

EDL NGD (WA) Pty Ltd

Electricity Integrated Regional Licence (EIRL1)

2019 Audit Report on Compliance With Performance Licence Conditions

November 2019



Deloitte Touche Tohmatsu
ABN 74 490 121 060
Tower 2, Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia
Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

Neil Duffy
Senior Commercial Advisor
EDL NGD (WA) Pty Ltd
Waterfront Place, Level 6
1 Eagle Street, Brisbane QLD 4000

13 November 2019

Dear Neil

EDL NGD (WA) Pty Ltd: 2019 EIRL1 Performance Audit & Asset Management System Review

We have completed the 2019 EIRL 1 Performance Audit & Asset Management System review for EDL NGD (WA) Pty Ltd for the period 1 August 2014 to 31 July 2019 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 me on 0456 585 247.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Vincent Snijders

Partner

Chartered Accountant

13 November 2019

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1 Independent assurance practitioner's report

Opinion

We have undertaken a reasonable assurance engagement on EDL NGD (WA) Pty Ltd's (**EDL**) compliance, in all material respects, with applicable obligations from the Electricity Compliance Reporting Manual released July 2018 (**Licence Obligations**) as evaluated against its Electricity Integrated Retail Licence (EIRL1) (the **Licence**) (together referred to as the "**Licence Conditions**") for the period from 1 August 2014 to 31 July 2019, for the purpose of assisting EDL comply with its reporting obligations to the Economic Regulation Authority (the **ERA**).

In our opinion, EDL has complied, in all material respects, with the licence obligations as evaluated against its Licence Conditions for the period from 1 August 2014 to 30 July 2019.

Basis for Opinion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 Compliance Engagements ("ASAE 3100") issued by the Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

EDL's responsibilities for compliance with the conditions within the Licence

EDL is responsible for:

- (a) Compliance with the Licence as evaluated against the conditions within the Licence, for the period 1 August 2014 to 31 July 2019
- (b) Identifying risks that threaten the conditions within the Licence identified above being met
- (c) Identifying suitable compliance requirements as specified by the conditions within the Licence
- (d) Identifying, designing and implementing controls to enable the conditions within the Licence to be met and to monitor ongoing compliance.

Our independence and quality control

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.

Assurance practitioner's responsibilities

Our responsibility is to express an opinion on EDL's compliance, in all material respects, with the licence obligations as evaluated against its Licence Conditions for the period from 1 August 2014 to 31 July 2019. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether EDL has complied, in all material respects, with the licence obligations as evaluated against its Licence Conditions for the period from 1 August 2014 to 31 July 2019.

An assurance engagement to report on EDL's compliance with the licence obligations as evaluated against its Licence Conditions involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the conditions within the Licence. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance with the licence obligations as evaluated against its Licence Conditions.

Our procedures included the following:

- Utilising the March 2019 issue of the Audit and Review Guidelines: Electricity and Gas Licences and the July 2018 issue of the Electricity Compliance Reporting Manual (**Reporting Manual**)

issued by the ERA 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 EDL staff to gain an understanding of process controls
- Review of documents and walkthrough of processes and controls to assess the overall compliance and effectiveness in accordance with Licence obligations
- Sample testing, where relevant, for obligations rated as an audit priority 3 and above in the approved Audit Plan.

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance with compliance requirements may occur and not be detected.

A reasonable assurance engagement relating to the period from 1 August 2014 to 31 July 2019 does not provide assurance on whether compliance with the Licence Conditions will continue in the future.

Restricted use

This report has been prepared for use by EDL for the purpose of satisfying its obligation under section 13 of the Electricity Industry Act 2004. We disclaim any assumption of responsibility for any reliance on this report to any person other than EDL, or for any other purpose other than that for which it was prepared. We understand that a copy of the report will be provided to the ERA for the purpose of reporting on EDL's compliance with the licence obligations as evaluated against its Licence Conditions. We agree that a copy of this report will be given to the ERA in connection with this purpose, however we accept no responsibility to the ERA or to anyone who is provided with or obtains a copy of our report.

DELOITTE TOUCHE TOHMATSU

Vincent Snijders

Partner

Chartered Accountant

13 November 2019

2 Executive summary

2.1 Introduction and background

The Economic Regulation Authority (the **ERA**) has under the provisions of the Electricity Industry Act 2004 (the **Act**), issued to EDL Pty Ltd (**EDL**) the Electricity Integrated Regional Licence (EIRL1) (the **Licence**).

