

Alinta Cogeneration Pinjarra Pty Ltd

**Electricity Generation Licence
(EGL 10)**

2017 Performance Audit Report

December 2017

Mr Steve Altschwager
General Manager Power Generation (Acting)
Alinta Cogeneration Pinjarra Pty Ltd
The Quadrant, 1 William Street
Perth, WA 6000

11 December 2017

Dear Steve

**Alinta Cogeneration Pinjarra Pty Ltd Electricity Generation Licence (EGL 10) –
2017 Performance Audit**

We have completed the Electricity Generation Licence Performance audit for Alinta Cogeneration Pinjarra Pty 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 0414 924 346 or me on 0411 603 644.

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
	Appendix A – Audit plan	21
	Appendix B - References	22

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1 Independent Auditor's report

With the approval of the Economic Regulation Authority (**ERA**), Alinta Cogeneration Pinjarra Pty Ltd (**Alinta Pinjarra**) engaged Deloitte Risk Advisory Pty Ltd (**Deloitte**) to conduct a performance audit of Alinta Pinjarra's compliance with the conditions of its Electricity Generation Licence No.10 (EGL 10) (the **Licence**), for the period 1 July 2013 to 30 June 2017 (**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**)

Alinta Pinjarra's responsibility for compliance with the conditions of the Licence

Alinta Pinjarra 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 Alinta Pinjarra'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, Alinta has complied, in all material respects, with its Licence conditions as outlined in the approved Audit Plan (dated August 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 Alinta Pinjarra 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 Alinta Pinjarra, 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 Alinta Pinjarra 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 issues set out in the Basis for modified conclusion section below, Alinta Pinjarra has complied, in all material respects, with the conditions of the Licence as outlined in the approved Audit Plan (dated August 2017) for the period 1 July 2013 to 30 June 2017.

Basis for modified conclusion

The following Licence conditions were assessed as non-compliant (rating 2). Alinta Pinjarra had identified and disclosed these matters in its relevant Annual Compliance reports to the ERA:

Reporting Manual number and Licence condition		Issue
105	<p>Electricity Industry Act section 17(1)</p> <p><i>A licensee must pay the prescribed licence fees to the ERA according to clauses 6, 7 and 8 of the Economic Regulation Authority (Licensing Funding) Regulations 2014.</i></p>	In one instance during the audit period, Alinta did not pay its annual licence fee within the prescribed timeframe.
124	<p>Electricity Licence Condition 16.1</p> <p><i>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></p>	In two instances during the audit period, Alinta did not submit its annual compliance report to the ERA by the due date.

DELOITTE RISK ADVISORY PTY LTD

Richard Thomas

Partner

Perth, 11 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 Alinta Cogeneration Pinjarra Pty Ltd (**Alinta Pinjarra**) the Electricity Generation Licence No.10 (EGL10) (the **Licence**).

Section 13 of the Act requires Alinta Pinjarra 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 Alinta Pinjarra, Deloitte Risk Advisory Pty Ltd (**Deloitte**) has undertaken a reasonable assurance audit of Alinta Pinjarra's compliance with its Licence obligations.

The Licence relates to Alinta Pinjarra's operation of electricity generating works at its Pinjarra cogeneration facility, which supplies electricity to the South West Interconnected System (**SWIS**).

The Pinjarra Power Station is a 285MW gas fuelled cogeneration plant located at Alcoa's Pinjarra refinery in South-West WA. The Pinjarra Power Station operates as a base load power station.

Alinta established an Operations and Maintenance Agreement (**O&M Agreement**) with Alcoa of Australia Ltd (**Alcoa**) for Alcoa to manage, operate and maintain the power station on Alinta's behalf.

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 Alinta Pinjarra's internal control procedures, structure and environment, its compliance culture and its information systems specifically relevant to those licence obligations subject to audit. The audit gave further consideration to Alinta Pinjarra's arrangements with Alcoa). We observed that Alinta Pinjarra:

- Continues to proactively identify and self-report non-compliances in a timely manner
- Has appropriate communication processes in place to notify the ERA of changes where required
- Has experienced personnel committed to continuous improvement and maintaining a strong compliance culture
- Maintains visibility over Alcoa operations through periodic reporting mechanisms and Alinta Pinjarra representatives based on site
- Utilises a SharePoint portal for document storage and automated workflows.

