

**Alinta Cogeneration
(Pinjarra) Pty Ltd
Electricity Generation Licence
(EGL10)
2010 Performance Audit
(Independent Assurance) Report
December 2010**

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Mr Corey Dykstra
Manager Regulatory Affairs
Alinta Cogeneration (Pinjarra) Pty Ltd
Level 9, 12-14 The Esplanade
PERTH WA 6000

23 December 2010

Dear Corey

Electricity Generation Licence (EGL10) 2010 Performance Audit Report

We have completed the Electricity Generation Licence Performance Audit for Alinta Cogeneration (Pinjarra) Pty Ltd for the period 1 July 2008 to 30 June 2010 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 9365 7236 or me on 9365 7024.

Yours sincerely

Richard Thomas
Partner

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1 Independent Auditor's report

With the Authority's approval, Deloitte Touche Tohmatsu (**Deloitte**) was engaged to conduct a reasonable assurance audit of Alinta Cogeneration (Pinjarra) Pty Ltd's (**Alinta**) compliance with the conditions of its Electricity Generation Licence (**Licence**). The audit was conducted in accordance with the specific requirements of the Licence and the August 2010 issue of the *Audit Guidelines: Electricity, Gas and Water Licences* issued by the Authority (**Audit Guidelines**) for the period 1 July 2008 to 30 June 2010.

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

Alinta 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 Alinta's compliance with the conditions of the Licence based on our procedures. We conducted our engagement in accordance with the Audit Guidelines and Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements*¹ issued by the Australian Auditing and Assurance Standards Board, 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 3500. Our procedures were set out in the Audit Plan reviewed by and agreed with the Authority on 4 November 2010 and set out in Appendix A.

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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.

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 its

¹ ASAE 3500 also provides for our engagement to be conducted in accordance with relevant requirements of ASAE 3100 Compliance Engagements and ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

responsibility to prevent and detect irregularities, including fraud. Accordingly, readers of our reports 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.

Independence

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

Conclusion

In our opinion, based on the procedures performed, except for the effect of the issues set out below, Alinta has, in all material respects, complied with the conditions of its Licence for the period 1 July 2008 to 30 June 2010.

Exception

The following performance criteria were assessed as non-compliant (rating 2):

	Reporting manual no. & Licence condition	Issue
85	Electricity Industry Act s.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.	The annual licence fee due by 10 May 2010 (being one month after the anniversary of the Licence issue) was not paid until 19 May 2010, breaching the requirement of the Act.
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.	Although all required compliance reports were submitted to the Authority and published by Alinta where required for the year ending 30 June 2008, Alinta's EGL compliance reports were submitted to the Authority after the due date. As Alinta has since appointed a specific resource and implemented procedures to accommodate these reporting obligations, this audit considers that no further action is required to address the 2008 non-compliance.

DELOITTE TOUCHE TOHMATSU

Richard Thomas

Partner

Perth, 23 December 2010

2 Executive Summary

2.1 Introduction and background

The Economic Regulation Authority (**the Authority**) has under the provisions of the *Electricity Industry Act 2004* (**Electricity Act**), issued Alinta Cogeneration (Pinjarra) Pty Ltd (**Alinta**) an electricity generation licence (EGL10) (**the Licence**).

The Licence relates to Alinta's operation of electricity generating works at its Pinjarra cogeneration facility. Alinta has an Operating and Maintenance Agreement (**O&M Agreement**) with Alcoa of Australia Ltd (**Alcoa**) where Alcoa has the responsibility for providing and operating an asset management system on Alinta's behalf.

Section 13 of the Act requires Alinta 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.

2.2 Findings

In considering Alinta's internal control procedures, structure and environment, its compliance culture and its information systems specifically relevant to those licence obligations subject to audit, we observed that Alinta has:

- Enhanced its working relationship with Alcoa by appointing specific staff resources at the cogeneration facility, improving communication, monitoring and reporting arrangements
- With the exception of the timely payment of Licence fees:
 - Demonstrated a continuously improving awareness of and commitment to regulatory compliance
 - Allocated responsibilities to specific staff for meeting key Licence obligations.

The following tables summarise the assessments made by the audit on Alinta's compliance with the obligations of the Licence. On a scale of 1 to 5, "5" is the highest compliance rating possible (defined as "Compliant with no further action required to maintain compliance") with the rating scale moving down through lower levels of compliance to "1", the lowest compliance rating possible (defined as "Significantly non-compliant: Significant weaknesses and/or serious action required").

Table 2 at section 3 of this report provides further detail to the compliance rating scale.

