



Quarterly Compliance Report:

National Electricity and Gas Laws

1 April – 30 June 2017

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Executive Summary

The Quarterly Compliance Report (QCR) outlines the Australian Energy Regulator's (AER) compliance monitoring and enforcement activity under the National Electricity Law (Electricity Law) and the National Gas Law (Gas Law), including the rules and regulations which sit under those laws. It emphasises 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 AER reports on the outcomes of its monitoring, enforcement and investigation activities. Through the publication of this information we seek to educate and inform consumers, businesses and other stakeholders by highlighting compliance issues 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 2017 to 30 June 2017 (the June 2017 quarter). It includes reporting on the following matters in gas and electricity markets.

Gas

Gas Bulletin Board

The AER monitors participant compliance with data reporting requirements for the Natural Gas Services Bulletin Board (the Bulletin Board). We intensified our monitoring in the lead up to and following the introduction of new data reporting requirements, which commenced 6 October 2016. This QCR outlines current reporting arrangements and provides an overview of further proposed reforms for the Bulletin Board. These reforms are currently being progressed through an Australian Energy Market Commission (AEMC) rule change process, with a view to the introduction of new data reporting requirements in 2018.

Sydney Demand Forecasting Errors

An update is provided on the AER's analysis of pronounced incidences of over forecast demand in the Sydney STTM across 2016 and 2017. The AER has been reporting on this matter in recent QCRs. We have continued our analysis during the June quarter, with a focus on the forecasting performance of AGL Energy, which continues to exhibit the highest incidence of demand forecasting errors among Sydney hub retailers. We report on some improvement to AGL's performance during the June quarter.

Longford Injections

The Longford Gas Plant outage on 1 October 2016 (and the AER's subsequent investigation of the event¹) highlighted the importance of Longford gas supplies to Australia's east coast gas markets. The AER is currently conducting a targeted compliance review of participant offers at the Longford injection point. This review is ongoing and will be progressed during

¹ The significant price variation report – 1 October 2016 (Victorian gas market) was published on 21 December 2016: <http://www.aer.gov.au/wholesale-markets/market-performance/significant-price-variation-report-1-october-2016-victorian-gas-market>

the September quarter. This QCR provides an update of this work and outlines our approach to date.

Retail Market Procedures

We have updated our standing item on non-compliances with the Retail Market Procedures. This includes an update on the circumstances surrounding Jemena's material breach of the NSW/ACT Retail Market Procedures, which was referred to the AER by AEMO in March 2016.

Electricity

Generator Rebidding

There is an update to our standing item on generator rebidding in the National Electricity Market (NEM). Scheduled generators and market participants must submit offer, bid and/or rebid information such that they meet the requirements of the Electricity Rules. We report on our analysis of rebidding activity, including the notices that we have received from participants regarding rebidding errors. We also remind participants of the importance of using Market Time. We have observed inconsistencies in participant recording of time associated with the location of generators in different time zones.

High Price Events in the NEM

We provide an overview of our investigations and reporting on high price events during the 2016/17 summer period. Wholesale market prices in several NEM jurisdictions triggered the AER's reporting thresholds and, in accordance with our obligations under the Electricity Rules, we have published the results of our investigations into most of these events. Several of these investigations are ongoing and we will publish our corresponding reports during August 2017.

FCAS Causer Pays

During the June 2017 quarter, AEMO notified the AER that it had identified an FCAS Causer Pays calculation error in its systems. This QCR notes the circumstances around this error and outlines previous issues (since 2015) regarding AEMO's FCAS Causer Pays processes and procedures. We also outline the steps that AEMO has taken to improve its systems.

Compliance with Chapter 7 of the Electricity Rules

A smooth transition to metering contestability, scheduled to commence in December 2017, is a compliance priority for the AER. We include an update on our work on compliance with Chapter 7 of the Electricity Rules.

Embedded Networks Rule Change

From 1 December 2017, network exemption holders will be required, under the Electricity Rules, to become or appoint an Embedded Network Manager. We outline the proposed role of the Embedded Network Manager and the circumstances through which a participant may

or may not be required to meet this new obligation from 1 December. We also stress the importance, for retailers and distributors, to be advised of any life support customers in embedded networks and provide information from the AER's Network Service Provider Registration Exemption Guideline.

Background

The AER is responsible for monitoring, investigating and enforcing compliance with the obligations under the National Electricity Law, National Gas Law, National Energy Retail Law and the respective rules and regulations governing Australia's wholesale energy markets, including those applying to network service providers (NSPs). Section 15 of the Electricity Law and section 27 of the Gas Law set out our functions and powers, which include:

- monitoring compliance by energy industry participants² and other persons; and
- investigating breaches, or possible breaches, of provisions of the legislative instruments under our jurisdiction.

Consistent with our statement of approach,³ 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. The risk assessment involves the analysis and ranking of each obligation to determine its compliance risk, based on the probability of a breach and its impact on energy market participants. Our monitoring/compliance mechanisms include our strategic compliance projects, audits, reporting requirements, market monitoring, and targeted compliance reviews.

In selecting the areas for review, we adopt the following principles.

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

In carrying out our monitoring functions, we aim for:

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

In carrying out our enforcement actions we seek to demonstrate proportionality and procedural fairness (where required).

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

³ 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.

While most obligations under the Electricity and Gas Rules do not require registered participants to establish specific compliance programs, we take into account a participant's compliance framework when determining our response to potential breaches. In assessing compliance culture, we consider whether compliance programs and processes are effectively applied, up-to-date and tested regularly. Whilst businesses may not be required to have a compliance framework in place it is good governance to do so.

1 Gas

We are 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.

1.1 Natural Gas Services Bulletin Board

1.1.1 Compliance

Market participants connected to the east coast gas grid must report their activity in accordance with Part 18 of the Gas Rules and consistent with the processes outlined in AEMO's Natural Gas Bulletin Board Procedures. The AER has closely monitored compliance with these requirements since new reporting obligations were imposed on participants through changes to Part 18 of the Gas Rules, which commenced on 6 October 2016.⁴

From 6 October 2016, new information was required from pipeline operators, storage providers and production facilities, including detailed information around daily gas flows. The AER has monitored the standard of reporting since the changes, observing some data errors and late data submissions but noting an improvement in the timeliness and accuracy of reporting by registered participants.

