

EDL Pilbara Pty Ltd
Electricity Retail Licence (ERL16)

2020 Performance Audit

November 2020

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1. Executive summary

1.1 Introduction

The Economic Regulation Authority (the ERA) has, under the provisions of the *Electricity Industry Act 2004* (the 'Act'), issued to EDL Pilbara Pty Ltd ('EDL Pilbara'), a wholly owned subsidiary of Energy Developments Pty Ltd ('EDL'), an Electricity Retail Licence ('ERL16' or the 'Licence').

Ernst & Young ('we or 'EY') was engaged by EDL to conduct an independent performance audit of EDL Pilbara's compliance with the conditions of the Licence. The performance audit was required to be conducted under Section 13 of the Act with this audit relating to the period 1 September 2016 to 30 August 2020 (the 'reporting period').

EY was approved by the ERA to conduct the performance audit, with the Audit Plan approved by the ERA on 2 October 2020.

1.2 Background

EDL is a global producer of energy operating across five countries, with a focus on Australia with 58 power stations producing 749 MW. EDL, through relevant subsidiaries, owns and operates a liquefied natural gas (LNG) facility at the Maitland Industrial Estate in Western Australia's Pilbara region. The facility was originally designed to service the EDL-owned gas-fired power stations being built in the west Kimberley. However, as the LNG Facility's electricity generation capacity exceeded its needs, EDL Pilbara sought and was granted a Licence to supply electricity under a commercial arrangement to Supagas Pty Ltd (Supagas), a business co-located on the facility's leasehold land in the Maitland Industrial Estate. The Licence commenced from 27 August 2011.

EDL Pilbara only supplies electricity to Supagas, and this supply is over 160 MWh per annum. Under the Code of Conduct for the Supply of Electricity to Small Use Customers 2018, Supagas is not a defined Small Use Customer. Hence, this does not trigger the need for EDL Pilbara to report under the conditions when supplying electricity to a Small Use Customer.

1.3 Scope

Section 13 of the Electricity Industry Act 2004 requires EDL Pilbara to provide the ERA with a performance audit of the effectiveness of the measures taken by EDL Pilbara to meet the performance criteria specified in the Licence. The audit is to be conducted in accordance with the regulatory framework prescribed in the Electricity Industry Act 2004, ERL16, the ERA's Electricity Compliance Reporting Manual (Reporting Manual) and the ERA's 2019 Audit and Review Guidelines: Electricity and Gas Licences.

The ERA has summarised the requirements of the applicable legislation that it expects to be reported and included in the scope of the audit in its June 2020 Electricity Compliance Reporting Manual (Reporting Manual).

The Audit Plan approved by the ERA for this audit sets out the 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, as listed in Table 1.

1.4 Objective

The performance audit is defined as an examination of the measures taken by EDL Pilbara to meet the performance criteria specified in its Licence.

Section 13 of the *Electricity Industry Act 2004* requires EDL Pilbara to provide the ERA with a performance audit conducted by an independent expert appointed by the ERA. The performance audit is an audit of the effectiveness of the measures taken by EDL Pilbara to meet the performance criteria specified in the licence - ERL 16 and designed to provide reasonable assurance. The audit will be conducted in accordance with the regulatory framework prescribed in the Industry Act, the Licence and the Guidelines.

The audit will focus on EDL Pilbara's systems, processes and regulatory controls to ensure compliance to obligations, standards, outputs and outcomes required by the respective licences by considering:

- ▶ Process compliance - the effectiveness of systems and procedures in place throughout the audit period including the adequacy of internal controls.
- ▶ Outcome compliance - the actual performance against standards prescribed in the licence throughout the audit period.
- ▶ Output compliance - the existence of the output from systems prescribed in the licence throughout the audit period i.e. records exist to provide assurance that procedures are being consistently followed and controls are being maintained).
- ▶ Integrity of reporting - the completeness and accuracy of compliance and performance reporting to the ERA.
- ▶ Compliance with any individual licence conditions - the actual performance against the requirements imposed on the specific licensee by the ERA or specific matters raised by the ERA.

Table 1: List of the twelve obligations relevant to this performance audit.

No.	Obligation
101	A licensee must provide the ERA with a performance audit conducted by an independent expert acceptable to the ERA, not less than once every 24 months (unless varied by the ERA)
105	A licensee must pay the prescribed licence fees to the ERA according to clauses 6, 7 and 8 of the <i>Economic Regulation Authority (Licensing Funding) Regulations 2014</i> .
106	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.
107	A licensee must pay the costs of taking an interest in land or an easement over land.
110	If a designation under section 71(1) of the <i>Electricity Industry Act</i> is in force, a licensee must perform the functions of a retailer of last resort and must carry out the supplier of last resort plan if it comes into operation under section 70 of the <i>Electricity Industry Act</i> .
119	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.
120	A licensee must comply with any individual performance standards prescribed by the ERA.
121	A licensee must comply, and require its auditor to comply, with the ERA's standard audit guidelines for a performance audit.
123	In the manner prescribed, a licensee must notify the ERA, if it is under external administration or if there is a significant change in the circumstances that the licence was granted which may affect the licensee's ability to meet its obligations.
124	A licensee must provide the ERA, in the manner prescribed, with any information that the ERA requires in connection with its functions under the <i>Electricity Industry Act</i> .
125	A licensee must publish any information as directed by the ERA to publish, within the timeframes specified.
126	Unless otherwise specified, all notices must be in writing.

1.5 EDL Pilbara's responsibility for compliance with the conditions of the Licence

EDL Pilbara is responsible for:

- ▶ Ensuring that it has complied in all material respects with the requirements of the Licence as specified in the Guidelines;
- ▶ Establishing and maintaining an effective system of internal control over its systems designed to achieve its compliance with the Licence requirements;
- ▶ Implementing processes for assessing its compliance requirements and for reporting its level of compliance to the ERA; and
- ▶ Implementing corrective actions for instances of non-compliance (if applicable).

1.6 Approach

Our executed approach allowed us to provide reasonable assurance over the EDL Pilbara's compliance with the Licence, consistent with ASAE 3100 Compliance Engagements.

Our approach is designed to obtain sufficient and appropriate audit evidence in order to provide reasonable assurance over the specified audit scope.

Our approach for this audit involved the following activities, which were undertaken during the period September to November 2020:

- ▶ Utilising the Audit Guidelines and Reporting Manuals as a guide, to the development of a risk assessment, which involved discussions with key staff;
- ▶ Document review to assess controls;
- ▶ Development of an Audit Plan (see Appendix B) for approval by the ERA;
- ▶ Interviews with and representations from relevant EDL Pilbara staff to gain understanding of process controls (see Appendix A for staff involved);
- ▶ Review of documents and walkthrough of processes and controls to assess the overall compliance with and effectiveness of those processes and controls in accordance with Licence obligations (see Appendix B for reference listing);
- ▶ Review of the EDL Pilbara's submission of its 2017, 2018 and 2019 compliance reports to the ERA by 31 August each year
- ▶ Sample testing where relevant for obligations rated as an audit Priority 3 and above; and
- ▶ Reporting of findings to EDL Pilbara for review and response.

There were no major deviations from the Audit Plan (Appendix B) as approved by the ERA as no issues or concerns were identified that indicated a need to modify the nature and levels of testing, and hence the priority rating. These non-major deviations included:

- ▶ A change to EDL Pilbara interviewees - In the audit plan, interviewees at EDL Pilbara were nominated to be with:
 - ▶ Senior Commercial Analyst - this interview was undertaken

- ▶ Commercial Manager Remote Energy - this interview was undertaken
- ▶ LNG Duty Plant Manager - this interview was undertaken, noting that the job title had been updated to LNG Plant and Transport Manager
- ▶ Financial Controller Remote Energy - this interview was not undertaken as sufficient information was obtained through the other interviews undertaken
- ▶ A change to an EY audit team member - whereby Shabhan Burke did not work on the audit beyond the planning phase

The work schedule was defined in the Audit Plan (Appendix B) and summarised in Appendix A.

No site visits to the LNG facility were undertaken, but interviews in the Perth offices of EDL Pilbara personnel were undertaken along with online interviews with site personnel (see Appendix A).

1.7 Observations

In considering EDL Pilbara's internal control procedures, structure and environment, its compliance culture and its information systems specifically relevant to licence obligation 124, we observed that EDL Pilbara:

- ▶ Ensures oversight over its compliance requirements through a Compliance Task Register, which is maintained centrally
- ▶ Maintains procedures and controls designed to help facilitate compliance with its Licence obligations

EDL Pilbara's regulatory obligations on its operations as a retailer are minimal, with the majority of the Licence obligations applicable to EDL Pilbara operations being generic to the requirements of all electricity licence holders.

1.8 Findings

Table 2 below sets out the rating scale defined by the ERA in the Audit Guidelines for the assessment of the level of compliance and the adequacy of controls in place.

Table 3 below summarise the assessments made by the audit on EDL Pilbara's compliance and the adequacy of controls in place for EDL Pilbara to manage its compliance with the relevant obligations or conditions of the Licence. The summary tables show there were no material non-compliances identified.

