



Western Power

Electricity Distribution Licence (EDL1)
Performance Audit Report

November 2008



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5 November 2008

Mr Peter Mattner
Manager Regulation, Pricing and Access Development
Western Power Networks
363 Wellington Street
PERTH WA 6000

Dear Mr Mattner

Western Power - Electricity Licence Audit Report on the Effectiveness of Control Procedures

We are pleased to provide you with the final report on the Effectiveness of Control Procedures in relation to the Electricity Distribution Licence. Our report describes the objectives, scope of work performed, approach, and improvement opportunities.

If you have any questions regarding our report or the work that it describes, please do not hesitate to contact myself on 9217 1298.

Yours sincerely

Robert Kirkby
Partner

Attachment

Copy to: Neil Gibbney, Regulation, Pricing & Access Development Engineer
Margaret Pырchla, Manager Compliance

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Our report may be relied upon by Western Power Networks for the purpose set out in Section 1.3 (refer to “Objective” section) of this report only pursuant to the terms of our proposal dated 14 December 2007. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.

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1. Executive Summary

1.1 Background

Under section 13 of the Electricity Industry Act 2004 (WA), it is a requirement that every licensee provide the Economic Regulation Authority (ERA), not less than once in every 24 month period, with a Audit Report on the Effectiveness of Control Procedures conducted by an independent expert acceptable to the ERA.

This is the first Audit Report on the Effectiveness of Control Procedures of Western Power's (WP) compliance with obligations in relation to the Electricity Distribution Licence (EDL1), since its issue in March 2006. Therefore, this engagement did not involve reviewing actions taken in response to recommendations from previous audits.

1.2 Business Processes and Systems

The areas that have been considered in this audit encompassed:

- ▶ Transfer Process;
- ▶ Metering;
- ▶ Supply Quality and Reliability; and
- ▶ Customer Service.

Management advised that during the audit period, there has been one significant change to the electricity business processes and systems, notably the implementation of the Metering Business System (MBS) in November 2006. It serves as a single database of metering information and facilitates WP's provision and management of metering services to all participants in the electricity market. MBS is the metering registry system used by WP to maintain its metering database and to manage requests from retailers in accordance with the Electricity Industry Customer Transfer Code 2004 and Electricity Industry Metering Code 2005. In addition, MBS has National Metering Identifiers (NMIs) attached to all connection point records and will be the primary database search key for processing purposes.

The key systems supporting the compliance process for the areas audited are:

- ▶ MBS. The key processes supported by MBS in relation to licence conditions include customer transfers, metering and customer service.
- ▶ Electricity Network Management and Control (ENMAC). The key processes supported by ENMAC in relation to licence conditions include plans of the high voltage electricity network management and control, records of all planned and unplanned distribution outages, description of the steps required to resolve the outage and time log when each step was completed.

1.3 Summary of Issues and Recommendations

Licence Condition Ref. (ERA Compliance Manual 2007 Ref. No.)	Issue	Recommendation	Post-Audit Action Plan
4.1	The licence was renewed on 30 March 2007 and the fee was paid on 23 May 2007. The licence fee was therefore not paid within the required timeframe in 2007.	WP should introduce an automatic reminder to notify that the obligated annual fee payment is to be made within one month from the licence grant/renewal date.	Invoices for the licence fees were not addressed to the responsible person and were consequently paid late. WP will consequently request the ERA to address the relevant invoices to Peter Mattner in future. In addition, WP have implemented an automatic reminder in the corporate email and calendar system (Notes) to check if an invoice has been sent.
5.1 (1, 2)	<p>Customer Transfer Process An attendance record or training register is not maintained for induction training conducted for account managers and client facing staff.</p> <p>We were therefore unable to verify that these personnel have completed the required induction programme.</p>	WP should introduce and maintain a training register in relation to induction training attended and completed by account managers, particularly with regards to treating retailers on an arms-length basis.	The Customer Transfer Code training has been added to the induction checklist for new staff. Will compile a list of names of those current staff which have attended the induction training and maintain a register henceforth.
5.1 (314)	<p>Supply Quality and Reliability</p> <p>Through discussion, we understand that customers do not always submit their application in writing to WP to claim the entitled \$20 compensation. Customers may make the claim by calling the responsible person at WP.</p>	<p>WP should develop formal application forms for customers that are eligible for compensation claims.</p> <p>Payments should not be processed without the forms being completed and approved by relevant authorised personnel.</p>	Western Power will reevaluate the current practice of compensation payments with the view of creating an application form, and possibly an IT- based solution, including a final sign off by an appropriate authorised person before the payment is made.
5.1 (346, 347)	<p>We obtained confirmation from the ERA that WP submitted their 2006 and 2007 performance reports on 28 September 2006 and 24 September 2007 respectively. Both reports were published on 30 September of the relevant year, meeting the publication timeframe. The 2006 performance report was not submitted within the specified 7 calendar days before publication.</p> <p>WP submitted their 2006 audit report late on 13 April 2007. The 2007 audit report was submitted on 24 September 2007 which met the required deadline.</p>	WP should introduce a formal process to ensure that the performance reports and audit reports are submitted in a timely manner.	A senior WP resource is now formally dedicated to the timely completion of the required performance and audit reports under the Network Quality and Reliability of Supply Code. Processes and systems have undergone significant development since the introduction of these reporting requirements and future reports are expected to be robust and on time.

