

Alinta Gas Networks Pty Ltd
Gas Distribution Licences (GDL 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 on Alinta Gas Networks Pty Ltd (AGN) was dated 23 February 2005.

1.2 Business Processes and Systems

The performance audit is to ensure that specific conditions within the Gas Distribution Licences, GDL1, GDL2 and GDL3 that cover the geographical areas Goldfields-Esperance, Coastal and Great Southern respectively, and specified provisions of the Gas Standards Act have been complied with. The operational areas that have been considered in this audit encompass:

- Continuous operation of the gas network.
- Maintenance of gas quality.
- Consumer installation of new gas connections
- Obligation to connect.
- Licensing and authorisation of gas fitters.
- Use of approved appliances.
- Obligation to connect.
- Service standards.
- Future development of the licensed distribution system.
- Maintenance of financial and technical resources to support the licensee’s activities.
- Insurance.

The Gas Distribution License covers 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. Management have indicated that since the previous audit, there have been three significant changes to the gas business processes and systems, notably:

- The implementation of NMIS (Network Metering Information System), which manages communications between AGN (the network operator), REMCO (Retail Energy Market Company) and the gas retailers. The system automates a number of key processes including new connections and orders for work in relation to connection points. NMIS is integrated with AGN’s works management system and its GIS (Geographical Information System).

- The Revised Access Arrangement for the Mid West and South West Gas Distribution System was approved in July 2005. The Access Arrangement introduced a number of Guaranteed Service Levels (GSL) as part of AGN's commitment to customer service. Payments are made to Small Use Customers where AGN fails to meet the pre-determined standards set under the GSL scheme.
- AGN's customer complaints handling process was certified to AS ISO 10002.

The key systems supporting compliance processes are:

- SAP System - The SAP system is the core business system. The key processes supporting the license conditions encompass:
 - The management of maintenance jobs. A SAP maintenance plan is created in the SAP Maintenance Module. The SAP system will then create maintenance jobs that have been planned, will track progress of the job and then close the job on completion.
 - The management of installations and related audit inspections.
 - Job closure process following the recording of the Notice of Completion (NOC) of installation.
 - The approval of gas fitters.
 - The complaints management process.
- NMIS supports the following operational processes:
 - Recording applications for gas connections.
 - Service order initiation that is subsequently transferred to SAP to open a job notice.
 - The recording of tariff rates and the processing of customer billing. Billing information is then transferred to the General Ledger within SAP.

1.3 Objective

The objective of the performance audit is to enable the auditor to express an opinion as to whether, in all material respects, Alinta Gas Network Pty Ltd's (AGN) activities have been carried out in accordance with the Gas Distribution Licences (GDL 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 Distribution Licences (GDL 1, 2, 3) encompassed:

- Alinta Gas Networks Pty Ltd (AGN) that operate in the three geographical locations (i.e. Goldfields – Esperance, Coastal and Great Southern).
- The period from 1 February 2005 to 31 January 2007.

- Assessment of the design and effectiveness of the control measures taken by AGN to comply with the standards, outputs and outcomes as required under the following terms of the Gas Distribution licences (GDL):
 - Clause 7: Continuous operation
 - Clause 8: Obligation to connect
 - Clause 10: Service standards
 - Clause 14: Future development of the system
 - Clause 15: Financial and technical resources
 - Clause 16: Insurance
- Assessment of the design and effectiveness of the control measures taken by AGN to comply with certain provisions in the Gas Standards Act (GSA):
 - Maintenance of gas quality in accordance to the requirements under the Gas Supply and System Safety Regulations 2000.
 - Consumer installation requirements.
 - Licensing of gas fitters.
 - Authorisation of gas fitters.
 - Approval of appliances in accordance with the requirements specified by the Director of Energy.

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 Alinta Gas Networks Pty Ltd Distribution Licence operated effectively based on the relevant clauses referred to above.

Our report has been prepared for Alinta Gas Networks Pty Ltd, as the responsible entity for compliance with the Gas Distribution Licences, and the ERA 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 and the ERA, 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 condition:

- A table that identified:
 - 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 from the ERA on 21 February 2007.

During our work, we made minor amendments to the Audit Programme, as outlined in Appendix 1.