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

No. of Obligations	Compliance Rating							Total
			Non-compliant		Compliant			
Audit Priority ²	N/A ³	Not rated ⁴	1	2	3	4	5	
Priority 1								
Priority 2								
Priority 3				1			1	2
Priority 4		18		1			6	25
Priority 5		6				1	5	12
N/A								9
Total	9	24		2		1	12	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 action plans are located in section 4 “Detailed findings, recommendations and action plans” of this report.

2.3 Alinta’s response to previous audit recommendations

This audit considered how Alinta has progressed against the three action plans detailed in the 2008 performance audit report, which related to Alinta’s generation licences.

Our assessment of Alinta’s progress in implementing those action plans is that:

- Action Plan 1/08 and two parts of Action Plan 3/08 have been fully completed
- Action Plan 2/08 remains in progress. Issue 1/10 of this report fully addresses this matter
- One part of Action Plan 3/08 remains in progress. A revised action plans is detailed at section 5 of this report.

Refer to section 5 of this report for further detail.

² Audit priority for each licence obligation was determined as an outcome of the risk assessment approach outlined in the Audit Plan at Appendix A

³ Obligations assessed as not applicable to Alinta’s operations are detailed in the Audit Plan at Appendix A

⁴ Obligations that are “not rated” are those for which there was no relevant activity during the audit period; therefore a compliance assessment could not be made

2.4 Recommendations and action plans

Reporting manual no. & Licence condition ref.		Audit Priority	Compliance Rating	Issue 1/10
85	<i>Electricity Industry Act s.17(1)</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.	Priority 3	Non-compliant - 2	<p>The annual licence fee due by 10 May 2010 (being one month after the anniversary of the Licence issue) was not paid until 19 May 2010, breaching the requirement of the Act.</p> <p>The annual licence fee due by 10 May 2009 was paid within the time required by the Act.</p>
Recommendation 1/10 Alinta implement stronger controls to ensure that licence fees are paid in compliance with the Act.				Action Plan 1/10 Alinta will implement stronger controls to ensure that licence fees are paid in compliance with the Act. Specifically, the Manager Regulatory Affairs will: <ul style="list-style-type: none"> (a) Diarise the due date for the licence fee (b) Ensure an invoice has been received from the Authority (c) Ensure payment is processed by Accounts so that payment is made within the specified timeframe required by the Act. <p>Responsible Person: Manager Regulatory Affairs Target Date: 31 December 2010</p>

2.5 Scope and objectives

The audit is designed to gain reasonable assurance regarding Alinta's compliance with the conditions of its Licence during the period 1 July 2008 to 30 June 2010.

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.

2.6 Approach

Our approach for this audit involved the following activities, which were undertaken during the period August to November 2010:

- 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**) for approval by the Authority and associated work program
- Interviews with relevant site level Alinta 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 those processes and controls in line with the Licence obligations (see **Appendix B** for reference listing)
- Reporting of findings to Alinta for review and response.

3 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, Alinta was required to demonstrate it has maintained mature processes and controls, which facilitate compliance with relevant obligations.

Table 2: Compliance rating scale

Level	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
Not applicable	N/A	Determined that the compliance obligation does not apply to Alinta's business operations
Not rated	N/R	No relevant activity took place during the audit period; therefore it is not possible to assess compliance.

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 action plans (at **Section 4**).

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 4 and Audit Plan at Appendix A for descriptions of the obligations.

No.	Obligation (clause/section)	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority	Compliance Rating				
							N/R	1	2	3	4
12 Electricity Industry Act – Licence Conditions and Obligations											
81	13(1)	Minor	Unlikely	Low	Strong	Priority 5					✓
82	14(1)(a)	Minor	Unlikely	Low	Strong	Priority 5					✓
83	14(1)(b)	Moderate	Probable	Medium	Weak	Priority 3					✓
84	14(1)(c)	Minor	Unlikely	Low	Strong	Priority 5					✓
85	17(1)	Minor	Likely	Medium	Weak	Priority 3		✓			
86	31(3)	Minor	Probable	Low	Strong	Priority 5					✓
87	41(6)	Moderate	Probable	Medium	Strong	Priority 4	✓				
13 Electricity Licences – Licence Conditions and Obligations											
103	12.2	Moderate	Probable	Medium	Strong	Priority 4	✓				
104	12.3	Moderate	Probable	Medium	Strong	Priority 4	✓				
105	13.1	Moderate	Unlikely	Medium	Strong	Priority 4					✓
106	14.4	Moderate	Unlikely	Medium	Strong	Priority 4	✓				
107	15.2	Moderate	Unlikely	Medium	Strong	Priority 4					✓
108	16.4	Moderate	Unlikely	Medium	Strong	Priority 4					✓
109	17.1	Moderate	Unlikely	Medium	Strong	Priority 4	✓				
110	18.1	Moderate	Probable	Medium	Strong	Priority 4		✓			
111	19.2	Moderate	Probable	Medium	Strong	Priority 4	✓				
112	20.1	Moderate	Unlikely	Medium	Strong	Priority 4					✓
15 Electricity Industry Metering Code – Licence Conditions and Obligations											
309	3.5(6)	Not applicable to Alinta's operations as Alinta is not the network operator according to the Electricity Industry Metering Code 2005.									
319	3.11(3)	Moderate	Probable	Medium	Moderate	Priority 4	✓				
331	3.16(5)	Not applicable. A related service level agreement consistent with s.3.16 (5) is not required because of the nature of Alinta's metering arrangements with Western Power.									
342	3.27	Moderate	Unlikely	Medium	Strong	Priority 4	✓				
349	4.4(1)	Minor	Probable	Low	Moderate	Priority 5	✓				
350	4.5(1)	Minor	Probable	Low	Moderate	Priority 5					✓
351	4.5(2)	Moderate	Probable	Medium	Strong	Priority 4	✓				
363	5.4(2)	Minor	Probable	Low	Strong	Priority 5	✓				
365	5.5(3)	Moderate	Probable	Medium	Strong	Priority 4					✓