Table 2: Compliance and controls rating scales

Controls rating		Compliance rating	
Rating	Description	Rating	Description
A	Adequate controls - no improvement needed	1	Compliant
B	Generally adequate controls - improvement needed	2	Non-compliant - minor effect on customers or third parties
C	Inadequate controls - significant improvement required	3	Non-compliant - moderate effect on customers or third parties
D	No controls evident	4	Non-compliant - major effect on customers or third parties
N/P	Not performed - A controls rating was not required	N/R	Not rated - No activity took place during the audit period

Table 3: Compliance and controls rating summary table.

		Compliance rating					Total
		1	2	3	4	N/R	
Controls rating	A	1	0	0	0	0	1
	B	0	0	0	0	0	0
	C	0	0	0	0	0	0
	D	0	0	0	0	0	0
	N/P	8	0	0	0	3	11
	Total	9	0	0	0	3	12

1.9 Limitations

We understand that a copy of this report will be provided to the ERA for the purpose of reporting on the performance audit for the Licence. We agree that a copy of this report may be provided to the ERA for its information in connection with this purpose, but only on the basis that we accept no duty, liability or responsibility to the ERA in relation to the report. We accept no duty, responsibility or liability to any party, other than EDL Pilbara, in connection with the report or this engagement.

Our engagement provides reasonable assurance as defined in ASAE 3100. Reasonable assurance means a high but not absolute level of assurance. There are inherent limitations in any assurance engagement, and these include the use of testing, the inherent limitations of any internal control structure, and the fact that most assurance evidence is persuasive rather than conclusive.

Hence, because of the inherent limitations of any compliance procedure, it is possible that fraud, error or non-compliance may occur and not be detected. A reasonable assurance engagement is not designed to detect all instances of non-compliance, as the engagement is not performed continuously throughout the period and the procedures performed in respect of compliance are undertaken on a test basis.

The conclusion expressed in this report has been formed on the above basis and the steps outlined in the Audit Plan. 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.

1.10 EDL Pilbara's response to previous audit recommendations

Not applicable. The EDL Pilbara 2016 Electricity Retail Performance Audit Report identified no non-compliances. However, the 2013 Electricity Retail Performance Audit Report audit report did identify one non-compliance, and this has since been addressed by EDL Pilbara.

1.11 Recommendations from current audit

This audit does not make any recommendations in relation to EDL Pilbara's compliance with the conditions of the Licence.

2. Summary of findings

2.1 Ratings scales defined by the ERA

Table 4 sets out the rating scale defined by the ERA in the Audit Guidelines for the assessment of the level of compliance with the conditions of the Licence.

Table 4: Compliance and controls rating scales

Controls rating		Compliance rating	
Rating	Description	Rating	Description
A	Adequate controls - no improvement needed	1	Compliant
B	Generally adequate controls - improvement needed	2	Non-compliant - minor effect on customers or third parties
C	Inadequate controls - significant improvement required	3	Non-compliant - moderate effect on customers or third parties
D	No controls evident	4	Non-compliant - major effect on customers or third parties
N/P	Not performed - A controls rating was not required	N/R	Not rated - No activity took place during the audit period

Table 5 summarises the assessments made by the audit on EDL Pilbara's compliance and the adequacy of controls in place for EDL Pilbara to manage its compliance with the twelve obligations or conditions of the Licence.

Table 5: Compliance and controls rating summary table.

		Compliance rating					Total
		1	2	3	4	N/R	
Controls rating	A	1	0	0	0	0	1
	B	0	0	0	0	0	0
	C	0	0	0	0	0	0
	D	0	0	0	0	0	0
	N/P	8	0	0	0	3	11
	Total	9	0	0	0	3	12

Specific assessments for each Licence obligation have been summarised in Table 6 and detailed findings, including relevant observations, recommendations and action plans have been presented in Section 3.

Table 6: Compliance and Controls Summary

No.	Obligation	Audit priority	Adequacy of controls rating					Compliance rating				
			A	B	C	D	N/P	1	2	3	4	N/R
11) Electricity Industry Act - Licence Conditions and Obligations												
101	A licensee must provide the ERA with a performance audit conducted by an independent expert acceptable to the ERA, not less than once every 24 months.	Priority 4					✓	✓				
105	A licensee must pay the prescribed licence fees to the ERA according to clauses 6, 7 and 8 of the Economic Regulation Authority (Licensing Funding) Regulations 2014.	Priority 4					✓	✓				
106	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.	Priority 5					✓	✓				
107	A licensee must pay the costs of taking an interest in land or an easement over land.	Priority 4					✓	✓				
110	If a designation under section 71(1) of the Electricity Industry Act is in force, a licensee must perform the functions of a retailer of last resort and must carry out the supplier of last resort plan if it comes into operation under section 70 of the Electricity Industry Act.	Priority 4					✓					✓
12) Electricity Licences - Licence Conditions and Obligations												
119	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.	Priority 4					✓	✓				

No.	Obligation	Audit priority	Adequacy of controls rating					Compliance rating				
			A	B	C	D	N/P	1	2	3	4	N/R
120	A licensee must comply with any individual performance standards prescribed by the ERA.	Priority 4					√					√
121	A licensee must comply, and require its auditor to comply, with the ERA's standard audit guidelines for a performance audit.	Priority 4					√	√				
123	In the manner prescribed, a licensee must notify the ERA, if it is under external administration or if there is a significant change in the circumstances that the licence was granted which may affect the licensee's ability to meet its obligations.	Priority 4					√	√				
124	A licensee must provide the ERA, in the manner prescribed, with any information that the ERA requires in connection with its functions under the Electricity Industry Act.	Priority 3	√					√				
125	A licensee must publish any information as directed by the ERA to publish, within the timeframes specified.	Priority 4					√					√
126	Unless otherwise specified, all notices must be in writing.	Priority 4					√	√				

3. Detailed findings, recommendations and action plans

This section has been structured into subsections for the relevant Codes and Regulations against which we assessed EDL Pilbara's compliance. The Codes and Regulations relevant to EDL Pilbara's operations are:

- ▶ *Electricity Industry Act 2004*
- ▶ Electricity Licences - Licence Conditions and Obligations.

Each section contains:

- ▶ **Assessment of compliance and control adequacy** - the conclusions from our audit procedures and an assessment of EDL Pilbara's compliance with the applicable obligations.

These tables include:

- ▶ **Findings** - the auditor's understanding of the process and any issues that have been identified during the audit
- ▶ **Recommendations** - recommendations for improvement or enhancement of the process or control, if appropriate. **Note that this audit did not make any recommendations**
- ▶ **Action plans** - EDL Pilbara's formal response to audit recommendations, providing details of action to be implemented to address the specific issue raised by the audit, assignment of the actions to appropriate staff and corresponding completion dates for the actions. **Note that since this audit did not make any recommendations, no action plans were developed.**

The compliance and control adequacy ratings are summarised below for each sub-section.

Controls adequacy rating						Compliance rating						
A	B	C	D	NP	Total		1	2	3	4	NR	Total
4.1) Electricity Industry Act - Licence Conditions and Obligations												
0	0	0	0	5	5		4	0	0	0	1	5
4.2) Electricity Licences - Licence Conditions and Obligations												
1	0	0	0	6	7		5	0	0	0	2	7

3.1 Recommendations from this audit

This audit does not make any recommendations in relation to EDL Pilbara's compliance with the conditions of the Licence.

