

INDEPENDENT MARKET OPERATOR

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

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PA Regional Office:
PA Consulting Group
Level 13, Allied Finance Tower,
142 Lambton Quay,
Wellington 6011,
New Zealand
Tel: +64 4 499 9053
Fax: +64 4 473 1630
www.paconsulting.com

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Prepared by: Sue Paul, Tim Robinson

EXECUTIVE SUMMARY

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 Market Rules, and the IMO's compliance with the Market Rules and Market Procedures.

This market audit has been carried out under Market Rule 2.14.3 which requires 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 year's market audit has taken the form of an "incremental" audit. We have examined those aspects of the Market Rules and Market Procedures and the IMO's Internal Procedures where:

- The clauses in the Market Rules are new or amended since last year's annual audit;
- Market Procedures or Internal Procedures are new or updated since last year's annual audit; and
- Market or Internal Procedures relate to areas of recorded breaches of the Market Rules by the IMO since last year's annual audit.

That is, we have looked at areas that have changed since last year's annual audit.

We note that the IMO is intending to carry out a full audit in the near future, as per our recommendation in last year's audit.

Summary of non-compliance incidents

This year we have noted 47 incidents of which fourteen were classified as material, and six relate to non-material actions in past audit periods.

Note:

- This is an increase over last year's levels. However, this increase is to be expected given that this audit year was the first full year in which the new balancing and load following markets have been in operation (last year's audit captured only the first month of operation).

- Six out of the fourteen material non-compliant incidents, and one of the immaterial incidents were driven by manifest errors in the rules¹ and were conscious decisions on the part of the IMO to breach the specific clauses in order to avert outcomes that would have been inconsistent with the market's objectives (see Section 7.2 for a more detailed discussion).

General comment on the IMO's Procedures

As noted last year, there continues to be a general improvement in the quality of the IMO's procedures. However, we have noted that a number of the IMO's Internal Procedures that are used by staff to discharge their obligations under the Rules and Market Procedures are draft procedures that are yet to be formally approved. Examples include:

- Electronic ("wiki") procedures relating to market operations and settlement activities. During our audit we have noted that these electronic procedures are largely aligned with the formally approved paper procedures (with some minor exceptions). We note that the IMO has plans to introduce greater rigour to the change management around these procedures with plans to gradually move away completely from paper based procedures. We further note that given IMO staff consult these procedures frequently in implementing Rules obligations it is important for these electronic procedures to be formally recognized as official internal procedures and to be audited under MR 2.14.3(a).
- Draft Internal Procedures used to implement the IMO's monitoring obligations under MR 2.16.4(g), 2.16.9(b)(i)-(iii) and 2.16.9A. There are no formally approved Internal Procedures in place to address these obligations. We note there are some draft procedures that staff refer to in undertaking their monitoring activities.

We also note that some of the procedural gaps noted in the last audit are yet to be made.

Opinion on the compliance of the IMO's Procedures with the Market Rules

It is our opinion that, except for the specific procedural gaps noted in this report, the IMO's procedures comply with the Market Rules in all material respects.

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

Except for the specific instances of non-compliance noted in this report, we have not observed anything that causes us to believe that the IMO has not been compliant with the Market Rules and Market Procedures, in all material respects.

¹ The manifest errors related to participants receiving or paying constrained on or off compensation in scenarios where they clearly should not have been. A further manifest error related to Verve not being eligible to receive LFAS payments due to an erroneous definition of LFAS Facility (despite providing LFAS).

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INTRODUCTION

This document 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 Market Rules, and the IMO's compliance with the Market Rules and Market Procedures.

1.1 Scope of the market audit

This market audit has been carried out under Market Rule 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 11 August 2012 to 9 August 2013.

1.3 Market audit process

This year's market audit has taken the form of an "incremental" audit. We have examined those aspects of the Market Rules and Market Procedures and the IMO's Internal Procedures where:

- The clauses in the Market Rules are new or amended since last year's annual audit;
- Market Procedures or Internal Procedures are new or updated since last year's annual audit; and
- Market Procedure or Internal Procedures relate to areas of recorded breaches of the Market Rules by the IMO since last year's annual audit.

In essence, we have looked primarily at areas that have changed since last year's annual audit. We have not assessed in detail or commented on areas where the Internal Procedures and Market Rules have not changed, and which previously have been found to comply with the Market Rules.

In conducting the market audit on the compliance of the IMO with the Market Rules, PA has:

1. Ensured that it is up to date with its understanding of the Western Australia Electricity Market Rules;
2. Identified new or amended obligations placed on the IMO by amendments to the Market Rules that have come into force since the previous market audit dated 10 August 2012;
3. Mapped those obligations identified in step 2 to the applicable Internal Procedures;
4. Identified IMO Internal Procedures that relate to areas of non-compliance identified in the previous market audit;

5. Reviewed the IMO procedures identified in steps 2, 3 and 4 for compliance with the Market Rules;
6. Sought evidence that the IMO is following those procedures so as to comply with the Market Rules;
7. Had discussions with IMO managers and staff to clarify issues identified; and
8. Prepared a report setting out our findings..

Our process was designed to provide limited assurance as defined by International Standard on Assurance Engagements ISAE 3000 “Assurance engagements other than audits or reviews of historical financial information” issued by the International Auditing and Assurance Standards Board.

As in previous years, we note that 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 market 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.

We also note that there is a high degree of compliance monitoring built into the market design. Should the IMO not carry out a requirement of the Market Rules, those cases that are material will have affected either System Management or market participants and are likely to have been raised.

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

- Material, in that they 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 Market Rules but do comply with the intention of the Market Rules; or
 - They do not comply with the Market Rules but they are not likely to affect decisions made by market participants or otherwise affect the outcome of the market.

1.4 Structure of this report

The report contains PA’s analysis of the operation of the IMO on a Market 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 MARKET RULE

CHAPTER 1 – INTRODUCTION

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

2.1 Compliance of 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:

- None.

2.1.2 Procedures

The following Market Procedures relating to Chapter 1 of the Market Rules have been updated since last year's market audit:

- None.

Relationship between Rule updates and procedures

Since there have been no rule changes associated with Chapter 1, there are no corresponding implications for the IMO's procedures.

2.1.3 Compliance of the IMO's Procedures with Chapter 1 of the Market Rules

It is our opinion that the IMO's procedures comply with Chapter 1 of the Market Rules in all material respects.

2.2 Compliance with Chapter 1 of the Market Rules

2.2.1 Incidents

There were no incidents associated with Chapter 1 of the Market Rules.

2.3 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 Market Rules.

