



Notice

30 January 2017

Wesfarmers Kleenheat Gas Pty Ltd

2016 PERFORMANCE AUDIT AND ASSET MANAGEMENT REVIEW - GAS DISTRIBUTION LICENCE

The Economic Regulation Authority (**ERA**) has determined that the asset management system of Wesfarmers Kleenheat Gas Pty Ltd is not effective. However, Kleenheat's compliance with its other licence obligations is satisfactory.

These findings are highlighted in Kleenheat's 2016 [performance audit \(audit\) and asset management system review \(review\) report](#).

The ERA's Decision

The ERA has decided to reduce the review period from 36 months to 24 months. The next review will cover 1 June 2016 to 31 May 2018, with the report due by 31 August 2018.

The ERA has maintained the audit period at 36 months. The next audit will cover 1 June 2016 to 31 May 2019, with the report due by 31 August 2019.

BACKGROUND FOR THE ERA'S DECISION

Review

The assessment of the 12 components of Kleenheat's asset management system found:

- four components were rated deficient - environmental analysis, asset operations, asset maintenance and risk management;
- three components were rated as improvement opportunities – asset planning, asset creation/acquisition and review of the asset management system;
- five components were rated as satisfactory – asset disposal, asset management information system, contingency planning, financial planning and capital expenditure planning.

The asset management deficiencies became apparent following EnergySafety's¹ 2013 audit of Kleenheat's operational procedures and working practices, which resulted in EnergySafety serving an inspector's order² on Kleenheat. The inspector's order has now been closed, but

¹ The EnergySafety Division of the Department of Commerce. EnergySafety is the technical and safety regulator for electricity and gas distribution systems and consumer appliances.

² The inspector's order was served in December 2013. It prohibited Kleenheat from working on its distribution systems and required improvements to its operations and maintenance procedures.

Kleenheat's procedural documentation needs further work to fully satisfy EnergySafety's requirements.

Setting a review period of 24 months will provide sufficient time for Kleenheat to amend its asset management system to incorporate the changes required by EnergySafety, and demonstrate that it is operating effectively.

Audit

The audit assessed 66 obligations in total. The main findings were:

- 42 obligations received the highest rating of A1 (adequate controls, compliant);
- five obligations were rated B2 (generally adequate controls, minor non-compliance);
- one obligation was rated C2 (inadequate controls, minor non-compliance); and
- 18 obligations were rated NP/NR (no relevant activity during the audit period).

The audit found six non-compliances, four of which covered minor administrative issues with the annual regulatory reports prepared and published by Kleenheat. The remaining two non-compliances both covered compliance with the standards prescribed in the *Gas Standards Act 1972 (GSA)*.³

Post-Audit and Post-Review Implementation Plan

The [post-audit and post-review implementation plan](#) states that the single unresolved audit recommendation will be addressed by March 2017, and the 10 unresolved review recommendations⁴ will be addressed by December 2017.

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³ The evidence presented by the auditor for these non-compliances refers to operational matters under the *Gas Standards (Gas Supply and System Safety) Regulations 2000 (Regulations)*. The ERA does not agree on the two non-compliances with the GSA. The GSA does not give the Regulations the status of a standard, and the GSA does not contain provisions making non-compliance with the Regulations a non-compliance with the Act.

⁴ The auditor made 12 recommendations in the review: six recommendations, two of which have been completed, address asset management deficiencies, and the remaining six recommendations address improvement opportunities.