



Quarterly Compliance Report

April – June 2010

July 2010

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Contents

Glossary	1
Executive Summary	2
1 Introduction	4
2 Gas	6
2.1 Investigations, market events, enquiries and compliance issues	6
2.1.1 Victorian gas market – rescheduling errors	6
2.1.2 Significant price variations in Victorian gas market.....	7
2.1.3 Bulletin Board data provision	7
2.1.4 Linepack capacity adequacy flags on the Bulletin Board.....	8
2.1.5 Short Term Trading Market	9
2.2 Targeted compliance reviews	10
2.2.1 Obligations of connected parties.....	11
2.2.2 Off-specification gas	12
2.2.3 Margin calls	13
2.2.4 Upcoming targeted compliance reviews.....	15
3 Electricity	16
3.1 Update on investigations, market events, enquiries and compliance issues	16
3.1.1 Compliance with clause 5.6.6 of the Electricity Rules	16
3.1.2 Stanwell investigation.....	16
3.1.3 Metering.....	17
3.1.4 Revised Market Ancillary Services Specification	18
3.1.5 General rebidding enquiries arising from monitoring	18
3.1.6 Spot and ancillary services price events exceeding \$5,000/MWh	19
3.2 Audits.....	20
3.3 Targeted compliance reviews	21
3.3.1 Registration of scheduled generators	21
3.3.2 Participation in central dispatch by registered participants	23
3.3.3 Requirements of metering installation components.....	24
3.3.4 Upcoming targeted compliance reviews.....	26
3.4 Jurisdictional derogations	27
Appendix A: Targeted rule provisions summary	28

Glossary

ACCC	Australian Competition & Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator (website at www.aer.gov.au)
Bulletin Board	The Natural Gas Services Bulletin Board provided for under the Gas Law, and commonly known as the National Gas Market Bulletin Board
Electricity Law	National Electricity Law (a Schedule to the National Electricity Act)
Electricity Regulations	The National Electricity (South Australia) Regulations made under the National Electricity Act
Electricity Rules	The National Electricity Rules made under Part 7 of the Electricity Law
FCAS	Frequency Control Ancillary Services
FRC	Full Retail Contestability
Gas Law	National Gas Law (a Schedule to the National Gas Act)
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
LCA	Linepack capacity adequacy
LNSP	Local Network Service Provider
MASS	Market Ancillary Services Specification
MIBB	Market Information Bulletin Board (for the Victorian gas market)
MMS	Market Management System
MSATS	Market Settlement and Transfer Solution
MW	Megawatt
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
NMI	National Metering Identifier
NSP	Network Service Provider
PASA	Projected Assessment of System Adequacy
STTM	Short Term Trading Market provided for under the Gas Law
TNSP	Transmission Network Service Provider
VTS	Victorian Transmission System (underpinning the Victorian gas market)
Victorian gas market	The Victorian Declared Wholesale gas market established under the Gas Law
\$5,000/MWh report	Reports issued by the AER under clause 3.13.7(d) of the Electricity Rules

Executive Summary

The Australian Energy Regulator (**AER**) is responsible for compliance monitoring, reporting 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 report outlines the compliance, monitoring and enforcement activity of the AER over the period 1 April 2010 to 30 June 2010 (**the June 2010 quarter**).⁴

With respect to gas, the AER monitors, investigates and enforces compliance with the Gas Law and National Gas Rules (**Gas Rules**). In this report, the AER provides an update on:

- compliance issues in the Victorian declared wholesale gas market (**Victorian gas market**) and, in particular, operating scheduling errors
- delayed provision of data in the Natural Gas Services Bulletin Board (**Bulletin Board**)
- the market trial and commencement of the Short Term Trading Market (**STTM**) for natural gas
- the release of AER guidelines on significant price variations 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 from <http://www.aer.gov.au/content/index.phtml/itemId/692887>

The report also covers targeted compliance reviews of the Gas Rules relating to off-specification gas, AEMO's margin calls framework and the obligations of connected parties under clause 270.

Under the electricity regime, the AER monitors, investigates and enforces compliance with the Electricity Law and the National Electricity Rules (**Electricity Rules**). In this report, the AER provides an update on ongoing and completed investigations and compliance matters. The report also covers:

- the review of the quality of reasons for 35 rebids in the National Electricity Market (**NEM**)
- market events where the wholesale spot price exceeded \$5,000/MWh
- the technical audit of TransGrid.
- the outcomes of targeted compliance reviews relating to:
 - registration of scheduled generators (clause 2.2.2)
 - participation by registered participants in the central dispatch process (clause 3.8.2)
 - metering installation requirements (clause 7.3.1).

Appendix A lists all electricity and gas provisions targeted over the last four quarters.

1 Introduction

The AER undertakes compliance monitoring and enforcement activity pursuant to the Electricity Law and Rules and 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 energy industry. A culture of compliance will:

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

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

In selecting Rule provisions 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).

