

Procedure Change Report - Monitoring Protocol

EEPC_2017_01

23 May 2017

Economic Regulation Authority

WESTERN AUSTRALIA

Economic Regulation Authority

4th Floor Albert Facey House
469 Wellington Street, Perth

Mail to:

Perth BC, PO Box 8469
PERTH WA 6849

T: 08 6557 7900

F: 08 6557 7999

E: records@erawa.com.au

W: www.erawa.com.au

National Relay Service TTY: 13 36 77
(to assist people with hearing and voice impairment)

We can deliver this report in an alternative format for those with a vision impairment.

© 2017 Economic Regulation Authority. All rights reserved. This material may be reproduced in whole or in part provided the source is acknowledged.

Contents

1.1	Introduction	1
1.2	Reason for the Procedure Change	1
1.3	Market Advisory Committee and Working Groups	2
1.4	Submissions received	2
1.5	Market Objectives	4
1.6	Amended Market Procedure	5
1.7	Commencement Date	5
	Appendix 1 Submissions received	6
	Appendix 2 Summary of feedback from submissions	7
	Appendix 3 Minor drafting updates	12
	Appendix 4 Amended Monitoring Protocol (clean)	13
	Appendix 5 Amended Monitoring Protocol (marked up)	14

1.1 Introduction

On 16 March 2017 the Economic Regulation Authority (**ERA**) published a Procedure Change Proposal¹ for its Monitoring Protocol.

The Monitoring Protocol is required under clause 2.15.1 of the Market Rules. The purpose of the Monitoring Protocol is to state how the ERA will implement its obligations under the Market Rules to monitor Rule Participants' compliance with the Market Rules and Market Procedures (Market Rule 2.15.2).

The Market Rules require the ERA to consult on the Procedure Change Proposal (Market Rule 2.10.7) and prepare a Procedure Change Report following the closing date for submissions (Market Rule 2.10.10).

The consultation period for the Procedure Change Proposal closed on 13 April 2017. The ERA has now prepared this Procedure Change Report containing the information required under clause 2.10.13 of the Market Rules as set out further below.

On 3 April 2017, the Rule Change Panel published an updated version of the Market Procedure for Procedure Administration. This procedure sets out the process for procedure changes. Paragraph 2.3.2 of the updated procedure requires the ERA to assign reference numbers to its Procedure Change Proposals using the format EEPC_YYYY_ID.

The ERA has designated this Monitoring Protocol Procedure Change with the reference EEPC_2017_01.

1.2 Reason for the Procedure Change

Clause 2.10.13(b) of the Market Rules requires this report to set out the reasons for the proposed Market Procedure amendment.

As noted in the Procedure Change Proposal, the ERA has been responsible for the compliance and enforcement functions since 1 July 2016. Since the function transferred from the Independent Market Operator the ERA has implemented processes to fulfil the core requirements of the function.

As part of the function implementation work the ERA undertook a review of the Monitoring Protocol. The purpose of the review was to assess whether the existing document sufficiently captured the Market Rule requirements, identify changes required to align the document with the processes implemented by the ERA and identify changes needed to provide improved transparency of processes to Rule Participants. The purpose of the Monitoring Protocol Procedure Change Process was to address the issues identified through the review.

The key updates that have now been made to the Monitoring Protocol are:

- a restructure of the Monitoring Protocol to better align with the individual obligations set out in clause 2.15.3 of the Market Rules as referred to in section 1.1. above; and

¹ Refer to the ERA Procedure Changes link at: <https://www.erawa.com.au/electricity/wholesale-electricity-market/market-procedures>

- the provision of further information on the processes used by the Authority as follows:
 - Monitoring processes: detail has been added to describe the methods used by the ERA to monitor compliance;
 - Investigation processes and outcomes: information has been added to set out the general phases and steps that the ERA will apply when carrying out a breach investigation and also to inform participants of the potential investigation outcomes, and the circumstances when these outcomes may apply;
 - Enforcement actions: detail has been added to set out the process prescribed by the Regulations for bringing proceedings before the Electricity Review Board.

A complete list of the updates is set out in Appendix 1 of the Procedure Change Proposal².

1.3 Market Advisory Committee and Working Groups

Clause 2.10.13(d) of the Market Rules requires this report to provide a summary of the views expressed by the Market Advisory Committee (**MAC**) and any relevant Working Group.