3.2 Detailed findings - *Electricity Industry Act 2004*

No.	Obligation	Findings			
101	<p>A licensee must provide the ERA with a performance audit conducted by an independent expert acceptable to the ERA, not less than once every 24 months.</p> <p>(Unless the reporting interval is extended by the ERA)</p> <p><i>Section 13(1) - Condition 5.3.1</i></p> <table border="1" data-bbox="259 683 851 751"> <tr> <td data-bbox="259 683 450 751">Priority 4</td> <td data-bbox="456 683 647 751">Controls rating: N/P</td> <td data-bbox="654 683 851 751">Compliance rating: 1</td> </tr> </table>	Priority 4	Controls rating: N/P	Compliance rating: 1	<p>EY was engaged by EDL Pilbara, the licensee, to undertake a performance audit engagement pending approval of EY as an “independent expert” by the ERA. The ERA approved the appointment of EY to conduct the performance audit of EDL Pilbara Pty Ltd’s electricity retail licence ERL16 on 3 August 2020.</p> <p>ERL16 was granted to EDL Pilbara on 27 August 2011, with the first performance audit required in 2013.</p> <p>Following the outcome of the first performance audit in 2013, the ERA determined that due to EDL Pilbara having demonstrated a high level of compliance with its licence conditions, that the period of time between audits would be increased from 24 to 36 months, and hence the subsequent reporting period would be from 1 September 2013 to 31 August 2016, with the report on the Audit to be provided to the Authority by 30 November 2016. EY obtained evidence to demonstrate the extension of the reporting period by the ERA.</p> <p>Following the outcome of the second performance audit in 2016, the ERA again determined that due to EDL Pilbara having maintained sound management and regulatory practices to ensure compliance with its licence condition, that the period of time between audits would be increased from 36 to 48 months, and hence the subsequent reporting period would be from 1 September 2016 to 30 August 2020, with the report on the Audit to be provided to the Authority by 30 November 2020. EY obtained evidence to demonstrate the extension of the reporting period by the ERA.</p> <p>The third Performance Audit covers the period 1 September 2016 to 30 August 2020 with the requirement for EDL Pilbara to provide the outcome of the Performance Audit to the ERA by 30 November 2020.</p> <p>EDL will be considered in compliance with Obligation 101 when it provides the ERA with EY’s Performance Audit report for the period 1 September 2016 to 30 August 2020.</p>
Priority 4	Controls rating: N/P	Compliance rating: 1			
105	<p>A licensee must pay the prescribed licence fees to the ERA according to clauses 6, 7 and 8 of the <i>Economic Regulation Authority (Licensing Funding) Regulations 2014</i>.</p> <p><i>ERA (Licensing Funding) Regulations 2014</i></p> <p><i>Condition 4.2.1</i></p> <table border="1" data-bbox="259 1377 851 1445"> <tr> <td data-bbox="259 1377 450 1445">Priority 4</td> <td data-bbox="456 1377 647 1445">Controls rating: N/P</td> <td data-bbox="654 1377 851 1445">Compliance rating: 1</td> </tr> </table>	Priority 4	Controls rating: N/P	Compliance rating: 1	<p>Clause 6 relates to the annual licence charges payable by EDL Pilbara. ERL16 was granted on 27 August 2011 and EDL Pilbara has since incurred annual licence fees. The annual licence charge is payable within one month after the day on which the licence was granted and within one month after each anniversary of that day. For the period under audit, invoices from the ERA to EDL Pilbara were sighted and system evidence of payments from EDL Pilbara to the ERA were obtained. All payments to the ERA were within one month of the anniversary.</p> <p>Clause 7 relates to the liability and amount for standing charges, with Clause 8 relating to the assessment and payment of these standing charges. The ERA requests information from EDL Pilbara to assist in the calculation of the standing charges, yet we understand from the Senior Commercial Analysts that no standing charges result due to EDL Pilbara having a single customer, Supagas.</p>
Priority 4	Controls rating: N/P	Compliance rating: 1			

No.	Obligation	Findings			
106	<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> <p><i>Section 31(3) - Condition 4.1.1</i></p> <table border="1" data-bbox="259 635 851 703"> <tr> <td data-bbox="259 635 450 703">Priority 5</td> <td data-bbox="450 635 645 703">Controls rating: N/P</td> <td data-bbox="645 635 851 703">Compliance rating: 1</td> </tr> </table>	Priority 5	Controls rating: N/P	Compliance rating: 1	<p>Through discussions with EDL’s LNG Plant and Transport Manager and the Senior Commercial Analyst we understood that the primary causes of interruption, suspension or restriction of supply of electricity to its customer would result from:</p> <ul style="list-style-type: none"> ▶ Gas supply issues. EDL Pilbara has minimised risks with issues to the gas supply by maintaining long-term supply agreements with its supplier. ▶ Shutdowns due to planned maintenance. In these instances, where all or parts of the plant are required to be taken offline, we understand EDL endeavours to work with its customer to identify a mutually agreeable time in which the maintenance can occur to attempt to maintain the supply of electricity. ▶ Shutdowns due to unplanned maintenance resulting from plant or equipment failures. EDL has a comprehensive maintenance schedule and regular shut down periods to maintain the plant and equipment and hence minimise the instances of plant or equipment failures and hence unplanned maintenance. ▶ Extreme weather events. In such instances, EDL Pilbara is required to shut down for safety reasons and this is communicated to its customer. <p>In the event of an unplanned impact to the supply of electricity to its customer, EDL Pilbara can be considered to take reasonable measures to minimise the extent or duration through the relevant power station. by:</p> <ul style="list-style-type: none"> ▶ Maintaining an inventory of critical spare parts due to the remoteness of its location ▶ Maintaining a black-start generator, with appropriate diesel supply and personnel trained to safely and efficiently operate the generator ▶ Having continuous monitoring of the plant both onsite and remotely to identify and respond immediately to issues <p>EDL Pilbara take reasonable steps to minimize disruptions of the supply of electricity. This is completed through preventative maintenance and through training and procedures to ensure the start-up of the facility is completed quickly and safely to resume operations and the supply of electricity to Supagas.</p>
Priority 5	Controls rating: N/P	Compliance rating: 1			
107	<p>A licensee must pay the costs of taking an interest in land or an easement over land.</p> <p><i>Section 41(6) - Condition 4.1.1</i></p> <table border="1" data-bbox="259 1393 851 1461"> <tr> <td data-bbox="259 1393 450 1461">Priority 4</td> <td data-bbox="450 1393 645 1461">Controls rating: N/P</td> <td data-bbox="645 1393 851 1461">Compliance rating: 1</td> </tr> </table>	Priority 4	Controls rating: N/P	Compliance rating: 1	<p>The Senior Commercial Analyst confirmed that EDL Pilbara sub-leases its property from EDL LNG, which in turn leases the site from the WA Government. Both the head lease between DevelopmentWA (formerly Landcorp) and the sub-lease expire in March 2026.</p> <p>Invoices for lease payments under the head lease, from DevelopmentWA (formerly Landcorp), from 1 September 2016 to 30 August 2020, were sighted with subsequent payments by EDL Pilbara evidenced through EDL’s accounting system.</p>
Priority 4	Controls rating: N/P	Compliance rating: 1			

No.	Obligation	Findings			
110	<p>If a designation under section 71(1) of the <i>Electricity Industry Act</i> is in force, a licensee must perform the functions of a retailer of last resort and must carry out the supplier of last resort plan if it comes into operation under section 70 of the <i>Electricity Industry Act</i>.</p> <p><i>Section 76 - Condition 6.7.1</i></p> <table border="1"> <tr> <td>Priority 4</td> <td>Controls rating: N/P</td> <td>Compliance rating: N/R</td> </tr> </table>	Priority 4	Controls rating: N/P	Compliance rating: N/R	<p>The Senior Commercial Analyst confirmed that for the period 1 September 2016 to 30 August 2020, the ERA did not designate EDL Pilbara as a 'retailer of last resort' under section 71(1) of the <i>Electricity Industry Act 2004</i>.</p> <p>Furthermore, it is noted that it is unlikely that EDL Pilbara would have received such a designation due to it not being connected to the grid and also due to it typically being the larger retailers that are designated a retailer of last resort.</p>
Priority 4	Controls rating: N/P	Compliance rating: N/R			

3.3 Detailed findings - Electricity Licences - Licence Conditions and Obligations

No.	Obligation	Findings			
119	<p>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.</p> <p><i>Section 11 - Condition 4.3.1</i></p> <table border="1"> <tr> <td>Priority 4</td> <td>Controls rating: N/P</td> <td>Compliance rating: 1</td> </tr> </table>	Priority 4	Controls rating: N/P	Compliance rating: 1	<p>EDL Pilbara Pty Ltd is a subsidiary of Energy Developments Pty Ltd.</p> <p>Financial statements, which were independently audited and deemed to be in compliance with Australian Accounting Standards Board Standards, were viewed for Energy Developments Pty Ltd for the:</p> <ul style="list-style-type: none"> ▶ 18-month period, ending 31 December 2017 ▶ 12-month period, ending 31 December 2018 ▶ 12-month period, ending 31 December 2019 <p>During the reporting period, EDL was acquired by the CK William Group, and as a result changed to a calendar year reporting period for its financial statements. Hence for the period 1 January 2020 to 30 September 2020, audited financial statements were not available.</p> <p>However, inquiries with the Senior Commercial Analyst indicated that the approach and control environment relating to the reporting of financial information had not changed during this period. Furthermore, the approach to using accounting standards had not changed in the period and therefore compliance with Australian Accounting Standards Board Standards were anticipated to be maintained. EDL Pilbara also stated that Deloitte remains as the financial auditor.</p>
Priority 4	Controls rating: N/P	Compliance rating: 1			