2.3 Findings

The following tables summarise the assessments made during the audit on Alinta Pinjarra's compliance and the adequacy of controls in place for Alinta Pinjarra 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 Alinta Pinjarra's Licence. For the highest possible compliance rating to be achieved, Alinta Pinjarra 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	2	-	-	-	-	2
Priority 3	-	-	-	-	-	-
Priority 4	1	-	-	-	22	23
Priority 5	-	-	-	-	12	12
Total:	3	-	-	-	34	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	1	1	-	-	-	2
Priority 3	-	-	-	-	-	-
Priority 4	5	1	-	-	17	23
Priority 5	5	-	-	-	7	12
Total:	11	2	-	-	24	37

Note that, in accordance with the current Guidelines, obligations assessed as being “not applicable” to Alinta Pinjarra’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 Alinta Pinjarra's response to previous audit recommendations

Not applicable – the previous performance audit report did not contain any recommendations requiring a response/action plan from Alinta Pinjarra.

2.5 Current audit non-compliances, recommendations and action plans

A. Resolved during current audit period

Reporting manual no. and Licence condition reference	Non-compliance / Controls improvement (Rating / Details of non-compliance or inadequacy of controls)	Date resolved and management action taken	Auditor's comments
Obligation 105 <i>Electricity Industry Act section 17(1)</i>	A2 In one instance during the audit period, Alinta Pinjarra did not pay its annual licence fee within the prescribed timeframe.	Resolved August 2015 (105) May 2016 (124) Alinta Pinjarra: (a) Has assigned responsibility for annual compliance reporting and licence payments to the Regulatory function (coordinated by Manager Regulatory Compliance)	No further action required.
Obligation 124 <i>Electricity Licence Condition 16.1</i>	A2 In two instances during the audit period, Alinta Pinjarra did not submit its annual compliance reports to the ERA by the due date.	(b) Maintains a register for monitoring its reporting requirements (c) Manages its reporting deadlines through its internal regulatory calendar and records its licence payments through Ellipse.	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 Alinta Pinjarra, dated 13 June 2017, we have conducted a reasonable assurance audit in order to state whether, in our opinion, based on our procedures, Alinta Pinjarra has complied, in all material respects, with the conditions of its Licences as outlined in the approved Audit Plan (dated August 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 Licences. 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 Licences.

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 Alinta Pinjarra's 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 Alinta Pinjarra's operations.

2.7 Approach

Our approach for this review involved the following activities, which were undertaken during the period August to September 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 Alinta Pinjarra 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)
- Sample tested relevant obligations (assessed as an audit priority 3, 2 or 1) and where there was relevant activity to determine whether transactions complied with the requirements of the obligation
- Reported findings to Alinta Pinjarra 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, Alinta Pinjarra 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 Alinta Pinjarra'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 2		✓			
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 5					✓
401	Clause 5.16					✓	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
405	Clause 5.18					✓	Priority 4					✓
416	Clause 5.21(5)					✓	Priority 4					✓
417	Clause 5.21(6)					✓	Priority 4					✓
448	Clause 6.1(2)	✓					Priority 2	✓				
451	Clause 7.2(1)					✓	Priority 5	✓				
453	Clause 7.2(4)					✓	Priority 4					✓
454	Clause 7.2(5)					✓	Priority 4					✓
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 Alinta Pinjarra'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 Alinta Pinjarra'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** – Alinta Pinjarra'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											
1	-	-	-	6	7	4	1	-	-	2	7
4.2 Electricity Licences											
1	-	-	-	7	8	4	1	-	-	3	8
4.3 Electricity Industry Metering Code											
1	-	-	-	21	22	3	-	-	-	19	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 July 2013 to 30 June 2017. The 2013 performance audit report was provided to the ERA in November 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>			<p><i>Obligations 102 and 103</i></p> <p>Through discussion with the General Manager Power Generation and Manager, Asset Management and Engineering and examination of Alinta's overarching Asset Management System and Pinjarra Asset Management Plan, we determined that Alinta Pinjarra has the framework in place to facilitate and monitor asset management.</p> <p>The General Manager Power Generation and the Manager Regulatory Compliance confirmed that there has been no substantial change to Alinta Pinjarra's asset management system during the period subject to audit.</p>
	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>			
	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. The 2013 asset management system review report was provided to the ERA in November 2013.
	Priority: 5	Control Adequacy: NP	Compliance Rating: 1	
105	A licensee must pay the prescribed licence fees to the ERA 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>Through discussion with the Manager Regulatory Compliance and Finance Manager (Power Generation) and examination of Alinta Pinjarra's licence payments register, we determined that:</p> <ul style="list-style-type: none"> Alinta Pinjarra did not pay its 2016 annual licence fee by the 9 May 2016 due date The Regulation and Compliance team now maintains a compliance calendar, which diarises the due date for payment of licence fees and charges All subsequent licence fees and charges were paid within the prescribed timeframe.
	Priority: 4	Control Adequacy: A	Compliance Rating: 2	
		Recommendation <i>Not Applicable – resolved during the audit period.</i>		