No.	Obligation (clause/section)	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority	Compliance Rating					
							N/R	1	2	3	4	5
376	5.16	Moderate	Probable	Medium	Strong	Priority 4	✓					
377	5.17(1)	Not applicable to Alinta's operations as Alinta does not provide energy to customers.										
378	5.18	Moderate	Probable	Medium	Moderate	Priority 4	✓					
379	5.19(1)	Clause 5.19 of the Metering Code relates to the provision of customer information. As Alinta does not directly provide energy to customers, these obligations are not applicable to Alinta's operations.										
380	5.19(2)											
381	5.19(3)											
382	5.19(4)											
384	5.19(6)											
390	5.21(5)	Moderate	Probable	Medium	Strong	Priority 4	✓					
391	5.21(6)	Moderate	Probable	Medium	Strong	Priority 4	✓					
409	5.27	Clause 5.27 of the Metering Code relates to the provision of customer information. As Alinta does not directly provide energy to customers, this obligation is not applicable to Alinta's operations.										
416	6.1(2)	Moderate	Probable	Medium	Strong	Priority 4	✓					
418	7.2(1)	Minor	Probable	Low	Strong	Priority 5						✓
420	7.2(4)	Moderate	Unlikely	Medium	Strong	Priority 4	✓					
421	7.2(5)	Moderate	Unlikely	Medium	Strong	Priority 4	✓					
422	7.5	Moderate	Unlikely	Medium	Moderate	Priority 4						✓
423	7.6(1)	Moderate	Unlikely	Medium	Strong	Priority 4	✓					
424	8.1(1)	Minor	Unlikely	Low	Moderate	Priority 5	✓					
425	8.1(2)	Minor	Unlikely	Low	Moderate	Priority 5	✓					
426	8.1(3)	Minor	Unlikely	Low	Moderate	Priority 5	✓					
427	8.1(4)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓					
428	8.3(2)	Minor	Unlikely	Low	Moderate	Priority 5	✓					

4 Detailed findings, recommendations and action plans

The following sections are broken into the relevant Codes that require an assessment of Alinta's compliance. The sections are:

1. Electricity Industry Act 2004
2. Licence Conditions
3. Electricity Industry Metering Code 2005.

Each section contains:

- **Background** – where appropriate, a brief background is provided to assist in developing the context for the assessed levels of compliance
- **Not applicable obligations** – an outline of and the reasons as to why the obligations were assessed as not applicable
- **Not rateable obligations** – the obligations assessed as not rated for the audit period and reasons for this assessment
- **Assessment of compliance** – the conclusions from our audit procedures and a determination of Alinta's compliance with the applicable obligations. These tables include:
 - **Findings** – our 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
 - **Action plans** – Alinta's formal response to audit recommendations, providing details of action to be implemented to address the specific issue raised by the audit.

4.2 Electricity Industry Act

Obligations determined to be not applicable

All relevant obligations were determined to be applicable to Alinta's operations for the period subject to audit.

Obligations determined to be not rateable

Alinta's compliance with the following obligations could not be rated as there was no relevant activity in the period subject to audit.

Obligation	Reason
87	The Manager Regulatory Affairs confirmed that during the period 1 July 2008 to 30 June 2010, Alinta has not taken an interest or easement over land.

Assessment of compliance

The table below summarises the audit's assessment of Alinta's compliance with the relevant obligations of the Electricity Industry Act.

