

# **Gas Wholesale Market Discussion with Market Participants**

**December 2019**

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# 1. FY19 Summary

As required by the National Gas Rules, AEMO have engaged PwC to undertake a limited assurance review of the Victorian Declared Wholesale Gas Market (DWGM) and the Short Term Trading Market (STTM) for the year ended 30 June 2019.

## Wholesale Gas Markets - Objective and Scope

The objective of the review was to consider AEMO's internal control procedures to support compliance with the National Gas Rules for the Victorian Declared Wholesale Gas Market and Short Term Trading Market.

The review considered the following areas:

- The calculations and allocations performed by the metering and settlements system
- Billing and information systems
- The scheduling and pricing processes
- Processes for software management
- The linepack account
- AEMO's compliance with Part 19 and 20 of the National Gas Rules

The review also considered compliance with AEMO Information Technology procedures, focusing on the following IT General Computer Control domains:

- |                                     |   |
|-------------------------------------|---|
| • Security & User Access Management | • Program Development   |
| • Change Management                 | • Computer Operations including Backup and Disaster Recovery Planning |

## Overall Results

No review qualifications and / or significant findings were reported for the Wholesale Gas Markets in scope for FY19.

- **Eight (8)** new findings were reported for the Declared Wholesale Gas Market
- **Three (3)** new findings were reported for the Short Term Trading Market. These were identified through management's self-assessment process or PwC independent testing\*:



\* Refer to individual market summaries for further details

# 1.1 FY19 Summary

## Victorian Declared Wholesale Gas Market

No review qualifications were reported for the Victorian Declared Wholesale Gas Market in FY19.

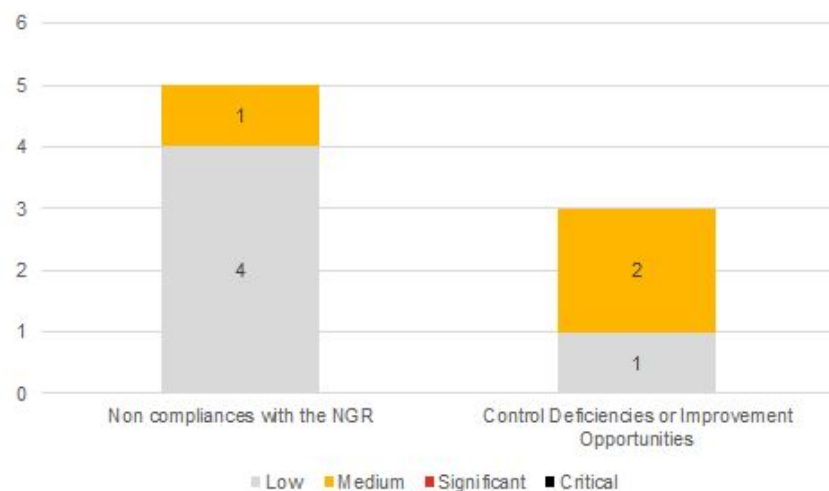
### Management reported items

**Three (3)** new findings were reported through Management's self-assessment process during FY19.

### PwC reported items

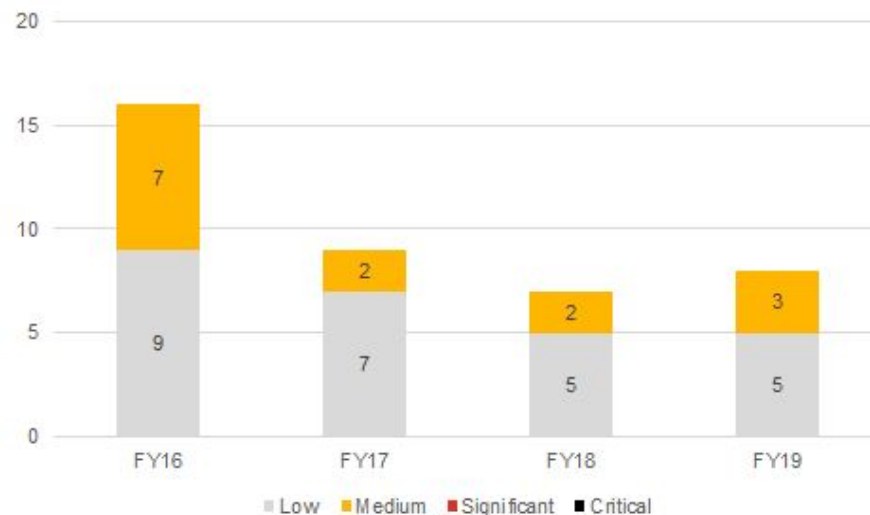
**Two (2)** new 'Medium' and **three (3)** new 'Low' rated findings were reported through PwC independent testing during FY19.

