



Wholesale Markets  
Quarterly Compliance Report

April – June 2012

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# Glossary

ACCC	<a href="#">Australian Competition &amp; Consumer Commission</a>
AEMO	<a href="#">Australian Energy Market Operator</a>
AER	<a href="#">Australian Energy Regulator</a>
AMI	Advanced Metering Infrastructure
Bulletin Board	The <a href="#">Natural Gas Services Bulletin Board</a> 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 <a href="#">National Electricity Rules</a> 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 <a href="#">National Gas (South Australia) Regulations</a> made under the National Gas Act
Gas Rules	The <a href="#">National Gas Rules</a> made under Part 9 of the Gas Law
GEIP	Good Energy Industry Practice
GJ	Gigajoule
LCA	Linepack capacity adequacy
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GJ) is provided to balance pipeline deviations by increasing or decreasing the quantity of natural gas supplied to or withdrawn from a hub using an STTM pipeline.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	<a href="#">National Electricity (South Australia) Act 1996 (South Australia)</a>
National Gas Act	<a href="#">National Gas (South Australia) Act 2008 (South Australia)</a>
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
NMI standing data	Information including physical location, the applicable network tariff and loss factors associated with a relevant connection point.
RBP	Roma to Brisbane Pipeline
QCR	Quarterly Compliance Report issued by the AER
QGP	Queensland Gas Pipeline
RIT-T	Regulatory investment test for transmission
RP	Responsible Person
STTM	Short Term Trading Market established under Part 20 of the Gas Rules
SWN	System Wide Notice
SWQP	South West Queensland 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 Law<sup>1</sup> (**Electricity Law**) and section 27 of the National Gas Law<sup>2</sup> (**Gas Law**) set out the functions and powers of the AER, which include:

- monitoring compliance by energy industry participants<sup>3</sup> 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 April to 30 June 2012 (**the June 2012 quarter**).<sup>4</sup>

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, among other things, the operation of the Natural Gas Services Bulletin Board (**Bulletin Board**), the Victorian gas market and the Short Term Trading Market (**STTM**).

This quarter the AER issued an infringement notice in relation to Gas Rule 369 which requires that information or data provided to AEMO be done so in accordance with good gas industry practice. This notice, the first issued by the AER for the STTM, was issued to Epic Energy in relation to an error in a formula used to calculate forward haul gas quantities.

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

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

<sup>3</sup> 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.

<sup>4</sup> Previous reports available at <http://www.aer.gov.au/node/454>.

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
- developing metrics to monitor and improve compliance in metering
- an update on the industry-wide instrument transformer testing initiative
- the grant of a further extension for Current Transformer testing
- a breach of metering obligations by SP AusNet
- the release of a compliance bulletin regarding the treatment of confidential information (particularly in the context of smart meters and agents having access to NMI standing data)
- compliance reporting from participants derogated under Chapter 9 of the Electricity Rules, including the termination of a Power Purchase Agreement between Stanwell Corporation and the owners of Collinsville Power Station

Throughout 2012 the AER is carrying out four ‘special projects’ to address compliance issues in the wholesale gas and electricity markets. This report provides an update for the project relating to electricity generator connections to the transmission network.

# 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,<sup>5</sup> 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, the imposition of reporting requirements, market monitoring, and targeted compliance reviews.<sup>6</sup>

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

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<sup>5</sup> Available on the [AER website](#).

<sup>6</sup> Provisions of the Gas Rules and Electricity Rules that have been targeted for review in previous quarters are listed in Appendix A.

participants to establish specific compliance programs, the AER takes into account a participant's compliance framework when determining its response to breaches. In 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 reviews, investigations and compliance matters in the gas markets.

#### 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.

##### 2.1.1.1 LCA flag event—Queensland Gas Pipeline

On 23 June, a RED linepack capacity adequacy (**LCA**) flag was raised for the Queensland Gas Pipeline (**QGP**) which links the Wallumbilla gas hub in south central Queensland to large industrial gas users in Gladstone and Rockhampton. The flag reflected a capacity reduction on the QGP from 142 TJ to 112 TJ. This reduction resulted in 'contractual shedding', where each shipper's individual allowable maximum daily quantity on the QGP was proportionally reduced to prevent involuntary load shedding.