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

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 culture when determining its enforcement 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 comment 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 Gas Rules.

2.1 Investigations, market events, enquiries and compliance issues

This part of the report provides an update on:

- continuing and completed investigations⁶
- other compliance matters and issues
- targeted compliance reviews conducted during the June 2010 quarter.

2.1.1 Victorian gas market – rescheduling errors

In the June 2010 quarter, the AER queried AEMO on its rescheduling errors in the Victorian gas market, as outlined in the previous quarterly compliance report.

With respect to an incident on 5 March 2010, AEMO advised that:

- the failure of its main data server resulted in a failure to publish data for the Market Information Bulletin Board (**MIBB**) from 5 to 8 March 2010
- in addition to revising its procedures it will implement new processes for managing its systems by 1 July 2010.

AEMO has also confirmed that the incident affected MIBB reports INT 153 and 126⁷. Specifically:

- INT 153 reports were lost (but some of the missing data was later reproduced and provided to the AER upon request)

⁶ Published investigation reports issued by the AER are available from its website at <http://www.aer.gov.au/content/index.phtml/itemId/656186>.

⁷ Relating to market participants' demand forecast data and AEMO's forecast, respectively.

- INT 126 reports contain the previous 7 days data; therefore, the missing data was included in subsequent reports.

In response, the AER reminded AEMO of its obligations to publish market data under clause 320 of the Gas Rules. The AER will continue to monitor the timely and complete publication of this data.

The AER has also noted an unintended gas scheduling result on 15 March 2010. AEMO concluded, following an investigation, that the error occurred in the 6am, 10am and 2pm schedules. The incident is currently subject to a dispute resolution hearing.

With respect to other failures affecting the accreditation system on 22 March 2010, AEMO confirmed that these occurred due to a processing error. In response, AEMO has implemented new data management protocols to avoid a repetition of this type of failure.

2.1.2 Significant price variations in Victorian gas market

The AER has released its initial *Victorian Declared Wholesale Gas Market Significant Price Variation Guideline*,⁸ following a consultation forum with industry participants in May 2010. The guidelines specify triggers for when the AER will publish a price event report. The triggers are:

- the daily trade weighted market price is three times the previous 30 day rolling average and exceeds \$15/ GJ or
- the ancillary payment amount on a gas day exceeds \$250,000.

2.1.3 Bulletin Board data provision

The AER monitors the quality and consistency of information posted on the Bulletin Board. It also receives regular reports from AEMO and the Bulletin Board operator, indicating whether data has been provided in accordance with obligations under Part 18 of the Gas Rules and the Bulletin Board procedures.

⁸ Refer to the AER website at <http://www.aer.gov.au/content/index.phtml/itemId/737645>.

The AER gas weekly reports show trends in gas production and pipeline flows into regions across the national gas market. The reports, which are available on the AER website, highlight participant failures to submit information.⁹

As reported in its weekly reports during the June 2010 quarter, the AER identified a number of entities that failed to provide actual and forecast data in accordance with the Gas Rules obligations. Those entities are BHP Billiton, QGC, Jemena, Santos and Tas Gas.

The AER wrote to these participants for clarification of their reasons for failing to provide data. In the case of BHP Billiton and Tas Gas, the delayed provision of data was due to the Bulletin Board password resetting process. The data submission issues involving QGC, Jemena and Santos occurred later than those of BHP Billiton and Tas Gas, and enquiries remain open at this time.

Information provided by AEMO indicates that, for the first time, there was full compliance with the on-time provision of forecast data in May 2010.

2.1.4 Linepack capacity adequacy flags on the Bulletin Board

In April and May 2010, the AER identified two instances of linepack capacity adequacy (LCA) flags being changed from green to amber and red on the Bulletin Board. Amber and red LCA flags indicate potential gas shortfall situations in the relevant pipelines. The AER sought information on these events by approaching the relevant participants and AEMO.

Under clause 5.4(c) of the Bulletin Board procedures, producers may provide reasons for a change in LCA flags via the 256-character text field provided in the Bulletin Board's transaction files. However, under clause 5.6(a), pipeline operators *must* provide such reasons.

AER enquiries into the May 2010 event, affecting the South West Queensland pipeline, found that the change in the status of the LCA flag was caused by operator error during testing. The pipeline operator—Epic Energy—immediately revised its internal procedures to prevent similar errors occurring in the future.

⁹ Available from <http://www.aer.gov.au/content/index.phtml/itemId/729309>

The April 2010 event instead affected the Moomba to Sydney pipeline, which is operated by APA Group. The AER intervened as a result of the various changes to that pipeline's LCA flag status and the fact that the initial change occurred without Santos or APA Group providing any reason. Enquiries into this matter confirmed that the LCA flag change was due to an outage at Santos' Moomba production facility. APA Group indicated that it had been unable to provide reasons for the initial flag change because, unlike Santos, APA Group did not have full knowledge or control of the said outage. APA attributed the subsequent LCA Flag changes to software issues, which it has now addressed with software and procedural revisions.

