Quarterly Compliance Report

April – June 2011

July 2011

AUSTRALIAN ENERGY REGULATOR

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Contents

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
MOS	Market Operator Service
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
NPV	Net Present Value
PJ	Petajoule
RBP	Roma to Brisbane Pipeline
QCR	Quarterly Compliance Report issued by the AER
QSN	Queensland-South Australia-New South Wales
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 Law[1] (**Electricity Law**) and section 27 of the National Gas Law[2] (**Gas Law**) set out the functions and powers of the AER, which include:

- monitoring compliance by energy industry participants[3] and other persons
- investigating breaches, or possible breaches, of provisions of the legislative instruments under the AER's jurisdiction.

This Quarterly Compliance Report (**QCR**) outlines the compliance monitoring and enforcement activity of the AER over the period 1 March 2011 to 30 June 2011 (**the June 2011 quarter**).[4]

With respect to gas, this report provides an update on reviews and investigations, market events and other compliance matters for:

- the Natural Gas Services Bulletin Board (**Bulletin Board**)
- the Victorian Declared Wholesale Gas Market (**Victorian gas market**) and
- the Short Term Trading Market (**STTM**).

This report also summarises the results of targeted compliance reviews of the National Gas Rules (**Gas Rules**) undertaken by the AER—specifically, the obligation on pipeline operators to provide linepack capacity adequacy indicators for the Bulletin Board, the obligation on STTM facility operators and STTM distributors to update information registered with AEMO, and the requirement on STTM trading participants to provide good faith, best estimate contingency gas offers.

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[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.

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
- a rewards based tariff trial being carried out in Queensland
- an instance of reported non-compliance regarding metering data
- an Energex regulatory test
- the commencement of technical audits of Loy Yang A and Loy Yang B power stations under clause 4.15 of the Electricity Rules
- compliance reporting from participants derogated under Chapter 9.

In the December 2010 quarter, the AER introduced four 'special projects' to be carried out in 2011—one in gas and three in electricity. These projects seek to address compliance issues in the wholesale electricity and gas markets using problem solving and harm reduction techniques. These projects cover:

- improving data quality in the STTM
- electricity metering data quality
- de-energisation service order completion rates
- generator rebidding reasons.

The AER has since commenced a further 'special project' for electricity which considers compliance with one of the business to business (**B2B**) procedures.

This QCR provides updates on these five projects.

1 Introduction

The AER undertakes compliance monitoring and enforcement activity 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 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.

The compliance systems of a business will be taken into account in setting penalties in the event of a breach.

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. The 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 Rules and Gas Rules do not require registered participants to establish specific compliance programs, the AER takes into

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

account a participant's compliance framework 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, as they relate 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 matters, including:

- reviews and completed investigations
- 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 users 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] The AER indentified several instances where this data was submitted incorrectly on various gas days during the June 2011 quarter, some of which were notified to the AER by the participants themselves. These data problems are outlined in table 1.

[6] Rule 169 also provides an obligation on storage providers to provide daily storage production data.

Table 1: Bulletin Board data errors

2011 Gas day(s)	Details
30 March and 31 March	**Origin Energy** provided actual flow data for the BassGas production plant in petajoules (**PJ**) instead of terajoules (**TJ**).
4 April and 7 April	**AGL Upstream Investments Pty Ltd** (**AGL**) provided actual flow data for the Camden coal seam methane production plant in gigajoules (**GJ**) rather than TJ.
18 April to 25 April	**South East Australia Gas Pty Ltd** (**SEA Gas**) failed to provide actual flow data for the SEA Gas Pipeline within the required timeline.
12 May and 17 June	**AGL** failed to provide actual flow data for the Camden coal seam methane production plant within the required timeline.
12 May	**Santos** failed to provide production data for each of its Bulletin Board production facilities.
2 June	**Tasmanian Gas Pipeline** (**TGP**) failed to provide actual flow data within the required timeline.

Note: AEMO notified the AER of a system outage on the Bulletin Board on 31 May 2011 which required AEMO to change the IP address of the Bulletin Board until 6 June 2011. Related issues with the File Transfer Protocol (**FTP**) function meant several Bulletin Board participants were not able to upload data. The AER has discussed this issue with AEMO and will not be making inquiries into participant data failures resulting from this FTP issue.

The AER immediately contacted each participant following these incidents, seeking an explanation for the data failures and the steps taken to reduce the risk of reoccurrence.

Origin Energy

Origin Energy noted its incorrect submission of data was due to a combination of human and software errors. Although the data was initially submitted in TJ, a software error then incorrectly generated data in PJ which was then sent to the duty trader for checking. Despite the software error being detected, the incorrect data was still uploaded to the Bulletin Board.

Origin Energy noted it uploaded the correct data when the error was discovered. Origin Energy also stated it was not aware of any material market consequences

resulting from this error, but has undertaken the following remedial actions:

- undertaking software repairs and user acceptance testing
- sending an email to all relevant personnel reiterating the importance of compliance with the relevant regulatory obligations
- enhancing existing training materials and conducting additional training for relevant personnel.

AGL

AGL noted a failure of its automated data collection process resulted in its traders having to manually upload the required production flow data. Although its automated systems have controls to process correct figures, in this instance the data was incorrectly manually entered and not converted from GJ to TJ.

AGL stated that its nomination system is normally robust and should not create any errors. AGL uploaded the correct data after becoming aware of the data entry error, and has since retrained all traders and reminded them to correctly enter the required data in the event of a failure of its automated data collection process.

SEA Gas

SEA Gas noted that its failure to provide pipeline flow data was a result of a Bulletin Board password issue. On this occasion, SEA Gas had updated its account password but had not programmed the new password into its system which meant that pipeline flow data could not be uploaded to the Bulletin Board. SEA Gas has since uploaded the correct data and amended its system update checklist to include password resets for the Bulletin Board. It has also planned further changes to improve the robustness of its systems.

