Quarterly Compliance Report:

National Electricity and Gas Laws

July – September 2012

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AUSTRALIAN ENERGY REGULATOR

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Contents

Shortened forms

Shortened form	Full title
ACCC	Australian Competition & Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AMI	Advanced Metering Infrastructure
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)
CATS	Consumer Administration and Transfer Solution
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
GEIP	Good Energy Industry Practice
GJ	Gigajoule
LCA	Linepack capacity adequacy
MOS	The market operator service by which capacity (in GJ) is provided to balance pipeline deviations by increasing or decreasing the quantity of natural gas supplied to or withdrawn from a hub using an STTM pipeline.
MSATS	Market Settlement and Transfer Solution
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	The National Electricity Market being the electricity wholesale exchange operated and administered by AEMO, and the national electricity system, which covers: Queensland, New South Wales, Victoria, South Australia and Tasmania
QCR	The AER's quarterly compliance report
RIT-T	Regulatory investment test for transmission
RP	Responsible Person
STTM	Short Term Trading Market made under Part 20 of the Gas Rules
SWN	System Wide Notice
TJ	Terajoule
Victorian gas market	The Victorian Declared Wholesale Gas Market established under Part 19 of the Gas Rules

Executive summary

This Quarterly Compliance Report (**QCR**) outlines the Australian Energy Regulator's (**AER's**) compliance monitoring and enforcement activity under the National Electricity Law[1] (**Electricity Law**) and National Gas Law[2] (**Gas Law**)—including the rules and regulations which sit under those Laws—over the period 1 July to 30 September 2012 (**the September 2012 quarter**).[3]

With respect to gas, this report provides an update on investigations, market events and other compliance matters. Of particular note, there were no identified instances of missing, late or erroneous data submitted for the Short Term Trading Market (**STTM**) during the quarter. This may reflect a commitment by STTM participants to improve their data systems. The AER has focussed on STTM data quality over the last two years and released a compliance bulletin on this matter in December 2011.[4]

The report summarises the findings of a targeted compliance review of the Gas Rules—specifically, the obligation on Victorian gas market participants to ensure that each injection and withdrawal bid is made in good faith and represents the market participant's best estimate of the quantities of gas it expects to inject/withdraw on a gas day. Responses to this review revealed a number of good practices by some participants. The AER supports the continuation of these practices and encourages others to consider including them in their processes for submitting injection and withdrawal bids.

The report also provides an overview of the recent STTM audit of AGL's Camden facility. The AER recognises that AGL has made substantial enhancements to its systems to check the quality and quantity of data submitted to the Australian Energy Market Operator (**AEMO**). AGL also has a number of contingency plans in place to assist it to meet its information and data requirements under part 20 of the Gas Rules.

The AER is currently reviewing issues relating to counteracting MOS and demand forecasting in the STTM. These issues are important and will remain a priority for the AER's compliance monitoring activities.

With respect to electricity, this report provides an update on investigations and other compliance matters. Specifically this report covers:

- the quality of information related to rebidding by generators
- delayed updates to MSATS following a metering configuration change
- an update on the industry-wide instrument transformer testing initiative
- a conclusion for the technical audit of Alinta Energy's Northern Power Station (**NPS**)
- compliance reporting from participants derogated under Chapter 9 of the Electricity Rules.

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[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] Previous reports available on the AER website.

[4] Available on the AER website.

Through the technical audit process, Alinta Energy effectively demonstrated that its performance standards compliance program for NPS, if implemented and maintained appropriately, meets the requirements of the Electricity Rules. The approach Alinta Energy has taken with respect to testing and monitoring while NPS is on an extended outage is commendable, as is the approach to developing dedicated procedures that link NPS' performance standards, monitoring and testing regime.

With the advent of a carbon price, generators may be offline more frequently in the future. The AER expects any generator which is registered in the NEM to comply with all applicable obligations under the Electricity Rules, regardless of whether it is offline for any period of time.

Introduction

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 the functions and powers of the AER, which include:

- monitoring compliance by energy industry participants[5] and other persons
- investigating breaches, or possible breaches, of provisions of the legislative instruments under the AER's jurisdiction.

Consistent with its statement of approach,[6] 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
- 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 and Gas Rules to identify appropriate focus areas and monitoring mechanisms. These mechanisms include audits, the imposition of reporting requirements, market monitoring, and targeted compliance reviews.[7]

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

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

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

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

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

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

[6] Available on the AER website.

[7] Provisions of the Gas Rules and Electricity Rules that have been targeted for review in previous quarters are listed in Appendix A.

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

1 Gas

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

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

1.1 Bulletin Board

Part 18 of the Gas Rules sets out participants' responsibilities regarding the Bulletin Board. These obligations aim to facilitate greater transparency in gas production and gas pipeline 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.

1.1.1 Usage of free text facility on the Bulletin Board

The Bulletin Board contains free text fields which participants can use to provide extra information about their pipeline or production point capability. During the quarter, the AER discussed with market participants the benefits of providing further information about pipelines and production facilities in the free text fields on the Bulletin Board. This was in response to complaints received from participants who claimed they would have been in a better position to update their nominations for the STTM and Victorian Gas Market had better information been available.