We have completed our procedures with respect to the compliance with the licence conditions at AGN for the period of 1 February 2005 – 31 January 2007. The field work, report and compilation and presentation of results to Management were executed in February – March 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 compliance with the operating licences to future periods is subject to the risk that the compliance measures 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 Performance Audit 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 (GDL 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
Continuous Operation	Cl. 7 Sch. 1 & 2	3	C	High	S					
Maintain Gas Quality	Gas Standards Act Sections 8,9 & 10	2	C	Medium	S					
Consumer Installation	Gas Standards Act Section 13	2	C	Medium	S					
Gas Fitters to be Licensed and Authorised	Gas Standards Act Section 13A	2	C	Medium	S					
Appliance to be Approved	Gas Standards Act Section 13D	2	C	Medium	S					
Obligation to Connect	Cl. 8 Sch. 1, 2, 3 & 4	2	B	Medium	S					
Service Standards	Cl. 10 Sch. 1	2	B	Medium	S					
Future Development of the licensed distribution system	Cl. 14 Sch. 1	3	C	High	S					
Financial & Technical Resources	Cl. 15 Sch. 1, 2, 3, 4a, 4b	2	B	Medium	S					
Insurance	Cl. 16 Sch. 1, 2, 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 improvement opportunities 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 (GDL 1, 2, 3) (CL = Clause, Sch = Schedule)	Report Reference	Issue	Recommendation	Management Action Plan
Continuous Operation	Cl. 7 Sch. 1 & 2	2.1.3	<p>(a) Emergency Procedures</p> <p>The following documentation relating to emergency procedures were last updated in 2002:</p> <ul style="list-style-type: none"> ■ Gas Supply System Emergency (Revision 3, 22/03/02) ■ Emergency Recovery (Revision 4, 22/03/02) ■ Emergency Prevention (Revision 2, 21/03/02) ■ Emergency Preparedness (Revision 2, 21/03/02) <p>It was noted that these procedures are currently being reviewed for their currency and updated accordingly. In addition, the emergency procedures have been successfully tested for effectiveness each year. AGN management indicated that the application of these procedures</p>	<p>(a) Emergency Procedures</p> <p>This process to review and confirm that current practices, organisational structure and network design are reflected in the emergency procedures should be completed as soon as possible. These procedures should then be reviewed on at least a bi-annual basis to ensure that they remain current.</p> <p>(b) Curtailment Procedures</p> <p>We understand that AGN are currently in the process of revising the Networks Procedure Curtailment.</p> <p>This process to review and confirm that current practices in</p>	<p>AGN to update and review the emergency and curtailment procedures every two years.</p> <p><i>Responsibility:</i> Manager Service Delivery West</p> <p><i>Due Date:</i> 30 September 2007</p>

Operating Area	Operating Licence Reference (GDL 1, 2, 3) (CL = Clause, Sch = Schedule)	Report Reference	Issue	Recommendation	Management Action Plan
			<p>in day to day operations since 2002 has not resulted in injury to employees, customers or the general public, financial loss and damage to AGN's reputation demonstrating that these procedures are not significantly outdated.</p> <p>(b) Curtailment Procedures</p> <p>The Networks Procedure Curtailment manual was last revised 21/08/01 and there is no formal process in place to ensure it is regularly updated to reflect the operational practice. It was noted that the procedure is currently being reviewed for its currency and updated accordingly.</p> <p>The document outlines the procedure to be followed in order to prevent a gas supply emergency from occurring and the process to follow should such an emergency occur.</p> <p>However, the list of customer contact details for delivery points of all telemetered sites (where gas consumption is 10 TJs and above) which might need to be curtailed have been updated and are current as at December 2006.</p>	<p>terms of handling/ resolving gas supply situations and mitigating the occurrence of gas supply emergency events are reflected in the curtailment procedure should be completed as soon as possible.</p> <p>The procedure document should then be reviewed on at least a bi-annual basis to ensure that it remains current.</p>	

Operating Area	Operating Licence Reference (GDL 1, 2, 3) (CL = Clause, Sch = Schedule)	Report Reference	Issue	Recommendation	Management Action Plan
Maintain Gas Quality	Gas Standards Act Sections 8,9 & 10	2.2	None identified	N/A	
Consumer Installation	Gas Standards Act Section 13	2.3.3	<p>We tested a sample of 25 inspections of new installations. This sample size was based on our audit methodology that we are required to follow in order to issue an audit opinion. We were unable to obtain the checklists to support 3 of the inspections selected. We were informed by the Audit and Inspection officer that the forms could not be located and retrieved from archive.</p> <p>We did note, however that for these 3 inspections, SAP recorded that the job had been opened and closed by the Audit and Inspection officer and the inspection had been performed by an Inspection officer.</p> <p>Although the record in SAP indicates that the Audit and Inspection officer performed the check on the checklist, without supporting documentation to confirm the outcome of the inspections there may be insufficient evidence as to the effectiveness of the inspection process.</p>	A control should be implemented to ensure that all documentation is retained and filed for future reference. This may include checking on a monthly basis that all inspections performed as recorded in the SAP system have supporting documentation that has been retained on file.	<p>AGN will implement a control to improve the process to ensure documentation is retained and filed for future reference. The control would be to check 5% of the closed out inspections of new installations in SAP on a monthly basis and ensure they have the correctly completed and signed checklists. The percentage and frequency of the audits will be adjusted (increase or decreased) depending on the outcomes of the checks.</p> <p><i>Responsibility:</i> Audit and Inspection Officer</p> <p><i>Due Date:</i> 30 September 2007</p>

