



INFORMATION

Electricity Generation Corporation (t/a Verve Energy)

2013 PERFORMANCE AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority has published the 2013 performance audit (**Audit**) report and the asset management system review (**Review**) report for Electricity Generation Corporation's (t/a **Verve Energy**) electricity generation licence EGL7. The post-audit and post-review implementation plans are included in the Audit and Review reports, respectively. The Audit and Review cover the period from 1 April 2010 to 31 March 2013.

- [2013 Performance Audit Report](#)
- [2013 Asset Management System Review Report](#)

Action by the Authority

The Authority is satisfied with Verve Energy's compliance with its electricity generation licence conditions.

Overall, the Authority is satisfied with the effectiveness of Verve Energy's asset management system throughout the Review period. However, the Authority is of the opinion that Verve Energy's risk management processes for significant projects require some improvement; the Authority has requested Verve Energy address this issue in its post-review implementation plan.

The Authority has decided to maintain the period of time until the next Audit and Review at 36 months. The next Audit and Review will cover the period 1 April 2013 to 31 March 2016, with the report on the Audit and Review to be provided to the Authority by 30 June 2016.

BACKGROUND TO THE AUTHORITY'S DECISION

Vinalco Joint Venture – Refurbishment of Muja Power Station Stages A and B

The Muja Power Station was constructed and commissioned in four stages: A, B, C and D. Muja Power Station Stages A and B (**Muja AB**) has four generation units which were retired in April 2007 and placed in a state of care and maintenance. In August 2008, Muja Stage B (comprising of two generation units), was returned to service for a period of nearly eight months to alleviate the gas supply restrictions resulting from the Varanus Island disruption.

After the Varanus Island incident, the WA Government formulated a plan to safeguard WA's electricity supply against future gas shortages. This plan was the refurbishment of Muja AB to provide extra coal fired generation capacity in case of future gas disruptions. The Vinalco joint venture (**Vinalco**) was formed between the WA Government (through Verve Energy) and Inalco Energy Pty Ltd (**Inalco**) to undertake the refurbishment of the Muja AB generation units. Vinalco was 50% owned by Verve Energy and 50% owned by Inalco. Inalco is an affiliate of the Kempe Group of Companies (**Kempe**), an international engineering service company. Private sector finance of \$150 million taken out by Inalco was to be utilised to refurbish the plant with Verve Energy guaranteeing the loan. It was expected that upon

completion of the refurbishment Muja AB would operate as a 220 MW peaking plant with an expected lifespan of 10 to 15 years.

The operation and maintenance of Muja AB continues to be undertaken by Verve Energy and the Muja AB electricity assets remain under Verve Energy's electricity generation licence (EGL7).

Technical issues have delayed the refurbishment of all four generators which were due to be completed by 1 October 2012. Generation units 3 and 4 have been operating since 6 February 2013 and 17 March 2013 respectively. Refurbishment works on units 1 and 2 have been suspended pending an external independent verification of both the engineering status of the project and financial cost analysis provided by Verve Energy.

The auditor has also reported in the Review report that there is uncertainty regarding the future of units 1 and 2, and the related joint venture arrangement that is in place.¹

Project Risk Management of Muja AB Refurbishment

With relation to the risk management of the project to refurbish Muja AB, the auditor has provided the following comments in the Review report:

From a project risk perspective, examination of the Muja AB project risk register suggests that there was little update to the risk material between September 2011 and December 2012, other than the boiler tube incident risk assessment.²

[...].In relation to the Muja AB asset, by September 2011, the Muja AB Project Risk Register had further refined the number and assessment of relevant risks. We question the appropriateness of the likelihood rating applied to the project completion delay risk, in light of widespread delays and cost overruns for such projects in Western Australia at that time. Apart from the boiler incident, there was little evidence of review for the next year and no annual review at or before September 2012.³

The Authority is of the opinion that the lack of an appropriate project risk review process represents a process deficiency within Verve Energy's risk management framework. Accordingly, the Authority has requested that Verve Energy amend its post-review implementation plan to include a recommendation that, for significant projects in the future, Verve Energy should amend its risk management processes to include the requirement to undertake regular reviews of the project risk register.

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¹ Refer to page 6 of the Asset Management System Review report.

² Refer to page 45 of the Asset Management System Review report.

³ Refer to page 46 of the Asset Management System Review report.