



INDEPENDENT MARKET OPERATOR

Final Report: Compliance of the IMO's internal processes and procedures with the Wholesale Electricity Market Rules and the IMO's compliance with the Wholesale Electricity Market Rules and Market Procedures

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PA Regional Office:
PA Consulting Group
Level 13, 142 Lambton Quay
PO Box 1659
Wellington 6011
New Zealand
Tel: +64 4 499 9053
Fax: +64 4 473 1630
www.paconsulting.com

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Prepared by: Sue Paul, Tim Robinson

EXECUTIVE SUMMARY

This report sets out the results of the market audit by PA Consulting Group in carrying out its assessment of the compliance of the IMO's internal procedures and business processes with the Market Rules, and the IMO's compliance with the Market Rules and Market Procedures.

This market audit has been carried out under Market Rule 2.14.3 which requires that:

The IMO must ensure that the Market Auditor carries out the audits of such matters as the IMO considers appropriate, which must include:

- a. the compliance of the IMO's internal procedures and business processes with the Market Rules;*
- b. the IMO's compliance with the Market Rules and Market Procedures;*
- c. the IMO's market software systems and processes for software management.*

This report covers our audits under sub-paragraphs (a) and (b) above. The audit of the IMO's software systems and processes for software management is the subject of a separate accompanying report.

This year's market audit has taken the form of an "incremental" audit. This means that we have focussed on:

- IMO business processes and procedures where:
 - Clauses in the Market Rules are new or amended since last year's annual audit
 - Previous audits and our assessment of the IMO's documented procedures (see below) have indicated non-compliance risk
 - There have been substantive systems or resourcing changes
 - Our review of the IMO's Internal Procedures (see Section 1.3.4) has indicated potential non-compliance risk (e.g. gaps or errors in procedural documentation).
- Market Procedures or Internal Procedures that:
 - Are new or have been updated since last year's annual audit¹
 - Have been reviewed in previous audits as containing gaps or being non-compliant with the Market Rules.

In essence, we have looked primarily at areas that have changed since last year's annual audit or areas, which in light of our previous audit findings, we have deemed to pose some non-compliance risk. We have not assessed in detail or commented on areas where the Internal or Market Procedures and Market Rules have not changed, and which previously have been found to comply with the Market Rules.

Summary of non-compliance incidents

Table 1 summarises the incidents of non-compliance by clauses breached.

We have flagged clauses that have been breached multiple times.

Note:

¹ We note that the IMO has revised all of its Internal Procedures since last year's annual audit – see Section 1.3.4.

- The breaches of clauses 4.12.4(c)(v) were the only material breaches noted over the audit year.
- Breaches that have been self-reported by the IMO are flagged as such.
- All other breaches were identified as part of the audit process. Note, in this respect that PA identified and tested 36 obligations placed on the IMO for compliance testing purposes (see Section 1.3.1 for a discussion on our selection process for these obligations). Of these obligations, PA identified non-compliances in respect of six obligations only (as set out in Table 1 below).
- The IMO has either identified or implemented remedial actions in respect of every breach summarised below.

Table 1: Summary of incidents of non-compliance by clause breached.

Chapter	Clauses breached	Description
2	2.5.8 (self-reported)	Failure to notify Minister of changes to Protected Provisions
	2.10.8 (self-reported)	Failure to notify MAC of Procedure Change Proposal within required timeframe
	2.22.11 (self-reported)	Delay in publishing approved IMO budget
	2.33.4(c) (self-reported)	Non-compliant Facility Registration Form
	2.34.8 (self-reported), 2.34.14	Delays in notifying/implementing Standing Data changes
	2.36.1(c) , 2.36.1(d)	Failure to test/certify new software versions
	2.37.7 (Multiple breaches since May 2014)	Failure to notify participants of basis of revising Credit Limit
3	3.16.9, 3.17.2	Delays/failure to publish ST PASA and MT PASA reports
4	4.12.4(c)(v) (multiple material breaches between January and November 2013)	Incorrect calculation of Reserve Capacity Obligation Quantity (RCOQ) for Demand Side Programs (DSPs) due to software error
	4.27.1 (multiple technical breaches since market start)	IMO monitor s SWIS capacity on monthly basis (as opposed to daily as stated in the rules)
	4.28.11 (two breaches), 4.1.28(b) (two breaches - consequence of breach of MR 4.28.11) (self-reported)	Delays in Individual Reserve Capacity Requirements (IRCR) publication due to software error
6	6.3A.2(e) (self-reported)	Failure to publish ancillary services information during daily market operations
7A	7A.3.1 (multiple breaches affecting one market participant between 7 March 2014 and 26 June 2014) (self-reported)	Incorrect calculation of loss adjusted balancing offer prices due to use of incorrect loss factor
9	9.19.1(b) (self-reported)	Delay in publishing Participant Information Report (PIR)
	9.4.7 (multiple technical breaches since market start)	Failure to acknowledging Capacity Credit Allocation submissions by phone as required by the Rules (the IMO uses an automated confirmation system which is more efficient).
10	10.2.4 (two breaches) (self-reported)	Breach of confidentiality provisions

General comment on IMO compliance

It is worth noting that the majority of the breaches noted above are non-material. Particularly, the multiple breaches of clauses 4.27.1 and 9.4.7 are technical in nature, in that the IMO are compliant with the intent of the rules, and it is the rule wording that needs to be changed. Additionally (with the

exception of MR 2.5.8 and 2.34.8) the IMO has not breached obligations identified as non-compliance incidents in last year's audit.

We further note that the IMO has a proactive approach to self-reporting non-compliance (as evidenced by the self-reported incidents in Table 1) and actively manages remedial actions to address any such incidents at senior management level.

PA has also noted a marked improvement in the quality of controls being used to manage non-compliance risk. Particularly:

- The IMO's use of MOSMI (an alerts system that notifies IMO staff of impending deadlines and market events/incidents) and JIRA (issue and project tracking software) is an effective means of managing compliance with a number of material rules obligations relating to administration, registration, market operations, settlement and prudential monitoring.
- The scope (in terms of obligation coverage) and quality of the IMO's internal procedures has greatly improved compared with what we have observed in previous audits (see below).
- The IMO continues to use Confluence (electronic "wiki" procedures) to document work instructions. This tool captures task level details in a manner that is useful and accessible to staff, and greatly mitigates risks of human error when undertaking complex multi-step processes. However, as noted in last year's audit, we recommend that the IMO introduce greater rigour to change and quality management around these procedures. Given IMO staff consult these procedures frequently in implementing Rules obligations it is important for these electronic procedures to be formally recognized as official Internal Procedures and to be audited under MR 2.14.3(a).

General comment on the IMO's Internal Procedures

The IMO has recently revamped its suite of Internal Procedures as part of an effort to improve the quality and coverage of its internal procedures. In doing so, the IMO has also addressed gaps and issues noted in previous audits. Hence, this year's audit has involved a comprehensive review of all IMO Internal Procedures against all relevant obligations in the Market Rules and (where relevant) related Market Procedures.

In undertaking this review we have noted a significant improvement in the coverage and quality of the IMO's Internal Procedures. We have noted a small number of minor omissions² and non-compliance issues (e.g. inconsistent or unclear documentation); however, the IMO has identified remedial actions for all these issues.

Opinion on the compliance of the IMO's Procedures with the Market Rules

Our opinion is as follows:

- We have noted a small number of instances in which the IMO's Market Procedures and Internal Procedures are non-compliant with the Market Rules. However, these non-compliances are not material as set out in the body of this report.
- It is our opinion that the IMO's Market Procedures and Internal Procedures comply with the Market Rules in all material respects.

² Note, however, that in some instances obligations were omitted from procedures as the scenario contemplated by the obligation has not manifested since market start and are unlikely to manifest in the near future (e.g. Reserve Capacity Auctions, fuel monitoring of facilities certified as dual fuel); hence there is limited value in documenting such obligations.

Opinion on the IMO's compliance with the Market Rules and Market Procedures

Our opinion is as follows:

- The IMO has been materially non-compliant with one of its obligations under Chapter 4 of the Market Rules (specifically MR 4.12.4(c)(v) – see Section 5.2)
- The IMO has been non-compliant with some of its other obligations under the Market Rules, but the non-compliance has not been material as set out in the body of this report.
- We have not observed anything else that causes us to believe that the IMO has not been compliant with the Market Rules and Market Procedures, in all material respects.

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1 INTRODUCTION

This report sets out the results of the market audit conducted by PA Consulting Group of the compliance of the IMO's internal procedures and business processes with the Wholesale Electricity Market Rules (the Market Rules), and the IMO's compliance with the Market Rules and Market Procedures.

1.1 Scope of the market audit

This market audit has been carried out under Market Rule (MR) 2.14.3 which states that:

The IMO must ensure that the Market Auditor carries out the audits of such matters as the IMO considers appropriate, which must include:

- a. *the compliance of the IMO's internal procedures and business processes with the Market Rules;*
- b. *the IMO's compliance with the Market Rules and Market Procedures;*
- c. *the IMO's market software systems and processes for software management.*

This report covers our audits under sub-paragraphs (a) and (b) above. The audit of the IMO's software systems and processes for software management is the subject of a separate accompanying report.

1.2 Audit period

The period covered by the audit is 10 August 2013 to 31 July 2014.

1.3 Market audit process

1.3.1 Audit approach

This year's market audit has taken the form of an "incremental" audit. This means that we have focussed on:

- IMO business processes and procedures where:
 - Clauses in the Market Rules are new or amended since last year's annual audit
 - Previous audits and our assessment of the IMO's documented procedures (see below) have indicated non-compliance risk
 - There have been substantive systems or resourcing changes
 - Our review of the IMO's Internal Procedures (see Section 1.3.4) has indicated potential non-compliance risk (e.g. gaps or errors in procedural documentation).
- Market Procedures or Internal Procedures that:
 - Are new or have been updated since last year's annual audit³
 - Have been reviewed in previous audits as containing gaps or being non-compliant with the Market Rules.

³ We note that the IMO has revised all of its Internal Procedures since last year – see Section 1.3.4.

In essence, we have looked primarily at areas that have changed since last year's annual audit or areas, which in light of our previous audit findings, we have deemed to pose some non-compliance risk. We have not assessed in detail or commented on areas where the Internal or Market Procedures and Market Rules have not changed, and which previously have been found to comply with the Market Rules.

In conducting the market audit on the compliance of the IMO with the Market Rules, PA has:

1. Ensured that it is up to date with its understanding of the Western Australia Wholesale Electricity Market Rules (the Market Rules)
2. Identified new or amended obligations placed on the IMO by amendments to the Market Rules and Market Procedures that have come into force since the previous market audit dated 10 August 2013
3. Mapped those obligations identified in step 2 to the applicable Market Procedures and Internal Procedures (see also Section 1.3.4)
4. Identified IMO Internal Procedures that relate to areas of non-compliance identified in the previous market audit
5. Reviewed the IMO procedures identified in steps 2, 3 and 4 for compliance with the Market Rules (see also Section 1.3.4).
6. Sought evidence that the IMO is following those procedures so as to comply with the Market Rules
7. Had discussions with IMO managers and staff to clarify issues identified and
8. Prepared a report setting out our findings.