Santos

Santos noted that the 12 May data failure was due to a combination of human and process errors, whereby the mechanisms for back-up data and the reminder to upload Bulletin Board data failed. Santos subsequently uploaded the correct data on 20 May and stated that although it currently uses a manual IT process for Bulletin Board data uploads, it continues to investigate the option of employing a fully automated process. Santos has also taken steps to improve the reliability of its processes by reinforcing to

responsible staff the requirement to run daily checks to ensure that data is successfully uploaded.

Tasmanian Gas Pipeline

TGP noted that it had contacted AEMO about problems with establishing an FTP with the Bulletin Board's server during its production server outage. Although the required data was subsequently uploaded, TGP accidentally failed to provide data for the 2 June gas day. This issue was rectified a few days after the outage.

AER assessment

These incidents highlight a variety of issues that can affect the ability of participants to deliver accurate and timely information to the Bulletin Board. It also highlights steps that can be taken to mitigate these risks. The AER expects all participants to note these examples and remedies to ensure that such data failures are minimised in the future.

Given the measures taken by participants to prevent future non-compliance, the AER will not pursue these incidents further at this stage. The AER will contact these participants in three months' time to verify that all proposed remedial actions have been implemented.

The AER will continue to monitor the Bulletin Board to identify occurrences of missing or late data and other instances of non-compliance. It will consider enforcement action where appropriate.

2.1.2 Victorian gas market

2.1.2.1 Compliance bulletin update—best estimates under rule 213

The AER has identified three instances of non-compliance with rule 213 (best estimate obligations) of the Gas Rules since market start in 2009. The AER advised in the previous quarter that it would issue a compliance bulletin to highlight the importance of these provisions, to clarify any confusion amongst participants and to outline the AER's expectations. The bulletin was published on 1 July 2011 and is available on the AER website.[7]

[7] Visit http://www.aer.gov.au/content/index.phtml/itemId/692887.

Prior to publishing the compliance bulletin, the AER sought advice from AEMO on potential limitations within AEMO procedures and bidding mechanisms. AEMO advised that its current systems do not permit rebids to lower quantities below the level that was already scheduled for the whole gas day. However following discussions between industry, AEMO and the AER at the Gas Wholesale Consultative Forum (Victoria) in May 2011, this restriction is planned to be removed by AEMO in March 2012.

2.1.3 Short Term Trading Market

Part 20 of the Gas Rules sets out participants' responsibilities within the STTM. This section focuses on incidents of non-compliance relating to STTM facility operator/allocation agent data provision obligations. In the previous quarter the AER identified and assessed four such compliance matters. The AER has identified another four incidents of non-compliance this quarter.

2.1.3.1 STTM facility operator/allocation agent non-compliance incidents

6 May 2011 – Jemena Eastern Gas Pipeline (Jemena)

Jemena was unable to submit the STTM facility allocation data for the 6 May gas day because of an unexpected IT hardware fault. The fault took several hours to identify as it was necessary to test the entire chain of associated IT equipment in the process. Jemena noted that this fault prevented its operational team from being able to access its software system to review and correct any metering information, thereby preventing its system from submitting the allocation data file prior to 11am.

Jemena conducted an internal investigation following the incident and a number of action items are currently being implemented to avoid any future reoccurrence of this type of technical issue. These include:

- arranging an investigation by its IT service provider into the cause of the incident
- informing relevant IT support areas that STTM relevant servers are managed by its IT service provider
- investigating application-specific issues and changing the level of external IT support provided outside normal business hours to 24 hours a day, 7 days a week
- updating its internal risk register.

Jemena is also assessing its ability to develop a robust alternative allocation report template that is not dependent on its current software being available, for use in the event of prolonged IT outages.

17 May 2011 – SEA Gas

SEA Gas failed to provide pipeline allocation data for the 17 May gas day due to system failures. These occurred at the time SEA Gas was enhancing its commercial IT systems, including replacement of hardware, operating systems and databases which run applications. The process for data delivery to AEMO's STTM systems failed when the system was restarted.

SEA Gas indicated this event was wholly related to the hardware upgrade which is now complete. Following a review of the incident, further controls have been added to the process for start-ups (compared to the pre-upgrade system).

21 May 2011 – Epic Energy (Epic)

Epic's pipeline allocation data and Market Operator Service (**MOS**) step data reports for the 21 May gas day were rejected by AEMO's systems as they did not recognise the format of Epic's MOS allocation data. The formatting issue occurred because Epic's system stores decrease MOS allocations (for backhaul) as positive values, whereas AEMO STTM systems require all decrease MOS allocations to be reported as negative values.

In response to AER inquiries, Epic explained that despite extensive testing in the STTM trial period and during early stages of the STTM's commencement, this particular scenario had never occurred on its Moomba to Adelaide Pipeline. Combined with the lack of a live matching test system in AEMO's system, this resulted in Epic being unaware of this issue until the day after it occurred.

Epic has since correctly programmed its system to ensure that its formatting meets AEMO STTM system requirements. Epic is also following up with AEMO to:

- confirm formatting requirements for data in reports
- discuss the need for a test environment (this will depend on the decision at the STTM consultative forum)
- discuss the notification process.

Epic will update its procedures as required following discussions with AEMO.

1 June 2011 – APA Group (APA)

On 2 June, APA's pipeline allocation data and MOS step allocation data reports for the 1 June gas day were rejected by AEMO's systems as invalid. An invalid cross allocation of facility holder contract numbers between TRUenergy and AusGrid (now owned by TRUenergy) occurred such that their values did not match and were therefore rejected by AEMO.

In response, APA made adjustments to AEMO's June to August 2011 MOS stack file (INT 721) to allocate the appropriate contract values. This ensured that APA's data reports, including the corrected contract values, were accepted by AEMO's systems.

