



# **Quarterly Compliance Report**

**January – March 2010**

April 2010

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# Glossary

ACCC	<a href="#">Australian Competition &amp; Consumer Commission</a>
AEMC	<a href="#">Australian Energy Market Commission</a>
AEMO	<a href="#">Australian Energy Market Operator</a>
AER	Australian Energy Regulator (website at <a href="http://www.aer.gov.au">www.aer.gov.au</a> )
Bulletin Board	The <a href="#">Natural Gas Services Bulletin Board</a> 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 <a href="#">National Electricity (South Australia) Regulations</a> made under the National Electricity Act
Electricity Rules	The <a href="#">National Electricity Rules</a> made under Part 7 of the Electricity Law
EMS	Energy Management System
Gas Law	National Gas Law (a Schedule to the National Gas Act)
Gas Regulations	The <a href="#">National Gas (South Australia) Regulations</a> made under the National Gas Act
Gas Rules	The <a href="#">National Gas Rules</a> made under Part 9 of the Gas Law
MMS	Market Settlement and Transfer Solution
MSATS	Market Management System
MSOR	The Victorian Gas Industry Market and System Operations Rules under the <i>Gas Industry Act 1994</i> (VIC) now incorporated in Part 19 of the Gas Rules
MW	Megawatt
National Electricity Act	<a href="#">National Electricity (South Australia) Act 1996 (South Australia)</a>
National Gas Act	<a href="#">National Gas (South Australia) Act 2008 (South Australia)</a>
NEM	The National Electricity Market being the electricity wholesale exchange operated and administered by AEMO, and the national electricity system, which covers the following regions: Queensland, New South Wales, Victoria, South Australia, and Tasmania
NMI	National Metering Identifier
NSP	Network Service Provider
PASA	Projected Assessment of System Adequacy
SCADA	Supervisory Control and Data Acquisition
STTM	Short Term Trading Market provided for under the Gas Law
TNSP	Transmission Network Service Provider
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 Law<sup>1</sup> (**Electricity Law**) and section 27 of the National Gas Law<sup>2</sup> (**Gas Law**) set out the functions and powers of the AER, which include:

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

This report outlines the compliance, monitoring and enforcement activity of the AER over the period 1 January 2010 to 31 March 2010 (**the March 2010 quarter**).<sup>4</sup>

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**), relating to operating schedules and non-compliant metering
- the failure by some participants in the Natural Gas Services Bulletin Board (**Bulletin Board**) to provide forecast and actual data
- the establishment of a Short Term Trading Market (**STTM**) for natural gas, initially for gas hubs in Adelaide and Sydney
- the development of AER guidelines on significant price variations in the Victorian gas market.

The report also covers the AER's targeted compliance review of the Gas Rules.

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

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

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

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

The targeted provisions relate to the obligations of connected parties under clause 270, and obligations associated with the approval process for connection applications and agreements undertaken by AEMO in accordance with clauses 272 and 275.

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 review of the quality of reasons for 23 rebids in the National Electricity Market (**NEM**)
- market events where the wholesale spot price exceeded \$5,000/MWh
- the progress of the technical audit of TransGrid initiated in December 2009.

This report also covers:

- the outcomes of compliance reviews relating to:
  - clauses 3.8.2 and 3.8.6—participation by registered participants in the central dispatch process
  - clause 4.6.1—the determination of power system fault levels by AEMO
  - clause 5.2.4—obligations on registered customers regarding planning and designing facilities
  - clause 7.3.1—requirements on responsible persons for metering installation components
- monitoring of jurisdictional derogations that apply to smelter traders, power traders and nominated generators under Chapter 9 of the Electricity Rules
- the publication, in February 2010, of a compliance bulletin on the reporting requirements under Chapters 3 and 4 of the Electricity Rules, dealing with the provision and updating of market participant availability.

Finally, appendix A of this report lists all electricity and gas provisions targeted over the last four quarters.

# 1 Introduction

The AER is required to undertake compliance monitoring and enforcement roles pursuant to the Electricity Law and Rules and Gas Law and Rules.

Consistent with its public Statement of Approach,<sup>5</sup> the AER aims to promote high levels of compliance, and seeks to build a culture of compliance within the energy industry. In turn, this is to:

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

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

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).