The initial reason submitted to accompany the flag was 'Unplanned Rolleston Compressor Maintenance'. Following a request from the AER, Jemena revised the information to notify Bulletin Board users that the expected completion date for the required maintenance was 6 July 2012. The AER also requested that, in accordance with gas rule 171, the 3 day capacity outlook data for QGP be updated to reflect the reduced capacity during this maintenance.

### **2.1.1.2 Actual daily production and pipeline flow data**

Participants submit daily production and pipeline flow data as required by gas rules 166 and 174, respectively.<sup>7</sup>

During the quarter, three facility operators failed, on a total of eleven occasions, to submit daily flow Bulletin Board data to AEMO with respect to their Bulletin Board facilities. The AER continuously monitors compliance with Bulletin Board requirements and, where appropriate, seeks commitments from participants to improve their performance. The relevant provisions are neither civil penalty nor conduct provisions.

### **2.1.2 Victorian Gas Market**

This quarter there are no compliance issues to report for the Victorian Gas Market.

### **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.<sup>8</sup> 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:

- an infringement notice served on Epic Energy
- facility capacity and allocation data
- facility operator audits
- AEMO confidentiality breaches
- special project on STTM demand forecasting.

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<sup>7</sup> Rule 169 also includes an obligation on storage providers to provide daily flow data.

<sup>8</sup> The Brisbane STTM hub commenced operations on 1 December 2011.

### **2.1.3.2 Infringement notice served to Epic Energy**

On 1 June 2012 the AER served an infringement notice on Epic Energy (**Epic**) for its submission of incorrect STTM allocation data to AEMO relating to the Moomba to Adelaide Pipeline (**MAP**) for the 24 October 2011 gas day. The AER served the infringement notice, the first served under the Gas Rules, because it considered that Epic's actions constituted a breach of rule 369 of the Gas Rules.

Rule 369 requires information or data (including allocation data) to be provided to AEMO in accordance with good gas industry practice (**GGIP**). Rule 369 is a civil penalty provision, meaning the AER may serve an infringement notice in response to a breach.

The incorrect data was caused by an error in Epic's formula to calculate forward haul gas deliveries. The formula error meant quantities of gas backhauled out of the Adelaide hub were not taken into account when calculating the quantities of gas delivered to the hub. This led to incorrect market outcomes on gas days where backhaul services were used.

The error followed the submission of incorrect allocation data to AEMO on 90 separate occasions between November 2010 and October 2011.

The infringement notice was served on 1 June 2012, and the \$20 000 infringement penalty paid by Epic on 18 June. The payment of an infringement notice is not an admission of a breach of the National Gas Rules. The AER published an investigation report on 21 June.<sup>9</sup>

### **2.1.3.3 STTM facility capacity and allocation data**

#### **Epic Energy Update—28 January, 29 January, 4–8 February 2012 (allocation data)**

In the previous quarter, the AER reported that Epic had identified a non-operational gas metering station as registering gas flows. Flow readings occurred on the 28 January, 29 January, and 4–8 February gas days. Epic stated that it would submit

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<sup>9</sup> This report is available on the [AER website](#).

correct data to AEMO and commence remedial actions to prevent similar data failures occurring in the future.

Epic has since informed the AER that it has provided AEMO with corrected data for the affected gas days. Later in 2012 the AER will be conducting an audit of Epic as part of its STTM participant audits and will address this particular matter with Epic as part of that process.

### **AGL—11 May 2012 (capacity data)**

On 10 May 2012 AGL failed to submit the D-1 STTM hub capacity (capacity notification) for the Rosalind Park Production facility (**Rosalind Park**) for the 11 May gas day by the 9:30am cut-off time. AGL stated that the late submission was due to a critical system failure around the cut-off time followed by a failure of a manual work around.

STTM hub capacity data is used by AEMO as an input to calculate the ex ante market price and the schedule for the relevant STTM hub. AEMO extended the submission window for AGL to 11:00am in accordance with the Gas Rules and the STTM Procedures. AGL submitted the required data within the extended deadline.

AGL is conducting a post-incident review and has taken a number of steps to minimise the risk of a similar event happening in the future.

The AER is currently conducting an audit of AGL as part of its STTM participant audits. The AER will review this particular incident with AGL as part of this audit, including the effectiveness of the actions AGL has taken in relation to this incident.

