

Alcoa of Australia Ltd

Electricity Generation Licence (EGL 14)

2017 Performance Audit Report

December 2017

Mr Richard Le Tessier
Principal Mechanical Engineer - WA Powerhouse Operations
Alcoa of Australia Ltd
181-205 Davy Street
BOORAGOON WA 6953

15 December 2017

Dear Richard

Alcoa of Australia Ltd Electricity Generation Licence (EGL14) – 2017 Performance Audit

We have completed the Electricity Generation Licence Performance audit for Alcoa of Australia Ltd for the period 1 July 2013 to 30 June 2017 and are pleased to submit our report to you.

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

If you have any questions or wish to discuss anything raised in the report, please contact Andrew Baldwin on 9365 7236 or myself on 9365 7024.

Yours sincerely

Richard Thomas
Partner
Deloitte Risk Advisory Pty Ltd

Contents

1	Independent Auditor's report	3
2	Executive summary	5
3	Summary of ratings	9
4	Detailed findings, recommendations and action plans	11
5	Follow-up of previous audit non compliances and recommendations	21
	Appendix A – Audit plan	23
	Appendix B - References	24

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1 Independent Auditor's report

With the approval of the Economic Regulation Authority (**ERA**), Alcoa of Australia Ltd (**Alcoa**) engaged Deloitte Risk Advisory Pty Ltd (**Deloitte**) to conduct a performance audit of Alcoa's compliance with the conditions of its Electricity Generation Licence No.14 (EGL14) (the **Licence**), for the period 1 July 2013 to 30 June 2017 (the **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**)

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

Alcoa 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 Alcoa'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, Alcoa has complied, in all material respects, with its Licence conditions as outlined in the approved Audit Plan (dated October 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 Alcoa 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 Alcoa, and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner or for any purpose, on this report.

We 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 Alcoa in connection with the report or this engagement.

Inherent limitations

Our engagement provides reasonable assurance as defined in ASAE 3100. Reasonable assurance means a high but not absolute level of assurance. Absolute assurance is very rarely attainable due to 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 issue set out in the Basis for modified conclusion section below, Alcoa has complied, in all material respects, with the conditions of the Licence as outlined in the approved Audit Plan (dated October 2017) for the period 1 July 2013 to 30 June 2017.

Basis for modified conclusion

The following Licence condition was assessed as non-compliant (rating 2). Alcoa had identified and disclosed this matter in its relevant Annual Compliance report to the ERA:

Reporting Manual number and Licence condition		Issue
454	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. <i>Metering Code clause 7.2(5)</i>	In one instance during the audit period, Alcoa was unable to demonstrate that it notified Western Power of changes to its contact details within the three days before the change took effect.

DELOITTE RISK ADVISORY PTY LTD

Richard Thomas

Partner

Perth, 15 December 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 Alcoa of Australia Ltd (**Alcoa**) the Electricity Generation Licence No.14 (EGL14) (the **Licence**).

Section 13 of the Act requires Alcoa 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 (or any longer period that the ERA allows). The ERA set the period to be covered by the audit as 1 July 2013 to 30 June 2017 (**audit period**). At the request of Alcoa, Deloitte Risk Advisory Pty Ltd (**Deloitte**) has undertaken a reasonable assurance audit of Alcoa's compliance with its Licence obligations.

The Licence relates to Alcoa's operation of generating works at its Kwinana, Pinjarra and Wagerup facilities. These works are managed by Alcoa's WA powerhouse operations within the WA Operations (**WAO**) business unit. When the licence was first granted to Alcoa, it was anticipated Alcoa's net inflow and outflow would net to nil. Alcoa is now a net importer of electricity owing to increased consumption, predominately related to refinery and mining activity at its Pinjarra facility.

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

The audit considered Alcoa's internal control procedures, structure and environment, its compliance culture and its information systems specifically relevant to those licence obligations subject to audit. We observed that Alcoa:

- Continues to proactively identify and self-report non-compliances in a timely manner
- Maintains a compliance register which supplements its compliance reporting process and serves as a lessons learned tool to drive process improvement
- Has appropriate communication processes in place to notify the ERA of changes where required
- Has experienced personnel who demonstrate a sound understanding of the regulatory requirements and are committed to promoting continuous improvement and a strong compliance culture
- Utilises a SharePoint portal for document storage and automated workflows.

