



Quarterly Compliance Report

October – December 2010

February 2011

© Commonwealth of Australia 2011

This work is copyright. Apart from any use permitted by the *Copyright Act 1968* (Cth), no part may be reproduced without permission of the Australian Competition and Consumer Commission. Requests and inquiries concerning reproduction and rights should be addressed to the Director Publishing, Australian Competition and Consumer Commission (ACCC), GPO Box 3131, Canberra ACT 2601.

Inquiries about this report should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Telephone: (03) 9290 1444
Fax: (03) 9290 1457
Email: AERInquiry@aer.gov.au

Reference: 44352-D11/2020

Contents

Glossary	1
Executive Summary	2
1 Introduction	4
2 Gas	6
2.1 Investigations, market events and compliance issues	6
2.1.1 Bulletin Board data provision issues.....	6
2.1.2 Victorian gas market—22 November 2008 event	7
2.1.3 Short Term Trading Markets compliance issues	9
2.1.4 Targeted compliance reviews	17
2.1.5 Scheduling submission requirements (demand forecasts)	17
2.1.6 Failure to conform to scheduling instructions	19
2.1.7 Information requirements on contract holders	22
2.1.8 Confirmation, registration or rejection of information relating to service contracts.....	23
2.1.9 Upcoming targeted compliance reviews.....	26
3 Electricity	27
3.1 Investigations, market events and compliance issues	27
3.1.1 B2B procedures—service order processes.....	27
3.1.2 Rebidding.....	28
3.1.3 Spot and ancillary services high price events	29
3.2 Audits.....	30
3.2.1 Completion of TransGrid’s technical audit.....	31
3.3 Targeted compliance reviews	32
3.3.1 Metering register discrepancies	33
3.3.2 Actions in relation to metering installation non-compliance	35
3.3.3 Jurisdictional derogations relating to: Smelter Trader; Power Traders; Nominated Generators.....	36
3.3.4 Upcoming targeted compliance reviews—a new approach.....	38
3.4 Jurisdictional derogations	39
Appendix A: Targeted provisions summary	40

Glossary

ACCC	Australian Competition & Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator (website at www.aer.gov.au)
Bulletin Board	The Natural Gas Services Bulletin Board established under Part 18 of the Gas Rules (also known as the National Gas Market Bulletin Board)
B2B	Business to Business
CATS	Consumer Administration and Transfer Solution
DNSP	Distribution Network Service Provider
Electricity Law	National Electricity Law (a Schedule to the National Electricity Act)
Electricity Rules	The National Electricity Rules made under Part 7 of the Electricity Law
FTP	File Transfer Protocol
Gas Law	National Gas Law (a Schedule to the National Gas Act)
Gas Regulations	The National Gas (South Australia) Regulations made under the National Gas Act
Gas Rules	The National Gas Rules made under Part 9 of the Gas Law
GEIP	Good Energy Industry Practice
GJ	Giga Joule
LNSP	Local Network Service Provider
MAP	Moomba to Adelaide Pipeline
MOS	Market Operator Service
MPB	Metering Provider category 'B'
MSATS	Market Settlement and Transfer Solution
MSOR	The Victorian Gas Industry Market and System Operations Rules made under the <i>Gas Industry Act 1994</i> (Victoria), subsumed by the Gas Rules
MSP	Moomba to Sydney Pipeline
MWh	Megawatt hour
National Electricity Act	National Electricity (South Australia) Act 1996 (South Australia)
National Gas Act	National Gas (South Australia) Act 2008 (South Australia)
NEM	The National Electricity Market being the electricity wholesale exchange operated and administered by AEMO, and the national electricity system, which covers the following regions: Queensland, New South Wales, Victoria, South Australia, and Tasmania
NMI	National Metering Identifier
NSP	Network Service Provider
PJ	Peta Joule
SCADA	Supervisory Control and Data Acquisition
STTM	Short Term Trading Market established under Part 20 of the Gas Rules
SWEX	Web Exchanger interface engine run by AEMO for the STTM
TJ	Tera Joule
Victorian gas market	The Victorian Declared Wholesale Gas Market established under Part 19 of the Gas Rules
\$5,000/MWh report	AER reports issued under clause 3.13.7(d) of the Electricity 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 Law¹ (**Electricity Law**) and section 27 of the National Gas Law² (**Gas Law**) set out the functions and powers of the AER, which include:

- monitoring compliance by energy industry participants³ and other persons
- investigating breaches, or possible breaches, of provisions of the legislative instruments under the AER's jurisdiction.

This report outlines the compliance, monitoring and enforcement activity of the AER over the period 1 October 2010 to 31 December 2010 (**the December 2010 quarter**).⁴ This report also introduces a new aspect to the AER's approach to its monitoring and compliance activity. During 2011, the AER will have a number of "special projects" seeking to address specific issues in the energy industry. These projects are discussed further in section 3.3.4 of this report.

With respect to gas, this report provides an update on:

- data provision issues affecting the Natural Gas Services Bulletin Board (**Bulletin Board**)
- a completed investigation relating to Victoria's wholesale gas market
- steps taken by the AER to improve data quality in the gas Short Term Trading Market (**STTM**).

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

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

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

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

The report also covers targeted compliance reviews of the National Gas Rules (**Gas Rules**)—specifically, demand forecasts submitted by market participants in the Victorian gas market (rule 213); compliance with AEMO’s scheduling instructions in the Victorian gas market (rule 216); and information requirements on contract holders in the STTM and the registration/rejection of that information by AEMO (rules 380 to 383).

With respect to the electricity industry, this report provides an update on completed investigations and compliance matters. The report also covers:

- the conclusion of a technical audit of TransGrid (clause 5.7.4)
- the outcomes of targeted compliance reviews relating to National Electricity Rules (**Electricity Rules**):
 - metering register discrepancies (clauses 7.5.2)
 - metering installation non-compliance (clause 7.6.2)
 - jurisdictional derogations on smelter traders, power traders and nominated generations (clauses 9.44, 9.12.3, 9.34.6).
- the review of the quality of reasons for rebids in the National Electricity Market (**NEM**)
- high price events affecting the wholesale spot price and ancillary services price

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

1 Introduction

The AER undertakes compliance monitoring and enforcement activity pursuant to the Electricity Law and Rules and Gas Law and Rules.

Consistent with its statement of approach,⁵ the AER aims to promote high levels of compliance, and seeks to build a culture of compliance in the energy industry. A culture of compliance will:

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

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

In selecting Rule provisions for review, the AER adopts the following principles:

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

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

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

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

While most obligations under the Electricity and Gas Rules do not require registered participants to establish specific compliance programs, the AER takes into account a participant's compliance culture when determining its enforcement response to breaches. In assessing a compliance culture the AER considers whether compliance programs and processes are effectively applied, up-to-date and tested regularly.

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

2 Gas

The AER is responsible for monitoring, investigating and enforcing compliance with the Gas Law and Gas Rules, as they relate to the Bulletin Board, Victorian gas market and the STTM.

2.1 Investigations, market events and compliance issues

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

- completed investigations
- market events
- other compliance matters and issues that have arisen in the above markets during the December 2010 quarter.

2.1.1 Bulletin Board data provision issues

The AER monitors the quality and consistency of information posted on the Bulletin Board. The AER gas weekly reports show trends in gas production and pipeline flows into regions across the national gas market. The reports, available on the AER website⁶, highlight participant failures to submit information.

