



Notice

19 December 2019

Rottnest Island Authority

2019 performance audit and asset management system review

The Economic Regulation Authority has published the 2019 [performance audit](#) and [asset management system review](#) reports and the [post-audit](#) and [post-review](#) implementation plans for the Rottnest Island Authority's (RIA) electricity integrated regional licence EIRL3.

On Rottnest Island, 19 kilometres off the coast of Fremantle, the RIA operates 45 kilometres of 11 kV distribution line and 3.3 megawatts of generation capacity, which is a mix of solar, wind and diesel.

The RIA has 24 small use business customers.¹ Each business has residential premises on the island for its staff.

The ERA's decision.

The ERA has decided to maintain the audit and review period at 24 months. The next audit and review will cover the period 1 April 2019 to 31 March 2021, with the report due by 30 June 2021.

Background to the ERA's decision

Audit ratings

The auditor's assessment of the 202 licence obligations applicable to the RIA's licence found:

- 77 were rated A1 (adequate controls, compliant)
- Nine were rated B1 (generally adequate controls, compliant)
- Seven were rated B2 (generally adequate controls, minor non-compliance)
- Two were rated C2 (inadequate controls, minor non-compliance)
- Three were rated C3 (inadequate controls, moderate non-compliance)
- 12 were rated A/NR (adequate controls, no relevant activity took place during the audit period)

¹ A 'small use customer' is a customer who consumes not more than 160 megawatt hours of electricity per year.

- Four were rated B/NR (generally adequate controls, no relevant activity took place during the audit period)
- 88 were rated NP/NR (controls not performed, no relevant activity took place during the audit period).

The 12 non-compliances fell into three categories:

- Metering equipment and processes that do not comply with the *Electricity Industry (Metering) Code 2012*.
- Billing and complaints processes that do not comply with the *Code of Conduct for the Supply of Electricity to Small Use Customers*.
- Failing to submit and publish performance information on time.

Audit recommendations

The auditor made 11 recommendations to address the non-compliances.

The post-audit implementation plan states that the RIA will address the audit recommendations between now and June 2022.²

Review ratings

The assessment of the 12 asset management components prescribed in the ERA's *2019 Audit and Review Guidelines: Electricity and Gas Licences* found:³

- Three components were rated A1 (documentation adequately defined, performing effectively).
- Two components were rated B1 (documentation requires some improvement, performing effectively).
- Six components were rated B2 (documentation and performance requires some improvement)
- One component was rated B3 (documentation requires some improvement, performance requires significant improvement).

The auditor also assessed the 58 effectiveness criteria related to the 12 asset management components and found 10 deficiencies in the areas of:

- asset planning, creation and acquisition
- capital expenditure planning
- environmental analysis
- asset disposal
- risk management
- review of the asset management system.

² RIA has committed to addressing most of the recommendations in 2020, but the recommendations that require the replacement of assets, such as metering instrument transformers, will take longer.

³ A copy of the guidelines is available on the ERA [website](#).

Review recommendations

The auditor made eight recommendations to address asset management system deficiencies.⁴

The post-review implementation plan states that the RIA will address the review recommendations between now and December 2021.

The ERA's assessment of the audit and review findings

Audit

The RIA was not able to demonstrate that the accuracy and design of all its metering installations comply with the metering code. Between 2017 and 2018, the RIA replaced its existing meters with new meters, but did not take any steps to address the non-compliant instrument transformers in its network.

During the audit period, the RIA made progress documenting its metering processes (and addressing five recommendations from the 2017 audit) by submitting its metrology procedure to the ERA for approval. The procedure was approved by the ERA on 20 November 2017.

The audit identified a non-compliance with the Metering Code due to the RIA's holiday accommodation units not being metered.⁵ The RIA does not meter the electricity usage at its holiday units, as they are short-stay accommodation and the cost of supplying electricity is incorporated into the unit rental fee. The RIA's post-audit implementation plan requires it to decide whether to install meters at the units. However, the benefits of complying with the metering code by installing meters at the units is open to question, given that the guests are not billed for their electricity consumption.

The billing and complaints non-compliances did not have a major effect on customers, but it is still necessary for the RIA to improve its compliance to ensure its customers receive all the information they are entitled to under the customer code. It is also a concern that some of the non-compliances were also identified in the 2017 audit.

One billing non-compliance could have affected customers. The RIA did not issue estimated bills if it did not have a meter reading. If a meter reading is unavailable, the RIA issues a bill for a zero amount and adds the amount owed to the next bill when a meter reading is available. However, the audit did not identify any instances where a customer was issued a bill for a large amount that they then had difficulty paying.

The RIA has committed to updating its bills and billing processes to make them compliant with the customer code by 31 January 2020.

On two occasions during the audit period, the RIA did not submit to the ERA, or publish, performance information on time.

⁴ The auditor made 10 recommendations in total, but two of the recommendations address two asset management system deficiencies each. This means there were eight individual recommendations in total.

⁵ The Metering Code requires all network connection points to be metered, except Type 7 connection points.

Review

The ERA is concerned at the deterioration in the effectiveness of the RIA's asset management system since the 2017 review. The 2019 review rated 10 of the 58 asset management system effectiveness criteria deficient or requiring substantial improvement in the 2019 review.⁶

There has been a deterioration in asset planning, which is important considering the ageing electrical infrastructure on the island. A theme throughout the auditor's review findings is the need to capture detailed forecast and actual life cycle operational and maintenance costs for individual assets, and to put in place effective asset plans to manage the maintenance and replacement of ageing assets. This will help to inform the RIA's current and future capital expenditure planning.

There have been four high-voltage cable failures in the past three years.⁷ The reliability of the cables was also identified as a problem in the 2017 review. In its post-review implementation plan, the RIA has committed to replacing the cables by December 2020.

One area that the RIA improved in during the review period was contingency planning, which was the main problem identified in the 2017 review.

While there has been some deterioration in the effectiveness of the RIA's asset management system since the last review, the RIA made progress between the 2015 and 2017 reviews in improving its asset management system. In the 2017 review, most of the sub-components of the asset management system received an A1 rating. However, this review has identified the need for the RIA to focus on the above areas requiring improvement.

The ERA will seek regular updates from the RIA on completing the actions in its post-audit and post-review implementation plans.

Further information

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⁶ 37 of the remaining 48 effectiveness criteria were rated A1, the highest rating, and 11 sub-components received a B1 or B2 rating.

⁷ RIA has 1.6 kilometres of high-voltage distribution power cables that are paper insulated and lead covered. This cable design has been obsolete for some time.