



IPM Operation & Maintenance Kwinana Pty Ltd is part of a joint venture between International Power plc and Mitsui & Co., Ltd.

Final Report for Perth Power Partnership

2008 Performance Audit and
Asset Management System Review

Kwinana Cogeneration Plant

Audit Report	Authorisation	Name	Position	Date
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Contents

1.	<i>Executive Summary</i>	4
1.1	Performance Audit Summary	5
1.1.2	Limitation of Scope	7
1.2	Asset Management System Review Summary	7
2.	<i>Performance Audit</i>	10
2.1	Performance Audit Scope	10
2.2	Performance Audit Objective	10
2.3	Performance Audit Methodology	11
3.	<i>Asset Management System Effectiveness Review</i>	15
3.1	Scope of the Asset Management System Review	15
3.2	Objective of the Asset Management System Review	16
3.3	Methodology for Asset Management System Review	16
4.	<i>Recommendations for Amendment to Audit Process</i>	19
4.1	Changes to Licence Conditions	20
5.	<i>Follow Up Audit Process</i>	22

LIST OF APPENDICES

1. Performance Audit September 2008
2. Asset Management System Review September 2008

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Quality Control Record

	CLIENT	DATE
REQUESTED BY	MARK JAMESON	30 th January 2008
PREPARED BY	NICOLE DAVIES	9 th September 2008
CHECKED BY	PAUL MCLAGAN	11 th September 2008
REVISION	5	11 th December 2008

Glossary

BP – British Petroleum

DAS – Data Acquisition System

DCS – Distributed Control System

GES – Geographe Environmental Services

EMPAC – Enterprise Maintenance Planning And Control (*proprietary asset management software*)

ERA – Economic Regulation Authority

KCP – Kwinana Cogeneration Plant

IMO – Independent Market Operator

IPM – International Power Mitsui (*a limited liability partnership formed between International Power Plc of England (70%), and Mitsui & Co Ltd of Japan (30%)*)

IPR – International Power (*International Power plc is a leading independent electricity generating company with 30,807 MW gross (18,935 MW net) in operation and 224 MW gross (149 MW net) under construction. International Power has power plants in operation or under construction in Australia, the United States of America, the United Kingdom, the Czech Republic, France, Germany, Italy, the Netherlands, Portugal, Spain, Turkey, Bahrain, Oman, Qatar, Saudi Arabia, the UAE, Indonesia, Pakistan, Puerto Rico and Thailand. International Power is listed on the London Stock Exchange with ticker symbol IPR. Company website: www.ipplc.com*)

MARSH – (*IPR's Insurance Broker and assists IPR in determining insurance and risk control strategy for their operations and provides IPR Australia and IPM Kwinana with expert engineering loss control opinion*)

PPP – Perth Power Partnership (*a partnership between IPM (70%) and Transfield Services Infrastructure Fund (30%)*)

1. EXECUTIVE SUMMARY

IPM Kwinana, acting as the authorised agent of the Perth Power Partnership (PPP), engaged Geographe Environmental Services Pty Ltd (GES) to undertake the first Performance Audit and Asset Management System Review of the Kwinana Cogeneration Plant (KCP) as required by the Economic Regulation Authority (ERA) under Generation Licence EGL8. This combined report contains the audit findings for both the Performance Audit and Asset Management System Review.

The Performance Audit has been conducted in order to assess the licensee's level of compliance with the conditions of its licence.

Sections 13 & 14 of the Electricity Industry Act 2004 require as a condition of every licence that the licensee must, not less than once in every period of 24 months (or any longer period that the ERA allows) calculated from the grant of the licence, provide the ERA with a Performance Audit and Asset Management System Review conducted by an independent expert acceptable to the ERA.

The ERA approved the appointment of GES Pty Ltd on the 30th January 2008 and subsequently required the development of an audit plan for ERA approval. Notification of the approval of the audit plan for the 2008 Performance Audit of Licence EGL8 was provided on the 7th July 2008.

This audit plan has been executed as planned in accordance with the process flowchart for performance/operational audits and asset management system reviews as detailed in the Audit Guidelines – Electricity, Gas and Water Licences (September 2006).

The period for the audit and review is, 9 June 2006 to 30 June 2008 and the submission of this report before 30 September 2008 is evidence of compliance with the ERA's requirements.

