



Quarterly Compliance Report:

National Electricity and Gas Laws

January - March 2015

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Executive summary

The purpose of the Quarterly Compliance Report (QCR) is to outline the Australian Energy Regulator's (AER) compliance monitoring and enforcement activity under the National Electricity Law (Electricity Law) and the National Gas Law (Gas Law)—including the rules and regulations which sit under those laws. This QCR covers the period 1 January to 31 March 2015 (the March 2015 quarter).

Enforcement: Areas of focus

A focus of this QCR is the outcome of our enforcement action against Snowy Hydro, a generator in the National Electricity Market (NEM). On 12 February 2015 the Federal Court of Australia declared by consent that Snowy Hydro had breached the Rules in relation to following dispatch instructions on nine occasions in 2012 and 2013 (see section 1.1). This is the first time that a Court has found a breach of the National Electricity Rules proven, and has made declarations, orders for penalties, costs and injunctive relief.

This QCR discusses the decision in detail, and outlines our history of enforcement action in respect of clause 4.9.8(a) (failure to follow dispatch instructions).

This provision continues to be an area of focus for the AER, given its critical role in the operation of the market. An important message arising from the Federal Court's decision is that an intention to meet a future dispatch target does not excuse participants from the requirement to meet a current target. In this respect, the Federal Court's decision endorsed our long-standing view.

To provide further clarity on our approach to enforcing the clause, we will continue to engage with industry on our expectations, and, if necessary clarify our compliance bulletin.

In light of the Federal Court's decision, in section 1.1.6 we take the opportunity to reiterate our general approach to compliance and enforcement and the factors we take into account when deciding whether to take enforcement action.

Another area on which we have been focussing our activities in electricity for some time is the requirement for responsible persons (RP) to test instrument transformers, used for metering purposes, for accuracy (see section 1.4). While many RPs have taken appropriate action to ensure these devices are tested, there remain some who have not yet come into compliance. This quarter we sought a commitment from RPs who have elected to test under an alternative sampling method to complete the required testing by 30 June 2015. Next quarter we will seek progress updates from RPs who elected to test 10 per cent of their population each year and once we have assessed the testing by all RPs we will consider our options for those who have failed to meet their obligations.

In gas, given the emergence of LNG production around Gladstone in Queensland, the Bulletin Board and the Gas Supply Hub continue to be areas of focus for the AER. We have continued to liaise with coal seam gas (CSG) operators regarding seven day production forecasts, which was the subject of a targeted compliance review in Quarter 4 2014. As

discussed in section 2.4.1, we are satisfied that those participants are taking an approach consistent with AEMO's procedures.

Rule changes

As discussed in section 1.6, in the March quarter the AEMC published its final decision on the AER initiated Ramp Rate Rule change. The Rule change will take effect in July 2016. Prior to this we will need to review and consult on our Rebidding and Technical Parameters Guideline to reflect the change.

Compliance issues in gas and electricity have given rise to AEMO taking steps to lodge rule change proposals with the AEMC. In electricity, AEMO proposes to lodge a Rule change to allow it to only publish an Energy Adequacy Assessment Projection (EAAP) when necessary to inform the market of potential reserve shortfalls (see section 1.5). In gas, AEMO has lodged a Rule change proposal with the AEMC to clarify its operating schedule obligations in the Victorian Gas Market.

Also on the Victorian Gas Market, in the March quarter AEMO finalised changes to its Wholesale Market Gas Scheduling Procedures, to take effect from May 2015 (see section 2.3.1). This should prevent a reoccurrence of AEMO failing to publish the Victorian gas market pricing schedule.

Background

The AER is responsible for monitoring compliance and enforcement under legislation and rules governing Australia's wholesale energy markets, including those applying to Network Service Providers. Section 15 of the Electricity Law and section 27 of the Gas Law set out our functions and powers, which include:

- monitoring compliance by energy industry participants¹ and other persons.
- investigating breaches, or possible breaches, of provisions of the legislative instruments under our jurisdiction.

Consistent with our statement of approach², we aim to promote high levels of compliance, and seek 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.
- assist in ensuring industry participants can engage confidently in efficient energy markets.
- As part of this process, we undertake a continuous compliance risk assessment of the Electricity and Gas Rules to identify appropriate focus areas and monitoring/compliance mechanisms. These mechanisms include our strategic compliance projects, audits, reporting requirements, market monitoring, and targeted compliance reviews.

In selecting the areas for review, we adopt 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 our monitoring functions, we aim for:

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

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

¹ Entities registered by AEMO under Chapter 2 of the Electricity Rules or in accordance with Part 15A of the Gas Rules.