Santos uploaded a zero capacity nomination (3 day outlook) to the Bulletin Board for the Orbost production facility for the 29 May to 31 May 2012 gas days. This was despite Santos reporting actual production flows on the Bulletin Board on those same days. The AER requested an explanation in relation to the capacity outlook.

A Santos representative explained that the plant was intermittently going offline throughout the day due to power failures. Therefore, it believed a zero capacity notification was appropriate, because at those times Santos could not foresee whether it would be back online.

The AER suggested to Santos that it should use the free text field to provide extra information about its capacity nominations. For example, in this case Santos could have stated 'experiencing intermittent issues with plant going offline'.

In a separate event, Jemena posted a red flag on the Queensland Gas Pipeline due to unplanned compressor maintenance which reduced capacity. Jemena posted 'unplanned banana[8] compressor maintenance (expected completion of 4 August 2012)' in the free text field. The AER considers including the completion date for maintenance to be good practice.

In general, the AER considers it is best practice to ensure that specific and detailed information is posted on the Bulletin Board and updated regularly when new information comes to light.

[8] The compressor Jemena refers to is named 'banana'.

1.1.2 Actual daily production and pipeline flow data

Participants submit daily production and pipeline flow data as required by rules 166 and 174 of the Gas Rules.[9]

During the quarter, six facility operators failed on a total of fifteen occasions to submit daily flow Bulletin Board data to AEMO with respect to their Bulletin Board facilities.

In one incident, Epic Energy advised the AER it had experienced an IT issue which affected the uploading of nominations and actual flow data. Epic's systems created the necessary data, but failed to upload it to the Bulletin Board. The AER welcomes Epic pro-actively informing it of this issue and outlining the measures taken to remedy it.

The AER will continue to monitor compliance with Bulletin Board requirements and, where appropriate, seek commitments from participants to improve their performance.

1.2 Short Term Trading Market

Part 20 of the Gas Rules sets out participants' responsibilities within the STTM, which now encompasses three gas trading hubs: Adelaide, Sydney and Brisbane.[10] The rules outline how wholesale gas is traded and include requirements for pipeline operators to submit pipeline capacity and allocation (gas flow) data.

This part of the report covers the following STTM matters:

- counteracting MOS enquiries for the Sydney and Adelaide hubs
- Sydney price taker bids (demand forecasts)
- capacity and allocation data
- delayed STTM ex post price
- network line pack issues
- facility operator audits
- a confidentiality breach by AEMO.

1.2.1 Counteracting MOS for the Adelaide and Sydney hubs

Counteracting MOS occurs when increase and decrease MOS is required simultaneously on different transmission pipelines supplying gas to the same hub. The amounts of increase and decrease MOS required often cancel each other out. For example, one pipeline may have increase MOS of around 10 TJ while another pipeline has decrease MOS of around 10 TJ.

[9] Rule 169 also includes an obligation on storage providers to provide daily flow data.

[10] The Brisbane STTM hub commenced operations on 1 December 2011.

Counteracting MOS may occur even when demand is accurately forecast and network deviations are small.

During the quarter, AER staff met with AEMO to discuss STTM design issues and why counteracting MOS is occurring in the Adelaide and Sydney hubs. According to AEMO analysis, counteracting MOS in Sydney has predominantly been caused by gas deliveries and design issues relating to the Wollongong sub network. Adelaide counteracting MOS can in part be explained by hourly profiling of gas nominations on SEAGas and the isolation of the Elizabeth sub-network from the SEAGas Adelaide delivery point.

AEMO is currently conducting a review of the STTM that focuses heavily on MOS issues. These issues are estimated to have caused increase MOS payments of between 3 and 4 million dollars since STTM market start. AEMO's consultation paper considers a number of issues, including:[11]

- physical network design issues which are contrary to the STTM design assumption of network constraints not affecting gas supply to the hub
- redefining the MOS mechanism—AEMO's consultation paper raises for consideration the possibility of redefining MOS to a hub level (currently it is at a pipeline level) and whether MOS offers should continue to occur on a 3 monthly basis or more regularly.

AEMO has raised the possibility of behavioural issues exacerbating MOS payments. The AER has been monitoring MOS outcomes since market commencement and wrote to a number of participants about high MOS payment days in the Adelaide hub which occurred in May and June 2011 (focusing on compliance with gas rule 399(6)).[12] The AER has a specific process to flag, analyse and make further enquiries into days of high counteracting MOS in STTM hubs.

Throughout 2012 the AER has also monitored and reported on, through its Gas Weekly reports, high MOS payments which occurred in May and June 2012 in Sydney and in June and July 2012 in Adelaide (although Adelaide payments are much lower than they were for 2011). The AER has written to Sydney and Adelaide hub participants (STTM pipeline operators and shippers) to gain more information about these high MOS events. The AER will continue to investigate these issues from a compliance perspective. The AER's inquiries include whether participants are using the existence of known market design problems to exacerbate or increase MOS payments in contravention of gas rule 399(6). The AER will provide an update on these inquiries in a future QCR.