3 MARKET RULE

CHAPTER 2 – ADMINISTRATION

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

3.1 Compliance of the IMO's processes and procedures

3.1.1 Rule amendments

The following clauses in Chapter 2 have been amended since last year's annual audit:

- clauses 2.22.3; 2.22.4; 2.22.6; 2.22.12; 2.23.3; 2.23.4; 2.23.5; 2.23.9; 2.23.12, 2.22.8, 2.22.8A (new), 2.22.8B (new), 2.22.13, 2.22.14, 2.22.15 (new), 2.23.8, 2.23.8A (new), 2.23.8B (new), 2.23.13 (new) and 2.23.14 (new) (RC_2011_02);
- clause 2.13.6L (new) (RC_2012_16);
- clauses 2.27.1, 2.27.1A, 2.27.2, 2.27.2A, 2.27.3, 2.27.3A, 2.27.3B, 2.27.4, 2.27.5, 2.27.6, 2.27.7(new), 2.27.8(new), 2.27.9(new), 2.27.10(new), 2.27.11(new), 2.27.12(new), 2.27.13(new), 2.27.14(new), 2.27.15(new), 2.27.16(new), 2.27.17(new) (RC 2012_07)
- clauses 2.1.1, 2.1.3, 2.2.1, 2.5.6, 2.6.3A (new), 2.6.4, 2.7.7A (new), 2.7.8, 2.8.1, 2.8.3, 2.8.11, 2.10.2A, 2.11.1, 2.17.1, 2.17.2 (RC_2012_06).
- clause 2.13.9 (RC_2013_01)

3.1.2 Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 2 of the Market Rules have been updated since last year's market audit:

- Determining Loss Factors (Market Rule 2.27.6), 20 May 2013;
- IMS Interface Procedure (Market Rule 2.36.9), 22 April 2013;
- IT Interface Procedure - System Overview and Requirements (Market Rule 2.36.5), 13 August 2012.

Market Procedures currently in the process of being amended

The following Market Procedures relating to Chapter 2 of the Market Rules are under review or are in the process of being amended:

- Market Procedure for Rule Participant Registration and Deregistration
- Market Procedure for Facility Registration, Deregistration and Transfer

Updates to Internal Procedures

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

- Energy Price Limits
- Rule Change Process
- Market Procedure Change
- Annual Review of MAC Composition
- MAC and Working Group Secretariat.

Internal Procedures currently under review/development

The following Internal Procedures relating to Chapter 2 are currently under review or are being developed:

- Compliance, Monitoring and Investigation

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 1. (Note, not all Rule changes require a consequential amendment to written procedures.)

3.1.3 Compliance of the IMO's procedures with Chapter 2 of the Market Rules

It is our opinion that the IMO's procedures comply with Chapter 2 of the Market Rules in all material respects, except for:

- The additional changes set out in Table 1.
- The following procedural gaps noted in the 2012 audit that are yet to be addressed:
 - Changes to MR 2.38.7 introducing new obligations on the IMO with respect to the maintenance on the website of entities meeting acceptable credit criteria is yet to be documented in an Internal Procedure.
 - Changes to credit limit calculations in MR 2.37.4 are yet to be reflected in the Prudential Requirements Market Procedure. However, we note that this procedure is due to be submitted through the procedure change process in late September.

3.2 Compliance with Chapter 2 of the Market Rules

The details of incidents associated with Chapter 2 of the Market Rules are summarised in Table 2. 22 breaches of Chapter 2 were noted, six in prior audit periods and 16 in the current audit period, none of which are deemed to be material; that is the breaches do not compromise the intention of the Market Rules, and/or the decisions made by market participants or otherwise affect the outcome of the market. Actions have already been undertaken in respect of each breach to ensure similar incidents do not recur.

Note, some of these breaches occurred in previous audit periods (MR 2.5.8 and MR 2.8.3) and were noted as a result of an internal audit. See Table 2 for further details.

3.3 Opinion

With the exception of the breaches noted in Table 2, we have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 2 of the Market Rules.

Table 1: Relationship between Rule changes to Chapter 2 and IMO procedure updates

Amended clauses	Description	Procedure updated?
clauses 2.22.3; 2.22.4; 2.22.6; 2.22.12; 2.23.3; 2.23.4; 2.23.5; 2.23.9; 2.23.12, 2.22.8, 2.22.8A (new), 2.22.8B (new), 2.22.13, 2.22.14, 2.22.15 (new), 2.23.8, 2.23.8A (new), 2.23.8B (new), 2.23.13 (new) and 2.23.14 (new) (RC_2011_02)	<ul style="list-style-type: none"> • Inclusion of Forecast Capital Expenditure in IMO's budget submission. • Change in definition of Declared Market Project with respect to "cost threshold" 	<p>No</p> <ul style="list-style-type: none"> • No applicable Market Procedure updates • The relevant Internal Procedure has not yet been updated
2.13.6L (new) (RC_2012_16);	Alignment of settlement and dispatch tolerances to correct manifest error in the rules that were causing constraint payments inconsistent with market objectives	Not applicable – implemented in software
2.27.1, 2.27.1A, 2.27.2, 2.27.2A, 2.27.3, 2.27.3A, 2.27.3B, 2.27.4, 2.27.5, 2.27.6, 2.27.7(new), 2.27.8(new), 2.27.9(new), 2.27.10(new), 2.27.11(new), 2.27.12(new), 2.27.13(new), 2.27.14(new), 2.27.15(new), 2.27.16(new), 2.27.17(new) (RC 2012_07)	<ul style="list-style-type: none"> • Changes to align loss factor determination rules with practice and the Market Procedure including <ul style="list-style-type: none"> – A refinement to the methodology used to calculate the Distribution Loss Factor for the Notional Wholesale Meter and – A minor change to the analysis period used for Transmission Loss Factor calculation in the Loss Factor Procedure. • Changes to loss factor reassessment procedure 	<p>Partially</p> <ul style="list-style-type: none"> • All relevant changes have been reflected in the Determination of Loss Factor Market Procedure. • The IMO's Internal Procedure still needs to be updated to reflect the changed loss factor reassessment procedure.
2.1.1, 2.1.3, 2.2.1, 2.5.6, 2.6.3A (new), 2.6.4, 2.7.7A (new), 2.7.8, 2.8.1, 2.8.3, 2.8.11, 2.10.2A, 2.11.1, 2.17.1, 2.17.2 (RC_2012_06)	Minor changes to with respect to clarification of Reviewable Decisions and Definitions of Regulations	<p>No</p> <ul style="list-style-type: none"> • The Procedure Administration Market Procedure has not been updated to reflect the timeline and publication requirements related to advancing a Procedure Change Proposal (MR 2.10.2A) • The IMO's Internal Procedures are yet to be updated to pick up the changes to the rule change and procedure change processes.
2.13.9 (RC_2013_01)	Clarification of dispatch compliance obligations	Not applicable (obligations do not belong to the IMO).

Table 2: Incidents of non-compliance with Chapter 2

Rule	The Issue	Material?	Comment
2.5.8	The IMO did not notify the Minister of its decisions to progress a Rule Change pertaining to a Protected Provision.	No (4 breaches)	<p>This rule was breached once during the audit period. As a consequence of this breach the IMO conducted an internal audit to assess other instances of this breach and found three other instances in previous audit periods where the rule was breached.</p> <p>These breaches did not have any financial impact on market participants, and the Minister was retrospectively informed of the pertinent rule change.</p> <p>We note that the IMO's Internal Procedures and checklists clearly highlighted the requirement to seek ministerial approval for Protected Provisions. IMO staff have been reminded of the importance of seeking ministerial approval for progressing changes related to Protected Provisions.</p>
2.8.3	The IMO did not submit a Rule Change Proposal and Final Rule Change Report to the Minister with respect to a Rule Change pertaining to Protected Provisions.	No (3 breaches)	<p>This rule was not breached during the audit period. However, the internal audit referenced above found three instances of this rule being breached in past audit periods.</p> <p>As above, there was no financial impact on the market and the minister was retrospectively notified of the pertinent rule changes.</p> <p>As above, the IMO's Internal Procedures and checklists clearly highlighted the rules requirement and IMO staff have been reminded of the importance of seeking ministerial approval for progressing changes related to Protected Provisions.</p>
2.9.6	<p>The Procedure Administration Market Procedure (Section 2.2.6) obliges the IMO to notify the relevant Working Group as to whether any proposed amendment to a Market Procedure subject to a Procedure Change Proposal requires discussion and the reasons why.</p> <p>The IMO did not notify the relevant Working Group of its decision prior to submitting the change through the formal process.</p>	No	<p>This breach had no financial impacts on the market.</p> <p>The relevant IMO team has been informed of the correct process and have been alerted to the appropriate sections within the Procedure Administration Market Procedure. The relevant Internal Procedures have also been reviewed to ensure they are compliant with the pertinent section of the Market Procedure.</p>
2.34.8	The IMO approved a Standing Data change 5 Business Days after receiving the request (as opposed to 3 Business Days) as required by the Rules.	No	<p>The standing data parameter was such that its change would not have had any impact on market outcomes.</p> <p>We note that this rule requirement is documented in the IMO's Internal Procedures. IMO staff have been reminded of consultation and response timelines.</p>