² The Statement of Approach can be found [here](#). In April 2014, the AER released a combined Enforcement and Compliance Statement of Approach covering our functions under the Gas Law, Electricity Law and National Energy Retail Law. The document reflects the consistent approach taken by the AER to enforcing the energy laws across all markets.

1 Electricity

We are responsible for monitoring, investigating and enforcing compliance under the Electricity Law and Rules. This part of the report provides an update on investigations, compliance matters and AER projects in the electricity market.

1.1 Compliance focus – following dispatch instructions

Complying with dispatch instructions is an area of focus for the AER. In the previous QCR we flagged that we would provide more information on the Snowy Hydro matter and our approach to the requirements of clause 4.9.8 (General responsibilities of Registered Participants) of the Electricity Rules. This section also discusses our position on semi-scheduled generators' requirement to following dispatch instructions.

1.1.1 Clause 4.9.8(a) – complying with dispatch instructions

Market participants make bids and offers into the NEM to consume or produce electricity at various prices in each five minute dispatch interval in a day. AEMO issues dispatch instructions to participants, based on those offers and other market conditions. AEMO's instructions ensure supply and demand is safely balanced every minute of the day.

Clause 4.9.8(a) specifies that a registered participant must comply with a dispatch instruction given to it by AEMO unless to do so would, in the registered participant's reasonable opinion, be a hazard to public safety or materially risk damaging equipment.

It is critically important that market participants fulfil their responsibility to follow dispatch instructions, particularly at times when the transmission network is constrained. Failure to do so can compromise system security. Market outcomes may also be distorted if these instructions are not followed.

A failure to comply with a dispatch instruction constitutes a breach of the National Electricity Rules. Clause 4.9.8(a) is a civil penalty provision, which carries a maximum penalty of \$100 000 per contravention.

The AER monitors compliance with these requirements and can take enforcement action when appropriate.

1.1.2 Enforcement Action – Snowy Hydro Matter

On 3 July 2014, the AER instituted proceedings against Snowy Hydro for alleged breaches of clause 4.9.8(a) of the National Electricity Rules. The AER alleged that Snowy Hydro failed to follow dispatch instructions issued by AEMO on nine occasions in 2012 and 2013. In light of the circumstances surrounding these events, the AER considered that it was appropriate to institute proceedings rather than issue infringement notices on this occasion.

On 12 February 2015 the Federal Court of Australia declared by consent that Snowy Hydro had breached clause 4.9.8(a) on all nine occasions. On each occasion, Snowy Hydro generated more power than the dispatch instruction required.

In its judgment the Federal Court noted that Snowy Hydro cooperated fully with the AER during its investigation, including: voluntarily providing information, data and documents in response to written questions sent by the AER on numerous occasions, meeting with AER staff on various occasions, and making employees available for formal interview on a voluntary basis.

Relief

The Court ordered by consent that Snowy Hydro:

- pay total penalties of \$400 000.
- appoint an independent compliance expert to review the accuracy of Snowy Hydro's internal documents relating to the compliance with dispatch instructions.
- make a contribution of \$100 000 to the AER's legal costs.

This is the first time that a Court has found a breach of the National Electricity Rules proven, and has made declarations, orders for penalties, costs and injunctive relief. In conjunction with these orders, Snowy Hydro also provided a Court enforceable undertaking to the AER regarding the manner in which it operates its units, as well as reporting certain events to the AER (discussed further below).

1.1.2.1 The contraventions

The nine contraventions occurred on three separate days: 29 November 2012, 18 February 2013 and 21 June 2013. The contraventions involved the operation of Snowy Hydro's Murray hydro-electric generating units and the Valley Power gas generating units, both located in the Victorian region of the NEM.

In each instance, Snowy Hydro exceeded the target output specified in the dispatch instruction issued by AEMO by significant levels, ranging from 61 to 267 MW.

The Court declared that seven of the nine contraventions resulted from a failure by Snowy Hydro to afford sufficient importance to compliance with the relevant dispatch instructions given by AEMO. In relation to these seven contraventions, Snowy Hydro deliberately operated its Murray Units (one contravention) and Valley Power Units (six contraventions) in such a way that they would fail to meet dispatch instructions issued by AEMO.