Whilst it is only pipeline operators, and not producers, upon whom the Bulletin Board Procedures place a positive obligation to provide reasons for events warranting flag changes, the AER regards the provision of reasons for any LCA flag change to be of critical importance to all Bulletin Board stakeholders, and that producers should also consider providing reasons via the Bulletin Board's free text facility when there are forecast gas production shortfalls. Moreover, from an operational and emergency perspective, the reasons provided should contain sufficient detail to enable adequate understanding of events affecting a pipeline and/or gas plant.

The AER encourages producers and pipeline operators to better coordinate their communications, particularly in the event of an outage, and to make use of the Bulletin Board's free text facility at all times.

2.1.5 Short Term Trading Market

AEMO began a trial of the STTM for the Adelaide and Sydney gas hubs in March 2010, for market commencement on 4 June 2010. On 7 May 2010, the STTM provisions in Part 20 of the Gas Rules commenced operation for the purposes of these hubs. On 20 May 2010, AEMO announced it had delayed the commencement of the market at these hubs to 1 September 2010.¹⁰

The delay was based on AEMO's assessment of progress against market readiness metrics and residual risks posed by issues arising during the market trial. The metrics

¹⁰ For further information and updates, refer to the "Short Term Trading Market" section of the AEMO website at <http://www.aemo.gov.au>

related to the creation of settlement statements, the receipt of pipeline allocation data and trading participant readiness.

AEMO has extended the STTM trial to 31 August 2010. As part of the trial, AEMO has been releasing daily reports on facility data metrics and weekly reports on market readiness metrics aimed at tracking some of the factors that led to the postponement. It held a special forum on settlements in May 2010 aimed at identifying residual issues with settlement reports and statements. To ensure the market's objectives of enhancing transparency and liquidity in the gas sector are realised, it is critical that all systems and procedures of participants, particularly as they relate to these metrics, operate effectively post 1 September 2010.

In the interim, the AER has established an internal information system to allow analysis of all data from AEMO's central market data repository. This information will be used to monitor compliance with the STTM rules and to monitor the performance of these new markets. The AER will also cover the STTM in its weekly gas analysis reports. As the AER further develops this area it will look to consult with market participants.

The AER will also develop guidelines to report on significant price variations in the STTM. These will be published in late 2010 or early 2011 when the market has commenced operation and reasonable data series become available.¹¹

2.2 Targeted compliance reviews

Targeted compliance reviews form an important part of the AER's monitoring program. As set out in part 1 of this report, the reviews explore participants' compliance practice and aim to improve stakeholder understanding of obligations.

In the June 2010 quarter, the AER targeted the provisions set out in table 1 below.¹²

¹¹ Noting that, in any event, the AER is not precluded from reporting on significant pricing events through its routine weekly reporting process.

¹² Appendix A of this report lists all provisions targeted over the last four quarters.

Table 1: Gas Rules – provisions targeted for review

Gas Rules Clause	Relevant parties (subject to current review)	Obligation	No. of targeted participants
270	Connected Parties	Compliant connection equipment	1
289	Registered Participants	Off-specification gas	2
263	AEMO	Margin calls	1

2.2.1 Obligations of connected parties

In the March 2010 quarter the AER commenced a compliance review of clause 270 of the Gas Rules. The AER sought information from Multinet Group and SP AusNet in their capacity as connected parties to the Victorian Transmission System (VTS) which underpins the Victorian gas market. The clause establishes requirements and conditions for connection, network modifications, load forecasting and the commissioning of connection equipment comprising the VTS.

Details on the information requested for this review and a summary of the responses of Multinet Group and SP AusNet are set out in the March 2010 compliance report. This section outlines subsequent information provided by APA GasNet, the transmission system service provider in the VTS.

Response summary

MultiNet Group and SP AusNet asserted that all VTS connection equipment is owned, operated and controlled by APA GasNet. This would mean that it is APA GasNet's responsibility to ensure all connection equipment is compliant with clause 270(1) of the Gas Rules. In order to further examine these issues, the AER sought to confirm with APA GasNet its status and obligations in this area.

While the VTS is operated by AEMO, its pipelines are owned and maintained by APA GasNet. However, APA GasNet advised that some equipment (e.g. regulators and heaters) is operated and controlled by connected parties and not by itself.

The responsibilities of APA GasNet, as the service provider, and SP AusNet and Multinet Group, as connected parties, in relation to equipment compliance is governed by connection agreements between the parties.

Under Subdivision 1, Division 3 of Part 19 of the Gas Rules, these agreements serve to ensure that all connection equipment meet system operation and security requirements, and therefore comply with the Gas Rules, including clause 270(1).

