



Notice

9 February 2021

Karara Power Pty Ltd

Compliance enforcement notice and 2020 performance audit and asset management system review

The Economic Regulation Authority has served Karara Power Pty Ltd with a compliance enforcement notice, after considering the 2020 [performance audit and asset management system review report](#) and the [post-audit and post-review implementation plan](#) for Karara's electricity transmission licence ETL6.

Karara has a 106-kilometre, 330 kilovolt transmission line running from Western Power's Three Springs Terminal to the Karara mine site in the Mid-West region. Western Power supplies electricity to a single customer (Golden Grove mine site) through a second circuit on Karara's transmission towers.

The ERA's decision

Audit and review period

The ERA has decided to decrease the audit and review period from 48 months to 24 months. The next audit and review will cover the period 1 July 2020 to 30 June 2022, with the report due by 30 September 2022.

Section 32 compliance enforcement notice

The auditor found 10 non-compliances with Karara's licence, most of which were administrative matters.¹ However, the auditor found one material non-compliance because Karara did not have an asset management system. Clause 5.1.1 of ETL6 requires a Karara to have an asset management system, which is to set out the measures that the licensee is to take for the proper operation and maintenance of the transmission assets used to supply electricity under the licence.²

Under section 32 of the Act, the ERA can take compliance enforcement action against a licensee for failing to comply with its licence, requiring the licensee to rectify the non-compliance within a specified period.

¹ Further information about the non-compliances is in the next section.

² Section 14 of the *Electricity Industry Act 2004* makes it a condition of every licence, other than a retail licence, that the licensee must provide for an asset management system.

Due to the seriousness of Karara's failure to have an asset management system for its transmission system, the ERA has served a [section 32 compliance enforcement notice](#) on Karara. The notice requires Karara to rectify the non-compliance by implementing and maintaining an asset management system for its assets operated under ETL6. Karara has 12 months from the date of the section 32 notice to implement the asset management system.

Background to the ERA's decision

Audit ratings

The auditor assessed 25 licence obligations applicable to Karara's licence and found:

- Four were rated A1 (adequate controls, compliant).
- Three were rated C2 (inadequate controls, minor non-compliance).
- One was rated C3 (inadequate controls, moderate non-compliance).
- One was rated C/NR (inadequate controls, no relevant activity took place during the audit period).
- Six were rated D3 (no controls evident, moderate non-compliance).
- 10 were rated NP/NR (controls rating not required, no relevant activity took place during the audit period).

The auditor found 10 non-compliances and 11 controls deficiencies, including that:

- Karara did not have an asset management system.
- Karara did not notify the ERA of details of its asset management system or material changes to it.
- Karara did not take all necessary steps to minimise the extent and duration of any interruption, suspension, or restriction of the supply of electricity due to an unavoidable cause (known as an unplanned outage).³
- Karara failed to pay licence fees and charges to the ERA on time.
- Karara failed to submit annual compliance reports to the ERA on time.
- Karara did not make information available to the auditor in a timely manner to enable the auditor to conduct the audit and review.

Audit recommendations

The auditor made six recommendations to address the non-compliances and controls deficiencies.

The post-audit implementation plan states that Karara will address the audit recommendations between now and January 2022.

³ The auditor found that the performance of Karara's transmission system was satisfactory, but Karara had not identified specific risks to the system and monitoring the condition of the system was not part of the asset management system.

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:⁴

- One component was rated B3 (documentation requires some improvement, corrective action required).
- Two components were rated C3 (documentation requires substantial improvement, corrective action required).
- Two components were rated C4 (documentation requires substantial improvement, serious action required).
- Six components were rated D4 (inadequate documentation, serious action required).
- One component was rated D/NR (inadequate documentation, not rated due to no relevant activity taking place during the review period).

The auditor found that the main deficiencies with Karara's asset management system were:

- Karara did not establish and implement an asset management system, including an asset management plan.
- Karara did not carry out a risk assessment of the transmission line and there were no formal contingency plans in place.
- Karara did not have a compliance register listing its compliance obligations and allocating responsibility for those obligations.
- There was no document management system.
- Karara did not have internal review procedures, including reviewing the effectiveness of the asset management system.

Review recommendations

The auditor made 43 recommendations to address the asset management system deficiencies. The recommendations will be addressed by 19 action items, some of which address multiple recommendations.

The post-review implementation plan states that Karara will address the review recommendations between now and January 2022.

The ERA's assessment of the audit and review findings

Overview

Despite the number of non-compliances and asset management system deficiencies, the auditor found that, in general, the performance of the transmission line during the audit and review period was satisfactory, but not well documented.

While there are only two large industrial customers that rely on Karara's transmission system for their electricity, one being Karara itself, the transmission line travels across private and public land and is connected to the South West Interconnected System. The risk of asset

⁴ A copy of the guidelines is available on the ERA [website](#).

failure is substantial if Karara does not establish and implement an effective asset management system and improve compliance with its licence.

Audit

The auditor found 10 non-compliances from 25 licence obligations. While the number of non-compliances is relatively small, it is 40 per cent of the total obligations applicable to Karara. All the non-compliant licence obligations were also found to have controls deficiencies.

Most of the non-compliances were administrative in nature, but one non-compliance was material, which was not having an asset management system.

The Secretariat did not agree with the auditor's rating of non-compliant for obligations 101 and 104. The obligations require a licensee to submit an independent performance audit and asset management system review to the ERA not less than once every 24 months, which Karara did in 2016. The auditor rated Karara non-compliant with the obligations because of the inconsistencies between the findings of the 2016 and 2020 audits and reviews (see the discussion on the 2016 audit and review). However, section 14(1) of the Act does not require the reports to meet quality or accuracy standards.

The accuracy of audit and review reports is dealt with under obligations 121 and 122, which require a licensee and auditor to comply with the ERA's audit and review guidelines. The auditor rated obligations 121 and 122 non-compliant.

Review

The auditor found that Karara did not have an asset management system. The auditor rated every component of Karara's asset management system deficient.⁵

The substantial number of asset management system deficiencies and the risk this creates to the effective operation of the transmission system means that the ERA has decided to decrease Karara's review period from 48 months to 24 months.

2016 audit and review

The 2016 audit and review report concluded that Karara achieved an adequate level of compliance with its licence and had an effective asset management system. However, the 2020 audit and review came to a different conclusion, finding 10 non-compliances and the absence of an asset management system.

The deterioration in Karara's performance and the difference in the auditors' findings between the 2016 and 2020 audits and reviews is of concern to the ERA and has resulted in the ERA decreasing the audit and review period from 48 months to 24 months.

Further information

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⁵ While Karara had some components of an asset management system, what it did have was inadequate. A rating of deficient was also given where a component of the system did not exist.