APA continued with this manual adjustment for a further 4 days, until AEMO revised its INT 721 file to refer to the appropriate TRUenergy facility contract holder. APA has discussed with AEMO its processes for checking and accepting input data provided by shippers to be used in the Facility Operator Service (INT 720) and MOS stack (INT 721) files. APA is also discussing with AEMO whether AEMO can validate cross allocation of data between the INT 720 and INT 721 files prior to publication to avoid similar errors in the future.

AER assessment

The AER is concerned by the ongoing instances of incorrect pipeline data in the STTM, particularly since all four pipeline operators are involved. Pipeline allocation and capacity data play important roles in the STTM. Failure to provide accurate and timely data can lead to inefficient pricing signals and market outcomes, resulting in inappropriate wealth transfers between STTM participants. It may also undermine the integrity and reliability of the STTM, discouraging potential entrants or even causing participants to exit the market.

The AER has raised its concerns regarding the recent data issues and continues to liaise with all four pipeline operators on the status of their respective corrective actions to improve systems and processes for providing data. The AER is also continuing to monitor and investigate suspected breaches of obligations under the Gas Rules.

Table 2 outlines key provisions in the Gas Rules relating to obligations on STTM pipeline facility operators.

Table 2: Provisions for STTM facility operators

Provision	Details
369*	Standard for information or data given under this part or the STTM procedures (good gas industry practice)
376	Obligation to provide information (regarding the STTM facility)
378	Changes to information (provided to AEMO)
387*	Obligation to ensure compliance (for allocation agents)
414(1)*	Capacity information
419	STTM facility allocations
419(7)(b)	STTM facility allocations (provide a valid billing period allocations statement to AEMO)
420	Registered facility service allocations
421	Allocation of pipeline deviations (MOS)
440(2)*	Contingency gas trigger event
440(3)*	Contingency gas trigger event (provide information to AEMO in good faith)
442(3)(4)*	Contingency gas assessment conference (provision of information to AEMO)

* Civil penalty provisions under the Schedule 3 of the Gas Law.

As published previously, the AER is undertaking a series of STTM compliance audits this year. These audits will assess compliance by STTM pipeline operators with their obligations under the Gas Rules, including the civil penalty provisions provided in table 2. The audits also aim to ensure these participants have robust and effective compliance programs in place which are consistent with good energy industry practice

Further information on these audits is outlined below in section 2.1.4.

2.1.4 STTM data quality project

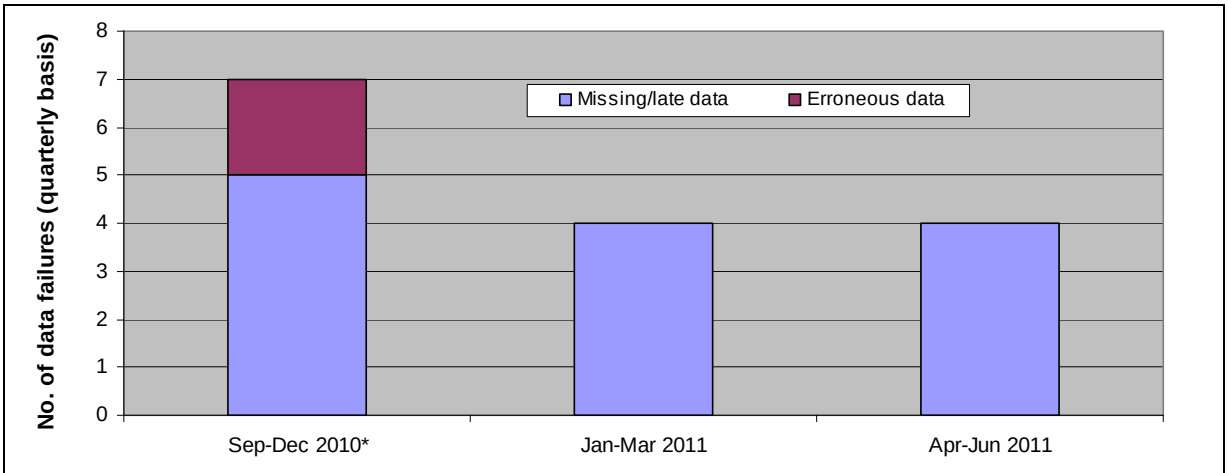
In the December 2010 quarter, the AER announced it had established a special project focusing on improving data quality in the STTM.

This project seeks to reduce the amount of missing, late or erroneous data by participants in the STTM. These data failures cause harm through inefficient pricing which leads to adverse market outcomes.

To measure the effectiveness of the project, a metric has been adopted to assess the number of pipeline data failures on a quarterly basis. Each incident will be categorised as either 'missing/late' or 'erroneous'.

The project still has 6 months to run. However, Figure 1 provides an interim indication of performance against the metric. Figure 1 compares the number of data failures on a quarterly basis since the commencement of the STTM on 1 September 2010.

Figure 1: Number of data failures since STTM commencement



	Sep-Dec 2010*	Jan-Mar 2011	Apr-Jun 2011	Total
Data failures	7	4	4	15
Participants involved	4	2	4	-
Data failures causing significant price effects**	2	0	0	2
Participants involved	1	0	0	-

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

** For the purpose of this report, a significant price effect will be recorded where it is considered by the AER that because of the error either the ex ante price or ex post price was over a $1/GJ different to what it would otherwise

have been. The only failures with significant price effects to date in the STTM have been the two failures in the first period when erroneous data was submitted.

Figure 1 shows that there were seven instances of data failures from September 2010 to December 2010, including two which caused significant price effects on 8 October and 1 November.[8]

The number of data failures dropped to four in the March 2011 quarter and has remained unchanged for the June 2011 quarter. No data failures have lead to significant price events during 2011.

