

AEMO'S RESPONSE TO MARKET AUDITOR'S REPORTS

FOR AUDIT PERIOD 1 AUGUST 2015 TO 30 JUNE 2016

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IMPORTANT NOTICE

Purpose

AEMO has prepared this document in response to the Market Auditor's reports for the annual Wholesale Electricity Market and Gas Services Information audits conducted for the period 1 August 2015 to 30 June 2016, as at the date of publication.

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1. BACKGROUND

The Wholesale Electricity Market (WEM) Rules and the Gas Services Information (GSI) Rules require AEMO to appoint a market auditor to conduct the WA electricity and gas market audits. The audits are compliance-based reviews of AEMO's obligations under the WEM Rules, the GSI Rules and associated procedures.¹

The WEM Rules and the GSI Rules require four annual audits to be undertaken:

1. Audit 1 – WEM Market Operator – Electricity Compliance Audit;
2. Audit 2 – WEM Market Operator – Electricity Software Compliance Audit;
3. Audit 3 – GSI – Gas Compliance Audit; and
4. Audit 4 – WEM System Management – Electricity Compliance Audit.

AEMO appointed PA Consulting Group Limited to conduct the market audits for the period 1 August 2015 to 30 June 2016.

The final audit reports prepared by PA Consulting can be found on AEMO's website at <http://aemo.com.au/Electricity/Wholesale-Electricity-Market-WEM/Compliance-and-audit> and should be read in conjunction with this report.

This report sets out the matters that AEMO accepts and does not accept (and reasons for those views) with respect to the final audit reports as required under clause 2.14.4(b) of the WEM Rules and rule 174(3) of the GSI Rules.

¹ As most IMO functions were transferred to AEMO on 30 November 2015, and System Management functions were transferred from Western Power to AEMO on 1 July 2016, the market audits also took into account activities carried out during the audit period by the IMO and Western Power (in its previous System Management capacity).



2. AEMO'S RESPONSE

2.1 Overview

AEMO accepts all of PA Consulting's findings and recommendations with respect to final audit reports 1, 2 and 3.

During the audit period Western Power was responsible for System Management functions. However, those System Management functions were transferred to AEMO on 1 July 2016, so AEMO must respond to PA Consulting's findings and recommendations for final audit report 4.

On this basis, AEMO accepts all PA Consulting's findings and recommendations detailed in final audit report 4, with the exception of the following finding and recommendation:

System Management has no process to determine whether a participant has lodged an outage request to avoid exposure to paying reserve capacity refunds (as required under clause 3.19.3A(c)).

Under clause 3.19.3A(c) of the Electricity Rules, System Management must not approve an outage request made principally to avoid exposure to reserve capacity refunds. Since market start, System Management has had no process to make this determination. With AEMO adopting the system operator role, and in light of AEMO staff's greater knowledge and understanding of the Reserve Capacity Mechanism, we recommend AEMO establish a process to meet its obligations under this clause.²

2.2 Reasons

AEMO does not accept the above finding and recommendation on the basis that:

- a) Clause 3.19.3A(c) of the WEM Rules states:

In assessing whether to grant a request for Opportunistic Maintenance, System Management:

...

- (c) may decline to approve Opportunistic Maintenance for a Facility or item of equipment where it considers that the request has been made principally to avoid exposure to Reserve Capacity refunds as described in clause 4.26 rather than to perform maintenance ...*

This clause states that AEMO *may* (rather than *must*) decline to approve of Opportunistic Maintenance made principally to avoid exposure to Reserve Capacity refunds.

- b) AEMO considers that under section 10.1 of the Facility Outage Power System Operating Procedure,³ there is a documented procedure permitting System Management to query requests for Opportunistic Maintenance by requiring the relevant Market Participant or Network Operator to make a written declaration that the capacity for which Opportunistic Maintenance is being sought is available prior to the outage commencing. If a Market Participant or Network Operator fails to comply with this request, then the PSOP requires System Management to reject the Opportunistic Maintenance request. In this context, the PSOP specifically refers to System Management's discretion under clause 3.19.3A(c) of the WEM Rules, where it considers an outage request for Opportunistic Maintenance is made principally to avoid exposure to Reserve Capacity refunds.
- c) The WEM Rules do not confer any policing powers upon System Management to verify declared availability of Market Participants.

² Final audit report 4; page 22.

³ https://www.aemo.com.au/-/media/Files/Electricity/WEM/Security_and_Reliability/facility-outages-psop528697C8E166.pdf



For completeness, AEMO notes that it intends to review all System Management procedures generally, now that it has responsibility for the System Management functions.