Audit Opinion

The Asset Management System Review and the Performance Audit have been conducted in order to assess the effectiveness of the KCP's Asset Management Systems and level of compliance with the conditions of its Generation Licence EGL8. Through the execution of the Audit Plan and assessment and testing of the control environment, the information system, control procedures and compliance attitude, the audit team members have gained reasonable assurance that the KCP has an effective and well established asset management and has complied with its Generating Licence during the

audit period 9 June 2006 to 30 June 2008 with the exception clause 13.1 relating to the non compliance with three Australian Accounting Standards. Recommendations have been made in relation to Clauses 12.2, 16.2, 17.1 all relating to ensuring compliance with regard to the planned decommissioning of the LPG system and This audit report is an accurate representation of the audit teams findings and opinions.

Business Overview

The Kwinana Cogeneration Plant is a gas turbine combined cycle-cogeneration plant capable of producing 119 MW electrical output and 2,300 tonnes per day of process steam.

The plant consists of two gas turbine generators, two heat recovery steam units and one steam turbine generator. The gas turbines operate on natural gas from the North West Shelf delivered by the Dampier to Bunbury Natural Gas pipeline. The steam turbine is a controlled extraction, condensing turbine and steam is delivered for process use.

Electric power is provided to Verve Energy and to the BP Refinery Kwinana under Long-Term Power Purchase Agreements. Process steam is provided to BP also under a Long-term Agreement.

The Kwinana Cogeneration Plant is considered a priority natural gas user and was unaffected by the recent gas shortage as a result of the Varanus Island incident. Emergency contingency plans for the loss of natural gas supply are described in procedure KCP-03-17 and the Business Continuity Management Plan Version 1.1 dated 17 December 2007.

1.1 Performance Audit Summary

The Audit Teams findings Performance Audit against the clauses of the Generating Licence are summarised in the following table. A comprehensive report of the audit findings is included in Appendix 1.

Generating Licence Reference (CI = Clause, Sch = Schedule)	Generation Licence Criteria	Likelihood	Consequences	Inherent Risk	Adequacy of existing controls	Compliance Rating					
						0	1	2	3	4	5
CI 1	Definitions	Unlikely	Major	High	Strong						✓
CI 2	Grant of Licence					✓					
CI 3	Term	Unlikely	Major	High	Strong						✓
CI 4	Fees	Unlikely	Minor	Low	Strong						✓
CI 5	Compliance	Probable	Major	High	Strong						✓
CI 6	Transfer of Licence	Unlikely	Major	High	Strong						✓
CI 7	Cancellation of Licence					✓					
CI 8	Surrender of Licence					✓					
CI 9	Renewal of Licence					✓					
CI 10	Amendment of Licence on application of the Licensee					✓					
CI 11	Amendment of Licence by the Authority					✓					
CI 12	Expansion or Reduction of Generating Works, Distribution Systems and Transmission Systems									✓	
CI 13	Accounting Records	Unlikely	Major	High	Strong			✓			
CI 14	Individual Performance Standards					✓					
CI 15	Performance Audit	Unlikely	Major	High	Strong						✓
CI 16	Asset Management System	Unlikely	Major	High	Strong						✓
CI 17	Reporting	Unlikely	Major	High	Strong					✓	
CI 18	Provision of Information	Unlikely	Major	High	Strong						✓
CI 19	Publishing Information	Unlikely	Major	High	Strong						✓
CI 20	Notices	Unlikely	Major	High	Strong						✓
CI 21	Review of the Authority's Decisions	Unlikely	Major	High	Strong						✓

1.1.2 Limitation of Scope

There were Generation Licence compliance elements that were not included in the scope of this audit because they did not eventuate in this audit period or have not been established within licence EGL8 (refer to table above).

Operational/Performance Audit Rating Scale

Compliance Status	Rating	Description of Compliance
Compliant	5	Compliant with no further action required to maintain compliance
Compliant	4	Compliant apart from minor or immaterial recommendations to improve the strength of internal controls to maintain compliance
Compliant	3	Compliant with major or material recommendations to improve the strength of internal controls to maintain compliance
Non-Compliant	2	Does not meet minimum requirements
Significantly Non-Compliant	1	Significant weaknesses and/or serious action required
Not Applicable	0	Not Applicable

1.2 Asset Management System Review Summary

The Asset Management System established by the KCP is well defined and implemented for the effective management in the maintenance of the assets. A computerised maintenance management system (EMPAC) is used to manage plant asset database, process work orders, schedule routine work, and store historical data used in risk, cost and failure analysis. The Asset Management System was sighted and provided the audit team with assurance that a continual improvement environment exists for the management of assets at KCP.