The AER will continue to monitor the quality of STTM participant data (including data provided by pipeline operators) and engage relevant participants to ascertain the details of any data failures. As part of the project, the AER will undertake a series of compliance audits of pipeline operators, beginning with APA during the second half of 2011. The audits will seek to ascertain whether the systems, processes and compliance culture of those operators reflect good gas industry practice (as required under gas rule 369).[9] Updates on this project will be provided in future QCRs.

2.2 Targeted compliance reviews

Targeted compliance reviews form an important part of the AER's compliance monitoring program. The reviews explore participants' compliance practices and aim to improve stakeholder understanding of obligations with which they are required to comply. Table 3 lists the gas provisions targeted in the June 2011 quarter.[10]

[8] See AER Quarterly Compliance Report January–March 2011 (available at http://www.aer.gov.au/content/index.phtml/itemId/692887).

[9] For a discussion on good gas industry practice, see page 27 of AER Quarterly Compliance Report January–March 2011 (available at http://www.aer.gov.au/content/index.phtml/itemId/692887).

[10] Appendix A of this report lists all provisions targeted over the last four quarters.

Table 3: Gas Rules provisions targeted for review

Rule	Relevant parties (subject to the current review)	Obligation	No. of participants targeted
172	Pipeline operators	Provision of linepack capacity adequacy indicators for the Bulletin Board	3
378	STTM facility operators/distributors	Obligation to update information registered with AEMO	2
435	STTM trading participants	Requirement to provide good faith, best estimate contingency gas offers	3

2.2.1 Pipeline operator provision of linepack capacity adequacy indicators for the Bulletin Board

Gas rule 172 places an obligation on pipeline operators to provide Linepack Capacity Adequacy (**LCA**) flags, representing the capability of each Bulletin Board pipeline to meet the aggregated gas delivery nominations for that gas day. For many Bulletin Board users, particularly those with no direct contact with pipeline operators, these LCA flags may be the first indication of potential gas shortages.

Response Summary

The AER requested information from Jemena, Epic and AEMO regarding compliance with this rule over the last 12 months.

Jemena indicated it uses a software application to provide up-to-date LCA flags and that flags were only raised after discussion within its Pipeline Commercial team. It noted one instance in September/October 2010 where it raised an amber LCA flag on the Queensland Gas Pipeline and provided the following reason—'unplanned outage on a compressor station'. Jemena noted an issue which lasted several days in May/June 2011 where it did not transfer LCA flags to the Bulletin Board. It assured the AER that this issue has been resolved by putting systems in place to check that such transfers are executed successfully.

Epic indicated it has alarms in place to notify it when linepack for a pipeline is nearing notification limits. Epic noted one instance in June 2010 where it raised an amber flag on the Moomba to Adelaide Pipeline in response to a Moomba gas plant shutdown. It advised of several instances where the alarms were activated, but

because controllers determined upon closer review that linepack issues would be resolved over a gas day such that aggregate delivery nominations would be met, amber flags were not required. Epic noted that it has updated its Bulletin Board procedures and provided additional training to gas controllers over 2010.

AEMO indicated that in the last 12 months it has not activated an amber or red flag for the Victorian pipelines (for which it is the pipeline operator). It provided information to the AER about its automated systems which check operating schedules in the Victorian gas market to determine whether LNG is being scheduled out of merit order. If such scheduling is detected then, depending on the rate of vaporisation of gas, an amber or red LCA flag will be activated. AEMO performed a more detailed review than requested by the AER and identified an occasion in June 2009 where an amber LCA flag should have been set but was not because of an issue with the validation setting for LCA flags in its systems. It subsequently informed the AER that this issue had been resolved.

Review outcomes

This is the second time the AER has targeted compliance with rule 172 since the Bulletin Board commenced on 1 July 2008. LCA flags are an important aspect of the Bulletin Board as they provide information to users about potential gas shortages. The March 2009 QCR noted some issues with non-compliance in the early stages of the Bulletin Board, however it also noted that businesses had instituted training programs and responded to a number of early issues by refining internal compliance procedures.

Responses this quarter indicate that the targeted businesses have well established processes for reporting and updating LCA flags. Firstly, automated systems identify potential gas shortages which may require an amber or red flag. Then, for each identified potential shortage, commercial teams consider whether a flag should be posted to the Bulletin Board, having regard to the likelihood of customer load shedding on that gas day. Where a change is made to a flag, there are processes for providing information about the extent of any possible gas shortages (as required by the Bulletin Board procedures).[11]

[11] For AEMO, this process is automated completely since the trigger of, and reasons for, any amber or red LCA flags are fully specified in procedures relating to LNG scheduling.

2.2.2 Obligation to update information registered with AEMO

Rule 378 of the Gas Rules requires STTM distributors to update information provided to AEMO in accordance with rule 376(2) when such information changes. The rule states that updates must be provided to AEMO as soon as practicable. Information required under rule 376(2) includes details of the facility, the operator, the hub to which the facility is connected, and also includes information on pressure ranges, minimum/maximum flows and curtailment times as could be used for contingency gas purposes. In addition to the rule 378 requirement to update information if it changes, the STTM procedures state that information relating to contingency gas must be updated every six months.

Response summary

The AER requested information from Jemena Gas Networks (**JGN**) and Envestra.

Both JGN and Envestra noted that most of the information provided remains constant over time. The businesses referred to their compliance management systems in which obligations are recorded as part of overall compliance management of all regulatory obligations.

JGN indicated that its six monthly review of benchmark information for contingency gas was performed in liaison with other STTM facility operators at the Sydney Hub. Envestra noted that its pressure range benchmark is set by contractual and regulatory requirements but nevertheless it consults with Operations Personnel before the dates specified in the STTM procedures to assess if any changes are required.

Envestra noted one instance of not providing an update to AEMO before the deadline. However, it notified that it has set email alerts within its reporting system to ensure that specific timeframes are met.

