



# INDEPENDENT MARKET OPERATOR

Compliance of the IMO's internal processes and procedures with the Wholesale Electricity Market Rules and the IMO's compliance with the Wholesale Electricity Market Rules and Market Procedures

## FINAL REPORT

4 November 2015

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# EXECUTIVE SUMMARY

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This report sets out the results of the market audit by PA Consulting Group in carrying out its assessment of the compliance of the IMO's internal procedures and business processes with the Wholesale Electricity Market Rules (Electricity Rules), and the IMO's compliance with the Electricity Rules and Market Procedures.

This market audit has been carried out under Electricity Rule 2.14.3:

*The IMO must ensure that the Market Auditor carries out the audits of such matters as the IMO considers appropriate, which must include:*

- a. the compliance of the IMO's internal procedures and business processes with the Market Rules;*
- b. the IMO's compliance with the Market Rules and Market Procedures;*
- c. the IMO's market software systems and processes for software management.*

This report covers our audits under sub-paragraphs (a) and (b) above. The audit of the IMO's software systems and processes for software management is the subject of a separate accompanying report.

This year's market audit has taken the form of an "incremental" audit. This means that we have focussed on:

- IMO business processes and procedures where:
  - Clauses in the Electricity Rules are new or amended since last year's annual audit
  - Previous audits and our assessment of the IMO's documented procedures (see below) have indicated non-compliance risk
  - There have been substantive systems or resourcing changes
- Market Procedures or Internal Procedures that:
  - Are new or have been updated since last year's annual audit
  - Have been reviewed in previous audits as containing gaps or being non-compliant with the Electricity Rules.

In essence, we have looked primarily at areas that have changed since last year's annual audit or areas, which in light of our previous audit findings, we have deemed to pose some non-compliance risk. We have not assessed in detail or commented on areas where the Internal or Market Procedures and Electricity Rules have not changed, and which previously have been found to comply with the Electricity Rules.

## Audit period

The period covered by the audit is 1 August 2014 to 31 July 2015.

## Approach

Our audit has been conducted in accordance with Australian Auditing and Assurance Standards Board's 'Framework for Assurance Engagements', ASAE 3000 'Assurance Engagements Other than Audits and Reviews of Financial Information'.

- We provide reasonable assurance under this standard with respect to our review of the compliance of IMO's Internal Procedures and Market Procedures with the Electricity Rules
- We provide limited assurance under this standard with respect to our review of the IMO's compliance with the Electricity Rules and Market Procedures.

Our approach is briefly described below:

1. We reviewed internal procedures and Market procedures that have changed during the Audit Period to ensure they still comply with the Electricity Rules.
2. We have undertaken a risk assessment to determine which business function areas we will focus on (where areas of risk were determined on an "incremental" basis as described above).
3. Sought evidence that IMO is performing those business functions so as to comply with the Electricity Rules and Market Procedures. To obtain this evidence we have performed a variety of audit procedures including sample-based compliance testing and business process walkthroughs.

We performed one site visit in August 2015 over a period of two weeks.

## Summary of non-compliance incidents

Table 1 summarises the incidents of non-compliance by clauses breached:

- We have flagged clauses that have been breached multiple times
- Breaches that have been self-reported by IMO are flagged as such.
- All other breaches were identified as part of the audit process
- The IMO has either identified or implemented remedial actions in respect of every breach summarised below.

Our main finding of concern is around the process for providing updated standing data to System Management. While most standing data is transferred to System Management automatically, some important information is provided in documentary attachments which are shared with System Management by email. While there should be a shared understanding between the IMO and System Management of which of these documents is current for each facility, an inconsistent communication process has meant that this is not the case<sup>1</sup>.

**Table 1: Summary of incidents of non-compliance by clause breached.**

Chapter	Clauses breached	Description
2	2.33.1 (self-reported)	Failure to update Application Fee amount on participant registration application form
	2.33.3 (self-reported)	Failure to update Application Fee amount on facility registration application form
	2.34.1(b) (multiple breaches throughout the audit period; materiality undetermined)	Failure to communicate standing data changes to System Management (this issue came to light as a result of the IMO's proactive effort to work with market participants to ensure all standing data is up to date)
3	3.16.9 (self-reported)	Late publication of September MT PASA report. Consequence of System Management's late provision of the report.
	3.17.2	Late publication of 18 September 2014 ST PASA report.
	3.23.2 (self-reported)	Late publication of LoadWatch for 1-5 December 2014

<sup>1</sup> One reason this issue came to light was the IMO's proactive effort in the audit year to work with market participants to ensure that the IMO holds up to date standing data for all facilities.

Chapter	Clauses breached	Description
4	4.26.1A (material, self-reported)	Incorrect settlement treatment public holidays for January 2015.
	4.27.1 (multiple technical breaches during the audit period, repeated from 2014)	IMO monitors SWIS capacity on monthly basis (as opposed to daily as stated in the rules) IMO has initiated a rule change (RC_2014_07) to align obligation with practice
	4.28.9 (two material breaches, self-reported)	Incorrect assessment of Non Temperature Dependent Load status
	4.29.3(d)(vi) (material, self-reported)	Incorrect calculation of capacity cost refunds for one facility for two business days.
6	6.5.2 (multiple non-material breaches, self-reported)	Acceptance of invalid resource plans containing a facility carrying out commissioning tests
9	9.3.3 (material, self-reported)	Failure to use all Meter Data Submissions to determine Metered Schedules for November 2014 initial settlement.
	9.4.7 (multiple breaches, repeated from 2014)	Failure to acknowledging Capacity Credit Allocation submissions by phone as required by the Rules IMO uses an automated confirmation system which is more efficient IMO has initiated a rule change (RC_2014_07) to align obligation with practice
	9.16.2 (self-reported)	Publication of incorrect settlement date in settlement timeline
	9.16.3 (self-reported)	Inclusion of adjusted data in settlement adjustment outside the scope of changes provided for in the Electricity Rules. This was a conscious decision by the IMO to correct an earlier error, and is in line with the market objectives.
	9.19.3(b) (multiple material breaches since market start, self-reported)	Incorrect interest rate used on settlement adjustment invoices. Overall impact is relatively small, but not zero.
	9.20.7 (twelve breaches, one self-reported)	Failure to notify market participants of actions the IMO will take in relation to a notice of disagreement within three months of notice being lodged.

## General comment on IMO compliance

This year we have again noted an increasing level of maturity in the IMO's approach and attitude to compliance. Compliance culture is firmly embedded in the organisation as evidenced by a proactive approach to self-reporting non-compliance (even for material non-compliance – see Table 1) and active management of remedial actions to address non-compliance incidents.

Although we note a higher number of material breaches than in the last audit period, we note that almost all the issues identified are isolated incidents due to human error. Areas with multiple breaches fall into one of three categories. They are:

- Technical in nature, in that the IMO are compliant with the intent of the rules, and it is the rule wording that needs to be changed (in relation to 4.27.1 and 9.4.7)
- Due to an incorrect process implemented in software, and a change to systems has been implemented to remove the error (in relation to 6.5.2)
- Due to missing or omitted steps in a manual process (in relation to 2.34.1(b), 9.19.3(b) and 9.20.7)

Additionally (with the exception of the technical breaches of MR 4.27.1 and MR 9.4.7, which are awaiting a rule change) the IMO has not breached obligations identified as non-compliance incidents in last year's audit.

