelines, obligations assessed as being “not applicable” to Synergy’s operations have not been included within this report.

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

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”.

2.4 Synergy’s response to previous audit recommendations

This audit considered Synergy’s progress in completing the action plans detailed in the 2013 performance audit report.

Based on our examination of relevant documents, discussion with staff and consideration of the results of this audit’s testing against the associated licence obligations, we determined that Synergy has completed and closed out both action plans detailed in the 2013 performance audit report.

Refer to section 5 “Previous audit non-compliances and recommendations” for further detail.

2.5 Recommendations and action plans

A. Resolved during current audit period

| Reporting manual no. and Licence condition reference | Control adequacy | Issue |
|--|--|--|
| <p>Obligation 105 A licensee must pay the prescribed licence fees 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 according to clauses 6, 7 and 8 of the Economic Regulation Authority (Licensing Funding) Regulations 2014. <i>Electricity Industry Act section 17(1)</i></p> | Adequate controls – no improvement needed (A) | <p>Synergy did not pay its 2014 and 2015 electricity generation licence fees until 7 May 2014 and 15 May 2015 respectively, which did not comply with the requirement of the Act for the fee to be paid by 30 April each year (within one month after the day of licence renewal). The first instance was attributed to administrative oversight, although in the case of the 2015 licence fee, Synergy did not have a record of having received the invoice when it was first issued by the ERA. Synergy identified and disclosed the 2014 late payment in its 2013/14 annual compliance report to the ERA. The Regulation and Compliance team now maintains a compliance calendar, which diarises the due date for payment of the licence fee Synergy has also nominated the Regulation and Compliance business function as the addressee for invoices from the ERA.</p> |
| | <p>Compliance rating Non-compliant (2)</p> | |
| <p>Action taken Synergy now:</p> <ul style="list-style-type: none"> • Maintains a compliance calendar, which diarises the due date for payment of the licence fee • Assigns responsibility for monitoring and effecting payment of its licence fees to its Regulation and Compliance team • Maintains a register of all licence fee payments. <p>Date resolved: May 2015.</p> | <p>Auditor’s comments No further action required.</p> | |

| Reporting manual no. and Licence condition reference | Control adequacy | Issue |
|--|--|--|
| <p>Obligation 123</p> <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>Licence condition 15.1</i></p> | Adequate Controls – no improvement needed (A) | <p>Synergy's Licence condition 15.1(c)(iv) and (v) requires Synergy to report relevant information to the ERA in the event that it changes the description of its generating works, or the nameplate capacity of its generating works at an individual unit level.</p> <p>In 2008 (the former) Verve Energy sold Exmouth Mini Wind Farm to Horizon Power. At the time the change should have been reported to the ERA as an amendment to the description of generating works. Although the status change occurred in 2008, as Synergy had not provided notification of the significant change until part way through the current audit period the breach is attributable to this audit period.</p> <p>Synergy remedied the non-compliance on 4 August 2014 with written notification to the ERA of its change in generating works. Synergy also disclosed this item in its 2013/14 annual compliance report to the ERA.</p> <p>Synergy has since notified the ERA of further changes in its generating works (decommissioning of Kwinana Power Station Stage C and facilities at Geraldton and Kalbarri) within the 10 business day requirement.</p> |
| | <p>Compliance rating</p> <p>Non-compliant (2)</p> | |
| <p>Actions taken</p> <p>Synergy has implemented enhanced regulatory management processes including assignment of responsibility to its Regulation and Compliance team for monitoring and coordinating the notification of changes in its generating works.</p> <p>Date resolved: August 2014.</p> | | <p>Auditor's comments</p> <p>No further action required.</p> |

2.6 Scope and objectives

As described in our consultancy contract with Synergy dated 2 February 2017, we have conducted a reasonable assurance audit in order to state whether, in our opinion, based on our procedures, Synergy has complied, in all material respects, with the conditions of the Licence as outlined in the approved Audit Plan (dated March 2016) during the period 1 April 2013 to 31 October 2016.

Our engagement was conducted in accordance with 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 upon and included in the scope of this audit in its October 2016 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 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 Synergy’s operations.

2.7 Approach

Our approach for this audit involved the following activities, which were undertaken during February and March 2017:

- Utilising the Guidelines and Reporting Manuals (February 2013, June 2013, May 2014, July 2014, September 2014, July 2016, October 2016) as a guide, development of a risk assessment which involved discussions with key staff and document review to assess controls
- Development of an Audit Plan (see **Appendix A**) for approval by the ERA and an associated work program
- Interviews with relevant Synergy 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 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 Synergy 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, Synergy 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 compliance obligations (at **Table 4** below)
- Detailed findings, including relevant observations, recommendations and action plans (at **Section 4**).

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

Table 4: Compliance Ratings

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 Synergy's operations for the period subject to audit - refer to the Audit Plan at Appendix A for further explanation.

| No | Obligation reference (condition/clause) | Audit Plan | | | | Adequacy of controls rating | | | | | Compliance rating | | | | | |
|---|--|-------------|------------|----------------------|--------------------|-----------------------------|---|---|---|----|-------------------------|---|---|---|---|----|
| | | Consequence | Likelihood | Inherent risk 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 | Act section 13(1) | Minor | Unlikely | Low | Strong | | | | | ✓ | Priority 5 | ✓ | | | | |
| 102 | Act section 14(1)(a) | Minor | Unlikely | Low | Strong | | | | | ✓ | Priority 5 | ✓ | | | | |
| 103 | Act section 14(1)(b) | Moderate | Probable | Medium | Weak | ✓ | | | | | Priority 3 | ✓ | | | | |
| 104 | Act section 14(1)(c) | Minor | Unlikely | Low | Strong | | | | | ✓ | Priority 5 | ✓ | | | | |
| 105 | Act section 17(1) | Minor | Unlikely | Low | Weak | ✓ | | | | | Priority 5 | | ✓ | | | |
| 106 | Act section 31(3) | Major | Unlikely | High | Strong | ✓ | | | | | Priority 2 | ✓ | | | | |
| 107 | Act section 41(6) | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 13 Electricity Licences – Licence Conditions and Obligations | | | | | | | | | | | | | | | | |
| 119 | Licence condition 12.1 | Moderate | Unlikely | Medium | Strong | | | | | ✓ | Priority 4 | ✓ | | | | |
| 120 | Licence condition 13.4 | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 121 | Licence condition 14.2 | Moderate | Unlikely | Medium | Strong | | | | | ✓ | Priority 4 | ✓ | | | | |
| 122 | Licence condition 20.5 | Moderate | Unlikely | Medium | Strong | | | | | ✓ | Priority 4 | ✓ | | | | |
| 123 | Licence condition 15.1 | Moderate | Probable | Medium | Weak | ✓ | | | | | Priority 3 | | ✓ | | | |
| 124 | Licence condition 16.1 | Moderate | Probable | Medium | Moderate | | | | | ✓ | Priority 4 | ✓ | | | | |
| 125 | Licence condition 17.1 & 17.2 | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 126 | Licence condition 18.1 | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | ✓ | | | | |
| 14 Electricity Industry Metering Code – Licence Conditions and Obligations | | | | | | | | | | | | | | | | |
| 324 | Clause 3.3B | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 339 | Clause 3.11(3) | Moderate | Probable | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 364 | Clause 3.27 | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 371 | Clause 4.4(1) | Minor | Probable | Low | Moderate | | | | | ✓ | Priority 5 | | | | | ✓ |
| 372 | Clause 4.5(1) | Minor | Probable | Low | Moderate | | | | | ✓ | Priority 5 | ✓ | | | | |

