



Notice

12 February 2018

Merredin Energy 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 [report](#), and the post-audit and post-review implementation [plan](#), for Merredin Energy Pty Ltd's (**Merredin**) electricity generation licence EGL25.

Action by the ERA

The ERA considers Merredin has achieved a high level of compliance with its licence and had an effective asset management system during the period covered by the review.

The ERA has decided to maintain the period covered by the next audit and review at 36 months. The next audit and review will cover 1 July 2017 to 30 June 2020, with the report due by 30 September 2020.

Background to the ERA's decision

Overview of Merredin's operations

Merredin has an electricity generation licence for an area located near Merredin, Western Australia.

Merredin's generation plant includes two diesel fuelled open cycle gas turbines. The generation plant connects to the South-West Interconnected System via a single circuit 132-kilovolt overhead transmission line to Western Power's Merredin Terminal.

The generation plant operates as a peaking plant with a total export capacity of 82 megawatts.¹ During the period covered by the audit and review, Merredin contracted out the management, operation and maintenance of the assets to Perth Energy Pty Ltd (**Perth Energy**).

Auditor's access to records

Immediately after the period covered by the audit and review, Merredin transferred responsibility for electricity licence compliance and its asset management system from Perth Energy to Palisade Asset Management Pty Ltd (**Palisade**).

The transfer to Palisade resulted in the auditor being unable to access some of Merredin's records. For this reason, the auditor could not properly assess the actions taken by Merredin

¹ On average, the plant generates electricity for approximately 10 hours per year.

to address five of the recommendations from the previous audit and review, and some effectiveness criteria for the 2017 review.²

Audit ratings and recommendations

The auditor's assessment of the 42 licence obligations applicable to Merredin's electricity generation licence found:

- twelve obligations were rated A1 (adequate controls, compliant);
- two obligations were rated A/NR (adequate controls, not rated for compliance); and
- twenty-eight obligations were rated NP/NR (no relevant activity took place during the audit period).

All the recommendations are opportunities for Merredin to improve its documentation and processes, including notifying the ERA of changes to its asset management system following the transfer to Palisade.³

Post-audit implementation plan

The post-audit implementation plan states Merredin intends to address the audit recommendations by June 2018.

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*⁴ found:

- seven were rated A1 (documentation adequately defined, performing effectively);
- three were rated A2 (documentation meets requirements, performance requires some improvement); and
- two were rated A/NA (documentation meets requirements, not assessed for performance).⁵

The auditor also provided ratings for each asset management sub-component.⁶ Forty-four sub-components were rated A1 (documentation and performance fully meet requirements), seven sub-components were rated A2 (adequate documentation, performance requires improvement), four were rated A/NA (adequate documentation, performance not assessed⁷), and one was rated NA/NA (documentation and performance were not assessed).

² The auditor has carried forward three of these recommendations into current recommendations, Merredin will address the remaining two recommendations by implementing the new asset management system.

³ While the auditor has provided 11 audit recommendations in the report, two were duplicates resulting in nine separate recommendations.

⁴ The guidelines are available at: <https://www.erawa.com.au/electricity/electricity-licensing/regulatory-guidelines>.

⁵ The auditor did not assess the Asset Disposal and Capital Expenditure Planning components for performance because these activities did not occur during the period covered by the review.

⁶ The guidelines provide 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.

⁷ Because the auditor could not locate the relevant records.

The auditor made five recommendations in the review. Four recommendations cover four of the seven sub-components that were rated as improvement opportunities.⁸ One recommendation covered a sub-component rated as fully effective.⁹

Post-review implementation plan

The post-review implementation plan states Merredin intends to address four recommendations by June 2018, and the remaining recommendation by December 2019.

ERA's response to the audit and review

Audit

The ERA considers Merredin has achieved a high level of compliance with its licence conditions during the audit period.

Review

The available information indicates Merredin has maintained an effective asset management system for the period covered by the review.

The review identified that one of the gas turbines is still unreliable during the start-up cycle, although capacity testing of the plant¹⁰ during the review period was successful. The ERA agrees with the auditor's recommendation that Merredin further investigate and rectify the turbine start-up problem.

The auditor recommended Merredin ensure its contingency plans are site specific, tested and monitored. Merredin's response to this recommendation in the post-review implementation plan does not state it will test its contingency plans.¹¹ The ERA has requested that Merredin amend its response in the post-review implementation plan to include testing the plans.

Transfer of compliance functions to Palisade

Merredin has commenced the process of implementing new compliance systems following the transfer of control from Perth Energy to Palisade.

Palisade has yet to develop a new asset management system, incorporating historical information from the records left by Perth Energy. If Palisade fails to implement the new asset management system properly, this could affect the reliability of the generation plant. However, it is in Merredin's interests to complete the new asset management framework as soon as possible.¹²

The ERA is of the view that maintaining the period covered by the next audit and review at 36 months provides Merredin with sufficient time to develop and embed its new compliance and asset management frameworks, due to be completed by late 2019, before the next review in 2020. The 2020 review will assess Merredin's progress in implementing its new systems.

⁸ The remaining three sub-components were rated as requiring improvement because Merredin could not substantiate the sub-components' performance, but the auditor did not provide recommendations.

⁹ The recommendation requires Merredin to undertake a range of activities related to its contingency plans and emergency response plans, see page 82 of the report for more information.

¹⁰ For capacity credit verification with the Australian Energy Market Operator.

¹¹ Refer to review recommendation 05/2017 in the post-review implementation plan.

¹² There are strong commercial incentives through the capacity credit payments Merredin receives from the Australian Energy Market Operator for it to manage its generation assets effectively.

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