

## 7 Audit findings

The findings from the audit, based on our interviews with staff and subsequent enquiries made, are summarised in Table 7.1, by audit requirement. The audit findings are shaded:

- **green**, if Horizon Power complies with the requirement in the ringfencing rules
- **orange**, if there is a minor non-compliance with the requirement in the ringfencing rules or a concern in relation to compliance (referred to as other issues)
- **red**, if Horizon Power is not compliant with the requirement in the ringfencing rules.

The audit has identified a number of non-compliances with the ringfencing rules. To date, these non-compliances have not had a material impact on competition in the Pilbara region because there continues to be little competitive activity in the electricity market in the Pilbara region. Notwithstanding, these non-compliances will need to be addressed or the ringfencing rules amended in line with current practices, noting that any amendments to the ringfencing rules will need to be submitted to the ERA for its approval.

If revised ringfencing rules are submitted to the ERA for approval, it must undertake a public consultation process as part of making its decision that the ringfencing rules will ensure the ringfencing objectives in the PNAC will be met. This process would be undertaken in an environment in which a number of stakeholders are concerned about the level of ringfencing within Horizon Power in the context of an application to the Australian Competition and Consumer Commission to authorise the conduct of the ISO. These concerns are likely to be either raised again by stakeholders if the ringfencing rules were amended and/or the ERA is likely to have regard to the issues that have been raised as part of the consultation on the authorisation application.

Additionally, the Executive needs to ensure that any decisions that are made by the business are consistent with the ringfencing rules.

Table 7.1 Audit findings

Audit requirement	Audit finding	Comment
Responsibilities and compliance		
Does the Ringfencing Declaration meet compliance with the ringfencing rules?	Yes	
Does the Ringfencing Declaration require immediate reporting of breaches to the Manager, Network Regulation and Open Access?	Yes	
Has a Ringfencing Declaration been signed by all Horizon Power staff?	Yes	
Are ringfencing training records complete and up-to-date?	Yes	
Have all Horizon Power staff been trained on Horizon Power's ringfencing requirements under the Code and the ringfencing rules?	No	The records indicate that one person has not completed the training, but this appears to be a technical glitch as this person has signed the Ringfencing Declaration and claims to have completed the training. Some have not completed the training within a reasonable period of time (refer section 3.3).

Audit requirement	Audit finding	Comment
Have any breaches of the ringfencing rules been reported to the Manager, Network Regulation and Open Access?	No	Despite breaches of the ringfencing rules being identified in this audit, none have been reported to the Manager, NROA, and therefore none have been reported to the ERA.
Have any breaches of the ringfencing rules been reported to the ERA?	No	
Prevention of cross subsidies		
Is revenue received by the Horizon Power Pilbara Network Business from the provision of goods and services to an Associate or deemed associate separately identified in the Horizon Power Pilbara Network Business accounts?	Yes	
Is expenditure by the Horizon Power Pilbara Network Business on the provision of goods and services by an Associate or deemed associate separately identified in the Horizon Power Pilbara Network Business accounts?	N/A	No goods or services provided by an Associate or deemed associate to Horizon Power Pilbara Network.
Is there any evidence that Horizon Power Pilbara Network Business cost or revenue items are attributed or allocated more than once by Horizon Power?	No	
Is there any evidence that the same cost or revenue items has been treated as both a direct and an indirect cost or revenue item?	No	
Is there any evidence that the same cost has been recovered more than once through tariffs or fees?	No	There is evidence that a cost is not being fully recovered through tariffs or fees (refer section 5.3).
Are all unregulated costs allocated to the unregulated business?	Yes	
Are these costs ringfenced from the recovery of costs through regulated services?	Yes	
Have the account codes for which costs are directly attributable to a location, function and where applicable, category of service, been identified?	Yes	
Are the costs for each of these account codes being directly attributed to the appropriate location, function and, where applicable, category of service?	Yes	
Has a Cost Allocation Methodology been established?	Yes	
Is it being maintained?	No	The implementation of the CAM in Horizon Power's systems has been maintained, but the internal CAM document was not reviewed prior to the second pricing period and reflects an out of date organisational structure. This is an administrative matter that will not have any effect on outcomes.
Does the Cost Allocation Methodology provide a more detailed list of Horizon Power's shared cost and revenue items, and the allocation method applied?	Yes	

Audit requirement	Audit finding	Comment
Have each of the operations shared costs been allocated (based on the most appropriate allocator) to the appropriate location, function and where required, category of service?	Yes	Based on a sample audit.
Have each of the corporate shared costs been allocated (based on the most recent activity based costing exercise) to the appropriate location, function and where required, category of service?	Yes	Based on a sample audit.
Has indirect revenue been allocated (based on the most appropriate allocator) to the appropriate location, function and where required, category of service?	Yes	Based on a sample audit.
Have Horizon Power's inception-to-date assets and liabilities been allocated (based on the most appropriate allocator) to the appropriate location, function and where required, category of service, based on the most appropriate allocator?	Yes	Based on a sample audit.
Does the Cost Allocation Methodology provide a more detailed list of assets and liabilities, and the allocation method applied?	Yes	
<b>Competition Protection Measures</b>		
Is there any evidence that staff in the Horizon Power Pilbara Network Business are treating that part of the Horizon Power business that provides and markets contestable generation or retail electricity services in the Pilbara region as if they were part of the same legal entity?	Yes	Staff in the contestable part of the business are directly accessing staff providing covered network services as if they are in the same legal entity (refer section 6.3.1).
Is there any evidence that staff in the Horizon Power Pilbara Network Business are dealing or offering to deal with that part of the Horizon Power business that provides and markets contestable generation or retail electricity services in the Pilbara region and a competitor (or potential competitor) of Horizon Power on terms and conditions that are not substantially the same?	No	
Is there any evidence that staff in the Horizon Power Pilbara Network Business are not providing substantially the same quality, reliability and timeliness of service to that part of the Horizon Power business that provides and markets contestable generation or retail electricity services in the Pilbara region and a competitor (or potential competitor) of Horizon Power?	Yes	As staff in the contestable part of the business are directly accessing staff providing covered network services, they are receiving a timelier service than their competitors (refer section 6.3.1).
Is there any evidence that staff in the Horizon Power Pilbara Network Business have disclosed to that part of the Horizon Power business that provides and markets contestable generation or retail electricity services in the Pilbara region information that the Horizon Power Pilbara Network Business has obtained through its dealings with a competitor (or potential competitor) of Horizon Power where the disclosure would, or would be likely to, provide an advantage to Horizon Power?	No	
Has Horizon Power Pilbara Network Business communicated the ringfencing rules and other relevant policies and procedures to all staff?	Yes	