1.2.2 Origin—demand forecast for the Sydney hub

There was a large variance between the ex ante demand forecast figure submitted by Origin and its actual demand on the 25 June 2012 gas day for the Sydney hub. AER staff wrote to Origin requesting an explanation for the variance.

Origin responded by providing a description of its demand forecast system and processes. The variation was due to human error. On this occasion Origin's forecasting process was not followed in the correct order, which led to erroneous calculations and the exclusion of a large customer's forecast

[11] For more information, see the AEMO website.

[12] Rule 399(6) is a broad ranging prohibition on STTM shippers purposefully nominating or doing any other thing that creates or increases MOS.

usage from Origin's ex ante price taker bid (demand forecast) for the day. The AER is reviewing this matter further.

There were also large variations between Origin's demand forecasts and actual gas demand for gas days 2 July to 6 July 2012. In response to AER inquiries, Origin explained that the issue arose due to the timing of the transfer of one of its large customers.

1.2.3 STTM facility capacity and allocation data

AGL—11 May 2012 (capacity data)

As reported in the June QCR, on 10 May 2012 AGL failed to submit the D-1 STTM hub capacity (capacity notification) for the Rosalind Park Production facility (Rosalind Park) for the 11 May gas day by the 9:30am cut-off time. AGL stated that the late submission was due to a critical system failure around the cut-off time followed by a failure of a manual work around.

During this quarter AGL completed and submitted an incident report to the AER on the event. The report explains that the STTM nominator application did not work as intended due to disk capacity issues.

AGL indicated that the event had prompted it to refine and improve its monitoring capabilities and reassess its operational processes. AGL also outlined that two new data 'monitors' would be put in place to prevent a reoccurrence. The AER has since verified these monitors as part of its audit of AGL (see section 1.2.6 of this report). The AER has decided not to pursue this matter further.

1.2.4 Delayed ex post price

On 28 August 2012 AEMO experienced IT software problems which resulted in a delay in posting the ex post prices for the Sydney and Adelaide hubs. As a result a provisional price was published instead. The error had no financial impact on participants as the provisional price published and ex post price were ultimately the same. The Brisbane hub was not affected by the error.

AEMO considers that the delay was caused by an issue with ad hoc queries. It will conduct a more detailed review of the incident and issues arising from it and report back to the AER.

1.2.5 Network line pack changes and price taker bids

Line pack, the actual amount of gas in the distribution system, changes occasionally for operational reasons. STTM users have asked whether, in the event that there are changes in line pack, these changes should be accounted for in price taker bids.

This issue arose in response to the 22 March 2011 gas day in the Sydney hub. On this day, as a result of maintenance activity, linepack needed to be depleted to reduce pressure in the distribution system. However, because trading participants' price taker bids did not take into account the amount of linepack to be used in the distribution system, gas nominated to the hub exceeded requirements by about 30 TJ.

AER staff consulted with the gas industry at the 25 September 2012 STTM consultative forum (**STTM CF**) on whether changes in line pack were required to be included in price taker bids under the Gas Rules. Following general agreement within the STTM CF that known network changes in

linepack should be accounted for in price taker bids; the AER has published a compliance bulletin on the matter.[13]

1.2.6 STTM facility operator audits

The AER's audits of STTM participants continued during the quarter. These audits assess an STTM facility operator's processes to achieve compliance with information and data requirements under Part 20 of the Gas Rules, and whether these processes would be considered 'Good Energy Industry Practice'.[14]

While all of the facility operators had extensive experience in providing natural gas services in a general sense prior to STTM commencement, none of them had experience in providing data critical to the operation of a market. It is in the context of a market such as the STTM that the good industry practice threshold should be applied.

The AER uses the acronym **GEIP**, standing for 'Good Energy Industry Practice', as a practical guide to the steps a business should take to enable the AER to assess performance against the threshold.

Audit of AGL

The AER concluded its second such audit, examining AGL in its role as an STTM facility operator for the Camden facility, south-west of Sydney. The audit, which aimed to assess AGL's processes to achieve compliance with information and data requirements under Part 20 of the Gas Rules, involved four steps:

- the AER issuing AGL an audit questionnaire
- the AER reviewing AGL's response to ascertain whether it adequately met the audit's aims
- a site visit to discuss questions and issues that arose from AGL's response
- issuing AGL with an audit report outlining the AER's conclusions and recommendations regarding AGL's practices to meet the information and data requirements of the STTM.

The AER's key findings from the audit were:

- Overall, the AER was satisfied that the processes and systems which AGL has in place, if implemented and maintained appropriately, should be sufficient to satisfy its information and data obligations under the Gas Rules.
- AGL has recently made substantial enhancements to its internal systems, such as the recent development of monitoring systems to check the quality and quantity of data.
- AGL has carefully considered the types of contingencies that may prevent it from meeting its information and data obligations and put in place appropriate support and backup systems to

[13] Available on the AER website.

[14] 'Good Gas Industry Practice' is defined under the Gas Rules and 'Good Electricity Industry Practice' is defined under the Electricity Rules. The AER uses the phrase 'Good Energy Industry Practice' to cover both sectors. The components the AER considers to comprise GEIP are contained in the March 2012 QCR.

minimise that risk. Contingency plans include having IT system support which must respond to issues within 30 minutes, the use of portable 4G internet devices as a backup for internet connectivity issues and submitting data to AEMO ahead of the due time. The AER supports such practices.

