



Economic Regulation Authority

Report to the Minister for Energy on the Economic Regulation Authority's compliance 2022/23

Wholesale Electricity Market Rules

28 November 2023

Economic Regulation Authority

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1. Summary

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

As part of these responsibilities, clause 2.14.5A of the WEM Rules requires the ERA to report to the Minister for Energy on its own compliance.

The ERA engaged Stantons International Audit and Consulting Pty Ltd (Stantons) to independently audit the ERA's compliance with the WEM Rules and WEM Procedures for the audit period 1 July 2022 to 30 June 2023.

The audit noted that a previously reported breach was resolved due to a rule change. This breach was reported in the Report to the Minister for Energy on the Economic Regulation Authority's compliance 2021/22.

The audit report raised no other reportable findings in relation to non-compliances with the WEM Rules and WEM Procedures.

2. Audit Scope

The ERA's functions under the WEM Rules during the audit period included:

- Monitoring the WEM, including identifying market behaviour that has resulted in the market not functioning effectively and identifying market design problems and inefficiencies.
- Monitoring rule participants' compliance with the WEM Rules, investigating alleged breaches of the WEM Rules, providing compliance reporting to the WEM and where appropriate, taking enforcement action.
- Undertaking market reviews and approvals, including:
 - Approving the Australian Energy Market Operator's (AEMO) allowable revenue and forecast capital expenditure.
 - Approving AEMO's ancillary services requirements and costs for certain ancillary services.
 - Determining the maximum short-term energy market (STEM) price, alternative maximum STEM price and the benchmark reserve capacity price.
 - Reviewing the minimum STEM price.
 - Undertaking methodology reviews when required by the WEM Rules.

The 2022/23 audit assessed the ERA's compliance with the WEM Rules and WEM Procedures for the above functions.

3. Audit findings

The independent audit report is provided at Appendix 1.

Stantons confirmed that the ERA complied with each of its obligations under the WEM Market Rules and Market Procedures and did not raise any reportable findings in relation to non-compliances with the WEM Rules and WEM Procedures for the rules in place during the 2022/23 audit period.

Stantons noted that in the 2021/22 Compliance Audit Final Report published on 15 November 2022 a minor noncompliance was raised in relation to Clause 4.11.3C (review of the Relevant Level Methodology (RLM), to be applied in Setting Certified Reserve Capacity, by 1 April 2022). The ERA remained in breach of Clause 4.11.3C from 1 July 2022 to 31 December 2022. The ERA was no longer in breach when the WEM Rules related to the ERA's obligation to conduct a review of the RLM changed from 1 January 2023¹.

The auditor concluded that:

In our opinion, the ERA has complied, in all material respects, with the relevant requirements of the WEM Market Rules and WEM Procedures, however, we have noted a minor non-compliance raised in the previous report has now been rectified because of a rule change.

The audit made no recommendations to improve the ERA's compliance with the WEM Rules and WEM Procedures.

¹ The ERA must conduct a review of Relevant Level Methodology by 1 April 2025.

Appendix 1 Independent Audit Report

10 November 2023

Mr Kevin Parry
Manager Finance
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth WA 6000

Dear Kevin

Independent Assurance Report on Compliance with the Wholesale Electricity Market Rules and Wholesale Electricity Market Procedures for 2022/23

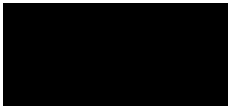
We have independently completed an assurance audit on the Economic Regulation Authority's compliance with the Wholesale Electricity Market (WEM) Market Rules and Market Procedures.

I confirm that this report is an accurate presentation of the findings and conclusions from our audit procedures.

If you have any questions or wish to discuss anything raised in the report, please contact James Cottrill at JCottrill@stantons.com.au.

Yours sincerely

STANTONS INTERNATIONAL AUDIT & CONSULTING PTY LTD



James Cottrill – CA
Principal, Internal Audit, IT Audit and Risk Consulting

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1. INDEPENDENT ASSURANCE REPORT OUTCOMES

We have undertaken a reasonable assurance engagement on the Economic Regulation Authority's (ERA's) compliance, in all material respects, with the relevant requirements of the WEM Market Rules and WEM Procedures for the financial year 1 July 2022 to 30 June 2023.

Our evaluation was made against the relevant requirements of the WEM Rules and WEM Procedures detailed in Appendix A.

Overall, for the period, there were no non-compliances with the WEM Market Rules and WEM Procedures for the rules in place during the audit period. However, it was noted a previously reported breach was resolved due to a rule change.

2. REPORTABLE FINDINGS

As part of our assurance audit in relation to confirming that the ERA's has complied with each of its obligations under the WEM Market Rules and Market Procedures, we have not raised any reportable findings in relation to non-compliance.

