Quarterly Compliance Report:

National Electricity and Gas Laws

1 January – 31 March 2017

AUSTRALIAN ENERGY REGULATOR

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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 January 2017 to 31 March 2017 (the March 2017 quarter) for gas and electricity markets.

Gas

SPV Reports

This report highlights that the AER published three Significant Price Variation (SPV) reports during the 2017 March quarter. Two of these reports were triggered by high Market Operator Service (MOS) payments in Short Term Trading Markets (STTMs) during November 2016, specifically in the Sydney and Adelaide STTMs. One SPV report was triggered by a high negative ancillary services payment in Victoria's Declared Wholesale Gas Market (DWGM) in October 2016.

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. The AER reported on this in its last QCR and we flagged our ongoing analysis of demand forecasting trends, including our consultations with Sydney hub participants. Our primary focus has been on the forecasting performance of AGL Energy, which exhibited the highest incidence of demand forecasting errors (among Sydney hub retailers) during the 2016 December quarter. This report outlines our recent and ongoing monitoring in this area.

Longford Injections

The Longford Gas Plant outage on 1 October 2016 (and the AER's subsequent investigation of the event[1]) highlighted the importance of Longford gas supplies to Australia's east coast gas markets. The AER is, in 2017, conducting a targeted compliance review of participant

[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

offers at the Longford injection point. This review is ongoing and will be progressed during the June quarter. This QCR outlines our approach to date.

Gas Bulletin Board

We have again provided an update on participant data reporting for the Natural Gas Services Bulletin Board (the Bulletin Board). Bulletin Board registered participants were subject to new data reporting requirements from 6 October 2016 and the AER has monitored compliance with these requirements since that date. This report has been used to highlight the new reporting requirements on secondary pipeline capacity trading. Pipeline operators are now required to submit data on available secondary capacity ('on offer') for publication on the Bulletin Board. Through this information, shippers can now access further information on the availability and costs of gas transportation.

Electricity

Generator Rebidding

This report contains an update to the 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 provide an update on our analysis of rebidding activity, including the notices we received from participants regarding rebidding errors.

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 we have published the results of our investigations into most of these events, in accordance with our obligations under the Electricity Rules. Several of these investigations are ongoing and we will publish reports as soon as possible.

Separate to its reporting on the causes of high prices, the AER is conducting compliance investigations into supply interruptions in the NEM, specifically in relation to events on 28 September 2016, 1 December 2016 and 8 February 2017. These investigations are ongoing and we provided an overview of this work in our December 2016 QCR (published 3 March 2017).

Compliance with Chapter 7 of the Electricity Rules

Participant readiness for metering contestability, under the Australian Energy Market Operator's (AEMO) Power of Choice (PoC) Implementation Program, is a compliance priority for the AER in 2017. We include an update on our work on compliance with Chapter 7 of the Electricity Rules.

Instrument Transformer Testing

Further to AEMO's PoC Implementation Program, the PoC framework will have implications for participant testing of metering installations (specifically, instrument transformers) when it

commences from 1 December 2017. An item on instrument transformer testing is provided in this QCR. It presents an overview of the AER's long term analysis of participant compliance with the testing requirements under Schedule 7.3.1 of the Electricity Rules. It includes initiatives that we have identified to improve the quality of instrument transformer testing.

Compliance with MSATS Procedures (CATS Procedures)

A number of participants are underperforming in relation to meeting their obligations under the Customer Administration and Transfer Solution Procedures (CATS Procedures) which form part of the MSATS Procedures. We include some guidance on our expectations regarding participants identified by AEMO as being below the expected standards in relation to these obligations.

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 participants[2] 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).

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.

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

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 Short Term Trading Market

1.1.1 Significant Price Variations

The AER is required to identify and report on any Significant Price Variations (SPVs) in the STTM. Our "SPV triggers for the STTM" are set out in our Significant Price Variations in the STTM Guideline. When our thresholds are breached, the AER investigates and reports in accordance with our obligations under the Gas Rules.

Reporting on SPVs is part of the process of analysing market performance and identifying systemic behavioural concerns. The AER's SPV reports identify price variations and examine whether they are the result of material changes in market conditions, behavioural issues or have other causes. These reports are published on the AER's website[4] and are recommended as a resource for stakeholders. Through these reports, we seek to educate and inform businesses, customers and other stakeholders on compliance issues and raise awareness of obligations. We seek to promote consumer confidence in energy markets, with the understanding that a culture of compliance is essential to fulfilling the national energy laws objective.

The AER endeavours to publish its SPV reports in a timely manner and in accordance with timeframes required by the Gas Rules. We sometimes make full use of these timeframes to ensure that these reports are accurate, comprehensive and reflective of consultations with market participants.[5]

The AER published two SPV reports, across the three STTMs (Adelaide, Sydney and Brisbane), during the March 2017 quarter. These were in relation to the Sydney and Adelaide markets and, in both cases, were triggered by high Market Operator Service (MOS) payments that triggered the AER's reporting thresholds.[6] The high MOS payments accrued in Sydney on 7 November 2016 and in Adelaide on 21 November 2016.

4 http://www.aer.gov.au/wholesale-markets/market-performance

5 The Gas Rules for the STTM require the AER to publish its SPV report within 60 business days following the final statement for that gas day. The Victorian arrangements in the Gas Rules require the AER to publish its SPV report within 20 business days following the final statement for that gas day.

6 MOS gas is provided by a STTM pipeline operator in balancing positive or negative pipeline deviations at a trading hub at the end of the gas day. Participants who own this gas are compensated for this service. MOS payments in excess of $250 000 trigger an AER investigation and report.

Sydney SPV

The SPV event at the Sydney hub generated total MOS service payments of $329 793. This was the third highest payment for the 2016 calendar year. At the time, the average daily payment for the 2016/17 financial year was $54 754.