PA has also noted a continued improvement in the quality of controls being used to manage non-compliance risk. Particularly:

- The IMO has continued to extend the scope and use of MOSMI (an alerts system that notifies IMO staff of impending deadlines and market events/incidents) and JIRA (issue and project tracking software) is an effective means of managing compliance with a number of material rules obligations relating to administration, registration, market operations, settlement and prudential monitoring, and is in process of being extended to capacity market activities.
- The scope (in terms of obligation coverage) and quality of the IMO's internal procedures continues to be of excellent standard (see below).
- The IMO continues to expand and refine its use of Confluence (electronic "wiki" procedures) to document work instructions, and is in the process of implementing formal governance for key pages (see below).

We also note two areas of risk for the market which, although not direct obligations on the IMO, increase the risk of IMO non-compliance and affect market outcomes:

1. **Meter data quality:** Several of the non-compliances this year have related to the IMO using incorrect meter data in the settlement or NTDL processes. Through our process walkthroughs, we observed that the correct meter data to be used by the IMO often has missing values, and updated data is often provided to the IMO several times, including long after the measurement date. This variability makes detecting and correcting errors in the IMO's processes more difficult, increasing the likelihood of incorrect market outcomes. We note that the IMO adopts a proactive approach to ensuring the accuracy of metering data, and has an ongoing activity to identify improvements to the current submission process.
2. **Constrained on and off payments:** We note that the Rules currently provide for constrained on and off payments to be made at initial settlement, even for facilities who have not complied with dispatch instructions. This is followed by a manual process where the IMO compliance team spends considerable effort reviewing and recovering these amounts in subsequent settlement adjustments. While the risk that the IMO does so incorrectly is low, they cannot investigate and recover *all* incorrect payments. SM and IMO systems could manage this automatically prior to the initial settlement, and doing so would contribute to more efficient market outcomes. We note that the IMO is in the process of preparing a rule change proposal that would improve this process, and recommend that such a rule change is implemented.

## General comment on the IMO's Procedures

In undertaking this review we have noted that the IMO's suite of Internal Procedures have maintained the high quality identified last year, and that all but a handful of the minor non-compliances and omissions identified last year have been addressed.

We also note that, as recommended in previous years, the IMO has begun implementation of governance workflows around its confluence material, including with formal approval and version control of work instructions. We have not expressed an opinion on the material held in Confluence, but would expect to do so once formal governance is fully in place, and they are formally recognized as official Internal Procedures and to be audited under MR 2.14.3(a).

## Opinion on the compliance of the IMO's Procedures with the Electricity Rules

Our opinion is as follows and is subject to limitations and qualifications set out in Section 1.3.3:

- We have noted a small number of instances in which the IMO's Market Procedures and Internal Procedures are non-compliant with the Electricity Rules. However, these non-compliances are not material as set out in the body of this report.
- It is our opinion that the IMO's Market Procedures and Internal Procedures comply with the Electricity Rules in all material respects.

## Opinion on the IMO's compliance with the Electricity Rules and Market Procedures

Our opinion is as follows and is subject to limitations and qualifications set out in Section 1.3.3:

- The IMO has been materially non-compliant with some of its obligations:
  - In respect of calculating Capacity Refunds under 4.26.1A and 4.29.3(d)(vi) on two occasions as set out in Table 6.
  - In respect of assessing Non-Temperature Dependent Load status under 4.28.9 on two occasions as set out in Table 6.
  - To calculate the metered schedule on one occasion, as set out in Table 8.
  - To apply the correct interest rate to settlement adjustments on multiple occasions, as set out in Table 8.
- The IMO has been non-compliant with some of its other obligations under the Electricity Rules, but the non-compliance has not been material as set out in the body of this report.
- We have not observed anything else that causes us to believe that the IMO has not been compliant with the Electricity Rules and Market Procedures during the Audit Period, in all material respects.

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# 1 INTRODUCTION

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This report sets out the results of the market audit conducted by PA Consulting Group of the compliance of the IMO's internal procedures and business processes with the Wholesale Electricity Market Rules (the Electricity Rules), and the IMO's compliance with the Electricity Rules and Market Procedures.

## 1.1 Scope of the market audit

This market audit has been carried out under Electricity Rule (MR) 2.14.3 which states that:

*The IMO must ensure that the Market Auditor carries out the audits of such matters as the IMO considers appropriate, which must include:*

- a. *the compliance of the IMO's internal procedures and business processes with the Market Rules;*
- b. *the IMO's compliance with the Market Rules and Market Procedures;*
- c. *the IMO's market software systems and processes for software management.*

This report covers our audits under sub-paragraphs (a) and (b) above. The audit of the IMO's software systems and processes for software management is the subject of a separate accompanying report.

## 1.2 Audit period

The period covered by the audit is 1 August 2014 to 31 July 2015.

## 1.3 Market audit process

### 1.3.1 Audit approach

This year's market audit has taken the form of an "incremental" audit. This means that we have focussed on:

- IMO business processes and procedures where:
  - Clauses in the Electricity Rules are new or amended since last year's annual audit
  - Previous audits and our assessment of the IMO's documented procedures (see below) have indicated non-compliance risk
  - There have been substantive systems or resourcing changes.
- Market Procedures or Internal Procedures that:
  - Are new or have been updated since last year's annual audit
  - Have been reviewed in previous audits as containing gaps or being non-compliant with the Electricity Rules.

In essence, we have looked primarily at areas that have changed since last year's annual audit or areas, which in light of our previous audit findings, we have deemed to pose some non-compliance risk. We have not assessed in detail or commented on areas where the Internal or Market Procedures and Electricity Rules have not changed, and which previously have been found to comply with the Electricity Rules.

In conducting the market audit on the compliance of the IMO and its procedures with the Electricity Rules, PA has:

1. Ensured that it is up to date with its understanding of the Western Australia Wholesale Electricity Market Rules (the Electricity Rules)
2. Identified new or amended obligations placed on the IMO by amendments to the Electricity Rules and Market Procedures that have come into force since the start of the Audit Period. We have then mapped these obligations to the relevant Internal and Market Procedures
3. Identified new or amended Internal and Market Procedures or procedures that related to areas of non-compliance in previous audits. We then reviewed these procedures to ensure:
  - a. Rule amendments have been appropriately reflected in the procedures
  - b. Previous non-compliance issues have been addressed
  - c. The procedures still comply with the Electricity Rules
4. Undertaken a risk assessment to determine which business function areas we will focus on to review the IMO's operational compliance. In practice this has meant:
  - a. Identifying IMO business functions that relate to areas of non-compliance identified in the previous market audit
  - b. Identifying IMO business functions that we deem to be subject to high compliance risk (as a result of discussions with IMO staff or as a result of audit procedures that we have conducted).
5. Sought evidence that IMO is performing the above business functions so as to comply with the Electricity Rules and Market Procedures. To obtain this evidence we have performed a variety of audit procedures<sup>2</sup> including:
  - a. Compliance testing of rules obligations based on our risk assessment. This involves requesting data, information and meetings (e.g. market data, reports, emails, system logs, system sighting requests, observing IMO staff perform rule mandated activities, etc.) to determine whether IMO has been operationally compliant with its obligations.
  - b. Business process walkthroughs and interviews with respect to selected business functions to:
    - i. Review whether IMO implements its obligations in accordance with the Electricity Rules, Market Procedures and Internal Procedures
    - ii. Assess whether IMO applies adequate controls to manage compliance risk.
6. Had discussions with IMO managers and staff to clarify issues identified and
7. Prepared a report setting out our findings.

