

Alcoa of Australia Limited

**Electricity Generation Licence
(EGL14)**

**2010 Performance Audit
(Independent Assurance) Report**

January 2011

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

19 January 2011

Dear Mr Eaton

Electricity Generation Licence (EGL14) 2010 Performance Audit Report

We have completed the Electricity Generation Licence Performance Audit for Alcoa of Australia 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 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 Alcoa of Australia Limited's (**Alcoa**) 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.

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 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 6 August 2010 and set out in Appendix A.

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This report is made solely to the management of Alcoa for the purpose of its 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.

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 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.

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.

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 Alcoa has in all material respects complied with the conditions of its Licence for the period 1 July 2008 to 30 June 2010.

DELOITTE TOUCHE TOHMATSU

Richard Thomas

Partner

Perth, 19 January 2011

2 Executive Summary

2.1 Introduction and background

The Economic Regulation Authority (the **Authority**) has under the provisions of the Electricity Industry Act 2004 (the **Act**) issued to 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.

2.2 Findings

In considering Alcoa'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 Alcoa has:

- Maintained consistent procedures and controls designed to ensure compliance with its Licence obligations
- Demonstrated a continuously improving awareness of and commitment to regulatory compliance
- Allocated responsibilities to specific staff for meeting key Licence obligations
- Regularly assessed compliance, by way of self assessment, with its Licence obligations, the results of which are then used to report to the Authority.

The following tables summarise the assessments made by the audit on Alcoa'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
	N/A ³	Not rated ⁴	Non-compliant		Compliant			
Audit Priority ²			1	2	3	4	5	
Priority 1								
Priority 2								
Priority 3						1		1
Priority 4		16					9	25
Priority 5		6					7	13
N/A								9
Total	9	22				1	16	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 Alcoa’s response to previous audit recommendations

This audit considered how Alcoa has progressed against the eight action plans detailed in the 2008 performance audit report.

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

- Six action plans have been completed
- Two action plans (items 6 and 8) remain in progress. Both action plans relate to the development of a new network access agreement with Western Power, which is the subject of ongoing negotiation. Revised action plans are 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 Alcoa’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
416	<p>Metering Code s.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.</p>	Priority 3	Compliant – 4	<p>Alcoa has not developed specific mechanisms (e.g. an ASAT requirement) to monitor and ensure compliance with the obligations specified by s.6.1 (2) of the Metering Code.</p> <p>Although we did not observe any evidence to indicate non-compliance with requirements of the Metering Code, without clear definition of the responsibilities of Alcoa and Western Power and without sufficient monitoring arrangements in place, it is more difficult for Alcoa to demonstrate compliance with s.6.1(2) of the Metering Code.</p>
	<p>Recommendation 1/10</p> <p>Once the requirements of s.6.1 (2) of the Metering Code are incorporated into Alcoa’s Network Access Agreement with Western Power, Alcoa refresh its ASAT review to accommodate any change or clarification in relevant responsibilities and obligations.</p>			<p>Action Plan 1/10</p> <p>Alcoa will:</p> <ol style="list-style-type: none"> (1) Incorporate the requirements of section 6.1 (2) of the Metering Code into their Network Access Arrangement (when finalised). (2) Review its ASAT process for EGL compliance and update if deemed necessary to strengthen/clarify the relevant responsibilities and obligations upon Alcoa with regard to (1). <p>Responsible Person(s):</p> <p>(1): Procurement Specialist – Energy (2): Principle Mechanical Engineer – WAO Powerhouses</p> <p>Target Date: 31 July 2011</p>

