



Economic Regulation Authority

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INFORMATION

Electricity Networks Corporation (t/a Western Power)

2011 ASSET MANAGEMENT SYSTEM REVIEW REPORT

The Economic Regulation Authority (**Authority**) today published the 2011 asset management system review (**review**) report for Western Power's electricity distribution licence (EDL1) and electricity transmission licence (ETL2).

The review report identifies a number of improvements to the asset management system since the previous review in 2009. Areas where Western Power has made progress include mapping key business processes, exercising contingency and business continuity plans, improved corporate risk management software and improved processes to capture data from the field.

The Authority is not satisfied with the effectiveness of Western Power's distribution wood pole management. The review report has disclosed significant problems with Western Power's recordkeeping in relation to the inspection of wood poles in the distribution network and the replacement of poles that have failed inspection and need to be replaced. Accurate and up to date records are central to Western Power's capacity to manage the wood poles in its network.

The wood pole recordkeeping problems disclosed in the review report are the third occasion that issues with the quality of Western Power's recordkeeping processes and systems have been brought to the Authority's attention during 2011. In October 2011, the Authority served a notice on Western Power under section 32(1) of the *Electricity Industry Act 2004* (**section 32 notice**) after receiving an unsatisfactory performance audit report of Western Power's licences. Four of the six items in the section 32 notice relate to problems with Western Power's recordkeeping. In May 2011, Western Power notified the Authority of a Type 1 (immediately reportable) licence contravention concerning problems with missing data in the database used to record life support customer addresses.

After considering Western Power's recent poor compliance record and the problems with Western Power's wood pole asset data disclosed in the review report, the Authority has decided to reduce the period of time until the next review from 18 months to 14 months. The next review will cover the period 1 May 2011 to 30 June 2012. The Authority has informed Western Power that, if the standard of distribution wood pole management remains unsatisfactory following the 2012 review, then the Authority will consider taking further enforcement action.

The Authority will also be closely monitoring the progress made by Western Power towards addressing the actions in the post-review implementation plan, with the first follow up due in March 2012.

A copy of the review report is available on the Authority's [website](#).

BACKGROUND

2011 Review Report

The auditor reported that Western Power has continued to make progress in implementing various initiatives undertaken since the previous review in 2009. The main improvements identified by the auditor are:

- Clear process flows from asset condition and fault analysis through to capital and operational expenditure programs.
- Monitoring of key performance parameters and asset data through the Business Intelligence Software “Cognos”.
- Continued progress with mapping of key business processes.
- Exercising of the contingency and business continuity plans.
- Introduction of field data capture to improve the efficiency and timeliness of data capture and planned work delivery.
- Introduction of upgraded functionality for the CURA corporate risk management software.
- Longer term planning of operational and capital expenditures through the future access arrangements forecasts.

Despite the progress that has been made, the Authority remains concerned about the effectiveness of Western Power’s management of distribution wood poles; problem areas include the quality of Western Power’s record keeping with respect to pole inspections and the replacement of condemned poles. The review report has identified a number of issues, including:

- Uncertainty about the number of distribution wood poles actually in service. The auditor’s assessment of the distribution wood pole inspection and replacement processes was based on 630,000 poles in the network during the review period.
- Inconsistencies in the number of poles that were inspected during the review period. The review report disclosed that two data sources (the asset management information system (**DFMS**) and the invoices from the contractors who undertook the inspections) revealed two quite different figures for the number of poles inspected during the review period.
- Missing data in DFMS regarding the results of pole inspections. Almost 50% of a sample of 400 pole inspection records examined by the auditor had no entry against the “Results of Pole Serviceability” field in DFMS. Section 4.3.1 of the review report states that the difference between the quantity of pole inspections invoiced by the contractors (258,000) and the quantity of pole inspections recorded in DFMS (183,000) suggested that the results of approximately 75,000 pole inspections (or 29%¹ of the total) had not been loaded into DFMS.
- Western Power is unable to automatically determine whether poles condemned following inspection had been replaced and the date of the replacement. This increases the risk that condemned poles remain in service longer than they should.

¹ The original report stated a figure of 37%, but this was subsequently reduced to 29% in the amended section 4.3.1 of the report submitted after the original report was finalised.

- The evidence available did not support Western Power's claim that all except 980 inaccessible poles had been inspected in the past four years and that the backlog of pole inspections had decreased. The auditor went on to comment that the evidence suggests that the backlog of pole inspections may be increasing.
- In many instances, the diagnosis of pole failure causes was wrong – assisted pole failures had to be changed to unassisted pole failures (for instance, initial diagnosis for a number of pole failures were identified as being due to wind, but then these had to be changed when it was determined that wind speed was less than 140 kph).

The auditor has made three recommendations to address the issues in respect of distribution wood pole management. The post-review implementation plan prepared by Western Power states that the actions to address the three recommendations will be completed by February 2012.

On 24 November 2011, Western Power provided the Authority with an amended version of section 4.3.1 of the review report. The amendments correct numerical errors that were identified after the final report had been provided to the Authority. A copy of the amended section 4.3.1 and the accompanying letter are available on the Authority's website.

Comments by the EnergySafety Division of the Department of Commerce

The Authority provided a copy of the review report to the EnergySafety Division of the Department of Commerce (**EnergySafety**) for comment. EnergySafety informed the Authority that it is concerned about the quality of Western Power's record keeping disclosed in the report; particularly in respect to wood pole inspections and the reported number of unassisted wood pole failures. Other areas of concern raised by EnergySafety are the effectiveness of Western Power's current wood pole inspection method and the rigour of Western Power's approach to classifying the cause of wood pole failures.

Recent compliance record of Western Power

The 2011 performance audit of Western Power's distribution and transmission licences disclosed a large number of licence contraventions. The auditor commented on the compliance culture in Western Power; identifying a need for Western Power to strengthen the systems, controls and procedures that are employed to manage its compliance obligations. The auditor also commented that Western Power's approach for process and system improvement surrounding the compliance obligations has been largely reactive and the identification of breaches (contraventions) relies primarily on audits and reviews conducted by external parties.

The Authority decided to serve a section 32 notice on Western Power in respect of eight contraventions disclosed in the audit reports. The Authority notes that four of the six contraventions in the section 32 notice relating to the distribution licence require improvements to the quality of records maintained by Western Power in respect of regulatory obligations.

During 2011, Western Power has reported four contraventions of Type 1 (considered the most serious and therefore are immediately reportable) licence obligations. Type 1 compliance obligations are classified as having a major impact on the basis that:

- the consequences of a contravention would cause major damage, loss or disruption to customers; or
- the consequences of a contravention would endanger or threaten to endanger the safety or health of a person.

Two of the Type 1 licence obligations that were contravened relate to keeping accurate records of supply addresses with life support customers in residence and providing these customers with advance notice of planned supply interruptions. The remaining two contraventions were in respect of disconnecting customers outside the prescribed times.

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