Rule	The Issue	Material?	Comment
2.36.1(b)	<p>MR 2.36.1(b) obliges the IMO to maintain each version of the software in a state where results produced with that version can be reproduced for at least a year.</p> <p>The IMO was able to restore the previous version of software, and re-run the calculations, but was unable to exactly replicate the past outputs, due to difficulties replicating errors in the original input data, and errors in the calculation order in the original run.</p> <p>While the IMO did provide reasonable (qualitative) explanations for the differences, and we were able to account for the exact quantity of some of the differences, we were unable to perform sufficient analysis to confirm conclusively that all the quantitative differences were explained.</p>	No	<p>The inability to replicate the results does not of itself affect market outcomes. The errors in the original run are covered in a separate breach of Chapter 9 of the Market Rules.</p> <p>The errors in the original run would most likely have been accounted for in the next settlement adjustment, but we were unable to confirm that this was the case.</p>
2.36.1(c)	<p>MR 2.36.1(c) obliges the IMO to ensure that appropriate testing of new software versions is conducted.</p> <p>In nine cases the IMO's testing of market software releases was, in our view, less timely than appropriate. All cases relate to post-implementation verification testing of releases, where JIRA records show that testing was completed significantly after the release, or not at all.</p>	No (9 breaches)	<p>None of these instances is material, as we do not believe that market outcomes were affected.</p> <p>For more information, see the separate report on our audit of the IMO's software systems and processes for software management.</p>
2.36.1(d)	<p>Under MR 2.36.1(d), the IMO must ensure that any versions of the software used by the IMO have been certified as being in compliance with the Market Rules by an independent auditor.</p> <p>On three occasions, the IMO implemented software changes without independent certification of their correctness, even though the changes were to calculations with the potential to affect market outcomes.</p>	No (3 breaches)	<p>None of the cases were material, as subsequent certification showed that the software is calculating correctly.</p> <p>For more information, see the separate report on our audit of the IMO's software systems and processes for software management.</p>

4 MARKET RULE

CHAPTER 3 – POWER SYSTEM SECURITY AND RELIABILITY

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

4.1 Compliance of the IMO's processes and procedures

4.1.1 Rule amendments

The following clauses in Chapter 3 have been amended since last year's annual audit:

- Clauses 3.18.6, 3.21.1 and 3.21.2 (RC_2012_04)
- Clause 3.21A.7 (RC_2012_15)
- Clauses 3.21A.1, 3.21A.2, 3.21A.3, 3.21A.4, 3.21A.5, 3.21A.7, 3.21A.7A, 3.21A.8, 3.21A.9, 3.21A.10, 3.21A.11, 3.21A.12, 3.21A.13, 3.21A.14, 3.21A.15, 3.21A.16, 3.21A.17 (RC_2012_12).

Note, none of the above obligations are owned by the IMO.

4.1.2 Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 3 of the Market Rules have been updated since last year's market audit:

- None.

Market Procedures currently in the process of being amended

The following Market Procedures relating to Chapter 3 of the Market Rules are under review or are in the process of being amended:

- None.

Updates to Internal Procedures

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

- None.

Internal Procedures currently under review/development

The following Internal Procedures relating to Chapter 3 are currently under review or are being developed:

- None.

Relationship between Rule updates and procedures

As there have been no Rule Changes affecting the IMO's obligations with respect to Chapter 3 of the Market Rules, there are no corresponding implications for associated Market Procedures and Internal Procedures.

4.1.3 Compliance of the IMO's procedures with Chapter 3 of the Market Rules

It is our opinion that the IMO's procedures comply with Chapter 3 of the Market Rules in all material respects.

4.2 Compliance with Chapter 3 of the Market Rules

No incidents related associated with the IMO's implementation of Chapter 3 of the Market Rules were noted.

4.3 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 3 of the Market Rules.

5 MARKET RULE

CHAPTER 4 – RESERVE CAPACITY

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

5.1 Compliance of the IMO's processes and procedures

5.1.1 Rule amendments

The following clauses in Chapter 4 have been amended since last year's annual audit:

- clauses 4.5.10, 4.5.12, and 4.5.13 (RC_2012_09);
- clauses 4.12.6, 4.26.1A (RC_2012_12);
- clause 4.5.9 (RC_2012_21);
- clauses 4.11.1, 4.11.2. (RC_2012_20).

5.1.2 Procedures

Updates to Market Procedures

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

- Certification of Reserve Capacity (Market Rule 4.9.10), 18 March 2013;
- Declaration of Bilateral Trades and the Reserve Capacity Auction (Market Rule 4.14.11), 25 February 2013;
- Maximum Reserve Capacity Price Procedure (Market Rule 4.16.3), 15 January 2013.

Market Procedures currently in the process of being amended

The following Market Procedures relating to Chapter 4 of the Market Rules are under review or are in the process of being amended:

- None.

Updates to Internal Procedures

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

- Determination of MRCP
- Statement Of Opportunities

- Certification of Facilities
- Capacity Credits and Obligations
- Performance Monitoring.

Internal Procedures currently under review/development

The following Internal Procedures relating to Chapter 4 are currently under review or are being developed:

- None.

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. (Note, not all Rule changes require a consequential amendment to written procedures.)

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

It is our opinion that the IMO's procedures comply with Chapter 4 of the Market Rules in all material respects, except for:

- The additional changes set out in Table 3.
- The following procedural gaps noted in the 2012 audit that are yet to be addressed:
 - Amendments with respect to the introduction of Demand Side Programmes have been cascaded down to all but one Internal Procedure.
 - Amendments to the Availability Curve are yet to be reflected in the LT PASA Market Procedure. However, we note that this procedure is under review and due to be submitted through the procedure changed process in December 2013.
 - IMO obligations with respect to the cancellation of Capacity Credits are yet to be captured in the IMO's Internal Procedures. However, we note that the scenario contemplated by this change has not yet arisen and is therefore an immaterial exclusion.

5.2 Compliance with Chapter 4 of the Market Rules

Incidents associated with the IMO's implementation of Chapter 4 are set out in Table 4. There were three breaches to this section of the Rules, none of which are deemed to be material. Actions have already been undertaken in respect of each breach to ensure similar incidents do not recur.

5.3 Opinion

With the exception of the breaches noted in Table 4, we have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 4 of the Market Rules.