Licence Condition Ref. (ERA Compliance Manual 2007 Ref. No.)	Issue	Recommendation	Post-Audit Action Plan
5.1 (337, 338)	<p>WP does not comply with the obligation to provide written notice requirement because it is considered by WP to be practical to contact each customer to notify them of their eligibility for compensation.</p> <p>This information is provided in WP's customer service charter which is published on their website and available to customers.</p> <p>The Manager Compliance advised that WP plans to discuss this matter with the Manager Customer Services and ERA to review the requirements of this obligation, where it will be reported to the FRC.</p>	<p>WP should develop processes and procedures to meet their statutory requirements.</p>	<p>As a result of consultations with the ERA and WACOS, an interim plan for ensuring compliance in the short-term has been developed. WP will provide the required information to its customers via the Synergy newsletter in April 2009. This process will be repeated until the full implementation of WP's IT system, which is expected in 2011.</p>
5.1 ERA Compliance Reporting Manual 2008 Reference (394)	<p>The WP disaster recovery plan states that the system will be reinstated within five business days.</p>	<p>In accordance with the licence obligation, WP should develop and implement changes in the Disaster Recovery Plan that would enable its metering database and energy data to be restored within two business days.</p>	<p>A project has been established to implement disaster recovery capability for the metering database and energy data within two business days. The target completion date for this project is December 2008.</p>
5.1 (378)	<p>WP's meters record energy usage in 15 minute intervals and this data is collated within Western Power into 30 minute trading intervals for reporting to the IMO. Clause 3.16(3) of the Electricity Industry Metering Code 2005 requires agreement between the network operator and Code participants in these instances. No such agreement presently exists.</p>	<p>WP should obtain approval from current Code participants and build the agreement into the standard service level agreements to ensure ongoing compliance.</p>	<p>WP will take appropriate action to ensure that full compliance is achieved.</p>

Licence Condition Ref. (ERA Compliance Manual 2007 Ref. No.)	Issue	Recommendation	Post-Audit Action Plan
5.1 (437, 436)	<p>Testing is not conducted by Western Power in accordance with the regulations.</p> <p>WP have advised that customer obligations and excessive costs involved to conduct testing regarding supply interruptions outweigh the likelihood of CT and VT accuracy issues.</p>	<p>Western Power should develop a methodology to comply with the licence obligation. In developing the methodology Western Power should consult with the ERA regarding the requirements of the obligations.</p>	<p>Costs to the industry of the existing methodology are much greater than the benefits of testing. A new methodology is required or changes to regulations need to be sought.</p> <p>Western Power will consult the ERA to discuss the best way forward for ensuring compliance.</p>
5.1 ERA Compliance Reporting Manual 2008 Reference (75)	<p>The defined timeframe within which a distributor is obliged to attach or connect premises to a distribution system in relation to this obligation is 20 business days or any later time to which the customer agrees in writing. WP's timeframe to full energisation is within 170 days for subdivisions, as advised by the Connections Manager, Customer Assist (Customer Services Division). This exceeds the 20 business day timeframe specified.</p> <p>A follow-up of breaches reported in WP's 2006/07 Annual Compliance Report was conducted in February 2008, which noted that WP had developed guidelines to advise customers of a likely connection waiting time of approximately 6 months. However these guidelines have not been developed as at the time of our visit in May 2008.</p>	<p>WP should develop processes that allow it to comply with the regulation either by meeting the statutory timeframe or by reaching an agreement with the client for a later timeframe.</p>	<p>New connections to the network are not always made within 20 days, however the 20 day requirement is only applicable to small customers, within 100m of the network who have agreed to pay relevant costs. The time to complete large subdivisions and other significant work means that the 20 day limit is not practically achievable for this type of work. The process to make a connection includes multiple steps which require input from the customer. Western Power's systems do not record the overall time solely attributable to Western Power to make these connections. The actual connection process for a small customer often runs in parallel with construction work on the premise and usually does not delay the final energisation.</p> <p>The connection guidelines referred to have been developed but not published since Western Power is currently reviewing the overall process to complete new connections in conjunction with our Alliance partners. Customers are currently well informed of the process required to connect to the network via our web site, quote documents, application forms and direct correspondence from project managers.</p> <p>The requirement for connection guidelines will be reconsidered when the current work process review is complete.</p>
5.1 ERA Compliance Manual 2008 Ref. No. (223, 224)	<p>Western Power does not have a Priority Restoration Register.</p>	<p>WP should develop a Priority Restoration Register to record the required information as specified by the Minister.</p>	<p>Western Power's existing processes for priority restorations captured in the Sensitive Customer and Life Support Customer procedures documents are compliant with the Code of Conduct for the Supply of Electricity to Small Use Customers 2008 requirements. These processes have a direct link to Enmac and therefore create a natural filtering process. However, we have now created a Priority Restoration Register (DMS#4799902), which is a download from Enmac, that will be updated on a regular basis.</p>

