



Quarterly Compliance Report:

National Electricity and Gas Laws

1 April – 30 June 2018

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Executive Summary

The Australian Energy Regulator (AER) works to make all Australian energy consumers better off, now and in the future by:

- regulating electricity networks and covered gas pipelines, in all jurisdictions except Western Australia. We set the amount of revenue that network businesses can recover from customers for using these networks;
- enforcing the laws for the National Electricity Market and spot gas markets in southern and eastern Australia. We monitor and report on the conduct of energy businesses and the effectiveness of competition; and
- protecting the interests of household and small business consumers by enforcing the Retail Law. The AER's retail energy market functions cover New South Wales, South Australia, Tasmania, the Australian Capital Territory and Queensland. We do not set the prices consumers pay.

We drive effective competition where it is feasible and provide effective regulation where it is not. We equip consumers to participate effectively, including through our [Energy Made Easy](#) website, and protect those who are unable to safeguard their own interests.

The AER's Quarterly Compliance Reports (QCRs) relate to the agency's role in monitoring, investigating and enforcing compliance with the obligations under the National Electricity Law (Electricity Law), National Gas Law (Gas Law), National Energy Retail Law (Retail Law) and the respective rules and regulations governing Australia's wholesale energy markets, including those applying to network service providers (NSPs).

These reports outline the AER's compliance monitoring and enforcement activity during the most recent quarter of the calendar year. The QCRs emphasise the importance of compliance to the efficient operation of gas and electricity markets for the benefit of consumers, market participants and large energy users.

The QCRs are an important tool for the AER and help the agency to educate and inform consumers, businesses and other stakeholders by highlighting compliance issues, enforcement outcomes and/or raising awareness of market participant obligations. This reporting promotes energy market transparency and good industry practice.

This QCR covers the period 1 April 2018 to 30 June 2018 (the June 2018 quarter). It includes reporting on the following matters in electricity and gas markets.

Electricity

ENGIE compliance during 1 December 2016 South Australian separation event

The AER has reviewed the compliance and behaviour of market participants, during an approximately four hour period on 1 December 2016, when South Australia became synchronously separated from the NEM.

Through our review, we identified compliance concerns in relation to the operation of ENGIE's Dry Creek Power Station and Pelican Point Power Station. We outline our concerns and findings in this QCR, including our enforcement response in relation to our determination that ENGIE had failed to comply with dispatch instruction obligations under the National Electricity Rules.

AEMO FCAS settlement

Within its role as market operator, the Australian Energy Market Operator (AEMO) is responsible for managing power system frequency. It does so by operating a series of ancillary services markets. Incidences have been identified where AEMO incorrectly allocated costs for frequency control services between the regulation services and contingency services. In each case, this represented a breach of the National Electricity Rules.

Change of classification for South Australian temporary generators

The AER has decided to take 'no action' in respect of potential non-compliance stemming from AEMO's reclassification of two fast-start temporary diesel generating units in South Australia. AEMO first classified the units in October 2017 (as scheduled generators) and reclassified them in July 2018 at the request of SA Power Networks.

Distribution ring-fencing compliance activities

We provide an overview of our distribution ring-fencing compliance activities for the quarter. This activity follows the passing of the 1 January 2018 deadline for Distribution Network Service Provider (DNSP) compliance with the *Ring-fencing Guideline – Electricity Distribution*.

Implementation of metering contestability

Included, is a brief overview of the implementation issues arising under metering contestability. We continue to co-ordinate with AEMO and relevant participants to improve customer outcomes, with a focus on the delays in the provision of new and replacement meters to customers.

Compliance with MSATS procedures

Improving compliance with the Market Settlement and Transfer Solution (MSATS) procedures is a compliance priority for the AER. In December 2017, the AER announced a

targeted review of compliance with the Electricity Rule provisions relating to the MSATS procedures. We provide an update on the progress of this review.

Demand side participation guidelines

The National Electricity Rules enable AEMO to request information on demand side participation (DSP) from registered participants. We continue to monitor participant provision of DSP information to AEMO, via its data portal, and provide an update.

NEM high price events

In 2017, we commenced highlighting our reports on extreme price events in the National Electricity Market (NEM) in this report. We must publish these event reports when there is an extreme price occurrence in either the wholesale spot market or ancillary services market. The reports describe the significant causal factors and include analysis of any contributing behaviour by market participants.

We highlight that we have published one report on extreme prices this quarter. At the time of publication, we were also investigating extreme price occurrences in South Australia's ancillary services market and spot market on 8 July and 9 July 2018 respectively.

Gas

Gas Bulletin Board

The gas content in this QCR focuses on changes to the Natural Gas Services Bulletin Board. New Bulletin Board reporting requirements will take effect from 30 September 2018. The changes represent the most significant reform to the Bulletin Board since its inception in 2008.

We take this opportunity to highlight that these Bulletin Board reforms include introduction of civil penalty provisions to Part 18 (Gas Bulletin Board) of the National Gas Rules. This enhances the AER's enforcement options and our role in delivering on the CoAG Energy Council's gas market vision¹. We will be looking to ensure that the Bulletin Board is a reliable and trusted resource and that gas market participants continue to submit information in accordance with the new requirements in the National Gas Rules.

Retail Market Procedures

The QCR standing item on non-compliance with the Retail Market Procedures has been updated for this publication. This addresses self-reported instances of non-compliance and measures to prevent reoccurrence.

¹ Within its vision statement, the CoAG Energy Council outlined a desire for "The provision of accurate and transparent market making information on pipeline and large storage facilities operations and capacity, upstream resources, and the actions of producers, export facilities, large consumers and traders".
<http://www.coagenergycouncil.gov.au/publications/coag-energy-council-australian-gas-market-vision>

2018-19 summer readiness (electricity)

In the lead up to the summer of 2017-18, we flagged our expectations of market participants regarding compliance with a number of critical obligations under the Electricity Rules.² This was in preparation for a summer, which was forecast at times to have a lack of reserve to meet the reliability standard. The summer readiness content was accompanied by a checklist to assist market participants with their summer preparations.

This messaging focused on the provision of high quality and timely information to AEMO, but also discussed market ancillary services, generator performance standards and compliance with dispatch offers.

We will again release summer readiness commentary ahead of the 2018/19 summer. This is likely to include information around the Reliability and Emergency Reserve Trader (RERT) and medium term Projected Assessment of System Adequacy (MT PASA) to account for recent policy changes in those areas.

At this stage, we are seeking input from participants around which obligations it would be useful to provide additional guidance on in the commentary, as well as seeking general feedback on summer readiness. Feedback can be sent to us, via email, at QCRfeedback@er.gov.au. We will also be contacting a selection of participants seeking their views.

² Available on the [AER website](#).

Background

Section 15 of the Electricity Law and section 27 of the Gas Law sets out the AER's functions and powers, which include:

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

Consistent with our statement of approach⁴, 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; and
- assist in ensuring industry participants can engage confidently in efficient energy markets.

As part of this process, we undertake an ongoing compliance risk assessment of each obligation under the Electricity and Gas Rules to identify appropriate focus areas and monitoring/compliance mechanisms.

In selecting 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; and
- transparency (subject to confidentiality requirements).

In carrying out our enforcement actions we seek to demonstrate proportionality and procedural fairness (where required). We take into account a participant's compliance framework and consider whether compliance programs and processes are effectively applied, up-to-date and tested regularly. Whilst businesses may not be required to have a compliance framework in place it is good governance to do so.

³ Entities registered by AEMO under Chapter 2 of the Electricity Rules or in accordance with Part 15A of the Gas Rules.

⁴ The Statement of Approach is published on the [AER's website](#). 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 projects in the electricity market.

1.1 ENGIE Australia and New Zealand Compliance during 1 December 2016 South Australian Separation Event

On 1 December 2016 at 00:16 hrs, South Australia (SA) became synchronously separated from the rest of the National Electricity Market (NEM) when a fault on the Victorian transmission network caused an outage of the Heywood interconnector.⁵ The Australian Energy Market Operator (AEMO) operated SA in electrical isolation until 04:41hrs. During the separation event, the South Australian power system was not in a secure operating state for a period of 4 hours and 20 minutes. Throughout this period, AEMO issued a number of directions to manage a shortfall of contingency frequency control ancillary services (FCAS) and restore power system security.