At the time of these contraventions Snowy Hydro had an internal guideline ("Dispatch Compliance Guideline") which indicated that short period start-up and shut-down cycles could become a source of material risk of damage to equipment over time. The Guideline suggested that avoiding short period start-up and shut down cycles (based on expectations of dispatch targets in the following dispatch interval) was consistent with clause 4.9.8(a) of the Rules because it could prevent material risk of damage to equipment over time. The Dispatch Compliance Guideline was approved by senior managers at Snowy Hydro and made available to its trading and operations staff. However, Snowy Hydro has accepted that the Dispatch Compliance Guideline was inconsistent with the requirements of clause 4.9.8(a) of the Rules. The Federal Court noted that since the admitted contraventions occurred, Snowy Hydro had taken steps to revise its internal compliance guidance documents.

Of the two remaining contraventions, one resulted from insufficient attention and importance being given to the dispatch instructions. The other resulted from one unit being adversely affected by an undiagnosed control system fault at another generating unit. This was related to the operation of the Snowy Hydro Automatic Generation Control (AGC) system.

1.1.2.2 Enforceable undertaking

As part of the settlement, Snowy Hydro provided an enforceable undertaking to the AER (pursuant to section 59A of the National Electricity Law). The undertaking commits Snowy Hydro to:

- operating its AGC system in ECON mode (unless it is necessary to operate it in another mode) until the AGC system problems (that may cause scheduled generating units in one region to automatically increase or decrease energy output in response to dispatch targets in another region) are resolved.
- notifying the AER of any instances when the AGC system is not operated in ECON mode and providing written reports every six months on the progress of the project to replace the AGC system.

The undertaking is the first enforceable undertaking accepted by the AER under the National Electricity Law.

1.1.3 Previous enforcement action - infringement notices

Prior to the Snowy Hydro matter, we issued three infringement notices³ for alleged contraventions of clause 4.9.8(a):

- In November 2008 we issued an infringement notice to Braemar Power Projects Pty Ltd regarding events at its Braemar Power Station⁴ in Queensland on 4 November 2007. In our investigation report we concluded that one of its units failed to follow dispatch instructions for seven 5-minute dispatch intervals at a time when the network was constrained and Braemar was being instructed to reduce output.⁵ The deviations away from dispatch instruction ranged from approximately 7 MW to 30 MW.
- In September 2009 we issued an infringement notice to Flinders Operating Services Pty Ltd, when its Playford generator in South Australia failed to follow dispatch instructions for nine 5-minute dispatch intervals on 11 February 2009, causing a network constraint to violate. The maximum deviation ranged from 2 MW to 18 MW. A Power System Incident Report published by AEMO concluded that if Playford had followed its dispatch targets, the network would have remained in a secure state.
- Also in September 2009 we issued an infringement notice to Braemar Power Projects Pty Ltd for starting its Braemar Power Station unit 1 without a dispatch

³ Please note that under s82 of the National Electricity Law, payment of an infringement penalty is not an admission of a breach of a civil penalty provision. – details can be found on the AER website: www.aer.gov.au/wholesale-markets/compliance-reporting

⁴ This station is also referred to as Braemar A.

⁵ Our Investigation Report can be found [here](#).

instruction on 17 March 2009. The alleged breach related to five 5-minute dispatch intervals with a maximum deviation of 107 MW.⁶

At the time, Braemar Power Projects and Flinders Operating Services were part of the Babcock and Brown Power group of companies.

1.1.4 Semi scheduled generators

As part of its routine market monitoring activities, the AER identified numerous instances of various wind farms not complying with dispatch caps.

In recognition of the intermittent nature of renewable generation, semi-scheduled generators (predominantly wind farms) receive different types of dispatch instructions to scheduled generators. These instructions include a specification of whether or not the relevant dispatch interval is a semi-dispatch interval, which will determine whether the relevant unit's output must not exceed the dispatch level specified (referred to as dispatch caps). Semi-dispatch intervals occur when a network constraint would be violated if output exceeded the dispatch cap or in other circumstances where a dispatch level is set lower than what the unit is forecast to generate (for example, due to where a unit's generation offer falls in the merit order).

In December 2014 we conducted a compliance review of wind farms. Participant responses highlighted three key compliance issues. The issues and AER positions are as follows:

- There is apparently a misconception about the relationship between AEMO's non-conformance procedures and the obligation to follow dispatch instructions under clause 4.9.8(a).

AER position: The non-conformance procedures are designed to serve a different function to the requirement for participants to follow dispatch instructions. The AER considers that participants who base systems and processes around non-conformance rather than following individual dispatch instructions are at risk of having inadequate processes in place to ensure compliance with 4.9.8(a). We are also of the view that a participant's obligations under 4.9.8(a) are separate from, and apply irrespective of, the obligation on AEMO to develop and implement non-conformance procedures under Chapter 3 of the Electricity Rules.

