



Wholesale Markets
Quarterly Compliance Report

January – March 2012

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Glossary

ACCC	Australian Competition & Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Bulletin Board	The Natural Gas Services Bulletin Board established under Part 18 of the Gas Rules (also known as the National Gas Market Bulletin Board)
CRS	Customer Reporting System
EGP	Eastern Gas Pipeline
Electricity Law	National Electricity Law (a Schedule to the National Electricity Act)
Electricity Rules	The National Electricity Rules made under Part 7 of the Electricity Law
Gas Law	National Gas Law (a Schedule to the National Gas Act)
GMS	Gas Management System
Gas Regulations	The National Gas (South Australia) Regulations made under the National Gas Act
Gas Rules	The National Gas Rules made under Part 9 of the Gas Law
GEIP	Good Energy Industry Practice
GJ	Gigajoule
GSOO	Gas Statement of Opportunities
MOS	The market operator service by which capacity (in GJ) is provided to balance pipeline deviations by increasing or decreasing the quantity of natural gas supplied to or withdrawn from a hub using an STTM pipeline.
MSP	Moomba to Sydney Pipeline
MW	Megawatt
MWh	Megawatt hour
National Electricity Act	National Electricity (South Australia) Act 1996 (South Australia)
National Gas Act	National Gas (South Australia) Act 2008 (South Australia)
NEM	The National Electricity Market being the electricity wholesale exchange operated and administered by AEMO, and the national electricity system, which covers the following regions: Queensland, New South Wales, Victoria , South Australia, and Tasmania
PJ	Petajoule
RBP	Roma to Brisbane Pipeline
QCR	Quarterly Compliance Report issued by the AER
QSN	Queensland-South Australia-New South Wales
RIT-T	Regulatory investment test for transmission
STTM	Short Term Trading Market established under Part 20 of the Gas Rules
SWN	System Wide Notice
SWQP	South West Queensland Pipeline
TGP	Tasmanian Gas Pipeline
TJ	Terajoule
Victorian gas market	The Victorian Declared Wholesale Gas Market established under Part 19 of the Gas Rules

Executive Summary

The Australian Energy Regulator (**AER**) is responsible for monitoring compliance and enforcement under legislation and rules governing Australia's wholesale energy markets. Section 15 of the National Electricity Law¹ (**Electricity Law**) and section 27 of the National Gas Law² (**Gas Law**) set out the functions and powers of the AER, which include:

- monitoring compliance by energy industry participants³ and other persons
- investigating breaches, or possible breaches, of provisions of the legislative instruments under the AER's jurisdiction.

This Wholesale Markets Quarterly Compliance Report (**QCR**) outlines the AER's compliance monitoring and enforcement activity in the wholesale energy markets over the period 1 January to 31 March 2012 (**the March 2012 quarter**).⁴

With respect to gas, this report provides an update on investigations, market events and other compliance matters under the Gas Law and National Gas Rules (**Gas Rules**). The Gas Law and Rules cover the operation of the Natural Gas Services Bulletin Board (**Bulletin Board**), the Victorian gas market and the Short Term Trading Market (**STTM**).

Following the release of its December 2011 Compliance Bulletin related to STTM allocation and capacity data issues, the AER has reviewed a number of instances of data errors, primarily involving two STTM participants. Results of one review are contained in section 2.1.3.1 of this report. The other will be published in due course.

This report also summarises the results of a targeted compliance review of the obligation relating to emergency procedures awareness in the Victorian gas market.

¹ As enacted under the *National Electricity (South Australia) Act 1996* (SA).

² As enacted under the *National Gas (South Australia) Act 2008* (SA).

³ Entities registered by the Australian Energy Market Operator (**AEMO**) under Chapter 2 of the Electricity Rules or in accordance with Part 15A of the Gas Rules.

⁴ Previous reports available at <http://www.aer.gov.au/content/index.phtml/itemId/692887>.

With respect to electricity, this report provides an update on completed investigations and compliance matters relating to the National Electricity Rules (**Electricity Rules**). Specifically this report covers:

- the quality of information related to rebidding by generators
- the grant of an extension for Current Transformer and Voltage Transformer testing
- information on technical audits to be undertaken in 2012
- compliance reporting from participants derogated under Chapter 9 of the Electricity Rules.

In the December 2011 QCR the AER introduced four new ‘special projects’ for 2012 to address compliance issues in the wholesale gas and electricity markets. This report provides updates on some of these projects.

The AER notes the considerable interest received on one of the projects which relates to generator connections. The project stemmed from concerns raised anecdotally about the current compliance arrangements for generation connection in the Electricity Rules, particularly in the context of the likely increase in the number of generation connection inquiries over coming years due to development of new renewable and gas plants. The project may also provide some practical compliance insights for the AEMC’s broader Transmission Framework Review. The AER has conducted preliminary investigations for this project and has spoken with a number of interested parties. The next step is to develop a questionnaire to seek feedback from relevant parties.

1 Introduction

The AER undertakes compliance monitoring and enforcement activities in the wholesale energy markets pursuant to the Electricity Law and Rules and the Gas Law and Rules.

