



AUSTRALIAN  
ENERGY  
REGULATOR

**Quarterly Compliance Report**  
**October to December 2005**

**April 2006**



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# 1 Introduction

On 1 July 2005, the Australian Energy Regulator (AER) assumed responsibility for compliance monitoring, reporting and enforcement in the National Electricity Market (NEM).

Section 15 of the National Electricity Law requires the AER:

- (a) to monitor compliance by Registered Participants and other persons with this Law, the Regulations and the Rules; and
- (b) to investigate breaches or possible breaches of provisions of this Law, the Regulations or the Rules that are not offence provisions.

In carrying out its monitoring functions, the AER collects and analyses information from registered participants and NEMMCO. The AER ensures that, to the extent practicable, monitoring:

- (1) is consistent over time;
- (2) does not discriminate unnecessarily between Registered Participants;
- (3) is cost effective for the AER, all Registered Participants and NEMMCO; and
- (4) information is published, or otherwise made available to the market, subject to any confidentiality requirements

This report summarises the results of the AER compliance monitoring activities during the period October – December 2005.

## **2 Compliance monitoring strategy**

The AER monitors the operation and performance of the National Electricity Market, conducts special investigations in response to market outcomes and/or specific events and aims to encourage market participants to have an ongoing compliance management focus.

The AER compliance monitoring programme includes targeting a number of specific Rule provisions each year. These provisions can relate to areas in the Rules where compliance concerns have been identified or where changes to the Rules have been introduced. The AER will target 24 Rules each year for review. The AER assesses compliance with the targeted provision through examining all, or a sample of, relevant market participants' behaviour.

The review process encourages market participants to maintain an ongoing compliance management focus by targeting specific provisions of the Rules and reviewing compliance. The AER also conducts a rolling program of reviews of participants' compliance strategies and plans. Those reviews are conducted cooperatively and involve one-on-one discussions with participants. The reviews provide the opportunity to engage participants and to discuss compliance strategies and critical challenges faced by the participant in discharging its obligations under the Rules.

The AER's approach to monitoring and compliance relies, in the first instance, on comprehensive observation and reporting, and emphasises voluntary compliance by registered participants. During the compliance review process the AER assesses the adequacy of compliance from the information provided by the registered participants and may review compliance with these obligations at regular intervals.

In the December quarter 2005, the AER focused its compliance monitoring program on the classification, and metering, of connection points.

During the next two quarters, the AER proposes targeting compliance with, and effectiveness of, the reporting requirements placed on transmission network service providers in relation to planned network outages. The AER is keen to hear from participants and other interested parties on any matters of compliance, in particular with respect to the specific areas targeted for review.

## 3 Compliance monitoring outcomes

During the October to December 2005 period, several Rules provisions were targeted for compliance audit. There was also a review of market participants' compliance strategies and plans in relation to those targeted provisions.

### 3.1 Targeted provisions

Local Retailers and Local Network Service Providers responsibilities with respect to the classification and metering of connection points were targeted.

Effective metering is integral to the operation of the national electricity market (NEM). The Rules permit competition in relation to metering services in respect of the provision, installation and maintenance of metering installations and metering data collection and processing services.

To ensure that market operational requirements are satisfied whilst still encouraging competition in the provision of those services, chapter 2 and 7 of the Rules impose obligations on participants to establish metering installations and register the metering with NEMMCO.

#### Local retailer obligations and responsibilities

- Clause 2.3.4(h) of the Rules, states that: “a Customer, who is also a Local Retailer, must classify any connection point which connects its local area to another part of the power system as a market load.”
- Clause 7.1.4 (a) (1), requires that: “before participating in the market in respect of a connection point, the Market Participant must ensure that connection point has a metering installation and that the metering installation is registered with NEMMCO”.

The AER requested a review, by local retailers, of the arrangements for compliance with the provisions set out above and to provide the following information:

- details of all connection points classified as market loads in accordance with clause 2.3.4 (h) of the Rules;
- identify any issues that may have occurred in classifying those market connection points; and
- provide assurance that the requirements of clauses 2.3.4 (h) and 7.1.4 (a) (1) of the Rules have been satisfied.

#### Local Network Service Provider obligations and responsibilities:

- Clause 7.2.2(aa) of the Rules, states that: “each Local Network Service Provider is responsible for the provision of metering installations to Market Participants

connected to, or proposing to connect to, the Local Network Service Provider's network in its local area and the installation and maintenance of those metering installations unless otherwise elected by the Market Participant."

