

Alinta Gas Sales Pty Ltd

**Gas Trading Licences (GTL 1, 2, 3) Performance
Audit**

30 May 2007

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1. Executive Summary

1.1 Background

Under section 11ZA(2) of the Energy Coordination Act 1994 (Act), it is a requirement that every licensee provide the Economic Regulation Authority (ERA) not less than once in every period of 2 years with a performance audit conducted by an independent expert acceptable to the Authority. The last performance audit report for Alinta Gas Sales Pty Ltd (AGS) was dated 23 February 2005.

1.2 Business Processes and Systems

The performance audit is to ensure that specific conditions within the Gas Trading Licences, GTL1, GTL2 and GTL3 that cover the geographical areas Goldfields-Esperance, Coastal and Great Southern respectively have been complied with. The operational areas that have been considered in this audit encompass:

- Obligation to Market Gas.
- Service standards and provision of information.
- Complaints Handling procedures.
- Customer Safety Awareness.
- Maintenance of financial and technical resources to support the licensee's activities.
- Insurance.

The Gas Trading Licences (GTL 1, 2, 3) cover 3 geographical areas, (i.e. Goldfields – Esperance, Coastal and Great Southern). Our audit confirmed that the processes to manage compliance with license conditions and other regulations are centrally managed and are consistent for each area. Since the previous audit, AGS have indicated that there have been several changes to the gas business processes and systems, notably:

The implementation of the ARMA (Alinta Retail Market Application) system, manages communications between AGS and the Network Operator. This system automates key processes including new connections, disconnections, reconnections and standing data updates in relation to connection points. ARMA is integrated with AGS's Customer Information System (CIS OV).

- An automated web enabled portal was designed and implemented to manage specific customer transactions to improve transaction efficiency within the call centre. This has simplified the transaction process leading to a reduction in the time taken to complete calls and improvements in data accuracy and customer service. This application is integrated with AGS's Customer Information System (CIS OV)

The key systems supporting compliance processes are:

- Customer Information System - Open / Vision (CIS-OV) - The CIS-OV is used to record all customer communications with Alinta Gas Sales Pty Ltd's (AGS) that are lodged via email, phone or letter. The CIS-OV system supports the billing process where bills are automatically generated and sent to outsourced printers. Billing information is then recorded in the SAP General Ledger system.
- SAP System is the core business system supporting key financial processes. This includes the generation of information for the monthly financial report. This system also supports the budgeting and forecasting processes including the monitoring of actual results against the budget.

1.3 Objective

The objective of this performance audit is to enable the auditor to express an opinion as to whether, in all material respects, AGS' activities have been carried out in accordance with the Gas Trading Licences (GTL 1, 2, 3) conditions and other relevant regulations as outlined in the scope.

1.4 Scope

The scope of the performance audit for the Gas Trading Licences (GTL 1, 2, 3) encompassed:

- Alinta Gas Sales Pty Ltd (AGS) that operates in three geographical locations (i.e. Goldfields – Esperance, Costal and Great Southern).
- The period from 1 February 2005 to 31 January 2007.
- Assessment of the design and effectiveness of the measures taken by AGS to comply with the standards, outputs and outcomes as required under the Gas Trading licences (GTL):
 - Clause 7: Obligation to market gas.
 - Clause 10: Service standards and information provision.
 - Clause 11: Complaints handling process.
 - Clause 14: Customer safety awareness program.
 - Clause 16: Financial and technical resources.
 - Clause 19: Insurance

The assessment of compliance with provisions of the Gas Standards Act (GSA: Sections 8, 9 and 10 Maintenance of gas quality) was excluded from our scope of work following discussions with the Economic Regulatory Authority, who indicated that AGS do not have an obligation to monitor the quality of gas. (Refer Appendix 1 for details in relation to amendments to the audit plan as a result of this change in scope)

Our audit has been conducted in accordance with Australian Auditing Standards AUS 810 “Special Purpose Reports on the Effectiveness of Control Procedures” and accordingly included such tests and procedures as we considered necessary in the circumstances. These procedures have been undertaken to form an opinion whether in all material respects, the control procedures in relation to the AGS Gas Trading Licence operated effectively based on the relevant clauses referred to above.

Our report has been prepared for AGS as the responsible entity for compliance with the Gas Trading Licences and the Economic Regulation Authority in accordance with section 11ZA(2) of the Energy Coordination Act 1994. We disclaim any assumption of responsibility for any reliance on this report to any person other than the responsible entity, or for any purpose other than that for which it was prepared.