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 discussion with the General Manager Power Generation (in consultation with Pinjarra site personnel) and Manager, Asset Management and Engineering and examination of Alinta Pinjarra's policies and support systems, we determined that:</p> <ul style="list-style-type: none"> Alinta Pinjarra's O&M agreement with Alcoa provides for Alcoa to apply the same asset management practices to Alinta Pinjarra's cogeneration units as it does for Alcoa powerhouses Alcoa, on Alinta Pinjarra's behalf maintains a mature incident management system (including a site-based emergency response plan) designed to minimise the extent of disruption to Alinta Pinjarra's cogeneration units Alcoa manages asset outages through its online incident tracking system, which categorises the type of outage, length of down time and maintenance tasks required Alcoa communicates details of outages to Alinta, including through periodic performance reporting. 	
	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 Manager Regulatory Compliance confirmed that during the audit period, Alinta Pinjarra had not acquired an interest or easement over land.</p>	
	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>			The Finance Manager (Power Generation) confirmed that: <ul style="list-style-type: none"> To the best of his knowledge, the Alinta Group (Alinta) reporting structure in which the licensee (Alinta Cogeneration Pinjarra Pty Ltd) is a subsidiary, has maintained accounting records that comply with Australian Accounting Standards during the period 1 July 2013 to 30 June 2017 Alinta's financial reporting period is from 1 July to 30 June There are no significant accounting transactions or items that would currently jeopardise Alinta's compliance with accounting standards Alinta's financial statements for the year ending 30 June 2016 were unqualified. <p>Alinta's published financial statements and signed annual audit reports were sighted for the years ending 2014 and 2015. The financial statements were unqualified.</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>			The Manager Regulatory Compliance confirmed that, for the period 1 July 2013 to 30 July 2017, Alinta Pinjarra was not prescribed individual performance standards by the ERA.
		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>			<i>Obligations 121 and 122</i> The 2017 performance audit plan and asset management system review plan make specific reference to the 2014 issue of the <i>Audit Guidelines: Electricity, Gas and Water Licences</i> issued by the ERA. The audit and review plans were approved and accepted by the ERA. Deloitte's standard methodology has been designed using the Audit Guidelines and is updated when the guidelines are changed.
		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>			The Finance Manager (Power Generation) confirmed that, during the period 1 July 2013 to 30 June 2017, Alinta Pinjarra was not under external administration. The Manager Regulatory Compliance confirmed that, during the period 1 July 2013 to 30 June 2017, no significant changes affecting Alinta Pinjarra's ability to meet its obligations were identified.
		Priority: 4	Control Adequacy: NP	Compliance Rating: NR

