

4 February 2019

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CC: [REDACTED]

Dear Nicola

Report to the Minister for Energy on the Australian Energy Market Operator's compliance 2017/18

The Australian Energy Market Operator (**AEMO**) welcomes the opportunity to respond to the Economic Regulation Authority's (**ERA**) annual report to the Minister for Energy on AEMO's compliance for the period from 1 July 2017 to 30 June 2018 (**Annual Report**).¹

Under clause 2.14.5C(a) of the Wholesale Electricity Market Rules, AEMO accepts the Annual Report and in accordance with clause 2.14.5C(b) provides context and clarification in relation to the ERA's recommendation to rotate the market auditor to mitigate the risk of eroding auditor independence.

AEMO is committed to strong corporate governance practices and this extends to the market audit arrangements. AEMO considers the use of an independent market auditor as essential to providing assurance to stakeholders on the performance of the market and system operator, as well as identifying areas for improvement. However, unlike other forms of audits (e.g. financial and internal), market audits are highly specialised. Reflecting this, there is a very small number of providers that have the relevant knowledge and skills to perform such audits. Independence is maintained through various controls including not using the market auditor for additional work that impacts its independence and not accepting any form of hospitality.

While tendering of services will be considered prior to the end of the contract period, this will involve consideration of various factors including independence, financial impact and time involved for a new auditor to understand the nuances of the Western Australian market arrangements.

Yours sincerely

[REDACTED]
Cameron Parrotte
Executive General Manager, Western Australia

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.

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