

Wholesale Electricity Market Rules and Gas Services Information Rules

Compliance Report for the period 1 July 2018 to
31 December 2018

31 January 2019

Economic Regulation Authority

WESTERN AUSTRALIA

DMS197029

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: info@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.

© 2019 Economic Regulation Authority. All rights reserved. This material may be reproduced in whole or in part provided the source is acknowledged

Contents

1. Summary	1
2. Compliance update	1
2.1 Alleged breach reports	1
2.2 Quarterly non-compliance with Dispatch Instructions investigations	3
2.3 Investigation outcomes and enforcement actions	4
2.4 Stakeholder engagement and reports	6
3. Report on Electricity Review Board matters	7
3.1 Proceedings brought before the Electricity Review Board	7
3.2 Findings of the Electricity Review Board	7
3.3 Orders made by the Electricity Review Board	7
3.4 Civil penalties imposed by the ERA	7

1. Summary

The Economic Regulation Authority is responsible for the compliance and enforcement functions in the Wholesale Electricity Market Rules and the Gas Services Information (GSI) Rules.

This report provides participants and other interested parties with a summary of the ERA's compliance activities for the current reporting period, 1 July 2018 to 31 December 2018.

The ERA recorded 127 new alleged breach matters for investigation this period. This was slightly lower than the 146 matters registered in the previous reporting period, 1 January 2018 to 30 June 2018.

Nearly half of the alleged breaches recorded this period concerned the Market Rules for Dispatch Instructions and Outages. Most of these non-compliances were routine matters investigated during the ERA's quarterly Dispatch Instruction investigation process discussed in section 2.2.

Some of this period's Dispatch Instruction non-compliances related to legacy information technology failures that resulted in the Australian Energy Market Operator (AEMO) dispatching from an outdated Balancing Merit Order. These information technology failures could result in the use of generation plant that is not the least cost plant at the time, triggering unnecessary out-of-merit payments, and resulting in higher costs to electricity customers. During the reporting period, the ERA completed an investigation of a number of these types of events and did not identify any material consequences for the market or individual participants. There has also been a recent reduction in the frequency of these events.

The ERA also completed investigations of two separate matters relating to non-compliant Balancing Submissions after gate closure. The ERA issued formal warnings to each of the two participants, as discussed in section 2.3.

This report also includes information to satisfy the requirements of clause 2.13.26 of the Market Rules and clause 167(1) of the GSI Rules, which require the ERA to publish six-monthly reports summarising matters brought before the Electricity Review Board, including details of any civil penalties imposed by the ERA.

2. Compliance update

The core activities of the ERA's compliance and enforcement functions are monitoring participants' compliance with the Market Rules and GSI Rules, and investigating alleged breaches of these rules.

2.1 Alleged breach reports

The ERA maintains a register of alleged breaches of the GSI and Market Rules. Alleged breaches may be identified by the ERA or reported by external parties, including self-reports by participants.

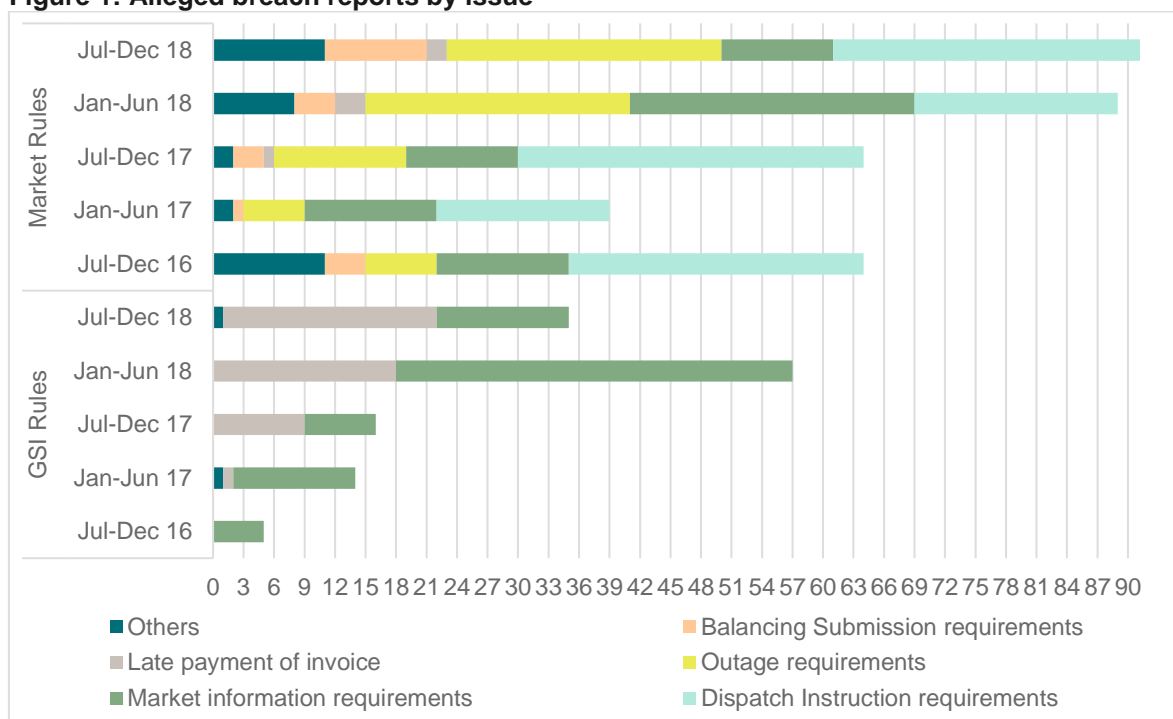
Between 1 July 2016 and 31 December 2018, a total of 475¹² alleged breach reports have been registered by the ERA. In the current reporting period, 1 July 2018 to 31 December 2018, the ERA registered 127 alleged breach reports.