In selecting Rule provisions for review through its various monitoring mechanisms (e.g. targeted compliance reviews), the AER adopts the following principles:

- a 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
- no unnecessary discrimination between registered participants.

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<sup>5</sup> 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 electricity and gas industry participants, and other interested 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 Update on investigations, market events, enquiries and compliance issues

This part of the report provides an update on:

- continuing and completed investigations<sup>6</sup>
- other compliance matters and issues
- targeted compliance reviews conducted during the March 2010 quarter.

#### 2.1.1 Victorian gas market

The AER is responsible for monitoring, investigating and enforcing compliance within the Victorian gas market, by reference to Part 19 of the Gas Rules.<sup>7</sup>

As the market operator, AEMO is required to publish operating schedules within prescribed timeframes. On a number of occasions in March 2010, AEMO experienced rescheduling errors, which it is now investigating and addressing.

The first occasion on 5 March occurred when data system problems caused AEMO to publish the schedules for the 6 March gas day late at 9:57 am—instead of the prescribed time of 8:00 am under clause 215 of the Gas Rules. This issue was raised with AEMO who is publishing a report on why these problems occurred.

In determining its response, the AER consider this report and any other issued by AEMO in accordance with clause 218 of the Gas Rules.

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

<sup>7</sup> Prior to 1 July 2009, the AER assisted the Australian Competition & Consumer Commission (ACCC) with a similar role under the Victorian Gas Industry Market and System Operations Rules (MSOR).

A further compliance matter in respect of the Victorian gas market relates to the upgrade by APA GasNet—the service provider—of a non-compliant metering installation. This matter was first noted in the previous AER compliance report.

APA GasNet reported to the AER that work on upgrading the metering installation commenced in December 2009. The design, procurement of equipment, fabrication, installation and related work for the proposed upgrade is in the process of being finalised. A number of meetings were held between the relevant parties to discuss the scope of the work required and APA GasNet will coordinate the required partial plant shutdown. The expected completion for this work remains October 2010.

Lastly, the monitoring of the Victorian gas market also requires the AER to identify significant price variations and publish guidelines as to what constitutes a significant price variation. Guidelines are being developed and the AER will consult on them through an industry forum being held on 13 May 2010.<sup>8</sup> In the meantime, the AER gas weekly reports include analysis of price movements in the Victorian gas market.

### **2.1.2 Bulletin Board**

The AER monitors the quality and consistency of information posted on the Bulletin Board on an ongoing basis. 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.

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.

As reported in its weekly reports<sup>9</sup> during the March 2010 quarter, the AER identified a number of entities that failed to provide actual and forecast data, in accordance with the Gas Rules obligations. The entities involved are AEMO, APA Group, BHP Billiton, Jemena and Tas Gas.

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<sup>8</sup> For more information, see AER Communication no. 283 to email subscribers. Places are limited and registrations close 30 April 2010. To register for this forum or receive future AER Communications, email [AERinquiry@aer.gov.au](mailto:AERinquiry@aer.gov.au).

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

The obligation to provide and update information on the Bulletin Board aims to ensure accurate and transparent information is available to stakeholders to promote trade in Australian gas markets.

The submission of accurate data, in accordance with the obligations, is vital to achieving this objective. While there has been a general improvement since the Bulletin Board commenced on 1 July 2008, there are persistent issues with timely submission of accurate data. As a consequence, the AER will target non-conformant participants through a variety of means, including routine enquiries and more formal reviews of systems and processes.

### **2.1.3 Short Term Trading Market**

The STTM is a market for the wholesale trading of natural gas at defined hubs between pipelines and distribution systems. It will initially operate covering the Sydney and Adelaide hubs, with additional hubs across eastern Australia intended for future coverage. Each hub is scheduled and settled separately, but all operate under the same rules. The Victorian gas market will continue to run in parallel with these developing markets.<sup>10</sup>

From 4 June 2010, the AER will be responsible for monitoring and enforcing compliance with Part 20 of the Gas Rules that authorise and govern conduct in the STTM.<sup>11</sup> The AER will monitor and enforce compliance with the STTM rules consistent with its approach<sup>12</sup> in other energy markets including the Bulletin Board and Victorian gas market.