| No | Obligation reference (condition/clause) | Audit Plan | | | | Adequacy of controls rating | | | | | Compliance rating | | | | | |
|-----|--|-------------|------------|----------------------|--------------------|-----------------------------|---|---|---|----|-------------------------|---|---|---|---|----|
| | | Consequence | Likelihood | Inherent risk rating | Control assessment | A | B | C | D | NP | Audit Risk/ Priority | 1 | 2 | 3 | 4 | NR |
| 373 | Clause 4.5(2) | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | ✓ | | | | |
| 388 | Clause 5.4(2) | Minor | Unlikely | Low | Moderate | | | | | ✓ | Priority 5 | | | | | ✓ |
| 401 | Clause 5.16 | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 405 | Clause 5.18 | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 416 | Clause 5.21(5) | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 417 | Clause 5.21(6) | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 448 | Clause 6.1(2) | Moderate | Probable | Medium | Moderate | | | | | ✓ | Priority 4 | ✓ | | | | |
| 451 | Clause 7.2(1) | Minor | Unlikely | Low | Strong | | | | | ✓ | Priority 5 | ✓ | | | | |
| 453 | Clause 7.2(4) | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 454 | Clause 7.2(5) | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | ✓ | | | | |
| 455 | Clause 7.5 | Moderate | Probable | Medium | Strong | | | | | ✓ | Priority 4 | ✓ | | | | |
| 456 | Clause 7.6(1) | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | ✓ | | | | |
| 457 | Clause 8.1(1) | Minor | Unlikely | Low | Moderate | | | | | ✓ | Priority 5 | | | | | ✓ |
| 458 | Clause 8.1(2) | Minor | Unlikely | Low | Moderate | | | | | ✓ | Priority 5 | | | | | ✓ |
| 459 | Clause 8.1(3) | Minor | Unlikely | Low | Moderate | | | | | ✓ | Priority 5 | | | | | ✓ |
| 460 | Clause 8.1(4) | Moderate | Unlikely | Medium | Moderate | | | | | ✓ | Priority 4 | | | | | ✓ |
| 461 | Clause 8.3(2) | Minor | Unlikely | Low | Moderate | | | | | ✓ | Priority 5 | | | | | ✓ |

4 Detailed findings, recommendations and action plans

This section has been structured in subsections for the relevant Codes and Regulations against which we assessed Synergy's compliance. The sections are:

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

Each section contains:

Assessment of compliance and control adequacy – the conclusions from our audit procedures and our assessment of Synergy'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** – for improvement or enhancement of the process or control
- **Action plans** – Synergy'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.

The 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 |
| <i>4.1 Electricity Industry Act – Licence Conditions and Obligations</i> | | | | | | | | | | | |
| 3 | - | - | - | 4 | 7 | 5 | 1 | - | - | 1 | 7 |
| <i>4.2 Electricity Licenses – Licence Conditions and Obligations</i> | | | | | | | | | | | |
| 1 | - | - | - | 7 | 8 | 5 | 5 | - | - | 2 | 8 |
| <i>4.3 Electricity Industry Metering Code – Licence Conditions and Obligations</i> | | | | | | | | | | | |
| - | - | - | - | 22 | 22 | 7 | - | - | - | 15 | 22 |

Electricity Industry Act – Licence Conditions and Obligations

| 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 April 2013 to 31 October 2016. This is the fourth audit conducted by an independent expert since the granting of the Licence in March 2006. The 2013 performance audit report was provided to the ERA in July 2013. | |
| | Priority: 5 | Control Adequacy: NP | Compliance Rating: 1 |
| 102 | A licensee must provide for an asset management system. <i>Electricity Industry Act section 14(1)(a)</i> | Through discussions with the Asset Performance Manager and the Manager, Regulation and Compliance, and consideration of Synergy's updated Asset Management System, supporting asset management framework documents and Post Audit Implementation Plan (PAIP) updates to the ERA we determined that: | |
| | Priority: 5 | Control Adequacy: NP | Compliance Rating: 1 |
| 103 | A licensee must notify details of the asset management system and any substantial changes to it to the ERA. <i>Electricity Industry Act section 14(1)(b)</i> | <ul style="list-style-type: none"> Synergy's asset management system has been further enhanced during the period subject to this audit. Examples of those enhancements include: <ul style="list-style-type: none"> Updates to the Asset Management System and Asset Management Policy Development of site based Asset Management Plans and system specific Asset Lifecycle Plans Synergy has provided updates to the ERA on the development of its current Asset Management System. We sighted samples of written correspondence for the following dates: <ul style="list-style-type: none"> 11 July 2014 24 February 2014 7 January 2015 25 August 2015. | |
| | Priority: 3 | Control Adequacy: A | Compliance Rating: 1 |
| 104 | A licensee must provide the ERA with a report by an independent expert about the effectiveness of its asset management system every 24 months, or such longer period as determined by the ERA. <i>Electricity Industry Act section 14(1)(c)</i> | Deloitte was appointed, with the ERA's approval, to undertake the asset management system review for the period 1 April 2013 to 31 October 2016. This is the fourth review of the asset management system since the granting of the Licence in March 2006. The 2013 asset management system review report was provided to the ERA in July 2013. | |
| | Priority: 5 | Control Adequacy: NP | Compliance Rating: 1 |

| No. | Obligation under condition | Findings |
|-----|--|---|
| 105 | <p>A licensee must pay the prescribed licence fees 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 according to clauses 6, 7 and 8 of the Economic Regulation Authority (Licensing Funding) Regulations 2014.</p> <p><i>Electricity Industry Act section 17(1)</i></p> | <p>Through discussions with the Manager, Regulation and Compliance and examination of Synergy's annual compliance reports and licence payments register, we determined that:</p> <ul style="list-style-type: none"> • Synergy did not pay its 2014 and 2015 electricity generation licence fees until 7 May 2014 and 15 May 2015 respectively, which did not comply with the requirement of the Act for the fee to be paid by 30 April each year (within one month after the day of licence renewal). The first instance was attributed to administrative oversight, although in the case of the 2015 licence fee, Synergy did not have a record of having received the invoice when it was first issued by the ERA. Synergy identified and disclosed the 2014 late payment in its 2013/14 annual compliance report to the ERA • The Regulation and Compliance team now maintains a compliance calendar, which diarises the due date for payment of the licence fee • Synergy has also nominated the Regulation and Compliance business function as the addressee for invoices from the ERA • The 2016 licence fee was paid before the required deadline. |
| | <p>Priority: 5 Control Adequacy: A Compliance Rating: 2</p> | |
| | <p>Recommendation</p> <p>Not Applicable – Refer to 2.5 Recommendations and action plans "A. Resolved during the audit period".</p> | <p>Action Plan</p> <p>No further action required.</p> |

| No. | Obligation under condition | Findings | |
|-----|--|--|----------------------|
| 106 | <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><i>Electricity Industry Act section 31(3)</i></p> | <p>Through discussions with the Asset Performance Manager and examination of Synergy's internal process and policy documents surrounding outage management, we determined that Synergy has maintained the following processes and systems to manage forced outages during the current audit period:</p> <ul style="list-style-type: none"> • A Generation Incident Report System (GIRS), which tracks plant incidents and associated forced outages for the period. All outages, forced or otherwise, are recorded in the Loss of Availability and Generation Statistics system (LAGS), which provides the population of forced outages and duration of outage. Plant incidents captured in GIRS generate maintenance work orders, which contain risk-based priority ratings based on the nature (and potential impact) of the outage • A business continuity management framework and incident management system, which are designed to minimise the extent of interruptions to its generating units. That framework includes: <ul style="list-style-type: none"> • A Crisis Response Plan and Business Continuity manual outlining the processes to be applied in the event of an unavoidable outages • An Emergency Management manual • Emergency response plans and guidelines • Crisis Management and Business Continuity system and processes together with the handling of recent incidents is reviewed annually by the Manager Audit and Risk and the Executive Business Continuity Sponsor. Based on Synergy's risk management framework, a list of potential crises is also reviewed annually to ensure provisional crisis control plans are developed for the most critical scenarios • Where relevant and possible, Synergy subjects its emergency response plans to testing in accordance with timeframes specified in the relevant plan. Testing takes the form of periodic live exercises and Emergency Response Training, as well as desk top training. We sighted evidence of a: <ul style="list-style-type: none"> • Crisis management environmental exercise conducted in April 2016 for Muja power station • Head office based crisis exercise performed in May 2015 • Sample of Emergency Response Trainings conducted throughout the audit period • Synergy does not operate some of its generating units at maximum output in order to provide for spinning reserve, which may then accommodate any additional usage required during times of unplanned outages. | |
| | Priority: 2 | Control Adequacy: A | 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 Manager, Regulation and Compliance confirmed (through consultation with Synergy's Legal and Property functions) that Synergy has not acquired an interest or easement over land for the period subject to audit. | |
| | Priority: 4 | Control Adequacy: NP | Compliance Rating: NR |