2.5 Scope and objectives

The audit is designed to gain reasonable assurance regarding Alcoa'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 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 those processes and controls in line with the Licence obligations (see **Appendix B** for reference listing)
- Reporting of findings to Alcoa 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, Alcoa 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 Alcoa'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 Risk/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	Probable	Low	Strong	Priority 5					✓
83	14(1)(b)	Moderate	Probable	Medium	Moderate	Priority 4					✓
84	14(1)(c)	Minor	Unlikely	Low	Strong	Priority 5					✓
85	17(1)	Minor	Probable	Low	Strong	Priority 5					✓
86	31(3)	Minor	Unlikely	Low	Strong	Priority 5					✓
87	41(6)	Moderate	Unlikely	Medium	Strong	Priority 4	✓				
13 Electricity Licences - Licence Conditions and Obligations											
103	EGL 12.2	Moderate	Probable	Medium	Moderate	Priority 4	✓				
104	EGL 12.3	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
105	EGL 13.1	Moderate	Unlikely	Medium	Strong	Priority 4					✓
106	EGL 14.4	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
107	EGL 15.2	Moderate	Unlikely	Medium	Strong	Priority 4					✓
108	EGL 16.4	Moderate	Unlikely	Medium	Strong	Priority 4					✓
109	EGL 17.1	Moderate	Unlikely	Medium	Strong	Priority 4	✓				
110	EGL 18.1	Moderate	Unlikely	Medium	Moderate	Priority 4					✓
111	EGL 19.2	Moderate	Probable	Medium	Moderate	Priority 4	✓				
112	EGL 20.1	Moderate	Unlikely	Medium	Strong	Priority 4					✓
15 Electricity Industry Metering Code - Licence Conditions and Obligations											
309	3.5(6)	Not applicable to Alcoa's operations as Alcoa 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 Alcoa's metering arrangements with Western Power.									
342	3.27	Moderate	Unlikely	Medium	Strong	Priority 4	✓				
349	4.4(1)	Minor	Unlikely	Low	Moderate	Priority 5	✓				
350	4.5(1)	Minor	Unlikely	Low	Moderate	Priority 5					✓
351	4.5(2)	Moderate	Unlikely	Medium	Strong	Priority 4	✓				
363	5.4(2)	Minor	Unlikely	Low	Strong	Priority 5	✓				
365	5.5(3)	Moderate	Unlikely	Medium	Strong	Priority 4					✓
376	5.16	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				

No.	Obligation (clause/section)	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Risk/Priority	Compliance Rating				
							N/R	1	2	3	4
377	5.17	Not applicable to Alcoa's operations as Alcoa does not provide energy to customers.									
378	5.18	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
379	5.19(1)	Clause 5.19 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, these obligations are not applicable to Alcoa's operations.									
380	5.19(2)										
381	5.19(3)										
382	5.19(4)										
384	5.19(6)										
390	5.21(5)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
391	5.21(6)	Moderate	Unlikely	Medium	Moderate	Priority 4	✓				
409	5.27	Clause 5.27 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, this obligation is not applicable to Alcoa's operations.									
416	6.1(2)	Moderate	Probable	Medium	Weak	Priority 3				✓	
418	7.2(1)	Minor	Unlikely	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	Moderate	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 Alcoa'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 Alcoa'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** – Alcoa'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 Alcoa's operations for the period subject to audit.

Obligations determined to be not rateable

Alcoa'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 Procurement Specialist – Energy confirmed that during the period 1 July 2008 to 30 June 2010, Alcoa has not purchased an interest or easement over land. Alcoa owns the land on which its three powerhouses are located.

Assessment of compliance

The table below summarises the audit's assessment of Alcoa'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					6	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 June 2006. Deloitte was appointed, with the Authority's approval to undertake the audit for the period 1 July 2008 to 30 June 2010.
82	A licensee must provide for an asset management system.	Compliant - 5	Through our examination of the Powerhouse Asset Strategies for Pinjarra, Wagerup and Kwinana and Alcoa's Self Assessment Testing (ASAT) dated August 2009 and August 2010, we observed that Alcoa 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 (26 June 2006 to 30 June 2008), Alcoa had not notified the Authority of details of its asset management system until October 2007, 15 months after the specified deadline. We confirmed that Alcoa has since received formal acknowledgement from the Authority of that notification of the asset management system. The Principal Mechanical Engineer WAO Powerhouse 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 Alcoa'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.	Compliant - 5	By obtaining evidence of payment of the 2008/09 period licence fee, we confirmed that the payment was made within the one month period required by s.17 (1) of the Act.
86	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.	Compliant - 5	Through discussions with the Principal Mechanical Engineer WAO Powerhouse, and consideration of Alcoa documented policies and procedures, we determined that Alcoa has a mature incident management system designed to minimise the extent of disruptions to assets on Alcoa premises. 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.

