

# Report to the Minister for Energy on the Economic Regulation Authority's compliance 2019/20

Wholesale Electricity Market Rules

Economic Regulation Authority

WESTERN AUSTRALIA

D224115

## **Economic Regulation Authority**

Level 4, Albert Facey House

469 Wellington Street, Perth WA 6000

**Telephone** 08 6557 7900

**Email** [info@erawa.com.au](mailto:info@erawa.com.au)

**Website** [www.erawa.com.au](http://www.erawa.com.au)

This document can also be made available in alternative formats on request.

National Relay Service TTY: 13 36 77

© 2021 Economic Regulation Authority. All rights reserved. This material may be reproduced in whole or in part provided the source is acknowledged

## Contents

<b>1. Summary.....</b>	<b>2</b>
<b>2. Audit Scope .....</b>	<b>2</b>
<b>3. Audit findings and recommendations .....</b>	<b>3</b>
<b>4. Energy market reform process.....</b>	<b>3</b>
<b>Appendix 1 – Independent Assurance Report .....</b>	<b>5</b>

## 1. Summary

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

As part of these responsibilities, clause 2.14.5A of the Market Rules requires the ERA to annually provide a report to the Minister for Energy on its compliance with the Market Rules and Market Procedures.

The ERA engaged Assurance Advisory Group Pty Ltd to independently audit the ERA's compliance with the Market Rules and Market Procedures for the period 1 July 2019 to 30 June 2020.

The COVID-19 pandemic began during the audit period. The ERA's functions were mostly unaffected by the pandemic. Like many organisations, the ERA transitioned to home-based work arrangements from mid-March 2020, with staff returning to the office in June 2020. The ERA continued to meet its compliance obligations under the Market Rules during this period.

The audit found that the ERA complied with the Market Rules and Market Procedures during the audit period, other than for two minor matters. Both matters occurred prior to the commencement of the pandemic. These matters were self-disclosed to the auditor and concerned notification requirements under the Market Rules and Market Procedures.

The audit concluded that no adverse consequences arose from these two non-compliance matters. The ERA has implemented additional controls to mitigate the risk of future non-compliance.

Terms capitalised in this report include terms defined under Chapter 11 of the Wholesale Electricity Market Rules.

## 2. Audit Scope

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

- Monitoring the effectiveness of the market in meeting the Wholesale Market Objectives.
- Monitoring Rule Participants' compliance with the Market Rules, to investigate alleged breaches of the Market Rules and where appropriate, take enforcement action.
- Undertaking market reviews and approvals, including:
  - Approving the Australian Energy Market Operator's allowable revenue and forecast capital expenditure.
  - Approving the Australian Energy Market Operator's ancillary services requirements and costs for certain ancillary services.<sup>1</sup>
  - Approving the Energy Price Limits and Benchmark Reserve Capacity Price.

---

<sup>1</sup> The ERA is required to determine values for [Cost LR](#) and [Margin Peak and Margin Off-Peak](#).

The 2019/20 audit assessed the ERA's compliance with the Market Rules and Market Procedures for the above functions.

### 3. Audit findings and recommendations

The independent auditor's report is provided at Appendix 1.

The auditor concluded that:

In our opinion, based on the procedures we have performed and the evidence we have obtained, except for the effects of the minor matters described under the basis for modified opinion paragraph below, the ERA has complied, in all material respects, with the relevant requirements of the Market Rules and Market Procedures, for the year 1 July 2019 to 30 June 2020.<sup>2</sup>

The minor non-compliances referred to by the auditor concerned the following two matters:

- Non-compliance with paragraph 3.1.5 of the ERA's Monitoring Protocol, when the ERA did not confirm receipt of a Market Participant's self-reported alleged breach within three days. This is also a breach of clause 2.9.7B of the Market Rules.
- Non-compliance with Market Rules 1.7.3(b) and 2.16.9FA, when the ERA published investigation period extension notices for a pricing behaviour investigation on its website but failed to also publish the notices on the Market Web Site (that is, the Australian Energy Market Operator's website).

The auditor rated these two matters as minor because it was unlikely any detriment arose from these matters. The ERA has implemented additional controls to mitigate the risk of future non-compliance with these obligations.

There were no recommendations in the 2019/20 audit report.

