



INFORMATION

Electricity Networks Corporation (t/a Western Power)

PERFORMANCE AUDIT REPORTS

The Economic Regulation Authority today published the 2011 performance audit reports for Electricity Networks Corporation's (**trading as Western Power**) electricity distribution (EDL1) and transmission (ETL2) licences. The post-audit implementation plans are provided as management actions responding to the auditor's recommendations within the audit reports.

Section 32 notice served in January 2009

Western Power has made some progress towards addressing the actions required to rectify the contraventions in the [2009 section 32 notice](#), but that this has not been sufficient to fully rectify the contraventions. The Authority also notes that some of the issues that gave rise to the 2009 section 32 notice have been overtaken by new issues in the 2011 audits. Taking these factors into consideration, the Authority has decided to close the 2009 section 32 notice.

2011 Audit Report Findings

The auditor commented on the culture of compliance within Western Power:

Our audit identified numerous areas where there is scope to strengthen the systems, controls and procedures employed by Western Power to manage its compliance obligations. Improvements can be made through better documentation and communication of responsibilities to process owners.

Western Power's approach for process and system improvement surrounding the compliance obligations has been largely reactive and the identification of breaches relies primarily on audits and reviews conducted by external parties.

The Authority is concerned by the auditor's comments in respect of Western Power's compliance culture and agrees with the auditor's view that Western Power needs to take action to improve its compliance management framework.

In respect of the distribution licence, the audit report disclosed a total of 46 contraventions of the licence, including two contraventions that were rated as being significantly non-compliant. The Authority notes that 10 of the 13 contraventions that were disclosed in the report on the 2009 audit of the licence had not been rectified by the time that the 2011 report was provided to the Authority. Eight of these contraventions are the subject of further recommendations in the 2011 audit report.

In respect of the transmission licence, the audit report disclosed a total of 28 contraventions of the licence. The Authority notes that six of the nine contraventions that were disclosed in the report on the 2009 audit of the licence had not been rectified by the time that the 2011 report was provided to the Authority. Four of these contraventions are the subject of further recommendations in the 2011 audit report.

Overall level of compliance demonstrated by Western Power

The 2011 audits are the third consecutive unsatisfactory audits of the licences since 2008 (the previous audits were in 2008 and 2009).

The Authority notes that, in May 2011, Western Power reported two Type 1 licence contraventions in respect of clauses 7.6 and 7.7(2) of the *Code of Conduct for the Supply of Electricity to Small Use Customers (Code of Conduct)*. The supporting information provided to the Authority disclosed that the contraventions were in part caused by a lack of controls to detect and prevent contraventions within the relevant business units. In August 2011, Western Power reported a further contravention of clause 7.6 of the Code of Conduct in respect of a Smart Grid customer. The cause of this contravention was attributed to the absence of information about the Code of Conduct compliance obligations in the Smart Grid procedures documentation.

The Authority considers that Western Power is not demonstrating an acceptable level of compliance with its licences. Unless Western Power takes appropriate action to rectify the contraventions disclosed in the 2011 audits there is a risk that Western Power will continue to significantly contravene the distribution and transmission licences, with the potential that this will result in further adverse outcomes for customers and other stakeholders.

Action by the Authority

The Authority is not satisfied by the level of compliance disclosed in the 2011 audit reports of Western Power's distribution and transmission licences. After considering the 2011 audit reports, the Authority has decided to serve a notice pursuant to section 32(1) (failure to comply with licence) of the *Electricity Industry Act 2004* (section 32 notice) on Western Power. The section 32 notice requires Western Power to rectify the following contraventions by the dates specified in the notice:

- *Code of Conduct clause 13.8(1)* – A distributor must keep a record of the total number of connections provided and connections not provided on or before the agreed date;
- *Code of Conduct clause 13.8(2)* – A distributor must keep a record of the total number of reconnections provided other than those specified and the total number of those reconnections not provided within the prescribed timeframe;
- *Code of Conduct clause 13.10(1)* – A distributor must keep a record of the customer complaint indicators specified in that clause;
- *Code of Conduct clause 13.10(2)* – A distributor must keep a copy of each customer complaint referred to in clause 13.10(1);
- *Metering Code 5.22(1)* - A network operator must validate energy data in accordance with this Code applying, as a minimum, the prescribed rules and procedures and must, where necessary, substitute and estimate energy data under this Code applying, as a minimum, the prescribed rules and procedures; and
- *Metering Code 5.22(2)* - The network operator must use check metering data, where available, to validate energy data provided that the check metering data has been appropriately adjusted for differences in metering installation accuracy.

The two contraventions of the Electricity Industry Metering Code relate to both the distribution and transmission licences.

The Authority notes that Western Power's management responses to the auditor's recommendations indicate that the majority of the recommendations will be addressed by 30 June 2012. Accordingly, the Authority has decided to reduce the period of time until the next audits of the licences from 18 months to 14 months. The next audits will cover the period 1 May 2011 to 30 June 2012. Reducing the period of time until the next audits will provide an earlier opportunity for the Authority to review Western Power's progress towards addressing the auditor's recommendations.

Copies of the [distribution licence audit report](#), [transmission licence audit report](#) and [section 32 notice](#) are available on the Authority's website.

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