Consistent with its statement of approach,⁵ the AER aims to promote high levels of compliance, and seeks to build a culture of compliance in the wholesale segments of the energy industry. A culture of compliance will:

- reduce the risk of industry participants breaching their regulatory obligations
- ensure industry participants can engage confidently in commercial decisions and negotiations.

As part of this process, the AER undertakes a continuous compliance risk assessment of the Electricity Rules and Gas Rules to identify appropriate focus areas and monitoring mechanisms. These mechanisms include audits, targeted compliance reviews, market monitoring, and the imposition of reporting requirements.

In selecting the areas for review, the AER adopts the following principles:

- consideration of risk (the greater the risk, the higher the priority)
- a commitment to ensuring that both systemic issues and those with the potential for isolated but significant impact are addressed.

In carrying out its monitoring functions, the AER aims for:

- consistency over time
- cost effectiveness for energy industry participants and the AER
- transparency (subject to confidentiality requirements).

While most obligations under the Electricity and Gas Rules do not require registered participants to establish specific compliance programs, the AER takes into account a participant's compliance framework when determining its response to breaches. In

⁵ Available at <http://www.aer.gov.au/content/index.phtml/itemId/685897/fromItemId/656069>.

assessing a compliance culture, the AER considers whether compliance programs and processes are effectively applied, up-to-date and tested regularly.

The AER welcomes comments and feedback from industry participants and other parties on matters of compliance, including the specific areas targeted, or proposed to be targeted, for review.

2 Gas

The AER is responsible for monitoring, investigating and enforcing compliance with the Gas Law and Rules, including but not limited to, the Bulletin Board, Victorian gas market and the STTM.

2.1 Investigations, market events and compliance issues

This part of the report provides an update on several gas markets matters, including:

- market events
- other compliance matters and issues

2.1.1 Bulletin Board

Part 18 of the Gas Rules sets out participants' responsibilities regarding the Bulletin Board. These obligations aim to facilitate greater transparency in gas production and gas pipeline conditions to assist trade within and between Australian gas markets. The obligations also require participants to identify and report any potential conditions where curtailment of gas use might be necessary. The AER monitors the quality and timeliness of information posted on the Bulletin Board.

2.1.1.1 Actual daily production and pipeline flow data

Participants submit daily production and pipeline flow data as required by gas rules 166 and 174, respectively.⁶

During the quarter, two facility operators failed, on several occasions, to submit Bulletin Board data to AEMO with respect to their production facilities.

The first was the Berwyndale production facility, which had missing data for the 27 February and 1 March 2012 gas days. On 8 March, AEMO advised the facility's operator, Queensland Gas Company, that the data was missing and asked for it to be updated. The data was subsequently submitted. Data for this production facility was also submitted late on a number of occasions during the quarter.

⁶ Rule 169 also includes an obligation on storage providers to provide daily flow data.

The second instance of missing data related to the Camden production facility, where actual flow data (for 8 and 9 February) and capacity outlook data (for 10 to 13 February) were not submitted within the specified timeframe. The facility's operator, AGL, explained that human error was the cause of the data failures, and that the trader responsible for the error was distracted by other matters at the time. AGL noted that the trader in question also failed to submit D-3 offers for the Sydney STTM hub which culminated in a contingency gas assessment conference (see section 2.1.3.1).

The AER will continue to monitor the Bulletin Board for instances of non-compliance to ensure that accurate and timely information is provided in accordance with the requirements under Part 18 of the Gas Rules. It will consider enforcement action where appropriate.

2.1.2 Victorian Gas Market

Part 19 of the Gas Rules sets out participants' responsibilities in the Victorian Gas Market. The rules outline how wholesale gas is traded within the market and AEMO's obligations to operate the physical system.

2.1.2.1 Compliance with scheduling instructions

Gas rule 216(1) states that if AEMO issues a scheduling instruction in respect of a bid, the market participant who submitted the bid must comply with the scheduling instruction in all material respects.

The AER met with AEMO in March 2012 to discuss compliance by market participants with scheduling instructions. AEMO indicated that there had been some issues during recent maintenance work at the Longford gas production facility where the day ahead nominations were significantly different to the scheduled gas amounts.

AEMO discussed these differences with participants at the Gas Wholesale Consultative Forum in February 2012. Following this forum, participants provided AEMO with information to allow comparisons between their nominations and scheduled gas volumes.

AEMO advised the AER that it has engaged further with market participants and explained the impact that nominating differently to schedule can have on AEMO's

operation of the market. AEMO informed the AER that these discussions were ongoing and had raised some contractual/timing issues for participants. AEMO did not report any specific compliance issues to the AER.

The AER considers conformance with scheduling instructions to be a crucial aspect of market operations, both to ensure the efficiency of the market and to protect the integrity of the declared transmission system. Information provided by AEMO suggests that the issue of nominations varying from scheduled volumes may be resolved through ongoing discussions with market participants. The AER will continue to liaise with AEMO and monitor market outcomes. If market participants continue to diverge from schedules, the AER may look into this matter further.