The AER conducted a review of the compliance and behaviour of market participants during the separation event. Our review identified that ENGIE Australia and New Zealand (ENGIE)'s Dry Creek Power Station failed to follow energy dispatch targets on multiple occasions during the period when SA was islanded.⁶ We also identified that ENGIE's Pelican Point power station failed to provide raise 6 second FCAS during the 00:20 dispatch interval (DI) in response to the frequency drop.

1.1.1 Not following dispatch instructions at Dry Creek

Dry Creek Power Station is comprised of three combined cycle gas turbines. Each scheduled generating unit is capable of generating 52 megawatts (a total of 156 MW). Throughout the course of the separation event we observed the following areas of concern:

- delayed start for two units when those units received a start-up target
- significant periods of continuous and material non-compliance for a unit⁷
- periods of material non-compliance across multiple units during the same dispatch intervals, involving both under and over generation against target; and
- delayed shutdown.⁸

During our investigation, ENGIE identified the following practices and operations that contributed to its non-compliance at Dry Creek, including:

⁵ Murraylink, which is a DC interconnector, remained in service. Murraylink is unable to transfer FCAS.

⁶ Synergen Power Pty Ltd is the registered participant for the Dry Creek units. Synergen Power is part of the ENGIE Australia & New Zealand group of companies.

⁷ For example, Unit 3 failed to follow dispatch targets for around half an hour over two separate periods.

⁸ For example, Unit 2 received a shut-down target but was slow to respond.

- work arrangements for ENGIE spot traders whilst on night shift
- certain aspects of the Agreed Procedures with a third party for the operation of Dry Creek
- the inability of Pelican Point staff to remotely operate Dry Creek due to IT issues; and
- other events on the 1 December 2016 calendar day (other events requiring staff resources).

While ENGIE has taken a number of remedial steps following this incident, the AER was concerned that ENGIE failed to provide adequate back up and resourcing to support its staff during a significant market event. In particular, we alleged that ENGIE had failed to comply with its obligations to follow dispatch instructions for a number of dispatch intervals,⁹ and to ensure that appropriate personnel were available at all times to receive and immediately act upon dispatch instructions issued by AEMO.¹⁰ In determining our enforcement response in this case, we took into account ENGIE's full cooperation throughout the investigation.

In response to our concerns, ENGIE offered a court enforceable undertaking, which is in effect for two years commencing on 9 July 2018.¹¹ ENGIE has undertaken to:

- seek to amend the procedures with the Third Party which operates Dry Creek Power Station
- make and maintain improvements to the arrangements for Pelican Point control room to remotely control the Dry Creek units
- implement new alerts, maintain additional IT resources and review adequacy of roster arrangements for ENGIE spot traders
- review operational procedures for ENGIE spot traders
- engage an independent expert to review ENGIE's compliance material; and
- engage an external party to conduct training once a year for relevant staff.

In addition to accepting the undertaking, the AER issued three infringement notices (one for each unit) for allegedly failing to follow dispatch instructions from AEMO (clause 4.9.8(a) of the NER). ENGIE paid the \$60 000 penalties in early July 2018. The infringement notices were one part of an enforcement package which focuses on changing future compliance culture.

Efficient delivery of energy to customers relies on a range of critical market activities including NEM participants offering their capacity in way that reflects their capabilities, a dispatch process that evaluates offers in conjunction with customer demand, security constraints and network capabilities and sending appropriate generation targets to participants.

This matter highlights that serious power system events (such as operating South Australia as an island from the rest of the NEM) can occur at any time of the day or night. It is

⁹ NER 4.9.8(a)

¹⁰ NER 4.9.2(d)

¹¹ The undertaking was offered by International Power (Australia) Holdings Pty Limited, the ultimate Australian holding company of Synergen Power.

particularly important that, in times of unusual power system conditions, AEMO can rely on generators to meet AEMO's dispatch instructions. While the power system security issues on 1 December 2016 were related to shortfall in the FCAS market, the instances where the Dry Creek units did not follow dispatch instructions impacted AEMO's ability to manage the security of the power system.

The National Electricity Rules recognise that participants are best placed to comply with dispatch instructions through ensuring units are capable of complying with their latest generation dispatch offers at all times and by ensuring the availability of appropriate personnel to immediately act upon dispatch instructions. While participants are required to have personnel available at all times, we consider this matter to be a timely reminder for all participants to review their out-of-business-hours practices and resourcing. Personnel with responsibilities for monitoring dispatch offers and dispatch targets out of business hours (especially if working from home) should have access to appropriate equipment, systems and back up support to enable them to respond appropriately, irrespective of whether it is during typical or unusual market conditions. This includes not only having additional resources on standby but ensuring that traders are aware of those resources and the need to call upon them if required.

1.1.2 Provision of FCAS at Pelican Point

As part of our broader investigation into the 1 December 2016 market event, we reviewed the responses of plant enabled to provide contingency FCAS in the period immediately following the separation event.¹² Pelican Point was enabled to provide 17 MW fast raise (R6) contingency FCAS for the dispatch interval ending 00:20. The AER had concerns about Pelican Point's failure to sustain a fast raise response over the first six seconds as required by AEMO's market ancillary services specification (MASS).

Generating units enabled for R6 FCAS are expected to commence delivering this service automatically when the frequency falls below the normal frequency operating band of 49.85 Hz. In this separation event, the frequency in South Australia fell to 48.78 Hz in the first 2 seconds. AEMO requires this service to arrest a major drop in frequency following a contingency event. As a matter of principle, it is important that FCAS services are delivered when required as they form a key part of the safety net measures to ensure power system security is maintained.

ENGIE acknowledged that Pelican Point failed to provide the requisite response. It reported that, on this occasion, the control logic switched to an inappropriate control mode in which it was unable to deliver the required response. ENGIE reported that this was a result of the rate of change of frequency (of ~1.2 Hz/s). Up to 1 December 2016, ENGIE was not aware of the potential for FCAS performance to be negatively impacted during high rate of change events. The original equipment manufacturer (OEM) of the gas turbine units has been consulted and advised ENGIE to undertake an improvement in the controls (DRI- Dynamic Response Improvement). This improvement has since been implemented.

Once it became clear to ENGIE that the frequency response control systems are the same for both gas turbine units (and are therefore likely to respond in a similar manner in respect

¹² Some of the learnings from this event formed part of the AER's Summer Readiness messaging in our [Q3 2017 QCR](#).

of R6 FCAS) it also ceased offering R6 FCAS from Pelican Point. ENGIE has implemented DRI (Dynamic Response Improvement) through the OEM to remedy issues associated with the control system logic. The solution (control system update) has been implemented as part of its maintenance program for both gas turbine units and final testing of the modifications is underway. ENGIE has recently advised that both units are now capable of reliably delivering R6 FCAS.

The AER considered a number of mitigating factors when determining whether to take enforcement action in relation to this contravention. In particular, that:

- the breach was not intentional
- the breach was partly caused by a technical error
- ENGIE was working to rectify any technical issues so that similar issues do not occur in the future
- ENGIE was not aware of the potential for FCAS performance to be negatively impacted during high rate of change of frequency events; and
- the non-delivery of FCAS did not have a material impact on the outcome of this incident.¹³ In this instance—whether or not Pelican Point provided the required R6 FCAS response—the outcome would unlikely be different as the SA frequency recovered the normal frequency operating band within approximately 11 seconds.

Clause 4.9.8(d) of the National Electricity Rules requires that Market Participants which have classified a generating unit or load as an ancillary service generating unit or an ancillary service load must ensure that the unit or load is at all times able to comply with the latest market ancillary service offer for the relevant trading interval. While the AER determined not to take enforcement action in this circumstance, we remind all market participants offering contingency FCAS to ensure that their units are capable of delivering the FCAS services if called upon.

Given that generators receive enablement payments despite the relatively infrequent requirement to deliver, appropriate testing and due diligence has to be undertaken on a continuing basis. Component testing, ongoing condition and performance monitoring and event review are key elements of good electricity industry practice, particularly given the infrequent nature of the provision of the service. Participants should test and monitor the capability of their control systems under a range of rate of change of frequency models/scenarios to ensure that the contingency service can be delivered in accordance with their offer if called upon by AEMO.