The graph below represents the eight (8) total new findings for the Victorian Declared Wholesale Gas Market.



Good progress has been made in closing prior period findings, with **two (2)** findings identified in FY18 now closed and **two (2)** findings reported in FY19 now closed.

### Comparison of prior period results



### Open Findings

Following completion of PwC's review, the findings which remain open as at 30 June 2019 are outlined below by process area and risk rating:

	Critical	Significant	Medium	Low
Operations	0	0	0	1
Settlements	0	0	0	2
Metering	0	0	1	0
IT	0	0	5	3
<b>Total Open</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>6</b>

Refer to Appendix A for risk rating definitions.

# 1.2 FY19 Summary

## Short Term Trading Market

No review qualifications were reported for the Short Term Trading Market in FY19.

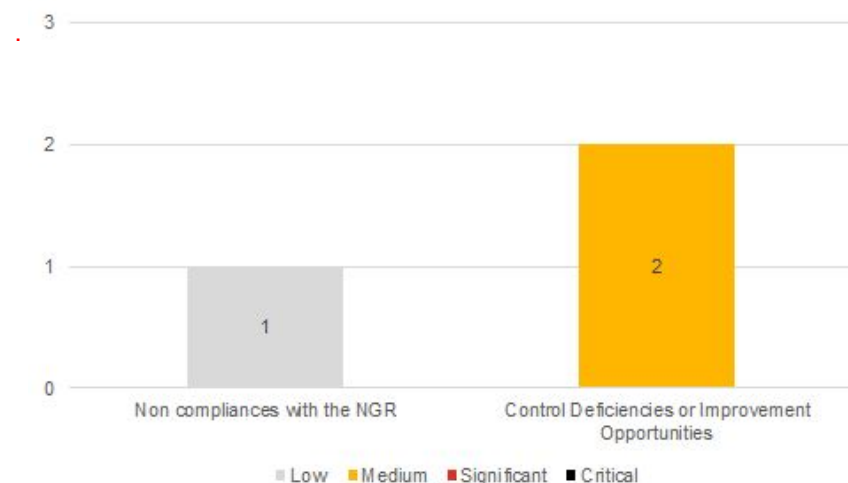
### Management reported items

**One (1)** new finding was reported through Management's self-assessment process during FY19.

### PwC reported items

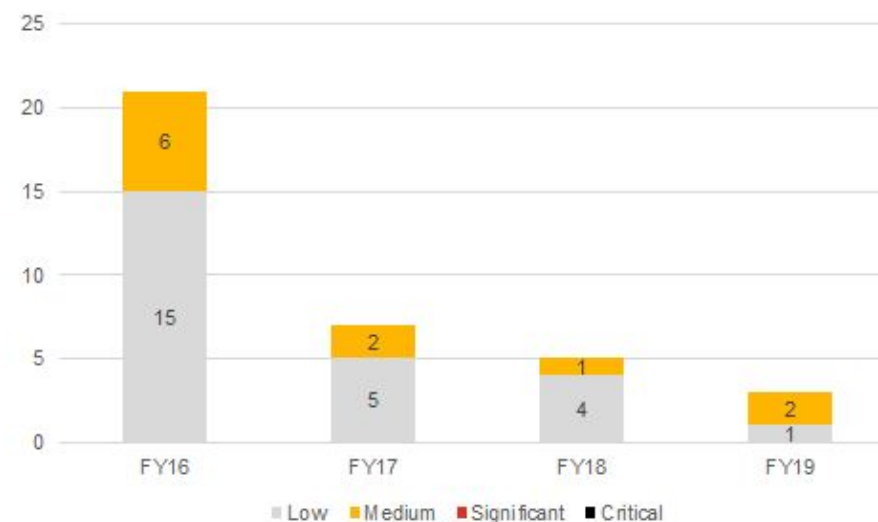
**Two (2)** new 'Medium' rated findings were reported through PwC independent testing during FY19.