### **1.3.2 Auditing standard and level of assurance**

Our audit has been conducted in accordance with the Australian Auditing and Assurance Standards Board's '*Framework for Assurance Engagements*', ASAE 3000 '*Assurance Engagements Other than Audits and Reviews of Financial Information*'.

- We provide reasonable assurance under this standard with respect to our review of the compliance of IMO's Internal Procedures and Market Procedures with the Electricity Rules
- We provide limited assurance under this standard with respect to our review of the IMO's compliance with the Electricity Rules and Market Procedures

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<sup>2</sup> We performed one site visit in August 2015 over a period of two weeks.

### 1.3.3 Inherent limitations

There are limitations to any external audit. Audits are not an absolute guarantee of the truth or reliability of agency information or the effectiveness of internal controls. They may not identify all matters of significance. This is because external audit techniques involve:

- Professional judgement as to “good industry and market operational practice”
- The use of sample testing
- An assessment of the effectiveness of internal control structures and
- An assessment of risk.

A compliance audit does not guarantee every procedure and action carried out in the operation of the electricity market in the audit report, nor does it examine all evidence and every transaction. However, our audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the market audit report.

Our opinion in this report is therefore subject to the following caveats:

1. Our audit procedures did not include assessing irregularities such as fraudulent or illegal activities. As such, our audit should not be relied upon to disclose such irregularities. However, in the event that we were to detect any fraudulent or illegal activity, we would report this to the IMO. No such findings have been made during this audit.
2. Our audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the audit period and is performed on a sample basis. Specifically, our business process reviews assessing the use of controls were undertaken after the end of the audit year. As such:
  - a. Although our findings are indicative of IMO’s practices during the audit year, they do not constitute definitive evidence that IMO applied those controls during the audit year.
  - b. Projections of our findings to future periods carry the risk that:
    - i. Controls may become inadequate over time due to changes in the GSI Rules or IMO’s business processes, procedures and systems
    - ii. Degree of compliance with the control procedures we have reviewed deteriorate over time.
3. We have undertaken a cursory review of the governance of the IMO’s internal procedures, and are satisfied that the change management process is robust. However, we have not tested the IMO’s operational compliance against its procedure change management policies and have relied on the IMO’s list of documented changes to internal procedures. Therefore, there is a very minor risk that unauthorised changes may have been made to internal procedures that we have not reviewed.

### 1.3.4 Materiality

Where non-compliant procedures or actions are identified, these are classified as being:

- Material, in that they do not comply with the Electricity Rules and may affect decisions made by market participants, affect the outcome of the market or otherwise affect the financial position of one or more rule participants, or
- Non-material, in that:
  - They do not comply with the wording of the Electricity Rules but do comply with the intention of the Electricity Rules, or
  - They do not comply with the Electricity Rules but they are not likely to affect decisions made by market participants, affect the outcome of the market or otherwise affect the financial position of one or more rule participants.

## 1.4 Structure of this report

The report contains PA's analysis of the operation of the IMO on a Electricity Rules chapter-by-chapter basis. Rule changes that have occurred since the last audit are set out in the Appendix.

## 1.5 Acknowledgements

PA would like to thank the managers and staff of the IMO who willingly provided information and shared in discussions with us while we carried out this market audit.

# 2 ELECTRICITY RULE CHAPTER 1 - INTRODUCTION

Electricity Rule Chapter 1 sets out the Introduction to the Electricity Rules and covers areas such as the objectives of the market, conventions and transitional arrangements.

## 2.1 The IMO’s processes and procedures

### 2.1.1 Rule amendments

The following clauses in Chapter 1 have been amended since last year’s annual audit:

**Table 2: Rule amendments to Chapter 1**

Date	Rule change	Clauses amended
1-Nov-14	RC_2014_04	1.12.1 (new) and 1.12.2 (new)
1-May-15	RC_2015_04	1.12.1

### 2.1.2 Procedures

No Market or Internal Procedures relating to Chapter 1 of the Electricity Rules have been updated since last year’s market audit.

### 2.1.3 Relationship between Rule updates and procedures

The extent to which the Rule changes have been reflected in updates to the IMO’s processes and procedures is set out in Table 3.

### 2.1.4 Compliance of the IMO’s Procedures with Chapter 1 of the Electricity Rules

It is our opinion that the IMO’s Market Procedures are compliant with Chapter 1 of the Electricity Rules in all material respects.

It is our opinion that the IMO’s Internal Procedures are compliant with Chapter 1 of the Electricity Rules in all material respects.

## 2.2 Compliance with Chapter 1 of the Electricity Rules

### 2.2.1 Incidents

We have not observed any incidents of non-compliance by the IMO associated with Chapter 1 of the Electricity Rules.

### 2.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 1 of the Electricity Rules in all material respects.

## 2.3 Details of procedure changes

### 2.3.1 Rule changes and procedure updates

**Table 3: Relationship between Rule changes to Chapter 1 and IMO procedure updates**

Rule change	Clauses amended	Description	Procedure updated?
RC_2014_04	1.12.1 (new) and 1.12.2 (new)	New clauses to allow the IMO to: <ul style="list-style-type: none"><li>• undertake the 2014 LT PASA and the RCR determination for the 2014 Reserve Capacity Cycle in 2015; and</li><li>• use the 2013 ESOO for the preliminary RCR to be included in the Request for Expressions of Interest for the 2015 Reserve</li></ul>	No updates required
RC_2015_04	1.12.1	Amended to allow the IMO to publish the LT PASA in the ESOO published in Year 2 of the 2014 Reserve Capacity Cycle (i.e. 2015)	No updates required

# 3 ELECTRICITY RULE CHAPTER 2 – ADMINISTRATION

Chapter 2 of the Electricity Rules sets out the Functions and Governance Rules, most of which are the responsibility of the IMO in its Market Administration role.

## 3.1 The IMO’s processes and procedures

### 3.1.1 Rule amendments

There have been no amendments to Chapter 2 since last year’s annual audit.

### 3.1.2 Procedures

No Market Procedures relating to Chapter 2 of the Electricity Rules were updated in the audit period.

The following Internal Procedures relating to Chapter 2 were updated in the audit period:

ID	Title	Updated
2.1.1	Registration	June 2015
2.2.3	Daily Operations	October 2014
2.3.4	Settlement Contingency	July 2015
4.2.1	Rule Change Process	July 2015
4.2.2	Procedure Change Process	July 2015
4.3.2	Committees and Working Groups Secretariat	July 2015
4.4.2	Processing System Management Reports	July 2015

### 3.1.3 Compliance of the IMO’s Procedures with Chapter 2 of the Electricity Rules

We have noted two instances in which the IMO’s Internal Procedures were non-compliant with the Electricity Rules. However, both are non-material:

- The IMO’s Internal Procedure 2.1.1 Registration does not provide the timeline (as prescribed in MR 2.29.5K) for accepting/rejecting an application made under MR 2.29.5I
- The IMO’s Internal Procedure 2.1.1 Registration has a minor error in the timeline for implementing all Standing Data changes as prescribed in MR 2.34.14<sup>3</sup>.