The AER published its significant price variation report – 7 November 2017 (Sydney STTM) on 31 March 2017. The report concluded the large MOS service payment resulted from the curtailment of gas flows on the Eastern Gas Pipeline (EGP) and from over forecasting of demand. The AER has been monitoring the link between high MOS and over forecast demand at the Sydney hub in recent years and is separately conducting detailed analysis in this area (refer to 1.1.3).

Adelaide SPV

The SPV at the Adelaide hub generated total MOS service payments of $367 334. This was a record payment for the Adelaide STTM and was associated with counteracting MOS.[7] The Adelaide hub has a history of counteracting MOS and the AER previously investigated its occurrence at the hub as part of a SPV investigation in 2013.

The AER published its significant price variation report – 21 November 2016 (Adelaide STTM) on 31 March 2017. The report concluded that significant volumes of MOS gas accrued on the day, due primarily to physical network issues. The report identified increasing MOS payments in Adelaide from 2015 to 2016 and a subsequent decrease in MOS payments during the March 2017 quarter. The AER will continue to monitor price outcomes at the Adelaide hub.

1.1.2 Pipeline Capacity Availability

On 5 July 2016, Epic Energy introduced a new calculation methodology for gas deliveries to the Adelaide STTM on the Moomba Adelaide Pipeline System (MAPS). The AER approached Epic during the December 2016 quarter 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 change to the calculation methodology for the MAPS, the AER has committed to reviewing the methodologies used to calculate available capacities on other transmission pipelines supplying STTM hubs, which we first audited at market-start.[8] We will engage with pipeline operators during the 2017 June quarter, to better understand their calculation methodologies and to consider any implications in terms of participant compliance with the Gas Rules.[9]

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7 Counteracting MOS occurs when MOS services are provided by pipelines supplying the same hub. In this case, increased MOS gas is required on one pipeline and decreased MOS gas is required on another pipeline. This means that the supply volumes on each pipeline are not allocated according to the market schedule, with one pipeline compensating for the supply shortfall of the other.

8 The Adelaide STTM commenced in September 2010. The Sydney and Brisbane STTMs commenced in December 2011 Brisbane.

9 This includes pipeline operator compliance with ex-ante pipeline capacity information under Rule 414 and gas shipper

1.1.3 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 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 Rules[10] 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 reflect each participant's demand forecast.

The AER has been examining inaccurate demand forecasts of some of the Sydney STTM participants since 2012. At the time, we had concerns regarding biases toward under and over forecast demand. During 2013, we developed metrics to identify trends in demand forecasting errors and contacted participants seeking improvements to their demand forecasting systems. Subsequently, there was a trend toward reduced errors and lower MOS balancing gas requirements in 2013 and 2014.

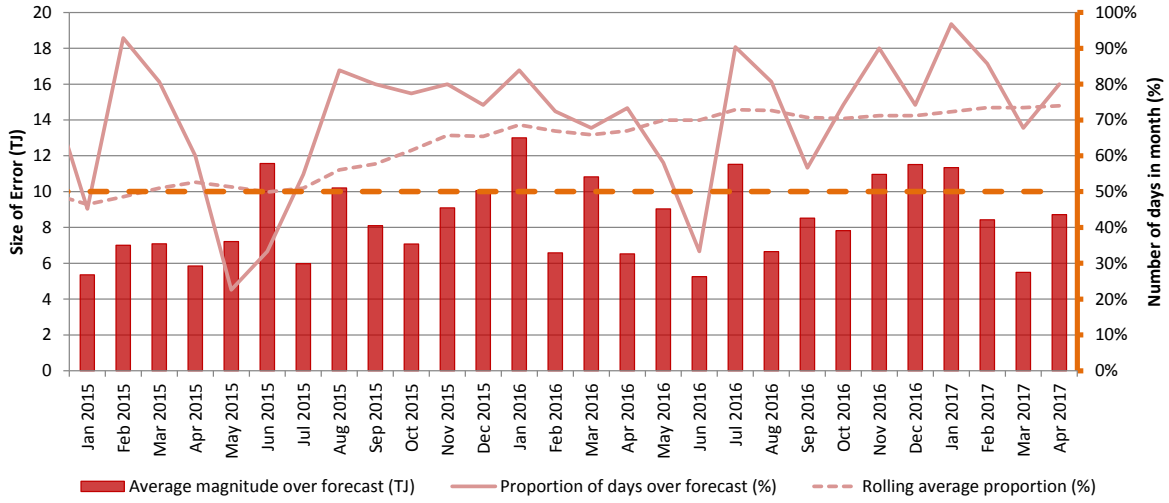
Since the end of 2014 there has been a re-emergence of high incidences of forecasting inaccuracy at the Sydney hub, specifically in relation to over forecast demand. As shown in **Figure 1**, there was a re-emergence of high over forecast demand in January 2015. With the exception of noticeable declines around May 2015 and June 2016, the incidence of over forecast demand has remained high since that time.

Figure 1 shows that over forecast demand was particularly prevalent during the 2016/17 summer period. This included over forecast demand on 97 per cent of days across January 2017. A brief decline followed before the incidences of over forecast demand increased from 68 per cent to 80 per cent from March to April 2017.

compliance with the good faith provisions under Rule 413.

10 Rule 410(1).

Figure 1: Sydney Hub forecasting performance metric (since January 2015)



The AER has committed to better understand the drivers behind demand forecasting errors at the Sydney hub and, in 2017, we are working with market participants to interpret the causes of over forecasting. We have been meeting with the Sydney hub's larger participants, with a focus on AGL who over forecasted on 94 per cent of days during the 2016 December quarter and 92 per cent of days during the 2017 March quarter (based on preliminary allocation data).

Sydney hub participants have indicated 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. They also indicated there is synergy between improving forecasting and creating value in their business.

