



FINAL REPORT
2008 Performance Audit
Retail Licence ERL8
CSBP Limited

Audit Report	Authorisation	Name	Position	Date
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Audit Report No:
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Glossary of Terms

AMS - Asset Management System
AMP – Asset Management Plan
AN2 – Ammonium Nitrate Plant Number Two
A - Ammonia
CSBP Ltd – CSBP Limited
ERA – Economic Regulation Authority
GES – Geographe Environmental Services
JDE – JD Edwards Maintenance System
N – Nitric Acid
RFP – Request For Proposal
WPN – Western Power Networks

This report is prepared by representatives of GES Pty Ltd in relation to the above named client's conformance to the nominated audit standard(s). Audits are undertaken using a sampling process and the report and its recommendations are reflective only of activities and records sighted during this audit process. GES Pty Ltd shall not be liable for loss or damage caused to or actions taken by third parties as a consequence of reliance on the information contained within this report or its accompanying documentation.

Quality Control Record

	CLIENT	DATE
PREPARED BY	NICOLE DAVIES	15 th August 2008
CHECKED BY	NEEMA PREMJI	15 th September 2008
REVIEWED BY	PETER BASTIN, CONTRACTING SPECIALIST CSBP LTD	25 th September 2008
REVISION	2	

1. EXECUTIVE SUMMARY

CSBP engaged Geographe Environmental Services Pty Ltd (GES) to undertake the first Performance Audit as required by the Economic Regulation Authority (ERA) under Retail Licence ERL8. This report contains the audit findings for the performance audit.

Sections 13 of the *Electricity Industry Act 2004* requires as a condition of every licence that the licensee must, not less than once in every period of 24 months (or any longer period that the Authority allows) calculated from the grant of the licence, provide the Authority with a Performance Audit conducted by an independent expert acceptable to the Authority.

The Performance Audit has been conducted in order to assess the licensee's level of compliance with the conditions of its licence.

The Authority approved the appointment of GES Pty Ltd on the 8th July 2008 and subsequently required the development of an audit plan for ERA approval. A combined audit plan was prepared for the Generation Licence and the Retail Licence, however, by request from the Authority a separate Audit Report has been prepared for the Retail Licence.

The Audit Plan for the 2008 Performance Audit of Licence ERL8 was approved on the 13th August 2008. During the audit it became apparent that a material change was required. As specified in the Audit Guidelines, notification of the material change to the audit plan was provided to the ERA on the 15th August 2008. A revised Audit Plan was issued after verbal confirmation from the Authority of the intent of the material change. A letter approving the amended Audit Plan was received on the 22nd August 2008.

The Audit has been executed as planned in accordance with the process flowchart for performance/operational audits as detailed in the Audit Guidelines – Electricity, gas and Water Licences (September 2006).

The period for the audit and review is, 26 June 2006 to 30 June 2008 and the submission of this report before 30 September 2008 is evidence of compliance with the Authority's requirements.

BUSINESS BACKGROUND

The large majority of electricity generated by CSBP is consumed internally at the Kwinana facility. CSBP, under a contract with Western Power (now Synergy), have the capacity through a facility already installed at Kwinana to distribute electricity to the SWIS. Therefore, although CSBP hold a Retail Licence they do not retail electricity to customers.

Clarification of the definition of "Customer" is contained in the Retail Licence ERL8 Section 1. Whereby, a "Customer" means a person to whom electricity is sold for the purpose of consumption. For the avoidance of doubt, a customer is not a person who resells electricity but is the person who is the end user or consumer of the electricity.

CSBP did not undertake any retail electricity market activities in the audit period. Electricity was exported to Synergy via the Supply Agreement Clause 7 however, Synergy are the retailer and CSBP is not responsible for supply to any customers.

As such CSBP do not have any "customers" as defined by its Retail Licence and therefore, the majority of the items in the Compliance Reporting Manual (March 2008) are not applicable.