Licence Condition Ref. (ERA Compliance Manual 2007 Ref. No.)	Issue	Recommendation	Post-Audit Action Plan
16.1	<p>The audited accounts for 30 June 2006 and 30 June 2007 were obtained and both reports included a "statement of compliance" in accordance with the AASB.</p> <p>We noted that WP does not have a documented accounting manual that includes references to Australian Accounting Standards or equivalent International Accounting Standards, potentially leading to inconsistent or incorrect accounting standards being applied.</p> <p>WP complies with this licence obligation despite not having an accounting manual because it is not a specific requirement of this obligation.</p>	<p>WP should develop an accounting manual covering all relevant and applicable accounting standards. This will act as a reference resource for the accounting team and guidance for new employees.</p>	<p>Western Power recognises that this is not a breach because the Annual Financial Statements must comply with AIFRS which is confirmed through an external audit.</p> <p>Western Power will investigate the cost versus benefits of the recommendation to develop an accounting manual</p>
20.1	<p>There is no formal process in place to monitor significant changes in the corporate, financial or technical circumstances which may affect WP's ability to meet its licence obligations. The ERA may not be notified within the prescribed timeframe, as required by the licence obligation.</p>	<p>WP should introduce a periodic checklist to confirm that there is no indication of external administration or significant change in its corporate, financial or technical circumstances.</p>	<p>WP has a significant amount of scrutiny on the sustainability of our business. Detailed financial reporting is performed on a monthly basis. The Treasury Management Committee and the Finance and Risk Committee meet regularly. Whenever such a significant event occurs as changes in the corporate, financial or technical circumstances which may affect WP's ability to meet its obligations under its licence, WP staff are required to advise relevant managers/staff. WP will implement an annual reminder to relevant managers of their obligations such that the ERA can be notified immediately.</p>
21.1	<p>WP does not maintain a register recording all requests for information from the ERA.</p>	<p>WP should introduce a register to record all requests for information from the ERA.</p>	<p>While all correspondence with the ERA is recorded, it is not itemised in a register. Strategy & Corporate Affairs PA will introduce and maintain a register of relevant correspondence.</p>
22.1	<p>The ERA did not request WP to publish any information during the audit period however we noted that WP does not maintain a register to record requests in the event such direction is received from the ERA.</p>	<p>WP should introduce a register to record all directions received from the ERA to publish information.</p>	<p>While all correspondence with the ERA is recorded, it is not itemised in a register. Strategy & Corporate Affairs PA will introduce and maintain a register of relevant correspondence.</p>
22.2			
22.3			
23.1	<p>Our testing identified that WP received notices from the ERA during the audit scope period; however there is no register to record these notices.</p>	<p>WP should introduce a register to record all notices received from the ERA.</p>	<p>While all correspondence with the ERA is recorded, it is not itemised in a register. Strategy & Corporate Affairs PA will introduce and maintain a register of relevant correspondence.</p>

1.4 Audit Opinion

In our opinion, except for the process and control weaknesses identified in section 5 of this report, Western Power maintained in all material respects, effective control procedures in relation to the EDL1 for the period 1 April 2006 to 31 March 2008, based on the relevant clauses referred to within the scope section of this report.

1.5 Overall Assessment of Compliance

Western Power partially complies with their licence obligations due to the non-compliances identified in relation to the following:

- ▶ Clause 4: Fees
- ▶ Clause 5: Compliance (including obligations from the 2008 Electricity Compliance Reporting Manual)

We have made recommendations for any process and/or control improvement opportunities identified as an outcome of conducting the audit.

2. Audit Scope

2.1 Objective

The objective of the audit on the effectiveness of control procedures was to enable the auditor to express an opinion whether, in all material respects, control procedures in relation to WP's EDL1 operated effectively as outlined in the scope.

2.2 Scope

The scope of the audit involved the following:

- ▶ Understanding the risks posed by non-compliance with the aim of developing a risk based audit programme to focus on high risk areas, with less concentration on medium and low risk areas.
- ▶ Considering the design and effectiveness of control measures taken by WP to comply with the required standards, outputs, outcomes and reporting as required under the following terms of the EDL 1:
 - ▶ Clause 4: Fees
 - ▶ Clause 5: Compliance
 - ▶ Clause 12: Customer Service Charter
 - ▶ Clause 13: Amending the Customer Service Charter
 - ▶ Clause 14: Approved scheme
 - ▶ Clause 15: Extension and expansion
 - ▶ Clause 16: Accounting records
 - ▶ Clause 18: Performance audit
 - ▶ Clause 19: Asset management system
 - ▶ Clause 20: Reporting
 - ▶ Clause 21: Provision of information
 - ▶ Clause 22: Publishing information
 - ▶ Clause 23: Notices
 - ▶ Clause 25: Trouble call fault management plan

We have completed our procedures with respect to WP's compliance with the EDL1 conditions for the period from 1 April 2006 to 31 March 2008. The planning, field work, reporting and presentation of results to WP's management were executed between February and August 2008.