AEMO is obligated to support the ERA with monitoring participants' compliance with the rules³. AEMO reported approximately 84 per cent of the current period's alleged breaches.

The number of self-reported breaches increased slightly from the previous reporting period. Eleven breaches were self-reported in the July to December 2018 period, compared to five matters last period. Self-reporting of breaches by a participant is an indication that the participant understands its compliance obligations and has reasonable compliance processes in place to identify non-compliance and implement mitigating strategies. The ERA encourages self-reporting by participants.

Figure 1 shows the number of all alleged breaches reported to the ERA by issue for each six-month period since 1 July 2016.

Figure 1: Alleged breach reports by issue



(Source: ERA data)

Alleged non-compliances with Dispatch Instruction requirements accounted for 32 matters this reporting period, increasing from 19 in the previous period. Most these were routine non-compliances. The ERA investigated these non-compliances during its quarterly Dispatch Instruction process discussed in section 2.2.

¹ In the 1 July 2017 to 30 December 2017 report published on 31 January 2018, 66 matters of Market Rules alleged breaches were recorded as being received. Subsequent to the publication of that report, two matters were identified as having been reported twice by separate parties. Only one investigation was required for each matter, therefore, for each matter reported, two separate alleged breach reports were combined into one matter during the current reporting period. The number of alleged breaches recorded for the previous period has therefore been adjusted to 64 Market Rule matters.

² In the 1 January 2018 to 30 June 2018 report published on 31 July 2018, 90 matters of Market Rules alleged breaches were recorded as being received. Subsequent to the publication of that report, one matter was identified as having been reported by two separate parties. Only one investigation is required in this circumstance and the two separate alleged breach reports were therefore combined into one matter during the current reporting period. The number of alleged breaches recorded for the previous period has therefore been adjusted to 89 matters.

³ Refer to clauses 2.13.8, 2.13.9A and 2.13.9C of the Market Rules and clauses 165A(1) and 165A(3) of the GSI Rules.

Many of the Dispatch Instruction non-compliances reported by AEMO also alleged non-compliance with Market Rule 7.10.3. Market Rule 7.10.3 requires a participant to notify System Management as soon as practicable when it becomes aware that it cannot comply with a Dispatch Instruction. Participants should ensure they have sufficient controls in place to comply with Market Rule 7.10.3.

Non-compliance with outage requirements had the second highest number of non-compliance reports (27 reports). This number was a slight increase from the January to June 2018 reporting period (26 reports). Most of these matters were also investigated during the ERA's quarterly Dispatch Instruction process discussed in section 2.2.

Alleged breach reports concerning market information requirements fell significantly this reporting period from 67 matters in the previous period to 24 matters. All these matters were reported by AEMO. In most cases, these matters concerned the late provision of information to AEMO. Participants should be aware that where information is provided after a rule deadline, this will constitute non-compliance. The late provision of information may also cause delays to other market processes. Participants must have sufficient controls in place for the timely provision of market information.