- The AER suggests it would be prudent for AGL to keep abreast of the compliance performance of other STTM participants by reviewing AEMO market notices and the AER's Quarterly Compliance Reports. The AER strongly emphasises the importance of all market participants reviewing the outcomes of market events, including those reported in the QCR, to learn from compliance issues that have arisen for other participants, and to gain an understanding of what constitutes good compliance practice.

- While it appears there are appropriate mechanisms in place to identify, escalate and communicate potential non-compliance, the AER did identify shortcomings in AGL's process to finalise investigation into instances where non-compliance was detected. The AER suggests that AGL create more formal processes to track the progress of internal investigations.

Next audit

The AER has commenced its third STTM audit, examining Epic Energy in its role as an STTM facility operator for the Moomba to Adelaide pipeline. The review follows the process outlined above and is expected to be completed in early 2013. Findings will be summarised in a future quarterly compliance report.

1.2.7 AEMO confidentiality breaches

In the previous QCR, the AER reported on an incident where AEMO breached clause 23(1) of the Retail Market Procedures (South Australia) and section 91G(1) (a) of the Gas Law. On 1 April 2012 Logica, AEMO's service provider for the Gas Retail Market Systems, inadvertently sent bulk standing data intended for the Network Operator (Envestra) to a user (Origin Energy). Origin Energy notified Logica of this matter on 24 April. Origin Energy could not remove the data from its systems until 16 May.

AEMO has informed the AER that during the quarter, Logica tested an automated scheduler which automatically produces the files and delivers them without manual intervention. Subject to this testing being successful, Logica would replace its manual processes with this automated scheduler.

The AER will continue to work with AEMO to ensure that confidentiality requirements are satisfied, including exploring capabilities that enable AEMO to detect these types of breach, rather than relying on the participants involved alerting AEMO of the problem.

1.3 Targeted compliance review

Targeted compliance reviews are an important part of the AER's compliance monitoring program. The reviews explore participants' compliance practices and aim to improve stakeholder understanding of the obligations with which they are required to comply. A list of the provisions which the AER has reviewed recently is provided in appendix A.

This quarter the AER targeted gas rules 213(2) (b) and (c), which stipulate that injection and withdrawal bids submitted by Market Participants must be made in good faith and represent the

participant's best estimate of the quantities of gas it intends to inject or withdraw from the Victorian gas market.

The AER wrote to five market participants requesting that they outline the processes which are in place to ensure compliance with these rules. Letters were sent to Santos, AGL, Origin Energy, TRUenergy[15] and Lumo.

Review Outcomes

The purpose of this review was to ascertain whether market participants have systems to ensure that their injection and withdrawal bids systems result in bids that comply with rules 213(2) (b) and (c). That is, that they represent the best estimate of the participant and that the estimate is made in good faith. In particular, the review tested whether participants were aware of the AER's July 2011 compliance bulletin outlining the AER's expectations in regard to best estimates in the Victorian gas market.[16] One aspect of this bulletin related to best estimates when AEMO puts in place supply demand point constraints (**SDPCs**).

The responses received varied in detail, but all participants have procedures in place to ensure compliance with these provisions. It was apparent, however, that some participants' procedures are more targeted than others. Responses generally focussed on open lines of communication between the participant's commercial and operations teams and also external communication agreements with service providers. Examples of good practice that were outlined in the responses were:

- the use of a group email inbox for gas traders
- internal weekly and monthly reviews of contract capacities to ensure that Maximum Daily Quantities and Maximum Hourly Flow Rates are consistent with existing contracts
- locating traders and commercial teams close to each other to encourage communication
- handover processes for shift workers to ensure that up-to-date information is passed from one trader to the next
- processes for training and assessing traders on bidding compliance, including a differentiation between junior traders and traders specialising in the Victorian gas market
- internal procedures for determining available quantities of gas
- procedures which consider compliance in a number of different bidding 'scenarios'.

All responses contemplated the possibility of an SDPC being declared prior to the gas day and all but one respondent provided details of contingency plans where a SDPC was declared on a gas day. Preferred responses detailed the impact that an SDPC might have when revising bids for the remainder of the gas day and indicated that SDPCs which arose on the gas day would be accounted for in rebids. Only one participant referred to bi-directional system flow points and also detailed training procedures relating to Directional Flow Point Constraints.

[15] TRUenergy was rebranded as Energy Australia on 8 October 2012.

[16] Available on the AER website.

In responding to the review, TRUenergy raised concerns relating to a nexus between AEMO's Gas Scheduling Procedures and the AER's compliance bulletin regarding best estimates for injection and withdrawal bids. Specifically, TRUenergy believes there has been insufficient explanation of how market participants are to 'ensure that...the entire quantity of gas bid is able to be physically injected or withdrawn, should AEMO schedule that gas', as specified in the compliance bulletin. TRUenergy's concern relates to how ramp rates and other accreditations should be taken account of against the principle of always ensuring (including for intra-day bids) that gas quantities can be delivered.

