

Our Ref: LMCP/0351

31 March 2009

Mr Paolo Amaranti  
Chief Executive Officer  
Rottnest Island Authority  
PO Box 693  
FREMANTLE WA 6959

Dear Mr Amaranti

**SECTION 39 – WATER SERVICES LICENSING ACT 1995 NOTICE OF FAILURE TO COMPLY WITH LICENCE**

Reference is made to the following document submitted to the Economic Regulation Authority ("the Authority") on 8 February 2009:

Report titled Rottnest Island Authority, Audit Report, Operational Audit and Asset Management Review - Water Supply, Sewerage and Drainage Services, September 2008 by Quantum Consulting Australia ("the Audit Report").

Based on its assessment of the Audit Report, as previously advised on 27 February 2009, the Authority has formed the opinion that the Rottnest Island Authority ("RIA") has contravened Operating Licence 10.

In accordance with section 39(1) of the *Water Services Licensing Act 1995*, the Authority hereby serves the attached notice on the RIA. The notice requires the RIA to rectify the contraventions set out in the notice ("the Contraventions") by no later than 30 June 2009.

In the Authority's opinion, implementing the actions identified in the post review implementation plan in the Audit Report would rectify the Contraventions. The RIA may of course choose alternative ways of rectifying the Contraventions. If the RIA does choose alternative methods of rectifying the Contraventions, then the Authority is to be notified.

Yours sincerely

LYNDON ROWE  
**CHAIRMAN**

cc Minister for Water  
Minister for Tourism  
Treasurer

Section 39

Water Services Licensing Act 1995

**NOTICE**

TO: Rottnest Island Authority  
PO Box 693  
FREMANTLE WA 6959

**TAKE NOTICE** that pursuant to section 39(1) of the *Water Services Licensing Act 1995* ("the Act"), by no later than 30 June 2009 you are hereby required to rectify the contraventions of Operating Licence Number 10 set out in the Schedule attached to this Notice and marked with the letter "A".

You are hereby notified that if you do not comply with this Notice, then in accordance with section 39(2) of the Act the Economic Regulation Authority ("the Authority") may take one or more of the following actions:

- a. serve the Rottnest Island Authority with a letter of reprimand;
- b. subject to section 40 of the Act, order the Rottnest Island Authority to pay a monetary penalty fixed by the Authority but not exceeding \$100,000; and/or
- c. subject to section 40 of the Act, cause any or all of the contraventions to be rectified to the satisfaction of the Authority at the expense of the Rottnest Island Authority.

The Common Seal of the Authority was hereto duly affixed by the Chairman of the Authority on 8 January 2009:

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In the presence of:

Member: \_\_\_\_\_

Member: \_\_\_\_\_

Attachment: Schedule of Contraventions

"A"

## Schedule of Contraventions

### 1. Contravention of clause 17 of Operating Licence Number 10

Clause 17.1 of Operating Licence Number 10 ("Operating Licence") states:

"The *licensee* must provide for, and notify the *Authority* of, an *asset management system* in respect of the *licensee's* assets within two *business days* from the *commencement date* unless otherwise notified in writing by the *Authority*."

The "Authority" is the Economic Regulation Authority.

The Rottneest Island Authority ("RIA") has contravened clause 17.1 of the Operating Licence as follows:

1.1 The asset management system is defined in the Operating Licence as "the measures that are to be taken by the *licensee* for the proper maintenance, expansion or reduction of the water service system". The audit report discloses a number of deficiencies with RIA's asset management system for its water services system. Some of the deficiencies disclosed in the audit report are such that the Authority does not consider that RIA's asset management system puts in place measures for the proper maintenance of the water services system.

1.2 In particular, to comply with clause 17.1 of the Operating Licence, the following measures are required to be implemented:

1.2.1 RIA must finalise the Asset Management Plan ("AMP") and must formally approve the AMP.

Details of the above requirements are provided at page 5, Post Audit Implementation Plan Item 2.1 and page 33, 4.2 Previous Audit Recommendations, Item 1. \*

1.2.2 The following issues must be adequately addressed in the AMP:

1.2.2.1 non-asset options;

1.2.2.2 lifecycle costs;

1.2.2.3 commissioning test requirements;

1.2.2.4 capital expenditure planning;

1.2.2.5 two year rolling maintenance strategy and five year rolling asset management programme;

1.2.2.6 asset performance, condition and effective life and GPS coordinates; and

1.2.2.7 contingency plans and control measures in place to deal with identified risks.

Details of the above requirements are provided at page 5, Post Audit Implementation Plan Item 2.1 and pages 33 – 36, 4.2 Previous Audit Recommendations, Items 3, 4, 7, 16, 21 and 22. \*

1.2.3 RIA must finalise the Risk Management Plan (“RMP”).

Details of the above requirement are provided at page 5, Post Audit Implementation Plan Item 2.2 and page 34, 4.2 Previous Audit Recommendations, Item 13. \*

1.2.4 RIA must develop a Risk Treatment Plan and a formalised risk monitoring process. The Risk Treatment Plan must include links to Asset Operations and Maintenance.

Details of the above requirements are provided at page 6, Post Audit Implementation Plan Item 2.3. \*

1.2.5 RIA must develop and implement an Asset Management System review procedure/process. RIA must maintain copies of all review reports and keep them on its file to show that reviews have occurred.

Details of the above requirements are provided at page 6, Post Audit Implementation Plan, Item 2.4. \*

1.2.6 RIA must update the asset register to include and address asset condition, effective life and GPS coordinates.

Details of the above requirements are provided at page 6, Post Audit Implementation Plan Item 2.5 and pages 34 and 35, 4.2 Previous Audit Recommendations, Items 10 and 19. \*

1.2.7 RIA must develop a detailed risk analysis and contingency plan (“Plan”) and implement a testing regime to ensure the Plan’s effectiveness and currency. The Plan must assess all risks and put in place the appropriate contingency plans.

Details of the above requirements are provided at page 7, Post Audit Implementation Plan Item 2.6 and pages 35 and 36, 4.2 Previous Audit Recommendations, Items 14 and 20. \*

1.2.8 RIA must revise maintenance schedules to attain planned levels of service.

Details of the above requirements are provided at page 7, Post Audit Implementation Plan, Item 2.7. \*

1.3 The measures set out at 1.2.1 - 1.2.3 and 1.2.6 – 1.2.7 inclusive were raised in Quantum’s September 2007 Audit of RIA. Such measures, however, were not properly effected by RIA. Those measures now have to be properly effected.

\* Note – any and all references to Tungsten or Transfield in any plan may be ignored. That is, anything stated to be done by Tungsten, by Transfield, by RIA and Tungsten, or RIA and Transfield is to be done by RIA either itself or with or in conjunction with its nominated contractor. At any event, RIA is to be and remain solely responsible for the achievement (or non-achievement) (as the case may be) of the requisite action or result.