



Wholesale Markets  
Quarterly Compliance Report

July – September 2011

October 2011

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# Glossary

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GJ) is provided to balance pipeline deviations by increasing or decreasing the quantity of natural gas supplied to or withdrawn from a hub using an STTM pipeline.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

## Executive Summary

The Australian Energy Regulator (**AER**) is responsible for monitoring compliance and enforcement under legislation and rules governing Australia's wholesale energy markets. Section 15 of the National Electricity Law<sup>1</sup> (**Electricity Law**) and section 27 of the National Gas Law<sup>2</sup> (**Gas Law**) set out the functions and powers of the AER, which include:

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

This Wholesale Markets Quarterly Compliance Report (**QCR**) outlines the AER's compliance monitoring and enforcement activity in the wholesale energy markets over the period 1 July 2011 to 30 September 2011 (**the September 2011 quarter**).<sup>4</sup>

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 responsible persons under the Victorian gas market rules to protect metering installations from unauthorised interference, the obligation on AEMO under the STTM rules to investigate the circumstances of a Market operator service (**MOS**) shortfall, and the obligation on STTM trading participants to make good faith, best estimate price taker bids (demand forecasts).

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

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

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

<sup>4</sup> Previous reports available at <http://www.aer.gov.au/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 recently released compliance bulletin and the announcement of a bulletin to be released in the final quarter in 2011
- the Federal Court's decision to dismiss the AER's case against Stanwell Corporation in relation to alleged breaches of the Electricity Rules
- a compliance issue around the transition of second tier metering installations
- late settlement payments by Sanctuary Energy
- the findings 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 of the Electricity Rules.

The AER has previously introduced five 'special projects' that it is carrying out during 2011—one in gas and four in electricity. The June 2011 QCR provided an update on these projects. This QCR provides a further update on these projects and reports on metrics against which the success of these projects may be measured.

# 1 Introduction

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

Consistent with its statement of approach,<sup>5</sup> the AER aims to promote high levels of compliance, and seeks to build a culture of compliance in the wholesale 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 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. These mechanisms include audits, targeted compliance reviews, market monitoring, and the imposition of reporting requirements.

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

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

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

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

While most obligations under the Electricity Rules and Gas Rules do not require

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

registered participants to establish specific compliance programs, the AER takes into account a participant's compliance framework when determining its response to breaches. In assessing a compliance culture, the AER considers whether compliance programs and processes are effectively applied, up-to-date and tested regularly.

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



## 2 Gas

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

### 2.1 Investigations, market events and compliance issues

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

- 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.<sup>6</sup> The AER identified three instances in the September 2011 quarter where this data was not submitted correctly, some of which were notified to the AER by the participants themselves. This compares to 16 instances of participant data errors identified in the AER's previous quarterly compliance report.<sup>7</sup>

These Bulletin Board data failures are outlined in Table 1.

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<sup>6</sup> Rule 169 also provides an obligation on storage providers to provide daily flow data.

<sup>7</sup> This included data failures on 30 March and 31 March gas days.

**Table 1: Bulletin Board data failures**

Gas day(s)	Details
6 July and 8 July 2011	<b>AGL Upstream Investments Pty Ltd (AGL)</b> failed to provide actual flow data for the Camden production plant within the required timeframe
15 July 2011	<b>Esso Australia Resources Pty Ltd (Esso)</b> failed to provide actual flow data for the Longford production plant within the required timeframe

On each occasion, the relevant participant promptly resubmitted the missing data to the Bulletin Board.

After identifying these data failures, the AER contacted the participants to seek an explanation for the failures and steps taken to minimise the risk of reoccurrence.

### **AGL**

AGL stated it was initially unsure of the cause of the data failure, noting that the same ‘csv’ file is uploaded to the Bulletin Board every day. AGL also noted that the same file was submitted for the STTM and they did not encounter any data issues there.

Upon further investigation however, AGL noted that there were only 3—not the usual 4—transaction logs on the Bulletin Board for the 6 July 2011 and 8 July 2011 gas days (published on 7 July 2011 and 9 July 2011 respectively), indicating that the missing data may not have been uploaded successfully. AGL stated that this problem may have been due to a ‘trader error’, but may have also been due to a problem with AEMO’s systems.

In response to these recent data issues, AGL has added an item to its daily checklists to confirm there are always 4 transaction logs on the Bulletin Board for each gas day.

### **Esso**

Esso noted that upon identifying the late provision of data for the 15 July 2011 gas day, it conducted an internal review and ascertained that the cause was human error. The employee responsible for uploading the file experienced some difficulty in doing so, but believed the upload had been successful.

Subsequent independent checks performed as part of Esso’s internal procedures

revealed that this data had not been uploaded. Accordingly the responsible employee was asked to upload the data again. The employee who performed a further check via a mobile device on the morning of 17 July 2011 incorrectly believed it had been uploaded. The data was reviewed again on 18 July 2011 via desktop computer where it became evident that it had still not been uploaded. The data was subsequently submitted and management was advised of the late submission.

### **AER assessment**

These incidents highlight various 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 the risk of these issues occurring. The AER expects all participants to note these examples and remedies to ensure that such data failures are minimised in the future.

The AER will also discuss with AEMO the issues raised by AGL regarding daily transaction logs, and whether there had been problems with AEMO's systems.

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 continue to work with participants to verify that any proposed remedial actions have been implemented.

The AER acknowledges that the number of data failures for this quarter has fallen significantly compared with the previous quarter. This indicates participants are taking positive steps to ensure compliance with the Bulletin Board procedures.

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**

Part 19 of the Gas Rules sets out participants' responsibilities within the Victorian gas market. Specifically, rule 216(1) states that subject to subrules (2) and (4), if AEMO issues a scheduling instruction in respect of a bid, the market participant who submitted the bid must comply with the scheduling instruction in all material respects.

During the quarter there were three separate incidents where market participants nominated injection quantities at the Longford injection point that were inconsistent

with AEMO scheduled quantities. AEMO noted that on each of these gas days its confirmation process identified significant differences between its scheduling instructions and participant nominations at Longford.<sup>8</sup>

Conforming with AEMO scheduling instructions is a crucial aspect of market operations, both to ensure the efficiency of the market and to protect the integrity of the declared transmission system. Accordingly the AER will continue to make inquiries into this matter and will provide an update in a future QCR.

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

Part 20 of the Gas Rules sets out participants' responsibilities within the STTM. Most of these obligations relate to the accurate and timely provision of information. In the previous quarter the AER identified and assessed four compliance matters with respect to facility operators. The AER identified five such incidents during the quarter, four of which related to gas days in this quarter and one relating to the 1 October gas day.<sup>9</sup>

This quarterly compliance report also includes the AER's assessment of trading participants' (shippers and gas users) compliance with relevant obligations under the Gas Rules (see section 2.1.3.3 below).