It is our opinion that the IMO’s Market Procedures are compliant with Chapter 2 of the Electricity Rules in all material respects.

It is our opinion that the IMO’s Internal Procedures are compliant with Chapter 2 of the Electricity Rules in all material respects.

<sup>3</sup> We noted these issues in last year’s audit. The IMO has identified corrections to Internal Procedure 2.1.1 Registration to address the non-compliances noted with respect to MR 2.29.5K and 2.34.14, but has not yet implemented them.

## 3.2 Compliance with Chapter 2 of the Electricity Rules

### 3.2.1 Incidents

The details of incidents associated with Chapter 2 of the Electricity Rules are summarised in Table 4.

We observed breaches of three provisions of Chapter 2, including multiple breaches of clause 2.34.1(b) were noted. Other than the 2.34.1(b) breaches, all are deemed to be non-material; that is the breaches do not compromise the intention of the Electricity Rules, and/or the decisions made by market participants or otherwise affect the outcome of the market. Actions have already been undertaken or identified in respect of each breach to lessen the likelihood that similar incidents recur.

### 3.2.2 Opinion

Our opinion is as follows:

- The IMO has been non-compliant with some of its obligations under Chapter 2 of the Rules but the non-compliance has not been material set out in Table 4.
- We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 2 of the Electricity Rules in all material respects.

## 3.3 Details of non-compliance

### 3.3.1 Incidents of non-compliance

**Table 4: Incidents of non-compliance with Chapter 2**

Rule	The Issue	Material?	Comment
2.33.1 (self-reported)	Clause 2.33.1 requires the IMO to prescribe a Rule Participant registration form that requires an applicant to provide the relevant non-refundable application fee.	No (two breaches)	Clause 2.24.2 requires the IMO before 30 June each year to (among other things) determine and publish the level for each Application Fee to apply over the year starting 1 July. The IMO did so, but did not update the Participant Application form until 31 July.  The mistake had no impact on participant actions or market outcomes.  The IMO has plans to update its procedure documentation to incorporate additional steps to ensure the registration form is updated to reflect any changes in application fees.
2.33.3 (self-reported)	Clause 2.33.3 requires the IMO to prescribe a Facility registration that requires an applicant to provide the relevant non-refundable application fee.  From 1 to 31 July 2015, the forms prescribed an incorrect application fee.		
2.34.1(b)	Clause 2.34.1(b) requires the IMO to provide revised Standing Data to System Management as soon as practicable.  On multiple occasions in the audit year, the IMO did not notify System Management of updated standing data.	Undetermined <sup>4</sup>  (multiple breaches)	The IMO generally consults with System Management on each standing data change before approving it. However, the IMO has not always communicated the outcome of the change request to System Management. In the subset of change requests we reviewed, we found at least 12 occasions where the IMO had not provided explicit confirmation of changed standing data to System Management.  The IMO does provide updated standing data to System Management via an automated daily transfer, but this transfer does not include attachments provided by the market participant. Such files were included in 319 change requests submitted and approved during the audit period, which is a larger number than would be experienced most years due to the IMO's proactive work this year to ensure participants have supplied up to date standing data. These attached files can include important facility information, and non-provision would cause SM to be relying on outdated information, with potential for material impact on SM's operation of the power system. While we have not identified the specific effects the issues have had, we note that the issue has been systemic, and needs to be addressed.

<sup>4</sup> After discussions with System Management, we were unable to determine whether the specific instances of non-compliance noted had a material impact on System Management's operation of the power system.

Rule	The Issue	Material?	Comment
			We recommend that to avoid potential for error, the IMO confirm to System Management the currently applicable file attachments for all facilities.

## 4 ELECTRICITY RULE CHAPTER 3 – POWER SYSTEM SECURITY AND RELIABILITY

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Chapter 3 of the Electricity Rules sets out the Power System Security and Reliability Rules which are the responsibility of the IMO in its Market Administration role.

### 4.1 The IMO's processes and procedures

#### 4.1.1 Rule amendments

There have been no amendments to Chapter 3 since last year's annual audit.

#### 4.1.2 Procedures

There are no Market Procedures associated with the IMO's obligations under Chapter 3 of the Electricity Rules.

The following Internal Procedures relating to Chapter 3 have been updated since last year's market audit:

ID	Title	Updated
2.2.3	Daily Operations	October 2014
2.3.3	Settlements	July 2015
4.1.4	Annual Margin Values Review	July 2015
4.1.5	Market Development Review	July 2015
4.3.1	Annual Review of Committee Composition	July 2015
4.4.2	Processing System Management Reports	July 2015

#### 4.1.3 Compliance of the IMO's Procedures with Chapter 3 of the Electricity Rules

It is our opinion that the IMO's Internal Procedures are compliant with Chapter 3 of the Electricity Rules in all material respects.

### 4.2 Compliance with Chapter 3 of the Electricity Rules

#### 4.2.1 Incidents

We observed three breaches of Chapter 3 were, all of which are deemed to be non-material. The details of incidents associated with Chapter 3 of the Electricity Rules are summarised in Table 5

#### 4.2.2 Opinion

Our opinion is as follows:

- The IMO has been non-compliant with some of its obligations under Chapter 3 of the Rules but the non-compliance has not been material set out in Table 5.
- We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 3 of the Electricity Rules in all material respects.

## 4.3 Details of non-compliance

### 4.3.1 Incidents of non-compliance

**Table 5: Incidents of non-compliance with Chapter 3**

Rule	The Issue	Material?	Comment
3.16.9 (self-reported)	Clause 3.16.9 of the Electricity Rules requires the IMO to publish the MT PASA report containing the information prescribed in Rule 3.16.9 by the 15th day of each month. The IMO published the September 2014 MT PASA report one day late on the 16th of September 2014.	No	<p>The IMO publishes the MT PASA report on the 15th day of each month after receiving it from System Management.</p> <p>System Management sent the IMO the September MT PASA report one day late on the 16th of September, which was a breach of their obligation to provide the report to the IMO by the 15<sup>th</sup>.</p> <p>The IMO published the report that day, but is nevertheless technically in breach of the requirement to publish by the 15<sup>th</sup>.</p> <p>We note that Section 3.17 of the Electricity Rules (relating to ST PASA publication) allows the IMO to publish the ST PASA report as soon as practicable after receiving the report from System Management. As such, the IMO has identified the potential for a rule change proposal to Section 3.16 to align it with Section 3.17 requiring the IMO to publish the report as soon as practicable after receiving the data from System Management (as opposed to on the same day).</p> <p>We have deemed this to be a non-material breach as the delay in publication would not have had any market impact.</p>
3.17.2	Clause 3.17.2 of the Electricity Rules requires the IMO to publish the ST PASA on the website as soon as practicable after receiving it from System Management (every Thursday). The IMO did not publish the ST PASA Report for the 18 <sup>th</sup> September 2014 until more than a day after receipt from System Management.	No	<p>The IMO received ST PASA report for 18 September 2014 from System Management at 11.48am on the 18<sup>th</sup> of September. The email was filed without being actioned, and the lack of publication was not identified until the following day. The IMO published the report at 2.10pm on the 19<sup>th</sup> of September, which does not meet the requirement for publication 'as soon as practicable'.</p> <p>This breach was a case of operator error, and as the process for publishing the ST PASA report is manual (but proceduralized) there is a minor risk of recurrence. The IMO has implemented an automated reminder in its MOSMI system to reduce the risk of recurrence.</p> <p>This is a non-material breach as, while there is excess capacity in the SWIS, the ST PASA reports are of limited interest to market participants, and are not used by participants to make market decisions.</p>
3.23.2	Clause 3.23.2 of the Electricity Rules requires the	No	This was the first week of the 2014-15 hot season, during which the LoadWatch is