1.5 Our Approach

An audit plan was developed using a risk based approach to focus on key risk areas and to allow us to provide an audit opinion. The audit plan included for each licence and applicable Gas Standards Act condition:

- A table that identifies:
 - Audit priority.
 - Risk consequence rating.
 - Likelihood rating.
 - Inherent risk rating.
 - Adequacy of existing controls.
- A brief description of the tests undertaken to assess compliance with the licence condition.

Identified controls were tested through a combination of discussions with relevant personnel, document reviews, walkthroughs and sample testing. The developed audit plan was submitted to the ERA for their review and comment prior to commencement of the audit procedures. Approval was obtained on 21 February 2007.

During our work, we made minor amendments to the Audit Programme, including an amendment to the agreed scope relating to the maintenance of gas quality standards, as outlined in Appendix 1.

We have completed our procedures with respect to the compliance with the licence conditions at AGS for the period of 1 February 2005 – 31 January 2007. The field work, report and presentation of results to Management were executed in February – April 2007.

1.6 Inherent Limitations

Because of the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that we have audited operated, has not been audited and no opinion is expressed as to its effectiveness.

An audit is not designed to detect all weaknesses in compliance measures as an audit is not performed continuously throughout the period and the audit procedures performed on the compliance measures are undertaken on a test basis.

Any projection of the evaluation of the operating licences to future periods is subject to the risk that the compliance measures in the plans may become inadequate because of changes in conditions or circumstances, or that the degree of compliance with them may deteriorate.

The audit opinion expressed in this report has been formed on the above basis.

1.7 Operating License Compliance Summary

The compliance ratings have been applied based on the definitions stipulated in the Audit Guidelines: Electricity, gas and water licenses issued by the Economic Regulation Authority of Western Australia. Please refer to Appendix 1 for the detailed definitions.

Operating Area	Operating Licence Reference (GTL 1, 2, 3) (CL = Clause, Sch = Schedule)	Consequence (1=Minor, 2=Moderate, 3=Major)	Likelihood (A=Likely, B=Probable, C=Unlikely)	Inherent Risk (Low, Medium, High)	Adequacy of Existing Controls (S=Strong, M=Moderate, W=Weak)	Compliance Rating (Refer to the 5-point rating scale in Appendix 2 for details)				
						1	2	3	4	5
Obligation to Market Gas	GTL Cl. 7	2	C	Medium	S					
Service Standards and Information Provision	GTL Cl. 10 Sch. 1 - 8	2	B	Medium	S					
Complaints Handling Process	GTL Cl. 11 Sch. 1 - 2	2	B	Medium	S					
Customer Safety Awareness Program	GTL Cl. 14 Sch. 1 - 3	3	C	High	S					
Financial & Technical Resources	GTL Cl. 16 Sch. 1 - 3	2	B	Medium	S					
Insurance	GTL Cl. 19 Sch. 1 - 3	3	C	High	S					

1.8 Issues and Recommendations Summary

The table below provides a summary of findings, recommendations and management's agreed actions. As per the Operating License Compliance Summary table in Section 1.7, there were no areas of non-compliance. Issues identified therefore relate to recommendations for improvements to processes and/or controls relating to compliance requirements. Details of both positive findings and recommendations for improvements to processes have been provided in Section 2.

Operating Area	Operating Licence Reference (GTL 1, 2, 3) (CL = Clause, Sch = Schedule)	Report Reference	Issue	Recommendation	Management Action Plan
Obligation to Market Gas	GTL Cl. 7	2.1	None identified	N/A	
Service Standards and Information Provision	GTL Cl. 10 Sch. 1 - 8	2.2	There is not a formal process for recording version control for key documents, such as the Customer Charter and contractual Standard Terms and Conditions. This issue does not impact compliance with the GTL.	We recommend as a minor improvement point that a formal version control process should be established that requires clear labelling of documents detailing revision dates and printing dates.	AGS will implement an internal version control process to ensure that a record of changes to key documents is maintained. <i>Responsibility:</i> Full Retail Competition (FRC) Co-ordinator <i>Due Date:</i> 30 September 2007
Complaints Handling Process	GTL Cl. 11 Sch. 1 - 2	2.3	Review and Update of the Complaints Handling Procedure The Complaints Handling Procedure was first developed and submitted for approval to the Coordinator in 1995. Since 1995 there have been regular reviews of the procedure resulting in minor updates relating to changes in roles, responsibilities and organisational structure. These minor updates have not been lodged with the ERA.	(a) Review and Update of the Complaints Handling Procedure Alinta should seek to clarify with ERA as to whether the Complaints Handling Procedure document should be lodged with ERA following any amendments to the document and if appropriate lodge the updated document.	(a) AGS will clarify with the ERA when and/or if changes to the Complaints Handling Procedure should be lodged with the ERA for review and approval.