1.3.2 Alignment to ISAE 3000 standard

Our process was designed to provide limited assurance as defined by International Standard on Assurance Engagements ISAE 3000 "Assurance engagements other than audits or reviews of historical financial information" issued by the International Auditing and Assurance Standards Board.

As in previous years, we note that there are limitations to any external audit. Audits are not an absolute guarantee of the truth or reliability of agency information or the effectiveness of internal controls. They may not identify all matters of significance. This is because external audit techniques involve:

- Professional judgement as to "good industry and market operational practice"
- The use of sample testing
- An assessment of the effectiveness of internal control structures and
- An assessment of risk.

A market audit does not guarantee every procedure and action carried out in the operation of the electricity market in the audit report, nor does it examine all evidence and every transaction. However, our audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the market audit report.

We also note that there is a high degree of compliance monitoring built into the market design. Should the IMO not carry out a requirement of the Market Rules, those cases that are material will have affected either System Management or market participants, and are likely to have been raised.

1.3.3 Materiality

Where non-compliant procedures or actions are identified, these are classified as being:

- Material, in that they do not comply with the Market Rules and may affect decisions made by market participants, affect the outcome of the market or otherwise affect the financial position of one or more rule participants, or
- Non-material, in that:
 - They do not comply with the wording of the Market Rules but do comply with the intention of the Market Rules, or
 - They do not comply with the Market Rules but they are not likely to affect decisions made by market participants, affect the outcome of the market or otherwise affect the financial position of one or more rule participants.

1.3.4 Review the IMO's Internal Procedures

The IMO has recently revamped its suite of Internal Procedures to address gaps and issues noted in previous audits. Hence, this year's audit has involved a comprehensive review of all IMO Internal Procedures against all relevant obligations in the Market Rules and (where relevant) related Market Procedures.

We have adopted the following approach to reviewing the IMO's revamped Internal Procedures:

- Mapped the IMO's obligations by:
 - Identifying all obligations placed on the IMO under the Market Rules
 - Determining whether each obligation requires documentation in an Internal Procedure. We have made this determination by assessing the extent to which failure to document the obligation would lead to increased non-compliance risk. Hence, an obligation that is implemented using a manual business process would require documentation, whereas a documentation that is fully automated through market systems would not. Additionally there are other obligations that are either transitory in nature, or are statements of intent or very simple obligations for which there is limited value in adding a procedure.
- Reviewed each Internal Procedure for compliance against the mapped obligations:
 - We mapped each obligation (requiring documentation as identified above) against the Internal Procedure being reviewed.
 - We determined whether each obligation was documented in a manner that
 - Was compliant and consistent with the Market Rules (and where relevant related Market Procedures)
 - Mitigated non-compliance risk.
 - Identified gaps in terms of obligations that are not appropriately captured in Internal Procedures.

1.4 Structure of this report

The report contains PA's analysis of the operation of the IMO on a Market Rules chapter-by-chapter basis.

The appendices contain:

- Rule changes that have occurred since the last audit, and
- A summary of gaps and issues noted in our review of the IMO's Internal Procedures.

1.5 Acknowledgements

PA would like to thank the managers and staff of the IMO who willingly provided information and shared in discussions with us while we carried out this market audit, particularly in this time of heightened grid risk.

2 MARKET RULE CHAPTER 1 - INTRODUCTION

Market Rule Chapter 1 sets out the Introduction to the Market Rules and covers areas such as the objectives of the market, conventions and transitional arrangements.

2.1 Compliance of the IMO's processes and procedures

2.1.1 Rule amendments

The following clauses in Chapter 1 have been amended since last year's annual audit:

Table 2: Rule amendments to Chapter 1

Date	Rule change	Clauses amended
25 Nov 2013	RC_2013_07	1.10.3
30 Dec 2013	RC_2013_18	1.11 (new)
1 Jan 2014	RC_2013_18	1.10.2, 1.10.3

2.1.2 Market Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 1 of the Market Rules have been updated since last year's market audit:

- None

Relationship between Rule updates and Market Procedures

There are no corresponding implications for the IMO's Market Procedures.

Compliance of the IMO's Market Procedures with Chapter 1 of the Market Rules

It is our opinion that the IMO's Market Procedures comply with Chapter 1 of the Market Rules in all material respects.

2.1.3 Internal Procedures

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 1 have been updated since last year's market audit:

- 4.4.3 Publish to web.

Compliance of the IMO's Internal Procedures with Chapter 1 of the Market Rules

Our review of the IMO's Internal Procedures indicates that there is only one obligation in Chapter 1 of the Market Rules which requires procedural documentation (MR 1.7.1), and that this obligation is adequately documented in the Internal Procedure above.

It is therefore our opinion that the Internal Procedures comply with Chapter 1 of the Market Rules in all material respects.

2.2 Compliance with Chapter 1 of the Market Rules

2.2.1 Incidents

There were no incidents associated with Chapter 1 of the Market Rules.

2.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 1 of the Market Rules in all material respects.

3 MARKET RULE CHAPTER 2 – ADMINISTRATION

Chapter 2 of the Market Rules sets out the Functions and Governance Rules, most of which are the responsibility of the IMO in its Market Administration role.

3.1 Compliance of the IMO's processes and procedures

3.1.1 Rule amendments

The following clauses in Chapter 2 have been amended since last year's annual audit:

Table 3: Rule amendments to Chapter 2

Date	Rule change	Clauses amended
1 Nov 2013	RC_2009_15	2.16.9F, 2.16.9FA, 2.16.9FB
1 Nov 2013	RC_2012_16	2.13.6L (new)
25 Nov 2013	RC_2013_07	2.2.2, 2.13.6B, 2.22.4, 2.22.8A, 2.22.12, 2.22.13, 2.22.14, 2.23.4, 2.23.8A, 2.23.12, 2.23.13, 2.29.4, 2.30A.2, 2.30B.3, 2.31.6, 2.31.8, 2.31.15, 2.31.16, 2.33.5, 2.34.2A
1 Jan 2014	RC_2013_08	2.25.1A (new), 2.25.1B (new), 2.25.4
1 Jan 2014	RC_2013_18	2.2.2, 2.3.5, 2.16.7, Appendix 1 ⁴
1 May 2014	RC_2012_23	2.37.1, 2.37.2, 2.37.3, 2.37.4, 2.37.5, 2.37.6, 2.37.7, 2.37.8, 2.37.9, 2.38.1, 2.38.2, 2.38.3, 2.38.4, 2.38.7, 2.40.1, 2.41.2, 2.41.3, 2.41.5 (new), 2.42.1, 2.42.2, 2.42.3, 2.42.4, 2.42.7, 2.43.1

3.1.2 Market Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 2 of the Market Rules have been updated since last year's market audit:

- Rule Participant Registration and De-Registration
- Facility Registration, De-Registration and Transfer
- Prudential Requirements.

Relationship between Rule updates and Market Procedures

The extent to which the Rule changes have been reflected in updates to the IMO's Market Procedures is set out in Table 4.

⁴ Changed Verve to Synergy in prescribing Standing Data requirements.

Table 4: Relationship between Rule changes to Chapter 2 and IMO Market Procedure updates

Rule change	Clauses amended	Description	Market Procedures updated
RC_2009_15	2.16.9F, 2.16.9FA, 2.16.9FB	Clarifications of ERA's market monitoring obligations. These changes (involving Protected Provisions) were originally implemented in 2 September 2009 without ministerial approval. Hence, they were re-implemented on 1 November with ministerial approval.	No updates required – relevant clauses do not require documentation in a Market Procedure
RC_2012_16	2.13.6L (new)	Changes to align settlement and dispatch tolerances (Protected Provisions) were originally implemented in 1 January 2013 but without ministerial approval. The rule change was re-implemented on 1 November 2013 with ministerial approval.	No updates required – relevant clauses do not require documentation in a Market Procedure
RC_2013_07	2.2.2, 2.13.6B, 2.22.4, 2.22.8A, 2.22.12, 2.22.13, 2.22.14, 2.23.4, 2.23.8A, 2.23.12, 2.23.13, 2.29.4, 2.30A.2, 2.30B.3, 2.31.6, 2.31.8, 2.31.15, 2.31.16, 2.33.5, 2.34.2A	Corrections to typos and manifest errors	No updates required as impacts of change on clauses requiring Market Procedure documentation were minor (i.e. intent of the clauses are still the same).
RC_2013_08	2.25.1A (new), 2.25.1B (new), 2.25.4	Changes to clarify treatment of GST in Market Fees, Regulatory Fees and System Operation Fees and to adjust the definitions of Regulatory Fees and System Operations Fees to indicate these are paid to the IMO	No updates required – relevant clauses do not require documentation in a Market Procedure
RC_2013_18	2.2.2, 2.3.5, 2.16.7, Appendix 1	Changes to reflect Verve/Synergy merger.	No updates required – relevant clauses do not require documentation in a Market Procedure
RC_2012_23	2.37.1, 2.37.2, 2.37.3, 2.37.4, 2.37.5, 2.37.6, 2.37.7, 2.37.8, 2.37.9, 2.38.1, 2.38.2, 2.38.3, 2.38.4, 2.38.7, 2.40.1, 2.41.2, 2.41.3, 2.41.5 (new), 2.42.1, 2.42.2, 2.42.3, 2.42.4, 2.42.7, 2.43.1	Changes to rules and guidelines around prudential requirements: <ul style="list-style-type: none"> Aligning rules around credit limit determination with operational practice Including a head of power (for the Prudential Requirements Market Procedure) to specify guidelines to calculate the Expected Value of transaction. Enabling the IMO to take into account prepayments when 	The Prudential Requirements Market Procedure has been updated to reflect all relevant changes.

Rule change	Clauses amended	Description	Market Procedures updated
		calculating Outstanding Amount (in respect of Margin Calls) <ul style="list-style-type: none"> • Removing concept of Typical Accrual and enabling the IMO to issue a Margin Call when the Trading Margin falls below zero • Providing greater clarity on Market Participant obligations with respect to amount, type of arrangement and timeline for Credit Support replacement, and amending Reserve Capacity Security requirements for consistency • Placing the obligation on Market Participants (as opposed to the IMO) to show that their Credit Support Provider still meets Acceptable Credit Criteria. 	

Compliance of the IMO's Market Procedures with Chapter 2 of the Market Rules

It is our opinion that the IMO's Market Procedures are compliant with Chapter 2 of the Market Rules in all material respects.

3.1.3 Internal Procedures

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 2 have been updated since last year's market audit:

- Compliance procedures:
 - 1.2 Compliance Monitoring and Enforcement
 - 1.3 Tolerance Range and Facility Tolerance Range
 - 1.4 Market Audits
 - 1.5 Disputes
 - 1.6 ERA Surveillance Meetings
 - 1.8 Six-Monthly Compliance Reports
 - 1.9 Synergy Daily Monitoring
 - 1.10 Compliance Weekly Reports
- Market Operations procedures:
 - 2.1.1 Registration
 - 2.3.2 Prudential Requirements
 - 2.3.3 Settlement Procedure
 - 2.3.4 Settlement Contingency Procedure
 - 2.4.1 Market Surveillance
- Market Development procedures
 - 4.2.2 Market Procedure Change
 - 4.3.1 Annual Review of Committee Composition
 - 4.3.2 MAC and Working Group Secretariat 4.2.1 Rule Change Process
- Finance procedures
 - 5.1 Handling Guarantees and Bank Undertakings, and Security Deposits
 - 5.2 Determination of IMO budget
 - 5.3 Fees
- Information technology procedures
 - 2.0.1 Software Configuration Management Plan.