Audit requirement	Audit finding	Comment
Does the Horizon Power Pilbara Network Business monitor compliance of the ringfencing rules?	Yes	
Does the Horizon Power Pilbara Network Business report on compliance to its staff?	N/A	No breaches reported to date, and this is the first independent audit.
Is there any evidence that business development activities associated with the covered Pilbara network are being done by the Commercial and Business Development Division rather than the Network Regulation and Open Access team?	Yes	Staff in the business development team are bypassing the NROA team. Business development activities associated with the Pilbara Green Link project are being undertaken by a newly created PGL team that is not part of the NROA team or the Commercial and Business Development Division (refer section 6.3.1).
Is there a separate telephone number for network-related calls?	Yes	
Is the separate telephone number being used by customers of the covered Pilbara network?	Not necessarily	Customers may also use the telephone number for billing enquiries, with the Interactive Voice Response placing calls in the appropriate queue.
Is the metering team maintaining the metering systems and processes?	No	The responsibility for maintaining the metering systems and processes was not transferred to the metering team, as agreed prior to finalising the ringfencing rules. The metering systems and processes continue to be maintained by the same team that maintains the retail billing system (refer section 6.3.1).
Is there any evidence that employees in the contestable part of the business have access to commercially sensitive information held by Future Energy Systems?	No	Data is provided via Power BI reports with aggregated data.
Is all documentation relating to long term planning and forecasting quarantined from employees providing contestable services?	Yes	
Are ringfencing training records for staff in Asset Management Support, Capacity Management Support and Engineering Services complete and up-to-date?	Yes	
Is all commercially sensitive information in the possession of Asset Management Support, Capacity Management Support and Engineering Services protected and quarantined from employees providing contestable services?	Yes	It is quarantined from employees in other Divisions that provide contestable services, but employees within Asset Management Support, Capacity Management Support and Engineering Services may provide covered network and contestable services.

Audit requirement	Audit finding	Comment
Is there any evidence that the HPCC has managed the Horizon Power coastal network in a way that is not in accordance with the Pilbara networks rules and the Independent System Operator's (ISO's) directions and protocols?	No	
Is there any evidence that the HPCC has dispatched Horizon Power's generators in a way that is not in accordance with procedures?	No	Despite the presence of a Service Agreement between the HPCC and the contestable part of Horizon Power, there appears to be an expectation by those in the contestable part of the business that the HPCC will dispatch Horizon Power's generators to maximise returns rather than comply with the procedures. As indicated above, there is no evidence that the HPCC is not complying with the procedures.
Is there any evidence that the HPCC has interfered with any generator dispatch other than when required to do so in accordance with the ISO's direction?	No	
Are the operations of the HPCC being undertaken in a physically discrete room, separate from the rest of the business?	Yes	
Is the information and data shown on monitors in that separate room visible to anyone within the business other than the HPCC?	No	Information could be visible if a person looked into the room from below the frosting
Are ringfencing training records for staff in the HPCC complete and up-to-date?	Yes	
Are all commercially sensitive information in the possession of HPCC protected and quarantined from employees providing contestable services?	Yes	
To what extent are staff located in the Bentley office that provide or market contestable generation or retail electricity services in the Pilbara region located in a different building to those that provide or market covered network services in the Pilbara region?	Located in separate buildings	Although there are no restrictions on access to any of the buildings.
To what extent are staff located in the Karratha and Port Hedland offices that provide or market contestable generation or retail electricity services in the Pilbara region located in different parts of the building to those that provide or market covered network services in the Pilbara region?	Staff in the Karratha office co-located in same part of building	Refer section 6.3.2.
Is the office and staff register complete and up-to-date?	Yes	
Is there any evidence that the Horizon Power Pilbara Network Business has disclosed confidential information to any person, including Horizon Power staff that provide or market contestable generation or retail electricity services?	No	
Have changes been implemented to Horizon Power's IT systems and processes to support commercially sensitive information being kept confidential?	Yes	

Audit requirement	Audit finding	Comment
Are records of training on preventing unauthorized access of commercially sensitive information current and up-to-date?	Yes	This training is part of the ringfencing training (refer section 3.3).
Has the process followed by the contestable parts of the business to ensure that commercially sensitive information is only accessed when authorised to do so been audited? If so, when did the audits occur? What were the outcomes of those audits?	Yes  Monthly  Issues identified during audits  NROA team effectively identifying and resolving issues	The identification of issues could be used as a trigger for conducting refresher ringfencing training.

Source: ACIL Allen