



# Notice

6 March 2018

## NewGen Power Kwinana Pty Ltd

### 2017 ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (ERA) has published the 2017 asset management system review [report](#), and the post-review implementation [plan](#), for NewGen Power Kwinana Pty Ltd's (NPK) electricity generation licence EGL3.

#### Action by the ERA

The ERA considers NPK had an effective asset management system during the period covered by the review.

The ERA has decided to increase the period covered by the next review from 36 to 60 months. The next review will cover 1 August 2017 to 31 July 2022, with the report due by 31 October 2022.

#### Background to the ERA's decision

##### Overview of NPK's operations

NPK has an electricity generation licence for an area located in the Kwinana industrial zone, 35 kilometres south of Perth.

NPK manages the Kwinana Power Station (**KPS**), an intermediate load generation plant primarily consisting of one gas turbine (powered by natural gas), a heat recovery steam generator, and one steam turbine.<sup>1</sup>

The total power capacity of the KPS is approximately 328 megawatts.<sup>2</sup> The KPS is capable of supplying approximately 10 per cent of the electricity required by the south-west interconnected system.

##### 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>3</sup> found:

<sup>1</sup> An intermediate load generation plant adjusts its output as demand for electricity fluctuates throughout the day. Intermediate load generators lie between base load and peaking generators in terms of efficiency and capacity.

<sup>2</sup> Total capacity of the plant is 327.8 megawatts. The gas and steam turbines have capacities of 167.8 megawatts and 160 megawatts respectively.

<sup>3</sup> The guidelines are available at: <https://www.erawa.com.au/electricity/electricity-licensing/regulatory-guidelines>.

- ten were rated B1 (process and policy requires improvement, performance effective); and
- two were rated B2 (process, policy and performance requires some improvement).

The auditor also provided ratings for each asset management sub-component.<sup>4</sup> Fifty-one sub-components were rated B1 (process and policy require some improvement, performance fully meets requirements), one was rated B/NA (process and policy require some improvement, performance not assessed<sup>5</sup>), and four were rated B2 (process, policy and performance requires some improvement).

The auditor made seven recommendations. One recommendation (07/2017: finalisation of asset management documentation) was completed and requires no further action. The remaining six recommendations cover five components, and six sub-components.<sup>6</sup>

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

The post-review implementation plan states NPK intends to address the review recommendations by August 2018.

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

The available information indicates NPK has maintained an effective asset management system for the period covered by the review.

The ERA agrees with the auditor's assessment that some minor improvements are required with four components of the asset management system: asset management information system; risk management; contingency planning and review of the asset management system.

### **Testing of contingency plans**

The auditor has recommended that NPK test its contingency plans.

As an intermediate generator, the plant generates electricity continually except for planned and unplanned outages. NPK may incur a loss of revenue if testing of the contingency plans requires a complete shutdown of the plant.

The ERA has advised NPK that it may perform a desktop review of the contingency plan instead of actual testing if the test would require a complete shutdown of the plant.

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<sup>4</sup> The guidelines provide compulsory effectiveness criteria (referred to as sub-components) for each of the 12 asset management components. The auditor must rate both the components and sub-components.

<sup>5</sup> The auditor did not assess one sub-component for performance because NPK does not use non-asset options, such as demand management, for managing its electricity generation business. Refer to page 34 of the report.

<sup>6</sup> The components were asset planning, asset management information system, risk management, contingency planning and review of the asset management system. The sub-components were 1.5, 7.1, 7.5, 8.2, 9.1 and 12.1 (refer to pages 33 - 62 of the report).