The Audit Teams assessment of the effectiveness ratings for each key process in the licensee's Asset Management System are summarised in the following table. A comprehensive report of the audit findings is included in Appendix 2. Auditor hours required for the completion of the review as stated in the Audit Plan are detailed below;

- Documentation Review – 16 hours
- Site Audit – 17 hours

The Audit Teams assessment of the effectiveness ratings for each key process in the licensee's Asset Management System are summarised in the following table. A comprehensive report of the audit findings is included in Appendix 2.

LPG SYSTEM DECOMMISSIONING

The Kwinana Cogeneration Plant was constructed in 1995/6 and a contract with Western Power specified that there would be a back-up fuel supply on site. At this time the decision was taken to use LPG and a 100 tonne storage tank was installed along with the necessary forwarding and conditioning plant. This quantity of LPG would only support the operation of the plant for a total of four hours and cannot be refilled at anything like the rate at which it would be used. This system has only ever been used for testing and to use up the fuel contained in the pressure vessel to permit internal inspection.

The decision to decommission the LPG System was made based on the following;

- Under the Market Rules (Section 4.10.2) as defined by the IMO, an applicant may not claim that a Facility has an alternative fuel unless the Facility has on-site storage, or uninterrupted supply of that fuel, sufficient to maintain 12 hours of operation.
- A Quantative Risk Assessment carried out by DNV Technica during construction identified that 83% of the total risk that the plant poses to itself and the community is attributable to the LPG system and there are significant ongoing costs associated with the maintenance and inspection of this installation and it now has no value for Verve, BP, the IMO or IPM.
- Formal sign off was required and obtained from Verve, removing the backup fuel obligation from the contract, from BP as the other major customer, from the business partners being International Power, Mitsui and Transfield and from ABN AMRO as the facilities bank.
- From the IMO's point of view the station has always been and remains a Natural Gas only fired facility.

Asset Management Effectiveness Summary

ASSET MANAGEMENT SYSTEM	Not Performed	Performed Informally	Planned and Tracked	Well Defined	Quantitatively Controlled	Continuously Improving
AMS Criteria Effectiveness Rating	0	1	2	3	4	5
1. Asset Planning					✓	
2. Asset creation/acquisition					✓	
3. Asset disposal					✓	
4. Environmental analysis					✓	
5. Asset operations					✓	
6. Asset maintenance					✓	
7. Asset Management Information System					✓	
8. Risk Management				✓		
9. Contingency Planning					✓	
10. Financial Planning					✓	
11. Capital expenditure planning					✓	
12. Review of Asset Management System					✓	

2. PERFORMANCE AUDIT

2.1 Performance Audit Scope

This is the first audit of PPP's compliance with obligations relating to Generation Licence EGL8 for KCP. As such, the scope of the audit is to:

- assess the license holders internal compliance systems
- assess the license holders compliance with it's license

for the period 9th June 2006 to 30th June 2008.

As there were no performance standards defined for the EGL8 the ERA's Electricity Compliance Reporting Manual March 2008 was used as the performance criteria for the compliance elements.

The intent of subsequent audits and reviews will be to measure performance over time.

The Asset Manager of KCP, along with representatives from the Operations, Maintenance and Financial teams, participated in the Performance Audit.

2.2 Performance Audit Objective

The objective of the performance audit, as defined by the Audit Guidelines, is to assess the effectiveness of measures taken by the licensee to meet obligations of the performance and quality standards referred to in the licence.

In addition to compliance requirements, a specific focus is to be taken on the systems and effectiveness of processes used to ensure compliance with the standards, outputs and outcomes required by the licence. The audit outcome is to identify areas of non-compliance and areas of compliance where improvement is required and recommend corrective action as necessary.

