



Notice

10 January 2017

Alcoa of Australia Limited electricity generation licence

2017 PERFORMANCE AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (ERA) has published the 2017 performance [audit](#) and asset management system [review](#) reports for the Alcoa of Australia Limited (Alcoa) electricity generation licence EGL14.

Action by the ERA

The ERA considers Alcoa has achieved a high level of compliance with the licence, and has an effective asset management system for its generation assets.

The ERA has decided to increase the period covered by the next audit and review from 48 months to 60 months. The next audit and review will cover 1 July 2017 to 30 June 2022, with the report due by 30 September 2022.

Background to the ERA's decision

Audit ratings and recommendations

The auditor's assessment of the 37 licence obligations applicable to Alcoa's electricity generation licence found:

- 13 were rated NP 1 (compliant, controls assessment not performed);
- 23 were rated NP NR (compliance and controls were not assessed); and
- one was rated A2 (non-compliant – minor impact, adequate controls).¹

The audit found one non-compliance, which was resolved during the audit period.²

Post-audit implementation plan

There was no requirement for a post-audit implementation plan.

Review ratings and recommendations

A detailed assessment of the 12 asset management components prescribed in the ERA's *Audit and Review Guidelines: Electricity and Gas Licences*³ found:

- nine were rated A1 (documentation and performance fully meet requirements);

¹ The Authority's *Audit and Review Guidelines: Electricity and Gas Licences* require auditors to perform a controls adequacy assessment for obligations with audit priorities 1, 2 or 3. Auditors are also required to provide a controls rating for all obligations that are rated non-compliant in the audit.

² Obligation 454, which required Alcoa to notify the network operator (Western Power) of any change to its contact details within three business days before the change takes effect. There was one instance where Alcoa was unable to demonstrate it had met the notification deadline.

³ The guidelines are available at: <https://www.erawa.com.au/electricity/electricity-licensing/regulatory-guidelines> .

- one was rated A2 (performance requires improvement); and
- two were rated B1 (documentation requires improvement).

The auditor also provided ratings for each asset management sub-component⁴ and rated one at B2 (documentation and performance requires improvement), three at B1 (documentation requires improvement), two at A2 (performance requires improvement) and one at NR (could not be rated).^{5 6}

The auditor made five recommendations in the review and carried forward one recommendation from the 2013 review, covering six sub-components⁷ rated as requiring improvement.⁸

Post-review implementation plan

The post-review implementation plan states Alcoa intends to address the recommendations by 30 June 2018.

ERA's response to the audit and review

Audit

The 2017 audit found a single non-compliance, which occurred when Alcoa failed to notify Western Power of a change to its contact details within the prescribed three days before the change took effect. The non-compliance was rectified during the audit period, and Alcoa has implemented corrective actions to prevent future recurrence.

Review

The review identified six asset management sub-components that need improvement.

The six improvement opportunities involve relatively minor documentation or procedural issues that do not directly affect the operation of the power stations. For example, the recommendation carried forward from the 2013 review requires Alcoa to update its risk management documents to refer to the current risk management standard.

The review found that all of the energy produced by the three power stations is consumed by the associated refinery. Because of this there are strong commercial incentives for Alcoa to ensure its power stations meet stringent performance and availability targets for its alumina refinery operations. The review findings are that these targets were achieved throughout the review period.

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⁴ The Authority's *Audit and Review Guidelines: Electricity and Gas Licences* provides compulsory effectiveness criteria (referred to as sub-components) for each of the 12 asset management components. The auditor must rate both the components and sub-components.

⁵ The remaining 49 sub-components were rated A1 (documentation and performance fully meet requirements).

⁶ Sub-component 7(f) could not be rated because Alcoa does not extract data from the asset management system for licence performance reporting purposes.

⁷ One recommendation covered three sub-components, two recommendations covered one sub-component, and three recommendations each covered a single sub-component.

⁸ Rated A2, B1 or B2.