



# Notice

11 December 2014

## Electricity Networks Corporation (t/a Western Power)

### 2014 PERFORMANCE AUDIT

The Economic Regulation Authority has published the 2014 performance audit (Audit) reports, and the post-audit implementation plan, for the electricity distribution licence (**EDL1**) and the electricity transmission licence (**ETL2**) held by Electricity Networks Corporation (**t/a Western Power**).

- [2014 Audit Report \(EDL1\)](#)
- [2014 Audit Report \(ETL2\)](#)
- [Post-audit implementation plan](#)

### Action by the Authority

The Authority is of the view that, for the reasons set out later in this notice, Western Power has demonstrated an acceptable level of compliance with the conditions of its licences.

The Authority has decided to extend the interval of time until the next Audit of the licences from 24 months to 36 months. The next Audits will cover the period 1 July 2014 to 30 June 2017, with the reports on the Audits to be provided to the Authority by 30 September 2017.

## BACKGROUND

### 2012 Audit

The 2012 Audit identified 36 non-compliances in relation to EDL1, and 25 non-compliances in relation to ETL2. The 25 non-compliances in respect to ETL2 are common to EDL1, leaving a further 11 non-compliances that are only applicable to EDL1.

By the time that the 2012 Audit concluded, 10 of the 36 non-compliances had already been rectified by Western Power. By the time of the 2014 Audit, Western Power had addressed all of the recommendations to address the remaining 26 non-compliances. However, the auditor has identified that there were new non-compliances in relation to 13 of the 26 non-compliances during the 2014 Audit period, which has resulted in the auditor including them in the non-compliances in the 2014 Audit. The Authority notes that some of the 13 non-compliances relate to licence obligations that involve high volumes of transactions dependent on factors beyond the direct control of Western Power.



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## 2014 Audit Findings

Out of a total of 289 licence obligations that encompass both EDL1 and ETL2, 39 obligations (or 13.5% of the total obligations) were found to be non-compliant. Of the 39 non-compliances, 12 had been promptly identified and rectified by Western Power by the time the 2014 Audit was performed, leaving 27 non-compliances that had not been resolved.

The analysis of the 27 unresolved non-compliances shows that:

- 14 non-compliances have been rated 2, indicating they had a minor impact on customers or third parties. In the controls assessment of these 14 non-compliances, four were rated as A (satisfactory), nine were rated B (generally adequate, some improvement needed) and one was rated C (inadequate, significant improvement needed).
- 13 non-compliances have been rated 3, indicating they had a moderate impact on customers or third parties. In the controls assessment of these 13 non-compliances, 11 were rated as B (generally adequate, some improvement needed) and two were rated C (inadequate, significant improvement needed).

The Authority's analysis of the non-compliances rated 3 suggests that one of the main drivers for the rating appears to be the number of customers affected by the non-compliance rather than the impact of the non-compliance on customers or third parties.

With respect to the non-compliances relating to obligations that involve Western Power handling high volumes of transactions, in some but not all cases, the Authority notes that the number of non-compliant transactions represents a relatively small proportion of the total number of transactions processed during the audit period. Further, the auditor has noted that, in several instances, Western Power's controls have detected the non-compliances during the Audit period.<sup>1</sup>

In summary, the Authority acknowledges the complexity of the regulatory framework applying to Western Power's operations and, in some instances, the high volumes of transactions (e.g. meter reads and meter data processing, complaints handling, establishment of new connections, and customer transfers) performed by Western Power each year.

The Authority is encouraged by the results of the controls assessment performed by the auditor for each of the obligations that have been rated non-compliant: all except three of the non-compliant obligations were rated A (adequate controls) or B (generally adequate). This indicates that Western Power has in place an effective compliance monitoring framework across the different business functions, albeit with scope for further improvements to strengthen controls. The Authority's view is supported by the level of self-detection of non-compliances throughout the Audit period.

The Authority will monitor Western Power's progress with respect to completing the actions in the post-audit implementation plan, with the first follow-up scheduled for mid-2015.

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<sup>1</sup> In a number of instances, the auditor has commented that they have relied on WP's compliance register to identify these non-compliances. Sampling undertaken by the auditor did not find any non-compliances.



# Notice

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