The Directors of Western Power are responsible for maintaining an effective control structure including control procedures in relation to EDL1. Management's assertion about the effectiveness of these control procedures is detailed within their annual reporting to the Energy Regulation Authority. We have conducted an independent audit on the control procedures in order to express an opinion on them.

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 WP's EDL1 operated effectively.

Our report has been prepared for WP, as the entity responsible for compliance with the EDL1, and the ERA in accordance with section 13 of the Electricity Industry Act 2004 (WA). We disclaim any assumption of responsibility for any reliance on this report to any person other than WP and the ERA, or for any purpose other than that for which it was prepared.

Budget and Resources

Resource	Hours
Robert Kirkby, Partner	30
Saw Lin Ang, Manager	37
Audrea Yong, Senior Advisor	299
Chermaine Tan, Advisor	93
Christopher Shirley, Advisor	48
Total	507

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.

2.3 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 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 review and comment. Approval was obtained from the ERA on 26 May 2008.

We have completed our procedures with respect to WP's compliance with the EDL1 conditions for the period from 1 April 2006 to 31 March 2008. The planning, field work, reporting and presentation of results to WP's management were executed between February and August 2008.

2.4 Licensee's Representatives and Key Documents Examined

Details of the licensee's representatives and key documents examined are attached at Appendix D and C respectively.

3. Response to Previous Audit Recommendations

This is the first audit on the effectiveness of control procedures for Western Power (WP) since the licence was issued in March 2006. Therefore, there are no previous audit recommendations to action.

4. Control Procedures 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 ERA. Please refer to Appendix B for detailed definitions.

Distribution Licence Clause Reference	Distribution Licence Criteria	Likelihood (Likely, Probable, Unlikely)	Consequence (Minor, Moderate, Major)	Inherent Risk (Low, Medium, High)	Adequacy of existing controls (Strong, Moderate Weak)	Compliance Rating (Refer to Appendix B)				
						1	2	3	4	5
4	Fees	Unlikely	Minor	Low	Moderate			✓		
5	Compliance	Likely	Major	High	Moderate			✓		
12	Customer Service Charter	Unlikely	Minor	Low	Strong					✓
13	Amending the Customer Service Charter	Unlikely	Moderate	Medium	Strong					✓
14	Approved Scheme	Unlikely	Minor	Low	Moderate					✓
15	Extension and expansion	Unlikely	Moderate	Medium	Strong					✓
16	Accounting Records	Unlikely	Minor	Low	Strong					✓
18	Performance Audit	Unlikely	Minor	Low	Strong					✓
19	Asset Management System	Unlikely	Minor	Low	Strong					✓
20	Reporting	Unlikely	Moderate	Medium	Moderate					✓
21	Provision of Information	Unlikely	Moderate	Medium	Moderate					✓
22	Publishing Information	Unlikely	Moderate	Medium	Moderate					✓
23	Notices	Likely	Minor	Medium	Moderate					✓
25	Trouble call fault management plan	Unlikely	Major	High	Strong					✓

5. Recommendations & Observations

The table below details the key recommendations and observations resulting from the audit on the effectiveness of control procedures conducted in relation to WP's Electricity Distribution Licence obligations. Please refer to Appendix A for the complete audit program and detailed findings as an outcome of procedures performed, as required by section 7.6 of the Audit Guidelines: Electricity, Gas and Water Licences.

Distribution Licence Clause (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
4.1	The licensee must pay the applicable fees in accordance with the Regulations.	<p>WP is obliged to pay an annual licence fee within one month from the date of grant of the licence.</p> <p>Testing identified that the licence was renewed on 30 March 2007 and the fee was paid on 23 May 2007. The licence fee was therefore not paid within the required timeframe in 2007.</p>	WP should introduce an automatic reminder to notify that the obligated annual fee payment is to be made within one month from the licence grant/renewal date.	<p>Invoices for the licence fees were not addressed to the responsible person and were consequently paid late. WP will consequently request the ERA to address the relevant invoices to Peter Mattner in future. In addition, WP have implemented an automatic reminder in the corporate email and calendar system (Notes) to check if an invoice has been sent.</p> <p><i>Responsible Person: Peter Mattner - delegated to Neil Gibbney, Regulation, Pricing and Access Development Engineer</i></p> <p><i>Timing: Completed</i></p>