Electricity Licences – Licence Conditions and Obligations

| No. | Obligation under condition | | | Findings |
|-----|--|-------------|----------------------|---|
| 119 | A licensee and any related body corporate must maintain accounting records that comply with the Australian Accounting Standards Board Standards or equivalent International Accounting Standards. <i>Licence condition 12.1</i> | | | <p>The Manager Financial Planning and Performance confirmed that for the period 1 April 2013 to 31 October 2016:</p> <ul style="list-style-type: none"> Synergy was compliant with the Australian Accounting Standards Board (AASB) standards There are no significant accounting transactions or items that would currently jeopardise Synergy's compliance with accounting standards. <p>The Office of the Auditor General (OAG) is responsible for auditing the annual statutory accounts of Synergy for compliance with Australian International Financial Reporting Standards.</p> <p>We read the published financial statements of Synergy for the years ending 30 June 2016, 30 June 2015, 30 June 2014 and 30 June 2013. Those statements were unqualified by the OAG.</p> |
| | | Priority: 4 | Control Adequacy: NP | Compliance Rating: 1 |
| 120 | A licensee must comply with any individual performance standards prescribed by the ERA. <i>Licence condition 13.4</i> | | | <p>The Manager, Regulation and Compliance confirmed that, for the period 1 April 2013 to 31 October 2016, Synergy was not prescribed individual performance standards by the ERA.</p> |
| | | Priority: 4 | Control Adequacy: NP | Compliance Rating: NR |
| 121 | A licensee must comply, and require its auditor to comply, with the ERA's standard audit guidelines for a performance audit. <i>Licence condition 14.2</i> | | | <p><i>Obligations 121 and 122</i></p> <p>The audit plan and review plan approved by the ERA on 21 March 2017, commit Synergy and Deloitte (independent expert) to complying with the prescribed Audit and Review Guidelines and Reporting Manual issued by the ERA. Deloitte confirms that the audit and review was undertaken utilising the framework from the audit guidelines.</p> |
| | | Priority: 4 | Control Adequacy: NP | Compliance Rating: 1 |
| 122 | A licensee must comply, and must require the licensee's expert to comply, with the relevant aspects of the ERA's standard audit guidelines for an asset management system review. <i>Licence condition 20.5</i> | | | <p>Deloitte has undertaken the audit and review utilising the April 2014 issue of the Audit and Review Guidelines: Electricity and Gas Licences.</p> |
| | | Priority: 4 | Control Adequacy: NP | Compliance Rating: 1 |

| No. | Obligation under condition | Findings |
|-----|---|---|
| 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>Licence condition 15.1</i></p> | <p>Through discussions with the Manager Financial Planning and Performance and examination of Synergy's annual reports, we determined that Synergy was not under external administration during the period subject to audit.</p> <p>Synergy's Licence condition 15.1(c)(iv) and (v) requires Synergy to report relevant information to the ERA in the event that it changes the description of its generating works, or the nameplate capacity of its generating works at an individual unit level.</p> <p>Through discussions with the Manager, Regulation and Compliance and examination of Synergy's correspondence with the ERA, we determined that:</p> <ul style="list-style-type: none"> • In 2008 (the former) Verve Energy sold Exmouth Mini Wind Farm to Horizon Power. At the time the change should have been reported to the ERA as an amendment to the description of generating works. Although the status change occurred in 2008, as Synergy had not provided notification of the significant change until part way through the current audit period the breach is attributable to this audit period • Synergy remedied the non-compliance on 4 August 2014 with written notification to the ERA of its change in generating works. Synergy also disclosed this item in its 2013/14 annual compliance report to the ERA • Synergy has since notified the ERA of further changes in its generating works (i.e. the decommissioning of Kwinana Power Station Stage C and facilities at Geraldton and Kalbarri) within the 10 business day requirement • Synergy has implemented enhanced regulatory management processes including assignment of responsibility to its Regulation and Compliance team for monitoring and coordinating the notification of changes in its generating works. |
| | <p>Priority: 3</p> <p>Control Adequacy: A</p> <p>Compliance Rating: 2</p> | |
| | <p>Recommendation:</p> <p>Not Applicable – Refer to 2.5 Recommendations and action plans "A. Resolved during the audit period".</p> | <p>Action Plan:</p> <p>No further action required.</p> |

| 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>Licence condition 16.1</i></p> | <p>Through discussions with the Manager, Regulation and Compliance and examination of correspondence between the Synergy and the ERA, we determined that Synergy has maintained the following processes to respond to requests for information from the ERA:</p> <ul style="list-style-type: none"> • Synergy’s Regulation and Compliance team has been assigned responsibility for: <ul style="list-style-type: none"> • Maintaining a log of communication with the ERA, including timing for submission of required information and reports. All such correspondence is saved into DM, which records who the correspondence has been received from or sent to • High level monitoring of compliance with Synergy’s licence obligations • When a request is made by the ERA, a Synergy representative (request owner) is assigned responsibility for managing the request • The request owner will develop a response and will submit the information to the ERA on behalf of Synergy • The request owner will be responsible for managing request deadlines, and if it is anticipated that further time is required, a request for time extension will be submitted by the request owner to the ERA. <p>We observed that Synergy received a number of requests to provide information to the ERA and received ERA notifications during the period subject to audit. For example:</p> <ul style="list-style-type: none"> • Timing of the asset management system review and performance audits • Requests for updates to generation licence EGL 7 post audit implementation plans and post review implementation plans • Confirmation of receipt of annual compliance reports. | |
| | Priority: 4 | Control Adequacy: NP | Compliance Rating: 1 |
| 125 | <p>A licensee must publish any information as directed by the ERA to publish, within the timeframes specified.</p> <p><i>Licence condition 17.1 & 17.2</i></p> | <p>The Manager, Regulation and Compliance confirmed, in consultation with the Generation Business Unit (GBU), that Synergy has not received direction from the ERA to publish information during the period subject to audit.</p> | |
| | Priority: 4 | Control Adequacy: NP | Compliance Rating: NR |
| 126 | <p>All notices must be in writing, unless otherwise specified.</p> <p><i>Licence condition 18.1</i></p> | <p>The Manager, Regulation and Compliance confirmed that:</p> <ul style="list-style-type: none"> • Synergy maintains records to evidence formal communications with the ERA, which have been made via post or email • All responses to requests are made in writing, unless otherwise requested. | |
| | Priority: 4 | Control Adequacy: NP | Compliance Rating: 1 |

