



Notice

19 August 2019

BHP Billiton Nickel West Pty Ltd

2019 Performance audit and asset management system review

The Economic Regulation Authority has published the 2019 performance audit and asset management system review report and the post-audit implementation plan for BHP Billiton Nickel West Pty Ltd's electricity retail licence ERL2 and electricity distribution licence EDL2.

Nickel West operates two distribution networks, one supplying the town of Leinster and the other in Kambalda.^{1 2} The total length of Nickel West's distribution lines is 72 kilometres.

Nickel West retails electricity to six mining customers. Nickel West also supplies electricity to residential and business customers in Leinster but, because the premises are owned by Nickel West, this is effectively a self-supply arrangement and exempt from the retail licence.

The ERA's decision

Nickel West has demonstrated a high level of compliance with the licences, aside from non-compliances related the lack of an approved metrology procedure, discussed later in this notice. Nickel West has also demonstrated that it has a very effective asset management system.

The ERA has decided to increase the audit and review period from 36 months to 48 months. The next audit and review will cover the period 1 April 2019 to 31 March 2023, with the report due by 30 June 2023.

Background to the ERA's decision

Audit ratings

The auditor assessed 139 licence obligations applicable to Nickel West's licence and found:

- 52 were rated A1 (adequate controls, compliant)
- Eight were rated A2 (adequate controls, minor non-compliance)

¹ Leinster is located in the Northern Goldfields area, 968 km northeast of Perth. Leinster is a mine controlled town that accommodates people associated with the mines, or people engaged in town or community support functions approved by the mine management. The northern system has less than 300 connections within the Leinster town site. There is also a distribution line in the northern system that supplies electricity to a mining customer owned by TransAlta Energy Australia (trading as Southern Cross Energy).

² Kambalda is located in the Southern Goldfields area, 616 km east of Perth. The southern distribution system consists of off-takes from another licensee's distribution or transmissions system and connections to five mining companies.

- 79 were rated NP/NR (adequacy of controls not performed, not rated because no relevant activity took place during the audit period)

Clause 6.2 of the *Electricity Industry Metering Code 2012* requires Nickel West to submit a metrology procedure to the ERA for its approval. Each of Nickel West's Power Purchase Agreements (PPAs) cover metrology procedures, however, Nickel West does not have an overall metrology procedure approved by the ERA. Consequently, Nickel West is not compliant with any of the eight obligations in the Metering Code that refer to a metrology procedure.

Audit recommendations

The auditor made three recommendations, including that Nickel West develop and submit a metrology procedure to the ERA for approval to comply with the requirements of the Metering Code.

The two remaining recommendations are process improvement opportunities covering minor administration issues.

Nickel West prepared a post-audit implementation plan which states that Nickel West will consider the recommendation on developing and submitting a metrology procedure when the PPAs are renewed.³

Review ratings

The assessment of the 12 asset management components prescribed in the ERA's 2019 Audit and Review Guidelines: Electricity and Gas Licences⁴ found:

- Eight components were rated A1 (documentation adequately defined, performing effectively).
- One component was rated A2 (documentation adequately defined, performance requires some improvement).
- Two components were rated A/NR (documentation adequately defined, not rated because no relevant activity took place during the review period).
- One component was rated B1 (documentation requires some improvement, performing effectively).

Review recommendations

The auditor made three process improvement recommendations in the areas of asset operations, asset maintenance and contingency planning.

Nickel West did not provide a post-review implementation plan.⁵

³ Nickel West will continue to be non-compliant with the Metering Code until it submits a metrology procedure to the ERA for approval.

⁴ A copy of the guidelines is available on the ERA [website](#).

⁵ As per section 5.1.8 of the [2019 Audit and Review Guidelines: Electricity and Gas Licences](#), a licensee is only required to provide a post-review implementation plan for licence obligations that have been rated 2, 3, 4, C or D or asset management process deficiencies rated 3, 4, C or D.

The ERA's assessment of the audit findings

The eight non-compliances are all related to the issue of Nickel West not having an approved metrology procedure. This has been an ongoing issue for Nickel West. The PPAs predate the commencement of the Metering Code and include detailed contractual obligations covering meter management, and meter data management. These obligations cover the requirements under the Metering Code. The ERA acknowledges that Nickel West is not complying with the Metering Code and does not intend to address the non-compliances until the current PPAs are renewed or replaced.

Excluding these non-compliances, Nickel West has demonstrated a high level of compliance in its audit.

Further information

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