

Alcoa of Australia Limited

2008 Electricity Generation Licence Performance Audit Report

11 February 2009

Mr Nick Eaton
Procurement Specialist - Energy
Alcoa of Australia Limited
PO Box 252
Applecross WA 6953

11 February 2009

Dear Mr Eaton

2008 Performance Audit Report – Electricity Generation Licence EGL14

We have completed our fieldwork on the Electricity Generation Licence Condition Performance Audit for Alcoa of Australia Ltd for the period 26 June 2006 to 30 June 2008 and are pleased to submit our report to you.

I confirm that this report is an accurate presentation of the findings and conclusions from our audit procedures.

If you have any questions or wish to discuss anything raised in the report, please contact Andrew Baldwin on Ph: 9365 7236 or myself on Ph: 9365 7024.

Yours sincerely



Richard Thomas
Partner

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1 Executive summary

1.1 Introduction and background

Pursuant to the provisions of the Electricity Industry Act 2004 (**the Act**), the Economic Regulation Authority (**the Authority**) has issued Alcoa of Australia Limited (**Alcoa**) an Electricity Generation Licence EGL14 (**the Licence**). The Licence relates to Alcoa's operation of generating works at its Kwinana, Pinjarra and Wagerup facilities. Those works are managed by Alcoa's WA Powerhouse Operations, within the Alcoa WA Operations (**WAO**) business unit.

Section 13 of the Act requires Alcoa to provide the Authority with an audit (**the audit**) conducted by an independent expert acceptable to the Authority not less than once in every 24 month period.

1.2 Independent auditor's report

With the Authority's approval, Deloitte Touche Tohmatsu (**Deloitte**) was engaged to conduct a reasonable assurance audit of Alcoa's compliance with the conditions of its Licence. The audit was conducted in accordance with the specific requirements of the Licence and the *Audit Guidelines: Electricity, Gas and Water Licences* issued by the Authority (**Audit Guidelines**).

This is the first such audit conducted in accordance with Alcoa's Licence requirements.

Alcoa's responsibility for compliance with the conditions of the Licence

Alcoa is responsible for:

- putting in place policies, procedures and controls, which are designed to ensure compliance with the conditions of the Licence
- implementing processes for assessing its compliance requirements and for reporting its level of compliance to the Authority.

Our Responsibility

Our responsibility is to express a conclusion on Alcoa's compliance with the conditions of the Licence based on our procedures. We conducted our engagement in accordance with Australian Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Australian Auditing and Assurance Standards Board and the Audit Guidelines, in order to state whether, in our opinion, based on the procedures performed, the conditions of the Licence have been complied with. Our engagement provides reasonable assurance as defined in ASAE 3100. Our procedures were set out in the Audit Plan reviewed and agreed with by the Authority on 16 September 2008, and set out in Appendix A.

We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, readers of our report should not rely on the report to identify all potential instances of non-compliance which may occur.

Any projection of the evaluation of the level of compliance to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with management procedures may deteriorate.

Limitations of use

This report is made solely to the management of Alcoa in accordance with our engagement letter dated 11 July 2008, for the purpose of their reporting requirements under section 13 of the Act. We disclaim any assumption of responsibility for any reliance on this report to any person other than the management of Alcoa, or for any purpose other than that for which it was prepared. We disclaim all liability to any other party for all costs, loss, damages, and liability that the other party might 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 on our report by the other party.

Inherent limitations

Reasonable assurance means a high but not absolute level of assurance. Absolute assurance is very rarely attainable as a result of factors such as the following: the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to us is persuasive rather than conclusive and the use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence.

Independence

In conducting our engagement, we have complied with the independence requirements of the Australian professional accounting bodies.

1.3 Conclusion

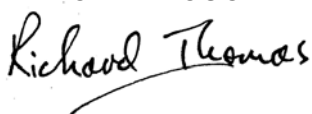
In our opinion, based on the procedures performed, except for the effect of any issues and recommendations set out below, Alcoa has in all material respects complied with the conditions of its Licence for the period 26 June 2006 to 30 June 2008.

1.3.1 Exception

The following compliance criterion was assessed as non-compliant (rating 2):

	Reporting manual no. & Licence condition	Issue
83	Electricity Industry Act section 14(1)(b), Licence condition 16.1 A licensee must notify details of the asset management system and any substantial changes to it to the Authority.	This licence condition required Alcoa to notify the Authority of its asset management system by 28 June 2006. Alcoa did not notify the Authority of its asset management system until 15 months after the specified deadline, as part of its submission of the 2006/07 compliance report to the Authority in October 2007. A record of a response to the notification from the Authority has not been located. In the compliance report Alcoa also undertook to put in place systems to ensure that any substantial changes to its asset management system are notified to the Authority within the required timeframe. Alcoa has not made any changes to the asset management system since the compliance report was submitted in October 2007.

DELOITTE TOUCHE TOHMATSU



Richard Thomas

Partner

Perth, February 2009

1.4 Alcoa’s response to previous audit recommendations

As this is the first audit under this Licence, there are no previous audit recommendations to which Alcoa can respond.

1.5 Findings

The following tables summarise the assessments made by the audit on Alcoa’s compliance with the obligations of the Licence. In accordance with the Audit Guidelines, on a scale of 1 to 5, 5 is the highest rating possible (compliant with no recommendations for strengthening controls) with the rating scale moving down through lower levels of compliance. Refer to Table 2 at the Summary of findings section of this report for a description of the compliance rating scale applied.

Table 1: Summary of findings, by audit priority¹ and compliance rating

No. of Obligations	N/A	Not rated ²	Compliance Rating					Total
			1	2	3	4	5	
Priority 4	6	7		1	2	4	12	32
Priority 5	6	1				5	7	16
Total	9	8		1	2	9	19	48

Specific assessments for each licence obligation are summarised at **Table 3** in the “Summary of findings” section of this report.

Detailed findings, including relevant observations, recommendations and post audit implementation plans are located in the “Detailed findings, recommendations and post audit implementation plans” section of this report.

¹ Audit priority for each licence obligation was determined as an outcome of the risk assessment approach outlined in the Audit Plan, set out in Appendix A

² Obligations for which there was no relevant activity during the period of audit. A compliance assessment could not be made

1.6 Recommendations and post audit implementation plans

Reporting manual no. & Licence condition ref.	Audit Priority	Compliance Rating	Issue 1
83	<i>s.14(1)(b)</i> - A licensee must notify details of the asset management system and any substantial changes to it to the Authority.	Priority 4	Non compliant - 2
	Recommendation 1 (a) Obtain confirmation of the Authority's acceptance of Alcoa's notification of its asset management system. (b) Implement a mechanism which ensures that any substantial changes to Alcoa's asset management system are notified to the Authority within the required timeframe.		Post Audit Implementation Plan 1 (a) Seek formal acceptance from the Authority of the current asset management system. (b) Update current procedure for the asset management system to highlight the need for notification of the Authority should a material change in the system occur or be implemented. Responsible Person: Principal Mechanical Engineer WAO Powerhouse Target Date: 31 May 2009

Reporting manual no. & Licence condition ref.	Audit Priority	Compliance Rating	Issue 2
110	Licence Condition 18.1 - A licensee must provide the Authority, in the manner prescribed, any information the Authority requires in connection with its functions under the Electricity Industry Act.	Priority 4	Compliant - 4
	Recommendation 2 Alcoa formalise its schedule of Licence compliance obligations, including assignment of roles and responsibilities to accountable managers and responsible officers.		Post Audit Implementation Plan 2 (a) Formalise the assessment of the licence conditions. Consideration will be given to the best tool for this purpose, for example the Alcoa Self Assessment Testing (ASAT) tool. (b) Formalise regulatory activities into position descriptions. Responsible Person: Procurement Specialist - Energy Target Date: 31 May 2009

Reporting manual no. & Licence condition ref.	Audit Priority	Compliance Rating	Issue 3
319	Clause 3.11(3) - A Code participant who becomes aware of an outage or malfunction of a metering installation must advise the network operator as soon as practicable.	Priority 4	Compliant - 4
	Recommendation 3 Further strengthen the Alcoa WAO Powerhouse control room procedures to explicitly accommodate the need to advise Western Power in a timely manner of instances, which indicate a malfunction or outage in a Western Power tariff meter.		Post Audit Implementation Plan 3 Update the current Powerhouse control room procedures, such that when an instance of a malfunction or outage can be or is identified with a Western Power tariff meter, that Alcoa notify Western Power in a timely manner. Responsible Person: Principal Mechanical Engineer WAO Powerhouse Target Date: 31 May 2009

Reporting manual no. & Licence condition ref.		Audit Priority	Compliance Rating	Issue 4
350	Clause 4.5(1) - A Code participant must not knowingly permit the registry to be materially inaccurate.	Priority 5	Compliant - 4	Alcoa's Powerhouse control room procedures do not explicitly accommodate this requirement.
	Recommendation 4 Make express reference in the Alcoa WAO Powerhouse monitoring procedures to the need to advise Western Power in a timely manner of instances which indicate <i>Western Power's metering database is materially inaccurate</i>			Post Audit Implementation Plan 4 We note that it is not a key objective for Powerhouse operators to verify the accuracy of registry data. Alcoa will investigate and consider the benefits of putting a formal check in place e.g. the use of check meter data to compare against Western Power's data. Responsible Person: Procurement Specialist - Energy Target Date: 30 November 2009
Reporting manual no. & Licence condition ref.		Audit Priority	Compliance Rating	Issue 5
376	Clause 5.16 - A user that collects or receives energy data from a metering installation must provide the network operator with the energy data (in accordance with the communication rules) within the timeframes prescribed.	Priority 4	Compliant - 3	At present it is not certain whether Alcoa's current metering arrangements (established prior to both the issue of Alcoa's electricity generation licence and the release of the Metering Code in 2005) constitute "metering installations". If the current metering arrangements are found to be "metering installations", or "metering installations" are required to be installed, then the obligation to provide Western Power with energy data will apply to Alcoa.
	Recommendation 5 Confirm with Western Power and/or the Authority whether transducers installed at each of Alcoa's Kwinana, Pinjarra and Wagerup facilities are considered to be partial check meters, and whether corresponding obligations are triggered. If necessary, an effective mechanism should then be established to ensure that energy data collected by Alcoa is provided to Western Power.			Post Audit Implementation Plan 5 (a) The Principal Electrical Engineer WAO Powerhouse to confirm with Western Power/or the Authority whether transducers installed at each of its Kwinana, Pinjarra and Wagerup facilities are considered to be partial check meters. (b) If this is the case, the Principal Electrical Engineer WAO Powerhouse will work with Western Power to implement a mechanism to provide energy data from the "partial check meters". Responsible Person: Principal Electrical Engineer WAO Powerhouse Target Date: (a) 28 February 2009 (b) 31 December 2009