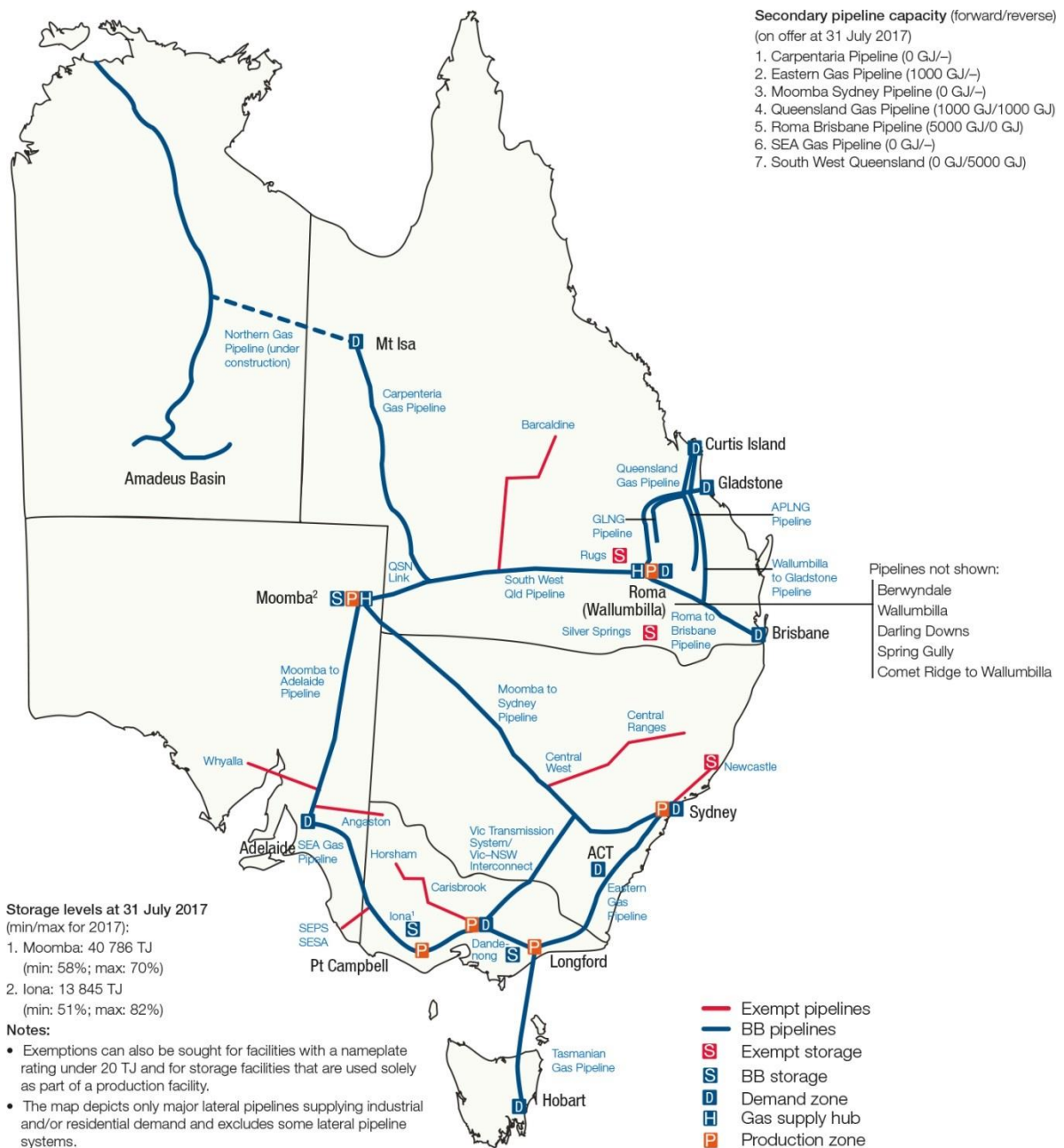
1.1.2 Current reporting arrangements

Figure 1 depicts current Bulletin Board reporting arrangements. Reporting obligations arise based on gas flows between production and demand zones. Exemptions may apply to transmission pipelines that do not transport gas between zones and to storage facilities and production facilities that are not directly connected to these pipelines. Accordingly, various lateral pipelines and storage and production facilities do not appear on the Bulletin Board.

Facilities that receive reporting exemptions under the zonal model include the east coast gas grid's largest storage facility, Roma Underground Gas Storage (RUGS). Certain facilities have also received exemptions based on their specific characteristics. For example, in late 2016, AEMO and the AER accepted an exemption in the form of an alternative reporting arrangement for Santos GLNG's Comet Ridge to Wallumbilla Pipeline (CRWP). This arrangement has been described in previous QCRs.

⁴ [National Gas Amendment \(Enhanced Information for Gas Transmission Pipeline Capacity Trading\) Rule 2015](#)

Figure 1: Natural Gas Services Bulletin Board (31 July 2017)



1.1.3 Secondary pipeline capacity trading and publishing of offers

Figure 1 also shows secondary pipeline capacity trades for 31 July 2017, including secondary capacity offers for the forward and reverse transmission directions. It shows very small volumes of pipeline capacity trades were reported. However, this does not show all secondary capacity trades as trades known as “bare transfers” may be occurring whereby shippers directly transfer capacity between each other without needing to inform the pipeline.

Along with not trading gas through these platforms, shippers have, on the whole, not chosen to advertise gas prices on these platforms. As such, its usefulness in discovering prices is limited to short term firm offers displayed by pipelines.

At its meeting on 14 July 2017, the Council of Australian Governments Energy Council (COAG Energy Council) agreed that AEMO would operate a future Capacity Trading Platform and Day-Ahead Auction. This will replace the current arrangement whereby pipelines operate their own secondary pipeline capacity trading platforms. This reform is being progressed by COAG's Gas Market Reform Group and seeks to provide a single platform to trade capacity.

1.1.4 Bulletin Board reform

The AER's focus on Bulletin Board reporting across 2016 and 2017 is part of a broader program aimed at raising awareness of changes to the Bulletin Board and its ongoing development as a transparent and comprehensive information resource on east coast gas market activity. At the direction of COAG, Bulletin Board reform will continue through 2017 and 2018, with further rule changes set to impose additional layers of reporting on facilities that already report. Other facilities will be captured by the reporting framework for the first time.

On 18 April 2017, the Australian Energy Market Commission (AEMC) received a rule change request from the COAG Energy Council to amend Part 18 of the Gas Rules. Among the proposed changes is a new basis to reporting that removes the link between the obligation to report and the zonal model. This will remove many existing reporting exemptions, bringing facilities connected to east coast gas markets under consistent reporting arrangements.

The AEMC is conducting the rule change process in two phases. A proposed draft rule has been progressed to the consultation stage under phase one. The AEMC is accepting submissions until 22 August 2017.

Gas market participants should be aware of the impending changes to reporting requirements, including changes that may require them to report for the first time. The AEMC's proposed timelines would see AEMO implementing the new Bulletin Board Procedures by 30 April 2018, with the rule change commencing from 30 September 2018. New data reporting requirements 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.

Further to the phase one and phase two rule change processes, market participants should also be aware of the proposed strengthening of the compliance framework as a result of the classification of the obligation to register as a Bulletin Board participant as a civil penalty provision. Registered participants will also be required to comply with an information standard and this obligation will be both a conduct and civil penalty provision.

The AER will be engaging with industry stakeholders in early 2018 to assess their preparations in advance of the commencement of the phase one rule amendment. The AER will be looking to ensure that participants are aware of the impending rule changes and that they are ready to comply with the reporting provisions.

1.2 Short Term Trading Market

1.2.1 Sydney demand forecasting errors

Demand forecasts submitted by trading participants are the primary input for AEMO scheduling and form the basis for calculating ex-ante prices in the STTM. Poor demand forecasting leads to inefficiencies in dispatch whereby the ex-ante price is set on the basis of a higher or lower quantity of gas than is required. It can lead to higher market operator service (MOS) payments in the STTM (which the AER reports on in our Gas Weekly reports) whereby large amounts of gas are required to address the imbalance. This adds to participants' costs of doing business.

The Gas Rules⁵ require each STTM trading participant who expects to withdraw quantities of natural gas from a hub on a gas day to submit, in good faith, ex ante bids or price taker bids (and any revisions to those bids) that reflect the participant's best estimate of the volume it expects to withdraw that day. These bids in effect reflect each participant's demand forecast.

The AER has been examining inaccurate demand forecasts of some Sydney STTM participants since 2012. We previously developed metrics to identify trends in demand forecasting errors and sought improvements to the demand forecasting systems of participants. We subsequently identified a trend toward reduced errors and lower MOS balancing gas requirements across 2013 and 2014.

Since the end of 2014 there has been a re-emergence of high incidences of forecasting inaccuracy at the Sydney hub, specifically in relation to over forecast demand. **Figure 2** shows the re-emergence of this trend in January 2015, with a clear bias toward over forecast demand.