The graph below represents the three (3) total new findings for the Short Term Trading Market.



Good progress has been made in closing prior period findings, with **one (1)** finding identified in FY18 now closed.

### Comparison of prior period results



### Open Findings

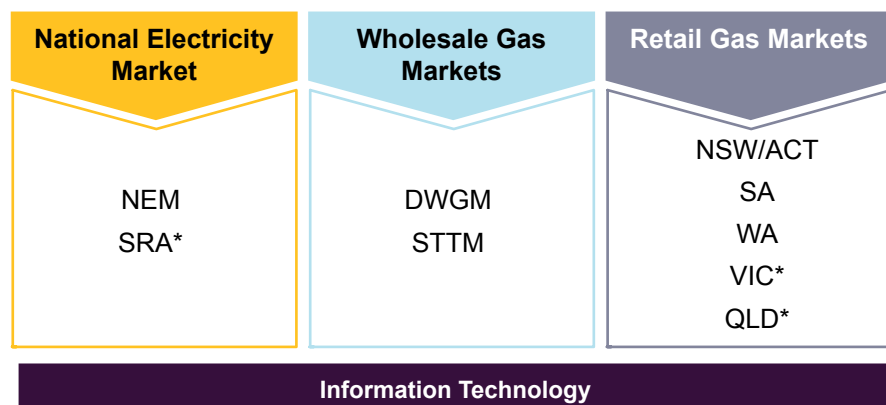
Following completion of PwC's review, the findings which remain open as at 30 June 2019 are outlined below by process area and risk rating:

	Critical	Significant	Medium	Low
Scheduling and dispatch	0	0	0	1
IT	0	0	5	3
<b>Total Open</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>4</b>

Refer to Appendix A for risk rating definitions.

## 2. FY20 Overview and Approach

The FY20 Market Audit review will be undertaken for the following markets:



The review will involve the following activities:

- Review non-compliances reported by AEMO management
- Follow up the implementation status of prior period actions (in conjunction with AEMO Risk and Compliance)
- Understand the design effectiveness of key control procedures, including changes or developments since the last assessment
- Sample testing and data analysis procedures to understand the operating effectiveness of key controls for the period 1 July 2019 to 30 June 2020
- Preparation of report and review opinions.

\*The scope for the Victoria and Queensland Retail Gas Markets and the Settlement Residue Auction will be limited to following up the implementation status of prior market findings and considering non compliances reported by AEMO only.

### Wholesale Gas Markets Scope

#### Victorian Declared Wholesale Gas Market

The assurance requirements for the Declared Wholesale Gas Market (DWGM) require an annual review of AEMO's compliance with the National Gas Rules (NGR) in the following areas:

The review is required to cover:

- The calculations and allocations performed by the metering and settlements system
- Processes for software management
- Billing and information systems
- The linepack account
- Scheduling and dispatch processes
- AEMO's compliance with Part 19 of the National Gas Rules

#### Short Term Trading Market

The assurance requirements for the Short Term Trading Market (STTM) require an annual review of AEMO's compliance with the National Gas Rules (NGR) in the following areas:

- The calculations and allocations performed by the metering and settlements system
- Processes for software management
- Billing and information systems
- AEMO's compliance with Part 20 of the National Gas Rules
- Scheduling and dispatch processes

### Technology

The review will also consider compliance with AEMO Information Technology procedures, focusing on the following IT General Computer Control domains:

• Security & User Access Management	• Program Development
• Change Management	• Computer Operations including Backup and Disaster Recovery Planning

# 3. Next Steps

Further areas of focus or comments?