2 Electricity

The AER is responsible for monitoring, investigating and compliance under the Electricity Law and Rules.

2.1 Investigations, market events and compliance issues

This part of the report provides an update on reviews, investigations[17] and compliance matters in the electricity market.

2.1.1 Rebidding

Scheduled generators and market participants operating in the National Electricity Market (**NEM**) submit wholesale electricity offers and bids for each half hour. The offers and bids include available capacity for up to 10 price bands, and can be varied through rebidding.[18]

The AER adopted generator rebidding reasons as one of its special projects for 2011 and introduced a new rebidding enforcement strategy, as set out in the AER's *Compliance Bulletin No. 3*, published in December 2010.[19] Generators that submit offer, bid and/or rebid information that does not meet the requirements of the Electricity Rules will receive two warnings. On the third warning within six months, the AER will consider issuing an infringement notice. Where there is no third warning within six months of the first warning, the AER will reset a participant's warning count to zero. The AER has continued this approach to monitoring rebid reasons.

In June 2012 the AER published an updated *Compliance Bulletin No. 3*, to make it clear that, for the purposes of administering the three stage process and issuing warnings, the AER 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, the AER will count any non-compliant bids by that trading team together.

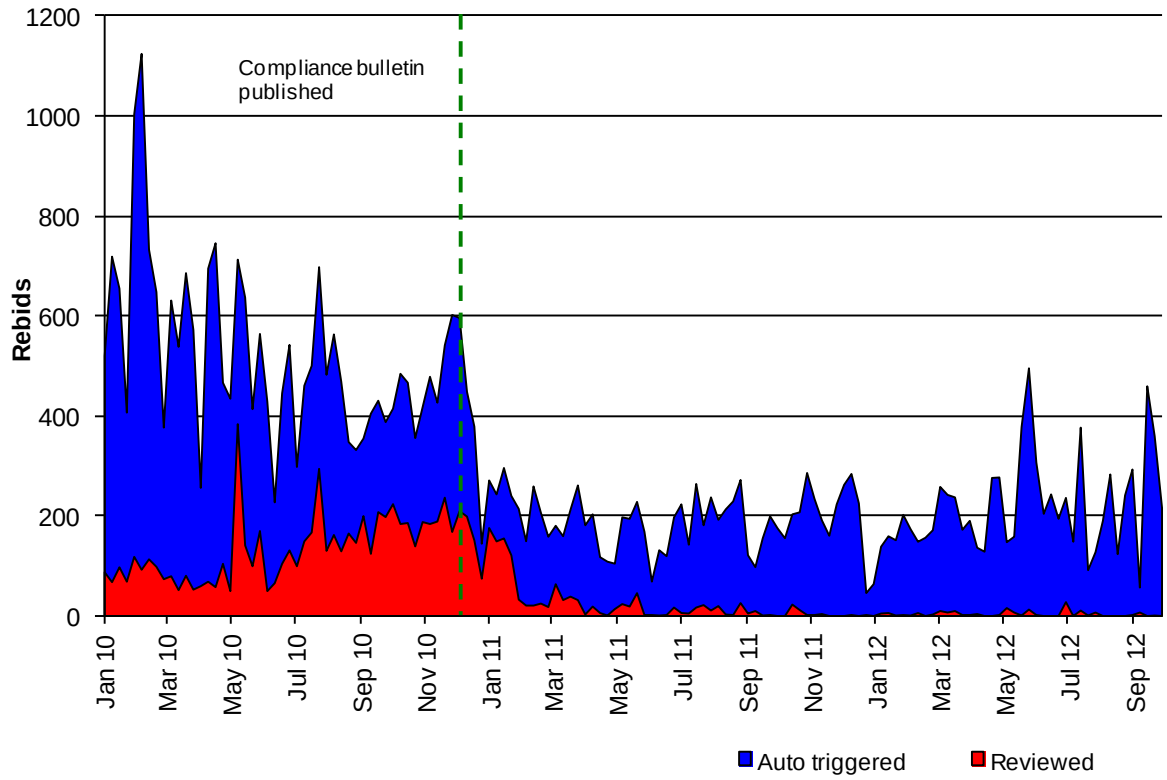
Figure 1 shows that since the compliance bulletin was first published (December 2010), the number of rebids detected by the AER's internal compliance system has fallen markedly. The number of rebids which required further review by the AER has also fallen significantly.

[17] Published investigation reports are available on the AER website.

[18] 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'.

[19] The Compliance Bulletin is available on the AER website.

Figure 1: Rebids auto-triggered and reviewed per week



During the September 2012 quarter, the AER reset one participant's warning count to zero. In addition, generators contacted the AER on 32 occasions to declare erroneous (or questionable) rebids. This reflects a stronger focus within the industry on the quality of rebids and a commitment to compliance within their trading teams.