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4.3 Licence Conditions

Obligations determined to be not applicable

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

Obligations determined to be not rateable

Alcoa'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 Principal Mechanical Engineer WAO Powerhouse confirmed that for the period 1 July 2008 to 30 June 2010 there have been no expansions or reductions to Alcoa's generating works on its Wagerup, Pinjarra and Kwinana sites.
106	The Procurement Specialist – Energy confirmed that for the period 1 July 2008 to 30 June 2010, Alcoa has not been prescribed individual performance standards by the Authority.
109	During the period 1 July 2008 to 30 June 2010, Alcoa 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 Procurement Specialist - Energy confirmed that, for the period 1 July 2008 to 30 June 2010, the Authority did not direct Alcoa 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 Alcoa's compliance with the relevant obligations of the Licence Conditions.

N/A	N/R	Non-compliant		Compliant			Total
		1	2	3	4	5	
	5					5	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 Australian Financial Accounting Manager confirmed that:</p> <ul style="list-style-type: none"> Alcoa of Australia is compliant with Australian – International Financial Reporting Standards (A-IFRS) and also compliant with US Generally Accepted Accounting Principles PricewaterhouseCoopers 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>The published Financial Statements of Alcoa Inc. (Alcoa of Australia's parent company) for the years ending 31 December 2008 and 31 December 2009 were examined. Those statements were unqualified, with respect to all subsidiaries of Alcoa Inc.</p>
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 6 August 2010 and 25 August 2010 respectively, commit Alcoa and Deloitte (independent expert) 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.	Compliant - 5	<p>Through discussions with the Procurement Specialist – Energy, we determined that Alcoa has processes in place to respond to request for information from the Authority. We note that:</p> <ul style="list-style-type: none"> Alcoa is required to submit compliance reports to the Authority by 31 August each year Alcoa submitted its 2008 and 2009 compliance reports to the Authority on 26 August 2008 and 27 August 2009 respectively. <p>The Procurement Specialist – Energy confirmed that for the period 1 July 2008 to 30 June 2010, no information requests have been made of Alcoa 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	<p>The Procurement Specialist – Energy confirmed that:</p> <ul style="list-style-type: none"> Alcoa maintains records to evidence formal communications with the Authority, which have been made via post or email No additional requests or instructions have been made of Alcoa in regards of its Generation Licence.

Deloitte: Alcoa 2010 EGL Performance Audit

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4.4 Electricity Industry Metering Code

Obligations determined to be not applicable

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

Obligation	Reason
309	Clause 3.5(6) is not applicable to Alcoa's operations as Alcoa 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 Alcoa'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 Alcoa's operations as Alcoa does not provide energy to customers.
379 - 382, 384	Clause 5.19 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, these obligations are not applicable to Alcoa's operations.
409	Clause 5.27 of the Metering Code relates to the provision of customer information. As Alcoa does not directly provide energy to customers, this obligation is not applicable to Alcoa's operations.

Obligations determined to be not rateable

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

Obligation	Reason
342	Alcoa'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 Alcoa premises, is the property of Western Power (s.9(f)) Western Power must install and operate the metering equipment in accordance with the technical code (s.9(c)). <p>The Principal Electrical Engineer WAO Powerhouse confirmed that for the period 1 July 2008 to 30 June 2010, Alcoa has had no involvement with the installation of meters onto the Western Power network.</p>
349	The Procurement Specialist – Energy confirmed that for the period 1 July 2008 to 30 June 2010, 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. Therefore, neither Alcoa nor Western Power was required to liaise with the other to resolve a discrepancy.
351	The Procurement Specialist – Energy confirmed that for the period 1 July 2008 to 30 June 2010, Alcoa 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 Alcoa's operations for the period subject to audit.