Operating Area	Operating Licence Reference (GTL 1, 2, 3) (CL = Clause, Sch = Schedule)	Report Reference	Issue	Recommendation	Management Action Plan
			<p>The Gas Trading Licence does not formally specify whether lodgement of updated versions of the Complaints Handling Procedure is required.</p> <p>Monitoring of Outstanding Complaints The Customer Service Coordinator identifies outstanding complaints by reviewing the Monthly Complaints report that contains the status of all complaints within the system (i.e. in progress or closed).</p> <p>As the system report does not provide a summary of open complaints, as at a specified date, the Customer Service Coordinator is required to manually filter open complaints and input these into a "Summary of Complaints spreadsheet" that indicates the number and category of each complaint.</p>	<p>(b) Monitoring of Outstanding Complaints To enhance AGS' complaints handling process, it is recommended that AGS reviews its existing business processes and reporting systems to identify opportunities to improve the process for monitoring outstanding complaints (e.g. develop a system generated monthly report to automatically extract the detail required to identify complaints that have not been resolved within 7 working days).</p>	<p>(b) AGS will review its current processes for monitoring outstanding complaints and will implement improvements where appropriate.</p> <p><i>Responsibility:</i> FRC Co-ordinator <i>Due Date:</i> 30 September 2007</p>

Operating Area	Operating Licence Reference (GTL 1, 2, 3) (CL = Clause, Sch = Schedule)	Report Reference	Issue	Recommendation	Management Action Plan
Customer Safety Awareness Program	GTL Cl. 14 Sch. 1 - 3	2.4	<p>The Customer Safety Awareness Program was submitted to the ERA in 2000 and has not been updated since that date.</p> <p>The following safety information as outlined in GTL clause 14 (3b,c) is provided verbally to small use customers by Alinta's Service Representatives:</p> <ul style="list-style-type: none"> ■ The requirement for proper installation and use of approved appliances and equipment. ■ The use of only qualified trades persons for gas connection and appliance and equipment installation. <p>We acknowledge that training materials provided to Alinta's Service Representative outlines the requirement to provide this information to customers.</p> <p>Other safety awareness information is provided to customers in written format. The verbal communication of the above requirements does not meet with best practice as there is no audit trail to confirm compliance. In addition, this is not consistent with the provision of other safety information that is provided in written materials.</p>	<p>AGS should undertake a full review of the Customer Safety Awareness Program and update where appropriate. When updated it should be submitted to the ERA for approval.</p> <p>AGS should include the following information in the customer charter that is provided to all new customers in the 'Welcome Pack':</p> <ul style="list-style-type: none"> ■ A notice of the requirement for proper installation and use of approved appliances and equipment. ■ A notice of the requirement to use only qualified trades persons for gas connection and appliance and equipment installation. 	<p>AGS will undertake a full review of the CSAP and update where appropriate. When updated it will be submitted to the revised CSAP for approval.</p> <p>AGS will include such safety information as outlined in GTL clause 14 (3b,c) in the next 12 months when the Customer Charter is due for reprint.</p> <p><i>Responsibility:</i> FRC Co-ordinator <i>Due Date:</i> 30 April 2008</p>

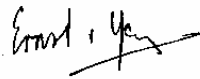
Operating Area	Operating Licence Reference (GTL 1, 2, 3) (CL = Clause, Sch = Schedule)	Report Reference	Issue	Recommendation	Management Action Plan
Financial & Technical Resources	GTL Cl. 16 Sch. 1 - 3	2.5	None identified	N/A	
Insurance	GTL Cl. 19 Sch. 1 - 3	2.6	None identified.	N/A	

1.9 Previous Audit Report Findings

We reviewed the previous audit report dated 23 February 2005. There were no findings and therefore no action required by AGS.

1.10 Conclusion and Audit Opinion

In our opinion, AGS maintained, in all material aspects, effective control procedures in relation to the Alinta Gas Trading Licences (GTL 1, 2, 3) as outlined in the scope for the period 1 February 2005 to 31 January 2007 based on the relevant clauses referred to within the scope section of this report.



Ernst & Young



Robert Kirkby
Partner
Perth
30 May 2007

2. Detailed Finding and Recommendations

The table below provides details of our findings and recommendations in relation to the Gas Trading Licences (GTL 1, 2, 3) Conditions. The summary of the relevant clauses of the GTL have been paraphrased.