Rule	The Issue	Material?	Comment
(self-reported)	<p>IMO to prepare and publish LoadWatch on its website within one business day of receiving the relevant information from System Management.</p> <p>The IMO received LoadWatch data from System Management on 1 December 2014 for the period 1-5 December 2014, but did not publish the LoadWatch Report until 8 December 2014.</p>		<p>published weekly.</p> <p>This was a case of operator error, and as the process for publishing the LoadWatch report is manual (but proceduralized) there is a minor risk of recurrence. The IMO has implemented an automated reminder in its MOSMI system to reduce the risk of recurrence.</p> <p>This is a non-material breach as temperatures in this first week of the hot season were in the mid-twenties, and so the information was unlikely to affect participants' market decisions.</p>

# 5 ELECTRICITY RULE CHAPTER 4 – RESERVE CAPACITY

Chapter 4 of the Electricity Rules sets out the Reserve Capacity Rules which are the responsibility of the IMO in its System Capacity role.

## 5.1 The IMO's processes and procedures

### 5.1.1 Rule amendments

There have been no amendments to Chapter 4 since last year's annual audit.

### 5.1.2 Procedures

The following Market Procedures relating to Chapter 4 of the Electricity Rules have been updated since last year's market audit:

Head of Power	Title	Updated
4.9.10	Certification of Reserve Capacity	1 January 2015
4.13.8	Reserve Capacity Security	19 January 2015

The following Internal Procedures relating to Chapter 4 have been updated since last year's market audit:

ID	Title	Updated
2.2.5	Individual Reserve Capacity Requirement (IRCR) & Reserve Capacity Allocation Monitoring	
2.3.3	Settlements	July 2015
3.1.1	Determination of Maximum Reserve Capacity Price	January 2015
3.1.2	LT PASA	July 2015
3.1.3	Preparation of the Electricity Statement of Opportunities	July 2015
3.1.4	Reserve Capacity Information Pack	January 2015
3.2.1	Calling and Processing Expressions of Interest for New Capacity	August 2014
3.2.2	Supplementary Reserve Capacity	October 2014
3.3.1	Certification of Facilities	December 2014
3.4.1	Bilateral Trade Declaration	October 2014
3.4.2	Assignment of Capacity Credits	October 2014
3.4.5	Reserve Capacity Security	February 2015
3.6.1	Performance Monitoring	August 2014
3.6.2	Reserve Capacity Testing	July 2015
3.6.3	Progress Reports for Construction of New Capacity	October 2014
3.6.5	Relevant Demand Interval Determination and Maintenance Assessment (new)	December 2014

ID	Title	Updated
3.8.1	Extension of Reserve Capacity Timetable (new)	October 2014
4.1.5	Market Development Review	July 2015

### 5.1.3 Compliance of the IMO's Procedures with Chapter 4 of the Electricity Rules

It is our opinion that the IMO's Market Procedures are compliant with Chapter 4 of the Electricity Rules in all material respects.

It is our opinion that the IMO's Internal Procedures are compliant with Chapter 4 of the Electricity Rules in all material respects.

## 5.2 Compliance with Chapter 4 of the Electricity Rules

### 5.2.1 Incidents

We observed 4 material and one non-material incident of non-compliance with Chapter 4.

The details of incidents associated with Chapter 4 of the Electricity Rules are summarised in Table 6. Actions have already been undertaken or identified in respect of each breach to ensure similar incidents do not recur.

### 5.2.2 Opinion

Our opinion is as follows:

- The IMO has been materially non-compliant with its obligations in respect of calculating Capacity Refunds and assessing Non-Temperature Dependent Load status, as set out in Table 6.
- The IMO has been non-compliant with one other obligation under Chapter 4 of the Electricity Rules, but the non-compliance has not been material, as set out in Table 6.
- We have not observed anything else that causes us to believe that the IMO has not complied with its obligations under Chapter 4 of the Electricity Rules in all material respects.

## 5.3 Details of non-compliance

### 5.3.1 Incidents of non-compliance

**Table 6: Incidents of non-compliance with Chapter 4**

Rule	The Issue	Material?	Comment
4.26.1A (self-reported)	4.26.1A requires the IMO to calculate the Facility Reserve Capacity Deficit Refund according to a particular formula, which includes different refund rates for peak and off-peak periods. In the initial settlement run for January 2015 (executed in early March 2015), the IMO applied incorrect refund rates for some periods on 1 January and 26 January.	Yes	1 and 26 January 2015 were public holidays. The IMO settlements system incorrectly treated these days as business days, as a result of an oversight in the input data provided to the system. The input data was corrected for the first adjustment in July 2015, but the error did make a material difference to the amounts paid and received by market participants in the initial settlement run. The IMO has introduced an alert in its MOSMI system to ensure that updated public holiday data is provided to the settlement system before the initial settlement run.
4.27.1 (repeated from 2014)	Clause 4.27.1 of the Electricity Rules requires the IMO to monitor the total availability of the SWIS on a daily basis. The IMO implements this rule on a monthly basis and is therefore in technical breach of this rule.	No	Clause 4.27.1 requires the IMO to monitor SWIS capacity on a daily basis so that they can implement clause 4.27.2 which requires the IMO to assess, on a monthly basis, the number of days in the preceding 12 months that SWIS capacity fell below particular thresholds as defined by this rule. The IMO implements both clauses 4.27.1 and 4.27.2 through a monthly software (Wholesale Electricity Market Systems (WEMS)) event. Hence, the IMO is in technical breach of clause 4.27.1 which requires them to implement the rule on a daily basis. We note this as a technical non-material breach as clause 4.27.1 is redundant; since the IMO only needs to monitor the available capacity on a monthly basis (as per the requirements of clause 4.27.2) there is no need to implement clause 4.27.1 on a daily basis (as clause 4.27.1 is an input required to implement clause 4.27.2). The IMO has initiated a rule change (RC_2014_07) to align obligation with practice.
4.28.9 (self-reported)	Clause 4.28.9 obliges the IMO to only accept a load as Non-Temperature Dependent Load if the load meets the requirements of Appendix 5A. For the November 2014 IRCR determination, the IMO incorrectly	Yes (two breaches)	A problem with the process of importing data into the IMO's Non-Temperature Dependent Load calculation tool meant that the tool was operated on incomplete meter data. The meter data was present in the IMO's metering system, but was not exported to the NTDL tool. As a result, two loads (belonging to different participants) were assessed as NTDLs when they did not meet the requirements of Appendix 5A. This incorrect status assessment meant that these two participants made a smaller contribution to capacity payments than they otherwise