#### **2.1.3.1 Pipeline capacity information**

Rule 414(1) of the Gas Rules requires an STTM facility operator, in accordance with good gas industry practice, to notify AEMO of the quantity of natural gas it expects its facility will be able to deliver to the relevant hub on the next three gas days. This information must be provided by 9:30am each day.

Following this, rule 414(2A) requires AEMO to validate this capacity information and to use substitute information if the information is not provided by the facility operator or if it fails validation.<sup>10</sup>

Rule 414(2B) states that a facility operator must provide information in accordance

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<sup>8</sup> AEMO System Wide Notices issued on 5 July 2011, 18 July 2011 and 13 August 2011.

<sup>9</sup> Because the STTM is an ex ante market, errors for next quarter can be identified during this quarter.

<sup>10</sup> This validation process must be performed in accordance with the STTM procedures.

with the STTM procedures to enable AEMO to validate and substitute information in accordance with subrule 2A. Clause 7.1.3B of the STTM procedures requires this information to be provided to AEMO by 11am.

### **AGL – 8 September 2011 and 1 October 2011**

AGL Upstream Investments Pty Ltd (**AGL**) submitted a capacity figure of 2 TJ for the Camden production plant for the 8 September 2011 and 1 October 2011 gas days. This contrasted with capacity figures of between 17 TJ and 17.5 TJ submitted for the respective surrounding gas days.

AGL Energy Sales & Marketing Ltd submitted injection offers of 15.1 TJ at \$0.00/GJ from the Rosalind Park facility (at Camden) for the 8 September 2011 gas day and 15.2 TJ at the same price for the 1 October 2011 gas day. However, because AGL submitted capacity figures of 2 TJ for those days, AEMO could only schedule 2 TJ of the gas offers for delivery into the Sydney STTM hub.<sup>11</sup> This affected market prices and payments to and from participants.

In response to AER inquiries, AGL noted the 2 TJ capacity figure for 8 September 2011 gas day was due to a ‘software/technical error’. AGL stated it had developed a work around for the software issue which created incorrect data for the Camden plant, however a new trader on duty had not used the work around which resulted in another error on the 1 October 2011 gas day. AGL indicated that this trader has since received further training regarding the work around.

AGL also revised its bids to prevent deviations on the gas day. AGL indicated that IT modifications to resolve the data problems would take approximately 4-6 weeks.

### **AGL – 22 September 2011 and 24 September 2011**

The AER understands that AGL did not submit capacity information for the 22 and 24 September gas days by the 9:30am cut-off time. This information was later submitted by the extended cut-off time of 11am, as part of AEMO’s validation

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<sup>11</sup> The 2 TJ capacity figure was not identified as failing validation in AEMO’s systems. AEMO’s role to validate and seek confirmation of capacity data which fails validation (i.e. is too high or low) is a new market feature following STTM rule and procedure changes that were effective from 16 June 2011. See in particular chapter 7 of the STTM procedures available at [www.aemo.com.au](http://www.aemo.com.au).

process. This meant AEMO was able to publish the ex ante schedule using the updated data.

AGL advised that the facility hub capacity data is produced by an IT system but the duty trader is responsible for confirming the data and submitting it to AEMO. During this period, AGL was training a number of new traders and the two late submissions were the result of human error by a trainee.<sup>12</sup>

AGL stated that it is reviewing its business processes, training materials and the outcomes of these events to determine what further improvements in processes and training can be made to reduce the likelihood of reoccurrence. AGL also advised that it periodically reviews its business processes.

### **AER assessment**

AGL's late submission of data for the 22 and 24 September gas days did not affect the calculation of the ex ante price. However, as a result of AGL's data errors on the 8 September and 1 October gas days, 13.1 TJ and 13.2 TJ of respective offers from the Rosalind Park facility were not scheduled. This was despite that gas being offered to the market at the lowest possible price (\$0/GJ). Instead, more expensive gas offers on the Eastern Gas Pipeline and Moomba to Sydney Pipeline were scheduled.

Accordingly, for the 8 September 2011 and 1 October 2011 gas days, the ex ante market prices were set at \$4.14/GJ and \$4.10/GJ respectively. These prices would have been set at \$3.30/GJ and \$3.95/GJ respectively had the Rosalind Park facility capacity been more consistent with AGL's offer amounts and all \$0/GJ offers scheduled.

The higher ex ante market prices meant trading participants who were 'short' on those gas days ended up paying more for their gas shortage than they otherwise would have, while those who were 'long' received more for their surplus gas.<sup>13</sup>

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<sup>12</sup> AEMO, STTM Event Report – Gas Day 22 & 24 September 2011, p. 4.

<sup>13</sup> 'Short' refers to participants whose scheduled deliveries are lower than their forecast hub demand, while 'long' refers to those whose scheduled deliveries exceed their forecast hub demand.

The AER is continuing its inquiries into these incidents and will provide an update on its assessment in the next QCR.

### **2.1.3.2 Pipeline allocation data**

Rule 419(1) of the Gas Rules states that the allocation agent for an STTM facility must give AEMO an allocation notice for the preceding gas day that meets the requirements in subrule (2). This must be provided by 11am.

Following this, rule 419(2A) requires AEMO to validate this capacity information and to use substitute information if the information is not provided by the facility operator or if it fails validation.

Rule 419(2B) also states that the allocation agent for an STTM facility must provide information in accordance with the STTM procedures to enable AEMO to validate and substitute information in accordance with subrule 2A. Clause 7.2.1B of the STTM procedures requires this information must be provided to AEMO by 3pm.

### **Jemena – 8 September 2011**

Jemena Eastern Gas Pipeline (1) Pty Ltd (**Jemena**) submitted its allocation notice for the 8 September 2011 gas day after the 11am deadline on 9 September 2011. As a result, publication of the ex post imbalance price was delayed, but was published before 4pm using the up-to-date allocation data for the Eastern Gas Pipeline.<sup>14</sup>

Jemena stated the delay was due to missing metered data caused by a changeover in its remote telemetry unit. Jemena confirmed it has a backup data source, however using this process to retrieve the data took longer than expected due to the non-standard nature of the request.

In response to this event, Jemena instructed its control room staff to set up templates to ensure that in future the required meter data tags (which are used to measure gas flow on each section of the pipeline) are more readily available. Jemena also noted that it is reviewing its STTM and business processes as part of a business

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<sup>14</sup> Accordingly the error did not impact on the ex post price as the data, although late, was available to be used in the calculation of the ex post price. The ability to delay publication of the ex post price from 12pm to 4pm is a new market feature following STTM rules and procedures effective 16 June 2011. See in particular chapter 7 of the STTM procedures available at [www.aemo.com.au](http://www.aemo.com.au).

improvement project. The project team will also review learnings from this event to determine what further improvements can be made.

