



# **Quarterly Compliance Report:**

## **National Electricity and Gas Laws**

1 January – 31 March 2018

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Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Tel: (03) 9290 1444  
Fax: (03) 9290 1457

Email: [AERinquiry@aer.gov.au](mailto:AERinquiry@aer.gov.au)  
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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 that 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 2018 to 31 March 2018 (the March 2018 quarter). It includes reporting on the following matters in electricity and gas markets.

## Electricity

### *High price events in the NEM*

We have published our remaining reports on the extreme price events that occurred in the National Electricity Market (NEM) during the 2017/18 summer period. These price events occurred in South Australia and Victoria. We identify each event in this QCR.

It is our role to investigate the cause of these events and ensure that market participants are complying with their obligations under the national energy laws and rules. No further extreme price events had occurred and no further AER reports were pending at the time of publication.

### *NEM participant obligations in relation to system security*

The recent evolution of the NEM, including the increased penetration of new generation technologies, has made system security an area of focus for the AER. We consider it timely to use this QCR to highlight our expectations in the following areas:

- Participant obligations when the Australian Energy Market Operator (AEMO) uses its directions power under Electricity Rules clause 4.9.8.
- Our concerns where Scheduled Generators have advised AEMO of their intentions to desynchronise at a shorter notice period than required by the Electricity Rules.
- Our expectations in instances where Scheduled Generators or Semi-Scheduled Generators have reached their minimum safe operating levels.
- The obligation of existing market participants to provide information to AEMO to enable it to fulfill its forecasting and planning role. We stress that intending market entrants (notably, new generators) should also consider the importance of providing timely information to AEMO to enable it to effectively perform this role.

### ***Breaches of the distribution ring-fencing guideline***

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

### ***Implementation of metering contestability***

We have included a brief overview of the implementation issues arising under metering contestability. The AER is co-ordinating with relevant participants to improve customer outcomes, with a focus on the delays in the provision of new and replacement meters to customers.

### ***Compliance with MSATS procedures***

Improving compliance with the Market Settlement and Transfer Solution (MSATS) Procedures is a compliance priority for the AER. A number of electricity distributors are underperforming in this area and we set out our expectations regarding rectification of poor performance.

### ***Demand side participation guidelines***

In the December 2017 QCR we advised that the AER would monitor participants' provision of demand side participation information to AEMO via its data portal. We advise that we will be reviewing the reporting by participants over coming months.

### ***Access to competition in embedded networks***

Non-compliance with clause 2.5.1(d1) of the Electricity Rules prevents customers in embedded networks from exercising their right to access a retailer of their choice. Market participants are reminded that the transitional period for compliance with clause 2.5.1(d1) has concluded. This four month transitional period ended on 31 March 2018 and certain embedded network operators must now have an embedded network manager (ENM) appointed. We flag our compliance monitoring and potential enforcement action in this area.

### ***Metering and solar power purchase agreements***

Further to a number of enquiries from solar providers we include information on metering obligations under national measurement legislation.

### ***ElectraNet proposal to address the South Australian system strength gap***

ElectraNet has submitted a project proposal to resolve the Network Support and Control Ancillary Service system strength gap in South Australia. This problem was identified by AEMO on 13 October 2017, meaning ElectraNet was required by the Electricity Rules to use reasonable endeavours to have system strength services in place by 30 March 2018.

While this matter is yet to be resolved, we have determined that ElectraNet has complied with the Electricity Rules by using reasonable endeavours to address the issue and by devising a solution.

### ***Generator rebidding***

We have finalised our QCR standing item on generator rebidding in the NEM. We commenced reporting on generator rebidding in QCRs in 2011, after identifying a significant number of offers, bids or rebids which potentially did not meet the requirements of the Electricity Rules. In recent years, there has been a sustained and significant improvement in the quality of information submitted by market participants. This item will not be included in future QCRs unless there is a re-emerging trend toward an increased number of non-compliant rebids.