As shown in **Figure 1**, there has been some improvement in the hub-wide provisional data since the end of 2016. However, the AER will wait to determine the nature of this improvement (noting AGL's continued high over forecasting) and whether it can be sustained. We stress that revised settlement data (**Figure 1** includes revised settlement data to July 2016) has not altered our general conclusion that the preliminary nature of the data does not fully explain the over forecasting trend.[11]

The AER's previous investigations of high MOS gas payments in Sydney have found that over forecast demand has significantly contributed to the size of these payments.[12] As outlined above (refer to 1.1.1), this includes our investigation of a high MOS payment at the Sydney hub on 7 November 2016. We published a SPV report on this event during the 2017 March quarter, finding that the payment was partly attributable to over forecast demand.

11 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.

12 Reported in the AER's July and August 2016 SPV Report, http://www.aer.gov.au/wholesale-markets/compliance-reporting/significant-price-variation-report-july-august-2016

We are continuing our analysis of the over forecasting trend in Sydney and will examine other potential drivers of demand forecasting inaccuracies, including the incentives and disincentives that participants face at enterprise level.

1.2 Victorian Gas Market

1.2.1 Significant Price Variations

Further to the AER's performance monitoring obligations for the STTM, we are required to identify and report on SPVs in Victoria's Declared Wholesale Gas Market (DWGM). The price thresholds that trigger these SPV reports are outlined in our Victorian Declared Wholesale Gas Market Significant Price Variation Guideline.

One SPV was identified in Victoria's DWGM during the December 2016 quarter. The SPV occurred on 14 October 2016 in the form of a large negative ancillary service payment of $365 612. Although the AER's Victorian SPV reporting guideline was not intended to capture negative payments, this was an unusually large sum and we have published a SPV report to inform industry (in particular, newer participants) of negative ancillary payments and their market impact.

The AER published its significant price variation report – 14 October 2016 (Victorian gas market) on 10 March 2017. The report found that the large ancillary service payment resulted from a constraint imposed on Longford injections. This required the de-scheduling and payment for gas that was no longer required. The payment was unusual insofar as it was the largest negative payment since October 2008. Negative payments are common in the Victorian market but the payment amounts are generally small.

1.2.2 Targeted Compliance Review – Longford Injections

We have continued 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 being applied to the Victorian Transmission System at the Longford Injection point. They 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.

Since March 2016, confirmed injections by the Operator at Longford have exceeded the market schedule by an average of 43 TJ per day on 41 occasions. It is apparent from discussions with AEMO that the application of (and changes to) supply demand point constraints (SDPCs) applied at Longford over a gas day may have contributed to this trend. However, there were a number of instances of confirmations exceeding schedules without SDPCs.

The AER has discussed this matter with a number of market participants, some of which have queried why SDPCs at Longford have become more frequent. We are continuing to monitor this issue (and to consult with market participants) and will provide an update in our next QCR in the following areas.

- The drivers of any increased frequency of SDPCs being imposed at Longford before or on-the-day.

- The market impact from inconsistent approaches to rebidding of volumes (some market participants have noted that under rule 211(4) there is no requirement to update bids on a gas day) if SDPCs are imposed on-the-day.

- The consequences (market impact) of the Operator at Longford confirming, to AEMO, different volumes for injection to those issued in the market schedule.

1.2.3 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 on-going assessment of their forecasting performance. In both cases, the participants committed to revising their demand forecasting systems and improving their accuracy.

The AER will continue monitoring these participants in 2017 to ensure their compliance with Part 19 of the Gas Rules. In the case of one participant, we will be seeking further forecasting data during the June quarter. This participant has indicated that it has amended its forecasting model and we will be assessing its performance.

1.3 Gas Supply Hub

1.3.1 Wallumbilla Single Market Product (optional hub services)

During March 2017, the Wallumbilla Gas Supply Hub transitioned to the optional hub services model. The hub's three trading locations[13] were replaced by a single trading location at Wallumbilla and an in-pipe Roma Brisbane Pipeline (RBP) trading location at South East Queensland[14]. This follows the introduction of the compression product in late-October 2016, reported in the AER's December 2016 Quarterly Compliance Report.

In accordance with our requirements under the Gas Rules, we will monitor for any trading on the exchange with a view to ensuring that members are compliant with their market conduct obligations.

13 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).

14 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.

1.3.2 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.

1.4 Natural Gas Services Bulletin Board

1.4.1 New Reporting Requirements

The *National Gas Amendment (Enhanced Information for Gas Transmission Pipeline Capacity Trading) Rule 2015* required registered Gas Bulletin Board Facilities to commence providing new information, for publication on the Natural Gas Services Bulletin Board (the Bulletin Board), from 6 October 2016. The Bulletin Board requirements are set out in Chapter 7 of the Gas Law and Part 18 of the Gas Rules.

The new information required from pipeline operators, storage facilities and production facilities includes:

- detailed facility information; and
- medium-term capacity outlooks.

New information required from pipeline operators includes:

- information on Bulletin Board shippers that have contracted capacity;
- secondary trade data[15];
- 12 month outlooks on uncontracted primary pipeline capacity;
- actual receipts and deliveries of gas from the pipeline to each demand and/or production zone; and
- actual daily receipts and deliveries of gas for each receipt or delivery point.

New information required from storage providers includes:

- 12 month outlooks of uncontracted storage capacity;
- the actual daily quantity of natural gas held in storage; and
- nominated and forecast storage injections and withdrawals (daily and during the day if information changes).

[15] Pipeline operators to provide secondary capacity trading information from their trading platforms.

1.4.2 Reporting Exemptions

Reporting exemptions currently apply to a number of transmission pipelines, storage facilities and production facilities. This is principally the result of the zonal model used for Bulletin Board reporting, which is based on gas flows between production and demand zones. Under this model, 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.

Market participants can seek exemptions from their obligation to report according to exemption criteria outlined in the Gas Rules. AEMO is responsible for granting exemptions and has outlined its exemption application process in the *Natural Gas Bulletin Board Procedures*.

Santos GLNG

Prior to 6 October 2016, one market participant sought a reporting exemption due to specific circumstances that are not clearly addressed through application of AEMO's exemption criteria. Santos GLNG sought alternative reporting arrangements in relation to two transmission pipelines that it operates – the Comet Ridge to Wallumbilla Pipeline (CRWP) and the GLNG Gas Transmission Pipeline (GTP).