2.2 Quarterly non-compliance with Dispatch Instructions investigations

Rule obligations concerning Dispatch Instructions, Balancing Submissions and Outages are central to ensuring the economic and efficient operation of the Wholesale Electricity Market and dispatch process. The ERA has a quarterly process for investigating non-compliance with these obligations.

This process assesses participant compliance with clause 7.10.1 of the Market Rules, which requires participants to comply with Dispatch Instructions issued by AEMO.

These investigations are carried out to meet the requirements of clause 7.10.8 of the Market Rules, and also consider whether any constrained off or on payments to non-compliant participants need to be recovered⁴.

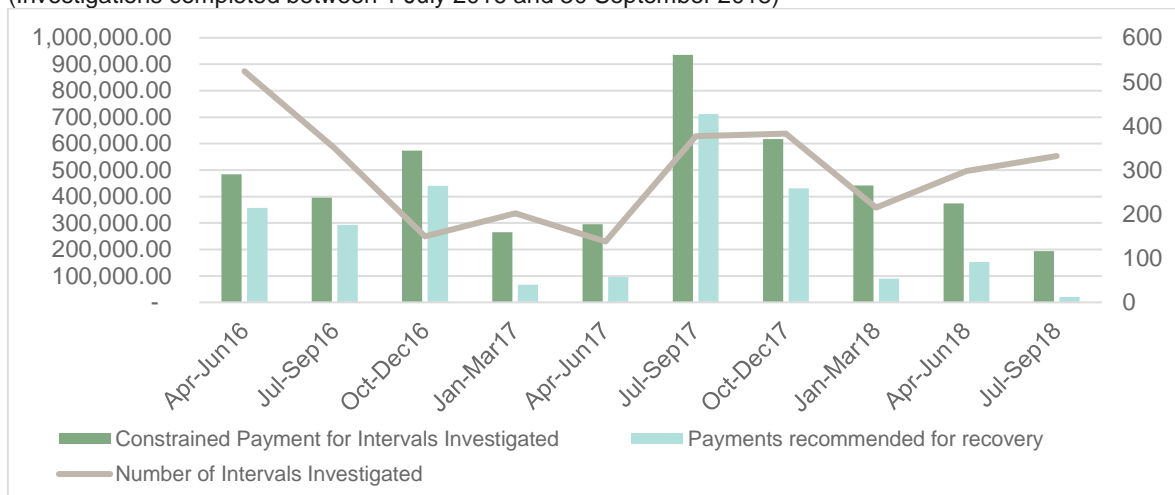
The investigations use dispatch non-compliance reports and constrained payments data provided by AEMO. When the ERA identifies non-compliance with the Market Rules it meets with participants to discuss the circumstances that led to the non-compliance.

The investigation process follows a strict timeline to ensure payment recoveries can be made within the applicable settlement adjustment cycle.

Figure 2 shows the total number of intervals investigated by the ERA together with the total value of the constrained payments for those intervals. Also shown is the monies recoverable for investigations carried out since 1 July 2016.

⁴ Where a Market Participant's Facility's actual generated quantity was materially different from its Balancing Submission quantities then it may be entitled to Out of Merit constrained off or on compensation as per section 6.16A of the Market Rules, unless it was non-compliant with a Dispatch Instruction under clause 7.10.1.

Figure 2: Quarterly non-compliance with Dispatch Instructions process
(Investigations completed between 1 July 2016 and 30 September 2018)



(Source: ERA data)

The quarterly investigations also review whether participants have met their obligations to update Balancing Submissions and log Forced Outages in accordance with the Market Rules. These obligations ensure that up to date information is available for the dispatch process and provide key mitigation measures to prevent erroneous constrained payments.