## **Gas**

### ***Gas Bulletin Board***

The AER monitors participant compliance with Part 18 of the Gas Rules, which establishes data reporting requirements for the Natural Gas Services Bulletin Board (the Bulletin Board). This QCR outlines three Part 18 compliance matters that warranted AER engagement in late 2017 and early 2018:

- We have commenced an audit of Santos Bulletin Board reporting for gas facilities at Moomba. This follows the September 2017 restatement of gas volumes at the Moomba LDB storage facility, in which Santos revised down the amount of gas held by 10 petajoules.
- We will conduct analysis to confirm that gas facility operators are submitting medium term capacity outlooks to the Bulletin Board that reasonably reflect their knowledge of future plant capability and availability.
- We report on the revocation of the 2015 exemption declaration for the Silver Springs Storage Facility in South East Queensland.

We also provide an overview of new Bulletin Board reporting requirements to take effect from 30 September 2018. Gas market participants should be aware of the impending changes and prepared to submit new Bulletin Board data in accordance with a strengthened compliance framework.

### ***High gas price events***

We examined two high price events during the quarter:

- High ancillary service payments in Victoria's Declared Wholesale Gas Market (DWGM) on 30 November 2017. This triggered an AER Significant Price Variation report, which we published on our website.
- High prices in the Wallumbilla Gas Supply Hub on 6 April 2018. We report on the cause of these prices as part of our responsibility for monitoring activity in gas trading exchanges to ensure participant compliance with Part 22 of the Gas Rules.

### ***Retail Market Procedures***

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



## 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<sup>1</sup> and other persons; and
- investigating breaches, or possible breaches, of provisions of the legislative instruments under our jurisdiction.

Consistent with our statement of approach<sup>2</sup>, we aim to promote high levels of compliance, and seek to build a culture of compliance in the energy industry. A culture of compliance will:

- reduce the risk of industry participants breaching their regulatory obligations; and
- assist in ensuring industry participants can engage confidently in efficient energy markets.

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

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

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

In carrying out our monitoring functions, we aim for:

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

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

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<sup>1</sup> Entities registered by AEMO under Chapter 2 of the Electricity Rules or in accordance with Part 15A of the Gas Rules.

<sup>2</sup> The Statement of Approach is published on the [AER's website](#). In April 2014, the AER released a combined Enforcement and Compliance Statement of Approach covering our functions under the Gas Law, Electricity Law and National Energy Retail Law. The document reflects the consistent approach taken by the AER to enforcing the energy laws across all markets.

# 1 Electricity

We are responsible for monitoring, investigating and enforcing compliance under the Electricity Law and Rules. This part of the report provides an update on investigations, compliance matters and projects in the electricity market.

## 1.1 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.<sup>3</sup>

We endeavour 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.

### 1.1.1 Reports published since 1 January 2018

Since 1 January 2018, we have reported on the following extreme price events. No further extreme price events had occurred at the time of publication and no further reports were pending. These reports are available on our website.<sup>4</sup>

**Figure 1: Reports published since 1 January 2018**

	Event Date	High Price Period	Region	Market	Highest Price
1	13/10/2017	7:30 – 13:30	SA	FCAS	10 700
2	14/10/2017	6:30 – 9:00	SA	FCAS	9 500
3	24/10/2017	19:00 – 20:30	SA	FCAS	13 272
4	18/01/2017	4:30 – 6:00	SA	Energy	14 167
5	18/01/2017	4:30 – 6:00	Vic	Energy	12 931
6	19/01/2018	2:30, 3:00, 5:00, 6:00	SA	Energy	13 408
7	19/01/2018	2:30	Vic	Energy	10 152
8	07/01/2018	4:00	SA	Energy	8001
9	07/01/2018	4:00	Vic	Energy	6847

<sup>3</sup> 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.

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

## 1.2 Electricity Rule 4.8.9 – Power to Issue Directions

System security is a significant focus for the AER as the National Electricity Market (NEM) evolves. We pay particular attention to participant behaviours in this regard and take this opportunity to remind registered participants of their compliance obligations during system security events.

Under Clause 4.8.9 of the National Electricity Rules, AEMO may require a registered participant to do any act or thing to maintain the power system in, or re-establish it to, a secure operating state; a satisfactory operating state; or a reliable operating state. To do so, AEMO may require a registered participant to follow particular instructions. This includes, but is not limited to, dispatch instructions that may, for example, require a generator to be synchronised and loaded to a particular level or to maintain no more than a particular level of output.

Importantly, registered participants must use their best endeavours to comply with a direction or instruction within AEMO's specified timeframe and must not by any act or omission, whether intentionally or recklessly, cause or significantly contribute to the circumstances causing a direction to be issued, without reasonable cause.