No.	Obligation	Findings			
120	<p>A licensee must comply with any individual performance standards prescribed by the ERA.</p> <p><i>Section 11 - Condition 5.2.4</i></p> <table border="1"> <tr> <td>Priority 4</td> <td>Controls rating: N/P</td> <td>Compliance rating: N/R</td> </tr> </table>	Priority 4	Controls rating: N/P	Compliance rating: N/R	<p>The Senior Commercial Analyst confirmed that for the period 1 September 2016 to 30 August 2020, the ERA had not prescribed any individual performance standards to EDL Pilbara.</p> <p>Individual performance standards mean any standards prescribed by the ERA, pursuant to clause 5.2 of the ERL16. As per clause 5.2.3 the ERA will provide EDL Pilbara with a copy of the proposed individual performance standards and allow EDL Pilbara 15 business days to make submissions to the ERA. However, within the audit period, there have not been any individual performance standards prescribed for ERL16.</p>
Priority 4	Controls rating: N/P	Compliance rating: N/R			
121	<p>A licensee must comply, and require its auditor to comply, with the ERA's standard audit guidelines for a performance audit.</p> <p><i>Section 11 - Condition 5.3.2</i></p> <table border="1"> <tr> <td>Priority 4</td> <td>Controls rating: N/P</td> <td>Compliance rating: 1</td> </tr> </table>	Priority 4	Controls rating: N/P	Compliance rating: 1	<p>The audit plan approved by the ERA on 2 October 2020 set out the audit approach and its alignment to the ERA's standard audit guidelines. EY confirms that the audit was undertaken using the <i>2019 Audit and Review Guidelines (Electricity and Gas Licences)</i>, dated March 2019.</p>
Priority 4	Controls rating: N/P	Compliance rating: 1			
123	<p>In the manner prescribed, a licensee must notify the ERA, if it is under external administration or if there is a significant change in the circumstances that the licence was granted which may affect the licensee's ability to meet its obligations.</p> <p><i>Section 11 - Condition 4.4.1</i></p> <table border="1"> <tr> <td>Priority 4</td> <td>Controls rating: N/P</td> <td>Compliance rating: 1</td> </tr> </table>	Priority 4	Controls rating: N/P	Compliance rating: 1	<p>The Senior Commercial Analyst confirmed that neither EDL Pilbara nor any of its parent entities were under external administration during the period 1 September 2016 to 30 August 2020.</p> <p>During the reporting period, EDL was acquired by the CK William Group, However, the Senior Commercial Analyst confirmed this did not impact the ability of EDL Pilbara to meet its licence obligations.</p> <p>It was noted from the Annual Compliance Reports that there was a non-compliance reported in 2020, which related to the relocation of the EDL office in Brisbane. This was deemed a non-compliance as EDL Pilbara did not inform the ERA within the prescribed 10-day period of the change of address. EDL Pilbara identified that the change of address had not been communicated to the ERA within the 10-day period and subsequently self-reported a non-compliance for Section 4.1.1 of ERL16.</p> <p>Obligation 123 refers to the notification of the ERA if there is a significant change in the circumstances in which the licence was granted which may affect the licensee's ability to meet its obligations. We did not consider a change in address to be a significant change in circumstances that could affect EDL Pilbara's ability to meet its obligations under the Licence.</p>
Priority 4	Controls rating: N/P	Compliance rating: 1			

No.	Obligation	Findings			
124	<p>A licensee must provide the ERA, in the manner prescribed, with any information that the ERA requires in connection with its functions under the Electricity Industry Act.</p> <p><i>Section 11- Condition 4.5.1</i></p> <table border="1"> <tr> <td>Priority 3</td> <td>Controls rating: A</td> <td>Compliance rating: 1</td> </tr> </table>	Priority 3	Controls rating: A	Compliance rating: 1	<p>EDL Pilbara is required to submit compliance reports to the ERA by 31 August each year, in addition to any other information requested by the ERA in connection with its functions under the Electricity Industry Act.</p> <p>EDL Pilbara maintains oversight over its compliance requirements through a Compliance Task Register. This register is maintained centrally and captures EDL's compliance requirements including due date, status of action, responsible person, description of task and documents to attach.</p> <p>For those compliance tasks, the person with assigned responsibility receives automatic email updates reminding them to complete the task in advance of the due date.</p> <p>Both EDL Pilbara's requirement to submit the compliance report and respond to requests for information in relation to the Standing Charges are captured within the Compliance Task Register.</p> <p>We sighted evidence of EDL Pilbara's submission of its 2017, 2018, 2019 and 2020 compliance reports to the ERA by 31 August each year.</p>
Priority 3	Controls rating: A	Compliance rating: 1			
125	<p>A licensee must publish any information as directed by the ERA to publish, within the timeframes specified.</p> <p><i>Section 11 - Condition 3.8.1 and 3.8.2</i></p> <table border="1"> <tr> <td>Priority 4</td> <td>Controls rating: N/P</td> <td>Compliance rating: N/R</td> </tr> </table>	Priority 4	Controls rating: N/P	Compliance rating: N/R	<p>The Senior Commercial Analyst confirmed that for the period 1 September 2016 to 30 August 2020, the ERA did not direct EDL Pilbara to publish any information with regards to its Licence.</p>
Priority 4	Controls rating: N/P	Compliance rating: N/R			
126	<p>Unless otherwise specified, all notices must be in writing.</p> <p><i>Section 11 - Condition 3.7.1</i></p> <table border="1"> <tr> <td>Priority 4</td> <td>Controls rating: N/P</td> <td>Compliance rating: 1</td> </tr> </table>	Priority 4	Controls rating: N/P	Compliance rating: 1	<p>EDL Pilbara maintains an electronic repository of all communications with the ERA, which we understand are all completed by email.</p> <p>All inbound requests from the ERA and outbound information provided by EDL Pilbara are maintained on EDL Pilbara's IT systems, with access restricted to specific personnel.</p>
Priority 4	Controls rating: N/P	Compliance rating: 1			

Independent assurance report to EDL Pilbara

Opinion

We have undertaken the performance audit as a reasonable assurance engagement on EDL Pilbara's compliance, in all material respects, with the Licence obligations as evaluated against the specific requirements of the Licence and the 2019 issue of the Audit and Review Guidelines: Electricity and Gas Licences (Audit Guidelines), for the period 1 September 2016 to 30 August 2020.

This Statement will accompany our report, for the period 1 September 2016 to 30 August 2020, for the purpose of reporting to the Economic Regulation Authority (ERA). This report is an accurate representation of our findings and observations from the audit.

In our opinion, EDL Pilbara has complied with the specific requirements of the Licence, in all material respects, with the conditions of the Licence as outlined in the approved Audit Plan (dated October 2020) for the period 1 September 2016 to 30 August 2020.

Basis for opinion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

EDL Pilbara's responsibilities

EDL Pilbara is responsible for:

- ▶ The compliance activity undertaken to meet the Licence obligations; and
- ▶ Identification of risks that threaten the compliance with the Licence obligations identified above being met and controls which will mitigate those risks and monitor ongoing compliance.

Our independence and quality control

We have complied with the independence and other relevant ethical requirements relating to assurance engagements and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.

Assurance practitioner's responsibilities

Our responsibility is to express an opinion, on EDL Pilbara's compliance, in all material respects, with the Licence obligations as evaluated against the specific requirements of the Licence and the 2019 issue of the Audit and Review Guidelines: Electricity and Gas Licences (Audit Guidelines), for the period 1 September 2016 to 30 August 2020. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether, EDL Pilbara's compliance, in all material respects, with the Licence obligations as evaluated against the specific requirements of the Licence and the 2019 issue of

the Audit and Review Guidelines: Electricity and Gas Licences (Audit Guidelines), for the period 1 September 2016 to 30 August 2020

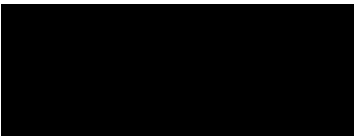
An assurance engagement to report on EDL Pilbara's compliance with the Licence obligations involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the Licence obligations. The procedures selected depend on our judgement, including the identification and assessment of risks of material misstatements in EDL Pilbara's compliance with its Licence Obligations.

Inherent limitations


Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected. A reasonable assurance engagement for the period 1 September 2016 to 30 August 2020 does not provide assurance on whether compliance with the Licence obligations will continue in the future.

Restriction on distribution

This assurance report has been prepared in accordance with the requirements of Audit Plan. Our report is intended solely for EDL Pilbara and the Economic Regulation Authority (collectively the Recipients) and should not be distributed to parties other than the Recipients.



Adam Carrel
Partner
26 November 2020



EY
11 Mounts Bay Road
Perth, 6000, WA

Appendix A Personnel and documentation

EDL Pilbara staff and representatives participating in the audit

- ▶ Michelle Thomas - Senior Commercial Analyst
- ▶ Neil Duffy - Commercial Manager Remote Energy
- ▶ Jack Barnett - LNG Plant and Transport Manager

EY staff participating in the audit

- ▶ Adam Carrel - Partner - 4 hours
- ▶ Patrick Miller - Quality Review Partner - 2 hours
- ▶ Lynsay Hughes - Director - 21 hours
- ▶ Shabhan Burke - Manager - 10 hours (involved in the Planning phase only)
- ▶ Michael Williams - Senior Consultant - 37 hours

Key documents and other information sources

- ▶ Annual Compliance Reports, and records of submission and receipt by the ERA
- ▶ Annual Licence invoices, and records of payment by EDL Pilbara
- ▶ Extracts of audited Financial Statements
- ▶ Lease payment invoices, and records of payment by EDL Pilbara
- ▶ Evidence on correspondence on Standing Charges
- ▶ 2013 and 2016 Performance Audit Reports
- ▶ Site map
- ▶ Extract of the Compliance Task Register
- ▶ Safe Work Instructions - Site recovery from Station Black without UPS
- ▶ Maintenance records
- ▶ Cyclone preparedness documentation
- ▶ Representations from EDL personnel listed above

Appendix B Audit Plan

EDL Pilbara Pty Ltd
Electricity Retail Licence (ERL16)

2020 Performance Audit Plan

August 2020

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1. Introduction

1.1 Background

Energy Developments Pty Limited (EDL) is a global producer of energy operating across five countries, with a focus in Australia with 59 power stations producing 713MW, including Karratha. EDL through its subsidiary EDL Pilbara Pty Ltd (EDL Pilbara) owns and operates a liquefied natural gas (LNG) facility at the Maitland Industrial Estate in Western Australia's Pilbara region. The facility was originally designed to service the EDL-owned gas-fired power stations being built in the west of Kimberley. However, as the LNG Facility's electricity generation capacity exceeded its needs, EDL Pilbara sought and was granted an Electricity Retail Licence ERL 16 (the Licence) to supply electricity under a commercial arrangement to Supagas Pty Ltd (Supagas), a business co-located on the Facility's leasehold land in the Maitland Industrial Estate. The Licence commenced from 27 August 2011.