## **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.

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<sup>10</sup> For further STTM information, refer to the AEMO website at [http://www.aemogas.com.au/index.php?action=filemanager&folder\\_id=859](http://www.aemogas.com.au/index.php?action=filemanager&folder_id=859)

<sup>11</sup> A trial period for STTM participants commenced from 1 March 2010.

<sup>12</sup> Refer to part 1 of this report.

In the March 2010 quarter the AER targeted the provisions set out in table 1 below.<sup>13</sup>

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	Technical obligations under connection agreements. Obligations under connection applications, including interactions with the declared transmission service provider.	2
272 & 275	AEMO	Obligations relating to the process of approving connection applications and connection agreements.	1

### 2.2.1 Obligations of connected parties

In the March 2010 quarter the AER wrote to Multinet and SP AusNet for a compliance review of clause 270 of the Gas Rules.

The provisions in question relate to the obligations of parties connected to the Victorian declared transmission system and the obligations on connection applicants. Included are requirements and conditions for connection, network modifications, load forecasting and the commissioning of connection equipment. Non-compliance in these areas would affect the operation and reliability of the gas transmission system. The information sought included details of any non-compliance in the last 12 months.

#### Response summary

Multinet Group and SP AusNet stated that connection equipment in the Victorian gas market is owned, operated and controlled by the service provider, APA GasNet.

Multinet stated it was unaware of material issues but referred to minor non-compliance related to its failure to meet a requirement of its connection agreement with APA GasNet. Specifically, the quantity of gas delivered to a connection point exceeded the physical design capabilities of the metering installation at that connection point.

<sup>13</sup> Appendix A of this report also lists all provisions targeted over the last four quarters

The instances occurred when high gas flows over short periods of time affected turbine meters. To avoid what it described as ‘disproportionate capital costs’ or the decommissioning of the supervisory control and data acquisition (**SCADA**) system, Multinet advised that it has attempted to reduce the number of such instances through operating procedure and control system modification. To mitigate the risk to turbine meters, it has also invested in new equipment at affected connection points.

Multinet Group and SP AusNet confirmed that any modification or additions to connection equipment are negotiated with APA GasNet. The respective connection agreements are amended accordingly, and AEMO is notified as a matter of course. They further confirmed that they have systems and processes in place to provide load forecast information to APA GasNet and AEMO in compliance with the Gas Rules.

SP AusNet specified that, in accordance with the Victorian Annual Planning Review, it provides annual loads forecasts to APA GasNet and AEMO on request. It also noted that it monitors compliance through the use of a regulatory compliance database, which sends automatic reminders to responsible persons ensuring that external reporting requirements are met within prescribed timeframes.

Multinet indicated it provides forecasts in accordance with clause 271(3) through the use of both a SCADA and a network modelling system which is designed to produce forecasts of maximum hourly quantity.

### **Review outcomes**

The above responses raised a number of questions, particularly on the joint responsibilities of connected parties to ensure all connection equipment is compliant with clause 270(1) of the Gas Rules.

Accordingly, the AER will continue its review of clause 270 by extending it to APA GasNet in the coming quarter. This review will also assess any related non-compliance in the Victorian gas market.

## **2.2.2 Connection obligations of AEMO**

In the March 2010 quarter the AER wrote to AEMO regarding its compliance with clauses 272 and 275 of the Gas Rules. The AER requested information on AEMO's connection approval (and prescribed procedures) and modification arrangements in this area. Information was also requested as to whether the timeframes for connection approvals and modifications were being met.

The focus of the review was to ensure that prescribed timeframes are being met, avoiding administrative burdens and difficulties for the connecting applicant.

### **Response summary**

In addition to confirming that its connection approval process is underpinned by defined procedures, AEMO advised it is currently consulting on new procedures. AEMO also advised it has a person responsible for ensuring that the prescribed timeframes under clauses 272(2) and 275(3) are met. The current arrangements will be complemented by an internal compliance system (in development) that will provide automatic deadline reminders to relevant staff. The trial version of this system is expected to be available from May 2010.

AEMO referred to a single event where prescribed timeframes were not met. In this case, the applicant was informed of the need for additional time to resolve concerns over a pipeline's operational pressure. The matter was resolved within four days.

