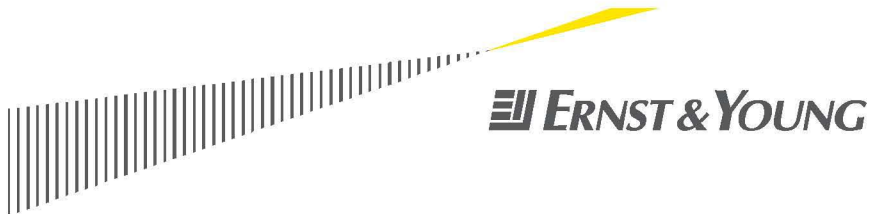


Western Power

Electricity Transmission Licence (ETL2)  
Performance Audit Report

November 2008



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Private and Confidential

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 Transmission 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 Transmission Licence (ETL2), 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 transmission 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 (346, 347)	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.  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.	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.
5.1 (378)	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.	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.
5.1  ERA Compliance Reporting Manual 2008 Reference  (394)	Metering  The WP disaster recovery plan states that the system will be reinstated within five business days.	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.	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

Licence Condition Ref.  (ERA Compliance Manual 2007 Ref. No.)	Issue	Recommendation	Post-Audit Action Plan
5.1  (437, 436)	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.	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>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>
13.1	<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>	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>

Licence Condition Ref. (ERA Compliance Manual 2007 Ref. No.)	Issue	Recommendation	Post-Audit Action Plan
17.1	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.	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.	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.
18.1	WP does not maintain a register recording all requests for information from the ERA.	WP should introduce a register to record all requests for information from the ERA.	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.
19.1 19.2 19.3 19.4	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.	WP should introduce a register to record all directions received from the ERA to publish information.	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.
20.1	Our testing identified that WP received notices from the ERA during the audit scope period; however there is no register to record these notices.	WP should introduce a register to record all notices received from the ERA.	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.
22.1 22.2 22.3 22.4 22.5	Western Power's Trouble Call Fault Management (TCFM) plan relates to electricity distribution only and does not apply to electricity transmission. Western Power does not have a TCFM for transmission.	WP should develop and document a trouble call fault management plan for electricity transmission.	There is only one plan covering distribution and transmission businesses i.e. the Western Power Trouble Call Fault Management Plan, as submitted and accepted by the ERA together with quarterly updates. The plan satisfies the distribution and transmission licence requirements; however its Background and Context section makes reference only to the distribution licence.  We will amend the relevant section of the plan to reflect its relevance to the transmission licence.

## **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 ETL2 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
- ▶ Clause 22: Trouble call fault management plan

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 ETL2 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 ETL 2:
  - ▶ Clause 4: Fees
  - ▶ Clause 5: Compliance
  - ▶ Clause 12: Extension and expansion
  - ▶ Clause 13: Accounting records
  - ▶ Clause 15: Performance audit
  - ▶ Clause 16: Asset management system
  - ▶ Clause 17: Reporting
  - ▶ Clause 18: Provision of information
  - ▶ Clause 19: Publishing information
  - ▶ Clause 20: Notices
  - ▶ Clause 22: Trouble call fault management plan

We have completed our procedures with respect to WP's compliance with the ETL2 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.

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 ETL2 operated effectively.

The Directors of Western Power are responsible for maintaining an effective control structure including control procedures in relation to ETL2. 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 report has been prepared for WP as the entity responsible for compliance with the ETL2, 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.

Our report has been prepared for WP, as the entity responsible for compliance with the ETL2, 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
<b>Total</b>	<b>507</b>

### 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 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 review and comment prior to commencement of the audit procedures. Approval was obtained from the ERA on 26 May 2008.

We have completed our procedures with respect to WP's compliance with the ETL2 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 Procedure 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.

Transmission Licence Clause Reference	Transmission 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	Extension and expansion	Unlikely	Moderate	Medium	Strong					✓
13	Accounting Records	Unlikely	Minor	Low	Strong				✓	
15	Performance Audit	Unlikely	Minor	Low	Strong					✓
16	Asset Management System	Unlikely	Minor	Low	Strong					✓
17	Reporting	Unlikely	Moderate	Medium	Moderate				✓	
18	Provision of Information	Unlikely	Moderate	Medium	Moderate				✓	
19	Publishing Information	Unlikely	Moderate	Medium	Moderate				✓	
20	Notices	Likely	Minor	Medium	Moderate				✓	
22	Trouble call fault management plan	Unlikely	Major	High	Weak				✓	

## 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 Transmission 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.

Transmission 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 granted/renewed on 30 March 2007 and the fee was paid on 23 May 2007.</p> <p>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>

Transmission 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>

Transmission 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>
5.1  (378)	<p>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.</p>	<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. No agreement presently exists between WP and Code participants agreeing to the 15 minute energy data collection at the meter.</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> <p>Responsible Person: Gino Giudice</p> <p>Timing: 31 March 2009</p>



Transmission Licence Clause/ (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
5.1  (394)	<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> <ul style="list-style-type: none"> <li>a. rebuild the metering database; and</li> <li>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).</li> </ul>	<p>We noted that the DRP included the metering database and the energy data. Western Power's target recovery time is 5 business days which exceeds the obligated 2 business days timeframe. The Computer Operations Manager advised that the deadline of 2 business days cannot be met because of the time required to procure necessary replacement hardware.</p>	<p>Western Power should consult with the ERA to discuss whether it is practical / realistic to recover the metering database and energy data within 2 business days and potentially agree to an alternative target recovery time.</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>
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>