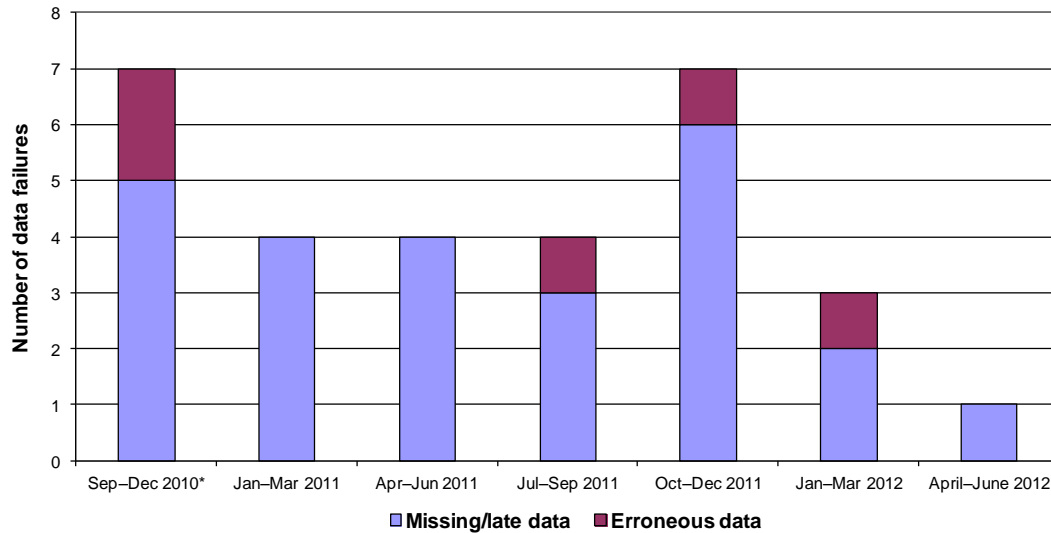
### **2.1.3.3 AER assessment of overall STTM data quality**

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

This quarter, the AER has identified only one instance of data failure—relating to AGL’s late submission of capacity information. This is a decrease from the previous quarter’s three data failure events and reflects a marked improvement in the quality of

STTM data submitted by participants following the release of the AER’s December 2011 Compliance Bulletin on STTM data quality.

**Figure 1: Data failures since STTM commencement**



\* September has been grouped with the December 2010 quarter. Therefore, this data point represents four months.

#### 2.1.3.4 STTM facility operator audits

The AER’s audits of STTM participants were noted above. These audits assess an 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’.<sup>10</sup>

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.

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<sup>10</sup> ‘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. The components the AER considers to comprise GEIP are contained in the [March 2012 QCR](#).

## **Audit of the APA Group**

The AER concluded its first such audit of the APA Group (**APA**) in its capacity as an STTM facility operator (pipeline operator and allocation agent) for the Moomba to Sydney Pipeline. The audit, which aimed to assess APA's processes to achieve compliance with information and data requirements under Part 20 of the Gas Rules, involved four steps:

- the AER issuing APA an audit questionnaire for completion
- the AER reviewing APA's response to ascertain whether it adequately met the audit's aims
- a site visit to APA's head office to discuss questions and issues that arose from APA's response
- the AER issuing APA with an audit report outlining conclusions and recommendations for APA regarding its practices to meet the information and data requirements of the STTM.

The AER's key findings from the audit were:

- Overall, the AER was satisfied that the processes and systems which APA has in place, if implemented and maintained appropriately, should be sufficient to satisfy its information and data obligations under the Gas Rules.
- APA encourages a positive compliance culture. Where necessary, APA has adapted its compliance activities in response to previous instances of non-compliance. The AER encourages APA to continue this approach.
- APA should continue to review and update all written procedures and manuals regularly to ensure they remain relevant.

## **Next audits**

The AER commenced its second STTM audit, examining AGL in its role as an STTM facility operator. The review is following the process outlined above and is expected

to be completed by September. Findings will be summarised in the next quarterly compliance report. The AER will be auditing Epic later in the year.

### **2.1.3.5 AEMO confidentiality breaches**

In the previous QCR, the AER reported on a confidentiality breach by AEMO, whereby on 12 January 2012 AEMO inadvertently provided 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. Following the incident Jemena EGP confirmed that it has not retained any of the APA Group's information.

The AER sought more information from AEMO on this breach. After reviewing AEMO's May 2012 response, the AER concluded that AEMO had taken reasonable remedial steps to minimise the likelihood of a similar breach in the future.