Operating Area	Operating Licence Reference (GDL 1, 2, 3) (CL = Clause, Sch = Schedule)	Report Reference	Issue	Recommendation	Management Action Plan
Gas Fitters to be Licensed and Authorised	Gas Standards Act Section 13A	2.4.3	None identified.	N/A	
Appliance to be Approved	Gas Standards Act Section 13D	2.5.3	<p>We tested a sample of 25 inspections of new installations. This sample size was based on our audit methodology that we are required to follow in order to issue an audit opinion. We were unable to obtain the checklists to support 3 of the inspections selected. We were informed by the Audit and Inspection officer that the forms could not be located and retrieved from archive.</p> <p>We did note, however that for these 3 inspections, SAP recorded that the job had been opened and closed by the Audit and Inspection officer and the inspection had been performed by an Inspection officer.</p> <p>Although the record in SAP indicates that the Audit and Inspection officer performed the check on the checklist, without supporting documentation to confirm the outcome of the inspections there may be insufficient evidence as to the effectiveness of the inspection process.</p>	A control should be implemented to ensure that all documentation is retained and filed for future reference. This may include checking on a monthly basis that all inspections performed as recorded in the SAP system have supporting documentation that has been retained on file.	<p>AGN will implement a control to improve the process to ensure documentation is retained and filed for future reference. The control would be to check 5% of the closed out inspections of new installations in SAP on a monthly basis and ensure they have the correctly completed and signed checklists. The percentage and frequency of the audits will be adjusted (increase or decreased) depending on the outcomes of the checks.</p> <p><i>Responsibility:</i> Audit and Inspection Officer</p> <p><i>Due Date:</i> 30 September 2007</p>

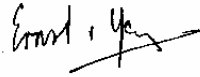
Operating Area	Operating Licence Reference (GDL 1, 2, 3) (CL = Clause, Sch = Schedule)	Report Reference	Issue	Recommendation	Management Action Plan
Obligation to Connect	Cl. 8 Sch. 1, 2, 3 & 4	2.6	None identified.	N/A	
Service Standards	Cl. 10 Sch. 1	2.7.3	None identified.	N/A	
Future Development of the licensed distribution system	Cl. 14 Sch. 1	2.8	None identified.	N/A	
Financial & Technical Resources	Cl. 15 Sch. 1, 2, 3, 4a & 4b,	2.9	None identified.	N/A	
Insurance	Cl. 16 Sch. 1, 2, 3	2.10	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 AGN.

1.10 Audit Opinion

In our opinion, Alinta Gas Networks Pty Ltd, maintained, in all material aspects, effective control procedures in relation to the Alinta Gas Distribution Licences (GDL 1, 2, 3) 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 Distribution License (GDL 1, 2, 3) Conditions and those obligations arising from The Gas Standards Act 1972 (GSA) and Gas Standards (Gas Supply and System Safety) Regulations 2000 (GSR). The summary of the relevant clauses of the DDL, GSA and GSR has been paraphrased.

2.1 Continuous Operation		
2.1.1	GDL Clause 7 The licensee must continuously operate the licensed distribution system except to the extent necessary for compliance with the Gas Standards (Gas Supply and System Safety) Regulations 2000.	Compliance Rating 4
2.1.2 Observations		
<p>The following areas are considered key controls to ensure the continuous operation of the gas distribution system:</p> <p>Emergency Procedures</p> <p>Incidents are categorised as incidents that may be notifiable (i.e. Minor incidents) or reportable (i.e. major incident). An emergency response is initiated if an incident is determined to be major. Emergency Response Manuals outlining procedures to be performed in response to a major incident have been documented encompassing procedures for:</p> <ul style="list-style-type: none"> ■ Gas Supply System Emergency ■ Emergency Preparedness ■ Emergency Prevention ■ Emergency Response ■ Emergency Recovery <p>Demand Planning</p> <p>An annual Demand Plan is developed. The reinforcement costs relating to the Demand Plan are budgeted and then included in the Asset Management Plan. The Asset Management Plan includes the strategy for planning the development and expansion of the AlintaGas Network's gas distribution system and the design parameters of new assets.</p> <p>Maintenance Planning</p> <p>The AGN Distribution Network Asset Maintenance Plan 2007 is developed by the Gas Asset Manager West. The plan provides the basis for the scheduled and planned maintenance of major components of the Alinta Gas Networks. It also includes details in relation to the maintenance cycle for assets and facilities.</p> <p>A SAP maintenance plan is created in the SAP Maintenance Module. The SAP system will then create maintenance jobs that have been planned, will track progress of the job and then close the job on completion.</p>		

A Spreadsheet Tracker is used by the Asset Management team based in Jandakot and reviewed monthly to confirm that the maintenance progress is on track.

Curtailment Procedures

A Networks Curtailment Procedures document has been developed and outlines the procedures to be followed to prevent and/or deal with a gas supply emergency

This document includes procedures for:

- Supply Emergencies
- Curtailment of Interruptible Loads
- System Isolation
- Restoration of Supply
- Curtailment Procedure
- Selected scenarios for emergencies
- Roles and Responsibilities

It is the responsibility of the Manager Network Operations in liaison with the Incident Commander, to assess and initiate the emergency recovery process.

2.1.3 Issues

(a) Emergency Procedures

The following documentation relating to emergency procedures were last updated in 2002:

- Gas Supply System Emergency (Revision 3, 22/03/02)
- Emergency Recovery (Revision 4, 22/03/02)
- Emergency Prevention (Revision 2, 21/03/02)
- Emergency Preparedness (Revision 2, 21/03/02)

It was noted that these procedures are currently being reviewed for their currency and updated accordingly. In addition, the emergency procedures have been successfully tested for effectiveness each year. AGN management indicated that the application of these procedures in day to day operations since 2002 has not resulted in injury to employees, customers and the general public, financial loss or damage to AGN's reputation demonstrating that these procedures are not significantly outdated.