2.1. Obligation to Market Gas		
2.1.1	GTL Clause 7 The licensee must, to the extent commercially viable, make reasonable endeavours to promote the sale of gas to all small use customers within the license area.	Compliance Rating 5
2.1.2 Observations		
<p>The classification of small use customers is provided by the Office of Energy under the Gas Marketing Code of Conduct 2004 and includes commercial and residential users with gas consumption up to 1 TeraJoule per annum.</p> <p>From 1 July 2007, new regulations allow customers with an annual consumption of 180 Giga Joule to 1 Tera Joule to choose their gas provider.</p> <p>An annual marketing strategy has been developed that outlines Quarterly Campaigns and the Tactical Plans that will be implemented. This includes the marketing strategy for small use customers that will become contestable.</p> <p>For non-contestable small use customers, there is no formal marketing plan. However, growth in this market is due to expansion of the housing market and new connections arising from new residential developments. In addition, the use of gas is promoted to the building industry and small use customers including through:</p> <ul style="list-style-type: none"> ■ Yellow pages advertising. ■ Branding TV campaigns. ■ Community involvement promotional campaigns. ■ Hot Water Advantage promotions. ■ Alinta Assist that provides a service to residential customers including expert advice and good service for all hotwater, heating, cooking and general plumbing work. ■ The Alinta Kitchen Unit that promotes the benefits of cooking using natural gas appliances. <p>Annual information returns are provided to the ERA as required by the GTL. This includes details of activities performed by Alinta to promote the sale of gas to all small use customers. Ernst & Young has sighted documents that support the information relating to promotional activity as provided in the annual information returns.</p>		
2.1.3 Issues		
None identified		

2.1.4 Recommendation

N/A

2.1.5 Management Actions

N/A

2.2 Service Standards and Information Provision		
2.2.1	<p>GTL Clause 10 (1, 2, 3, 4, 5)</p> <p>The licensee must use its best endeavours to maintain a level of customer service (including the provision and treatment of information) at least consistent with the customer service code, except where the Coordinator permits otherwise.</p> <p>The licensee must:</p> <ul style="list-style-type: none"> ■ Make available to the Coordinator a copy of the Customer Charter ("customer charter") it prepares under the customer service code. ■ Include in the customer charter at least a statement of the general principles upon which it will provide services to its small use customers. <p>The licensee must make available to its small use customers on request the following information:</p> <ul style="list-style-type: none"> ■ Details required under the standard customer contract. ■ Information to be provided under clause 2.1.2.1 of the customer service code (e.g. type and frequency of bills, payment options, complaints procedure, emergency contact details etc.). ■ A summary of key relevant provisions of the customer service code. ■ A summary of the licensee's key relevant powers in the event of an emergency. ■ A summary of the licensee's processes for handling enquiries and complaints. 	<p>Compliance Rating</p> <p>4</p>
2.2.2 Observations		
<p>Policies and procedures relating to customer service standards are available on the intranet via Customer Service Representatives Assist system. These policies and procedures are derived from the AGA code</p> <p>The Alinta Customer Charter has also been developed to ensure compliance with the Australian Gas Association (AGA) code. AGS advised that the Customer Charter has been submitted to the ERA.</p> <p>There is a process for customers to provide feedback via the internet, phone or in writing. Feedback is recorded in the Customer Information System (CIS). The feedback is monitored on a monthly basis through the Monthly Complaints report that classifies feedback into the appropriate categories</p> <p>AGS engages a third party to conduct customer satisfaction surveys.</p> <p>A training program has been established for both new starters and for existing staff within the Customer Service Centre to provide information in relation to customer service procedures.</p>		

All new customers are provided with the following information in the Customer Charter on or before the date of their first bill:

- Information required under the standard customer contract as available in the Gas Supply Standard Terms and Conditions. The Standard Terms and Conditions for Alinta Gas Sales is available online and is mailed to small use customers on request.
- The following information is provided to customers:
 - The type and frequency of bills the customer will receive.
 - Payment options available to the customer.
 - Government energy assistance schemes and concessions.
 - How to make a complaint to, or enquiry of, the supplier.
 - The supplier's 24 hour, 7 days a week emergency line.
 - The supplier's language translation or disability services.
 - The quality of supply obligations to the customer.
 - Complaints and dispute resolution processes.
- Summary of the key relevant provisions of the customer service code.
- Information relating to any changes to the code. There have been no changes to the code, therefore no information has been provided to customers.
- Summary of the licensee's key relevant powers in the event of an emergency.

2.2.3 Issues

There is not a formal process for recording version control for key documents, such as the Customer Charter and contractual Standard Terms and Conditions. During our work we sighted the relevant documents and identified that:

- The Customer Charter was last revised in September 2005 and there was a reprint in 2006.
- The Standard Terms and Conditions were labelled December 2005 as the Issued date, however, we were informed that there had been no changes to the document since 2004.

Without a clear record that differentiates between revision and re-printing dates it may be difficult to identify up to date documents and ensure that up to date information is provided to customers.

2.2.4 Recommendation

A formal version control process for recording version control for key documents is recommended. After release of a new version, supplies of outdated documents should be disposed to reduce the risk of out-dated documents being used.