During the December 2010 quarter the AER observed an improvement in the provision of actual and forecast data to the Bulletin Board compared to previous quarters. On a majority of gas days during the quarter, participants submitted production and flow data as required by the Gas Rules. The key exceptions were:

- TRUenergy did not provide production flow data for Iona Underground Storage for 6 October 2010
- BHP Billiton did not provide production flow data for Minerva production plant for the 25 November 2010 gas day
- Tasmanian Gas Networks did not provide flow data for the Tasmanian Gas Pipeline from 8 December to 11 December 2010.

⁶ Available from <http://www.aer.gov.au/content/index.phtml/itemId/729309>.

- Origin Energy provided production data for Lang Lang gas plant in petajoules (PJ) instead of terajoules (TJ) from 23 November to 25 November 2010

The AER understands the failures by TRUenergy, BHP Billiton and Tasmanian Gas Networks were caused by password-related difficulties in accessing AEMO's market systems. The AER wrote to the participants to clarify the reasons for failing to provide the data and any remedial actions taken. AEMO is also taking steps to address data access difficulties by improving its helpdesk services.

In response to the AER's inquiries, Origin Energy acknowledged that its incorrect submission of data in November 2010 was due to a data entry error and the absence of a manual reasonability check. Origin Energy has implemented remedial actions to address this failure, including:

- implementing an additional validation check of data to ensure they do not exceed nameplate rating of the relevant plant
- updating procedures to reflect manual checking processes and newly developed system logic checks
- reiterating to upstream and operations staff the importance of complying with Bulletin Board obligations.

Based on this information from participants and AEMO, the AER will not pursue these incidents further. However, it will continue to monitor the Bulletin Board to identify occurrences of missing or late data and other types of non-compliance. Where appropriate it will also consider enforcement action.

2.1.2 Victorian gas market—22 November 2008 event

The AER concluded an investigation into the events of the 22 November 2008 gas day, when outages at two Victorian production facilities, combined with unseasonal high demand, resulted in the Victorian gas price reaching the cap of \$800/GJ. This led to significant wealth transfers between participants.

The most significant production outages affected TRUenergy's Western underground storage⁷ in western Victoria and Esso Australia's Longford facilities in Gippsland.

At the time, the Victorian market was operated by VENCORP in accordance with the Market and System Operations Rules (**MSOR**). On 1 July 2009, AEMO took over responsibility for operating this market and the MSOR were subsumed by Part 19 of the Gas Rules.

In 2009 the AER made inquiries with market participants as to their compliance with the rules on 22 November 2008. In addition, TRUenergy initiated a dispute with VENCORP, but its claims before the dispute resolution panel were unsuccessful. An appeal to the Supreme Court was dismissed in December 2009.

In April 2010, AEMO published a significant price event report for 22 November 2008, following a request by the AER for it to fulfil its reporting obligations. A market participant then requested the AER to investigate the event in more detail.

Following its investigation, the AER reached a view that a TRUenergy bid on the day at Western underground storage did not fully satisfy the requirements of clause 3.1.10(f)(1) of the MSOR because it did not appear to be a "best estimate" of the gas that TRUenergy expected to be able to inject over the remainder of that gas day.⁸ While it was open to the AER to take enforcement action in Court, it has decided not to in respect of this matter. It has decided to publish a summary of the investigation and its findings in this report.

Further, this investigation and analysis of market participants' bidding practices indicate that it is likely that some participant behaviour may not be consistent with their obligations under this clause.⁹ To highlight the importance of this provision and to clarify any confusion on behalf of market participants' about their obligations, the

⁷ Known by the designation "WUGS".

⁸ Each Market Participant must ensure that each injection bid submitted by that Market Participant is made in good faith and represents that Market Participant's best estimate of the quantities of gas which it expects to be able to inject into the transmission system at the relevant system injection point on the relevant gas day should VENCORP schedule that gas.

⁹ Other instances where the AER considered that clause 3.1.10(f)(1) had not been complied with have been reported in the AER's previous compliance reports for September and December 2009 quarters.

AER will issue a compliance bulletin setting out its expectations in relation to complying with the best estimate obligations under the Gas Rules.

In the course of the AER's investigation of this matter, TRUenergy claimed that there are limitations in the VENCORP/AEMO procedures and bidding mechanisms that may affect the ability to comply with the AER's interpretation of the clause. The AER will be looking into these issues further with AEMO and will address these claims in the compliance bulletin.

The AER also investigated TRUenergy's compliance with various other MSOR provisions¹⁰, but no significant compliance issues were identified on the basis of the available information.

The AER's investigation also revealed the price impacts that supply demand point constraint information may have on market outcomes. Supply demand point constraints are imposed by AEMO based on information from gas producers in accordance with AEMO's gas scheduling procedures. There is, however, no requirement on gas producers for this information to be timely or accurate.¹¹ The AER will increase its monitoring of supply demand point constraints information throughout 2011. It will also explore with AEMO and industry whether Part 19 of the Gas Rules and the Gas Scheduling Procedures are adequate in relation to supply demand point constraint information.

2.1.3 Short Term Trading Markets compliance issues

Part 20 of the Gas Rules sets out participants' responsibilities within the STTM. Various compliance issues have arisen in this market, which are discussed below.

2.1.3.1 Pipeline allocation data issues

Rule 419(1) of the Gas Rules requires agents for each STTM facility operator to provide an allocation notice for the preceding gas day by 11am each gas day¹². The notice must include the STTM allocation amount for each registered facility service,

¹⁰ Clauses 3.1.10(f)(1A), 3.1.10(h), 3.1.13(de).

¹¹ See page 14 of the AEMO Gas Scheduling Procedures v1.0 (available at <http://www.aemo.com.au>)

¹² Defined in the Gas Rules as "a period of 24 consecutive hours beginning at 6:30am on each day".

which must not be less than zero. There were three instances of allocation data issues in the December quarter.

8 October 2010

For this gas day, APA Group (operator of the Moomba to Sydney Pipeline, **MSP**) submitted an allocation amount of 329 TJ for the MSP by the requisite cut-off time on 9 October 2010. APA Group later revised this allocation to 140 TJ—but did so after the 11am cut-off.

While the revised amount was used in the calculation of deviation quantities for the 8 October gas day, the original allocation had already caused the ex post price to be set at \$390/GJ. This is because AEMO's calculation of ex post prices is based on data submitted prior to the cut-off time.

Based on this ex post price, STTM users whose usage exceeded scheduled gas were required to pay for each GJ of deviation at the \$390/GJ ex post price. Even with small deviation quantities, overall deviation charges exceeded \$2.5 million for this gas day. To put this figure in context, deviation charges for other gas days that week were less than \$100,000.

The AER wrote to APA Group inquiring about this potential non-compliance issue. It understands the error was due to APA Group's gas flow computer at Wilton generating erroneous data and transpositional errors in uploading corrected data.

APA Group advised that a new supervisory control and data acquisition (**SCADA**) computer system—launched in March 2010—caused a number of instances of flow accumulator data from the primary flow meter being incorrect. This resulted in erroneous flow readings for the MSP.

APA Group provided the AER with details of steps it has taken to avoid similar instances occurring in future, particularly during the period where systems and metering are being upgraded.

The AER is continuing to examine this issue and is working with the APA Group to ensure that systems and processes are put in place to support the timely submission of accurate pipeline allocation data as required by rule 419 of the Gas Rules.

