



## Market Rule Amendment Proposal

### PART 1 – MARKET RULE INFORMATION

<b>Identification No.:</b> MR-00220-R00
<b>Subject:</b> Audits of Market Systems, Processes and Procedures
<b>Title:</b> Change Market Rule Requirements for External Audits/Reviews - Dispatch Algorithm
<b>Nature of proposal</b> (please indicate with X): <input checked="" type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input type="checkbox"/> Addition
<b>Chapter:</b> 7 <b>Appendix:</b>
<b>Sections:</b> 4.2
<b>Sub-sections proposed for amending:</b> 4.2.4

### PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Submitted for Technical Panel (TP 123) Review	27 March 2003
2.0	Recommended by Technical Panel (TP 123) and submitted for IMO Board Approval	1 April 2003

**Approved Amendment *Publication* Date:**

**Approved Amendment *Effective* Date:**

### PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IMO-administered markets* if the amendment is not made
- Alternative solutions considered
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IMO-administered markets*.

This amendment proposes to make the following changes to the requirements for external audits/reviews of the dispatch algorithm and settlement processes and procedures:

- Change the required frequency from once every year to once every two years, unless otherwise directed by the IMO Board;
- Expand the scope of the external review of the dispatch algorithm to include related dispatch processes; and
- Provide the IMO Board with the authority to direct the scope of these external reviews and audits.

These changes will enable an effective and efficient external audit and review process.

#### Frequency of External Audits and Reviews

The current market rules require the IMO to conduct the following independent audits or reviews:

- Once every calendar year, an independent review of the dispatch algorithm (chapter 7 section 4.2.4); and
- At least annually, an external audit of settlement processes and procedures (chapter 9 section 6.17.2)

The purpose of the review of the dispatch algorithm is to assess its compliance with the requirements of the market rules and to determine the need for improvements. The purpose of the settlement audit is to evaluate compliance with management control objectives and operational effectiveness of settlement processes and procedures.

These audits and reviews are substantial work efforts and cost significant amounts of money to undertake (i.e. in the order of hundreds of thousands of dollars each). In light of these substantial costs, the restrictions placed on IMO in regards to recovery of costs from the *IMO-administered markets* and the questionable benefit in conducting these reviews annually, it is appropriate to reduce the requirements for these audits and reviews. Reducing the requirement to once every two years or at the direction of the IMO Board is considered adequate to demonstrate compliance of the applicable systems, processes and procedures as well as providing the marketplace with the necessary assurance of that compliance. At its February 2003 meeting, the Audit Committee of the IMO Board considered and supported more discretion in the frequency of required audits. At that time the IMO indicated that it would be bringing proposed market rule changes back to the IMO Board for its consideration at a future meeting.

With respect to the settlement audit, the IMO has initiated the first external audit. The first phase of this audit (i.e. a “point-in-time” audit) has been successfully completed. The second phase of the audit (i.e. a “period of time” audit) is to be started in April 2003, with the results published in the summer of 2003.

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

With respect to the dispatch algorithm, the IMO undertook a line-by-line verification of the dispatch algorithm code prior to market commencement. In addition, there was significant testing undertaken of the dispatch algorithm, particularly with market participants during the Uncoupled Operational Dry Run and the Coupled Operational Dry Run. On the basis of this testing, and the operation of the algorithm since market commencement, the IMO is confident that the dispatch algorithm is meeting the requirements of the market rules.

The IMO maintains a strong control environment to support its due diligence over the market systems, processes and procedures. Through its Enterprise Risk Management process, there is quarterly review of settlement risks and mitigating plans. In addition, if the suggested changes are made, the IMO Internal Audit function would be performing a review of the settlement processes and systems in those years when an external audit is not scheduled.

To provide additional assurances and confidence to the market participants that both the dispatch algorithm and the settlement processes and procedures are functioning as intended, the IMO Board should be able to direct that an external audit or review be undertaken at any time. The IMO may itself also determine that it would be prudent to initiate an external audit or review that goes beyond the frequency requirements of the market rules. With respect to the external review of the dispatch algorithm, it is also proposed that the first review be completed by the second anniversary of the market commencement date i.e. by May 1, 2004.