Compliance of the IMO's Internal Procedures with Chapter 2 of the Market Rules

- We have noted two instances in which the IMO's Internal Procedures were non-compliant with the Market Rules. However, all two non-compliances are non-material:
 - The IMO's Internal Procedure 2.1.1 Registration does not provide the timeline (as prescribed in MR 2.29.5K) for accepting/rejecting an application made under MR 2.29.5I
 - The IMO's Internal Procedure 2.1.1 Registration has a minor error in the timeline for implementing all Standing Data changes as prescribed in MR 2.34.14⁵.
- It is therefore our opinion that the IMO's Internal Procedures are compliant with Chapter 2 of the Market Rules in all material respects.

⁵ The IMO has identified corrections to Internal Procedure 2.1.1 Registration to address the non-compliances noted with respect to MR 2.29.5K and 2.34.14.

3.2 Compliance with Chapter 2 of the Market Rules

3.2.1 Incidents

The details of incidents associated with Chapter 2 of the Market Rules are summarised in Table 5.

Single breaches of eight provisions of Chapter 2 were noted, while multiple breaches of clause 2.37.7 were noted. All breaches are deemed to be non-material; that is the breaches do not compromise the intention of the Market Rules, and/or the decisions made by market participants or otherwise affect the outcome of the market. Actions have already been undertaken or identified in respect of each breach to ensure similar incidents do not recur.

3.2.2 Opinion

Our opinion is as follows:

- The IMO has been non-compliant with some of its obligations under Chapter 2 of the Rules but the non-compliance has not been material set out in Table 5.
- We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 2 of the Market Rules in all material respects.

Table 5: Incidents of non-compliance with Chapter 2

Rule	The Issue	Material?	Comment
2.5.8 (self-reported)	Clause 2.5.8 of the Market Rules requires the IMO to notify the Minister for Energy at the same time the IMO publishes the Rule Change Notice on its website. The IMO did not notify the Minister for Energy of Rule Change Proposal RC_2013_10 at the same time the IMO published the Rule Change Notice. This breach was identified one week after the Rule Change Proposal was published by the IMO. The relevant notice was issued to the Minister for Energy on 29 August 2013 (it should have been issued on 21 August 2013), being the date the breach was identified.	No	<p>This breach was identified on 29 August 2013 whilst checking the back-dated ministerial approvals relating to the breaches of Rules 2.5.8 and 2.8.3 discovered in the previous audit period.</p> <p>The breach is attributable to human error, but the IMO now has additional systems (e.g. JIRA) in place that should prevent these errors in the future. We have checked all rule changes and confirmed that no further such breaches occurred in the audit year</p> <p>We have deemed this as a non-material breach as it had no operational impact on the market (RC_2013_10 was eventually rejected by the Minister).</p>
2.10.8 (self-reported)	<p>Under Market Rule 2.10.8, the IMO is required to, within one business day of publishing a Procedure Change Proposal notice, notify all members and observers of the MAC as to whether the IMO considers that the Procedure Change Proposal requires convening the MAC together with its reasons for forming that view.</p> <p>The IMO missed the deadline with respect to the Procedure Change Proposal for PC_2014_02: Changes to Market Procedure for Bilateral Trade Declarations and Reserve Capacity Auction.</p>	No	<p>The Procedure Change Proposal was published on 14 February 2014 without notifying MAC.</p> <p>The breach was discovered at the end of March 2014 when the team manager was checking the final procedure change report.</p> <p>The use of JIRA (issue and project tracking software) should mitigate against the risk of such a breach recurring, as one of the specific subtasks in the JIRA log is a check to ensure MAC has been notified.</p> <p>We have deemed this as a non-material breach as it had no operational impact on the market.</p>
2.22.11 (self-reported)	Clause 2.22.11 of the Market Rules requires the IMO to publish the approved budget within 5 business days following the Minister for Energy's approval of the budget. The IMO published the approved budget for 2013/14 on 5 June 2013, being two days later than the required time.	No	<p>To mitigate against this type of breach recurring the IMO has now proceduralized the pertinent business processes (which includes all rules mandated deadlines) and all key deadlines are identified in the relevant IMO manager's calendar.</p> <p>We have deemed this as a non-material breach as it had no operational impact on the market.</p>
2.33.4(c) (self-reported)	Clause 2.33.4 of the Market Rules requires the IMO to prescribe a Facility deregistration form that requires an applicant for Facility deregistration to provide certain information. Clause 2.33.4(c) specifies that the form must require an applicant to provide information as to whether the Registered Facility is being decommissioned, mothballed or placed in reserve shut-down.	No	<p>This breach was discovered as part of the IMO's internal review on compliance and procedures.</p> <p>There has been only one facility deregistration application since market start (which was during the current audit year), hence the previous oversight.</p> <p>We note that this breach would have had no impact on market outcomes, as the breach had been detected and corrected before any participant needed to use the</p>

Rule	The Issue	Material?	Comment
	The IMO's prescribed Facility deregistration form did not provide a field requiring an applicant to provide the information specified in clause 2.33.4(c).		form.
2.34.8 (self-reported)	Clause 2.34.8 requires the IMO to notify a participant of whether a Standing Data change submitted under Clause 2.34.3 has been accepted or rejected within three business days of the participant requesting the change. The IMO did not reject or approve a Standing Data change requested by a market participant on 23 December 2013 within the required time (30 December 2013). The IMO eventually rejected the change on 6 January 2014.	No	<p>We note that the IMO has adequate controls to mitigate against this particular breach (in the form of a reminder alert). However, in this case the IMO staff member dismissed the alert, which caused the breach.</p> <p>We have deemed this as a non-material breach, as there was no financial impact on the relevant participant. The participant was updating Market Customer Standing Data as a rule requirement, and as they do not purchase energy in the STEM, this data would not have any impact on their settlement quantities.</p>
2.34.14	Clause 2.34.14 requires the IMO must commence using revised Standing Data changes relating to standing STEM, Bilateral and Resource Plan submissions and Consumption Decrease/Increase prices the scheduling day after it accepts the change under Clause 2.34.8. The IMO implemented a Standing Data change relating to Consumption Decrease Prices requested by a participant three days late.	No	<p>The participant requested a Standing Data change to its Consumption Decrease Prices (for a Demand Side Program (DSP)) on 27 May 2014. On the same day the IMO notified the participant that their change request had been accepted. Under clause 2.34.14, the IMO should have implemented the change for the Trading Day 29 May 2014 (as the Scheduling Day (28 May 2014) was the day after the change was accepted). However, the IMO did not implement the change till 1 June 2014.</p> <p>We have deemed this to be a non-material breach as the relevant DSP was not dispatched during the period 29 May - 1 June. Hence, the delay in implementing the change to the Consumption Decrease Prices would have had no impact on the participant.</p> <p>We also note that the wording does not allow for the possibility of a participant requesting a proposed effective date (under clause 2.34.3(c)) which falls after the timeline specified in clause 2.34.14(a). For example, if a participant notified a Standing Data change on 5/9/2014, and indicated a proposed effective date of 12/9/2014, and the IMO accepted that change (under clause 2.34.8) on 8/9/2014, then the IMO would be technically breaching MR 2.34.14(a) by implementing the change on 12/9/2014. In this case complying with clause 2.34.14(a) would lead to a market outcome that is inconsistent with market objectives.</p> <p>Hence, PA recommends that the wording of MR 2.34.14(a) be amended so that the IMO can implement Standing Data changes on the later of the participant's proposed effective date (under clause 2.34.3(c)) and the dates prescribed in clause 2.34.14.</p>
2.36.1(c)	<p>Clause 2.36.1(c) requires the IMO to ensure appropriate testing of new software versions is conducted.</p> <p>PA observed one instance during the audit year where the</p>	No	<p>We have observed one instance where the IMO's testing of a settlement release was, in our view, less timely than appropriate. This instance is not material, as we do not believe that market outcomes were affected.</p>

Rule	The Issue	Material?	Comment
	IMO's testing of a settlement release was not compliant with this rule.		For more details refer to report Audit 2: Compliance of the IMO's market software systems and processes for software management.
2.36.1(d)	<p>Clause 2.36.1(d) requires the IMO to ensure that any versions of software used by the IMO have been certified as being in compliance with the Market Rules by an independent auditor.</p> <p>On 28 January 2014, the IMO implemented a change to market systems without independent certification of its correctness, even though the changes were to a calculation with the potential to affect market outcomes.</p> <p>Note, Clause 2.36.2 defines "version" as follows: <i>"A "version" of the software referred to in clause 2.36.1 means any initial software used and any changes to the software that could have a material effect on the prices or quantities resulting from the use of the software".</i></p>	No	<p>The lack of certification was not material, as subsequent certification showed that the software is calculating correctly.</p> <p>For more details refer to report Audit 2: Compliance of the IMO's market software systems and processes for software management.</p>
2.37.7 (and Section 2.7.1(b) of Prudential Requirement Market Procedure) (Multiple breaches)	<p>Clause 2.37.7 of the Market Rules (and Section 2.7.1(b) of the Prudential Requirements Market Procedure) requires the IMO to notify participants of their Credit Limits (after it has been determined or reviewed) and provide the basis for their determination in the notification. Since July 2014, the IMO has exercised its ability to include discretionary factors (under clause 2.37.5(k)) and applied an escalation factor when reviewing Credit Limits for existing market participants. However, in the notification letter to the participants, the IMO did not specify this escalation factor or the basis of its application.</p>	No	<p>This is a non-material breach as the omission of the specification of the escalation factor in the letters to participants would not have any market impact.</p> <p>The IMO has indicated they shall update their Credit Limit letter template to ensure this breach does not recur.</p>

4 MARKET RULE CHAPTER 3 – POWER SYSTEM SECURITY AND RELIABILITY

Chapter 3 of the Market Rules sets out the Power System Security and Reliability Rules which are the responsibility of the IMO in its Market Administration role.

4.1 Compliance of the IMO's processes and procedures

4.1.1 Rule amendments

The following clauses in Chapter 3 have been amended since last year's annual audit (the majority of which represent System Management obligations):

Table 6: Rule amendments to Chapter 3

Date	Rule change	Clauses amended
2 Sep 2013	RC_2013_05	3.23 (new)
1 Oct 2013	RC_2012_11	3.18.6
25 Nov 2013	RC_2013_07	3.3.2, 3.11.9, 3.13.3C, 3.16.9, 3.17.9, 3.18.2, 3.18.2A, 3.18.3, 3.18.11, 3.18.11A, 3.19.6
1 Jan 2014	RC_2013_18	3.11.7A, 3.11.8, 3.13.3A, 3.13.3AB, Appendix 2 ⁶

4.1.2 Market Procedures

Updates to Market Procedures

There are no Market Procedures associated with the IMO's obligations under Chapter 3 of the Market Rules.