Reporting manual no. & Licence condition ref.		Audit Priority	Compliance Rating	Issue 6
416	Clause 6.1(2) - A user must, in relation to a network on which it has an access contract, comply with the rules, procedures, agreements and criteria prescribed.	Priority 4	Compliant - 3	Alcoa plays a minor role with the metering of its energy data at its three powerhouses, however specific mechanisms have not been established to enable Alcoa to ensure it complies with the rules, procedures, agreements and criteria relevant to its metering obligations.
	Recommendation 6 (a) In consultation with Western Power, establish an effective mechanism for facilitating Alcoa's understanding of and compliance with all obligations relating to the communication rules and the metrology procedure. (b) Allocate roles and responsibilities for managing Alcoa's metering obligations. (c) Consider re-negotiating the network access agreement with Western Power to explicitly accommodate the relevant requirements of the Metering Code.			Post Audit Implementation Plan 6 (a) Discuss with Western Power the obligations upon Alcoa relating to communication rules and the metrology procedure. (b) Include the relevant requirements of the Metering Code into the Network Access Arrangement, including roles and responsibilities. Responsible Person: Procurement Specialist - Energy Target Date: 31 May 2009

Reporting manual no. & Licence condition ref.		Audit Priority	Compliance Rating	Issue 7
422	Clause 7.5 - A Code participant must not disclose, or permit the disclosure of, confidential information provided to it under or in connection with the Code and may only use or reproduce confidential information for the purpose for which it was disclosed or another purpose contemplated by the Code.	Priority 4	Compliant - 4	Alcoa's Powerhouse information security procedures do not explicitly accommodate this requirement.
	Recommendation 7 (a) Establish an effective mechanism for (a) identifying and (b) adequately securing confidential information that may be provided under or in connection with the Metering Code. (b) Allocate roles and responsibilities for managing Alcoa's compliance obligations in relation to managing such confidential information.			Post Audit Implementation Plan 7 In conjunction with Alcoa's existing IT security mechanisms and annual compliance reporting procedures, ensure effective procedures are in place for ensuring the security of confidential information. Responsible Person: Procurement Specialist - Energy Target Date: 31 May 2009

	Reporting manual no. & Licence condition ref.	Audit Priority	Compliance Rating	Issue 8
424 to 428	<p>Clauses 8.1(1) to (4) and 8.3(2) These clauses collectively describe Alcoa's dispute resolution obligations in the event of a dispute relating to metering installations, metering data or other aspects of the Metering Code.</p>	<p>424-6,8 Priority 5</p> <p>427 Priority 4</p>	<p>Compliant - 4</p>	<p>Alcoa's Network Access Agreement with Western Power provides for a dispute resolution procedure at a broad level, however that procedure does not specifically accommodate the Metering Code and specifically the dispute resolution procedures outlined at Part 8 of the Code.</p>
	<p>Recommendation 8 In consultation with Western Power, ensure that any disputes relating to metering installations, metering data or other aspects of the Metering Code are accommodated in either:</p> <ul style="list-style-type: none"> ▪ existing dispute resolution procedures, such as those established under the Network Access Agreement ▪ specific metering dispute resolution procedures. 			<p>Post Audit Implementation Plan 8 Renegotiate the Network Access Arrangement with Western Power and in the new arrangement, include the requirements of Part 8 of the Metering Code to ensure relevant dispute resolution procedures exist.</p> <p>Responsible Person: Procurement Specialist - Energy</p> <p>Target Date: 31 May 2009</p>

1.7 Scope and objectives

The audit is designed to gain reasonable assurance regarding Alcoa's compliance with the conditions of its Licence during the period 26 June 2006 to 30 June 2008.

The Authority has summarised the requirements of the applicable legislation that it expects to be reported and included in the scope of the audit in its Electricity Compliance Reporting Manual (**Reporting Manual**).

The Audit Plan set out at Appendix A lists those Licence conditions confirmed to be included in the scope of the audit, along with the risk assessments made for and audit priority assigned to each licence obligation.

1.7.1 Risk assessment revisions

The risk assessment presented in the audit plan has been modified slightly to recognise the following aspects of the Metering Code, which have now been confirmed to be not applicable to Alcoa's operations and licence obligations:

Obligation, Metering Code reference	Reason for clause assessed as not applicable
309, clause 3.5(6)	Relates to network operator obligations only. Alcoa is not a network operator
331, clause 3.16(5)	Relates to the conversion of non-interval meter consumption, which is not relevant for Western Power's interval meters
377, clause 5.17	Relates to provision of customer information. Alcoa does not supply electricity direct to customers
379 to 384, clause 5.19	Relates to provision of customer information. Alcoa does not supply electricity direct to customers
409, clause 5.27	Relates to provision of customer information. Alcoa does not supply electricity direct to customers

1.8 Approach

Our approach for this audit involved the following activities, which were undertaken during the period August to October 2008:

- utilising the Audit Guidelines and Reporting Manual as a guide, development of a risk assessment which involved discussions with key staff and document review to assess controls
- development of an Audit Plan (see **Appendix A**) and associated work program for approval by the Authority
- interviews with relevant site level Alcoa staff to gain understanding of process controls (see **Appendix B** for staff involved)
- review of documents, processes and controls to assess the overall compliance and effectiveness of the powerhouse management in line with the licence obligations (see **Appendix B** for reference listing)
- reporting of findings to Alcoa for review and response.

2 Summary of findings

Table 2 sets out the rating scale defined by the Authority in the Audit Guidelines for the assessment of the level of compliance with the conditions of the Licence. For the highest possible compliance rating to be achieved, Alcoa was required to demonstrate it has maintained mature processes and controls, which facilitate compliance with relevant obligations.

Table 2: Compliance rating scale

Name	Rating	Description
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

The remainder of this report provides:

- a summary of the findings for the compliance obligations (at **Table 3** below).
- detailed findings, including relevant observations, recommendations and post audit implementation plans (at **section 3**).

Note that except for aspects of the Metering Code that have now been confirmed to be not applicable to Alcoa's operations (refer to item 1.7.1 "Risk assessment revisions"), the risk assessment that was presented in the audit plan remains unchanged as no issues or concerns were identified that would indicate a need to modify the nature and levels of testing. The risk assessment has been included in this summary to give context to the ratings that have been determined.

Table 3: Compliance Summary

Refer to Detailed Findings at section 3 and Audit Plan at Appendix A for descriptions of the obligations

No.	Obligations under Condition	Consequence	Likelihood	Inherent Risk Rating	Control Risk	Audit Priority	Compliance Rating				
							1	2	3	4	5
10 Electricity Industry Act - Licence Conditions and Obligations											
81	13(1)	Minor	Unlikely	Low	Low	Priority 5					✓
82	14(1)(a)	Minor	Unlikely	Low	Low	Priority 5					✓
83	14(1)(b)	Moderate	Unlikely	Medium	Medium	Priority 4		✓			
84	14(1)(c)	Minor	Unlikely	Low	Low	Priority 5					✓
85	17(1)	Minor	Unlikely	Low	Low	Priority 5					✓
86	31(3)	Minor	Unlikely	Low	Low	Priority 5					✓
87	41(6)	Moderate	Unlikely	Medium	Medium	Priority 4					✓
EGL Conditions and Obligations											
103	EGL 12.2	Moderate	Unlikely	Medium	Medium	Priority 4	Not rated				
104	EGL 12.3	Moderate	Unlikely	Medium	Medium	Priority 4					✓
105	EGL 13.1	Moderate	Unlikely	Medium	Low	Priority 4					✓
106	EGL 14.4	Moderate	Unlikely	Medium	Medium	Priority 4	Not rated				
107	EGL 15.2	Moderate	Unlikely	Medium	Low	Priority 4					✓
108	EGL 16.4	Moderate	Unlikely	Medium	Low	Priority 4					✓
109	EGL 17.1	Moderate	Unlikely	Medium	Medium	Priority 4					✓
110	EGL 18.1	Moderate	Unlikely	Medium	Medium	Priority 4					✓
111	EGL 19.2	Moderate	Unlikely	Medium	Medium	Priority 4	Not rated				
112	EGL 20.1	Moderate	Unlikely	Medium	Medium	Priority 4					✓
14 Electricity Industry Metering Code - Licence Conditions and Obligations											
309	3.5(6)	Assessed as not applicable									
319	3.11(3)	Moderate	Unlikely	Medium	Medium	Priority 4					✓
331	3.16(5)	Assessed as not applicable									
342	3.27	Moderate	Unlikely	Medium	Low	Priority 4					✓
349	4.4(1)	Minor	Unlikely	Low	Medium	Priority 5	Not rated				
350	4.5(1)	Minor	Unlikely	Low	Medium	Priority 5					✓
351	4.5(2)	Moderate	Unlikely	Medium	Low	Priority 4	Not rated				
363	5.4(2)	Minor	Unlikely	Low	Low	Priority 5					✓
365	5.5(3)	Moderate	Unlikely	Medium	Low	Priority 4					✓

No.	Obligations under Condition	Consequence	Likelihood	Inherent Risk Rating	Control Risk	Audit Priority	Compliance Rating				
							1	2	3	4	5
376	5.16	Moderate	Unlikely	Medium	Medium	Priority 4			✓		
377	5.17	Assessed as not applicable									
378	5.18	Moderate	Unlikely	Medium	Medium	Priority 4	Not rated				
379	5.19(1)	Assessed as not applicable									
380	5.19(2)	Assessed as not applicable									
381	5.19(3)	Assessed as not applicable									
382	5.19(4)	Assessed as not applicable									
384	5.19(6)	Assessed as not applicable									
390	5.21(5)	Moderate	Unlikely	Medium	Medium	Priority 4					✓
391	5.21(6)	Moderate	Unlikely	Medium	Medium	Priority 4					✓
409	5.27	Assessed as not applicable									
416	6.1(2)	Moderate	Unlikely	Medium	Medium	Priority 4			✓		
418	7.2(1)	Minor	Unlikely	Low	Low	Priority 5					✓
420	7.2(4)	Moderate	Unlikely	Medium	Low	Priority 4					✓
421	7.2(5)	Moderate	Unlikely	Medium	Low	Priority 4	Not rated				
422	7.5	Moderate	Unlikely	Medium	Medium	Priority 4				✓	
423	7.6(1)	Moderate	Unlikely	Medium	Medium	Priority 4	Not rated				
424	8.1(1)	Minor	Unlikely	Low	Medium	Priority 5				✓	
425	8.1(2)	Minor	Unlikely	Low	Medium	Priority 5				✓	
426	8.1(3)	Minor	Unlikely	Low	Medium	Priority 5				✓	
427	8.1(4)	Moderate	Unlikely	Medium	Medium	Priority 4				✓	
428	8.3(2)	Minor	Unlikely	Low	Medium	Priority 5				✓	

3 Detailed findings, recommendations and post audit implementation plans

The following tables contain:

- **findings:** the auditor's understanding of the process and any issues that have been identified during the audit
- **recommendations:** recommendations for improvement or enhancement of the process or control
- **post audit implementation plans:** Alcoa's formal response to audit recommendations, providing details of action to be implemented to address the specific issue raised by the audit.