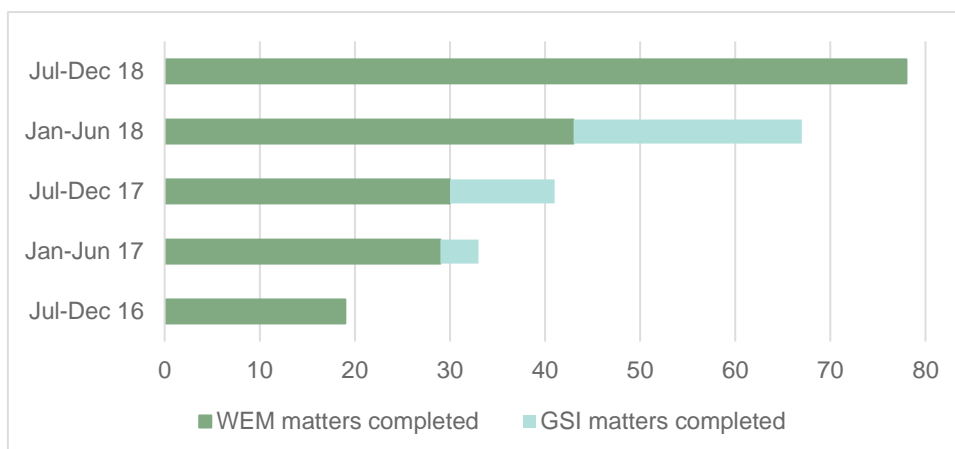
In the quarterly investigation process for July 2018 to September 2018, the ERA observed an improved level of Dispatch Instruction compliance by participants, although it did identify material non-compliance with Balancing Submission and Outage requirements. These matters are discussed in section 2.3.

2.3 Investigation outcomes and enforcement actions

Where the ERA determines that a breach has occurred, it has statutory compliance responses available (for example, warnings and commencement of proceedings before the Electricity Review Board), as well as administrative responses such as education advice.

The ERA completed 78 investigations in the most recent reporting period. In the previous period, January to June 2018, it completed 67 investigations. Since 1 July 2016, the ERA has completed a total of 238 investigations. Figure 3 below shows the completed investigations for each reporting period since 1 July 2016⁵.

Figure 3: Investigations completed by reporting period between July 2016 and December 2018



(Source: ERA data)

⁵ The ERA became responsible for the compliance functions in the GSI and Market Rules on 1 July 2016.

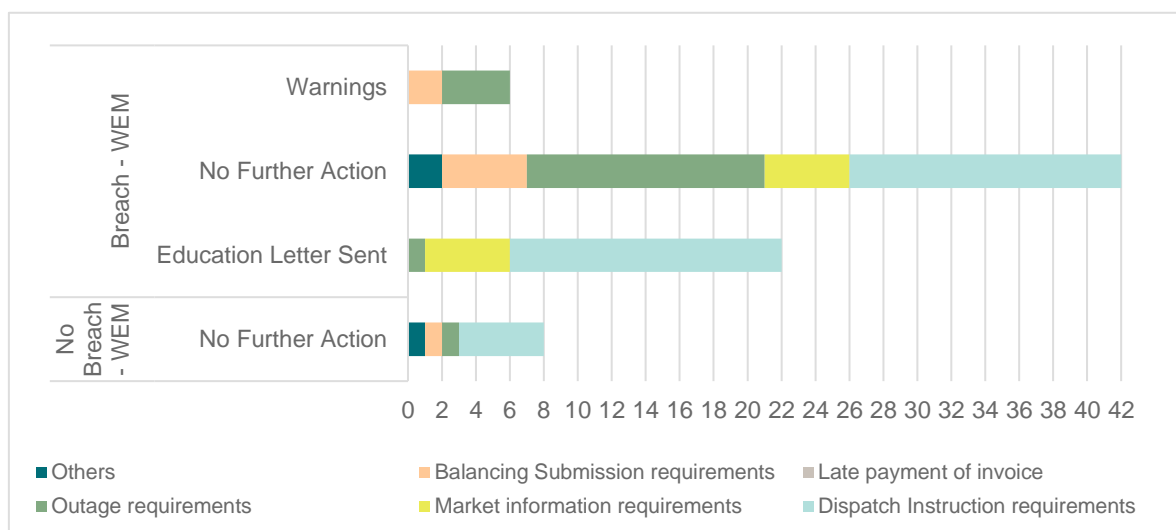
Figure 4 below summarises the outcomes of the 78 alleged breach investigations completed during the reporting period.

Eight of the investigations found the participant was not in breach.

There were 42 investigations where a breach was determined but no further action was required as the matters were considered low risk. For all of these cases, the ERA was satisfied that the participants had implemented sufficient controls to mitigate the risk of the breach re-occurring.

The ERA investigated 22 alleged breach matters where it issued participants with education advice. In these matters, the ERA provided the participants with information to mitigate the risk of further non-compliance. Sixteen of these matters concerned non-compliance with Dispatch Instruction requirements. The remaining matters were due to non-compliance with Outage requirements and market information requirements.

Figure 4: Investigation Outcomes for period 1 July to 31 December 2018



(Source: ERA data)

During the period, the ERA investigated two participants for submitting non-compliant Balancing Submissions after gate closure.