- Some participants consider the process of commissioning a wind farm means strict adherence to dispatch instructions is problematic.

AER position: We do not accept commissioning is sufficient justification for persistent systemic non-compliance.

- One participant considers there are anomalies in how the Australian Wind Energy Forecasting System (AWEFS) inputs are used in the dispatch process to set dispatch levels. The relevant participant has been in discussions with AEMO to further investigate the issue in the interest of improving the process.

AER position: Our view is that a belief that dispatch levels have been incorrectly set by NEMDE may not excuse non-compliance with dispatch instructions. We note that a

⁶ Our Investigation Report can be found [here](#).

semi-dispatch interval does not automatically mean that a unit has been constrained down below its forecast generation. Semi-dispatch intervals are also applied when the dispatch level has been set equal to the forecast generation level; this is to ensure output does not exceed the level that NEMDE has used to satisfy network conditions and avoid violating a network constraint.

Each participant targeted under this review identified and implemented improved systems and processes to ensure compliance with dispatch caps. In view of this (and consistent with our statement of approach), we have decided to take no further action at this time. We will, however, continue to closely monitor all semi-scheduled generators to ensure ongoing compliance.

1.1.5 Self-reported non-compliance with dispatch instructions

Consistent with our statement of approach, we encourage participants to monitor their compliance with dispatch instructions and to raise any concerns with the AER. One participant self-reported non-compliance with a dispatch instruction in January. The participant's scheduled unit generated 100 MW in excess of its dispatch target for two separate dispatch intervals within two days. The cause of this deviation was related to a previously undetected flaw in an original equipment manufacturer's system.

In light of:

- the nature of the issue identified,
- the pro-active steps the participant took to rectify the issue and implement interim procedures to mitigate future re-occurrence, and
- the self-reporting of the non-compliance,

we propose not taking any further action.

1.1.6 Our approach to enforcement of 4.9.8(a)

The AER will continue to monitor compliance with the requirements of 4.9.8(a) and take action including, where appropriate, issuing infringement notices or commencing legal proceedings to ensure market participants comply with these requirements.

As outlined in our statement of approach, in determining an appropriate response we consider relevant circumstances which may include:

- the nature and extent of the conduct that forms the breach, including the period over which the conduct extended and the number of related breaches
- the impact of the conduct, including harm or detriment to consumers and other parties, and/or an increased risk of serious harm or detriment in future
- whether the conduct was deliberate or avoidable had reasonable compliance practices been followed by the business
- whether the conduct involved, or was directed/overseen by, senior management

- the extent of any realised or potential future financial gain from the conduct (including compliance costs avoided by the business)
- whether action is already being taken to address the issue by another enforcement agency or other organisation
- the business's own actions in relation to the conduct, including whether the conduct was self-reported, the level of cooperation with the AER, and any action taken to rectify the breach and avoid reoccurrence, and
- whether the business has a corporate culture conducive to compliance, including the effectiveness of compliance programs, and whether corrective measures have been taken in response to past breaches.

The range of inquiries, preliminary investigations and enforcement matters we have undertaken since 2005 have highlighted some misinterpretation among participants regarding their obligations under 4.9.8(a). An example relates to the obligation to follow *every* dispatch instruction under 4.9.8(a) of the National Electricity Rules. Participants cannot ignore a current dispatch instruction in anticipation or preparedness for an expected future instruction.

Our investigations have also highlighted the importance of participants understanding the related obligations under clause 4.9.8 which require participants to ensure that their plant is able to comply with their latest offer or bid at all times.

In light of these issues we appreciate the need for updated information and guidance relating to our expectations of participants and our approach to compliance in this area. This is something we plan to do in the coming months and we will keep participants informed of this work.

1.2 Rebidding

Scheduled generators and market participants operating in the NEM submit offers and bids for each half hour trading interval. The offers and bids include available capacity for up to 10 price bands, and can be varied through rebidding.⁷

According to the “three stage process” introduced in late 2010,⁸ we will consider issuing an infringement notice if we issue three notifications within a six month period to generators who submit offer, bid and/or rebid information that does not meet the requirements of the Electricity Rules. The warning count for a participant is set to zero after six months of the first warning being issued.

⁷ 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’.