Electricity Industry Metering Code – Licence Conditions and Obligations

| No. | Obligation under condition | Findings | | | |
|-------------|--|---|----------------------|-----------------------|--|
| 324 | <p>If a user is aware of bi-directional electricity flows at a metering point that was not previously subject to a bi-directional flows or any changes in a customer's or user's circumstances in a metering point that will result in bi-directional flows, the user must notify the network operator within 2 business days.</p> <p><i>Metering Code clause 3.3B</i></p> | The Networks Regulation and Compliance Manager confirmed that Synergy does not have any bi-directional connection points on its sites and its electricity transfer access contract with Western Power. | | | |
| | <table border="1"> <tr> <td>Priority: 4</td> <td>Control Adequacy: NP</td> <td>Compliance Rating: NR</td> </tr> </table> | Priority: 4 | Control Adequacy: NP | Compliance Rating: NR | |
| Priority: 4 | Control Adequacy: NP | Compliance Rating: NR | | | |
| 339 | <p>A Code participant who becomes aware of an outage or malfunction of a metering installation must advise the network operator as soon as practicable.</p> <p><i>Metering Code clause 3.11(3)</i></p> | The Manager, Regulation and Compliance and Networks Regulation and Compliance Manager confirmed, in consultation with the Wholesale Business Unit (WBU), that Synergy has not become aware of an outage or malfunction of a metering installation during the period subject to audit. | | | |
| | <table border="1"> <tr> <td>Priority: 4</td> <td>Control Adequacy: NP</td> <td>Compliance Rating: NR</td> </tr> </table> | Priority: 4 | Control Adequacy: NP | Compliance Rating: NR | |
| Priority: 4 | Control Adequacy: NP | Compliance Rating: NR | | | |
| 364 | <p>A person must not install a metering installation on a network unless the person is the network operator or a registered metering installation provider for the network operator doing the type of work authorised by its registration.</p> <p><i>Metering Code clause 3.27</i></p> | The Manager, Regulation and Compliance confirmed that Synergy does not install any meters or own any meters on Western Power's network. Synergy is not registered, in accordance with the electricity industry metering code, to install meters. | | | |
| | <table border="1"> <tr> <td>Priority: 4</td> <td>Control Adequacy: NP</td> <td>Compliance Rating: NR</td> </tr> </table> | Priority: 4 | Control Adequacy: NP | Compliance Rating: NR | |
| Priority: 4 | Control Adequacy: NP | Compliance Rating: NR | | | |
| 371 | <p>If there is a discrepancy between energy data held in a metering installation and in the metering database, the affected Code participants and the network operator must liaise to determine the most appropriate way to resolve the discrepancy.</p> <p><i>Metering Code clause 4.4(1)</i></p> | <p>The Manager, Regulation and Compliance and the Networks Regulation and Compliance Manager confirmed that:</p> <ul style="list-style-type: none"> For the duration of the audit period, Synergy was not aware of any issues in relation to discrepancies between energy data in a metering installation and the metering database It is unlikely that Synergy would become aware of an outage that was unknown to Western Power owing to system failure. If required (although there has been no need during the audit period), Synergy can request Western Power to verify energy data in accordance with the Metering Code and Model Service Level agreement. | | | |
| | <table border="1"> <tr> <td>Priority: 5</td> <td>Control Adequacy: NP</td> <td>Compliance Rating: NR</td> </tr> </table> | Priority: 5 | Control Adequacy: NP | Compliance Rating: NR | |
| Priority: 5 | Control Adequacy: NP | Compliance Rating: NR | | | |

| No. | Obligation under condition | Findings | |
|-----|--|-------------|---|
| 372 | A Code participant must not knowingly permit the registry to be materially inaccurate. <i>Metering Code clause 4.5(1)</i> | Priority: 5 | Control Adequacy: NP Compliance Rating: 1 |
| 373 | Subject to subclause 5.19(6), if a Code participant, other than a network operator, becomes aware of a change to, or inaccuracy in, an item of standing data in the registry, then it must notify the network operator and provide details of the change or inaccuracy within the timeframes prescribed. <i>Metering Code clause 4.5(2)</i> | Priority: 4 | Control Adequacy: NP Compliance Rating: 1 |
| 388 | A user must, when reasonably requested by a network operator, assist the network operator to comply with the network operator's obligation under subclause 5.4(1). <i>Metering Code clause 5.4(2)</i> | Priority: 5 | Control Adequacy: NP Compliance Rating: NR |
| 401 | If a user collects or receives energy data from a metering installation then the user must provide the network operator with the energy data (in accordance with the communication rules) within the timeframes prescribed. <i>Metering Code clause 5.16</i> | Priority: 4 | Control Adequacy: NP Compliance Rating: NR |
| 405 | If a user collects or receives information regarding a change in the energisation status of a metering point then the user must provide the network operator with the prescribed information, including the stated attributes, within the timeframes prescribed. <i>Metering Code clause 5.18</i> | Priority: 4 | Control Adequacy: NP Compliance Rating: NR |

| No. | Obligation under condition | Findings | |
|-----|--|---|--|
| 416 | A Code participant must not request a test or audit under subclause 5.21(1) unless the Code participant is a user and the test or audit relates to a time or times at which the user was the current user or the Code participant is the IMO. <i>Metering Code clause 5.21(5)</i> | <p><i>Obligation 416 and 417</i></p> <p>The Networks Regulation and Compliance Manager confirmed that:</p> <ul style="list-style-type: none"> Synergy is only able to make test and audit requests to Western Power under the model service level agreement and only for connection points on its electricity transfer access contract with Western Power Western Power does not permit a service request to be made for a connection point for a period that is not on a user's access contract No meter test or audit request has been made during the audit period. | |
| | Priority: 4 | | |
| 417 | A Code participant must not make a request under subclause 5.21(1) that is inconsistent with any access arrangement or agreement. <i>Metering Code clause 5.21(6)</i> | | |
| | Priority: 4 | | |
| 448 | A user must, in relation to a network on which it has an access contract, comply with the rules, procedures, agreements and criteria prescribed. <i>Metering Code clause 6.1(2)</i> | <p>Through discussion with the Manager, Regulation and Compliance and Networks Regulation and Compliance Manager, and examination of Synergy's Service Level Agreement with Western Power, we determined that:</p> <ul style="list-style-type: none"> In the absence of customers, Synergy's Access Agreement obligations in relation to generation activity are limited to communication requirements and obligation to pay service fees WBU staff are aware of Synergy's obligations in relation to communication with Western Power and payment of service fees. | |
| | Priority: 4 | | |
| 451 | Code participants must use reasonable endeavours to ensure that they can send and receive a notice by post, facsimile and electronic communication and must notify the network operator of a telephone number for voice communication in connection with <i>the Code</i> . <i>Metering Code clause 7.2(1)</i> | <p>Through discussion with the Networks Regulation and Compliance Manager and consideration of Synergy's communication methods, we determined that Synergy uses reasonable endeavours to ensure it is contactable via the following means:</p> <ul style="list-style-type: none"> Email Facsimile Post Telephone. | |
| | Priority: 5 | | |
| 453 | If requested by a network operator with whom it has entered into an access contract, the Code participant must notify its contact details to a network operator within 3 business days after the request. <i>Metering Code clause 7.2(4)</i> | <p>The Manager, Regulation and Compliance confirmed that Synergy has not received a request from the network operator for Synergy's contact details for the period subject to audit.</p> | |
| | Priority: 4 | | |