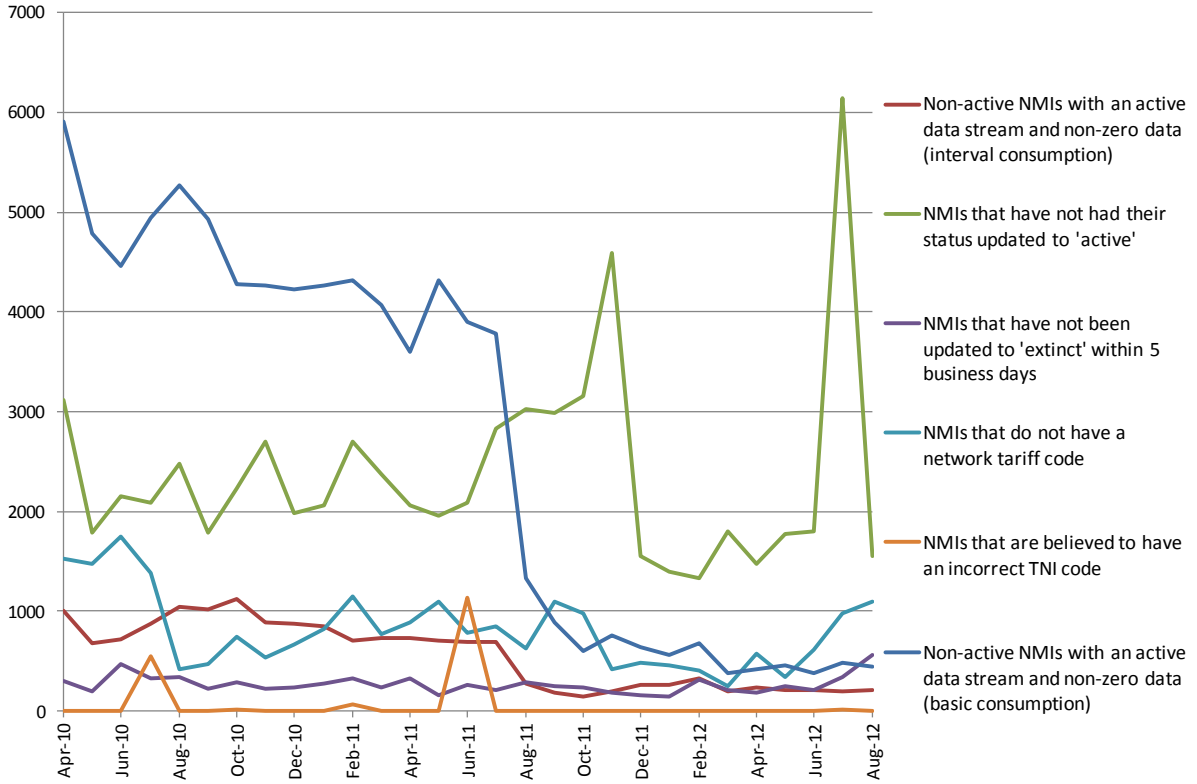
2.1.2 Strategies to address metering compliance

The AER and AEMO meet regularly to discuss metering compliance and performance issues. The AER is developing new strategies and metrics to enhance its monitoring capabilities of participants' compliance with the metering requirements. As the operator of the Market Settlement and Transfer Solution (**MSATS**), AEMO offers the AER valuable insight into problems and issues occurring in the metering space.

AEMO has provided the AER with MSATS error data for six error types. This data shows the number of errors made by each Local Network Service Provider (**LNSP**) in the last week of each month since April 2010. The AER monitors this data and will contact an LNSP that has a significant number of errors in any month seeking an explanation.

Figure 2 shows the total number of MSATS errors for the last week in each month since April 2010.

Figure 2: Total MSATS errors across all LNSPs



The AER will continue to monitor these AEMO metrics and new metrics are currently under review. Details of progress on the development of these monitoring strategies and metrics will be reported in a future QCR.

2.1.3 MSATS updates following metering configuration changes

Clause 7.2.8 of the Electricity Rules requires the AEMO to establish, maintain and publish MSATS procedures. The Consumer Administration and Transfer Solution (**CATS**) procedures form part of the MSATS procedures. Clause 7.2.8 also places obligations on all registered participants, metering providers and metering data providers to comply with the MSATS procedures.

The CATS procedures outline obligations for persons acting in the role of a Metering Provider (**MPB**) with regards to the MSATS system. Specifically, clause 2.7(g) outlines the obligations for an MPB when performing a metering configuration change:

> The current MPB must:
>
> (g) Update the MSATS system with all relevant meter register data on the configuration of the metering installation within **5 business days** of performing a metering configuration change.

Updating MSATS in a timely manner is an obligation under the Electricity Rules. It is important to ensure that accurate configuration information is available for settlement purposes. Delays can be of concern, particularly when they extend past retailers' billing cycles, as customers will be sent erroneous bills that then need to be corrected through complicated recalculation processes.

AEMO raised concerns with the AER regarding these updates after observing that a number of MPBs were taking significantly longer than 5 days to update MSATS after performing a metering configuration change. AEMO provided supporting MSATS data for the months May to August 2012.

The AER reviewed this data and concluded that eight MPBs failed to satisfy the CATS procedures timing requirements on a significant number of occasions. The AER wrote to each MPB seeking reasons why it is failing to update the data in MSATS in a timely manner following metering configuration changes and the steps it intends to put in place to reduce the time taken to carry out such updates in MSATS.