### **AER assessment**

The AER reiterates that pipeline allocation and capacity data plays a crucial 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 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 will continue to liaise with all four STTM pipeline operators on the status of their respective actions to improve systems and processes for providing data.

As previously flagged, the AER has committed to 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 which are listed in Table 2 below. The audits also aim to ensure these participants have robust and effective compliance programs in place which are consistent with good energy industry practice

**Table 2: Gas Rules civil penalties**

National Gas Rule	Details
369	Standard for information or data given under this Part or the STTM Procedures (must be provided to AEMO in accordance with good gas industry practice)
387	Obligation to ensure compliance (regarding allocation agents for STTM facility operators)
414(1)	Capacity information
419(7)(b)	STTM facility allocations
440(2) and (3)	Contingency gas trigger event (provision of information to AEMO)
442(3),(4) and (5)	Contingency gas assessment conference (attendance to conference and provision of information to AEMO)



### 2.1.3.3 Submissions of ex ante offers, ex ante bids and price taker bids

Rule 410(1) of the Gas Rules states that if a trading participant expects to supply quantities of natural gas to, or withdraw quantities of natural gas from, a hub on a gas day, the trading participant must submit to AEMO in good faith:

- a. ex ante offers, ex ante bids or price taker bids for that gas day that reflect; or
- b. revisions to an earlier ex ante offer, ex ante bid or price taker bid for that gas day so as to reflect,

the trading participant's best estimate of the quantities of natural gas it expects to supply or withdraw on that gas day, as at each of the times specified in subrule 2.<sup>15</sup>

#### **Origin – 15 May 2011**

Origin Energy (**Origin**) informed the AER that on 15 May 2011, one of its traders submitted an incorrect price taker bid to the hub of 48.547 TJ, rather than its calculated hub demand figure of 26.2 TJ. This error was the result of a forecast model error and an incorrect manual override. The error was realised after the STTM cut-off time but before pipeline nominations closed. Origin noted that it has corrected its modelling software and improved staff training in response to this incident.

Origin stated that in order to minimise the risk of MOS gas occurring, it reduced both of its pipeline nominations from the STTM scheduled amounts by the same amount as the error (22.347 TJ).

#### **AER assessment**

Origin identified that its price taker bids, submitted for 15 May 2011 gas day, were incorrect. The error impacted the ex ante market price in the Adelaide hub as well as the amount of MOS service payments for the 15 May 2011 gas day.<sup>16</sup>

The ex ante price for the 15 May 2011 gas day was \$4.46/GJ (based on 48.547 TJ), whereas if Origin had submitted the correct figure of 26.2 TJ the ex ante price would

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<sup>15</sup> Subrule 2 states this information must be provided by 12pm on the day before the relevant gas day (if revised or not already provided by 2pm either two or three days before the relevant gas day.

<sup>16</sup> AER, Gas Weekly Report (15-21 May 2011). See figures S4, S18b <http://www.aer.gov.au/content/index.phtml/itemId/742388>.

have been \$3.47/GJ.

MOS service payments on the 15 May 2011 gas day exceeded \$361 000, the highest to date in the Adelaide STTM hub. Some of these MOS service payments may have arisen because of the physical characteristics of the Adelaide hub. The AER is examining why on this gas day there was a 10.4 TJ increase in MOS services on the Moomba Adelaide Pipeline counteracted by a 10.7 TJ decrease in MOS services on the SEAGas pipeline.<sup>17</sup>

While Origin took steps to reduce the risk of MOS gas occurring on this gas day, the AER considers it likely that without the Origin demand forecast error (and consequent re-nominations), MOS service payments would have been much lower. As a result, some market participants may have paid too much for MOS service payments on this gas day.

#### **2.1.4 NSW/ACT Retail Market**

On 25 July 2011, AEMO published an AEMO compliance determination, titled *Transportation Agreements Register*.<sup>18</sup> The determination outlines an apparent breach by AEMO of section 91G of the Gas Law and provisions of the retail market procedures which apply to NSW and the ACT. The breach consisted of AEMO releasing confidential information relating to a user's transportation agreements to a retail market participant. Subsequently AEMO requested that the retail market participant destroy the data, which the participant indicated to AEMO that it did.

The AER has reviewed the information in AEMO's determination and also further information provided by AEMO. Based on this information, the AER understands AEMO prepared an internal incident report and subsequently updated its procedures and retrained staff in this area to ensure that confidential information is not released to incorrect parties in the future.

Participants' confidence and willingness to compete in the market will be affected if they consider they are unable to rely on the market operator maintaining confidential data appropriately. Therefore, the AER welcomes the measures that AEMO put in

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<sup>17</sup> The AER is also making inquiries into other days of large counter-acting MOS in the Adelaide hub.

<sup>18</sup> Available at <http://www.aemo.com.au/retailgas/compliance.html>.

place soon after the incident occurred to prevent a recurrence.

### 2.1.5 STTM data quality project

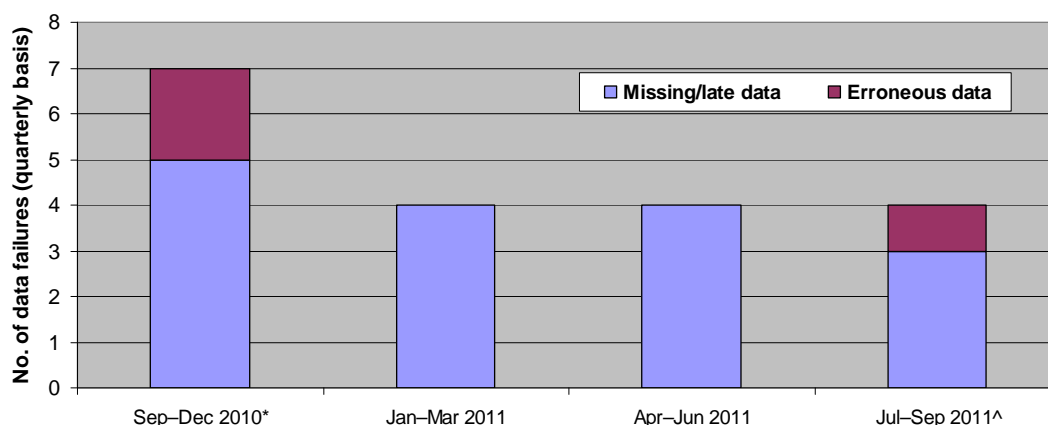
In the December 2010 quarter, the AER announced it had established a special project focusing on improving data quality in the STTM. This project seeks to reduce the amount of missing, late or erroneous data by participants in the STTM. These data failures can cause inefficient pricing and adverse market outcomes.