| No. | Obligation under condition | Findings | |
|--------------------|--|--|-----------------------------|
| 454 | <p>A Code participant must notify any affected network operator of any change to the contact details it notified to the network operator under subclause 7.2(4) at least 3 business days before the change takes effect.</p> <p><i>Metering Code clause 7.2(5)</i></p> | <p>Through discussion with the Manager, Regulation and Compliance and examination of the letter provided to Western Power on 10 November 2015 (notifying of Synergy's change of address) we determined that Synergy has processes in place to notify Western Power of changes to contact details in a timely manner.</p> | |
| <p>Priority: 4</p> | | <p>Control Adequacy: NP</p> | <p>Compliance Rating: 1</p> |
| 455 | <p>A Code participant must subject to subclauses 5.17A and 7.6 not disclose, or permit the disclosure of, confidential information provided to it under or in connection with the Code and may only use or reproduce confidential information for the purpose for which it was disclosed or another purpose contemplated by the Code.</p> <p><i>Metering Code clause 7.5</i></p> | <p>Through discussion with the Manager, Regulation and Compliance and Networks Regulation and Compliance Manager, and examination of relevant policies and procedures, we determined that Synergy has the following controls and processes in place to ensure the confidentiality of information:</p> <ul style="list-style-type: none"> • Synergy adopts the definition contained in the Metering code to define what is considered as confidential information (i.e. standing data or energy data) • All confidential information is stored either in Synergy's DM system or a secure database • Files located on DM and the database are access restricted to certain levels or individual employees • All employees are bound by a confidentiality agreement, which is required to be signed during induction • Further training and information regarding confidentiality of information is contained in Synergy's Staff Handbook and Record Keeping policy. <p>The Manager, Regulation and Compliance confirmed that for the period subject to audit, Synergy was not aware of any instances of confidential information being disclosed.</p> | |
| <p>Priority: 4</p> | | <p>Control Adequacy: NP</p> | <p>Compliance Rating: 1</p> |
| 456 | <p>A Code participant must disclose or permit the disclosure of confidential information that is required to be disclosed by the Code</p> <p><i>Metering Code clause 7.6(1)</i></p> | <p>Through discussions with the Manager, Regulation and Compliance and Networks Regulation and Compliance Manager, we determined that:</p> <ul style="list-style-type: none"> • The extent to which confidential information is disclosed by Synergy externally is in accordance with its reporting requirements to the Australian Energy Market Operator (AEMO) • Western Power and AEMO are the only parties with which Synergy would exchange information. Both parties have access to the information in their capacity as the network operator and the independent market operator respectively • Synergy's internal employees and contractors are bound by confidentiality agreements as part of their standard contracts. | |
| <p>Priority: 4</p> | | <p>Control Adequacy: NP</p> | <p>Compliance Rating: 1</p> |

| No. | Obligation under condition | Findings | |
|-----|---|---|--|
| 457 | <p>If any dispute arises between any Code participants then (subject to subclause 8.2(3)) representatives of disputing parties must meet within 5 business days after a notice given by a disputing party to the other disputing parties and attempt to resolve the dispute by negotiations in good faith.</p> <p><i>Metering Code clause 8.1(1)</i></p> | <p><i>Obligations 457 to 461</i></p> <p>Through discussion with the Manager, Regulation and Compliance and Networks Regulation and Compliance Manager, and examination of the Service Level Agreement with Western Power, we determined that:</p> <ul style="list-style-type: none"> Disputes are governed by Clause 9 of the Service Level Agreement Synergy has not had any disputes with Code participants during the period subject to audit. | |
| | <p>Priority: 5</p> <p>Control Adequacy: NP</p> <p>Compliance Rating: NR</p> | | |
| 458 | <p>If a dispute is not resolved within 10 business days after the dispute is referred to representative negotiations, the disputing parties must refer the dispute to a senior management officer of each disputing party who must meet and attempt to resolve the dispute by negotiations in good faith</p> <p><i>Metering Code clause 8.1(2)</i></p> | | |
| | <p>Priority: 5</p> <p>Control Adequacy: NP</p> <p>Compliance Rating: NR</p> | | |
| 459 | <p>If the dispute is not resolved within 10 business days after the dispute is referred to senior management negotiations, the disputing parties must refer the dispute to the senior executive officer of each disputing party who must meet and attempt to resolve the dispute by negotiations in good faith.</p> <p><i>Metering Code clause 8.1(3)</i></p> | | |
| | <p>Priority: 5</p> <p>Control Adequacy: NP</p> <p>Compliance Rating: NR</p> | | |
| 460 | <p>If the dispute is resolved by representative negotiations, senior management negotiations or CEO negotiations, the disputing parties must prepare a written and signed record of the resolution and adhere to the resolution.</p> <p><i>Metering Code clause 8.1(4)</i></p> | | |
| | <p>Priority: 4</p> <p>Control Adequacy: NP</p> <p>Compliance Rating: NR</p> | | |
| 461 | <p>The disputing parties must at all times conduct themselves in a manner which is directed towards achieving the objective in subclause 8.3(1).</p> <p><i>Metering Code clause 8.3(2)</i></p> | | |
| | <p>Priority: 5</p> <p>Control Adequacy: NP</p> <p>Compliance Rating: NR</p> | | |

5 Follow-up of previous audit non-compliances and recommendations

Section 5 summarises the status of previous audit non-compliances and recommendations.

The ratings provided are defined in accordance with the August 2010 Audit Guidelines: Electricity, Gas and Water Licences, which was applicable at the time of the previous audit. The table below provides guidance on the previously used compliance ratings and their corresponding description.

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

| Ref | Legislative obligation | Rating ² | Details of the issue (taken from the EGL7 Performance Audit Report – July 2013) | Auditors' recommendation or action taken | Date resolved | Further action required |
|---|--|----------------------|---|---|---------------|-------------------------|
| A. Resolved before end of previous audit period | | | | | | |
| N/A - The 2013 Performance Audit did not contain auditor recommendations or action plans, which were resolved before the end of the previous review period. | | | | | | |
| B. Resolved during current audit period | | | | | | |
| 1/2013 | Obligation 103 <i>Act section 14.1(b)</i> | Compliant (3) | <p>Synergy's asset management system has:</p> <ul style="list-style-type: none"> • Evolved considerably since the ERA was the last advised of the details of the system • Been further enhanced during the period subject to this audit. <p>There is some doubt as to whether changes to the asset management system during the audit period are sufficiently substantial as to require specific notification to the ERA in accordance with the requirements of section 14(1) of the Act.</p> <p>As it may be reasonable to form a view either way, we consider Synergy has not breached the requirements of the Act.</p> | <p>Complete</p> <p>Synergy has developed a revised Asset Management Policy and is currently revising its Asset Management strategy.</p> <p>Further, Synergy undertook a project to align its Asset Management System (AMS) with PAS55 and ISO55000, which included a change management process (feedback, plan, check and act). It is anticipated that this will include a requirement to communicate with the ERA (if required).</p> <p>Synergy provided notice to the ERA of its completed AMS policy in its 25 August 2015 letter on progress of post audit implementation plans.</p> | August 2015 | No |
| 2/2013 | Obligation 123 <i>Licence conditions 15.1</i> | Non-compliant (2) | <p>Within the versions of the Licence applicable during the period subject to audit, the broad references to the generating works at each location had accommodated changes within Verve Energy's portfolio of generating works. During the period subject to audit, Verve Energy's asset portfolio was reduced with the decommissioning of generation assets. Verve Energy maintained an</p> | <p>Complete</p> <p>Synergy agreed upon a definitional interpretation of nameplate capacity with the ERA and reporting capacity on a 'per generator' basis.</p> <p>Synergy provided the ERA with the Nameplate Capacity for its</p> | February 2014 | No |

² As per the previous rating system detailed at the start of this section

| Ref | Legislative obligation | Rating ² | Details of the issue (taken from the EGL7 Performance Audit Report – July 2013) | Auditors' recommendation or action taken | Date resolved | Further action required |
|--|------------------------|---------------------|--|--|---------------|-------------------------|
| | | | <p>interpretation of what constituted changes to nameplate capacity.</p> <p>Verve Energy had not consulted with the ERA to determine the suitability of its recognition of 'nameplate capacity'.</p> | <p>portfolio, by individual unit, on 20 February 2014.</p> <p>Synergy has since provided an update to the ERA on changes in operations on:</p> <ul style="list-style-type: none"> • 7 April 2015 (reflecting the decommissioning of Kwinana Power Station Stage C) • 8 September 2015 (reflecting the decommissioning of Geraldton and Kalbarri facilities). | | |
| <p>N/A - As indicated in Section B, all previous audit items have been addressed during the audit period. Where a revised action has been provided, the superseded reference has been provided (refer to 2.5 Recommendations and Action Plans for further detail).</p> | | | | | | |

Appendix A - Audit plan

Electricity Generation and Retail Corporation trading as Synergy

Electricity Generation Licence (EGL7)

2017 Performance Audit

Audit Plan

March 2017

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1 Introduction

Overview

The Economic Regulation Authority (**the ERA**) has under the provisions of the Electricity Industry Act 2004 (**the Act**), issued to Electricity Generation and Retail Corporation trading as Synergy (**Synergy**) the Electricity Generation Licence No. 7 (**the Licence**).