No	Obligation under Condition	Compliance Rating	Findings
10 Electricity Industry Act - Licence Conditions and Obligations			
81	<i>s. 13(1)</i> - 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.	Compliant - 5	This is the first audit conducted by an independent third party since the granting of the Licence. Deloitte was appointed, with the Authority's approval to undertake the audit.
82	<i>s.14(1)(a)</i> - A licensee must provide for an asset management system.	Compliant - 5	From conducting the asset management system review it is evident that Alcoa has a functioning asset management system.
83	<i>s.14(1)(b)</i> - A licensee must notify details of the asset management system and any substantial changes to it to the Authority.	Non compliant - 2	This licence condition required Alcoa to notify the Authority of its asset management system by 28 June 2006. Alcoa first notified the Authority of its asset management system in the 2006/07 compliance report submitted to the Authority in October 2007. Alcoa has no record of a response to the notification from the Authority. In the compliance report Alcoa also undertook to put in place systems to ensure that any substantial changes to its asset management system are notified to the Authority within the required timeframe. Alcoa has not made any changes to the asset management system since the compliance report was submitted in October 2007.
	Recommendation 1 (a) Obtain confirmation of the Authority's acceptance of Alcoa's notification of its asset management system. (b) Implement a mechanism which ensures that any substantial changes to Alcoa's asset management system are notified to the Authority within the required timeframe.		Post Audit Implementation Plan 1 (a) Seek formal acceptance from the Authority of the current asset management system. (b) Update current procedure for the asset management system to highlight the need for notification of the Authority should a material change in the system occur or be implemented. Responsible Person: Principal Mechanical Engineer WAO Powerhouse Target Date: 31 May 2009
84	<i>s.14(1)(c)</i> - A licensee must provide the Authority with a report by an independent expert as to the effectiveness of its asset management system every 24 months, or such longer period as determined by the Authority.	Compliant - 5	Deloitte was appointed, with the Authority's approval as the independent expert to undertake an asset management system review. Deloitte engaged Maunsell to address technical aspects of the review. This is the first review period for the Licence.

No	Obligation under Condition	Compliance Rating	Findings
85	<i>s.17</i> - 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.	Compliant - 5	Confirmed by obtaining evidence of payment of the most recent licence fees.
86	<i>s.31(3)</i> - A licensee must take reasonable steps to minimise the extent or duration of any interruption, suspension or restriction of the supply of electricity due to an accident, emergency, potential danger or other unavoidable.	Compliant - 5	Alcoa has mature incident management practices in place, reflected in an operating manual containing what to do in the event of an outage. The effect of a power outage on Alcoa's refinery operations can be significant.
87	<i>s. 41(6)</i> - A licensee must pay the costs of taking an interest in land or an easement over land.	Compliant - 5	Alcoa owns the land on which its three powerhouses are located.
11 Electricity Licences - Licence Conditions and Obligations			
103	<i>Licence Condition 12.2</i> - A licensee must amend the asset management system before an expansion or reduction in generating works, distribution systems and transmission systems and notify the Authority in the manner prescribed, if the expansion or reduction is not provided for in the asset management system.	Not rated	The Principal Mechanical Engineer WAO Powerhouse confirmed that there have been no expansions or reductions to the generating works during the period subject to audit. Accordingly, an assessment of compliance with this clause cannot be made.
104	<i>Licence Condition 12.3</i> - A licensee must not expand the generating works, distribution systems or transmission systems outside the licence area.	Compliant - 5	The Principal Mechanical Engineer WAO Powerhouse confirmed that there have been no alterations to the generating works during the period subject to audit that would expand the works outside the licensed area.

No	Obligation under Condition	Compliance Rating	Findings
105	Licence Condition 13.1 - A licensee and any related body corporate must maintain accounting records that comply with the Australian Accounting Standards Board Standards or equivalent International Accounting Standards.	Compliant - 5	<p>Confirmation was obtained from the Australian Financial Accounting Manager that:</p> <ul style="list-style-type: none"> ▪ Alcoa of Australia is compliant with Australian – International Financial Reporting Standards (A-IFRS) and also compliant to US Generally Accepted Accounting Principles ▪ PricewaterhouseCoopers (PwC) reviews Alcoa's quarterly financial information and audits the Annual Statutory Accounts for the financial years ending 31 December, assessing compliance with Australian financial reporting standards. ▪ there are no significant accounting transactions or items that would currently jeopardise Alcoa's compliance with accounting standards. <p>Australian Securities & Investment Commission (ASIC) lodgement records were obtained to confirm that Alcoa of Australia Limited had lodged with ASIC, financial reports required of a public company for each of the 2006 and 2007 financial years.</p> <p>The published Financial Statements of Alcoa Inc. (Alcoa of Australia's parent company) for the year ending 31 December 2007 and 31 December 2006 were sighted. Those statements were unqualified, with respect to all subsidiaries of Alcoa Inc.</p>
106	Licence Condition 14.4 - A licensee must comply with any individual performance standards prescribed by the Authority.	Not rated	The Procurement Specialist - Energy confirmed that the Authority has not prescribed any individual reporting standards to Alcoa. Accordingly, an assessment of compliance with this clause cannot be made.
107	Licence Condition 15.2 - A licensee must comply, and require its auditor to comply, with the Authority's standard audit guidelines dealing with the performance audit.	Compliant - 5	The Audit Plan approved by the Authority commits Alcoa and Deloitte (independent expert) to complying with the prescribed audit guidelines and reporting manual issued by the Authority. Deloitte confirms that this audit was undertaken utilising the framework from the audit guidelines.
108	Licence Condition 16.4 - A licensee must comply, and must require the licensee's expert to comply, with the relevant aspects of the Authority's standard guidelines dealing with the asset management system.	Compliant - 5	The Audit Plan approved by the Authority commits Alcoa and Deloitte (independent expert) to complying with the Authority's standard guidelines dealing with the asset management system. Deloitte confirms that the asset management system review was undertaken utilising the framework from the Authority's standard guidelines.
109	Licence Condition 17.1 - 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.	Compliant - 5	<p>The published Financial Statements of Alcoa Inc. (Alcoa of Australia's parent company) for the years ending 31 December 2007 and 31 December 2006 were sighted. Those statements were unqualified, with respect to going concern issues for all subsidiaries of Alcoa Inc.</p> <p>As during the period 26 June 2006 to 30 June 2008, Alcoa was not under external administration and had not undergone any significant change in circumstances upon which the licence was granted, which may affect its ability to meet its licence obligations, there was no obligation to report to the Authority.</p>

No	Obligation under Condition	Compliance Rating	Findings
110	Licence Condition 18.1 - A licensee must provide the Authority, in the manner prescribed, any information the Authority requires in connection with its functions under the Electricity Industry Act.	Compliant - 4	The Procurement Specialist - Energy confirmed that other than the general reporting requirements of the Authority, no information requests have been made of Alcoa in regards to its Generation Licence. Alcoa submitted compliance reports to the Authority for the 2006/07 and 2007/08 period, although the 2006/07 report was submitted after the 31 August 2007 timeframe specified.
	Recommendation 2 Alcoa formalise its schedule of Licence compliance obligations, including assignment of roles and responsibilities to accountable managers and responsible officers.		Post Audit Implementation Plan 2 (a) Formalise the assessment of the licence conditions. Consideration will be given to the best tool for this purpose, for example the ASAT tool. (b) Formalise regulatory activities into position descriptions. Responsible Person: Procurement Specialist - Energy Target Date: 31 May 2009
111	Licence Condition 19.2 - A licensee must publish any information it is directed by the Authority to publish, within the timeframes specified.	Not rated	The Procurement Specialist - Energy confirmed that no directions to publish information have been made of Alcoa in regards to its Generation Licence. Accordingly, an assessment of compliance with this clause cannot be made.
112	Licence Condition 20.1 - Unless otherwise specified, all notices must be in writing.	Compliant - 5	Alcoa maintains records to evidence formal communications with the Authority, which have been made via post or email. The Procurement Specialist - Energy confirmed that no additional requests or instructions have been made of Alcoa in regards to its Generation Licence.

14 Electricity Industry Metering Code - Licence Conditions and Obligations			
No	Obligation under Condition	Compliance Rating	Findings
309	<i>Clause 3.5(6)</i> - A network operator may only impose a charge for providing, installing, operating or maintaining a metering installation in accordance with the applicable service level agreement between it and the user.	Not Applicable	Alcoa is not the network operator per the Electricity Industry Metering Code 2005, which defines a network as a transmission or distribution system, as applicable, operated by a network operator. A network operator is further defined as a person who holds a distribution, integrated regional or transmission licence. <i>Obligation is considered to be not applicable to Alcoa's Licence.</i>
319	<i>Clause 3.11(3)</i> - A Code participant who becomes aware of an outage or malfunction of a metering installation must advise the network operator as soon as practicable.	Compliant - 4	Western Power is responsible for the first line of detection and response to any outage or malfunction of tariff meters installed at Alcoa's facilities (in accordance with Western Power's obligations for maintaining and monitoring the operation of those meters). It does remain possible for Alcoa's Powerhouse operators to detect an outage or malfunction on an occasion where the real time power signal from one of Alcoa's independent power transducers does not match the real time power signal from the corresponding Western Power tariff meter. The Principal Electrical Engineer WAO Powerhouse confirmed that meter malfunctions or outages should be noticed by Powerhouse operators, enabling timely notification to Western Power. In such an event, each of Alcoa's control rooms has a Western Power hotline number displayed in a prominent position to facilitate timely notification or communication. The Principal Electrical Engineer WAO Powerhouse confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa had not been aware of any outage or malfunction in the relevant Western Power tariff meters. Nothing has come to our attention that indicates non-compliance with this obligation, however, Alcoa can strengthen its Powerhouse control room procedures to provide greater assurance of compliance in the future.
	Recommendation 3 Further strengthen the Alcoa WAO Powerhouse control room procedures to explicitly accommodate the need to advise Western Power in a timely manner of instances, which indicate <i>a malfunction or outage in a Western Power tariff meter.</i>		Post Audit Implementation Plan 3 Update the current Powerhouse control room procedures, such that when an instance of a malfunction or outage can be or is identified with a Western Power tariff meter, that Alcoa notify Western Power in a timely manner. Responsible Person: Principal Mechanical Engineer WAO Powerhouse Target Date: 31 May 2009