2.1.3 Short Term Trading Market

Part 20 of the Gas Rules sets out participants' responsibilities within the STTM which now encompasses three gas trading hubs: Adelaide, Sydney and Brisbane.⁷ The rules outline how wholesale gas is traded and include requirements for pipeline operators to submit pipeline capacity and allocation (gas flow) data.

This part of the report covers the following STTM matters:

- bid and offer data
- facility capacity and allocation data
- the AER's audit of the APA Group

2.1.3.1 STTM bid and offer data

AGL, as an STTM shipper/trading participant, failed to submit D-3 injection offers for the Moomba to Sydney Pipeline (**MSP**) for the 10 February gas day due to IT/system issues.⁸ The resultant provisional D-3 market schedule for the Sydney hub showed there was insufficient gas supply offers to meet forecast demand. This

⁷ The Brisbane STTM hub commenced operations on 1 December 2011.

⁸ AGL is registered as AGL Energy Sales and Marketing Ltd and AGL Wholesale Gas Limited for its STTM shipper role in the Sydney hub. An STTM Shipper is a category of trading participant. AGL is registered as AGL Upstream Investments Pty Ltd for its STTM facility operator role (Rosalind Park Production Facility (Camden)).

outcome constitutes a contingency gas trigger event under rule 440(1)(d) of the Gas Rules and required AEMO to hold a contingency gas assessment conference in accordance with that rule.⁹

During the assessment conference AGL confirmed that it had failed to submit a D-3 offer for the MSP by the required cut-off time and announced that it would be publishing a report regarding the matter. Gas rule 410 establishes requirements for the submission of offers of gas by trading participants, requiring:

- a best estimate of the expected quantity of natural gas to be supplied to a hub on a gas day to be submitted in an ex ante offer (rule 410(1)) and
- for that offer to be submitted 7.5 hours after the start of a gas day which is 3 days before the relevant gas day (rule 410(2))

In response to this failure and the 15 February 2012 failures by AGL (see section 2.1.1.1 above), AER staff organised a meeting with AGL regulatory and operational staff. Following the meeting, AGL provided the AER with details of remedial actions which it is currently undertaking to improve future compliance. These actions include the development of two separate monitoring mechanisms designed to alert AGL traders to missing or erroneous data and a post-STTM implementation review of operational systems.

The AER has sought a commitment from AGL to report to the AER within 2 business days any future data failures. AGL has also committed to providing the AER with regular progress updates on its development of the proposed monitoring mechanisms, and a report outlining the results of its post-implementation review.

AER Assessment

The AER has previously reported how failures to submit demand forecasts can lead to artificially low ex ante prices.¹⁰ In this instance, AGL's offer data failure caused an unnecessary disruption, with AEMO and a number of participants required to take

⁹ In the STTM, non-priced or uncontrollable demand is not referred to as demand but as price taker bids.

¹⁰ See the December 2010 QCR.

part in a contingency gas assessment conference when in fact there was no contingency event.

The AER will continue to closely monitor STTM trading participant data to identify any failures to submit provisional or ex ante data. The AER would encourage all STTM trading participants to review their systems to ensure that appropriate checks and balances are in place to prevent such failures.

2.1.3.2 STTM facility capacity and allocation data

Epic Energy—since STTM commencement (allocation data formula error)

The AER has continued its compliance inquiries into Epic Energy's formula error which affected allocation data for the Adelaide STTM hub on 90 gas days between November 2010 and October 2011.¹¹

Previously, the AER noted that the initial assessment was an estimated gross financial impact of \$1.35 million. However, AEMO has since revised this figure to \$860 000. AEMO has received all revised/corrected data from Epic and has commenced revising monthly settlement data to 'reverse' this financial impact, although, under Part 20 of the Gas Rules, the impact of these errors on the ex post price for some gas days cannot be reversed.

The AER will continue its inquiries and report further on this matter in due course.

Epic Energy—2 January 2012 (allocation data)

On 3 January 2012, AEMO advised the AER that an allocation data file submitted by Epic Energy for the 2 January gas day had the wrong file extension casing. Because the file was marked as a 'CSV' file instead of a 'csv' file, it was not recognised by AEMO's systems. Epic was not informed of this issue until after the cut-off time for allocation data which meant it submitted the data late.

Following this event, Epic updated its manual override procedures to reflect AEMO's naming requirements. AEMO also recognised that its help desk did not identify the problem in a timely manner and has committed to reviewing its help desk procedures.

¹¹ For more information, see the December 2011 QCR.

AGL—31 January 2012 (capacity data)

On 30 January 2012, AEMO issued a system wide notice stating that no facility data had been received for the 31 January gas day for AGL's Rosalind Park facility. An STTM event report was published by AEMO which stated that, due to system latency, the data was submitted 15 seconds after the 9:30am cut-off time. In response to this incident, AGL has undertaken a change to its business process to have this data submitted earlier.

