



## **Investigation Report**

Electricity Market Management System Access:  
Lumo Energy's compliance with National Electricity Rule 3.19(c)

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## Summary

The National Electricity Rules (**Electricity Rules**) requires registered participants to comply with AEMO's Market Management System Access Procedures (**the access procedures**) when accessing AEMO's Electricity Market Management System (**market systems**), such as the Market Settlement and Transfer Solution (**MSATS**) system. The relevant rule, 3.19(c), is a civil penalty provision, meaning the AER can issue an infringement notice with a penalty of \$20 000 or court ordered penalties of up to \$100 000.

In December 2013, the Australian Energy Market Operator (**AEMO**) alleged to the AER that Lumo Energy Australia Pty Ltd (**Lumo Energy**) had facilitated access to the MSATS system which was not in accordance with the access procedures.

On 19 May 2014 we issued one infringement notice to Lumo Energy, alleging it had enabled unauthorised access to the MSATS system from February 2012 to December 2013. Lumo Energy paid the \$20 000 infringement penalty on 21 May 2014. Payment is not an admission by Lumo Energy that it breached the Electricity Rules.

The AER considers this infringement notice should serve as a reminder to registered participants that the integrity and security of AEMO's market systems and the information contained in those systems is critical to the effective operation of the National Electricity Market (**NEM**). The AER will not hesitate to pursue enforcement action against registered participants who fail to have the necessary processes in place to ensure compliance with the access procedures and Electricity Rules.

# **1 Background**

## **1.1 Role of the AER**

Section 15 of the National Electricity Law (**Electricity Law**) sets out functions and powers of the AER. These functions include:

- monitoring compliance with the Electricity Law, the Regulations, and the Electricity Rules
- investigating breaches or possible breaches of the Electricity Law, the Regulations and the Electricity Rules
- instituting and conducting proceedings in relation to breaches of provisions of the Electricity Law, the Regulations, and the Electricity Rules.

Further, section 74 of the Electricity Law states the AER may serve an infringement notice on a person that the AER has reason to believe has breached a civil penalty provision.

## **1.2 Market management system access**

The AEMO facilitates the operation of the NEM via its markets systems. A component of the market systems is the MSATS system. The MSATS system facilitates customer transfers in the NEM. The MSATS system holds an array of data relating to each connection point. The MSATS system also facilitates settlement processes in the NEM. Participant access to the MSATS system is defined by access procedures developed by AEMO.

These procedures outline the protocols related to obtaining access to AEMO's market systems to ensure that the integrity and security of the information contained in these systems and the systems themselves are maintained at all times and to minimise the chance of inappropriate access.

Clause 3.19(c) of the Electricity Rules provides that a registered participant must comply with the access procedures. The obligation is a civil penalty provision

## 1.3 Relevant clauses of the Electricity Rules

### *Electricity Rules*

#### Rule 3.19(c)

AEMO and all Registered Participants, Metering Providers and Metering Data Providers must comply with the Market Management Systems Access Procedures.

This clause is classified as civil penalty provision.

#### Rule 3.19 (e)

If a Registered Participant fails to comply with the Market Management Systems Access Procedures, AEMO must:

- (1) notify that Registered Participant describing the nature of the breach; and
- (2) at a time following notification of the breach by AEMO under clause 3.19(e)(1) determined by AEMO having regard to a balancing of the need to provide a Registered Participant with the opportunity to remedy the breach and the nature of the breach, notify the AER that the Registered Participant has breached the Market Management Systems Access Procedures.

### *Access procedures*

The access procedures establish rule enforceable requirements for the purposes of 3.19(c). These include:

- Participant connections to AEMO's market systems are to originate only from registered public TCP/IP addresses. These addresses must reside in one or two subnets, with a limit of 256 IP addresses in each of the subnets. The addresses in each subnet must be contiguous and must be definable by a single subnet mask.

- Unregistered / private TCP/IP addresses must not be visible to AEMO's market systems. Where participant organisations choose to use unregistered private IP addresses within their internal networks, they must ensure that the addresses are translated to registered public IP addresses before accessing AEMO's access procedures.
  
- Participants must ensure that traffic from the Internet and their internal networks is isolated from their connection to AEMO's market systems.

## **2 Investigation of Lumo Energy's conduct**

The AER examined Lumo Energy's conduct to ascertain whether it had breached rule 3.19(c) of the Electricity Rules. The investigation was triggered following information received from AEMO in accordance with clause 3.19(e)(2) that Lumo Energy had facilitated unauthorised access to the MSATS systems.

On 16 December 2013, AEMO advised the AER that Lumo Energy had made changes to its IT network that had facilitated access to the MSATS system which was not consistent with the access procedures. In response, the AER sought a range of information from Lumo Energy to ascertain the validity of this information.

Based on the information received from AEMO and Lumo Energy, the AER has formed the view that Lumo Energy breached rule 3.19(c). We consider that Lumo Energy had enabled:

- unauthorised IP addresses to be exposed to the MSATS system and
- the transmission of unencrypted MSATS data over the public internet.



### 3 The AER's enforcement response

The factors the AER has regard to when deciding whether to take formal enforcement action are set out in its *Compliance and Enforcement – Statement of Approach*.<sup>1</sup> These factors include:

- the nature and extent of the conduct that forms the breach
- the amount of loss or damage caused
- the circumstances in which the breach took place
- whether the breach was deliberate, and the period over which it extended
- whether the breach arose out of the conduct of senior management or at a lower level
- whether the participant has a corporate culture conducive to compliance
- whether the participant has cooperated with the AER in relation to the breach
- whether the breach forms part of a sustained pattern of non-compliance

In deciding the appropriate enforcement response, the AER has taken into account the potential impact of these alleged breaches, in particular on the integrity of the AEMO market systems and the level of cooperation demonstrated by Lumo Energy during the investigation.

The AER considers the alleged breaches could have compromised the security of AEMO's market systems. In our view, interference with the market systems or misuse of information contained in these systems could materially affect the NEM's transfer and settlement processes.

Lumo Energy has demonstrated a high level of cooperation with the AER on this matter and has displayed commitment to resolving the issue.

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<sup>1</sup> AER, *Compliance and Enforcement Statement of Approach*, <http://www.aer.gov.au/node/454>

We note that rule 3.19(c) is a civil penalty provision. Section 74 of the Electricity Law states the AER may serve an infringement notice on a person the AER has reason to believe has breached a civil penalty provision.

Having regard to the above factors, the AER has decided to serve one infringement notice to Lumo Energy for failing to comply with the access procedures as required under section 3.19(c) of the Electricity Rules. On 19 May 2014, the AER issued one infringement notice to Lumo Energy specifying an infringement penalty of \$20,000. Lumo Energy paid the infringement penalty on 21 May 2014.

In accordance with section 82 of the Electricity Law, the payment of the infringement notice is not an admission by Lumo Energy of the breach or an admission of liability. Pursuant to section 81 of the Electricity Law, the AER will not commence proceedings against Lumo Energy in respect of the conduct to which the infringement notice relates, now that Lumo Energy has paid the \$20,000 penalty.

The AER will continue to closely monitor Lumo Energy's compliance with clause 3.19(c) of the Electricity Rules. A lack of improvement with respect to compliance with this clause could result in additional infringement notices or other enforcement action.