Clause 2.10.9(a) of the Market Rules requires the Rule Change Panel to convene a meeting of MAC if the ERA considers that advice from MAC is required or two or more MAC members consider that advice on the Procedure Change Proposal is required.

On 16 March 2017 the ERA notified MAC by email of the Procedure Change Proposal. In providing this notification, the ERA confirmed that it did not require advice from MAC on the proposal but requested that if any MAC member considered that a MAC meeting was required to discuss the proposal, the member/s should confirm this by 23 March 2017. No MAC members advised that they wished to discuss the proposal.

There were no relevant Working Groups established by MAC for the Monitoring Protocol Procedure Change Proposal.

1.4 Submissions received

Clause 2.10.13(c) of the Market Rules requires this report to include all submissions received, including a summary of the submissions and the ERA's response to the issues raised in the submissions.

The ERA issued a notice on 16 March 2017 with its Procedure Change Proposal calling for submissions on the proposed changes to the Monitoring Protocol.

Additionally, the ERA held an Energy Markets Stakeholder Workshop on 31 March 2017. At this forum, a brief overview of the Monitoring Protocol Procedure Change Proposal was

² Refer to the ERA Procedure Changes link at: <https://www.erawa.com.au/electricity/wholesale-electricity-market/market-procedures>

provided. Workshop attendees were encouraged to consider the proposal and provide submissions.

The submission period closed on 13 April 2017.

Submissions were received from the Australian Energy Market Operator (**AEMO**), Alinta Energy and Synergy (refer to Appendix 1).

AEMO's submission stated that it supports the ERA's efforts to improve transparency and provide additional information on the monitoring, compliance and enforcement processes. AEMO provided some specific feedback to clarify certain steps in the amended Monitoring Protocol as set out in Appendix 2 of this report.

Alinta's submission welcomed the inclusion in the amended Monitoring Protocol of the ERA's approach to compliance and also the detail included on potential investigation outcomes, available compliance responses, and when these responses may apply.

Alinta noted that the Market Rules also require AEMO to develop and implement a Monitoring and Reporting Protocol to specify how AEMO (including in its capacity as System Management) will support the ERA's compliance monitoring role. Alinta expressed that it is unable to consider the monitoring and reporting regime holistically given the AEMO protocol is yet to be developed. It would have been Alinta's preference to consider both documents at the same time to make a fully informed assessment.

There is an existing System Management Monitoring and Reporting Protocol³. AEMO is currently reviewing this prior to progressing updates through the Procedure Change Process to reflect the current rule requirements and its organisational processes.

Discussions were held between the ERA and AEMO earlier this year acknowledging that there may be some benefit in progressing changes to both documents at the same time. However, timeframes and internal approval processes to achieve this for our respective organisations did not align. The ERA notes that there is only a small amount of overlap in its Monitoring Protocol in terms of AEMO's support role, with the ERA's protocol focused on the end-to-end compliance process.

Alinta also noted that the current confidentiality provisions in the Market Rules, read in conjunction with the confidentiality status document maintained by AEMO, mean that a participant reporting a breach of another participant would never be notified of an investigation outcome. This is a broader issue as the current confidentiality provisions under the Market Rules do not allow the outcome of compliance investigations to be communicated to the market. The ERA also considers that a rule change may be needed to address Alinta's concern, as explained further in Appendix 2.

The ERA will investigate how to provide more information on compliance breaches to the market in the near future.

Alinta also said that the Market Rules require the ERA to annually report on its own compliance to the Minister for Energy. Although the Market Rules do not require this obligation to be captured in the Monitoring Protocol, for completeness the ERA has now included this requirement in the Monitoring Protocol in new section 6.4.

³ The Monitoring and Reporting Protocol is available here: <https://www.aemo.com.au/Electricity/Wholesale-Electricity-Market-WEM/Procedures>

Alinta provided a number of suggestions to clarify steps in the Monitoring Protocol as set out in Appendix 2.

Synergy's submission stated that it considered the increased level of detail in the updated Monitoring Protocol to be a significant improvement compared to earlier versions. Synergy provided a number of suggestions to clarify steps or add further detail to the Monitoring Protocol as set out in the table in Appendix 2.

