



# INFORMATION

## Electricity Networks Corporation (t/a Western Power)

### 2012 PERFORMANCE AUDIT REPORTS

The Economic Regulation Authority today published the 2012 performance audit (**Audit**) reports on Western Power's electricity distribution (EDL1) and transmission (ETL2) licences.

### Authority's response to the Audits

#### Section 32 Notice

On 17 October 2011, Western Power was issued with a notice under section 32 of the *Electricity Industry Act 2004* (**section 32 notice**) for failing to comply with its electricity licences. The section 32 notice required Western Power to rectify the contraventions set out in the notice by no later than 30 April 2012.

The section 32 notice included five contraventions of the distribution licence and two contraventions of the transmission licence. The distribution and transmission licence Audit reports state that Western Power has rectified all five contraventions of the distribution licence and both contraventions of the transmission licence. Accordingly, the Authority has decided to close the section 32 notice.

#### 2012 Audits

The Audit reports disclosed that Western Power has improved the level of compliance with the distribution and transmission licences since the previous Audits in 2011. The auditor has also made a positive assessment of the attitude of Western Power's management and staff in relation to their compliance obligations under the licences.

The Audit of the distribution licence disclosed a total of 36 contraventions, of which 15 had been rectified by the time the Audit report was provided to the Authority. The Authority's assessment of the 21 unresolved contraventions is that the majority relate to internal process issues rather than matters that have a direct impact on customers.

The Audit of the transmission licence disclosed a total of 22 contraventions, of which seven had been rectified by the time the Audit report was provided to the Authority. As is the case with the distribution licence, the Authority's assessment of the 15 unresolved contraventions is that the majority relate to internal process issues rather than matters that have a direct impact on customers.

After considering the Audit reports, the Authority has decided to increase the period of time until the next Audit of the distribution and transmission licences from 14 months to 24 months. The period of time covered by the next Audits will be 1 July 2012 to 30 June 2014, with the reports to be provided to the Authority by 30 September 2014.

## **BACKGROUND TO THE AUTHORITY'S DECISION**

### **Auditor's Opinion**

The auditor stated that:

In our opinion, except for the matters identified [in the reports that relate to compliance obligations that require corrective measures], we are satisfied that Western Power had policies, procedures and systems in place to support compliance with the licence conditions and associated regulations and codes, for the period 1 May 2011 to 30 June 2012.

The auditor also expressed the following opinion in relation to the culture of compliance within Western Power:

Our 2011 audit identified numerous areas where there was a scope to strengthen the systems, controls and procedures employed by Western Power to manage its compliance obligations. Improvements could have been made through better documentation and communication of responsibilities to process owners. Western Power's approach for process and system improvements surrounding the compliance obligations was seen to be largely reactive and the identification of breaches relied primarily on audits and reviews conducted by external parties.

In the execution of the current audit, we have engaged with senior management as well as operational staff responsible for managing compliance with the Corporation's licence obligations. This consultation has revealed a continuously improving awareness among Western Power's representatives of their compliance mandates.

The Authority is pleased with the improvements in the effectiveness of the processes and procedures implemented by Western Power to manage its compliance obligations since the previous Audits in 2011, and the engagement of Western Power's management in overseeing these processes.

### **Western Power's response to the 2011 Review recommendations**

#### ***Distribution Licence***

The 2011 Audit identified a total of 46 contraventions: 44 with a compliance rating of 2 (non-compliant) and two with a compliance rating of 1 (significantly non-compliant).

The distribution licence Audit report states that 38 of the 46 contraventions had been addressed by Western Power. The recommendations to rectify the eight outstanding contraventions from the 2011 Audit have been carried forward into the 2012 Audit.

#### ***Transmission Licence***

The 2011 Audit identified a total of 28 contraventions, all of which had a compliance rating of 2 (non-compliant).