20 November 2010 and 22 November 2010

On these gas days, SEA Gas failed to submit pipeline allocation data for the SEAGas pipeline prior to the requisite D+1 cut-off time. The AER understands planned maintenance affected power supply to SEA Gas' building and the transmission of data to the STTM, despite SEA Gas making prior arrangements for the outage to occur in the afternoon of 21 November 2010.

Similarly, Epic Energy failed to submit pipeline allocation data for the Moomba to Adelaide Pipeline (**MAP**) for the 22 November 2010 gas day within the requisite timeframe. The AER understands that this was largely due to a missed password update required by Epic Energy for logging into STTM systems to submit the data.

On both occasions, AEMO was required to use default allocations as a consequence of the late and missing allocation data. The defaults assume the amount of gas supplied on a pipeline is equal to the amount of gas scheduled by AEMO. Default allocations may set an inefficient ex post price which differs substantially from the ex post price set by accurate allocation data.

On these days, actual allocation data was close to the default data used by AEMO, resulting in relatively little impact on the ex post price. The AER sought information from SEA Gas and Epic Energy regarding these data compliance issues.

Epic Energy acknowledged several contributory factors for its late submission of data, including not allowing sufficient time to rectify account problems prior to STTM deadlines. Epic Energy also noted the need for a more proactive approach in managing its STTM account, and has since begun changing its STTM password on the first Monday of every month.

Similarly, SEA Gas has introduced further control room measures and is considering improvements to electronically generated alerts. SEA Gas also intends to pursue back-up data management processes to minimise the risk of late delivery events due to send/receive issues.

The AER acknowledges the steps taken by Epic Energy and SEA Gas to improve the accuracy and timeliness of STTM data submissions and does not propose to take these matters further.

2.1.3.2 Pipeline capacity data issues

Rule 414(1) of the Gas Rules require each STTM facility operator to provide the expected amount of gas it will be able to deliver to the relevant hub on the next gas day and the following two gas days. This must be done by 11am each gas day in accordance with good gas industry practice, and the quantities must not exceed the maximum capacity provided to AEMO under rule 376(1)(g).

There were three instances of issues with capacity data in the December 2010 quarter.

1 November 2010 gas day

On the 1 November 2010 gas day the ex ante price at the Sydney hub reached \$150/GJ as a result of APA Group providing erroneous low capacity figures for the Moomba to Sydney pipeline (**MSP**). The unusually low capacity nominations of 69-75 TJ were provided for the MSP for the preceding three days by the D-3, D-2 and D-1 cut-off times.

The AER understands these capacity nominations were well below usual for the MSP. The average daily capacity for the MSP since market start has been above 220 TJ, while the Bulletin Board reports the MSP's daily nameplate capacity as 420 TJ.

As a result of limited capacity on the MSP, AEMO scheduled additional gas through higher priced offers (\$150/GJ) on the Eastern Gas Pipeline (**EGP**). On this day however, the volume of gas allocated for Sydney increased to 280 TJ (compared to 226 TJ ex ante) which resulted in the Sydney hub requiring an additional 54 TJ. Overall demand (around 280 TJ) exceeded available capacity (around 275 TJ) for the Sydney hub, resulting in the ex post price reaching \$400/GJ (the market price cap).

The AER wrote to APA Group regarding the submission of erroneous capacity data for the MSP to ascertain whether there was non-compliance with rules 369 and 414 of the Gas Rules.

20 November 2010 and 22 November 2010 gas days

On 22 November 2010, SEA Gas failed to submit pipeline capacity data for the SEAGas pipeline by the D-1 11am cut-off time (11am on 21 November), due to the power supply issues discussed in part 2.1.3.1 above.

Similarly, on 24 November 2010, Epic Energy failed to submit pipeline capacity data for the MAP by the required deadline, due to the password and account problems discussed in section 2.1.3.1 above.

On these days AEMO was required to use the respective capacity values submitted for D-2 schedules in substitution for the missing data. There was no impact on the ex ante prices because the SEAGas pipeline and MAP were unconstrained.

Accordingly, the capacity nominations on both pipelines were more than enough to meet demand at the Adelaide hub on the respective gas days; that is, pipeline allocation quantities did not exceed pipeline capacity.

Following its inquiries, the AER decided not to pursue this matter further with SEA Gas and Epic Energy.

AER assessment

The run of data errors by pipeline operators in the December 2010 quarter raises serious concerns. Pipeline allocation and capacity data are critical elements of the STTM. Failing to provide accurate and timely data may cause inefficient pricing signals and market outcomes, including significant wealth transfers between STTM participants. It may also undermine the integrity and reliability of the STTM, discouraging potential entrants or even causing participants to exit the market.

Following inquiries into events involving all major pipeline operators in the STTM, the AER called a meeting with their chief executives to discuss the importance of obligations on them. The AER made clear both the specific obligations relating to pipeline operators and its expectations on compliance. The AER also outlined its views on what each business should strive for with respect to good industry practice, as required by the Gas Rules.

The AER is satisfied each business is committed to ensuring that data quality, and the systems and processes required to ensure data integrity, are a top priority. The AER also acknowledges the steps taken to date to address a number of these issues.

The AER will continue to engage with pipeline operators to ensure the timely submission of accurate pipeline data, as required by the Gas Rules.

This will be done via a series of compliance audits with each business during 2011, and compliance with the relevant provisions will be a “special project” for the AER during 2011 (see discussion in section 3.3.4 of this report). The results will be reported in future quarterly compliance reports.

2.1.3.3 Issues with shipper price taker bids¹³

The AER has also identified some concerns with price taker bids in the STTM. Rule 406(3) of the Gas Rules provides that STTM users intending to withdraw a quantity of natural gas from a hub into the STTM distribution system must include that quantity in an ex-ante bid for that hub, or to the extent that subrule (4)¹⁴ applies, a price taker bid for that hub, which:

- in the case of an ex ante bid, complies with rule 408
- in the case of a price taker bid, complies with rule 409, and
- in either case, is submitted to AEMO in accordance with rule 410.

Rule 410 of the Gas Rules also states that price taker bids must be submitted to AEMO in good faith, present best estimates of supply or withdrawal quantities, and must be made before:

- 2pm on the gas day that is 3 gas days before the relevant gas day
- if revised or not previously submitted, 2pm on the gas day that is 2 gas days before that gas day, and
- if revised or not previously submitted, 12 noon on the gas day before that gas day.

¹³ A price taker bid under part 20 of the NGR for the STTM is equivalent to a demand forecast under part 19 of the NGR for the Declared Wholesale (Victorian) Gas Market whereby participants are required to put in a good faith, best estimate of customer demand which is not interruptible.

¹⁴ Clause 406 (4) of the Gas Rules states that an STTM User must include the following quantities in a price taker bid for a hub:

- (a) the quantity of natural gas which the STTM User expects to withdraw from the hub on a gas day to meet the demand of end users whose gas supply is not interruptible on a commercial and measurable basis by agreement between the STTM User and an end user; and
- (b) any other quantity of natural gas which the STTM User intends to withdraw from the hub on a gas day, unless that quantity is included in an ex ante bid.

14 October 2010 gas day

On the 14 October 2010 gas day, AGL failed to provide price taker bids in the Adelaide hub for either of the two provisional schedules (D-3, D-2) or the ex ante market schedule.

