# WA Independent Market Operator

Compliance of System Management's procedures and business processes with the Market Rules and System Management's compliance with the Market Rules and Market Procedures

1 September 2009

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# 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 System Management's internal procedures and business processes with the Market Rules, and System Management's compliance with the Market Rules and Market Procedures.

This market audit has been carried out under Market Rule 2.14.6 (b) which requires that

... the IMO must at least annually, and may more frequently where it reasonably considers that System Management may not be complying with the Market Rules and Market Procedures:

(a) require System Management to demonstrate compliance with the Market Rules and Market Procedures by providing such records as are required to be kept under these Market Rules or any Market Procedure or

(b) subject System Management to an audit by the Market Auditor to verify compliance with the Market Rules and Market Procedures.

PA has found that System Management has, with some minor exceptions, complied with its obligations under the Market Rules. One of the exceptions noted is the subject of discussion between System Management and the IMO as to the form of an appropriate Rule Change. The others are considered not to be material.



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# 1. INTRODUCTION

This document sets out the results of the market audit by PA Consulting Group in carrying out its assessment of the compliance of System Management's Internal Procedures and business processes with the Market Rules, and of System Management's compliance with those Market Rules and Market Procedures.

# 1.1 SCOPE OF THE MARKET AUDIT

This market audit has been carried out under Market Rule 2.14.6, which requires that:

- 2.14.6. In accordance with the Monitoring Protocol, the IMO must at least annually, and may more frequently where it reasonably considers that System Management may not be complying with the Market Rules and Market Procedures:
  - require System Management to demonstrate compliance with the Market Rules and Market Procedures by providing such records as are required to be kept under these Market Rules or any Market Procedure; or
  - (b) subject System Management to an audit by the Market Auditor to verify compliance with the Market Rules and Market Procedures.

#### 1.2 MARKET AUDIT PROCESS

This year's market audit of System Management has taken the form on an "incremental" audit.

We have looked in detail at the clauses in the Market Rules and System Management's Power System Operation Procedures and its Internal Procedures where:

- The clauses in the Market Rules are new or amended since last year's annual audit;
- The Power System Operation Procedures and Internal Procedures are new or updated since last year's annual audit;
- The Internal Procedures related to areas of non-compliance which were identified in last year's annual audit; and
- The Internal Procedures related to areas of alleged breaches of the Market Rules by System Management since last year's annual audit

That is, we have looked in particular at areas that have changed (or should have changed) since last year's annual audit

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

1. Ensured that it is up to date with its understanding of the West Australia Electricity Market Rules;

- 2. Identified new or amended obligations placed on System Management by amendments to the Market Rules that have come into force since the previous market audit dated 10 September 2008;
- 3. Mapped those obligations identified in step 2 to the applicable Internal Procedures;
- 4. Identified new System Management Internal Procedures that are new or have been updated since the previous market audit dated 10 September 2008;
- 5. Identified System Management Internal Procedures that relate to areas of noncompliance identified in the previous market audit dated 10 September 2008;
- 6. Reviewed the System Management procedures identified in steps 3, 4 and 5 for compliance with the Market Rules;
- 7. Sought evidence that System Management is following those procedures so as to comply with the Market Rules;
- 8. Had discussions with System Management managers and staff to clarify issues identified; and then
- 9. Prepared a draft report setting out our findings followed by a final report.

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 operating 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 complies with the Market Rules, nor does it examine all evidence and every transaction. However, our audit procedures should identify errors or omissions sufficiently significant 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 System Management not carry out a requirement of the Market Rules, those cases that are material will have affected either the IMO or market participants and will have been raised by affected parties.

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

- Material in that they 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 or 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 or otherwise affect the outcome of the market.

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# 1.3 STATUS OF THE POWER SYSTEM OPERATION PROCEDURES

Previous annual market audits have concentrated on System Management's Internal Procedures as it was acknowledged that their Power System Operation Procedures required up-dating to comply fully with the Market Rules.