Synergy's feedback included a suggestion that the Monitoring Protocol include reasonable detail on the ERA's risk based approach to compliance monitoring. In response, the ERA has added further detail in step 2.1.3 of the Monitoring Protocol to clarify the risk factors that will be considered in determining its monitoring priorities. Note that similar information is also provided in step 4.3.3 of the Monitoring Protocol in terms of investigation outcomes. The factors referred to in step 2.1.3 and step 4.3.3 are drawn from the ERA's internal risk assessment criteria for its WEM compliance activities.

Synergy also suggested that the ERA should provide more detail on its targeted compliance activities referred to in paragraph 2.1.2 of the updated Monitoring Protocol. The ERA expects that it will use targeted compliance as a tool to monitor different types of non-compliance including:

- low to medium level specific non-compliance across all or a large number of participants. These programs will be designed to impose minimal regulatory burden. There is likely to be a level of consultation with participants prior to rolling out such programs. These programs will assess the adequacy of participants' policies and procedures and will be conducted as desk top reviews;
- material compliance issues affecting a small number of participants. These reviews will be carried out in a manner similar to the investigations process and may lead to the commencement of formal investigations.

Targeted activities will be selected using a risk-based approach considering the factors that have now been added to step 2.1.3 of the Monitoring Protocol.

Appendix 2 sets out the feedback provided in the three submissions and the ERA's response to each of the feedback items.

1.5 Market Objectives

Paragraph 2.7.2 of the Market Procedure for Procedure Administration requires the ERA to assess whether the proposed changes are consistent with the Wholesale Market Objectives, the Market Rules, Electricity Industry Act and Regulations.

The changes made to the Monitoring Protocol are predominantly aimed at improving transparency and providing more information on the ERA's approach to, and processes for, compliance. The ERA considers that the changes are consistent with these instruments.

AEMO's submission stated that it considered the Procedure Change Proposal is consistent with the market objectives and Alinta's submission stated that the updated Monitoring Protocol is consistent with the requirements of the Market Rules.

1.6 Amended Market Procedure

Clause 2.10.13(a) of the Market Rules requires this report to include the wording of the amended Monitoring Protocol.

In addition to the drafting changes made as a result of the submissions received as listed in Appendix 2, the ERA also made further updates to the Monitoring Protocol to correct typographical errors, apply consistent terminology and update rule references. These updates are listed in Appendix 3.

The final amended Monitoring Protocol is attached to this report. The clean version is at Appendix 4 and the marked up version, showing the changes noted in Appendices 2 and 3, is at Appendix 5.

1.7 Commencement Date

The amendments to the Monitoring Protocol are aimed at improving transparency and do not seek to introduce any new obligations on participants. Also, the ERA notes from the submissions provided, that none of the parties indicated a need for any additional time to prepare for the amended Monitoring Protocol.

However, participants may still wish to review their internal procedures to ensure alignment with the amended Monitoring Protocol. The ERA intends to provide a reasonable time for this to occur and therefore specifies a date of 1 July 2017 for the amended Monitoring Protocol to commence.

Appendix 1 Submissions received

- [Australian Energy Market Operator \(AEMO\) submission](#)
- [Alinta Energy submission](#)
- [Synergy submission](#)

Appendix 2 Summary of feedback from submissions

Party	Paragraph/Section Reference	Issue (as directly quoted in submission)	ERA response
AEMO	2.1.2	Clause 2.13.6B of the WEM Rules provides some exceptions to AEMO's obligations to notify the ERA of alleged breaches. AEMO suggests that this be acknowledged by inserting the phrase "subject to certain exceptions" following the words "has obligations to notify the ERA" in the "Reporting" dot point.	<p>The ERA has amended paragraph 2.1.2 under the Reporting bullet point to include AEMO's suggested wording.</p> <p>The ERA has also taken the opportunity to update paragraph 2.2.1(b) to clarify that the notification of alleged breaches referred to in that step pertaining to reports under Market Rule 2.13.6A is subject to the exceptions referred to in Market Rule 2.13.6B.</p>
	2.2.1(a)	AEMO suggests inserting the phrase "to the extent permitted by law" following the words "AEMO systems".	The ERA has amended paragraph 2.2.1(a) to include AEMO's suggested wording.
	4.3.2	As currently worded, this step suggests that the ERA has the statutory power to give orders, although this is the role of the Electricity Review Board. AEMO suggests clarifying this step.	The ERA has amended paragraph 4.3.2 to clarify that it has statutory powers to issue warnings, issue Category A penalty notices or commence proceedings before the Electricity Review Board.
Alinta Energy	1.1	<p>Alinta considers that the Monitoring Protocol could benefit from the addition of a paragraph similar to the below:</p> <p><i>References to particular Market Rules within the Monitoring Protocol are current as of 10 December 2016. These references are included for convenience only, and are not part of this Monitoring Protocol.</i></p> <p>This will align the Monitoring Protocol with other market procedures and ensure that participants are aware of what version of the Market Rules the protocol is based on.</p>	The ERA has inserted Alinta's suggested wording as new paragraph 1.1.2 in section 1.1 of the Monitoring Protocol.