Review outcomes

The AER is satisfied that these STTM distributors have systems in place to meet the requirements to update distributor information, including contingency event benchmark information, as required under gas rule 378.

2.2.3 Requirement to provide good faith, best estimate contingency gas offers

Gas rule 435 places obligations on trading participants when they submit contingency gas offers. The AER targeted compliance with sub-rule 435(4), which requires offers to be submitted in good faith and represent the trading participant's best estimate of the quantity of contingency gas it expects to be able to provide at the hub on the gas day. Contingency gas offers are an important aspect of the STTM and are designed to minimise (or avoid) curtailments at gas hubs. Although under gas rule 445, AEMO requires trading participants to confirm their contingency gas offers when this gas is required, the scheduling of contingency gas to avoid curtailment will work most efficiently if initial offers are good faith, best estimates. It is therefore important that these offers be made in accordance with the Gas Rules.

Response Summary

The AER requested information from TRUenergy, AGL and Simply Energy. The responses outlined processes for forming contingency gas estimates and that these estimates are submitted after consideration of factors such as:

- amount of gas already scheduled as ex ante offers
- seasonal factors
- conditions on the day
- commercial arrangements on pipelines including haulage/park/loan services and any overrun capability allowed in underpinning transportation contracts
- linepack conditions
- the commercial running of any gas fired power assets.

The businesses provided information on systems they have in place to assess the quantity of gas available for contingency offers, and to validate amounts submitted through data entry processes. They also provided details of internal staff training on contingency gas requirements.

One participant suggested that the AER consider releasing a compliance bulletin to assist the industry to understand what it considers to be a good faith, best estimate in the context of this rule and more broadly across the Gas Rules as a whole.

Review outcomes

The information provided indicates that trading participants appear to have robust systems in place to submit daily contingency gas offers. These systems consider available gas in accordance with underpinning contracts and daily gas market conditions. The AER considers that compliance with this rule will be best achieved where offers made are reviewed on a daily basis. This will ensure that, if called, the gas is available to the market.

The AER considers the responses indicate that trading participants understand the requirements of the provision and that they are acting in accordance with the AER's expectations. The AER will consider the request to release a compliance bulletin for this provision.

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 gas provisions that the AER intends to target in the upcoming quarters include:[12]

- rule 300 – obligation on responsible persons under the Victorian gas market rules to protect metering installations from unauthorised interference
- rule 403 – obligation on AEMO under the STTM rules to investigate the circumstances of a MOS shortfall
- rule 410 – obligation on trading participants in the STTM to make good faith, best estimate price taker bids (demand forecasts).

A list of all provisions targeted over the last four quarters is provided in appendix A.

[12] The AER will endeavour to give, via its quarterly compliance reports, advanced 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 Investigations, market events and compliance issues

This part of the report provides an update on reviews, investigations[13] and compliance matters.

3.1.1 Rebidding

Scheduled generators and market participants operating in the NEM submit wholesale electricity offers and bids for each of the 48 intervals in a trading day. The offers and bids include available capacity for up to 10 price bands, and can be varied through rebidding.[14]

The AER has adopted generator rebidding reasons as one of its special projects for 2011. The AER considers that accurate and timely information is a cornerstone of the NEM design. The AER's new rebidding enforcement strategy, set out in the AER's *Compliance Bulletin No. 3*[15], came into effect on 1 March 2011. Generators that submit offer, bid and/or rebid information that does not meet the requirements of the Electricity Rules will receive two warnings. If it happens on a third occasion within six months, the AER will consider issuing an infringement notice.

During the June 2011 quarter, the AER issued three initial warning notices and one second warning notice as a result of:

- two redids which failed to include a time adduced[16]

[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'.

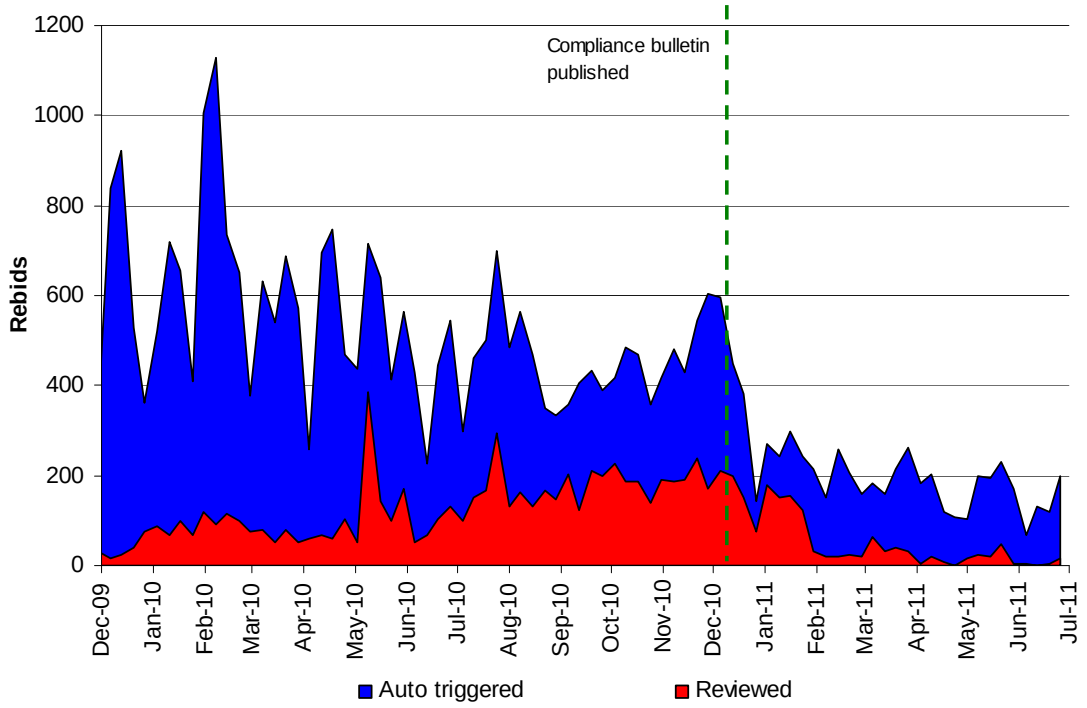
[15] The compliance bulletin is available at http://www.aer.gov.au/content/index.phtml/itemId/692887.