EDL Pilbara only supply electricity to Supagas, and this supply is over 160 MWH per annum. Under the *Code of Conduct for the Supply of Electricity to Small Use Customers 2018*, Supagas is not a Small Use Customer. Hence, this does not trigger the need for EDL Pilbara to report under the conditions when supplying electricity to a Small Use Customer.

The performance audit is required to be conducted under Section 13 of the *Electricity Industry Act 2004*. The audit needs to be completed by an independent expert, selected by EDL Pilbara and approved by the ERA. This 2020 audit will be conducted by Ernst & Young (EY) who has been appointed to conduct the audit for the period 1 September 2016 to 30 August 2020.

The audit will be conducted in accordance with the *ERA's 2019 Audit and Review Guidelines: Electricity and Gas Licences* (the Guidelines) (as published in March 2019). These steps are outlined in this Audit Plan and follow the Appendix 6 of the Guidelines. As per the Guidelines, this Audit Plan is to be presented to the ERA by 14 September 2020 for the ERA's approval.

1.2 Objective

The performance audit is defined as an examination of the measures taken by EDL Pilbara to meet the performance criteria specified in its Licence.

Section 13 of the *Electricity Industry Act 2004* requires EDL Pilbara to provide the ERA with a performance audit conducted by an independent expert appointed by the ERA. The performance audit is an audit of the effectiveness of the measures taken by EDL Pilbara to meet the performance criteria specified in the licence - ERL 16 and designed to provide reasonable assurance. The audit will be conducted in accordance with the regulatory framework prescribed in the Industry Act, the Licence and the Guidelines.

The audit will focus on EDL Pilbara's systems, processes and regulatory controls to ensure compliance to obligations, standards, outputs and outcomes required by the respective licences by considering:

- ▶ Process compliance - the effectiveness of systems and procedures in place throughout the audit period including the adequacy of internal controls.
- ▶ Outcome compliance - the actual performance against standards prescribed in the licence throughout the audit period.
- ▶ Output compliance - the existence of the output from systems prescribed in the licence throughout the audit period i.e. records exist to provide assurance that procedures are being consistently followed and controls are being maintained).
- ▶ Integrity of reporting - the completeness and accuracy of compliance and performance reporting to the ERA.

- ▶ Compliance with any individual licence conditions - the actual performance against the requirements imposed on the specific licensee by the ERA or specific matters raised by the ERA.

1.3 Scope

As per the *Electricity Industry Act 2004*, the ERA provides guidance on those aspects of the Licence and EDL Pilbara's performance criteria, which it expects to be reported upon and included in the scope of the performance audit in the *ERA's Electricity Compliance Reporting Manual* (Reporting Manual) (June 2020).

The audit plan applies the priority assessment approach to identify all applicable licence obligations. Each of the compliance requirements identified in the Reporting Manual have been evaluated for applicability to EDL Pilbara's licence area set out in plan ERA-EL-127 and used as the basis for determining the performance criteria to be considered for the audit.

This audit plan is designed to meet the requirements of Section 13(1) of the *Electricity Industry Act 2004*, which requires electricity licensees to provide a report to the Economic Regulation Authority on the performance audit of their licence. This audit plan covers the audit of EDL Pilbara electricity retail licence ERL 16, for the period 1 September 2016 to 30 August 2020.

As stated by the ERA, the key milestones for this audit are:

- ▶ EDL Pilbara auditor nomination to the ERA by 31 July 2020;
- ▶ The draft audit plan is due by 14 September 2020;
- ▶ The draft report is due by 30 October 2020;
- ▶ The final report is due by 30 November 2020; and
- ▶ If required, the post-audit implementation plan is due by 14 December 2020.

The elements that the draft Audit Plan must include, and where they are addressed within this Audit Plan are set out below in Table 7:

Table 7: Elements of the Audit Plan

Element	Addressed	Relevant section in this document
Consideration of ASAE 3000 and ASAE 3100 requirements for assurance engagement plans	✓	Section 1.4.2
Audit or review purpose statement	✓	Section 1.2
Licensee personnel assisting audit or review	✓	Section 3.1
Audit or review team members	✓	Section 3.2
Audit work activities and time allocated for each	✓	Section 3.3
Confirmation that review of previous recommendations will be undertaken and list of previous recommendations	✓	Appendix 3
List of documents to be reviewed	✓	Section 3.6
Details of facilities to be visited	✓	Section 3.4
Summary of possible audit and review procedures per audit or review priority	✓	Section 2.1
Statement that the audit or review report will comply with the guidelines	✓	Section 1.2
Table(s) providing audit or review priority ratings for licence obligations and asset management processes	✓	Appendix 2

Element	Addressed	Relevant section in this document
Details of any deviation from normal audit or review priority ratings (for example, the licence obligation is not applicable, or the ERA has requested a higher priority be undertaken)	✓	Section 2.1
For audits, acknowledgement that the auditor will examine the licensee's compliance reports.	✓	Section 2.1

Since EDL Pilbara's previous ERL 16 performance audit in 2016, the Reporting Manual has been revised multiple times, with the current version published in June 2020. The updates made since the 2016 audit are outlined in Table 8. However, we do note that EDL Pilbara have informed EY that there have been no substantial changes relevant to EDL Pilbara's operations, which would impact the audit.

Table 8: Reporting Manual Revisions since July 2016

Reporting Manual, amendment date	Full list of Reporting Manual Revisions,	Impact to ERL 16
19 July 2016	Not applicable - this version of the Reporting Manual was current at the commencement of the previous audit period.	Not applicable
31 October 2016	<ul style="list-style-type: none"> ▶ Section 9 of the manual was updated to align it with the Electricity Industry (Customer Transfer) Code 2016, gazetted on 30 September 2016: ▶ Added obligation 2A: preparation of annual report to the ERA and the Minister. ▶ Deleted obligation 14 due to subclauses 3.8.2(a-b) being removed. ▶ Replaced "UMI" (unique market identifier) to "NMI" (national meter identifier). ▶ Replaced "exit point" to "connection point". ▶ Amended obligation 21 to include how the charge is to be determined. ▶ Amended obligation 37 to include the timeframe for the action. ▶ Added obligation 37A to capture new subclause 4.10(4). ▶ Deleted obligations 46 and 47 due to the removal of clause 5.1. ▶ Amended obligation 48 due to the amendment in clause 5.2. ▶ Added obligation 48A, all notices must be in writing. ▶ Replaced "the ERA" to "the arbitrator" in obligation 58. ▶ Deleted obligations 68-71 due to the removal of Annex 6. ▶ Replaced the "independent market operator" to AEMO. ▶ Obligation 105, licence fees, was amended to capture clauses 6, 7 and 8 (annual licence charges and standing charges) of the <i>Economic Regulation Authority (Licensing Funding) Regulations 2014</i>, which commenced on 1 January 2015. 	Obligation 105 is relevant to ERL16 and has been considered in our audit procedures
17 July 2017	<ul style="list-style-type: none"> ▶ Section 15 of the manual was updated to align it with the Electricity Industry (Network Quality and Reliability of Supply) Code 2005, gazetted on 2 May 2017: ▶ Reworded obligation 483 to clarify audit reporting period requirements due to amendments affecting clause 26. ▶ Added obligation 483A to clarify audit publication requirements due to new subclauses 26(3) and 26(4). 	No material changes which impact ERL 16.