Party	Paragraph/Section Reference	Issue (as directly quoted in submission)	ERA response
	6.4	Alinta notes that clause 2.14.5A includes an obligation for the ERA to annually provide to the Minister a report on its own compliance with the Market Rules and Market Procedures. While the ERA is not a Rule Participant therefore there is no obligation for it to include protocols for how it complies with clause 2.14.5A in the Monitoring Protocol, Alinta considers that there may be benefit to amending paragraph 1.2.3 to also state that the Monitoring Protocol does not include how the ERA will comply with its obligations under clause 2.14.5A.	Rather than specify this as an exclusion from the scope of the Monitoring Protocol, the ERA has inserted new section 6.4 to briefly capture the obligation to report to the Minister on its own compliance and to include that the “ERA will ensure that it uses appropriate processes to prepare this report, which may include the use of independent auditors together with information gathered from its internal compliance activities, as well as any information it receives from external parties concerning the ERA’s compliance”. (A change has also been made to the title of section 6.3 to ensure consistency with the title of new section 6.4)
	Various	Throughout the Monitoring Protocol reference to specific market rules refers to “Market Rule” or “Clause” interchangeably. Alinta suggests that this should be reviewed for consistency.	The ERA has replaced the term “clause” with “Market Rule” where applicable.
	4.3.7	<p>Paragraph 4.3.7 states “if the ERA considers this to be appropriate and permitted under the confidentiality provisions of the Market Rules”.</p> <p>Alinta interprets the current confidentiality provisions in the Market Rules, read in conjunction with the confidentiality status document maintained by AEMO, to mean that a participant reporting a breach of another participant would never be notified of an investigation outcome (unless the matter was referred to the Electricity Review Board and the outcomes published in the six-monthly report).</p> <p>Alinta considers that this is not an appropriate outcome, and that the confidentiality status document maintained by AEMO should be amended to give ERA the ability to provide this information to a participant, if it deemed it appropriate to do so.</p>	<p>The ERA considers this to be a broader issue in the sense that the current confidentiality provisions under the Market Rules do not make it possible to publish the outcomes of compliance investigations. The ERA is also of the view that in order to address Alinta’s concern, a rule change may be required.</p> <p>The confidentiality status for any given item of market information must be one of the classifications set out in Market Rule 10.2.2. Changing the existing confidentiality status for investigation outcomes from Rule Participant Dispatch Restricted to another classification would not assist as none of the existing Market Rule 10.2.2 classifications would appear to address Alinta’s concern, in the absence of a rule change.</p> <p>For this reason, no changes have been made to the Monitoring Protocol.</p>