Rule	The Issue	Material?	Comment
	assessed two loads as NTDLs, when they did not satisfy the requirements of Appendix 5A.		<p>should have, and other participants paid more than they would have had the loads been correctly assessed.</p> <p>The IMO has simplified the data import process to reduce the data volume transferred, and make it more likely that such an event would be noted in future.</p>
4.29.3(d)(vi) (self-reported)	<p>The IMO must provide certain data to the settlements system in time for settlement of the relevant trading month, including the total Capacity Cost Refund to be paid by each Market Participant to the IMO.</p> <p>In the initial settlement of the June 2014 settlement period (carried out in August 2014), the IMO used an incorrect Capacity Cost Refund value for one participant.</p>	Yes	<p>In September 2013, the IMO assigned capacity credits to a new demand side programme, setting 1 June 2014 as the effective date from which the reserve capacity obligations would apply. The facility was not registered until 8 June 2014, and therefore according to 4.12.7, failed to satisfy its reserve capacity obligations between 1 June 2014 and 8 June 2014.</p> <p>The IMO should have charged capacity cost refunds for all business days in that period. In the initial settlement run, the participant was only charged Capacity Cost Refunds for two of the four business days in that week, making a material difference to the amount paid to the participant in that settlement run. The IMO recovered the amounts relating to the other two business days in the first adjustment; see the entry in Table 8.</p> <p>The IMO has implemented an alert in its MOSMI system that flags when a facility has been assigned capacity credits before being registered, to allow more time for such a situation to be handled. Further, the IMO is considering changes to its settlements system to automatically handle such a situation in the initial settlement run.</p>

# 6 ELECTRICITY RULE CHAPTER 5 – NETWORK CONTROL SERVICES PROCUREMENT

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Chapter 5 sets out the Network Control Service Procurement Rules. Responsibility for the procurement of network control services rests with the network operator.

## 6.1 The IMO's processes and procedures

### 6.1.1 Rule amendments

There have been no amendments to Chapter 5 since last year's annual audit.

### 6.1.2 Procedures

There are no Market or Internal Procedures associated with the IMO's obligations under Chapter 5 of the Electricity Rules.

### 6.1.3 Compliance of the IMO's Procedures with Chapter 5 of the Electricity Rules

Not applicable as there are no Market or Internal Procedures associated with the IMO's obligations under Chapter 5 of the Electricity Rules.

## 6.2 Compliance with Chapter 5 of the Electricity Rules

### 6.2.1 Incidents

The IMO has not used the provisions of Chapter 5 of the Electricity Rules.

### 6.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 5 of the Electricity Rules in all material respects.

# 7 ELECTRICITY RULE CHAPTER 6 – ENERGY MARKET

Chapter 6 of the Electricity Rules sets out the rules for the Energy Market, which are the responsibility of the IMO in its Market Operations role.

## 7.1 The IMO's processes and procedures

### 7.1.1 Rule amendments

There have been no amendments to Chapter 6 since last year's annual audit.

### 7.1.2 Procedures

There are no Market Procedures associated with the IMO's obligations under Chapter 6 of the Electricity Rules.

The following Internal Procedures relating to Chapter 6 have been updated since last year's market audit:

ID	Title	Updated
2.2.3	Daily Operations	October 2014
4.1.3	Energy Price Limits Review	July 2015

### 7.1.3 Compliance of the IMO's Procedures with Chapter 6 of the Electricity Rules

It is our opinion that the IMO's Internal Procedures are compliant with Chapter 6 of the Electricity Rules in all material respects.

## 7.2 Compliance with Chapter 6 of the Electricity Rules

### 7.2.1 Incidents

We observed multiple material breaches of clause 6.5.2, due to a software issue. The details of incidents associated with Chapter 6 of the Electricity Rules are summarised in Table 7.

### 7.2.2 Opinion

Our opinion is as follows:

- The IMO has been materially non-compliant with its obligation to advise participants of the validity of their resource plan submissions as set out in Table 7.
- We have not observed anything else that causes us to believe that the IMO has not complied with its obligations under Chapter 6 of the Electricity Rules in all material respects.

## 7.3 Details of non-compliance

### 7.3.1 Incidents of non-compliance

**Table 7: Incidents of non-compliance with Chapter 6**

Rule	The Issue	Material?	Comment
6.5.2 (self-reported)	<p>Clause 6.5.2 obliges the IMO to communicate to market participants whether or not the IMO accepts their resource plan submission as conforming to the requirements of clause 6.11.2.</p> <p>Clause 6.11.2(bA) states that a valid Resource Plan Submission cannot include a generator for any trading interval during which that generator is undergoing a commissioning test during that trading interval.</p> <p>Until 15 July 2015, the IMO notified participants that their resource plans were valid even in cases where they included facilities undergoing commissioning tests.</p>	No (multiple breaches)	<p>When participants submit resource plans, the IMO's market systems respond with notification that the plan has been accepted as valid. Until the release of WEMS 3.11-374-128 on 15 July 2015, the systems did not check for the presence of a facility undergoing a commissioning test. This issue goes back to market start.</p> <p>On at least 15 occasions during the audit period, a facility undergoing a commissioning test was included in a resource plan accepted by the IMO as conforming to the requirements of 6.11.2.</p> <p>The impact is difficult to quantify, but based on our analysis, even if the resource plans provided had excluded the projected generation from the commissioning facilities, there would have been no financial impact .</p> <p>With the release of WEMS 3.11-374-128, the IMO now automatically rejects resource plans that include a commissioning facility, and such a rejection also raises a notification for market operations staff to immediately contact the submitting participant and ensure they have opportunity to submit a revised compliant plan.</p> <p>We note that the rules around resource plan submissions and the use of data therein would benefit from review and revision, as they are largely a holdover from pre-balancing market days. The IMO has submitted a rule change proposal (RC_2014_06) to remove resource plans from the rules altogether.</p>

# 8 ELECTRICITY RULE CHAPTER 7 – DISPATCH

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Chapter 7 sets out the Dispatch Rules which are the responsibility of System Management and the IMO in their Market Operations role.

## 8.1 The IMO's processes and procedures

### 8.1.1 Rule amendments

There have been no amendments to Chapter 7 since last year's annual audit.

### 8.1.2 Procedures

No Market Procedures relating to Chapter 7 of the Electricity Rules have been updated since last year's market audit.

There are no Internal Procedures associated with the IMO's obligations under Chapter 7 of the Electricity Rules.

### 8.1.3 Compliance of the IMO's Procedures with Chapter 7 of the Electricity Rules

It is our opinion that the IMO's Market Procedures are compliant with Chapter 7 of the Electricity Rules in all material respects.

## 8.2 Compliance with Chapter 7 of the Electricity Rules

### 8.2.1 Incidents

We have not observed any incidents of non-compliance by the IMO associated with Chapter 7 of the Electricity Rules.

### 8.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 7 of the Electricity Rules in all material respects.

# 9 ELECTRICITY RULE CHAPTER 7A – BALANCING MARKET

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Chapter 7A sets out the Rules for the Balancing Market.

## 9.1 The IMO's processes and procedures

### 9.1.1 Rule amendments

There have been no amendments to Chapter 7A since last year's annual audit.

### 9.1.2 Procedures

No Market or Internal Procedures relating to Chapter 7A of the Electricity Rules have been updated since last year's market audit.