Transmission Licence Clause/ (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
<p>5.1  (326)</p>	<p>Transmission - Planned and Unplanned Outages</p> <p>A transmitter or distributor must, so far as is reasonably practicable, ensure that the supply of electricity to a customer is maintained and the occurrence and duration of interruptions is kept to a minimum.</p>	<p>Planned outages are a multi stage process involving case studies, checks and simulations performed by various personnel, e.g. Planning Engineer and System Operator Controller. The Senior System Operator Controller gives his final approval before the outages can proceed.</p> <p>A Notice of Intended Works (NOIW) form is the key document used for planned outages. We were unable to confirm that approval had been provided by the Senior System Operator Controller for all planned outages tested as the NOIW forms have not been designed to provide for the approver's signature. Through discussion, we noted that verbal approvals were given by the Senior System Operator Controller. The Branch Manager Systems Operations Control advised that sign off on each individual NOIW is not practical because of the volume of documents.</p>	<p>Western Power should introduce an approval process for NOIW forms to be approved by the Senior System Operator Controller, prior to the planned outage, as evidence of review and approval.</p>	<p>System Management will be investigating ways of achieving the auditors' recommendation using the daily NOIW list.</p> <p>Responsible Person: Murray Caston, Branch Manager Systems Operations Control</p> <p>Timing: 30 September 2008</p>

Transmission Licence Clause/ (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
13.1  (105)	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>

Transmission Licence Clause/ (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
17.1	<p>The licensee must report to the Authority:</p> <p>a. if the licensee is under external administration as defined by the Corporations Act 2001 (Commonwealth) within 2 business days; or</p> <p>b. 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 the 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>
18.1	<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, the ERA made four requests for information to WP; however these requests are not recorded in a register.</p>	<p>WP should introduce a register to record all directions received from the ERA.</p>	<p>While all correspondence with the ERA is recorded, it is not itemised in a register. Strategy &amp; 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>

Transmission Licence Clause/ (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
<p>19.1</p> <p>19.2</p> <p>19.3</p>	<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 to publish information received from the ERA.</p>	<p>While all correspondence with the ERA is recorded, it is not itemised in a register. Strategy &amp; 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>
<p>20.1</p> <p>(112)</p>	<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 &amp; 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>

Transmission Licence Clause/ (ERA Compliance Manual 2007 Ref. No.)	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
22.1	The licensee must have an approved trouble call fault management plan.	WP has developed and documented a Trouble Call Fault Management Plan, however it only relates to electricity distribution and not electricity transmission.	In accordance with its licence requirements, WP should develop a trouble call fault management plan for electricity transmission and submit it to ERA for approval.	<p>There is only one plan covering its distribution and transmission businesses i.e. the Western Power Trouble Call Fault Management Plan, as submitted as accepted by the ERA (together with quarterly updates). The plan satisfies the distribution and transmission licence requirements; however, its Background and Context section makes reference only to the distribution licence.</p> <p>We will amend the relevant section of the plan to reflect its relevance to the transmission licence and the plan will then be resubmitted to the ERA for approval.</p> <p>Responsible Person: Gino Giudice, Manager Customer Assist</p> <p>Timing: 30 September 2008. Next quarterly update of the plan.</p>
22.2	The trouble call fault management plan must detail the steps the licensee will take to establish a trouble call fault management system and the time in which those steps will be completed.			
22.3				
22.4				
22.5	<p>The licensee must provide the Authority with a draft trouble call fault management plan for the Authority's approval within six months of the commencement date unless directed otherwise by the Authority.</p> <p>The Authority may direct the licensee to make amendments to the trouble call fault management plan before it will approve the trouble call fault management plan.</p> <p>Once approved by the Authority, the licensee must implement the trouble call fault management plan and notify the Authority:</p> <ol style="list-style-type: none"> <li>when the licensee has implemented a step in the trouble call fault management plan;</li> <li>when the licensee has failed to implement a step in the trouble call fault management plan, within 2 business days of implementing that step or the time for implementing that step has passed, whichever is applicable.</li> </ol>			

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

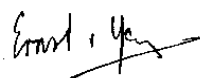
## 6. Changes to the Licence

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 transmission 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 ETL2 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.

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

5 November 2008

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Ernst & Young

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Date

Robert Kirkby  
Partner

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## Appendix A      Audit Program, Risk Assessment and Detailed Findings

## 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 Transmission
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)

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National Association of Testing Authorities (NATA) accreditation

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National Standards Commission accreditation

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Network Operations

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Provision of Information Letters - June, August and September 2006

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Public Interest Disclosure (PID) Policy

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Quarterly performance reports for:

▶ September and December 2006

▶ March, September and December 2007

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Retention and Storage of NOCC Quality Records

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Review of Network Quality & Reliability of Supply Performance Reporting

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Schedule of staff compliance meetings

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Service Level Agreement between Retail Business Unit and Networks Business Unit

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Training schedules

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WA Electricity Market Build Pack

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WA Electricity Market Metrology Procedure

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Western Power Networks Customer Charter

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Work Instructions for Complaints and Resolutions

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Work Practice Manual

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## 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
Vicente Roque	Metering Strategist
Ken Brown	General Manager Systems Management
Brian Congear	Control Room Manager
Anthony Whiteaker	Customer Support Manager
Peter Vasilio	Customer Assistance
Y M Tse	Systems Operation Planning
Gair Landsborough	Business Systems Branch Manager
Greg Turnbull	Open Access Engineer
Guy Burnett	Manager Corporate Accounting and Taxation
Murray Caston	Branch Manager - Systems Operations Control
Phillip Kelloway	Planning and Market Operations Manager
Sydney McDowell	Manager Network Performance
Aaron Gibbons	Team Leader, Reliability Analysis & Reporting

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