Review outcomes

The information received from Multinet Group, SP Ausnet and APA GasNet demonstrates that obligations exist on all VTS parties. In the context of clause 270, it is the connected parties (rather than APA GasNet) that are responsible for ensuring that any connection equipment they own, operate and control complies with applicable requirements and conditions for connection.

The review highlights that, compliance with those requirements is also ensured via connection agreements that—in this context—bind both the service provider and each party connected to the VTS.

2.2.2 Off-specification gas

In the June 2010 quarter the AER wrote to Esso Australia Resources Pty Ltd and Origin Energy Resources Limited regarding their compliance with clause 289 of the Gas Rules. The clause requires registered participants to use reasonable endeavours to ensure any gas it injects or tenders for injection into the transmission system complies with gas quality specifications. It also requires participants to notify AEMO if it becomes aware that off-specification gas is being, is likely to be, or has been delivered at a system injection point. Non-compliance could impact on system reliability and the ability of end-use customers to accept gas.

The AER sought operational information and reasons for the repeated injection of off-specification gas, as per notices issued by AEMO since July 2009.

Response summary

Esso stated it does not actively inject or tender for injection gas at the Longford injection point and that this was typically undertaken by participants such as retailers. However, it agreed it must comply with specification limits of the transmission system with the exception of odorant concentration. In this regard, it advised that all notifications relating to off-specification gas injected at the Longford injection point since July 2009 related to odorant concentration.

In its reply, Esso noted that the monitoring of gas at the Longford injection point was also the responsibility of the Victorian gas market service provider, APA GasNet. It identified internal processes in place to ensure that the production of gas at Longford meets all other specification limits. In particular, it noted that that production plant is monitored at all times by on-site operations staff and that alarms alert them when specification limits are approached and breached. It also has communications processes to notify AEMO and other participants if off-specification gas is injected.

Origin Energy outlined processes for preventing the injection of off-specification gas and its procedures for dealing with this event should it occur at its BassGas facility. Both Esso and Origin Energy use alarms to alert operating staff when specification limits are breached. The injection of out of specification gas is subject to an escalation process involving contact with senior management.

Origin Energy stated that it deals with off-specification gas at BassGas by directly contacting APA GasNet, in accordance with their operating protocols. Origin Energy advised it was able to take corrective action in each instance of the injection of off-specification gas since July 2009.

Review outcomes

Both Esso and Origin Energy referred to processes in place aimed at ensuring gas injected into the system is on-specification and that AEMO notification requirements are met. The AER will further consider the responsibilities of all parties with respect to off-specification gas and will seek further information in this regard.

2.2.3 Margin calls

The AER wrote to AEMO regarding its margin call procedures and arrangements under clause 263 of the Gas Rules. The provision requires AEMO to make a margin call on a market participant (by notice) if AEMO calculates that its market exposure exceeds the participant's trading limit. If AEMO makes a margin call, the participant must either:

- provide to AEMO additional security/securities that will enable AEMO to increase its trading limit to a level which exceeds AEMO's estimated exposure to the market participant or

- prepay a portion of the amount payable in respect of previous billing periods sufficient to reduce AEMO's estimated exposure to the participant to below its trading limit.

This review aimed to clarify the systems and procedures AEMO uses to calculate margin calls and monitor relevant parameters. The AER also requested information on the number of times AEMO issued a margin call notice and whether the affected participants met their obligations under clause 263(2).

Response summary

AEMO indicated that, to fulfil its obligations under clause 263 of the Gas Rules, it uses a gas metering management system to calculate the daily prudential exposure for each participant. In brief, the process involves:

- generating a prudential monitoring report on each participant's current prudential exposure
- cross checking each participant's current prudential amount as listed in the above report against the net outstanding amount in AEMO's prudential statement
- running a query to calculate the net amount outstanding for each participant and updating the prudential monitoring report each day
- checking that all outstanding settlements and prepayments are correctly recorded in the report and confirming the validity and currency of the securities held for each participant.

AEMO's procedure for issuing warning notices and margin calls requires it to notify a participant—by way of warning notices sent by email and facsimile—where the participant's market exposure is between 80% and 99.99% of its trading limit. The procedure then requires AEMO staff to call the participant to confirm receipt of that notice.

Where a participant's exposure is 100% or exceeds the participant's trading limit, a margin call is faxed and emailed. A participant that receives a margin call must then make a prepayment of a portion of the amount payable or provide additional security to AEMO.

AEMO advised it issued 30 margin calls in the last 12 months and that all affected participants complied with their obligations under clause 263(2).

Review outcomes

Aside from maintaining the physical security of energy markets, AEMO is also responsible for ensuring that the markets are financially viable and stable. AEMO's response satisfactorily demonstrates its arrangements for fulfilling its obligations under clause 263.

2.2.4 Upcoming targeted compliance reviews

The AER will continue to target provisions under the Gas Rules as part of its ongoing compliance review process. The provisions the AER intends to target in the next two quarters include:¹³

- connection offers (clause 273)
- maintenance planning (clause 326).