The CRWP and GTP connect to create a major transmission flow-path through the Roma production zone, linking the Wallumbilla gas supply hub to GLNG's export facilities at Curtis Island. This represents a transmission flow-path between three Bulletin Board zones. The flow-path is interlinked with a complex network of lateral pipelines (at Roma) that make it difficult to report accurate receipt and delivery point data for the CRWP and GTP, as required by the Gas Rules. GLNG therefore proposed an alternative reporting arrangement, including data reporting not required by the Gas Rules. This would enable AEMO to build a mass balance of gas flows to and from the Roma production zone that would deliver the desired transparency to the Bulletin Board.

Following detailed discussions with GLNG, both AEMO and the AER accepted this arrangement, with the understanding that it is does not strictly comply with the Gas Rules. The arrangement, at this stage, is on-going and the AER will confer with AEMO to verify the accuracy of GLNG's data over time. The data submitted, to-date, has satisfied AEMO that GLNG's reporting methodology provides an accurate measure of flows to and from Roma.

1.4.3 Bulletin Board Compliance

In 2016, the AER consulted with gas market participants regarding their preparations in advance of the October 6 commencement of the Gas Rules amendments. We have also monitored participant compliance with the new reporting requirements from that date. This has extended to newly-captured facilities across the east coast gas markets, including facilities associated with Queensland's LNG export industry.

The AER has closely monitored Bulletin Board reporting during the six months following the October 6 commencement of the Gas Rules amendment. AEMO has reported data

submission errors, including the submission of late data to the AER. We have also observed this (through our own monitoring systems) and recognise that impacts have been minimal and errors have been rectified with the cooperation of market participants. As such, we have not taken further action at this stage. Overall, there has been a trend toward more timely and accurate reporting.

1.4.4 Observations

The new Bulletin Board reporting requirements have made a more comprehensive and consistent body of information available to east coast gas market participants. However, while the objective is to improve market transparency, the continuation of reporting exemptions under the current zonal model does not provide for the capture of all facilities (for example, the Roma Underground Gas Storage facility). Gas market participants should note that these exemptions would be removed under the proposed stage 2 reforms from the Australian Energy Market Commission's (AEMCs) 2016 gas market review report.[16]

Figure 2 (below) depicts the Bulletin Board and the key facilities that report under AEMO's zonal model. Some facilities that are currently exempt from reporting are identified. Both exempted and captured storage facilities are shown. Captured storage facilities are now required to report their storage levels daily.[17]

The map has been updated (for this QCR) to depict secondary pipeline capacity trades for 1 May 2017, including secondary capacity offers for the forward and reverse transmission directions. From 6 October 2016, Bulletin Board pipeline operators that run a secondary pipeline capacity trading platform must provide secondary trade data for publication on the Bulletin Board.[18]

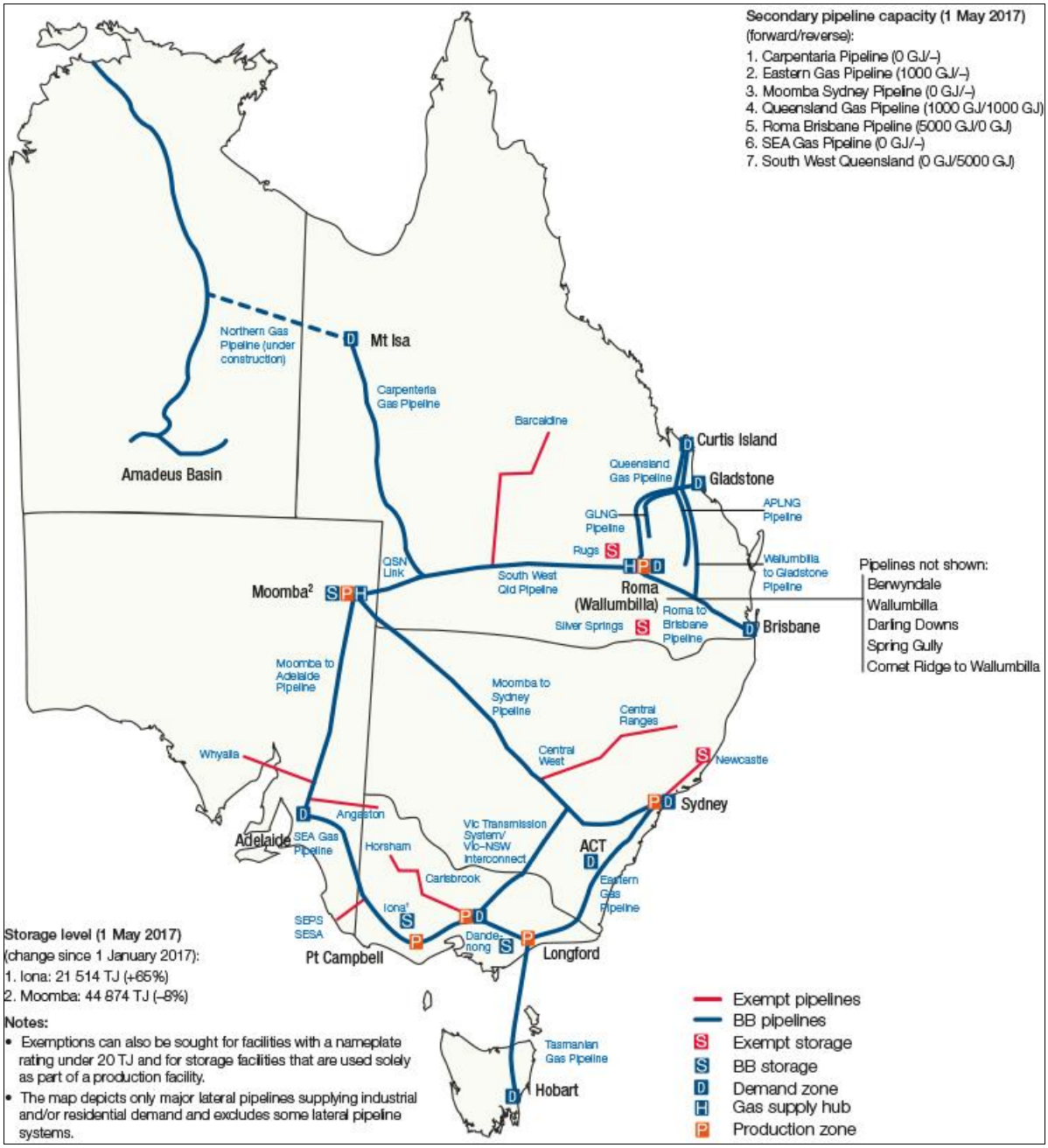
Secondary capacity offer data (pursuant to Gas Rule requirements since October 2016) brings further transparency as to the extent of pipeline capacity being traded on pipeline operator platforms. However, to date, shippers have, on the whole, not chosen to advertise gas prices on these platforms. As such, its usefulness in discovering prices is limited to short term firm offers displayed by pipelines.