Section 13 of the Act requires Synergy to provide to the ERA a performance audit (**the audit**) conducted by an independent expert acceptable to the ERA not less than once in every 24 month period unless otherwise approved by the ERA. With the ERA's approval, Deloitte Risk Advisory Pty Ltd (**Deloitte**) has been appointed to conduct the audit for the period 1 April 2013 to 31 October 2016.

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

The audit will be conducted in accordance with the ERA's April 2014 issue of the *Audit and Review 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 Synergy and presented to the ERA for approval.

Objective

The performance audit is defined as an examination of the measures taken by Synergy 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 Synergy's compliance with its Licence. The audit will specifically consider the following:

- *Process compliance* - the effectiveness of systems and procedures in place throughout the audit period, including assessing the adequacy of internal controls
- *Outcome compliance* - the actual performance against standards prescribed in the Licence throughout the audit period
- *Output compliance* - the existence of the output from systems and procedures throughout the audit period (that is, proper records exist to provide assurance that procedures are being consistently followed and controls are being maintained)
- *Integrity of performance* - the completeness and accuracy of the performance and compliance reporting to the ERA
- *Compliance with any individual licence conditions* - the requirements imposed on Synergy 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 Synergy's performance criteria, which it expects to be reported upon and included in the scope of the performance audit in its Electricity Compliance Reporting Manual (**Reporting Manual**).

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

The audit period is from 1 April 2013 to 31 October 2016.

During the period subject to audit, the Reporting Manual has undergone six revisions. The seven versions of the Reporting Manual are dated:

- February 2013
- June 2013
- May 2014
- July 2014
- September 2014
- July 2016
- October 2016.

As the revisions made in each of the June 2013, May 2014, July 2014, September 2014, July 2016 and October 2016 versions of the Reporting Manual are either not relevant to Synergy's electricity generation operations or do not substantially alter Synergy's licence obligations, this audit will use the October 2016 version of the Reporting Manual as the primary reference for this audit, particularly for the obligation numbering.

Table 1 below outlines the compliance requirements that apply to Synergy's electricity generation 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 (October 2016) Reporting Manual.

Table 1 – Application of legislative elements to Synergy's electricity generation operations

| Legislative element | Application to Synergy's electricity generation operations |
|------------------------------------|---|
| Electricity Industry Act | Seven of the 13 Electricity Industry Act obligations are applicable to Synergy's electricity generation operations. |
| Electricity Licences | Eight of the 15 Electricity Licence obligations are applicable to Synergy's electricity generation operations. |
| Electricity Industry Metering Code | 28 of the 145 Metering Code obligations are applicable to Synergy's electricity generation operations. |

Responsibility

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

Synergy is responsible for:

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

Deloitte's responsibility

Our responsibility is to express a conclusion on Synergy's compliance with the conditions of the Licence based on our procedures. We will conduct our engagement in accordance with the Audit Guidelines and the Australian Standard on Assurance Engagements (**ASAE**) 3100 *Compliance Engagements*¹ issued by the Australian Auditing and Assurance Standards Board, to state whether, in our opinion, based on the procedures performed, the conditions of the Licence have been complied with. Our engagement will provide reasonable assurance as defined in ASAE 3100.

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

Limitations of use

Our report will be produced solely for the information and internal use of Synergy, 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 our report will be provided to the ERA for the purpose of meeting Synergy's reporting requirements of section 13 of the Act. We agree that a copy of our 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 Synergy, in connection with the report or this engagement.

Inherent limitations

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

We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Accordingly, readers of our report should not rely on the report to identify all potential instances of non-compliance which may occur.

Independence

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

2 Approach

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

Risk assessment

The audit will focus on identifying or assessing those activities and management control systems to be examined and the matters subject to audit. Therefore, the purpose of conducting the risk assessment as a preliminary phase enables the auditor to focus on pertinent/high risk areas of Synergy’s licence obligations. The risk assessment gives specific consideration to the changes to Synergy’s systems and processes and any matters of significance raised by the ERA and/or Synergy. The levels 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 Synergy 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. The only exception to this approach to rating consequence is for obligation 106 (Electricity Industry Act s 31(3)), where the consequence rating is revised from “minor” to “major” at the request of the Secretariat at the time of the previous 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 Synergy 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 Synergy’s non-compliance with the relevant licence obligation over a period of time.

Table 2 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 2: Inherent risk rating

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

Once the level of inherent risk has been determined, the adequacy of existing controls is assessed in order to determine the level of control risk. Controls are assessed and prioritised as weak, moderate or strong dependant on their suitability to mitigate the risks identified. The control adequacy ratings used by this risk assessment are aligned to the ratings listed at Table 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 3** below). Essentially, the higher the level of risk the more substantive testing is required.

Table 3: Assessment of Audit Priority

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

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

Table 4: Audit Priority Table

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

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

- Prior assessments of the state of controls during the 2013 EGL Performance audit
- Consideration of annual compliance reports
- Our understanding of Synergy's regulatory environment
- Observations of the ERA's Secretariat
- Any other factors that may have an effect on the level of risk or strength of controls.

At this stage, the risk assessment can only be a preliminary assessment based on reading of documentation and interviews by the auditors. It is possible that the ratings and risk assessment comments may be revised as we conduct our work and new evidence comes to light. Accordingly the risk assessment for the performance audit is a preliminary draft, not a final report, and no reliance should be placed on its findings. It is however an invaluable tool for focussing the audit effort. The performance audit risk assessment is attached at **Appendix 2**.

System analysis/walkthrough

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

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

- The control environment: Synergy'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 Synergy's information systems (in particular, those relating to network management & control, metering services and resource planning) to record the information needed to comply with the licence, the accuracy of data, the security of data and documentation describing the information system
- Control procedures: the presence of systems and procedures to ensure compliance with the licence, effectiveness of Synergy'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 Synergy in response to any previous audit recommendations. Consideration will be given to the timing of action taken during the period subject to audit and whether the action has a permanent impact on Synergy'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 Synergy's compliance with Licence obligations. Key documents, which may be subject to audit, are not specifically disclosed in this plan. A list of documents examined will be included in the audit report.

Testing/review

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

Control testing is performed for those licence obligations with an audit priority 3 and above (refer to table 4), and where there is relevant activity. This method of testing will involve:

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

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

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

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

Reporting

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

Table 5: Operational/performance compliance rating scale

| 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

- Response to previous audit recommendations (refer to **Appendix 3**)
- Performance/compliance summary and rating for each licence condition – in tabular form
- Audit observations
- Where appropriate, recommendations on actions required to address areas of non-compliance.

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

3 General Information

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

Key Synergy contacts

The key contacts for this audit are:

- Simon Thackray Manager – Regulation and Compliance
- Tony Conroy Engineering Services Manager
- Dario Peagno Asset Performance Manager
- Karthi Mahalingham Manager – Networks Regulation and Compliance
- Andrew Everett Manager – Energy Trading
- A number of staff at Muja and Kwinana power station sites will also participate in the audit.