Table 3: Relationship between Rule changes to Chapter 4 and IMO procedure updates

Amended clauses	Description	Procedure updated?
4.5.10, 4.5.12, and 4.5.13 (RC_2012_09)	Changes in the manner in which the forecast capacity in MR 4.5.12(a) is calculated so that it includes the reserve margin and LFAS components of the planning criterion.	No. <ul style="list-style-type: none"> The LT PASA Market Procedure is yet to be updated. However, we note there is a Procedure Change Proposal to include these changes and previous rule changes. The proposal is due to be submitted in December 2013.
4.12.6, 4.26.1A (RC_2012_12)	IMO changes relate to reducing the Reserve Capacity Obligation Quantity (RCOQ) to zero for a generation facility undergoing Commissioning Testing that has undergone significant maintenance .	Not applicable
4.5.9 (RC_2012_21)	Change to the reserve margin defined in the peak component of the Planning Criterion (MR 4.5.9(a)) from 8.2% to 7.6%.	No. <ul style="list-style-type: none"> The LT PASA Market Procedure is yet to be updated. However, we note there is a Procedure Change Proposal to include these changes and previous rule changes. The proposal is due to be submitted in December 2013.
4.11.1, 4.11.2 (RC_2012_20)	Changes to ensure Declared Sent Out Capacity (DSOC) limitations are applied in the assessments of Certified Reserve Capacity for all Facilities, including situations where a DSOC is shared by multiple Facilities.	Yes. <ul style="list-style-type: none"> The IMO's relevant Internal Procedures have been updated to reflect this change. There are no applicable changes to the IMO's Market Procedures.

Table 4: Incidents of non-compliance with Chapter 4

Rule	The Issue	Material?	Comment
4.1.12	The IMO failed to notify several Market Participants of their Certified Reserve Capacity by 5pm on 31 August 2012 (the deadline was shifted from 19 August 2012 (MR 4.1.12) as allowed under MR 4.1.32 and the Certification of Reserve Capacity Market Procedure). Instead notices were sent out between 5:00 and 5:25 pm	No	The 25 minute delay in notifying participants did not cause any financial impacts. The IMO's Internal Procedures have been updated to highlight the relevant date and exact method of notification required.
4.13.10B	This rule requires the IMO to determine whether a Facility is in Commercial Operation within 20 Business Days of receiving a request from a Market Participant. In this instance, the request was sent by a market participant to the System Capacity inbox but	No	The market participant's request was acted upon and addressed before settlement, and as such there were no financial implications. The

Rule	The Issue	Material?	Comment
	was not detected by individual staff members. As a result, the market participant's request was not addressed by the Rules imposed deadline.		Commercial Operation Date has now been incorporated into the MPR and plans are in place for improved management of the System Capacity inbox.
4.27.2	The IMO did not assess the days of reduced available capacity in the last twelve months by 25 October 2012 (as required under MR 4.27.2). This was due to an operational error where an unnecessary extra step in the Data Centre Switchover Procedure included an unnecessary step that turned off all WEMS events (including the one required to undertake the capacity calculation).	No	<p>The calculation was rerun for October 2012, and the number of days of reduced capacity was deemed low (i.e. less than 40 days) and hence would have required no follow up action by the IMO.</p> <p>The Data Centre Switchover Procedure has been updated to remove the unnecessary extra step</p> <p>IMO staff running the capacity calculation have been reminded to check that the WEMS event has run to avoid similar errors in the future.</p>

6 MARKET RULE

CHAPTER 5 –

NETWORK CONTROL

SERVICE

PROCUREMENT

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 Compliance of the IMO's processes and procedures

6.1.1 Rule amendments

The following clauses in Chapter 5 have been amended since last year's annual audit:

- None.

6.1.2 Procedures

The following Market Procedures relating to Chapter 5 have been updated since last year's market audit:

- None.

Relationship between Rule updates and procedures

Since there have been no rule changes associated with Chapter 5, there are no corresponding implications for the IMO's procedures.

6.1.3 Compliance of the IMO's Procedures with Chapter 1 of the Market Rules

It is our opinion that the IMO's procedures comply with Chapter 5 of the Market Rules in all material respects.

6.2 Compliance with Chapter 5 of the Market Rules

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

6.3 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 Market Rules.

7 MARKET RULE

CHAPTER 6 – ENERGY MARKET

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

7.1 Compliance of the IMO's processes and procedures

7.1.1 Rule amendments

The following clauses in Chapter 6 have been amended since last year's annual audit:

- Clause 6.17.9 (RC_2012_16);
- Clauses 6.16A.2 and 6.17.3A (RC_2012_19);
- Clause 6.6.3A (RC_2012_06); and
- Clause 6.15.2 (RC_2013_02).

7.1.2 Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 6 of the Market Rules have been updated since last year's market audit:

- None.

Market Procedures currently in the process of being amended

The following Market Procedures relating to Chapter 6 of the Market Rules are under review or are in the process of being amended:

- None.

Updates to Internal Procedures

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

- Operational Finance and Contingency Procedure.

Internal Procedures currently under review/development

The following Internal Procedures relating to Chapter 6 are currently under review or are being developed:

- Operational Finance and Contingency Procedure.

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 5. (Note, not all Rule changes require a consequential amendment to written procedures.)

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

It is our opinion that the IMO's procedures comply with Chapter 6 of the Market Rules in all material respects.

7.2 Compliance with Chapter 6 of the Market Rules

Incidents associated with the IMO's implementation of Chapter 6 are set out in Table 6 below.

There were six breaches to this Section of the Rules, five of which are deemed to be material. All breaches have actions associated with them to ensure similar incidents do not recur.

Note, a number of the material breaches (see Table 6 – MR 6.17.9, MR 6.15.3(a)(i), MR 6.17.3 and MR 6.17.4) were conscious non-compliant actions undertaken by the IMO to avert outcomes (caused by manifest errors in the Rules) that would have been inconsistent with the market objectives.

Below we briefly describe the nature of these manifest errors and the actions taken by the IMO to address them.

7.2.1 Nature of the errors

The errors in the Rules as at 1 August 2012 manifested themselves as follows:

- A facility whose dispatch tolerance was higher than their settlement tolerance could be non-compliant with their dispatch instructions and still receive constraint payments – this is clearly inconsistent with the intent of the Rules.
- Erroneous SCADA data associated with non-scheduled generators (NSG) (used to calculate the Sent-Out Metered Schedules (SOMS)) could lead to situations where the Minimum or Maximum Theoretical Energy Schedules (TES) of the NSG were being calculated incorrectly, and hence the associated constraint payments would also be wrong. For example:
 - If a NSG facility's balancing price submission (NSG price) is lower than the Loss Factor Adjusted Price (Balancing Price) in an interval then it would be cleared to dispatch up to its Maximum TES. However, if the SCADA data associated with a NSG was erroneous such that the interval metered SOMS was greater than the SCADA SOMS plus the NSG's settlement tolerance, then the NSG would be required to pay constrained on compensation (even though in reality it had not generated upwards out of merit).
 - Conversely if the NSG's SCADA SOMS (used to calculate the Minimum TES) was greater than the interval metered SOMS less the NSG's settlement tolerance, then the NSG would be required to pay constrained off compensation (even though in reality it had not generated downwards out of merit).

The Rules do not contemplate participants making constrained on and off payments to the IMO, only the other way around – these situations are clearly inconsistent with the intent of the rules.

7.2.2 Actions undertaken by the IMO

The IMO sought to rectify the errors above by progressing two fast track rule changes (RC_2012_16 and RC_2012_19) which have since been implemented.