		Non-compliant		Compliant			Total
N/A	N/R	1	2	3	4	5	
	1		1			5	7

The following table provides detailed findings for each applicable and rateable obligation with an individual assessment of compliance. Note that separate findings are not provided for those obligations that cannot be rated, as detailed in the table above.

No	Obligation under Condition	Compliance Rating	Findings
81	A licensee must, not less than once every 24 months, provide the Authority with a performance audit conducted by an independent expert acceptable to the Authority.	Compliant – 5	This is the second audit conducted by an independent expert since the granting of the Licence in April 2006. Deloitte was appointed with the Authority's approval to undertake this audit for the period 1 July 2008 to 30 June 2010.
82	A licensee must provide for an asset management system.	Compliant – 5	For each of its cogeneration facilities at Pinjarra and Wagerup, Alinta has established an O&M Agreement with Alcoa, where Alcoa has responsibility for providing and operating an asset management system on Alinta's behalf. Through our examination of Alcoa's asset management system and Alinta's Pinjarra Powerhouse Asset Life Plan, we observed that Alinta has provided for a functioning asset management system.
83	A licensee must notify details of the asset management system and any substantial changes to it to the Authority.	Compliant – 5	During the previous audit period (10 April 2006 to 30 June 2008), Alinta had not notified the Authority of details of its asset management system. By examining Alinta's records of correspondence with the Authority, we confirmed that Alinta notified the Authority of its asset management system for its generation facilities on 28 February 2009, in accordance with the action plan stated in the previous audit report. The Manager Operations confirmed that for the period 1 July 2008 to 30 June 2010 there have been no substantial changes to the asset management system.
84	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 to undertake the asset management system review for the period 1 July 2008 to 30 June 2010. Deloitte, with the Authority's approval, has engaged KT & Sai Associates to address technical aspects of the review. This is the second review of the asset management system in accordance with Alinta's licence.
85	A licensee must pay to the Authority the prescribed licence fee within one month after the day of grant or renewal of the licence and within one month after each anniversary of that day during the term of the licence.	Non-compliant – 2	By sighting Alinta's financial records of licence fee payments processed, we determined that the annual licence fee due by: <ul style="list-style-type: none"> • 10 May 2010 (being one month after the anniversary of the Licence issue) was not paid until 19 May 2010, breaching the requirement of the Act. • 10 May 2009 was paid within the time required by the Act.

No	Obligation under Condition	Compliance Rating	Findings
	<p>Recommendation 1/10</p> <p>Alinta implement stronger controls to ensure that licence fees are paid in compliance with the Act.</p>		<p>Action Plan 1/10</p> <p>Alinta will implement stronger controls to ensure that licence fees are paid in compliance with the Act. Specifically, the Manager Regulatory Affairs will:</p> <ul style="list-style-type: none"> (a) Diarise the due date for the licence fee (b) Ensure an invoice has been received from the Authority (c) Ensure payment is processed by Accounts so that payment is made within the specified timeframe required by the Act. <p>Responsible Person: Manager Regulatory Affairs Target Date: 31 December 2010</p>
86	<p>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.</p>	Compliant -5	<p>For each of its cogeneration facilities at Pinjarra and Wagerup, Alinta has established an Operating & Maintenance (O&M) Agreement with Alcoa, where Alcoa has responsibility for providing and operating an asset management system on Alinta's behalf. The O&M provides for Alcoa to apply the same asset management practices to Alinta cogeneration units as it does to Alcoa powerhouses.</p> <p>Through discussions with the Alcoa Principal Mechanical Engineer WAO Powerhouse and consideration of Alcoa's documented policies and procedures, we determined that Alcoa (on Alinta's behalf) has a mature incident management system designed to minimise the extent of disruptions of Alinta's assets.</p> <p>Alcoa has also developed business continuity planning documentation (e.g. black and brown start) to aid the recovery of systems, processes and assets in the event of a particular outage. These procedures are reviewed on a frequent basis to determine currency and applicability.</p>

4.3 Licence Conditions

Obligations determined to be not applicable

All relevant obligations were determined to be applicable to Alinta's operations for the period subject to audit.

Obligations determined to be not rateable

Alinta's compliance with the following obligations could not be rated as there was no relevant activity in the period subject to audit.