Without regular review and amendment, particularly in the event of changes in employees impacting contact lists and organisational structure, there may be delays in implementing the required procedures preventing them from being as effective as they could be.

(b) Curtailment Procedures

The Networks Procedure Curtailment was last revised 21/8/01. It was noted that the procedure is currently being reviewed for its currency and updated accordingly.

The document outlines the procedure to be followed in order to prevent a gas supply emergency from occurring and the process to be followed should such an emergency occur.

The Networks Procedure Curtailment manual was last revised 21/08/01 and there is no formal process in place to ensure it is regularly updated to reflect the operational practice. Without a formal review process there is a risk that changes in personnel and/or operational procedures may not be updated in the procedures. This may result in delays in implementing curtailment procedures in the event of a supply emergency.

However, the list of customer contact details for delivery points of all telemetered sites (where gas consumption is 10 TJs and above) which might need to be curtailed have been updated and are current as at December 2006.

2.1.4 Recommendation

(a) Emergency Procedures

We understand that AGN are currently in the process of updating the various emergency response procedures.

This process to review and confirm that current practices, organisational structure and network design are reflected in the emergency procedures should be completed as soon as possible. These procedures should then be reviewed on at least a bi-annual basis to ensure that they remain current.

(b) Curtailment Procedures

We understand that AGN are currently in the process of revising the Networks Procedure Curtailment.

This process to review and confirm that current practices in terms of handling/ resolving gas supply situations and mitigating the occurrence of gas supply emergency events are reflected in the curtailment procedure should be completed as soon as possible.

The procedure document should then be reviewed on at least a biennial basis to ensure that it remains current.

2.1.5 Management Actions

AGN to update and review procedures every two years.

Responsibility: Manager Service Delivery West

Due Date: 30 September 2007

2.2 Maintain Gas Quality	
2.2.1 GSA Sections 8,9,10, GSR Sections 9, 13.	Compliance Rating 5
<p>The gas quality standards required by the above sections encompass:</p> <ul style="list-style-type: none"> ■ LPG must be odorised ■ LPG supplied to consumers through a distribution system must be: <ul style="list-style-type: none"> – supplied as propane. – supplied in vapour form. – supplied at a pressure that does not exceed 200kPa (gauge). – Odorised in accordance with GSR 9. – Subject to periodic sampling to determine the effectiveness of the odorising. <p>The undertaker must ensure that records are kept of sampling conducted under sub regulation (1) (d) for a period of 3 years from the date of sampling.</p>	
2.2.2 Observations	
<p>A Gas Quality Monitoring Program Document has been developed to provide guidance for:</p> <ul style="list-style-type: none"> ■ The gas quality components subject to the monitoring program. ■ The testing frequency. ■ Test methods/ procedures to be applied. ■ Special conditions that may be applicable. <p>There are currently 3 distribution systems (2 for natural gas and 1 for LPG that is located in Albany). Gas quality for these systems is monitored via:</p> <ul style="list-style-type: none"> ■ Daily reports of the gas quality are sent to the Interval Metering Coordinator from the Dampier to Bunbury Pipeline. ■ Monthly reports of the gas quality are sent to the Interval Metering Coordinator for Albany distribution system. <p>An “Odorant Issues” document has been developed that includes information on the description of gas, composition, requirement for odorisation, odorant and outlines monthly sampling procedures.</p> <p>If a significant odorant issue occurs the event will be reported to EnergySafety within the Department of Consumer and Employment Protection (DOCEP). The report provides details of the issue and its resolution. The Gas Asset Manager West assists with matters relating to odorant issues.</p> <p>Test results are retained for 7 years in line with Alinta’s Information Management Policy.</p> <p>The Gas Quality Monitoring Program document has not been updated since 14 September 2000. However, the natural gas specification that relates to the gas quality monitoring program was confirmed during the revision of the Access Arrangement for the Mid West and South West Gas Distribution System in July 2005. AGN advised that in the absence of any change to the gas specifications, there was no driver for changing the gas quality monitoring procedures.</p>	

