



Economic Regulation Authority

Report to the Minister for Energy on the Australian Energy Market Operator's compliance 2022/23

Wholesale Electricity Market Rules
Gas Service Information Rules

9 February 2024

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Executive summary

The Economic Regulation Authority (ERA) has prepared its annual report to the Minister for Energy on the Australian Energy Market Operator's (AEMO) compliance with the Wholesale Electricity Market (WEM) Rules and the Gas Services Information (GSI) Rules.

AEMO appointed PricewaterhouseCoopers (PwC) as Market Auditor (auditor) to perform the 2022/23 financial year independent limited assurance engagement.

This ERA report considers:

- The results of the 2022/23 independent assurance engagement on AEMO's performance against the WEM Rules and GSI Rules; and
- The ERA's investigations into AEMO's non-compliances since the 2021/22 financial year report to the Minister for Energy.

Auditor's conclusion

Based on the procedures performed and evidence obtained, the auditor concluded that nothing had come to their attention that caused them to believe that AEMO had not maintained in all material respects, effective control procedures in relation to compliance with the WEM and GSI Rules for the year ended 30 June 2023.

Findings

The WEM audit identified 38 WEM Rules non-compliances in 2022/23, of which 37 have been resolved and closed. One non-compliance is not yet due for closure.

Only one WEM Rules non-compliance was considered high risk. One WEM Rules non-compliance was considered a medium risk. The remainder were deemed low risk. The high and medium risk non-compliances have been resolved and closed since the audit.

The auditor identified two instances where the controls in place were insufficient and could potentially lead to future non-compliance if not remedied, and one opportunity for improvement to mitigate future non-compliance.

There were 11 WEM information technology issues reported which did not constitute any non-compliances.

The GSI audit identified two low risk GSI Rules non-compliances in 2022/23. One non-compliance has been resolved and closed and one is not yet due for closure.

The auditor identified two instances where the controls in place were insufficient and could potentially lead to future non-compliances if not remedied.

There were 11 GSI information technology issues reported which did not constitute any non-compliances.

ERA investigations

The ERA has not completed any investigations into AEMO's compliance with the WEM Rules since the previous audit report was published.

1. Introduction

The ERA is responsible for the compliance and enforcement functions in the WEM Rules and the GSI Rules. As part of these functions, the ERA must annually provide a report to the Minister for Energy on AEMO's compliance with the rules¹.

AEMO is required to appoint one or more auditors to conduct an audit of AEMO's compliance with the WEM and GSI Rules no less than annually.

AEMO appointed PricewaterhouseCoopers (PwC) as Market Auditor (auditor) to perform the 2022/23 financial year independent limited assurance engagement.

This report contains the results of the Market Auditor's 2022/23 audits.

1.1 Auditor's conclusion

The Auditor's conclusion is that nothing caused them to believe that AEMO did not maintain, in all material respects, internal control procedures in relation to compliance with the WEM Rules or the GSI Rules.

1.2 WEM Rules

AEMO must ensure that a Market Auditor carries out audits to determine its compliance with the WEM Rules and WEM Procedures, including AEMO's internal procedures and business processes.² The audit must also consider AEMO's market software systems and processes for software management.

1.3 WEM Rules audit report – Summary of findings

The results of the 2022/23 audit are documented in the auditor's independent assurance report on AEMO's compliance with the WEM Rules and WEM Procedures (Appendix 2). The audit report was published on AEMO's website on 31 October 2023.³

A full description of risk ratings and compliance ratings are provided in Appendix 1.

1.3.1 Non-Compliances

In 2022/23 there were 38 non-compliances reported:

- one high risk non-compliance
- one medium risk non-compliance
- 36 low risk non-compliances.

The key areas of non-compliances reported in 2022/23 are presented in Table 2. The low-risk non-compliances are shown in descending order of occurrence (ranging from 10 instances of non-compliant dispatch instructions to one instance of late approval of a commissioning plan).

¹ Wholesale Electricity Market Rules (WA), 29 April 2023, Rule 2.14.5B. Gas Services Information Rules (WA), 1 December 2022, Rule 174(5).

² Wholesale Electricity Market Rules, 29 April 2023, Clause 2.14.3, ([online](#)).

³ AEMO Independent Assurance Report - WEM 2022-23, ([online](#)).

Table 1: 2022/23 Areas of non-compliance

Area of non-compliance	Breach reported by	Non-compliance risk rating
Approval of a Reserve Capacity application which had not met appropriate criteria	AEMO	High
Incorrectly calculated Relevant Demand for some Demand Side Programme facilities for some Trading days	AEMO	Medium
Dispatch Advisories incorrect or not released	PWC/AEMO	Low
Late/inaccurate publication of reports, information on website	AEMO	Low
LFAS not enabled for cleared amount	AEMO	Low
Sharing market information to the wrong Market Participant	AEMO	Low
Late approval of commissioning plan	PwC	Low

The non-compliances considered to be high and medium risk have been addressed and the audit findings closed.

The high-risk non-compliance was due to AEMO approving an application for Certification of Reserve Capacity for a Market Participant which had submitted some information via email instead of via the Wholesale Electricity Market System. The application should have been rejected by AEMO, however AEMO assessed the emailed information and decided to assign Certification of Reserve Capacity.

The medium-risk non-compliance was due to an incorrectly calculated Relevant Demand for Demand Side Programme facilities. AEMO has corrected the relevant level calculation tool.

Of the low-risk non-compliances only one remains open which has recommendations that are not yet due for implementation.