Participants directed under this power are entitled to compensation for their actions in accordance with procedures published by AEMO. These procedures may be amended from time to time in accordance with the Rules consultation procedures and must account for any applicable reliability panel guidelines. AEMO must use its best endeavours to minimise cost outcomes, including costs associated with any need to compensate Affected Participants<sup>5</sup>, and Market Customers.

## 1.3 Notification to Desynchronise and Minimum Safe Operating Levels

### Desynchronisation

We are currently considering the conduct of some Scheduled Generators who have advised AEMO of their intention to desynchronise at shorter notice than is required by clause 4.9.7(a) of the Electricity Rules. Further, we are examining whether this has led to AEMO issuing directions to generators to remain synchronised, to ensure the market remains in a secure operating state.

AEMO has observed an increase in the frequency of this behaviour over recent months. We are considering how the Electricity Rules should be applied in this context and working with AEMO to better understand the drivers of these behaviours.

In our summer readiness messaging (published 1 December 2017) we drew attention to the Electricity Rules obligations to provide AEMO with the required notice of self-commitment (clause 4.9.6(a)) and self-decommitment (clause 4.9.7(a)). We also highlighted the

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<sup>5</sup> *Affected Participant* is defined in the glossary of Chapter 10 of the Electricity Rules.

importance of providing AEMO with timely information so it is best placed to manage power system security issues.

With respect to clause 4.9.7(a), we note that NEMMCO (the market operator prior to 2009) established a long-standing practice where the commitment to desynchronise was considered confirmed if it was in pre-dispatch for a minimum of one hour. Given the current circumstances, we are working with AEMO to ensure consistent advice is provided. We are also considering the need for further work with AEMO and the AEMC regarding these rules and requirements.

### **Generator minimum safe operating levels**

In 2017, we published our Rebidding and Technical Parameters Guideline.<sup>6</sup> This sets out what a generator should do in the event it receives a target below its minimum safe operating level (Section 2.1.4). We consider minimum safe operating level to be the level below which the unit would become unstable, after other technical responses have been exhausted (for example, auxiliary firing). The minimum safe operating level reflects technical and plant safety considerations, not commercial conditions. Plant availability that reflects commercial considerations should still be managed through rebidding of capacity within price-bands.

In instances where a Scheduled Generator or Semi-Scheduled Generator has reached its minimum safe operating level and cannot safely follow a dispatch instruction to vary its output downwards, it should submit a zero down ramp rate to AEMO, as long as the zero ramp rate can be justified on the basis of a technical limitation. This approach should be used in preference to submitting an inflexible bid, as it provides greater flexibility to ensure the market remains in a secure operating state. As soon as the output of the unit moves materially above the minimum safe operating level, participants must submit a rebid to provide a ramp rate compliant with clause 3.8.3A of the Rules.

## **1.4 Provision of Information to AEMO by New Generators**

AEMO has a range of critical roles in the operation of the NEM. In particular, AEMO relies on information from existing generators, new entrants and intending developers that is critical to its monitoring of the future supply-demand balance and its role in power system planning.

In recent years, there has been investment in numerous new projects across the NEM. These projects have largely been developed by new players in the Australian market and, in a number of cases, the projects commenced without the players indicating their plans to AEMO. We therefore stress to intending (and current) NEM participants that clause 3.13.3(q) of the Electricity Rules requires AEMO to prepare and publish a Statement of Opportunities by 31 August each year. This publication delivers projections for the subsequent ten year period, including regional supply requirements; demand forecasts; generating capabilities for committed projects; plant retirements and network capability.

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<sup>6</sup> <https://www.aer.gov.au/wholesale-markets/market-guidelines-reviews/rebidding-and-technical-parameters-guideline-2017>

Under clause 3.13.3(t), Scheduled Generators, Market Participants and Network Service Providers must provide to AEMO any information that is required to assist with this publication.

AEMO has commenced preparations for its 2018 Electricity Statement of Opportunities (ESOO). AEMO is encouraging participants to contact it with details of the appropriate staff through which it can source project information. Where AEMO is aware of projects, AEMO is also contacting the organisations responsible for those projects. This reliance on the diligence and responsiveness of intending and current NEM participants is not ideal and we therefore emphasise the importance of timely information provision so AEMO can fulfil its critical role.