No	Obligation under Condition	Compliance Rating	Findings
331	Clause 3.16(5) - 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.	Not Applicable	This clause refers to Western Power's production of a "notional wholesale meter" value through the conversion of non-interval meter consumption to a notional interval meter quantity. As Western Power's tariff meters are all interval meters, such conversion is not required. Accordingly, a related service level agreement is also not required. <i>Obligation is considered to be not applicable to Alcoa's Licence.</i>
342	Clause 3.27 - A person must not install a metering installation on a network unless the person is the network operator or a registered metering installation provider for the network operator doing the type of work authorised by its registration.	Compliant - 5	Tariff meters installed at Alcoa's facilities are the property of Western Power. The Principal Electrical Engineer WAO Powerhouse confirmed that Alcoa has had no involvement with the installation of meters onto the Western Power network.
349	Clause 3.4(1) - 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.	Not rated	The Procurement Specialist - Energy confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa did not become aware of any discrepancy between energy data held in the tariff meters installed at Alcoa's facilities and data held in the metering database (no relevant activity during audit period). Accordingly, an assessment of compliance with this clause cannot be made.
350	Clause 4.5(1) - A Code participant must not knowingly permit the registry to be materially inaccurate.	Compliant - 4	Western Power has the primary responsibility for ensuring the accuracy of energy data held in the registry (metering database), recorded from the tariff meters installed at Alcoa's facilities. It is possible for Alcoa's Powerhouse operators to detect a material discrepancy between energy recorded via Western Power's tariff meters and Alcoa's corresponding independent power transducers. We note that it is not a key objective of Powerhouse operators to monitor the accuracy of the metering database. The Procurement Specialist - Energy confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa was not aware of any material inaccuracy in the metering database maintained by Western Power. Nothing has come to our attention that indicates non-compliance with this obligation, however Alcoa can strengthen its procedures to provide greater assurance of compliance in the future.
	<p>Recommendation 4</p> <p>Make express reference, in the Alcoa WAO Powerhouse monitoring procedures, to the need to advise Western Power in a timely manner of instances which indicate <i>Western Power's metering database is materially inaccurate</i>.</p>		<p>Post Audit Implementation Plan 4</p> <p>Alcoa will investigate and consider the benefits of putting a formal check in place e.g. the use of check meter data to compare against Western Power's data.</p> <p>Responsible Person: Procurement Specialist - Energy Target Date: 30 November 2009</p>

No	Obligation under Condition	Compliance Rating	Findings
351	<i>Clause 4.5(2)</i> - If a Code participant (other than a network operator) becomes aware of a change to or an inaccuracy in an item of standing data in the registry, then it must notify the network operator and provide details of the change or inaccuracy within the timeframes prescribed.	Not rated	The Procurement Specialist - Energy confirmed that Alcoa (a code participant) does not have access to, nor influence over standing data held in the tariff meters installed at Alcoa's facilities, or data held in the metering database (no relevant activity during audit period). Accordingly, an assessment of compliance with this clause cannot be made.
363	<i>Clause 5.4(2)</i> - A user must, when reasonably requested by a network operator, use reasonable endeavours to assist the network operator to comply with the network operator's obligation.	Compliant - 5	This clause relates to any instances where Western Power requires Alcoa's assistance to undertake a meter reading or gain access to a meter to undertake a meter reading. All relevant tariff meters are located in Western Power's facilities, which are located on Alcoa's premises. Clause 11(f) of the Network Access Agreement between Western Power and Alcoa outlines Alcoa's agreement to provide access to Western Power's equipment.
365	<i>Clause 5.5(3)</i> - A user must not impose any charge for the provision of the data under this Code unless it is permitted to do so under another enactment.	Compliant - 5	The Procurement Specialist - Energy confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa did not provide (or charge for the provision of) data under the provisions of the Metering Code (no relevant activity during audit period).
376	<i>Clause 5.16</i> - A user that collects or receives energy data from a metering installation must provide the network operator with the energy data (in accordance with the communication rules) within the timeframes prescribed.	Compliant - 3	In accordance with clause 3.13 of the Metering Code, Western Power is required to procure Alcoa to install a partial check meter at the Wagerup metering point. This requirement relates to metering points which have energy volumes of greater than 100 GWh p.a. As existing metering arrangements have been in place since prior to the issue of the electricity generation licence to Alcoa and prior to the release of the Metering Code in 2005, Alcoa has not determined whether transducers installed at each of its Kwinana, Pinjarra and Wagerup facilities are considered to be partial check meters, which then trigger the need to provide energy data to Western Power in accordance with clause 5.16 of the Metering Code.
	Recommendation 5 Confirm with Western Power and/or the Authority whether transducers installed at each of Alcoa's Kwinana, Pinjarra and Wagerup facilities are considered to be partial check meters, and whether corresponding obligations are triggered. If necessary, an effective mechanism should then be established to ensure that energy data collected by Alcoa is provided to Western Power.		Post Audit Implementation Plan 5 (a) The Principal Electrical Engineer WAO Powerhouse to confirm with Western Power/ or the Authority whether transducers installed at each of its Kwinana, Pinjarra and Wagerup facilities are considered to be partial check meters. (b) If this is the case, the Principal Electrical Engineer WAO Powerhouse will work with Western Power to implement a mechanism to provide energy data from the "partial check meters". Responsible Person: Principal Electrical Engineer WAO Powerhouse Target Date: (a) 28 February 2009 (b) 31 December 2009

No	Obligation under Condition	Compliance Rating	Findings
377	Clause 5.17(1) - A user must provide standing data and validated (and where necessary substituted or estimated) energy data to the user's customer, to which that information relates, where the user is required by an enactment or an agreement to do so for billing purposes or for the purpose of providing metering services to the customer.	Not Applicable	Alcoa does not provide to energy to customers. <i>Obligation is considered to be not applicable to Alcoa's Licence.</i>
378	Clause 5.18 - A user that collects or receives information regarding a change in the energisation status of a metering point must provide the network operator with the prescribed information, including the stated attributes, within the timeframes prescribed.	Not rated	Alcoa does not collect or receive information regarding the energy status of metering points. Western Power manages the status of metering points. The Procurement Specialist – Energy confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa did not collect or receive information regarding a change in the energisation status of a metering point for the tariff meters installed at Alcoa's facilities. Accordingly, an assessment of compliance with this clause cannot be made.
379	Clause 5.19(1) - A user must, when requested by the network operator acting in accordance with good electricity industry practice, use reasonable endeavours to collect information from customers, if any, that assists the network operator in meeting its obligations described in the Code and elsewhere.	Not Applicable	Clause 5.19 relates to the provision of customer information. As Alcoa does not directly provide energy to customers, these obligations are not applicable for Alcoa. <i>Obligations are considered to be not applicable to Alcoa's Licence.</i>
380	Clause 5.19(2) - A user must, to the extent that it is able, collect and maintain a record of the address, site and customer attributes, prescribed in relation to the site of each connection point, with which the user is associated.	Not Applicable	
381	Clause 5.19(3) - A user must, after becoming aware of any change in a site's prescribed attributes, notify the network operator of the change within the timeframes prescribed.	Not Applicable	
382	Clause 5.19(4) - A user that becomes aware that there is a sensitive load at a customer's site must immediately notify the network operator's Network Operations Control Centre of the fact.	Not Applicable	

No	Obligation under Condition	Compliance Rating	Findings
384	Clause 5.19(6) - A user must use reasonable endeavours to ensure that it does notify the network operator of a change in an attribute that results from the provision of standing data by the network operator to the user.	Not Applicable	Clause 5.19 relates to the provision of customer information. As Alcoa does not directly provide energy to customers, these obligations are not applicable for Alcoa. <i>Obligation is considered to be not applicable to Alcoa's Licence.</i>
390	Clause 5.21(5) - A Code participant must not request a test or audit unless the Code participant is a user and the test or audit relates to a time or times at which the user was the current user or the Code participant is the IMO.	Compliant - 5	The Procurement Specialist – Energy confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa did not request a test or audit of the accuracy of, energy data from, or standing data for the tariff meters installed at Alcoa's facilities.
391	Clause 5.21(6) - A Code participant must not make a test or audit request that is inconsistent with any access arrangement or agreement.	Compliant - 5	The Procurement Specialist – Energy confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa did not request a test or audit of the accuracy of, energy data from, or standing data for the tariff meters installed at Alcoa's facilities.
409	Clause 5.27 - Upon request, a current user must provide the network operator with customer attribute information that it reasonably believes are missing or incorrect within the timeframes prescribed.	Not Applicable	Clause 5.27 relates to the provision of customer information. As Alcoa does not directly provide energy to customers, this obligation is not applicable for Alcoa. <i>Obligation is considered to be not applicable to Alcoa's Licence.</i>

No	Obligation under Condition	Compliance Rating	Findings
416	<p><i>Clause 6.1(2)</i> - A user must, in relation to a network on which it has an access contract, comply with the rules, procedures, agreements and criteria prescribed.</p>	Compliant - 3	<p>Alcoa has an access contract in the form of a Network Access Agreement with Western Power. This agreement makes reference to various regulations and codes, but not the Metering Code. It also does not make specific reference to communication rules, the metrology procedure or any relevant service level agreement.</p> <p>We recognise that Alcoa plays a minor role with the metering of its energy data at its three facilities. However it does have a number of obligations in relation to the communication rules and the metrology procedure in place for Western Power's network. Specific mechanisms have not been established to enable Alcoa to ensure it complies with those obligations.</p> <p>Nothing has come to our attention that indicates non-compliance with this obligation. However, Alcoa can strengthen its procedures to provide greater assurance of compliance in the future.</p>
	<p>Recommendation 6</p> <p>(a) In consultation with Western Power, establish an effective mechanism, for facilitating Alcoa's understanding of and compliance with all obligations relating to the communication rules and the metrology procedure.</p> <p>(b) Allocate roles and responsibilities for managing Alcoa's metering obligations.</p> <p>(c) Consider re-negotiating the network access agreement with Western Power to explicitly accommodate the relevant requirements of the Metering Code.</p>		<p>Post Audit Implementation Plan 6</p> <p>(a) Discuss with Western Power the obligations upon Alcoa relating to communication rules and the metrology procedure.</p> <p>(b) Include the relevant requirements of the Metering Code into the Network Access Arrangement, including roles and responsibilities.</p> <p>Responsible Person: Procurement Specialist - Energy Target Date: 28 February 2009</p>
418	<p><i>Clause 7.2(1)</i> - 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.</p>	Compliant - 5	<p>Alcoa maintains electronic and voice communication channels commensurate with the expectations of a major business. Schedule 3 of the Network Access Agreement lists Alcoa's postal address, telephone and facsimile number and the Authorised Officer in relation to that agreement.</p>
420	<p><i>Clause 7.2(4)</i> - A Code participant must notify its contact details to a network operator with whom it has entered into an access contract within 3 business days after the network operator's request.</p>	Compliant - 5	<p>Schedule 3 of the Network Access Agreement with Western Power lists Alcoa's postal address, telephone and facsimile number and the Authorised Officer in relation to that agreement. This arrangement satisfies the requirement o</p>