These provisions are critical to the safe operation of the market and as such are a high priority in our compliance strategy. We will continue to closely monitor compliance with this provision and engage with industry regarding their obligations.

¹³ AEMO, Final Report—South Australia Separation Event, 1 December 2017, p.1

1.2 AEMO FCAS settlement

The Electricity Rules recognise that regulation FCAS can at times be substitutes for 5-minute contingency services and that it can be more efficient to dispatch additional regulation services to meet some of the 5-minute contingency requirement.¹⁴ Clause 3.15.6A(p) of the Electricity Rules requires AEMO, when it dispatches a quantity of raise or lower regulation services in addition to the amount of regulation services required, to:

- include the additional quantity in the cost of 5 minute contingency FCAS when recovering those services; and
- exclude the additional quantity in the cost of regulation services.

The Electricity Market Management System (MMS) is AEMO's wholesale system which determines the cost of energy in the NEM. It undertakes a number of functions, including the calculation of settlements for FCAS. On 5 July 2018, AEMO published a report identifying errors in FCAS settlement calculations.

The settlements FCAS recovery module of MMS allocates regulation service between 5-minute contingency FCAS recovery and regulation recovery, based on an assessment of the requirement for regulation in each dispatch interval. Following an enquiry from a market participant, AEMO identified that the recovery of 5-minute contingency FCAS costs over two periods in 2017 and 2018 was not consistent with clause 3.15.6A(p) of the Electricity Rules.

In some situations, contingency FCAS costs were incorrectly allocated to regulation costs in the FCAS settlements recovery module. As a result, regulation FCAS costs were higher than they should have been and more costs were allocated to participants under the causer pays process and less contingency FCAS costs were recovered from generators (contingency raise) and market customers (contingency lower) than should have been.

AEMO's systems co-optimize regulation and 5-minute contingency services through the use of constraint equations. AEMO's analysis of the issue identified that, under certain circumstances, those constraints would interact with other constraints in an unintended way. As a result, the software module did not assign the costs of regulation FCAS, dispatched in excess of the regulation requirement, to the delayed (5-minute) contingency FCAS recovery process. Further information on the affected constraints was provided in AEMO's report.

In its 5 July 2018 report, AEMO identified two broad dispatch outcomes as contributing to the settlement issue:

- Basslink outages, which require separate mainland and Tasmanian FCAS requirements.
- Basslink no-go zones, which result in the inability to "transfer" FCAS between Tasmania and the mainland.

AEMO has estimated that the impact on settlement during the Basslink outage (between March and June 2018) was around \$10 million. There was an additional impact of around \$400,000 over four weeks in April/May 2017.

¹⁴ The converse, however, is not true – contingency 5 minute services are not a substitute for regulation services.

AEMO considers this was a unique issue arising from a particular combination of the above dispatch outcomes, the interaction of constraint equations, and a software defect that manifested in those circumstances. To prevent reoccurrence, AEMO has:

- revoked a category of constraints so that the issue will not arise when Basslink is not operating or when it is in the 'no-go' zone; and
- developed, tested and implemented a software fix to allow excess regulation FCAS costs to be allocated as required by clause 3.15.6A(p) of the Electricity Rules in these circumstances.

AEMO has now made these changes to its systems (implemented in the final production environment) and has issued the first set of routine revisions to resettle the recovery amounts based on the correct allocation between 5-minute contingency FCAS and regulation (in accordance with clause 3.15.19(b) of the Electricity Rules). It will continue to notify participants on further revisions through the normal settlement notification processes.

We discussed three FCAS causer pays issues in our June 2017 QCR. Following the last of these, AEMO committed to the AER that it would notify us of any further errors identified in the calculation causer pays factors. While the recent MMS FCAS settlement issue is not related to FCAS causer pays factors, it is critical that AEMO carries out all FCAS settlement processes with accuracy, particularly those which involve the recovery of funds from market participants.

AEMO has formally proposed the following further actions to the AER in an effort to detect and effectively manage any future FCAS settlements issues:

- In line with its usual practice, AEMO will refer the identified non-compliance with clause 3.15.6A(p) to the market auditors as part of the 2018/19 NEM audit for an independent review of the root cause and contributing factors. AEMO will notify the AER of any agreed recommendations for process improvements
- AEMO will continue to evaluate whether any practical and effective measures can reasonably be implemented to assist in the prevention or early detection of any unintended settlement impact of similar types of constraint; and
- over the next 12 months, AEMO will notify the AER if it identifies any non-compliance by AEMO with its NEM settlement calculation obligations that is likely to have a material impact on market participant settlement amounts.

1.3 Change of classification for South Australian temporary generators

Prior to the 2017/18 summer, the South Australian Government, through the South Australian distributor SA Power Networks, built and installed 276 MW of fast start diesel generating units over two separate sites to be available in emergencies. Temporary Generator North (SATGN1) is located at Elizabeth and Temporary Generator South (SATGS1) is located at Lonsdale. The units were built as part of the South Australian

Energy Plan, largely in response to the market events of 2016 and 2017 that impacted on system security.¹⁵

The intended use of the generators is for emergencies only, such that they can be directed by AEMO or the SA Minister for Energy and Mining (via AEMO) or via AEMO's Reliability and Emergency Reserve Trader (RERT) scheme (if contracted under the scheme).

AEMO registered the SATGN1 and SATGS1 units in October 2017. Due to their size, AEMO classified them as Market Scheduled generating units in accordance with clause 2.2.2(a) of the Electricity Rules. SA Power Networks is the Registered Participant for the units.

In July 2018, SA Power Networks requested AEMO change the classification of SATGN1 and SATGS1 from Market Scheduled to Market Non-Scheduled. As part of its request, SA Power Networks confirmed that it would continue to operate the units as originally intended (that is, under direction by AEMO or the SA Minister for Energy and Mining, or via a RERT contract). We also understand that SA Power Networks also committed to maintain Supervisory Control and Data Acquisition (SCADA) for the units, and to contact AEMO to notify it of any changes in the units' availability.

AEMO advised us that it had no objection to the change in classification and requested that the AER take no action in respect of any non-compliance by AEMO with Electricity Rules clause 2.2.2(a) that may result from the change in registration.

On 30 July 2018 the AER granted AEMO's request for no action. AEMO's Registration Committee approved the change in classification of SATGN1 and SATGS1 from Market Scheduled to Market Non-Scheduled on 17 August 2018, with the change effective from 22 August.

1.4 Distribution ring-fencing compliance activities

On 1 January 2018, the transitional period of the *Ring-fencing Guideline – Electricity Distribution* (the Guideline) ended. Compliance with the Guideline is now mandatory. The Guideline is designed to prevent cross-subsidisation and discrimination by Distribution Network Service Providers (DNSPs) in favour of any related electricity service providers (RESPs) who operate in contestable markets.

During the first six months after the Guideline came into full effect, the AER raised numerous compliance concerns with DNSPs. In most cases, this concerned DNSPs failing, by 1 January 2018, to properly train staff or properly implement systems in support of their ring-fencing compliance obligations.

We are satisfied that these DNSPs have corrected or are working to correct these breaches. The breaches are summarised below. We encourage stakeholders to advise us where they observe behaviours that may raise compliance concerns in relation to the Guideline.

¹⁵ More information is available on the [Renewables SA website](#).

1.4.1 Referral of customer-requested contestable services to ASPs by the DNSP

In December 2017, two businesses contacted Ausgrid, requesting contestable asset relocations as part of major construction projects. In January 2018, the Ausgrid employees who received those requests had been transferred to Plus ES. Plus ES is a business that is affiliated with, but legally and physically separated from, Ausgrid. Plus ES was established to separate the regulated work undertaken by Ausgrid from contestable activities. This involved separation of staff providing regulated services from staff providing contestable services under the Ring-fencing Guideline. Based on information obtained while previously working for Ausgrid, Plus ES staff offered to perform the contestable work for the two businesses. Plus ES was only able to tender for these contestable projects because of the information its staff had obtained while working for Ausgrid. This is a breach of the Ring-fencing Guideline because Ausgrid has enabled confidential information to be passed to its affiliate, to the potential disadvantage of other accredited service providers (ASPs).