Distribution Licence Clause (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
5.1 (1, 2)	<p>Transfer Process</p> <p>A network operator must treat all retailers which are its associates on an arms-length basis.</p> <p>A network operator must ensure that no retailer which is its associate receives a benefit in respect of the Electricity Industry Customer Transfer Code unless the benefit is either attributable to the arms-length application of the Electricity Industry Customer Transfer Code or the benefit is made available to all other retailers.</p>	<p>We are advised that through an induction programme, account managers and client facing staff are trained or coached to treat all retailers on an arms length basis.</p> <p>An attendance record or training register is not maintained for induction training conducted for account managers and client facing staff.</p> <p>We were therefore unable to verify that these personnel have completed the required induction programme.</p>	<p>WP should introduce and maintain a training register in relation to induction training attended and completed by account managers, particularly with regards to treating retailers on an arms-length basis.</p>	<p>The Customer Transfer Code training has been added to the induction checklist for new staff. Will compile a list of names of those current staff which have attended the induction training and maintain a register henceforth.</p> <p>Responsible Person: Mike Lu - delegated to Peter Howe, Major Customer Manager, Customer Solutions Branch</p> <p>Timing: Completed</p>
5.1 (394)	<p>Metering</p> <p>A network operator must prepare, and if applicable must implement a disaster recovery plan to ensure that it is able, within 2 business days after the day of any disaster, to:</p> <p>a. Rebuild the metering database; and b. Provide energy data to the Code participants after the disaster (including energy data for any days during which the network operator was affected by the disaster).</p>	<p>The WP disaster recovery plan states that the system will be reinstated within five business days.</p> <p>Refer to Appendix A for further detail regarding the issue and findings.</p>	<p>In accordance with the licence obligation, WP should develop and implement changes in the Disaster Recovery Plan that would enable its metering database and energy data to be restored within two business days.</p> <p>Refer to Appendix A for further detail regarding the issue and findings.</p>	<p>A project has been established to implement disaster recovery capability for the metering database and energy data within two business days. The target completion date for this project is December 2008.</p> <p>Responsible Person: Leigh Sprlyan - delegated to Chris Doig, Infrastructure Service Delivery Manager, IT Branch</p> <p>Timing: 31 December 2008</p>

Distribution Licence Clause (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
5.1 (437, 436)	<p>A test or audit is to be conducted in accordance with the metrology procedure and the applicable service level agreement.</p> <p>A network operator must comply with any reasonable request by a Code participant to undertake either a test or an audit of the accuracy of the metering installation or the energy or standing data of the metering installation.</p>	<p>A follow-up of breaches reported in WP's 2006/07 Annual Compliance Report was conducted in February 2008, which noted that non-compliance with these obligations remain an unresolved industry-wide problem in Western Australia and across the NEM jurisdictions.</p> <p>The customer obligations and excessive costs involved to conduct testing regarding supply interruptions outweigh the likelihood of CT and VT accuracy issues. WP will continue to develop suitable programs and processes for implementation during 2009/10. Costs to the industry of the existing methodology are much greater than the benefits of testing. A new methodology would need to be developed or changes to regulations would need to be sought. Manager Compliance advised that WP plans to consult the ERA regarding this issue.</p>	<p>Western Power should develop a methodology to comply with the licence obligation. In developing the methodology Western Power should consult with the ERA regarding the requirements of the obligations.</p>	<p>Costs to the industry of the existing methodology are much greater than the benefits of testing. A new methodology is required or changes to regulations need to be sought.</p> <p>Western Power will consult the ERA to discuss the best way forward for ensuring compliance.</p> <p>Responsible Person: Colin Walker, Administrator Data Manager, Metering Services</p> <p>Timing: 31 December 2009</p>

Distribution Licence Clause (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
5.1 (337, 338)	<p>A distributor operating a relevant distribution system must provide written notice to customers about payments for failure to meet the requirements in sections 18 and 19 of the Electricity Industry (Network Quality and Reliability of Supply) Code 2005.</p> <p>A distributor operating a relevant distribution system must provide written notice to eligible customers about payments for failure to meet the requirements in sections 18 and 19 of the Electricity Industry (Network Quality and Reliability of Supply) Code 2005 not less than once in each financial year.</p>	<p>WP does not comply with the obligation to provide written notice requirement because it is considered by WP to be practical to contact each customer to notify them of their eligibility for compensation.</p> <p>This information is provided in WP's customer service charter which is published on their website and available to customers.</p> <p>The Manager Compliance advised that WP plans to discuss this matter with the Manager Customer Services and ERA to review the requirements of this obligation, where it will be reported to the FRC.</p>	<p>WP should develop processes and procedures to meet their statutory requirements.</p>	<p>As a result of consultations with the ERA and WACOS, an interim plan for ensuring compliance in the short-term has been developed. WP will provide the required information to its customers via the Synergy newsletter in April 2009. This process will be repeated until the full implementation of WP's IT system, which is expected in 2011..</p> <p>Responsible Person: Gino Giudice, Manager Customer Assist</p> <p>Timing: 30 April 2009</p>
5.1 (314)	<p>If a corporation fails to give an eligible customer notice of a planned interruption within the specified timeframes, the corporation must, within 30 days after the application is made, pay the sum of \$20 in respect of the failure to the customer.</p>	<p>Through discussion, we understand that customers do not always submit their application in writing to WP to claim the entitled \$20 compensation. Customers may make the claim by calling the responsible person at WP.</p> <p>We were informed that WP will conduct an investigation to determine the eligibility of the customer before making the payment based on the phone requests.</p>	<p>WP should develop formal application forms for customers that are eligible for compensation claims.</p> <p>Payments should not be processed without the forms being completed and approved by relevant authorised personnel.</p>	<p>Western Power will reevaluate the current practice of compensation payments with the view of creating an IT based solution. The IT process will include a final sign off by an appropriate authorised person before the payment is made.</p> <p>Responsible Person: Gino Giudice, Manager Customer Assist</p> <p>Timing: 30 June 2009</p>