No	Obligation under Condition	Compliance Rating	Findings
421	<i>Clause 7.2(5)</i> - A Code participant must notify any affected network operator of any change to the contact details it notified to the network operator at least 3 business days before the change takes effect.	Not rated	The Procurement Specialist - Energy confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa did not change the contact details listed in Schedule 3 of the Network Access Agreement with Western Power. Accordingly, an assessment of compliance with this clause cannot be made.
422	<i>Clause 7.5</i> - A Code participant must not disclose, or permit the disclosure of, confidential information provided to it under or in connection with the Code and may only use or reproduce confidential information for the purpose for which it was disclosed or another purpose contemplated by the Code.	Compliant - 4	<p>The Procurement Specialist – Energy confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa did not :</p> <ul style="list-style-type: none"> ▪ hold metering database information (other than data relating to Alcoa’s electricity data, accessed from the metering database) ▪ hold other confidential information provided under or in connection with the Metering Code ▪ disclose or permit the disclosure of confidential information provided under or in connection with the Metering Code. <p>Nothing has come to our attention that indicates non-compliance with this obligation during the audit period, however Alcoa can strengthen its procedures to provide greater assurance of future compliance.</p>
	<p>Recommendation 7</p> <p>(a) Establish an effective mechanism for (a) identifying and (b) adequately securing confidential information that may be provided under or in connection with the Metering Code.</p> <p>(b) Allocate roles and responsibilities for managing Alcoa's compliance obligations in relation to managing such confidential information.</p>		<p>Post Audit Implementation Plan 7</p> <p>In conjunction with Alcoa’s existing IT security mechanisms and annual compliance reporting procedures, ensure effective procedures are in place for ensuring the security of confidential information.</p> <p>Responsible Person: Procurement Specialist - Energy Target Date: 28 February 2009</p>
423	<i>Clause 7.6(1)</i> - A Code participant must disclose or permit the disclosure of confidential information that is required to be disclosed by the Code.	Not rated	The Procurement Specialist – Energy confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa was not required to disclose or permit the disclosure of confidential information provided under or in connection with the Metering Code. Accordingly, an assessment of compliance with this clause cannot be made.

No	Obligation under Condition	Compliance Rating	Findings
424	<i>Clause 8.1(1)</i> - Representatives of disputing parties must meet within 5 business days after a notice given by a disputing party to the other disputing parties and attempt to resolve the dispute under or in connection with the Electricity Industry Metering Code by negotiations in good faith.	Compliant - 4	<p>Alcoa's Network Access Agreement with Western Power provides for a dispute resolution procedure at a broad level, however that procedure does not specifically accommodate the Metering Code and specifically the dispute resolution procedures outlined at Part 8 of the Code. The Procurement Specialist - Energy confirmed that during the period 26 June 2006 to 30 June 2008, Alcoa did not enter into dispute with Western Power under the Metering Code (no relevant activity during audit period).</p> <p>Nothing has come to our attention that indicates non-compliance with this obligation during the audit period, however Alcoa can strengthen its procedures to provide greater assurance of future compliance.</p> <p>Refer to Recommendation and Post Audit Implementation Plan below.</p>
425	<i>Clause 8.1(2)</i> - If a dispute is not resolved within 10 business days after the dispute is referred to representative negotiations, the disputing parties must refer the dispute to a senior management officer of each disputing party who must meet and attempt to resolve the dispute by negotiations in good faith.		
426	<i>Clause 8.1(3)</i> - If the dispute is not resolved within 10 business days after the dispute is referred to senior management negotiations, the disputing parties must refer the dispute to the senior executive officer of each disputing party who must meet and attempt to resolve the dispute by negotiations in good faith.		
427	<i>Clause 8.1(4)</i> - If the dispute is resolved by representative negotiations, senior management negotiations or CEO negotiations, the disputing parties must prepare a written and signed record of the resolution and adhere to the resolution.		

No	Obligation under Condition	Compliance Rating	Findings
428	<p>Clause 8.3(2) - The disputing parties must at all times conduct themselves in a manner which is directed towards achieving the objective of dispute resolution with as little formality and technicality and with as much expedition as the requirements of Part 8 of the Code and a proper hearing and determination of the dispute, permit.</p>	Compliant - 4	As above
	<p>Recommendation 8</p> <p>In consultation with Western Power, ensure that any disputes relating to metering installations, metering data or other aspects of the Metering Code are accommodated in either:</p> <ul style="list-style-type: none"> ▪ existing dispute resolution procedures, such as those established under the Network Access Agreement ▪ specific metering dispute resolution procedures. 		<p>Post Audit Implementation Plan 8</p> <p>Renegotiate the Network Access Arrangement with Western Power and in the new arrangement, include the requirements of Part 8 of the Metering Code to ensure relevant dispute resolution procedures exist.</p> <p>Responsible Person: Procurement Specialist - Energy Target Date: 31 May 2009</p>

Appendix A – Audit plan

Alcoa of Australia Ltd

**2008 Performance Audit and Asset
Management System Review -
Electricity Generation Licence
EGL14**

Audit and Review Plan

17 September 2008

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Introduction

Overview

The Economic Regulation Authority (**the Authority**) has issued Alcoa of Australia Ltd (**Alcoa**) an electricity generation licence (**the Licence**) pursuant to the provisions of the Electricity Act 2004 (**the Act**). Alcoa is required by the Authority to provide an audit report on its performance pursuant to Section 37 of the Act every 24 months.

Sections 13 and 14 of the Act requires Alcoa to provide the Authority with a performance audit (**the audit**) and asset management system review (**the review**) conducted by an independent expert acceptable to the Authority. Deloitte Touche Tohmatsu (**Deloitte**) is the nominated auditor approved by the Authority for both the audit and review. Deloitte has engaged Maunsell Australia Pty Ltd (**Maunsell**) to provide advice where technical expertise is required.

This plan is prepared in accordance with the Authority's *Audit Guidelines: Electricity, Gas and Water Licences* (**Audit Guidelines**), which describes the expected scope of work and conduct of the audit and review to be approved by Deloitte, Alcoa and the ERA.

In accordance with the Audit Guidelines the document represents the Audit and Review Plan that is to be agreed upon by Deloitte and Alcoa and presented to the Authority for approval prior to the commencement of work.

The period of audit and review is 26 June 2006 to 30 June 2008.

Objectives

The objectives of the performance audit and asset management system review are derived from the Act. The following sections of the Act define the requirements of the licensee:

- section 13(1) of the Act requires Alcoa to provide the Authority with a performance audit conducted by an independent expert acceptable to the Authority. The performance audit is defined as an examination of the measures taken by Alcoa to meet the criteria specified in its Generation Licence.
- section 14(1)(c) of the Act requires Alcoa to provide the Authority with a report by an independent expert acceptable to the Authority as to the effectiveness of the respective asset management systems established for assets subject to its licence.

The audit and review is designed to provide reasonable assurance, meaning that the information is free from material misstatement. The examination will specifically consider the following:

- a) process compliance: the effectiveness of systems and procedures in place throughout the audit period, including assessing the adequacy of internal controls
- b) outcome compliance: the actual performance against standards prescribed in the licence throughout the audit period
- c) output compliance: the existence of the output from systems and procedures throughout the audit period (that is, proper records exist to provide assurance that procedures are being consistently followed and controls are being maintained).
- d) integrity of performance: the completeness and accuracy of the performance reporting to the Authority.
- e) compliance with any individual licence conditions: the requirements imposed on the specific licensee by the Authority or specific issues for follow-up that are advised by the Authority

Scope

Performance audit

Section 13(2) of the Act states that “A performance audit is an audit of the effectiveness of measures taken by the licensee to meet the performance criteria specified in the Licence”.

Performance criteria is further defined in the Licence to mean:

- the terms and conditions of the Licence
- any other relevant matter in connection with the applicable legislation that the Authority determines should form part of the performance audit.

Applicable legislation encompasses the following:

1. the *Electricity Industry Act 2004 (WA)*.
2. the following Regulations:
 - a. *Electricity Industry (Code of Conduct) Regulations 2005*
 - b. *Electricity Industry (Licence Conditions) Regulations 2005*
 - c. *Electricity Industry (Licensing Fees) Regulations 2005*
 - d. *Electricity Industry (Obligation to Connect) Regulations 2005*
 - e. *Electricity Industry (Ombudsman) Regulations 2005*
3. the following Codes:
 - a. *Electricity Industry Metering Code 2004*
 - b. *Reliability and Quality of Supply Code 2005*

The Authority’s *Electricity Compliance Reporting Manual (Reporting Manual)* provides further guidance on those aspects of the Licence and Alcoa’s performance criteria, which the Authority expects to be reported and included in the scope of the performance audit.

The Reporting Manual was revised in March 2008, primarily to accommodate a revision of the Code of Conduct (for the Supply of Electricity to Small Use Customers), effective from 8 January 2008. This revision has little impact on the scope of work required for Alcoa’s generation licence audit, with the majority of revision affecting retail licence obligations.

The audit period is 26 June 2006 to 30 June 2008.

Asset Management System Review

Section 14(1)(c) of the Act requires Alcoa to provide the Authority with a report reviewing the effectiveness of the respective asset management systems established for assets subject to its licence. In particular, there are 12 requirements that are to be reported against:

1. asset planning
2. asset creation and acquisition
3. asset disposal
4. environmental analysis (all external factors that affect the system)
5. asset operations
6. asset maintenance
7. asset management information system
8. risk management
9. contingency planning
10. financial planning
11. capital expenditure planning
12. review of Asset Management System

The Authority's Audit Guidelines provide further guidance on those aspects of the asset management system and Alcoa's performance criteria, which the Authority expects to be reported and included in the scope of the review.

Approach

The audit and review will be conducted in three distinct phases, these being a risk assessment, system analysis and testing & review. From the results, a report will be produced to outline findings, overall compliance assessments and recommendations for improvement. Each step of the audit and review is discussed in detail below.

Risk assessment

The audit and review will focus on identifying or assessing those activities and management control systems to be examined and the matters subject to audit. Therefore, the purpose of conducting the risk assessment as a preliminary phase enables the auditor to focus on pertinent/high risk areas of Alcoa’s licence obligations. The level of risk and materiality of the process will determine the level of audit required e.g. the greater the materiality and the higher the risk, the more effort will be applied.

The table presented below outlines the first step in assessing the risk using the ratings indicated within the Authority’s audit guidelines. The inherent risk rating is a 3-point matrix which provides an assessment of the consequence and likelihood of relevant risk events (**Table 1**).