2.2.5 Management Actions

AGS will implement an internal version control process to ensure that a record of changes to key documents is maintained.

Responsibility: FRC Co-ordinator

Due Date: 30 September 2007

2.3 Complaints Handling Process	
<p>2.3.1 GTL Clause 11 (1, 2)</p> <p>The licensee must develop and within 3 months after the date of grant lodge with the Coordinator a copy of and be in a position to implement when needed a complaints handling process for dealing with complaints against the licensee by:</p> <ul style="list-style-type: none"> ■ A small use customer ■ A prospective small use customer ■ A person occupying premises directly affected by the activities of the licensee 	<p>Compliance Rating</p> <p>4</p>
2.3.2 Observations	
<p>The Complaints Handling Process was implemented in 1995 and was approved by the Economic Regulatory Authority (ERA), previously known as the Coordinator.</p> <p>The Complaints Handling procedure contains a flow chart and details outlining the process for dealing with complaints that arise via phone, email or letter. The Complaints Handling Procedure document also outlines Alinta’s compliance with the AGA code.</p> <p>Phone complaints are recorded in the Customer Information System (CIS) by the relevant customer service representative (CSR). The CSR will classify the call either as a complaint, compliment, suggestion or enquiry relating to specific categories, such as Alinta Assist, billing, credit control, internal system, marketing, networks or payments.</p> <p>All complaints, compliments and suggestions are reviewed and monitored via the monthly Complaints report. Complaints that take longer to resolve are monitored and usually relate to those that cannot be resolved by Alinta and have been escalated to the Energy Ombudsman.</p> <p>At the time of our audit there were no unresolved complaints indicating that the complaints process is operating effectively.</p>	
2.3.3 Issues	
<p>(a) Review and Update of the Complaints Handling Procedure</p> <p>The Complaints Handling Procedure was first developed and submitted for approval to the Coordinator in 1995. Since 1995 there have been regular reviews of the procedure resulting in minor updates relating to changes in roles, responsibilities and organisational structure. These minor updates have not been lodged with the ERA.</p> <p>The Gas Trading Licence does not formally specify whether lodgement of updated versions of the Complaints Handling Procedure is required.</p> <p>Without clarification of the requirement to lodge updates of the Complaints handling procedures with the ERA, there is a risk that Alinta may inadvertently fail to comply with the GTL.</p>	

(b) Monitoring of Outstanding Complaints

The Customer Service Coordinator identifies outstanding complaints by reviewing the Monthly Complaints report that contains the status of all complaints within the system (i.e. in progress or closed). In addition, since June 2005 the ERA has requested information on the number of complaints that are not handled within the customer service standard. Alinta's service standard is that all customer complaints be handled within 7 working days.

As the system report does not provide a summary of open complaints, as at a specified date, the Customer Service Coordinator is required to manually filter open complaints and input these into a "Summary of Complaints spreadsheet" that indicates the number and category of each complaint.

2.3.4 Recommendation

(a) Review and Update of the Complaints Handling Procedure

Alinta should seek to clarify with ERA as to whether the Complaints Handling Procedure document should be lodged with ERA following any amendments to the document.

(b) Monitoring of Outstanding Complaints

To enhance AGS' complaints handling process, it is recommended that AGS reviews its existing business processes and reporting systems to identify opportunities to improve the process for monitoring outstanding complaints (e.g. develop a system generated monthly report to automatically extract the detail required to identify complaints that have not been resolved within 7 working days).

2.3.5 Management Actions

(a) AGS will clarify with the ERA when and/or if changes to the Complaints Handling Procedure should be lodged with the ERA for review and approval.

(b) AGS will review its current processes for monitoring outstanding complaints and will implement improvements where appropriate.

Responsibility: FRC Co-ordinator

Due Date: 30 September 2007

2.4 Customer Safety Awareness Program		
2.4.1	<p>GTL Clause 14</p> <p>A Customer Safety Awareness Program:</p> <ul style="list-style-type: none"> ■ Must be lodged with the Coordinator within 3 months of grant of the license. ■ The licensee must consult with the Coordinator when preparing the customer safety awareness program. ■ Must communicate information to small use customers and must address at a minimum provision of the following information: <ul style="list-style-type: none"> – The property of gas. – The requirement for proper installation and use of approved appliances and equipment. – Use of qualified tradepersons for gas connection and appliance and equipment installations. – Safety procedures and appropriate emergency telephone numbers. 	<p>Compliance Rating</p> <p>4</p>
2.4.2 Observations		
<p>GTL's Customer Safety Awareness Program (CSAP) was submitted to the ERA in 2000 which identified the communication methods to be adopted as:</p> <ul style="list-style-type: none"> ■ Internet ■ Advantages ■ Welcome pack for new residential customers ■ Facts sheets ■ Media opportunities <p>Additionally, the CSAP identified the contents of communications, namely:</p> <ul style="list-style-type: none"> ■ Properties of Alinta Gas ■ Gas leaks or faults ■ Emergencies ■ Safety in the home ■ Safety in business 		