To measure the effectiveness of the project, a metric has been adopted to assess the number of STTM facility data failures on a quarterly basis. Each incident is categorised as either ‘missing/late’ or ‘erroneous’.

While the project still has 3 months to run, figure 1 provides an indication of performance so far against the metric. It compares the number of data failures on a quarterly basis since the commencement of the STTM in September 2010.

Figure 1 (and the corresponding data in Table 3) shows an improving trend with respect to data errors. There were seven data failures from September 2010 to December 2010, including two which caused significant price events on the 8 October and 1 November gas days.<sup>19</sup>

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



<sup>19</sup> The AER’s Gas weekly reports provide more information on these price events, see: <http://www.aer.gov.au/content/index.phtml/itemId/729309>

**Table 3: Data failures since STTM commencement**

	Sep-Dec 2010*	Jan-Mar 2011	Apr-Jun 2011	Jul-Sep 2011^	Total
Data failures	7	4	4	4	19
Participants involved	4	2	4	2	–
Data failures causing significant price effects**	2	0	0	0	2
Participants involved	1	0	0	0	–

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

^ This does not include AGL's erroneous capacity information provided for the 1 October 2011 gas day

\*\* For the purpose of this report, a significant price effect will be recorded where the AER considers that the error has caused the ex ante or ex post price to be more than \$1/GJ different to what it would have been had no error occurred.

There were four data failures in the September 2011 quarter, including the late allocation data for the Eastern Gas Pipeline and the erroneous capacity information for the Rosalind Park facility.

This project will continue to monitor the quality of STTM participant data (including data provided by STTM facility operators and other participants) and the AER will engage relevant participants to ascertain the details of any data failures.

## 2.2 Market developments

### 2.2.1 Short Term Trading Market – Brisbane hub

The Brisbane STTM hub is scheduled to commence operations on 1 December 2011, following market trials which began in August. The AER has been monitoring market trial data in the Brisbane hub, in particular, the provision of accurate and timely data by participants.

Market trial data indicates that there has been systematic under-forecasting of demand. This has led to substantial deviations and a requirement for large MOS payments and large differences between ex ante and ex post prices. The resulting ex ante trial prices are lower than what they should have been, and result in some participants paying/receiving more for any shortage/surplus of gas.

Additionally, during the trial some participants have not submitted injection offers

and/or withdrawal bids which has resulted in inefficient pricing outcomes.

While the trial is intended to test systems and processes for the new STTM hub in Brisbane, the AER intends to monitor the market closely from its commencement to ensure participants comply with requirements in relation to demand forecasts and gas offers/bids. More generally, the AER will engage with AEMO and participants to ensure compliance with all requirements of the Gas Rules and the STTM procedures.

The Brisbane STTM hub will be included in the AER's weekly gas report from December this year. The AER intends to report on key market outcomes in the Brisbane hub including any price events.

## 2.3 Targeted compliance reviews

Targeted provision compliance reviews are an important part of the AER's compliance monitoring program. The reviews explore participants' compliance practices and aim to improve stakeholder understanding of obligations with which they are required to comply. Table 4 lists the gas provisions targeted in the September 2011 quarter.<sup>20</sup>

**Table 4: Gas Rules provisions targeted for review**

<b>Rule</b>	<b>Relevant parties (subject to the current review)</b>	<b>Obligation</b>	<b>No. of participants targeted</b>
300	Responsible persons	Obligation to protect metering installations from unauthorised interference	1
403	AEMO	Obligation to investigate the circumstances of a MOS shortfall	1
410	STTM trading participants	Obligation to make good faith, best estimate price taker bids (demand forecasts)	2

### 2.3.1 Obligation to protect metering installations from unauthorised interference

Gas rule 300 places obligations on participants with respect to the security of metering installations. It requires the responsible person to use reasonable endeavours to protect the metering installation from unauthorised interference. The rule also places

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

obligations on the responsible person if there is evidence of tampering or interference with metering installations.

Failure to impose adequate security controls could result in incorrect metering data which may be administratively difficult to rectify. It could also lead to inaccurate charges for gas consumption. Failure could also have an impact upon the smooth operation of the market and undermine market participants' confidence in the system.

### **Response summary**

The AER requested information from APA on what 'reasonable endeavours' it takes to protect metering installations from unauthorised inference. The AER also sought information on whether there are industry protocols that deal with the security of metering installations.

APA advised that the physical design of metering installations generally takes into the account the prevention of physical access by unauthorised persons. For example, above ground installations have security chain wire fencing with barbed wire installed, security locking systems to all access points (gates) and signage to indicate that access is restricted to authorised persons only.

APA also advised that metering installations contain communication links to the APA GasNet SCADA system as well as the AEMO SCADA system. This allows information from each metering installation to be remotely monitored from a central control room.

Further, APA indicated that visual site inspections occur on a routine basis to inspect metering installations for signs of interference or physical damage. Detailed inspections occur at least once annually while the visual inspections by patrol officers occur more frequently.

In relation to industry protocols which deal with the security of metering installations, APA indicated that meter stations design is in compliance with industry standard AS 2885. This standard requires that threat assessments and mitigation plans be put in place to ensure that metering installations operate safely and are protected from external interference.

APA indicated that complications can occur where a number of APA GasNet

metering installations are located within shared sites, such as a site which is shared between APA GasNet and a gas distribution company. APA advised that in shared sites, metering installations are subject to AS 2885 as well as additional protocols that deal with access and operation. These protocols are captured in a shared site agreement that is signed by relevant parties.

### **Review outcomes**

APA's response indicates that it has well established processes to protect metering installations from unauthorised interference, thereby minimising risk to the market caused by incorrect metering data.

### **2.3.2 Obligation to investigate the circumstances of a MOS shortfall**

Gas rule 403 places an obligation on AEMO to investigate the circumstances in which a MOS shortfall occurs. That is, if at any time AEMO determines (or is advised by a relevant industry consultative committee) that the total of the MOS quantities likely to be available on an ongoing basis in respect of an STTM pipeline is materially less than the quantity required to balance the deviations that are reasonably anticipated to occur on that pipeline (a MOS shortfall), AEMO must investigate the circumstances of that MOS shortfall. It must then prepare and publish a report stating whether it believes the causes of the MOS shortfall can be resolved within a reasonable timeframe and whether the resolution will be achieved by actions of participants or by its own provision of MOS.<sup>21</sup>

### **Response summary**

The AER requested information from AEMO relating to:

- the thresholds used by AEMO to determine the timeframe that constitutes an 'ongoing basis'
- the amount that AEMO considers to be 'materially less'
- how AEMO interprets the term 'reasonably anticipated' in the context of MOS quantities and shortfall.

AEMO indicated that in assessing a MOS shortfall, it generally considers:

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<sup>21</sup> Rule 403, National Gas Rules.