Deloitte staff

Deloitte staff who will be involved with this assignment are:

- Richard Thomas Partner
- Andrew Baldwin Account Director
- David Herbert Senior Analyst
- Brittanie Antulov Analyst
- Kobus Beukes QA Partner.

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

Timing

The initial risk assessment phase was completed on 27 February 2017. On 14 March 2017 the audit plan and detailed risk assessment were presented to the ERA for review and comment.

The remainder of the fieldwork phase is scheduled to be performed in March 2017.

Deloitte's time and staff commitment to the completion of the audit is outlined in the proposal accepted by Synergy 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): | 66 hours |
| • Reporting: | 20 hours. |

Appendix 1 – Risk assessment key

1-1 Criteria for classification

Source: *Electricity Compliance Reporting Manual October 2016*

| Rating (type) | Classification of Non-Compliance | Criteria for classification |
|---------------|----------------------------------|---|
| 1 | Major | Classified on the basis that: <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 | Classified on the basis that: <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. |
| NR | Minor | Classified on the basis that: <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; ▪ 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. |

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 |
| Minor | Breaches of supply quality or reliability standards - 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. |
| 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. |
| 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 2014

| Level | Criteria |
|----------|--|
| Likely | Non-compliance is expected to occur at least once or twice a year |
| Probable | Non-compliance is expected to occur every three years |
| 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 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 October 2016 Reporting Manual.

| No | Obligation reference | Obligation description | Consequence | Likelihood | Inherent Risk Rating | Control Assessment | Audit Priority |
|---|--|--|-------------|------------|----------------------|--------------------|----------------|
| 12 Electricity Industry Act - Licence Conditions and Obligations | | | | | | | |
| 101 | Electricity Industry Act section 13(1) | A licensee must 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 | Strong | Priority 5 |
| 102 | Electricity Industry Act section 14(1)(a) | A licensee must provide for an asset management system. | Minor | Unlikely | Low | Strong | Priority 5 |
| 103 | Electricity Industry Act section 14(1)(b) | A licensee must notify details of the asset management system and any substantial changes to it to the ERA. | Moderate | Probable | Medium | Weak | Priority 3 |
| 104 | Electricity Industry Act section 14(1)(c) | A licensee must provide the ERA with a report by an independent expert about the effectiveness of its asset management system every 24 months, or such longer period as determined by the ERA. | Minor | Unlikely | Low | Strong | Priority 5 |
| 105 | Electricity Industry Act section 17(1) ERA (Licensing Funding) Regulations 2014 | A licensee must pay the prescribed licence fees 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 according to clauses 6, 7 and 8 of the <i>Economic Regulation Authority (Licensing Funding) Regulations 2014</i> . | Minor | Unlikely | Low | Weak | Priority 5 |
| 106 | Electricity Industry Act section 31(3) | A licensee must take reasonable steps to minimise the extent, or duration, of any interruption, suspension or restriction of the supply of electricity due to an accident, emergency, potential danger or other unavoidable cause. | Major | Unlikely | High | Strong | Priority 2 |
| 107 | Electricity Industry Act section 41(6) | A licensee must pay the costs of taking an interest in land or an easement over land. | Moderate | Unlikely | Medium | Moderate | Priority 4 |
| 13. Electricity Licences - Licence Conditions and Obligations | | | | | | | |
| 119 | Licence condition 12.1 | A licensee and any related body corporate must maintain accounting records that comply with the Australian Accounting Standards Board Standards or equivalent International Accounting Standards. | Moderate | Unlikely | Medium | Strong | Priority 4 |
| 120 | Licence condition 13.4 | A licensee must comply with any individual performance standards prescribed by the ERA. | Moderate | Unlikely | Medium | Moderate | Priority 4 |
| 121 | Licence condition 14.2 | A licensee must comply, and require its auditor to comply, with the ERA's standard audit guidelines for a performance audit. | Moderate | Unlikely | Medium | Strong | Priority 4 |
| 122 | Licence condition 20.5 | A licensee must comply, and must require the licensee's expert to comply, with the relevant aspects of the ERA's standard audit guidelines for an asset management system review. | Moderate | Unlikely | Medium | Strong | Priority 4 |
| 123 | Licence 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 | Probable | Medium | Weak | Priority 3 |

| No | Obligation reference | Obligation description | Consequence | Likelihood | Inherent Risk Rating | Control Assessment | Audit Priority | |
|--|-------------------------------|---|---|------------|----------------------|--------------------|----------------|--|
| 124 | Licence condition 16.1 | 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. | Moderate | Probable | Medium | Moderate | Priority 4 | |
| 125 | Licence condition 17.1 & 17.2 | A licensee must publish any information as directed by the ERA to publish, within the timeframes specified. | Moderate | Unlikely | Medium | Moderate | Priority 4 | |
| 126 | Licence condition 18.1 | All notices must be in writing, unless otherwise specified. | Moderate | Unlikely | Medium | Moderate | Priority 4 | |
| 14. Electricity Industry Metering Code – Licence Conditions and Obligations | | | | | | | | |
| 324 | Metering Code clause 3.3B | If a user is aware of bi-directional electricity flows at a metering point that was not previously subject to a bi-directional flows or any changes in a customer's or user's circumstances in a metering point that will result in bi-directional flows, the user must notify the network operator within 2 business days. | Moderate | Unlikely | Medium | Moderate | Priority 4 | |
| 339 | Metering Code clause 3.11(3) | A Code participant who becomes aware of an outage or malfunction of a metering installation must advise the network operator as soon as practicable. | Moderate | Probable | Medium | Moderate | Priority 4 | |
| 364 | Metering Code clause 3.27 | A person must not install a metering installation on a network unless the person is the network operator or a registered metering installation provider for the network operator doing the type of work authorised by its registration. | Moderate | Unlikely | Medium | Moderate | Priority 4 | |
| 371 | Metering Code clause 4.4(1) | If there is a discrepancy between energy data held in a metering installation and in the metering database, the affected Code participants and the network operator must liaise to determine the most appropriate way to resolve the discrepancy. | Minor | Probable | Low | Moderate | Priority 5 | |
| 372 | Metering Code clause 4.5(1) | A Code participant must not knowingly permit the registry to be materially inaccurate. | Minor | Probable | Low | Moderate | Priority 5 | |
| 373 | Metering Code clause 4.5(2) | Subject to subclause 5.19(6), if a Code participant, other than a network operator, becomes aware of a change to, or inaccuracy in, an item of standing data in the registry, then it must notify the network operator and provide details of the change or inaccuracy within the timeframes prescribed. | Moderate | Unlikely | Medium | Moderate | Priority 4 | |
| 388 | Metering Code clause 5.4(2) | A user must, when reasonably requested by a network operator, assist the network operator to comply with the network operator's obligation under subclause 5.4(1). | Minor | Unlikely | Low | Moderate | Priority 5 | |
| 401 | Metering Code clause 5.16 | If a user collects or receives energy data from a metering installation then the user must provide the network operator with the energy data (in accordance with the communication rules) within the timeframes prescribed. | Moderate | Unlikely | Medium | Moderate | Priority 4 | |
| 402 | Metering Code clause 5.17(1) | A user must provide standing data and validated, and where necessary substituted or estimated, energy data to the user's customer to which that information relates where the user is required by an enactment or an agreement to do so for billing purposes or for the purpose of providing metering services to the customer. | Not applicable to Synergy's electricity generation operations. As Synergy does not directly supply energy to customers through its electricity generation licence, it does not bill customers or supply metering services to customers. | | | | | |
| 405 | Metering Code clause 5.18 | If a user collects or receives information regarding a change in the energisation status of a metering point then the user must provide the network operator with the prescribed information, including the stated attributes, within the timeframes prescribed. | Moderate | Unlikely | Medium | Moderate | Priority 4 | |