⁵ Rule 410(1) of the Gas Rules.

Figure 2: Sydney Hub forecasting performance metric (since January 2015)

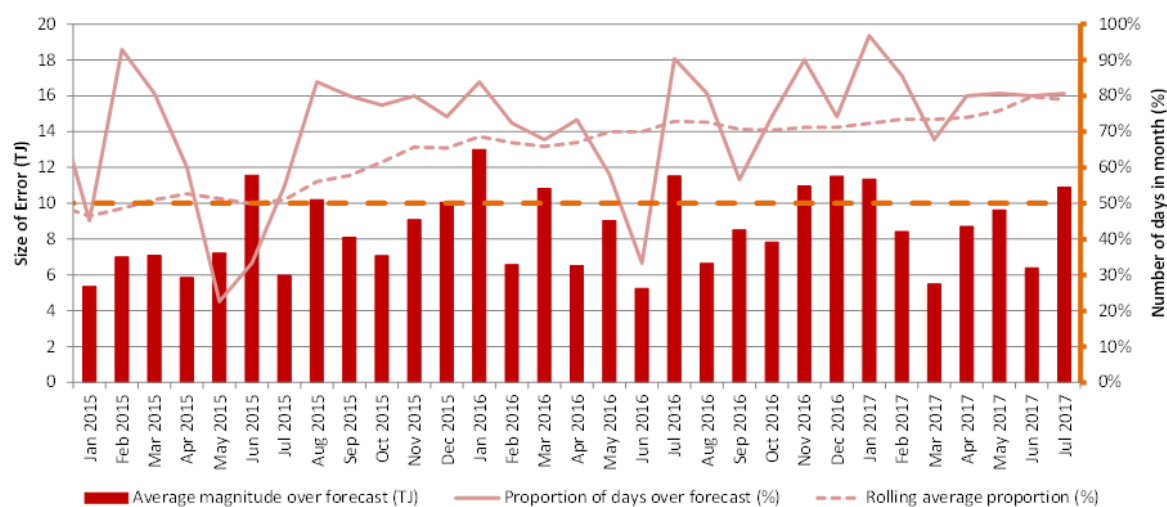


Figure 2 shows that over forecast demand was particularly prevalent during the 2016/17 summer period, peaking at 97 per cent of days across January 2017. There was a subsequent decline through February / March and the incidences of over forecast demand have since plateaued at around 80 per cent (based on preliminary allocations data).

The AER is working to better understand the drivers behind these demand forecasting errors and has been meeting with market participants, including AGL Energy, which has been the largest contributor to the over forecasting errors identified at **Figure 2**. AGL has over forecast demand on 74 per cent of days since January 2015. For the 2017 calendar year, to 31 July, this figure is higher at 86 per cent of days.

Both AGL and other Sydney hub participants have indicated that they are actively trying to improve the accuracy of their forecasting by employing new models and improving their understanding of the usage patterns of their customers.

As **Figure 2** indicates, there has been some improvement in the hub-wide provisional data during 2017. This is, in part, due to an improvement to AGL’s forecasting performance during the June 2017 quarter (both in terms of the number of days over forecast and the size of the volume error). However, the AER will wait to determine the nature of this improvement and whether it can be sustained.⁶

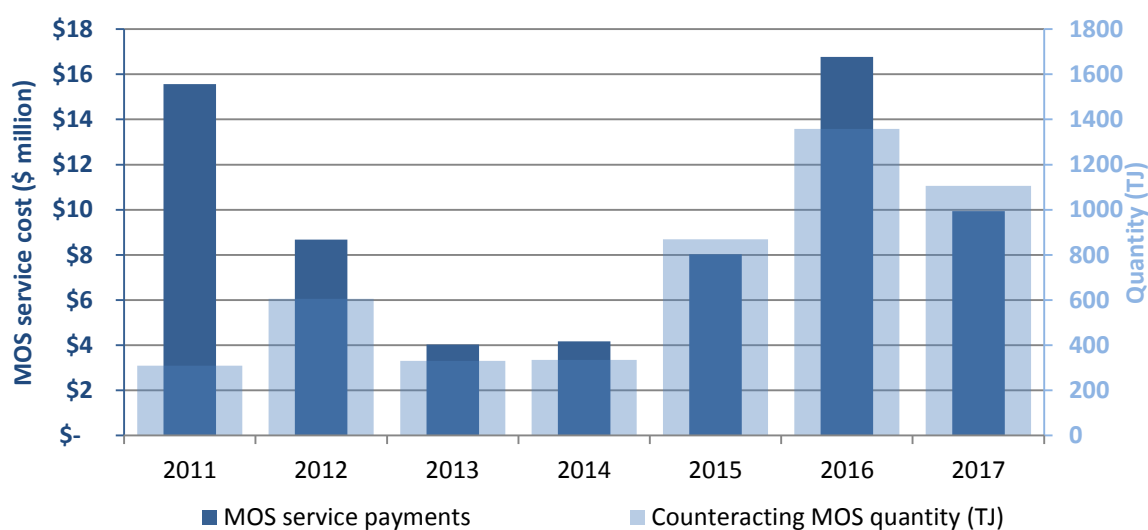
We note that **Figure 2** also indicates increasing volume errors, at hub level, in July 2017. This coincides with daily average MOS service payments exceeding \$67 000 and totalling more than \$2 million across the month. The average daily MOS payments observed in July 2017 means MOS costs add around 20 cents/GJ to the costs of buying Sydney STTM commodity priced at about \$8/GJ.

⁶ Participants have argued that revised settlement runs (including revisions out to 9 months) may heavily influence the proportional split of gas allocations among hub participants and whether days were under or over forecast. We remain cognisant of these claims and are examining the long term performance of participants. The revised settlement data in **Figure 2** includes revised settlement data to October 2016) has not altered our general conclusion that the preliminary nature of the data does not fully explain the over forecasting trend.

While MOS volumes are mostly related to levels of demand forecast error, they also reflect counteracting MOS volumes. This type of MOS is a result of balancing gas being required regardless of overall demand forecast accuracy, as different parts of the connected STTM network require gas to flow from specific pipelines. This has been a hallmark of the last two winters and the AER is investigating the reasons behind this change.

Figure 3 indicates that MOS service costs have undergone year-on-year increases since 2013 and approximately doubled each year from 2014 to 2016. The total MOS service payments in 2017 are trending to be well in excess of those in 2016. It also shows the increase in counteracting MOS volumes.⁷ The rising price of MOS gas offers is also a contributor to higher MOS payments.⁸

Figure 3: Sydney MOS service costs and CMOS since 2010



Note: 2 TJ of Counteracting MOS allocations are defined as 1 TJ of increase MOS services provided to the hub offset by 1 TJ of decrease MOS services on another pipeline. This is generally in the form of decrease MOS allocations on the pressure controlled Moomba to Sydney Pipeline (MSP) and increase MOS allocations on the Eastern Gas Pipeline (EGP). **Figure 3** shows available data from 27 July 2010 to end of July 2017.

1.2.2 Pipeline capacity availability

During 2016, Epic Energy introduced a new calculation methodology for gas deliveries to the Adelaide STTM on the Moomba Adelaide Pipeline System (MAPS). Subsequently, the AER approached Epic Energy to get a clear understanding of its new calculation methodology and whether this enabled it to meet the accurate daily reporting requirements in the Gas Rules.

In light of the Epic Energy development, the AER committed to reviewing, during 2017, the methodologies used to calculate available capacities on other transmission pipelines supplying STTM hubs.⁹ Following an AER request, we have received information from Jemena regarding capacity calculations for the Eastern Gas Pipeline (EGP), and will be

⁷ Counteracting MOS days are reported in a monthly figure at [AER gas weekly report - 16 – 22 July 2017](#)

⁸ As reported on in AER gas weekly report - 25 June – 1 July 2017

⁹ The AER previously audited this activity at market-start.

contacting other pipeline operators during the September 2017 quarter regarding their respective calculation methodologies.