### 9.1.3 Compliance of the IMO's Procedures with Chapter 7A of the Electricity Rules

It is our opinion that the IMO's Market Procedures are compliant with Chapter 7A of the Electricity Rules in all material respects.

It is our opinion that the IMO's Internal Procedures are compliant with Chapter 7A of the Electricity Rules in all material respects.

## 9.2 Compliance with Chapter 7A of the Electricity Rules

### 9.2.1 Incidents

We have not observed any incidents of non-compliance by the IMO associated with Chapter 7A of the Electricity Rules.

### 9.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 7A of the Electricity Rules in all material respects.

# 10 ELECTRICITY RULE CHAPTER 7B – LOAD FOLLOWING MARKET

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Chapter 7B sets out the Load Following Service Electricity Rules.

## 10.1 The IMO's processes and procedures

### 10.1.1 Rule amendments

There have been no amendments to Chapter 7B since last year's annual audit.

### 10.1.2 Procedures

No Market or Internal Procedures relating to Chapter 7B of the Electricity Rules have been updated since last year's market audit.

### 10.1.3 Compliance of the IMO's Procedures with Chapter 7B of the Electricity Rules

It is our opinion that the IMO's Market Procedures are compliant with Chapter 7B of the Electricity Rules in all material respects.

It is our opinion that the IMO's Internal Procedures are compliant with Chapter 7B of the Electricity Rules in all material respects.

## 10.2 Compliance with Chapter 7B of the Electricity Rules

### 10.2.1 Incidents

We have not observed any incidents of non-compliance by the IMO associated with Chapter 7B of the Electricity Rules.

### 10.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 7B of the Electricity Rules in all material respects.

# 11 ELECTRICITY RULE CHAPTER 8 – WHOLESALE MARKET METERING

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Chapter 8 of the Electricity Rules sets out the Wholesale Market Metering Rules which are the responsibility of the IMO in its Market Operations role.

## 11.1 The IMO's processes and procedures

### 11.1.1 Rule amendments

There have been no amendments to Chapter 8 since last year's annual audit.

### 11.1.2 Procedures

No Market Procedures relating to Chapter 8 of the Electricity Rules have been updated since last year's market audit.

The following Internal Procedures related to Chapter 8 have been updated since last year's market audit:

ID	Title	Updated
2.3.3	Settlements	July 2015

### 11.1.3 Compliance of the IMO's Procedures with Chapter 8 of the Electricity Rules

It is our opinion that the IMO's Market Procedures are compliant with Chapter 8 of the Electricity Rules in all material respects.

It is our opinion that the IMO's Internal Procedures are compliant with Chapter 8 of the Electricity Rules in all material respects.

## 11.2 Compliance with Chapter 8 of the Electricity Rules

### 11.2.1 Incidents

We have not observed any incidents of non-compliance by the IMO associated with Chapter 8 of the Electricity Rules.

### 11.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 8 of the Electricity Rules in all material respects.

# 12 ELECTRICITY RULE CHAPTER 9 – SETTLEMENT

Chapter 9 sets out the Settlement Rules which are the responsibility of the IMO in its Market Operations role.

## 12.1 The IMO's processes and procedures

### 12.1.1 Rule amendments

There have been no amendments to Chapter 9 since last year's annual audit.

### 12.1.2 Procedures

No Market Procedures relating to Chapter 9 of the Electricity Rules have been updated since last year's market audit.

The following Internal Procedures relating to Chapter 2 have been updated since last year's market audit:

ID	Title	Updated
2.1.1	Registration	June 2015
2.2.3	Daily Operations	October 2014
2.2.5	Individual Reserve Capacity Requirement (IRCR) & Reserve Capacity Allocation Monitoring	July 2015
2.3.3	Settlements	July 2015
2.3.4	Settlement Contingency	July 2015

### 12.1.3 Compliance of the IMO's Procedures with Chapter 9 of the Electricity Rules

We have noted one (non-material) instance where the IMO's Market Procedures are non-compliant with the Electricity Rules:

- The IMO's Capacity Credit Allocation Market Procedure is non-compliant with MR 9.5.2, as it states a precision factor that is inconsistent with the Rules<sup>5</sup>.

It is our opinion that the IMO's Market Procedures are compliant with Chapter 9 of the Electricity Rules in all material respects.

It is our opinion that the IMO's Internal Procedures are compliant with Chapter 9 of the Electricity Rules in all material respects.

## 12.2 Compliance with Chapter 9 of the Electricity Rules

### 12.2.1 Incidents

The details of incidents associated with Chapter 9 of the Electricity Rules are summarised in Table 8.

<sup>5</sup> The procedure refers to a precision of 0.005MW. RC\_2013\_07 (which commenced in the 2013-14 audit period) changed this value to 0.001MW. This issue was first noted in the 2014 audit report.

## 12.2.2 Opinion

Our opinion is as follows:

- The IMO has been materially non-compliant with its obligations to calculate the metered schedule (one occasion) and to apply the correct interest rate to settlement adjustments, as set out in Table 8.
- The IMO has been non-compliant with some of its other obligations under Chapter 9 of the Electricity Rules, but the non-compliance has not been material as set out in Table 8.
- We have not observed anything else that causes us to believe that the IMO has not complied with its obligations under Chapter 9 of the Electricity Rules in all material respects.

## 12.3 Details of non-compliance

### 12.3.1 Incidents of non-compliance

**Table 8: Incidents of non-compliance with Chapter 9**

Rule	The Issue	Material?	Comment
9.3.3 (self-reported)	<p>Clause 9.3.3 requires the IMO to determine the Metered Schedule for various facilities in accordance with 9.3.4.</p> <p>Clause 9.3.4 states that where interval meter data is available, the Metered Schedule is to be determined from Meter Data Submissions received by the IMO.</p> <p>In January 2015, the IMO performed the initial settlement run for November 2014 and, for some periods, did not use all the Meter Data Submissions it had received to determine Metered Schedules.</p>	Yes	<p>As part of upgrades to the IMO's settlement system, the metering system was cut over from the primary data centre to the standby data centre in late November 2014. A misconfiguration meant that while it received meter data from the Meter Data Agent for the entire month, five days of data were not stored, and the initial settlement run did not include meter data for these five days.</p> <p>The situation was corrected in the first adjustment, but the initial issue gave rise to a material difference in payments to and from market participants.</p> <p>The IMO carries out daily checks of meter data upload success, and is in the process of implementing additional analysis and verification of settlement outputs. Both these actions will mitigate the risk that such an event is not detected and resolved.</p> <p>We note a general risk around the quality of meter data used in settlement. We understand that initial meter data often has missing values, and undergoes significant adjustment over subsequent months. These issues make it more difficult for IMO personnel to identify issues with settlement data, increasing the risk of non-compliance incidents in this area.</p>
9.4.7 (repeated from 2014)	<p>Clause 9.4.7 of the Electricity Rules requires the IMO to confirm receipt of a Capacity Credit Allocation Submission from a Market Participant (made under clause 9.4.6) by telephone within 30 minutes of receiving the submission. The IMO has automated the receipt of Capacity Credit Allocation Submissions in WEMS, and is therefore in technical breach of clause 9.4.7 (as it does not confirm receipt via telephone).</p>	No	<p>This is a non-material technical breach identified last year. The IMO is complying with the intent of the rule (by automating confirmation receipts), and confirmation by telephone is unnecessary.</p> <p>The IMO has initiated a rule change (RC_2014_07) to align obligation with practice.</p>
9.16.2 (self-reported)	<p>Clause 9.16.2 obliges the IMO to publish the settlement cycle timeline at least one month before the start of the financial year.</p> <p>The settlement cycle timeline is defined in clause 9.16.1, and requires consideration of the definition of Business Day which, for the purposes of settlement</p>	No	<p>The IMO identified the issue in advance of the scheduled settlement day, informed participants, and adjusted the published timeline accordingly. Settlement was carried out on the correct day (as defined by 9.16.1), so there was no impact on the market.</p> <p>The IMO has updated the applicable work instruction documentation to ensure that NSW public holidays are consistently included in settlement cycle timeline creation.</p>