Ausgrid reported these incidents to us as breaches of the Guideline on 29 June 2018. Ausgrid discovered these breaches in the course of responding to our investigation into a separate compliance issue (non-contestable asset relocations, discussed in 1.4.6). Ausgrid stated that it had taken action to prevent any reoccurrence, including:

- plus ES employees are no longer able to receive emails from their previous Ausgrid email addresses; and
- Ausgrid has provided additional training to Plus ES and Ausgrid employees to ensure that when customers contact Ausgrid to perform contestable works, Ausgrid has a non-discriminatory procedure in place when referring customers to ASPs.

All DNSPs should have clear and predictable procedures for referring customer requests for contestable services without discriminating in favour a DNSP's affiliated entity. We consider these breaches were concurrent with the establishment of Ausgrid's related entity, and that while this should not have occurred, Ausgrid's response to the breaches was sufficient.

We do have concerns that Ausgrid discovered the breaches several months after they occurred, and that they were only discovered and reported to us as a result of an AER-initiated compliance investigation. Our response involved multiple discussions with relevant Ausgrid staff and writing to senior Ausgrid executives expressing our concern these breaches had occurred and were not reported to the AER in a timely manner. In response Ausgrid has undertaken to ensure appropriate systems and processes are in place to refer customer requests for contestable works to the broader market in a way that does not in any way favour their affiliated entity. Ausgrid is required to submit an annual ring-fencing compliance report to the AER, accompanied by an assessment of compliance by a suitably qualified independent assessor. Should the AER become aware of further compliance breaches in relation to this issue (as a result of complaints from members of the public or the results of Ausgrid's independent assessment) we will consider taking further action.

1.4.2 Completion of contestable work

On 8 June, Ausgrid reported that it had breached the Ring-fencing Guideline by performing contestable services delivered under contracts for 15 separate projects, including contestable asset relocations. Ausgrid entered into these contracts prior to the 1 January 2018 deadline for compliance with the Ring-fencing Guideline. Ausgrid indicated that transferring these contracts to an affiliated entity, prior to the deadline, was impractical and disruptive to customers.

Ausgrid has not advised why the breaches were not identified earlier. By comparison, in December 2017, we had already consulted on and granted waivers to AusNet Services, TasNetworks, and SA Power Networks to complete existing contracts that were somewhat similar in nature to the Ausgrid situation. In these cases, the distributors demonstrated that transferring the existing contracts to a new affiliated entity would significantly increase the cost to the DNSP and customers of implementing the Guideline, with little, if any harm, to the competitiveness of contestable markets. Had Ausgrid applied for a waiver at this time we may have also granted a waiver for similar reasons. The 15 Ausgrid contracts were completed in June 2018, shortly after the breaches were reported.

In response to this breach, we wrote to Ausgrid expressing our concern that Ausgrid notified us of its intention to complete these contestable works several months after the ring-fencing compliance period had commenced. All DNSPs had a 12-month transition period between the release of Ring-fencing Guideline in December 2016 and the compliance deadline on 1 January 2018, during which time Ausgrid could have identified that these contracts needed to be transferred to a related electricity service provider. Given the projects were completed in June 2018, and that we would likely have granted a waiver to Ausgrid for these contestable contracts (had Ausgrid applied for one at the appropriate time), we have not taken further action with respect to this breach. However, we have issued a warning to Ausgrid that this lapse underlines a need for the DNSP to improve internal compliance monitoring and timely reporting on ring-fencing compliance. We have also made clear to Ausgrid that we will actively be monitoring the business' compliance with its ring fencing obligations

1.4.3 Supply restoration involving work on customer-side assets

Extended power outages could threaten the health or safety of vulnerable customers if they cannot source power supply restoration services from electricians in a timely manner. Ausgrid has expressed concern to the AER on several occasions that the Ring-fencing Guideline has prevented it from restoring power supply to 'vulnerable customers' on several occasions.

In March 2018, Ausgrid informed the AER that they were developing a 'vulnerable customer protocol' to address situations where an Ausgrid emergency crew discovers a fault on the customer's side of the connection point. Ausgrid considers it is appropriate to restore supply to customers in circumstances where an electrician cannot attend premises in a timely manner and the customer is deemed vulnerable. In April 2018, Ausgrid proposed to alter its

list of regulated services to enable it to provide supply restoration services for vulnerable customers.¹⁶

Since 1 June 2018, Ausgrid has reported the following two breaches of the Guideline in these circumstances:

- On 30 June, Ausgrid field crew restored power supply to two customers who had been without power for 17 hours and were considered by the crew to be vulnerable.
- On 13 July, Ausgrid field crew restored power to an elderly couple considered by the crew to be vulnerable, after unsuccessfully seeking to contact an ASP.

In both scenarios, we have determined that Ausgrid staff members likely performed the minimum amount of work necessary to restore supply to the customer. We recognise that if a DNSP service crew is already onsite to investigate a suspected network outage there may be cases where the DNSP can perform low-cost, quick fixes that can restore supply to a customer. In such cases, we consider that the negative impact on the competitiveness of contestable markets is limited, while the benefits to customers are significant. We consider these breaches of the Ring-fencing Guideline do not significantly impact on the objective of the Guideline. Ausgrid did not charge the affected customers for this work.

In its regulatory proposal for the forthcoming 2019-2024 regulatory control period, Ausgrid has proposed alterations to its services list, under which these situations would not be a breach of the Guideline. We are currently considering Ausgrid's proposal in our Draft Decision on Ausgrid's Determination, which will be published in late September 2018. In the meantime, Ausgrid will continue to report supply restoration services involving customer-owned assets to the AER as breaches of the Ring-fencing Guideline.

1.4.4 Repairs on customer assets where there is an immediate safety hazard

On 11 April 2018, Ausgrid reported that an Ausgrid field crew member repaired a customer's meter in order to earth an unearthed meter board. We accept that there are common law requirements for a DNSP to make electrical equipment safe if it poses a health and safety hazard and do not consider the field crews actions to be a breach of the Guideline. We expect that where a DNSP field crew identifies a situation that poses an immediate health and safety hazard (such as unearthed electrical equipment), the DNSP should act to make electrical equipment safe regardless of whether the asset is owned by the network or a customer.

1.4.5 Contestable meters

On 12 January 2018, Energex and Ergon Energy, collectively through Energy Queensland, reported a breach of the Ring-fencing Guideline to the AER. Energex and Ergon Energy continued to perform Metering Provider services for type 1-4 meters after the 1 January ring-fencing compliance deadline. Under the Power of Choice metering contestability rules and Electricity Distribution Ring-fencing Guideline, metering coordinator, metering provider, and metering data provider roles for type 1-4 meters are contestable services that must not be

¹⁶ Ausgrid, *Ausgrid's regulatory proposal 1 July 2019 to 30 June 2024 – Attachment 11*, April 2018, p. 5.

performed by the DNSP. This breach was reported in our March 2018 Quarterly Compliance Report.

In January, Energex and Ergon acted as metering provider for 1493 type 1-4 meters. As of 28 July, Energex continues to act as metering provider for 65 type 1-4 meters, 30 of which are not energised. It is our view that non-energised meters are not being used to provide a metering service, and therefore do not represent a breach of the Guideline. Ergon Energy reported that they had resolved their breach on 18 July.

While Energex remains in breach, it is taking action to comply. It is reliant on financially responsible market participants or FRMPs (such as retailers) to appoint a new metering coordinator, who can in turn appoint a new metering provider and transfer the outstanding meters from Energex to the new metering provider. Energex has been working with FRMPs to enact this transfer, or to extinguish National Meter Identifiers (NMIs) that are not active. We encourage FRMPs to take swift action to transfer outstanding type 1-4 meters to contestable metering coordinators, and for metering coordinators to take swift action to transfer these new metering providers.