In response to inquiries, AGL advised that on 13 October its traders noticed that the ex ante market schedule price for the 14 October gas day was unusually low at \$1.13/GJ. Following investigation, AGL traders discovered they had submitted no price taker bids for the 14 October gas day.

AGL advised it has an automated process for generating bids and offers into the STTM. Once traders have determined the bids and offers, files are generated and the trader then submits these to AEMO using AGL's File Transfer Protocol (**FTP**) application.

AGL acknowledged there was an issue with the automated process from Monday 11 October, and that its traders were unaware the price taker bids for 14 October were unsuccessful. When it became apparent AGL's bids were not in, traders contacted their service providers, who confirmed there had been an upload error. The service providers had not previously notified AGL's traders that the upload had not been successful.

Following internal investigations, AGL took the following steps to minimise adverse impacts on the market:

- manually entered price taker bids for Adelaide for D-2 and D-3 schedules into the STTM Web Exchanger (**SWEX**)
- elected to increase the MAP (Epic Energy) volumes to cause a positive shipper deviation of 21.3TJ (in order to prevent its artificially long position on 14 October from resulting in increase market operator service (**MOS**)¹⁵ being called)
- performed an internal Market Schedule Variation trade to offset the positive shipper deviation against the negative (-21.3TJ) user deviation

¹⁵ This is 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.

- manually typing in standing price taker bids for the rest of October in SWEX for both Adelaide and Sydney hubs.

AGL also advised the AER that its procedures now require traders to engage in manual checking of bids.

AGL's omission to submit price taker bids on this day affected all participants in the Adelaide hub by setting a lower ex ante than ex post price. Having reviewed the information provided by AGL, the AER proposes not to take further action in relation to this matter.

1 December 2010 gas day

On 29 November 2010, AGL advised the AER it failed to submit its D-3 schedule price taker bid at the Sydney hub for the 1 December gas day. AGL noted that its duty trader experienced difficulty in submitting these bids due to a spreadsheet error in the "Price Taker Withdrawal Bid" form. AGL also stated there was little time for its duty trader to investigate and attempt a fix for this. Consequently, the spreadsheet error had an adverse impact on all files for the D-3, and AGL missed the 2pm cut-off time for the submission of D-3 bids and offers.

AGL explained it has a two-stage process for preparing its forecasts. First, the AGL trader enters relevant inputs into a dedicated spreadsheet. Second, when the "Price Taker Withdrawal" bids are finalised to the duty trader's satisfaction, they are uploaded into AGL's nomination system, which then creates an entry via FTP or SWEX for submission to AEMO.

AGL acknowledged this spreadsheet does not have the same rigour as AGL's nomination system. In response, AGL proposes to adopt a more robust platform in the future, with a possible roll-out in early 2011. AGL also noted these spreadsheet issues were unrelated to the problems encountered for 14 October 2010 gas day.

The AER sought a commitment from AGL to review all processes for submitting data into the STTM and to advise any changes to address errors, including the timing of those changes. The AER also requested that AGL advise it within 2 business days of any future data failures.

AGL has since made procedural changes in its submission of bid and withdrawal data. These include more frequent monitoring of gas alerts, such as an internal system of automated emails generated on receipt of updated reports from AEMO's systems. In addition, traders must check archive folders, which extends to the duty trader performing a manual count of the required number of acknowledgments from its system and from AEMO.

AGL also committed to notifying the AER as soon as it becomes aware of any event it considers material. The AER acknowledges AGL's internal review and corrective steps and has determined to take no further action.

2.1.4 Targeted compliance reviews

Targeted compliance reviews form an important part of the AER's compliance monitoring program. The reviews explore participants' compliance practices and aim to improve stakeholder understanding of obligations. Table 1 below lists the gas provisions targeted in the December 2010 quarter.¹⁶

Table 1: Gas Rules—provisions targeted for review

Gas Rules Rule	Relevant parties (subject to current review)	Obligation	No. of targeted participants
213	Victorian gas market participants	Scheduling submission requirements (demand forecast)	4
216		Failure to conform to scheduling instructions	3
380	STTM participants	Information requirements on contract holders	3
381			
382	AEMO	Confirmation, registration or rejection of STTM service contracts' information	1
383			

2.1.5 Scheduling submission requirements (demand forecasts)

The AER has targeted rule 213 for review for a second time in the last eighteen months. This continued focus reflects:

¹⁶ Appendix A of this report lists all provisions targeted over the last four quarters.

- analysis indicating significant errors in demand forecasting by some market participants
- the importance of demand forecasts to the efficient scheduling of gas injections and market prices.

The review focussed on Victorian participants' compliance processes with rule 213(2)(a), which aims to ensure demand forecasts are made in good faith and represent market participants' best estimates of the gas they expect to withdraw on an hourly basis.

The AER wrote to Origin Energy, Lumo Energy, Country Energy and Australian Power & Gas. Combined with market participants targeted in 2009, the AER has now assessed the systems of most Victorian gas market participants.

Response summary

Origin Energy and Lumo Energy identified processes in place to monitor, review and analyse the accuracy of forecast demand. Both identified inaccurate weather forecasts and customer churn as potential sources of error. Origin Energy noting that demand forecasts are required to be hourly estimates and that there is a lack of real time intra-day data for a market participant's share of demand.

Country Energy advised that its instances of non-compliance were related to insufficient historic processes for review against demand forecasts and that its customer base in Victoria is small.¹⁷ Country Energy subsequently implemented a process to include Victorian demand in its daily, weekly and monthly forecasting processes. It advised it has reminded relevant staff of Gas Rules requirements pertaining to Victorian demand forecasting.

Australian Power & Gas outlined improvements it has made to its demand forecasts over time on the basis of greater historical data analysis and periodic reviews. It also outlined that its objective over a gas day was to keep its forecast retail load matched to actual demand. It noted that on a gas day where it cannot amend forecasts for

¹⁷ Having an average consumption of 123 GJ per day relative to an overall typical whole of market consumption of 300,000 GJ to 1,000,000 GJ (or 1 PJ) per day.

earlier scheduling horizons it may adjust its demand forecasts down for later scheduling horizons so that any new demand forecasts align with expected actual customer demand over the day.

Review outcomes

The review indicated that participants have generally made efforts to comply with the requirements of clause 213(2)(a) including through the adoption of demand forecasting models and systems and periodic reviews of historic data leading to adjustments to forecasting systems.

The AER is satisfied with the remedial actions which Country Energy has taken in response to identifying non-compliance. It notes that adjustments by Australian Power & Gas to hourly demand forecasts appear to be made without reference to likely hourly customer withdrawals. The AER has some concerns with this approach, which may be inconsistent with rule 213(2)(a), and will pursue this with Australian Power & Gas.

2.1.6 Failure to conform to scheduling instructions

Under rule 216(2)(a) of the Gas Rules, where a market participant is unable to comply in all material aspects with a scheduling instruction issued in respect of a bid, it must notify AEMO as soon as practicable after it becomes aware of this, and give reasons for the failure.

The AER wrote to AGL, Origin Energy and TRUenergy regarding their processes for providing AEMO with timely and relevant information if they are unable to comply with a scheduling instruction from AEMO. It requested information on:

- the type of matters regarded by the participant as material for the purposes of this rule
- details of systems and processes to meet obligations—that is, to notify AEMO as soon as practicable and provide reasons for the failure to meet a scheduling instruction
- details of any instances, in the last 12 months, where the participant has not complied with rule 216(2)(a), including reasons and details of any remedial action taken.