During the period, the major information sources relating to customer safety was provided to customers through:

- A Customer Charter booklet is provided to all new customers. This Charter includes the following information:
 - Information on the properties of gas relevant to its use by small use customers.
 - The proper procedures for the reporting of gas leaks or appliance or equipment defects.
 - Safety procedures to be followed and the appropriate telephone number to call in case of emergency.
- The Alinta website that includes the following information:
 - Procedures for the reporting of gas leaks, appliance or equipment defects.
 - Safety procedures to be followed and the appropriate telephone number to call in case of emergency.
- Advantages Magazine is enclosed with each customer's bill on a quarterly basis. This magazine includes one article on gas safety per year.
- All matters relating to "Safety in Business" are dealt with via telephone. Due to the specialised nature of Type B appliances and depending on the nature of the enquiry, all callers are referred to either:
 - An authorised gas fitter
 - The Office of Energy
 - Alinta Gas inspectors

2.4.3 Issue

The Customer Safety Awareness Program was submitted to the ERA in 2000 and has not been updated since that date. Although the license requirements do not specify the method of communication of safety information, the CSAP identified the communication methods.

The following safety information as outlined in GTL clause 14 (3b,c) is provided verbally to small use customers by Alinta's Service Representatives:

- The requirement for proper installation and use of approved appliances and equipment.
- The use of only qualified trades persons for gas connection and appliance and equipment installation.

We acknowledge that training materials provided to Alinta's Service Representative outlines the requirement to provide this information to customers.

With the exception of the above items that were communicated verbally, other safety awareness information is provided to customers in written format. The verbal communication of the above requirements does not meet with best practice.

We did not identify evidence to indicate non-compliance with the above license requirements. However, as Customer Safety Awareness has been assessed as having a high inherent risk, we consider that this is a recommendation to improve the control environment in this operational area. This will provide an appropriate audit trail to demonstrate compliance, including evidence of the Customer Safety Awareness Program and provision of safety information to all customers in a written format.

2.4.4 Recommendation

AGS should undertake a full review of the Customer Safety Awareness Program and update where appropriate. When updated it should be submitted to the ERA for approval.

In addition, AGS should include the following information in the customer charter that is provided to all new customers in the 'Welcome Pack':

- A notice of the requirement for proper installation and use of approved appliances and equipment.
- A notice of the requirement to use only qualified trades persons for gas connection and appliance and equipment installation.

2.4.5 Management Actions

AGS will undertake a full review of the CSAP and update where appropriate. When updated it will be submitted to the revised CSAP for approval.

Responsibility: FRC Co-ordinator

Due Date: 31 August 2007

AGS will include such safety information as outlined in GTL clause 14 (3b, c) and in the revised CSAP in the next 12 months when the Customer Charter is due for reprint.

Responsibility: FRC Co-ordinator

Due Date: 30 April 2008

2.5 Financial and Technical Resources	
<p>2.5.1 GTL Clause 16 (1, 2, 3)</p> <p>The licensee must have and continue to have financial and technical resources sufficient to meet current and reasonable foreseeable obligations that might arise in relation to its activities the subject of this licence.</p> <p>The licensee must:</p> <ul style="list-style-type: none"> ■ Provide to the co-ordinator within 2 weeks of request written evidence to confirm that financial and technical resources are maintained as required by the license. ■ Notify the Co-ordinator immediately of a significant reduction in financial and/or technical resources. 	<p>Compliance Rating</p> <p>5</p>
2.5.2 Observations	
<p>Financial Resources</p> <p>Procedures have been developed for the preparation and submission of budgets, forecasts and actual financial performance for Alinta Sales. Financial reports are prepared and submitted to the Financial Controller for review and subsequent presentation to the Management Committee and relevant Board.</p> <p>There is an annual budgeting process, encompassing draft budgets prepared in October, presentation to the Board in November and final approval of budgets in December every year.</p> <p>In addition to the budget, Financial Forecasts are performed on a quarterly basis (i.e. April, July and October) and a 5 year forecast is performed every September.</p> <p>Technical Resources</p> <p>The recruitment and engagement process is documented in the Alinta Recruitment and Selection Policy. This facilitates the recruitment of suitably skilled personnel for approved positions. This process incorporates:</p> <ul style="list-style-type: none"> ■ Approval to fill vacancy ■ Position description and job evaluation ■ Advertising (Internal Advertising Mandatory) ■ Selection of interviewees ■ Interview process ■ Suitable candidates identified ■ Psychometric testing and reference checking ■ Pre-employment medical test ■ Position offer (HR to negotiate remuneration) ■ Contract Issued to Successful candidate ■ Induction 	

Procedures have also been developed to ensure an appropriate training plan is developed for employees and that an annual performance review is conducted. No technical certification is required due to the nature of work in sales, retail and customer service.