Obligation	Reason
363	Alcoa's Western Power Account Manager confirmed that all meters installed on Alcoa premises 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 Principal Electrical Engineer WAO Powerhouse confirmed that, for the period 1 July 2008 to 30 June 2010, Alcoa did not collect or receive energy data for Western Power (the network operator). Therefore, an assessment of Alcoa's compliance with this obligation cannot be made for the period subject to audit.
378	The Principal Electrical Engineer WAO Powerhouse confirmed that, for the period 1 July 2008 to 30 June 2010, Alcoa did not collect or receive information regarding the energy status of metering points. Therefore, an assessment of Alcoa's compliance with this obligation cannot be made for the period subject to audit.
390 – 391	The Principal Mechanical Engineer WAO Powerhouse confirmed that during the period 1 July 2008 to 30 June 2010, Alcoa did not request a test or audit of the items at s.5.21(1) of the Metering Code. Therefore, an assessment of Alcoa's compliance with these obligations cannot be made for the period subject to audit.
420 – 421	The Procurement Specialist – Energy confirmed that during the period 1 July 2008 to 30 June 2010 Western Power did not make a request of Alcoa to provide its contact details. Therefore, an assessment of Alcoa's compliance with these obligations cannot be made for the period subject to audit.
423	The Procurement Specialist – Energy confirmed that for the period subject to audit, Alcoa was not required to disclose or permit the disclosure of confidential information provided under or in connection with the Metering Code. Therefore, an assessment of Alcoa's compliance with this obligation cannot be made for the period subject to audit.
424 – 428	For the purpose of the Metering Code, “disputes” refers to metering disputes between Alcoa as a Code Participant, a retailer, another generator, the network operator (Western Power), a user or the IMO. As the definition of the Code Participant applies, the only possible party with whom Alcoa would have a dispute is Western Power. The Procurement Specialist - Energy confirmed that no metering disputes have arisen between Western Power and Alcoa during the period 1 July 2008 to 30 June 2010. Accordingly, an assessment of compliance with s.8.1 of the Metering Code cannot be made.

Assessment of compliance

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

N/A	N/R	Non-compliant		Compliant			Total
		1	2	3	4	5	
9	16				1	5	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
319	A Code participant who becomes aware of an outage or malfunction of a metering installation must advise the network operator as soon as practicable.	Compliant - 5	<p>Section 9(f) of the Network Access Agreement between Western Power and Alcoa (the Agreement) outlines that the metering equipment installed under the agreement, even if affixed to Alcoa premises, is the property of Western Power. Therefore, Western Power is responsible for the maintenance and monitoring of the tariff meters installed at Alcoa's facilities.</p> <p>Through discussions with the Principal Electrical Engineer WAO Powerhouse and consideration of Alcoa's metering procedures, we determined that Alcoa has the following processes in place to manage the notification process upon becoming aware of an outage or malfunction:</p> <ul style="list-style-type: none"> • In August 2008, Alcoa implemented a check process at Kwinana, Pinjarra and Wagerup powerhouses that compares the Alcoa transducer pulse signal to Western Power meter data • In instances where the check process identifies anomalies: <ul style="list-style-type: none"> ○ An alarm sounds and is recorded by the control system ○ The Powerhouse Operator contacts the appropriate Alcoa engineer to rectify the alarm. If the problem is found to be with Western Power, the issue is escalated to the Powerhouse Electrical Engineer • Training was provided to Powerhouse staff outlining the requirement to notify Western Power of an outage or malfunction identified • To facilitate timely notification, each of Alcoa's control rooms has a Western Power hotline number displayed in a prominent position. <p>We observed that in the one instance where the alarmed sounded, the process as described above was followed.</p>
350	A Code participant must not knowingly permit the registry to be materially inaccurate.	Compliant - 5	<p>Through discussions with the Principal Electrical Engineer WAO Powerhouse and examination of the Agreement, we determined that:</p> <ul style="list-style-type: none"> • 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 • In response to the opportunity for improvement identified in the 2008 Audit report, Alcoa has installed alarms (from 14 August 2009) in each of its powerhouse control rooms, which are activated when a discrepancy between the Western Power meter data and Alcoa's transducer data is identified. <p>The Principal Electrical Engineer WAO Powerhouse confirmed that during the period 1 July 2008 to 30 June 2010, Alcoa was not aware of any material inaccuracy in the metering database maintained by Western Power.</p>