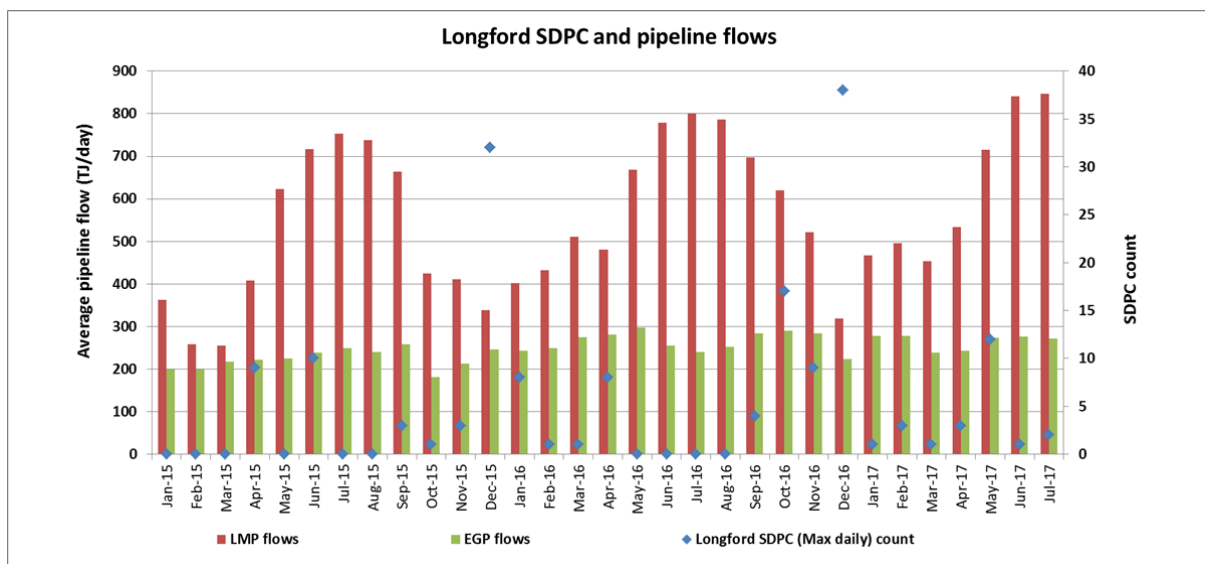
1.3 Victorian Gas Market

1.3.1 Targeted compliance review – Longford injections

We continue our targeted compliance review concerning gas market scheduling at the Longford injection point. Longford injections can impact significantly on East Coast Gas Markets, noting that the Longford Gas Plant is the majority supplier of gas to Victoria’s DWGM and an important supply source for Sydney’s STTM.

Market Participants have highlighted an increased instance of constraints, called Supply Demand Point Constraints (SDPCs), being applied to the Victorian Transmission System at the Longford Injection point. The AER has analysed this and, as indicated at **Figure 4**, determined that this does seem to be a growing trend.

Figure 4: Longford SDPCs and pipeline flows



The trend of SDPCs increasing appears to be as a result of a mixture of unplanned and planned maintenance. SDPCs have increased particularly since the beginning of 2015, at the same time that Longford has increasingly been required to deliver larger quantities of gas to meet sustained high gas demand above historical levels. SDPCs within the Victorian system seem to occur more frequently during shoulder periods as Longford undergoes maintenance rather than during peak demand periods.

Some market participants have continued to query why SDPCs at Longford have become more frequent. Participants have also highlighted inconsistencies in approaches to rebidding on a gas day when supply demand constraints (SDPCs) are imposed at Longford, with some participants rebidding volumes in line with SDPCs and others leaving volumes unchanged.

1.3.2 Demand forecasting in Victoria

The Gas Rules require each DWGM trading participant, who expects to withdraw quantities of natural gas from the DWGM on a gas day, to submit, in good faith, demand quantities which represent the participant's best estimate of the quantity it expects to withdraw in each hour of the relevant scheduling horizon.

In 2016, the AER identified two DWGM participants (retailers) with a significant history of error in their demand forecasting. We approached these participants and received their agreement to submit data to assist us with the ongoing assessment of their forecasting performance. In both cases, the participants committed to revising their demand forecasting systems and improving their accuracy.

During the June 2017 quarter, there were improvements to the demand forecasting performance of the two participants. In the case of one participant, with a prolonged history of over forecast demand, the incidences of over forecasting declined significantly. The demand forecasting performance of the other participant has steadily improved through 2017, with smaller errors during the June 2017 quarter.

1.4 Gas Supply Hub

1.4.1 Wallumbilla single market product (optional hub services)

On 28 March 2017, the Wallumbilla Gas Supply Hub transitioned to the optional hub services model. The hub's three trading locations¹⁰ were replaced by a single trading location at Wallumbilla and an in-pipe Roma Brisbane Pipeline (RBP) trading location at South East Queensland.¹¹

Commensurate with the introduction of the optional hub services model, was the introduction of a spread product platform enabling the physical trading of gas between Wallumbilla and South East Queensland. Thus, from 28 March 2017, participants with transportation rights have been able to arbitrage price differentials between the two locations. The first spread product trade occurred in the Wallumbilla gas supply hub on 12 June 2017. There has been significant activity since, with 27 spread products traded to 31 July.

1.4.2 The Moomba Hub

A new gas supply hub was established at Moomba in June 2016, to facilitate trade on the Moomba Sydney Pipeline (MSP) and Moomba Adelaide Pipeline (MAP) and to enable trade between Wallumbilla and Moomba. There has been a number of offers and some bidding for gas at the Moomba hub but no participant transactions facilitating trade of a spread product or gas at Moomba.

¹⁰ Formerly, liquidity at the Wallumbilla Exchange was spread across three trading locations at the Queensland Gas Pipeline (QGP), South West Queensland Pipeline (SWQP) and the Roma Brisbane Pipeline (RBP).

¹¹ Trades which previously occurred at the RBP in-pipe trading location are now traded under the separate product established for South East Queensland (SEQ). All other products traded at the former RBP, SWQP and QGP trading locations are now traded under the new Wallumbilla single product (WAL). The transition occurred from 28 March 2017.

1.5 Retail Market Procedures

Under the Gas Law, AEMO has the ability to make procedures regulating a retail gas market (Retail Market Procedures).¹² There are four sets of Retail Market Procedures covering Queensland, Victoria, New South Wales and the ACT and South Australia respectively. The procedures impose a number of obligations on participants including in relation to the provision of metering data, the Gas Interface Protocol¹³, 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 decides the breach is material, AEMO must publish its decision and the reasons for it on its website. AEMO may direct the person suspected of the breach to rectify it or to 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 Procedures¹⁴. The publication outlines the criteria that AEMO uses to determine that apparent breaches of the Retail Market Procedures have occurred and whether the apparent breaches are material or immaterial.

This quarter, AEMO did not report any material breaches, and reported one immaterial breach of the Retail Market Procedures by a market participant. AEMO also self-reported immaterial 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 corrective measures taken by AEMO in relation to the breaches.

This quarter, AEMO reported the following immaterial breaches of the Retail Market Procedures:

- EnergyAustralia Pty Ltd's (trading as TRUenergy) failure to nominate the correct User Reconciliation Adjustment Amount (URAA) on a number of occasions during February 2017, due to a human error.
- AEMO's non-compliance with the requirement to publish monthly reports to Users regarding forecasting and accuracy of information in accordance with clause 9.1(c) of the RMP. AEMO noted that, since market start, it has never published those reports to

¹² See sections 91M and 91MB of the National Gas Law.

