



Notice

28 May 2018

Bluewaters Power 1 Pty Ltd

2017 PERFORMANCE AUDITS AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (ERA) has published Bluewaters Power 1 Pty Ltd's (BP1) 2017 performance audit and asset management system review [report](#) for electricity generation licence 4 (EGL4) and the 2017 performance audit [report](#) for electricity retail licence 12 (ERL12).

The ERA has also published BP1's post-audit and post-review implementation [plan](#) for EGL4 and the post-audit implementation [plan](#) for ERL12.

ERA's response to the audits and review

EGL4 audit and review

The ERA considers BP1 has demonstrated a high level of compliance with its licence obligations.

The ERA considers BP1 has an effective asset management system, but the review found there were opportunities to improve document control, records management, compliance, and risk.

The ERA has decided to increase the period covered by the next audit and review from 48 months to 60 months. The next audit and review will cover 1 January 2018 to 31 December 2022, with the report due to be provided by 31 March 2023.

ERL12 audit

The ERA considers BP1 has demonstrated a high level of compliance with its licence conditions.

The ERA has decided to increase the period covered by the next audit from 48 months to 60 months. The next audit will cover 1 January 2018 to 31 December 2022, with the report due to be provided by 31 March 2023.

Background to the ERA's decision

EGL4

Audit ratings

The auditor's assessment of the 43 licence obligations applicable to BP1's electricity generation licence found:

- nine were rated A1 (adequate controls, compliant);

- two were rated B1 (generally adequate controls, compliant);
- three were rated B2 (generally adequate controls, non-compliant); and
- 29 were rated NP/NR (not performed, not rated)¹.

The audit identified three non-compliances. Two of the non-compliances were minor administrative issues related to paying prescribed licence fees late² and submitting two compliance reports to the ERA after the due date³. The third non-compliance⁴ concerned not having a formal system to record and review operational risks.

Audit recommendations and post-audit implementation plan

The auditor made five recommendations; three recommendations address the non-compliances⁵ and two recommendations address control improvements⁶.

The plan states BP1 intends to address the recommendations by 31 March 2019.

Review ratings

The assessment of the 12 asset management components prescribed in the ERA's *Audit and Review Guidelines: Electricity and Gas Licences* found:

- three components were rated A1 (documentation adequately defined, performing effectively);
- one component was rated A2 (documentation adequately defined, performance process requires some improvement); and
- eight components were rated B2 (documentation requires some improvement, performance process requires some improvement).

The ERA considers the auditor has taken a conservative approach to rating the asset management components. The overall rating for each asset management component has been set to the rating for the lowest rated sub-component. Normal practice is to apply weighting to the sub-components to arrive at an overall rating for the component.

The review found that BP1 did not pay sufficient attention to improving its document control, records management, compliance, and risk because, at the end of the review period, its review of the asset management system was interrupted by an extended forced outage of Bluewaters Power 2 Pty Ltd's (BP2) generator.⁷

When the BP2 forced outage was resolved, BP1 resumed work on its asset management system, employing additional resources, implementing a new records management system and engaging consultants to assist with the review of the system.

¹ These licence obligations were not exercised during the audit period.

² Obligation 105.

³ Obligation 124.

⁴ Obligation 106.

⁵ Obligations 105, 106 and 124.

⁶ Obligations 101, 104 and 103.

⁷ The BP1 and BP2 generators are managed by the same operations and maintenance workforce. Between 13 January 2017 and 19 July 2017, the BP2 generator was offline due to a major plant failure. Because of the financial penalties the owners were paying to compensate for the forced outage, the power station workforce prioritised rectifying the BP2 generator fault over updating its asset management system.

Review recommendations and post-review implementation plan

The auditor made nine recommendations that are all process improvements.

One recommendation was completed by the time the post-review implementation plan was received.⁸ The plan states BP1 intends to address the eight remaining recommendations by 31 March 2019.

ERL12

Audit ratings

The auditor's assessment of the 76 licence obligations applicable to BP1's electricity retail licence found:

- 30 were rated A1 (adequate controls, compliant);
- one was rated A2 (adequate controls, non-compliant);
- three were rated B1 (generally adequate controls, compliant);
- one was rated B2 (generally adequate controls, non-compliant)
- three were rated A/NR and B/NR (adequate or generally adequate controls, not rated for compliance due to lack of relevant activity); and
- 38 were rated NP/NR (not performed, not rated)⁹.

The audit identified two non-compliances. One non-compliance concerned a minor administrative issue¹⁰ and the other non-compliance is no longer applicable¹¹.

Audit recommendations and post-audit implementation plan

The auditor made four recommendations, one recommendation addresses a non-compliance¹² and three recommendations address control improvements¹³.

The plan states that BP1 will address the recommendations by 31 December 2018.

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⁸ Recommendation 04/2018.

⁹ These licence obligations were not exercised during the audit period.

¹⁰ Obligation 124: One compliance report was submitted after the due date.

¹¹ Obligation 69: When the *Electricity Industry (Customer Transfer) Code 2004* was replaced with the *Electricity Industry (Customer Transfer) Code 2016* (Customer Transfer Code) in 2016, it removed the requirement to have an automated response message for electronic communication.

¹² Obligation 124.

¹³ Obligations 45, 105, 339 and 408.