1.4.6 Non-contestable asset relocations

In January 2018, the AER was advised that a number of Accredited Service Providers (ASPs) had received offers from Ausgrid's affiliate entity, Plus ES, for the completion of non-contestable asset relocations. Non-contestable asset relocations are asset relocations that impact the safety and security of the network and must be performed by the DNSP.

Ausgrid informed us that Plus ES was acting as a contractor to Ausgrid in order to provide specialised non-contestable services under a service agreement. Ausgrid confirmed that contracts should not have been directly sent by Plus ES to ASPs. Where a DNSP is sub-contracting regulated work to a contractor, we expect that the DNSP should maintain appropriate contractual relationships between the customer and the DNSP and the DNSP and any sub-contractors. Interactions with the customer under this circumstance (such as offering quotes and contracts) should be done by the DNSP. While this is not a breach of the Guideline, such behaviour would expose the DNSP to risk of potential breach if that action resulted in inappropriate cost allocation. Ausgrid has advised that the projects were cost-allocated correctly.

DNSPs are permitted to sub-contract affiliated entities to perform direct control services, subject to the incentives within the regulatory regime (such as the Efficiency Benefit Sharing Scheme or EBSS) to ensure efficient provision of regulated services. However, this issue does represent an area of potential compliance risk and has caused concern amongst Accredited Service Providers (ASPs) in NSW that Ausgrid is favouring its affiliated entity. We have therefore written to Ausgrid stressing that it must better manage communications with customers in future, particularly where Plus ES is used as a sub-contractor in the provision of regulated services. If Plus ES were to offer contracts to perform direct control services directly to the customer using the Plus ES brand on a wider scale, customers may come to conflate Plus ES with the DNSP. Compliance with the Ring-fencing Guideline requires that Ausgrid does not discriminate in favour of Plus ES and deals with Plus ES as if

it has no connection or affiliation with Ausgrid. To do otherwise would be a breach of the Guideline.

1.4.7 Breaches of the Ring-fencing Guideline – Electricity Distribution

The following table provides a summary of breaches reported to us between April and June 2018 under clause 6.3 of the Ring-fencing Guideline. As outlined above, the AER is responding to these breaches through compliance letters, service classification changes through the distribution revenue determination process, and ongoing monitoring through DNSP annual ring-fencing reporting.

DNSP	Guideline clause(s) breached	Nature of breach	Latest breach status
Energex	4.2.1 – Obligation to physically separate a RESP providing contestable electricity services 4.2.2 – Obligation not to share staff	Energex provided contestable electricity services for 1,347 type 1-4 meters at time of breach reporting (12/1/2018) (see 'contestable metering').	As of 27/7/2018 Energex continued to provide contestable electricity services for 65 type 1-4 active meters and a number of de-energised meters.
Ergon Energy	4.2.1 – Obligation to physically separate a RESP providing contestable electricity services 4.2.2 – Obligation not to share staff	Ergon Energy provided contestable electricity services for 146 type 1-4 meters at time of breach reporting (12/1/2018) (see 'contestable metering').	As of 18/7/2018 all type 1-4 meters have been transferred to a new metering provider.
Ausgrid	4.2.2 – Obligation not to share staff 4.2.3 – Obligation to maintain separate branding 4.2.2 – Obligation not to share staff 4.2.3 – Obligation to maintain separate branding 4.2.2 – Obligation not to share staff 4.2.3 – Obligation to maintain separate branding	Ausgrid provided contestable services for 15 projects and did not transfer these projects to a contestable provider (see 'completion of contestable work'). Ausgrid provided supply restoration services to two customers who were deemed vulnerable (see 'supply restoration involving work on customer-side assets'). Ausgrid allowed Plus ES staff to access Ausgrid emails, through which those staff offered contestable work to customers (see 'referral of customer-requested contestable services to ASPs').	All projects have now been completed and contracts fulfilled. Ausgrid no longer performs these services. The AER are considering a revised service classification. Ausgrid will continue to report supply restoration incidents to the AER. Ausgrid have restricted access to the addresses to prevent this from recurring and strengthened internal detection procedures.

1.5 Implementation of Metering Contestability

1.5.1 Customer issues arising from the implementation of metering contestability

The AER continued to receive complaints from customers, electrical contractors and other parties regarding delays in the installation of new meters, both for new and existing connections. As discussed in our March 2018 QCR, implementation issues since the new rules commenced on 1 December 2017 have led to poor customer outcomes. This includes unacceptably long wait times for new meters, missed appointments and customers being left off supply in South Australia for considerable periods of time.

To address these issues, we have facilitated discussions with stakeholders to understand causes of installation delays. This has included meeting with industry participants, ombudsmen and other regulators. For example, the AER, AEMO, Australian Energy Market Commission (AEMC) and the Essential Services Commission of South Australia (ESCOSA) recently hosted a roundtable in Adelaide to develop and implement solutions to metering issues being experienced by South Australian customers. This workshop was attended by officials from the Commonwealth and South Australian Governments as well as representatives from major energy retailers, SA Power Networks and the National Electrical and Communications Association.

The AER is reviewing the conduct of participants in affected jurisdictions to understand the factors that have contributed to poor customer outcomes. These factors generally relate to the need for improved processes and communications between distributors, retailers, metering coordinators and customers' electrical contractors. Priority areas for the AER are that customers receive meters fit for purpose within acceptable timeframes. Where issues are raised about whether businesses are meeting their obligations under the Electricity or Retail Rules, we will investigate to determine if there are potential compliance issues.

The AEMC is considering two rule change requests to improve the metering installation process for customers. These requests are being considered together and include proposals to require retailers to provide customers with new electricity meters within a defined timeframe; extend the timeframe to repair a faulty meter; and enable customers to arrange an alternative planned interruption date within the minimum notification period. We are supportive of changes to the metering contestability rules where they are likely to result in improvements to customer experiences and outcomes, while maintaining the customer protections afforded by the rules. The AEMC's draft determination is expected to be published on 20 September and the final determination by 13 December 2018. If new Rules are made which create timeframes for installation of new meters, we will monitor participants' compliance to ensure that these timeframes are being met.

1.5.2 Compliance with the National Electricity Rule requirement to appoint a Metering Coordinator

As discussed in our December 2017 and March 2018 QCRs, participants must ensure that they have compliant Metering Coordinator arrangements in place and that the market settlement and transfer solution (MSATS) has been updated to reflect those arrangements.

We have requested Power of Choice related compliance reports from AEMO to ensure that all participants are achieving compliance in this area. Our analysis of these reports shows a significant and continued improvement since the beginning of the year. The AER will continue to monitor reports from AEMO and expects retailers to continue to make updates until all National Metering Identifiers (NMIs) are compliant. Non-compliance with the requirement to appoint a Metering Coordinator can be subject to civil penalty.¹⁷

Distributors which are still specified in AEMO's MSATS as being responsible for Type 1-4 metering installations need to take steps to be removed from that role to avoid being in breach of clause 2.8.1(a) of the National Electricity Rules. They may also be in breach of the AER's Distribution Ring-fencing Guideline which came into effect on 1 January 2018 (see section 1.4 above).

1.5.3 Targeted Compliance Review: Consumer Administration and Transfer Solution Procedures

Chapter 7 of the Electricity Rules sets out provisions relating to Market Settlement and Transfer Solution Procedures (MSATS), including the requirement that all Registered Participants, Metering Providers and Metering Data Providers comply with the MSATS Procedures. Failure to comply may attract civil penalties.

In December 2017, the AER commenced a targeted review, initially focussing on local network service providers (LNSPs) that are below the acceptable error threshold in one or more categories of standing data and transfer processes in AEMO's comparative compliance reports for Consumer Administration and Transfer Solution (CATS) Procedures.

In the first stage of the review, we wrote to six underperforming LNSPs requesting information on the measures they were implementing to improve their performance. We subsequently met with six LNSPs, including one business which was not previously subject to the review but whose performance had declined since December 2017. All underperforming LNSPs have now complied with our request to provide rectification plans by 30 June 2018. Work is underway to ensure that these plans address all substantive issues and are acceptable to AEMO. In the coming months, we will meet again with these LNSPs and AEMO to discuss progress towards full compliance.