- the length of time – whether the shortfall is likely to occur over more than 3 MOS periods (i.e. approximately 6-9 months)
- the nature of the shortfall – whether the shortfall is a one-off in nature due to specific circumstances or whether it is a more systemic, ongoing issue
- the material difference between likely MOS offers, AEMO’s MOS estimate, pipeline deviation requirements and the extent of overrun used
- whether the shortfall will have a material impact on the market
- the length of time for which arrangements have been ‘operational’ – whether the arrangements are new and the market needs time to respond to market signals.

Further, AEMO indicated that it also consults with industry and considers these views prior to determining whether there is a MOS shortfall for the purposes of rule 403.

### **Review outcomes**

AEMO’s response to this targeted compliance review indicates that it has well established processes for monitoring MOS shortfalls, assessing the market impact of these shortfalls and implementing measures to manage them in order to mitigate any market risks that a lack of gas capacity may create.

### **2.3.3 Obligation to make good faith, best estimate price taker bids (demand forecasts)**

Gas rule 410 places obligations on participants when they expect to supply or withdraw gas from a hub. In particular, the rule requires that participants submit ex ante offers, ex ante bids or price taker bids in good faith.

Failure to comply could result in the non-compliant party extracting value from other trading participants by sending distorted signals and misleading initial bids or offers.

### **Response summary**

The AER requested information from Origin Energy and AGL, asking each business:

- whether the systems and processes used to determine and ensure that ex ante offers, ex ante bids and price taker bids are submitted to AEMO in good faith and meeting all other requirements of rule 410



- what the business considers to constitute a ‘best estimate’ for the purposes of the above rule, as opposed to just an estimate
- to provide summary results of any analysis of demand forecasting that the business may conduct from time to time, and operational actions with respect to any error detection.

In its information request, the AER also noted occasions where price taker bids (demand forecasts) of the businesses appeared to be particularly inaccurate, ranging between 77 per cent and 85 per cent of actual demand in the Sydney hub. In contrast, long run average forecasting errors are around 5 per cent.

In relation to the systems and processes used by Origin Energy to determine that its price taker bids are in good faith, Origin indicated that it operates two connected systems on its trading platform, known as the ‘Demand forecasting model’ (**DFM**) and ‘STTM Trading System’.

The DFM is designed to calculate Origin’s customer demand in South Australia and New South Wales. A ‘mass market’ element of the model uses data on weather, seasonal factors, day type and the number of known mass market customers for each distribution area. An ‘interval customer DFM’ uses the average daily demand of interval customers, based on specific criteria.

The STTM Trading System operates by capturing information from the DFM and submits these estimates directly to AEMO’s STTM market system.

Origin indicated that its view of a ‘best estimate’ is the estimate that maximises its forecasting accuracy and minimises its exposure to deviation penalties, particularly given that the STTM includes mechanisms that impose penalties on participants for deviations.

In relation to its analysis of demand forecasting, Origin indicated that there are several factors that affect accuracy, such as:

- mass market demand being temperature dependent, and demand forecasts being subject to the usual inaccuracies associated with weather forecasts
- high levels of customer ‘churn’ in the market which impacts on customer mix and usage patterns, adding complexity to the forecasting process.

Origin indicated that there are also factors that affect accuracy for large industrial customers. However, it stated that it monitors its energy demand portfolio and adjusts demand bids on a case by case basis. Origin also noted that in response to additional obligations imposed by the STTM, its forecasting performance has been reviewed by a portfolio analyst.

AGL provided shorter answers to the AER, however it also submitted detailed data showing 'verification runs' of forecasting tools used for submitting demand forecasts in the Sydney hub. AGL acknowledged that its forecasting for the verification runs was undoubtedly inaccurate on the days the AER had identified. It attributed this to a number of sources of its demand forecasts moving uniformly against its forecasts, including the weather. AGL clarified that its forecasting model was known to incorrectly forecast demand in winter when the weather was warmer than expected. AGL indicated that it would be review its model and make adjustments based on the past performance of the model.

AGL further indicated that it always offers its best estimate of demand forecasts based on its experience in the gas market and available information.

### **Review outcomes**

Based on these responses, the AER is satisfied that both businesses have processes in place to review and update demand forecasting models based on their experiences with forecasting to date in the Sydney STTM hub.

The AER recognises that Origin's large errors were are a result of large industrial customers which were relatively uncontrollable on the respective occasions.

The AER is continuing its inquiries with AGL to better understand the weather based factors which led to inaccurate demand forecasts in the Sydney STTM hub. For example, whether the inaccuracies within the model resulted from external weather data or, alternatively, assumptions made by AGL within the model.

The AER will continue to review STTM trading participants' demand forecasts to ensure that estimates provided are best estimates of expected demand taking into account weather effects and larger customer behaviour. The AER expects that all trading participants should have processes in place to monitor and review their

demand forecasts over time and to adjust forecasting processes to improve the accuracy of these processes.

### **2.3.4 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:<sup>22</sup>

- rule 180 – obligation on AEMO to publish peak demand day information on the Bulletin Board
- rule 219 – obligation on registered participants under the Victorian gas market rules to notify AEMO of injection and withdrawal quantities
- rule 254 – obligation on market participants under the Victorian gas market rules to provide and maintain security (prudential requirements).

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

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<sup>22</sup> 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<sup>23</sup> and compliance matters in the electricity market.

#### 3.1.1 Rebidding

Scheduled generators and market participants operating in the National Energy Market (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.<sup>24</sup>

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 rebidding enforcement strategy, set out in the AER's *Compliance Bulletin No. 3*, came into effect on 1 March 2011.<sup>25</sup> Generators that submit offer, bid and/or rebid information that does not meet the requirements of the Electricity Rules will receive two warnings. On a third occasion within six months, the AER will consider issuing an infringement notice.

During the September 2011 quarter, the AER issued two initial warning notices and two second warning notice as a result of:

- two rebids which failed to include a time adduced
- two rebids which did not include a brief, verifiable and specific reason.

In accordance with the three stage process, when six months has elapsed from the date

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<sup>23</sup> Published investigation reports are available on the AER website at <http://www.aer.gov.au/content/index.phtml/itemId/656186>.