¹³ 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).

¹⁴ <http://www.aemo.com.au/-/media/Files/PDF/0090-0014-pdf.pdf>

Users. On 27 February 2017, AEMO published a notice of its decision to remove this reporting obligation effective from 5 April 2017.¹⁵

- AEMO's failure to provide acknowledgement within 4.5 hours for medium priority transactions on 4 May 2017 as a result of a configuration issue with a computer network firewall.
- AEMO's failure to operate the Full Retail Contestability (FRC) Hub with a Recovery Time Objective (RTO) of 4 hours. On 9 May 2017, the Gas FRC Hub was unavailable between 10.19am (AEST) and 9.24pm (AEST). AEMO reported that this incident occurred following a system change which triggered an event causing the server to become unresponsive.

1.5.1 Jemena Gas Networks – provision of meter data services in NSW and ACT

In previous QCRs, we reported on Jemena Gas Networks's material breach of the NSW/ACT Retail Market Procedures (RMP). This matter was originally referred to the AER by AEMO in March 2016 based on its assessment that Jemena Gas Network's (JGN) failure to provide metering data between January to July 2015 and September 2015 to January 2016 was a material breach of the RMP.¹⁶

To ensure ongoing progress towards resolution, JGN has provided monthly compliance reports to the AER since February 2016. These reports include information about JGN's metering performance targets and outline steps it has taken to improve its compliance and overall performance. The reports have focussed on resourcing, system improvements and prioritising the resolution of meter reading and data provision issues.

The AER is continuing to engage with JGN and AEMO in relation to JGN's overall metering data performance and its compliance with the NSW and ACT Retail Market Procedures. As part of this process, JGN is now providing a more detailed breakdown of its meter reading performance against a range of indicators and has proposed an action plan to resolve the issues and improve its metering reading performance. JGN has:

- developed and rolled out SAP system changes and improvements, which includes standing data review, reading validation settings and hot water billing (August-September 2016). JGN also brought the meter reading management function in-house and re-optimised meter reading schedules (to October 2016).

¹⁵ http://www.aemo.com.au/-/media/Files/Stakeholder_Consultation/Consultations/Gas_Consultations/2017/Notice-of-AEMO-Decision-IN033-16.pdf

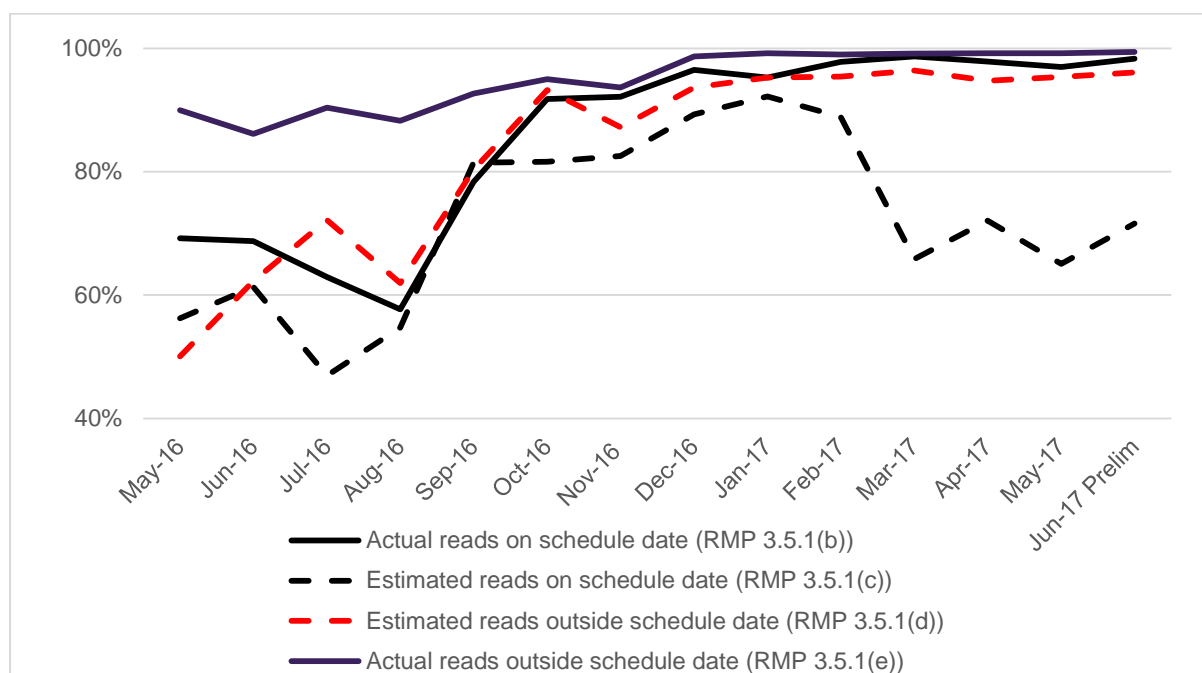
¹⁶ AEMO Compliance Decision: Gas Retail Market Procedures, 26 November 2015: <https://www.aemo.com.au/-/media/Files/PDF/AEMO-Compliance-Decision--Jemena-November-2015.pdf>

AEMO Compliance Decision: Gas Retail Market Procedures, 7 March 2016: <https://www.aemo.com.au/media/Files/Gas/Policies%20and%20procedures/Retail%20gas%20compliance/2015/Final%20Compliance%20Breach%20Decision%20%20Jemena%20March2016.pdf>

- established a billing taskforce that has put in place business tools to facilitate the validation and release of actual readings to reduce the number of estimated bills to the market (July-December 2016).
- recruited additional resources to resolve issues around missing meter reads, high numbers of estimates, bulk hot water billing issues, release of actual readings, hot water/meter data loggers (MDL) errors and classification errors (July-December 2016).
- set-up a multi-team project with executive oversight of all metering activities with goals to improve customer experience and retailer satisfaction, reduce estimates, automate processes where possible, and define services benchmarks (January 2017 to present).
- Established a new customer care team to manage end-to-end customer metering and billing enquiries.

The diagrams below highlight JGN's review of its performance since May 2016, against the new RMP obligations (figures 5 and 6).¹⁷ JGN's reporting against the transitional RMP obligations is not captured in the diagrams.