Reporting Manual, amendment date	Full list of Reporting Manual Revisions,	Impact to ERL 16
	<ul style="list-style-type: none"> ▶ Added obligation 483B to clarify requirements for provision of audit report to the Minister and the ERA due to new subclause 26(5). ▶ Reworded obligation 484 to clarify performance reporting period requirements. ▶ Reworded obligation 485 to clarify requirements for provision of performance report to the Minister and the ERA. ▶ Minor editorial changes throughout the manual. 	
3 July 2018	<ul style="list-style-type: none"> ▶ Manual updated to adopt amendments made to electricity licences as part of the Electricity Licence Review 2018 and amendments made to the Code of Conduct for the Supply of Electricity to Small Use Customers as part of the 2017-18 Code Review that came into effect on 1 July 2018. ▶ Minor amendments also made throughout the manual to address inconsistencies with electricity licences and applicable legislation. 	The <i>Code of Conduct for the Supply of Electricity to Small Use Customers</i> was previously issued in 2012 and the new Code was released in 2018. The definition of a Small Use Customer was unchanged, therefore, no material change.
8 June 2020	<ul style="list-style-type: none"> ▶ Identifying the obligations that apply only if the licensee is supplying small use customers. ▶ Identifying the obligations that apply to the South West Interconnected System only. ▶ Amendments to the summary description of obligations 72, 73, 75, 99 and 114. ▶ New obligations 469A and 469B. ▶ Deleting obligations 78, 129, 176A and 243A. ▶ Changing the rating (type) of obligations 101 and 104 from NR to 2. ▶ Amendments to the 'Licensee' and/or 'Licence condition' of obligations 339, 350, 351, 352, 353, 354, 362, 364, 436, 437 and 438. ▶ Typographical changes to reflect updates to the ERA's document styles. 	Obligation 101 applies to ERL 16, and this rating (types) has changed from NR to 2. This has been considered and reflected in the preliminary risk assessment (Appendix 2).

Summary of Licence compliance obligations

The following table summarises the relevant compliance obligations applicable to EDL Pilbara's operations during the period subject to audit. Where necessary, further explanation is provided to describe the extent of application of those obligations. The assessment is made against the current Reporting Manual. Note that obligations are listed as not applicable to EDL Pilbara's operations where there is:

- ▶ No application to Retail Licensees, or where the obligation only applies to Retail Licensees with small use customers.
- ▶ No network or network operator, or there is no relevant activity to report against the requirement.

Table 9: Application of legislative elements to EDL Pilbara's operations

Legislative element	Obligations applicable to EDL Pilbara's operations (in scope)	Obligations not applicable to EDL Pilbara's operations (out of scope)
Type 1 Reporting Obligations for all Licence Types	None	All Type 1 obligations fall under the Code of Conduct, which is not applicable to EDL Pilbara's operations as EDL Pilbara does not supply electricity to small use customers.
Electricity Industry Customer Transfer Code - Licence Condition and Obligations	None	<p>The objective of the Customer Transfer Code is to:</p> <ul style="list-style-type: none"> ▶ “set out rules for the provision of information relating to contestable customers and the process for transferring contestable customers from one retailer to another retailer in order to promote retail competition; and ▶ protect the interests of contestable customers by ensuring that a contestable customer's verifiable consent is obtained before– <ul style="list-style-type: none"> (i) a retailer may request the contestable customer's historical consumption data; or (ii) a transfer of that contestable customer may proceed”. <p>The entire Customer Transfer Code is not applicable to EDL Pilbara's operations for the following reasons:</p> <ul style="list-style-type: none"> ▶ The logistics of EDL Pilbara's arrangement with Supagas make it highly unlikely for the customer to be practically contested in the future and therefore there is no likelihood of transfer ▶ There is no network or network operator to facilitate such a transfer.
Electricity Industry (Customer Contracts) Regulations	None	As the Regulations only apply to small use customers (of which EDL Pilbara has none), the Regulations do not apply to EDL Pilbara's current circumstances and will not be subject to audit.
Electricity Industry Act - Licence Conditions and Obligation	<p>Of the eleven obligations relevant to electricity license holders, the following five obligations are applicable to EDL Pilbara's operations:</p> <ul style="list-style-type: none"> • 101, 105-107 and 110. 	<p>The following obligations are not applicable to retail licences and hence not applicable to EDL Pilbara's operations:</p> <ul style="list-style-type: none"> ▶ 102, 103 and 104 <p>The following obligations refer to supply to small use customers and are not applicable to EDL Pilbara's operations:</p> <ul style="list-style-type: none"> ▶ 108, 109 and 111 <p>The following obligations are not used in the current Reporting Manual:</p> <ul style="list-style-type: none"> ▶ 112 and 113
Electricity Licences - Licence Conditions and Obligations	<p>Of the 14 obligations relevant to Licensee the following regulations apply to EDL Pilbara's operations:</p> <ul style="list-style-type: none"> • 119-121 and 123-126 	<p>The following obligations refer to supply to small use customers and are not applicable to EDL Pilbara's operations:</p> <ul style="list-style-type: none"> ▶ 114 and 116-118 <p>The following obligations are not applicable to retail licences and hence not applicable to EDL Pilbara's operations:</p> <ul style="list-style-type: none"> ▶ 122 and 127-128 <p>The following obligations are not used in the current Reporting Manual:</p> <ul style="list-style-type: none"> ▶ 115
Code of Conduct for the Supply of Electricity to Small Use Customers 2018	None	All obligations of electricity retailers under the <i>Code of Conduct for the Supply of Electricity to Small Use Customers 2018</i> are not applicable to EDL Pilbara's operations as EDL Pilbara does not supply electricity to small use customers.

Legislative element	Obligations applicable to EDL Pilbara's operations (in scope)	Obligations not applicable to EDL Pilbara's operations (out of scope)
Electricity Industry Metering Code	None	<p>All obligations relevant to retailers are considered to be not applicable to EDL Pilbara's operations due to one of the following conditions:</p> <ul style="list-style-type: none"> ▶ There is no network operator and therefore no network ▶ The obligation refers to the Electricity Retail Corporation ▶ There is no requirement for a registry in the absence of a network ▶ The obligations refer to "User" obligations.

1.4 Responsibility

EDL Pilbara's responsibility for compliance with the conditions of the Licence

EDL Pilbara management is responsible for the preparation and fair presentation of the subject matter. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the subject matter that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

EDL Pilbara is responsible for:

- ▶ Ensuring that it has complied in all material respects with the requirements of the Licence as specified in the Guidelines.
- ▶ Establishing and maintaining an effective system of internal control over its systems designed to achieve its compliance with the Licence requirements
- ▶ Implementing processes for assessing its compliance requirements and for reporting its level of compliance to the ERA
- ▶ Implementing corrective actions for instances of non-compliance (if applicable).

EY's responsibility

EY's responsibility is to express a conclusion on EDL Pilbara's compliance with the conditions of the Licence based on our procedures and per the Guidelines. The reasonable assurance audit will be performed in accordance with the Guidelines and the Australian Standard on Assurance Engagements (ASAE) 3100 Compliance Engagements issued by the Australian Auditing and Assurance Standards Board (AAASB), in order to state whether, in our opinion, based on the procedures performed, EDL Pilbara has complied, in all material respects with the conditions of its Licence as specified in the Guidelines for the period 1 September 2016 to 30 August 2020.

Limitations of use

The resulting report is intended solely for the information and internal use of EDL Pilbara and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report. We do not accept or assume responsibility to anyone other than EDL Pilbara for work produced, for the report, or for any reliance that may be placed on this report by any party other than EDL Pilbara.

We understand that a copy of the report will be provided to the ERA for the purpose of reporting on the performance audit for EDL Pilbara's Licence. We agree that a copy of the report may be provided to the ERA for its information in connection with this purpose but, as will be made clear in the report, only on the basis that we accept no duty, liability or responsibility to the ERA in relation to the report. We accept no duty, responsibility or liability to any party, other than EDL Pilbara, in connection with the report or this engagement.

While we consider the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance procedures are not designed to provide assurance on internal controls.

The work undertaken by us is based on professional judgment, in particular regarding the nature, timing and extent of the assurance procedures for gathering of evidence and the drawing of conclusions based on the evidence gathered.

In addition, there are inherent limitations in any assurance engagement, and these include the use of testing, the inherent limitations of any internal control structure, and the fact that most assurance evidence is persuasive rather than conclusive.

Independence

EY has completed mandatory independency procedures and Independence verified. This includes all engagement team members who have confirmed their individual independence with respect to the client. We can also confirm that this independence will remain compliant with the independence criteria set out in these guidelines throughout the audit. This confirmation covers EDL Group Operations Pty Ltd and CK Hutchison Holdings Limited.

2. Approach

As per the guidelines, the audit approach is aligned to ASAE 3000 and will be conducted in three phases: project planning and risk assessment, audit execution and reporting. From the audit results, a report will be produced to outline findings, overall compliance assessments, overall control adequacy assessments and recommendations for improvement in line with the Guidelines. Each step of the audit is discussed in detail below.