Epic Energy—28 January, 29 January, 4-8 February 2012 (allocation data)

Epic informed the AER on 13 February 2012 that during a technical field audit, a non-operational gas metering station was identified as registering gas flows. The metering station had incorrectly observed flow readings on the 28 January, 29 January and 4–8 February gas days. In an incident report sent to the AER, Epic stated that it would submit correct data to AEMO and commence remedial actions to prevent similar data failures in the future. Epic acknowledged that this issue may have affected the ex post price in the Adelaide STTM.

The AER is reviewing this event and will report further in due course.

2.1.3.3 AER assessment of overall STTM data quality

In 2011, the AER commenced an STTM data quality project with the aim of reducing the amount of missing, late, and erroneous data submitted by STTM facility operators or STTM participants who submit allocation and capacity data. The project has continued in 2012. As part of the project, In December 2011 Compliance Bulletin foreshadowed that the AER will be more likely to issue infringement notices and/or institute Court proceedings in response to STTM facility data and allocation data failures.

Figure 1 illustrates the performance of STTM participants in submitting capacity and allocation data for the March 2012 and compares this to the quarterly performance since the start of the STTM. Data failures are categorised as relating to either 'missing/late' or 'erroneous' data.

Figure 1: Data failures since STTM commencement



This quarter, the AER has identified three instances of data failures, down from seven in the previous quarter (although it must be noted that one of the data failures identified affected multiple gas days).

The AER reiterates that pipeline allocation and capacity data plays a crucial role in the STTM and that it will continue to review the details of incidents as they occur and consider the enforcement options available to it on a case by case basis.

A failure to provide accurate and timely data can lead to inefficient pricing signals and market outcomes, resulting in inappropriate wealth transfers between participants. It may also undermine the integrity and reliability of the STTM, discouraging potential entrants or even causing participants to exit the market.

2.1.3.4 Audit of the APA Group

The AER is currently undertaking the first of a series of STTM participant audits. Rather than assessing compliance with technical operating requirements, these audits assess the STTM facility operator's processes to achieve compliance with information and data requirements under Part 20 of the Gas Rules, and whether these processes

would be considered ‘Good Energy Industry Practice’.¹²

While all of the facility operators had extensive experience in providing natural gas services in a general sense prior to STTM commencement, none of them had experience in providing data critical to the operation of a market. It is in the context of a market such as the STTM that the good industry practice threshold should be applied.

The AER uses the acronym **GEIP**, standing for ‘Good Energy Industry Practice’, as a practical guide to the steps a business should take to enable the AER to assess performance against the threshold. The AER considers the key components of GEIP are:

Governance—participants’ internal arrangements encompassing reporting lines and supporting systems, as well as the overall compliance culture including the level of involvement and commitment of senior management and committees

Expertise—the human resources dedicated to technical compliance including the allocation of responsibilities, as well as the underlying knowledge systems and the nature and extent of the technical understanding of applicable obligations

Implementation—the means by which, at a practical level, participants drive and promote compliance through internal procedures and processes, encompassing staff training, technical testing and reporting of compliance matters

Performance—the overall compliance status of each participant with reference to how effectively compliance programs and arrangements operate, including the ongoing evaluation and updating of such programs and arrangements to reflect lessons learnt.

In November 2011, the AER sent a questionnaire to the APA Group in its capacity as an STTM facility operator (pipeline operator and allocation agent) for the MSP. APA’s response detailed its approach to achieving compliance with each of the

¹² ‘Good Gas Industry Practice’ is defined under the Gas Rules and ‘Good Electricity Industry Practice’ is defined under the Electricity Rules. The AER uses the phrase ‘Good Energy Industry Practice’ to cover both sectors.

Part 20 requirements and provided the AER with the business policies and processes it considers relevant to achieving compliance.

The AER has reviewed this response and has scheduled a visit to APA's head office to discuss it and to examine APA's systems first hand. The AER will finalise this audit next quarter, with an overview of key findings included in the next QCR.

The AER will then commence its second STTM audit, examining AGL in its role as an STTM facility operator.

2.1.3.5 AEMO confidentiality breach

On 23 March 2012, AEMO wrote to the AER outlining an incident which occurred on 12 January. The incident involved AEMO inadvertently providing Jemena Eastern Gas Pipeline (**Jemena EGP**) with access to information belonging to the APA Group, an apparent breach of section 91G of the Gas Law. Jemena EGP brought the incident to AEMO's attention and has confirmed that it has not retained any of the APA Group's information.

A similar breach occurred in July 2011, where AEMO released confidential information relating to a user's transportation agreements to a retail market participant. In response to this breach, AEMO stated it had prepared an internal incident report and would subsequently update its procedures and re-train staff in this area to prevent a reoccurrence. Such remedial action is important as participants' confidence and willingness to compete in the market will be affected if they are unable to rely on AEMO to maintain confidential data appropriately.

The AER has written back to AEMO seeking more information about the 12 January confidentiality breach and is considering what, if any, action to take. In particular, the AER has asked whether the proposed remedial actions in respect of the July 2011 breach have been implemented.

2.1.3.6 Special project on STTM demand forecasting

In the previous QCR, the AER announced a special project for 2012 focussing on STTM demand forecasting.