16 Stage 2 Final Report, East Coast Wholesale Gas Market and Pipeline Frameworks Review. Under the proposed timeline, gas market participants that are exempt from reporting may need to transition from their current arrangement in 2018.

17 This information is used in the AER's weekly gas reports: http://www.aer.gov.au/wholesale-markets/market-performance

18 The Moomba Adelaide Pipeline (MAP) does not currently have a secondary pipeline capacity trading platform (unlike the Jemena and APA operated pipelines) and does not report.

Figure 2: Natural Gas Services Bulletin Board (1 May 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).[19] 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 Protocol, 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.

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

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 the 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 Procedures.[20] The publication outlines the criteria that AEMO uses to determine apparent breaches of the Retail Market Procedures and whether the apparent breaches are material or immaterial.

This quarter, AEMO did not report any material or immaterial breaches of the Retail Market Procedures by market participants. AEMO did, however, self-report 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 and it has done so to the AER's satisfaction.

- AEMO delay in providing STTM Distribution System Allocations (DSA) for the Qld gas retail market:
    - On 31 December 2016 and 1 and 2 January 2017, due to a system defect in updating Meter Installation Registration Number (MIRN) details (31 December and 1 January events) and a configuration issue that resulted in STTM capacity for a participant being incorrectly end-dated (2 January event). AEMO manually updated the MIRN details and corrected the end-date for STTM capacity. AEMO advised that it has investigated the issues and updated the relevant business processes to avoid the reoccurrence of these issues.
    - On 11 February 2017, due to a scheduled system outage as a result of a scheduled site transfer. AEMO has revised its site transfer procedure to avoid the delay in determining STTM DSA.
- Since the implementation (May 2016) of the NSW and ACT retail market arrangements (NARGP) AEMO has failed to process into the system the "Base Load" field of the Meter Fix Notification. The system currently uses the default value of 1000MJ instead of the "Base Load". The issue was resolved on 7 March 2017.

[20] http://www.aemo.com.au/-/media/Files/PDF/0090-0014-pdf.pdf

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 have passed (following issue of the first warning).

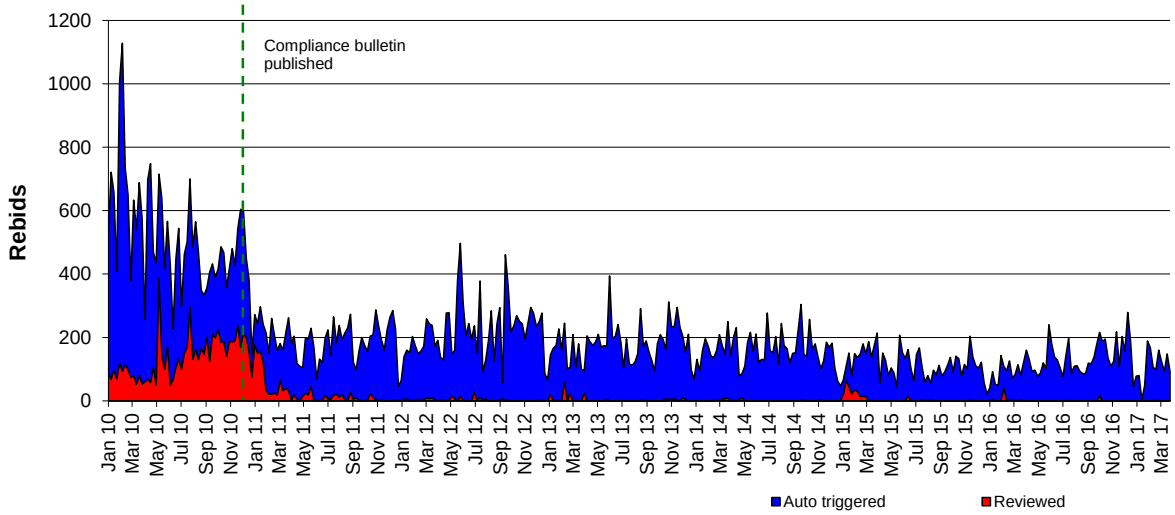
Frequent submission of offers, bids and rebids which do not meet the relevant requirements of the Electricity Rules can seriously and adversely impact the NEM. In particular, the quality of information available to relevant participants and other persons is reduced, which in turn reduces market efficiency.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

As shown below in **Figure 3**, 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 3: Rebids auto-triggered and reviewed per week (adjusted[23])



This quarter we received three 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.

2.2 Rebidding and Technical Parameters Guideline

The Bidding in Good Faith (also known as False or Misleading) and Generator Ramp Rate rule changes came into effect on 1 July 2016. In response to these rule changes we are required to make consequential amendments to our Rebidding and Technical Parameters Guideline.

In late September 2016, we published a draft consultation Guideline and in December 2016 we published a draft Guideline. After considering stakeholder input we published our final Rebidding and Technical Parameters Guideline in late February 2017.