⁸ In June 2012, we published an updated [Compliance Bulletin No. 3](#) to make it clear that, for the purposes of administering the three stage process and issuing warnings, we will rely on the cumulative count of non-compliant bids for all generating units under the same portfolio. In other words, where a parent company employs a common trading team for the bidding of multiple generating units in its portfolio, irrespective of whether these generators are different registered participants, we will count any non-compliant bids by that trading team together.

The number of rebids automatically triggered (indicated by the blue area in Figure 1.2.1) as requiring initial examination has fallen markedly since 2011, as shown in Figure 1.2.1. The significant increase from August to November occurred because one participant's automated bidding system submitted rebids without including a time adduced (as required under rule 3.8.22). The participant adjusted their systems to account for this error after we brought it to their attention, and since then the number of auto triggered rebids has returned to previous levels.

Figure 1.2.1: Rebids auto-triggered and reviewed per week

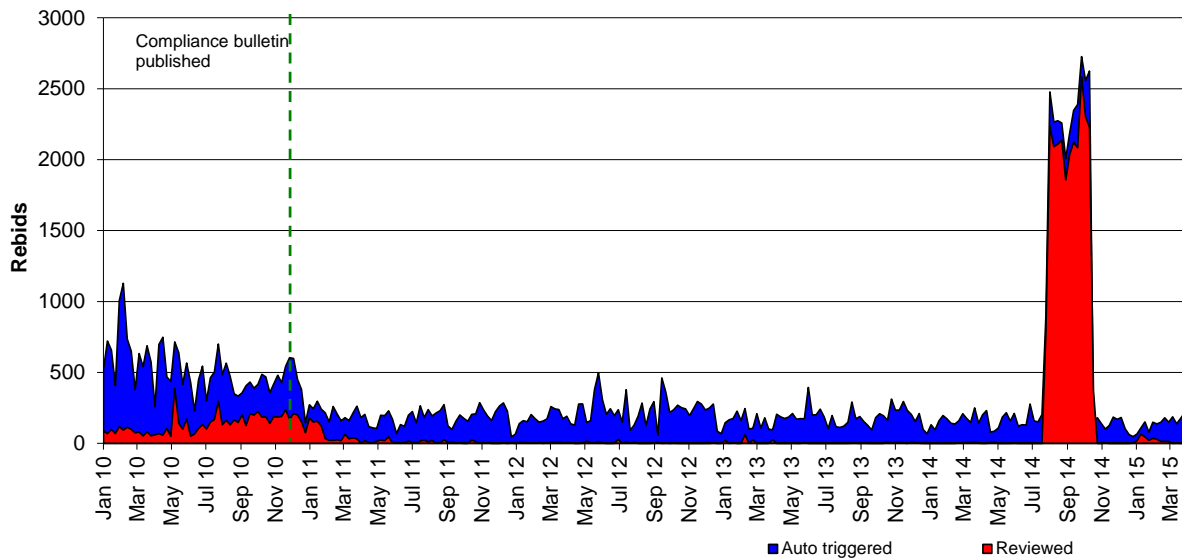
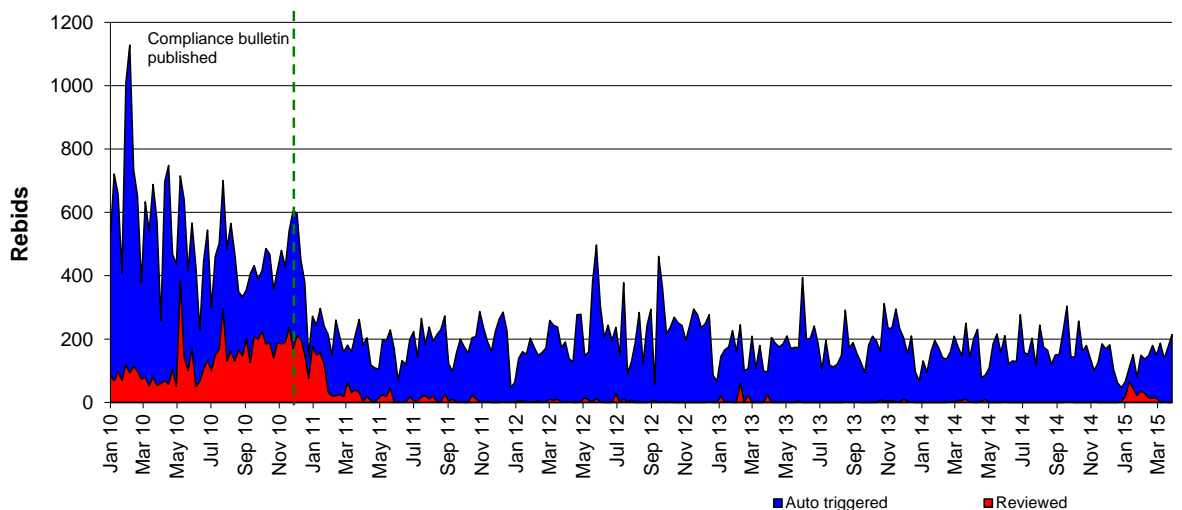


Figure 1.2.2 shows the number of rebids that would have been automatically triggered from August to November if the above rebids had contained a time adduced.