Rule 410(1) of the Gas Rules requires each STTM market participant who expects to

withdraw quantities of natural gas from a hub on a gas day to submit in good faith ex ante bids or price-taker bids (and any revisions to those bids) to reflect the participant's best estimate of the quantity it expects to withdraw in each hour of that gas day.

Demand forecasts are a primary input for scheduling and are used to calculate the ex ante price. Poor demand forecasting leads to inefficiencies in dispatch whereby the ex ante price is set on the basis of more or less gas offers than are required. In monitoring these markets, the AER has identified ongoing occurrences of poor demand forecasting from some market participants and would like to discourage participants from engaging in such behaviour.

This project aims to highlight participants' performance in demand forecasting in the STTM. This quarter the AER has developed systems to allow a comparison of 'allocation' quantities (i.e. what the participant actually demanded on the gas day) to initial scheduled quantities for the STTM.

The AER will shortly survey gas retailers on what areas of demand are the least predictable (and therefore can often lead to forecasting errors) and encourage them to develop systems to better manage this unpredictability. This should increase retailers' awareness of their obligations with regard to demand forecasting.

The AER will track the allocated and scheduled volume differences from the respective STTM market starts until the end of 2012. An update on this project will be provided in later QCRs.

2.2 Targeted compliance review

Targeted compliance reviews are an important part of the AER's compliance monitoring program. The reviews explore participants' compliance practices and aim to improve stakeholder understanding of the obligations with which they are required to comply. A list of all provisions targeted over the last four quarters is provided in appendix B.

This quarter the AER targeted gas rule 336 which relates to emergency procedures awareness, and requested responses from a range of participants including producers, storage providers and distribution networks.

Specifically, rule 336 requires a registered participant to ensure that its relevant officers and staff (being those parties responsible for making decisions or taking actions in emergencies) as well as its customers (where applicable) are familiar with its emergency protocol and safety plan/procedures at all times. Failure to ensure this could potentially expose assets and lives to significant risk.

The participants subjected to this review were two production plants (BHP Billiton for Bass Strait, and Origin Energy for its Lang Lang plant); two storage facilities (TRUenergy for Iona, and APA Group for LNG); and two distributors (APA Group and Multinet Gas for their respective networks). Appendix A summarises the responses of the parties.

Review Outcomes

The purpose of this review was not to assess actual emergency procedures, rather it sought to ensure that, as required by gas rule 336, relevant parties are aware of such procedures. In this instance, all targeted participants have provided details of their emergency procedures, including a confirmation that these procedures are reviewed regularly and supported by regular testing and emergency exercises. The AER considers that such procedures should be updated at least annually and encourages participants to follow this timeframe. Participants generally appear to have well defined roles and responsibilities for staff in relation to emergency procedures. The AER encourages participants to participate in industry exercises such as those conducted annually by AEMO.

It is important that participants implement their safety procedures, update them as required and strictly comply with them to ensure that if an emergency occurs, it will be dealt with swiftly to minimise disruption to services and threats to assets and lives.

3 Electricity

The AER is responsible for monitoring, investigating and enforcing compliance with the national electricity arrangements under the Electricity Law and Rules.

3.1 Investigations, market events and compliance issues

This part of the report provides an update on reviews, investigations¹³ and compliance matters in the electricity market.

3.1.1 Rebidding

Scheduled generators and market participants operating in the National Electricity Market (NEM) submit wholesale electricity offers and bids for each half hour. The offers and bids include available capacity for up to 10 price bands, and can be varied through rebidding.¹⁴

The AER adopted generator rebidding reasons as one of its special projects for 2011 and introduced a new rebidding enforcement strategy, as set out in the AER's *Compliance Bulletin No. 3*, published in December 2010.¹⁵ Generators that submit offer, bid and/or rebid information that does not meet the requirements of the Electricity Rules will receive two warnings. On a third occasion within six months, the AER will consider issuing an infringement notice. The AER has continued this approach to monitoring rebid reasons.

During the March 2012 quarter, the AER issued one initial warning notice, in response to an inflexible rebid which did not include a technical reason and two participants' warning counts were reset to zero.

The AER also completed a review of instances where three warnings had been issued for non-compliant bids overseen by one trading team, albeit for generators registered

¹³ Published investigation reports are available on the AER website at <http://www.aer.gov.au/content/index.phtml/itemId/656186>.

¹⁴ Market participants must provide to AEMO, at the same time as a rebid is made, a brief, verifiable and specific reason for the rebid, plus the time at which the reason for the rebid occurred. Equivalent requirements apply where AEMO is advised, under clause 3.8.19 of the Electricity Rules, that a unit, service or load is inflexible. Clause 3.8.22A of the Electricity Rules requires that dispatch offers, dispatch bids and rebids are made in 'good faith'.