Distribution Licence Clause (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
5.1 (346, 347)	<p>A distributor or transmitter must prepare and publish a report about its performance in accordance with specified requirements.</p> <p>A distributor or transmitter must give a copy of its report about its performance to the Minister and the Authority within the specified period.</p>	<p>The Network Quality and Reliability of Supply Code requires WP to prepare and publish on its website a performance report and an audit report prepared in accordance with section 27 of the Code by 1 October annually. The licensee is required to provide the reports to the Authority and the Minister at least 7 calendar days before it is published.</p> <p>We obtained confirmation from the ERA that WP submitted their 2006 and 2007 performance reports on 28 September 2006 and 24 September 2007 respectively. Both reports were published on 30 September of the relevant year, meeting the publication timeframe. The 2006 performance report was not submitted within the specified 7 calendar days before publication.</p> <p>WP submitted their 2006 audit report late on 13 April 2007. The 2007 audit report was submitted on 24 September 2007 which met the deadline.</p>	<p>WP should introduce a formal process to ensure that the performance reports and audit reports are submitted in a timely manner.</p>	<p>A senior WP resource is now formally dedicated to the timely completion of the required performance and audit reports under the Network Quality and Reliability of Supply Code. Processes and systems have undergone significant development since the introduction of these reporting requirements and future reports are expected to be robust and on time.</p> <p>Responsible Person: Sydney McDowell, Manager Network Performance</p> <p>Timing: Completed</p>

Distribution Licence Clause (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
<p>5.1</p> <p>ERA Compliance Reporting Manual 2008 Reference (75)</p>	<p>A distributor that is obliged to attach or connect premises to the distribution system under regulation 4 of the Electricity Industry (Obligation to Connect) Regulations must do so within a defined timeframe.</p>	<p>The defined timeframe within which a distributor is obliged to attach or connect premises to a distribution system in relation to this obligation is 20 business days or any later time to which the customer agrees in writing. WP's timeframe to full energisation is within 170 days for subdivisions, as advised by the Connections Manager, Customer Assist (Customer Services Division). This exceeds the 20 business day timeframe specified.</p> <p>A follow-up of breaches reported in WP's 2006/07 Annual Compliance Report was conducted in February 2008, which noted that WP had developed guidelines to advise customers of a likely connection waiting time of approximately 6 months. However these guidelines have not been developed as at the time of our visit in May 2008.</p>	<p>WP should develop processes that allow it to comply with the regulation either by meeting the statutory timeframe or by reaching an agreement with the client for a later timeframe.</p>	<p>New connections to the network are not always made within 20 days, however the 20 day requirement is only applicable to small customers, within 100m of the network who have agreed to pay relevant costs. The time to complete large subdivisions and other significant work means that the 20 day limit is not practically achievable for this type of work. The process to make a connection includes multiple steps which require input from the customer. Western Power's systems do not record the overall time solely attributable to Western Power to make these connections. The actual connection process for a small customer often runs in parallel with construction work on the premise and usually does not delay the final energisation.</p> <p>The connection guidelines referred to have been developed but not published since Western Power is currently reviewing the overall process to complete new connections in conjunction with our Alliance partners. Customers are currently well informed of the process required to connect to the network via our web site, quote documents, application forms and direct correspondence from project managers.</p> <p>The requirement for connection guidelines will be reconsidered when the current work process review is complete.</p>

Distribution Licence Clause (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
				<p>WP will consult with the ERA to determine a practical and achievable outcome in order to meet the requirements of this obligation.</p> <p>Responsible Person: Andre Winato, Group Manager Distribution Delivery</p> <p>Timing: 31 December 2008</p>
<p>5.1 ERA Compliance Reporting Manual 2008 Reference (223, 224)</p>	<p>A distributor must create and maintain a Priority Restoration Register.</p> <p>The Priority Restoration Register must comply with any criteria determined by the Minister.</p>	<p>This obligation came into effect in January 2008. WP has developed a Sensitive Customer Area document which outlines the process for prioritising restoration of power supply to customers. A responsible person has been assigned to manage and maintain the Priority Restoration Register, however the register has not been formally developed as at the time of our visit.</p>	<p>WP should develop a Priority Restoration Register to record the required information as specified by the Minister.</p>	<p>Western Power's existing processes for priority restorations captured in the Sensitive Customer and Life Support Customer procedures documents comply with the Code of Conduct for the Supply of Electricity to Small Use Customers 2008. These processes have a direct link to Enmac and therefore create a natural filtering process. However we have now created a Priority Restoration Register (DMS#4799902), which is a download from Enmac, that will be updated on a regular basis.</p> <p>Responsible Person: Shane Duryea, Manager Network Operations Control Centre</p> <p>Timing: Completed</p>