1.3.2 Controls

The auditor identified three controls issues. Two gaps in control design/operating efficiency and one opportunity for improvement. These are shown in Table 3 along with the risk rating.

Table 2: 2022/23 Control gaps and control improvement opportunities

Insufficient controls	Risk rating
Supplementary Reserve Capacity procedures for procurement and settlement not formalised	Medium
Skills Maintenance and Simulation Training not completed by staff	Low
Control improvement opportunity	Risk rating
A critical events and information register should be implemented to support Operational Planning and Forecasting and Power System Operations teams.	Low

To address these issues AEMO has:

- Formalised the Supplementary Reserve Capacity procedures for procurement and settlement and the audit finding has now been closed.
- Performed remediation activities for staff absent from Skills Maintenance and Simulation training and have until 30 April 2023 to implement a tracking system to identify staff that are absent from training.
- Agreed to develop and implement a register to capture critical event information to share with staff by 30 April 2024.

1.3.3 WEM Information Technology findings

There were six medium and five Low rated Information Technology (IT) issues identified by the auditor in this reporting period. From the previous audit period, six medium and three low rated findings remain open and three were closed during the 2022/23 audit period.

These findings currently have no direct impact on AEMO's obligations to the WEM Rules or but were identified as having the potential to impact a range of markets and systems across AEMO.

1.3.4 Resolved WEM audit findings from 2021/22

There were seven outstanding findings from the 2021/22 audit period. None of the findings constituted a non-compliance with the WEM rules, only improvements to controls. Five findings have been resolved and closed. Two findings have recommendations that are not due for implementation yet.

1.4 GSI Rules

The GSI Rules require AEMO to have an annual compliance audit.⁴ The audit must consider AEMO's compliance with the GSI Rules and GSI Procedures, including AEMO's internal procedures and business processes. The audit must also consider AEMO's market software systems for the Gas Bulletin Board and calculation of GSI fees and processes for software management.

1.5 GSI Rules audit report – Summary of findings

The results of the 2022/23 audit are documented in the auditor's independent assurance report on AEMO's compliance with the GSI Rules and GSI Procedures (Appendix 3). The audit report was published on AEMO's website on 31 October 2023.⁵

A full description of risk ratings and compliance ratings are provided in Appendix 1.

1.5.1 Non-compliances

The audit identified two low risk GSI Rule non-compliances reported by AEMO management. One non-compliance related to the late publication of a Financial Report has been resolved and closed. The other non-compliance related to information omitted from the 2023/24 Budget is not yet due for resolution.

1.5.2 Controls

The auditor identified two control design issues. One issue was rated a medium risk and requires AEMO to update its register of obligations within the GSI Rules and review the key control descriptions to adequately describe activities that support compliance with obligations. The recommended resolution of this issue is not due for implementation until 30 June 2024 and 30 September 2024.

The other control issue requires review of internal work instructions to reflect the requirement to complete a registration checklist. This is due for implementation by 31 March 2024.

1.5.3 GSI Information Technology findings

There were six new medium and five new low risk Information Technology issues identified by the auditor in the reporting period. From the previous audit period, five medium and three low risk findings remain open and three were closed during the 2022/23 audit period.

These findings currently have no direct impact on AEMO's obligations to the GSI Rules but were identified as having the potential to impact a range of markets and systems across AEMO.

1.5.4 Resolved GSI audit findings from 2021/22

There was one outstanding non-compliance finding from the previous year which was resolved on 31 December 2022. This related to AEMO adjusting GSI fees late.

⁴ Gas Services Information Rules (WA), 1 December 2022, Rule 174(2) of the GSI Rules, ([online](#)).

⁵ AEMO Independent Assurance Report – GSI Annual Compliance Audit 2023, ([online](#)).

2. AEMO's response to the audits

AEMO stated it accepted the audit findings that were reported at the conclusion of both audits. AEMO published its response to the audits on its website.

Appendix 1 Compliance Risk Ratings

Table 1 describes the ratings the auditor used to assess AEMO's compliance.

Table 1: Compliance ratings used by the auditor⁶

Compliance Rating	Definition
Level 1 (Non-compliance)	Evidence of non-compliance with review criteria. These should be addressed as a matter of high priority.
Level 2 (Gaps in control design or operating effectiveness)	Issues which could possibly result in non-compliance with review criteria but where no evidence of actual non-compliance was found. However, there is considered to be insufficient formal evidence of controls in place or being actioned in relation to these issues.
Level 3 (Control improvement opportunities)	Housekeeping matters and opportunities for improving internal controls and procedures relating to gas market procedures.

The following risk ratings, set in consultation with AEMO, were used by the auditor to assess the findings:

Critical: Findings which may have a catastrophic impact on the market operations if they are not addressed immediately and require executive action with regular reporting at Board level.

High: Findings which may have a major impact on the market operations if they are not addressed as a matter of priority. These findings require senior management attention with regular monitoring and reporting at executive and Board meetings.

Medium: Findings which may have a moderate impact on the market operations if they are not addressed within a reasonable timeframe. These findings require management attention with regular ongoing monitoring.

Low: Findings which may have a minor impact on market operations if they are not addressed in the future. These findings are the responsibility of management with regular monitoring and reporting at staff meetings.

⁶ Refer to page 5 of Independent Assurance Report on AEMO's compliance with the WEM Rules and Market Procedures.

Appendix 2 Independent Assurance Report on AEMO's Compliance with the WEM Rules and WEM Procedures

Appendix 3 Independent Assurance Report on AEMO's Compliance with the GSI Rules and GSI Procedures

Appendix 4 AEMO's response to the audits