We noted that in the 2021/22 Compliance Audit Final Report dated 4 October 2022 a minor non-compliance was raised in relation to Clause 4.11.3C (review of the Relevant Level Methodology (RLM), to be applied in Setting Certified Reserve Capacity, by 1 April 2022). The ERA remained in breach of Clause 4.11.3C from 1 July 2022 to 31 December 2022 but was no longer in breach from 1 January 2023 when the WEM Rules changed in relation to the ERA's obligation to conduct a review of the RLM.

The ERA functions under the WEM Rules and WEM procedures during the audit period included:

Market monitoring

- To monitor the WEM, including identifying market behaviour that has resulted in the market not functioning effectively, market design problems and inefficiencies.

Market compliance

- To monitor Rule Participants' compliance with the WEM Rules
- To investigate alleged breaches of the WEM Rules
- Where appropriate, take enforcement action
- To provide compliance reporting to the WEM.

Market reviews and approvals

To perform a range of review and approval functions, including:

- Approving the Australian Energy Market Operator's (AEMO) allowable revenue and forecast capital expenditure
- Approving AEMO's ancillary services requirements and costs for certain ancillary services
- Determining the Maximum Short Term Energy Market (STEM) Price, Alternative Maximum STEM Price and Benchmark Reserve Capacity Price
- Reviewing the Minimum STEM Price and
- Undertaking methodology reviews when required by the WEM Rules.

The ERA is responsible for identifying, designing, and implementing controls to enable the requirements of the WEM Rules and WEM Procedures to be met, the conduct of activities to meet these, ensuring compliance for the audit period 1 July 2022 to 30 June 2023, identifying risks that threaten the ERA's ability to comply and the establishment of sufficient controls which mitigate those risks.



Our Independence and Quality Control

In performing our work, we have complied with the independence and other relevant ethical requirements relating to assurance engagements, which include integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. We have aligned to Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements in undertaking this assurance engagement. Our work was conducted in accordance with Standards on Assurance Engagements, ASAE 3100, Compliance Engagements issued by the Auditing and Assurance Standards Board. We believe we have obtained sufficient evidence and have conducted appropriate testing to provide the basis for our opinion.

Our Procedures

As part of our internal audit on Energy Markets Compliance, we are providing an assurance report on the ERA's compliance with the relevant requirements of the WEM Market Rules and WEM Procedures. This included performing procedures to obtain evidence about the compliance activities and controls implemented to meet the relevant requirements. The procedures selected used our cumulative audit knowledge and experience and included work designed to identify and assess the risks of material non-compliance with the relevant requirements of the WEM Market Rules and WEM Procedures, for the financial year 1 July 2022 to 30 June 2023 as detailed in Appendix A. This included discussions with ERA management and staff, observation and walk throughs, sample testing of controls and procedures, and evaluation of the evidence obtained.

Our audit work included:

- Reviews of internal policies, procedures, practices, and documents current at the time of the audit
- Reviews of the WEM Market Rules and WEM Procedures (including any rule changes) applicable to the ERA for the period encompassing 1 July 2022 to 30 June 2023
- Interviews/discussions with ERA staff
- Conduct of sample testing to assess controls
- Examination of the ERA's Compliance Monitoring Database on Microsoft Dynamics.

Conclusion

In our opinion, the ERA has complied, in all material respects, with the relevant requirements of the WEM Market Rules and WEM Procedures, however, we have noted a minor non-compliance raised in the previous report has now been rectified because of a rule change.

Our report is solely based for the purposes set out in the Scope paragraph for your information and is not to be used for any other purpose or distributed to any other party.

Limitations

An audit is not designed to detect all instances of non-compliance with the WEM Market Rules and Procedures as per the agreed engagement due to the inherent limitations that an audit is not conducted on a continuous basis.

Use of this report

This report has been prepared for use by the ERA for the purpose of satisfying its obligation under WEM Rule 2.14.5A which requires the ERA to annually provide to the Minister for Energy a report on its compliance with the WEM Rules and WEM Procedures applicable to the Wholesale Electricity Market.

We disclaim any assumption of responsibility for any reliance on this report to which it relates to any person other than the purpose for which it was prepared. Our engagement was undertaken in accordance with the applicable Australian Auditing Standards and relevant procedures for the financial year 1 July 2022 to 30 June 2023.

APPENDIX A – WEM MARKET RULES

Applicable WEM Market Rules that the ERA complied with for the period 1 July 2022 to 30 June 2023.