The Audit was conducted in three phases as defined by the Audit Guidelines. The phases and the appropriate audit guide/tool are detailed below;

Phase	Auditor	Relevant Auditing Standard
1. Risk & Materiality Assessment Outcome - Operational/ Performance Audit Plan	Nicole Davies Paul McLagan	AUS 302: Planning AUS 402: Risk Assessments and Internal Controls AUS 808: Planning Performance Audits AS/NZS ISO 19011:2003: Guidelines for quality and/or environmental management systems auditing (i.e consistent with AUS 302) AS/NZS 4360:2004: Risk Management
2. System Analysis	Nicole Davies	AS/NZS 9004:2000: Quality Management Systems – Guidelines for performance improvements AUS 810: Special Purpose Reports on Effectiveness of Control Procedures As 3806-2006: Compliance Programs
3. Fieldwork Assessment and testing of; <ul style="list-style-type: none"> ▪ The control environment ▪ Information system ▪ Compliance procedures ▪ Compliance attitude 	Nicole Davies Paul McLagan	AUS 502: Audit Evidence AUS 806: Performance Auditing

2.3 Performance Audit Methodology

A risk assessment, assessment of control environment and allocation of audit priority was undertaken in accordance with the Audit Guidelines – Electricity, gas and Water Licences (September 2006) on each element relating to Generation licensee's of the Electricity Compliance Reporting Manual (March 2008) issued by the ERA. It was the opinion of the audit team that this approach would provide an effective assessment of compliance due to each licence condition being incorporated into document.

The Electricity Compliance Reporting Manual (March 2008) specifically classifies each licence condition according to non-compliance rating. The Generation Licence held by PPP results in only Minor and Moderate Ratings for non-compliance, there are no Major ratings classified.

In order to focus the audit effort and identify areas for testing and analysis a preliminary assessment of the risk and materiality of non-compliance with the Generation Licence was undertaken in accordance with the requirements of AS/NZS4360 Risk Management, Section 5.3 and Appendix 1 of the Audit Guidelines. This assessment rating was reviewed during the audit process subject to the verification of control environment. There were no changes made to the pre-assessment ratings during the audit process.

Auditor hours required for the completion of the review as stated in the Audit Plan are detailed below;

- Documentation Review – 14 hours
- Site Audit – 16 hours

Performance Audit Key Findings, Recommendations & Post Audit Plan

Ref	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
103	Generation Licence condition 12.2	<p>(1)The ERA Licence details the organisations Generating Works as; Two gas turbine and one steam turbine generators in a combined-cycle, cogeneration arrangement with a nominal 116MW rated plant capacity whose fuel source is primarily natural gas or LPG as a secondary fuel source.</p> <p>It is noted that the LPG gas system has been disabled and is no longer available to be used as a secondary source. Once formal approvals have been obtained it will be decommissioned and removed.</p>	<p>(1) Notify the ERA of the intention to remove the LPG Fuel system as an alternative fuel source</p> <p>(2) Utilise the work order system to ensure that requirements from outages are completed.</p>	<p>ACTION 1: Notify the ERA of the intention to decommission and remove the LPG Fuel system as an alternative fuel source</p> <p>RESPONSIBILITY: ASSET MANAGER</p> <p>DATE: 1 Dec 2008</p>
109	Generation Licence condition 17.1	<p>(2)In addition, a post mortem outage report is undertaken by the organisation to identify opportunity for improvements for the next outage (Ref: Outage GT1B Minutes 23/4/08). It is noted that the findings in the report are not always acted upon and considerations could be given to utilising the EMPAC system to track requirements.</p>		<p>ACTION 2: Utilise the work order system to ensure that requirements from outages are completed.</p> <p>RESPONSIBILITY: PLANT ENGINEER</p> <p>DATE: 1 Nov 2008</p>

Ref	Licence Condition	Issue	Recommendation	Post-Audit Action Plan
86	Generation Licence Condition 5.1	The Risk Survey Reports by Marsh review the consequences of fire risks, natural perils, catastrophic failure, terrorism etc. It does not consider the loss of natural gas supply specifically however the Business Continuity Plan (BCP) does consider this event, ranking the probability of total loss of gas supply as Low. Consideration could be given to reviewing this document in light of the Varanus Island incident as per discussions with Asset Manager.	Review Business Continuity Document to reflect updated strategy for gas supply.	ACTION: Review Business Continuity Document to reflect updated strategy for gas supply. RESPONSIBILITY: ASSET MANAGER DATE: 31 March 2009
105	Generation Licence condition 13.1	With respect to the financial reports the following information is noted; The partnerships financial report does not comply with the AASB124 Related Party Disclosure and AASB 7 Financial Instruments Disclosure -31/12/07 The partnerships financial report does not comply with AASB119 Employee Benefits and AASB124 Related Party Disclosure - 31/12/06	Convey ERA requirement to Financial Auditors and ensure compliance with relevant accounting standards as required by licence EGL8.	ACTION: Ensure Financial Auditors are aware of ERA requirements to ensure compliance with EGL8. RESPONSIBILITY: FINANCIAL CONTROLLER DATE: 31 Dec 2008

The Post Audit Plan has been developed by the audit team in consultation with the licensee. Approval of the report endorses the content of the post audit plan and implementation of the actions will be included in the next audit.