Figure 5: Jemena's performance against the RMP obligations post May 2016¹⁸



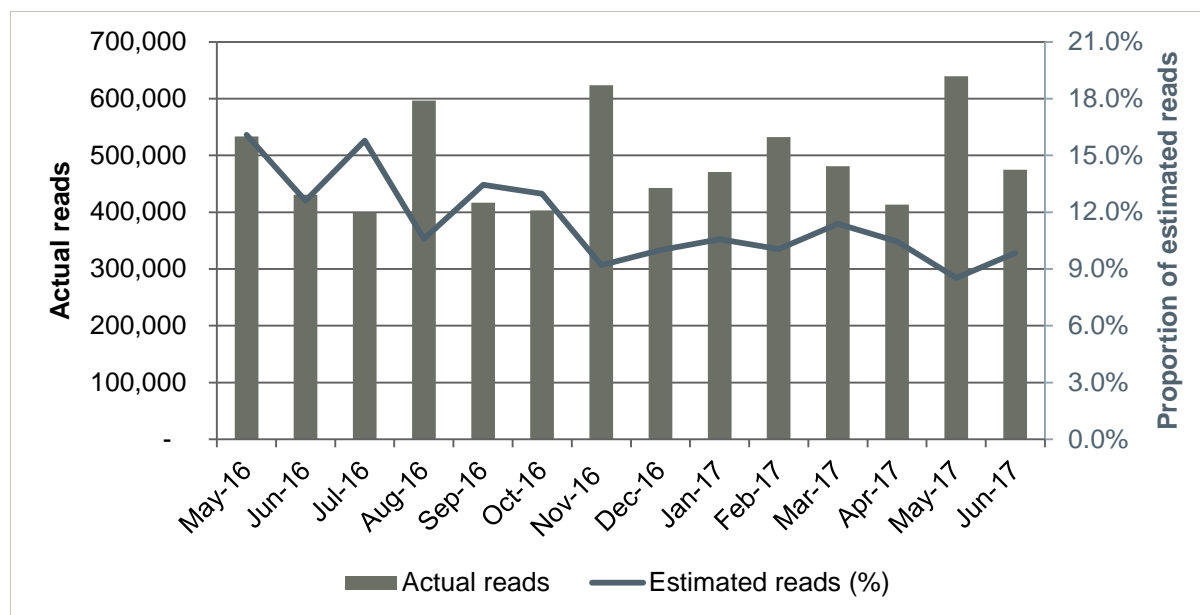
Source: this diagram is based on data provided by Jemena Gas Networks (NSW) Ltd. The data is consolidated and includes the performance of Jemena Gas Networks in NSW and ActewAGL Distribution (AAD) in the ACT.

* JGN noted that Quarterly and monthly meter data collection performance is assessed against scheduled read date (+/-2 business days).

¹⁷ On 2 May 2016, AEMO implemented changes to the RMP, introducing transitional compliance requirements for the period effective 2 May 2016 to 31 March 2017.

¹⁸ Performance reported since May 2016 is against permanent RMP obligations despite these not being in place until 1 April 17. The results do not contain a measure of the reasonable endeavours standard to meet transitional or permanent RMP timeframes. Figures for June 2017 are conducted from a report as at 9:51 AM on 10 July 2017 and may not reflect a final view of performance.

Figure 6: Trends in actual and estimated metering reads from May 2016 to June 2017¹⁹



Source: diagram is based on data provided by Jemena Gas Networks (NSW) Ltd

Key points to note regarding JGN's performance over the relevant period are:

- Overall, the data provided by JGN suggests a significant improvement in its meter reading and data provision performance with most improvements occurring in 2016.
- Data provided by JGN most recently indicates that it has increased the number of actual reads compared to those in March 2017.²⁰
- JGN noted that there is no RMP obligation that applies in relation to minimising the number of estimates. However, it has implemented programs to reduce these over time. JGN advised that estimations occur for a variety of reasons and can be driven by field impediments (including site access issues) and/or system performance. To mitigate the number of estimated bills, JGN set up a 'No Access' Program in October 2016 with the goal of reducing the number of field-related 'no access' issues. JGN advised that aligning its meter reading contractual arrangements to the new RMPs should also drive a reduction in estimations caused by delayed meter readings, as the contract includes a narrower meter reading window to align with the RMP.
- Recent data provided by JGN indicates that it is still experiencing some issues, in particular its performance against RMP 3.5.1(c) (refer Figure 5) in comparison to the other delivery obligations. This obligation is to apply reasonable endeavours to provide

¹⁹ Figures for June 2017 are conducted from a report as at 9:51 AM on 10 July 2017 and may not reflect a final view of performance.

²⁰ Given that the majority of meters are read on a quarterly basis, one month's performance is compared to that of 3 months earlier (and not the previous month) to ensure similar routes are compared. For example, Jun 17 is compared to March 17, where there has been a reduction of 1.6% in estimations.

an estimate when an actual meter read has failed validation in the timeframes required by the RMP.

- JGN has committed to working through these issues in consultation with the AER. As part of this process we will periodically communicate with affected market participants about their experiences of metering and meter data services provided by JGN. We note that where a participant relies on JGN meter reading services to generate retail bills, they can incur an operational burden on their systems to undertake meter data estimations, reissue bills and request special reads from JGN where data is not provided in a timely and accurate manner. We also note that estimated bills trigger higher levels of customer complaints.

The AER will continue to engage with JGN and monitor its compliance with its obligations under the RMP, as well as its overall performance in relation to meter reading services.

2 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.

2.1 Rebidding

Scheduled generators and market participants operating in the National Electricity Market (NEM) submit offers and bids for each half hour trading interval. The offers and bids include available capacity for up to 10 price bands and can be varied through rebidding.²¹

According to the 'three stage process' introduced in late 2010 and updated in 2012,²² we will consider issuing an infringement notice if we issue three notifications within a six month period to generators who submit offer, bid and/or rebid information that does not meet the requirements of the Electricity Rules. The warning count for a participant is set to zero after six months of the first warning being issued.

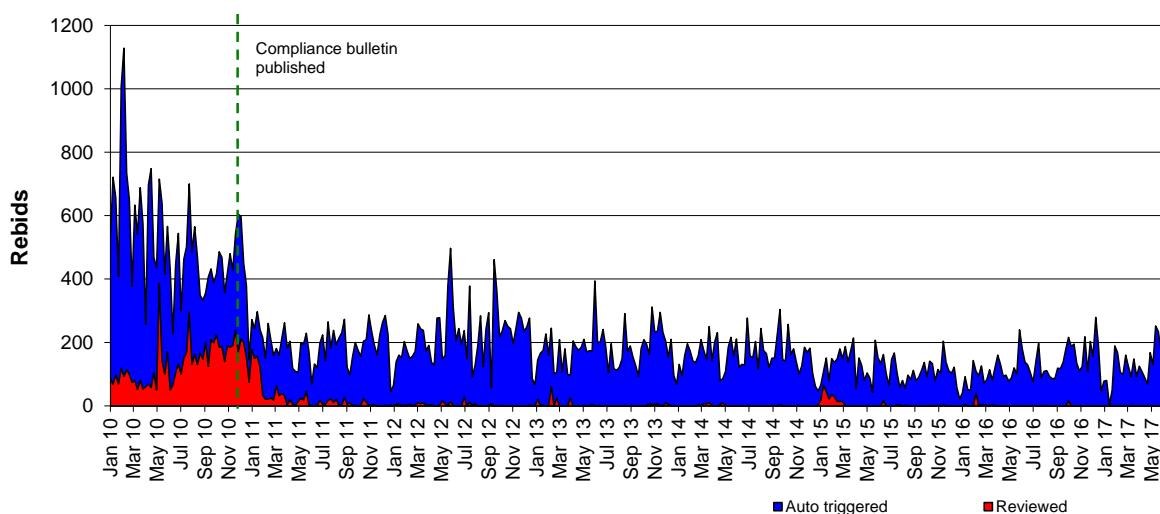
Frequent submission of offers, bids and rebids which do not meet the relevant requirements of the Electricity Rules can seriously and adversely impact the NEM. In particular, the quality of information available to relevant participants and other persons is reduced, which in turn reduces market efficiency. Poor quality information also affects the AER's ability to monitor and enforce compliance with the Electricity Rules.

As shown below in **Figure 7**, the number of rebids automatically triggered as requiring initial examination (indicated by the blue area) has fallen markedly since 2011.

²¹ 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'.

²² In June 2012, we published an updated [Compliance Bulletin No. 3](#) to make it clear that, for the purposes of administering the three stage process and issuing warnings, we will rely on the cumulative count of non-compliant bids for all generating units under the same portfolio. In other words, where a parent company employs a common trading team for the bidding of multiple generating units in its portfolio, irrespective of whether these generators are different registered participants, we will count any non-compliant bids by that trading team together.