Figure 1.2.2: Rebids auto-triggered and reviewed per week (adjusted)



There were no warnings issued during the March quarter. The AER received 12 self-reporting notices from participants regarding errors in their rebids during the quarter and no participants had their warning counts reset to zero.

1.3 Spot prices above \$5000/MWh reports

Under clause 3.13.7(d) of the Electricity Rules, we are required to publish a report when the spot price exceeds \$5000/MWh. The report must be published within 40 business days of the end of the week during which the event occurred.

This quarter we published three *Spot Prices above \$5000/MWh* reports in relation to events on 17 December 2014, 15 January and 18 January 2015, all in Queensland. We published two reports within the statutory timeframe. A common theme on all days was the combination of high demand and a very steep supply curve caused by participant rebidding, which meant that minor changes in availability, interconnector capability or demand had the potential to bring about large price variations.

All reports can be found on the [AER website](#).

1.4 Instrument transformer testing

Rule 7.2.5(d)(2) of the Electricity Rules requires the Responsible Person (RP) to ensure the components⁹ (including current transformers and voltage transformers), accuracy and testing of each of its metering installation complies with the requirements of the Electricity Rules, the metrology procedure and procedures authorised under the Electricity Rules. Rule 7.2.5 (d) is also a civil penalty provision.

Schedule 7.3.1 of the Electricity Rules requires the RP to test current transformers and voltage transformers (or instrument transformers) for accuracy every 10 years, unless an alternate test plan has been approved by AEMO. Instrument transformers are designed to lower voltages or current in the high voltage transmission and distribution network to levels for use by metering devices. Inaccurate instrument transformers can affect the overall accuracy of the metering installation.

In 2011, we became aware that current transformers (CTs) were not being tested in accordance with the Electricity Rules. In response, we published a compliance bulletin containing our expectations in relation to low voltage (LV) CT testing.¹⁰ Specifically, the bulletin proposed that an RP should either test 10 per cent of its metering installation population each year, or a sample of its meters in accordance with an alternative sampling method approved by AEMO. RPs submitted testing plans to AEMO, with the initial round of testing to be completed within 12 months from 1 July 2012.

Using data provided by AEMO, we have examined RPs' testing, contacting them for an explanation where the required levels of testing have not been achieved. In February 2014, we issued an infringement notice to Red Energy in relation to its failure to test metering equipment in accordance with the Electricity Rules. Another two RPs have agreed to provide the AER with six-monthly updates on the progress of their testing.

In July 2014, two years into the testing program, AEMO examined the testing activities of those RPs using the alternative sampling method. AEMO contacted RPs who had not completed the required testing and outlined actions that could be taken for them to meet

⁹ Metering installation components are defined by Rule 7.3.1 of the Electricity Rules.

¹⁰ The compliance bulletin can be found [here](#).

compliance. While many of those RPs have taken appropriate action, in April 2015 we wrote to those who had not yet come into compliance, seeking their commitment to complete the testing required under their alternate testing plan by 30 June 2015. Next quarter we will seek progress updates from RPs testing 10 per cent of their metering population each year.

We will continue to monitor RPs' compliance and consider our options regarding RPs who have failed to meet their obligations.

1.5 Energy Adequacy Assessment Projection

Clause 3.7C of the Electricity Rules requires AEMO to publish an Energy Adequacy Assessment Projection (EAAP) every quarter. The EAAP is designed to inform the market of the impact of water and fuel availability limits (energy constraints) on the supply-demand balance over the following two years.

Due to a range of factors (including that current market conditions indicated a supply shortfall was unlikely during the two year outlook period) AEMO advised that it would be unable to publish the December 2014 and March 2015 EAAPs. The information contained in the September 2014 EAAP remains current.

On the basis that market conditions indicated a supply shortfall was unlikely during the two year outlook period for these EAAPs, and AEMO's intentions around future compliance, we issued AEMO with No Action letters, confirming that we would not take enforcement action on these occasions.