### **Review outcomes**

AEMO's response indicates it has processes and procedures in place to meet the prescribed timeframes for dealing with connection applications. The revision of prescribed procedures and the development of a compliance system further indicate a sound approach by AEMO to its obligations in this area.

The Gas (and Electricity) Rules prescribe various timeframes within which AEMO must perform administrative functions relating to connection applications. To ensure efficiency, it may sometimes be appropriate to require additional time, provided affected parties are promptly informed within the prescribed timeframe. This should only occur in cases where significant issues or concerns arise.

### 2.2.3 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:<sup>14</sup>

- margin calls, including past occurrences (clause 263)
- obligations of connected parties (clause 270)
- connection offers (clause 273)
- off-specification gas (clause 289)
- STTM obligations.

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

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<sup>14</sup> 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 investigations<sup>15</sup>
- other compliance matters and issues including high price event reports and rebidding enquiries
- targeted compliance reviews during the March 2010 quarter.

#### **3.1.1 Compliance with clause 5.6.6 of the Electricity Rules**

The AER has recently focused on the compliance by Transmission Network Service Providers (TNSPs) with clause 5.6.6 of the Electricity Rules and requirements of the AER's regulatory test. So far, queries have arisen in relation to the application of the regulatory test by one TNSP. This matter is ongoing and will be reported on in a future quarterly compliance 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 are continuing.

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. This matter is set down for trial in June 2010.

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<sup>15</sup> Published electricity investigation reports issued by the AER are available from its website at <http://www.aer.gov.au/content/index.phtml/itemId/656186>.



### 3.1.3 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.

In the NEM, scheduled generators and market participants submit wholesale electricity offers and bids for each of the 48 intervals in a trading day.<sup>16</sup> Clause 3.8.22A of the Electricity Rules requires scheduled generators and market participants to make dispatch offers, dispatch bids and any rebids in “good faith”.<sup>17</sup>

Table 2 summarises the number of compliance issues reviewed by the AER during the March 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	3
3.8.22(c)(2)(i)	The rebid submitted does not provide a brief, verifiable and specific reason for the rebid	4
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	16

<sup>16</sup> The offers and bids include available capacity (in Megawatts (MW)) in up to 10 price bands, and can be varied through rebidding.

<sup>17</sup> Market participants must provide to AEMO, at the same time as a rebid is made, a brief, verifiable and specific reason for the rebid, plus the time at which the reason for the rebid occurred. Equivalent requirements apply where AEMO is advised, under clause 3.8.19 of the Electricity Rules, that a unit, service or load is inflexible. This information can assist in determining whether dispatch offers, dispatch bids and rebids are made in “good faith”.

In its previous compliance report, the AER advised of a review of rebid reasons submitted since 1 December 2009—the date of commencement of the *AER Rebidding and Technical Parameters Guideline*.<sup>18</sup> Initial results of this review indicate improvements in the quality of rebid reasons for some participants. The AER will continue to scrutinise rebid reasons and look for further improvement.

### **3.1.4 Spot price events exceeding \$5,000/MWh**

The AER is required to publish a report<sup>19</sup> 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 multiple instances of spot prices exceeding \$5000/MWh during the March 2010 quarter. There were:

- 4 events in South Australia on 8 January and 8 to 10 February
- 3 events in Victoria on 11 January and 8-9 February
- 2 events in New South Wales on 4 and 22 February
- 1 event in Queensland on 18 January.

## **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 that participants have robust and effective compliance programs in place. There are two main types of audits:

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

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<sup>18</sup> Available from the AER website at <http://www.aer.gov.au/content/index.phtml/itemId/709251>.

<sup>19</sup> Pursuant to clause 3.13.7 (d) and (e) of the Electricity Rules. Copies of the reports are available from the AER website at <http://www.aer.gov.au/content/index.phtml/itemId/714860>.

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.

The AER recently completed a technical audit of a generator—Eraring Energy—as detailed in the compliance report for the December 2009 quarter. The AER has since commenced an audit of TransGrid’s compliance with clause 5.7.4 of the Electricity Rules. Among other things, Network Service Providers (NSPs) are required to institute and maintain a compliance program to ensure their protection and control facilities operate reliably and in accordance with the requirements of Schedule 5.1 of the Electricity Rules.

That audit is underway and future compliance reports will provide an overview of the findings.