The Market Rules require participants to submit price-quantity energy offers into the Balancing Market through Balancing Submissions. Clauses 7A.2.1 and 7A.2.2 of the Market Rules require Balancing Submissions for a Trading Interval to be made no later than two hours before the commencement of that Trading Interval. Balancing Submissions may be varied after the start of the two-hour gate closure period for the circumstances specified in clause 7A.2.10 (for example, in the event that the generator experiences a Forced Outage).

In one of these matters, the participant made the submissions after gate closure in response to increasing forecast Balancing Prices. Compliant participants did not have the same opportunity to respond to these forecasts. The ERA published a [notice](#) concerning its investigation of this matter.

In the second matter, the participant made non-compliant after gate closure Balancing Submissions because of a lack of understanding of the gate closure requirements. As a result of the ERA's investigation the participant's staff have undergone additional training to prevent further non-compliances. There were also four matters where this same participant failed to correctly log outages

The ERA issued formal warnings to each of the two participants.

During the reporting period, the ERA concluded an investigation into legacy information technology failures that resulted in AEMO dispatching from an outdated Balancing Merit Order. This could result in the use of generation plant that is not the least cost plant at the time, triggering unnecessary out-of-merit payments and resulting in higher costs to electricity customers.

The investigation reviewed 74 information technology failures over the period January 2017 to July 2018. AEMO was non-compliant on 32 occasions for failing to dispatch from the latest Balancing Merit Order. The ERA requested AEMO to provide an explanation of its plans to manage this ongoing compliance risk.

AEMO responded that some of the non-compliant events were one-off, and it did not expect these to be repeated. AEMO also stated that work was ongoing to address information technology failures through remedial actions. AEMO stated that its actions have reduced the number of information technology incidents in 2018, compared to 2017.

The ERA's investigation did not identify any material consequences to the market or participants. The ERA also agrees that there have been fewer information technology failures. The ERA will continue to monitor AEMO's performance in this area.

2.4 Stakeholder engagement and reports

As part of the current period's quarterly process for investigating non-compliance with Dispatch Instructions, the ERA held 15 meetings with participants, prior to finalising its investigations on these matters. During these meetings the ERA also sought feedback on whether participants were interested in receiving organisation specific compliance information to assist them assess their levels of compliance, such as summaries of alleged breach findings for that participant. Participants who would like to receive this type of summary information can email: market.compliance@erawa.com.au.

The ERA published two compliance related market documents during the reporting period.

On 7 November 2018, the ERA published its [report](#) to the Minister for Energy on the ERA's compliance with the Market Rules.

The ERA engaged an independent auditor to assess its compliance with the Market Rules. The auditor made one recommendation for the ERA to finalise the development and implementation of compliance monitoring tools. The ERA accepted the auditor's findings and will continue with its development of its compliance monitoring tools. The tools will initially focus on testing compliance with Balancing Submission and Outage requirements. These tools are scheduled to be in place by 30 June 2019.

On 13 November 2018 the ERA published an updated Compliance Framework and Strategy document for its GSI and Market Rules compliance functions. The document describes how the ERA undertakes its compliance activities, including its compliance priorities.

The revised strategy document provides progress reports on the ERA's 2017/18 compliance priorities together with updated priorities for 2018/19. The updated priorities include the development and implementation of compliance monitoring tools, targeted investigations of systemic non-compliance behaviour and improving the provision of compliance information to market participants.

The updated Compliance Framework and Strategy document is available on the ERA's [website](#).

3. Report on Electricity Review Board matters

This section details the matters required to be reported on under clause 2.13.26 of the Market Rules and clause 167(1) of the GSI Rules for the reporting period. These matters are:

- a. proceedings that have been brought before the Electricity Review Board;
- b. findings of the Electricity Review Board on matters referred to them;
- c. orders made by the Electricity Review Board; and
- d. civil penalties imposed by the ERA under clause 2.13.16(a) of the Market Rules or regulation 16 of the GSI Regulations, where the Electricity Review Board has not set these aside.

3.1 Proceedings brought before the Electricity Review Board

No matters were brought before the Electricity Review Board during the reporting period.

3.2 Findings of the Electricity Review Board

The Electricity Review Board decided on no matters during the reporting period.

3.3 Orders made by the Electricity Review Board

The Electricity Review Board made no orders during the reporting period.

3.4 Civil penalties imposed by the ERA

The ERA imposed no civil penalties during the reporting period.