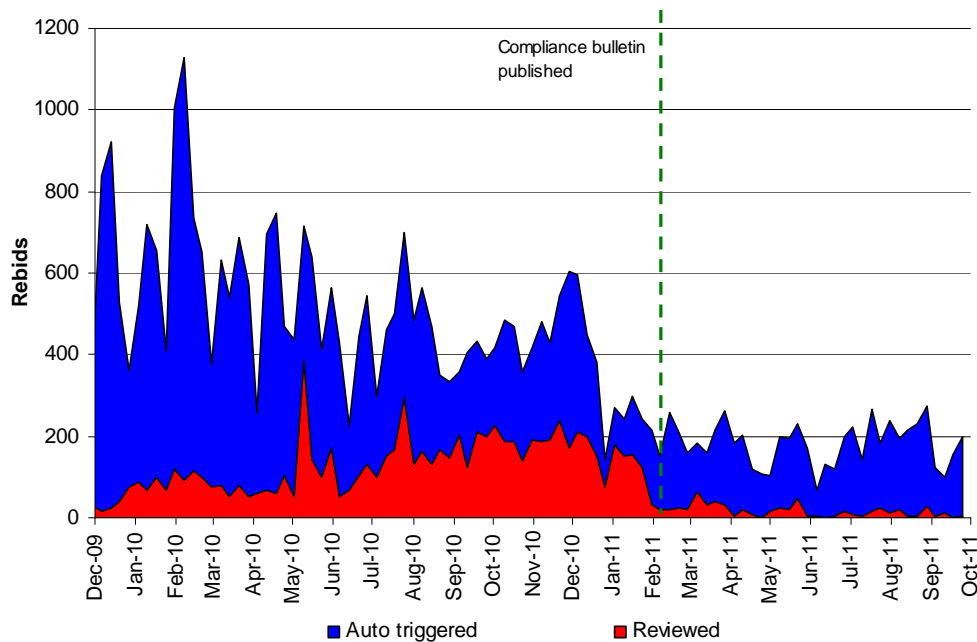
<sup>24</sup> Market participants must provide to AEMO, at the same time as a rebid is made, a brief, verifiable and specific reason for the rebid, plus the time at which the reason for the rebid occurred. Equivalent requirements apply where AEMO is advised, under clause 3.8.19 of the Electricity Rules, that a unit, service or load is inflexible. Clause 3.8.22A of the Electricity Rules requires that dispatch offers, dispatch bids and rebids are made in 'good faith'.

<sup>25</sup> The compliance bulletin is available at <http://www.aer.gov.au/content/index.phtml/itemId/692887>.

a participant received an initial warning, the participant’s ‘warning count’ is reset to zero. In this quarter the AER reset two participants’ counts to zero.

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

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



In addition, during the September 2011 quarter, generators contacted the AER on 21 occasions to declare erroneous (or questionable) rebids. This reflects a stronger focus on the quality of rebids and a commitment to compliance within their trading teams.

### 3.1.2 Compliance bulletins

#### Criteria for determining credible options under the RIT-T

During the September 2011 quarter, the AER published its fifth compliance bulletin. Following audits of past regulatory test processes, the AER identified an apparent misapplication by transmission network service providers (TNSPs) of the criteria for developing alternative options.

The Regulatory investment test for transmission (**RIT-T**) has replaced the Regulatory test (version three) for consultations that commenced on or after 1 August 2010.

While the RIT-T uses the term ‘credible options’ rather than ‘alternative options’ as used in the regulatory test, the AER was concerned that some TNSPs may also misapply the ‘credible option’ definition under the RIT-T.

The compliance bulletin draws attention to the requirement for developing credible options under the RIT-T and is available on the AER website.<sup>26</sup>

### **Testing of instrument transformers under the Electricity Rules**

In March 2011, AEMO advised the AER of a systemic compliance problem where Responsible persons (**RPs**) had failed to test instrument transformers in accordance with the 10 year timing requirement set out in table S7.3.2 of chapter 7 of the Electricity Rules.

In July 2011, the AER wrote to all the relevant RPs to ascertain how many instrument transformers were due for testing. Further, it queried the approach RPs were taking to ensure compliance with the 10 year timing requirement under the Electricity Rules.

Based on the information provided by AEMO and the RPs, the AER is concerned that the failure to comply with the instrument transformer testing requirements of the Electricity Rules to be extensive and may impact on the quality of metering information across the NEM.

The AER will shortly publish a compliance bulletin regarding the testing requirements for instrument transformers. The bulletin will outline the AER’s expectations with respect to compliance in the short term, recommend steps RPs need to take immediately to address the issue and propose a compliance plan for the medium to longer term.

#### **3.1.3 Stanwell litigation**

On 30 August 2011, the Federal Court handed down judgment regarding the compliance of Stanwell Corporation Limited with the ‘good faith rebidding’ provision

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<sup>26</sup> See <http://www.aer.gov.au/content/index.phtml/itemId/692887>

of the Electricity Rules. Dowsett J found that rebids made by Stanwell on 22 and 23 February 2008 did not contravene clause 3.8.22A of the Electricity Rules.

The litigation marked the first judicial test of the good faith rebidding provision and the first occasion on which any provision of the Electricity Rules had been brought before the courts. Previous AER investigations into the compliance with the good faith rebidding provision did not produce sufficient evidence for the AER to pursue matters further. Those investigations typically centred on one or more rebids made shortly prior to dispatch for reasons of financial optimisation rather than technical necessity.

In February 2008, Stanwell controlled more than a quarter of Queensland's registered generation capacity. On 22 and 23 February, the spot price for electricity in Queensland exceeded \$5000/MWh on 14 occasions. Stanwell made rebids on 92 occasions over the course of those trading days. More than 50 rebids were made within 15 minutes of dispatch, with around 40 of these rebids affecting the next 5 minute dispatch interval. Between the hours of 10am and 5pm on 22 February, Stanwell made rebids on 22 occasions, 19 of which were for 'financial' reasons. Between those same hours on 23 February, Stanwell made rebids on 27 occasions, all of which were for 'financial' reasons.

By the trial's end in July 2010 the AER alleged that eight of Stanwell's rebids on 22 and 23 February 2008 were made in breach of the good faith rebidding provision.

The firmness of market offers and rebids is critical to the accuracy of forecast information that participants rely on when making financial decisions concerning the commitment or decommitment of plant. The accuracy of that market information is integral to the efficient operation of the market and will become increasingly important as decisions surrounding fuel supplies become more critical and demand side participation develops. Rebids submitted shortly prior to dispatch affect the reliability of forecasts and limit opportunities for a competitive supply and/or demand side response.

The good faith rebidding provision was introduced in 2002. The policy objective of its introduction was to promote firm offers and rebids and improve the accuracy of forecast information. Almost nine years on, the Federal Court's decision calls into

question the effectiveness of the good faith rebidding provision in fulfilling this objective. This decision, together with previous investigations into compliance with the provision where insufficient evidence was found, lend support to a case for reassessing the provision.

### **3.1.4 Transition of second tier metering installations**

Chapter 7 of the Electricity Rules assigns a Responsible person to each metering installation. For a type 5-7 metering installation, the RP is the local network service provider (**LNSP**). For a type 1-4 metering installation, the RP may be a market participant or LNSP, depending on whether a market participant has elected to be the RP.

