Economic Regulation Authority

Notice

20 September 2016

BHP Billiton Nickel West Pty Ltd

2016 PERFORMANCE AUDITS AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (**ERA**) has published the 2016 performance audits (**audit**) and asset management system review (**review**) report, and the post-audit and post-review implementation plan, for BHP Billiton Nickel West Pty Ltd's (**Nickel West**) electricity distribution licence EDL2 and electricity retail licence ERL2.

- 2016 Audit and Review report
- 2016 Post-Audit and Post-Review Implementation Plan

Action by the ERA

The ERA is satisfied that Nickel West has achieved an adequate level of compliance with the licences, and has an effective asset management system. It has decided that the period until the next audit and review will remain at 36 months. The next audits and review will cover the period 1 April 2016 to 31 March 2019.

Background Information

Audit

The audit covered two versions of the electricity distribution and retail licences.[1]

The audit of the 178 obligations in the two licences found:

- thirty-one obligations were not applicable to Nickel West's operations;
- eighty-seven obligations were not rated because no relevant activity took place during the audit period;
- forty-six were rated A1 (adequate controls, compliant);
- seven were rated A2 (adequate controls, minor non-compliance);
- six were rated B2 (controls improvement needed, minor non-compliance); and
- one was rated C3 (inadequate controls, moderate non-compliance).

[1] The differences between the versions were not significant, so the auditor chose to assess the licence obligations based on the earlier version of both licences.

The audit found 15 non-compliances related to 14 licence obligations.[2]

The ERA considers that one of the non-compliances is not correct, and should have instead been rated as a controls improvement.[3]

The auditor also incorrectly assigned a non-compliance to the wrong obligation.[4]

After taking into account these errors, the ERA believes there were 14 non-compliances (two for the retail licence and 12 for the distribution licence), covering 13 licence obligations.

The *Electricity Industry (Metering Code) 2012* requires Nickel West to provide a metrology procedure to the ERA for its approval. There are seven non-compliances that relate to not having an approved metrology procedure.

The ERA accepts the argument that Nickel West and its customers would not materially benefit from an approved metrology procedure, because metering procedures are adequately covered by customers' Power Purchase Agreements, which predate the commencement of the code.

Recommendation A6/2016 relates to an obligation that was rated A1 (adequate controls, compliant). The ERA considers that the recommendation is a controls improvement, meaning the obligation should have been rated B1 (controls improvement needed, compliant).[5]

Audit Recommendations and Post-Audit Implementation Plan

The auditor made eight recommendations: six address non-compliances, and two address controls improvements.

The post-audit implementation plan states that Nickel West has addressed three recommendations.[6] The ERA does not agree that the recommendation covering the lack of an approved metrology procedure should be classed as completed, as it will remain ongoing until an approved procedure is in place.

The post-audit implementation plan states the recommendations, other than those classified as ongoing, will be addressed by 31 March 2017.

[2] There were two non-compliances for obligation 105 (not paying the annual licence fee on time), one for each licence.

[3] The ERA considers the recommendation for obligation 124 (maintaining a compliance register) is a controls improvement.

[4] By retailing electricity outside the licence operating area Nickel West did not comply with sections 5 and 7(4) of the Electricity Industry Act 2004. There is no specific licence clause requiring compliance with these sections of the Act, but clause 5.1 of the licence requires Nickel West to comply with applicable legislation. The ERA considers the auditor should have therefore rated clause 5.1 of the retail licence non-compliant.

[5] The current Power Purchase Agreements refer to an out of date standard (AS 2279) for voltage harmonic limits on the network. The reference needs to be updated when the Agreements are next reviewed.

[6] Recommendations A1/2016, A3/2016 and A8/2016.

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Review

Effectiveness Ratings

The review rated the effectiveness of Nickel West's asset management system, using the 12 component model prescribed by the ERA's *Audit and Review Guidelines: Water Licences*. The ratings for the 12 asset management components are:

- seven were rated A1 (fully effective);
- two were rated ANP (policy effective, performance rating not provided);[7]
- one was rated A2 (policy effective, some performance improvement);
- one was rated B1 (policy requires improvement, performing effectively); and
- one was rated B2 (policy and performance opportunity for improvement).

The auditor states that no evidence could be provided to confirm the asset management system had been reviewed during the review period. Accordingly the review of asset management system component should have been rated deficient for performance (rating changed from B2 to B3).

Review Recommendations and Post-Review Implementation Plan

The auditor made three recommendations in the review.[8] Two recommendations address effectiveness improvement opportunities, and one recommendation addresses the effectiveness deficiency discussed above. The ERA is satisfied that the recommendation, and the actions in the post-review implementation plan, adequately address the effectiveness deficiency.

The post-review implementation plan states all the recommendations will be addressed by 31 March 2017.

For further information contact:

General Enquiries
Paul Reid
Economic Regulation Authority
Phone: 08 6557 7976
Email: records@erawa.com.au

Media Enquiries
Tracy Wealleans
Economic Regulation Authority
Phone: 08 6557 7942
Mobile: 0428 859 826
Email: communications@erawa.com.au

[7] Nickel West did not acquire or dispose of any assets during the review period. Accordingly, the auditor provided a performance rating of NP (not provided) for the asset creation/acquisition and asset disposal components.

[8] There are three recommendations in the report, but two recommendations contain multiple sub-recommendations. The ERA has based its count on the total number of sub-recommendations, so that the sub-recommendations addressing the process deficiencies can be separately identified.