- The first (RC_2012_16) changed MR 6.17.9 to align the dispatch and settlement tolerance values (so that non-compliant generators would not receive constraint payments).

- The second (RC_2012_19) implemented the following changes to prevent undesirable on/off constraint compensation due to erroneous SCADA data:
 - To prevent the allocation of constrained on payment to a NSG due to SCADA/interval meter reading variations, the IMO set a minimum value of zero for the ConP1 price calculated for Non-Scheduled Generators in clause 6.17.3A(b). This change ensures the constrained on payment is set to zero if the facility's NSG Price is less than or equal to the Balancing Price (which will always be the case when the Maximum TES is set to the SCADA SOMS).
 - To prevent the allocation of constrained off payment due to SCADA/interval meter reading variations, the IMO amended clause 6.16A.2(b) so that the downwards out of merit generation for a NSG is set to zero unless System Management has indicated that it dispatched the Facility downwards out of merit by sending the IMO an estimate under clause 7.13.1(eF) of the MWh output the Facility could have otherwise achieved.

7.3 Opinion

With the exception of the breaches noted in Table 6, we have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 6 of the Market Rules.

Table 5: Relationship between Rule changes to Chapter 6 and IMO procedure updates

Amended clauses	Description	Procedure updated?
6.17.9 (RC_2012_16),	Alignment of settlement and dispatch tolerances to correct manifest error in the rules that were causing constraint payments inconsistent with market objectives. See Table 6 for a more detailed explanation of this rule change.	Not applicable – implemented in software.
6.16A.2 and 6.17.3A (RC_2012_19);	Changes to prevent undesirable allocation of constraint payments to non-scheduled generators if there is an error in the SCADA Sent Out Metered Schedule (SOMS). See Table 6 for a more detailed explanation of this rule change.	Not applicable – implemented in software.
6.6.3A (RC_2012_06).	Minor changes renaming of the associated regulations	Not applicable – no procedural updates required
6.15.2 (RC_2013_02)	Changes to correct two manifest errors which cause the Minimum Theoretical Schedule (TES) of a Scheduled Generator or the Verve Energy Balancing Portfolio to be calculated incorrectly if: <ul style="list-style-type: none"> • The Balancing Submission for the facility includes a Price-Quantity Pair bid at the Balancing Price; and • The Start of Interval (SOI) Quantity of the facility lies within the MW range bid at the Balancing Price (the marginal tranche). 	Not applicable – implemented in software.

Table 6: Incidents of non-compliance with Chapter 6

Rule	The Issue	Material?	Comment
6.17.9	This rule was breached twice over the audit period where by the IMO manually adjusted the settlement tolerances of two market participants to avoid outcomes that would have been inconsistent with market objectives as follows: <ul style="list-style-type: none"> • For the non-STEM settlement month of July the IMO manually adjusted the settlement tolerance of a non-scheduled generator to avoid a manifestly incorrect Constrained-Off payment due to erroneous SCADA data, and • For the non-STEM settlement month of August, the IMO manually adjusted the settlement tolerance of another non-scheduled generator to avoid a manifestly incorrect charge due to erroneous SCADA data 	Yes (2 breaches)	In both cases the IMO consciously breached this Rule to avert market outcomes that would have been inconsistent with market objectives. In particular, the IMO breached this Rule to avert a overpayments and overcharges in the order of \$1-1.5M. We have deemed this a material breach due to its financial impact. The IMO submitted fast track rule changes (RC_2012_16 and RC_2012_19) which have since been implemented to correct the manifest errors in the rules that gave rise to these circumstances. See also the detailed discussion in Section 7.2.

Rule	The Issue	Material?	Comment
6.15.3(a)(i)	The IMO did not use the facility SCADA and resource End-of-Interval (EOI) data sent by System Management in calculating the Maximum Theoretical Schedule for a non-scheduled generator (as required by this Rule). Instead, the IMO used revised facility SCADA and resource EOI data (substituted from metering data) provided by System Management after it was confirmed that the relevant SCADA point and data were incorrect.	Yes	The IMO consciously breached this Rule to avoid undesirable constrained-on payments due to a manifest error in the rules. We have deemed this a material breach due to its financial impact. The IMO submitted a fast track rule changes (RC_2012_19) which has since been implemented. See also the detailed discussion in Section 7.2
6.17.3	The IMO manually adjusted settlement values during the July 2012 adjustment and subsequent adjustments to January 2013 to correct undesirable constrained-on compensation.	Yes	As noted in Section 7.2, a manifest error in Rules meant participants could be charged undesirable constrained-on compensation. The IMO identified undesirable payments totalling \$2.5M (over the July 2012 to January 2013 adjustments) and consciously breached Rule 6.17.3 to avert settlement outcomes that would have been inconsistent with market objectives. As above, the IMO progressed fast track rule change RC_2012_19 to address the manifest error so such manual adjustments will not be required in the future.
6.17.4	The IMO manually adjusted settlement values during the July 2012 adjustment and subsequent adjustments to January 2013 to correct undesirable constrained-off compensation.	Yes	As noted in Section 7.2, a manifest error in Rules meant participants could be charged undesirable constrained-off compensation. The IMO identified such undesirable payments totalling \$1M (over the July 2012 to January 2013 adjustments) and consciously breached Rule 6.17.4 to avert settlement outcomes that would have been inconsistent with market objectives. As above, the IMO progressed fast track rule change RC_2012_19 to address the manifest error so such manual adjustments will not be required in the future.
6.3A.1(a)	The IMO failed to publish the load forecast by 8am due to a WEMS issue.	No	There was no operational or market impact associated with this breach. The IMO has reminded operators to be aware of the potential for other event risks when the WEMS is under duress.

8 MARKET RULE

CHAPTER 7 – DISPATCH

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

8.1 Compliance of the IMO's processes and procedures

8.1.1 Rule amendments

The following clauses in Chapter 7 have been amended since last year's annual audit:

- Clause 7.9.4 (RC_2012_12)
- Clause 7.2.3A (RC_2013_06)
- Clauses 7.10.6, 7.10.6A and 7.10.7 (RC_2013_01).

Note, none of the obligations above are owned by the IMO.

8.1.2 Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 7 of the Market Rules have been updated since last year's market audit:

- None.

Market Procedures currently in the process of being amended

The following Market Procedures relating to Chapter 2 of the Market Rules are under review or are in the process of being amended:

- None.

Updates to Internal Procedures

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

- None.

Internal Procedures currently under review/development

The following Internal Procedures relating to Chapter 2 are currently under review or are being developed:

- None.

Relationship between Rule updates and procedures

As there have been no Rule Changes affecting the IMO's obligations with respect to Chapter 7 of the Market Rules, there are no corresponding implications for associated Market Procedures and Internal Procedures.

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

It is our opinion that the IMO's procedures comply with Chapter 7 of the Market Rules in all material respects.

8.2 Compliance with Chapter 7

No incidents related associated with the IMO's implementation of Chapter 7 of the Market Rules were noted.

8.3 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 Market Rules.

9 MARKET RULE

CHAPTER 7A –

BALANCING MARKET

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

9.1 Compliance of the IMO's processes and procedures

9.1.1 Rule amendments

The following clause in Chapter 7A has been amended since last year's annual audit:

- clause 7A.2.19 (RC_2012_06).

9.1.2 Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 7A of the Market Rules have been updated since last year's market audit:

- None.

Market Procedures currently in the process of being amended

The following Market Procedures relating to Chapter 7A of the Market Rules are under review or are in the process of being amended:

- None.