STTM obligations will also be targeted with a view to enhancing awareness of participants' obligations and to promote a deeper understanding of arrangements prior to market commencement in September 2010. These include:

- capacity information (clause 414)
- facility allocations (clause 419).

A list of gas provisions targeted over the past four quarters is provided in appendix A of this report.

¹³ The AER will endeavour to give, via its quarterly compliance reports, advance notice of forthcoming targeted compliance reviews. This information is indicative only and the listed provisions may not be targeted subject to prevailing operational requirements and other industry events. The AER will also target other provisions by using other compliance and enforcement mechanisms, as required.

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 Update on investigations, market events, enquiries and compliance issues

This part of the report provides an update on:

- continuing and completed investigations¹⁴
- other compliance matters and issues including high price event reports and rebidding enquiries
- targeted compliance reviews during the June 2010 quarter.

3.1.1 Compliance with clause 5.6.6 of the Electricity Rules

The AER has commenced a review of TransGrid's compliance with clause 5.6.6 of the Electricity Rules and the requirements of the AER's Regulatory Test that apply to Transmission Network Service Providers (TNSPs).

The above review relates specifically to TransGrid's assessment of options to address growing demand in the far north coast of New South Wales. This matter is ongoing and will be reported on in a future investigation report.

3.1.2 Stanwell investigation

The Federal Court proceedings instituted by the AER against Stanwell Corporation Limited for alleged contraventions of the Electricity Rules have now ended. The parties are waiting for the judgement.

The AER has alleged Stanwell did not make several of its offers to generate electricity on 22 and 23 February 2008 in 'good faith', contrary to clause 3.8.22A of the Electricity Rules.

¹⁴ Published investigation reports issued by the AER are available from its website at <http://www.aer.gov.au/content/index.phtml/itemId/656186>.

The trial in this matter commenced in Brisbane on 15 June 2010 before Justice Dowsett. The outcome of these proceedings will be the subject of further updates and communiqués in future.

3.1.3 Metering

The previous quarterly compliance report referred to a working relationship between the AER and AEMO to address compliance issues with the Market Settlement and Transfer Solution (**MSATS**) procedures¹⁵ and other relevant obligations under Chapter 7 of the Electricity Rules.

As part of this relationship and ongoing monitoring, in the June 2010 quarter the AER sought further information from two participants regarding their activities under Chapter 7. In particular, the following separate issues were identified:

- the requirement to comply with the MSATS Procedures under clause 7.2.8
- the meter installation accuracy requirements in Schedule 7.2 of the Electricity Rules.

In relation to the first issue, an instance was identified where a market participant was routinely using the 'NOTRESP' objection code within MSATS incorrectly, which delayed change requests. The party has since acknowledged its error and agreed to undertakings to resolve the matter.

The AER is considering the second issue regarding meter installation accuracy and will report on it in future compliance reports.

In the September 2010 quarter the AER will again seek information from a number of parties regarding their compliance approach to Chapter 7 obligations, including the meter register discrepancy requirements of clause 7.5.2. Obligations for Local Network Service Providers under the MSATS Procedures and meter installation accuracy requirements will also remain areas of interest.

¹⁵ For more information, refer to the AEMO website at <http://www.aemo.com.au/electricityops/metering.html>.

3.1.4 Revised Market Ancillary Services Specification

AEMO uses ancillary services provided by certain NEM participants to manage the power system safely, securely and reliably. These services serve to maintain key technical characteristics of the system, including standards for frequency, voltage, network loading and system restart processes.

Under clause 3.11.2(b) of the Electricity Rules, AEMO must make and publish a Market Ancillary Service Specification (**MASS**) that provides a detailed description of each kind of market ancillary service and the performance parameters and requirements that apply to providers of these services.

In September 2009, AEMO concluded its consultation¹⁶ on amended MASS version 3 effective on 1 July 2010. Technical issues affecting delayed frequency control ancillary services (**FCAS**) were brought to AEMO's attention in June 2010.¹⁷ In response, and following consultation with the AER, AEMO will be taking various measures and has written to the affected parties, to provide a 6-month transition period to comply with the revised MASS.

3.1.5 General rebidding enquiries arising from monitoring

The AER monitors the performance of the NEM on an ongoing basis to screen for issues of non-compliance. Monitoring relies on public data and information provided by AEMO and other entities. While the AER uses market monitoring to screen for non-compliance with a range of provisions, this part of the report focuses on AER queries in relation to rebidding.

Scheduled generators and market participants in the NEM submit wholesale electricity offers and bids for each of the 48 intervals in a trading day.¹⁸ Clause 3.8.22A of the Electricity Rules requires these parties to make dispatch offers,

¹⁶ As required under clause 8.9 of the Electricity Rules.

¹⁷ Namely – as advised by AEMO - the requirement for proportional controllers providing this type of service to have set point control/hysteresis and a monotonically increasing function.