AEMO also confirmed that proposed remedial actions (such as updating its procedures and re-training staff) in relation to an earlier confidentiality breach in July 2011 had been completed. It noted that the January 2012 confidentiality breach and the July 2011 breach were unrelated, but both systems had been improved following the respective breaches.

During this quarter, AEMO alerted the AER to a further incident, where AEMO breached clause 23(1) of the Retail Market Procedures (South Australia) and section 91G(1)(a) of the Gas Law. On 1 April 2012 Logica, AEMO's service provider for the Gas Retail Market Systems, inadvertently sent bulk standing data intended for the Network Operator (Envestra) to a user (Origin Energy). Origin Energy notified Logica of this matter on 24 April. Origin Energy could not remove the data from its systems until 16 May.

AEMO has determined that the breach on 1 April 2012 was material in nature and has provided the AER with a Compliance Notice on the incident.

While the AER is still considering the latest confidentiality breach, it is concerned that three such breaches have occurred in the last 12 months. The AER understands that these incidents are not directly related, however their occurrence suggests that more work is required with respect to dealing with this particular type of confidential information. Participants' confidence and willingness to compete in the market may

be affected if they are unable to rely on AEMO to maintain confidential data appropriately.

The AER is working with AEMO at a senior level to ensure appropriate steps are taken to address these concerns, including exploring capabilities that enable AEMO to detect these types of breach, rather than relying on participants involved alerting AEMO of the problem.



## 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, investigations<sup>11</sup> 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.<sup>12</sup>

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.<sup>13</sup> 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 June 2012 quarter, the AER issued one initial warning notice, in response to an inflexible rebid which did not include a technical reason. During the quarter, the AER also reset four participants' warning counts.

In June the AER published an updated *Compliance Bulletin No. 3*, 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

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<sup>11</sup> Published investigation reports are available on the [AER website](#).

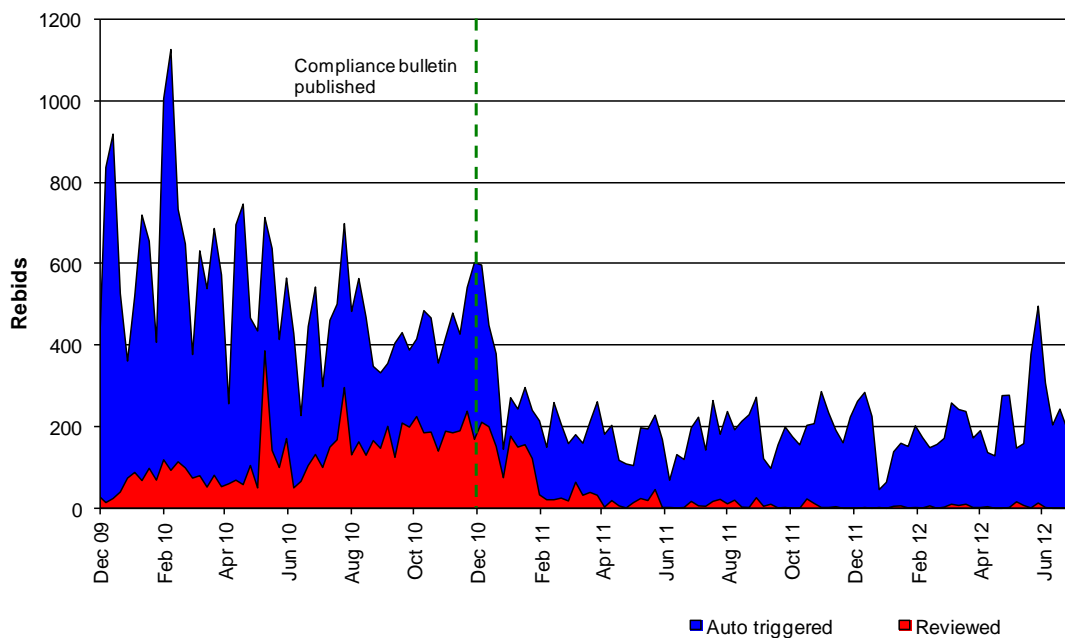
<sup>12</sup> Market participants must provide to AEMO, at the same time as a rebid is made, a brief, verifiable and specific reason for the rebid, plus the time at which the reason for the rebid occurred. Equivalent requirements apply where AEMO is advised, under clause 3.8.19 of the Electricity Rules, 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'.