Table 1: Inherent risk rating

Inherent Risk Rating			
Likelihood	Consequence		
	Minor/Tolerable	Moderate	Major
Likely	Medium	High	High
Probable	Low	Medium	High
Unlikely	Low	Medium	High

Each licence obligation is allocated a classification rating by the Authority, which results in a standard consequence risk rating (**Table 2**).

Table 2: Risk Types and Classification

Source: *Electricity Compliance Reporting Manual March 2008*

Rating	Classification of Non-Compliance	Criteria for classification
1	Major	Classified on the basis that: <ul style="list-style-type: none"> ▪ the consequences of non-compliance would cause major damage, loss or disruption to customers; or ▪ the consequences of non-compliance would endanger or threaten to endanger the safety or health of a person.
2	Moderate	Classified on the basis that: <ul style="list-style-type: none"> ▪ the consequences of non-compliance impact the efficiency and effectiveness of the licensee's operations or service provision but do not cause major damage, loss or disruption to customers; or ▪ the regulatory obligation is not otherwise classified as a Type 1 or a Type NR non-compliance.
NR	Minor	Classified on the basis that: <ul style="list-style-type: none"> ▪ the consequences of non-compliance are relatively minor – i.e. non-compliance will have minimal impact on the licensee's operations or service provision and do not cause damage, loss or disruption to customers; or ▪ compliance with the obligation is immeasurable; or ▪ the non-compliance is required to be reported to the Regulator under another instrument, guideline or code 6; or ▪ the non-compliance is identified by a party other than the licensee ; or ▪ the licensee only needs to use its reasonable endeavours or best endeavours to achieve compliance or where the obligation does not otherwise impose a firm obligation on the licensee. <p>Reclassification of Type NR as a Type 2 may occur in circumstances of:</p> <ul style="list-style-type: none"> ▪ systemic non-compliance; or ▪ a failure to resolve non-compliance promptly.

Once the level of inherent risk has been determined, the adequacy of existing controls is to be determined. Controls will be assessed and prioritised as high, medium or low in order of their suitability to mitigate the risks identified previously. This will give a level of control risk.

Once assessed, this enables the audit priority to be determined (**Table 3**). Essentially, the higher the level of risk the more substantive the audit testing becomes.

Table 3: Assessment of Audit Priority

Inherent Risk	Control Risk		
	High (weak controls)	Medium	Low (strong controls)
High	Audit Priority 1	Audit Priority 2	
Medium	Audit Priority 3	Audit Priority 4	
Low	Audit Priority 5		

The risk assessment has been discussed with stakeholders to gain their input as to the appropriateness of the comments, such as any factual inaccuracies, and for comment on the ratings. At this stage, the risk assessment can only be a preliminary assessment based on reading of documentation and interviews by the auditors. It is possible that the ratings and risk assessment comments may be revised as we conduct our work and new evidence comes to light. Accordingly the risk assessments for both the performance assessment and asset management system review are preliminary drafts, not a final report, and no reliance should be placed upon their findings; they are attached at **Appendix A** and **Appendix B** respectively. It is however an invaluable tool for focussing the audit effort.

The following table outlines the audit requirement for each level of audit priority. The testing can range from extensive substantive testing around the controls and activities of particular processes to confirming the existence of controls through discussions with relevant staff.

Table 4: Audit Priority Table

Priority Rating and Resulting Audit Procedures	
Rating	Audit requirement
Audit Priority 1	<ul style="list-style-type: none"> Controls testing and extensive substantive testing of activities and/or transactions Follow-up and if necessary, re-test matters previously reported.
Audit Priority 2	<ul style="list-style-type: none"> Controls testing and moderate substantive testing of activities and/or transactions Follow-up and if necessary, re-test matters previously reported.
Audit Priority 3	<ul style="list-style-type: none"> Limited controls testing (moderate sample size). Only substantively test transactions if further control weakness found Follow-up of matters previously reported.
Audit Priority 4	<ul style="list-style-type: none"> Confirmation of existing controls via observation and walk through testing Follow-up of matters previously reported.
Audit Priority 5	<ul style="list-style-type: none"> Confirmation of existing controls via observation, discussions with key staff and/or reliance on key references (“desktop review”).

System analysis

The systems analysis required will be determined utilising the aforementioned audit priority scale. Once the priority level has been defined the testing component will take place by way of interviewing key operational and administrative staff who will outline information that display compliance with the licence. Where required, an observation of processes, procedures and operations and review of key documents will occur to assist in the determination of Alcoa's compliance with Licence obligations.

Testing and review

Using the results of the risk assessment and systems analysis, detailed testing and analysis will be performed to compare those standards maintained by Alcoa with the relevant sections and schedules of the Licence. In assessing the extent of compliance, we will consider the following:

- the control environment: Alcoa's management philosophy and operating style, organisational structure, assignment of authority and responsibilities, the use of internal audit, the use of information technology and the skills and experience of the key staff members.
- information systems: the appropriateness of Alcoa's information systems to record the information needed to comply with the licence, the accuracy of data, the security of data and documentation describing the information system.
- control procedures: the presence of systems and procedures to ensure compliance with the licence, effectiveness of the licensee's internal control structure to detect and correct non-compliance.
- compliance attitude: the action taken by Alcoa in response to any previous audit/review recommendations.

In circumstances where the population of relevant transactions to be tested are large, sampling techniques will be utilised to provide adequate assurance that test results are representative of Alcoa's operations.

To aid the testing, Deloitte have engaged the expertise of Maunsell for assistance with the asset management system review. Maunsell will be particularly involved in the environmental analysis, asset maintenance and asset operation requirements of the asset management system.

Separate work programs for the audit and review, designed to direct and record the specific aspects of our testing and analyses for each licence obligation, have been developed and should be read in conjunction with this audit plan.

Reporting

In accordance with the Audit Guidelines, all aspects of compliance with the Licence will be assessed according to the two rating scales based on the work performed. The first table below is for the licence obligations, (**table 5**) and the second for asset management effectiveness (**table 6**).

Table 5: Operational/performance compliance rating scale

Name	Rating	Description
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

Table 6: Asset management review effectiveness rating scale

Effectiveness	Rating	Description
Continuously improving	5	Continuously improving organisation capability and process effectiveness
Quantitatively controlled	4	Measurable performance goals established and monitored
Well-defined	3	Standard processes documented, performed and coordinated
Planned and tracked	2	Performance is planned, supervised, verified and tracked
Performed informally	1	Base practices are performed
Not performed	0	Not performed (indicate if not applicable)

The performance audit report will also be structured to address all key components expected by the Audit Guidelines, including tabulation of risk ratings and the overall compliance rating for each licence condition and key asset management system function.

General Information

All aspects of the audit and review will undergo quality assurance and review procedures as outlined in our previous communications. Before delivery of a final report, full quality procedures will be applied, including second partner review. We will endeavour to complete these procedures as readily as possible.

Key Contacts

The key contacts for this audit are:

- Nick Eaton Procurement Specialist - Energy
- Richard Le Tessier Principal Mechanical Engineer WAO Powerhouse
- Debbie May Senior Management Accountant WA Operations
- Ian Lockley Environmental Manager Pinjarra
- Catherine Chappell Audit Manager
- Steve Hopkinson Metering

Staffing

Deloitte staff that will be involved with this assignment are:

- Richard Thomas Partner
- Andrew Baldwin Account Director
- Sebastian Diedrichs Manager
- Shaun Sia Manager (IT)
- Ben Fountain Analyst
- Matt Thomson Partner, Energy Advisory Group (Quality Assurance Review)

Maunsell staff involved in the asset management system review will be:

- Stephen Brown Business Unit Leader – Electrical
- Tanuja Sanders Project Manager (Mechanical)
- Keith Gilby Distribution Services Manager (advisory role)

Timing

The initial risk assessment phase was completed on 22 August 2008. The draft audit plan and detailed work plan were submitted on 3 September 2008.

The remainder of the fieldwork phase is scheduled to be performed in September 2008.

Appendices

Appendix	
A	Performance audit risk assessment
B	Asset management system review risk assessment

Appendix A - Performance audit risk assessment

Licence Conditions				Risk Assessment				
No	Obligations under Condition	Description	Type	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Risk/Priority
10 ELECTRICITY INDUSTRY ACT - LICENCE CONDITIONS AND OBLIGATIONS								
81	Electricity Industry Act section 13(1)	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.	NR	Minor	Unlikely	Low	Low	Priority 5
82	Electricity Industry Act section 14(1)(a)	A licensee must provide for an asset management system.	NR	Minor	Unlikely	Low	Low	Priority 5
83	Electricity Industry Act section 14(1)(b)	A licensee must notify details of the asset management system and any substantial changes to it to the Authority.	2	Moderate	Unlikely	Medium	Medium	Priority 4
84	Electricity Industry Act section 14(1)(c)	A licensee must provide the Authority with a report by an independent expert as to the effectiveness of its asset management system every 24 months, or such longer period as determined by the Authority.	NR	Minor	Unlikely	Low	Low	Priority 5
85	Electricity Industry Act section 17(1)	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.	NR	Minor	Unlikely	Low	Low	Priority 5
86	Electricity Industry Act section 31(3)	A licensee must take reasonable steps to minimise the extent or duration of any interruption, suspension or restriction of the supply of electricity due to an accident, emergency, potential danger or other unavoidable cause.	NR	Minor	Unlikely	Low	Low	Priority 5

Licence Conditions				Risk Assessment				
No	Obligations under Condition	Description	Type	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Risk/Priority
87	Electricity Industry Act section 41(6)	A licensee must pay the costs of taking an interest in land or an easement over land.	2	Moderate	Unlikely	Medium	Medium	Priority 4

11 ELECTRICITY LICENCES - LICENCE CONDITIONS AND OBLIGATIONS

103	Generation Licence condition 12.2	A licensee must amend the asset management system before an expansion or reduction in generating works, distribution systems and transmission systems and notify the Authority in the manner prescribed, if the expansion or reduction is not provided for in the asset management system.	2	Moderate	Unlikely	Medium	Medium	Priority 4
104	Generation Licence condition 12.3	A licensee must not expand the generating works, distribution systems or transmission systems outside the licence area.	2	Moderate	Unlikely	Medium	Medium	Priority 4
105	Generation Licence condition 13.1	A licensee and any related body corporate must maintain accounting records that comply with the Australian Accounting Standards Board Standards or equivalent International Accounting Standards.	2	Moderate	Unlikely	Medium	Low	Priority 4
106	Generation Licence condition 14.4	A licensee must comply with any individual performance standards prescribed by the Authority.	2	Moderate	Unlikely	Medium	Medium	Priority 4
107	Generation Licence condition 15.2	A licensee must comply, and require its auditor to comply, with the Authority's standard audit guidelines dealing with the performance audit.	2	Moderate	Unlikely	Medium	Low	Priority 4