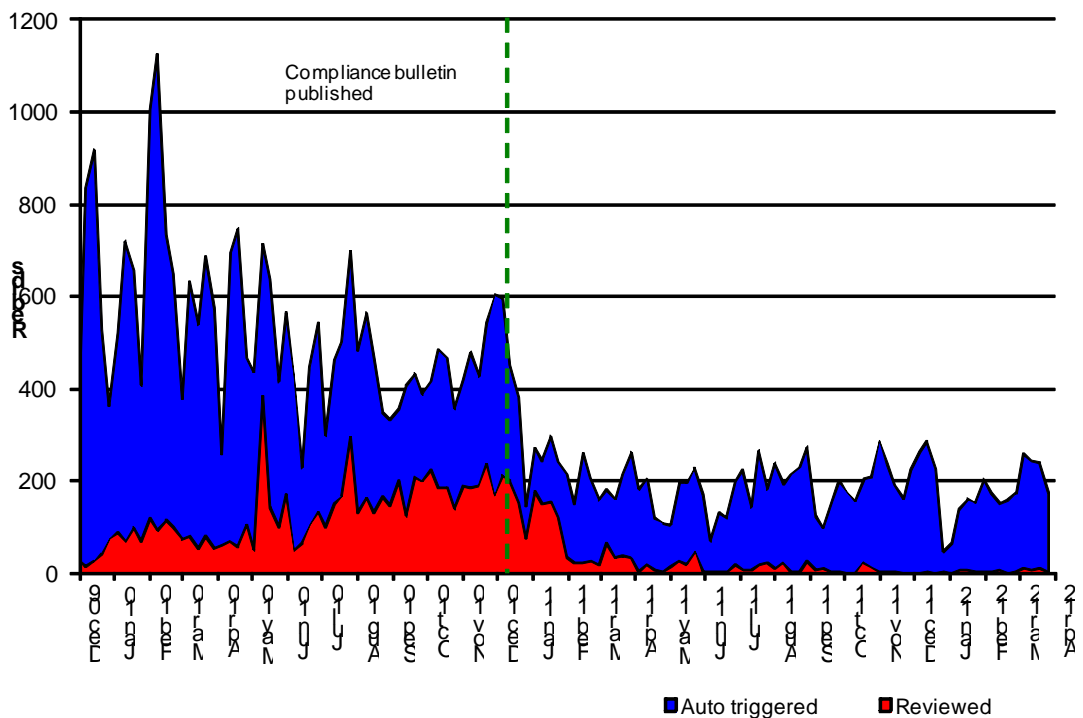
¹⁵ The Compliance Bulletin is available at <http://www.aer.gov.au/content/index.phtml/itemId/692887>.

separately in the participant’s portfolio. The AER’s Compliance Bulletin is silent on how it will consider portfolio bidding where the assets in the portfolio are registered separately.

As a consequence, the AER is updating the Compliance Bulletin to make it clear that, for the purposes of administering the three stage process and issuing warnings, the AER will rely on the cumulative count of non-compliant bids for all generating units under the same portfolio. In other words, where a parent company employs a common trading team for the bidding of multiple generating units in its portfolio, irrespective of whether these generators are different registered participants, the AER will count any non-compliant bids by that trading team together. The updated Compliance Bulletin will be issued in due course.

Figure 2 shows that since the Compliance Bulletin was published (December 2010), the number of rebids triggered by the AER’s internal compliance system has fallen markedly. The number of rebids which required further review by AER staff has also fallen significantly.

Figure 2: Rebids auto-triggered and reviewed per week



In addition, during the March 2012 quarter, generators contacted the AER on nine occasions to declare erroneous (or questionable) rebids. This reflects a stronger

focus on the quality of rebids and a commitment to compliance within their trading teams.

3.1.2 Extension of time to complete CT and VT testing

Schedule 7.3 of the Electricity Rules requires that instrument transformers must be tested at least every ten years. TransGrid wrote to the AER in March 2012 stating that delays in completing network augmentation meant that the testing of the 974 Feeder 132kV (high) voltage Current Transformers (CTs) at Cooma substation and the 997 Feeder 132kV Voltage Transformers (VTs) at Albury substation would not be undertaken in the required timeframe. This followed an earlier review by the AER into a systemic problem with testing of low voltage CTs across the NEM and the subsequent Compliance Bulletin No 6, issued in December 2011.

TransGrid noted that the network augmentation was necessary to avoid a loss of electricity supply to the residential areas around where the testing would take place.

TransGrid sought an extension until quarter 3 2012 for testing at the Cooma substation and May 2012 for testing at the Albury substation. The AER informed TransGrid that it would not take action in relation to the matter at this stage, subject to TransGrid confirming when the testing at each site was completed, and informing the AER of any further delays that will hinder the testing from being completed by the respective extension dates.

3.1.3 Special project on generator connections to the transmission network

In the previous QCR, the AER announced the commencement of a special project focusing on generator connections to the transmission network.

In recent years, many connection applicants have raised concerns about the transmission company connections process. Poor connection practices increase generators' costs, cause delays and discourage efficient new entry of generation capacity. Such outcomes are particularly problematic given the need for the electricity network to respond to changes to market conditions and environmental policy developments.

The relevant provisions of the Electricity Rules were designed to be high level,¹⁶ with detailed issues to be resolved via a dispute resolution mechanism. However, connection applicants may be reluctant to jeopardise their future relationship with the transmission companies by entering into dispute resolution.