AEMO has advised that it intends to submit a Rule change proposal to allow it to only publish an EAAP when necessary to inform the market of potential reserve shortfalls. In the meantime, however, AEMO has committed to publishing an EAAP in conjunction with the release of the 2015 Electricity Statement of Opportunities.

1.6 Final decision: Ramp rate rule change

In August 2013 we submitted a rule change request to the Australian Energy Market Commission (AEMC) to require generator ramp rates and dispatch inflexibility profiles to reflect the technical capabilities of generating plant.

In its Final Decision of 19 March 2015 the AEMC made a preferred rule. The new rule extends the current minimum ramp rate requirements (the lower of 3 MW/min or 3 per cent of the unit's maximum generation for units below 100 MW, unless there is a physical or safety limitation on their plant) to individual physical units that make up aggregated facilities.

The rule change will commence on 1 July 2016 to provide sufficient time for AEMO's systems and procedures to be updated and for participants to adjust to the new minimum ramp rate requirements. Prior to the rule change taking effect, we will also need to make amendments to our Rebidding and Technical Parameters Guideline. These amendments must be made in accordance with the Rules Consultation Procedures, as set out in clause 8.9 of the Electricity Rules.

1.7 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.

Relevant participants must notify the AER at AERinquiry@aer.gov.au of any act or omission which partly or wholly constitutes non-compliance with the Electricity Rules.

No non-compliances were reported this quarter.

2 Gas

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

This part of the report provides an update on investigations, compliance matters and projects in the gas markets.

2.1 Gas Supply Hub

Under Part 22 of the Gas Rules, the AER is responsible for monitoring GSH members' compliance with obligations specified in the Gas Rules for the gas trading exchange.¹¹ This includes market conduct rules.

The market conduct rules require GSH members to trade on the basis of gas they intend to physically deliver or receive. They also prohibit activities which are fraudulent, dishonest or in bad faith as well as activities designed to manipulate prices.

2.1.1 Void trades

Clause 13.4(b) of the Gas Supply Hub Exchange Agreement provides that a transaction is void if AEMO fails to send the relevant trading participants a confirmation of the transaction within 15 minutes of it being made.

AEMO reported three voided transactions this quarter:

9 January: AEMO advised that the problem was caused by human error. The participant had not been flagged as a trading participant after having changed its status from viewing participant on 22 December.

16 March: A transaction was voided on this day as a result of a participant's password having expired.

24 March: A problem occurred when transferring data between AEMO's Sydney and Brisbane sites and as a result confirmation of the transaction was not generated, rendering it void.

Outcomes of the review these event and steps taken to avoid future issues will be provided in the next QCR.

2.2 Short Term Trading Market

Part 20 of the Gas Rules sets out participants' responsibilities for trading in the STTM. The STTM has trading hubs in Adelaide, Sydney and Brisbane. The Gas Rules govern how wholesale gas is traded and include requirements for pipeline operators to submit pipeline capacity and allocation (gas flow) data.

¹¹ Rule 545 of the National Gas Rules.

There were no substantive compliance outcomes this quarter.

2.3 Victorian Gas Market

Part 19 of the Gas Rules sets out participants' responsibilities for trading in the Victorian gas market.

2.3.1 Final decision - amendments to scheduling procedures

In the September and December 2014 QCRs, we reported on AEMO's failure to publish the Victorian gas market pricing schedule (it is required to do so under Rule 221(4)). The problem arose when AEMO incorrectly applied declared transmission system constraints to the pricing schedule. The market auditor failed to identify the problem during its annual market audit process (required under Rule 322); instead it was discovered by AEMO during an internal review of its Victorian Gas Market gas scheduling procedures.

After seeking participants' feedback on draft amendments to the Wholesale Market Gas Scheduling Procedures (procedures) at the February 2015 Gas Wholesale Consultative Forum and through the normal consultation process (required under rule 135EE), AEMO has now made its final decision. Changes to the procedures will take effect on 4 May 2015 (with corresponding changes to AEMO's scheduling practices to be completed by this date).

2.3.2 AEMO operating schedule non compliance

Rule 215 of the Gas Rules sets out AEMO's obligations when producing operating schedules. An operating schedule sets out the injections of gas into and the withdrawals of gas from the declared transmission system (transmission system) for each hour of the gas day.

AEMO considers certain aspects of Rule 215 to be problematic, as follows:

1. Clause 215(2) outlines how AEMO must apply inputs and assumptions in an optimisation program for the purpose of producing operating schedules.