Response summary

AGL submitted that the occurrence of a *force majeure event*, as set out in rule 215(6)(a), would be considered as material for the purposes of that provision. In addition, ‘material’ events would include unplanned producer interruptions and/or outages at major injection points covering Longford, underground storage and the Liquefied Natural Gas facility in Dandenong. AGL noted its practice to notify AEMO as soon as practicable of the pertinent details of any of these events.

AGL provided details of its interaction with facility operators and AEMO during an event. Once it receives relevant notification from the facility operator or AEMO, AGL updates its bids for the next trading interval and adjusts existing bids to reflect revised market conditions. For internal events that may impact other parties, AGL notifies AEMO as soon as practicable of the details and planned course of action to mitigate the issue. It also advised that it is not aware of any non-compliance with this rule.

Origin Energy noted it is currently in discussion with AEMO to obtain greater clarity on “materiality”, and that it uses best endeavours to promptly communicate with AEMO where it has been unable to comply with scheduling instructions. It also advised it has comprehensive systems and processes to ensure compliance with rule 216(2)(a), including standing instructions and escalation procedures for traders. Where it is unable to resolve an issue internally, Origin Energy advises AEMO as soon as practicable and, where appropriate, submits corrected bids for subsequent schedules. Additionally, an “incident management” process is used to assess:

- the root causes of compliance breaches
- reporting obligations; and
- any remedial actions that may be required.

Origin advised of one occasion of non-compliance with this rule on 3 December 2010, when the pipe between the BassGas wellhead and the Lang Lang plant was being “pigged”.¹⁸

¹⁸ This is the process used to inspect and maintain pipes *in situ*.

While the plant resumed injections into the Primary Transmission System from 2 am, Origin Energy did not bid from BassGas at the 6am schedule for the next gas day due to delayed internal communication. This resulted in an unintentional failure to notify AEMO of its misalignment with the 6am scheduling instruction.

In response to this event, Origin Energy conducted an investigation and raised an operational compliance incident. It also ensured that all relevant internal departments were reminded of their communication and compliance obligations.

TRUenergy advised that it operates a ‘physical markets’ desk on a 24 hour, 7 days a week basis, which functions as an interface between itself and AEMO for the Victorian gas market. This also provides a central point of contact for TRUenergy’s counterparties for all upstream gas supply agreements. In addition, TRUenergy noted that physical market traders can contact key internal staff if additional expertise or higher-level management decisions are required.

TRUenergy noted it generally becomes aware of any significant system events through AEMO’s system wide notices, and that AEMO’s arrangements with production facility operators provide more reliable and immediate notifications. In the event TRUenergy receives advance warning from an upstream seller of a failure to deliver, this advice would be passed onto AEMO. This participant also advised it was not aware of any past non-compliance with rule 216(2)(a).

TRUenergy stated it is neither a producer, storage provider nor interconnected transmission pipeline service and considers it is not obliged to comply with a scheduling instruction from AEMO if the event meets the requirements of rule 216(4)(b). This provision exempts the market participant from complying with a scheduling instruction if its producer or “other person” (as defined in the Gas Rules) from whom it has ordered gas, does not deliver the relevant quantity of gas required by the market participant to meet its scheduling instruction.

Review outcomes

The AER notes the importance of complying with scheduling instructions from AEMO, as mandated by rule 216(1). Where participants are unable to comply with a scheduling instruction in respect of a bid, it is crucial that AEMO be notified as soon as practicable, and kept up to date with relevant information.

A commitment to compliance from participants will mitigate the risk of a system emergency or significant price event.

The information provided by the three market participants indicated different views as to what constitutes a material inability to comply with scheduling instructions. Also, one participant suggested that where market participants solely rely on contracts with upstream producers (that are not related companies) then rule 216(2)(a) will not apply. The AER understands that most—if not all market participants—solely rely on contracts with upstream producers to deliver gas. The AER is considering the issues and will report in the next quarterly compliance report.

2.1.7 Information requirements on contract holders

The Gas Rules contain various requirements on parties to provide information that is essential for the operation of the STTM. In the case of rule 380, contract holders must provide the information specified in rule 381 to AEMO for each facility and distribution service under a facility or distribution contract to which they are parties. A similar obligation applies where a facility operator for an STTM production or storage facility supplies natural gas to the hub on its own behalf. Typically, these rules contain timeframes within which the information must be provided.

Rule 380 information must be provided to AEMO as a single aggregated submission for each STTM distribution system at a hub, and include details of contract parties and services (including service dates and daily capacity limits).

The AER wrote to Country Energy, EnergyAustralia and Santos Limited to seek details of:

- systems and processes to provide the information specified in rule 381
- any instance, since STTM start on 1 September 2010, of a failure to meet the requirements under rule 380(1)-(2).

Response summary

Santos holds a limited retail presence within the STTM with only one supply contract, while Country Energy and EnergyAustralia have wider operations in this market.

The participants stated they have systems and procedures in place to ensure compliance with the requirements of rules 380 and 381. Santos referred to third-party software used by trained staff to submit information after it is reviewed by more senior advisers. Country Energy and EnergyAustralia referred to the SWEX interface engine, AEMO's electronic platform for the submission of data. SWEX requires data to be properly inputted, thus contributing to compliance with the information provision requirements. EnergyAustralia staff also rely on automated warning and reminder tools and procedural documentation that are updated, as required.

EnergyAustralia and Santos advised they were unaware of any non-compliance with rule 380. Country Energy advised it was not been compliant with the requirements of this rule on two occasions since the commencement of the STTM¹⁹, due to an inadvertent error (AEMO being provided with only 10 days notice instead of within the minimum 10 business days). As a consequence, Country Energy has amended its procedures to ensure notice is given within the prescribed timeframes.

Review outcomes

The AER notes that Country Energy appears to have taken adequate remedial action to address its reported non-compliance and notes claims by EnergyAustralia and Santos about their nil non-compliance.

The provision of mandatory information to AEMO is essential for the efficient operations of the markets. The AER will inquire with AEMO about compliance in this area through regular meetings.

2.1.8 Confirmation, registration or rejection of information relating to service contracts

The AER requested information from AEMO regarding its obligations to confirm, register or reject information relating to STTM service contracts under rule 382(1).²⁰

¹⁹ On 1 September 2010.

²⁰ Under rule 382(1), as soon as practicable after receiving information under rule 381 about a facility or distribution service, AEMO must request the contract issuer of the service to confirm that information. Rule 382(2) requires the contract issuer to either confirm or reject the information provided by the contract holder within two business days.

The AER requested information from AEMO including:

- the systems and procedures it has in place to ensure it meets the requirements in rule 382(1) and rules 383(1)-(2)
- the processes used to monitor whether contract issuers respond within two business day to confirm contract holder information
- details of any instances—since STTM start on 1 September 2010—where AEMO failed to meet any of its obligations under rule 382(1) or 383(1)-(2), or where a contract issuer failed to meet its obligations under rule 382(2).