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 7A have been updated since last year's market audit:

- None.

Internal Procedures currently under review/development

The following Internal Procedures relating to Chapter 7A are currently under review or are being developed:

- None.

Relationship between Rule updates and procedures

The extent to which the new Rules have been reflected in updates to the IMO's processes and procedures is set out in Table 7. (Note, not all Rule changes require a consequential amendment to written procedures.)

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

It is our opinion that the IMO's procedures comply with Chapter 7A of the Market Rules in all material respects.

9.2 Compliance with Chapter 7A

Incidents associated with the IMO's implementation of Chapter 7A are set out in Table 8 below.

There were three breaches to this Section of the Rules, none of which are deemed to be material. All breaches have actions associated with them to ensure similar incidents do not recur.

9.3 Opinion

With the exception of the breaches noted in Table 8, we have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 7A of the Market Rules.

Table 7: Relationship between Rule changes to Chapter 7A and IMO procedure updates

Amended clauses	Description	Procedure updated?
7A.2.19	Minor amendments with respect to definitions of Regulations	Not applicable – no procedural updates required

Table 8: Incidents of non-compliance with Chapter 7A

Rule	The Issue	Material?	Comment
7A.3.11	The IMO failed to publish Balancing Prices for the 18 December 2012 within the required timeline. Prices were published three days after the required timeline.	No	<p>This breach had no financial impact on market participants.</p> <p>We note that the publication of prices is included in the internal check used by the IMO operator. However, in this case the operator failed to execute this step.</p> <p>We further note that this manual check has now been automated within the IMO's MOSMI tool, so that an operator will receive an alert to publish prices within the required time frame.</p>
7A.3.16	<p>On 31 July 2012, the IMO did not determine a Forecast Balancing Merit Order (BMO) for the 6pm interval as it did not receive a balancing load forecast file from System Management on time.</p> <p>The rule requires the IMO to publish a forecast BMO for each Trading Interval in the Balancing Horizon. Hence the IMO breached Rule 7A.3.16.</p> <p>Due to a market software release on 30 July 2013, the IMO did not produce forecast BMOs for the 7.30pm, 8pm and 8.30pm intervals.</p>	No (2 breaches)	<p>In both cases, SM would have dispatched using the most recent forecast BMO. Because gate closure had already occurred for the affected intervals, participant offers would not have changed, and even if the IMO had prepared a new BMO for those intervals, it would have been the same as the most recently available forecast.</p> <p>The 6pm forecast BMO was not calculated or published. Market Participants had access to the 5:30pm forecast BMO which ran through till 8am the next morning.</p> <p>The Forecast BMO Event in WEMS has now been split so that the forecast BMO will be calculated (using the most recent load forecast) even if System Management does not send a load forecast on time.</p> <p>We recommend considering a rule change that exempts</p>

the IMO from the obligation to produce and publish a BMO in certain circumstances, perhaps including during software releases.

10 MARKET RULE

CHAPTER 7B – LOAD FOLLOWING ANCILLARY SERVICE MARKET

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

10.1 Compliance of the IMO's processes and procedures

10.1.1 Rule amendments

The following clauses in Chapter 7B have been amended since last year's annual audit:

- Clause 7B.2.17 (RC_2012_06);and
- Clauses 7B.1.6 and 7B.2.10 (RC_2013_03).

10.1.2 Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 7B of the Market Rules have been updated since last year's market audit:

- None.

Market Procedures currently in the process of being amended

The following Market Procedures relating to Chapter 7B of the Market Rules are under review or are in the process of being amended:

- None.

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 7B have been updated since last year's market audit:

- None.

Internal Procedures currently under review/development

The following Internal Procedures relating to Chapter 7B are currently under review or are being developed:

- None.

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 9. (Note, not all Rule changes require a consequential amendment to written procedures.)

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

It is our opinion that the IMO's procedures comply with Chapter 7B of the Market Rules in all material respects.

10.2 Compliance with Chapter 7B

No incidents related associated with the IMO's implementation of Chapter 7B of the Market Rules were noted.

10.3 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 Market Rules.

Table 9: Relationship between Rule changes to Chapter 7B and IMO procedure updates

Amended clauses	Description	Procedure updated?
7B.2.17 (RC_2012_06)	Minor amendments with respect to definitions of Regulations	Not applicable – no procedural updates required
7B.1.6 and 7B.2.10 (RC_2013_03)	Changes to the definition of LFAS Facility to include the Verve Energy Balancing Portfolio and consequential amendments	Not applicable – no procedural updates required

11 MARKET RULE

CHAPTER 8 – WHOLESALE MARKET METERING

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

11.1 Compliance of the IMO's processes and procedures

11.1.1 Rule amendments

The following clauses have been amended since last year's annual audit:

- None.

11.1.2 Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 8 of the Market Rules have been updated since last year's market audit:

- None.

Market Procedures currently in the process of being amended

The following Market Procedures relating to Chapter 8 of the Market Rules are under review or are in the process of being amended:

- None.

Updates to Internal Procedures

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

- None.

Internal Procedures currently under review/development

The following Internal Procedures relating to Chapter 8 are currently under review or are being developed:

- None.

Relationship between Rule updates and procedures

Since there have been no rule changes associated with Chapter 8, there are no corresponding implications for the IMO's procedures.

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

It is our opinion that the IMO's procedures comply with Chapter 8 of the Market Rules in all material respects.

11.2 Compliance with Chapter 8 of the Market Rules

No incidents related associated with the IMO's implementation of Chapter 8 of the Market Rules were noted.

11.3 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 Market Rules.

12 MARKET 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 Compliance of the IMO's processes and procedures

12.1.1 Rule amendments

The following clauses have been amended since last year's annual audit:

- Clauses 9.16.3, 9.16.3A and 9.19.1 (RC_2012_25)
- Clause 9.3.4A (RC_2012_07)
- Clause 9.23.4 (RC_2012_24).

12.1.2 Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 8 of the Market Rules have been updated since last year's market audit:

- Settlement Cycle Timelines - 1 July 2012 - 30 June 2013 (Market Rule 9.16), 11 January 2013 (revised) and May 2013.

Market Procedures currently in the process of being amended

The following Market Procedures relating to Chapter 9 of the Market Rules are under review or are in the process of being amended:

- None.

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 9 have been updated since last year's market audit:

- None.

Internal Procedures currently under review/development

The following Internal Procedures relating to Chapter 9 are currently under review or are being developed:

- None.

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 10. (Note, not all Rule changes require a consequential amendment to written procedures.)

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

It is our opinion that the IMO's procedures comply with Chapter 8 of the Market Rules in all material respects, except for:

- The additional changes set out in Table 10;
- The following procedural gap noted in the 2012 audit that is yet to be addressed:
 - Consequential amendments with respect to the introduction of balancing and load following are yet to be reflected in the Settlement Market Procedure and the IMO's Internal Procedures. However, we note that the Settlement Market Procedure is under review, with the Settlement Market Procedure due to be submitted for procedure change in late September.

12.2 Compliance with Chapter 9 of the Market Rules

Incidents associated with the IMO's implementation of Chapter 9 are set out in Table 11. There were twelve breaches to this section of the Rules, nine of which are deemed to be material. All breaches have actions associated with them to ensure similar incidents do not recur.

12.3 Opinion

With the exception of the breaches noted in Table 11, we have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 9 of the Market Rules.