3. ASSET MANAGEMENT SYSTEM EFFECTIVENESS REVIEW

3.1 Scope of the Asset Management System Review

The review has been established as a requirement of the current Generating Licence issued by the ERA to PPP.

The scope of the Asset Management System Review includes an assessment of adequacy and effectiveness of KCP's asset management system, by evaluating during the audit period 9th June 2006 to 30th June 2008 the following;

1. Asset Planning
2. Asset creation/acquisition
3. Asset disposal
4. Environmental analysis
5. Asset operations
6. Asset maintenance
7. Asset management information system
8. Risk management
9. Contingency planning
10. Financial planning
11. Capital expenditure planning
12. Review of asset management system

This is the first Asset Management System Review conducted since the issue of the licence and as such previous audit report findings are not relevant to the content of the report. The review was conducted during July– August 2008 and included a 2 day site audit, desktop review and interview sessions.

The Asset Manager of KCP, along with representatives from the Operations, Maintenance and Financial teams, participated in the Performance Audit.

The key documents and other information sources are detailed within appendix 2.

The Audit Plan for Asset Management System Review included three phases as defined by the Audit Guidelines. The phases and the appropriate audit guide/tool are detailed below;

Phase	Auditor	Relevant Auditing Standard
1. Risk & Materiality Assessment Outcome – Asset Management System Audit Plan	Nicole Davies Paul McLagan	AUS 302: Planning AUS 402: Risk Assessments and Internal Controls AUS 808: Planning Performance Audits AS/NZS ISO 19011:2003: Guidelines for quality and/or environmental management systems auditing AS/NZS 4360:2004: Risk Management
2. System Analysis	Paul McLagan Brian McKenry	AS/NZS 9004:2000: Quality Management Systems – Guidelines for performance improvements AUS 810: Special Purpose Reports on Effectiveness of Control Procedures As 3806-2006: Compliance Programs
3. Fieldwork	Paul McLagan Brian McKenry	AUS 502: Audit Evidence AUS 806: Performance Auditing

3.2 Objective of the Asset Management System Review

The objective of the review is to examine the effectiveness of the processes used by KCP to deliver asset management, the information systems supporting asset management activities and the data and knowledge used to make decisions about asset management. These elements were examined from a life cycle perspective i.e. planning, construction, operation, maintenance, renewal, replacement and disposal using the guidelines developed by the ERA.

3.3 Methodology for Asset Management System Review

The audit methodology detailed in Appendix 1 & 2 of the Audit Guidelines – Electricity, gas and Water Licences (September 2006) was used in the execution of the Asset Management System Review and is detailed in a tabular form in Appendix 2 of this report

Asset Management System Effectiveness Rating

A 6 point rating scale was used as defined in the Audit Guidelines to evaluate the effectiveness of the Asset Management System.

Maturity Rating Model		
Rating	Descriptor	Description
0	Not Performed	
1	Performed Informally	Base practices performed
2	Planned & Tracked	Committing to perform Planning performances Disciplined performance Tracking performance Verifying performance
3	Well Defined	Defining a standard process Tailoring standard process Using data Perform a defined process
4	Quantitatively Controlled	Establishing measurable quality goals Determining process capability to achieve goals Objectively managing performance
5	Continuously Improving	Establishing quantitative process for effective goals Improving process effectiveness

Asset Management System Review Key Findings, Recommendations and Post Audit Plan

Ref	Audit Requirement	Issue	Recommendation	Post-Audit Action Plan
8.4	The probability and consequences of asset failure are regularly assessed	The probability and consequences of asset failures are assessed based on knowledge of the plant, manufacturers' data, good industry practice and importance of the asset under consideration. Maintenance plans, policies and procedures are implemented in the EMPAC system to mitigate against the consequences of failures. The plant has been certified compliant with Occupational Health and Safety Management Systems AS 4801, Environmental Management Systems ISO 14001 and Quality Management Systems ISO 9001. While the probability and consequences of asset failures has been assessed in the past, there does not appear to be regular assessment reviews.	The probability and consequences of asset failure should be regularly reviewed to confirm appropriateness and effectiveness of maintenance systems.	ACTION: Develop procedure/process for review of risk assessment for asset failures that is aligned with the plant modification process. RESPONSIBILITY: PLANT ENGINEER DATE: 30 Nov 2008