AUDIT CONCLUSION

The Performance Audit has been conducted in order to assess the effectiveness of the CSBPs level of compliance with the conditions of its Retail Licence ERL8. Through the execution of the Audit Plan and assessment and testing of the control environment, the information system, control procedures and compliance attitude, the audit team members have gained reasonable assurance that CSBP has complied with its Retail Licence as it applies to its operations. The control environment operated by the licensee is well established and is regulated by government organisations, shareholders and corporate requirements which effectively filter through to the organisations operations. During the audit period 26th June 2006 to 30th June 2008, the Licensee has complied with its Retail Licence, with the exception of **clause 23.1**. It is noted that this breach was in relation to communication of information to the Authority, and subsequent awareness to the requirements as an outcome of the audit

process and systems implemented should reduce the risk of re-occurrence.. It is noted that this non-compliance was also identified within the Generation Licence Performance Audit Report. This audit report is an accurate representation of the audit teams findings and opinions.

1.1 Performance Audit Summary

The Audit Teams findings for the Performance Audit against the clauses of the Retail Licence are summarised in the following table. A comprehensive report of the audit findings as applicable to the Compliance Reporting Manual (March 2008) is included in Appendix 1.

Retail Licence Reference (CI = Clause, Sch = Schedule)	Retail Licence Criteria	Likelihood	Consequences	Inherent Risk	Adequacy of existing controls	Compliance Rating					
						0	1	2	3	4	5
CI 1	Definitions	Unlikely	Major	High	Strong						✓
CI 2	Grant of Licence					✓					
CI 3	Term	Unlikely	Major	High	Strong						✓
CI 4	Fees	Unlikely	Minor	Low	Strong						✓
CI 5	Compliance	Probable	Major	High	Strong					✓	
CI 6	Marketers					✓					
CI 7	Transfer of Licence					✓					
CI 8	Cancellation of Licence					✓					
CI 9	Surrender of Licence					✓					
CI 10	Renewal of Licence					✓					
CI 11	Amendment of Licence on application of the Licensee					✓					
CI 12	Amendment of Licence by the Authority					✓					
CI 13	Customer Contracts					✓					
CI 14	Amending the Standard form of Contract					✓					
CI 15	Customer Service Charter					✓					
CI 16	Amending the Customer Service Charter					✓					
CI 17	Supplier of Last Resort					✓					
CI 18	Directions by the Authority	Unlikely	Major	High	Strong						✓

CI 19	Approved Scheme					✓							
CI 20	Accounting Records	Unlikely	Major	High	Strong							✓	
CI 21	Individual Performance Standards	Unlikely	Major	High	Strong								✓
CI 22	Performance Audit	Unlikely	Major	High	Strong								✓
CI 23	Reporting	Unlikely	Major	High	Strong								✓
CI 24	Provision of Information	Unlikely	Major	High	Strong								✓
CI 25	Publishing Information	Unlikely	Major	High	Strong								✓
CI 26	Notices	Unlikely	Major	High	Strong								✓
CI 27	Review of the Authority's Decisions	Unlikely	Major	High	Strong								✓

Operational/Performance Audit 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
Not Applicable	0	Not Applicable to Audit Scope

1.1.2 Limitation of Scope

As previously stated, the limitation of scope relate to the nature of the business operations (i.e. no definitive customers). Therefore, there were Retail Licence compliance elements that were not included in the scope of this audit because they did not eventuate in this audit period, are not applicable or have not been established within licence ERL8 (refer to table above).

It is noted that due to the organisations commitment to holding a retail licence without any established customers, they are obliged to undertake the audit as prescribed in the Retail Licence conditions.

2. PERFORMANCE AUDIT

2.1 Performance Audit Scope

This is the first audit of CSBP's compliance with obligations relating to Retail Licence ERL8. As such, the scope of the audit is to:

- assess the license holders internal compliance systems
- assess the license holders compliance with its license

for the period 26th June 2006 to 30th June 2008.

