



# Notice

15 January 2018

## Alinta Cogeneration (Wagerup) Pty Ltd

### 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 Alinta Cogeneration (Wagerup) Pty Ltd's (**Alinta Wagerup**) electricity generation licence EGL6.

#### Action by the ERA

The ERA considers Alinta Wagerup has achieved a high level of compliance with its licence and has an effective asset management system.

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.

The increase in the period covered by the next review is subject to Alinta Wagerup completing the actions in the post-review implementation plan by 31 August 2018.

#### Background to the ERA's decision

##### Audit ratings and recommendations

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

- three were rated A2 (adequate controls, non-compliant - minor impact);<sup>1</sup>
- 11 were rated NP1 (controls assessment not performed, compliant); and
- 23 were rated NP/NR (compliance and controls were not assessed).

The audit found the three non-compliances were resolved during the audit period.<sup>2</sup> The auditor did not provide any audit recommendations.

##### Post-audit implementation plan

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

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<sup>1</sup> The ERA'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.

<sup>2</sup> The three obligations were: 105 (late payment of licence fees), 124 (late submission of an annual compliance report) and 448 (compliance with rules, agreements and criteria prescribed under the Electricity Industry Metering Code 2012, which was a technical rules issue with the setting of the governor deadband installed at the Wagerup site).

## 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*<sup>3</sup> found:

- seven were rated A1 (documentation adequately defined, performing effectively);
- one was rated A2 (documentation adequately defined, performance requires some improvement);
- three were rated B2 (documentation and performance requires some improvement); and
- one was rated B3 (documentation requires some improvement, performance requires corrective action).

The auditor also provided ratings for each asset management sub-component<sup>4</sup> and rated two at B3 (documentation requires some improvement, performance requires corrective action), six at B2 (documentation and performance requires improvement), one at B1 (documentation requires improvement) and one at A2 (performance requires improvement).<sup>5</sup>

The auditor made seven recommendations in the review. Two recommendations were completed in August 2017 (2/2017) and October 2017 (5/2017).<sup>6</sup>

The remaining five recommendations cover nine sub-components that were rated as improvement opportunities.

## Post-review implementation plan

The post-review implementation plan states Alinta Wagerup intends to address the recommendations by August 2018.

## ERA's response to the audit and review

### Audit

The 2017 audit found three non-compliances, all of which were rectified during the audit period, and Alinta Wagerup's contractor Alcoa of Australia Ltd (**Alcoa**) has implemented corrective actions to prevent future recurrence.

Two of the three non-compliances were minor administrative issues, and the third non-compliance was a technical issue that was resolved through negotiation with Western Power.

### Review

The auditor found Alinta Wagerup has an effective asset management system for its generation assets. The five unresolved review recommendations in the post-review implementation plan address opportunities to improve documentation or processes.

Prior to 2 May 2017, Alinta Wagerup had contracted responsibility for managing, operating and maintaining the Wagerup power station to Alcoa under an Operations and Maintenance Agreement (**O&M Agreement**). This meant Alcoa applied the internal policies and procedures

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

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 45 sub-components were rated A1 (documentation and performance fully meet requirements).

6 Recommendation 5/2017 still needs to be formally closed out by Alinta Wagerup.

that it used for its own generation assets (under electricity generation licence EGL14) to the day to day management of the Alinta Wagerup generation assets under its control.

The O&M Agreement expired on 2 May 2017, when Alinta Wagerup took control of the generation assets back from Alcoa. After taking back control of the generation assets Alinta Wagerup began a process of transitioning the asset management system used to manage the assets from the Alcoa framework to its own in-house framework.<sup>7</sup>

Six of the seven recommendations in the review are the direct result of issues caused by the transition from the Alcoa asset management framework to the Alinta Wagerup framework. The recommendation requiring regular reviews of the asset management system (7/2017) is the only issue that was preceded the transfer of operational control to Alinta Wagerup.

The review found the operations and maintenance activities for the Wagerup site had returned to normal by October 2017. The remaining defect maintenance and rationalisation activities from the transfer of operational control to Alinta Wagerup have been completed, and normal maintenance activities have resumed.

It is in Alinta Wagerup's interests to complete the integration of the Wagerup site into its asset management framework as soon as possible. The evidence presented in the report demonstrates it is committed to achieving this goal by August 2018.

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<sup>7</sup> The Alinta Wagerup framework is used to manage other generation assets operated by the Alinta parent company in Western Australia and interstate.