Distribution Licence Clause (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
5.1 (378)	If a device is used as a data logger, the energy data for a metering point on the network must be collated in trading intervals within the metering installation unless it has been agreed between the network operator and the Code participant that energy data may be recorded in sub-multiples of a trading interval.	WP's meters record energy usage in 15 minute intervals and this data is collated within Western Power into 30 minute trading intervals for reporting to the IMO. No agreement presently exists between WP and Code participants agreeing to the 15 minute energy data collection at the meter.	WP should obtain approval from current Code participants and build the agreement into the standard service level agreements to ensure ongoing compliance.	WP will take appropriate action to ensure that full compliance is achieved. Responsible Person: Gino Giudice Timing: 31 March 2009
16.1	The licensee and any related body corporate must maintain accounting records that comply with the Australian Accounting Standards Board or equivalent International Accounting Standards.	<p>The audited accounts for 30 June 2006 and 30 June 2007 were obtained and both reports included a "statement of compliance" in accordance with the AASB.</p> <p>We noted that WP does not have a documented accounting manual that includes references to Australian Accounting Standards or equivalent International Accounting Standards, potentially leading to inconsistent or incorrect accounting standards being applied.</p> <p>WP complies with this licence obligation despite not having an accounting manual because it is not a specific requirement of this obligation.</p>	WP should develop an accounting manual covering all relevant and applicable accounting standards. This will act as a reference resource for the accounting team and guidance for new employees.	<p>Western Power recognises that this is not a breach because the Annual Financial Statements must comply with AIFRS which is confirmed through an external audit.</p> <p>Western Power will investigate the cost versus benefits of the recommendation to develop an accounting manual</p> <p>Responsible Person: Gavin Hobbs, Manager Corporate Accounting and Taxation</p> <p>Timing: 31 December 2008</p>

Distribution Licence Clause (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
20.1	<p>The licensee must report to the Authority:</p> <p>if the licensee is under external administration as defined by the Corporations Act 2001 (Commonwealth) within 2 business days; or</p> <p>if the licensee experiences a significant change in the licensee's corporate, financial or technical circumstances upon which this licence was granted which may affect the licensee's ability to meet its obligations under this licence within 10 business days of the change occurring.</p>	<p>There is no formal process in place to monitor significant changes in the corporate, financial or technical circumstances which may affect WP's ability to meet its licence obligations.</p> <p>There is risk that problems may not be identified in a timely manner and consequently, the ERA may not be notified within the prescribed timeframe, as required by the licence obligation. We understand that WP is planning to introduce a periodic checklist with regards to the above.</p>	<p>WP should introduce a periodic checklist to confirm that there is no indication of external administration or significant change in its corporate, financial or technical circumstances.</p>	<p>WP has a significant amount of scrutiny on the sustainability of its business. Detailed financial reporting is performed monthly and the Treasury Management Committee and Finance and Risk Committee meet regularly. When a significant event occurs such as changes in the corporate, financial or technical circumstances which may affect WP's ability to meet obligations under its licence, WP staff are required to advise relevant managers/ staff. WP will implement an annual reminder to relevant managers of their obligations so that the ERA can be notified immediately.</p> <p>Responsible Person: Peter Mattner, Manager Regulation, Pricing and Access Development</p> <p>Timing: 31 December 2008</p>
21.1	<p>The licensee must provide to the Authority any information that the Authority may require in connection with its functions under the Act in the time, manner and form specified by the Authority.</p>	<p>During the audit period, WP received four requests for information from the ERA; however these requests were not recorded in a register.</p>	<p>WP should introduce a register to record all requests for information from the ERA.</p>	<p>While all correspondence with the ERA is recorded, it is not itemised in a register. Strategy & Corporate Affairs PA will introduce and maintain a register of relevant correspondence.</p> <p>Responsible Person: Peter Mattner, Manager Regulation, Pricing and Access Development</p> <p>Timing: Completed</p>

Distribution Licence Clause (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
22.1 22.2 22.3	<p>The Authority may direct the licensee to publish any information within a specified timeframe it considers relevant in connection with the licensee or the performance by the licensee of its obligations under this licence.</p> <p>Subject to clause 22.3, the licensee must publish the information referred to in clause 22.1 If the licensee considers that the information is confidential it must:</p> <p>a. immediately notify the Authority; and</p> <p>b. seek a review of the Authority's decision in accordance with clause 24.1</p>	<p>During the audit period, we understand that the ERA did not request WP to publish any information; however we noted that there is no register to record requests in the event such direction is received from the ERA.</p>	<p>WP should introduce a register to record all directions received from the ERA to publish information.</p>	<p>While all correspondence with the ERA is recorded, it is not itemised in a register. Strategy & Corporate Affairs PA will introduce and maintain a register of relevant correspondence.</p> <p>Responsible Person: Peter Mattner, Manager Regulation, Pricing and Access Development</p> <p>Timing: Completed</p>
23.1	<p>Unless otherwise specified, all notices must be in writing.</p>	<p>Our testing identified that WP received notices from the ERA during the audit scope period; however there is no register to record these notices.</p>	<p>WP should introduce a register to record all notices received from the ERA.</p>	<p>While all correspondence with the ERA is recorded, it is not itemised in a register. Strategy & Corporate Affairs PA will introduce and maintain a register of relevant correspondence.</p> <p>Responsible Person: Peter Mattner, Manager Regulation, Pricing and Access Development</p> <p>Timing: Completed</p>

Please refer to Appendix A for a description of the detailed findings as a result of procedures performed.

