



Notice

8 March 2017

Karara Power Pty Ltd

2016 PERFORMANCE REPORT AND ASSET MANAGEMENT REVIEW

The Economic Regulation Authority (ERA) has published the [2016 performance audit \(audit\) and asset management review \(review\) report](#) for Karara Power Pty Ltd's (Karara) electricity transmission licence ETL6.

Action by the ERA

The ERA considers that Karara has achieved an adequate level of compliance with its licence and has an effective asset management system.

The ERA has decided to increase the audit and review period from 36 to 48 months. The next audit and review will cover 1 July 2016 to 30 June 2020, with the report due by 30 September 2020.

BACKGROUND

Karara has a 330kV transmission line running from Western Power's Three Springs Terminal to Karara mine site, a distance of approximately 124 km. Western Power supplies electricity to a single customer connection through a second circuit, owned by Western Power, on Karara's transmission towers.

Karara also constructed a 330kv transmission line from Eneabba to Three Springs, but this was gifted to Western Power during the audit period.

Audit

The audit assessed 37 licence obligations. The auditor did not provide a rating for 24 of the obligations, because there was no relevant activity during the audit period.

Of the remaining 13 licence obligations:

- 11 were rated A1 (adequate controls, compliant);
- one was rated B2 (controls improvement needed, minor non-compliance); and
- one was rated C2 (inadequate controls, minor non-compliance).

The audit found two non-compliances: Karara did not pay its licence fees on time and did not provide its annual compliance report to the ERA on time.

The auditor made one recommendation to address both non-compliances.



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Review

The review assessed 12 asset management components:¹ seven components were rated A1 (fully effective), two were rated ANR (policy effective, performance rating not provided), one was rated B1 (policy requires improvement, performing effectively) and two were rated B2 (opportunity to improve both policy and performance). The auditor did not identify any material concerns with Karara's asset management system.

The ERA does not agree with the auditor's ratings for the two components that were rated B2 (contingency planning and review of the asset management system). The evidence in the review report indicates both components should have been rated deficient for policy and process effectiveness.

The auditor made two recommendations to address the three process improvements.²

ERA's response to the audit and review

Audit

The ERA considers Karara's level of compliance with its licence conditions is adequate; the two outstanding non-compliances cover administrative processes that are overseen by the ERA.

Review

The ERA is of the view that Karara's management of its transmission assets is providing a safe and reliable supply to its mining operations, and to Western Power's customer connection. Also, there are strong commercial incentives for Karara to maintain a high standard of operational performance for the transmission lines.

Both Karara and Western Power's customers are very likely to have on-site power available in the event of a line failure, which mitigates Karara's contingency planning issue.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 31 March 2017, and the two unresolved review recommendations will be addressed by 30 September 2017.

¹ The components are described in the ERA's *Audit and Review Guidelines: Electricity and Gas Licences*.

² One recommendation covered two process improvements covering the same issue for the review of the asset management system component.

³ Karara has not yet tested its contingency plans.



Economic Regulation Authority

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