The Post Audit Plan has been developed by the audit team in consultation with the licensee. Approval of the report endorses the content of the post audit plan and implementation of the actions will be included in the next audit

4. RECOMMENDATIONS FOR AMENDMENT TO AUDIT PROCESS

The purpose of the operational/performance audit is to assess the effectiveness of measures taken by the licensee to meet the obligations of the performance and quality standards referred to in the licence (Section 5.1 Audit Guideline – Electricity, Gas and Water Licences September 2006)

The Generation Licence EGL8 issued to PPP for KCP does not contain any performance standards and varies significantly in content from that of a Water Utility. As such the methodology outlined in the Audit Guideline – Electricity, Gas and Water Licences September 2006 has limited applicability in some areas. For example, section 7.4.1 Operational/Performance Audit Compliance Summary. Several aspects of the Generation Licence do not apply on an ongoing basis and are not relevant to the scope of the audit which limits the value of the report, such as;

- Clause 1 – Definitions
- Clause 3 - Term
- Clause 7 – Cancellation of Licence
- Clauses 8 – Surrender of Licence
- Clause 9– Renewal Of Licence

The audit approach to the Performance Audit is subject to auditor interpretation, although reference to applicable legislation does provide a guide to audit criteria and a review of this process could facilitate more effective audit reports for Electricity Licences.

Consideration could be given to providing an alternative approach where there is a lack of specified performance standards for a licensee such as referencing of the Electricity Compliance Reporting Manual published by the Authority. This enables the auditor to follow specified audit criteria as defined by the classification of the licence.

In addition, consideration could be given to exception reporting for Licensees. That is a specified set of performance criteria could be established within the licence and if these were not adhered to i.e. availability, forced outage rates then an exceedence report could be provided to the ERA in order to effectively communicate this issue.

4.1 Changes to Licence Conditions

Section 7.7 of the Audit Guidelines – Electricity Gas and Water Licences September 2006 provides scope for the audit report to recommend changes to the licence conditions where it is the auditor’s opinion that the existing licence conditions do not adequately address risks that are identified in the compliance summary.

As required by the Guidelines the table below identifies the licence condition(s) affected and nominates alternative wording for an existing condition.

Condition	Current Requirement	Proposed Requirement	Justification
15.1	The <i>licensee</i> must, unless otherwise notified in writing by the <i>Authority</i> , provide the <i>Authority</i> with a <i>performance audit</i> within 24 months after the <i>commencement date</i> and every 24 months thereafter.	The licensee must, unless otherwise notified in writing by the <i>Authority</i> , provide the <i>Authority</i> with a performance audit within 24 months after the commencement date and every 48 months thereafter.	The Licensee has established an effective asset management system that is well developed and imbedded in the operations. Due to the nature of the business there are strong commercial drivers for maintaining availability which have been verified through a review of the monthly reports and plant data. The station is also a relatively small power station representing approx 0.03% of the SWIS in peak demand.
16.3	The <i>licensee</i> must, unless otherwise notified in writing by the <i>Authority</i> , provide the <i>Authority</i> with a report as to the effectiveness of the <i>asset management system</i> within 24 months after <i>commencement date</i>	The <i>licensee</i> must, unless otherwise notified in writing by the <i>Authority</i> , provide the <i>Authority</i> with a report as to the effectiveness of the <i>asset management system</i> within 24 months after <i>commencement date</i> and every 48 months	The Licensee has been compliant with its Generation Licence with the exception of the notification for the disposal of the LPG system. Although technically, the decision has been made to dispose of it as yet it is still present on the site.

	and every 24 months thereafter.	thereafter.	Nonetheless notification is required to the ERA due to the inclusion of the LPG as alternate fuel source in the licence.
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5. FOLLOW UP AUDIT PROCESS

This is the first Performance Audit conducted since the issue of the licence and as such previous audit report findings are not relevant to the content of the report. Review of actions taken in response to recommendations will form part of subsequent audit plans as this is the initial audit/review.

APPENDIX 1

PERTH POWER PARTNERSHIP PERFORMANCE AUDIT JULY 2008

APPENDIX 2

PERTH POWER PARTNERSHIP ASSET MANAGEMENT SYSTEM REVIEW JULY 2008