In the period since the 2008 Annual Market Audit, System Management has rewritten many of their Power System Operation Procedures with some still moving through the approval process.

Therefore, this audit has considered both the Power System Operation Procedures<sup>1</sup> and the Internal Procedures.

The following System Operation Procedures have been approved since the last market audit.

Title	MR Clauses	Commenced
Power System Security	3.1 - 3.6, and 3.10	01/02/2009
Ancillary Services	3.9 - 3.11 and 3.13	01/04/2009
Facility Outages	3.18 - 3.21	01/04/2009
MT PASA	3.9 - 3.11 and 3.13	01/04/2009
ST PASA	3.17	01/04/2009
Operational Data Points For Generating Plant	2.35.4	01/08/2009
Operational Data Points For Non-Western Power Networks, Substations, And Loads	2.35.4	01/08/2009
Commissioning and Testing	3.21A and 4.25.7	01/09/2009
Communications and Control Systems	2.35.4	01/09/2009

Note that the *Communications and Control Systems* and *Commissioning and Testing* procedures have been approved but do not come into force until 1 September 2009.

The following Power System Operation Procedures are undergoing consultation prior to being issued and are not a part of this market audit.

Title	Status
Monitoring and Reporting Protocol	Ready for consultation
Dispatch	Under consultation

# 1.4 STRUCTURE OF THIS REPORT

This report contains PA's analysis of the operation of System Management on a Market Rules chapter by chapter basis.

However, when considering the mapping of System Management procedures to the Market Rules, it is relevant that these procedures are written around functions performed by System Management, rather than directly around requirements of the rules. By

<sup>&</sup>lt;sup>1</sup> Posted at <u>http://www.imowa.com.au/n709,4.html</u>, 20 August 2009.

#### 1. Introduction

contrast, because the IMO's functions are defined by the nature of the Rules, its procedures are written to ensure compliance on a Rule by Rule basis.

Appendix A contains a summary table which updates the status of the issues raised in last year's audit report.

Appendix B records the mapping of Market Rule obligations to the appropriate Power System Operation Procedures and System Management Internal Procedures.

# 1.5 ACKNOWLEDGEMENTS

PA would like to thank the managers and staff of System Management who willingly provided information and shared in discussions with us while we carried out this market audit.



# 2. MARKET RULE CHAPTER 1 – INTRODUCTION

Market Rule Chapter 1 sets out the Introduction to the Market Rules such as the objectives of the market, glossary and role of System Management.

# 2.1 DOCUMENTATION

There are neither Power System Operation Procedures nor Internal Procedures relevant to Chapter 1 of the Market Rules.

#### 2.2 COMPLIANCE WITH CHAPTER 1

The obligations placed on System Management under Chapter 1 of the Market Rules relate to transitional matters or matters that expired at the Energy Market Commencement.

#### 2.3 OPINION

System Management has no current obligations under Chapter 1 of the Market Rules.

# 3. MARKET RULE CHAPTER 2 – ADMINISTRATION

Chapter 2 of the Market Rules sets out the Functions and Governance Rules which affect both the Market Development and Market Operations functions of System Management.

# 3.1 DOCUMENTATION

The following Power System Operation Procedures relevant to Chapter 2 of the Market Rules are new or updated since the previous market audit:

- Operational Data Points For Generating Plant;
- Operational Data Points For Non-Western Power Networks, Substations, And Loads; and
- Communications and Control Systems.

# 3.2 AMENDMENTS TO CHAPTER 2 OF THE MARKET RULES

The following clauses in Chapter 3 which relate to System Management's obligations have been amended since the last annual audit:

• 2.14.6A and 2.14.8.

# 3.2.1 Clauses 2.14.6A and 2.14.8

Clauses 2.14.6A and 2.14.8 require System Management to respond to an audit report prepared under clauses 2.14.6(b) and 2.14.7 respectively and sent to it by the IMO.