WEM Market Rule Title	Applicable Clause(s)	Compliant
1.7 Publication	1.7.3	Yes
1.36C General Transitional Provisions – Staging of Tranches 2 and 3 Amendments	1.36C.2	Yes
2.2A The Economic Regulation Authority	2.2A.1	Yes
2.5 Rule Change Proposals	2.5.1B	Yes
2.9 WEM Procedures	2.9.2B, 2.9.3, 2.9.7B	Yes
2.13 WEM Rules Compliance Monitoring and Enforcement	2.13.2, 2.13.3, 2.13.3B, 2.13.10, 2.13.11, 2.13.12, 2.13.14, 2.13.15, 2.13.16, 2.13.26, 2.13.27, 2.13.28, 2.13.31	Yes
2.14 Audit	2.14.5A, 2.14.5B	Yes
2.15 Monitoring and Reporting Requirements	2.15.1, 2.15.2, 2.15.3, 2.15.4	Yes
2.16 Monitoring the Effectiveness of the Market	2.16.9, 2.16.9A, 2.16.13, 2.16.15, 2.16.16	Yes
2.21 Market Consultation	2.21.1, 2.21.2,	Yes
2.22A Determination of AEMO's budget	2.22A.2B, 2.22A.5, 2.22A.9	Yes
3.11 Determining & Procuring Ancillary Service Requirements	3.11.6, 3.11.12	Yes
3.13 Payment for Ancillary Services and Dispatch Support Services	3.13A, 3.13B	Yes
4.11 Setting Certified Reserve Capacity	4.11.3C	Yes (01/01/2023 – 30/06/2023)
4.16 The Benchmark Reserve Capacity Price	4.16.1, 4.16.3, 4.16.5, 4.16.6, 4.16.7	Yes
6.20 Energy Price Limits	6.20.6, 6.20.7, 6.20.9, 6.20.9A, 6.20.10, 6.20.12, 6.20.13, 6.20.14, 6.20.15, 6.20.16, 6.20.17, 6.20.18, 6.20.19, 6.20.20, 6.20.26, 6.20.27, 6.20.29	Yes
7.12 Status Report	7.12.2	Yes

APPENDIX B:

WEM Rules that were relevant to the ERA but did not trigger an obligation on the ERA during the audit period 1 July 2022 to 30 June 2023

The reasons for the obligation not being triggered include the obligation being transitional, no relevant activity occurring, or no action being required within the audit period

WEM Rule number and title	Clause	Explanation/reason
1.31 Transitional Provisions – Review of Reserve Capacity	1.31.1	Transitional
1.35 Specific Transitional Provisions for the First Review of the Minimum STEM price	1.35.1, 1.35.2	No action required
1.36C General Transitional Provisions – Staging of Tranches 2 and 3 Amendments	1.36C.3, 1.36C.4, 1.36C.5, 1.36C.6, 1.36C.7	Transitional
1.43 Specific Transitional Provisions – Procedures for Tranches 2 and 3 Amending Rules	1.43.2, 1.43.5, 1.43.6, 1.43.7	Transitional
2.5 Rule Change Proposals	2.5.1B	No relevant activity
2.10 Procedure Change Process	2.10.2A, 2.10.3, 2.10.5B, 2.10.10, 2.10.12B, 2.10.13, 2.10.17, 2.10.18	No relevant activity
2.11 Coming into Force of Procedure Amendments	2.11.4	No relevant activity
2.13 Market Rule Compliance Monitoring and Enforcement	2.13.6H, 2.13.6I, 2.13.18	No relevant activity
2.16 Monitoring the Effectiveness of the Market	2.16.6, 2.16.8, 2.16.9B, 2.16.9D, 2.16.9E, 2.16.9F, 2.16.9FA, 2.16.9FB, 2.16.11, 2.16.13	No relevant activity/No action required
2.22A Determination of AEMOs budget	2.22A.2, 2.22A.2A, 2.22A.9 2.22A.17	No action required
2.25 Payment of Mkt Participant Fees	2.25.1B	No relevant activity
2.26 ERA Review of Methodology for Setting Administered Prices	2.26.3, 2.26.3A, 2.26.4, 2.26.5	No action required
2.27C ERA Review of Limit Advice and Constraint Equations	2.27C.1, 2.27C.2, 2.27C.3 2.27C.4, 2.27C.5, 2.27C.6,	No action required
2.32 Rule Participant Suspension and Deregistration	2.32.1, 2.32.7, 2.32.7B	No relevant activity
2.44 Minister's Emergency Powers	2.44.1, 2.44.2, 2.44.3	No relevant activity
3.8 Investigating Incidents in the SWIS	3.8.5A	No relevant activity
3.11 Determining & Procuring Ancillary Service Requirements	3.11.8C, 3.11.8D	No relevant activity/Transitional
3.13 Payment for Ancillary Services	3.13.3C	No relevant activity
3.15 Review of Ancillary Service Requirements Process and Standards	3.15.1, 3.15.2, 3.15.3	No action required
3.18 Outage Scheduling	3.18.3, 3.18.15, 3.18.18, 3.18.19, 3.18.20	No relevant activity
3A.12 Effect of a Rectification Plan	3A.12.3	
4.11 Setting Certified Reserve Capacity	4.11.3D, 4.11.3E	
4.16 The Benchmark Reserve Capacity Price	4.16.9, 4.16.10	No relevant activity/No action required
7.11 Dispatch Advisories	7.11.9	No relevant activity