The Licence relates to EDL's operation of the Broome Power Station (natural gas engines, supplemented with diesel engines). Note that the Licence was amended on 12 November 2012 to remove the other power stations within the West Kimberley Power Project (WKPP) as they were deemed immaterial to the licence. Also, as a result of the exemption amendment order published by the Office of Energy on 9 October 2009, the Licence only relates to EDL's generational activities.

Section 13 of the Act requires EDL to provide the ERA with a performance audit conducted by an independent expert acceptable to the ERA not less than once in every 24 month period (or any longer that the ERA allows). The ERA set the period to be covered by the performance audit to be from 1 August 2014 to 31 July 2019 (**audit period**).

At the request of EDL, Deloitte Touche Tohmatsu (**Deloitte**) has undertaken a reasonable assurance audit of EDL's compliance with its Licence. The audit has been conducted in accordance with the March 2019 issue of the *Audit and Review Guidelines: Electricity and Gas Licences* (the **Guidelines**). The reasonable assurance audit was undertaken in order to state whether, based on the procedures we have performed and the evidence we have obtained, EDL has complied, in all material respects, with the conditions within the Licence and applicable obligations from the Electricity Compliance Reporting Manual released July 2018 (together referred to as the "**Licence Conditions**") for the period from 1 August 2014 to 31 July 2019.

2.2 Observations

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

- Established a register of compliance obligations relevant to its operations
- Maintained an internal compliance reporting process

2.3 Findings

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

Table 1 sets out the rating scale defined by the ERA in the Guidelines for the assessment of the level of compliance with the conditions of the Licence. For the highest possible compliance rating to be achieved, EDL was required to demonstrate it has maintained mature 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
N/P	Not performed – A controls rating was not required	N/R	Not rated – No activity took place during the audit period

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	-	-	-	-	-	-
Priority 4	-	-	-	-	11	11
Priority 5	-	-	-	-	4	4
Total:	-	-	-	-	15	15

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	-	-	-	-	-	-
Priority 4	7	-	-	-	4	11
Priority 5	4	-	-	-	-	4
Total:	11	-	-	-	4	15

Note that, in accordance with the Guidelines:

- Obligations assessed as being “not applicable” to EDL’s operations have not been included within this report
- A control rating is only provided for those obligations with a Priority 1, 2 or 3 rating, where an obligation is assessed as non-compliant, or where a control improvement opportunity is identified.

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

Specific assessments for each Licence obligation are summarised at **Table 4** in the “Summary of findings” section of this report.

Detailed findings, including relevant observations, recommendations and action plans are located in section 4 “Detailed findings, recommendations and action plans”.

2.4 EDL’s response to previous audit recommendations

This audit considered EDL’s progress in completing the action plan detailed in the 2014 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 EDL has completed the action plan detailed in the 2014 performance audit report.

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 ref	Non-compliance / Controls improvement (Rating / Details of non-compliance or inadequacy of controls)	Date resolved and management action taken	Auditor’s comments
Electricity Industry Metering Code – Licence Conditions and Obligations	As a result of the exemption amendment order and the subsequent update to EDL’s Licence, the auditor determined that, the obligations of the Metering Code are not relevant to EDL’s operations for the period 1 August 2011 to 31 July 2014. However, the auditor believes that EDL needs to be proactive in ensuring that the above position remains acceptable to the Authority, and if so, update its asset management plans to clearly articulate the metering responsibilities it has both from the Metering Code and the PPA.	Resolved February 2015 As disclosed in the ERA’s February 2015 letter to EDL, the ERA has agreed that the Metering Code does not apply to EDL’s current supply arrangement.	No further action required.

2.6 Scope and objectives

As described in our letter of engagement with EDL, dated 25 July 2019, we have conducted a reasonable assurance audit in order to state whether, in our opinion, based on our procedures, EDL has complied, in all material respects, with the conditions of its Licence as outlined in the approved Audit Plan (dated August 2019) during the period 1 August 2014 to 31 July 2019.

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 July 2018 Electricity Compliance Reporting Manual (**Reporting Manual**).

The Audit Plan approved by the ERA for this audit sets out EDL'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.