### 3.3 Targeted compliance reviews

As discussed in part 1 of this report, targeted reviews are an important element of the AER’s compliance monitoring activities. The AER generally targets at least 24 Electricity Rules provisions for detailed review each year.

Table 3 below lists the provisions targeted in the March 2010 quarter.<sup>20</sup>

**Table 3: Electricity Rules – provisions targeted for review**

<b>Electricity Rules clause</b>	<b>Relevant parties (subject to the current review)</b>	<b>Obligation</b>	<b>No. of targeted participants</b>
3.8.2	Registered participants	Participation in central dispatch	1
4.6.1	AEMO	Determination of power system fault levels	1
5.2.4	Registered customers	Obligations on customers regarding the planning and designing of their facilities	3
7.3.1	Responsible persons	Requirements of metering installation	2

<sup>20</sup> Appendix A of this report also lists all provisions targeted over the last four quarters.

### 3.3.1 Participation in central dispatch by registered participants

The amount of renewable generation such as wind farms has grown significantly in the NEM over the last decade and this will likely continue. Wind output cannot be controlled “on demand” as its energy source is inherently uncontrollable. Because of this, intermittent generation had dispatch priority over scheduled generation and was classified as non-scheduled, making it exempt from the central dispatch process.<sup>21</sup>. This approach raised issues of network loading control and market efficiency.

From May 2008, new semi-dispatch arrangements<sup>22</sup> required significant intermittent generation to participate in the central dispatch and comply with any AEMO instructions to control output for system security. This requirement is primarily set out in clause 3.8.2 of the Electricity Rules.

The AER wrote to Pacific Hydro requesting information on its systems and processes to submit dispatch offers and plant availability for its semi-scheduled Clements Gap wind farm. Information was also requested as to how it ensures its practices are consistent with the *AER Rebidding and Technical Parameters Guideline*.

#### Response summary

Pacific Hydro advised that automatic control of the dispatch process and wind farm generation output has been implemented to ensure compliance. It gave a general description of its process to submit dispatch offers and plant availability via an automated Market Management System (MMS), and specified its ability to remotely access the system outside standard working hours.

It also describes its practices to ensure compliance with subclause 3.8.2(a) and 3.7B of the rules, specifying the use of training, presentations and documented procedures to educate employees. The procedures are facilitated by staff with scheduled dispatch experience. It also reported it monitors amendments to the rules and accordingly updates training and procedures.

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<sup>21</sup> The process managed by AEMO for the dispatch of scheduled generating units, semi-scheduled generating units, scheduled loads, scheduled network services and market ancillary services in accordance with clause 3.8 of the Electricity Rules.

<sup>22</sup> 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>

Pacific Hydro stated that past rebids were undertaken for testing purposes and that it no longer rebids Clements Gap wind farm for commercial purposes. Instead, this participant has indicated that its rebids are now only related to physical plant testing, and that its procedures are in accord with the *AER Rebidding and Technical Parameters Guideline*.

### **Review outcome**

Pacific Hydro demonstrated its awareness of its obligations in this area, and has relevant systems and processes in place. It has amended its procedures in this area to comply with the *AER Rebidding and Technical Parameters Guideline*.

While scheduled generators have equivalent obligations under clause 3.8.2, the AER expects their systems and procedures in this area to be well established. The AER will therefore continue its review in the June 2010 quarter in relation to other semi-scheduled generators.

The AER will, however, monitor dispatch offer and plant availability practices of all types of generation and may target other generators for review if it becomes apparent that its *Rebidding and Technical Parameters Guideline* is not being followed.

### **3.3.2 Determination of power system fault levels by AEMO**

In the March 2010 quarter the AER wrote to AEMO asking it to review its procedures for compliance with clause 4.6.1 of the Electricity Rules. Under this clause, AEMO must determine the amount of fault current<sup>23</sup> that may flow in the power system under certain conditions. The aim is to ensure circuit breakers are not exposed to levels of fault current beyond their capability, making them unable to operate effectively. The AER requested information on AEMO's systems and processes to comply with this provision. It also requested information on:

- how frequently the fault levels are reviewed
- the role of NSPs in determining these levels
- how technical standards obligations imposed upon generators under Schedule S5.2.8 of the Electricity Rule are incorporated into AEMO's determinations.