Response summary

To ensure it meets the requirements of rules 382 and 383, AEMO uses its SWEX software application noted above. This allows STTM participants to interactively create, view and submit data in relation to facility and distribution services. The following steps enable AEMO to discharge its obligations:

- when a contract holder submits its service information through SWEX, a unique identifier is generated and the contract issuer is then asked to confirm that the information submitted is correct
- if the contract issuer confirms the information submitted, SWEX informs the appropriate contract managers that their service is confirmed and requests the submission of their trading right
- if the contract issuer's information is rejected, this status is recorded against the unique identifier and electronic notification is then sent to all appropriate STTM contract managers

Under rule 383(1), if the information is confirmed, AEMO must, as soon as practicable, register the facility or distribution service and the details for that service. AEMO must then inform both the contract holder and contract issuer of the identifier of the registered facility or distribution service and the registered details for that service. It must also request that the contract holder submit trading rights information as required by rule 384. If a contract issuer rejects the information, rule 383(2) requires that AEMO must inform the contract holder as soon as practicable and not register the facility or distribution service.

- a service with a rejected status is unable to have trading rights information associated with it and is therefore considered unregistered.

AEMO also issues daily reports which inform participants of the current registered facility and distribution service details along with the respective status²¹ (submitted, confirmed or rejected) in the STTM systems. In addition, AEMO operates a helpdesk to track any issues that contract holders may have with a contract issuer's response time to requests for service confirmations through SWEX. Technical problems with the application would be addressed by the raising of a defect which would then be managed through AEMO's internal change management process.

AEMO stated that its systems do not automatically monitor failures to comply with registration and information requirements under rules 382 and 383, but that this function is manually conducted by its helpdesk. It advised that:

- investigation of helpdesk calls has not identified instances of participants encountering problems with information registration in SWEX
- data analysis relating to service contracts since STTM commencement revealed that only two contracts out of 51 involved failures to confirm or reject information within the prescribed two business day time frame (in those instances, no remedial actions were taken by AEMO since the contracts were confirmed or rejected on the next business day following the deadline, and no requests for intervention through helpdesk were logged).

Review outcomes

Based on the information received, the AER is satisfied that AEMO has adequate systems in place to ensure compliance with its obligations under rules 382 and 383. The SWEX system appears to provide an appropriate mechanism for handling the information provided by contract holders and issuers. While the SWEX system caters for automatic monitoring and detection of compliance, the AEMO helpdesk is a suitable means for monitoring compliance and assisting those required to submit and confirm/reject contract information.

²¹ Submitted, confirmed or registered.

2.1.9 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 targeting in the upcoming quarters include:²²

- rule 216(9) –response to a failure to conform to scheduling instructions
- rule 387 – STTM facility operators’ obligation to ensure compliance
- rule 399 – Conditions relating to MOS.

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

²² 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 Investigations, market events and compliance issues

This part of the report provides an update on:

- completed investigations²³
- market events
- other compliance matters and issues.

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. This part of the report therefore also covers such market activities as monitoring of high prices and rebidding.

3.1.1 B2B procedures—service order processes

Clause 7.2.4A(i) of the Electricity Rules requires registered participants and metering providers to comply with the business to business (**B2B**) procedures. These procedures prescribe the content of, and the processes for, information to be provided to support communication between retailers, distributors and metering providers.

The service order process is one of six B2B procedures. It enables retailers to request defined services from service providers (e.g. a de-energisation), and to receive confirmation the services will or will not be undertaken (or attempted) and, subsequently, that the service has or has not been completed as requested, using a consistently understood process and transactions.

Clause 2.6.1 of the service order process procedure requires distribution network service providers (**DNSPs**) to use reasonable endeavours to complete de-energisation service order requests, upon request by retailers. A de-energisation service is typically triggered by a customer's non-payment of bills or departure from their premises.

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

Following a complaint from a retailer alleging DNSPs were not using reasonable endeavours to complete de-energisation service order requests, the AER wrote to selected DNSPs, requesting information about their service order processes and their rates of completion for de-energisation service order requests.

The key findings from the responses were:

- rates of incomplete de-energisation service order requests varied amongst DNSPs from 0.6 per cent to 13.5 per cent
- reasons for incomplete de-energisation service orders included: meter fuses being inaccessible because of their location inside the premises; units and apartments not having an isolated fuse from which to de-energise the customer; and customers taking evasive action to avoid de-energisation.

In consequence of these inquiries:

- two DNSPs are consulting with retailers to improve their de-energisation service order processes
- the DNSPs with the highest incomplete de-energisation service order rates are implementing measures to improve their compliance performance.

Based on these findings and the measures outlined by DNSPs to improve de-energisation service order performance, no immediate action is proposed at this stage. However, de-energisation service orders will be a “special project” for the AER in 2011 (see discussion in section 3.3.4 of this report).

3.1.2 Rebidding

Scheduled generators and market participants operating in the NEM submit wholesale electricity offers and bids for each of the 48 intervals in a trading day. The offers and bids include available capacity in Megawatts (MW) for up to 10 price bands, and can be varied through rebidding²⁴.

²⁴ 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”

From 1 March 2011, the AER’s approach to monitoring and enforcement approach will change in line with its Compliance Bulletin No. 3, released on 7 December 2010²⁵.

Following the issue of the bulletin, the AER has noted a welcome increase in the number of instances of participants taking proactive steps to correct their errors and notify the AER accordingly. The AER encourages this type of response and urges all participants to ensure their practices improve to achieve full compliance with the requirements under clauses 3.8.19(b)(1) and (c)(2)(i)-(ii) in particular. Provision of rebid data by generators will be a “special project” for the AER over 2011 (see discussion in section 3.3.4 of this report).

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	1
3.8.22(c)(2)(i)	The rebid submitted does not provide a brief, verifiable and specific reason for the rebid	1
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	24

3.1.3 Spot and ancillary services high price events

The AER is required to publish a report²⁶ covering the circumstances in which the spot price in the wholesale electricity market exceeds \$5,000 per Megawatt hour (MWh) in a trading interval or where the price for ancillary services exceeds the spot

²⁵ Copy available from the AER website at <http://www.aer.gov.au/content/index.phtml/itemId/692887>.

²⁶ Pursuant to clause 3.13.7 (d) and (e) of the Electricity Rules. The reports are available on the AER website at <http://www.aer.gov.au/content/index.phtml/itemId/714860>.

price and is above \$5000 for a number of trading intervals. These reports help identify instances of non-compliance and enhance the transparent operation of the NEM.

There was a single instance of spot prices exceeding \$5000/MWh during the December 2010 quarter. On 19 November 2010, the spot price in Tasmania reached \$12 400/MWh for the 7 am trading interval, the equal highest spot price ever recorded in the NEM²⁷. The AER's report discusses how the high price resulted from Hydro Tasmania's bidding strategy and its control of non-scheduled generation output.

3.2 Audits

Auditing is one mechanism used by the AER to verify and assess compliance by registered participants with their obligations. The audits aim to ensure participants have robust and effective compliance programs in place that are consistent with good industry practice.

There are two main types of audits:

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

During the December 2010 quarter, the AER:

- concluded its technical audit of TransGrid's compliance with its obligations under clause 5.7.4 plus relevant parts of Schedule 5.1 of the Electricity Rules (see section 3.2.1 below for further details)
- conducted a site visit of Tarong Energy (focusing on Tarong Power Station), as part of a further technical audit program to be finalised in the March 2011 quarter.

The AER reconfirms its increased auditing activity from 2011 to encourage participants to have robust and effective technical compliance programs and adopt good industry practice at all times.