Party	Paragraph/Section Reference	Issue (as directly quoted in submission)	ERA response
	4.1.1	Alinta considers that the reference to “cover both internal and external processes” in paragraph 4.1.1 is confusing and could benefit from review and amendment.	The phrase “cover both internal and external processes” was intended to convey that the ERA’s monitoring processes rely on both internal and external information. However, the ERA has deleted the phrase from paragraph 4.1.1 to reduce any unintended confusion.
	4.2.5	Alinta notes that paragraph 4.2.5 includes a misspelling of the word “consider” in the second sentence.	The ERA has corrected the typographical error in paragraph 4.2.5.
Synergy	1.2	Synergy considers it appropriate the protocol refers to the ERA’s obligations under clauses 2.9.7B and 2.13.3 of the market rules for transparency.	Market Rule 2.9.7B states “The Economic Regulation Authority must comply with Market Procedures applicable to it”. The ERA has added this rule to Section 1 Background of the Monitoring Protocol. The ERA notes that Market Rule 2.13.3 is already referenced in paragraph 2.1.1. It is not necessary to include it in section 1.2.
	1.4.1(e)	The ERA will “apply a risk based model to its compliance activities, including its monitoring processes, investigation processes and enforcement actions”. Synergy notes this will involve a large degree of discretion around the risk based approach. However, in our view clause 2.15.3(a) of the WEM rules requires the protocol to specify what actions the ERA must take rather than simply stating what it may take. Synergy recommends the ERA’s protocol includes reasonable detail on its risk based model approach to compliance monitoring. (Synergy cites appendix 2 of the ERA’s audit and review guidelines: electricity and gas licences in that regard.)	In response to Synergy’s feedback, the ERA has added further detail in paragraph 2.1.3 to clarify the risk factors that will be considered in determining its monitoring priorities and also notes that similar information is provided in paragraph 4.3.3 in terms of investigation outcomes. (Minor updates have been made to paragraph 4.3 to align with updated paragraph 2.1.3). The factors referred to in paragraph 2.1.3 and paragraph 4.3.3 are drawn from the ERA’s internal risk assessment criteria for its WEM compliance activities. This risk assessment criteria is for internal use in decision making.

Party	Paragraph/Section Reference	Issue (as directly quoted in submission)	ERA response
	2.1.2	<p>Targeted compliance activities. Synergy understands the intent of conducting targeted reviews but given the limited detail contained within the protocol, Synergy is concerned the requirement could transpire into a significant audit function.</p> <p>Further, Synergy considers the level of detail provided in (protocol) paragraph 2.15.2(a) is unlikely to meet the test required by market rule 2.15.3(a) in terms of specifying a “monitoring process for assessing compliance...” Synergy considers this matter could be addressed if the protocol specified:</p> <ul style="list-style-type: none"> - how the ERA forms a view a targeted review is required e.g. evidence based decision; - the matters a targeted review will address; - how a targeted review will be conducted; - how a targeted review differs from the ERA audit functions under the WEM rules; - how a targeted review will apply to rule participants (i.e. simultaneously to all, limited to specific participants or both?); and - Rule participant engagement. For example, will rule participants be engaged on proposed targeted reviews in advance of decisions being made on review subject matter? Will the ERA publish a forward schedule of targeted reviews 6 or 12 months in advance to enable rule participants to schedule and resource the required work? 	<p>The ERA acknowledges that Synergy is seeking more information on proposed targeted compliance activities.</p> <p>The ERA expects that it will use targeted compliance activities to monitor different types of non-compliance including:</p> <ul style="list-style-type: none"> - low to medium level specific non-compliance across all or a large number of participants. These programs will be designed to impose minimal regulatory burden. There is likely to be a level of consultation with participants prior to rolling out such programs. The programs will review participants’ policy and procedure documentation and be conducted in a desk top review type manner; - material compliance issues affecting a small number of participants. These activities will be conducted in a manner similar to the investigations process and may lead to the commencement of formal investigations. <p>Targeted activities will be selected using a risk based approach considering the factors that have now been added to paragraph 2.1.3 of the Monitoring Protocol (together with consequential changes to paragraphs 2.1.4 and 2.1.5).</p> <p>The ERA has not yet selected targets or designed these activities. The ERA will discuss this detail directly with affected participants.</p>
	3.1.2, 3.1.3 and 4	<p>Synergy considers reference to “breach reporting” in section 3.1.2 and “alleged breach” in section 4 should refer to “notification of alleged non-compliance” as</p>	<p>The ERA notes Synergy’s feedback and has amended paragraphs 3.1.1, 3.1.2, 3.1.3, 3.1.5 and 3.1.6 to use the term “alleged breach” reflecting that at these stages no</p>