There has been no significant reduction in personnel in the past 2 years. In fact there has been an increase to deal with growth in Alinta's business.

2.5.3 Issue

None identified.

2.5.4 Recommendation

N/A

2.5.5 Management Actions

N/A

2.6 Insurance	
2.6.1 GTL Clause 19 (1) The licensee must, for the duration of the term, have: <ul style="list-style-type: none"> ■ Adequate property insurance against damage, loss or destruction to property required by the licensee to conduct its activities the subject of this licence. ■ Adequate liability insurance against loss, damage, death, or injury to the property or personnel of the licensee and the public, in connection with, arising out of or related to its activities the subject of this licence. 	Compliance Rating 5
2.6.2 Observations	
<p>A manager has been assigned responsibility for identifying and managing risk. A yearly risk review is performed on the existing insurance cover to ensure that insurance is adequate and that there are no overdue policies.</p> <p>AON Risk Services Australia Limited is the insurance broker for Alinta. Their services include insurance review, planning and management of the insurance cover.</p> <p>All aspects of business are insured. Alinta engages AON Risk Services to ensure that revaluations are carried out to insure assets for replacement cost. Revaluations are performed on an annual basis to determine the replacement cost for damage to assets.</p> <p>There are 2 major insurance policies:</p> <ul style="list-style-type: none"> ■ The Industrial Special Risk Insurance policy covers material damages, engineering special risks and business interruption relating to assets. ■ The Combined Liability Insurance policy covers public and products liability, professional indemnity and legal defence costs. 	
2.6.3 Issue	
None identified.	
2.6.4 Recommendation	
N/A	
2.6.5 Management Actions	
N/A	

Appendix 1: Audit Program Amendments

During our course of work, the following amendments were made as detailed below:

Original Work Step	Amendments	Reason
<p><u>Obligation to Market Gas, GTL Cl. 7</u></p> <p>Audit Procedures to test compliance:</p> <ol style="list-style-type: none"> 1. Obtain the percentage of small use customers to total customers and inspect the sales trend for the past 2 to 5 years. 	<p>To replace the existing test step with the following:</p> <ol style="list-style-type: none"> 1. Obtain the total number of residential and business customers which fall under the small use customers. Inspect the sales growth for the past 2 to 5 years 	<p>Unable to obtain total gas customers which include commercial and large use customers as the billings system is different for the large use customers.</p>
<p><u>Maintain Gas Quality (GSA 8,9,10, GSR 9,13)</u></p> <ol style="list-style-type: none"> 1. Walkthrough the process of reviewing test results which are generated from the system. 2. Walkthrough the process of handling / resolving situations where the quality of the gas does not meet the requirements. 3. Sample test 5 periods test results to confirm evidence of review. 4. Inspect for the existence of checklists which are established from the gas standards. 5. Sample 5 checklists and inspect that the checklists are completed and signed off by relevant staff ensuring compliance to gas standards. 6. Inspect that records are maintained for a period of 3 years from date of sampling. 7. Inspect for evidence of policies and procedures in relation to handling of exceptions. Walkthrough the process to examine consistency to the policies and procedures. 8. Inspect for evidence of retention policies. 	<p>Excluded from the Audit Program.</p>	<p>The ERA advised that obligations arising from these sections in the GSA and GSR were not applicable to AGS, as they were the responsibility of Alinta Gas Networks.</p>

Appendix 2: Compliance Rating Scale

The overall compliance rating applied to each licence condition is derived using the 5-point rating scale described in Table 1.

Table 1: Operational/Performance Compliance Rating Scale

Compliance Status	Rating	Description of Compliance
Compliant	5	Compliant with no further action required to maintain compliance.
Compliant	4	Compliant apart from minor or immaterial recommendations to improve the strength internal controls to maintain compliance.
Compliant	3	Compliant with major or material recommendations to improve the strength of internal controls to maintain compliance.
Non-Compliant	2	Does not meet minimum requirements.
Significantly Non-Compliant	1	Significant weaknesses and/or serious action required.