### 4. Energy market reform process

The Government's Energy Transformation Strategy will result in several changes to the Wholesale Electricity Market. The Strategy aims to ensure that Western Australia's energy market can adapt to the structural challenges brought about by increased renewable generation and the integration of emerging technologies such as batteries. Implementation of the Strategy will add to and alter the functions of the ERA's Energy Markets division, including new review and reporting requirements, changes to market compliance monitoring, and additional enforcement powers for non-compliance.

The ERA is managing the regulatory risk associated with these changes by:

- Engaging with the Energy Transformation Implementation Unit during development of the draft Market Rules.
- Identifying the new and changed obligations in the final Market Rules.

---

<sup>2</sup> Refer to page 3 of the Assurance Report on Compliance with the Wholesale Electricity Market Rules and Market Procedures in Appendix 1

- Planning for the implementation of these changes, including the requirement to develop new processes, assessing information technology requirements and considering resourcing requirements.

Future audits will assess the ERA's compliance with the implementation of these changes.

## Appendix 1 – Independent Assurance Report

# **The Economic Regulation Authority**

2019/20 Compliance with the Wholesale Electricity  
Market Rules and Market Procedures

Independent Assurance Report

17 November 2020



ASSURANCE  
ADVISORY  
GROUP

Level 11, 251 Adelaide Terrace  
PERTH WA 6000

17 November 2020

Mrs Pam Herbener  
Director Corporate Services  
Economic Regulation Authority  
Level 4, Albert Facey House  
469 Wellington Street  
Perth WA 6000

Dear Pam

**Independent Assurance Report on Compliance with the Wholesale Electricity Market – Market Rules and Market Procedures for the year 1 July 2019 to 30 June 2020**

We have completed the compliance audit of the Economic Regulation Authority (ERA) for the year 1 July 2019 to 30 June 2020 and are pleased to submit our report to you.

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 Greg LeGuier or myself.

Yours sincerely

**Stephen Linden**  
Director  
Assurance Advisory Group Pty Ltd

## Independent Assurance Report on Compliance with the Wholesale Electricity Market Rules and Market Procedures for the year 1 July 2019 to 30 June 2020

### Modified opinion

We have undertaken a reasonable assurance engagement on the Economic Regulation Authority's (ERA) compliance, in all material respects, with the relevant requirements of the Wholesale Electricity Market (WEM) Rules and Market Procedures for the year 1 July 2019 to 30 June 2020.

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

In our opinion, based on the procedures we have performed and the evidence we have obtained, except for the effects of the minor matters described under the basis for modified opinion paragraph below, the ERA has complied, in all material respects, with the relevant requirements of the Market Rules and Market Procedures, for the year 1 July 2019 to 30 June 2020.

### Basis for modified opinion

We conducted our engagement in accordance with Standards on Assurance Engagements, ASAE 3100, Compliance Engagements issued by the Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

During our audit we have become aware of two instances of minor non-compliance with the relevant requirements of the Market Rules and Market Procedures as summarised in the following tables.

Item 1 falls within the audit period 1 July 2019 to 30 June 2020.

Item	Non-compliance description	Risk rating
1	The ERA did not confirm receipt of a market participant's, self-reported alleged breach within the three days required under part 3.1.5 of the ERA's Monitoring Protocol.  This ERA non-compliance was internally identified on 29 June 2020.	This matter is rated <b>minor</b> .  It is unlikely any detriment arose from the failure to confirm receipt.

Item 2 falls outside the audit period but was brought to our attention by the ERA prior to the completion of the audit.

Item	Non-compliance description	Risk rating
2	The ERA self-identified that investigation period extension notices for a pricing behaviour investigation were not published on the Market Web Site in contravention of clauses 1.7.3(b) and 2.16.9FA of the Market Rules. This ERA non-compliance was internally identified outside the audit period, and brought to our attention, prior to the completion of our report.	The matter is rated <b>minor</b> .  It is unlikely any detriment arose from the publication non-compliances.  Each of the extension notices were published on the ERA's website.

## **The ERA's responsibility for compliance with the Market Rules and Market Procedures**

In accordance with Market Rule 2.14.5A the ERA must annually provide to the Minister for Energy a report on its compliance with the Market Rules and Market Procedures applicable to the Wholesale Electricity Market.

The ERA's functions under the Market Rules include:

### *Market effectiveness*

- To monitor the effectiveness of the market in meeting the WEM Objectives.

### *Market compliance*

- To monitor Rule Participants' compliance with the Market Rules, and
- To investigate alleged breaches of the Market Rules, and
- Where appropriate, take enforcement action.