Provide comment now



Email to AEMO:  
[audit.assurance@aemo.com.au](mailto:audit.assurance@aemo.com.au)

## Next Steps



Consider feedback from Market  
Participants



Present FY20 assurance  
approach to AEMO Risk and  
Audit Committee

# Appendix A: Context

## Risk and Compliance Ratings

The control observations have been categorised noted according to AEMO's risk and compliance rating methodology adopted by the Risk and Audit Committee as follows:

Risk Rating	Definition
Critical	Findings which may have a catastrophic impact on market operations if they are not addressed immediately and require executive action with regular reporting at Board level.
Significant	Findings which may have a major impact on market operations if they are not addressed as a matter of priority. These findings require senior management attention with regular monitoring and reporting at executive and Board meetings.
Medium	Findings which may have a moderate impact on market operations if they are not addressed within a reasonable timeframe. These findings require management attention with regular ongoing monitoring.
Low	Findings which may have a minor impact on market operations if they are not addressed in the future. These findings are the responsibility of management with regular monitoring and reporting at staff meetings.

Compliance Rating	Definition
Level 1	Evidence of non-compliance with review criteria. These should be addressed as a matter of high priority. (Breach)
Level 2	Issues which could possibly result in non-compliance with review criteria but where no evidence of actual non-compliance was found. However, there is considered to be insufficient formal evidence of controls in place or being actioned in relation to these issues. These should generally be addressed within one to two months. (Improvements in AEMO's controls to prevent a potential breach)
Level 3	Housekeeping matters and opportunities for improving internal controls and procedures. These should be addressed within three to six months. (Better controls but not critical to prevent a breach)

## Materiality

When assessing materiality, qualitative and quantitative factors have been considered, including:

- the purpose of the engagement and specific requirements of the engagement
- the economic, social, political and environmental impact of control weaknesses
- the importance of an identified control weakness in relation to the area of activities and the entity's overall objectives
- the impact of a centralised function on other parts of the entity
- public perception and/or interest in the area of activity
- the cost of alternative controls relative to their likely benefit
- the length of time an identified control weakness was in existence.

## Scope exclusions

PwC's review did not include application and IT controls over systems that are operated by external organisations, the compliance with Service Level Requirements, or the control procedures in place at those agencies not controlled by AEMO. PwC accept no responsibility for the adequacy or accuracy of work performed by the AEMO or the independent certifiers in relation to system certification. PwC accept no liability to AEMO or to any other person for any part of PwC's review report that relies on or assumes the adequacy of system certification.

## AEMO Management's responsibilities

AEMO Management is responsible for maintaining an effective internal control structure, including control procedures. This responsibility includes establishing and maintaining internal controls relevant to compliance with the National Gas Rules and the preparation and fair presentation of information that is free from material misstatement.

## Use of Report

PwC's report has been prepared for distribution to the Board of Directors of AEMO. PwC disclaim any assumption of responsibility for any reliance on this report to any other person other than the Board of Directors, or for any purpose other than that for which it was prepared.

## PwC's Responsibilities

PwC's responsibility is to express a conclusion based on their limited assurance procedures, on whether anything has come to their attention to indicate that the AEMO internal control procedures in relation to the areas listed under the Scope section 1, have not been, in all material respects, effectively designed and operated, in order to comply with the relevant criteria outlined in the respective National Gas Rules..

## Inherent Limitations

Because of the inherent limitations of any internal control system, there is the possibility of management override of controls, non-compliance, misstatements due to error or fraud may occur and not be detected. Further, the internal compliance and control culture has not been reviewed and no view is expressed as to its effectiveness. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement. A limited assurance engagement is not designed to detect all weaknesses in the internal compliance and control system as it is not performed continuously throughout the reporting period and any testing is performed on a sample basis. Also a limited assurance engagement does not provide all the evidence that would be required in a reasonable assurance engagement (an audit), thus the level of assurance is less than that given in an audit. PwC have not performed an audit and, accordingly, do not express an audit opinion.

Any projections of any evaluation of the internal compliance and control system to future periods is subject to the risk that the internal compliance and control system may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