# 3.3 COMPLIANCE WITH CHAPTER 2

PA has reviewed the above Power System Operation Procedures and associated Internal Procedures. The procedures to be followed are fully documented and, if followed, should result in compliance with the Market Rules. We have examined the records for instances of non-compliance and found none.

# 3.4 OPINION

System Management has complied with its obligations under Chapter 2 of the Market Rules.



# 4. MARKET RULE CHAPTER 3 – POWER SYSTEM SECURITY AND RELIABILITY

Market Rule Chapter 3 of the Market Rules sets out the Power System Security and Reliability Rules which affect the Market Development, Market Operations, System Planning and System Operations functions of System Management.

# 4.1 DOCUMENTATION

The following Power System Operation Procedures relevant to Chapter 3 of the Market Rules is new since the previous market audit:

- Power System Security;
- Ancillary Services;
- Facility Outages;
- MT PASA;
- ST PASA; and
- Commissioning and Testing.

# 4.2 AMENDMENTS TO CHAPTER 3

The following clauses in Chapter 3 which relate to System Management's obligations have been amended since the last annual audit:

- 3.7.3 and 3.7.6;
- 3.11.8E; and
- 3.21A.7A.

# 4.2.1 Clauses 3.7.3 and 3.7.6

These clauses relate to the system restart following a blackout and expand on the previous clauses by requiring System Management to publish guidelines for market participants in preparing their own black start procedures and allowing System Management to review and require changes to those procedures. See Rule Change RC\_2008\_21 for details.

# 4.2.2 Clauses 3.11.8E

This clause prevents System Management including any component of the payment of energy in an Ancillary Services Contract and require that the contract include specified values for settlement parameters. See Rule Change RC\_2008\_17 for details.

# 4.2.3 3.21A.7A

This clause sets out the conditions under which System Management may not accept a request for a commissioning test for a facility which has yet to commence operation.

# 4.3 COMPLIANCE WITH CHAPTER 3

In the past we have noted that System Management applies a 10 MW tolerance when reporting outages. System Management continue to apply this tolerance and so might be deemed not to comply with 3.21.4. However, we note that, whilst System Management does not consider its conduct in this area to be a breach of the Market Rules (which are silent concerning the use or otherwise of tolerances for compliance reporting), System Management is seeking to create greater levels of certainty in the Market Rules in this area through discussions with the IMO in an attempt to agree an appropriate setting and use of such tolerances.

The procedures to be followed have been examined, are fully documented and, if followed, will ensure compliance with the Market Rules. Other than the above non-compliance, no other non-compliances have been noted.

# 4.4 OPINION

Other than the tolerance issue referred to above, System Management chasomplied with its obligations under Chapter 3 of the Market Rules.

# 5. MARKET RULE CHAPTER 4 – RESERVE CAPACITY

Chapter 4 of the Market Rules sets out the Reserve Capacity Rules which affect the Market Development and System Operations functions of System Management.

# 5.1 DOCUMENTATION

The following Power System Operation Procedure relevant to Chapter 4 of the Market Rules is new or updated since the previous market audit:

• Commissioning and Testing.

# 5.2 AMENDMENTS TO CHAPTER 4

No clauses in Chapter 4 which relate to System Management's obligations have been amended.

# 5.3 COMPLIANCE WITH CHAPTER 4

PA has reviewed the above Power System Operation Procedures and associated Internal Procedures. The procedures to be followed are fully documented and, if followed, should result in compliance with the Market Rules.

Two instances of non-compliance have been noted; each was investigated by the IMO. In each case, Reserve Capacity Tests requested by the IMO were not carried out as requested. As a result, System Management has updated its procedures accordingly to minimise the possibility of further occurrences.

# 5.4 OPINION

With the two minor exceptions above, System Management has complied with its obligations under Chapter 4 of the Market Rules.