While not yet bound by the requirements of the Electricity Rules, intending participants are requested to contact AEMO and share as much information as possible about their projects. This will facilitate AEMO's consideration of power system security, capability and design. In the case of new generators, AEMO could then facilitate further communication and immediately open its generator information data portal and survey to them. AEMO is currently commissioning this portal and, once completed, participants will be able to provide data to AEMO, directly through the portal, at any time.

## **1.5 Breaches of the Distribution Ring-fencing Guideline**

1 January 2018 was the deadline for Distribution Network Service Providers (DNSPs) to achieve compliance with the *Ring-fencing Guideline – Electricity Distribution* (the Guideline). The Guideline is targeted at, among other things, preventing the cross-subsidisation of contestable services with regulated distribution services and preventing discrimination by a DNSP that might confer a competitive advantage on an affiliated entity or another part of the business in contestable markets. Non-compliance with the Guideline is not subject to civil penalties. In the first quarter of the ring-fencing compliance period, DNSPs self-reported a number of breaches of the Guideline to the AER.

### **1.5.1 Contestable meters**

On 12 January 2018, Energex and Ergon Energy reported a breach of the Ring-fencing Guideline to the AER. Under the Power of Choice metering contestability rules and the Ring-fencing Guideline, the Metering Coordinator, Metering Provider, and Metering Data Provider roles for type 1-4 meters are contestable services that must not be performed by a DNSP. However, Energex and Ergon Energy continued to perform Metering Provider services for type 1-4 meters after the 1 January ring-fencing compliance deadline.

We deemed this to be a material breach of the Ring-fencing Guideline and required Energex and Ergon Energy to provide fortnightly updates on strategies to move contestable meters to new metering providers, including information on the number of meters yet to be moved. We have not mandated that Energex and Ergon Energy immediately exit their role as metering provider for these meters, due to the risk that customers may be left without a metering provider.

In order to resolve this breach, Energex and Ergon Energy have worked with financially responsible market participants (FRMPs) to transfer outstanding National Metering Identifiers (NMIs) to new metering coordinators and metering providers. This process has taken several months, mostly due to contractual and other delays on the part of retailers and generators.

Energex and Ergon Energy's efforts have yielded a steady decline in the number of contestable meters for which the two DNSPs are acting as metering providers. Most NMIs that have been transferred to new metering coordinators and metering providers have been retrospectively changed in the market with a date nominated prior to 1 January 2018.

More generally, a number of DNSPs were unable to transfer contestable meters to new metering providers in time for the 1 January 2018 ring-fencing compliance deadline. TasNetworks and Essential Energy applied for waivers to allow them to continue to act as the Metering Provider and Metering Coordinator for contestable meters. These were granted under our December 2017 *Final Decision on DNSP applications for waivers from the Electricity Distribution Ring-fencing Guideline*.

DNSPs should run to their own internal checks on all meters for which they play a metering provider role. DNSPs who are still specified in AEMO's MSATS as being responsible for type 1-4 meters may be in breach of the Ring-fencing Guideline (A related compliance issue is discussed under section 1.6.2 below).

### **1.5.2 Supply restoration involving work on customer-side assets**

On 27 March 2018, Ausgrid reported a breach of the Ring-fencing Guideline to the AER. This breach involved an Ausgrid crew repairing and replacing contestable assets on the customer side of the network connection as part of a call-out to investigate an outage.

In this instance, it was not possible to electrically isolate the customer's assets (which are contestable) from local network assets (which are regulated). As a result, de-energisation of the customer's assets to enable safe replacement of the customer's damaged fuse and wiring could only take place by cutting power supply further upstream within the network, at a kiosk substation level. This involved cutting electricity supply to several other customers on the same low voltage distribution line. The alternative to repairing the customer's assets on the spot would have involved cutting the network mains wiring to the customer's connection assets; directing the customer to a contestable electricity service provider to replace the damaged fuse and wiring; and reconnecting the customer as part of a planned outage (which involves a four day notification period for all other customers affected by the outage). This option potentially carried increased regulated and unregulated costs.