Relationship between Rule updates and Market Procedures

Not applicable.

Compliance of the IMO's Market Procedures with Chapter 3 of the Market Rules

Not applicable as there are no Market Procedures associated with the IMO's obligations under Chapter 3 of the Market Rules.

⁶ Changed Verve to Synergy in prescribing spinning reserve cost allocation methodology.

4.1.3 Internal Procedures

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 3 have been updated since last year's market audit:

- Compliance procedures:
 - 1.12 Investigation of Incidents in the SWIS
- Market Operations procedures:
 - 2.2.3 Daily Operations Procedure
- Market Development procedures
 - 4.1.1 Ancillary Services Requirements
 - 4.1.4 Annual Margin Values
 - 4.1.5 Market Development Reviews
 - 4.4.2 Processing System Management Reports

Compliance of the IMO's Internal Procedures with Chapter 3 of the Market Rules

It is our opinion that the IMO's Internal Procedures are compliant with Chapter 3 of the Market Rules in all material respects.

4.2 Compliance with Chapter 3 of the Market Rules

4.2.1 Incidents

The details of incidents associated with Chapter 3 of the Market Rules are summarised in Table 7. Two breaches of Chapter 3 were noted, both of which are deemed to be non-material.

4.2.2 Opinion

Our opinion is as follows:

- The IMO has been non-compliant with some of its obligations under Chapter 3 of the Rules but the non-compliance has not been material set out in Table 7.
- We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 3 of the Market Rules in all material respects.

Table 7: Incidents of non-compliance with Chapter 3

Rule	The Issue	Material?	Comment
3.16.9	<p>Clause 3.16.9 of the Market Rules requires the IMO must publish the MT PASA report containing the information prescribed in Rule 3.16.9 by the 15th day of each month. The IMO published the June 2014 MT PASA report one day late on the 16th of June 2014.</p>	No	<p>The IMO publishes the MT PASA report on the 15th day of each month after receiving it from System Management. System Management sent the IMO the June MT PASA report on the 15th of June, but the IMO published it a day late on the 16th of June.</p> <p>We note that Section 3.17 of the Market Rules (relating to ST PASA publication) allows the IMO to publish the ST PASA report as soon as practicable after receiving the report from System Management. As such, the IMO will initiate a rule change proposal to Section 3.16 to align it with Section 3.17 requiring the IMO to publish the report as soon as practicable after receiving the data from System Management (as opposed to on the same day).</p> <p>We have deemed this to be a non-material breach as the delay in publication would not have had any market impact.</p>
3.17.2	<p>Clause 3.17.2 of the Market Rules requires the IMO to publish the ST PASA must as soon as practicable after receiving it from System Management (every Thursday) publish it on the website. The IMO did not publish the ST PASA Report for the 13th February 2014.</p>	No	<p>The IMO did not publish the ST PASA report for 13 December 2013. On 20 February the IMO operator attempted to upload both ST PASA reports (for the 13 December and 20 December). However, they linked the files incorrectly so that while the URL stated 13 December 2013, the underlying file pointed to the 20 December 2013 ST PASA report. Hence, the 13 December 2013 ST PASA report was not published at all.</p> <p>This breach was a case of operator error, and as the process for publishing the ST PASA report is manual (but proceduralized) there is a minor risk of recurrence. We further note that the IMO has a project open with System Management to negotiate enhancements of the IMS interface to include PASA (ST and MT) data so that the PASA publication requirements can be systemised.</p> <p>This is a non-material breach as, while there is excess capacity in the SWIS, the ST PASA reports are of limited interest to market participants, and are not used by participants to make market decisions.</p>

5 MARKET RULE CHAPTER 4 – RESERVE CAPACITY

Chapter 4 of the Market Rules sets out the Reserve Capacity Rules which are the responsibility of the IMO in its System Capacity role.

5.1 Compliance of the IMO's processes and procedures

5.1.1 Rule amendments

The following clauses in Chapter 4 have been amended since last year's annual audit:

Table 8: Rule amendments to Chapter 4

Date	Rule change	Clauses amended
12 Aug 2013	RC_2012_03	4.1.13, 4.13.9, 4.14.3, 4.14.10, 4.15.2, 4.20.5A, 4.20.5B, 4.20.5C, 4.20.5D
23 Sep 2013	RC_2013_11	Appendix 5, Appendix 5A ⁷
1 Nov 2013	RC_2012_09	4.5.10
25 Nov 2013	RC_2013_07	4.1.4, 4.1.5, 4.1.6, 4.1.7, 4.1.8, 4.1.10, 4.1.11, 4.1.12, 4.1.13, 4.1.14, 4.1.15, 4.1.15A, 4.1.16, 4.1.17, 4.1.18, 4.1.20, 4.1.21, 4.1.21A, 4.1.21B, 4.1.23, 4.1.24, 4.5.10, 4.9.4, 4.9.5, 4.13.11, 4.13.11A, 4.14.1, 4.14.7, 4.14.11, 4.19.3, 4.20.1, 4.21.1, 4.23A.2, 4.23A.3, 4.23A.4, 4.24.2, 4.25.4E, 4.25.5, 4.25A.1, 4.25A.2, 4.25A.3, 4.25A.4, 4.25A.5, 4.27.10, 4.28.1, 4.28C.2
1 Jan 2014	RC_2013_18	4.12.1, 4.14.4, 4.14.5, 4.23A.2, 4.26.2
1 May 2014	RC_2012_23	4.13.1, 4.13.2C, 4.13.3, 4.13.4, 4.13.5
1 May 2014	RC_2013_17	Appendix 9 ⁸

5.1.2 Market Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 4 of the Market Rules have been updated since last year's market audit:

- Bilateral Trade Declarations and Reserve Capacity Auction.

Relationship between Rule updates and Market Procedures

The extent to which the Rule changes have been reflected in updates to the IMO's Market Procedures is set out in Table 9.

⁷ This rule change involved changes to Appendix 5 and 5A, which are related respectively to the IMO's obligations under MR 4.28.11 and 4.28.9.

⁸ This rule change involved changes to Appendix 9, which is related to the IMO's obligations under MR 4.11.2(b).

Table 9: Relationship between Rule changes to Chapter 4 and IMO Market Procedure updates

Rule change	Clauses amended	Description	Market Procedures updated
RC_2012_03	4.1.13, 4.13.9, 4.14.3, 4.14.10, 4.15.2, 4.20.5A, 4.20.5B, 4.20.5C, 4.20.5D	Changes to enable the IMO to assign Certified Reserve Capacity (CRC) to facilities that are subject to an Network Control Services (NCS) contract or have a long-term Special Price Arrangement.	No updates required for most clauses as impacts of change on clauses requiring Market Procedure documentation were minor (i.e. intent of the clauses are still the same).
RC_2013_11	Appendix 5, Appendix 5A	Changes related to the selection of the 12 Peak Trading Intervals used for calculating IRCR of Market Customers.	No updates required.
RC_2012_09	4.5.10	Changes to Protected Provisions to clarify availability curve calculations; originally implemented in 1 January 2013 but re-implemented on 1 November 2013 with Ministerial approval.	No updates required
RC_2013_07	4.1.4, 4.1.5, 4.1.6, 4.1.7, 4.1.8, 4.1.10, 4.1.11, 4.1.12, 4.1.13, 4.1.14, 4.1.15, 4.1.15A, 4.1.16, 4.1.17, 4.1.18, 4.1.20, 4.1.21, 4.1.21A, 4.1.21B, 4.1.23, 4.1.24, 4.5.10, 4.9.4, 4.9.5, 4.13.11, 4.13.11A, 4.14.1, 4.14.7, 4.14.11, 4.19.3, 4.20.1, 4.21.1, 4.23A.2, 4.23A.3, 4.23A.4, 4.24.2, 4.25.4E, 4.25.5, 4.25A.1, 4.25A.2, 4.25A.3, 4.25A.4, 4.25A.5, 4.27.10, 4.28.1, 4.28C.2	Corrections to typos and manifest errors	No updates required for most clauses as impacts of change on clauses requiring Market Procedure documentation were minor (i.e. intent of the clauses are still the same).
RC_2013_18	4.12.1, 4.14.4, 4.14.5, 4.23A.2, 4.26.2	Changes to reflect Verve/Synergy merger.	No updates required
RC_2012_23	4.13.1, 4.13.2C, 4.13.3, 4.13.4, 4.13.5	Changes to rules and guidelines around prudential requirements and amending Reserve Capacity Security requirements for consistency with Chapter 2 amendments.	The Reserve Capacity Security Market Procedure has not been updated to reflect the changes to clauses 4.13.2C(b) and 4.13.3(b).
RC_2013_17	Appendix 9	Change to enable the IMO to use revised estimates of an intermittent generator's generation during peak intervals when setting the Relevant Level under Appendix 9.	No updates required.

Compliance of the IMO's Market Procedures with Chapter 4 of the Market Rules

- We have noted two instances where the IMO's Market Procedures have not been updated to reflect Rule Changes during the audit year (see Table 9). However, these omissions are not material.
- It is therefore our opinion that (with the exception of the clauses identified in Table 9) the IMO's Market Procedures comply with Chapter 4 of the Market Rules in all material respects.

5.1.3 Internal Procedures

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 4 have been updated since last year's market audit:

- Market Operations procedures:
 - 2.1.1 Registration
 - 2.2.5 IRCR & Reserve Capacity Allocation Monitoring
- System Capacity procedures:
 - 3.1.1 Determination of the Maximum Reserve Capacity Price,
 - 3.1.2 LT PASA
 - 3.1.3 Preparation of the Statement of Opportunities Report
 - 3.1.4 Reserve Capacity Information Pack
 - 3.2.1 Calling and Processing EOIs for New Capacity
 - 3.2.2 Supplementary Reserve Capacity (Internal Procedure)
 - 3.3.1 Certification of Facilities
 - 3.3.2 Applications for Accreditation for the Purposes of Certification of Reserve Capacity for Intermittent Generators
 - 3.4.1 Bilateral Trade Declarations
 - 3.4.2 Assignment of Capacity Credits
 - 3.4.4 Capacity Credits and Obligations
 - 3.6.1 Performance Monitoring
 - 3.6.2 Reserve Capacity Testing
 - 3.6.3 Progress Reports for construction of New Facilities
 - 3.6.4 Reduction of Capacity Credits Assigned to a Facility
- Market Development procedures:
 - 4.1.5 Market Development Reviews
- Finance procedures:
 - 5.1 Handling Guarantees and Bank Undertakings, and Security Deposits
 - 5.3 Fees

Compliance of the IMO's Internal Procedures with Chapter 4 of the Market Rules

- We have noted one instance where the IMO's Internal Procedures are non-compliant with the Market Rules. However, this non-compliance is not material:

- There is a minor non-compliance in Internal Procedure 3.1.3 Preparation of the Statement of Opportunities Report, where MR 4.1.8 is referenced in a manner that may cause non-compliance⁹.
- It is therefore our opinion that the IMO's Internal Procedures comply with Chapter 4 of the Market Rules in all material respects.