No.	Obligation under condition	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>	<p>Through discussion with the Manager Regulatory Compliance and examination of annual compliance reports submitted during the period subject to audit:</p> <ul style="list-style-type: none"> Alinta Pinjarra is required to submit compliance reports to the ERA by 31 August each year Alinta Pinjarra self-reported its failure to provide the 2013 and 2014 compliance reports to the ERA by the due date The Manager Regulatory Compliance is responsible for monitoring compliance with Alinta Pinjarra's Licence obligations (tracked through a Regulatory obligations register), including the timing of submission of required information and reports Alinta Pinjarra submitted its 2015 and 2016 compliance reports to the ERA prior to the due date <p>The Manager Regulatory Compliance confirmed that during the audit period, the ERA made ad hoc enquiries but had not required Alinta Pinjarra to formally provide any further information.</p>	
	Priority: 2	Control Adequacy: A	Compliance Rating: 2
	Recommendation <i>Not Applicable – resolved during audit period.</i>		Action Plan <i>No further action required.</i>
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 Manager Regulatory Compliance confirmed (in consultation with the General Manager Power Generation) that during the audit period, Alinta Pinjarra did not receive direction from the ERA to publish information.	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR
126	All notices must be in writing, unless otherwise specified. <i>Licence condition 18.1</i>	<p>Through discussion with the Manager Regulatory Compliance and examination of relevant communications, we determined that:</p> <ul style="list-style-type: none"> Alinta Pinjarra 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 On 6 March 2015, Alinta Pinjarra provided written notice to Western Power withdrawing Alinta Pinjarra's application for a temporary derogation from the Technical Rules (refer to observation 448). 	
	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>	<p>Through discussion with the General Manager Power Generation and consideration of Alinta Pinjarra's access contract with Western Power, we determined that, during the audit period, there was no bi-directional electricity flow in a metering point connected to Western Power's network.</p>	
	<p>Priority: 4</p>	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>	<p>The General Manager Power Generation confirmed that Alinta Pinjarra had not become aware of an outage or malfunction of any of Western Power's metering installations during the audit period.</p>	
	<p>Priority: 4</p>	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>	<p>The General Manager Power Generation confirmed that Alinta Pinjarra had not installed any meters on Western Power's network during the audit period.</p>	
	<p>Priority: 4</p>	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>Through discussion with the General Manager Power Generation and consideration of Alinta Pinjarra's access contract with Western Power, we determined that:</p> <ul style="list-style-type: none"> Western Power monitors and prescribes output demands with an auto-balancing system control in place For the duration of the audit period, Alinta Pinjarra 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 Alinta Pinjarra would become aware of an outage that was unknown to Western Power owing to system failure Alinta Pinjarra maintains an ongoing relationship with Western Power to discuss potential discrepancies when required. 	
	<p>Priority: 5</p>	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>			<p><i>Obligations 372 and 373</i></p> <p>Standing data contained in “the registry” is defined in clause 4.3 of the <i>Metering Code</i> to include a list of elements known by the network operator.</p> <p>Through discussion with the General Manager Power Generation and consideration of Alinta Pinjarra’s access contract with Western Power, we determined that:</p> <ul style="list-style-type: none"> As Alinta Pinjarra has no visibility of Western Power’s practices for validating standing data, the possibility of Alinta Pinjarra becoming aware of inaccuracies in standing data is unlikely During the audit period, Alinta Pinjarra did not become aware of any inaccuracy in standing data Alinta Pinjarra 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.
	Priority: 5	Control Adequacy: NP	Compliance Rating: NR	
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: 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 General Manager Power Generation confirmed that during the audit period, Western Power had not made any request to Alinta Pinjarra under subclause 5.4(1).
	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>			<p><i>Obligations 401 and 405</i></p> <p>Through discussion with the General Manager Power Generation and consideration of Alinta Pinjarra’s access contract with Western Power, we determined that:</p> <ul style="list-style-type: none"> All metering and data services are provided by Western Power Alinta Pinjarra has no role in the collection of official energy data Alinta Pinjarra has no capacity to observe any change in the energisation status of a metering point.
	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 General Manager Power Generation confirmed that during the audit period, Alinta Pinjarra did not make a request for a test or audit of the accuracy of a metering installation, the energy data from the metering installation or the standing data from the metering installation.</p>	
	Priority: 4	Control Adequacy: NP	Compliance Rating: NR
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	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>Through discussion with the General Manager Power Generation and examination of Alinta Pinjarra's 2014 compliance report and compliance testing activities, we determined that:</p> <ul style="list-style-type: none"> In August 2013, Western Power informed Alinta Pinjarra that the governor deadband installed at the Pinjarra site was not consistent with Western Power's interpretation of the requirements under section 3.3.4.4 of the Technical Rules On further examination, Alinta Pinjarra identified that both Pinjarra Units (in existence pre 1 July 2007) were grandfathered from the application and that an application for temporary derogation was not required (as communicated to Western Power in a letter dated 6 March 2015). Therefore, this matter did not result in a breach of clause 6.1(2). 	
	Priority: 2	Control Adequacy: A	Compliance Rating: 1
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 Manager Regulatory Compliance and consideration of Alinta Pinjarra's business practices and communication methods, we determined that:</p> <ul style="list-style-type: none"> Alinta Pinjarra was able to send and receive notices via electronic, facsimile and voice communication channels, in accordance with clause 7.2(1) of the Code Alinta Pinjarra's contact details (for voice communication) are provided on its website and in its access contract with the network operator. 	
	Priority: 5	Control Adequacy: NP	Compliance Rating: 1