- Clause 7.2.2(a) requires that: "no later than 15 business days after a Local Network Service Provider receives a request in writing from a Market Participant to assume responsibility for a metering installation, the Local Network Service Provider must offer to provide, install and maintain the metering installation of the Market Participant and must inform the Market Participant of the terms and conditions on which the offer is made."

Local Network Service Providers were requested to review arrangements for compliance with the provisions set out above and to provide the following information:

- details of their process to ensure that clause 7.2.2 (a) is satisfied;
- identify instances, if any, where the requirements of clause 7.2.2(a) have not been satisfied and the subsequent steps taken to ensure compliance; and
- provide details of any instances where the arrangements to establish a metering installation have not been satisfactorily resolved to allow all connection points to have a metering installation registered with NEMMCO.

### **3.1.1 Review outcomes**

The AER wrote, to nine local retailers and ten local network service providers at an executive level during November and December 2005. Participants' responses were reviewed against the requirements of the Rules. In general, the responses demonstrated that participants have the necessary processes in place to ensure compliance with the Rules with respect to the provisions reviewed. In almost all cases participants were not aware of any instances where arrangements to establish metering installations have not been satisfactorily resolved.

An issue with respect to cross boundary supplies between local retailers in Victoria was identified. It has resulted from discrepancies between geographic and electrical boundaries in the distribution network and has been an issue since market start. The materiality of the matter has increased over recent years as load in these areas has grown. The AER met with two participants to better understand the issues identified.

The parties involved have identified how to resolve the issue and have provided the AER with an undertaking to settle the matter during the coming months.

Based on the information provided by participants, and the AER's assessment of that information against the requirements in the Rules, the AER is satisfied that the participants reviewed are aware of the obligations with respect to clauses 2.3.4(h), 7.1.4 (a)(1) and 7.2.2 of the Rules and that appropriate compliance strategies and plans are in place to ensure ongoing compliance with the Rules.



## **3.2 Jurisdictional derogations**

Chapter 9 of the Rules preserves certain jurisdiction-specific arrangements. These are known as jurisdictional derogations and exempt participants from compliance with specified provisions in the Rules.

A series of chapter 9 derogations provide exemptions for Smelter Traders, Power Traders and Nominated Generators from complying with the Rules:

- to the extent that there is any inconsistency between the Rules and a contractual requirement under the relevant agreement; and
- any other specified exemption the jurisdictional derogations.

Power Traders must give notice to the AER of any act or omission which partly or wholly constitutes non-compliance with the Rules. In accordance with clauses 9.4.4, 9.12.3 and 9.34.6 of the Rules, the relevant participants have notified the AER that there were no matters of non-compliance for the December quarter.

The AER is satisfied that there were no instances where the actions of participants classified as a Smelter Trader, Power Trader and Nominated Generators materially affected the efficient operation of the market during the quarter.

## **3.3 Technical standards compliance**

A new regime for technical standards was introduced into the National Electricity Market in 2004. This established explicit compliance obligations on market participants with respect to the technical performance of plant. The aim is to ensure participants contribute to satisfying the electric power system standards and the ongoing reliability of the power system.

On 24 October 2005, the AER wrote to all generators emphasising the importance of compliance with the Rules related to technical performance standards. The AER indicated that it would review generator performance compliance programs as part of its compliance monitoring strategy during 2006 to ensure the arrangements comply and operate effectively.

### **3.4 Rebidding inquiries**

Clause 3.8.22(c) of the Rules requires a scheduled generator or market participant to provide information to the AER to substantiate and verify the reason for a rebid<sup>1</sup>. During the quarter, the AER requested information from a number of market participants to clarify and understand rebid reasons. The AER was satisfied that this information clarified that market participants' behaviour was consistent with Rules obligations.

## **4 Investigations**

### **4.1 Investigation into the events of 31 October 2005**

The market was significantly disrupted by a forced network outage on one of the major transmissions lines between Wallerawang and South Sydney on 30 October and the need for a further network outage to facilitate repairs the following day.

Spot prices in New South Wales were above \$5,000/MWh for five trading intervals on Monday 31 October, when network constraints designed to manage the outage failed to maintain power flows on the network below secure levels. Spot prices peaked at \$6,724/MWh in New South Wales with five-minute prices driven to almost zero at times, in all other regions. This event saw almost \$180 million added to the energy market turnover in New South Wales and Queensland.

There were a number of issues arising out of this event that required further examination. The AER is continuing its investigations with respect to compliance with the Rules. Further information will be made available to the market when these investigations are finalised.

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<sup>1</sup> A rebid is defined in chapter 10 of the Rules as a variation to a bid or offer made in accordance with clause 3.8.22.