# 6. MARKET RULE CHAPTER 5 – NETWORK CONTROL SERVICE PROCUREMENT

Chapter 5 of the Market Rules sets out the Network Control Service Procurement Rules which affect the Market Development, Market Operations, System Planning and System Operations functions of System Management.

# 6.1 DOCUMENTATION

There have been no new or amended Power System Operation Procedures relevant to Chapter 5 of the Market Rules since last year's market audit.

# 6.2 AMENDMENTS TO CHAPTER 5

There have been no amendments to Chapter 5 which affect System Management's obligations under that chapter.

# 6.3 COMPLIANCE WITH CHAPTER 5

System Management has an Internal Procedure covering the process it will follow when calling on Registered Facilities under a Network Control Services Contract. This, coupled with the Power System Operational Procedure: Dispatch, constitutes compliance with clause 5.7.4.

# 6.4 OPINION

System Management has complied with Chapter 5 of the Market Rules.

# 7. MARKET RULE CHAPTER 6 – ENERGY MARKET

Market Rule Chapter 6 sets out the Energy Market Rules which affect both the Market Development, Market Operations, System Planning and System Operations functions of System Management.

# 7.1 DOCUMENTATION

There have been no new or amended Power System Operation Procedures relevant to Chapter 6 of the Market Rules since last year's market audit.

# 7.2 AMENDMENTS TO CHAPTER 6

There have been no amendments to Chapter 6 which affect System Management's obligations under that chapter.

# 7.3 COMPLIANCE WITH CHAPTER 6

The requirements on System Management consist of providing the IMO with data and requiring System Management comply with directions issued by the IMO as a part of a Market Advisory.

We have not been able to find any evidence of non-compliance with Chapter 6 of the Market Rules.

# 7.4 OPINION

System Management has complied with its obligations under Chapter 6 of the Market Rules.



# 8. MARKET RULE CHAPTER 7 – DISPATCH

Market Rule Chapter 7 of the Market Rules sets out the Dispatch Rules which affect the Market Development, Market Operations, System Planning and System Operations functions of System Management.

#### 8.1 DOCUMENTATION

There have been no new or amended Power System Operation Procedures relevant to Chapter 7 of the Market Rules since last year's market audit.

#### 8.2 AMENDMENTS TO CHAPTER 7

The following clauses which relate to System Management's obligation under Chapter 7 of the Market Rules have been amended since last year's annual audit:

- 7.7.10; and
- 7.10.5A.

#### 8.2.1 Clause 7.7.10

This clause sets out the circumstances under which System Management may terminate a requirement for a Curtailable Load to reduce demand.

#### 8.2.2 Clause 7.10.5A

This clause sets out the conditions under which System Management need not warn a market participant for not following a dispatch instruction.

#### 8.3 COMPLIANCE WITH CHAPTER 7

In the past we have noted that System Management applies a 10 MW tolerance when reporting deviations from participants' resource plans. System Management continue to apply this tolerance and so might be deemed not to comply with 7.10.1. However, we note that the use of an outage tolerance is the subject of discussion between System Management and the IMO in an attempt to agree an appropriate setting and use of such tolerances.

The procedures to be followed have been examined, are fully documented and, if followed, will ensure compliance with the Market Rules. Other than the above area of non-compliance, there were two occurrences in which System Management did not meet its obligations under 7.10.5 during deviations from participants' resource plans. However, following investigation, the IMO considered that further action would not be appropriate in all of the circumstances.

#### 8.4 OPINION

Except for the above two instances and the use of a 10 MW tolerance when reporting resource plan deviations, System Management has complied with its obligations under Chapter 7 of the Market Rules.



# 9. MARKET RULE CHAPTER 8 – WHOLESALE MARKET METERING

Market Rule Chapter 8 sets out the Wholesale Market Metering Rules. These rules do not apply to System Management.

# 9.1 OPINION

System Management is not required to comply with Chapter 8 of the Market Rules.