5.2 Compliance with Chapter 4 of the Market Rules

5.2.1 Incidents

The details of incidents associated with Chapter 4 of the Market Rules are summarised in Table 10. The breach of clause 4.12.4(c)(v) is the only material breach noted as part of this audit. Actions have already been undertaken or identified in respect of each breach to ensure similar incidents do not recur.

5.2.2 Opinion

Our opinion is as follows:

- The IMO has been materially non-compliant with its obligations in respect of calculating Reserve Capacity Obligation Quantities, specifically MR 4.12.4(c)(v) as set out in Table 10.
- The IMO has been non-compliant with some of its obligations under Chapter 4 of the Market Rules, but the non-compliance has not been material, as set out in Table 10.
- We have not observed anything else that causes us to believe that the IMO has not complied with its obligations under Chapter 4 of the Market Rules.

⁹ The IMO has identified corrective actions to apply to this procedure to rectify the non-compliance.

Table 10: Incidents of non-compliance with Chapter 4

Rule	The Issue	Material?	Comment
4.12.4(c)(v) (Multiple breaches between January and November 2013)	<p>Clause 4.12.4(c)(v) states that the RCOQ of a Demand Side Program (DSP) shall equal zero for any trading intervals outside the periods specified in its agreement with the IMO (under clause 4.10.1(f)(vi).</p> <p>The IMO incorrectly calculated RCOQ on business days for two DSPs between January 2013 and November 2013 due to a software defect.</p>	Yes	<p>IMO should have calculated RCOQ to be zero as per terms of DSP contracts under 4.12.4(c)(v), and did so on business days, but not on non-business days from January 2013 to November 2013. Two DSPs were affected from May 2013 to November 2013, and the financial impact of the breach was AUD\$26,000. In other words, due to the software defect, the IMO had collected \$26,000 more in refunds from the two DSPs than it should have.</p> <p>The IMO has since returned the \$26,000 to the affected participants, and has implemented a patch that corrects the software defect.</p>
4.27.1	<p>Clause 4.27.1 of the Market Rules requires the IMO to monitor the total availability of the SWIS on a daily basis. The IMO implements this rule on a monthly basis and is therefore in technical breach of this rule.</p>	No	<p>Clause 4.27.1 requires the IMO to monitor SWIS capacity on a daily basis so that they can implement clause 4.27.2 which requires the IMO to assess, on a monthly basis, the number of days in the preceding 12 months that SWIS capacity fell below particular thresholds as defined by this rule.</p> <p>The IMO implements both clauses 4.27.1 and 4.27.2 through a monthly software (Wholesale Electricity Market Systems (WEMS)) event. Hence, the IMO is in technical breach of clause 4.27.1 which requires them to implement the rule on a daily basis. We note this as a technical non-material breach as clause 4.27.1 is redundant; since the IMO only needs to monitor the available capacity on a monthly basis (as per the requirements of clause 4.27.2) there is no need to implement clause 4.27.1 on a daily basis (as clause 4.27.1 is an input required to implement clause 4.27.2).</p> <p>The IMO is currently considering options for amending clause 4.27.1 so as to align the rules with its operational practice.</p>
4.28.11 and 4.1.28(b) - breached twice (self-reported)	<p>Clause 4.28.11 of the Market Rules requires the IMO to determine and publish an updated Individual Reserve Capacity Requirement (IRCR) for each Market Customer by the date and time specified in clause 4.1.28(b).</p> <p>The IMO did not publish updated IRCRs for February and March 2014 by</p>	No	<p>The IMO determined the updated IRCRs for February and March 2014, and could have published the updated IRCRs by the relevant date and time. However, before publishing the updated IRCRs, the IMO identified that they had been determined incorrectly. Due to a Pomax settlement defect, the IRCR calculations was including a participant's previously de-registered embedded load. As the embedded load had been deregistered it should not have been included in the calculations.</p> <p>The IMO determined that using the incorrect IRCRs would lead to the affected participant being liable for an additional \$270,000 in February and March 2014 (and other Market Customers' liabilities would have been proportionately less than it should have been). As a result, the IMO</p>

Rule	The Issue	Material?	Comment
	<p>the relevant date and time (and therefore breached Clauses 4.28.11 and 4.1.28(b) twice).</p>		<p>decided to delay publication beyond the date and time specified in clause 4.1.28(b), to enable the IMO to correctly calculate the updated IRCRs (as complying with the rules would lead to an outcome that would have been inconsistent with market objectives). The IMO's decision to delay publication was communicated to the market. The IMO's settlement software vendor was engaged to urgently fix the software defect, and the corrected software was certified and deployed by end of March 2014.</p> <p>We have deemed this to be a non-material breach as the corrected IRCRs were available in time for initial settlement for the months of February and March 2014. Therefore there was no financial impact.</p>

6 MARKET RULE CHAPTER 5 – NETWORK CONTROL SERVICES PROCUREMENT

Chapter 5 sets out the Network Control Service Procurement Rules. Responsibility for the procurement of network control services rests with the network operator.

6.1 Compliance of the IMO's processes and procedures

6.1.1 Rule amendments

The following clauses in Chapter 5 have been amended since last year's annual audit:

- None.

6.1.2 Market Procedures

Updates to Market Procedures

There are no Market Procedures associated with the IMO's obligations under Chapter 5 of the Market Rules.

Relationship between Rule updates and Market Procedures

Not applicable.

Compliance of the IMO's Market Procedures with Chapter 5 of the Market Rules

Not applicable as there are no Market Procedures associated with the IMO's obligations under Chapter 5 of the Market Rules.

6.1.3 Internal Procedures

Updates to Internal Procedures

There are no Internal Procedures associated with the IMO's obligations under Chapter 5 of the Market Rules.

Compliance of the IMO's Internal Procedures with Chapter 5 of the Market Rules

Not applicable. The IMO has only two obligations under Chapter 5 of the Market Rules which require documentation (clauses 5.9.2 and 5.9.3). These obligations relate to the provision of settlement data in respect of Network Control Services. We note that the IMO does not currently have any Internal Procedures to address these obligations. However, as there are currently no Network Control Services, the lack of such procedures would not contribute to any non-compliance risk.

6.2 Compliance with Chapter 5 of the Market Rules

6.2.1 Incidents

The IMO has not used the provisions of Chapter 5 of the Market Rules.

6.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 5 of the Market Rules in all material respects.

7 MARKET RULE CHAPTER 6 – ENERGY MARKET

Chapter 6 of the Market Rules sets out the rules for the Energy Market, which are the responsibility of the IMO in its Market Operations role.

7.1 Compliance of the IMO's processes and procedures

7.1.1 Rule amendments

The following clauses in Chapter 6 have been amended since last year's annual audit:

Table 11: Rule amendments to Chapter 6

Date	Rule change	Clauses amended
1 Nov 2013	RC_2012_16	6.17.9
25 Nov 2013	RC_2013_07	6.3A.4, 6.6.10
30 Dec 2013	RC_2013_18	6.12.1
1 Jan 2014	RC_2013_18	6.5.1, 6.5.1A, 6.5.4, 6.5C.1, 6.11.1, 6.11.3, 6.15.1, 6.15.2, 6.16B.1, 6.16B.2, 6.17.1, 6.17.5, 6.17.5A, 6.17.5B, 6.17.9, 6.17.10, 6.21.2
1 May 2014	RC_2013_17	6.15.2

7.1.2 Market Procedures

Updates to Market Procedures

There are no Market Procedures associated with the IMO's obligations under Chapter 6 of the Market Rules.

Relationship between Rule updates and Market Procedures

Not applicable.

Compliance of the IMO's Market Procedures with Chapter 6 of the Market Rules

Not applicable as there are no Market Procedures associated with the IMO's obligations under Chapter 6 of the Market Rules.

7.1.3 Internal Procedures

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 6 have been updated since last year's market audit:

- Compliance procedures
 - 1.2 Compliance Monitoring and Enforcement.
- Market Operations procedures:
 - 2.2.3 Daily Operations Procedure
 - 2.2.4 Operations Contingency Procedure
 - 2.2.6 STEM & Balancing Price Limits
- Market Development procedures
 - 4.1.3 Energy Price Limits Review.

Compliance of the IMO's Internal Procedures with Chapter 6 of the Market Rules

It is our opinion that the IMO's Internal Procedures comply with Chapter 6 of the Market Rules in all material respects.

7.2 Compliance with Chapter 6 of the Market Rules

7.2.1 Incidents

The details of incidents associated with Chapter 6 of the Market Rules are summarised in Table 12. One breach of Chapter 6 was noted, which is deemed to be non-material.

7.2.2 Opinion

Our opinion is as follows:

- The IMO has been non-compliant with one of its obligations under Chapter 6 of the Market Rules, but the non-compliance was not material as set out in Table 12.
- We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 6 of the Market Rules in all material respects.

Table 12: Incidents of non-compliance with Chapter 6

Rule	The Issue	Material?	Comment
6.3A.2(e) (self-reported)	<p>Clause 6.3A.2(e) of the Market Rules requires the IMO to calculate and release by 9am on each Scheduling Day:</p> <ul style="list-style-type: none"> The estimated loss factor adjusted quantity of energy that could potentially be called upon by System Management after 1pm on the Scheduling Day to meet Ancillary Services requirements for each Trading Day The list of facilities that System Management may call on to provide the energy above. <p>On 25 April 2014 the IMO did not release the information required by 9am.</p>	No	<p>The breach occurred on 25 April 2014, and was triggered by System Management failing to send two Ancillary Service files to the IMO in accordance with clause 7.2.3B. Although the IMO operator contacted System Management, and received the outstanding files via email at 8:29am, they failed to place the relevant WEMS event (which calculates all the variables in Clause 6.3A.2 to be released to Market Participants at 9:00am) on hold. As a result, the WEMS event ran without containing the requirements of Clause 6.3A.2. The IMO issued a Market Advisory at 10:38am to advise delay in publication of the STEM. However, the STEM was subsequently published as the IMO determined there was only one market participant who would be affected, and that this could be addressed through adjustments. Subsequent analysis indicated that there was the exclusion of the variables in Clause 6.3A.2 did not have any impact on the affected market participant's settlement outcomes - as a result no adjustment would be required.</p> <p>We further note that the IMO now has controls in place to mitigate against further breaches of this nature (contingent events):</p> <ul style="list-style-type: none"> The MOSMI alerts act as a checklist by reminding operators of key deadlines The decision to extend timelines under MR 6.4.6 in contingency situations is largely a matter of experience. For this reason training simulations conducted by the IMO now include contingency scenarios. The IMO's Internal Procedures have been improved to ensure key deadlines and contingency procedures are clearly documented. <p>We have deemed this to be a non-material breach since (as noted above) the exclusion of the variables in Clause 6.3A.2 did not have any impact on the affected market participant's settlement outcomes.</p>

8 MARKET RULE CHAPTER 7 – DISPATCH

Chapter 7 sets out the Dispatch Rules which are the responsibility of System Management and the IMO in their Market Operations role.