2.2.3 Issue
None identified.
2.2.4 Recommendation
N/A
2.2.5 Management Actions
N/A

2.3 Consumer Installation	
2.3.1 GSA Section 13 An undertaker or pipeline licensee shall not commence to supply gas to a consumer's gas installation unless that installation meets the requirements, if any, prescribed in respect of that installation. Exemptions may be granted on such terms and conditions, and subject to compliance with such arrangements, as the Minister thinks fit.	Compliance Rating 4
2.3.2 Observations	
<p>A procedure exists for the inspection of new connections and installations. The policy is to inspect 5% of new installations and installations where there have been customer complaints. The inspections are carried out by Alinta as a gas undertaker to comply with the requirements of Section 13(1) of the Gas Standards Act 1972, which is “<i>An undertaker or pipeline licensee shall not commence to supply gas to a consumer’s gas installation unless that installation meets the requirements, if any, prescribed in respect of that installation.</i>”. The Minister gives an exemption to the full requirements of Section 13(1) of the Gas Standards Act 1972 (i.e. inspection of <i>all</i> installations prior to the gas connection), provided the conditions of the Inspection Plan are met.</p> <p>This inspection requires that a ‘checklist’ be completed focusing on the following details:</p> <ul style="list-style-type: none"> ■ Pressure tests for leaks ■ Pipework is sufficient ■ Approved pipework and materials used ■ Flueing and ventilation requirements are met ■ Only approved appliances have been installed ■ Appliances have been correctly installed, installed in complying locations and commissioned satisfactorily ■ Name of Gas Fitter <p>The inspections are set up as a job within SAP by the Audit and Inspection officer. Once the checklists have been completed by the Inspectors, the checklists are submitted to the Audit and Inspection officer who reviews them, closes the job in SAP and files the documentation.</p> <p>A quarterly report is prepared and submitted to Energy Safety stating the number and nature of audits planned and performed.</p> <p>Customer surveys are conducted for new and existing customers to determine satisfaction with AGN’s service in relation to new installations and maintenance requests.</p> <p>A Complaints Handling procedure is in place “to ensure that customers’ complaints are dealt with in an effective and courteous manner, and that an expeditious and satisfactory outcome is achieved, while fulfilling AGN’s obligations in accordance with the relevant codes, standards and licences”.</p>	

2.3.3 Issue

We tested a sample of 25 inspections of new installations. This sample size was based on our audit methodology that we are required to follow in order to issue an audit opinion. We were unable to obtain the checklists to support 3 of the inspections selected. We were informed by the Audit and Inspection officer that the forms could not be located and retrieved from archive.

We did note, however that for these 3 inspections, SAP recorded that the job had been opened and closed by the Audit and Inspection officer and the inspection had been performed by an Inspection officer.

Although the record in SAP indicates that the Audit and Inspection officer performed the check on the checklist, without supporting documentation to confirm the outcome of the inspections there may be insufficient evidence as to the effectiveness of the inspection process and to support a positive outcome, particularly in the case where there may be a complaint.

2.3.4 Recommendation

A control should be implemented to ensure that all documentation is retained and filed for future reference. This may include checking on a monthly basis that all inspections performed as recorded in the SAP system have supporting documentation that has been retained on file.

2.3.5 Management Actions

AGN will implement a control to improve the process to ensure documentation is retained and filed for future reference. The control would be to check 5% of the closed out inspections of new installations in SAP on a monthly basis and ensure they have the correctly completed and signed checklists. The percentage and frequency of the audits will be adjusted (increase or decreased) depending on the outcomes of the checks.

Responsibility: Audit and Inspection Officer

Due Date: 30 September 2007

2.4 Licensing of Gas Fitters	
2.4.1 GSA Section 13 A Gasfitting operations or activities must be performed by a gas fitter who holds a certificate of competency, permit or authorisation granted under this Act.	Compliance Rating 5
2.4.2 Observations	
<p>Gas fitters are licensed through the Department of Energy Safety. Gas fitters perform work on the customer or supply side, that is, downstream of the AGN's assets. AGN provides an audit service regarding the monitoring of the validity of gas fitters licences and there are steps built into AGN's processes to accommodate the audit of the licences.</p> <p>There is a daily upload of licensed gas fitters from Energy Safety into the SAP system and NMIS system. Any gas fitters who are not included in this upload are automatically recorded as unlicensed.</p> <p>Upon request of gas by the customer, the customer is required to complete a request for gas form that specifies which gas fitter they are going to use and the corresponding gas fitter number.</p> <p>When AGN receives a request from a retailer to install a new connection (i.e. the service pipe and meter), there is an automated check within NMIS of the specified gas fitter's details against its gas fitter database. This check confirms that the selected gas fitter is licensed. If the gas fitter has a current license, the connection request proceeds. If the gas fitter's licence is not current, the request is rejected and the retailer is advised. Where licences are found not to be current, it is normally due to failure of the gas fitter to pay licence fee in a timely manner.</p> <p>A second automated check of the validity of a gas fitter's licence is carried out when the service order is created in SAP for new service to be installed. If the gas fitter is not currently authorised then the service order to install the service can not be created in SAP and the connection will not proceed. Service orders that do not proceed are highlighted in the daily NMIS exception report and the retailer and the AGN inspectors will be advised.</p> <p>Once the connection is completed, the gas fitter must then supply a signed copy of the Notice of Completion (NOC). The NOC represents the gas fitter's declaration that the gas fitting work has taken place, is complete, and complies with all requirements.</p> <p>Receipt by AGN of the NOC, triggers the potential audit of the installation supply work (e.g. if an unlicensed gas fitter has performed the installation). A percentage of NOCs are audited in accordance with the agreement between Energy Safety and AGN.</p> <p>AGN has a process of at least quarterly review of the NOCs within SAP to confirm that system controls have not been inadvertently bypassed.</p>	
2.4.3 Issue	
None identified.	
2.4.4 Recommendation	
N/A	
2.4.5 Management Actions	
N/A	