# 10. MARKET RULE CHAPTER 9 – SETTLEMENT

Chapter 9 of the Market Rules sets out the Settlement Rules which affect the Market Development, Market Operations, System Planning and System Operations functions of System Management.

# 10.1 DOCUMENTATION

There have been no new or amended Power System Operation Procedures relevant to Chapter 9 of the Market Rules since last year's market audit.

# 10.2 AMENDMENTS TO CHAPTER 9

There have been no amendments to Chapter 9 which affect System Management's obligations since last year's annual audit.

# 10.3 COMPLIANCE WITH CHAPTER 9

The procedures to be followed are fully documented and, if followed, will ensure compliance with the Market Rules.

We note that on one occasion System Management were late in paying an invoiced fee. Although this is a non-compliance with 9.22.6, the IMO decide to take no action other than issuing a letter of warning due to the payment being only 15 minutes late.

# 10.4 OPINION

Except for the above instance, System Management has complied with its obligations under Chapter 9 of the Market Rules.

# 11. MARKET RULE CHAPTER 10 – MARKET INFORMATION

Market Rule Chapter 10 sets out the Market Information Rules affect the Market Development, Market Operations, System Planning and System Operations functions of System Management.

# 11.1 DOCUMENTATION

There have been no new or amended Power System Operation Procedures relevant to Chapter 10 of the Market Rules since last year's market audit.

# 11.2 AMENDMENTS TO CHAPTER 10

There have been no amendments to Chapter 10 which affect System Management's obligations since last year's annual audit.

# 11.3 COMPLIANCE WITH CHAPTER 10

The procedures to be followed are fully documented and, if followed, will ensure compliance with the Market Rules. No instances of non-compliance have been found.

#### 11.4 OPINION

System Management has complied with its obligations under Chapter 10 of the Market Rules.

РА



# APPENDIX A: STATUS OF ISSUES IDENTIFIED IN LAST YEAR'S ANNUAL AUDIT

Below we present a table commenting on the status of the issue we identified in the 2007-2008 annual audit. The issues are given one of three statuses:

- **Clause amended** the clause mentioned (or, in some cases, the clause which gives rise to the obligations under the clause mentioned) has been amended or deleted such that there is no longer an issue of non-compliance by System Management.
- **Procedure updated** System Management has updated their procedures so that they are now in compliance with the Market Rules
- *Issue outstanding* the issue identified in last year's annual audit remains. Further discussion on the issue can be found in the corresponding chapter in the main body of this audit report.

Clause	Brief description	Status	
3.18.2 (f)	<ul> <li>Facilities on the List of Equipment must schedule outages in accordance with 3.19, 3.20, and 3.21.</li> <li>System Management must monitor compliance with this clause as required by MR 2.13.9.</li> <li>a) All scheduled generation facilities comply with this clause.</li> <li>b) All transmission facilities comply with this clause.</li> <li>c) DSM (with the exception of SIMCOA) and nonscheduled generators do not generally inform System Management when they suffer an outage. The unavailability of these facilities generally does not have a material impact on the operation and security of the SWIS. Further, as these facilities have a RCOQ of zero, System Management is not required to provide this outage data to the IMO.</li> <li>d) DSM (with the exception of SIMCOA) and nonscheduled generators also do not generally apply to schedule outages with System Management.</li> </ul>	Procedure updated System Management has developed a function with SMMITS to include an automatic approval period for outages submitted by DSM facilities providing more than 10 MW of generation into the SWIS	
3.21.4	<ul> <li>Facilities on the List of Equipment must notify System Management of forced outages. System Management must monitor compliance with this clause as required by MR 2.13.9.</li> <li>a) Due to operational constraints and error margins, System Management only reports outages greater than 10 MW, and for at least one Trading Interval. This value was chosen for parity with the EGC compliance threshold (MR 7.6A).</li> </ul>	Issue outstanding This issue is currently unresolved despite ongoing discussions between the IMO, System Management and market participants. The issues involved revolve around uncertainty at to whether the adoption of such a tolerance for reporting purposes is authorised under the current market design.	
7.2.3B, 7.3.4	<ul> <li>System Management must provide the IMO with:</li> <li>a list of facilities that would provide ancillary services; and</li> </ul>	<i>Clause amended</i> Rule Change RC_2009_13 extends the timeframe within which this data must be	
L	<ul> <li>a schedule of outages by 8:30 each</li> </ul>	provided. Clause 7.2.3C	