Obligation	Reason
103 – 104	The Manager Regulatory Affairs confirmed that for the period 1 July 2008 to 30 June 2010 there have been no expansions or reductions to Alinta's generating works on its Pinjarra site.
106	The Manager Regulatory Affairs confirmed that for the period 1 July 2008 to 30 June 2010, Alinta has not been prescribed individual performance standards by the Authority.
109	During the period 1 July 2008 to 30 June 2010, Alinta was not under external administration and had not undergone any significant change in circumstances upon which its Licence was granted, which may affect its ability to meet its Licence obligations. Accordingly, there was no obligation to report to the Authority.
111	The Manager Regulatory Affairs confirmed that, for the period 1 July 2008 to 30 June 2010, the Authority did not direct Alinta to publish any information with regards to its Licence (other than information associated with the annual compliance and performance reports).

Assessment of compliance

The table below summarises the audit's assessment of Alinta's compliance with the relevant obligations of the Licence Conditions.

N/A	N/R	Non-compliant		Compliant			Total
		1	2	3	4	5	
	5		1			4	10

The following table provides detailed findings for each applicable and rateable obligation with an individual assessment of compliance. Note that separate findings are not provided for those obligations that cannot be rated, as detailed in the table above.

No	Obligation under Condition	Compliance Rating	Findings
105	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>The Financial Controller confirmed that:</p> <ul style="list-style-type: none"> To the best of his knowledge, Alinta is compliant with Australian Accounting Standards Alinta's financial reporting period is from 1 July to 30 June. Alinta (for financial purposes) incorporates Alinta Sales Pty Ltd, Alinta Cogeneration (Pinjarra) Pty Ltd and Alinta Cogeneration (Wagerup) Pty Ltd There are no significant accounting transactions or items that would currently jeopardise Alinta's compliance with accounting standards. <p>We sighted the:</p> <ul style="list-style-type: none"> Babcock and Brown Power Pty Ltd (Alinta's previous parent company) unqualified published financial statements for the year ending 30 June 2009 Alinta Energy Group (Alinta's parent company commencing January 2010) unqualified published financial statements for the year ending 30 June 2010.
107	A licensee must comply, and require its auditor to comply, with the Authority's standard audit guidelines dealing with the performance audit.	Compliant – 5	<p><i>Obligations 107 and 108</i></p> <p>The audit and review plans approved by the Authority on 4 November 2010, commit Alinta and Deloitte (independent auditor) to complying with the prescribed audit guidelines and reporting manual issued by the Authority. Deloitte confirms that the audit and review was undertaken utilising the framework from the audit guidelines.</p> <p>Deloitte has undertaken the audit and review utilising the <i>Audit Guidelines: Electricity, Gas and Water Licences</i>, dated August 2010.</p>
108	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	
110	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.	Non-compliant - 2	<p>For the year ending 30 June 2008, Alinta's EGL compliance report was submitted to the Authority on 1 September 2008, after the due date of 31 August 2008.</p> <p>In November 2008, Alinta appointed a Manager Regulatory Affairs who has responsibility for:</p> <ul style="list-style-type: none"> Maintaining a log of communication with the Authority, including timing for submission of required information and reports Monitoring compliance with Alinta's licence obligations. <p><i>This audit considers that no further action is required to address the 2008 non-compliance.</i></p> <p>The Manager Regulatory Affairs confirmed that for the period 1 July 2008 to 30 June 2010, no information requests have been made of Alinta in regards to its Generation Licence other than the performance audit and asset management system review reports.</p>
112	Unless otherwise specified, all notices must be in writing.	Compliant – 5	The Manager Regulatory Affairs maintains manual and scanned records to evidence formal communications with the Authority, which have been made via post or email.

4.4 Electricity Industry Metering Code

Obligations determined to be not applicable

The following obligations are not applicable to Alinta's operations.

Obligation	Reason
309	Clause 3.5(6) is not applicable to Alinta's operations as Alinta is not the network operator according to 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.
331	Clause 3.16(5) is not applicable to Alinta's operations as 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.
377	Clause 5.17 is not applicable to Alinta's operations as Alinta does not provide energy to customers.
379 – 382, 384	Clause 5.19 of the Metering Code relates to the provision of customer information. As Alinta does not directly provide energy to customers, these obligations are not applicable to Alinta's operations.
409	Clause 5.27 of the Metering Code relates to the provision of customer information. As Alinta does not directly provide energy to customers, this obligation is not applicable to Alinta's operations.

Obligations determined to be not rateable

Alinta's compliance with the following obligations could not be rated as there was no relevant activity in the period subject to audit.