Figure 7: Rebids auto-triggered and reviewed per week (adjusted²³)



This quarter we received seven self-reporting notices from participants regarding errors in their rebids. We decided not to take action on these errors. As such, no warnings were issued and no participants had their warning count reset to zero during the quarter.

2.1.1 Market time

A recent review of information provided by some participants revealed inconsistencies in the recording of time. In light of this, we are taking the opportunity to remind participants of the importance of using Market Time (Eastern Standard Time). It is particularly important for those participants with generators located in different regions of the NEM (and therefore different time zones) to be aware of this requirement.

Specifically, we expect participants to use Market Time when referring to time in reasons for submitting rebids. This includes, (but is not limited to) for example, the time of an AEMO demand forecast, or the time that an event occurred or an observation was made leading up to the rebid. The same logic also applies to times included in log entries, contemporaneous records (for rebids submitted in the late rebidding period) and responses to requests for information.

In some instances this may negate the need for the AER to seek further clarifying information from participants, potentially reducing the burden on participants and the AER alike.

²³ There was a significant increase in automatically triggered rebids from August to November 2014 when one participant's automated bidding system submitted rebids without including a time adduced which was subsequently corrected. This has been detailed in a [previous QCR](#). **Figure 5** has been adjusted by removing the erroneous rebids.

2.2 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 period²⁴. These reports are available on our website²⁵.

2.2.1 Reports published since 1 April 2017

Since 1 April 2017, we have reported on the following extreme price events from the 2016/17 summer period.

Figure 8: Reports published since 1 April 2017

	Event Date	High Price Period	Region	Market	Highest Price
1	2/02/2017	17:00 - 17:30	QLD	Energy	13 400
2	6/02/2017	16:30 - 17:00	NSW / QLD	Energy	11 962 / 11 028
3	8/02/2017	17:30 - 18:30	SA	Energy	11 141
4	9/02/2017	17:00	NSW	Energy	7822
5	9/02/2017	17:00, 17:30, 18:30	SA	Energy	9510
6	10/02/2017	17:00 - 18:00 / 17:00	NSW/QLD	Energy	14 000 / 12 221
7	11/02/2017	16:30- 17:30	QLD	Energy	8569
8	12/02/2017	17:30	QLD	Energy	9005

2.2.2 Reports pending

Currently, we are preparing reports in relation to high price events in the ancillary service markets on the following days.

Figure 9: Reports to be published

	Event Date	High Price Period	Region	Market	Highest Price
1	9/11/2016	04:30 - 18:30	SA	FCAS	7 334
2	25/11/2016	04:30 - 11:30	SA	FCAS	11 014
3	23/01/2017	5:30 - 6:00	SA	FCAS	9 333

²⁴ 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.

²⁵ <http://www.aer.gov.au/wholesale-markets/market-performance>

	Event Date	High Price Period	Region	Market	Highest Price
4	21/03/2017	11:30 – 16:30	SA	FCAS	11 982
5	30/03/2017	9:30 – 13:30	SA	FCAS	11 608
6	18/04/2017	12:30 – 18:30	SA	FCAS	14 000
7	22/052017	12:30, 13:00, 18:00, 18:30	SA	FCAS	10 770

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.

2.3 FCAS Causer Pays Issues

This quarter, AEMO notified the AER that it had identified an error in the way in which it had treated the Smithfield non-market scheduled generator (SITHE01) when calculating FCAS Causer Pays factors. This error had been identified as part of quality assurance checks AEMO was undertaking.

Under clause 3.15.16A(j), AEMO is obligated to comply with its FCAS Causer Pays Procedures when calculating the contribution factors for liable market participants. In the procedure, AEMO specifies that the effect of non-market generating units, amongst other things, is included in the regional demand deviation (as well as the region demand forecast error). These deviation components are inputs into determining the FCAS Causer Pays factors for market generating units and market customers.

2.3.1 Previous FCAS Causer Pays issues

Since 2015, two separate issues have been identified regarding AEMO's FCAS Causer Pays processes and procedures:

Participant ID issue

AEMO was not using the correct participant factors in some circumstances when local regulation FCAS requirements applied and a market participant had multiple participant IDs (for example a parent company with separate participant IDs for each generating plant in its portfolio). Where a market participant had multiple participant IDs, AEMO's practice had been to record a causer pays factor against only one of those IDs. This practice became non-compliant with the introduction of local recovery in 2009 and as generation assets were consolidated across fewer entities.

AEMO implemented a software change to its EMMS to ensure that, if a participant ID is considered relevant to regulation FCAS requirement, all other participant IDs associated with that market participant are also considered.

South Australian local regulation cost recovery dispute

Arising out of local regulation costs accrued when South Australia was on a single contingency, certain market participants challenged how AEMO attributed these costs. In particular, the dispute related to whether AEMO erred by recovering the costs from each participant that had plant or load in South Australia (but whose factor was calculated with reference to the performance of all plant or load within those participants' portfolio).

Ultimately the dispute resolution panel found that AEMO had not breached the Rules in how it recovered the costs. The Panel did, however, find that AEMO's procedures did not adequately address the circumstances set out in 3.15.16A(j)(2) relating to calculating contribution factors when one or more regions have operated asynchronously during a trading interval.

AEMO subsequently revised its procedures to explicitly address the circumstances in 3.15.16A(j)(2). AEMO advised that no other changes were required to be made to the causer pays calculation process or system.

2.3.2 AEMO improvements

Since November 2015, AEMO has undertaken comprehensive reviews of its systems and procedures around how it calculates FCAS Causer Pays factors. AEMO has introduced new internal checks and balances around the calculation of causer pays factors including:

- Improved coding to enable more granular and robust quality assurance checks of inputs
- Creation of in-house tools to review stored results and inputs
- Manual review searches of control room logs for bad data references and cross checks using in-house tools
- Manual review of large changes in causer pays factors that are unexplained; and
- Longer data retention and improved recording of process changes.

These improved processes aided AEMO to identify the Smithfield error. Upon discovery of the error, AEMO incorporated Smithfield into the calculation process and communicated this to participants when it published the June causer pays factors.

AEMO has undertaken the following remedial steps:

- A review of SCADA data exclusions to confirm that other points have not been missed
- Reviewed the code used to check that the causer pays tool is consistent with the settlements system
- Reviewed the FCAS settlement table in the settlement database for inclusion of all units used for dispatch
- Reviewed the "agg_factors" output file to check that all number are in reasonable range (that is no factors found in 1000s and factors in the 100s are all explained)

AEMO also advised that as part of PwC's market audit of AEMO this year, PwC will review FCAS Causer Pays compliance issues.

AEMO has committed to the AER that it will:

- advise the AER of any further calculation errors that occur in the next two years including the following information:
 - details of the calculation error
 - the cause of the error
 - the consequence of the error to participants
 - steps AEMO has taken to remedy and/or prevent the error reoccurring;
- notify the AER of any findings and/or recommendations that PwC makes in its audit report; and
- notify the AER of any steps that AEMO has or will undertake in relation to any areas for improvement identified by PwC.

AEMO did advise that, while it has introduced more rigour into its processes, it expects that participants will check historical data published by AEMO daily and identify any concerns to AEMO.

2.4 Compliance with Chapter 7 of the Electricity Rules

2.4.1 Focus on compliance with Chapter 7 and relevant Chapter 11 obligations – lead up to the introduction of metering contestability

As we noted in our March 2017 Quarterly Compliance Report, the AER will be paying particular attention to compliance with Chapter 7 obligations both in the lead up to the Power of Choice changes in December 2017 and for some time from that date.