The AER is considering the most appropriate remediation action in response to this breach. We recognise that, where customer assets cannot be easily isolated from network assets, a strict interpretation of the Ring-fencing Guideline may not always yield efficient outcomes. We will be seeking input from DNSPs, electricity service providers, and other stakeholders to identify a long-term compliance approach in this area. This includes consideration of whether DNSPs should be able to undertake repairs on customer connection assets under a limited set of circumstances.

### 1.5.3 Breaches of the Ring-fencing Guideline – Electricity Distribution

The following table provides a summary of breaches reported to us between January and March 2018 under clause 6.3 of the Ring-fencing Guideline.

<b>DNSP</b>	<b>Guideline clause(s) breached</b>	<b>Nature of breach</b>	<b>Latest breach status</b>
<b>Energex</b>	4.2.1 – Obligation to physically separate a RESP providing contestable electricity services  4.2.2 – Obligation not to share staff	Energex provided contestable electricity services for 1,347 type 1-4 meters at time of breach reporting (12/1/2018)	As of 18/4/2018 Energex continued to provide contestable electricity services for 60 type 1-4 active meters and a number of de-energised meters.
<b>Ergon Energy</b>	4.2.1 – Obligation to physically separate a RESP providing contestable electricity services  4.2.2 – Obligation not to share staff	Ergon Energy provided contestable electricity services for 146 type 1-4 meters at time of breach reporting (12/1/2018)	As of 18/4/2018 Energex continued to provide contestable electricity services for 1 type 1-4 active meter and no de-energised meters.
<b>Ausgrid</b>	3.1(b) – Obligation not to provide other services	An Ausgrid crew replaced a customer's burnt fuse and associated customer main wiring located in a private pillar serving commercial premises as part of a call out to investigate an outage.	The AER is considering the most appropriate remediation action for Ausgrid to undertake in response to this breach.

## 1.6 Issues Arising from the Implementation of Metering Contestability

### 1.6.1 Customer issues arising from the implementation of metering contestability

Since the commencement of metering contestability on 1 December 2017, the AER has received a number of complaints from customers, electrical contractors and other parties regarding delays in the installation of new meters, both for new and existing connections. A number of implementation issues have led to poor customer outcomes, including unacceptably long wait times for new meters, and missed appointments.

The AER is reviewing the conduct of participants in affected jurisdictions to understand the factors that have contributed to poor customer outcomes. These factors generally relate to



the need for improved processes rather than to instances of non-compliance. However, potential compliance issues have arisen with respect to delays in the replacement of malfunctioning meters. These issues are discussed in section 1.6.3 below.

We will continue to work to address delays in the provision of new meters, to ensure good customer outcomes with respect to new and replacement metering.

### **1.6.2 Compliance with the NER requirement to appoint a Metering Coordinator**

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

We have requested Power of Choice related compliance reports from AEMO to ensure that all participants are achieving compliance in this area. While we have seen a significant improvement, there are still a number of National Metering Identifiers (NMIs) requiring updating in MSATS with details of compliant Metering Coordinators. The AER expects retailers to continue to make updates until all NMIs are compliant. We will be requesting another report from AEMO in June and will be focusing on retailers whose numbers of non-compliant NMIs have not reduced from previous reports. Non-compliance with the requirement to appoint a Metering Coordinator is subject to civil penalty.<sup>7</sup>

Distributors which are still specified in AEMO's MSATS as being responsible for Type 1-4 metering installations need to take steps to be removed from that role to avoid being in breach of clause 2.8.1(a) of the National Electricity Rules. They may also be in breach of the AER's Distribution Ring-fencing Guideline which came into effect on 1 January 2018 (see section 1.5 above).

### **1.6.3 Replacement of Malfunctioning meters**

We are aware that the number of electricity meters being replaced is relatively low compared to the number of metering malfunction notices being provided to retailers and other Financially Responsible Market Participants (FRMPs). When a FRMP becomes aware of a metering installation malfunction it must ensure that a compliant Metering Coordinator has been appointed promptly for that connection point<sup>8</sup> and that the Metering Coordinator is causing repairs to be made within the time frames specified in clause 7.8.10 of the National Electricity Rules (unless an exemption has been obtained from AEMO). AEMO's [Exemption Procedure - Metering Installation Malfunctions](#) contains instructions for applying for an exemption when required. Where a Metering Coordinator does not cause repairs to be made within the timeframes specified in clause 7.8.10(a), and does not obtain an exemption from AEMO, a civil penalty can be imposed.<sup>9</sup>

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<sup>7</sup> Clause 7.2.1(a) of the Electricity Rules is classified as a civil penalty provision under the National Electricity (South Australia) Regulations.