[16] 'Time adduced' means the time at which the event(s) or other occurrence(s) adduced by the relevant participant as the reason for the rebid occurred.

- one inflexible bid which did not include a technical reason as to why the unit was inflexible
- one incident where rebid reasons provided did not reflect actual conditions.

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. Similarly, 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 June 2011 quarter, generators contacted the AER on 14 occasions to declare erroneous (or questionable) rebids. If generators contact the AER more frequently, it reflects a stronger focus on the quality of rebids and commitment to compliance within their trading teams.

3.1.2 Rewards based tariff trial

The two Queensland distribution network businesses, Energex and Ergon Energy, are currently undertaking a Rewards Based Tariffs (**RBT**) trial. The purpose of the RBT trial is to understand consumer behaviour towards time of use tariffs and dynamic peak pricing network tariffs and assess whether these tariffs could be deployed in

Queensland to assist with the management of peak demand.

To undertake the RBT trial, Energex and Ergon Energy have installed interval meters for a limited number of small customers. The meters are read remotely for the purposes of the RBT trial. However, for market settlement purposes, Energex and Ergon Energy have maintained a type 6 classification for these customers' meters (rather than a type 1 to 4 classification which is usually given to interval meters) and continue to read the meters manually (rather than remotely).

By reading and classifying the interval meters in this manner, Energex and Ergon Energy do not comply with the National Metrology Procedure or the Electricity Rules. Clause 3.3.3A(1) of the National Metrology Procedure Part A requires interval meters for small customers to be read only as accumulation meters unless the metering installation is classified as types 1 to 4. Further, clause 7.11.1 of the Electricity Rules requires that if a metering installation has the capability to be remotely read, the metering data is required to be provided to the market as interval data.

Energex and Ergon Energy wrote to the AER before the commencement of the RBT trial in May 2010 to seek a letter of no action with respect to this non-compliance. The AER agreed to issue a no action letter in relation to these breaches for the period of the RBT trial, conditional on Energex and Ergon Energy providing monthly reports for the duration of the trial. The reports must identify the meters involved in the trial, and detail any additional compliance issues that may have arisen as a result of the trial.

As at 31 May 2011, Energex had installed 1656 meters and Ergon Energy had installed 2145 meters. Neither party has reported any additional compliance issues as a result of the RBT trial. The AER will continue to monitor the RBT trial until it concludes in December 2012.

3.1.3 Metering data non-compliance

Under the Electricity Rules, metering providers are required to establish and maintain a metering register of all metering installations in the national electricity market. These obligations are set out in:

- the Consumer Administration and Transfer Solution procedures (**CATS**), which form part of the Market Settlement and Transfer Solution (**MSATS**) and

- clause 7.5 and schedule 7.5.2 of the Electricity Rules.

In the December 2010 quarter, Endeavour Energy (formerly Integral Energy) highlighted to the AER a range of non-compliance issues relating to its obligations in the MSATS procedures, such as a failure to rectify data errors within the required timeframes. However, it noted that in October 2010, it created a number of compliance working groups to review its procedures and systems to ensure future compliance with these requirements. One outcome of this review was to alter the systems around processing meter transactions. In response, the AER noted it would seek updates from Endeavour Energy regarding the progress of its system changes during the first half of 2011 to ensure compliance is achieved.

Participant response

In May 2011, Endeavour Energy reported to the AER that it will introduce further system changes to its customer service system on 31 July 2011, to ensure that meter transactions comply with the timing requirements of the Electricity Rules and the MSATS procedures. It noted, however, that one meter transaction would still not comply with the timing requirements after these changes. Endeavour Energy is considering numerous ways to address this issue, such as hiring temporary resources to improve internal processing times and increasing the automation of the data capturing process.

Endeavour Energy also reported that its compliance working groups introduced new data processes which have reduced meter data issues such as duplicate data streams and meter type errors.

Review outcomes

The AER is satisfied with the measures Endeavour Energy has implemented, or intends to implement, to improve meter transaction errors. The AER will not seek further action on this matter at this time. However, the AER will continue to monitor Endeavour Energy's performance against its metering data obligations.

3.1.4 Loganlea to Jimboomba regulatory test by Energex

In December 2010, the AER received a complaint about the Energex regulatory test conducted for the proposed the development of a 110kv feeder from Loganlea to Jimboomba.

In accordance with clause 5.6.2 of the Electricity Rules, where a DNSP identifies a network limitation in a distribution network, it must undertake joint planning to identify all likely network and non-network alternative options to overcome this limitation. It must also conduct an economic cost effectiveness analysis under the regulatory test to identify the preferred development option. Where the recommended network augmentation option is not a new small network distribution network asset, the DNSP must consult with registered participants, AEMO and interested parties in accordance with clauses 5.6.2(f)–(h) of the Electricity Rules.

Following the complaint, the AER undertook a review of the Energex regulatory test and its compliance with clause 5.6.2 of the Electricity Rules.

This review identified several compliance issues. The Energex regulatory test consultation report did not adequately disclose the possible options to address the identified limitation or the economic cost effectiveness analysis undertaken by Energex in accordance with clauses 5.6.2(f)–(g) of the Electricity Rules. Specifically the consultation report:

- did not adequately contain details of the two alternative options proposed by Energex. Options 2 and 3 were only minimally described[17] and, unlike option 1, no description of project works was given.[18] This lack of context would make it difficult for stakeholders to assess the comparison of network options undertaken by Energex.[19] The AER considers a more thorough description of the alternative options, including the project timing of each option, should have been included in the report

[17] Energex, *Proposed construction of a 110kV feeder from Loganlea (H22) to Jimboomba substation (JBB) – consultation report* 6 March 2009 (consultation report), p. 6.