2.3 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 period.[24] These reports are available on our website[25] and are recommended as a resource for stakeholders.

Our reports on prices above $5,000 examine the surrounding wholesale market events and circumstances that contributed to the price outcomes, including whether they were the result of material changes in market conditions, behavioural issues or had other causes. Through

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 1 has been adjusted by removing the erroneous rebids.

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

these reports, we seek to educate and inform businesses, customers and other stakeholders on compliance issues and raise awareness of obligations. We seek to promote consumer confidence in energy markets, with the understanding that a culture of compliance is essential to fulfilling the national energy laws objective.

We seek to publish these reports 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.

2.3.1 Reports published since 1 January 2017

Since 1 January 2017, we have reported on the following extreme price events, including three events dating from the December 2016 quarter.

Figure 4: Reports published since 1 January 2017

	Event Date	High Price Period	Region	Market	Highest Price
1	18/10/2016	7:00- 8:30, 19:00 - 23:00	SA	FCAS	13083
2	1/12/2016	2:00, 3:00, 3:30	SA	Energy	13767
3	1/12/2016	10:30	SA	Energy	9175
4	13/01/2017	17:00	QLD	Energy	13883
5	14/01/2017	16:30-17:30, 19:00	QLD	Energy	12642
6	2/02/2017	17:00 - 17:30	QLD	Energy	13400
7	6/02/2017	16:30 - 17:00	NSW / QLD	Energy	11962 / 11028
8	8/02/2017	17:30 - 18:30	SA	Energy	11141
9	9/02/2017	17:00	NSW	Energy	7822
10	9/02/2017	17:00, 17:30, 18:30	SA	Energy	9510
11	10/02/2017	17:00 - 18:00 / 17:00	NSW/QLD	Energy	14000 / 12221
12	11/02/2017	16:30- 17:30	QLD	Energy	8569
13	12/02/2017	17:30	QLD	Energy	9005

2.3.2 Reports pending

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

Figure 5: Reports to be published

	Event Date	High Price Period	Region	Market	Highest Price
1	9/11/2016	04:30 - 18:30	SA	FCAS	7334
2	25/11/2016	04:30 - 11:30	SA	FCAS	11 014
3	23/01/2017	5:30 - 6:00	SA	FCAS	9333
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

2.3.3 Compliance reviews

In addition to examining the causes of high prices, the AER may conduct targeted assessments of potential compliance issues associated with these events. We are currently reviewing the circumstances that led to the separation of the South Australian electricity market from the NEM on 1 December 2016 and load-shedding in South Australia on 8 February 2017. We are also examining a number of rebids related to the high priced events in Queensland in February.

We are separately investigating the South Australian Black System event of 28 September 2016, to determine compliance with the requirements of the Electricity Rules, and provided an overview of this investigation in our December 2016 QCR.

2.4 Compliance with Chapter 7 of the Electricity Rules

2.4.1 Focus on compliance with Chapter 7 obligations in the lead up to the introduction of metering contestability

The AER is concerned that, despite extensive efforts by AEMO and the AER to foster a culture of compliance with respect to participants' metering and customer transfer obligations, in recent years there has been a decline in overall industry performance with respect to the obligations in Chapter 7 of the Electricity Rules. Chapter 7 sets out provisions relating to metering installations used for the measurement of energy, the collection and provision of metering data and the accuracy of metering installations in the NEM.

The AER has initiated a number of metering related compliance activities since 2009, as well as endeavouring to inform and guide businesses about various Chapter 7 obligations through a range of initiatives including compliance bulletins. We are concerned that, despite

these efforts, some participants have demonstrated ongoing performance issues, and many have not demonstrated sustained improvements in their compliance. This view is informed both by the AER's experience working with participants to improve compliance with instrument transformer testing requirements, and a number of reports relating to systemic compliance issues arising under Chapter 7 that we have obtained from AEMO.

We take this opportunity to remind participants that, in exercising our discretion as to whether to take enforcement action, we have set out a range of considerations in our Compliance and Enforcement Statement of Approach. In the context of Chapter 7 obligations, a key consider is the business's own actions in relation to the conduct. For conduct under Chapter 7, this consideration would include:

- whether AEMO has provided the participant with feedback through its various reporting processes that the participant's performance is deficient relative to overall participant performance; and

- whether the business has co-operated with AEMO when issues are identified: for example, whether the business has acted promptly to prepare a rectification plan that is acceptable to AEMO, and whether the business has adhered to it.

Additional factors set out in the Statement of Approach which are relevant in the context of longstanding Chapter 7 compliance issues include:

- the period over which the conduct extended and the number of related breaches, whether the business has a corporate culture conducive to compliance, including the effectiveness of compliance programs, and whether corrective measures have been taken in response to past breaches.

This report puts participants on notice that 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 a transitional period from that time. Our expectation is that businesses will use their best endeavours to rectify existing breaches before December 2017 and not delay addressing compliance with metering obligations, with a view to transferring responsibility to a Metering Coordinator in the future. In addition, for sites where retailers intend to appoint a Metering Coordinator, we expect them to provide full disclosure of any outstanding compliance matters to their chosen Metering Coordinator prior to appointment. We will provide further guidance over the next few months on issues associated with the transition of the Responsible Person role to Metering Coordinators.

2.4.2 Instrument Transformer Testing

National electricity rule 7.2.5(d)(2) requires that the Responsible Person (RP) ensures the components[26] (including current transformers and voltage transformers), accuracy and testing of each of its metering installations complies with the requirements of the Electricity Rules and the metrology procedures authorised under the Electricity Rules. Rule 7.2.5 (d) is a civil penalty provision.

[26] Metering installation components are defined by Rule 7.3.1 of the Electricity Rules.

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

In 2011, the AER became aware that low voltage (LV) CTs were not being tested in accordance with the Electricity Rules. In response, we published a compliance bulletin containing our expectations in relation to LV CT testing.[27] Specifically, the bulletin proposed that an RP should test either 10 per cent of its LV CT connected metering installations each year, or a sample of its LV CT connected metering installations in accordance with an alternative sampling method approved by AEMO.