8.1 Compliance of the IMO's processes and procedures

8.1.1 Rule amendments

The following clauses in Chapter 7 have been amended since last year's annual audit (the majority of which represent System Management obligations):

Table 13: Rule amendments to Chapter 7

Date	Rule change	Clauses amended
1 Sep 2013	RC_2012_22	7.9.1, 7.9.1A, 7.9.5, 7.9.13 (new), 7.9.14 (new), 7.9.15 (new), 7.9.16 (new), 7.9.17 (new), 7.9.18 (new), 7.9.19 (new)
1 Oct 2013	RC_2012_11	7.13.1D (new), 7.13.1E (new), 7.13.1F (new), 7.13.1G (new)
25 Nov 2013	RC_2013_07	7.10.2
1 Jan 2014	RC_2013_18	7.5.4, 7.6.2, 7.6.2A, 7.6.12, 7.6A.1, 7.6A.2, 7.6A.3, 7.6A.4, 7.6A.5, 7.6A.6, 7.6A.7, 7.6A.8, 7.7.1, 7.10.7, 7.11.5, 7.12.1, 7.13.1, 7.13.1A, 7.13.1C
1 May 2014	RC_2013_17	7.7.5A, 7.7.5B

Of these changes, only clauses 7.6A.5(b) and 7.7.5B place obligations on the IMO.

8.1.2 Market Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 4 of the Market Rules have been updated since last year's market audit:

- IMS Interface Procedure.

Relationship between Rule updates and Market Procedures

Not applicable.

Compliance of the IMO's Market Procedures with Chapter 7 of the Market Rules

The extent to which the Rule changes have been reflected in updates to the IMO's Market Procedures is set out in Table 14.

Table 14: Relationship between Rule changes to Chapter 7 and IMO Market Procedure updates

Rule change	Clauses amended	Description	Market Procedures updated
RC_2012_22	7.9.1, 7.9.1A, 7.9.5, 7.9.13 (new), 7.9.14 (new), 7.9.15 (new), 7.9.16 (new), 7.9.17 (new), 7.9.18 (new), 7.9.19 (new)	Changes to introduce exemptions from synchronisation notifications for qualifying facilities. This rule change had no impact on IMO procedures as all relevant obligations are owned by System Management.	No updates required.
RC_2012_11	7.13.1D (new), 7.13.1E (new), 7.13.1F (new), 7.13.1G (new)	Changes to outage disclosure requirements.	The IMS Interface Procedure has been updated to reflect System Management's new obligations to send real time outage information to the IMO.
RC_2013_07	7.10.2	Corrections to typos and manifest errors.	No updates required
RC_2013_18	7.5.4, 7.6.2, 7.6.2A, 7.6.12, 7.6A.1, 7.6A.2, 7.6A.3, 7.6A.4, 7.6A.5, 7.6A.6, 7.6A.7, 7.6A.8, 7.7.1, 7.10.7, 7.11.5, 7.12.1, 7.13.1, 7.13.1A, 7.13.1C	Changes to reflect Verve/Synergy merger.	No updates required.
RC_2013_17	7.7.5A, 7.7.5B	Change to enable the IMO to use revised estimates of an intermittent generator's generation during peak intervals when setting the Relevant Level under Appendix 9.	No updates required.

Compliance of the IMO's Market Procedures with Chapter 7 of the Market Rules

It is our opinion that the IMO's Market Procedures comply with Chapter 7 of the Market Rules in all material respects.

8.1.3 Internal Procedures

Updates to Internal Procedures

There are no Internal Procedures associated with the IMO's obligations under Chapter 7 of the Market Rules.

Compliance of the IMO's Internal Procedures with Chapter 7 of the Market Rules

Not applicable as there are no Internal Procedures associated with the IMO's obligations under Chapter 7 of the Market Rules.

8.2 Compliance with Chapter 7 of the Market Rules

8.2.1 Incidents

We noted no incidents of IMO non-compliance with its obligations under Chapter 7 of the Market Rules.

8.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 7 of the Market Rules in all material respects.

9 MARKET RULE CHAPTER 7A – BALANCING MARKET

Chapter 7A sets out the Rules for the Balancing Market.

9.1 Compliance of the IMO's processes and procedures

9.1.1 Rule amendments

The following clauses in Chapter 7A have been amended since last year's annual audit:

Table 15: Rule amendments to Chapter 7A

Date	Rule change	Clauses amended
2 Sep 2013	RC_2013_05	7A.3.7,7A.3.7A (new)
25 Nov 2013	RC_2013_07	7A.3.10
1 Jan 2014	RC_2013_18	7A.1.14, 7A.2.1, 7A.2.2, 7A.2.3, 7A.2.9, 7A.2.10, 7A.2.12, 7A.3.1, 7A.3.5, 7A.4.1, 7A.4.2, 7A.4.4, 7A.4.5, 7A.4.6, 7A.4.8, 7A.4.9

9.1.2 Market Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 7A of the Market Rules have been updated since last year's market audit:

- None.

Relationship between Rule updates and Market Procedures

The extent to which the Rule changes have been reflected in updates to the IMO's Market Procedures is set out in Table 16.

Table 16: Relationship between Rule changes to Chapter 7A and IMO Market Procedure updates

Rule change	Clauses amended	Description	Market Procedures updated
RC_2013_05	7A.3.7,7A.3.7A (new)	Change formalizes <ul style="list-style-type: none"> • System Management's obligations to provide End of Interval (EOI), Relevant Dispatch Quantity (RDQ) data and data to support the LoadWatch publication • IMO's obligation to publish LoadWatch 	No updates required – relevant clauses do not require documentation in a Market Procedure.
RC_2013_07	7A.3.10	Corrections to typos and manifest errors	No updates required – relevant clauses do not require documentation in a Market Procedure.
RC_2013_18	7A.1.14, 7A.2.1, 7A.2.2, 7A.2.3, 7A.2.9, 7A.2.10, 7A.2.12, 7A.3.1, 7A.3.5, 7A.4.1, 7A.4.2, 7A.4.4, 7A.4.5, 7A.4.6, 7A.4.8, 7A.4.9	Changes to reflect Verve/Synergy merger.	No updates required – relevant clauses do not require documentation in a Market Procedure.

Compliance of the IMO’s Market Procedures with Chapter 7A of the Market Rules

It is our opinion that the IMO’s Market Procedures comply with Chapter 7A of the Market Rules in all material respects.

9.1.3 Internal Procedures

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 7A have been updated since last year's market audit:

- Compliance procedures
 - 1.2 Compliance monitoring and enforcement.
- Market Operations procedures:
 - 2.1.1 Registration procedure
 - 2.2.3 Daily Operations procedure

Compliance of the IMO's Internal Procedures with Chapter 7A of the Market Rules

It is our opinion that the IMO's Internal Procedures comply with Chapter 7A of the Market Rules summarised in all material respects.

9.2 Compliance with Chapter 7A of the Market Rules

9.2.1 Incidents

The details of incidents associated with Chapter 7A of the Market Rules are summarised in Table 17. One breach of Chapter 7A was noted, which is deemed to be non-material.

9.2.2 Opinion

Our opinion is as follows:

- The IMO has been non-compliant with one of its obligations under Chapter 7 of the Market Rules, but the non-compliance was not material as set out in Table 17.
- We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 7 of the Market Rules in all material respects.

Table 17: Incidents of non-compliance with Chapter 7A

Rule	The Issue	Material?	Comment
<p>7A.3.1 (multiple breaches between March and June 2014) (self-reported)</p>	<p>Under Market Rule 7A.3.1, the IMO must convert the prices for each Trading Interval in Balancing-Price Quantity Pairs in Balancing Submissions from Market Participants (other than Synergy with respect to the Balancing Portfolio) into Loss Factor Adjusted Prices. The loss factor assigned to a particular facility changed on 7 March 2014 but the IMO did not update the loss factor and continued to adjusting the prices in the facility's Balancing Submissions with the old loss factor. The error was discovered on 26 June 2014.</p>	<p>No</p>	<p>This breach is a result of an ongoing issue whereby the Responsible Party (RP) for two facilities (one of which was affected by this breach) in the market is not the same as the participant responsible for financial settlement (i.e. the Financially Responsible Market Participant (FRMP)). The IMO's systems are set up based on the assumption that these two parties are the same. Particularly, for facilities where the RP and the FRMP are the same, any updates to loss factors automatically flow through to WEMS. However, for the two facilities in question this update must be done manually as their loss factors are hard-coded into the system.</p> <p>When the affected facility's loss factor changed, the manual update was overlooked and therefore the systems continued to use the old loss factor value.</p> <p>To mitigate against future breaches of this nature, the IMO will update its Internal Procedures to ensure the loss factors of the two facilities are manually updated.</p> <p>We deem this breach to be non-material as the relevant facility was not a marginal unit during the time the incorrect loss factor was used; hence the incorrect loss factor was never used for settlement purposes (as the loss factor is used to determine the loss factor adjusted balancing prices with respect to a facility's balancing offer). Additionally the facility did not receive any constraint payments. We note that if the facility had been a marginal unit, this breach would have been a material one (as it would have had a financial impact on the FRMP).</p>

10 MARKET RULE CHAPTER 7B – LOAD FOLLOWING MARKET

Chapter 7B sets out the Load Following Service Market Rules.

10.1 Compliance of the IMO's processes and procedures

10.1.1 Rule amendments

The following clauses in Chapter 7B have been amended since last year's annual audit:

Table 18: Rule amendments to Chapter 7B

Date	Rule change	Clauses amended
25 Nov 2013	RC_2013_07	7B.1.5
1 Jan 2014	RC_2013_18	7B.2.1, 7B.2.2, 7B.2.3, 7B.2.4, 7B.2.5, 7B.2.6, 7B.3.7, 7B.4.1, 7B.4.2

10.1.2 Market Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 7B of the Market Rules have been updated since last year's market audit:

- None.

Relationship between Rule updates and Market Procedures

The extent to which the Rule changes have been reflected in updates to the IMO's Market Procedures is set out in Table 19.

Table 19: Relationship between Rule changes to Chapter 7B and IMO Market Procedure updates

Rule change	Clauses amended	Description	Market Procedures updated
RC_2013_07	7B.1.5	Corrections to typos and manifest errors	No updates required – relevant clauses do not require documentation in a Market Procedure.
RC_2013_18	7B.2.1, 7B.2.2, 7B.2.3, 7B.2.4, 7B.2.5, 7B.2.6, 7B.3.7, 7B.4.1, 7B.4.2	Changes to reflect Verve/Synergy merger.	No updates required – relevant clauses do not require documentation in a Market Procedure.

Compliance of the IMO’s Market Procedures with Chapter 7B of the Market Rules

It is our opinion that the IMO’s Market Procedures comply with Chapter 7B of the Market Rules in all material respects.

10.1.3 Internal Procedures

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 7B have been updated since last year's market audit:

- Compliance procedures
 - 1.2 Compliance monitoring and enforcement.

Compliance of the IMO's Internal Procedures with Chapter 7B of the Market Rules

Our review of the IMO's Internal Procedures indicates that there is only one obligation in Chapter 7B of the Market Rules which requires procedural documentation (MR 7B.2.16) (as the majority of the IMO's obligations under Chapter 7B are automated), and that this obligation is adequately documented in the Internal Procedure above.

It is therefore our opinion that the Internal Procedures comply with Chapter 7B of the Market Rules in all material respects.

10.2 Compliance with Chapter 7B of the Market Rules

10.2.1 Incidents

We noted no incidents of IMO non-compliance with its obligations under Chapter 7B of the Market Rules.