<sup>13</sup> The Compliance Bulletin is available on the [AER website](#).

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.

Figure 2 shows that since the Compliance Bulletin was first 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 the AER has also fallen significantly.

**Figure 2: Rebids auto-triggered and reviewed per week**



In addition, during the June 2012 quarter, generators contacted the AER on 14 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 Strategies to address metering compliance

The AER and AEMO meet regularly to discuss metering compliance and performance issues. The AER is developing new strategies and metrics to enhance its monitoring capabilities of participants’ compliance with the metering requirements. As the operator of the market settlement and transfer solution (**MSATS**), AEMO offers the AER valuable insight into problems and issues occurring in the metering space.

The AER has previously reported on a variety of metrics developed by AEMO.<sup>14</sup> These and new metrics are currently under review. Details of progress on the development of these monitoring strategies and metrics will be reported in a future QCR.

### **3.1.3 Instrument transformer testing update**

The AER released a compliance bulletin on instrument transformer testing in December 2011. The bulletin sets out the AER's expectations for instrument transformer testing as required by the Electricity Rules and sought for industry to demonstrate a willingness to comply by testing a sample of their instrument transformers.

The AER proposed that each year a Responsible Person (**RP**) should test either 10 per cent of its metering installation population, or a sample of its meters in accordance with an alternative sampling method approved by AEMO. In the event that the 10 per cent per annum option is chosen by an RP, this is designed to ensure that within a 10 year timeframe, the entire population is tested. AEMO required that each RP submit a testing strategy and plan prior to 1 July 2012 to allow sample testing to commence on that date.

The AER's expectation is that because testing should now be underway, testing strategies and plans should have been provided to AEMO for consideration. AEMO has informed the AER that while a number of RPs have submitted a testing strategy and plan, it has not received these documents from all RPs. The AER will be contacting RPs who have not submitted a testing strategy and plan by the end of August to discuss this matter further.

### **3.1.4 Further extension of time to complete high voltage CT testing**

Schedule 7.3 of the Electricity Rules requires that instrument transformers must be tested at least every ten years. In the previous QCR the AER outlined that it had granted TransGrid extensions of time for testing of 974 Feeder 132kV (high) voltage Current Transformers (**CTs**) at Cooma substation and 997 Feeder 132kV Voltage

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<sup>14</sup> See section 4.1.2 of the [December 2011 QCR](#).

Transformers (VTs) at Albury substation to allow required network augmentation to be completed.

In May 2012 the AER received confirmation from TransGrid that the VT testing at Albury substation has been satisfactorily completed. TransGrid advised that there had, however, been delays to the network augmentation required to facilitate the CT testing at Cooma substation and requested a further extension until quarter 2 2013 to complete this testing. 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 Cooma substation was completed, and informing the AER of any further delays that will hinder the testing from being completed by the extension date.

A similar no action was provided to SP Ausnet with respect to delays in high voltage CTs on distribution lines out of Altona Terminal Station in Victoria. SP Ausnet has committed to work the local network service providers and customers to ensure the testing is completed by the end of 2012

### **3.1.5 Breach of metering obligations by SP AusNet**

In October 2011, SP AusNet wrote to the AER requesting it take no action in relation to non-compliance with clause 7.3.1 of the Electricity Rules, concerning type 5 interval meters that did not have sufficient storage capacity.

The Electricity Rules require that type 5 meters have 200 days of storage capacity. SP AusNet has found however, that due to the installation of solar panels, the capacity of its type 5 meters has been reduced below that threshold. Solar panels require a second channel which is used to record metering data for exports from the solar panel, in addition to the normal metering data for imports to the property. To remedy this, SP AusNet began replacing type 5 meters with type 6 accumulation meters. This practice is in breach of the Metrology Procedures.

In December 2011, SP AusNet advised that, following a successful IT fix, it had ceased reverting type 5 meters to type 6 meters. It also renewed its request to the AER for no action because while the reprogrammed type 5 meters delivered an increased storage capacity, they were able to hold only 191 days of data instead of the prescribed 200 days. In the context of Victoria's Advanced Metering Infrastructure (AMI) rollout program to be completed by 2013, AEMO advised that the lower

storage capacity in this case would be unlikely to have a material impact on the market.