Obligation	Reason
319	The Manager Market Operations and Alcoa Procurement Specialist – Energy confirmed that during the period 1 July 2008 to 30 June 2010, neither Alinta nor Alcoa (on Alinta's behalf) became aware of any outage or malfunction in the relevant Western Power meter installation.
342	Alinta Sales Pty Ltd's network access agreement with Western Power outlines that: <ul style="list-style-type: none"> The metering equipment installed under the agreement, even if affixed to Alinta's premises, is the property of Western Power (s.8(f)) Western Power must install and operate the metering equipment in accordance with the technical code (s.8(c)). The Alcoa Procurement Specialist – Energy confirmed that for the period 1 July 2008 to 30 June 2010, Alcoa (on Alinta's behalf) has had no involvement with the installation of meters onto the Western Power network.
349	The Manager Market Operations and Alcoa Procurement Specialist – Energy confirmed that during the period 1 July 2008 to 30 June 2010, neither Alinta or Alcoa (on Alinta's behalf) became aware of any discrepancy between energy data held in the tariff meters installed at Alinta's generation facilities and data held in the metering database. Therefore, neither Alinta nor Western Power was required to liaise with the other to resolve a discrepancy.

Obligation	Reason
351	The Manager Market Operations confirmed that for the period 1 July 2008 to 30 June 2010, Alinta did not have access to, nor influence over tariff meter standing data or data held in the metering database. Therefore requirements to notify the network operator and the provision of information were not relevant to Alinta's cogeneration operations for the period subject to audit.
363	Alinta's Western Power Account Manager confirmed that all meters installed on Alinta's cogeneration facilities are designated as interval meters within the Western Power Metering Database. Therefore, until such time meters are installed or designated as accumulation meters, an assessment of compliance with this obligation cannot be made.
376	The Manager Market Operations confirmed that, for the period 1 July 2008 to 30 June 2010, Alinta did not collect or receive energy data for Western Power (the network operator). Therefore, an assessment of Alinta's compliance with this obligation cannot be made for the period subject to audit.
378	The Manager Market Operations confirmed that, for the period 1 July 2008 to 30 June 2010, Alinta did not collect or receive information regarding the energy status of metering points. Therefore, an assessment of Alinta's compliance with this obligation cannot be made for the period subject to audit.
390 – 391	The Manager Market Operations and Alcoa Procurement Specialist - Energy confirmed that during the period 1 July 2008 to 30 June 2010, neither Alinta or Alcoa (on Alinta's behalf) requested a test or audit of the items at s.5.21(1) of the Metering Code. Therefore, an assessment of Alinta's compliance with these obligations cannot be made for the period subject to audit.
416	Section 6.1(2) of the Metering Code requires a user, in relation to a network on which it has an access contract, to comply with the network operator's communication rules, metrology procedure, service level agreements and the mandatory link criteria. As Alinta Cogeneration (Pinjarra) Pty Ltd does not have an access contract with Western Power, this obligation is not relevant to Alinta Cogeneration (Pinjarra) Pty Ltd's activities as an electricity generator. We note that Section 6.1(2) of the Metering Code is relevant to Alinta Sales Pty Ltd, as an electricity retail licensee and the holder of a network access agreement with Western Power.
420 – 421	The Manager Market Operations confirmed that during the period 1 July 2008 to 30 June 2010 Western Power did not make a request of Alinta to provide its contact details. Therefore, an assessment of Alinta's compliance with these obligations cannot be made for the period subject to audit.
423	The Manager Market Operations and Alcoa Procurement Specialist confirmed that for the period subject to audit, neither Alinta or Alcoa (on Alinta's behalf) was required to disclose or permit the disclosure of confidential information provided under or in connection with the Metering Code. Therefore, an assessment of Alinta's compliance with this obligation cannot be made for the period subject to audit.
424 – 428	For the purpose of its electricity generation licence, Alinta as a code participant (generator) is a potential disputing party with Western Power (network operator). The Manager Market Operations confirmed that Alinta had not entered into a dispute with Western Power under the Metering Code during the period 1 July 2008 to 30 June 2010. Accordingly an assessment of compliance with clause 8.1 of the Metering Code cannot be made.

Assessment of compliance

The table below summarises the audit's assessment of Alinta's compliance with the relevant obligations of the Metering Code.

		Non-compliant		Compliant			Total
N/A	N/R	1	2	3	4	5	
9	18				1	3	31

The following table provides detailed findings for each applicable and rateable obligation with an individual assessment of compliance. Note that separate findings are not provided for those obligations that are not applicable or cannot be rated, as detailed in the tables above.

