



Notice

2 October 2015

Rottneest Island Authority

2015 PERFORMANCE AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (**ERA**) has published the 2015 performance audit (**Audit**) and asset management system review (**Review**) report, and the post-audit and post-review implementation plans, for Rottneest Island Authority's (**RIA**) electricity integrated regional licence, EIRL3.

- [2015 Audit and Review Report](#)
- [Post-Audit and Post-Review Implementation Plans](#)

Action by the ERA

RIA's compliance with its licence conditions requires improvement. RIA needs to promptly rectify the licence contraventions disclosed in the Audit, and implement measures to improve its compliance with the licence.

The ERA is of the opinion that the RIA did not have an effective asset management system (**AMS**) for its electricity assets during the Audit period. RIA is in the process of transitioning to a new AMS, which is expected to be completed by July 2016.

The ERA has decided to maintain the period of time until the next Audit and Review at 24 months. The next Audit and Review will cover the period 1 April 2015 to 31 March 2017, with the report on the Audit and Review to be provided to the ERA by 30 June 2017.

Based on the evidence presented in the Audit and Review, the ERA considered serving a notice under section 32 of the *Electricity Industry Act 2004* (**Act**) (failure to comply with licence) (**section 32 notice**). Noting that a number of the actions to address the issues disclosed in the Audit and Review are due to be completed by the end of 2015, the ERA has decided not to serve a section 32 notice at this time.

The ERA will closely monitor RIA's progress with addressing the actions in the post-audit and post-review implementation plans in the coming months.

BACKGROUND

Audit

The Audit report disclosed a total of 39 contraventions, related to metering (21 contraventions), customer billing and complaints handling (five contraventions), and other miscellaneous matters (13 contraventions). The auditor found that 15 of the contraventions, mostly related to metering, were the result of inadequate, or non-existent processes, to manage compliance with the licence obligations.

The ERA is of the view that most of the non-compliances identified in the Audit were caused by RIA failing to adequately supervise the contractors (Programmed Facility Management, McGees Property and Rental



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Management Australia) that it had engaged to deliver the services that were covered by the licence obligations. The contracts between RIA and the contractors require the contractor to comply with the relevant licence obligations, but the audit evidence indicates that RIA does not have robust and effective processes to monitor the contractor's compliance with the licence. RIA needs to review its contract management processes to strengthen its compliance monitoring capability.

The post-audit implementation plan provided by RIA shows the majority of the actions to address the recommendations are due to be completed by January 2016, with the balance completed by July 2016.

Review

The auditor has rated one of the 12 asset management components as ineffective (Review of the Asset Management System). The table on pages 28-33 of the report shows there were a total of five sub-components that were rated ineffective. The ERA does not agree with the auditor's ratings for some of the sub-components that have been rated effective; the findings suggest a further 11 sub-components should have been rated ineffective.¹

The auditor has made 20 distinct recommendations in the Review.² Taking into consideration the ERA's assessment of the sub-components, 11 recommendations address process deficiencies, and the remaining nine recommendations address process improvements.

The Review identified three key issues that are of concern to the ERA:

- The contractual arrangements between RIA and their facilities management contract Programmed Facilities Management (**PFM**) under the "Rottneest Island Facilities, Utilities and Support Services Contract" (**FUSS**).
- The adequacy of the current risk management arrangements.
- The completeness and accuracy of the asset registers currently in use.

Contractual Arrangements

The absence of an up-to-date asset management plan (**AMP**), and PFM's continued use of the out of date AMP, means there is no overarching plan for the management of the current electricity assets, which is contrary to good asset management practice. Until the AMP is developed there is a risk that the management of the assets may not achieve its objectives and potentially compromise the safety and reliability of the electricity supply.

The ERA is of the view that the introduction of the new AMS under the FUSS contract has been poorly planned and managed. While both RIA and PFM are working to develop their own AMS systems and documentation, the evidence presented in the report is that each party is largely working in isolation from the other. Importantly the Review does not present any evidence to indicate RIA and PFM have implemented a framework to ensure that the information in their respective AMS systems is consistent, and that each system is automatically updated when changes are made by either party.

¹ The 11 sub-components are: 1.8, 1.9, 2.5, 3.3, 5.1, 5.2, 6.3, 6.5, 8.1, 8.3 and 11.4.

² Recommendations 1, 2, 3, 5, 6, 11, 16, 19 and 20 apply to more than one asset management component.



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Risk Management

The Review found that the last risk review of the individual assets was in 2009. The risk register in use during the review period did not include a number of key risks in relation to the High Voltage (HV) network; in fact, in 2012 a pole top fire on the HV network caused a significant scrub fire. The Fire and Emergency Services Authority report on the fire, published in 2013, noted that the risk of scrub fire had not been captured in the risk register. Also, there were two further pole top fires in 2013/14.

EnergySafety³ has identified a number of additional risks related to the HV and Low Voltage (LV) networks and the generator power house that should be included in the risk register. The auditor has also identified risks that need to be assessed for inclusion in the risk register, as well as stating there is a need for RIA to review the risk consequence rating for step-up transformer failure.

The ERA has concluded that RIA and PFM need to conduct a thorough top down review of all their risks under the electricity licence. The review should cover the existing risks, and the related treatment plans, in the risk registers and involve a full environmental scan to confirm that all of the risks related to the electricity networks have been captured.

Completeness and Accuracy of the Asset Registers

The Review identified that the asset register used by PFM is out of date. The auditor reports that not only is some of the information in the register out of date, but the asset condition information has not been updated. This means that the operations and maintenance tasks undertaken by PFM during this time have not taken into account the asset condition.

The auditor has also made comment about insufficient information being available to determine the linkage between the PFM asset register and the new fixed accounting asset register being developed by RIA.

Post-Review Implementation Plan

The post-review implementation plan states that all 20 recommendations are due to be completed by 31 July 2016. The majority of the recommendations in the plan are due to be completed by December 2015. However, the recommendations addressing the finalisation of the AMS and the asset register are not due to be completed until July 2016.

RIA Contractor Management

The ERA's examination of the current contractual arrangements in place between RIA and its contractors raises questions about RIA's capacity to effectively manage its compliance with the licence, including having an effective AMS to manage its electricity assets.

RIA's contracts include clauses requiring the contractor to comply with the relevant licence obligations. However, the responsibility for complying with the licence rests with RIA. While it is reasonable for RIA to contract out some or all of the activities required under the licence to third parties, it is also RIA's responsibility to oversee the conduct of the contractors to ensure they are, in fact, complying with the licence. The ERA's

³ EnergySafety is a division of the Department of Commerce, responsible for enforcing safety standards on electricity networks.



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assessment of the Audit and Review findings lead it to conclude that RIA's contractor management needs improvement.

The Review findings present a picture where both RIA and PFM are each developing their own AMP's and asset management registers in isolation. There needs to be a governance framework to ensure RIA and PFM work collaboratively to develop a complete and fit-for-purpose AMS that is regularly reviewed and updated. The same principles apply to risk management, where both RIA and PFM are not working together to develop a holistic approach to managing their risks.

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