We expect that businesses have robust processes and procedures in place to ensure compliance with MSATS procedures. Businesses should proactively work with AEMO to address any deficiencies identified. The AER's targeted compliance review will be ongoing

¹⁷ Clause 7.2.1(a) of the Electricity Rules is classified as a civil penalty provision under the National Electricity (South Australia) Regulations.

until performance is at an acceptable level for all LNSPs. A number of enforcement options are available to the AER in the event that performance with any aspect of the CATS procedures does not reach acceptable levels.

1.6 NEM Demand Side Participation Guidelines

In our December 2017 QCR, we advised that the AER would monitor participant compliance with the provision of demand side participation information to AEMO via its data portal. The portal went live on 31 March 2018 and in our last QCR we noted that a lower than expected number of participants submitted demand side participation data, to AEMO, by the deadline of 30 April 2018. This deadline was extended to 8 May 2018.

Despite the extended deadline, it is estimated that more than half of the total expected responses were not received by 8 May 2018. This has resulted in AEMO not receiving sufficient demand side participation information in time to be included in its 2018 Electricity Statement of Opportunities publication.

AEMO is assessing the demand side participation information that has been received and following up with participants who have not yet responded.

Given the importance of demand side participation information as an input into AEMO forecasts, over the coming months the AER will work with AEMO to review the performance of participants with respect to their obligations (under the Electricity Rules) to provide this information. The information has added importance in the context of high electricity demand during the forthcoming summer. The availability of demand side response informs AEMO's preparations for potential lack of reserve conditions and we will be considering the demand side information provided by participants as part of our 'summer readiness' messaging for the 2018-19 summer period.

1.7 NEM High Price Events

The AER must publish a report whenever the spot price for electricity exceeds \$5000 per megawatt hour (MWh) and whenever the ancillary service price exceeds \$5000 per megawatt for a sustained period¹⁸. The reports describe the significant factors contributing to extreme prices, including whether generation capacity withdrawal or generator rebidding are contributing factors. These reports are available on our website¹⁹.

During the June 2018 quarter, we reported on one extreme price event. This report was released on 11 April 2018 and addressed high prices in the Victorian and South Australian wholesale markets on 7 February 2018. On this day, spot prices reached \$6847/MWh and \$8001/MWh in Victoria and South Australia for the 4 pm trading interval. This coincided with high daytime temperatures and high electricity demand in these regions. We found that rebidding was not a contributor to the high prices.

¹⁸ Under 3.13.7(d) of the Electricity Rules the AER must publish its report within 40 business days of the end of the week in which the spot price exceeded \$5000/MWh in a trading interval or trading intervals. Whilst the AER must also publish a report whenever the ancillary service price exceeds \$5000 per megawatt, there is no legislated timing on the publication of the ancillary service reports. However, we do endeavour to conduct our investigations as expeditiously as possible.

¹⁹ <http://www.aer.gov.au/wholesale-markets/market-performance>

At the time of publication, we were investigating further price events in South Australia. These were prices above \$5000/MWh in the ancillary services market on 8 July 2018 and prices above \$5000/MWh in the spot market on 9 July 2018.

The AER endeavours to publish its \$5000 per megawatt hour reports for electricity in a timely manner and in accordance with timeframes required by the Electricity Rules. We sometimes make full use of these timeframes to ensure that these reports are accurate, comprehensive and reflective of consultations with market participants.

2 Gas

The Australian Energy Regulator (AER) is responsible for monitoring, investigating and enforcing compliance with the Gas Law and Rules, including but not limited to the Short Term Trading Market (STTM), the Bulletin Board, Victoria's Declared Wholesale Gas Market (DWGM) and the Gas Supply Hubs (GSH).

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

2.1 Natural Gas Services Bulletin Board

2.1.1 Bulletin Board Framework

The Natural Gas Services Bulletin Board (Bulletin Board) is an open-access website and the primary resource for information on flows across Australia's interconnected east coast gas system. Under the National Gas Law, the Australian Energy Market Operator (AEMO) is responsible for collecting and collating information in relation to natural gas services and for publishing information on the Bulletin Board. Persons responsible for that information must report it to AEMO in accordance with the National Gas Rules (NGR).

The purpose of the Bulletin Board is to facilitate trade and inform investment in the gas sector. It has a further role assisting emergency management through provision of information on gas sector activity and operations. The formal purpose of the Bulletin Board is provided at 145, Part 18 of the NGR:

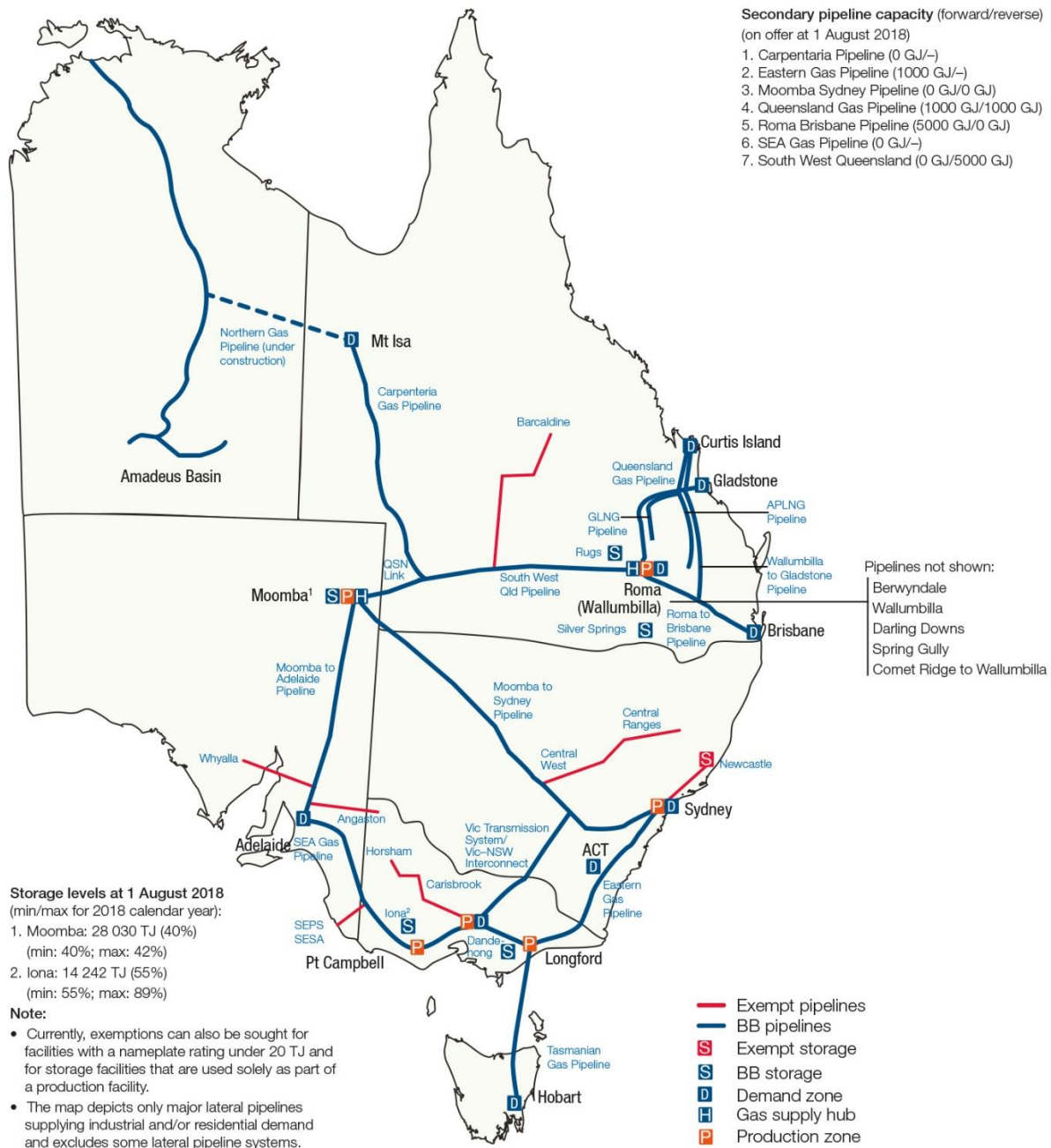
The purpose of the Bulletin Board is to make information available to BB users to facilitate:

- (a) trade in natural gas and natural gas services; and
- (b) informed and efficient decisions in relation to the provision and use of natural gas and natural gas services.