No	Obligation under Condition	Compliance Rating	Findings
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 Procurement Specialist - Energy confirmed that during the period 1 July 2008 to 30 June 2010, Alcoa did not provide (or charge for the provision of) data under the provisions of the Metering Code.
416	A user must, in relation to a network on which it has an access contract, comply with the rules, procedures, agreements and criteria prescribed.	Compliant - 4	<p>Through discussions with the Principal Mechanical Engineer WAO Powerhouse and the Procurement Specialist – Energy and examination of the Agreement we understand that:</p> <ul style="list-style-type: none"> • Section 6.1(2) of the Metering Code requires Alcoa (as a user) to comply with the network operators communication rules, metrology procedure, service level agreements and the mandatory link criteria • Alcoa has entered into an access contract in the form of the Network Access Agreement with Western Power (dated 19 April 2005). The Agreement: <ul style="list-style-type: none"> ○ Makes reference to various regulations and codes, but not the Metering Code ○ Does not make specific reference to communication rules, the metrology procedure or any relevant service level agreement ○ Does not delineate the responsibilities of Alcoa and Western Power in relation to the metering activities. • Alcoa plays a limited role relating to the metering of its energy data at its three facilities. However, Alcoa does retain the responsibility to understand and ensure compliance with obligations under the communication rules and the metrology procedure in place for the electricity network operated by Western Power. <p>These matters were detailed in the 2008 performance audit report and an action plan was devised by Alcoa to incorporate the required references and responsibilities into a revised access agreement. This action plan has not yet been completed as Alcoa is in ongoing negotiations with Western Power on the development of a new access agreement. Refer to issue 6/08 at section 5 of this report for the revised action plan devised by Alcoa to address this matter.</p> <p>We also note that:</p> <ul style="list-style-type: none"> • Specific mechanisms have not been established to enable Alcoa to ensure it complies with those obligations • The requirement of s.6.1 (2) has not been considered as part of Alcoa’s ASAT review. <p>Although we did not observe any evidence to indicate non-compliance with requirements of the Metering Code, without the clear definition of the responsibilities of Alcoa and Western Power and sufficient monitoring, it is difficult for Alcoa to demonstrate compliance with s.6.1(2) of the Metering Code.</p>