Licence Conditions				Risk Assessment				
No	Obligations under Condition	Description	Type	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Risk/Priority
108	Generation Licence condition 16.4	A licensee must comply, and must require the licensee's expert to comply, with the relevant aspects of the Authority's standard guidelines dealing with the asset management system.	2	Moderate	Unlikely	Medium	Low	Priority 4
109	Generation Licence condition 17.1	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.	2	Moderate	Unlikely	Medium	Medium	Priority 4
110	Generation Licence condition 18.1	A licensee must provide the Authority, in the manner prescribed, any information the Authority requires in connection with its functions under the Electricity Industry Act.	2	Moderate	Unlikely	Medium	Medium	Priority 4
111	Generation Licence condition 19.2	A licensee must publish any information it is directed by the Authority to publish, within the timeframes specified.	2	Moderate	Unlikely	Medium	Medium	Priority 4
112	Generation Licence condition 20.1	Unless otherwise specified, all notices must be in writing.	2	Moderate	Unlikely	Medium	Medium	Priority 4

14 ELECTRICITY INDUSTRY METERING CODE - LICENCE CONDITIONS AND OBLIGATIONS

309	Electricity Industry Metering Code clause 3.5(6)	A network operator may only impose a charge for providing, installing, operating or maintaining a metering installation in accordance with the applicable service level agreement between it and the user.	2	Moderate	Unlikely	Medium	Low	Priority 4
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Licence Conditions				Risk Assessment				
No	Obligations under Condition	Description	Type	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Risk/Priority
319	Electricity Industry Metering Code clause 3.11(3)	A Code participant who becomes aware of an outage or malfunction of a metering installation must advise the network operator as soon as practicable.	2	Moderate	Unlikely	Medium	Medium	Priority 4
331	Electricity Industry Metering Code clause 3.16(5)	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.	2	Moderate	Unlikely	Medium	Low	Priority 4
342	Electricity Industry Metering Code clause 3.27	A person must not install a metering installation on a network unless the person is the network operator or a registered metering installation provider for the network operator doing the type of work authorised by its registration.	2	Moderate	Unlikely	Medium	Low	Priority 4
349	Electricity Industry Metering Code clause 4.4(1)	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.	NR	Minor	Unlikely	Low	Medium	Priority 5
350	Electricity Industry Metering Code clause 4.5(1)	A Code participant must not knowingly permit the registry to be materially inaccurate.	NR	Minor	Unlikely	Low	Medium	Priority 5
351	Electricity Industry Metering Code clause 4.5(2)	If a Code participant (other than a network operator) becomes aware of a change to or an inaccuracy in an item of standing data in the registry, then it must notify the network operator and provide details of the change or inaccuracy within the timeframes prescribed.	2	Moderate	Unlikely	Medium	Low	Priority 4

Licence Conditions				Risk Assessment				
No	Obligations under Condition	Description	Type	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Risk/Priority
363	Electricity Industry Metering Code clause 5.4(2)	A user must, when reasonably requested by a network operator, use reasonable endeavours to assist the network operator to comply with the network operator's obligation.	NR	Minor	Unlikely	Low	Low	Priority 5
365	Electricity Industry Metering Code clause 5.5(3)	A user must not impose any charge for the provision of the data under this Code unless it is permitted to do so under another enactment.	2	Moderate	Unlikely	Medium	Low	Priority 4
376	Electricity Industry Metering Code clause 5.16	A user that collects or receives energy data from a metering installation must provide the network operator with the energy data (in accordance with the communication rules) within the timeframes prescribed.	2	Moderate	Unlikely	Medium	Medium	Priority 4
377	Electricity Industry Metering Code clause 5.17(1)	A user must provide standing data and validated (and where necessary substituted or estimated) energy data to the user's customer, to which that information relates, where the user is required by an enactment or an agreement to do so for billing purposes or for the purpose of providing metering services to the customer.	2	Moderate	Unlikely	Medium	Medium	Priority 4
378	Electricity Industry Metering Code clause 5.18	A user that collects or receives information regarding a change in the energisation status of a metering point must provide the network operator with the prescribed information, including the stated attributes, within the timeframes prescribed.	2	Moderate	Unlikely	Medium	Medium	Priority 4

Licence Conditions				Risk Assessment				
No	Obligations under Condition	Description	Type	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Risk/Priority
379	Electricity Industry Metering Code clause 5.19(1)	A user must, when requested by the network operator acting in accordance with good electricity industry practice, use reasonable endeavours to collect information from customers, if any, that assists the network operator in meeting its obligations described in the Code and elsewhere.	NR	Minor	Unlikely	Low	Low	Priority 5
380	Electricity Industry Metering Code clause 5.19(2)	A user must, to the extent that it is able, collect and maintain a record of the address, site and customer attributes, prescribed in relation to the site of each connection point, with which the user is associated.	NR	Minor	Unlikely	Low	Low	Priority 5
381	Electricity Industry Metering Code clause 5.19(3)	A user must, after becoming aware of any change in a site's prescribed attributes, notify the network operator of the change within the timeframes prescribed.	2	Moderate	Unlikely	Medium	Medium	Priority 4
382	Electricity Industry Metering Code clause 5.19(4)	A user that becomes aware that there is a sensitive load at a customer's site must immediately notify the network operator's Network Operations Control Centre of the fact.	2	Moderate	Unlikely	Medium	Medium	Priority 4
384	Electricity Industry Metering Code clause 5.19(6)	A user must use reasonable endeavours to ensure that it does notify the network operator of a change in an attribute that results from the provision of standing data by the network operator to the user.	NR	Minor	Unlikely	Low	Medium	Priority 5
390	Electricity Industry Metering Code clause 5.21(5)	A Code participant must not request a test or audit unless the Code participant is a user and the test or audit relates to a time or times at which the user was the current user or the Code participant is the IMO.	2	Moderate	Unlikely	Medium	Medium	Priority 4

Licence Conditions				Risk Assessment				
No	Obligations under Condition	Description	Type	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Risk/Priority
391	Electricity Industry Metering Code clause 5.21(6)	A Code participant must not make a test or audit request that is inconsistent with any access arrangement or agreement.	2	Moderate	Unlikely	Medium	Medium	Priority 4
409	Electricity Industry Metering Code clause 5.27	Upon request, a current user must provide the network operator with customer attribute information that it reasonably believes are missing or incorrect within the timeframes prescribed.	2	Moderate	Unlikely	Medium	Low	Priority 4
416	Electricity Industry Metering Code clause 6.1(2)	A user must, in relation to a network on which it has an access contract, comply with the rules, procedures, agreements and criteria prescribed.	2	Moderate	Unlikely	Medium	Medium	Priority 4
418	Electricity Industry Metering Code clause 7.2(1)	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.	NR	Minor	Unlikely	Low	Low	Priority 5
420	Electricity Industry Metering Code clause 7.2(4)	A Code participant must notify its contact details to a network operator with whom it has entered into an access contract within 3 business days after the network operator's request.	2	Moderate	Unlikely	Medium	Low	Priority 4
421	Electricity Industry Metering Code clause 7.2(5)	A Code participant must notify any affected network operator of any change to the contact details it notified to the network operator at least 3 business days before the change takes effect.	2	Moderate	Unlikely	Medium	Low	Priority 4

Licence Conditions				Risk Assessment				
No	Obligations under Condition	Description	Type	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Risk/Priority
422	Electricity Industry Metering Code clause 7.5	A Code participant must not disclose, or permit the disclosure of, confidential information provided to it under or in connection with the Code and may only use or reproduce confidential information for the purpose for which it was disclosed or another purpose contemplated by the Code.	2	Moderate	Unlikely	Medium	Medium	Priority 4
423	Electricity Industry Metering Code clause 7.6(1)	A Code participant must disclose or permit the disclosure of confidential information that is required to be disclosed by the Code.	2	Moderate	Unlikely	Medium	Medium	Priority 4
424	Electricity Industry Metering Code clause 8.1(1)	Representatives of disputing parties must meet within 5 business days after a notice given by a disputing party to the other disputing parties and attempt to resolve the dispute under or in connection with the Electricity Industry Metering Code by negotiations in good faith.	NR	Minor	Unlikely	Low	Medium	Priority 5
425	Electricity Industry Metering Code clause 8.1(2)	If a dispute is not resolved within 10 business days after the dispute is referred to representative negotiations, the disputing parties must refer the dispute to a senior management officer of each disputing party who must meet and attempt to resolve the dispute by negotiations in good faith.	NR	Minor	Unlikely	Low	Medium	Priority 5
426	Electricity Industry Metering Code clause 8.1(3)	If the dispute is not resolved within 10 business days after the dispute is referred to senior management negotiations, the disputing parties must refer the dispute to the senior executive officer of each disputing party who must meet and attempt to resolve the dispute by negotiations in good faith.	NR	Minor	Unlikely	Low	Medium	Priority 5

Licence Conditions				Risk Assessment				
No	Obligations under Condition	Description	Type	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Risk/Priority
427	Electricity Industry Metering Code clause 8.1(4)	If the dispute is resolved by representative negotiations, senior management negotiations or CEO negotiations, the disputing parties must prepare a written and signed record of the resolution and adhere to the resolution.	2	Moderate	Unlikely	Medium	Medium	Priority 4
428	Electricity Industry Metering Code clause 8.3(2)	The disputing parties must at all times conduct themselves in a manner which is directed towards achieving the objective of dispute resolution with as little formality and technicality and with as much expedition as the requirements of Part 8 of the Code and a proper hearing and determination of the dispute, permit.	NR	Minor	Unlikely	Low	Medium	Priority 5

Appendix B - Asset management system review risk assessment

1 Asset Planning						
Key Process:		Asset planning strategies are focused on meeting customer needs in the most effective and efficient manner (delivering the right service at the right price).				
Outcome:		Integration of asset strategies into operational or business plans will establish a framework for existing and new assets to be effectively utilised and their service potential optimised.				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
1 (a)	Planning process and objectives reflect the needs of all stakeholders and is integrated with business planning	Minor	Unlikely	Low	Low	Priority 5
1 (b)	Service levels are defined	Minor	Probable	Low	Low	Priority 5
1 (c)	Non-asset options (e.g. demand management) are considered	Minor	Unlikely	Low	Medium	Priority 5
1 (d)	Lifecycle costs of owning and operating assets are assessed	Moderate	Unlikely	Medium	Medium	Priority 4
1 (e)	Funding options are evaluated	Minor	Unlikely	Low	Medium	Priority 5
1 (f)	Costs are justified and cost drivers identified	Moderate	Unlikely	Medium	Medium	Priority 4
1 (g)	Likelihood and consequences of asset failure are predicted	Major	Unlikely	High	Low	Priority 2
1 (h)	Plans are regularly reviewed and updated	Minor	Unlikely	Low	Medium	Priority 5