¹⁸ The offers and bids include available capacity (in Megawatts (**MW**)) in up to 10 price bands, and can be varied through rebidding.

dispatch bids and any rebids in “good faith”.¹⁹

Table 2 summarises the number of compliance issues reviewed by the AER in the June 2010 quarter. AER enquiries into some of these rebids are continuing.

Table 2: Rebidding reviews

Electricity Rules clause	Compliance issue	No. of participants under review
3.8.19(b)(1)	The rebid submitted does not provide a brief, verifiable and specific reason why the scheduled generating unit, scheduled network service or scheduled load is inflexible	14
3.8.22(c)(2)(i)	The rebid submitted does not provide a brief, verifiable and specific reason for the rebid	15
3.8.22(c)(2)(ii)	The rebid submitted does not include the time at which the event(s) or other occurrence(s) adduced by the scheduled generator or market participant as the reason for the rebid occurred	6

3.1.6 Spot and ancillary services price events exceeding \$5,000/MWh

The AER is required to publish a report²⁰ covering the circumstances in which the spot price in the wholesale electricity market exceeds \$5,000/MWh in a trading interval or where the price for ancillary services exceeds the spot price and is above \$5000 for a number of trading intervals. The reports help identify instances of non-compliance and enhance the transparent operation of the NEM.

There were various instances of spot prices exceeding \$5000/MWh during the June 2010 quarter. The relevant dates and regions are:

¹⁹ 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. This information can assist in determining whether dispatch offers, dispatch bids and rebids are made in “good faith”.

²⁰ Pursuant to clause 3.13.7 (d) and (e) of the Electricity Rules. The reports are available on the AER website at <http://www.aer.gov.au/content/index.phtml/itemId/714860>.

- 22 April in Victoria
- 22 May in Tasmania.

The AER has also issued a report on ancillary services prices exceeding \$5000 in South Australia on 21 to 22 April.

3.2 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. There are two main types of audits:

- audits of internal systems and processes
- technical audits focusing on compliance with technical performance standards.

The latter audit program aims to cover most generators and TNSPs over time and, in so doing, create incentives for participants to have robust and effective technical compliance programs in place.

In terms of the auditing of TNSPs:

- the AER's audit of TransGrid's compliance with clause 5.7.4 of the Electricity Rules is continuing. The provision requires Network Service Providers (**NSPs**) to institute and maintain a compliance program to ensure their protection and control facilities operate reliably and in accordance with Schedule 5.1 of the Electricity Rules.
- the AER is considering TransGrid's response and arranging a site visit for further review of its compliance arrangements and to discuss preliminary findings.

In terms of compliance with clause 4.15 of the Electricity Rules, the AER confirms that Tarong Energy will be the next generator to be involved in this technical audit program. The audit will focus on the requirement for generators to meet specified technical performance standards and institute and maintain a compliance program in respect of those standards.

3.3 Targeted compliance reviews

Targeted reviews are an important part of the AER’s compliance monitoring activity. The AER generally targets at least 24 Electricity Rules provisions for detailed review each year. Table 3 lists the provisions targeted in the June 2010 quarter.²¹

Table 3: Electricity Rules – provisions targeted for review

Electricity Rules clause	Relevant parties (subject to the current review)	Obligation	No. of targeted participants
2.2.2	Scheduled generators	Registration	3
3.8.2	Registered participants	Participation in central dispatch	1
7.3.1	Responsible persons	Requirements of metering installation	2

3.3.1 Registration of scheduled generators

To register as a generator in the NEM, a person must obtain the approval of AEMO to classify each unit that forms part of the generating system that the person owns, operates or controls, or from which it sources electricity. Generating units are classified as either scheduled, semi-scheduled or non scheduled.

The AER wrote to Delta Electricity, TRUenergy and Origin Energy with respect to clause 2.2.2 of the Electricity Rules, which provides that a person must not classify a generating unit without the approval of AEMO. That approval is subject to the person submitting data in accordance with Schedule 3.1 of the Rules and having adequate communications and/or telemetry to support the issue of dispatch instructions and the audit of responses. AEMO can impose terms and conditions when approving a generator’s classification.

The AER requested information on:

²¹ Appendix A of this report lists all provisions targeted over the last four quarters.

- whether each participant encountered difficulties in the registration process, in particular with the compilation and provision of data in accordance with Schedule 3.1
- the systems and procedures each participant has in place for the regular update of Schedule 3.1 data and details of communication and/or telemetry required to support the issue of dispatch instructions and the audit of responses
- whether AEMO imposed any terms and conditions on the classification of generators and details of the systems and procedures each participant uses to comply with any such terms and conditions.

The AER raised questions specific to Delta Electricity's Colongra Power Station, Origin Energy's Darling Downs Power Station, and TRUenergy's Tallawarra Power Station.

Response summary

Delta Electricity, Origin Energy and TRUenergy each advised they had no difficulties in registering their power station units and that AEMO had imposed no terms and conditions under clause 2.2.2(b1).