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<sup>23</sup> Being abnormal current flowing during a short circuit fault in an electric circuit.

Failure to accurately determine fault levels could damage equipment and lead to cascade failures affecting the security of power system.

### **Response summary**

AEMO advised that its fault level control process (outlined in its Operating Procedure SO\_OP 3715 - Power System Security Guidelines) covers the responsibilities of AEMO and TNSPs. The management of power system fault levels is performed in real time by using an Energy Management System (**EMS**) application, with limit advice from TNSPs as a backup.

The role of TNSPs in determining fault levels comprises:

- the provision of revised network models to AEMO when new generation is connected or the network is augmented, to ensure fault levels reflect the actual power system configuration
- joint conduct of benchmarking exercises to ensure the EMS application produces accurate calculations
- participation in joint operational meetings, with fault levels as a standing item.

AEMO referred to the process under clause 4.15(f) of the Electricity Rules, relating to compliance with prescribed performance standards for generators. The framework requires a TNSP to notify AEMO if it identifies a discrepancy between its fault calculations and the performance standards of generators connected to the network. This adds a further layer of scrutiny.

### **Review outcome**

The management of power system security, including during fault conditions, is one of AEMO's primary functions. The market operator has demonstrated a thorough awareness of its obligations and that it has appropriate systems and processes to ensure those obligations are met in real time. It also appears to appropriately engage with other entities in this process.

### **3.3.3 Registered customer obligations regarding the planning and designing of their facilities**

Chapter 2 of the Electricity Rules defines registered customers as persons engaging in the activity of purchasing electricity through a transmission or distribution system to a connection point within the power system.

Sun Metals Corporation, Tomago Aluminium Company Pty Ltd and the State Electricity Commission of Victoria (trading as VicPower Trading) are all responsible for smelters<sup>24</sup> that consume large amounts of electricity and are registered customers.

The AER wrote to them to review their compliance with clause 5.2.4 of the Electricity Rules. It requested information on their systems and processes in place to ensure:

- their facilities and equipment comply with applicable service and system standards, as well as their connection agreement with the relevant NSPs
- inspection and testing of facilities and equipment is undertaken as required by clause 5.7 of the Electricity Rules.

Compliance with applicable service and system standards, as well as relevant connection agreements, is of critical importance for the efficient operation of any electrical facility. The correct operation of large customer loads is also very important for overall power system security in the NEM.

#### **Response summary**

These above customers referred to various arrangements in place to ensure compliance with clause 5.2.4, underpinned by connection agreements between them and the relevant NSPs. The agreements specify technical and other parameters which are binding on each party.

At Sun Metals, an experienced engineer is responsible for the refinery. Other authorised staff also ensure the facilities and equipment are operated and maintained in a compliant manner. Tomago and VicPower Trading's emphasis was on implemented asset management strategies, maintenance records, standards and plans.

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<sup>24</sup> A zinc smelter in Queensland (Sun Metals), an aluminium smelter in New South Wales (Tomago) and two aluminium smelters in Victoria (VicPower Trading).

With respect to inspection and testing, Sun Metals and Tomago deal directly with their respective TNSPs, being Powerlink and TransGrid. On the other hand, VicPower Trading indicated that inspection and testing involves the smelter's owner, Alcoa.

### **Review outcome**

In all instances, these customers demonstrated an appreciation for their obligations through routine operational arrangements, including formal connection agreements with relevant NSPs.

Sound inspection and testing regimes would ensure that such installations are in a sound and safe condition and that technical compliance with the rules is met at all times. From the information provided, it appears that Sun Metals, Tomago and VicPower Trading have adequate arrangements in place to comply with clause 5.2.4.

### **3.3.4 Requirements of metering installation components**

In the March 2010 quarter the AER wrote to Integral Energy and Ergon Energy asking them to review their procedures for compliance with clause 7.3.1 of the Electricity Rules.

The AER requested information relating to metering installation compliance, the application and registration of a National Metering Identifier (**NMI**)<sup>25</sup>, and details of the approach taken to metering installations also used for purposes in addition metering data provision to AEMO.

Non-compliance with these requirements would lead to administrative difficulties for AEMO, whilst erroneous metering data could impact upon fees charged.