Each audited participant will be provided with a confidential findings report. Over time, all audit results and participants' views of their obligations will serve as a basis

²⁷ The other occasions were on 7 and 8 August 2010 also in Tasmania. The market price cap increased on 1 July 2010 from \$10 000/MWh to \$12 500/MWh.

for benchmarking and discussions between the AER and the energy industry to bring every participant to the same high level.

“Good Electricity Industry Practice” is a defined term under the Electricity Rules, as is “Good Gas Industry Practice” under the Gas Rules. The AER uses the acronym, GEIP, standing for “Good Energy Industry Practice” to cover both. As part of its ongoing audit activities, the AER will assess energy participants’ compliance against GEIP. The AER considers the key components of GEIP include:

- **Governance**—participants’ internal arrangements encompassing reporting lines and supporting systems, as well as the overall compliance culture including the level of involvement and commitment of senior management and committees
- **Expertise**—the human resources dedicated to technical compliance including the allocation of responsibilities, as well as the underlying knowledge systems and the nature and extent of the technical understanding of applicable obligations
- **Implementation**—the means by which, at a practical level, participants drive and promote compliance through internal procedures and processes, encompassing staff training, technical testing and reporting of compliance matters
- **Performance**—the overall compliance status of each participant with reference to how effectively compliance programs and arrangements operate, including the ongoing evaluation and updating of such programs and arrangements to reflect lessons learnt.

3.2.1 Completion of TransGrid’s technical audit

In December 2009, the AER notified TransGrid of its intention to conduct an audit in respect of compliance with the requirements of clause 5.7.4 and related aspects of Schedule 5.1 of the Electricity Rules.

The key stages of the audit consisted of an AER audit questionnaire provided to TransGrid for response during the March 2010 quarter, and subsequent site visit in September 2010.

The AER concluded its assessment and prepared a confidential audit findings report in the December 2010 quarter.

Whilst two minor record management issues were identified (which have since been addressed), TransGrid demonstrated it has a holistic compliance management process, which ensures the executive and relevant managers are accountable for, and involved in, the management and resolution of compliance matters related to protection and control systems.

TransGrid’s corporate procedures and information systems appeared to allow compliance issues to be effectively identified, recorded and flagged for corrective action by relevant staff at the appropriate level within the business.

Overall, the AER was satisfied that, for the purposes of clause 5.7.4 of the Electricity Rules, TransGrid’s compliance program and related arrangements:

- appear to provide reasonable assurance that its protection and control facilities are operated reliably and in accordance with applicable performance standards
- are consistent with good electricity industry practice.

3.3 Targeted compliance reviews

Targeted compliance reviews form an important part of the AER’s compliance monitoring program. The reviews explore participants’ compliance practices and aim to improve stakeholder understanding of obligations. Table 3 below lists the electricity provisions targeted in the December 2010 quarter.²⁸

Table 3: Electricity Rules—provisions targeted for review

Electricity Rules clause	Relevant parties (subject to the current review)	Obligation	No. of targeted participants
7.5.2	Market Participants	Meter register discrepancies	2
7.6.2		Non-compliant metering installations	3
9.44, 9.12.3, 9.34.6	Derogated entities	Jurisdictional derogations relating to: Smelter Trader; Power Traders; Nominated Generators	5

²⁸ Appendix A of this report lists all provisions targeted over the last four quarters.

3.3.1 Metering register discrepancies

Under the Electricity Rules, metering providers are required to establish and maintain a register of metering site details for every metering installation in the national electricity market. These obligations are set out in:

- the Consumer Administration and Transfer Solution procedures (**CATS**), which form part of the Market Settlement and Transfer Solution (**MSATS**) and
- clause 7.5 and Schedule 7.5.2 of the Electricity Rules²⁹.

The CATS procedures require metering providers to submit metering information into the MSATS system, related to the configuration of metering installations.

Clause 7.5 and Schedule 7.5.2 require metering providers to record test results, calibration details, test certificates, asset management plans and testing schedule in the same register.

If the information in the metering register does not comply with the requirements of the Electricity Rules, AEMO advises affected participants through a weekly error report. Discrepancies must generally be corrected by the person responsible for the metering installation, which can be either the Retailer or the local network service provider (**LNSP**) within 2 business days, unless exempted by AEMO.

In the last two quarters of 2010, the AER wrote to Jemena, Country Energy, Energy Australia and Integral Energy seeking to verify their compliance with clause 7.5.

Participant responses

Each targeted business outlined its approach towards satisfying the requirements of the CATS procedures, including how they respond to AEMO's weekly CATS procedures' error reports and identify systemic errors in the meter register standing data during 2010.

Information provided by the businesses regarding the obligations under clause 7.5.2 was more limited, despite AEMO confirming that no business had sought to rectify metering discrepancies within the prescribed 2 business day timeframe.

²⁹ AEMO "Service Level Requirements: Metering Provision Services for the Provision, Installation and Maintenance of Metering Installation Types 1 – 6", 2010, p. 8

The businesses summarised its approach to meeting the metering register standing data obligations, with most referring to or summarising an internal procedure or guideline. These approaches included reviewing and responding to metering data errors on a weekly basis using AEMO's weekly error reports and monthly metering provider compliance reports.

Each business identified a number of problems with maintaining an accurate metering register. Country Energy and Jemena identified significant errors (relating to controlled load indicators³⁰), noting they have or intend to implement new processes to address these errors. Jemena also identified issues resulting from the introduction of Advanced Metering Infrastructure meters. Jemena is currently investigating how this issue can be overcome.

EnergyAustralia highlighted that compliance reports during 2010 rated its compliance with the CATS obligations as poor. In saying that, this participant advised that the actions it has since undertaken should significantly reduced its level of non-compliance in future.

Finally, Integral Energy highlighted a range of errors in 2010 related to its different roles in MSATS process. Integral Energy indicated it could not rectify these errors within 2 business days. However, it noted that in October 2010, it created a series of working groups to review its procedures and systems to ensure they were compliant in future. This included altering systems to change how some meter transactions were processed.

Review outcomes

The AER is generally satisfied by the compliance approach identified by the above businesses. Where errors have been identified, the businesses have or intend to implement processes to rectify errors.

Integral Energy's identification of system limitations, including a failure to process MSATS errors within 2 business days, does raise compliance issues. The AER will seek updates from Integral Energy regarding the progress of its system changes during the first half of 2011 to ensure compliance is achieved.

³⁰ These errors relate to discrepancies between a meter's identifier and information about whether the meter is related to a controllable load.

More generally metering register information will become part of a “special project” for the AER during 2011 (see discussion in section 3.3.4 of this report).

3.3.2 Actions in relation to metering installation non-compliance

Clause 7.6.2(a) of the Electricity Rules requires the responsible person to notify AEMO, as soon as practicable, if the accuracy of the metering installation does not comply with requirements. It also requires the accuracy of the metering installation to be restored within a time frame agreed between AEMO and the AER.

As noted, the LNSP is the responsible person for types 5-7 metering installations, and in some circumstances, types 1-4. During the December 2010 quarter, the AER wrote to SP AusNet, Citipower and Powercor to understand their compliance approach to clause 7.6.2(a), by requesting details of:

- their procedures and systems used to ensure compliance with applicable its obligations
- any instances in 2010 where an error, for the purposes of the above provision was detected, including how and when the metering installation malfunction was corrected.

In assessing the responses, the AER was cognisant of the requirements of clause 7.11.2, which requires type 1-3 metering installation malfunctions to be corrected within 2 business days and other metering installation to be repaired within 10 business days. An exemption must be obtained from AEMO if these timeframes cannot be met.