<sup>8</sup> Clause 11.86.7(h) of the Electricity Rules.

<sup>9</sup> Clause 7.8.10(a) of the Electricity Rules is classified as a civil penalty provision under the National Electricity (South Australia) Regulations.



## **1.6.4 Distributor deemed metering coordinator agreements**

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 provide each Financially Responsible Market Participant (FRMP) with a standard set of terms and conditions on which they will agree to act as the Metering Coordinator. Unless the FRMP and the distributor agree to other terms and conditions, under clause 11.86.7 of the Electricity Rules the distributor is deemed to be appointed as the Metering Coordinator on the standard terms and conditions of appointment provided to each FRMP.

As noted in our December 2017 QCR, we expect that, where FRMPs seek amendments to these agreements, distributors will negotiate in good faith and come to a fair and reasonable outcome for both parties. In view of the difficulties of obtaining the consent of all affected FRMPs to any contractual changes, we do not have compliance concerns with amendments to these agreements where changes are made at the request of a FRMP, and provide FRMPs with a more fair and balanced contract.

## **1.7 Compliance with Market Settlement and Transfer Solution Procedures under Chapter 7 of the Electricity Rules**

### **1.7.1 Targeted Compliance Review: Consumer Administration and Transfer Solution Procedures**

Chapter 7 of the Electricity Rules sets out provisions relating to market settlement and transfer solution procedures (MSATS procedures). All Registered Participants, Metering Providers and Metering Data Providers must comply with the MSATs Procedures. Failure to comply may attract civil penalties.

In December 2017, the AER commenced a targeted review which is initially focussing on local network service providers (LNSPs) that are underperforming in one or more categories of standing data and transfer processes in AEMO's comparative compliance reports for Consumer Administration and Transfer Solution (CATS) Procedures. We wrote to six underperforming LNSPs requesting information on the measures they are implementing to improve their performance. LNSPs that receive these reports from AEMO are expected to investigate the cause of their underperformance, determine whether the errors in the reports are a result of non-compliance, and address any non-compliance.

We have met with six LNSPs, including one business which was not subject to the review but whose performance had declined since December 2017. It is apparent that LNSPs have not yet provided rectification plans to AEMO. Our position, as set out in previous QCRs, is that businesses which are underperforming should develop a rectification plan acceptable to AEMO and ensure that rectification occurs within timeframes specified within the rectification

plan.<sup>10</sup> We have requested that the underperforming LNSPs provide a rectification plan that is acceptable to AEMO by 30 June 2018.

We expect that businesses have robust processes and procedures in place to ensure compliance with MSATS procedures, and to proactively work with AEMO where deficiencies have been identified. We understand that there may be issues with third parties that impact compliance with MSATS procedures and encourage business to contact the appropriate accreditation body if third party non-compliance has flow on impacts for them.

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

### **1.7.2 Accuracy of NMI Standing Data**

AEMO has advised the AER that it has identified discrepancies between wholesale metering data at transmission nodes and the sum of metering data for connection points downstream of the transmission node that are having a noticeable impact on energy market settlements.

This situation arises due to the incorrect assignment, by LNSPs, of Transmission Node Identity (TNI) codes to connection point NMI Standing Data.

LNSPs are required, in accordance with the MSATS Procedures, to ensure that CATS Standing Data is kept current and relevant for the NMIs for which they are responsible. Where any incorrect assignment of TNI Codes occurs, this should be rectified promptly.

## **1.8 NEM Demand Side Participation Guidelines**

In the December 2017 QCR we advised that the AER would monitor participants' provision of demand side participation information to AEMO via its data portal. AEMO has advised us that a lower than expected number of participants submitted demand side participation data by the deadline of 30 April 2018. AEMO extended the deadline for submission of information to 8 May 2018. However, it is estimated that more than half of the total expected responses were still not received by the extended deadline.

Non-compliance with the NEM Demand Side Participation Guidelines is not subject to civil penalties. However, over the coming months the AER will work with AEMO to review the performance of participants with respect to the Electricity Rules requirements to provide demand side participation information. We will report on this issue in a future QCR.