2.3 Findings

The following tables summarise the assessments made during the audit on Alcoa's compliance and the adequacy of controls in place for Alcoa 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 Alcoa's Licence. For the highest possible compliance rating to be achieved, Alcoa was required to demonstrate it has maintained effective processes and controls, which facilitate compliance with relevant obligations.

Table 1: Control adequacy and 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
NP	Not performed	NR	Not rateable

Table 4 at section 3 of this report provides further detail on the control adequacy and compliance rating scales. The above rating scale is defined by the Guidelines.

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

Audit Priority	Control adequacy rating				NP ¹	Total
	A	B	C	D		
Priority 1	-	-	-	-	-	-
Priority 2	-	-	-	-	-	-
Priority 3	1	-	-	-	-	1
Priority 4	-	-	-	-	25	25
Priority 5	-	-	-	-	11	11
Total:	1	-	-	-	36	37

Table 3: Summary of findings, by audit priority and compliance rating

Audit Priority	Compliance rating				NR	Total
	1	2	3	4		
Priority 1	-	-	-	-	-	-
Priority 2	-	-	-	-	-	-
Priority 3	-	1	-	-	-	1
Priority 4	8	-	-	-	17	25
Priority 5	5	-	-	-	6	11
Total:	13	1	-	-	23	37

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

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”.

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).

2.4 Alcoa's response to previous audit recommendations

This audit considered Alcoa's progress in completing the action plan detailed in the 2013 Performance audit report (carried over from the 2010 Performance audit report).

Based on our examination of relevant documents, discussion with staff and consideration of the results of our testing against the associated licence obligations, we determined that Alcoa has closed out the action plan by making a considered, commercial decision not to seek an amendment to its Electricity Transfer Access Contract (**ETAC**) with Western Power. Alcoa's reasoning for this decision was that there are sufficient supplementary processes and documents in place, which ensure its responsibilities under clause 6.1(2) of the Metering Code are known and applied.

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

2.5 Current audit non-compliances, recommendations and action plans

A. Resolved during current audit period

Reporting manual no. and Licence obligation reference	Non-compliance / Controls improvement (Rating / Details of non-compliance or inadequacy of controls)	Date resolved and management action taken	Auditor's comments
454	A2 In one instance during the audit period, Alcoa was unable to demonstrate that it notified Western Power of changes to its contact details within the three days before the change took effect.	Alcoa assigned responsibility for updating contact details to the Energy Projects Manager. Alcoa's processes provide for notifications to be provided via email and stored within Alcoa's SharePoint portal.	No further action required.

B. Unresolved at end of current audit period

Not Applicable – there were no non-compliances or action plans unresolved at the end of the audit period.

2.6 Scope and objectives

As described in our letter of engagement with Alcoa, dated 11 August 2017, we have conducted a reasonable assurance audit in order to state whether, in our opinion, based on our procedures, Alcoa has complied, in all material respects, with the conditions of its Licences as outlined in the approved Audit Plan (dated October 2017) during the period 1 July 2013 to 30 June 2017.

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 Licences. 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 Alcoa's Licence obligations 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 Alcoa's operations.

2.7 Approach

Our approach for this review involved the following activities, which were undertaken during the period September to November 2017:

- Utilising the Guidelines and Reporting Manuals (June 2013, May 2014, July 2014, September 2014, July 2016, October 2016) as a guide, developed a risk assessment, which involved discussions with key staff and document review to assess controls
- Developed an Audit Plan (see **Appendix A**) for approval by the ERA and an associated work program (one plan for both Licences)
- Interviewed relevant Alcoa staff to gain understanding of process controls (see **Appendix B** for staff involved)
- Reviewed relevant documentation and walked through processes and controls to assess overall compliance and effectiveness in accordance with Licence obligations (see **Appendix B** for reference listing)
- Reported findings to Alcoa for review and response.

3 Summary of ratings

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, Alcoa was required to demonstrate it has maintained effective 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**).