RPs submitted their test strategy to AEMO, with the initial round of testing to be completed within 12 months from 1 July 2012. In our review of testing undertaken to 30 June 2013, we established that Red Energy did not complete the required testing. In response, we issued an infringement penalty notice to Red Energy in February 2014.[28]

In mid-2015, we commenced another review of compliance with testing obligations, starting with the RPs undertaking the alternative sampling method. In April 2017, the last RP adopting the alternative sampling method completed the required testing.

This process has provided the opportunity for AEMO and the AER to observe common problems in terms of RPs meeting the required timeframes. The AER has identified initiatives with potential to improve the efficiency of future testing, as follows.

- Effective internal processes within businesses undertaking the RP role:
    - having adequate technical expertise within the business to ensure a clear understanding of AEMO's testing requirements and methodology. This enables the RP to ensure that metering providers undertake the required testing in the first instance; and
    - having strong internal corporate knowledge management practices to minimise risks associated with a single individual holding the role of RP within a business.
- Streamlined planning and implementation strategies:
    - simple testing plans are more efficient and utilisation of AEMO feedback to streamline overly complex testing strategies avoids time consuming and costly testing regimes;
    - timeliness in testing against the asset management plan. As the timeframe for testing became extended, changing metering populations increased the difficulties in testing an adequate number of meter types to meet requirements; and

27 The compliance bulletin can be found here.

28 Red Energy paid the infringement notice penalty on 21 March 2014. Payment of an infringement notice is not an admission of liability.

- advanced engagement with relevant parties to arrange site access to ensure potential dates are utilised.

- Improving and maintaining the quality of records kept by businesses for relevant metering equipment, including the dates when instrument transformers were tested.

From 1 December 2017, when the new requirements commence under the Power of Choice framework, relevant businesses will need to understand how their responsibilities around instrument transformer testing will change with the new role for Metering Coordinators. Where retailers (or large customers) are electing to appoint a third party to undertake the Metering Coordinator role, we expect retailers to provide advice and, where appropriate, records outlining the approach those retailers previously undertook to test instrument transformers.

The certification of compliance given to RPs undertaking AEMO's alternate methodology expires 30 June 2018, irrespective of when the testing was completed. We expect relevant businesses to have a strategy and process in place to manage their testing program going forward. This will ensure that the required timeframe is met in accordance with the Rules. AEMO will also be reviewing the basis of the alternate methodology to streamline the process.

The AER and AEMO have worked closely with participants on these matters over the last five years. We consider that, through this process, participants have had ample time to understand their obligations and put in place adequate processes to ensure ongoing compliance with the testing requirements of the Electricity Rules. Should future non-compliances occur post 1 December 2017, the AER will consider all enforcement options to ensure the transition to the new metering regime is smooth and participants comply with their obligations.

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

This quarter, to facilitate participants' readiness for the 'Power of Choice' metering rule changes, the AER has commenced a targeted review of compliance with metering obligations under Chapter 7 of the Electricity Rules.

Chapter 7 sets out provisions relating to metering installations used for the measurement of energy, the collection and provision of metering data and the accuracy of metering installations. Transitional arrangements for first-tier metering installations are contained in Chapter 11 of the Electricity Rules. Metering provisions[29], and the Metrology Procedures, set volume limits for various types of meters. When the amount of electricity through the meter exceeds the volume threshold, the meter should be upgraded. In 2013, the AER wrote to a number of distributors and retailers in relation to metering installations that exceeded the

[29] Table S7.2.3.1 of the Electricity Rules.

volume threshold for type 6 (accumulation) meters. Since that time, the number of meters that exceed jurisdictional volume thresholds for type 6 meters has increased significantly.

Reports prepared by AEMO each month indicate there are ongoing compliance issues with respect to second tier sites, due to the discrepancy between the volumes of electricity consumed over 12 months, and the type of metering installation that is installed at the connection point. AEMO provides these reports each month both to the Local Network Service Provider (LNSP), as the Responsible Person for type 6 meters, and to the Financially Responsible Market Participant (FRMP) for the relevant connections.

In March 2017, AEMO provided its most recent reports to the AER, which indicate that there are a number of metering installations where the volume of electricity consumed over the last 12 months exceeds the annual volume limit for the type of meter that is installed at the connection point. The reports address second tier sites. The initial stage of the targeted compliance review focused on LNSPs, and the next stage of the review will focus on FRMPs.

Under the Electricity Rules, the responsibility for upgrading metering installations in accordance with the relevant consumption levels is attached to the Responsible Person. Clause 7.2.5(d) of Electricity Rules requires the Responsible Person to ensure that the metering installation is provided, installed and maintained in accordance with the rules, the metrology procedure, and procedures authorised under the rules. Clause 7.2.5(d) is a civil penalty provision. Clause 7.3.4(a) provides that the type of metering installation and the accuracy requirements for a metering installation, which must be installed in respect of each connection point, are to be determined in accordance with Schedule 7.2. Schedule 7.2 sets out the minimum requirements for metering installations, including the relevant volume limit per annum per connection point, and the accuracy standard. For type 5 and type 6 metering installations, volume limits per annum are specified in the Metrology Procedure.

To ensure that relevant parties are aware of their obligations and have processes, procedures and systems in place to ensure compliance, the AER has undertaken a targeted compliance review of LNSPs' practices with respect to upgrading metering installations in accordance with the relevant consumption thresholds for type 6 meters:

- For Victoria, South Australia and the Australian Capital Territory – second tier connection points recording consumption of over 160MWh.
- For New South Wales – second tier connection points recording consumption of over 100 MWh.
- For Queensland, a variable threshold according to the type of customer.
- For Tasmania, second tier connection points recording consumption over 150 MWh.