Rather than using a single optimisation program, AEMO currently uses two "side-by side" systems to produce the operating schedules. Although the method currently being used by AEMO is producing correct results, AEMO considers that it may not be strictly compliant with the requirements of the clause. AEMO has raised the issue with the industry and has received general support to propose a rule change to clarify the issue.

Given that AEMO's current method appears not to be having any adverse market impacts and it has lodged a rule change proposal with the AEMC to clarify the issue, we propose not taking any action at this stage.

2. The rule does not currently specify what action AEMO should take if it is unable to produce an operating schedule by the time required to publish the schedule.

AEMO proposes to seek clarification on this as part of the rule change proposal. As AEMO considers the contents of the rule change proposal to be non-controversial, it has sought an expedited rule change.

2.4 Natural Gas Services 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 flows to assist gas trading. The obligations also require participants to identify and report any potential conditions where curtailment of gas use might be necessary. It requires Bulletin Board production facility operators to take account of short term trends in gas field performance (which are constraining or will constrain overall production capability), in their 7-day outlook.

2.4.1 Seven day production forecasts – targeted compliance review

Rule 165 of the Gas Rules requires a production facility operator to provide to AEMO, in respect of each gas day for Bulletin Board production facility it operates, the daily production capacity outlook for that production facility for a seven day period into the future. Compliance with this provision helps to ensure that Bulletin Board information is consistent, complete, accurate and timely. As a result, this provision was the subject of a targeted compliance review in the December 2014 quarter, and was discussed in the relevant QCR.

In the previous QCR we reported that Bulletin Board data suggests that CSG operators in Queensland are taking different approaches to accounting for field performance when reporting short term production capacity outlooks.

Since then we have engaged with the three main CSG producers (Santos GLNG, Queensland Gas Company (QGC) and Origin APLNG) to understand how each producer seeks to ensure compliance with Rule 165, to facilitate a consistent approach to reporting capacity data. Based on these discussions, we are satisfied that QGC, Santos GLNG and Origin APLNG are taking an approach consistent with AEMO's procedures.

We will continue to monitor compliance with this Bulletin Board requirement.

2.4.2 Monitoring of Bulletin Board in 2015

As part of our current work program we will continue to focus on ensuring participants provide accurate, consistent, complete and timely information to the Bulletin Board. Specifically, we are developing metrics to:

- measure the time taken to update capacity outlook data.
- compare forecast flow data to capacity outlook data.
- compare nameplate data to capacity outlook and actual flow data.
- compare actual flow data to capacity outlook data and compare this result with the previous time capacity outlook data was updated.

The following new production facilities were registered on the Bulletin Board this quarter:

- Origin APLNG registered Condabri South in February 2015, and
- QGC registered Woleebee Creek and Jordan in March 2015.

Santos has also advised it soon intends to register some new production facilities.

Appendix A: Shortened forms

Shortened form	Full title
ACCC	Australian Competition & Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AGC	Automatic Generation Control
ASIC	Australian Securities and Investment Commission
ASX	Australian Stock Exchange
AWEFS	Australian Wind Energy Forecasting System
Bulletin Board	Natural Gas Service Bulletin Board
DWGM	Declared Wholesale Gas Market (Victorian Gas Market)
EAAP	Energy Assessment Adequacy Projection
EGP	Eastern Gas Pipeline
EFP	Exchange for Physical
Electricity Law	National Electricity Law (Schedule to the National Electricity Act)
Electricity Rules	The National Electricity Rules made under Part 7 of the Electricity Law
Gas Law	National Gas Law (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
GJ	Gigajoule
GSH	Gas Supply Hub
GSHRG	Gas Supply Hub Reference Group
GSP	Gas Scheduling Procedures
GWCF	Gas Wholesale Consultative Forum
LNG	Liquefied Natural Gas
LV CT	Low Voltage Current Transformer

Shortened form	Full title
MAP	Moomba to Adelaide pipeline
MOS	Market Operator Service
MSD	MOS Stack Daily
MW	Megawatt
MWh	Megawatt hour
National Electricity Act	National Electricity (South Australia) Act 1996 (South Australia)
National Gas Act	National Gas (South Australia) Act 2008 (South Australia)
NEM	National Electricity Market
NEMDE	National Electricity Market Dispatch Engine
PAD	Pipeline Allocation Daily
QCR	The AER's quarterly compliance report
QGP	Queensland Gas Pipeline
RBP	Roma-to-Brisbane Pipeline
RP	Registered Participant
SPV	Significant Price Variation
STTM	Short Term Trading Market
SWQP	South West Queensland Pipeline
TJ	Terajoules