10.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 7B of the Market Rules in all material respects.

11 MARKET RULE CHAPTER 8 – WHOLESALE MARKET METERING

Chapter 8 of the Market Rules sets out the Wholesale Market Metering Rules which are the responsibility of the IMO in its Market Operations role.

11.1 Compliance of the IMO's processes and procedures

11.1.1 Rule amendments

The following clauses in Chapter 8 have been amended since last year's annual audit:

- None.

11.1.2 Market Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 8 of the Market Rules have been updated since last year's market audit:

- None

Relationship between Rule updates and Market Procedures

There are no corresponding implications for the IMO's Market Procedures.

Compliance of the IMO's Market Procedures with Chapter 8 of the Market Rules

It is our opinion that the IMO's Market Procedures comply with Chapter 8 of the Market Rules in all material respects.

11.1.3 Internal Procedures

Updates to Internal Procedures

The following Internal Procedures (all relating to Market Operations) related to Chapter 8 have been updated since last year's market audit:

- 2.1.1 Registration procedure
- 2.3.3 Settlement procedure.

Compliance of the IMO's Internal Procedures with Chapter 8 of the Market Rules

It is our opinion that the IMO's Internal Procedures comply with Chapter 8 of the Market Rules summarised in all material respects.

11.2 Compliance with Chapter 8 of the Market Rules

11.2.1 Incidents

There were no incidents associated with Chapter 8 of the Market Rules.

11.2.2 Opinion

We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 8 of the Market Rules in all material respects.

12 MARKET RULE CHAPTER 9 – SETTLEMENT

Chapter 9 sets out the Settlement Rules which are the responsibility of the IMO in its Market Operations role.

12.1 Compliance of the IMO's processes and procedures

12.1.1 Rule amendments

The following clauses in Chapter 9 have been amended since last year's annual audit:

Table 20: Rule amendments to Chapter 9

Date	Rule change	Clauses amended
25 Nov 2013	RC_2013_07	9.5.2, 9.10, 9.10A, 9.16.1, 9.16.2, 9.16.4, 9.19.3, 9.20.5, 9.23.3, 9.23.6, 9.23.7
1 Jan 2014	RC_2013_08	9.1.2, 9.16.3, 9.16.3A, 9.19.1
1 Jan 2014	RC_2013_18	9.8.1, 9.9.1, 9.9.2, 9.18.3

12.1.2 Market Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 9 of the Market Rules have been updated since last year's market audit:

- Settlement
- Prudential Requirements.

Relationship between Rule updates and Market Procedures

The extent to which the Rule changes have been reflected in updates to the IMO's Market Procedures is set out in Table 21.

Table 21: Relationship between Rule changes to Chapter 9 and IMO Market Procedure updates

Rule change	Clauses amended	Description	Market Procedures updated
RC_2013_07	9.5.2, 9.10, 9.10A, 9.16.1, 9.16.2, 9.16.4, 9.19.3, 9.20.5, 9.23.3, 9.23.6, 9.23.7	Corrections to typos and manifest errors	<ul style="list-style-type: none"> Capacity Credit Allocation Market Procedure has not been updated to reflect change to MR 9.5.2. MR 9.5.2 states that the number of credits allocated in a Capacity Credit Allocation submission must be specified to a precision of 0.001MW. However, the Market Procedure contains a precision factor of 0.005MW. No other Market Procedure updates are required, as impacts of change on clauses requiring Market Procedure documentation were minor (i.e. intent of the clauses are still the same).
RC_2013_08	9.1.2, 9.16.3, 9.16.3A, 9.19.1	Changes to clarify treatment of GST in Market Fees, Regulatory Fees and System Operation Fees and to adjust the definitions of Regulatory Fees and System Operations Fees to indicate these are paid to the IMO	No updates required as impacts of change on clauses requiring Market Procedure documentation were minor (i.e. intent of the clauses are still the same).
RC_2013_18	9.8.1, 9.9.1, 9.9.2, 9.18.3	Changes to reflect Verve/Synergy merger.	<ul style="list-style-type: none"> Settlement Market Procedure has not been updated to change “Verve” to Synergy when documenting MR 9.9.2 All other clauses do not require updates in the Settlement Market Procedure as the procedure references the clause number only

Compliance of the IMO’s Market Procedures with Chapter 9 of the Market Rules

- We have noted one (non-material) instance where the IMO’s Market Procedures are non-compliant with the Market Rules as set out in Table 21:
 - The IMO’s Capacity Credit Allocation Market Procedure is non-compliant with MR 9.5.2, as it states a precision factor that is inconsistent with the Rules.
- It is therefore our opinion that the IMO’s Market Procedures comply with Chapter 9 of the Market Rules in all material respects.

12.1.3 Internal Procedures

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 9 have been updated since last year's market audit:

- Market Operations procedures:
 - 2.1.1 Registration procedure
 - 2.2.5 IRCR & Reserve Capacity Allocation Monitoring
 - 2.3.3 Settlement procedure
 - 2.3.4 Settlement Contingency procedure
- Finance procedures
 - 5.1 Handling Guarantees and Bank Undertakings

Compliance of the IMO's Internal Procedures with Chapter 9 of the Market Rules

- We have noted one instance in which the IMO's Internal Procedures were non-compliant with the Market Rules. However, the non-compliance is non material:
 - The IMO's Internal Procedure 2.3.3 Settlement is non-compliant with MR 9.24.8. The non-compliance relates to an error in the documented timeline (in Internal Procedure 2.3.4 Settlement Contingency procedure) for paying out a default levy under MR 9.24.8¹⁰.
- It is therefore our opinion that the IMO's Internal Procedures comply with Chapter 9 of the Market Rules in all material respects.

12.2 Compliance with Chapter 9 of the Market Rules

12.2.1 Incidents

The details of incidents associated with Chapter 9 of the Market Rules are summarised in Table 22. Two breaches of Chapter 9 were noted both of which were deemed to be non-material. Actions have already been undertaken or identified in respect of each breach to ensure similar incidents do not recur.

12.2.2 Opinion

Our opinion is as follows:

- The IMO has been non-compliant with some of its obligations under Chapter 9 of the Market Rules, but the non-compliance has not been material as set out in Table 22.
- We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 9 of the Market Rules in all material respects.

¹⁰. The IMO has identified corrective actions to address this non-compliance.

Table 22: Incidents of non-compliance with Chapter 9

Rule	The Issue	Material?	Comment
9.19.1(b) (self-reported)	Clause 9.19.1(b) requires the IMO to provide adjusted Non-STEM Settlement Statements for an adjustment (containing the information contained in Clause 9.18.3) to Rule Participants in accordance with Appendix E of the Settlement Cycle Timeline. On 15 January 2014, the IMO failed to publish Non-STEM Adjustment Participant Information Reports (PIRs) for the December 2012 (Adjustment 3) as specified in Appendix E of Settlement Cycle Timeline.	No	<p>This breach occurred as a result of operator error whereby the operator chose the incorrect date range during the settlement statements and invoicing process and published old PIRs instead.</p> <p>We note that participants still received their invoices in compliance with the settlement cycle timelines.</p> <p>The breach was discovered when a market participant queried whether the PIRs had been published. The IMO published the correct within hours of the query and therefore the querying market participant suffered no operational impact.</p> <p>In terms of the market impacts of further breaches of this nature, we understand that only two participants use PIRs for shadow settlement purposes. Further breaches (although undesirable) would likely have limited market impact as the IMO would be able to release the PIRs to participants very soon after any breach was reported by a participant.</p>
9.4.7	Clause 9.4.7 of the Market Rules requires the IMO to confirm receipt of a Capacity Credit Allocation Submission from a Market Participant (made under clause 9.4.6) by telephone within 30 minutes of receiving the submission. The IMO has automated the receipt of Capacity Credit Allocation Submissions in WEMS, and is therefore in technical breach of clause 9.4.7 (as it does not confirm receipt via telephone).	No	<p>This is a non-material technical breach as the IMO is complying with the intent of the rule (by automating confirmation receipts), and confirmation by telephone is unnecessary.</p> <p>We note that the IMO will be initiating a rule change to align this clause with operational practice.</p>

13 MARKET RULE CHAPTER 10 – MARKET INFORMATION

Market Rule Chapter 10 sets out the Market Information Rules which are the responsibility of the IMO in its Market Administration role.

13.1 Compliance of the IMO's processes and procedures

13.1.1 Rule amendments

The following clauses in Chapter 10 have been amended since last year's annual audit:

Table 23: Rule amendments to Chapter 10

Date	Rule change	Clauses amended
1 Oct 2013	RC_2012_11	10.5.1, 10.5.3 (new)
25 Nov 2013	RC_2013_07	10.5.1
1 Jan 2014	RC_2013_18	10.5.1, 10.8.2

13.1.2 Market Procedures

Updates to Market Procedures

The following Market Procedures relating to Chapter 10 of the Market Rules have been updated since last year's market audit:

- IMS Interface Procedure.

Relationship between Rule updates and Market Procedures

The extent to which the Rule changes have been reflected in updates to the IMO's Market Procedures is set out in Table 24.

Table 24: Relationship between Rule changes to Chapter 9 and IMO Market Procedure updates

Rule change	Clauses amended	Description	Market Procedures updated
RC_2012_11	10.5.1, 10.5.3 (new)	Changes to outage disclosure requirements.	The IMS Interface procedure has been updated to reflect the data that System Management must send to the IMO to discharge its new obligations under RC_2012_11
RC_2013_07	10.5.1	Corrections to typos and manifest errors	No updates to Market Procedures required
RC_2013_18	10.5.1, 10.8.2	Changes to reflect Verve/Synergy merger.	No updates to Market Procedures required

Compliance of the IMO's Market Procedures with Chapter 10 of the Market Rules

It is our opinion that the IMO's Market Procedures comply with Chapter 10 of the Market Rules in all material respects.

13.1.3 Internal Procedures

Updates to Internal Procedures

The following Internal Procedures relating to Chapter 10 have been updated since last year's market audit:

- 4.4.3 Publish to Web.

Compliance of the IMO's Internal Procedures with Chapter 10 of the Market Rules

It is our opinion that the Internal Procedures comply with Chapter 10 of the Market Rules in all material respects.

13.2 Compliance with Chapter 10 of the Market Rules

13.2.1 Incidents

The details of incidents associated with Chapter 10 of the Market Rules are summarised in Table 25. Two breaches of Chapter 10 were noted both relating to Clause 10.2.4. Neither incident was deemed to be material. Actions have already been undertaken or identified in respect of each breach to ensure similar incidents do not recur.

13.2.2 Opinion

Our opinion is as follows:

- The IMO has been non-compliant with one of its obligations under Chapter 10 of the Market Rules, but the non-compliance has not been material as set out in Table 25.
- We have not observed anything that causes us to believe that the IMO has not complied with its obligations under Chapter 10 of the Market Rules in all material respects.