Where the MPBs were able to access the MSATS data, they generally agreed with the data provided to the AER by AEMO. Two MPBs identified fewer delays than indicated by the AEMO data.

The MPBs identified two main reasons for delays in updating the data in MSATS following a metering configuration change:

- delays in receiving paperwork from Accredited Service Providers (**ASPs**) following the provision of customer funded contestable work. In NSW there is a contestability regime for the provision of connection services which allows ASPs to, among other things, install and maintain meters. In practice, a customer engages an ASP directly to perform the connection work and pays the actual cost of the work to the ASP. Therefore the MPB is reliant on ASPs for metering transaction information, even though these parties operate independently from each other. The *Service and Installation Rules of New South Wales* states that such data should be provided to the relevant distributor within two business days, however many MPBs noted in their responses that ASPs do not meet this requirement. MPBs noted that there can be transparency issues associated with ASPs since they are engaged directly by customers. This means that the MPB does not know that work is being undertaken and therefore that it should have been provided with the required paperwork.

- backdated transactions associated with 'logical conversions' as part of the AMI smart meter roll out. There is no physical meter exchange, rather a conversion of a type 5 manually read interval meter or type 6 basic meter to an Advanced Metering Infrastructure (**AMI**) type 5 meter. This requires a retrospective transaction which is backdated to the last billable read. MPBs stated that these transactions were actioned in MSATS within the required timeframe, however, because the 'effective' date of the transaction is backdated to the last billable read date, these transactions are likely to have been flagged by AEMO as being outside the 5 days allowed. MPBs believe that there is no market impact associated with this backdating and that this practice is not inconsistent with the requirements of clause 2.7(g) of the CATS Procedure as there is no physical change in the field. Retailers and AEMO are aware of this process. Transactions are backdated rather than applying them to a future meter read to minimise market effects that could occur, for example if there was a change in FRMP for the meter.

Less frequently identified reasons were: internal metering technician delay, user error, system delays, internal processing arrangements, retrospective corrections of incorrect metering configuration data within MSATS, and greater volume of transactions due to the popularity of residential solar schemes.[20]

[20] Respondents noted that as solar schemes had recently changed, their take-up rate has reduced and there will be less transactions associated with solar going forward.

A number of actions were proposed by MPBs to reduce the time taken to update MSATS following a metering configuration change:

- implementing a program to identify ASPs who submit paperwork late and sending those ASPs a letter reminding them of their obligations to the MPB
- automating the provision of data by ASPs by requiring them to submit meter transactions online
- meeting with AEMO to discuss the ASP scheme, with aim to develop strengthened guidelines on ASP obligations around metering configuration changes
- amend internal processes for issuing meters to ASPs to ensure the prompt provision of transaction information
- processing logical conversions as close to the meter read date as possible to reduce the extent of backdating
- deploying temporary labour to process the current volume of meter transactions
- highlighting to the internal metering technicians the importance of updating data in a timely manner
- strengthening internal monitoring to detect when updates are not occurring.

The AER will continue to discuss the issue with AEMO. In particular, the AER will discuss the treatment of backdated transactions associated with logical conversions. MPBs explained that although these transactions may be recorded in MSATS within the required 5 day timeframe, they are likely to trigger AEMO's systems as being delayed because the 'effective' date entered for the transaction is backdated to the previous meter read. Including these transactions in the data representing delays in updating MSATS following a metering conversion may lead to an over-exaggeration of the number and length of delayed transactions.

In the meantime, MPBs should implement the actions proposed in their responses to reduce the time taken to update MSATS following a metering configuration change as soon as practicable.

2.1.4 Instrument transformer testing update

The AER released a compliance bulletin on instrument transformer testing in December 2011.[21] The bulletin sets out the AER's expectations for instrument transformer testing as required by the Electricity Rules and sought for industry to demonstrate a willingness to comply by testing a sample of their instrument transformers.

The AER proposed that each year a Responsible Person (**RP**) should test either 10 per cent of its metering installation population, or a sample of its meters in accordance with an alternative sampling method approved by AEMO. In the event that the 10 per cent per annum option is chosen by an RP, this is designed to ensure that within a 10 year timeframe, the entire population is tested. AEMO required that each RP submit a testing strategy and plan prior to 1 July 2012 to allow sample testing to commence on that date.

[21] Available on the AER website.

During the quarter the AER wrote to eighteen RPs who had not submitted their instrument testing strategies and plans to AEMO within the required timeframe. The AER asked each RP:

- why it had not submitted these documents as required
- when it intended to provide them to AEMO
- the method of testing it proposed to undertake, and
- how it would ensure that the required level of testing was completed by 30 June 2013.

The responses to these letters were positive, with RPs either providing the testing strategy and plan to AEMO immediately, or committing to provide these documents to AEMO by (or prior to) the end of November 2012.

Reasons given by RPs for not submitting the testing strategy and plan included:

- a lack of knowledge regarding the requirement to submit these documents to AEMO
- difficulties in obtaining sufficient metering installation data (family type, date of commission and date of last test) from metering providers, such that a strategy and plan could be developed
- negotiations with metering providers on the terms of conducting inspections had not yet been finalised
- the RP in question had been mistakenly excluded from the documents submitted by its parent company which were intended to cover all subsidiary RPs
- resources had been moved away from this process and instead committed to developing a compliance strategy and billing system for the new National Energy Retail Law.