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<sup>10</sup> [1 January – 31 March 2017 Quarterly Compliance Report](#)

## 1.9 Access to Competition in Embedded Networks – Embedded Network Managers

### 1.9.1 End of transitional period for compliance

The transitional period has ended for compliance with clause 2.5.1(d1) of the Electricity Rules. Persons holding network exemptions relating to embedded networks must now appoint or become an Embedded Network Manager (ENM), either immediately (for embedded networks with 30 customers or more within a number of common exemption classes)<sup>11</sup> or once a customer within the embedded network enters into a contract with a market retailer.<sup>12</sup>

Embedded network operators were permitted a transitional period from 1 December 2017 to 31 March 2018 to comply with the requirement to become/appoint an ENM. Feedback from accredited ENMs indicates that there is now no shortage of embedded network manager service providers in the market.

Customers in an embedded network are unable to access an alternative retailer without the services provided by an embedded network manager (i.e. registration of a National Metering Identifier (NMI) and updates to NMI standing data). Non-compliance with the requirement to appoint an ENM prevents customers in embedded networks from exercising their right to access a retailer of choice. Should the AER become aware that an embedded network operator has not appointed an ENM, when required to do so, we will consider taking action to revoke that operator's network exemption.

### 1.9.2 Applicable jurisdictions

The requirement to appoint or become an ENM applies where customers in embedded networks have a right to access a retailer of choice. Embedded network customers had the right to access a retailer of choice in Victoria, New South Wales and South Australia before the ENM requirements were introduced on 1 December 2017.

In the lead up to 1 December 2017, both the ACT and Queensland Governments introduced legislation to effect a right to access a retailer of choice for embedded network customers in their respective jurisdictions. The ACT amending bill has since become law, but at the time of writing, the Queensland legislation is yet to be passed by Parliament.

Queensland State Government communications are, however, definitive in stating that customers in embedded networks in Queensland have, since 1 December 2017, had the right to access a retailer of choice where such competition is available (i.e. customers may not yet be able to find an alternative retailer in regional Queensland as Ergon Energy does not offer 'market retail contracts').

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<sup>11</sup> An ENM must be appointed immediately for embedded networks with 30 or more customers and the network exemption class is ND10, NR1, NR2, NR3, NR5 or NR6 (see [Network Service Provider Registration Exemption Guideline](#), p.54).

<sup>12</sup> An ENM must be appointed when a small customer in an embedded network enters into a market retail contract and the cooling off period has expired or where a large customer in an embedded network enters into an energy contract.

Customers in embedded networks in Tasmania do not have the right to access a retailer of choice.