No	Obligation under Condition	Compliance Rating	Findings
350	A Code participant must not knowingly permit the registry to be materially inaccurate.	Compliant - 4	<p>Alinta is reliant on Alcoa as the operator of the asset management system to provide powerhouse services, including metering. However, we understand that 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 Alinta's cogeneration facilities.</p> <p>The Manager Market Operations and Alcoa Procurement Specialist – Energy confirmed that during the period 1 July 2008 to 30 June 2010, neither Alinta nor Alcoa (on Alinta's behalf) was aware of any material inaccuracy in the metering database maintained by Western Power.</p> <p>The 2008 performance audit report detailed an action plan for Alinta to monitor Alcoa's investigation of a method to introduce a check process. This matter has not yet been completed however Alcoa has substantially progressed with a project for implementing formal meter checks at each of the Pinjarra cogeneration units 1 and 2. Refer to issue 3/08 at section 5 of this report for the revised action plan devised by Alinta to address this matter.</p>
365	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 Manager Market Operations and the Alcoa Procurement Specialist – Energy confirmed that during the period 1 July 2008 to 30 June 2010, neither Alinta nor Alcoa (on Alinta's behalf) provided (or charged for the provision of) data under the provisions of the Metering Code.
418	Code participants must use reasonable endeavours to ensure that they can send and receive a notice by post, facsimile and electronic communication and must notify the network operator of a telephone number for voice communication in connection with the Code.	Compliant - 5	<p>Through discussions with the Manager Market Operations and consideration of Alinta's business practices, we determined that Alinta:</p> <ul style="list-style-type: none"> • Maintains electronic and voice communication channels commensurate with the expectations of a major business • Has notified Western Power of an appropriate telephone number for voice communications.

No	Obligation under Condition	Compliance Rating	Findings
422	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 - 5	<p>Through discussions with Alcoa's Procurement Specialist - Energy and consideration of Alcoa's business practices, we determined that:</p> <ul style="list-style-type: none"> • Alcoa (on Alinta's behalf) stores confidential commercial information on both its protected Alcoa portal and the WAO Powerhouse portal • Alcoa performed a review of the Alcoa protected portal and the Refinery WAO Powerhouse portal to ensure they are secure and maintain confidentiality as per section 7 of the Metering Code • All Alcoa staff, including contractors, are required to maintain confidentiality according to the provisions of their employment/service contracts. <p>The Manager Market Operations confirmed that for the period 1 July 2008 to 30 June 2010, Alinta did not:</p> <ul style="list-style-type: none"> • Hold metering database information (other than 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.

5 Follow-up of previous audit action plans

Rec. No	Ref	Recommendation	Previous Audit Action Plan	Status	Revised action plan (if applicable)
1/08	83	<p>(a) Alinta notify the Authority of details of its asset management system for its generation and transmission facilities</p> <p>(b) In consultation with Alcoa, Alinta implement a mechanism which ensures that any substantial changes to Alinta's asset management system are notified to the Authority within the required timeframe.</p>	<p>(a) Alinta notified the Authority of details of its asset management system for its transmission facilities on 20 January 2009.</p> <p>Alinta will notify the Authority of details of its asset management system for its generation facilities with the submission of this audit report.</p> <p>(b) In consultation with Alcoa, Alinta will implement a mechanism which ensures that any future substantial changes to its asset management system are notified to the Authority within the required timeframe.</p> <p>Responsible Person Manager Regulatory Affairs</p> <p>Target Date</p> <p>(a) 28 February 2009</p> <p>(b) 31 July 2009</p>	<p>(a) Complete</p> <p>A letter was sent notifying the Authority of Alinta's AMS on 28 February 2009.</p> <p>(b) Complete</p> <p>Alinta has developed Life Cycle Asset management plans for Pinjarra and Wagerup facilities, which will be reviewed annually to assess their effectiveness.</p> <p>Asset management systems are also reviewed on an ongoing basis at monthly O&M meetings between Alinta and Alcoa.</p>	N/A
2/08	85	Alinta's Licence compliance procedures be strengthened to ensure payment of prescribed licence fees by the due date each year.	<p>Alinta will amend internal payment system controls to ensure that the prescribed licence fees are paid by the due date each year.</p> <p>Responsible Person WA Controller - Finance</p> <p>Target Date 31 March 2009</p>	<p>In progress</p> <p>Refer to issue 1/10 of this report.</p>	<p>Refer to issue 1/10 of this report.</p> <p>Responsible Person Manager Regulatory Affairs</p> <p>Target Date 31 December 2010</p>

