



# Notice

28 December 2017

## Rottnest Island Authority's electricity integrated regional licence

### 2017 PERFORMANCE AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (ERA) has published the 2017 performance audit and asset management system review [report](#), and the post-audit and post-review implementation [plan](#), for the Rottnest Island Authority's (RIA) electricity integrated regional licence, EIRL3.

#### Action by the ERA

The ERA considers the RIA has made considerable progress in improving compliance with its electricity licence since the last audit, but further work is required to fully comply with the obligations under the *Electricity Industry (Metering) Code 2012* (**metering code**).

The ERA acknowledges the RIA has greatly improved its asset management system since the last review, but contingency planning requires improvement.

The ERA has decided to maintain the period covered by the next audit and review at 24 months. The next audit and review will cover 1 April 2017 to 31 March 2019, with the report due by 30 June 2019.

#### Background to the ERA's decision

##### Audit ratings and recommendations

The auditor's assessment of the 228 licence obligations applicable to the RIA's electricity integrated regional licence found:

- eighty-eight were rated A1 (compliant, adequate controls);
- three were rated B1 (compliant, generally adequate controls);
- nine were rated B2 (non-compliant – minor impact, generally adequate controls);
- eight were rated C2 (non-compliant – minor impact, significant controls improvement required); and
- one hundred and twenty were rated NP/NR (compliance and controls were not assessed).

The audit found 17 non-compliances. The ERA does not agree with the auditor's rating for one obligation that was rated non-compliant.<sup>1</sup> After taking this into account there were 16 non-compliant obligations.

One of the 16 non-compliant obligations is an obligation in the *Electricity Industry Act 2004*, two are obligations in the *Code of Conduct for the Supply of Electricity to Small Use Customers 2016* and thirteen are obligations in the metering code.

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<sup>1</sup> Obligation 131.

The auditor made 14 recommendations to address the 17 obligations that were rated non-compliant, and one obligation requiring improved controls.<sup>2</sup> The ERA considers the RIA has resolved three recommendations.

### **Post-audit implementation plan**

The post-audit implementation plan states the RIA intends to address the recommendations by June 2018. There are no target dates to resolve recommendations 1/2017 and 2/2017.<sup>3</sup>

### **Review ratings and recommendations**

A detailed assessment of the 12 asset management components prescribed in the ERA's *Audit and Review Guidelines: Electricity and Gas Licences*<sup>4</sup> found:

- five were rated A1 (documentation and performance effective);
- two were rated B1 (documentation improvement opportunity); and
- five were rated B2 (documentation requires improvement, performance requires some improvement).

The auditor made 33 recommendations to improve documentation and/or performance for each of the 12 asset system components, except environmental analysis and financial planning.<sup>5</sup>

### **Post-review implementation plan**

The post-review implementation plan states the RIA intends to address the recommendations by June 2018.

## **ERA's response to the audit and review**

### ***Audit***

The RIA cannot demonstrate that the accuracy, location and design of its meters comply with the requirements of the metering code. In response, the RIA has implemented a meter replacement program to replace the existing meters with advanced smart meters. The ERA notes the RIA expects to complete the program by June 2018.

### ***Review***

The failure of a single transformer in peak summer season could result in the entire island losing power. The RIA's contingency plan for this event is currently out-of-date and also needs to be tested, which increases the risk of an extended loss of power if there is a power interruption.

The auditor recommended that the RIA examine ways of reducing the maximum five-day outage time allowed for in the contingency plan. The ERA considers five days is an excessively long time to wait for restoration of power. The auditor also recommended that the RIA should increase the priority for restoring supply to the island's communications, and to the lighthouse, after power interruption.<sup>6</sup>

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<sup>2</sup> The ERA identified 14 distinct recommendations. The auditor provided 18 audit recommendations but some are duplicates, while other recommendations included multiple sub-recommendations.

<sup>3</sup> The RIA advised that the actions to address the issues covered by recommendations 1/2017 and 2/2017 are ongoing, and do not have a completion date.

<sup>4</sup> The guidelines are available at: <https://www.erawa.com.au/electricity/electricity-licensing/regulatory-guidelines>.

<sup>5</sup> The auditor provided 23 recommendations but some are duplicates, while others have multiple sub-recommendations. The ERA considers there are 33 distinct recommendations in total.

<sup>6</sup> There is a high marine safety risk if the lighthouse has an extended power interruption.

The ERA disagrees with the auditor's B2 rating for contingency planning (documentation and performance requires some improvement) and is of the opinion that the auditor should have rated this component deficient.

The post-review implementation plan states the RIA will address the auditor's recommendations and review its contingency plans with its contractor, PFM, by June 2018. However, the ERA considers this is too long, and requires the RIA to update its contingency plans in line with the review recommendations by 31 March 2018.

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