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

No	Obligation reference (condition/clause)	Adequacy of controls rating					Audit	Compliance rating				
		A	B	C	D	NP	Priority	1	2	3	4	NR
12 Electricity Industry Act – Licence Conditions and Obligations												
101	Section 13(1)					✓	Priority 5	✓				
102	Section 14(1)(a)					✓	Priority 5	✓				
103	Section 14(1)(b)					✓	Priority 4					✓
104	Section 14(1)(c)					✓	Priority 5	✓				
105	Section 17(1)					✓	Priority 4	✓				
106	Section 31(3)					✓	Priority 5	✓				
107	Section 41(6)					✓	Priority 4					✓
13 Electricity Licences – Licence Conditions and Obligations												
119	Licence condition 12.1					✓	Priority 4	✓				
120	Licence condition 13.4					✓	Priority 4					✓
121	Licence condition 14.2					✓	Priority 4	✓				
122	Licence condition 20.5					✓	Priority 4	✓				
123	Licence condition 15.1					✓	Priority 4					✓
124	Licence condition 16.1					✓	Priority 4	✓				
125	Licence condition 17.1 & 17.2					✓	Priority 4					✓
126	Licence condition 18.1					✓	Priority 4	✓				
14 Electricity Industry Metering Code – Licence Conditions and Obligations												
324	Clause 3.3B					✓	Priority 4					✓
339	Clause 3.11(3)					✓	Priority 4					✓
364	Clause 3.27					✓	Priority 4	✓				
371	Clause 4.4(1)					✓	Priority 5					✓
372	Clause 4.5(1)					✓	Priority 5					✓
373	Clause 4.5(2)					✓	Priority 4					✓
388	Clause 5.4(2)					✓	Priority 4					✓
401	Clause 5.16					✓	Priority 4					✓
405	Clause 5.18					✓	Priority 4					✓

Summary of ratings

No	Obligation reference (condition/clause)	Adequacy of controls rating					Audit	Compliance rating				
		A	B	C	D	NP	Priority	1	2	3	4	NR
416	Clause 5.21(5)					✓	Priority 4					✓
417	Clause 5.21(6)					✓	Priority 4					✓
448	Clause 6.1(2)					✓	Priority 4					✓
451	Clause 7.2(1)					✓	Priority 5	✓				
453	Clause 7.2(4)					✓	Priority 4					✓
454	Clause 7.2(5)	✓					Priority 3		✓			
455	Clause 7.5					✓	Priority 4	✓				
456	Clause 7.6(1)					✓	Priority 4					✓
457	Clause 8.1(1)					✓	Priority 5					✓
458	Clause 8.1(2)					✓	Priority 5					✓
459	Clause 8.1(3)					✓	Priority 5					✓
460	Clause 8.1(4)					✓	Priority 4					✓
461	Clause 8.3(2)					✓	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 Alcoa's compliance. The sections are:

- 4.1 Electricity Industry Act – Licence Conditions and Obligations
- 4.2 Electricity Licences – 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 Alcoa's compliance with the applicable obligations:
- **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** – Alcoa's formal response to audit recommendations, providing details of action to be implemented to address the specific issue raised by the audit, assignment of the actions to appropriate staff and corresponding completion dates for the actions.

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
4.1 Electricity Industry Act											
-	-	-	-	7	7	5	-	-	-	2	7
4.2 Electricity Licences – Licence Conditions and Obligations											
-	-	-	-	8	8	5	-	-	-	3	8
4.3 Electricity Industry Metering Code											
1	-	-	-	21	22	3	1	-	-	18	22
TOTAL											
1	-	-	-	36	37	13	1	-	-	23	37

Electricity Industry Act – Licence Conditions and Obligations

No.	Obligation description	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>	This is the fourth audit conducted by an independent expert since the granting of the Licence in June 2006. Deloitte was appointed, with the ERA's approval to undertake the audit for the period 1 July 2013 to 30 June 2017. The 2013 performance audit report was provided to the ERA in November 2013, within the allowed timeframe.	
	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 discussion with the Principal Mechanical Manager WAO Powerhouse and examination of Alcoa's Powerhouse Asset Strategies for Pinjarra, Wagerup and Kwinana and supporting asset management framework, we observed that Alcoa has provided for a functioning asset management system.	
	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>	The Principal Mechanical Engineer WAO Powerhouse confirmed that for the period 1 July 2013 to 30 June 2017 there have been no substantial changes to the asset management system.	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR
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 July 2013 to 30 June 2017. Deloitte, with the ERA's approval, engaged KT & Sai Associates to address technical aspects of the review. This is the fourth review of the asset management system in accordance with Alcoa's licence. The 2013 asset management system review report was provided to the ERA in September 2013, within the allowed timeframe.	
	Priority: 5	Control Adequacy: NP	Compliance Rating: 1
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>	Through confirmation from the Energy Projects Manager (with consultation from the Accounts Payable Analyst) and examination of payment documentation for the 2013/14, 2014/15, 2015/16 and 2016/17 licence fees, we determined that Alcoa paid its licence fees within the required timeframe (i.e. made within one month, as required by section 17(1) of the Act.)	
	Priority: 4	Control Adequacy: NP	Compliance Rating: 1