The Bulletin Board therefore informs investment and operational decisions by building transparency around gas resource use and availability. This includes transparency around interactions between the domestic and international gas markets and the use of gas as fuel for electricity generation.

The AER is responsible for monitoring compliance with Bulletin Board requirements under the Gas Law and Gas Rules (and Regulations). This includes monitoring the reporting of information by Bulletin Board facility operators. **Figure 4** below depicts key Bulletin Board reporting arrangements and data at 1 August 2018.

Figure 1: Natural Gas Services Bulletin Board (1 August 2018)



2.1.2 Bulletin Board reform

New reporting arrangements in 2018

Since its inception in 2008, the Bulletin Board has evolved alongside an increasingly interconnected east coast gas system. The ability for localised gas activity to have system-wide impacts has grown and compelled reform toward providing more market transparency. A further stage in this evolution will take effect from 30 September 2018. At the direction of the CoAG Energy Council, the Australian Energy Market Commission (AEMC) has

developed and finalised the *National Gas Amendment (Improvements to Natural Gas Bulletin Board) Rule 2017 No.3*. The amendment to Part 18 of the Gas Rules will impose new reporting requirements on gas market participants. It heralds the most significant reform to the Bulletin Board since 2008.²⁰

This reform will remove most avenues for reporting exemptions. It will capture the activity of many gas facilities for the first time and provide more detail on the activity of facilities that already report to the Bulletin Board. Facilities that will report for the first time include the Roma Underground Storage facility in South East Queensland and lateral pipelines, including the Central Ranges Pipeline and the Whyalla Gas Pipeline.

An important new development will see additional layers of reporting by production facilities. For the first time, market participants will have access to public information on production facility nominations. Production facilities will report gas nominations and forecast (D+1 to D+6) nominations. They will also report intra-day changes to nominations (renominations) and intra-day changes to their capacity outlooks. This will bring added transparency to production outages, noting that timely reporting of outages informs market response and plays a role in maintaining security of supply.

The new reporting arrangements taking effect from 30 September 2018 will include:

- reducing the reporting threshold for transmission pipelines, production facilities and storage facilities to a minimum of 10 TJ/day (reduced from the current 20TJ/day)
- requiring detailed reporting by production and compression facilities, including daily nominations, intra-day renominations and short term forecast nominations (D+1 to D+6 daily)
- requiring pipeline operators to submit daily disaggregated receipt/delivery point data, and
- imposing reporting obligations on regional pipelines and facilities attached to distribution pipelines.

Participants should be prepared for changes

Gas market participants should be aware of the impending changes to their reporting obligations, including the reporting requirements imposed through AEMO's redrafting of the Bulletin Board Procedures. The obligations will extend to gas facility operators in the Northern Territory (NT) following the commissioning of the Northern Gas Pipeline (NGP). The NGP will connect the NT's gas pipeline system to the east coast gas grid. Bulletin Board reporting requirements will apply to NT gas facilities 90 days after the commissioning of that connection²¹.

Participants that will report for the first time are required to register with AEMO as gas facility operators. Participants that are already registered are required to register any new gas

²⁰ <https://www.aemc.gov.au/rule-changes/improvements-to-natural-gas-bulletin-board>

²¹ The Northern Gas Pipeline will connect Tennant Creek in the Northern Territory to Mt Isa in Queensland. Pipeline construction was nearing completion during July 2018. The NGP is scheduled to be commissioned in late 2018.

facilities and to update any changes to the details of facilities previously registered. Further information, including all registration forms, is available on [AEMO's website](#).

Figure 2 provides a high-level summary of reporting obligations from 30 September 2018. It includes existing reporting obligations to be imposed on newly captured facilities.

Figure 2: Bulletin Board reporting obligations from 30 September 2018

	Pipeline	Production	Storage	Integrated Storage
General Information				
Nameplate rating	existing	existing	existing	existing
Planned retirements/ expansions	30 Sept	30 Sept	30 Sept	30 Sept
Detailed facility data	existing	existing	existing	existing
Details of contracted shippers	existing			
Previous day data (daily)				
Disaggregated by receipt & delivery point	30 Sept			
Production/ consumption		existing		
Storage volume			existing	existing
Injections and withdrawals			existing	existing
Nominations				
Nominations (daily)	existing	30 Sept	existing	
Intra-day renominations (daily)	existing	30 Sept	existing	
Forecast nominations (D+1 to D+6)	existing	30 Sept	existing	
Capacity outlooks				
Short term capacity outlooks (daily)	existing	existing	existing	existing
Medium term capacity outlooks	existing	existing	existing	existing
12 month outlook uncontracted capacity	existing		existing	existing
Material intra-day capacity changes	30 Sept	30 Sept	30 Sept	
LCA flag (D to D+2)	existing	30 Sept		
Pipeline capacity				
Secondary platform capacity data	existing			

Civil penalty provisions added to Part 18 (Gas Bulletin Board) of the National Gas Rules

Gas market participants should be aware of the strengthening of the compliance framework in Part 18. From 30 September 2018, obligations requiring facility operators to register for the Bulletin Board will be subject to civil penalty. Information reporting obligations will also be subject to civil penalty through the introduction of a Bulletin Board 'information standard'. The information standard will apply to submitted information, updates to that information and the maintenance of equipment from which that information is derived. That is, in accordance with:

...the practices, methods and acts that would reasonably be expected from an experienced and competent person engaged in the ownership, operation or control of a BB facility in Australia of that type acting with all the due skill, diligence, prudence and foresight and in compliance with all applicable legislation (including these rules), authorisations and industry codes of practice²².

The AER will work with AEMO to ensure that eligible facilities are meeting registration timelines. From 30 September, we will also focus on the reporting performance of Bulletin Board facilities in the context of the new information standard. As a guide to our enforcement approach, we have published a Guidance Note. This outlines our expectations regarding the data reporting procedures of registered participants and our approach to potential non-compliances with Part 18 of the Gas Rules. The Guidance Note is available on the AER's website²³.

It is our view that the AER's enforcement role will help to underpin the integrity of the data submitted to AEMO and help to establish the Bulletin Board as a reliable resource on east coast gas market activity.

Transitional arrangements

The AER recognises that transitional arrangements may be required in the days leading up to 30 September 2018. AEMO is expecting to make the new Bulletin Board available from 24 September to help avoid asymmetries between the old and new reporting arrangements.

The AER encourages Bulletin Board reporting entities to commence reporting, consistent with AEMO's directions, during the week prior to 30 September. Reporting entities are not expected to report under both the old and new formats and the AER will not be taking a strict approach to compliance where transitional matters arise.

Future reform

The AEMC Rule Determination *National Gas Amendment (Improvements to Natural Gas Bulletin Board) Rule 2017 No.3* includes a new requirement to report hub compression activity. This requirement is subject to amendment of the National Gas Law (NGL) and will not commence from 30 September. The required NGL amendments are scheduled to be

²² Gas Rule 165(2), National Gas Amendment (Improvements to Natural Gas Bulletin Board), Rule 2017 No.3:

<http://www.aemc.gov.au/Rule-Changes/Improvements-to-Natural-Gas-Bulletin-Board>

²³ <https://www.aer.gov.au/wholesale-markets/compliance-reporting/guidance-note-natural-gas-services-bulletin-board>

passed in late 2018. Providers of hub compression services will be required to report to the Bulletin Board from March 2019.

The changes to Bulletin Board reporting obligations from 30 September 2018 complete the first tranche of a two-staged reform process. The AEMC will commence developing further amendments to Part 18 during 2019. The amendments will seek to extend Bulletin Board reporting to large users and LNG processing facilities and to the reporting of gas field reserves. We encourage engagement with these next-stage reforms and interested parties will have opportunity to participate through the AEMC's stakeholder consultation processes.