The transitional arrangements in Chapter 11 of the Electricity Rules require electricity distributors that were the responsible person for a type 5 or type 6 metering installation, and are deemed to be the Metering Coordinator for those meters to, by no later than 1 September 2017, provide each financially responsible market participant (FRMP) with a standard set of terms and conditions on which it will agree to act as the Metering Coordinator. Unless the FRMP and the distributor agree to other terms and conditions prior to 1 December 2017, the distributor will be deemed to be appointed as the Metering Coordinator on the standard terms and conditions of appointment provided to each FRMP.

We take this opportunity to remind distributors that their terms relating to price must be consistent with Chapter 6 of the Electricity Rules, and that exit fees cannot be charged where these are not contemplated by the distributor's regulatory determination. Retailers which have concerns about the consistency of distributors' terms and conditions with the requirements of the Electricity Rules may raise these issues with the AER.

We also note that the Victorian Government has decided to defer the introduction of metering competition until at least 2021. As a result, different arrangements will be in place in Victoria. As part of these arrangements, we understand that the date for the provision of the standard terms and conditions to the FRMP will be modified to 15 October 2017; however, we also understand that the Victorian arrangements are unlikely to be formalised prior to 1 September. Retailers who have concerns about the consistency of distributors' terms and conditions with the requirements of the Electricity Rules (as modified in Victoria) may raise these issues with the AER, but it may be preferable to wait until the Victorian arrangements are formalised before they do so. In assessing distributors' compliance, the AER will take into account the proposal to revise timeframes for provision of the standard terms and conditions to the FRMP, as advised to us by the Victorian Government.

2.4.2 Responsible person's compliance with metering obligations under Chapter 7 and Chapter 11 of the National Electricity Rules

In our March 2017 Quarterly Compliance Report, we discussed the outcomes of the first stage of a targeted review of compliance with metering obligations under Chapter 7 of the Electricity Rules. The review is examining compliance with requirements on the Responsible Person to upgrade customer metering installations where the customer's consumption increases and a new metering installation is required. The first stage of the review examined electricity distributors' compliance with these obligations. The AER is currently undertaking the second stage of the targeted review, and will report on the review in the September 2017 Quarterly Compliance Report.

2.5 The Embedded Network Rule Change – Embedded Network Managers

From 1 December 2017, network exemption holders who own, control or operate an embedded network under clause 2.5.1 of the Electricity Rules will be required to become or appoint an Embedded Network Manager. Exceptions to this requirement exist for jurisdictions where customers in embedded networks are not afforded the right to a retailer of choice or where the AER considers the requirement may be delayed as detailed in the AER's Network Service Provider Registration Exemption Guideline.²⁶

2.5.1 Role of the Embedded Network Manager

The embedded network rule change introduces a new accredited service provider with the role of facilitating customer transitions from an off-market retailer (usually an on-seller bulk purchasing electricity from the site's gate/parent meter and on-selling to the individual customers within the embedded network) to an on-market retailer with market loads settled within MSATS. The Embedded Network Manager is responsible for registering NMIs for customers within embedded networks and accurately recording their metering installation in MSATS.

²⁶ The Network Service Provider Registration Exemption Guideline can be found on the AER website at: <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/network-service-provider-registration-exemption-guideline-december-2016>

Accreditation of Embedded Network Managers is conducted by AEMO and information about this process can be found on the AEMO website.²⁷

2.5.2 Who requires an Embedded Network Manager

Not all network exemption holders who own, operate or control an embedded network will need to appoint or become an Embedded Network Manager by 1 December 2017. Embedded networks in certain jurisdictions will not be subject to this requirement and others are permitted to delay the requirement until a customer within an embedded network enters into a contract with a market retailer.

The AER is currently developing additional web content to assist network exemption holders in ascertaining when an Embedded Network Manager must be appointed.

Jurisdictional differences

Clause 2.5.1(d1)(1)(i) of the Electricity Rules provides that the Embedded Network Manager requirement is not in effect in jurisdictions where customers in embedded networks 'are not afforded the right to a choice of retailer'. Therefore, at the time of publication, network exemption holders who own, control, or operate embedded networks in Tasmania, the ACT and Queensland would be excluded from the requirement to become or appoint an embedded network manager. However, the relevant state and territory governments have signalled their strong intent that customers in embedded networks in both the ACT and South East Queensland (the Energex distribution zone) will be afforded a right to a retailer of choice by commencement of this rule change on 1 December 2017. The AER will endeavour to communicate these changes but for the most up to date information, affected parties should check with the relevant state and territory governments.

Delayed requirement

Clause 2.5.1(d2) of the Electricity Rules provides that the AER may allow for a delay to the requirement to appoint or become an Embedded Network Manager where the likely costs of immediate appointment on 1 December 2017 are considered to outweigh the likely benefits. The Network Service Provider Registration Exemption Guideline provides that holders of certain network exemption classes with 30 or more customers must meet the requirement to become or appoint an Embedded Network Manager by 1 December 2017. These network exemption classes are: ND1, ND2, ND10, NR1, NR2, NR3, NR4, NR5 and NR6 (refer to the Network Service Provider Registration Exemption Guideline for descriptions of these network exemption classes).

In all other cases, the requirement to become or appoint an Embedded Network Manager may be delayed until either a large customer enters into a contract with a retailer or a small customer enters into a market contract with a retailer and the cooling-off period has expired.

27 <https://www.aemo.com.au/Stakeholder-Consultation/Consultations/Power-of-Choice---AEMO-Procedure-Changes-Package-2>

2.5.3 Where to find Embedded Network Managers

AEMO has received a number of applications for accreditation as Embedded Network Managers. Some of these applicants are taking part in the voluntary Power of Choice readiness reporting which is published on the AEMO website.²⁸ As Embedded Network Managers become accredited they will be added to a list also published on the AEMO website.²⁹ The list includes contact information (phone and email).

2.6 Life Support Obligations in Embedded Networks

Retailers and distributors have raised concerns about life support obligations in embedded networks. Given the potential for catastrophic outcomes, the AER recognises the vital importance in advising retailers and distributors of any life support customers in embedded networks, as they will be affected by outages and disconnections at the parent/gate meter upstream. There are currently provisions in the Network Service Provider Registration Exemption Guideline that address this issue.

Anyone owning, operating or controlling an embedded network is bound by the conditions of their exemption. The Network Service Provider Registration Exemption Guideline has the following condition in relation to life support notification.³⁰

Where notified by a customer ('life support customer') of the existence of a requirement to maintain supply for life support equipment, the exempt embedded network service provider must, without undue delay, promptly notify:

- (a) Before 1 December 2017: the local DNSP of the existence of a life support requirement in accordance with the reasonable requirements of the local DNSP; and*
- (b) From 1 December 2017: the parent connection point retailer of the existence of a life support requirement in accordance with the reasonable requirements of the parent connection point retailer. In addition, the exempt embedded network service provider must, without undue delay, promptly notify the child connection point retailer when they are informed of life support requirements at a child connection point.*

2.7 Jurisdictional Derogations

Chapter 9 derogations exempt 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

²⁸ <http://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Power-of-Choice/Readiness-Work-Stream/Industry-Readiness-Reporting>

²⁹ See the document, 'National Electricity Market Accredited Embedded Network Managers' uploaded at: <https://www.aemo.com.au/Stakeholder-Consultation/Consultations/Power-of-Choice---AEMO-Procedure-Changes-Package-2>

³⁰ Network Service Provider Registration Exemption Guideline, p.36

- Any other specified exemption in the jurisdictional derogations.

Relevant participants must notify the AER at AERinquiry@aer.gov.au of any act or omission which partly or wholly constitutes non-compliance with the Electricity Rules. No non-compliances were reported this quarter.