No.	Obligation description	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 discussion with the Principal Mechanical Engineer WAO Powerhouse, and consideration of Alcoa's documented policies and procedures, we determined that Alcoa has a mature incident management system designed to minimise the extent of disruptions to assets on Alcoa premises (which have occurred during the audit period as part of the general asset operating process).</p> <p>Alcoa has also developed business continuity planning documentation (e.g. black and brown start) to aid the recovery of systems, processes and assets in the event of a particular outage. These procedures are reviewed on a frequent basis to determine currency and applicability.</p>	
	Priority:5	Control Adequacy: NP	Compliance Rating: 1
107	<p>A licensee must pay the costs of taking an interest in land or an easement over land.</p> <p><i>Electricity Industry Act section 41(6)</i></p>	<p>The Energy Projects Manager confirmed that Alcoa did not take an interest or an easement over land under the Licence during the audit period.</p>	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR

Electricity Licences – Licence Conditions and Obligations

No.	Obligation description	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 Principal Mechanical Engineer WAO Powerhouse (in consultation with the Finance function) confirmed that:</p> <ul style="list-style-type: none"> Alcoa of Australia is compliant with Australian – International Financial Reporting Standards (A-IFRS) and also compliant with US Generally Accepted Accounting Principles PricewaterhouseCoopers reviews Alcoa's quarterly financial information and audits the Annual Statutory Accounts for the financial years ending 31 December, assessing compliance with Australian financial reporting standards There are no significant accounting transactions or items that would currently jeopardise Alcoa's compliance with accounting standards. <p>The published Financial Statements of Alcoa Inc. (Alcoa of Australia's parent company) for the years ending 31 December 2013, 2014, 2015 and 2016 were examined. Those statements were unqualified, with respect to all subsidiaries of Alcoa Inc.</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 Energy Projects Manager confirmed that Alcoa was not prescribed any individual performance standards by the ERA during the audit period.</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>Through examination of the 2013 Performance Report and Asset Management System Review, we determined that the audit was conducted in accordance with the prescribed Reporting Guidelines (the August 2010 Audit Guidelines: Electricity, Gas and Water Licences) and Reporting Manuals issued by the ERA.</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>		
	Priority: 4	Control Adequacy: NP	Compliance Rating: 1
123	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. <i>Licence condition 15.1</i>	<p>The Energy Projects Manager confirmed that Alcoa was not under external administration nor was it subject to a significant change in circumstances affecting its ability to comply with Licence requirements during the audit period.</p>	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR

No.	Obligation description	Findings	
124	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. <i>Licence condition 16.1</i>	Through discussion with the Energy Services Manager and examination of the Alcoa's annual compliance reports submitted to the ERA during the audit period, we determined that Alcoa submitted its annual compliance reports to the ERA within the required timeframe.	
	Priority: 4	Control Adequacy: NP	Compliance Rating: 1
125	A licensee must publish any information as directed by the ERA to publish, within the timeframes specified. <i>Licence condition 17.1 & 17.2</i>	The Energy Projects Manager confirmed that the ERA did not direct Alcoa to publish any material during the audit period.	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR
126	All notices must be in writing, unless otherwise specified. <i>Licence condition 18.1</i>	The Energy Projects Manager confirmed that, during the audit period: <ul style="list-style-type: none"> Alcoa maintained records to evidence formal communications with the ERA, which have been made via post or email All responses to notices are to made in writing, unless otherwise specified No additional requests or instructions have been made of Alcoa in regards to its Generation Licence. 	
	Priority: 4	Control Adequacy: NP	Compliance Rating: 1