Revision to audit scope

After the preparation of the Audit Plan, the audit scope was revised to remove the Electricity Industry Metering Code and Network Quality and Reliability of Supply (**NQRS**) Code from the list of applicable obligations. As a result of the distribution network exemption order issued on 9 October 2009 by the Office of Energy and February 2010 update to EDL's Licence granted by the ERA, EDL is only permitted to construct and operate generating works. Thus the obligations of the Metering and NQRS Codes are not applicable to EDL's operations for the period from 1 August 2014 to 31 July 2019, as EDL has not engaged in distribution, retail or transmission activities.

Approach

Our approach for this audit involved the following activities, which were undertaken during the period August to early October 2019:

- Utilising the Guidelines and Reporting Manuals 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
- Interviewed relevant EDL 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 or 2) and where there was relevant activity, determine whether transactions complied with the requirements of the obligation
- Reported findings to EDL for review and response.

3 Summary of findings

Table 1 in section 2 above sets out the rating scale defined by the ERA in the Audit Guidelines for the assessment of the level of compliance with the conditions of the Licences. For the highest possible compliance rating to be achieved, EDL 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 EDL's operations for the period subject to audit - refer to the Audit Plan at Appendix A for further explanation.

#	Obligation reference	Adequacy of controls rating					Audit Priority	Compliance rating				
		A	B	C	D	NP		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	Condition 12.1					✓	Priority 4	✓				
120	Condition 13.4					✓	Priority 4					✓
121	Condition 14.2					✓	Priority 4	✓				
122	Condition 20.5					✓	Priority 4	✓				
123	Condition 15.1					✓	Priority 4					✓
124	Condition 16.1					✓	Priority 4	✓				
125	Condition 17.1 & 17.2					✓	Priority 4					✓
126	Condition 18.1					✓	Priority 4	✓				

4 Detailed findings, recommendations and action plans

This section has been structured in subsections for the relevant Codes and Regulations against which we assessed EDL'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
- 4.4 Electricity Industry (Network Quality and Reliability of Supply) Code

Each section contains:

- **Assessment of compliance and control adequacy** – the conclusions from our audit procedures and our assessment of EDL'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** – EDL'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	6				1	7
4.2 Electricity Licences											
				8	8	5				3	8

4.1-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 EDL for the period 1 August 2014 to 31 July 2019 (60 month interval).
	Priority 5	
102	A licensee must provide for an asset management system. <i>Electricity Industry Act section 14(1)(a)</i>	<p>Through discussion with the Commercial Analyst and examination of EDL's Licence Application and relevant documentation, we determined that EDL:</p> <ul style="list-style-type: none"> • Maintains an Asset Management Policy • Maintained an established asset management system in Pronto • Provided for a functioning asset management system applicable to all of its operations. The 2019 Asset Management System (AMS) Review reported on the effectiveness of EDL's Asset Management System for the period of audit 1 August 2014 to 31 July 2019 • Maintains both a Global Asset Management Strategy and Asset Management Plan (AMP) • Aligned its asset management system with ISO/DIS 55000.
	Priority 5	
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>	EDL confirmed that for the period 1 August 2014 to 31 July 2019, no substantial changes have been made to EDL's asset management system. During the audit period, the activities at the Broome power station that have involved replacement of assets but not considered as substantial changes. During October 2018, EDL provided written advice to the the ERA regarding increasing the capacity available on site (i.e. F station generators).
	Priority 4	
104	A licensee must provide the ERA with a report by an independent expert as to the effectiveness of its asset management system every 24 months, or such longer period as determined by the 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 EDL for the period 1 August 2014 to 31 July 2019.
	Priority 5	
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> <i>Economic Regulation Authority (Licensing Funding) Regulations 2014</i>	Through discussion with the Commercial Analyst and examination of EDL's financial records of licence fee payments processed and the respective invoices issued by the Authority for licence fees payable, we determined all annual licence fees and standing charges have been paid on time (i.e. within one month of the 25 June anniversary date).
	Priority 4	