Through this project the AER is exploring methods to improve connections outcomes.

After announcing this project in the December 2011 QCR, the AER was contacted by a number of (past and potential) connection applicants outlining their support for this project and expressing their willingness to participate in the AER's proposed survey. Given this support, the AER will proceed with this survey to seek views on issues related to the responsiveness of the connection process, cost and timeliness of connection applications. Responses will be confidential. Survey results could be used to:

- identify areas where breaches of the Electricity Rules may be occurring or the rules themselves are unworkable. This information could be used in developing the terms of reference for a transmission company compliance audit or rule review
- compare transmission company performance, with a view to publishing the aggregated results, which may highlight systemic issues and provide transmission companies with the opportunity to improve processes in this area.
- provide some practical compliance insights for the AEMC's broader Transmission Framework Review

The AER will provide a further update on this project in future quarters.

3.2 Technical Audits

Auditing is one mechanism used by the AER to verify and assess compliance by registered participants with their obligations. The audits aim to ensure participants have robust and effective compliance programs in place that are consistent with Good Energy Industry Practice.¹⁷

¹⁶ See clause 5.4A of the Electricity Rules.

¹⁷ A discussion on Good Energy Industry Practice is above in section 2.1.3.4.

The AER has established a program of regular technical compliance audits which targets electricity generators and network service providers on a rotating basis. These audits generally focus on the Electricity Rules clause 4.15 and 5.7.4, particularly the requirement on electricity generators and network service providers to institute and maintain a compliance program in accordance with prescribed requirements.

The generator compliance program must:

- be consistent with the template for generator compliance programs
- include procedures and processes to monitor the performance of the plant in a manner that is consistent with good electricity industry practice
- provide reasonable assurance of ongoing compliance with applicable performance standards registered with AEMO.

The AER will soon commence a technical audit of Alinta Energy with respect to its Northern Power Station. Further information on this audit will be included in the next QCR.

3.3 Jurisdictional derogations

Chapter 9 derogations exempt Victorian smelter traders, New South Wales power traders and Queensland nominated generators (for the purposes of exempted generator agreements) from complying with the Electricity Rules to the extent there exists:

- any inconsistency between the Rules and a contractual requirement under the relevant agreement between the government and other entities
- any other specified exemption in the jurisdictional derogations.¹⁸

The relevant participants must give notice to the AER of any act or omission which partly or wholly constitutes non-compliance with the Electricity Rules. No instances of non-compliance were reported in the March 2012 quarter.

¹⁸ Refer to clauses 9.4.3 (Smelter Trader: Vicpower Trading), 9.12.3 (power traders: Delta Electricity and Macquarie Generation) and 9.34.6 (nominated generators: CS Energy and Stanwell Corporation) of the Electricity Rules.

Appendix A: Targeted compliance review response summary

Response summary—producers

BHP Billiton advised that it is the non-operator joint venture participant for the Bass Strait production plant. Esso Australia Resources is the designated operator of the facility and its related entity, Esso Australia, is the primary contact and source of information for emergencies. Irrespective of this, BHP Billiton confirmed that it has in place an *Incident Management Team Plan* which is reviewed regularly. This Plan provides guidance on emergency responses and sets out information such as roles and responsibilities, checklists, safety plans and procedures, and emergency protocols. BHP Billiton stated that it has tested various scenarios in accordance with the Plan over the last three years.

Origin Energy confirmed that it has an *Emergency Response Plan* for its Lang Lang production plant (which is supplied raw gas from the offshore Yolla platform). This Plan is reviewed annually or as required (i.e. with any major change to the emergency response coordination or capabilities commissioning; following routine Plan testing; after emergencies; or when commissioning new plant or equipment) and changes are made in accordance with a change management process. The Plan sets out relevant officers and staff, whose details are also replicated in a register that is reviewed monthly and available in hard copy and electronically in the Central Control room.

Origin Energy also has an *Emergency Drills and Exercises Plan* which prescribes the frequency and content of emergency training. At Lang Lang, paper exercises are carried out once during each seven night shift roster and full site emergency scenarios are carried out at least monthly. At the Yolla platform, each shift conducts a full emergency exercise each month. Emergency exercises at the two sites are selected from a list of scenarios which must each be carried out at least once every six months (category 1 and 2 scenarios) or every three years (category 3 scenarios). Debriefing reports summarise the outcomes of these exercises and form permanent records.

BHP Billiton and Origin Energy both advised that customers are not involved in emergency training. Origin Energy explained that this is because its sole customer is a

related retail entity which is not in a position to affect production operations or otherwise assist in emergencies.

Response summary—storage providers

TRUenergy, as a storage provider, has an *Emergency Response Plan* for its Iona plant and associated facilities. This Plan outlines the tasks to be performed in an emergency, both at the plant and by the Melbourne-based Emergency Management Team. The Plan is reviewed and updated at least annually, depending on factors such as audits, regulatory changes, plant modifications and incident investigations. Incidents are classified as ‘Status 1’—those that require no external assistance, for example, police, fire or ambulance—and ‘Status 2’—those that require external assistance and result in the Emergency Management Team being assembled to support personnel at the Iona plant. Major incidents also trigger TRUenergy’s higher level *Crisis Management Plan*.