As there were no performance standards defined within the Retail Licence the Authority's Electricity Compliance Reporting Manual (March 2008) was used as the performance criteria for the compliance elements. However, due to the limitation of scope the majority of the compliance criteria have been excluded from the audit.

The Supply Services Manager of CSBP, representatives from Project Engineering, Finance and Supply Departments participated in the Performance Audit.

2.2 Performance Audit Objective

The objective of the performance audit, as defined by the Audit Guidelines, is to assess the effectiveness of measures taken by the licensee to meet obligations of the performance and quality standards referred to in the licence.

In addition to compliance requirements, a specific focus is to be taken on the systems and effectiveness of processes used to ensure compliance with the standards, outputs and outcomes required by the licence. The audit outcome is to identify areas of non-compliance and areas of compliance where improvement is required and recommend corrective action as necessary.

The Audit was conducted in three phases as defined by the Audit Guidelines. The phases and the appropriate audit guide/tool are detailed below;

Phase	Auditor	Hours	Relevant Auditing Standard
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1. Risk & Materiality Assessment Outcome - Operational/ Performance Audit Plan	Nicole Davies	6	AUS 302: Planning AUS 402: Risk Assessments and Internal Controls AUS 808: Planning Performance Audits AS/NZS ISO 19011:2003: Guidelines for quality and/or environmental management systems auditing (i.e consistent with AUS 302) AS/NZS 4360:2004: Risk Management
2. System Analysis	Nicole Davies	2	AS/NZS 9004:2000: Quality Management Systems – Guidelines for performance improvements AUS 810: Special Purpose Reports on Effectiveness of Control Procedures As 3806-2006: Compliance Programs
3. Fieldwork Assessment and testing of; ▪ The control environment ▪ Information system ▪ Compliance procedures ▪ Compliance attitude	Nicole Davies	2	AUS 502: Audit Evidence AUS 806: Performance Auditing

2.3 Performance Audit Methodology

A risk assessment, assessment of control environment and allocation of audit priority was undertaken in accordance with the Audit Guidelines – Electricity, Gas and Water Licences (September 2006) on each element relating to Retail licensee’s of the Electricity Compliance Reporting Manual (March 2008) issued by the Authority. It was the opinion of the audit team that this approach would provide an effective assessment of compliance due to each licence condition being incorporated into document.

The Electricity Compliance Reporting Manual (March 2008) as published on the ERA website specifically classifies each licence condition according to a non-compliance rating. As a holder of a Retail Licence, CSBP results in mainly Minor and Moderate Ratings for non-compliance. According to the criteria within the Electricity Compliance and Reporting Manual, holders of Retail Licences have 6 Major ratings classified which have been determined “Not Applicable” by the Auditors and agreed by the Authority and are as such exempt from this Audit Scope (refer Electricity Compliance Reporting Manual (March 2008),

Figure 1 Criteria for Classification Section 3.1).

The items that remain within the audit scope are detailed in Appendix 1.

In order to focus the audit effort and identify areas for testing and analysis a preliminary assessment of the risk and materiality of non-compliance with the Retail Licence was undertaken in accordance with the requirements of AS/NZS4360 Risk Management, Section 5.3 and Appendix 1 of the Audit Guidelines. This assessment rating was reviewed during the audit process subject to the verification of control environment. There were no changes made to the pre-assessment ratings during the audit process.

The Post Audit Plan has been developed by the audit team in consultation with the licensee.

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Approval of the report endorses the content of the post audit plan and implementation of the actions will be included in the next audit.