### **Review outcome**

The responses received from Integral Energy and Ergon Energy raised a number of issues that will require the AER to request additional information from both participants. This review is ongoing and may be extended to other participants. The results will be published in the next quarterly compliance report.

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<sup>25</sup> As described under clause 7.3.1(d) of the Electricity Rules.



The AER has introduced a program, with the support of AEMO, to more extensively monitor compliance with the obligations under Chapter 7 relating to Market Settlement and Transfer Solution (**MSATS**) procedures.<sup>26</sup> The procedures impose obligations on registered participants and metering providers to ensure that transfer and settlement of customers between retailers in the NEM is efficient. Future reports will report on compliance issues in this area.

### 3.3.5 Upcoming targeted compliance reviews

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

Table 4: Electricity Rules – future targeted provisions<sup>27</sup>

Electricity Rules Clause	Compliance issue	Quarter
2.2.2	Registration of scheduled generators	June 2010
2.3.4	Registration of market customers	
3.8.2	Participation in central dispatch by registered participants	
7.3.1	Metering installation requirements	
3.7.3	Participant availability, including Projected Assessment of System Adequacy ( <b>PASA</b> ) 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	

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

<sup>27</sup> 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 derogations<sup>28</sup> 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 that there exists:

- any inconsistency between the Electricity Rules and a contractual requirement under the relevant agreement between the various governments 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 March 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 late December 2009, the Victorian Government lodged a Rule change proposal with the Australian Energy Market Commission (AEMC)<sup>29</sup> to remove certain derogations that apply to Victorian generator technical performance standards under Schedule 9A3 of the Electricity Rules.

The AER supports this Rule change proposal and its outcome will be reported in a future quarterly compliance report.<sup>30</sup>

### 3.5 Compliance bulletin

In February 2010, the AER published a compliance bulletin dealing with the provision and updating of market participant availability under the Electricity Rules.<sup>31</sup>

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<sup>28</sup> 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.

<sup>29</sup> Refer to the AEMC website notice at <http://www.aemc.gov.au/Electricity/Rule-changes/Open/Victoria-Generator-Technical-Performance-Standards-Derogations.html>.

<sup>30</sup> In August 2008, the Queensland Government lodged a similar Rule change proposal (affecting Queensland generators), which was approved by the AEMC in December 2008. These Rule change proposals followed the recommendations and findings of the AER associated with its investigation into the events of 16 January 2007 (see <http://www.aer.gov.au/content/index.phtml/itemId/714828>).

<sup>31</sup> Available from its website at <http://www.aer.gov.au/content/index.phtml/itemId/692887>.

The bulletin clarifies the AER's interpretation of those rule provisions governing communication of the availability of market generators and scheduled NSPs.

The AER published this bulletin following a review of the system events on 29 and 30 January 2009. The review identified a number of cases where the actions of market participants may have contributed to inefficient market outcomes, including failure to follow dispatch instructions and revisions to availability at short notice.

The bulletin covers the main reporting requirements under Chapters 3 and 4 of the Electricity Rules, with emphasis on the short and medium term projected assessments of system adequacy, daily bid and pre-dispatch processes.

## 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
June 2009	Gas	Gas Rules 148 and 154	Maintenance of up-to-date registers of Bulletin Board participants and facilities, including facilities declared exempt.	1
		Gas Rules 152 and 164	Obligation to advise the Bulletin Board operator of any changes to exemption status, and to provide nameplate rating information.	3
		Gas Rules 165 and 166	Obligation to provide 3 day capacity outlook data and actual production flow data to the Bulletin Board.	4
		Gas Rules 145, 181-184	Obligation to provide nominated and forecast delivery data and actual pipeline gas delivery data to the Bulletin Board	2
	Electricity	Electricity Rules 5.3.2	Connection enquiry	17
		Electricity Rules 5.3.3	Response to connection enquiry	17
		Electricity Rules 5.3.6	Offer to connect	17

<b>Quarter ending</b>	<b>Industry</b>	<b>Rules &amp; Clause</b>	<b>Description</b>	<b>No. of Participants</b>
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
	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

<b>Quarter ending</b>	<b>Industry</b>	<b>Rules &amp; Clause</b>	<b>Description</b>	<b>No. of Participants</b>
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 7.3.1	Metering installation requirements	2