Under the Electricity Rules, the RP is required to provide, install and maintain metering installations in accordance with chapter 7 and authorised procedures, such as the Metrology Procedures. The Metrology Procedures set out the obligations of RPs in relation to the provision, installation and maintenance of metering installations, including the measurement of electrical energy.

Clause 2.4.18 of the *Metrology Procedure: National Electricity Market Part A* sets out the maximum volume of electricity that may flow through type 6 metering installations in each jurisdiction. In Queensland, the maximum volume of electricity for type 6 meters for market customers is 100MWh per annum.

In 2010, AEMO reported to the AER that 761 type 6 second tier metering installations in the Energex distribution supply area had recorded consumption in excess of 100MWh per annum. Subsequently the AER made inquires to Energex regarding the status of these 761 metering installations and to ascertain whether Energex intended to upgrade the metering installations.

In response, Energex contested they were not the RP for these metering installations. They argued that since they had upgraded the NMI classification of the metering installations from small to large in the MSATS system and the market participant had not objected, the market participant should become the RP in the MSATS system for the metering installation and be required to initiate the required metering upgrade.

The AER disagreed with Energex's assessment. It considered that responsibility can only be changed via clause 7.2.2 of the Electricity Rules and this can only occur after



(or at the same time as) the relevant meters become type 1-4 metering installations. Therefore, unless clause 7.2.2(b) applied, the retailer needed to elect to be the RP before Energex ceased being the RP for the metering installations.

Based on this, Energex was advised to revise its processes and the correspondence it sends to market participants. In particular, the correspondence should include an offer to provide type 1-4 meters for second tier sites which have recorded an annual consumption exceeding the 100MWh per annum threshold. If the market participant rejected this offer, then in accordance with clause 7.2.2(b), the market participant would become the RP for the metering installation and be required to update MSATS to reflect this.

Energex has since revised its arrangements accordingly. The AER proposes to take no further action on this matter.

### **3.1.5 Late settlement payments – Sanctuary Energy**

The settlement of market transactions is critical to the operation of the NEM and an important AEMO responsibility. To facilitate smooth financial transactions, clause 3.15.16 of the Electricity Rules requires market participants to pay AEMO, in cleared funds and within a specified period, the amount payable on their relevant final statement. The spot market operations timetable requires this final payment to be made at 10:30am (Sydney time), 20 business days following the end of the billing period.

On 30 August 2011, AEMO advised the AER that Sanctuary Energy had failed to satisfy those requirements on two occasions by making late payments on 11 July 2011 (with respect to settlement week 24) and 12 August 2011 (with respect to settlement week 29).

To understand the circumstances surrounding this non-compliance, the AER wrote to Sanctuary Energy regarding its settlement payment process. It requested information on:

- processes for ensuring compliance with the obligations of clause 3.15.16
- how it identifies and responds to late or inaccurate settlement payments
- the circumstances that led to the identified late settlement payments

- steps taken following this event to minimise the risk of a reoccurrence.

### **Response summary**

Sanctuary Energy stated its late settlement payments were due to processing delays by its bank. To minimise the reoccurrence of a late settlement payment, Sanctuary Energy is transitioning all of its banking facilities to another bank. This was scheduled to be completed by 30 September 2011.

### **Review outcomes**

Based on the information provided, and the steps taken by Sanctuary Energy to minimise the reoccurrence of a late settlement payment, the AER has decided not to take any further action at this time. The AER will contact Sanctuary Energy to confirm that it has taken the proposed remedial action.

### **3.1.6 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 Market settlement and transfer solution (**MSATS**) procedures with the aim of reducing inefficiencies in the 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.

In the June 2011 quarter, the AER contacted ETSA Utilities, United Energy Distribution and SP AusNet who, based on AEMO compliance data, appeared to demonstrate poor levels of compliance with the MSATS procedures. The AER asked these participants to outline the measures they were taking to improve compliance with the MSATS procedures.

In June 2011, ETSA Utilities reported to the AER that it had assigned more resources to processing meter change paperwork to reduce the occurrence of missing network tariff codes. AEMO's data to August 2011 shows that the error level for this indicator

has dropped significantly.

However, ETSA's performance relating to updating National meter identifier (NMI) statuses within the prescribed timeframe requires further improvement.

AEMO data shows that United Energy Distribution has significantly improved its performance against the indicators relating to data streams with no active NMIs as more AMI meters have been installed and the difference between the NMI status and data stream status has been rectified.

Error levels relating to updating NMI statuses to 'extinct' within the required timeframe have also dropped.

SP AusNet has also reduced errors regarding the occurrence of data streams with no active NMI. However, a further improvement is required with respect to updating the status of NMIs within the required timeframe.

The AER acknowledges that since June 2011, ETSA Utilities, United Energy Distribution and SP AusNet have demonstrated an improvement in their compliance with most indicators under the MSATS procedures. The AER will continue to monitor regulated entities' performance against the MSATS obligations as part of this special project.

### **3.1.7 De-energisation service order completion rates**

The AER announced a 'special project' for 2011 relating 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 per cent of de-energisation service order requests were incomplete. The complainant claimed that DNSPs were not using reasonable endeavours to complete de-energisation service orders. The incompleteness rate for these orders, especially those attributed to access issues, was inconsistent with incompleteness rates for other meter reading services.

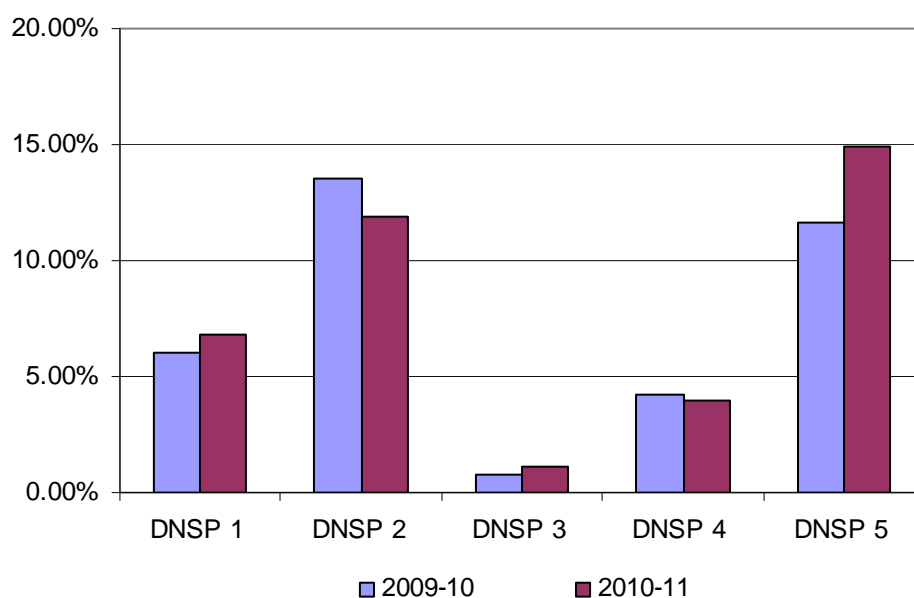
A retailer may request a DNSP to disconnect the electricity supply to a customer under certain prescribed circumstances, such as when the premises becomes vacant or when a customer fails to pay its bill. This process is administered through a de-energisation service order request.