As part of its emergency training, TRUenergy carries out scenario-based exercises each quarter. Staff also participate in industry training exercises, including those facilitated annually by AEMO’s Gas Emergency Management Consultative Forum. Competency training assessments are used to train relevant gas storage staff and online training is delivered for Iona’s *Safety Case*.¹⁹ Accordingly, the Iona plant must have a compliant *Operations Plan* that is approved by the Department of Primary Resources.

TRUenergy provides its key customers with copies of the *Emergency Response Plan*. This plan meets the Australian Standard AS4801 (relating to occupational health and safety management systems) and International Standard ISO4001 (relating to Environmental Management Systems).

APA Group replied for APA Victoria Transmission, which operates the LNG storage facility. It advised that it has in place an *Emergency Management Manual* that details how APA manages emergencies within the Victorian gas market and the LNG Storage facility. It establishes team structures and roles for both operational responses

¹⁹ The ‘*Safety Case*’ is required under Victorian occupational, health and safety legislation because the Iona plant is deemed to be a ‘major hazard facility’.

(repair and service restoration) and management responses (stakeholders, media and support functions) to emergencies. A roster ensures that appropriate staff and officers are available at all times. The Manual utilises AEMO's Gas Industry Emergency Communication Protocol and is reviewed and updated annually or as required.

There is also a *Dandenong Site Emergency Procedure* that details the emergency response within the LNG facility and Dandenong site. Recognising its role in the provision of an essential service, APA provides training to relevant staff and officers at least every three years as stipulated in its Manual. It also carries out the exercises mandated under relevant anti-terrorism legislation. It does not undertake specific customer training, however major customers are required to participate in AEMO's annual gas industry exercise.

Response summary—distribution networks

APA Group also provided a response for Vic Gas Distribution on behalf of Envestra. The emergency procedures in place are contained in the *Victorian and New South Wales Emergency Response Plan*, which includes escalation and communication protocols, load shedding requirements, and media protocols for level 4 and 5 emergencies. The Plan is updated where changes to these protocols occur or as a result of real incidents and simulated exercises, with reviews undertaken on an as-needs basis. APA noted that an updated Plan will be released later in 2012, following changes to AEMO's communication protocols and the implementation of AEMO's web-based package, 'Whispir'.

Emergency exercises are undertaken twice yearly, providing training opportunities for new personnel and continuous improvement in the organisation's emergency preparedness. APA Group advised that Victorian Gas staff participate in AEMO's annual gas industry training, as well as courses facilitated by Energy Safe Victoria.

APA advised that emergency training is not normally provided to consumer groups, however, natural gas safety information is provided by Energy Safe Victoria and retailers. APA carries out asset awareness sessions for utilities and gives consideration to them and other parties (such as government agencies) when planning emergency exercises. Contingency planning for loss of supply to large industries and evacuation of premises is conducted outside of gas specific emergency training. Relevant

officers, staff and external resources are listed in the Emergency Response Plan and the AEMO Gas Emergency Management Consultative Forum contact list.

Finally, in its late response, Multinet Gas provided a copy of internal documents including its *Gas Emergency Management Plan* which provides the framework that governs its incident and emergency management arrangements. Multinet Gas stated that this Plan is updated regularly.

Multinet Gas performs emergency exercises at least annually and has one scheduled for May 2012. It conducts a comprehensive debrief following each of these exercises and any identified improvements are included in an updated Plan. In most cases, Multinet Gas identifies staff for this training based on their job description. Additional personnel may be trained at management's discretion, depending on their level of experience and skill sets.

Multinet Gas participated in AEMO's annual gas industry exercise in 2011 and is currently reviewing the issues raised through that process with the Victorian Industry Gas Emergency Management Consultative Forum. Any conclusions drawn from this process will be fed into the Plan.

Appendix B: Previous targeted compliance reviews

This is a summary of the provisions under the Electricity Rules and Gas Rules targeted by the AER in the last four quarters. A provision may be targeted over a number of quarters involving different participants.

Quarter ending	Industry	Mechanism	Rule	Description
June 2011	Gas	Targeted compliance review	172	Provision of linepack capacity adequacy indicators for the Bulletin Board
		Targeted compliance review	378	Obligation to update information registered with AEMO
		Targeted compliance review	435	Requirement to provide good faith, best estimate contingency gas offers
September 2011	Gas	Targeted compliance review	300	Obligation to protect metering installations from unauthorised interference
		Targeted compliance review	403	Obligation to investigate the circumstances of a MOS shortfall
		Targeted compliance review	410	Obligation to make good faith, best estimate price taker bids (demand forecasts)
December 2011	Gas	Targeted compliance review	180	Obligation to publish peak demand day information
		Targeted compliance review	219	Obligation to notify AEMO of injection and withdrawal quantities
		Targeted compliance review	254	Obligation to provide and maintain security (prudential requirements)
March 2012	Gas	Targeted compliance review	336	Emergency procedures awareness