2.5 Approved Appliances	
2.5.1 GSA Section 13D A person shall not sell or hire any gas appliance or advertise any gas appliance for sale or hire unless the gas appliance has been approved by the Director of Australian Gas Approvals (AGA) and is marked, stamped or labelled in the manner approved by the Director.	Compliance Rating 4
2.5.2 Observations	
<p>AGN advised that the policing of this requirement of the Gas Standards Act 1972 is carried out by the Department of Energy Safety.</p> <p>However, as part of the Inspection Plan described in section 2.3, AGN checks that all installed appliances have been properly approved for use in Western Australia. This is to ensure that the gas fitter installing the appliances is complying with clause 501 of the Gas Standards (Gas fitting and Consumer Gas Installations) Regulations 1999.</p> <p>If AGN becomes aware of the sale or hiring of non-approved appliances, it is AGN's policy to inform Energy Safety so that they can investigate and take action.</p> <p>Approval of gas appliances and meters is evidenced by affixing an appropriated AGA badge.</p> <p>A procedure has been established for the inspection of new connections and installations. The policy is to inspect 5% of new installations and installations where there have been customer complaints. This inspection requires that a 'checklist' be completed including focusing on the following details:</p> <ul style="list-style-type: none"> ■ Only approved appliances have been installed ■ Appliances have been correctly installed, installed in complying locations and commissioned satisfactorily. <p>The inspections are set up as a job within SAP by the Audit and Inspection officer. Once the checklists have been completed by the Inspectors the checklists are submitted to the Audit and Inspection officer who reviews them, closes the job in SAP and files the documentation.</p> <p>A quarterly report is prepared and submitted to Energy Safety stating the number and nature of audits planned and performed.</p>	
2.5.3 Issue	
Refer to Finding as per 2.3.	
2.5.4 Recommendation	
Refer to Finding as per 2.3.	
2.5.5 Management Actions	
<p>AGN will implement a control to improve the process to ensure documentation is retained and filed for future reference. The control would be to check 5% of the closed out inspections of new installations in SAP on a monthly basis and ensure they have the correctly completed and signed checklists. The percentage and frequency of the audits will be adjusted (increase or decreased) depending on the outcomes of the checks.</p> <p><i>Responsibility:</i> Audit and Inspection Officer</p> <p><i>Due Date:</i> 30 September 2007</p>	

2.6 Obligation to Connect		
2.6.1	<p>GDL Clause 8 (1 – 5)</p> <p>This condition requires the licensee to connect the premises to the licensed distribution system. The licensee has an obligation to connect where connections require 20 metres or less of service pipe and where the gas main is located in an area where it is practicable in accordance with good industry practice to connect the relevant premises.</p> <p>The licensee's obligation to connect the premises is subject to:</p> <ul style="list-style-type: none"> ■ Adopting a method of establishing the connection that results in the least connection cost. ■ The licensee bearing the lesser of the least connection cost of establishing the connection and \$650. <p>If the trader requests a method of establishing the connection which would result in a connection cost that exceeds the least connection cost or \$650 then the licensee may decline to undertake the connection unless another person bears the excess amount.</p>	<p>Compliance Rating</p> <p>5</p>
2.6.2 Observation		
<p>A Connection Process handbook (March 2005) has been developed and is available to customers that wish to connect to the gas network. There are two situations that may occur:</p> <ul style="list-style-type: none"> ■ If gas is available outside the property to be connected (i.e. there is no requirement to extend the gas main), the AGN will provide the customer with 20m of service pipe from the property boundary to the meter box, free of charge ■ If gas is not available outside the property, there is no obligation upon AGN to connect. However, AGN does provide a quote for the required extension to the gas network. <p>AGN's systems automate the booking process. The retailer forwards an electronic services request to AGN. This is processed automatically within AGN's systems against defined business rules. If the service request passes the business rules, an AGN service order is created automatically to authorise connection. The retailer is automatically advised of the creations of the service order.</p> <p>If the service request does not pass the business rules, it is moved to an exception report. The retailer is advised that the service request has failed the business rules. Exceptions to business rules are not processed into service orders within SAP until resolved. The following exceptions may occur:</p> <ul style="list-style-type: none"> ■ No line of mains (LOM) found – i.e. there is no main gas line in the area for which gas connection was requested. In this case, there is no obligation to connect. ■ Meter set decision required – A meter set does not form part of the 'standard residential delivery facilities' as defined in the licence. In this case, there is no obligation to connect. ■ Multiple addresses found - the address in the application may have multiple unit numbers. ■ Gas fitter is not valid 		

The Customer Relations Coordinator indicated that it is normal practice to review the previous days open exceptions.

AGN does not charge for connections to residential premises provided there is a line of mains and that service is not greater than 20 metres.

Where an overlength service is required (if the amount of service pipe required to connect the premise is more than 20 metres) this is not identified until the connection is undertaken. In this instance, the contractor undertakes the connection and leaves details at the property for the customer. The excess cost of connection is billed to the retailer for on billing to the customer.

There is an automated control within NMIS following the input of an application to connect. An exception report is generated to identify exceptions to the business rules that are applied through the automated control that is reviewed daily.