2.1 Project planning and risk assessment

Project Planning

Project planning includes the following steps:

- ▶ Hold an opening meeting to discuss objectives, scope, subject matter, schedule, roles and responsibilities, format and timing of reporting.
- ▶ Assess Subject Matter and Criteria - EY will confirm the agreed scope and the criteria against which the reported information will be prepared.
- ▶ Review of following documentation lodged by EDL Pilbara during the audit period:
 - ▶ 2017 ERL 16 Annual Compliance Report (submitted 29 August 2017, for July 2016 - June 2017)
 - ▶ 2018 ERL 16 Annual Compliance Report (submitted 8 August 2018, for July 2017 - June 2018)
 - ▶ 2019 ERL 16 Annual Compliance Report (submitted 30 August 2019, for July 2018 - June 2019)
 - ▶ 2020 ERL 16 Annual Compliance Report (submitted 31 August 2020, for July 2019 - June 2020)
- ▶ Review of other relevant documentation including but not limited to the following:
 - ▶ 2013 ERL 16 Performance Audit Report
 - ▶ 2016 ERL 16 Performance Audit Report

Risk Assessment

This audit will incorporate a risk-based approach to planning and conducting the audit. To do so an audit priority will be determined, by assessing the relevant risk factors and controls in place. The audit will focus on identifying or assessing those activities and management control systems to be examined and the matters subject to audit.

The purpose of conducting the risk assessment as a preliminary phase enables EY to focus on priority areas of EDL Pilbara's licence obligations. The risk assessment considers any matters of significance raised by the ERA (such as previous non-compliance) and/or EDL (identified during discussion with EDL Pilbara or document review).

The first step of the risk assessment is the rating of the potential consequences of EDL Pilbara not complying with its licence obligations, in the absence of mitigating controls. As the Reporting Manual is prescriptive in its criteria for classifying the consequences of non-compliance (refer to Appendix 1) the risk assessment applies the Reporting Manual's classifications for each obligation subject to audit. Reference is also made

to the consequence rating descriptions listed in the Guidelines (refer to Appendix 1), providing the risk assessment with context to ensure the appropriate consequence rating is applied to each obligation subject to audit.

Once the consequence has been determined, the likelihood of EDL Pilbara not complying with its obligations is assessed using the likelihood rating outlined in the Guidelines (refer to Appendix 1). The assessment of likelihood is based on the expected frequency of EDL Pilbara non-compliance with the relevant licence obligation over a period of time.

The Guideline includes a consequence and likelihood ratings matrix (refer to Appendix 1) to determine the level of inherent risk associated with each individual obligation. Once the level of inherent risk has been determined the adequacy of existing controls is assessed in order to determine the level of control risk. Controls are assessed and prioritised as weak, moderate or strong, depending on their suitability to mitigate the risks identified. The control adequacy ratings used by this risk assessment are aligned to the ratings listed at Guidelines (refer to Appendix 1).

Once inherent risks and control risks are established, the audit priority can then be determined using the matrix in Table 10 below (sourced from the Guidelines). Whereby the higher the level of risk, the more substantive testing is required.

Table 10: Assessment of audit priority

		Preliminary Adequacy of existing controls		
		Weak	Moderate	Strong
Inherent risk	High	Audit Priority 1	Audit Priority 2	
	Medium	Audit Priority 3	Audit Priority 4	
	Low	Audit Priority 5		

Table 11 below outlines the audit requirement for each level of audit priority. Testing can range from extensive substantive testing around the controls and activities of particular processes to confirming the existence of controls through discussions with relevant staff.

Table 11: Priority rating and resulting audit procedures

Audit Priority	Audit procedures to be performed
Priority 1 and Priority 2	<ul style="list-style-type: none"> ▶ Interview supervisory and operational personnel ▶ Inspect relevant documents ▶ Obtain evidence policies, procedures and controls are in place and working effectively ▶ Examine compliance reports and breach register ▶ Obtain confirmations from third parties if applicable ▶ Examine asset management system effectiveness criteria ▶ Sample, at a high level, output and timeliness procedures ▶ Recalculate a sample of relevant performance indicators
Priority 3 and Priority 4	<ul style="list-style-type: none"> ▶ Interview supervisory and operational personnel ▶ Inspect relevant documents ▶ Obtain evidence policies, procedures and controls are in place and controls are working effectively ▶ Examine compliance reports and breach register ▶ Examine asset management system effectiveness criteria ▶ Sample output and timeliness procedures ▶ Walkthrough the process to calculate relevant performance indicators
Priority 5	<ul style="list-style-type: none"> ▶ Interview supervisory or operational personnel ▶ Undertake a desktop review of relevant documents ▶ Undertake a desktop review of policies, procedures and controls in place ▶ View compliance reports and breach register ▶ Undertake a desktop review of asset management system effectiveness criteria ▶ Sample, at a low level, output and timeliness procedures

The risk assessment has been and will further be discussed with EDL Pilbara to gain their input as to the appropriateness and factual accuracy of risk and control ratings and associated explanations. The key sources considered in reaching the preliminary assessment of the risk and control ratings were based on:

- ▶ Deloitte’s assessment of the state of controls during the 2016 ERL Performance Audit
- ▶ Consideration of:
 - ▶ Previously identified non-compliances and action plans
 - ▶ Annual compliance reports
 - ▶ Follow up audits on progress of the implementation of action plans
- ▶ EY’s understanding of EDL Pilbara’s regulatory environment
- ▶ Any other factors that may have an effect on the level of risk or strength of controls.

At this stage, the risk assessment can only be a preliminary assessment based on reading of documentation and our understanding of EDL Pilbara’s control environment. It is possible that the ratings and risk assessment comments may be revised as we conduct our work and new evidence is identified. Accordingly, the risk assessment for the performance audit is a preliminary draft, not a final report, and no reliance should be placed on its findings. It is however a supportive tool for focussing the audit effort.

There is no deviation from normal audit or review priority ratings. This audit is being undertaken in accordance with the Guidelines and there have been no requests by EDL Pilbara nor EY to deviate from the normal audit procedure.

The performance audit preliminary risk assessment is included in Appendix 2.

2.2 Executing the audit

Executing the audit will be conducted via the testing required as determined utilising the audit priority scale outlined in Section 2.1.2. Once the audit priority level has been defined the testing component will take place by way of interviewing key personnel through interviews and document requests.

In performing our testing of EDL Pilbara's systems and processes, we will consider the following, as outlined in the Guidelines:

- ▶ Control environment - EDL Pilbara's management philosophy and operating style, organisational structure, assignment of authority and responsibilities, the use of internal audit, the use of information technology and the skills and experience of the relevant staff members.
- ▶ Information system - the suitability of EDL Pilbara's information systems to record the information needed to comply with the licence, accuracy of data, security of data and documentation describing the information system.
- ▶ Control procedures - the presence of systems and procedures to monitor compliance with the licence or the effectiveness of the licensee's asset management system, and to detect or prevent instances of non-compliance or under-performance.
- ▶ Compliance attitude - the action taken by EDL Pilbara in response to any previous audit or review recommendations, and an assessment of the licensee's attitude towards compliance.
- ▶ Outcome compliance - the actual performance against standards prescribed in the licence throughout the audit or review period.

Where required, a walkthrough of processes, procedures and operations and review of key documents will occur to assist in the determination of EDL Pilbara compliance with Licence obligations. A list of preliminary key documents to be reviewed has been included in section 3.6.

Using the results of the risk assessment, testing and analysis will be performed to compare those standards maintained by EDL Pilbara with the relevant sections and schedules of the Licence.

Controls testing is performed for those licence obligations with an audit priority of 1, 2 or 3 (refer to Table 5), and where there is relevant activity. This method of testing will involve:

- ▶ Understanding the completeness of the population of transactions;
- ▶ Selecting a sample of transactions to examine compliance with relevant sections of applicable Codes/Regulations; and
- ▶ Comparing the sample selected to expected requirements as mandated by relevant sections of applicable Codes/Regulations.

A full work plan will be completed to record the specific aspects of testing and analyses for each licence obligation. This work plan will be based on:

- ▶ The audit priority determined by the risk assessment to be applicable each licence obligation;
- ▶ The results of the information systems analysis performed, as described above; and

EY's pre-determined sampling methodology, which takes into account the volume and frequency of relevant transactions.

2.3 Reporting

Based on the outcome of the preceding steps we will then prepare a comprehensive report to EDL Pilbara expressing our opinion on the findings of the audit. The framework for the structure and content of assurance will be aligned to ASAE 3000.

In accordance with the Guidelines, all aspects of compliance with the Licence will be assessed according to the rating scale based on the work performed. Refer to Table 12 below for the compliance levels that will be used for the performance audit.

Table 12: Compliance and controls rating scales (audits)

Controls rating		Compliance rating	
Rating	Description	Rating	Description
A	Adequate controls - no improvement needed	1	Compliant
B	Generally adequate controls - improvement needed	2	Non-compliant - minor effect on customers or third parties
C	Inadequate controls - significant improvement required	3	Non-compliant - moderate effect on customers or third parties
D	No controls evident	4	Non-compliant - major effect on customers or third parties
N/P	Not performed - A controls rating was not required	N/R	Not rated - No activity took place during the audit period

The performance audit report will also be structured to address all key components outlined in the Guidelines, including:

- ▶ An executive summary;
- ▶ The audit or review objectives;
- ▶ The auditor's scope of work;
- ▶ Deviations from the audit or review plan;
- ▶ A table summarising the licensee's performance;
- ▶ The auditor's observations;
- ▶ The auditor's recommendations; and
- ▶ A statement from the auditor approving the content of the report.