### *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, and
- Approving the Energy Price Limits and Benchmark Reserve Capacity Price.
- Undertaking methodology reviews when required by the Rules.

The ERA has acknowledged that is responsible for:

- Identifying, designing, and implementing controls to enable the requirements of the Market Rules and Market Procedures to be met.
- The activities undertaken to meet the Market Rules and Market Procedures.
- Compliance with the Market Rules and Market Procedures, for the audit period 1 July 2019 to 30 June 2020.
- Identifying risks that threaten the ERA's ability to comply with the Market Rules and Market Procedures, and the establishment of sufficient controls which mitigate those risks..

## **Our independence and quality control**

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

We applied 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 responsibilities**

Our responsibility is to express an opinion on the ERA's compliance, in all material respects, with the compliance requirements of the Market Rules and Market Procedures, for the year 1 July 2019 to 30 June 2020.

ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether, the ERA has complied, in all material respects, with the relevant requirements of the Market Rules and Market Procedures, for the year 1 July 2019 to 30 June 2020.

### **Our procedures**

An assurance engagement to report on the ERA's compliance with the relevant requirements of the Market Rules and Market Procedures, involves performing procedures to obtain evidence about the compliance activities and controls implemented to meet the relevant requirements.

The procedures selected depend on our judgement, including procedures designed to identify and assess the risks of material non-compliance with the relevant requirements of the Market Rules and Market Procedures, for the year 1 July 2019 to 30 June 2020. The relevant requirements of the Market Rules and Market Procedures tested by our procedures are detailed in Appendix A.

Our procedures consisted primarily of discussion with, and enquiries of, ERA management and staff, observation and walk throughs, sample testing of controls and procedures, and evaluation of the evidence obtained.

Our procedures included:

- Reviews of internal policies, procedures, practices, and documents current at the time of the audit.
- Reviews of Market Rules and Market Procedures applicable to the ERA at the time of the audit and during the year 1 July 2019 to 30 June 2020.
- Interviews and discussions with, and representations from relevant ERA staff to gain an understanding of policies, procedures, and practices.
- Reviews of documents supplied by ERA officers, and walkthroughs of procedures and practices to support the assessment of compliance and the effectiveness of the control environment.
- Completion of sample testing to assess the ERA's compliance with procedures and practices that support the control environment.
- Sampling of potential breaches to ensure accurate recording within the ERA's Compliance Monitoring Register (CRM), and an examination of a sample of documentation to validate that the investigations were conducted in accordance with established procedures.
- Reviewing the use of the Energy Markets Internal Operations Manual setting out key functions, tasks, and processes to ensure relevant requirements are met.
- Reviewing the Market Monitoring Process as documented by the ERA.
- Reviews of the ERA's compliance activities and the alignment of those activities with the ERA's Compliance Framework and Strategy applicable at the time of the audit.
- Reviewing on a sample basis the use of investigation checklists as part of assessing the documentation and completeness of investigation records.

The above procedures were undertaken to form our opinion as to whether the ERA has complied, in all material respects, with the requirements of the Market Rules and Market Procedures.

### **Inherent Limitations**

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error, or non-compliance with WEM compliance requirements may occur and not be detected.

An audit is not designed to detect all instances of non-compliance with the Market Rules and Market Procedures as an audit is not performed continuously throughout the scope period and the audit

procedures performed in respect of assessing the ERA's compliance with the Market Rules and Market Procedures were undertaken on a test basis.

A reasonable assurance engagement relating to the period from 1 July 2019 to 30 June 2020 does not provide assurance on whether compliance with the Market Rules and Market Procedures will continue in the future.

### **Use of this report**

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

The scope of the engagement encompassed the ERA's compliance with the Market Rule and Market Procedures obligations for the year 1 July 2019 to 30 June 2020.

We disclaim any assumption of responsibility for any reliance on this report to any person other than the ERA or the Minister, or for any other purpose other than that for which it was prepared.

**Stephen Linden**

Director

Assurance Advisory Group Pty Ltd

17 November 2020

## Appendix A

The table below lists all relevant requirements of the Wholesale Electricity Market Rules and Market Procedures for the year 1 July 2019 to 30 June 2020.

