

27 April 2017

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Dear Ms Cusworth

AEMO's response to ERA's annual report to Minister for Energy on AEMO's compliance

The Australian Energy Market Operator welcomes the opportunity to respond to the Economic Regulation Authority's annual report to the Minister for Energy on AEMO's compliance for the period from 1 August 2015 to 28 February 2017 (**Annual Report**).¹

AEMO accepts all of the ERA's findings and recommendations detailed in the Annual Report. AEMO would like to provide specific responses to various sections of the Annual Report.

Specific response to System Management IT systems

AEMO notes the following recommendation detailed in the Annual Report:

*The Authority recommends that, in undertaking its review of the System Management issues, AEMO give priority to the significant risks identified in the audit reports, including ... the repeat issues concerning the availability and performance of information technology systems that have resulted in multiple breaches of the Dispatch Criteria. The Authority will monitor AEMO's progress with these issues.*²

As part of the previous WA Government's Electricity Market Review, the responsibility for System Management functions transferred from Western Power to AEMO on 1 July 2016. Under an arrangement negotiated with Western Power, AEMO accesses Western Power's IT applications under a licence, and Western Power provides Information and Communication Technology services to AEMO. This arrangement is set out in a services agreement between AEMO and Western Power dated 24 October 2016 (**Services Agreement**).

AEMO (in its System Management capacity) is responsible for the Dispatch Criteria obligations under clause 7.6 of the Wholesale Electricity Market Rules (**WEM Rules**). Western Power (through its Information and Communication Technology function) is responsible for providing all IT applications and infrastructure services that are required to support, maintain and evolve System Management's IT systems – including the IT systems that are configured to meet the Dispatch Criteria under the WEM Rules. Therefore, AEMO

¹ The Annual Report has been prepared for the purposes of clause 2.14.5B of the Wholesale Electricity Market Rules and rule 174(5) of the Gas Services Information Rules.

² See Annual Report, page 11.

must carry out its Dispatch Criteria obligations using System Management's IT systems in their current form, and based on the arrangement set out in the Services Agreement.

As part of implementing the proposed reforms arising out of the Electricity Market Review, which is currently on hold, AEMO has identified a need to replace key System Management IT systems with new systems owned and operated by AEMO. These replacements will be scoped, assessed and prioritised on a risk-assessed basis, as further certainty on the Electricity Market Review is obtained.

As an interim measure, AEMO has initiated an independent review of System Management's IT systems and, once finalised, will together with Western Power consider the implementation of the recommendations from the independent review. AEMO is also monitoring the delivery of the ongoing provision and adequacy of IT services from Western Power under the Services Agreement.

Due to the above limitations, AEMO is unable to resolve the IT issues that have resulted in multiple breaches of the Dispatch Criteria until it has replaced System Management's IT systems.

Specific response to investigations by the ERA

AEMO would like to provide additional context in relation to the table-based summary of AEMO investigations carried out by the ERA during the period from 1 July 2016 to 28 February 2017 in the Annual Report.³

Investigation Reference	AEMO's Comments
INV-1 and INV-15 (AEMO 2016_01)	<p>The ERA has determined that AEMO did not breach clause 7.13.4 of the WEM Rules.</p> <p>The correct provision that AEMO was alleged to have breached (but was found not to have breached) is clause 3.23.2 of the WEM Rules. Clause 7.13.4 of the WEM Rules (which imposed an obligation on System Management) did not apply to AEMO because, as at the date of the alleged breach, System Management functions remained with Western Power and had not transferred to AEMO.</p>
INV-2 (AEMO 4)	<p>The ERA has determined that AEMO breached clause 3.17.2 of the WEM Rules because it did not publish Short Term Projected Assessment of System Adequacy (Short Term PASA) study results "as soon as practicable" after receiving them from System Management.</p> <p>AEMO attempted to publish the Short Term PASA report 25 minutes after receiving it from System Management. AEMO uses Sitefinity (a website content management program) to publish documents. The report status in Sitefinity was "Currently Published". However, for an unknown technical reason, publication of the Short Term PASA report on the website was unsuccessful.</p>

³ See Annual Report, pages 9 and 10 (Table 2).

	<p>AEMO has taken remedial steps to mitigate the risk of future reoccurrences. (Clause 3.17.2 has been repealed – the relevant publication obligation is now set out in clause 3.17.1.)</p> <p>Due to the excess capacity in the SWIS, Short Term PASA reports are of limited interest to Market Participants and are not critical for making market decisions.</p>
INV-4 (AEMO 26)	<p>The ERA has determined that AEMO breached clause 9.19.1(b) of the WEM Rules because it did not provide adjusted Non-STEM Settlement Statements to Rule Participants by the due date.</p> <p>AEMO prepared the adjusted Non-STEM Settlements by the due date. However, due to an issue with a Wholesale Electricity Market System software production release, those statements were not made accessible to Rule Participants. The software issue was identified and resolved promptly.</p>
	<p>AEMO has taken remedial steps to mitigate the risk of future reoccurrences.</p>
INV-24 and INV-78 (AEMO 24)	<p>The ERA has determined that AEMO breached step 3.5.2 of the Prudential Requirements Market Procedure because (when transferring a cash deposit to a Market Participant at its request) AEMO inadvertently transferred an additional Credit Support amount.</p> <p>AEMO has taken remedial steps to mitigate the risk of future reoccurrences.</p> <p>AEMO notes (for completeness) that the ERA has also determined that the Market Participant breached clause 2.38.1 of the WEM Rules and step 3.3.1 of the Prudential Requirements Market Procedure. The Market Participant did not comply with the requirement to ensure that AEMO held the required level of Credit Support.</p>

AEMO notes the ERA's agreement with the Market Auditor's positive comments on AEMO's compliance management practices.⁴ AEMO intends to maintain and improve those compliance management practices and looks forward to continuing to work constructively with the ERA.

Yours sincerely



Cámeron Parrotte
Executive General Manager WA

⁴ See Annual Report, page 10.