**Scope of the External Reviews and Audits**

The current market rules (chapter 7 section 4.2.4) define the scope of the external review of the dispatch algorithm to be strictly the dispatch algorithm itself. The related dispatch processes (e.g. dispatch messaging, manual dispatching) would be not fall under this external review requirement. Market experience to date has demonstrated that these processes can have a significant impact on the market. It is appropriate that these processes be subject to external review to ensure that these processes are meeting the required objectives and so it is proposed that these related processes be subject to external review along with the dispatch algorithm.

It is also proposed that the IMO Board should, being representative of the market participant community, have the authority to direct the scope of the external review of the dispatch algorithm and processes. Such IMO Board authority should also be extended to the scope of the external audit of the settlement processes and procedures (refer to R01). This authority could be used to define the scope of the external reviews and audits in response to market participant concerns or the results of previous reviews and audits.

Taking these factors into account, changing the market rule requirement as indicated above would still provide assurance to the marketplace that due diligence will be maintained and that the market will not be exposed unduly to increased risk.

**PART 4 – PROPOSED AMENDMENT**

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**4.2 Uses of the Dispatch Algorithm**

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4.2.4 Unless otherwise directed by the IMO Board, the IMO shall no less than once in every two calendar years each calendar year, commission and publish the results of an independent review of the operation and application of the dispatch algorithm and the related dispatch processes and procedures. The IMO, and shall use the results of such review to determine the need or otherwise for improvements in the related dispatch processes and procedures in meeting the objectives of the market rules and/or the mathematical representation of the electricity system or the solution procedures which form part of the market clearing logic. The first such review shall be completed no later than May 1, 2004.

**PART 5 – IMO BOARD COMMENTS**




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## Market Rule Amendment Proposal

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### PART 1 – MARKET RULE INFORMATION

<b>Identification No.: MR-00227-R01</b>	
<b>Subject: Audits of Market Systems, Processes and Procedures</b>	
<b>Title: Change Market Rule Requirements for External Audits/Reviews – Settlement Processes and Procedures</b>	
<b>Nature of proposal</b> (please indicate with X): <input checked="" type="checkbox"/> <b>Alteration</b> <input type="checkbox"/> <b>Deletion</b> <input type="checkbox"/> <b>Addition</b>	
<b>Chapter: 9</b>	<b>Appendix:</b>
<b>Sections: 6.17</b>	
<b>Sub-sections proposed for amending: 6.17.2; 6.17.3</b>	

### PART 2 – PROPOSAL HISTORY – REFER TO MR-00227-R00

Version	Reason for Issuing	Version Date

**Approved Amendment *Publication* Date:**

**Approved Amendment *Effective* Date:**

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IMO-administered markets* if the amendment is not made
- Alternative solutions considered
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IMO-administered markets*.

Refer to MR-00227-R01.

**PART 4 – PROPOSED AMENDMENT****6.17 Audit**

6.17.1 The audit of *settlement* functions referred to in this section 6.17 shall serve to examine and evaluate compliance with management control objectives and operational effectiveness of *settlement processes* and procedures.

6.17.2 The audits referred to in section 6.17.3 shall be performed by an external, independent auditing firm, ~~at least annually and more often if requested by the IMO Board.~~

6.17.3 ~~Unless otherwise directed by the IMO Board, the IMO shall every two years, Each year,~~ on the anniversary of the *market commencement date*, ~~the IMO shall~~ direct a comprehensive external audit on the *settlement processes* and procedures. The audit shall include the following tasks:

- 6.17.3.1 gauge the performance of the *settlement process* in meeting the objectives of these *market rules*;
- 6.17.3.2 review the accuracy and timeliness of the production of *settlement statements*, including *settlement* calculations and financial allocations;
- 6.17.3.3 review the accuracy and timeliness of the production of *invoices* and supporting market and system information;
- 6.17.3.4 review the *reliability* and integrity of the market and system operational data used in the *settlement processes* and procedures;

- 6.17.3.5 review the *reliability* and security of the information technology system infrastructure used to measure, validate, classify, compute and report *settlement* information;
- 6.17.3.6 review the adequacy of *settlement processes* and procedures to safeguard *confidential information*; and
- 6.17.3.7 review the adequacy and effectiveness of risk management controls of the *settlement processes* and tools, including the effectiveness of the *disaster recovery plan*.

**PART 5 – IMO BOARD COMMENTS**