Rec. No	Ref	Recommendation	Previous Audit Action Plan	Status	Revised action plan (if applicable)
3/08		Alinta monitor Alcoa's progress in implementing the following Post Audit Implementation Plans proposed by Alcoa:	Alinta will monitor Alcoa's progress in implementing the relevant Post Audit Implementation Plans proposed by Alcoa for addressing these three issues.	(a) Complete Alinta, in conjunction with Alcoa, has developed a procedure to deal with instances of malfunction or outage can be identified and reporting in a timely manner.	(b) Alinta and Alcoa will continue to progress with the implementation of formal meter checks at each of cogeneration units 1 and 2.
	319	(a) Metering Code clause 3.11(3): Alcoa will update 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, then Alcoa will notify Western Power in a timely manner	Responsible Person Manager Regulatory Affairs Target Date 31 July 2009	(b) In progress On behalf of Alinta, Alcoa is currently progressing with a project for implementing formal meter checks at each of Pinjarra cogeneration units 1 and 2.	Responsible Person Manager Operations Target Date 30 June 2011
	350	(b) Metering Code clause 4.5(1): 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		(c) Complete Alcoa has reviewed IT security mechanisms to ensure security of confidential information as per section 7 of the Metering Code.	
	422	(c) Metering Code clause 7.5: In conjunction with Alcoa's existing IT security mechanisms and annual compliance reporting procedures, Alcoa will ensure effective procedures are in place for ensuring the security of confidential information.			

Appendix A – Audit Plan

Appendix B – References

Key Alinta staff participating in the audit

Name	Position
• Corey Dykstra	Manager Regulatory Affairs
• Andrew Nuttman	Manager Operations
• Debra Rizzi	Manager Market Operations

Other Alinta staff participating in the audit

- Technical Specialist (located at Wagerup and Pinjarra facilities)
- Financial Controller
- General Manager WA Operations

Key Alcoa staff participating in the audit

- Position**
- Procurement Specialist – Energy
 - Principal Electrical Engineer WAO Powerhouse
 - Principal Mechanical Engineer WAO Powerhouse

Deloitte staff participating in the audit

Name	Position	Hours
• Richard Thomas	Partner	2.5
• Andrew Baldwin	Account Director	13
• Ben Fountain	Senior Analyst	20
• Michael Genever	Analyst	4.5
• Matt Thomson	Partner (QA Review)	1
• Don Gillespie	Account Director (QA Review)	1

Key documents and other information sources examined

- Alinta Annual compliance reports to the Authority 2008/09 and 2009/10
- Babcock & Brown Power Annual Report 2009
- Alinta Energy Group Annual Report 2010
- Evidence of payment of 2009 and 2010 licence fee payments
- Operating and Maintenance Agreement with Alcoa of Australia Ltd
- Pinjarra Powerhouse Asset Life Plan
- Representations from:
 - Manager Market Operations
 - Manager Regulatory Affairs
 - Alcoa Procurement Specialist - Energy
- Representations from the Financial Controller
- Electricity Generation Licence (EGL10)
- Electricity Industry Metering Code 2005
- Electricity Industry Act 2004.

Appendix C – Post Audit Implementation Plan

2010 Audit

<p>Issue 1/10</p> <p>Obligation 85 – Electricity Industry Act 17(1)</p> <p>The annual licence fee due by 10 May 2010 (being one month after the anniversary of the Licence issue) was not paid until 19 May 2010, breaching the requirement of the Act.</p> <p>The annual licence fee due by 10 May 2009 was paid within the time required by the Act.</p>	
<p>Recommendation 1/10</p> <p>Alinta implement stronger controls to ensure that licence fees are paid in compliance with the Act.</p>	<p>Action Plan 1/10</p> <p>Alinta will implement stronger controls to ensure that licence fees are paid in compliance with the Act. Specifically, the Manager Regulatory Affairs will:</p> <ul style="list-style-type: none"> (a) Diarise the due date for the licence fee (b) Ensure an invoice has been received from the Authority (c) Ensure payment is processed by Accounts so that payment is made within the specified timeframe required by the Act. <p>Responsible Person: Manager Regulatory Affairs</p> <p>Target Date: 31 December 2010</p>

2008 Audit

<p>Issue 3/08</p> <p>Obligation 350 – Metering Code s.4.5(1)</p> <p>The 2008 performance audit report detailed an action plan for Alinta to monitor Alcoa’s investigation of 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>Status</p> <p>This matter has not yet been completed however Alcoa, on Alinta’s behalf, has substantially progressed with a project for implementing formal meter checks at each of Pinjarra cogeneration units 1 and 2.</p>	
<p>Original Action Plan 3/08</p> <p>Alinta will monitor Alcoa’s progress in implementing the Post Audit Implementation Plan proposed by Alcoa.</p> <p>Responsible Person</p> <p>Manager Regulatory Affairs</p> <p>Target Date</p> <p>31 July 2009</p>	<p>Revised Action Plan 3/08</p> <p>Alinta and Alcoa will continue to progress with the implementation of formal meter checks at each of cogeneration units 1 and 2.</p> <p>Responsible Person</p> <p>Manager Operations</p> <p>Target Date</p> <p>30 June 2011</p>