The expectations for the audit report are outlined in Section 5 the Guidelines . Where appropriate, EDL Pilbara will provide a post-audit implementation plan, which will be a separate document (as per the requirement of Section 5.3 of the Guidelines).

3. General information

3.1 Key EDL Pilbara contacts

The key contacts for this audit at EDL Pilbara are:

- ▶ Michelle Thomas - Senior Commercial Analyst
- ▶ Neil Duffy - Commercial Manager Remote Energy

3.2 EY staff

The key EY staff undertaking this audit are:

- ▶ Adam Carrel - Partner
- ▶ Lynsay Hughes - Director
- ▶ Shabhan Burke - Manager
- ▶ Michael Williams - Assistant Manager
- ▶ Patrick Miller - Quality Review Partner

Resumes for key EY staff are outlined in the proposal accepted by EDL Pilbara and subsequently presented to the ERA.

3.3 Timing

The initial risk assessment phase was completed on 26 August 2020, after which the draft Audit Plan and detailed risk assessment were presented to EDL Pilbara for comment prior to submission to the ERA for review and approval.

The remainder of the engagement phase is scheduled to be performed in September-November 2020, enabling a draft report to be submitted to the ERA.

To conduct this audit, EY will be using the staff mentioned above in Section 3.2. These team members have experience with assurance (including ASAE 3000) and advisory work within the power and utilities sector in Western Australia. This team will be completing the work for EDL Pilbara as per the requirements and for submission to the ERA.

The estimated time allocated to each activity is as follows:

- ▶ Project planning and risk assessment - 10.5 hours
- ▶ Audit execution - 20.5 hours
- ▶ Reporting - 26.5 hours

Refer to section 2 of this audit plan for the details of the activities to be performed during each of the phase of the audit, including project planning and risk assessment, audit execution and reporting.

3.4 Site Visits

As part of the audit execution, all audit fieldwork is expected to be performed in consultation with key staff from EDL Pilbara's Perth CBD office and if required with additional input from EDL's Brisbane office and the EDL Pilbara's LNG Facility itself with operational staff.

3.5 Stakeholder Interviews

The following representatives will be interviewed:

- ▶ Senior Commercial Analyst, EDL
- ▶ Commercial Manager Remote Energy, EDL
- ▶ Financial Controller Remote Energy, EDL
- ▶ LNG Duty Plant Manager, EDL.

During audit execution, additionally stakeholders may be identified, and interviews conducted

3.6 Document review

The following key documentation will be reviewed during the audit:

- ▶ EDL Audited Financial Statements
- ▶ Power Purchase Agreement between EDL Pilbara Pty Ltd and Supagas Pty Ltd
- ▶ Evidence of EDL Pilbara's communication with Supagas in relation to a supply interruption
- ▶ Screenshots of EDL's SWI Library, including instructions for access and use
- ▶ EDL Pilbara correspondence with the ERA
- ▶ Evidence of annual licence fee payments
- ▶ Annual Compliance Reports: 2016-20
- ▶ Evidence of lease payments
- ▶ Previous performance audit reports submitted to the ERA.

The above list is not exhaustive, as additional documentation may be identified and requested for review during the execution of audit procedures.

Appendix 1: Risk assessment key

1. Criteria for classification

Source: Electricity Compliance Reporting Manual (June 2020), per the *Electricity Industry Act 2004*.

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

2. Likelihood ratings

Source: 2019 Audit and Review Guidelines (Electricity and Gas Licences) (March 2019).

	Level	Criteria
A	Likely	▶ Non-compliance is expected to occur at least once or twice a year
B	Probable	▶ Non-compliance is expected to occur once every three years
C	Unlikely	▶ Non-compliance is expected to occur once every 10 years or longer

3. Inherent risk rating

Source: 2019 Audit and Review Guidelines (Electricity and Gas Licences) (March 2019).

		Consequence		
		1) Minor	2) Moderate	3) Major
Likelihood	A) Likely	Medium	High	High
	B) Probably	Low	Medium	High
	C) Unlikely	Low	Medium	High

4. Adequacy for existing controls

Source: 2019 Audit and Review Guidelines (Electricity and Gas Licences) (March 2019).

Level	Criteria
Strong	▶ Controls mitigate the identified risks to a suitable level
Moderate	▶ Controls only cover material risks; improvement required
Weak	▶ Controls are weak or non-existent and do little to mitigate the risks

5. Assessment of audit priority

Source: 2019 Audit and Review Guidelines (Electricity and Gas Licences) (March 2019).

		Preliminary Adequacy of existing controls		
		Weak	Moderate	Strong
Inherent risk	High	Audit Priority 1	Audit Priority 2	
	Medium	Audit Priority 3	Audit Priority 4	
	Low	Audit Priority 5		

Appendix 2: Risk assessment

No.	Obligation / Condition	Summary description	Type	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
9) Electricity Industry Customer Transfer Code								
All obligations (1-71) are not applicable to EDL Pilbara's operations due to: <ul style="list-style-type: none"> ▶ The absence of a network and network operator ▶ Under current arrangements, no practical ability of customer transfer. 								
11) Electricity Industry (Customer Contracts) Regulations								
All obligations (78-100) are not applicable to EDL Pilbara's operations as EDL Pilbara does not supply electricity to small use customers and therefore is not required to use standard or non-standard form contracts.								
12) Electricity Industry Act								
Relevant obligations are included below. Excluded obligations are detailed in Table 3.								
101	Section 13(1) Condition 5.3.1	A licensee must provide the ERA with a performance audit conducted by an independent expert acceptable to the ERA, not less than once every 24 months.	2	Moderate	Unlikely	Medium	Moderate	Priority 4
105	<i>ERA (Licensing Funding) Regulations 2014</i> Condition 4.2.1	A licensee must pay the prescribed licence fees to the ERA according to clauses 6, 7 and 8 of the <i>Economic Regulation Authority (Licensing Funding) Regulations 2014</i> .	2	Moderate	Probable	Medium	Moderate	Priority 4
106	Section 31(3) Condition 4.1.1	A licensee must take reasonable steps to minimise the extent, or duration, of any interruption, suspension or restriction of the supply of electricity due to an accident, emergency, potential danger or other unavoidable cause.	NR	Minor	Probable	Low	Moderate	Priority 5

No.	Obligation / Condition	Summary description	Type	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
107	Section 41(6) Condition 4.1.1	A licensee must pay the costs of taking an interest in land or an easement over land.	2	Moderate	Probable	Medium	Moderate	Priority 4
110	Section 76 Condition 6.7.1	If a designation under section 71(1) of the Electricity Industry Act is in force, a licensee must perform the functions of a retailer of last resort and must carry out the supplier of last resort plan if it comes into operation under section 70 of the Electricity Industry Act.	2	Moderate	Unlikely	Medium	Moderate	Priority 4
13) Electricity licences								
Relevant obligations are included below. Excluded obligations are detailed in Table 3.								
119	Section 11 Condition 4.3.1	A licensee and any related body corporate must maintain accounting records that comply with the Australian Accounting Standards Board Standards or equivalent International Accounting Standards.	2	Moderate	Unlikely	Medium	Strong	Priority 4
120	Section 11 Condition 5.2.4	A licensee must comply with any individual performance standards prescribed by the ERA.	2	Moderate	Unlikely	Medium	Moderate	Priority 4
121	Section 11 Condition 5.3.2	A licensee must comply, and require its auditor to comply, with the ERA's standard audit guidelines for a performance audit.	2	Moderate	Unlikely	Medium	Moderate	Priority 4
123	Section 11 Condition 4.4.1	In the manner prescribed, a licensee must notify the ERA, if it is under external administration or if there is a significant change in the circumstances that the licence was granted which may affect the licensee's ability to meet its obligations.	2	Moderate	Unlikely	Medium	Moderate	Priority 4
124	Section 11 Condition 4.5.1	A licensee must provide the ERA, in the manner prescribed, with any information that the ERA requires in connection with its functions under the Electricity Industry Act.	2	Moderate	Unlikely	Medium	Weak	Priority 3

No.	Obligation / Condition	Summary description	Type	Consequence	Likelihood	Inherent Risk Rating	Control Assessment	Audit Priority
125	Section 11 Condition 3.8.1 and 3.8.2	A licensee must publish any information as directed by the ERA to publish, within the timeframes specified.	2	Moderate	Probable	Medium	Moderate	Priority 4
126	Section 11 Condition 3.7.1	All notices must be in writing, unless otherwise specified.	2	Moderate	Probable	Medium	Strong	Priority 4
14) Code of Conduct								
All obligations (129-316) are not applicable to EDL Pilbara's operations as EDL Pilbara does not supply electricity to small use customers.								
15) Electricity Industry Metering Code								
All obligations (317-461) are not applicable to EDL Pilbara's operations as there is no network or network operator to trigger any metering obligations.								

Appendix 3: Previous audit recommendations

The EDL Pilbara 2016 Electricity Retail Licence ERL16 Performance Audit Report dated November 2016 did not identify any non-compliances, therefore no previous recommendations have been considered during the preliminary risk assessment process.

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