Table 10: Relationship between Rule changes to Chapter 9 and IMO procedure updates

Amended clauses	Description	Procedure updated?
9.3.4A	Minor amendment – change to clause reference	Not applicable – no procedural updates required
9.16.3	Requires the IMO to recover constraint payments as part of the settlement Adjustment Process if they deem that the market participant has been non-compliant with System Management’s dispatch instructions under MR 6.16A.1(b)(i), 6.16A.2(b)(i), 6.16B.1(b)(i) or 6.16B.2(b)(i)	No. Further changes are required to: <ul style="list-style-type: none"> • Document the change in the Settlement Market Procedure • Document the constraint recovery process in the IMO’s Internal Procedures and • Update the Internal Procedure relating to settlement to incorporate constraint recovery. We note, however, that the IMO has a draft Internal Procedure in place that documents the process used to determine the amount of recoverable constraint payments.
9.16.3A	Minor change to definition of Relevant Settlement Statement to include adjustments related to recovery of constraint payments (as recovered under MR 9.16.3(e))	No. Changes are required to the IMO’s settlement Internal Procedures to reflect this change.
9.19.1	As per the change in MR 9.16.3, requires the IMO to consider the recovery of constraint payments due to non-compliance with dispatch instructions during the Adjustment Process.	No. Changes are required to the IMO’s settlement Internal Procedures to reflect this change.
9.23.4	Minor changes to terminology (in respect of Cure Notices) to clarify the term Suspension Event.	Not applicable – no procedural update required

Table 11: Incidents of non-compliance with Chapter 9

Rule	The Issue	Material?	Comment
9.3.1(d)	The IMO did not use the Energy Market Settlement data described in MR 6.21.2(b)(i) and, as a result, settled payments to a party that was not the party identified in Meter Data Submissions sent by Western Power (the Meter Data Agent (MDA)).	Yes	MR 9.3.1 requires the IMO to use Energy Market Settlement Data for settlement purposes. Energy Market Settlement Data includes Metered Balancing Quantities (as specified in MR 6.21.2(b)(i)) which are determined by the IMO under MR 6.17.1 by using Metered Schedules. The Metered Schedules, in turn, are determined by way of reference to the Meter Data Submissions provided by the MDA (Western Power). In providing Meter Data Submissions, the MDA must identify the Market Participant whose generation or consumption the meter measures (MR 8.3.1(b)) and hence the party that the IMO should settle to. In this instance, Western Power

Rule	The Issue	Material?	Comment
			<p>identified a particular Market Participant (Participant A) as the party whose generation was being measured. However, in practice it was a different Market Participant (Participant B) whose generation was being measured.</p> <p>IMO breached MR 9.3.1(d) by settling to Participant B. We note:</p> <ul style="list-style-type: none"> • Since August 2013, the IMO has been settling to Participant A (to ensure compliance with MR 9.3.1(d)) • This is part of a larger policy level issue that has been escalated to the Minister for attention. <p>This was a material non-compliance as it had a financially impact on Participant A.</p>
9.3.3, 9.3.4	<p>The IMO must use Meter Data Submissions to calculate Metered Schedules for use in settlement.</p> <p>The initial load of meter data for the September 2012 settlement run was missing data for a particular facility. Data for this facility was provided a few days later than the rest of the meter data, and in time for use in the official September 2012 settlement run.</p> <p>Due to errors in manual process, the full set of meter data was used in some settlement calculations, but not others, hence the IMO used incorrect Metered Schedules in some calculations.</p>	Yes	<p>Although the errors would have been corrected in the next settlement adjustment, most participants were paid more or less than they would have been had the correct data been used for all parts of the settlement calculations. Two participants were affected to the order of several hundred thousand dollars, and another two by more than fifty thousand dollars.</p>
9.3.4A	<p>Due to an error in the settlements software, the calculation for the Notional Wholesale Meter Value was excluding the settlement points of a particular participant's interruptible load facilities</p>	Yes	<p>As a result of the breach, the Notional Wholesale Value used to settle non-interval meter components of a participant's settlement amount would have been incorrect. Given the associated financial impact we have deemed this to be a material breach.</p> <p>The IMO has corrected this error through a software release,</p>
9.9.2	<p>From 1 September 2012 the IMO settled LFAS transactions to Verve, even though due to a manifest error in the Rules Verve was not defined as a LFAS facility.</p>	Yes	<p>The IMO consciously breached this rule to avert an outcome inconsistent with the market objectives.</p> <p>We have deemed this to be a material non-compliance as, notwithstanding the manifest error in the Rules, the IMO was settling to the incorrect party.</p> <p>The IMO submitted a fast track rule change (RC_2013_03 – commenced 1 June 2013) to define an LFAS Facility as including the Verve Energy Balancing Portfolio.</p>

Rule	The Issue	Material?	Comment
9.13.1	Due to an error in the settlements software, the calculation of the Monthly Participant Load variable used to calculate market fees was incorrect.	Yes	<p>The Monthly Participant Load variable is the sum of the absolute value of all metered schedules. However, the error meant that non-facility (e.g. household level) metered schedules were being subtracted (if the metered schedule was positive).</p> <p>This error would have had an impact on the market fees calculated for participants, and therefore has an associated financial impact. We have therefore deemed it to be a material breach.</p> <p>The IMO has corrected this error through a software release,</p>
9.16.2(b)(v)	The IMO failed to notify market participants of their acceptance of their Capacity Credit re-allocations under MR 9.16.2(b)(iv) due to a WEMS error involving a duplicate event where the Capacity Credit over-allocation submission window ² failed to close.	No	<p>There was no operational impact as for the particular month there were no instances of over-allocation of Capacity Credits.</p> <p>The IMO ran the event to close the window and published all required reports to the Market Participant Interface.</p> <p>The IMO has undertaken the follow steps to prevent this breach from recurring:</p> <ul style="list-style-type: none"> • The duplicate event has been removed from the system process sequence. • The IMO's systems now include an automated alert to notify participants.
9.19.1(a)(iv)	The IMO overwrote System Management data provided under MR 9.19.1(a)(iv) for a generating facility when undertaking settlement adjustments to account for a forced outage declared by the participant.	Yes	<p>MR 9.19.1(a)(iv) requires the IMO to use the data provided by System Management for adjustment purposes. However, in this case the IMO consciously breached this rule so as not to use incorrect data in the settlement process.</p> <p>This is a material non-compliance as, notwithstanding the erroneous data provided by System Management, compliance with the rules would have led to a different financial (settlement) outcome.</p>
9.19.1(b)	The IMO published the Non-STEM Adjusted Participant Information Reports (PIR) for the August 2012 adjustment 5 days late.	No	<p>This breach had no financial impact on market participants. The IMO has undertaken the following to ensure such a breach does not recur:</p> <ul style="list-style-type: none"> • IMO staff have been reminded to use checklists to ensure all activities are completed within the rules prescribed timelines • The IMO's Internal Procedure checklist has been updated to include a check to ensure that PIRs have been published • Functionality is to be built into the settlements system to include a "batch run" to include settlement statements and PIRs together in the one run.

² Market Participants may nominate modifications to their allocated Capacity Credits under MR 9.4.10 if their allocation exceeds their Individual Reserve Capacity Requirement (IRCR).