Performance Audit Key Findings, Recommendations, Observations & Post Audit Plan

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Ref	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
81	A licensee must, not less than once every 24 months, provide the Authority with a performance audit conducted by an independent expert acceptable to the Authority.	Whilst compliance with this requirement is well evidenced through interviews with relevant personnel, the allocation of responsibility and process for ensuring requirements for licence conditions/legislation are identified was not defined.	Potential to use existing systems (i.e. JDE/Site Safe) as a tool for monitoring license and regulatory requirements.	ACTION: Include audit requirement in compliance system i.e. SiteSafe or Internal Audit Schedule RESPONSIBILITY: Peter Bastin DATE: 31 st March 2009
85	A licensee must pay to the Authority the prescribed licence fee within one month after the day of grant or renewal of the licence and within one month after each anniversary of that day during the term of the licence.	System is a requisitional cheque based process with the potential for payment to be delayed (i.e. not received within 30 days)	Include the requirement in the established system as a routine and investigate to the option of paying by EFT to ensure the trail for payment is complete	ACTION: Inclusion of the payment requirement in the Site Safe system/JDE/Compliance Advisor RESPONSIBILITY: Peter Bastin DATE: 31 st March 2009

Ref	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
109	A licensee must report to the Authority, in the manner prescribed, if a licensee is under external administration or there is a significant change in the circumstances upon which the licence was granted which may affect a licensee's ability to meet its obligations.	The Licensee has failed to formally notify the ERA of the expansion of the ammonium nitrate and sodium cyanide businesses during the audit period.	Notify ERA of expansion of AN2 (Ammonium Nitrate Plant Number 2).	ACTION: Notify ERA of expansion of AN2 and subsequent increase in capacity RESPONSIBILITY: Michael Du Toit DATE: 15 th December 2008
319	A Code participant who becomes aware of an outage or malfunction of a metering installation must advise the network operator as soon as practicable.	Through discussions with WPN Metering department it is understood that there is nothing to notify a metering installation malfunction other than a significant deviation in metering data.	Consideration could be given to the following; - Install voltage relay to facilitate the trigger of an alarm to notify metering installation malfunction. - Obtain access to the exported energy data from Synergy	ACTION: Undertake investigation into feasibility of installation of Voltage Relays. Obtain access to exported energy data from Retailer RESPONSIBILITY: Brian McCully DATE: 30 th November 2008
331	A network operator or a user may require the other to negotiate and enter into a written service level agreement in respect of the matters in the metrology procedure dealt with under clause 3.16(4) of the Code.	The Network Operator has not provided certificates of calibration for any of the meters on site, however the user has several options in verifying the information and to date these have proved adequate in the verification of the metering data provided by the Network Operator. It is noted that no export metering data is provided to the user through the em_Power website.	Consideration could be given to the following - obtain access to the exported energy data from the Retailer.	ACTION: Obtain access to the exported energy data from the Retailer. RESPONSIBILITY: Brian McCully DATE: 30 th November 2008

Ref	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
349	A network operator and affected Code participants must liaise together to determine the most appropriate way to resolve a discrepancy between energy data held in a metering installation and data held in the metering database.	The current Supply Agreement with Western Power (i.e. Synergy) does not cover dispute resolution processes. Note: the Supply Agreement was signed pre-desegregation of Western Power and has continued with the retailer Synergy.	Ensure that the revised Supply Agreement adheres with the requirements of the Metering Code in respect to Metering Disputes.	ACTION: Ensure that new negotiated Electricity Supply Agreement complies with the requirements of the Metering Code in respect to Metering Disputes. RESPONSIBILITY: Peter Bastin Brian McCully DATE: 30 th November 2008
416	A user must, in relation to a network on which it has an access contract, comply with the rules, procedures, agreements and criteria prescribed	Supply Agreement has been established however processes for monitoring requirements of the Agreement have not been established.	Consideration could be given to developing a process for monitoring of requirements of the Supply Agreement.	ACTION: Register Electricity Supply Agreement in CSBP's Site Safe Legal Register RESPONSIBILITY: Peter Bastin DATE: 31 st March 2009
418	Code participants must use reasonable endeavours to ensure that they can send and receive a notice by post, facsimile and electronic communication and must notify the network operator of a telephone number for voice communication in connection with the Code.	Western Powers Metering Services Department confirmed that some contact information is maintained. However the following information is not held; <ul style="list-style-type: none"> ▪ Contact Person is not listed ▪ Email not populated ▪ Fax not populated 	Provide Metering Services with the following details; <ul style="list-style-type: none"> -CSBP contact person - CSBP email address - CSBP fax number 	ACTION: Contact Metering Services Commercial Co-Ordinator (Grant.woollard@westernpower.com.au or 08-9359-7542 to provide missing contact details). The Meter Number or NMI will be needed as reference. Details missing from database include; <ul style="list-style-type: none"> - CSBP contact person - CSBP email address - CSBP fax number RESPONSIBILITY: Brian McCully DATE: 30 th November 2008