Appendix 3: Audit Evidence

List of Legislation & Other External Documents
AUS 806 – Performance Auditing
AUS 808 – Planning Performance Audits
AUS 810 – Special Purpose Reports on the Effectiveness of Control Procedures
WA Legislation – Energy Coordination Act 1994
WA Legislation – Gas Standards (Gas Supply and System Safety) Regulations 2000
WA Legislation – Gas Standards Act 1972
WA Office Energy – Gas Trading Licence

List of AGS Documents
Small Use Customer Number 2004
Small Use Customer Number 2005
Small Use Customer Number 2006
Small Use Customer Number 2007
Gas Marketing Code of Conduct 2004
Annual Information Return 2005
Acknowledgement letter from ERA for submission on annual information returns. (2005)
Small use Customer Plan
Business Plan 2007
Quarter 1 2007 Marketing Plan and Tactical Plans
Pamphlets promoted to Gas fitters and builders.
Sample Report of Test Result sent to Alinta on a hourly and daily basis.
Records of test results being maintained for more than 3 years.
Information Retention Policy
Daily Report Review of Test Results.
Screenshot of Policies and Procedures on CSR Assist
Feedback form available on internet
Survey 2006
Survey 2007
Patterson’s Market Research from 31 October 2005 to 6 th November 2006
Statistics received from Patterson prior to October 2005
Training Agenda for new starters

List of AGS Documents
Current Training Record 2006
Samples of sign off for completion of training and feedback on training
Monthly statistics for Call Centre (for samples selected)
Customer Charter
Screenshot of Customer Information System and list of documents that can be provided to customers.
Sample of first bill sent to customers
Screenshot of Bill Issue date on CIS-OV system and existence of bill in Bill CD – 22 nd February 2007
Sample of daily CD from outsourced printers
Bill Copy Disk Form
Sample of automated email sent to Billings Team on Bill Print Reconciliation
Alinta Standard Terms and Conditions
List of Alinta Sales Tariff, Fees and Charges
Residential Pricing and Fees available on the internet
Screenshot of list of account adjustment types on the Customer Information System
Complaints Handling Process January 2006
List of outstanding complaints from January 2005 to date
Monthly Complaint Report
Summary of Complaints in Categories
Screenshot of details of complaint not resolve within 7 working days (for samples selected)
Customer Charter – Using Gas Safety, Using Gas Wisely and Alinta Assist topics.
Advantages Magazine Summer 2005/2006 Edition
2007 Advantages and Residential Bill Strategy
Advantages Magazine Strategy 2006
Advantages Magazine Strategy 2005
Customer Safety Information on Alinta's website
Staff Training Slides on using qualified trade person
CSR Assist database on Gas Fitters Referrals
Screenshot of Finance Policies
Significant Accounting Policies
Alinta Energy Markets Summary for WA Retail Gas January 2006
Gas Budget Summary
Forecasting Guidelines 2007 – 2008
2007 Diary Sheet

List of AGS Documents
Sample of a Financial Forecast
Employee File Cover Sheet (for samples selected)
Recruitment policy
Recruitment Flow Chart
Approval to Fill Vacancy Form
New Employment Notice Form
AlintaGas Loss Prevention Recommendations Report with Management Comments June 2006
Industrial Special Risks Insurance Cover
Combined Liability Insurance Cover
Insurance Program Manual

Appendix 4: Audit Team

In allocating staff of the engagement Ernst & Young have regarded to the level of skill, experience and responsibility required to provide the services. The engagement team is as follows:

Name	Position	Hours Utilised
Rob Kirkby	Engagement Partner	4
Heidi Riddell	Engagement Principal	16
Chein Kee / Lynn Loo	Engagement Senior	38
Michelle Tan	Engagement Team Member	65

A brief overview of each team member is provided below:

Rob Kirkby is the engagement partner. Rob has over 20 years experience in providing independent advice and audit services within the utilities industry and to a broad range of other industries. Rob has been responsible for the audit function and ensuring that Ernst & Young delivers the audit in a proactive, responsive manner. Rob has been responsible for overall quality control and signing the audit report.

Heidi Riddell, a Principal in our Audit and Advisory Services Division, has taken responsibility for the conduct and day to day management of the engagement. Heidi has been a key point of contact to liaise with Alinta Gas in relation to this engagement.

Chein Hwei Kee, a Senior Advisor, supported Heidi in the planning process for this audit. Chein Hwei has experience in performing this role on a number of Internal Audit engagements, including Western Power, Rio Tinto, Barrick Gold and Financial Services organisations.

Lynn Loo, a Senior Advisor, supported Heidi in the fieldwork, testing and reporting phases of this audit. Lynn has experience in compliance auditing and internal audit engagements, including Western Power, the Department of Main Roads and Financial Services organisations.

Michelle Tan, an Advisor, supported Lynn in the testing and reporting phases for this audit. Michelle has experience in performing this role on a number of Internal and External Audit engagements, including the Department of Housing and Works, Wesfarmers Energy and Western Power.