Despite SP AusNet's advice of December 2011, the AER subsequently confirmed that:

- a further 28 type 5 meters had been reverted to type 6 meters due to undetected internal non-compliant practices
- as at June 2012, the number of affected metering installations exceeded 2800.

Due to these issues, as well as the fact that SP AusNet did not immediately notify the AER of this matter, the AER did not provide SP AusNet with a no action letter. Instead, the AER has required SP AusNet to:

- no longer revert type 5 meters with type 6 meters
- expedite the replacement of the affected meters and rectify its non-compliance, as part of the AMI rollout
- provide the AER with a detailed action plan and quarterly progress updates
- notify the AER and AEMO within two business days of any instance where the interval between reads for meters with non-compliant storage capacity exceeds 191 days.

SP AusNet has agreed to undertake the above actions to achieve full compliance as soon as practicable. The AER will continue to monitor this matter closely.

### **3.1.6 Compliance bulletin on confidential NEM information**

On 29 June 2012 the AER released a compliance bulletin highlighting issues pertaining to the disclosure of confidential information by participants in the NEM. The first issue is retailers providing agents undertaking customer acquisition activities on their behalf with access to NMI standing data. The second is distributors providing customers with smart meters direct access to energy or metering data.

The AER is concerned that a number of participants may be at risk of engaging in conduct which is in breach of the Electricity Rules. However, the AER also

recognises that recent market developments (such as retailers' use of agents to engage potential customers, and the rollout of smart meters) are not necessarily reflected in the Electricity Rules.

The compliance bulletin outlines that the AER proposes to not take enforcement action in relation to potential breaches in this area until 31 December 2013. This should allow sufficient time for industry and policy makers to clarify the requirements of the Electricity Rules and other legislation, and for market participants to make any necessary changes to their practices. However, where there are aggravating factors associated with the release of confidential information, such as a significant market impact or a privacy breach, the AER will use its discretion and consider taking enforcement action.

### **3.1.7 Special project on generator connections to the transmission network**

As set out in previous QCRs, the AER is conducting a survey of parties that have sought to connect to the National Electricity Market transmission network. The purpose of the survey is to explore creating incentives for Transmission Network Service Providers (TNSPs) to improve the connection process and to enhance the AER's access to information on connections practices.

The AER is currently developing the survey that will be sent to relevant stakeholders. To ensure that the process is balanced and impartial, TNSPs will have the opportunity to comment on the draft survey prior to publication. At this stage, the AER intends that the survey will focus on the TNSPs' performances in terms of timeliness, provision of information, cost, design, availability of competitive procurement and responsiveness to the connection applicant's commercial requirements.

Survey responses will be treated in confidence and only the aggregated results will be made public. However, AER staff will carry out checks to ensure that a TNSP's performance is assessed only by parties that have genuinely participated in the connections process with that TNSP.

The AER has decided to seek feedback on connection applications over a relatively long period (the previous five years) to widen the pool of potential survey responses and hence improve the depth of our data set. In recognition that current connection

practices are more relevant than past practices, the AER will attach a higher weighting to responses that relate to more recent connection applications.

Parties who have submitted a connection inquiry to a TNSP during the period since 16 November 2006 (i.e. since the current connections regime came into effect) will have the opportunity to participate in the survey process. Respondents will be asked to complete a separate survey for each connection inquiry.

The AER expects to conduct the survey during the next quarter.

### **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.

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 Electricity Rules clauses 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 is currently conducting a technical audit of Alinta Energy with respect to its Northern Power Station. An overview of the AER's findings will be featured in a future 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.<sup>15</sup>

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 June 2012 quarter.

On 18 June 2012, Stanwell Corporation publicly announced that it agreed with the owners of Collinsville Power Station to terminate its Power Purchase Agreement, effective 29 June 2012.<sup>16</sup> From 1 July 2012, Stanwell will no longer have control of operations or dispatch responsibilities for this power station which will be operated in the NEM by RATCH-Australia Collinsville Pty Limited.

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<sup>15</sup> Refer to Electricity Rules 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).

<sup>16</sup> An 'exempted generation agreement' for the purposes of the Electricity Rules.



## Appendix A: Previous targeted compliance reviews

This is a summary of the provisions under the Electricity Rules and Gas Rules most recently targeted by the AER. 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