3. RECOMMENDATIONS FOR AMENDMENT TO AUDIT PROCESS

The purpose of the operational/performance audit is to assess the effectiveness of measures taken by the licensee to meet the obligations of the performance and quality standards referred to in the licence (Section 5.1 Audit Guideline – Electricity, Gas and Water Licences September 2006)

The Retail Licence ERL8 issued for CSBP does not contain any performance standards and varies significantly in content from that of a Water Utility. As such the methodology outlined in the Audit Guideline – Electricity, Gas and Water Licences September 2006 has limited applicability in some areas. For example, section 7.4.1 Operational/Performance Audit Compliance Summary. Several aspects of the Retail Licence do not apply on an ongoing basis and are not relevant to the scope of the audit which limit the value of the report, such as;

- Clause 3 - Term
- Clause 6 – Marketers
- Clauses 8 – Cancellation of Licence
- Clause 9– Surrender of Licence
- Clause 10 - Renewal Of Licence
- Clause 11 - Amendment of Licence on application of the Licensee
- Clause 12 - Amendment of Licence by the Authority
- Clause 13 - Customer Contracts
- Clause 14 - Amending the Standard for of Contract
- Clause 15 - Customer Service Charter
- Clause 16 - Amending the Customer Service Charter
- Clause 17 - Supplier of Last Resort

The audit approach to the Performance Audit is subject to auditor interpretation, although reference to applicable legislation does provide a guide to audit criteria and a review of this process could facilitate more effective audit reports for Electricity Licences.

3.1 Change To Licence Conditions

Under the *Electricity Industry Act 2004*, Section 7 requirement for licence;

Section 7(4) A person must not sell electricity to customers except under the authority of a retail licence or an integrated regional licence.

As previously established Western Power (Synergy) are not defined as customers.

It is recommended that Authority utilise the *Electricity Industry Act 2004* Section 8 Power to exempt;

(1) The Governor may by order published in the Gazette exempt any person or class of persons from all or any of the provisions of section 7(1) to (4).

The following amendment to the Licence Terms and Conditions is recommended;

Condition	Current Requirement	Proposed Requirement	Justification
22	The <i>licensee</i> must, unless otherwise notified in writing by the <i>Authority</i> , provide the <i>Authority</i> with a <i>performance audit</i> within 24 months after the <i>commencement date</i> and every 24 months thereafter.	(i) The <i>licensee</i> must notify the <i>Authority</i> in writing immediately the <i>licensee</i> acquires its first customer. (ii) The <i>licensee</i> must provide the <i>Authority</i> with a <i>performance audit</i> within 24 months after the date of notification to the <i>Authority</i> by the <i>licensee</i> of the <i>licensee's</i> acquisition of its first customer.	The licensee is not a market participant and as such do not guarantee another entity any amount of electricity at any point in time. The prime focus of the business is to manufacture chemicals and fertilisers and convert the waste heat to electricity as a by-product to improve overall plant efficiency. The licensee does not have any definitive

			"customers".
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4. FOLLOW UP AUDIT PROCESS

This is the first Performance Audit conducted since the issue of the licence and as such previous audit report findings are not relevant to the content of the report. Review of actions taken in response to recommendations will form part of subsequent audit plans as this is the initial audit/review.

APPENDIX 1

CSBP PERFORMANCE AUDIT AUGUST 2008