The transmission licence Audit report states that 20 of the 28 contraventions had been addressed by Western Power. Recommendations to rectify the eight outstanding contraventions from the 2011 Audit have been carried forward into the 2012 Audit.

## **Summary of the 2012 Audit findings**

### ***Distribution Licence***

The distribution licence Audit report identifies a total of 25 contraventions: 17 new contraventions<sup>1</sup> and eight unresolved contraventions carried over from the 2011 Audit.

The auditor has made a total of 36 recommendations to address the contraventions; the recommendations can be found in section 12 of the Audit report.

### ***Transmission Licence***

The transmission licence Audit report identifies a total of 15 contraventions: seven new contraventions<sup>2</sup> and eight contraventions carried over from the 2011 Audit.

The auditor has made a total of 18 recommendations to address the contraventions; the recommendations can be found in section 12 of the Audit report.

### ***Authority's assessment of the 2012 Audit findings***

Although the 2012 Audits have identified a relatively large number of contraventions of the distribution and transmission licence, the Authority's assessment of these contraventions is that that the majority relate to strengthening and improving existing processes rather than rectifying significant deficiencies in Western Power's compliance framework.

### **Areas of Special Interest**

The Authority requested the Auditor closely examine a number of areas of special interest to the Authority during the Audits:

- 1) Section 32 Notice – assessment of Western Power's response to the actions in the notice.
- 2) Type 1 Effectiveness Compliance Framework – assessment of the effectiveness of Western Power's new framework to manage compliance with its Type 1 licence obligations.
- 3) Planned Outages and Life Support Equipment Customer Register – assessment of the effectiveness of the processes used to manage the Life Support Equipment Customer Register and the processes used to inform the customers on the register about a planned outage that will affect their premises.
- 4) Planned outages – do a root cause analysis of the cause(s) of the recent contraventions of Type 1 obligations when Western Power performed planned outages.
- 5) Disconnections – examination of the contractual relationship between Western Power and its contractors to identify what caused the recent Type 1 licence contraventions resulting from disconnecting customers outside the prescribed times. The Authority also required assessment of the adequacy and effectiveness of the new process implemented by Western Power for managing disconnections.

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<sup>1</sup> The Authority's assessment of the 17 new contraventions identified 13 contraventions that were also contraventions in the 2011 Audit.

<sup>2</sup> The Authority's assessment of the seven new contraventions identified four contraventions that were also contraventions in the 2011 Audit.

- 6) Disconnections - undertake interviews with the field staff in the field depots to assess their adherence to the disconnection processes.
- 7) Extension of Network - desktop review of Western Power's processes for extending its network including processes, documentation and controls to prevent network being deployed outside the licence area boundary.
- 8) Corporate Risk Register – review the linkages between the asset risk register and the corporate risk register. Look at whether there is a robust process to ensure that changes to risks in the operational risk registers are accurately captured in the corporate risk register.
- 9) Contractor Management – assess the adequacy of the contractual arrangements between Western Power and their contractors to ensure work undertaken by contractors complies with Western Power's compliance obligations.
- 10) Site Visit - undertake a visit to a regional depot, Northam being the nominated location, to test that the regional depots are operating in accordance with operating procedures and policies.

The Authority notes that the auditor experienced difficulty in assessing the effectiveness of some of the above issues due to the relative newness of the policies and processes implemented by Western Power to address previous compliance issues. The audit findings in relation to the majority of the above areas of interest did not identify any issues of immediate concern to the Authority. However, the Authority has some concerns about the issues with Western Power's planned interruption processes, particularly the problems identifying customers who may be impacted by a planned interruption. However, the Authority notes the auditor's comments that Western Power began rolling out new processes to address this issue shortly after the audit period ended. The Authority will continue to monitor the new policies and procedures that Western Power has implemented in the next Audit of the licences.

A copy of the [distribution](#) and [transmission](#) Audit reports is available on the Authority's website. Western Power's post-audit implementation plan is included as management actions in section 12 of each report.

For further information contact:

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