2		Asset Creation and Acquisition				
Key Process:		Asset creation/acquisition means the provision or improvement of an asset where the outlay can be expected to provide benefits beyond the year of outlay				
Outcome:		A more economic, efficient and cost-effective asset acquisition framework which will reduce demand for new assets, lower service costs and improve service delivery.				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
2 (a)	Full project evaluations are undertaken for new assets, including comparative assessment of non-asset solutions	Moderate	Unlikely	Medium	Medium	Priority 4
2 (b)	Evaluations include all life-cycle costs	Moderate	Unlikely	Medium	Medium	Priority 4
2 (c)	Projects reflect sound engineering and business decisions	Moderate	Unlikely	Medium	Low	Priority 4
2 (d)	Commissioning tests are documented and completed	Moderate	Unlikely	Medium	Medium	Priority 4
2 (e)	Ongoing legal/environmental/safety obligations of the asset owner are assigned and understood	Major	Unlikely	High	Medium	Priority 2

3 Asset Disposal						
Key Process:		Effective asset disposal frameworks incorporate consideration of alternatives for the disposal of surplus, obsolete, under-performing or unserviceable assets. Alternatives are evaluated in cost-benefit terms.				
Outcome:		Effective management of the disposal process will minimise holdings of surplus and under-performing assets and will lower service costs.				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
3 (a)	Under-utilised and under-performing assets are identified as part of a regular systematic review process	Minor	Unlikely	Low	Low	Priority 5
3 (b)	The reasons for under-utilisation or poor performance are critically examined and corrective action or disposal undertaken	Minor	Unlikely	Low	Medium	Priority 5
3 (c)	Disposal alternatives are evaluated	Minor	Unlikely	Low	Low	Priority 5
3 (d)	There is a replacement strategy for assets	Moderate	Unlikely	Medium	Medium	Priority 4

4 Environmental analysis						
Key Process:		Environmental analysis examines the asset system environment and assesses all external factors affecting the asset system.				
Outcome:		The asset management system regularly assesses external opportunities and threats and takes corrective action to maintain performance requirements.				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
4 (a)	Opportunities and threats in the system environment are assessed	Moderate	Unlikely	Medium	Medium	Priority 4
4 (b)	Performance standards (availability of service, capacity, continuity, emergency response, etc) are measured and achieved	Minor	Probable	Low	Medium	Priority 5
4 (c)	Compliance with statutory and regulatory requirements	Moderate	Unlikely	Medium	Low	Priority 4
4 (d)	Achievement of customer service levels	Moderate	Unlikely	Medium	Medium	Priority 4

5		Asset operations				
Key Process:		Operational functions relate to the day-to-day running of assets and directly affect service levels and costs.				
Outcome:		Operations plans adequately document the processes and knowledge of staff in the operation of assets so that service levels can be consistently achieved.				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
5 (a)	Operational policies and procedures are documented and linked to service levels required	Moderate	Unlikely	Medium	Medium	Priority 4
5 (b)	Risk management is applied to prioritise operations tasks	Moderate	Unlikely	Medium	Low	Priority 4
5 (c)	Assets are documented in an Asset Register including asset type, location, material, plans of components, an assessment of assets' physical/structural condition and accounting data	Minor	Unlikely	Low	Low	Priority 5
5 (d)	Operational costs are measured and monitored	Moderate	Unlikely	Medium	Low	Priority 4
5 (e)	Staff receive training commensurate with their responsibilities	Moderate	Unlikely	Medium	Low	Priority 4

6		Asset maintenance				
Key Process:		Maintenance functions relate to the upkeep of assets and directly affect service levels and costs.				
Outcome:		Maintenance plans cover the scheduling and resourcing of the maintenance tasks so that work can be done on time and on cost.				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
6 (a)	Maintenance policies and procedures are documented and linked to service levels required	Moderate	Unlikely	Medium	Low	Priority 4
6 (b)	Regular inspections are undertaken of asset performance and condition	Moderate	Unlikely	Medium	Medium	Priority 4
6 (c)	Maintenance plans (emergency, corrective and preventative) are documented and completed on schedule	Moderate	Unlikely	Medium	Medium	Priority 4
6 (d)	Failures are analysed and operational/maintenance plans adjusted where necessary	Moderate	Unlikely	Medium	Medium	Priority 4
6 (e)	Risk management is applied to prioritise maintenance tasks	Minor	Probable	Low	Medium	Priority 5
6 (f)	Maintenance costs are measured and monitored	Moderate	Unlikely	Medium	Low	Priority 4

7		Asset Management Information System				
Key Process:		An asset management information system is a combination of processes, data and software that support the asset management functions.				
Outcome:		The asset management information system provides authorised, complete and accurate information for the day-to-date running of the asset management system. The focus of the review is the accuracy of performance information used by the licensee to monitor and report on service standards.				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
7 (a)	Adequate system documentation for users and IT operators	Minor	Unlikely	Low	Medium	Priority 5
7 (b)	Input controls include appropriate verification and validation of data entered into the system	Minor	Unlikely	Low	Medium	Priority 5
7 (c)	Logical security access controls appear adequate, such as passwords	Minor	Unlikely	Low	Low	Priority 5
7 (d)	Physical security access controls appear adequate	Minor	Unlikely	Low	Low	Priority 5
7 (e)	Data backup procedures appear adequate	Moderate	Unlikely	Medium	Medium	Priority 4
7 (f)	Key computations related to licensee performance reporting are materially accurate	Minor	Unlikely	Low	Medium	Priority 5
7 (g)	Management reports appear adequate for the licensee to monitor licence obligations	Minor	Unlikely	Low	Medium	Priority 5

8 Risk Management						
Key Process:		Risk management involves the identification of risks and their management within an acceptable level of risk.				
Outcome:		An effective risk management framework is applied to manage risks related to the maintenance of service standards				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
8 (a)	Risk management policies and procedures exist and are being applied to minimise internal and external risks associated with the asset management system	Moderate	Unlikely	Medium	Medium	Priority 4
8 (b)	Risks are documented in a risk register and treatment plans are actioned and monitored	Moderate	Probable	Medium	Medium	Priority 4
8 (c)	The probability and consequences of asset failure are regularly assessed	Moderate	Unlikely	Medium	Low	Priority 4

9	Contingency Planning					
Key Process:	Contingency plans document the steps to deal with the unexpected failure of an asset.					
Outcome:	Contingency plans have been developed and tested to minimise any significant disruptions to service standards.					
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
9 (a)	Contingency plans are documented, understood and tested to confirm their operability and to cover higher risks	Major	Unlikely	High	Medium	Priority 2

10		Financial Planning				
Key Process:		The financial planning component of the asset management plan brings together the financial elements of the service delivery to ensure its financial viability over the long term.				
Outcome:		A financial plan that is reliable and provides for the long-term financial viability of the services.				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
10 (a)	The financial plan states the financial objectives and strategies and actions to achieve the objectives	Minor	Unlikely	Low	Low	Priority 5
10 (b)	The financial plan identifies the source of funds for capital expenditure and recurrent costs	Minor	Unlikely	Low	Medium	Priority 5
10 (c)	The financial plan provides projections of operating statements (profit and loss) and statement of financial position (balance sheets)	Moderate	Unlikely	Medium	Low	Priority 4
10 (d)	The financial plan provides firm predictions on income for the next five years and reasonable indicative predictions beyond this period	Minor	Probable	Low	Medium	Priority 5
10 (e)	The financial plan provides for the operations and maintenance, administration and capital expenditure requirements of the services	Minor	Unlikely	Low	Low	Priority 5
10 (f)	Significant variances in actual/budget income and expenses are identified and corrective action taken where necessary	Moderate	Unlikely	Medium	Medium	Priority 4

11		Capital expenditure planning				
Key Process:		The capital expenditure plan provides a schedule of new works, rehabilitation and replacement works, together with estimated annual expenditure on each over the next five or more years. Since capital investments tend to be large and lumpy, projections would normally be expected to cover at least 10 years, preferably longer. Projections over the next five years would usually be based on firm estimates				
Outcome:		A capital expenditure plan that provides reliable forward estimates of capital expenditure and asset disposal income, supported by documentation of the reasons for the decisions and evaluation of alternatives and options.				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
11 (a)	There is a capital expenditure plan that covers issues to be addressed, actions proposed, responsibilities and dates	Moderate	Unlikely	Medium	Medium	Priority 4
11 (b)	The plan provides reasons for capital expenditure and timing of expenditure	Minor	Probable	Low	Medium	Priority 5
11 (c)	The capital expenditure plan is consistent with the asset life and condition identified in the asset management plan	Moderate	Unlikely	Medium	Medium	Priority 4
11 (d)	There is an adequate process to ensure that the capital expenditure plan is regularly updated and actioned	Minor	Unlikely	Low	Medium	Priority 5

12		Review of AMS				
Key Process:		The asset management system is regularly reviewed and updated.				
Outcome:		Review of the Asset Management System to ensure the effectiveness of the integration of its components and their currency.				
Ref	Effectiveness criteria	Consequence	Likelihood	Inherent Risk	Control Risk	Audit Priority
12 (a)	A review process is in place to ensure that the asset management plan and the asset management system described therein are kept current	Minor	Unlikely	Low	Medium	Priority 5
12 (b)	Independent reviews (eg internal audit) are performed of the asset management system	Minor	Unlikely	Low	Medium	Priority 5

Appendix B – References

Alcoa staff participating in the audit

- Procurement Specialist - Energy
- Principal Mechanical Engineer WAO Powerhouse
- Senior Management Accountant WA Operations
- Audit Manager
- Principal Electrical Engineer WAO Powerhouse
- Australian Financial Accounting Manager

Deloitte staff participating in the audit

Name	Position	Hours
▪ Richard Thomas	Partner	7.5
▪ Andrew Baldwin	Account Director	41
▪ Ben Fountain	Analyst	78
▪ Jin Sua	Support Analyst	5
▪ David Wylde	Support Manager	3
▪ Quality Assurance Review performed by Deloitte Risk Services and Assurance & Advisory Services partners		7

Key documents and other information sources examined

- WA Powerhouse organisation Structure
- Risk management overview (AOA) AOARM1001
- Risk management policy (AOA) AOARM1013
- WAO ASAT audit schedule 2007-2008
- Alcoa correspondence with the Authority
- User and technical support documentation (eAM)
- Numerous emails from Alcoa representatives in response to specific enquiries
- Network Access Agreement (Western Power Corporation / Alcoa)
- Alcoa (WAO) management systems manual
- Pinjarra, Wagerup and Kwinana Site 5 year plans
- Pinjarra, Wagerup and Kwinana asset strategies
- Oracle payment system extracts
- Electricity Industry Metering Code 2005
- Site risk registers
- Site risk assessments
- Major hazard equipment listing – WAO Powerhouse
- Alcoa contingency planning documentation
- Alcoa Annual Reports (containing financial statements) – 2006 and 2007
- Annual compliance reports to the Authority – 2006/07 and 2007/08