



INFORMATION

Water Corporation

2012 ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority today published the report on the 2012 asset management system review (**Review**) of the Water Corporation (**Corporation**).

Action by the Authority

Risk management

Risk management is one of the 12 asset management areas assessed in the Review. The Authority is not satisfied that the Corporation has, in the area of risk management, an effective framework for its water and sewerage assets. With the exception of risk management, the Authority considers the Corporation has in place adequate processes for the other 11 asset management areas.

The Review report has documented a number of significant issues with the Corporation's risk management processes that require remedial action. The Corporation's post-review implementation plan states that the Corporation will address the majority of the actions to address the auditor's recommendations by 31 December 2013.

The Authority has decided to require the Corporation to provide it with a report prepared by an independent expert on the effectiveness of the Corporation's asset risk management framework¹ by 31 March 2014. The independent review is to be conducted in accordance with the Authority's *Audit Guidelines: Electricity, Gas and Water Licences* (Guidelines); the Authority will approve the independent expert, scope of work (audit plan) and receive the final report on the review.

Newman asset condition

The Authority is concerned by the Review's findings in relation to the deteriorating water and sewerage assets in Newman. The assets are approximately 40 years old and the auditor considers they are reaching the end of life, thus increasing the risk of asset failure and the corresponding impact on the levels of service and risk to public safety. The Authority has requested that the Corporation provide a report on the actions that it is taking to address the deteriorating condition of the Newman water and sewerage assets to the Authority by 30 April 2013.

¹ The Authority's minimum requirements for asset risk management frameworks are set out in Appendix 4 of the Authority's Audit Guidelines. In practice, the Authority requires the independent expert to re-assess the risk management components of the Corporation's asset management system using the same criteria that were applied in the 2012 Review.

Next Review

The Authority has decided to maintain the period of time until the next Review at 36 months. The next Review will cover the period 1 July 2012 to 30 June 2015, with the report to be provided to the Authority by 30 September 2015.

BACKGROUND TO THE AUTHORITY'S DECISION

The 2012 Review report disclosed that the Corporation has completed 14 actions and partially completed seven actions arising from the previous 2009 Review. One recommendation is still outstanding. The Authority notes that the three recommendations in the 2009 Review relating to risk management are yet to be fully implemented.

The auditor identified three areas in the Corporation's asset management processes that are not performed to an adequate level: the data collection in relation to the water services assets; the consistency of the asset management approach across the Corporation; and asset risk management. The Authority notes that, of the 52 recommendations that were made in the 2012 Review, 10 recommendations relate to improving the quality of the collected data, and 19 recommendations relate to strengthening the risk management procedures.

Risk management

The Authority is concerned by the Review findings that the Corporation does not appear to undertake a formal analysis to identify a root cause or the consequences of asset failure. In addition, the Corporation does not appear to apply systematic incident review procedures, including implementing mitigation procedures or reassessing the risk rating, after an asset failure has occurred.

Newman water and sewerage asset condition

The Review report has disclosed significant issues with the condition of the Corporation's water and sewerage assets in Newman. Some parts of the water services infrastructure, originally constructed by Newman Iron approximately 40 years ago, are in poor condition and continue to deteriorate. The poor condition of the infrastructure has caused service interruptions and damage to property. The Authority has written to the Corporation requesting a report on the actions that the Corporation is taking to address the deteriorating condition of the Newman water and sewerage assets by 30 April 2013.

A copy of the [Review report](#), including the [post-review implementation plan](#), is available on the Authority's website.

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