Rule	The Issue	Material?	Comment
9.19.3(b)	The IMO did not include the interest receivable or payment in the August 2012 adjustment. This was caused by calculation complexities related to the manual adjustments the IMO had to make during this adjustment cycle to account for undesirable constraint compensation amounts driven by a manifest error in the Rules (see also Table 6, breaches to MR 6.17.3 and 6.17.4).	Yes	<p>As a result of this incident, participants who were due to receive interest did not receive any, while those who were due to pay did not get charged any interest. Note, the inclusion of interest in this adjustment would have led to an erroneous \$16K interest charge for one participant. Interest charges/credits for other participants in this adjustment were low (less than \$900).</p> <p>The IMO is yet to pay/recover the relevant interest amounts and shall do so through a Non-STEM adjustment.</p> <p>We note that this was a one-off event caused by the complexities of the manual adjustment and such a scenario is unlikely to recur.</p>
9.22.1	The IMO failed to publish STEM invoices within the timeline specified under MR 9.16.1(a)(ii) due to a failure within the WEMS system.	No	<p>The IMO published the STEM invoices at 11 am on the second business day following the end of the relevant trading week (as opposed to close of business on the first business day following the end of the trading week) and the market still settled on the correct date. The one day delay did not have a financial impact on any market participants.</p> <p>A software patch has been issued and released to ensure similar system issues do not recur.</p>
9.22.8	<p>This rule was breached twice over the audit period and resulted in a market participant not being paid the amount due to them in accordance with the settlement cycle timelines.</p> <p>The failure to pay was caused by a software error that meant the relevant transaction was not picked up by the system.</p>	Yes (2 breaches)	<p>Both instances of this breach were material as it resulted in a market participant not being paid.</p> <p>The IMO has undertaken the following steps to ensure such a breach does not recur:</p> <ul style="list-style-type: none"> • The IMO has instituted rigorous manual checks including: <ul style="list-style-type: none"> – Updated checklists to manually check whether all transactions have been accounted for – Sign-off by two department managers to ensure all checks have been conducted – Checking of IMO settlement account one day earlier to ensure that there are no aberrant amounts in the account • The software that malfunctioned is due to be replaced in the near future

13 MARKET RULE

CHAPTER 10 – MARKET INFORMATION

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

13.1 Compliance of the IMO's processes and procedures

13.1.1 Rule amendments

The following clauses of Chapter 10 have been amended since last year's annual audit:

- None.

13.1.2 Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 10 of the Market Rules have been updated since last year's market audit:

- None.

Market Procedures currently in the process of being amended

The following Market Procedures relating to Chapter 2 of the Market Rules are under review or are in the process of being amended:

- None.

Updates to Internal Procedures

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

- None.

Internal Procedures currently under review/development

The following Internal Procedures relating to Chapter 2 are currently under review or are being developed:

- None.

Relationship between Rule updates and Procedures

As there have been no Rule Changes affecting the IMO's obligations with respect to Chapter 10 of the Market Rules, there are no corresponding implications for associated Market Procedures and Internal Procedures.

13.1.3 Compliance of the IMO's Procedures with Chapter 10 of the Market Rules

It is our opinion that the IMO's procedures comply with Chapter 10 of the Market Rules in all material respects.

13.2 Compliance with Chapter 10 of the Market Rules

Incidents associated with the IMO implementation are set out in Table 12 below.

There was one non-material non-compliance associated with the IMO's obligations under Chapter 10 of the Rules.

13.3 Opinion

With the exception of the breach noted in Table 12, We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 10 of the Market Rules.

Table 12: Incidents of non-compliance with Chapter 10

Rule	The Issue	Material?	Comment
10.2.3(a)	The IMO sent an email to a market participant that included details on the relevant retailer of fourteen NMIs that were not associated with the participant.	No	<p>Despite the classification under MR 10.2.3, in practice the market participant was already aware of the relevant retailers of the NMIs that were emailed to it. Hence there was no impact on market outcomes.</p> <p>The IMO undertook the following steps to address the breach and to prevent its recurrence:</p> <ul style="list-style-type: none">• The recipient was asked to delete the email.• The IMO is developing new email policy not to forward any emails to external recipients (i.e. to mitigate risk of accidental leakage).• Related to the above, the IMO is investigating technical solution to block forwarding of emails to outside recipients

APPENDICES

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A RULE CHANGES SINCE THE LAST MARKET AUDIT

Table 13: Market Rule changes

Date	Amendment	Reference
1 September 2012	IMO amended clauses 3.18.6, 3.21.1 and 3.21.2	RC_2012_04
1 November 2012	IMO amended clauses 2.22.3; 2.22.4; 2.22.6; 2.22.12; 2.23.3; 2.23.4; 2.23.5; 2.23.9; 2.23.12 and the Glossary	RC_2011_02
1 January 2013	IMO amended clauses 4.5.10, 4.5.12, and 4.5.13 IMO amended clauses 2.13.6L (new) and 6.17.9.	RC_2012_09 RC_2012_16
1 February 2013	IMO amended clauses 6.16A.2 and 6.17.3A.	RC_2012_19
1 March 2013	IMO amended clause 3.21A.7.	RC_2012_15
1 April 2013	IMO amended clauses 3.21A.1, 3.21A.2, 3.21A.3, 3.21A.4, 3.21A.5, 3.21A.7, 3.21A.7A, 3.21A.8, 3.21A.9, 3.21A.10, 3.21A.11, 3.21A.12, 3.21A.13, 3.21A.14, 3.21A.15, 3.21A.16, 3.21A.17, 4.12.6, 4.26.1A, 7.9.4 and the Glossary.	RC_2012_12
1 May 2013	IMO amended clauses 4.5.9, 9.16.3, 9.16.3A and 9.19.1.	RC_2012_21, RC_2012_25
15 May 2013	IMO amended clause 7.2.3A.	RC_2013_06
20 May 2013	IMO amended clauses 2.27.1, 2.27.1A, 2.27.2, 2.27.2A, 2.27.3, 2.27.3A, 2.27.3B, 2.27.4, 2.27.5, 2.27.6, 2.27.7(new), 2.27.8(new), 2.27.9(new), 2.27.10(new), 2.27.11(new), 2.27.12(new), 2.27.13(new), 2.27.14(new), 2.27.15(new), 2.27.16(new), 2.27.17(new), 9.3.4A and the Glossary.	RC_2012_07
1 June 2013	IMO amended clauses 2.1.1, 2.1.3, 2.2.1, 2.5.6, 2.6.3A (new), 2.6.4, 2.7.7A (new), 2.7.8, 2.8.1, 2.8.3, 2.8.11, 2.10.2A, 2.11.1, 2.17.1, 2.17.2, 6.6.3A, 7A.2.19, 7B.2.17 and the Glossary. IMO amended clauses 9.23.4 IMO amended clauses 7B.1.6, 7B.2.10 and the Glossary	RC_2012_06 RC_2012_24 RC_2013_03

Date	Amendment	Reference
1 July 2013	IMO amended clauses 2.22.8, 2.22.8A (new), 2.22.8B (new), 2.22.13, 2.22.14, 2.22.15 (new), 2.23.8, 2.23.8A (new), 2.23.8B (new), 2.23.13 (new) and 2.23.14 (new).	RC_2011_02
	IMO amended clauses 4.11.1, 4.11.2 and the Glossary.	RC_2012_20
	IMO amended clauses 2.13.9, 7.10.6, 7.10.6A and 7.10.7.	RC_2013_01
1 August 2013	IMO amended clause 6.15.1	RC_2013_02

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Corporate headquarters
123 Buckingham Palace Road
London SW1W 9SR
United Kingdom
Tel: +44 20 7730 9000

paconsulting.com

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