No.	Obligation under Condition			Findings
106	A licensee must take reasonable steps to minimise the extent or duration of any interruption, suspension or restriction of the supply of electricity due to an accident, emergency, potential danger or other unavoidable cause. <i>Electricity Industry Act section 31(3)</i>			EDL confirmed that it maintains emergency and incident response and business continuity systems and takes reasonable steps to minimise the impact of any supply interruptions. Through examination of EDL's Emergency Response Procedures and LNG Supply Interruption Contingency Plan, we determined that: <ul style="list-style-type: none"> • EDL maintains emergency response procedures and supply interruption contingency plan, which support EDL's commitment to its customers for maintaining continuity of supply and safe and secure operations • EDL managers are notified of significant disruptions as and when they occur • EDL has a spares management arrangements with its other power stations to minimise the extent or duration of any interruption • EDL have a 24/7 control room operating and monitoring the power station, who have black start procedures and check sheets in place • EDL has an incident management system in place.
	Priority 5	Controls rating: NP	Compliance Rating: 1	
107	A licensee must pay the costs of taking an interest in land or an easement over land. <i>Electricity Industry Act section 41(6)</i>			The Commercial Analyst confirmed EDL did not acquire additional interest in land or easement applicable to the Licence over the audit period.
	Priority 4	Controls rating: NP	Compliance Rating: NR	

4.2 Electricity Licenses – 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>Electricity Industry Act, section 11</i>			Through examination of EDL NGD (WA) Pty Ltd's (EDL) 2015, 2016, 2017 and 2018 Financial Statements, we assessed that the audit opinion on those financials, as issued by EY for FY15 and FY16 Financial Statements and Deloitte for FY17 and FY18 Financial Statements included comments confirming that the financials: <ul style="list-style-type: none"> • Are prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards or equivalent International Accounting Standards • Use the pronouncements of the Australian Accounting Standards Board (AASB) • Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of EDL and effective reporting periods. <p>Regarding the period 1 January to 31 July 2019, EDL's Group Head of Financial Reporting & Tax provided confirmation statement that EDL was compliant with the Australian – International Financial Reporting Standards and that there were no significant accounting transactions or items that would currently jeopardise EDL's compliance with accounting standards.</p>
	Priority 4	Controls rating: NP	Compliance Rating: 1	
120	A licensee must comply with any individual performance standards prescribed by the ERA. <i>Electricity Industry Act, section 11</i>			The Commercial Analyst confirmed that no individual performance standards were prescribed by the Authority over the audit period.
	Priority 4	Controls rating: 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>Electricity Industry Act, section 11</i>			Deloitte was appointed with the ERA's approval to undertake the performance audit for EDL for the period 1 August 2014 to 31 July 2019 (60 month interval). Deloitte has also included compliance with the ERA's April 2018 edition of the Audit and Review Guidelines in our engagement letter and audit plan for this performance audit.
	Priority 4	Controls rating: 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>Electricity Industry Act, section 11</i>			Deloitte was appointed with the ERA's approval to undertake the asset management system review for EDL for the period 1 August 2014 to 31 July 2019. Deloitte has also included compliance with the ERA's March 2018 edition of the Audit and Review Guidelines in our engagement letter and audit plan for this asset management system review.
	Priority 4	Controls rating: NP	Compliance Rating: 1	

No.	Obligation under Condition			Findings
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>Electricity Industry Act, section 11</i>			The Commercial Analyst confirmed that EDL was not placed under external administration during the audit period nor were there any circumstances that affected the company's ability to meet its licence obligations. <i>(Note that during 2017 EDL changed parent ownership to CK. This event did not impact on EDL's ability to meet its licence obligations).</i>
	Priority 4	Controls rating: NP	Compliance Rating: NR	
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>Electricity Industry Act, section 11</i>			Through discussion with the Commercial Analyst and examination of EDL's Annual Compliance Reports for FY16, FY17, FY18 and FY19, we determined that EDL had prepared reports in the manner and form as required by section 11 of the <i>Industry Act</i> for the four years subject to audit.
	Priority 4	Controls rating: NP	Compliance Rating: 1	
125	A licensee must publish any information as directed by the ERA to publish, within the timeframes specified. <i>Electricity Industry Act, section 11</i>			The Commercial Analyst confirmed that EDL was not required by the ERA to publish any information during the audit period.
	Priority 4	Controls rating: NP	Compliance Rating: NR	
126	All notices must be in writing, unless otherwise specified. <i>Electricity Industry Act, section 11</i>			The Commercial Analyst confirmed that EDL maintains records to evidence formal communications with the Authority, all responses to notices are made in writing and there were no additional requests or instructions had been made of EDL in regards to its Licence.
	Priority 4	Controls rating: NP	Compliance Rating: 1	

4.3 and 4.4 Electricity Industry Metering Code and Network Quality and Reliability of Supply Code – Licence Conditions and Obligations

In accordance with EDL's Power Purchase Agreement (PPA) with Horizon Power, it is contracted to supply electricity via a network line (which was deemed a 'distribution network') connecting its Broome Power Station to the Horizon Power sub-station.