2.1.3 Bulletin Board compliance matters

AER audit of Santos compliance with Bulletin Board reporting

In recent QCRs, we reported on Santos's restatement of the storage volume at its Moomba Lower Daralingie Beds (LDB). Santos submitted revised data to the Bulletin Board on 18 September 2017, reducing the volume from 39 887 TJ to 29 850 TJ. This is a sizeable discrepancy, equivalent to approximately ten days of Victoria's peak winter demand.

In our March 2018 QCR, we announced a formal audit of Santos's compliance with information reporting requirements under Part 18 of the Gas Rules. We completed this audit in June 2018. The audit examined the internal processes through which Santos reports information to the Bulletin Board, with emphasis on the reporting processes for Moomba LDB. The audit was guided by our governance, expertise, implementation and performance (GEIP) framework. The GEIP framework acts as a guide through which the AER assesses the organisational procedures and structures; human resources; and compliance programs of a market participant.

We have now concluded this audit. Upon completion, we issued a confidential report to both Santos and AEMO. During the audit, measures to improve Santos's compliance with Bulletin Board obligations were identified. Santos advised of improvements to their accountability frameworks, including their Commercial Operations team taking responsibility for Bulletin Board compliance. The AER expect Santos to increase efforts to ensure compliance with its current obligations as well as the new obligations that will come into effect on 30 September 2018.

We again emphasise that the Bulletin Board informs commercial, regulatory and policy decisions and observers should be able to consult the Bulletin Board with confidence that its data is reliable. From 30 September 2018, we will monitor participant reporting for compliance against the new Bulletin Board information standard. If we consider that the standard has not been met, we may issue an infringement notice or seek to impose civil penalties.

Revocation of exemptions for Silver Springs Pipeline and Silver Springs Storage Facility

In our March 2018 QCR, we reported on our collaborations with AEMO in examining the application of Bulletin Board reporting requirements to AGL's Silver Springs Pipeline and Silver Springs Storage Facility in South East Queensland. These facilities have not reported

to the Bulletin Board since an exemption declaration took effect in September 2015. The exemption was on the basis that the Storage Facility was not connected to a Bulletin Board pipeline.

On 28 March 2018, AEMO revoked this exemption on the basis that the storage facility is connected to a Bulletin Board pipeline (the Silver Springs Pipeline). The revocation was made in accordance with Gas Rule 152(1), under which AEMO may revoke an exemption where it has reasonable grounds to believe that the facility no longer meets the criteria for exemption.²⁴

The revocation became effective on 1 June 2018. Subsequently, both the Silver Springs Storage Facility and the Silver Springs Pipeline commenced reporting on that date. This has made information on daily pipeline flows and daily gas storage volumes available to the market.

2.2 Retail Market Procedures

Under the Gas Law, AEMO has the ability to make procedures regulating a retail gas market (Retail Market Procedures).²⁵ Queensland, Victoria, New South Wales, ACT and South Australia each have their own Retail Market Procedures. The procedures impose a number of obligations on participants including in relation to the provision of metering data; the Gas Interface Protocol²⁶; customer transfer processes; and settlements. Section 91MB of the Gas Law provides that AEMO and each person to whom the Retail Market Procedures (Procedures) are applicable must comply with the Procedures.

In the event that AEMO has reasonable grounds to suspect a breach of the Retail Market Procedures, it is required under the Gas Law to determine if the breach is material. If AEMO determines that the breach is material, it must publish its decision and the reasons for it on its website. AEMO may direct a person to rectify a breach or take specified measures to ensure future compliance (or both). AEMO may also decide to refer the breach to the AER.

If AEMO decides that the breach is immaterial, it must publish the reasons for its decision on its website. It must also provide a copy of its decision to the AER.

AEMO has published its compliance process for the Retail Market Procedures.²⁷ The publication outlines the criteria that AEMO uses to determine if apparent breaches of the Retail Market Procedures have occurred, and whether these breaches are material or immaterial.

2018 June Quarter

During the 2018 June quarter, AEMO did not report any breaches of the Retail Market Procedures by market participants. AEMO did, however, self-report the following immaterial

²⁴ Link to AEMO exemption notice: <http://www.gasbb.com.au/~media/Documents/Notices/2018/20180328%20-%20Notice%20of%20Revocation%20of%20Exemption%20-%20Silver%20Springs%20Storage%20Facility.pdf>

²⁵ See sections 91M and 91MB of the National Gas Law.

²⁶ The Gas Interface Protocol governs the manner and form in which information is to be provided, notice given, notices or documents delivered and requests made as contemplated by the Retail Market Procedures (NSW/ACT).

²⁷ <http://www.aemo.com.au/~media/Files/PDF/0090-0014-pdf.pdf>

breaches and provided the details of these breaches to the AER as required. AEMO also provided details of the corrective measures taken to address these breaches. The AER is satisfied with the materiality classification of the breaches and the corrective measures taken by AEMO in relation to the breaches.

Since 23 July 2004

- AEMO has been using forecast Hours of Sun (HoS) to calculate Heating Degree Days (HDD) for the Adelaide Region since the Kent Town weather station closed in 2004. Because the South Australian Retail Market Procedures (RMP) require AEMO to utilise observed (as opposed to forecast) weather station data, this is a breach of the South Australian RMP.
- In June 2018, AEMO issued an Impact & Implementation Report (IIR) proposing to remove specific weather observation station locations from the South Australian RMP. AEMO subsequently completed an industry consultation process and on 1 August 2018 published a final decision²⁸. The final decision is to amend the South Australian RMP:
 - to remove specific weather station locations (including reference to Kent Town) from the South Australian RMP; and
 - to place an obligation on AEMO to publish and maintain a register of weather observation stations for Adelaide on its website, and to specify which weather station is to be used for a given HDD zone.

The effective date for these amendments is 3 September 2018.

16 – 28 March 2018

- During this period, 20,949 CATS (transfer request) medium priority transaction acknowledgements were delayed in the Victorian and Queensland Gas Retail markets by up to 13 days.
- These delays represent breaches of the Victorian RMP and Queensland RMP. The Victorian RMP and Queensland RMP reference the Gas Interface Protocol and “Participant Build Pack 3 FRC B2B System Specifications”, which state that all medium priority transactions are to be acknowledged within 270 minutes.
- This may also be a breach of the Victorian RMP and Queensland RMP, which require AEMO to deliver notice of the transfer request by midnight on the first business day following the day on which the transfer request was delivered.
- The root cause (why the message queue has been exceeded) has been identified and a patch update is due to be released in October 2018. Additional health check monitoring and backlog notifications have been implemented.

²⁸ <http://www.aemo.com.au/Stakeholder-Consultation/Consultations/IN007-17-Changes-to-SA-Weather-Station>

24 March, 25 March and 12 April 2018

- On these dates, the provision of network allocation daily (NAD) files for the Queensland Gas Retail Market to the Short Term Trading Market (STTM) system were delayed. Untimely provision of the file is a breach of the Queensland RMP. The respective delays were:
 - 24 March: 1 hour
 - 25 March: 2 hours and 40 minutes
 - 12 April: 1 hour and 28 minutes.
- In each case, the NAD file was late due to systems processing errors that have now been resolved.

29 April – 30 April 2018

- On these days, 50 business-to-market (B2M) medium priority transaction acknowledgements breached the transaction acknowledgement time by 11 hours. The Victorian RMP and Queensland RMP reference the Gas Interface Protocol and “Participant Build Pack 3 FRC B2B System Specifications”, which state that all medium priority transactions are to be acknowledged within 270 minutes.
- The market transactions in the Victorian and Queensland Gas Retail markets experienced significant slowdowns and stoppage due to recent data growth and the inability of database architecture to process data in the required time. AEMO has made amendments to its software applications. Performance tuning measures have been implemented and monitoring is now in place. Replacement hardware is due in October.

9 May 2018

- On this day, 29 NSW-ACT forecasting data reports (ERFTForecastingDataRpt) were delivered late by one hour and six minutes. Untimely provision of forecasting information to Users is a breach of the NSW-ACT RMP.
- The reports were delivered late due to the service stop polling for pending CSV reports. The reports were delivered to Users after AEMO restarted the service. To prevent reoccurrence, AEMO has created a daily alarm that checks for pending CSV reports at 1:30pm, 5:30pm and 9:30pm.