The participants confirmed they have proprietary and commercial systems in place, and associated procedures, for regular updates of Schedule 3.1 data. Delta Electricity referred to AEMO's web-based bidding system as a backup. The participants confirmed that changes to their power stations would be formally documented and submitted to AEMO prior to implementation.

Delta Electricity, Origin Energy and TRUenergy detailed in varying degrees the communications and/or telemetry they have in place for their plant, to support the issue of dispatch instructions and auditing of responses. The participants have various contingency arrangements and claim to operate their systems in a manner consistent with applicable standards for power system data communications used in the NEM.

Delta Electricity referred to instances of failed or erroneous communications (the latter since rectified). Origin Energy submitted that the provision of data under clause 2.2.2 and Schedule 3.1 could be streamlined in that much of it is already provided for registration purposes.

Review outcomes

The AER is satisfied that Delta Electricity, TRUenergy and Origin Energy demonstrated sufficient awareness of their obligations under clause 2.2.2 of the Electricity Rules and have systems and procedures in place that, if adequately used, will assist compliance.

3.3.2 Participation in central dispatch by registered participants

The compliance report for the March 2010 quarter provided the relevant background to this review. In particular, the emphasis is on the semi-dispatch arrangements²² introduced in the NEM in May 2008.

In the June 2010 quarter the AER extended this review to AGL and requested information on its systems and processes to submit dispatch offers and plant availability for its Hallett wind farms. The AER also requested information from AGL regarding its practices with respect to the *AER Rebidding and Technical Parameters Guideline*.

Response summary

AGL advised that responsibility for the Hallett wind farms sits across two AGL departments, both operating around the clock. AGL described its process to submit dispatch offers and plant availability, specifying that dispatch offers are entered into its web-based system and submitted to AEMO electronically. Availability is in turn entered via AEMO's Market Management System (MMS).

AGL referred to internal generation bidding and operational procedures as evidence of its compliance with clauses 3.8.2(a) and 3.7B of the Electricity Rules. It also noted that its ongoing monitoring of compliance includes the requirement for nominated managers to complete a monthly report on offers and rebids.

AGL confirmed that issues associated with the *AER Rebidding and Technical Parameters Guideline* have been incorporated into AGL's internal procedures and

²² Refer to the relevant Rule change proposal approved by the Australian Energy Market Commission <http://www.aemc.gov.au/Electricity/Rule-changes/Completed/Central-Dispatch-and-Integration-of-Wind-and-Other-Intermittent-Generation.html>

that compliance with that guideline is subject to ongoing internal monitoring. In addition, AGL provides staff training in respect of these systems and procedures.

Review outcome

AGL has demonstrated awareness of its obligations in this area, and has relevant systems and processes in place. Regarding the *AER Rebidding and Technical Parameters Guideline*, the AER will continue to be vigilant in ensuring the guideline is incorporated into the processes of relevant participants and followed.

3.3.3 Requirements of metering installation components

Under the Electricity Rules, the responsible person²³ is required to provide, install and maintain a metering installation in accordance with Chapter 7 and the metrology procedures. Chapter 7 includes requirements on metering installation arrangements, including the physical components of meters.

In the first quarter of 2010 the AER commenced a compliance review of the processes participants use to ensure their metering installations comply with the metering installation components of clause 7.3.1. These include requirements for a communications link, certain energy data storage and, for type 6 meters²⁴, the capacity to display the total accumulated energy supplied for at least the previous 12 months.

Clause 7.3.1 also requires the responsible person to register a National Metering Identifier (NMI)²⁵ in accordance with AEMO procedures.²⁶

Following responses from Integral Energy and Ergon Energy, the AER sought further information on their approach to compliance with the metering requirements. In particular, the AER sought information on arrangements to ensure metering

²³ The person who has responsibility for the provision of a metering installation for a particular connection point, being either the LNSP or the Market Participant as described in Chapter 7.

²⁴ Refer to Table S7.2.3.1 of the Electricity Rules for the characteristics of each metering type.

²⁵ As described under clause 7.3.1(d) of the Electricity Rules.

²⁶ For further information, refer to the AEMO website at <http://www.aemo.com.au/electricityops/metering.html>

installation compliance, remedies for any non-compliance, and registration of NMIs.

Response summary

To demonstrate compliance, Integral Energy and Ergon Energy each referred to their metering asset management plans. Integral Energy summarised the supporting procedures it uses, including those relating to in-service testing, planned maintenance and data validation. Ergon Energy also referred to its meter asset and instrument transformer maintenance strategy and test plans to show how it complies with clause 7.3.1.

Each participant also provided the AER with an overview of the processes they use to register NMIs including instances, if any, of failures to register in accordance with market and settlement transfer solution (**MSATS**) procedures. Ergon Energy pointed out that transitional full retail contestability (**FRC**) arrangements in Queensland provided that metering installations need not be registered with AEMO until the meter becomes contestable.