[18] *Ibid*, p.10.

[19] For example, the comparison of network options on page 7 of the consultation report.

- the net present value (**NPV**) analysis undertaken was disclosed only at a high level. The AER considers the report should have included a spreadsheet copy of the NPV analysis of all alternative options considered by Energex
- the reasonable scenario and sensitivity analysis undertaken by Energex was disclosed only at a high level. The AER considers that the underlying values and assumptions for the base case and the values used for the sensitivity analysis should have been disclosed in the report.

The AER notes the information disclosure requirements in clause 5.6.2 of the Electricity Rules promote one of the primary purposes of the regulatory test, which is the increased transparency with which network decisions are made. Energex has committed to implementing initiatives to improve the quality of information disclosure in its regulatory test processes under clause 5.6.2. The AER will be monitoring future regulatory test processes undertaken by Energex to ensure that these initiatives have been implemented and that Energex is demonstrating clear compliance with the Electricity Rules.

3.1.5 Electricity metering data quality

In the December 2010 quarter, the AER announced it had established a special project for 2011 to improve participant compliance with the MSATS procedures and reduce inefficiencies in the national electricity market's customer transfer and settlement processes.

AEMO's MSATS system facilitates customer transfers and market settlements. The MSATS procedures establish the information which must be provided by retailers, service providers (including distributors and metering providers) and AEMO for the MSATS system. Compliance with the MSATS procedures is required by clause 7.2.8 of the Electricity Rules and is a civil penalty provision.

Timely and accurate metering information is important for the effective operation of energy retail markets. This is particularly relevant to the AER as it prepares to undertake responsibility for the regulation of energy retail markets across a number of states and territories on 1 July 2012.

In the June 2011 quarter, the AER contacted three registered participants who, according to AEMO compliance data, appeared to demonstrate poor levels of compliance with the MSATS procedures. The AER asked these participants—ETSA Utilities, United Energy Distribution and SP AusNet—to confirm that they agreed with the reported error levels and to outline the measures they are taking to improve compliance with the MSATS procedures.

ETSA Utilities agreed with the reported error levels. It reported that the occurrence of missing network tariff codes was partly due to a delay in processing meter change paperwork. It has therefore assigned more resources to this task with the aim of reducing these error levels. ETSA Utilities also considered this issue could be addressed more broadly at an industry level. It suggested that instead of the network tariff code being deleted when a metering data provider processes a meter change in MSATS, the network tariff code should revert to the code of the previous tariff.

ETSA Utilities noted that the incorrect use of Transmission Node Identifiers as National Meter Identifiers (**NMIs**) was the result of human error, and has since been remedied. An error relating to NMIs being updated within a prescribed timeframe was due to a system limitation which had no material affect on the market.

United Energy Distribution also agreed with the reported error levels. It noted that the error relating to data streams with no active NMIs was due to system limitations. However, it noted that as meters from these systems are replaced with AMI meters, the difference between the NMI status and data stream status will be rectified. United Energy Distribution expects these error levels to drop as more AMI meters are installed (in accordance with the AMI roll-out targets set out in the Order in Council).

United Energy Distribution also suggested that its failure to update the status of NMIs to ‘extinct’ within the required timeframe reflected the fact that abolishment paperwork did not come back from the field in a timely manner over the Christmas holiday period. United Energy Distribution stated it has since improved its performance in this area.

SP AusNet agreed with the reported error levels. It advised that its MSATS standing data errors, such as a failure to update the status of NMIs within the required timeframe and the occurrence of data streams with no active NMI, arose due to

changes to its system's interface with the AEMO MSATS system in late 2010. It noted that errors relating to active data streams were also driven by the large number of meter changes due to high customer take-up of solar photovoltaic panels.

SP AusNet stated that while system changes initially resulted in errors, the new system has assisted it to better manage changes and updates to MSATS standing data resulting in a lower number of metering data errors. SP AusNet expects these error levels to fall further once all issues relating to this new system are resolved.

All three participants noted that AEMO compliance reports do not acknowledge the size of businesses when reporting absolute error levels.

The AER is satisfied with the responses from ETSA Utilities, United Energy Distribution and SP AusNet. In circumstances where there are continuing errors, these errors do not appear to have a material impact on settlement accuracy, transfers or retail billing. The AER will not be seeking further information from these businesses at this time, although as part of this project, it will continue to monitor their performances (and the performances of other participants) against these error indicators.

The AER acknowledges the businesses' comments regarding the importance of noting business size when considering the number of errors reported.

3.1.6 De-energisation service order completion rates

A further 'special project' announced in the December 2010 quarter relates to de-energisation service order completion rates. This followed a complaint alleging a series of delays and failures by DNSPs to complete such orders. The complaint highlighted that up to 24.2% of de-energisation service order requests were incomplete. The complainant suggested that DNSPs were not using reasonable endeavours to complete de-energisation service orders as the incompletion rate for these orders was inconsistent with incompletion rates for other meter reading services.

A retailer may request a DNSP to disconnect the electricity supply to a customer under certain prescribed conditions, such as when the premises becomes vacant or a customer fails to pay its bill. This process is administered through a de-energisation service order request.

Following a request from a retailer, clause 2.6.1 of the B2B service order processes requires a DNSP to use reasonable endeavours to complete de-energisation service orders. A systemic failure to complete these requests can lead to inefficient costs being incurred by registered participants and increased costs of unserved energy.