6. Changes to the Licence

The existing licence conditions appear to adequately address the risks identified in the compliance summary and therefore we do not have recommendations to change WP's electricity distribution licence conditions.

7. Audit Opinion

In our opinion, except for the process and control weaknesses identified in section 5 of this report, Western Power maintained in all material respects, effective control procedures in relation to the EDL1 for the period 1 April 2006 to 31 March 2008, based on the relevant clauses referred to within the scope section of this report.

This review is an accurate presentation of our findings and opinion.

Ernst & Young

Robert Kirkby
Partner

5 November 2008

Date

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Appendix A Audit Program, Risk Assessment and Detail

Appendix B Compliance Rating Scale

The overall compliance rating applied to each licence condition is derived using the 5-point rating scale described in Table 1, based on the ERA Audit Guidelines.

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 C 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 - Electricity Industry Act 2004
WA Legislation - Audit Guidelines: Electricity, Gas and Water Licences
WA Legislation - Electricity Industry (Network Quality and Reliability of Supply) Code 2005
WA Legislation - Electricity Industry Customer Transfer Code 2004
WA Legislation - Electricity Industry Metering Code 2005
WA Legislation - Electricity Networks Access Code 2004
WA Legislation - Code of Conduct for the Supply of Electricity to Small Use Customers 2004

List of Western Power Documents

2006 and 2007 Annual Report
2006 and 2007 Financial Report
2006 and 2007 Financial Review
2006/07 Annual Compliance Report
2006/07 Annual Performance Report Electricity Distributions
Code of Conduct Policy
Communication Rules (covers Electricity Industry Metering and Customer Transfer Codes)
Compliance Failure Reporting Policy
Conflict of Interest Policy
Customer Charter
Disaster Recovery Plan
Disaster Recovery Plan testing report
Energy Ombudsman Annual Report 2007
Extension and Expansion Policy
Inspection System Plan and Policy Statement
Integrity and Ethics Policy
Legislative and Regulatory Breach Register
Legislative and Regulatory Compliance Policy
Legislative and Regulatory Compliance Framework
Managing Controlled Documents
Metering Business System Functional Specification - Basic Reading
Metering Business System Functional Specification - Meter Reading Exceptions
Metering Code Model Service Level Agreement (ERA approved 30 March 2006)
Metering Manual
Metering Services Business Performance Report (YTD March 2008)
Metering Services Centre User Task Manual

List of Western Power Documents

Metering SLA Performance Report (March 2008)
National Association of Testing Authorities (NATA) accreditation
National Standards Commission accreditation
Network Operations
Provision of Information Letters - June, August and September 2006
Public Interest Disclosure (PID) Policy
Quarterly performance reports for: September and December 2006 March, September and December 2007
Retention and Storage of NOCC Quality Records
Review of Network Quality & Reliability of Supply Performance Reporting
Schedule of staff compliance meetings
Service Level Agreement between Retail Business Unit and Networks Business Unit
Training schedules
Trouble Call Fault Management Plan
Trouble Call Fault Management Progress Report for August and November 2007 February 2008
WA Electricity Market Build Pack
WA Electricity Market Metrology Procedure
Western Power Networks Customer Charter
Work Instructions for Complaints and Resolutions
Work Practice Manual

Appendix D Licensee's Representatives

The following persons were interviewed and/or provided evidence to the auditors in completing this audit on the effectiveness of control procedures.

Name	Position
Peter Mattner	Manager Regulation, Pricing and Access Development
Margaret Pyrchla	Manager Compliance
Neil Gibbney	Regulation, Pricing and Access Development Engineer
Mike Lu	Manager Customer Solutions
Peter Howe	Major Customer Manager, Customer Solutions Branch
Ken Chong	Account Manager, Major Customer Section
Gino Giuduce	Manager Customer Assist
Anthony Whiteaker	Manager Customer Support
Andrew Wood	Metering Services Manager
Colin Walker	Administrator Data Management, Metering Services
Steve Stokes	Operations System Support Manager
Brian Congear	Control Room Manager
Kathrin Ullmann	Document Controller
Peter Vasilio	Customer Assistance
Y M Tse	Systems Operation Planning
Gair Landsborough	Business Systems Branch Manager
Shane Duryea	Manager Network Operations
Greg Turnbull	Open Access Engineer
Guy Burnett	Manager Corporate Accounting and Taxation
William Dow	Operations Support & Document Control
Jim Butler	Land Management Manager
Terry Herbert	Computer Operations Administrator, IT Branch
Sydney McDowell	Manager Network Performance
Aaron Gibbons	Team Leader, Reliability Analysis & Reporting

Western Power
Electricity Distribution Licence (EDL1)
November 2008

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