No.	Obligation under condition	Findings
453	<p>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.</p> <p><i>Metering Code clause 7.2(4)</i></p>	<p>The Manager Regulatory Compliance confirmed that during the audit period, Alinta Pinjarra had not been requested by Western Power to provide notification of its contact details.</p>
	<p>Priority: 4 Control Adequacy: NP Compliance Rating: NR</p>	
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>The Manager Regulatory Compliance confirmed that Alinta Pinjarra's contact details had not changed during the audit period.</p>
	<p>Priority: 4 Control Adequacy: NP Compliance Rating: NR</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><i>Obligations 455 and 456</i></p> <p>Through discussion with the General Manager Power Generation and Manager Regulatory Compliance, and consideration of Alinta Pinjarra's contractual arrangements with Western Power and Alcoa, we determined that:</p> <ul style="list-style-type: none"> • Confidentiality with external parties is managed through Alinta Pinjarra's standard commercial contract terms (e.g. with Alcoa and Western Power) • Alinta Pinjarra is aware of confidentiality requirements in its capacity as a user • Alinta Pinjarra's employees and contractors are bound by confidentiality agreements as part of their standard contracts • During the audit period, Alinta Pinjarra was not: <ul style="list-style-type: none"> ○ Aware of any instances of confidential information being disclosed ○ Required to disclose confidential information under a provision in the Metering Code.
	<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><i>Obligations 457 to 461</i></p> <p>For the purposes of the Metering Code, 'disputes' refers to metering disputes between Alinta Pinjarra as a code participant and a retailer, another generator, the network operator (Western Power), a user or the AEMO.</p> <p>Through discussions with the General Manager Power Generation and Manager Regulatory Compliance, and consideration of Alinta Pinjarra's contractual arrangements with Western Power and Alcoa, we determined that:</p>
	<p>Priority: 4 Control Adequacy: NP Compliance Rating: NR</p>	
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>For the purposes of the Metering Code, 'disputes' refers to metering disputes between Alinta Pinjarra as a code participant and a retailer, another generator, the network operator (Western Power), a user or the AEMO.</p> <p>Through discussions with the General Manager Power Generation and Manager Regulatory Compliance, and consideration of Alinta Pinjarra's contractual arrangements with Western Power and Alcoa, we determined that:</p>
	<p>Priority: 5 Control Adequacy: NP Compliance Rating: NR</p>	

No.	Obligation under condition	Findings			
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>	<ul style="list-style-type: none"> Disputes are governed by Alinta Pinjarra's commercial agreements with Alcoa and Western Power Alinta Pinjarra did not have any disputes with Code participants during the audit period. 			
	<table border="1"> <tr> <td data-bbox="253 427 539 467">Priority: 5</td> <td data-bbox="551 427 837 467">Control Adequacy: NP</td> <td data-bbox="848 427 1131 467">Compliance Rating: NR</td> </tr> </table>		Priority: 5	Control Adequacy: NP	Compliance Rating: NR
Priority: 5	Control Adequacy: NP		Compliance Rating: NR		
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>				
	<table border="1"> <tr> <td data-bbox="253 683 539 722">Priority: 5</td> <td data-bbox="551 683 837 722">Control Adequacy: NP</td> <td data-bbox="848 683 1131 722">Compliance Rating: NR</td> </tr> </table>	Priority: 5	Control Adequacy: NP	Compliance Rating: NR	
Priority: 5	Control Adequacy: NP	Compliance Rating: NR			
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>				
	<table border="1"> <tr> <td data-bbox="253 954 539 994">Priority: 4</td> <td data-bbox="551 954 837 994">Control Adequacy: NP</td> <td data-bbox="848 954 1131 994">Compliance Rating: NR</td> </tr> </table>	Priority: 4	Control Adequacy: NP	Compliance Rating: NR	
Priority: 4	Control Adequacy: NP	Compliance Rating: NR			
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>				
	<table border="1"> <tr> <td data-bbox="253 1123 539 1131">Priority: 5</td> <td data-bbox="551 1123 837 1131">Control Adequacy: NP</td> <td data-bbox="848 1123 1131 1131">Compliance Rating: NR</td> </tr> </table>	Priority: 5	Control Adequacy: NP	Compliance Rating: NR	
Priority: 5	Control Adequacy: NP	Compliance Rating: NR			