Rule	The Issue	Material?	Comment
	<p>timings, excludes public holidays in both WA and Sydney.</p> <p>In May 2014, the IMO published a settlement cycle timeline for the 2015/16 financial year which included a settlement day on a NSW public holiday, contrary to the definition under 9.16.1<sup>6</sup>.</p>		
9.16.3 (self-reported)	<p>Clause 9.16.3 requires the IMO to undertake the settlement adjustment process in accordance with clause 9.19.1.</p> <p>Clause 9.19.1 lists the input data that a settlement adjustment may take into account, which does not include adjustments for Capacity Cost Refunds.</p> <p>In the first adjustment for the June 2014 settlement period (carried out in December 2014), the IMO changed inputs relating to Capacity Cost Refunds.</p>	No	<p>In September 2013, the IMO assigned capacity credits to a new demand side programme, setting 1 June 2014 as the effective date from which the reserve capacity obligations would apply. The facility was not registered until 8 June 2014, and therefore according to 4.12.7, failed to satisfy its reserve capacity obligations between 1 June 2014 and 8 June 2014.</p> <p>The IMO should have charged capacity cost refunds for all business days in that period. In the initial settlement run, the participant was only charged Capacity Cost Refunds for two of the four business days in that week.</p> <p>The IMO updated the participants capacity cost refunds in the first adjustment, to charge the amounts which had not been recovered in the initial settlement.</p> <p>The breach was a conscious one by the IMO, which corrected an error made in the initial settlement run, and in our view is in line with the intent of the Electricity Rules. We have therefore judged this to be a non-material breach. However, the initial failure to charge the refunds is material - see the related non-compliance entry in Table 6.</p> <p>The IMO has implemented an alert in its MOSMI system that flags when a facility has been assigned capacity credits before being registered, to allow more time for such a situation to be handled. Further, the IMO is considering changes to its settlements system to automatically handle such a situation in the initial settlement run.</p>
9.19.3(b) (self-reported)	<p>Clause 9.19.3(b) requires the IMO to calculate interest on adjusted settlement statements in accordance with clause 9.1.3.</p> <p>Clause 9.1.3 requires interest on adjusted settlement statements to accrue daily at the Bank Bill Rate.</p> <p>Until January 2015, in some situations the IMO did not use the prevailing Bank Bill Rate to calculate interest on settlement adjustments.</p>	Yes (multiple breaches)	<p>Until January 2015, the IMO had been calculating interest on adjusted settlement statements using the Bank Bill Rate that had applied at the time of initial settlement. This means that where the Bank Bill Rate changed between initial settlement and settlement adjustment, the IMO applied used an incorrect interest rate.</p> <p>Although the error would have affected the amount of interest paid by market participants, the overall impact is relatively small, because of the small time periods when interest is applicable, the fact that it occurred only for settlement adjustments and not initial amounts, and the relatively small changes in interest rate. The maximum</p>

<sup>6</sup> This breach occurred outside the audit period, but was detected in the current audit year.

Rule	The Issue	Material?	Comment
			<p>error on a single settlement statement in the audit period amounted to around \$34. The IMO has updated its settlement procedures to include an explicit check for correctness of interest rates used.</p>
<p>9.20.7 (one self report)</p>	<p>Clause 9.20.7 requires the IMO to respond within three months to a market participant who lodges a Notice of Disagreement, indicating the actions the IMO will take in response.</p> <p>In twelve cases in the audit period, the IMO did not provide such a response to the market participant.</p>	<p>No (twelve breaches)</p>	<p>We reviewed all notices of disagreement lodged during the year. The IMO did acknowledge each Notice of Disagreement within 1 business day as required by 9.20.2. However, in some cases the IMO did not advise the participant of the actions it would take within three months, as contemplated by 9.20.7.</p> <p>We recommend that the IMO use its existing tools to implement more robust workflow around disputes timelines and interactions.</p> <p>While we have not looked into the IMO's actions in relation to all these disagreements, we have not seen anything to cause us to believe that they have not actioned each disagreement (in accordance with clauses 9.20.5 and 9.20.6). Therefore the failure to communicate the outcome to participants does not change the market outcomes, and this is a non-material non-compliance.</p>

# 13 ELECTRICITY RULE CHAPTER 10 – MARKET INFORMATION

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Electricity Rule Chapter 10 sets out the Market Information Rules which are the responsibility of the IMO in its Market Administration role.

## 13.1 The IMO's processes and procedures

### 13.1.1 Rule amendments

There have been no amendments to Chapter 10 since last year's annual audit.

### 13.1.2 Procedures

No Market or Internal Procedures relating to Chapter 10 of the Electricity Rules have been updated since last year's market audit.

### 13.1.3 Compliance of the IMO's Procedures with Chapter 8 of the Electricity Rules

It is our opinion that the IMO's Market Procedures are compliant with Chapter 8 of the Electricity Rules in all material respects.

It is our opinion that the IMO's Internal Procedures are compliant with Chapter 8 of the Electricity Rules in all material respects.

## 13.2 Compliance with Chapter 10 of the Electricity Rules

### 13.2.1 Incidents

We have not observed any incidents of non-compliance by the IMO associated with Chapter 10 of the Electricity Rules.

### 13.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 10 of the Electricity Rules in all material respects.

# APPENDICES

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**A**    **RULE CHANGES SINCE THE LAST MARKET AUDIT**

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# A RULE CHANGES SINCE THE LAST MARKET AUDIT

Table 9 summarises the rule changes that have taken place since 1 August 2014 (start of audit period).

**Table 9: Electricity Rule changes 1 August 2014 - 31 July 2015**

Date	RC Ref	Clauses amended	Nature of change
1-Nov-14	RC_2014_04	IMO amended clauses 1.12.1 (new) and 1.12.2 (new).	Changes to allow the IMO to: <ul style="list-style-type: none"> <li>• undertake the 2014 LT PASA and the RCR determination for the 2014 Reserve Capacity Cycle in 2015; and</li> <li>• use the 2013 ESOO for the preliminary RCR to be included in the Request for Expressions of Interest for the 2015 Reserve Capacity Cycle,</li> </ul> for the purpose of satisfying its obligations with respect to the 2014 Reserve Capacity Cycle under the Electricity Rules.
1-May-15	RC_2015_04	IMO amended clause 1.12.1.	Changes to allow the IMO to publish the LT PASA in the ESOO published in Year 2 of the 2014 Reserve Capacity Cycle (i.e. 2015)



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