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.

The AER wrote to six DNSPs in November 2010 seeking detailed information about de-energisation service orders. In the September 2011 quarter, the AER wrote follow-up letters to the same DNSPs requesting information about their service order processes and observed rates of completion for de-energisation service order requests in 2010–2011. The AER has received responses from five of the DNSPs.

Figure 3 compares the DNSPs’ 2009-2010 and 2010–2011 incompleteness rates that can be attributed to access issues.

**Figure 3: incomplete de-energisation service orders attributed to access issues**



The key findings from the five responses were:

- incomplete de-energisation service orders due to access issues varied between 1.12 per cent to 14.95 per cent
- as can be seen from Figure 3 above, two of the five DNSPs have lowered their rates of incomplete de-energisation service orders attributed to access issues
- while DNISP 1’s occurrence of incomplete de-energisation service orders due to

access issues increased, overall it reduced its rate of incomplete de-energisation service orders by 12 per cent

- while DNSP 5 experienced the greatest rise in incomplete de-energisation service order rates, it is investigating why the rate incomplete service orders due to access issues has increased in 2010–11. It will provide the results of this investigation to the AER in due course.

The responses also showed that the DNSPs are continuing to endeavour to improve de-energisation completion rates by:

- continuing to engage with retailers to consider new ways to arrange for valid de-energisation requests, including developing clear guidelines for retailers and customers regarding access requirements
- arranging for the remote de-energisation of sites which have an AMI meter
- arranging for a truck to attend the de-energisation of premises where a ladder or elevated platform is required
- providing customers with a wider and more economical range of locks for fuses so that they are on the DNSP's master system, increasing the number of locked fuses which can be accessed by the DNSP's field officers, and
- developing system enhancements to identify sites with no suitable disconnection point with the aim of providing retailers with this information upon receipt of the initial de-energisation request.

### **3.1.8 Customer site details notification process**

The B2B procedures contain processes and information provisions which support communication between retailers and distributors.

The Customer site details notification (**CSDN**) process is one of the six B2B procedures. It defines standard processes and transaction requirements for the communication of customer and site details from retailers and distributors, including whether a customer requires life support equipment.

In August 2011, the AER commenced a review of registered participants' compliance with life support obligations under the CSDN process. The purpose of the review is to determine whether retailers and distributors are appropriately recording and reporting

on customers who are identified as requiring life support equipment.

As part of the review, the AER wrote to a number of retail and distribution businesses seeking information on:

- which customers were registered in their systems as requiring life support equipment
- the date the customers were registered as requiring life support equipment
- dates and times of communication between retailers and distributors regarding the status of life support customers.

The AER is currently in the process of reviewing responses from the retail and distribution businesses. In particular, the AER is reconciling information provided by distributors with that provided by retailers, to determine any inconsistencies and whether further investigation is required.

### **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.<sup>27</sup>

The AER has established a program of regular technical compliance audits which targets electricity generators and network service providers on a rotating basis.

The AER has recently concluded technical audits of Loy Yang Marketing Management Company (**LYMMCo**) in respect of Loy Yang A power station and International Power in respect of Loy Yang B power station. The audits focussed on the Electricity Rules clause 4.15, particularly the requirement on electricity generators to institute and maintain a compliance program in accordance with prescribed requirements.

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<sup>27</sup> 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>).

The compliance program must:

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

The AER commenced these audits in June 2011 by issuing an extensive questionnaire to each participant. This was followed by site visits in September 2011. The AER will continue to liaise with both participants in relation to outstanding matters that require further action.

### **3.2.1 Loy Yang Marketing Management Company**

LYMMCo demonstrated that its compliance program is consistent with the relevant template and is designed to provide reasonable assurance of ongoing compliance with all Electricity Rules technical performance requirements. LYMMCo recognised the value in preparing responses to the AER's audit questionnaire which led to improvements and refinements to testing regimes and related procedures. LYMMCo's technical processes and reporting mechanisms are supported by a robust compliance database which allows compliance issues to be effectively identified, recorded and, if necessary, flagged for corrective action by a responsible staff member.

The AER identified the following issues and areas for improvement as a result of the audit:

- aligning testing regimes with timeframes outlined in the compliance program
- improving references to individual performance standards within the compliance program
- implementing recommendations related to technical performance identified as a result of an independent external audit
- updating a number of procedures
- enhancing training programs and capturing the knowledge of technical experts within corporate documentation.

### **3.2.2 International Power**

International Power demonstrated that its compliance program for performance standards at Loy Yang B power station meets the requirements of the Electricity Rules. International Power's testing procedures and processes for Loy Yang B power station are well embedded and heavily based on the originating Victorian generator technical requirements. The AER audit has also prompted International Power to establish an Electricity Rules compliance coordination committee to better deal with compliance matters such as those relating to performance standards. As a result, numerous compliance procedures and processes are in the process of being updated and undergoing further development.

The AER identified the following areas for improvement as a result of the audit:

- updating relevant performance standards references to be consistent with the applicable version of the Electricity Rules
- promoting and developing further the functions of the newly established compliance coordination committee
- moving to integrate governance processes within Loy Yang B power station within the overarching International Power corporate framework, as appropriate, and
- ensuring that relevant procedures and processes interact with one another so that planned results are achieved and continual improvement takes place through the ongoing monitoring, measurement and analysis of performance standards results.

### **3.3 Jurisdictional derogations**

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

- any inconsistency between the Rules and a contractual requirement under the relevant agreement between the government and other entities



- any other specified exemption in the jurisdictional derogations.<sup>28</sup>

The relevant participants must give notice to the AER of any act or omission which partly or wholly constitutes non-compliance with the Electricity Rules. No instances of non-compliance were reported in the September 2011 quarter.

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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.

## 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
December 2010	Gas	Targeted compliance review	213	Scheduling submission requirements (demand forecast)
		Targeted compliance review	216	Participants' failure to conform to scheduling instructions
		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	

Quarter ending	Industry	Mechanism	Rules & Clauses	Description
		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
September 2011	Gas	Targeted compliance review	300	Obligation to protect metering installations from unauthorised interference
		Targeted compliance review	403	Obligation to investigate the circumstances of a MOS shortfall
		Targeted compliance review	410	Obligation to make good faith, best estimate price taker bids (demand forecasts)