2.6.3 Issue

None identified

2.6.4 Recommendation

N/A

2.6.5 Management Actions

N/A

2.7 Service Standards	
2.7.1 GDL Clause 10 (1) The licensee must use its best endeavours to maintain a level of customer service at least consistent with the customer service code, except where the Coordinator permits otherwise.	Compliance Rating 5
2.7.2 Observation	
Customer surveys are conducted on a weekly basis for new and existing customers to determine satisfaction with AGN’s service in relation to new installations and maintenance requests.	
A Complaints Handling procedure is in place “to ensure that customers’ complaints are dealt with in an effective and courteous manner, and that an expeditious and satisfactory outcome is achieved, while fulfilling AGN’s obligations in accordance with the relevant codes, standards and licences”. It is noted that the complaints handling procedure achieved accreditation in 2006 in accordance with AS ISO 10002, thus representing best practice.	
AGN has introduced four Guaranteed Service Levels (GSL) as part of the revised Access Arrangement. The following items were identified as relevant for GSL payments (payments made where service levels are not met):	
<ul style="list-style-type: none"> ■ Organising appointments where there is a loss of supply or a gas leak; ■ Seeking connection at an established home; ■ Repeat interruptions to the supply of gas to the same Delivery Point; and ■ Lengthy interruptions to the supply of Gas to the Delivery Point. 	
AGN has established key performance monitoring procedures for each GSL and this is included in monthly operational reporting.	
2.7.3 Issue	
None identified.	
2.7.4 Recommendation	
N/A	
2.7.5 Management Actions	
N/A	

2.8 Future Development of the Licensed Distribution System	
<p>2.8.1 GDL Clause 14 (1) The licensee must use reasonable endeavours to continue to plan for future expansion and to seek opportunities to expand the coverage of the licensed distribution system.</p>	<p>Compliance Rating 5</p>
2.8.2 Observation	
<p>Annually, independent research is undertaken by an external consultant of the likely growth in customer connections and quantum of mains which may be required to support growth in the distribution networks. Reference is also made to the WA Planning Commission and other industry bodies involved in land development to identify areas of major growth, which is a key input to decisions on system reinforcement requirements and the development of the annual high pressure and medium pressure development plans carried out annually over 5 year rolling periods. To support Access Arrangement submissions, extensive forward planning is also undertaken to identify financial commitments for growth capital works.</p> <p>Although there are currently no formal strategies for expansion, the network has expanded mainly driven by demand. In some cases the demand cannot be met due to the high costs of expanding the network into these areas. In the current strong economic climate within WA this approach is considered reasonable.</p> <p>There is however a forecasting process to estimate, through the use of historical data and economic growth forecasts, the number of kilometres of new pipeline to be installed and the number of customers to be connected. In recent years actual extension of the network has been higher than budget as a result of the strong growth in housing development.</p> <p>A brochure “Gas the natural energy choice” has been developed to promote the benefits of gas. These brochures are provided to the marketing industry, plumbing and gas industry which are the main channels for new gas connections.</p> <p>There is a process for the market development division to liaise with government departments (E.g. Department for Planning and Infrastructure). These result in discussion relating to areas that AGN can support the provision of gas. There is also a process for dialogue with the residential land development industry.</p> <p>There is a 95% penetration rate which means that 95% of new houses and developments are connected and supplied with gas.</p>	
2.8.3 Issue	
None identified.	
2.8.4 Recommendation	
N/A	
2.8.5 Management Actions	
N/A	

2.9 Financial & Technical Resources	
<p>2.9.1 GDL Clause 15 (1 – 4)</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>
2.9.2 Observations	
<p>Financial Resources</p> <p>Procedures exist for the preparation and submission of budgets, forecasts and actual financial performance for Alinta Gas Networks. Financial reports are prepared and submitted to the Financial Controller for review and subsequent presentation to the Management Committee and relevant Board.</p> <p>SAP is the system supporting the financial process and is the source of monthly reports encompassing:</p> <ul style="list-style-type: none"> ■ Monthly Operations Report ■ Financial Report ■ Monthly Regulation Report <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, evidence of technical certification is retained and an annual performance review is completed. There are two Performance Review forms in place each of which is consistent with the employment instruments in use within the business.

The Gas Networks business utilises subcontractors for the performance of certain technical activities, such as trench development, mains and service contractors and projects. Subcontractors are required to complete an application form and provide proof of relevant certificates and licences, such as:

- Mechanical inspection certificates
- Load test certificates
- Electrical insulation test certificates
- Plant operation licences and experience
- First aid certificates
- Traffic management certificates
- Other training and related skill qualifications.

Each approved subcontractor is assigned a vendor number and included in a control sheet to monitor the expiry date of contracts, insurance policies and evaluation status of the contractor.

Contractors are evaluated on their performance on a yearly basis. If performance standards are not met the use of the vendor is stopped and no services rendered by or payments made to the contractor.

To ensure consistency of performance of contractors, operational audits are conducted on an ad-hoc basis.

2.9.3 Issue

None identified

2.9.4 Recommendation

N/A

2.9.5 Management Actions

N/A

2.10 Insurance		
2.10.1 GDL Clause 16 (1)	<p>The licensee must, for the duration of the term, have:</p> <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
2.10.2 Observation		
<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 cover 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. 		
2.10.3 Issue		
None identified.		
2.10.4 Recommendation		
N/A		
2.10.5 Management Actions		
N/A		

Appendix 1: 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 of internal controls to maintain compliance.
Compliant	3	Compliant with major or material recommendations to improve the strength of internal controls to maintain compliance.
Non-Compliant	2	Does not meet minimum requirements.
Significantly Non-Compliant	1	Significant weaknesses and/or serious action required.