| No | Obligation reference | Obligation description | Consequence | Likelihood | Inherent Risk Rating | Control Assessment | Audit Priority |
|-----|------------------------------|--|--|------------|----------------------|--------------------|----------------|
| 406 | Metering Code clause 5.19(1) | A user must, when requested by the network operator acting in accordance with good electricity industry practice, use reasonable endeavours to collect information from customers, if any, that assists the network operator in meeting its obligations described in the Code and elsewhere, and provide that information to the network operator. | Not applicable to Synergy's electricity generation operations. As Synergy does not directly supply energy to customers through its electricity generation licence, it does not collect customer information. | | | | |
| 407 | Metering Code clause 5.19(2) | A user must, to the extent that it is able, collect and maintain a record of the prescribed information in relation to the site of each connection point with which the user is associated. | | | | | |
| 408 | Metering Code clause 5.19(3) | Subject to subclauses 5.19(3A) and 5.19(6), the user must, within 1 business day after becoming aware of any change in an attribute described in subclause 5.19(2), notify the network operator of the change. | | | | | |
| 410 | Metering Code clause 5.19(6) | The user must use reasonable endeavours to ensure that it does not notify the network operator of a change in an attribute described in subclause 5.19(2) that results from the provision of standing data by the network operator to the user. | | | | | |
| 416 | Metering Code clause 5.21(5) | A Code participant must not request a test or audit under subclause 5.21(1) unless the Code participant is a user and the test or audit relates to a time or times at which the user was the current user or the Code participant is the IMO. | Moderate | Unlikely | Medium | Moderate | Priority 4 |
| 417 | Metering Code clause 5.21(6) | A Code participant must not make a request under subclause 5.21(1) that is inconsistent with any access arrangement or agreement. | Moderate | Unlikely | Medium | Moderate | Priority 4 |
| 435 | Metering Code clause 5.27 | Upon request from a network operator, the current user for a connection point must provide the network operator with customer attribute information that it reasonably believes are missing or incorrect within the timeframes prescribed. | Not applicable to Synergy's electricity generation operations. As Synergy does not directly supply energy to customers through its electricity generation licence, it does not collect customer information. | | | | |
| 448 | Metering Code clause 6.1(2) | A user must, in relation to a network on which it has an access contract, comply with the rules, procedures, agreements and criteria prescribed. | Moderate | Probable | Medium | Moderate | Priority 4 |
| 451 | Metering Code clause 7.2(1) | Code participants must use reasonable endeavours to ensure that they can send and receive a notice by post, facsimile and electronic communication and must notify the network operator of a telephone number for voice communication in connection with the Code. | Minor | Unlikely | Low | Strong | Priority 5 |
| 453 | Metering Code clause 7.2(4) | If requested by a network operator with whom it has entered into an access contract, the Code participant must notify its contact details to a network operator within 3 business days after the request. | Moderate | Unlikely | Medium | Moderate | Priority 4 |
| 454 | Metering Code clause 7.2(5) | A Code participant must notify any affected network operator of any change to the contact details it notified to the network operator under subclause 7.2(4) at least 3 business days before the change takes effect. | Moderate | Unlikely | Medium | Moderate | Priority 4 |
| 455 | Metering Code clause 7.5 | A Code participant must subject to subclauses 5.17A and 7.6 not disclose, or permit the disclosure of, confidential information provided to it under or in connection with the Code and may only use or reproduce confidential information for the purpose for which it was disclosed or another purpose contemplated by the Code. | Moderate | Probable | Medium | Strong | Priority 4 |
| 456 | Metering Code clause 7.6(1) | A Code participant must disclose or permit the disclosure of confidential information that is required to be disclosed by the Code | Moderate | Unlikely | Medium | Moderate | Priority 4 |

Appendix 2 – Risk assessment

| No | Obligation reference | Obligation description | Consequence | Likelihood | Inherent Risk Rating | Control Assessment | Audit Priority |
|-----|-----------------------------|--|-------------|------------|----------------------|--------------------|----------------|
| 457 | Metering Code clause 8.1(1) | If any dispute arises between any Code participants then (subject to subclause 8.2(3)) representatives of disputing parties must meet within 5 business days after a notice given by a disputing party to the other disputing parties and attempt to resolve the dispute by negotiations in good faith. | Minor | Unlikely | Low | Moderate | Priority 5 |
| 458 | Metering Code clause 8.1(2) | If a dispute is not resolved within 10 business days after the dispute is referred to representative negotiations, the disputing parties must refer the dispute to a senior management officer of each disputing party who must meet and attempt to resolve the dispute by negotiations in good faith | Minor | Unlikely | Low | Moderate | Priority 5 |
| 459 | Metering Code clause 8.1(3) | If the dispute is not resolved within 10 business days after the dispute is referred to senior management negotiations, the disputing parties must refer the dispute to the senior executive officer of each disputing party who must meet and attempt to resolve the dispute by negotiations in good faith. | Minor | Unlikely | Low | Moderate | Priority 5 |
| 460 | Metering Code clause 8.1(4) | If the dispute is resolved by representative negotiations, senior management negotiations or CEO negotiations, the disputing parties must prepare a written and signed record of the resolution and adhere to the resolution. | Moderate | Unlikely | Medium | Moderate | Priority 4 |
| 461 | Metering Code clause 8.3(2) | The disputing parties must at all times conduct themselves in a manner which is directed towards achieving the objective in subclause 8.3(1). | Minor | Unlikely | Low | Moderate | Priority 5 |

Appendix 3 – Previous audit recommendations

Issue 1/2013

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

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

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

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

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

Recommendation 1/2013

Verve Energy:

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

Action Plan 1/2013

Verve Energy will:

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

Responsible Person

Manager Portfolio Development & Optimisation

Target Date

- September 2013
- December 2013.

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

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

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

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

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

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

Recommendation 2/2013

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

Action Plan 2/2013

Verve Energy will:

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

Responsible Person

Senior Regulatory Analyst

Target Date:

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

Appendix B - References

Synergy staff participating in the review

- Manager – Regulation and Compliance
- Manager Asset Optimisation
- Asset Performance Manager
- Networks Regulation and Compliance Manager
- Manager - Financial Planning and Performance

Deloitte staff participating in the review

| Name | Position | Hours |
|---------------------|------------------------------------|--------------|
| • Richard Thomas | Partner | 4 |
| • Andrew Baldwin | Account Director | 27.5 |
| • David Herbert | Senior Analyst | 42 |
| • Brittanie Antulov | Analyst | 15 |
| • Kobus Beukes | Partner (Quality Assurance Review) | 1 |

Key documents and other information sources examined

- Register of Licence Payments
- Correspondence with the ERA regarding:
 - PAIP status
 - Reporting a change in circumstances (7 April 2015 and 8 September 2015)
- Metering Code Model Service Level Agreement – Western Power Corporation
- GBU Asset Management System
- Synergy Generation Portfolio Asset Mission Statement 2016
- GBU Asset Management Policy
- Population of lags and outages for review period (extract from GIRS)
- GIRS Training Presentation
- Emergency Response Plan – Kwinana Power Station (inclusive of Kwinana Gas Turbines) and Cockburn Power Station
- Emergency Response Plan (Muja)
- Crisis Scenario Exercise (May 2015)
- Crisis Management and Response Toolkit
- Crisis Management and Response Plan
- Business Continuity Management Framework and Manual
- Emergency Response Training (Muja)
- Major Maintenance Event Outage Framework
- Electricity Transfer Access Contract
- Audited annual reports for 2012/13 (Verve Energy), 2013/14, 2014/15 and 2015/16
- Representations from:
 - Manager – Regulation and Compliance
 - Networks Regulation and Compliance Manager
 - Manager - Financial Planning and Performance.