Some RPs have not yet selected the instrument testing method that will be used, however those who outlined their choice in their response were split almost equally between the 10 per cent per annum option and the AEMO approved alternative sampling method.

RPs outlined a number of contingency plans which will be employed if necessary to ensure that the required level of testing is completed by 30 June 2013. These contingency plans include:

- where metering providers fail to provide quality data regarding the number of CTs, testing an extra 1 per cent of known CTs (on top of the required 10 per cent of known CTs) to account for any CTs that are excluded from the population count
- providing a testing schedule to testing partners with firm rolling dates, whereby each date is associated with a number of CTs which must be tested by that point.
- requiring monthly reporting from testing partners
- actively monitoring progress of testing and engage further resources to account for any anticipated delays
- ensuring new customers have the metering provider who is carrying out testing for the RP so the CT and churn data can be managed effectively and the CT can be added to the testing population as necessary.

The AER will continue to liaise with AEMO to confirm that RPs submit their testing strategy and plan by the dates outlined in their respective responses. The AER encourages RPs to contact AEMO where there is likely to be a delay in the submission of these documents, or if the required level of testing is not likely to be carried out by 30 June 2013.

2.2 Technical Audits

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

During the September 2012 quarter, the AER concluded its technical audit of Northern Power Station (**NPS**) in South Australia. This plant is operated by Flinders Operations, which is an entity within the Alinta Energy group.

The audit focussed on clause 4.15 of the Electricity Rules, which requires electricity generators to institute and maintain a Compliance Program in accordance with prescribed requirements.

In particular, the mandated Compliance Program must:

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

Alinta Energy demonstrated that its performance standards compliance program, if implemented and maintained appropriately, meets the requirements of the Electricity Rules and is consistent with GEIP. Follow-up actions for the participant identified by the AER mainly involve the updating and handling process of internal documentation. Distinguishing factors arising from this audit are that:

- unlike the practice observed during the audits of some other generators where the requirements of the new technical performance regime have been added to existing monitoring and testing arrangements, Alinta has developed detailed procedures and processes focused on each of its registered performance standards and modified its traditional testing and monitoring arrangements to suit. The AER considers this to be a sound approach since it serves to clearly demonstrate a direct link between the testing regime in place and the technical requirements of Schedule 5.2.5 of the Electricity Rules;
- the generator performance standard compliance framework in place at NPS will be extended to other Alinta Energy assets in the near future;
- despite NPS currently being ‘offline’ for an extended period of time, its asset management team has continued to maintain its testing and monitoring program by performing tests to not only verify performance associated with upgrading the plant but to also ensure that the plant is fit to return to service during the coming summer period or at any other unplanned time.

Generally, with the advent of a carbon price, generators may be offline (or in ‘dry-storage’) more frequently. If generating plants that are placed in dry-storage allow their technical compliance programs to lapse, there may be a heightened risk to power system security upon return to service. Alinta Energy’s approach is therefore sound and consistent with AER expectations. Additionally,

AEMO is currently developing a guideline on what might constitute Good Electricity Industry Practice in relation to long-term storage of registered generating facilities in the NEM. The AER intends on contributing to this initiative and will provide lessons learnt through the audit process. In any event, the AER expects any generator that may be offline or in dry-storage for any period of time to continue to comply with all applicable obligations under the Electricity Rules for as long as it remains registered in the NEM.

The AER takes this opportunity to remind generators that following the AEMC's publication of a revised template for generator compliance programs by the Reliability Panel in June 2012 (pursuant to clause 4.15(c) (3) of the Electricity Rules) generators are required to amend their compliance programs within the mandated six month period ending December 2012.

2.3 Jurisdictional derogations

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

- any inconsistency between the Rules and a contractual requirement under the relevant agreement between the government and other entities
- any other specified exemption in the jurisdictional derogations.[22]

The relevant participants must give notice to the AER of any act or omission which partly or wholly constitutes non-compliance with the Electricity Rules. No instances of non-compliance were reported in the September 2012 quarter.

[22] Refer to Electricity Rules 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).

Appendix A: Previous targeted compliance reviews

This is a summary of the provisions under the Electricity Rules and Gas Rules most recently targeted by the AER.

Quarter ending	Industry	Rule	Description
June 2011	Gas	172	Provision of linepack capacity adequacy indicators for the Bulletin Board
		378	Obligation to update information registered with AEMO
		435	Requirement to provide good faith, best estimate contingency gas offers
September 2011	Gas	300	Obligation to protect metering installations from unauthorised interference
		403	Obligation to investigate the circumstances of a MOS shortfall
		410	Obligation to make good faith, best estimate price taker bids (demand forecasts)
December 2011	Gas	180	Obligation to publish peak demand day information
		219	Obligation to notify AEMO of injection and withdrawal quantities
		254	Obligation to provide and maintain security (prudential requirements)
March 2012	Gas	336	Emergency procedures awareness
September 2012	Gas	213(2)(b) and (c)	Injection and withdrawal bids in the Victorian gas market