Appendix 2: Audit Programme Amendments

We submitted our Audit Program developed during the planning for this audit that was approved by the Economic Regulation Authority on 21 February 2007. During the course of our audit it was necessary to make the following amendment as detailed below:

Original Work Step	Changes	Reason
<p><u>Obligation to Connect, Cl. 8 Sch 1.2 &3 (Connection)</u></p> <p>Test Step:</p> <ol style="list-style-type: none"> 1. Obtain a list of all connections from 1 Feb 05 to 31 Jan 07. Select a sample and obtain the relevant connection documentation. 2. Inspect for evidence of a methodology for recording the connection cost. 3. Inspect for evidence of documentation/ checklist which gas fitters have to complete after each connection to ensure the following: <ol style="list-style-type: none"> a. costs in excess of \$650 may be billed to Alinta trading b. connection is within 20 metres or less of service pipe c. connection is comprised of a standard residential delivery facility d. connection is limited to the medium pressure/ low pressure part of the licensed distribution system e. decision if the licence requires the trader to procure the agreement of the owner of any land through which the services pipe is to pass and on which the delivery facilities will be installed f. decision if the licensee requires the trader (may need to meet the licensee's minimum prudential requirements and credit standards) to enter into a gas transportation contract with the licensee. 4. Inspect for evidence of review of the corresponding reinstatement audit 5. Inspect the connection documentation to examine that the connection is between the premises and the licensed distribution system. 	<ol style="list-style-type: none"> 1. Select a sample of exception reports identifying applications for connections that have not been processed as service orders. 2. Confirm the daily review of the exception report. 3. Select a sample of exception reports and confirm that the reasons for non-connection did not breach license conditions. 4. Walk through the billing process within SAP to confirm that no charges have been raised as per AGN's policy to not charge for connections where there is an obligation to connect. 	<p>The audit approach was amended due to:</p> <ol style="list-style-type: none"> 1. AGN do not charge for any "obligation to connect" connections and therefore there is no "costs in excess of \$650" charged to retailers (Alinta trading). Note: "obligation to connect" connections are those connections to residential premises where there is a line of mains and the service is not greater than 20 metres. 2. The connection service order creation process is automated with no manual intervention. Only those Service Requests by the Retailer which do not meet the defined business rules are not automatically connected. These are included on an Exception Report. The Exception Report was therefore identified as the most relevant population of items that may not comply with the Obligation to Connect requirements. 3. The control that exists within the process is review of the exception report to review and resolve applications not processed within the system. Therefore this was the control that was tested.

Original Work Step	Changes	Reason
6. Inspect for evidence of review of exceptions (i.e. new gas connection applications which are not approved) 7. Inspect for evidence of review of billing price list of installations by management		

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 Distribution Licence

List of AGN Documents
Notifiable Incident Report 2005 & 2006
Alinta Gas Networks Medium Pressure Gas Distribution Network Development Plan 2007 to 2011
Alinta High Pressure Gas Distribution Network Development Plan 2007 – 2011
Strategy Network Planning ANS-S-04002, Revision 1, 20/7/04
Notifiable Incident Process, 28 April 2006
Emergency Response Documents
Asset Maintenance Plan 2005 & 2006
Spreadsheet Tracker 2005 & 2006
Incident Records Log 2005 & 2006
Daily Report of Gas Quality (for samples selected)
Odourant Quality Reports (for samples selected)
Gas Quality Monitoring Program, Rev 1 14/9/2000
Networks Procedure – Curtailment DD-P-22161, Rev 2, 21/8/01
Inspection Services Class G Installations Audit Check Lists & Reinspection Running Sheet (for samples selected)
Alinta Gas Energy Savings Inspectors List
Connection Process Handbook 2005
Access Arrangement For the Mid-West And South-West Gas Distribution Systems, 10/8/05
Tariff Masterfile User Access Listing
Daily Exception Reports for new connections (for samples selected)
Analysis of New Line of Main Customers in Established Homes
Analysis of Fault Courtesy Calls for Network Maintenance

List of AGN Documents
Customer New Connection Courtesy Log
Alinta Gas Networks Pty Ltd Complaints Handling Process, AGN-PR-19001. Revision 4
Internal Customer Satisfaction Surveys 2005 and 2006
Brochure “Gas the Natural Energy Choice”
WA Alliance Key Performance Indicators, December 2006
Contractual and Operational KPI’s 2006
Alinta Recruitment and Selection Process
Technical Certification, Annual Performance Reviews, Training Certificates (for selected samples only)
Gas Field Employees (Transmission & Distribution) Training Plan

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	45
Michelle Heng	Engagement Team Member	103

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 Heng, an Advisor, supported Lynn in the testing and reporting phases and was responsible for documenting test results and audit evidence. Michelle has experience in performing a number of Internal Audit engagements, including Rio Tinto, Main Roads and Synergy.