Rule 7.2.2 provides that a FRMP may elect to be responsible for a type 1, 2, 3 or 4 metering installation, and is the responsible person for these metering installation types if they elect not to request an offer from, or do not accept the offer of the LNSP. No time limits are set for either electing not to request an offer from an LSNP, or declining the offer of the LNSP.

Notwithstanding rule 7.2.2, the AER considers that all parties associated with a customer connection have a responsibility to facilitate the upgrade of the metering installation where an upgrade is required under the Electricity Rules.

LNSP responses indicate that LNSPs generally take the following steps when they receive AEMO reports which indicate that a meter upgrade is required, or when their own processes identify the need for a meter upgrade.

- Notification to the FRMP (usually by email) to ensure that the FRMP is aware of the requirement for a meter upgrade.
- Some LNSPs confirm with the FRMP that the consumption recorded in AEMO's monthly report is accurate and then reiterate to the FRMP what actions the FRMP needs to undertake to make the site compliant.
- Raising a change request in MSATS to update the site classification from "small" to "large", which results in a (further) notification to the FRMP.
- Some LNSPs then make an offer to the FRMP for the LNSP to act as the Responsible Person for the meter upgrade and appoint a Metering Provider to install compliant metering, and provide the FRMP with the terms and conditions of that offer.
- Other LNSPs make a written request to the FRMP for them to become the Responsible Person and appoint a Metering Provider to install compliant metering.
- Generally, LNSPs are not requested by the FRMP to be the Responsible Person for an upgrade to a Type 1 to 4 meter.

Generally, LNSPs reported that, where they make an offer to act as Responsible Person for the meter upgrade, that offer is generally not accepted by the FRMP. However, the offer is often not explicitly rejected by the FRMP. Where their offer is not taken up, the LNSP is unable to allocate the Responsible Person role to the FRMP. LNSPs noted that the Electricity Rules and procedures under the Electricity Rules do not set out any explicit timeframes for the FRMP to respond to an offer, nor for the FRMP to reassign the Responsible Person role from the LNSP to themselves in the Market Settlement and Transfer Solution (MSATS). There is no process for the LNSP to nominate the FRMP as the Responsible Person in MSATS.

LNSPs identified a number of challenges that can delay the rectification of metering installations, including negotiating contestable metering costs with customers, customer reluctance to co-operate with an upgrade where network tariffs will be changed, the practicalities of arranging outages (where required) and legacy site issues such as asbestos switchboards.

While the regulatory framework for metering will change considerably from 1 December 2017, in the interim, the AER notes that LNSPs appear committed to taking all relevant steps to facilitate the upgrade of a metering installation where required. We note that where LNSPs choose to make an offer to the FRMP to act as Responsible Person for a meter

upgrade, it may be helpful to advise the FRMP that, if they have not accepted the offer within a certain timeframe (for example, a period of 4 weeks), the LNSP will consider them to have rejected the offer. This may assist in clarifying that the FRMP is responsible under rule 7.2.2 to upgrade the metering installation.

Over the coming months, the AER will examine how FRMPs discharge their responsibility to facilitate the upgrade of a metering installation. We will be seeking the FRMPs' perspective on whether it would be appropriate to infer, where they either fail to accept the offer of an LNSP to act as Responsible Person for a meter within a reasonable timeframe or fail to seek an offer from an LNSP within a reasonable timeframe (for example, a period of 4 weeks from notification of the need for an upgrade), that they have in effect elected to be the Responsible Person for the upgrade.

We will continue to monitor relevant businesses' compliance with the obligations to upgrade metering installations in accordance with consumption levels in the lead up to the commencement of metering contestability on 1 December 2017. We expect FRMPs to be proactive in resolving these issues or at least developing suitable rectification plans prior to that date. As noted above, our expectation is that businesses will use their best endeavours to rectify existing breaches prior to December 2017, and not delay addressing metering obligations with a view to transferring responsibility to a Metering Coordinator in the future.

2.4.4 Compliance with Market Settlement and Transfer Solution (MSATS) Procedures

The transfer and settlement of customers between retailers in the national electricity market (NEM) is facilitated and governed by the AEMO through the MSATS procedures. The MSATS procedures, which are provided for by clause 7.2.8 of the Electricity Rules, impose obligations on registered participants and metering providers in seeking to enable efficient transfer and settlement processes in the NEM.

There are three different MSATS procedures:

- Consumer Administration and Transfer Solution (CATS Procedures);
- Management of Wholesale, Interconnector, Generator and Sample NMIs (WIGS Procedures); and
- Metering Data Management (MDM procedures).

All Registered Participants, Metering Providers and Metering Data Providers must comply with the Market Settlement and Transfer Solution Procedures. Failure to meet compliance with the MSATS Procedures may attract civil penalties.

Monitoring compliance with the MSATS procedures is in the first instance the responsibility of AEMO due to its central role in the transfer and settlement process. The AER is responsible for overall compliance with the Electricity Rules and we work closely with AEMO to ensure compliance is achieved.

As part of our monitoring work in relation to compliance with Chapter 7 of the Electricity Rules, we are also intending to closely monitor compliance with the MSATS Procedures, with a particular focus on the CATS Procedures.

In undertaking its monitoring function, AEMO publishes confidential comparative compliance reports regarding compliance by responsible persons, local network service providers, metering data providers and metering providers with the MSATS procedures. At our request, these compliance reports are also provided to the AER to assist in our overall monitoring of compliance with the Electricity Rules.

The AER will continue to engage with AEMO in coming months to ensure that participants identified by AEMO as underperforming in relation to their MSATS Procedures obligations, and in particular the CATS procedures, develop and adhere to rectification plans that are acceptable to AEMO. The AER encourages businesses identified in AEMO's reports as underperforming to develop a rectification plan that is acceptable to AEMO prior to 30 June 2017, and ensure that their rectification plan commits to addressing outstanding compliance issues within a timeframe that is satisfactory to AEMO.

2.5 Jurisdictional derogations

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

- any inconsistency between the Rules and a contractual requirement under the relevant agreement between the government and other entities; and
- 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.