No	Obligation under Condition	Compliance Rating	Findings
	<p>Recommendation 1/10</p> <p>Once the requirements of s.6.1 (2) of the Metering Code are incorporated into Alcoa's Network Access Agreement with Western Power, Alcoa refresh its ASAT review to accommodate any change or clarification in relevant responsibilities and obligations.</p>		<p>Action plan 1/10</p> <p>Alcoa will:</p> <ol style="list-style-type: none"> (1) Incorporate the requirements of section 6.1 (2) of the Metering Code into their Network Access Arrangement (when finalised). (2) Review its ASAT process for EGL compliance and update if deemed necessary to strengthen/clarify the relevant responsibilities and obligations upon Alcoa with regard to (1). <p>Responsible Person(s):</p> <ol style="list-style-type: none"> (1): Procurement Specialist – Energy (2): Principle Mechanical Engineer – WAO Powerhouses <p>Target Date: 31 July 2011</p>
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 Procurement Specialist - Energy and consideration of Alcoa's business practices, we determined that Alcoa maintains electronic and voice communication channels commensurate with the expectations of a major business.</p> <p>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. We note a change in the nominated Alcoa Authorised Officer (now the Procurement Specialist – Energy) has been communicated to Western Power.</p>
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 the Procurement Specialist - Energy and considerations of Alcoa's business practices, we determined that:</p> <ul style="list-style-type: none"> • Alcoa 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 Procurement Specialist – Energy confirmed that for the period 1 July 2008 to 30 June 2010, Alcoa 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) Obtain confirmation of the Authority's acceptance of Alcoa's notification of its asset management system.</p> <p>(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.</p>	<p>(a) Seek formal acceptance from the Authority of the current asset management system.</p> <p>(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.</p> <p>Responsible Person Principal Mechanical Engineer WAO Powerhouse</p> <p>Target Date 31 May 2009</p>	<p>(a) Complete A letter was sent to the Authority requesting formal acceptance of Alcoa's AMS. The Authority replied on 23 September 2009 acknowledging receipt of the AMS information.</p> <p>(b) Complete Asset management procedure was updated. An ASAT has been implemented to monitor compliance on an annual basis.</p>	N/A
2/08	110	Alcoa formalise its schedule of Licence compliance obligations, including assignment of roles and responsibilities to accountable managers and responsible officers.	<p>(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.</p> <p>(b) Formalise regulatory activities into position descriptions.</p> <p>Responsible Person Procurement Specialist - Energy</p> <p>Target Date 31 May 2009</p>	<p>(a) Complete Alcoa has created a timetable to monitor key Licence compliance dates. An ASAT has been implemented to monitor compliance on an annual basis.</p> <p>(b) Complete Responsibility has been assigned to the Procurement Specialist – Energy.</p>	N/A

Rec. No	Ref	Recommendation	Previous Audit Action Plan	Status	Revised action plan (if applicable)
3/08	319	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.	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	Complete As of 14 August 2009, Alcoa had installed alarms at each of its powerhouses, which activates when there is a deviation from the Western Power meter data and Alcoa transducer data.	N/A
4/08	350	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 Western Power's metering database is materially inaccurate	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	Complete As of 14 August 2009, Alcoa had installed alarms at each of its powerhouses, which activates when there is a deviation from the Western Power meter data and Alcoa transducer data.	N/A
5/08	376	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.	(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	(a) Complete The Principal Electrical Engineer WAO Powerhouse confirmed with Western Power that Alcoa's transducers are not considered partial check meters as detailed in the Metering Code. (b) Closed out Not applicable as Alcoa's transducers were confirmed not to be partial check meters.	N/A

Rec. No	Ref	Recommendation	Previous Audit Action Plan	Status	Revised action plan (if applicable)
6/08	416	<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>(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</p> <p>Target Date 31 May 2009</p>	<p>In progress</p> <p>Alcoa is in ongoing negotiations with Western Power to implement a new Agreement. Alcoa has notified Western Power of its wishes to ensure that the Access Agreement states Alcoa's obligations relating to communication and metrology procedures.</p>	<p>Alcoa will:</p> <p>(1) Continue negotiating a new Access Arrangement with Western Power, and will incorporate the requirements of section 6.1 (2) of the Metering Code into the Network Access Arrangement.</p> <p>(2) Review its ASAT process for EGL compliance and update if deemed necessary to strengthen/clarify the relevant responsibilities and obligations upon Alcoa with regard to (1).</p> <p>Responsible Person(s): Action (1): Procurement Specialist – Energy Action (2): Principle Mechanical Engineer – WAO Powerhouses</p> <p>Target Date: 31 July 2011</p>
7/08	422	<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>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</p> <p>Target Date 31 May 2009</p>	<p>Complete</p> <p>Alcoa has reviewed IT security mechanisms to ensure security of confidential information as per section 7 of the Metering Code.</p>	<p>N/A</p>

Rec. No	Ref	Recommendation	Previous Audit Action Plan	Status	Revised action plan (if applicable)
8/08	424 to 428	<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>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>	<p><i>In progress</i></p> <p>Alcoa is in ongoing negotiations with Western Power to implement a new Agreement, which is to include the relevant requirements of the Metering Code.</p>	<p>Alcoa will continue to negotiate 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: July 31 2011</p>