Clause	Brief description	Status
	morning. On 13 July 2008, due to problems with System Management servers, this information was not provided by the required time.	extends the timeframe by 20 minutes.
7.10.1, 7.10.5	System Management must monitor Participant compliance with Resource Plans. If a Participant deviates from their Resource Plan, under certain circumstances System Management must warn the Participant and require the Participant to return to their Resource Plan. In two cases, alleged breaches by System Management occurred where a Participant deviated from its Resource Plan	<i>Issue outstanding</i> This issue is currently unresolved despite ongoing discussions between the IMO, System Management and market participants. The issues involved revolve around uncertainty at to whether the adoption of such a tolerance for reporting purposes is authorised under the current market design.
7.13.1	System Management must provide the IMO with settlement data by noon on the following business day. On two occasions following a High Risk Operating State during the previous day, this information was not provided by the required time. Dispatch instructions are issued by telephone by System Management. Ordinarily, dispatch instructions are transcribed when issued. However, during a High Risk Operating State, the control room staff often are not able to transcribe the instructions as they go, due to the volume of instructions issued. Thus the instructions must be transcribed after the fact by listening to taped audio conversations between the control room and Market Participants. Because of the time taken to do this, System Management was not able to meet the deadline to provide the data to the IMO on these two occasions.	Clause amended Rule change RC_2008_08 allows consultation with the IMO on occasions where System Management has been prevented from completing the processes which enable the provision of data in terms of clause 7.13.1.
7.6A.2 (c)	<ul> <li>System Management must provide a dispatch plan to Verve each day.</li> <li>a) System Management does not create a formal Dispatch Plan as defined in 7.6A.2 (c).</li> <li>b) System Management does produce a dispatch plan for Verve, which is varied by dispatch orders. The information is not recorded as a "plan", but can be reconstructed by System Management should the need arise (such as an event that could endanger the SWIS).</li> <li>c) System Management is developing a tool to produce the Dispatch Plan. This is currently budgeted for 2008/09.</li> </ul>	Procedure updated A formal dispatch plan for Verve is now created and sent to Verve daily at 12:30 and 14:30 as required by clauses 7.6A.2(c) and 7.6A.2(e) respectively.

A: Status of issues identified in last year's annual audit



# APPENDIX B: MAPPING OF POWER SYSTEM OPERATION PROCEDURES TO MARKET RULE OBLIGATIONS

The mapping of Power System Operation Procedures to Market Rule obligations is given below.

Power System Operation Procedure	MR Clause	Commenced	PA opinion
Ancillary Services		01 April 2009	Ok
Commissioning and Testing.	3.21A.15	29 September 2006	Ok
Communications and Control Systems	2.35.4	29 September 2006	Ok
Data Cleansing		29 September 2006	Ok
Dispatch		29 September 2006	Ok
EGC Dispatch	7.6A	29 September 2006	Ok
Facility Outages	MR3.18	01 April 2009	Ok
Glossary		29 September 2006	Ok
Monitoring and Reporting	2.15.4	29 September 2006	Ok
Medium Term PASA	3.16.10	01 April 2009	Ok
Operational Data Points for Generating Plant		01 August 2009	Ok
Operational Data Points for Non-Western Power Networks, Substations and Loads		01 August 2009	Ok
Security		01 February 2009	Ok
Short Term PASA		01 April 2009	Ok
System Restart Overview		- 01 April 2008	Ok