Table 25: Incidents of non-compliance with Chapter 10

Rule	The Issue	Material?	Comment
10.2.4 (self-reported)	<p>Clause 10.2.4 states that, subject to certain exceptions, a Rule Participant must not provide "information or documents of a given confidentiality status" to any person.</p> <p>The IMO published certain market consumption share information for market customers on its website and in its Statement of Opportunities. That information is determined by the IMO under clause 9.3.7. No confidentiality status has been set for information determined by the IMO under clause 9.3.7. However, because that consumption share information is used to calculate certain amounts in Non-STEM Settlement Statements, and because Non-STEM Settlement Statements are "Rule Participant Market Restricted" information, it follows that the consumption share information derived under clause 9.3.7 would likely be "Rule Participant Market Restricted".</p> <p>Therefore, by publishing the Consumption Share information the IMO was in breach of Rule 10.2.4.</p>	No	<p>This breach was attributable to the lack of clarity around some of the confidentiality provisions in Chapter 10. In this respect we note that the chapter has recently been reviewed to increase clarity and specificity, and the IMO is in the process of rewriting the chapter.</p> <p>We note this breach would have had no impact on market outcomes as the consumption share data is not commercially sensitive information and should have been classified as Public.</p> <p>The IMO intends to make that information publicly available by assigning the information a confidentiality status of "Public", following which the relevant information will be reinstated on the website.</p>
10.2.4 (self-reported)	<p>Clause 10.2.4 of the Market Rules states that (subject to limited exceptions) the IMO must not provide information or documents of a given confidentiality status to any person.</p> <p>On 9 April 2014 the IMO mistakenly emailed a participant's prepayment adjusted invoice for the February 2014 initial settlement to another participant. The invoice included the relevant Settlement Statement under clause 9.22.2 (which is classified as Rule Participant Market Restricted under clause 10.7.1(e)).</p>	No	<p>This breach occurred because the generation of prepayment adjusted invoices at the time was a manual process (since then the process has been partially systemised). Particularly, the application of prepayments and subsequent adjustment invoice process was fully manual. The error was a copy and paste error whereby the settlement analyst had accidentally copied and pasted one participant's details into another participant's adjustment letter.</p> <p>As noted above, this process is now partially systemised which should mitigate the risk of such a breach recurring. We also note that there are plans to fully systemise this process in the future.</p> <p>We also note that the IMO notified both the receiving participant (requesting the deletion of the email, which the participant immediately complied with) and the affected participant.</p> <p>We note that this breach would have had no market impact as the receiving participant could not have used the affected participant's invoice data to any competitive advantage.</p>

APPENDICES

A **RULE CHANGES SINCE THE LAST MARKET AUDIT**

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A RULE CHANGES SINCE THE LAST MARKET AUDIT

Table 26 summarises the rule changes that have taken place since 9 August 2013 (last year's audit).

Table 26: Market rule changes 9 August 2013 - 31 July 2014.

Date	RC Ref	Clauses amended	Nature of change
12-Aug-13	RC_2012_03	IMO amended clauses 4.1.13, 4.13.9, 4.14.3, 4.14.10, 4.15.2, 4.20.5A, 4.20.5B, 4.20.5C and 4.20.5D.	Changes to enable the IMO to assign Certified Reserve Capacity (CRC) to facilities that are subject to an Network Control Services (NCS) contract or have a long-term Special Price Arrangement.
1-Sep-13	RC_2012_22	IMO amended clauses 7.9.1, 7.9.1A, 7.9.5, 7.9.13 (new), 7.9.14 (new), 7.9.15 (new), 7.9.16 (new), 7.9.17 (new), 7.9.18 (new) and 7.9.19 (new).	Changes to introduce exemptions from synchronisation notifications for qualifying facilities. This rule change had no impact on IMO procedures as all relevant obligations are owned by System Management.
2-Sep-13	RC_2013_05	IMO amended clauses 3.23 (new), 7A.3.7, 7A.3.7A (new) and the Glossary.	Change formalizes: <ul style="list-style-type: none"> • System Management's obligations to provide End of Interval (EOI), Relevant Dispatch Quantity (RDQ) data and data to support the LoadWatch publication • IMO's obligation to publish LoadWatch
23-Sep-13	RC_2013_11	IMO amended the Appendices and the Glossary.	Changes related to the selection of the 12 Peak Trading Intervals used for Calculation of IRCR. The rule change had no impact on the IMO's procedures as the obligation is implemented through software - refer to report Audit 2: Compliance of the IMO's market software systems and processes for software management.
1-Oct-13	RC_2012_11	IMO amended clauses 3.18.6, 7.13.1D (new), 7.13.1E (new), 7.13.1F (new), 7.13.1G (new), 10.5.1 and 10.5.3 (new).	Changes to outage disclosure requirements.
1-Nov-13	RC_2009_15	IMO amended clauses 2.16.9F, 2.16.9FA and 2.16.9FB.	Clarifications of ERA's market monitoring obligations. These changes (involving Protected Provisions) were originally implemented in 2 September 2009 without ministerial approval. Hence, they were re-implemented on 1 November with ministerial approval.
1-Nov-13	RC_2012_09	IMO amended clause 4.5.10.	Changes to Protected Provisions to clarify availability curve calculations; originally implemented in 1 January 2013 but re-implemented on 1 November 2013 with Ministerial approval.

Date	RC Ref	Clauses amended	Nature of change
1-Nov-13	RC_2012_16	IMO amended clauses 2.13.6L(new) and 6.17.9.	Changes to align settlement and dispatch tolerances (Protected Provisions) were originally implemented in 1 January 2013 but without ministerial approval. The rule change was re-implemented on 1 November 2013 with ministerial approval.
25-Nov-13	RC_2013_07	IMO amended clauses 1.10.3, 2.2.2, 2.13.6B, 2.22.4, 2.22.8A, 2.22.12, 2.22.13, 2.22.14, 2.23.4, 2.23.8A, 2.23.12, 2.23.13, 2.29.4, 2.30A.2, 2.30B.3, 2.31.6, 2.31.8, 2.31.15, 2.31.16, 2.33.5, 2.34.2A, 3.3.2, 3.11.9, 3.13.3C, 3.16.9, 3.17.9, 3.18.2, 3.18.2A, 3.18.3, 3.18.11, 3.18.11A, 3.19.6, 4.1.4, 4.1.5, 4.1.6, 4.1.7, 4.1.8, 4.1.10, 4.1.11, 4.1.12, 4.1.13, 4.1.14, 4.1.15, 4.1.15A, 4.1.16, 4.1.17, 4.1.18, 4.1.20, 4.1.21, 4.1.21A, 4.1.21B, 4.1.23, 4.1.24, 4.5.10, 4.9.4, 4.9.5, 4.13.11, 4.13.11A, 4.14.1, 4.14.7, 4.14.11, 4.19.3, 4.20.1, 4.21.1, 4.23A.2, 4.23A.3, 4.23A.4, 4.24.2, 4.25.4E, 4.25.5, 4.25A.1, 4.25A.2, 4.25A.3, 4.25A.4, 4.25A.5, 4.27.10, 4.28.1, 4.28C.2, 6.3A.4, 6.6.10, 7.10.2, 7A.3.10, 7B.1.5, 9.5.2, 9.10, 9.10A, 9.16.1, 9.16.2, 9.16.4, 9.19.3, 9.20.5, 9.23.3, 9.23.6, 9.23.7, 10.5.1 and the Glossary.	Corrections to typos and manifest errors.
30-Dec-13	RC_2013_18	IMO amended clauses 1.11 (new) and 6.12.1.	Changes to reflect Verve/Synergy merger.
1-Jan-14	RC_2013_08	IMO amended clauses 2.25.1A (new), 2.25.1B (new), 2.25.4, 9.1.2, 9.16.3, 9.16.3A, 9.19.1 and the Glossary.	Changes to clarify treatment of GST in Market Fees, Regulatory Fees and System Operation Fees and to adjust the definitions of Regulatory Fees and System Operations Fees to indicate these are paid to the IMO.

Date	RC Ref	Clauses amended	Nature of change
1-Jan-14	RC_2013_18	IMO amended clauses 1.10.2, 1.10.3, 2.2.2, 2.3.5, 2.16.7, 3.11.7A, 3.11.8, 3.13.3A, 3.13.3AB, 4.12.1, 4.14.4, 4.14.5, 4.23A.2, 4.26.2, 6.5.1, 6.5.1A, 6.5.4, 6.5C.1, 6.11.1, 6.11.3, 6.15.1, 6.15.2, 6.16B.1, 6.16B.2, 6.17.1, 6.17.5, 6.17.5A, 6.17.5B, 6.17.9, 6.17.10, 6.21.2, 7.5.4, 7.6.2, 7.6.2A, 7.6.12, 7.6A.1, 7.6A.2, 7.6A.3, 7.6A.4, 7.6A.5, 7.6A.6, 7.6A.7, 7.6A.8, 7.7.1, 7.10.7, 7.11.5, 7.12.1, 7.13.1, 7.13.1A, 7.13.1C, 7A.1.14, 7A.2.1, 7A.2.2, 7A.2.3, 7A.2.9, 7A.2.10, 7A.2.12, 7A.3.1, 7A.3.5, 7A.4.1, 7A.4.2, 7A.4.4, 7A.4.5, 7A.4.6, 7A.4.8, 7A.4.9, 7B.2.1, 7B.2.2, 7B.2.3, 7B.2.4, 7B.2.5, 7B.2.6, 7B.3.7, 7B.4.1, 7B.4.2, 9.8.1, 9.9.1, 9.9.2, 9.18.3, 10.5.1 and 10.8.2, the Glossary and Appendices 1, 2 and 9.	Changes to reflect Verve/Synergy merger.
1-May-14	RC_2012_23	IMO amended clauses 2.37.1, 2.37.2, 2.37.3, 2.37.4, 2.37.5, 2.37.6, 2.37.7, 2.37.8, 2.37.9, 2.38.1, 2.38.2, 2.38.3, 2.38.4, 2.38.7, 2.40.1, 2.41.2, 2.41.3, 2.41.5 (new), 2.42.1, 2.42.2, 2.42.3, 2.42.4, 2.42.7, 2.43.1, 4.13.1, 4.13.2C, 4.13.3, 4.13.4, 4.13.5 and the Glossary.	<p>Changes to rules and guidelines around prudential requirements:</p> <ul style="list-style-type: none"> • Aligning rules around credit limit determination with operational practice • Including a head of power (for the Prudential Requirements Market Procedure) to specify guidelines to calculate the Expected Value of transaction. • Enabling the IMO to take into account prepayments when calculating Outstanding Amount (in respect of Margin Calls) • Removing concept of Typical Accrual and enabling the IMO to issue a Margin Call when the Trading Margin falls below zero • Providing greater clarity on Market Participant obligations with respect to amount, type of arrangement and timeline for Credit Support replacement, and amending Reserve Capacity Security requirements for consistency • Placing the obligation on Market Participants (as opposed to the IMO) to show that their Credit Support Provider still meets Acceptable Credit Criteria.
1-May-14	RC_2013_17	IMO amended clauses 6.15.2, 7.7.5A, 7.7.5B and Appendix 9.	Change to enable the IMO to use revised estimates of an intermittent generator's generation during peak intervals when setting the Relevant Level under Appendix 9.



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Corporate headquarters

123 Buckingham Palace Road
London SW1W 9SR
United Kingdom
Tel: +44 20 7730 9000

paconsulting.com

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