On 9 October 2009, the Office of Energy issued an exemption amendment order with the effect that the distribution network connecting the Broome Power Station with Horizon Power's sub-station is not to be considered as a 'network' in its own right.

On 5 February 2010, EDL made an application to the Authority requesting an amendment of its Licence, consistent with the Office of Energy's exemption amendment order. The exemption amendment order provided that EDL is exempt from section 7(3) of the *Electricity Industry Act 2004* for the underground distribution network, which joined the power station to the substation. EDL's Licence was updated by the Authority in February 2010 to reflect this amendment.

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

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

The 2014 audit determined that as a result of the exemption amendment order and the subsequent update to EDL's Licence, that the obligations of the Metering Code were not relevant to EDL's operations for the period 1 August 2011 to 31 July 2014. The audit recommendation was that EDL should confirm that the current approach is acceptable and achieves the intent of the Regulation.

On February 2015, as disclosed in the ERA's February 2015 letter to EDL, the ERA has agreed that the Metering Code does not apply to EDL's current supply arrangement.

On September 2019, through discussion with the Commercial Analyst, we determined that during the audit period there has been no change to the supply arrangement or PPA which would trigger the metering code or associated network quality and reliability of supply code requirements to EDL's current supply arrangement.

Note that we have not included details (such as our findings, control adequacy ratings and compliance ratings) for the Metering Code and NQRS Code, as all of the obligations relating to distribution and retail activities are not considered to be applicable to EDL..

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

The ratings provided are defined in accordance with the ERA's March 2019 issue of the Audit and Review Guidelines: Electricity and Gas Licences.

Ref	Legislative obligation	Rating	Details of the issue (taken from the 2014 Performance Audit Report)	Auditors' recommendation or action taken	Date resolved	Further action required
Resolved during current audit period						
Issue 1/2014	Electricity Industry Metering Code – Licence Conditions and Obligations	N/A	As a result of the exemption amendment order and the subsequent update to EDL's Licence, we determined that, the obligations of the Metering Code are not relevant to EDL's operations for the period 1 August 2011 to 31 July 2014. However, we do believe that EDL needs to be proactive in ensuring that the above position remains acceptable to the Authority, and if so, update its asset management plans to clearly articulate the metering responsibilities it has both from the Metering Code and the PPA.	As disclosed in the ERA's February 2015 letter to EDL, the ERA has agreed that the Metering Code does not apply to EDL's current supply arrangement.	February 2015	No

Appendix A - Audit plan

Appendix B - References

EDL staff participating in the audit

- Commercial Analyst
- Head of Financial Reporting & Tax

Deloitte staff participating in the audit

		Hours
• Vincent Snijders	Partner	6
• Maria Moreano	Senior Manager	8
• Lyle Stewart	Senior Analyst	82
• Morgan Jones	Analyst	18
• Christine Chin	Analyst	25
• Peter Rupp	Partner (Quality Assurance Review)	2

Sites visited by the auditor during the audit

EDL's Perth Office	06/09/2019 and 17/10/2019
Broome Power Station	27/08/2019

Key documents and other information sources examined

- Electricity Industry Act:
 - EDL Asset Management Policy
 - Asset Management System ISO 14001:2015 Certificate of Registration
 - ERA Payment Records
 - ERA Payment Invoices
 - Risk Management Framework
- Electricity Licences:
 - FY15 signed financial statements and annual audit report
 - FY16 signed financial statements and annual audit report
 - FY17 signed financial statements and annual audit report
 - FY18 signed financial statements and annual audit report
 - ERA approval of 2019 AMS review plan
 - ERA approval of 2019 Performance audit
- Metering Code:
 - February 2015 Letter to Licensee
- Other Documents:
 - EDL EIRL01 Licence
 - Annual Compliance Report FY15
 - Annual Compliance Report FY16
 - Annual Compliance Report FY17
 - Annual Compliance Report FY18