Participant responses

In their responses,³¹ the three participants outlined their compliance approach and provided a copy of their Meter Asset Management Plans. The latter sets out:

- the testing methodology used for testing and inspecting meters for accuracy
- frequency within which tests and inspections are conducted.

³¹ Citipower and Powercor provided a joint response.

SP AusNet reported one instance where a metering installation failed but was replaced on the same day. CitiPower and Powercor did not report any instances in 2010 where they sought an exemption from AEMO.

Review outcomes

SP AusNet, CitiPower and Power set out satisfactory compliance approaches to clause 7.6.2(a) of the Electricity Rules. Based on the information provided, the AER will not seek further information from these businesses. However, incomplete electricity metering data will be a “special project” for the AER during 2011 (see discussion in section 3.3.4 of this report).

3.3.3 Jurisdictional derogations relating to: Smelter Trader; Power Traders; Nominated Generators

Chapter 9 of the Electricity Rules contains various derogations including those referred to in section 3.4 of this report. These particular provisions relate to CS Energy and Stanwell Corporation (nominated generators for the purposes of exempted generator agreements in Queensland), Vicpower Trading (Victorian smelter trader), Delta Electricity and Macquarie Generation (power traders in New South Wales).

Since these derogations and quarterly reporting of related matters to the AER have been in place for many years and due to certain reporting anomalies over time, the AER wrote to the above participants during the December 2010 to seek details of:

- the systems and/or procedures in place to identify, monitor and address compliance
- the arrangements in place for providing compliance assurance and reporting to the AER on a quarterly basis, including a description and frequency of the typical internal inquiries and sign-offs involved in this process
- how any amendments to the underlying agreement/s are captured by the prescribed compliance reporting.

Response summary

CS Energy, Delta Electricity, Stanwell Corporation and VicPower Trading referred to arrangements involving:

- periodical reviews including meetings with power supply agreement³² counterparties or plant operators
- activities integrated within overarching compliance regimes.

Details of the key staff involved with the above processes and signoff were provided. VicPower Trading specified the agreements subject to Chapter 9 derogations are those set out in Schedule 3 of the *Electricity Industry (Residual Provisions) Act 1993* (Victoria), while Stanwell stated its compliance monitoring in this area is ongoing and not at regular intervals or only when compliance reporting is due.

Macquarie Generation referred to having appointed an officer responsible for the management of their agreement (involving Tomago Aluminium) and monitoring of any non-compliance.

Both CS Energy and Macquarie Generation confirmed that their agreements have not been the subject of any amendments.

Review outcomes

The AER's general position with respect to certain derogations under the Electricity Rules (e.g. those relating to technical performance standards) is to promote their removal in the interest of achieving nationally consistent practices within the NEM.

In the context of the derogations under review, the AER appreciates their genesis and commercial relevance, but expects the derogated entities to maintain adequate arrangements to ensure: on-going compliance; provision of timely information to the AER; non-compliance or amendments to the underlying agreements are addressed and appropriately reported, as required by the Electricity Rules.

³² Generally, power purchase agreements also known under various other names including power purchase agreement and interconnection and power pooling agreement.

The AER also reminds smelter traders and power traders that their respective clauses 9.4.3(b), (d)(1)-(2), (f) and (g), and 9.12.3(c)(1)-(2), (e)(1)-(2) and (h) are civil penalty provisions³³, a breach of which would enable the AER to issue an infringement notice under s.74 of the Electricity Law.

3.3.4 Upcoming targeted compliance reviews—a new approach

For a number of years, targeted compliance reviews conducted by the AER have been a mechanism to examine participants' compliance practices and enhance the energy industry's understanding of the energy framework.

This process relied on targeting areas, based on the AER's risk assessment of all provisions under the Electricity and Gas Rules. The probability and impact of a breach assisted in targeting and prioritising provisions for review. These reviews focused on rule obligations—not any present problem or harm—and typically involved writing to randomly-selected participants to ascertain their compliance arrangements and performance.

The AER is enhancing its compliance mechanisms with a new stream of compliance projects over 2011. The new approach involves identifying particular problems or harm within energy wholesale markets and creating “problem solving” or “harm reduction” projects. Tailored metrics will be developed for each “special project” to measure the AER and industry's success in solving the problem or reducing the harm. Each project will also have a defined timeframe.

The “special projects” for 2011 are:

- data quality in the STTM
- incomplete electricity metering data
- timeliness of de-energisation service orders
- generator rebidding reasons.

³³ In accordance with the *National Electricity (South Australia) Regulations* made under the National Electricity Act.

Future quarterly compliance reports will provide updates on these projects, including performance against the applicable metrics. The AER believes this approach will enhance its compliance and enforcement approach. The AER intends suspending its targeted provision reviews in relation to electricity (the reviews will continue in gas) while these projects are conducted throughout 2011.

3.4 Jurisdictional derogations

Chapter 9 derogations³⁴ 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.

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 December 2010 quarter, these participants were subjected to a targeted compliance review by the AER (see part 3.3.3 above) and all advised that, for the purposes 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 NEM operations.

³⁴ 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 for compliance reviews over the last four quarters. The same provision may be targeted over a number of quarters.

Quarter ending	Industry	Rules & Clauses	Description	No. of Participants
December 2009	Gas	Rule 324	Participant disclosure obligations	2
		Rule 333	Emergency (declaration and notification by participants)	2
	Electricity	Clause 5.2.3	Obligations of NSPs (consistency between connection agreements and Schedule 5.1 of the Electricity Rules)	2
		Clause 7.2.5	Role of the responsible person (relating to metering service providers)	2
March 2010	Gas	Rule 270	Obligation of connected parties	2
		Rule 272	AEMO to approve application for connection to the declared transmission system	1
		Rule 275	Approval of connection agreements by AEMO	1
	Electricity	Clause 3.8.2	Participation in central dispatch	1
		Clause 4.6.1	Power system fault levels	1

Quarter ending	Industry	Rules & Clauses	Description	No. of Participants
		Clause 5.2.4	Obligation of customers	3
		Clause 5.2.4	Obligation of customers	3
		Clause 7.3.1	Metering installation requirements	2
June 2010	Gas	Rule 270	Obligation of connected parties	1
		Rule 289	Off-specification gas	2
		Rule 263	Margin calls	1
	Electricity	Clause 2.2.2	Registration of Scheduled Generators	3
		Clause 3.8.2	Participation in central dispatch	1
		Clause 7.3.1	Metering installation requirements	2
September 2010	Gas	273	Offer to connect	1
		326	Maintenance planning	1
		414-419	Capacity information & facility allocations	4
	Electricity	3.7.3	Short term projected assessment of system availability	3

Quarter ending	Industry	Rules & Clauses	Description	No. of Participants
		4.9.4	Dispatch related limitations on generators	2
		7.5.2	Metering register discrepancies	2
December 2010	Gas	213	Scheduling submission requirements (demand forecast)	4
		216	Participants' failure to conform to scheduling instructions	3
		380	Information requirements on contract holders	3
		381		
		382	Confirmation, registration or rejection of STTM service contracts' information	1
		383		
	Electricity	7.5.2	Metering register discrepancies	2
		7.6.2	Non-compliant metering installations	3
		9.44, 9.12.3, 9.34.6	Jurisdictional derogations relating to: Smelter Trader; Power Traders; Nominated Generators	5