Market Rules	Title	Sub-clauses	Applicable in audit period	Not applicable in audit period	Compliant in all material respects rating	Minor exceptions noted during audit
1.7	Publication	1.7.3	✓		Yes	Item 2
	Transition of certain IMO functions to					
1.17	The Economic Regulation Authority	1.17.1, 1.17.3, 1.17.5, 1.20A	✓		Yes	
2.2A	The Economic Regulation Authority	2.2A.1	✓		Yes	
2.3	The Market Advisory Committee	2.3.7	✓		Yes	
2.5	Rule Change Proposals	2.5	✓		Yes	
2.9	Market Procedures	2.9.2B, 2.9.3, 2.9.7B	✓		Yes	
		2.10.1, 2.10.2A, 2.10.3, 2.10.5B, 2.10.7, 2.10.10, 2.10.12B, 2.10.13, 2.10.17, 2.10.18	✓		Yes	
2.10	Procedure Change Process					
	Coming into Force of Procedure					
2.11	Amendments	2.11.4		✓	NA	
		2.13.2, 2.13.3, 2.13.3B, 2.13.6H, 2.13.6I, 2.13.10, 2.13.11, 2.13.12, 2.13.15, 2.13.16, 2.13.17, 2.13.18, 2.13.24, 2.13.26, 2.13.27, 2.13.28, 2.13.31	✓		Yes	
2.13	Market Rule Compliance Monitoring and Enforcement					
2.14	Audit	2.14.5A, 2.14.5B, 2.14.5C, 2.14.5D	✓		Yes	
	Monitoring and Reporting					
2.15	Requirements	2.15.1, 2.15.2, 2.15.3	✓		Yes	
		2.16.6, 2.16.8, 2.16.9, 2.16.9A, 2.16.9B, 2.16.9D, 2.16.9E, 2.16.9F, 2.16.9FA, 2.16.9G, 2.16.10, 2.16.11, 2.16.12, 2.16.13, 2.16.14, 2.16.15	✓		Yes	Item 2
2.16	Monitoring the Effectiveness of the Market					
2.21	Market Consultation	2.21.1, 2.21.2	✓		Yes	
		2.22A.2, 2.22A.10, 2.22A.11,	✓		Yes	
2.22A.2	Determination of AEMO's budget	2.22A.14	✓		Yes	
2.24	Determination of Market Fees	2.24.5, 2.245B, 2.24.6	✓		Yes	
2.25.4A	Payment of Market Participant Fees	2.251B, 2.25.4A	✓		Yes	
	Economic Regulation Authority	2.26.1, 2.26.2, 2.26.3, 2.26.3A,	✓		Yes	
2.26	Approval of Administered Prices	2.26.4, 2.26.5				
	Economic Regulation Authority Review of Limit Advice and Constraint					
2.27C	Equations	2.27C.1-2.27C.7		✓	NA	
	Rule Participant Suspension and	2.32.1, 2.32.6,				
2.32	Deregistration	2.32.7, 2.32.7A, 2.32.7B		✓	NA	
2.44	Minister's Emergency Powers	2.44.1, 2.44.2, 2.44.3, 2.44.4		✓	NA	
3.8	Investigating Incidents in the SWIS	3.8.5A		✓	NA	
	Determining & Procuring Ancillary					
3.11	Service Requirements	3.11.6, 3.11.8C, 3.11.8D, 3.11.12	✓		Yes	
3.13	Payment for Ancillary Services	3.13.3A, 3.13.3B, 3.13.3C	✓		Yes	
	Review of Ancillary Service					
3.15	Requirements Process and Standards	3.15.1, 3.15.2, 3.15.3		✓	NA	Item 1
		3.18.3,				
3.18	Outage Scheduling	3.18.15, 3.18.18, 3.18.19, 3.18.20		✓	NA	
	Long Term Projected Assessment of	4.5.14, 4.5.15, 4.5.16, 4.5.17,				
4.5	System Adequacy	4.5.18, 4.5.19, 4.5.20		✓	NA	
		4.11.1E, 4.11.1F, 4.11.3C, 4.11.3D,				
4.11	Setting Certified Reserve Capacity	4.11.3E		✓	NA	
4.16	The Benchmark Reserve Capacity Price	4.16.3, 4.16.9, 4.16.10		✓	NA	
	Compliance with Dispatch Instructions					
	and Operating Instructions	7.10.8	✓		Yes	
7.10	Dispatch Advisories	7.11.9		✓	NA	
7.11	Status Reports	7.12.2	✓		Yes	
	Compliance with confidentiality of					
	Rule Market Participant Restricted					
10.2.2	information	10.2.2	✓		Yes	

### Legend

NA Not applicable

Item 1, 2 Refer minor exceptions as noted under Basis for Modified Opinion within body of report.