Appendix A – Audit plan

**Alinta Cogeneration
Wagerup Pty Ltd.**

and

**Alinta Cogeneration
Pinjarra Pty Ltd.**

**Electricity Generation Licences
(EGL 6 – EGL 10)**

2017 Performance Audit

Audit Plan

August 2017

Contents

1	Introduction	3
2	Approach	6
3	General information	9
	Appendix 1 – Risk assessment key	10
	Appendix 2 – Risk assessment	12

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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 Alinta Cogeneration Wagerup Pty Ltd (Alinta Wagerup) and Alinta Cogeneration Pinjarra Pty Ltd. (Alinta Pinjarra) (hereinafter together "**Alinta**") respectively the Electricity Generation Licence No.6 (EGL6) and Electricity Generation Licence No.10 (EGL10) (the **Licences**).

Section 13 of the Act requires Alinta 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 July 2013 to 30 June 2017 (**audit period**).

The Licences relate to Alinta's operation of electricity generating works at its Wagerup and Pinjarra cogeneration facilities, which supply electricity to the South West Interconnected System (**SWIS**)

The Wagerup Power Station is a 380MW open cycle, gas fired gas turbine power plant located adjacent to Alcoa of Australia Ltd's (**Alcoa**) Wagerup refinery in South-West WA. The power station operates as a peaking power station.

The Pinjarra Power Station is a 285MW gas fuelled cogeneration plant located at Alcoa's Pinjarra refinery in South-West WA. The Pinjarra Power Station operates as a base load power station.

Alinta established Operations and Maintenance Agreements (**O&M Agreement**) with Alcoa for Alcoa to manage, operate and maintain the power stations on Alinta's behalf. The O&M Agreement for the Wagerup Power Station ceased on 2 May 2017, after which Alinta took up the responsibility for managing, operating and maintaining the power station.

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 Alinta and presented to the ERA for approval.

The Plan has been developed in relation to both audits (i.e. for the EGL6 and EGL10 Licences) and represents our approach in combining our work to assess both Licences concurrently. All references to 'audit' assumes applicability to both performance audits. Two separate audit reports will be developed, outlining the obligations and findings relevant to each Licence.

Objective

The performance audit is defined as an examination of the measures taken by Alinta to meet the performance criteria specified in its Licences.

The audit is designed to provide reasonable assurance regarding the assessment of appropriateness, effectiveness and efficiency associated with Alinta's compliance with its Licences. 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 Licences 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 Alinta 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 Licences and Alinta'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 Alinta's operations and used as the basis for determining the performance criteria to be considered for the audit.

The audit period is from 1 July 2013 to 30 June 2017.

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

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

As the revisions made in each of the May 2014, July 2014, September 2014, July 2016 and October 2016 versions of the Reporting Manual are either not relevant to Alinta's electricity generation operations or do not substantially alter Alinta'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 Alinta'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 Alinta's electricity generation operations

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

Responsibility

Alinta's responsibility for compliance with the conditions of the Licences

Alinta is responsible for:

- Putting in place policies, procedures and controls, which are designed to ensure compliance with the conditions of the Licences
- 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 Alinta'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 Licences have been complied with. Our engagement will provide reasonable assurance as defined in ASAE 3100.

Limitations of use

Our reports will be produced solely for the information and internal use of Alinta, and are 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 these reports.

We understand that a copy of our reports will be provided to the ERA for the purpose of meeting Alinta's reporting requirements of section 13 of the Act. We agree that a copy of our reports 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 reports. We accept no duty, responsibility or liability to any party, other than Alinta, in connection with the reports 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.

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

2 Approach

The audit will be conducted in three distinct phases, being a risk assessment, system analysis/walkthrough and testing and review. From the audit results, reports 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 Alinta’s licence obligations. The risk assessment gives specific consideration to the changes to Alinta’s systems and processes and any matters of significance raised by the ERA and/or Alinta. 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 Alinta not complying with its licences obligations, in the absence of mitigating controls.

As the Reporting Manual is prescriptive in its criteria for classifying the consequences of non-compliance (refer to **Appendix 1-1**) the risk assessment applies the Reporting Manual’s classifications for each obligation subject to audit.