Electricity Industry Metering Code – Licence Conditions and Obligations

No.	Obligation description	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 Energy Projects Manager confirmed that Alcoa was not 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 during the audit period.	
	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 Energy Projects Manager confirmed that Alcoa was not aware of an outage or malfunction of a metering installation during the audit period.	
	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 Energy Projects Manager confirmed that Alcoa did not perform metering installation on Western Power's network during the audit period.	
	Priority: 4	Control Adequacy: NR	Compliance Rating: 1
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>	The Energy Projects Manager confirmed that Alcoa was not aware of any discrepancy in energy data during the audit period.	
	Priority: 5	Control Adequacy: NP	Compliance Rating: NR
372	<p>A Code participant must not knowingly permit the registry to be materially inaccurate.</p> <p><i>Metering Code clause 4.5(1)</i></p>	<p><i>Obligations 372 and 373</i></p> <p>Through discussions with the Principal Mechanical Engineer WAO Powerhouse and examination of the ETAC, we determined that:</p>	
	Priority: 5	Control Adequacy: NP	Compliance Rating: NR

No.	Obligation description	Findings	
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>	<ul style="list-style-type: none"> Western Power has the primary responsibility for ensuring the accuracy of energy data held in the registry (metering database), recorded from the tariff meters installed at Alcoa's facilities Alcoa staff are aware of their obligations to notify Western Power in the unlikely event that the registry is inaccurate and the error has not been detected by Western Power. <p>The Energy Projects Manager confirmed that Alcoa was not aware of any material inaccuracy in the metering database maintained by Western Power during the audit period.</p>	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR
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>	The Energy Projects Manager confirmed that Western Power has not made a request for Alcoa's assistance for meter reading under subclause 5.4(1) during the audit period.	
	Priority: 4	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>	<p><i>Obligations 401 and 405</i></p> <p>The Energy Project Manager confirmed that during the audit period, Alcoa did not collect energy data or information on changes of energisation status during the audit period.</p>	
	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
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>Obligations 416 and 417</i></p> <p>The Energy Projects Manager confirmed that, during the audit period, Alcoa did not request a test or audit of the accuracy of:</p> <ul style="list-style-type: none"> A metering installation Energy data held in a metering installation 	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR

No.	Obligation description	Findings	
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>	<ul style="list-style-type: none"> Standing data for a metering installation. 	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR
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>Section 6.1(2) of the Metering Code requires Alcoa (as a user) to comply with the network operator's metrology procedure, communication rules, mandatory link criteria or Service Level Agreements (if any).</p> <p>Western Power owns, operates and maintains each of the meters installed to measure the transfer of electricity between Alcoa's generation works and Western Power's electricity network. Western Power also maintains the metering database for recording relevant standing data and energy data. Accordingly, Alcoa does not have any specific obligation to comply with Western Power's metrology procedure, communication rules or mandatory link criteria.</p> <p>Alcoa's ETAC with Western Power outlines the obligations of both parties in relation to metering equipment and activities. Alcoa's metering obligations under the ETAC are limited to maintaining relevant communications with Western Power and to provide any required access to its premises. As neither of these contractual requirements relate to a specific metering service obligation, Alcoa does not have any further compliance obligations in relation to clause 6.1(2) of the Metering Code.</p>	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR
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 the Code. <i>Metering Code clause 7.2(1)</i>	<p>Through discussion with the Principal Mechanical Engineer WAO Powerhouse and consideration of Alcoa's business practices, we determined that during the audit period:</p> <ul style="list-style-type: none"> Alcoa was able to send and receive notices via electronic, facsimile and voice communication channels, in accordance with clause 7.2(1) of the Code Schedule 3 of the ETAC listed Alcoa's telephone numbers for each of the powerhouses for voice communication in connection with the Code. 	
	Priority: 5	Control Adequacy: NP	Compliance Rating: 1
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>	The Energy Projects Manager confirmed that Alcoa had not received a request from Western Power for contact details during the audit period.	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR

No.	Obligation description	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 Energy Projects Manager and examination of Alcoa's annual compliance reports to the ERA we determined that Alcoa:</p> <ul style="list-style-type: none"> Self-reported one instance during the audit period, when Alcoa was unable to demonstrate that it notified Western Power of changes to its contact details within the three days before the change took effect Assigned responsibility for updating contact details to the Energy Projects Manager. Alcoa's processes provide for notifications to be provided via email and stored within Alcoa's SharePoint portal. <p>The audit sighted the August 2016 correspondence between Alcoa and Western Power, remedying the non-compliance. The Energy Projects Manager confirmed that Alcoa has not changed its contact details subsequent to the update and for the remainder of the audit period.</p>	
<p>Priority: 3 Control Adequacy: A Compliance Rating: 2</p>			
<p>Recommendation Not Applicable – Resolved during the audit period.</p>		<p>Action Plan Not Applicable – Resolved during the audit period.</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 Principal Mechanical Engineer WAO Powerhouse and considerations of Alcoa's business practices, we determined that:</p> <ul style="list-style-type: none"> Alcoa stores confidential commercial information on both its protected Alcoa portal and the WAO Powerhouse portal. Alcoa does not hold metering database information or other confidential information provided under or in connection with the Metering Code All Alcoa staff, including contractors, are required to maintain confidentiality according to the provisions of their employment/service contracts Logical security access to Oracle, including eAM, is managed through the Access Request Facility (ARF) system, where all users are assigned a unique user account and password Alcoa maintains information security policies and procedures which govern expected user behaviour and password standards. <p>The Energy Projects Manager confirmed that Alcoa did not disclose or permit the disclosure of confidential information provided under or in connection with the Metering Code during the audit period.</p>	
<p>Priority: 4 Control Adequacy: NP 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>The Energy Projects Manager confirmed that Alcoa was not requested to disclose or permit the disclosure of confidential information (under clause 7.6(1)) during the audit period.</p>	
<p>Priority: 4 Control Adequacy: NP Compliance Rating: NR</p>			

No.	Obligation description	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>The Energy Projects Manager confirmed that Alcoa did not engage in any disputes with a Code Participant during the audit period.</p>			
	<p>Priority: 5</p>			<p>Control Adequacy:</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:</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:</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:</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:</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 ERA's August 2010 issue of the *Audit and Review Guidelines: Electricity and Gas and Water Licences*.

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

Ref	Legislative obligation ²	Rating ³	Details of the issue (taken from the EGL14 Performance Audit Report – July 2013)	Auditors' recommendation or action taken	Date resolved	Further action required
A. Resolved before end of previous audit period						
Not applicable						
B. Resolved during current audit period						
Issue 1/2010	Metering Code clause 6.1(2) <u>Obligation 448 [416]</u>	4	As Alcoa's Network Access Agreement with Western Power does not yet incorporate the respective responsibilities of Alcoa and Western Power in relation to the requirements of s.6.1 (2) of the Metering Code, such responsibilities and obligations may not be fully reflected in ASAT review.	Alcoa made a considered, commercial decision not to seek an amendment to its ETAC with Western Power owing to sufficient processes and documents being in place, to govern its compliance with prescribed rules, procedures, agreements and prescribed criteria.	June 2017	No
C. Unresolved during current audit period						
Not applicable						

² 2017 obligation reference listed, with the reference from the 2013 finding listed in square brackets.

³ As per the rating system used in the 2013 performance audit report

Appendix A – Audit plan

Appendix B - References

Alcoa staff participating in the audit

- Principal Mechanical Manager WAO Powerhouse
- Energy Projects Manager.

Deloitte staff participating in the audit

		Hours
• Richard Thomas	Partner	3.5
• Andrew Baldwin	Specialist Leader	19
• David Herbert	Senior Analyst	38
• Emlyn King	Senior Analyst	5
• Kobus Beukes	QA Partner	1

Key documents and other information sources examined

- Account Management Security Standard
- Annual Compliance Reports (submitted to ERA) 2013 to 2017
- Annual Financial Reports (year ending 31 December) 2013 to 2016
- Annual Invoice Payments to ERA
- Archive Data Management Procedure
- Asset Utilisation Reporting Model
- Boiler Cold Start/Recommission Process (Kwinana)
- Boiler Cooldown Process (Wagerup)
- Business Recovery Plan (Pinjarra)
- Computer Centre Disaster Recovery Plan (Kwinana)
- Crisis Management and Recovery Manual (i.e. Emergency Response Procedure)(Kwinana)
- Disaster Recovery Plan
- Email confirmations on licence obligations from Energy Projects Manager
- Email Correspondence (re: change in contact details) with Western Power – August 2016
- Final Outage Report (Performed By Turbine Services Australia (TSA)) (Pinjarra)
- Flow Loss Report (Kwinana)
- Flow Loss Report (Wagerup)
- Gas Turbine Failure Presentation(Wagerup)
- Electricity Transfer Access Contract
- Powerhouse Asset Strategies:
 - Kwinana
 - Pinjarra
 - Wagerup.