Appendix A – Audit Plan

Appendix B – References

Key Alcoa staff participating in the audit

Position

- Procurement Specialist – Energy
- Principal Electrical Engineer WAO Powerhouse
- Principal Mechanical Engineer WAO Powerhouse
- Australian Financial Accounting Manager

Deloitte staff participating in the audit

Name	Position	Hours
• Richard Thomas	Partner	4
• Andrew Baldwin	Account Director	25
• Ben Fountain	Senior Analyst	51
• Michael Genever	Analyst	8
• Matt Thomson	Partner (QA Review)	1
• Don Gillespie	Account Director (QA Review)	1

Key documents and other information sources examined

- Alcoa Annual compliance reports to the Authority 2008/09 and 2009/10
- Alcoa Inc Annual Report for 2009 and 2010
- Evidence of payment of 2009 licence fee
- Powerhouse Asset Strategy documents
- Alcoa ASAT (Performance Audit) results
- Corporate Affairs Crisis Communication “Dealing with a Disaster or Crisis at an Alcoa Operating Location
- Alcoa correspondence with the Authority
- Advice from Western Power Account Manager, Networks Division re status of meters
- Network Access Agreement with Western Power (April 2005 version)
- Representations from:
 - Procurement Specialist – Energy
 - Principal Mechanical Engineer – WAO Powerhouse
 - Principal Electrical Engineer – WAO Powerhouse
- October 2009 Licence Obligations Register
- Electricity Generation Licence EGL14
- Electricity Industry Metering Code 2005
- Electricity Industry Act 2004.

Appendix C – Post Audit Implementation Plan

2010 Audit

Issue 1/10

Obligation 416 – Metering Code s.6.1(2)

As Alcoa's Network Access Agreement with Western Power does not yet incorporate the respective responsibilities of Alcoa and Western Power in relation to the requirements of s.6.1 (2) of the Metering Code, such responsibilities and obligations may not be fully reflected in ASAT review.

Recommendation 1/10

Once the requirements of s.6.1 (2) of the Metering Code are incorporated into Alcoa's Network Access Agreement with Western Power, Alcoa refresh its ASAT review to accommodate any change or clarification in relevant responsibilities and obligations.

Action Plan 1/10

Alcoa will:

- (1) Incorporate the requirements of section 6.1 (2) of the Metering Code into their Network Access Arrangement (when finalised).
- (2) Review its ASAT process for EGL compliance and update if deemed necessary to strengthen/clarify the relevant responsibilities and obligations upon Alcoa with regard to (1).

Responsible Person(s):

- (1): Procurement Specialist – Energy
- (2): Principle Mechanical Engineer – WAO Powerhouses

Target Date: 31 July 2011

2008 Audit

<p>Issue 6/08</p> <p>Obligation 416 – Metering Code s.6.1(2)</p> <p>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.</p>	
<p>Original Action Plan 6/08</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</p> <p>Target Date: 31 May 2009</p>	<p>Revised Action Plan 6/08</p> <p>Alcoa will:</p> <p>(1) Continue negotiating a new Access Arrangement with Western Power, and will incorporate the requirements of section 6.1 (2) of the Metering Code into the Network Access Arrangement.</p> <p>(2) Review its ASAT process for EGL compliance and update if deemed necessary to strengthen/clarify the relevant responsibilities and obligations upon Alcoa with regard to (1).</p> <p>Responsible Person(s):</p> <p>Action (1): Procurement Specialist – Energy</p> <p>Action (2): Principle Mechanical Engineer – WAO Powerhouses</p> <p>Target Date: 31 July 2011</p>

<p>Issue 8/08</p> <p>Obligations 424-428 – Metering Code s.8.1</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>Original Action Plan 8/08</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</p> <p>Target Date: 31 May 2009</p>	<p>Revised Action Plan 8/08</p> <p>Alcoa will continue to negotiate 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:</p> <p>Procurement Specialist – Energy</p> <p>Target Date: July 31 2011</p>