Reference is also made to the consequence rating descriptions listed at Table 15 of the Audit Guidelines (refer to **Appendix 1-2**), providing the risk assessment with context to ensure the appropriate consequence rating is applied to each obligation subject to audit.

Once the consequence has been determined, the likelihood of Alinta 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 Alinta’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

	Consequence		
Likelihood	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

	Adequacy of existing controls		
Inherent Risk	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 Alinta's regulatory environment
- Any other factors that may have an effect on the level of risk or strength of controls.

At this stage, the risk assessment can only be a preliminary assessment based on reading of documentation and 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 staff who will outline information that displays compliance with the Licence requirements.

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

- The control environment: Alinta'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 Alinta'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 Alinta'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 Alinta 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 Alinta's level of compliance

- **Outcome compliance:** actual performance against standards prescribed in the licences 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 Alinta'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 standards maintained by Alinta with relevant Licence sections and schedules.

Control testing is performed for those licences 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.

The majority of fieldwork is expected to be performed at Alinta'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 or process deficiencies.

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

Appendix 1 – Risk assessment key

1-1 Criteria for classification

Source: *Electricity Compliance Reporting Manual 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	Section 13(1)	A licensee must provide the ERA with a performance audit conducted by an independent expert acceptable to the ERA, not less than once every 24 months.	Minor	Unlikely	Low	Moderate	Priority 5
102	Section 14(1)(a)	A licensee must provide for an asset management system.	Minor	Unlikely	Low	Moderate	Priority 5
103	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	Moderate	Priority 4
104	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	Moderate	Priority 5
105	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	Likely	Medium	Moderate	Priority 4
106	Section 31(3)	A licensee must take reasonable steps to minimise the extent, or duration, of any interruption, suspension or restriction of the supply of electricity due to an accident, emergency, potential danger or other unavoidable cause.	Minor	Unlikely	Low	Moderate	Priority 5
107	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

No	Obligation reference	Obligation description	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
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	Moderate	Priority 4
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	Likely	High	Moderate	Priority 2
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	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	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	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	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	Clause 4.5(1)	A Code participant must not knowingly permit the registry to be materially inaccurate.	Minor	Probable	Low	Moderate	Priority 5
373	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	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	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

Appendix 2 – Risk assessment

No	Obligation reference	Obligation description	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
402	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 Alinta's electricity generation operations. As Alinta does not directly supply energy to customers through its electricity generation licence, it does not bill customers or supply metering services to customers.				
405	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
406	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 Alinta's electricity generation operations. As Alinta does not directly supply energy to customers through its electricity generation licence, it does not collect customer information.				
407	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	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	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	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	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	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 Alinta's electricity generation operations. As Alinta does not directly supply energy to customers through its electricity generation licence, it does not collect customer information.				
448	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	Likely	High	Moderate	Priority 2
451	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

Appendix 2 – Risk assessment

No	Obligation reference	Obligation description	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
453	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	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	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	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
457	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	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	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	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	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 B - References

Alinta Pinjarra staff and representatives participating in the audit

- General Manager Power Generation
- Head of Asset Management
- Finance Manager – Power Generation
- Manager Regulatory Compliance.

Deloitte staff participating in the audit

Name	Position	Hours
• Richard Thomas	Partner	2
• Andrew Baldwin	Specialist Leader, Regulatory Compliance	6.5
• David Herbert	Senior Analyst	29
• Manuela Cervellera	Senior Analyst	2
• Kobus Beukes	Quality Assurance Partner	0.5

Key documents and other information sources examined

- Annual Compliance Reports to the ERA (2013, 2014, 2015, 2016)
- 2013/14 and 2014/15 Alinta Holdings Group financial statements and supplementary notes
- Pinjarra Asset Management Plan
- Data extract of Pinjarra work order listing
- Sample Pinjarra Outage report
- Sample Alinta Weekly Power Generation Performance Report.
- Licence payments register
- ERA Licence payment invoices
- Bank Account payment data extract (Cogen accounts)
- Pinjarra Emergency Response Plan
- Alcoa ISO 14001 Certification
- Withdrawal of application for temporary derogation from Technical Rules letter to Western Power – dated 6 March 2015
- Email representations from:
 - General Manager Power Generation
 - Head of Asset Management
 - Finance Manager – Power Generation
 - Manager Regulatory Compliance.