Party	Paragraph/Section Reference	Issue (as directly quoted in submission)	ERA response
		per the reference in section 3.1.3. as in many instances at the point of investigation notification it will not have been determined whether a breach has occurred.	determination will have been made as to whether a breach has occurred. No changes have been made to section 4 as this section already uses the term “alleged breach”.
	4.1.4	<p>This section states “Where the ERA forms the view that a matter identified through its monitoring processes is not an alleged breach, the investigation processes set out in this Monitoring Protocol do not apply and the ERA may choose to deal with the matter by other means.”</p> <p>If the matter is not an alleged breach it is unclear what matter(s) the ERA is intending to progress and how (i.e. what is meant by “by other means”?) It would be useful for the ERA to clarify.</p>	<p>In circumstances where the ERA considers the matter is not an alleged breach, it may still be appropriate for the ERA to provide a response. The wording “and the ERA may choose to deal with the matter by other means” was intended to capture these situations where a response may be appropriate. However, the ERA will remove this wording to avoid unnecessary confusion. The removal of this wording will not affect the ERA’s ability to provide a response.</p>
	4.2.4	<p>From Synergy’s experience regulatory requests for information can involve significant effort, time and costs. Synergy considers the ERA should informally consult with a rule participant prior to lodging a formal information request to enable the participant to provide feedback in terms of request clarity, whether the requested information can be provided and the timeframe complied with.</p>	<p>The ERA acknowledges that there may be occasions where it would be beneficial to informally consult on an information request prior to making such a request. The current wording of paragraph 4.2.4 does not preclude this from occurring and the ERA will exercise its discretion in determining when it is appropriate for this to occur.</p> <p>However, the ERA does not consider it appropriate to consult on every request for information and in fact, for most information requests under the WEM Rules, it does not consult as the information requirements are clear. Any decision to consult will depend on the nature of the information request.</p>
	4.3.3	<p>Synergy considers “electricity consumer impacts” should be added to the listed matters.</p>	<p>The ERA has added this factor to paragraph 4.3.3.</p>

Appendix 3 Minor drafting updates

Paragraph/Section Reference	Issue	Description of update
1.3.1	This paragraph sets out contact details for the ERA's compliance functions. Wording has been added to include reference to the Market Rules.	Inserted "under the Market Rules" after the word "functions".
1.4.1, 1.4.2 and 1.4.3	Paragraphs 1.4.1, 1.4.2 and 1.4.3 make reference to a "risk based model". The more appropriate terminology is "risk based approach".	Deleted "risk based model" and replaced with "risk based approach".
2.1.2	For the "Market Intelligence" and "Market Monitoring" dot points, minor wording changes have been made to better describe these activities.	For the "Market Intelligence" dot point, added the word "Assessing" before "information". For the "Market Monitoring" dot point, deleted the word "Analysis" and replaced it with "Analysing".
4.1.7	There are various references to the phrase "the party alleged to be in breach" in this section. It is more appropriate to use the phrase "the Rule Participant alleged to be in breach".	Deleted "party" and replaced with "Rule Participant".
4.2.7	Paragraph 4.2.7(e) unintentionally combined the requirements of Regulation 27 and Regulation 28 into the one sub-paragraph.	Regulation 28 has been removed from paragraph 4.2.7(e) and inserted into new paragraph 4.2.7(f).
5.1.2	Paragraph 5.1.2 includes the phrase "non-compliant behaviour has taken place" in connection with issuing a warning. This paragraph directly relates to Market Rule 2.13.10(d) which uses the phrase "a breach of the Market Rules has taken place".	Deleted "non-compliant behaviour has taken place" and replaced with "a breach of the Market Rules has taken place". Inserted reference to Market Rule 2.13.10(d).
5.1.5	Wording implies that the primary contact for the Rule Participant may not already be a senior officer and the wording was also inconsistent with a similar step in paragraph 4.2.4.	Deleted "a senior officer" and replaced with "any other appropriate officer".
5.2.6	Paragraph 5.2.6 includes the term Consolidated Fund. The Regulations use the term Consolidated Account.	Deleted "Fund" and replaced with "Account".
6.1.1(c)	Incorrect cross-reference to paragraph 1.6.1 of the Monitoring Protocol.	Deleted "1.6.1" and replaced with "3.1".
Various	Outdated, incomplete or missing Market Rule references.	Updated Market Rule references where applicable.
Various	Typographical and grammatical errors.	Corrected minor typographical and grammatical errors where applicable.
Various	Formatting updates.	Updated formatting where appropriate.

Appendix 4 Amended Monitoring Protocol (clean)

[Amended Monitoring Protocol \(clean\)](#)

Appendix 5 Amended Monitoring Protocol (marked up)

[Amended Monitoring Protocol \(marked up\)](#)