Integral Energy and Ergon Energy confirmed their use of compliance policies to ensure that only compliant meters are purchased. Regular testing of installed meters is used to identify families of meters that need replacement while individual meters are identified through validation and communications processes. Should a meter need replacing, work orders are raised and the faulty components are replaced as required.

Review outcome

As stated in section 3.1.3 of this report, compliance with relevant metering obligations is an evolving area of interest for the AER. In so far as this review is concerned, the AER has received sufficient information from Integral Energy and Ergon Energy to more closely understand the type of arrangements used to ensure compliance with metering installation requirements under the Electricity Rules.

The AER expects to extend this compliance review in future by looking into AEMO's processes related to, including auditing of, participants' metering asset management plans.

3.3.4 Upcoming targeted compliance reviews

To promote transparency the AER provides a forward indication of provisions it may target in the future. Table 4 highlights the electricity provisions the AER intends to target during the next two quarters.

Table 4: Electricity Rules – future targeted provisions²⁷

Electricity Rules Clause	Compliance issue	Quarter
3.7.3	Participant availability, including Projected Assessment of System Adequacy (PASA) availability	September 2010
4.9.4	Dispatch related limitation on schedules and semi-scheduled generators	
5.3	Establishing or modifying network connections	
7.5.2	Metering register discrepancies	

²⁷ The AER will endeavour to give, via its quarterly compliance reports, advance notice of forthcoming targeted compliance reviews. This information is indicative only and the listed provisions may not be targeted subject to prevailing operational requirements and other industry events. The AER will also target other provisions by using other compliance and enforcement mechanisms, as required.

3.4 Jurisdictional derogations

Chapter 9 derogations²⁸ exempt Victorian smelter traders, New South Wales power traders and nominated generators in Queensland (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.

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. In the June 2010 quarter, these participants advised the AER that, for the purpose of clauses 9.4.4, 9.12.3 and 9.34.6 of the Electricity Rules, there were no instances of non-compliance that materially affected the efficient operation of the NEM.

In June 2010, the Australian Energy Market Commission (AEMC) issued its final determination with respect to a Rule change proposed by the Victorian Government in December 2009, to remove certain derogations applicable to Victorian generator technical performance standards under Schedule 9A3 of the Electricity Rules. The derogations have now been removed²⁹. The AER ultimately looks forward to the removal of similar derogations that remain in the Electricity Rules, to achieve a consistent approach to generator technical performance standards in the NEM.

²⁸ 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.

²⁹ With those applicable to the Anglesea Power Station still in force.

Appendix A: Targeted rule provisions summary

This is a summary of the provisions under the Electricity Rules and Gas Rules targeted for compliance reviews over the last four quarters. The same provision may be targeted over a number of quarters.

Quarter ending	Industry	Rules & Clause	Description	No. of Participants
September 2009	Gas	Gas Rule 211	Timing of submissions and demand forecasting	4
		Gas Rule 229	Appointment of a single allocation agent or a single sub-allocation agent	4
	Electricity	Electricity Rules 1.11	AEMO rule funds	1
		Electricity Rules 3.3.7	Drawing on credit support	1
		Electricity Rules 3.3.8	Maximum credit limit and prudential margin	1
		Electricity Rules 5.7.6	Tests of generating units requiring changes to normal operation	1
		Electricity Rules 8.6	Confidentiality	3
December 2009	Gas	Gas Rule 324	Participant disclosure obligations	2
		Gas Rule 333	Emergency (declaration and notification by participants)	2

Quarter ending	Industry	Rules & Clause	Description	No. of Participants
	Electricity	Electricity Rule 5.2.3	Obligations of NSPs (consistency between connection agreements and Schedule 5.1 of the Electricity Rules)	2
		Electricity Rule 7.2.5	Role of the responsible person (relating to metering service providers)	2
March 2010	Gas	Gas Rule 270	Obligation of connected parties	2
		Gas Rule 272	AEMO to approve application for connection to the declared transmission system	1
		Gas Rule 275	Approval of connection agreements by AEMO	1
	Electricity	Electricity Rule 3.8.2	Participation in central dispatch	1
		Electricity Rule 4.6.1	Power system fault levels	1
		Electricity Rule 5.2.4	Obligation of customers	3
		Electricity Rule 5.2.4	Obligation of customers	3
		Electricity Rule 7.3.1	Metering installation requirements	2
June 2010	Gas	Gas Rule 270	Obligation of connected parties	1

Quarter ending	Industry	Rules & Clause	Description	No. of Participants
		Gas Rule 289	Off-specification gas	2
		Gas Rule 263	Margin calls	1
	Electricity	Electricity Rule 2.2.2	Registration of Scheduled Generators	3
		Electricity Rule 3.8.2	Participation in central dispatch	1
		Electricity Rule 7.3.1	Metering installation requirements	2