This AER wrote to six DNSPs in November 2010 seeking detailed information about de-energisation orders. In the June 2011 quarter, the AER wrote to a further three DNSPs requesting information about their service order processes and observed rates of completion for de-energisation service order requests.

The key findings from the responses were:

- rates of incomplete de-energisation service orders due to access issues requests varied among the three DNSPs from 9.6% to 15.91% in 2009–10 and from 8.3% to 17.77% in 2010–11
- reasons for incomplete de-energisation service orders included: refused entry, locked gate and locked meter box.

The incomplete de-energisation service order rates will be used by the AER as a benchmark to measure the performance of certain DNSPs with regard to the completion of de-energisation service orders.

Network businesses are endeavouring to improve de-energisation completion rates through a number of steps including:

- arranging with retailers to allow field operators to carry out de-energisation in a way that deviates from the wording of the service orders. Previously, field operators could not deviate from this wording, resulting in incomplete service orders if the method of de-energisation outlined in the order was inappropriate for the premises
- introducing dedicated field operators to carry out de-energisation service orders
- implementing B2B browser enhancements to improve communication with retailers
- holding monthly meetings with internal and external providers to discuss de-energisation performance matters

- seeking to reduce de-energisation rates for non-payment by notifying the customer that a de-energisation service order has been requested due to non-payment.

As part of this project, the AER will continue to monitor network businesses to ensure that proposed measures are implemented and to report on the resulting impacts on de-energisation service order completion rates. The AER will write to some DNSPs in six months' time to assess whether there has been an improvement in de-energisation service order completion rates.

3.1.7 Customer Site Details Notification process

Retail and distribution businesses are obligated to use an electronic exchange platform established by AEMO in accordance with the terms of the B2B procedures (governed by chapter seven of the Electricity Rules). These procedures describe the content of, the processes for, and the information to be provided to support communications between parties. The Customer Site Details Notification (**CSDN**) process is one of the B2B procedures. It defines standard processes and transaction requirements for the communication of customer and site details from retailers and distributors via the B2B hub.

In 2010, AEMO notified the AER of potential breaches of the CSDN process by registered participants. AEMO also outlined the actions that the respective participants would need to undertake to comply with the relevant obligations.

The AER considers that non-compliance with the relevant obligations could lead to time and cost inefficiencies in the electricity market. Therefore, in May 2011, the AER established a further special project for 2011 to improve registered participants' approach to the CSDN process.

As part of this project, the AER wrote to a number of retail and distribution businesses seeking:

- clarification on the apparent breaches identified by AEMO
- confirmation that the matters were resolved by the respective businesses. If non-compliance was not resolved: reasons for this delay, the revised anticipated completion date, risks that exist for customers or the market generally and any actions the businesses are undertaking to eliminate these risks.

Responses received from the respective businesses indicate that the apparent breaches of the CSDN obligations have been rectified in accordance with the rectification process documented by AEMO.

The AER is satisfied with the responses from the businesses. As part of this project, the AER will continue to monitor registered participants' compliance with the CSDN processes.

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.[20]

The AER has established a program of regular technical compliance audits which targets electricity generators and network service providers on a rotating basis. The audits focus on the requirements of clause 4.15 of the Electricity Rules.

During the June 2011 quarter, the AER commenced technical audits of Loy Yang Management Company Pty Ltd and International Power Mitsui Australia Limited, focussing on their respective Loy Yang A and Loy Yang B power stations in the La Trobe Valley, Victoria.

An overview of the findings arising from these audits will feature in a future quarterly compliance report.

3.3 Jurisdictional derogations

Chapter 9 derogations[21] 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:

[20] For a discussion on good energy industry practice, see page 27 of AER Quarterly Compliance Report January–March 2011 (available at http://www.aer.gov.au/content/index.phtml/itemId/692887).

[21] 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.

- 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. No instances of non-compliance were reported in the June 2011 quarter.

Following the Queensland Government's generation portfolio restructure, effective 1 July 2011, Stanwell Corporation is now the nominated generator for Collinsville Power Station (previously Gladstone) and CS Energy is the nominated generator for Gladstone Power Station (previously Collinsville).

Appendix A: Targeted provisions summary

This is a summary of the provisions under the Electricity Rules and Gas Rules targeted by the AER using a variety of compliance mechanisms in the last four quarters. The targeted compliance reviews listed below are completed reviews. Special projects are listed by reference to the quarters in which they were commenced and undertaken. The same provision may be targeted over a number of quarters involving different participants.

Quarter ending	Industry	Mechanism	Rules & Clauses	Description
September 2010	Gas	Targeted compliance review	273	Offer to connect
		Targeted compliance review	326	Maintenance planning
		Targeted compliance review	414-419	Capacity information & facility allocations
	Electricity	Targeted compliance review	3.7.3	Short term projected assessment of system availability
		Targeted compliance review	4.9.4	Dispatch related limitations on generators
		Targeted compliance review	7.5.2	Metering register discrepancies
December 2010	Gas	Targeted compliance review	213	Scheduling submission requirements (demand forecast)
		Targeted compliance review	216	Participants' failure to conform to scheduling instructions

Quarter ending	Industry	Mechanism	Rules & Clauses	Description
		Targeted compliance review	380	Information requirements on contract holders
		Targeted compliance review	381	
		Targeted compliance review	382	Confirmation, registration or rejection of STTM service contracts' information
		Targeted compliance review	383	
	Electricity	Targeted compliance review	7.5.2	Metering register discrepancies
		Targeted compliance review	7.6.2	Non-compliant metering installations
		Targeted compliance review	9.44, 9.12.3, 9.34.6	Jurisdictional derogations relating to: Smelter Trader; Power Traders; Nominated Generators
March 2011	Gas	Targeted compliance review	216	Failure to conform to scheduling instructions
		Targeted compliance review	387	Compliance with respect to registration of services and trading rights
		Targeted compliance review	399	Conditions relating to MOS
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