



Subject 2015-16 MARKET AUDIT (WA)
FINDINGS OUTSIDE 2015-16 AUDIT PERIOD

To AEMO Risk and Audit Committee

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This memo accompanies our final reports relating to the 2015-16 market audits of AEMO's WEM operations under Market Rule 2.14.3.

Our audit activities have historically been conducted after the end of the audit period. In past years, our audit activities commenced immediately following the end of the audit year. This year, there was a gap of 10 weeks between the end of the audit year (30 June) and our site visit (mid-September). As a result, we have identified some findings from activities in July and August.

As they fall after the end of the audit period, we have not included them in our audit reports. Nevertheless, we felt it important to highlight them now, rather than deferring reporting until the next audit.

KEY FINDING

Use of discretion beyond rules in capacity allocation has significant market impact

In two instances (one self-reported) after the end of the audit period, AEMO set Certified Reserve Capacity for a facility at a level above the level of unconstrained network access to which it is entitled, potentially qualifying a facility for payments for capacity when it does not have the right to inject into the power system.


In both cases, the decision was taken on the basis that the facility was likely to have a network access arrangement in place by the time the capacity obligations commenced. AEMO was aware that the rules do not provide for such discretion, but decided that on balance market objectives would be best served by granting the capacity. The market impact is that one participant will receive additional capacity payments, estimated at around \$1.2 million in total, more than it otherwise would have. In the event that the participant is unable to operate its facility at the level certified, rules do provide a mechanism to recover the additional payments.


Had this activity fallen within the audit period, we would have qualified our opinion.



DETAILED FINDINGS

Table 1: Summary of Compliance Rating 1 Audit Findings outside the audit period (i.e. incidents of non-compliance with the Electricity Rules).

Electricity Rules clause	Risk Rating	Description
4.11.1(bA), 4.11.1(bB) (Two breaches)		<p>Clause 4.11.1 sets out the principles to which AEMO must adhere when setting Certified Reserve Capacity, including:</p> <ul style="list-style-type: none"> • 4.11.1(bA) – that CRC must not exceed the unconstrained level of network access held by the facility, as shown in the evidence provided in the facility’s application for CRC. • 4.11.1(bB) – that where two facilities share a Declared Sent Out Capacity, the total CRC assigned to both must not exceed the shared DSOC. <p>Some aspects of the capacity assessment process provide for AEMO to set the CRC not exceeding ‘AEMO’s reasonable expectation’ of the amount of capacity likely to be available, or not exceeding ‘the capacity that AEMO believes’ a facility can usefully contribute. Clause 4.11.1(bA) states only that CRC must not exceed the level of unconstrained network capacity already held and evidenced by the participant, and does not provide for discretion. Clause 4.11.1(bB) does not provide for discretion either.</p> <p>In August 2016, AEMO set CRC higher than the level of unconstrained network access held (and evidenced) in relation to one facility, and for two facilities, set the total CRC higher than the shared DSOC.</p> <p>In the first case, the facility was yet to start construction, had not completed the network access process, and provided evidence of its ongoing negotiations to get a network access arrangement, including a draft proposal at an advanced stage of negotiation. AEMO certified the facility on the basis that its final access arrangement would be the same as the draft arrangement provided.</p> <p>In the second case, the facilities were already in service, already held capacity credits, and were applying for an increase in the amount of CRC for its facility. The access arrangement included DSOC sufficient for the combined level of CRC currently held, but not enough to cover the additional amount requested. Both facilities had demonstrated their ability to run at the higher output level, and the participant provided evidence of an application to increase its level of unconstrained network access. AEMO certified the facilities on the basis that this application would be approved.</p> <p>In the first case, there was no direct market impact, as the facility subsequently failed to provide the necessary evidence to move from ‘proposed’ to ‘committed’ status, and was therefore unable to trade capacity credits. In the second case, the additional CRC is likely to be worth around \$1.2m in additional capacity payments to that participant, although forthcoming changes to the reserve capacity rules may change this figure. This amount would otherwise have been retained by other participants, and the amount involved makes this a material finding. If the participant is not able to operate at the required level, the additional payments can be recovered,</p>

Electricity Rules clause	Risk Rating	Description
4.28.7		<p>Clause 4.28.11 requires AEMO to determine and publish updated Individual Reserve Capacity Requirements according to Appendix 5. In July 2016, AEMO incorrectly calculated the IRCR related to one Intermittent load (IL) facility.</p> <p>Due to a software bug, AEMO's systems did not correctly account for the transfer of intermittent load facilities between participants where the IL facility had both intermittent and temperature dependent load (TDL) components. The transfer of all load was applied at the same time, rather than having TDL component transferred 3 months later. In this case, the rules appear to be at fault, not contemplating this scenario, leading to an unintended outcome of requiring the transferring participant to remain liable for the TDL component of an IL for some time after the transfer has been effected.</p> <p>This is the first time such a transfer has occurred, and the impact totalled several hundred thousand dollars. The issue was fixed for the next IRCR calculation.</p> <p>We recommend that AEMO propose a rule change to treat all load associated with an intermittent load in the same way, switching IL and TDL components in the same month.</p>