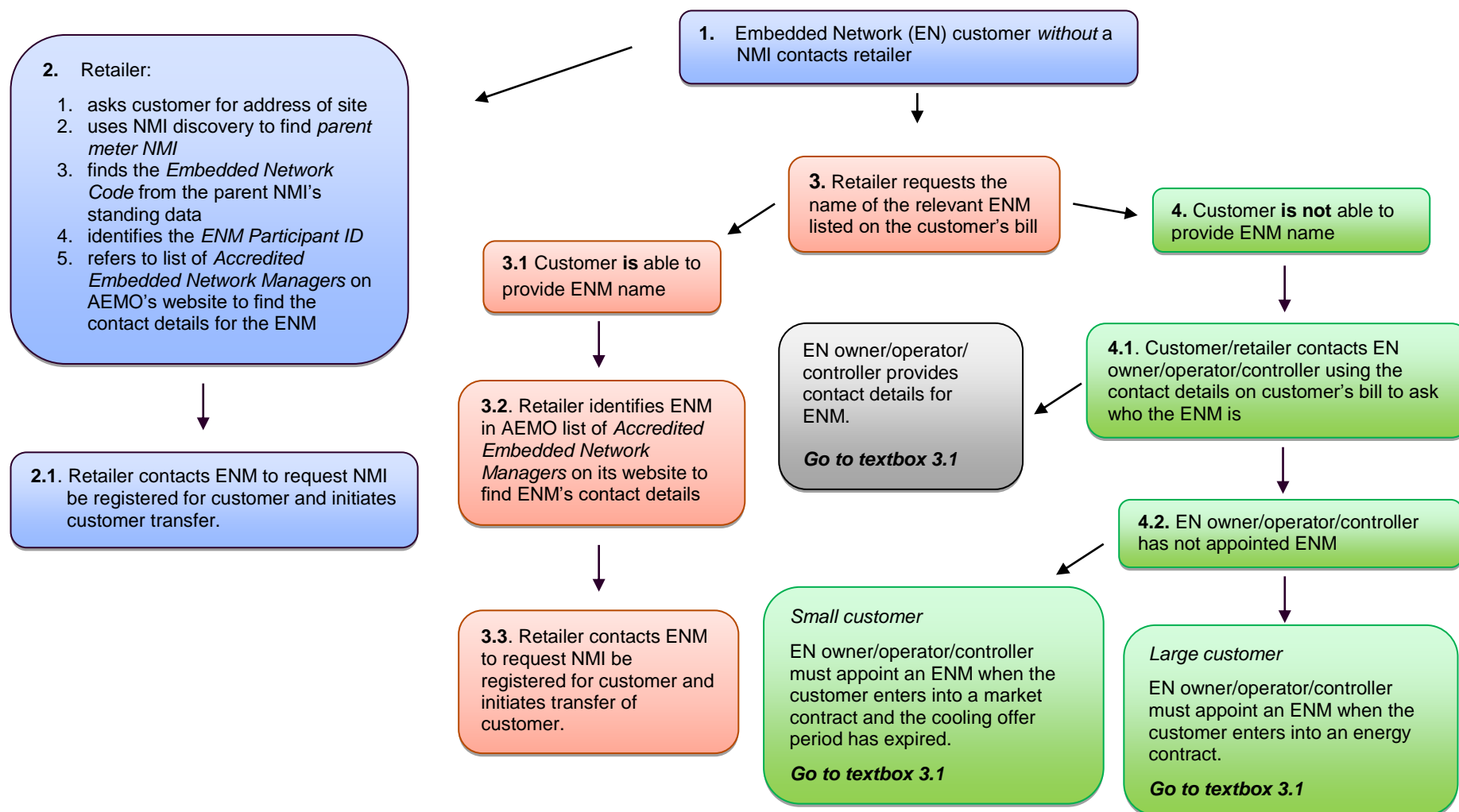
### **1.9.3 Embedded network customers approaching retailers without a NMI**

There have been a number of reports that retailers will not provide offers to customers in embedded networks who do not have a NMI. This may indicate that retailers (or call centre staff) are not aware of the process for customers in embedded networks to move on-market.

AEMO service level procedures require that an ENM may only register a NMI for an embedded network customer upon the request of that customer's incoming retailer. Therefore, customers in embedded networks who are attempting to enter into a contract with a market retailer for the first time will not have a NMI at the time they approach a prospective retailer. Further, an ENM may not yet have been appointed for their embedded network as many embedded networks do not require an ENM until a customer has entered into a contract with an alternative retailer.

To assist retailers in understanding the new process for embedded network customers, we will be sending a factsheet to all authorised retailers. The following flow chart is an extract from that factsheet.

**Figure 2: Embedded network customer process factsheet**



## 1.10 Metering and Solar Power Purchase Agreements

The AER has received a number of inquiries from solar providers about metering requirements for solar power purchase agreements. To assist solar providers to meet their metering obligations under national measurement legislation, we have included information on relevant obligations in this QCR.

*The National Measurement Act 1960* (Cth) establishes a system of units and standards of measurement that applies throughout Australia. It also establishes a framework for the regulation of measuring instruments used for trade. Under the Act, all meters used for trade must be of a basic standard, which is the National Measurement Institute's pattern approval. Pattern approval is mandatory for measuring instruments used for trade in Australia and the National Measurement Institute is responsible for evaluating measuring instruments to ensure they meet Australian standards.

There are a number of energy products that provide services 'behind the meter'; that is, on the customer's side of the market meter at the connection point to their premises. The most common offering is the Solar Power Purchase Agreement or 'Solar PPA', whereby a solar photovoltaic system owned by a third party is installed on the customer's premises and the energy generated/consumed is sold to the customer by that third party. In states and territories where the National Energy Retail Law applies, this sale of energy is permissible under an individual retail exemption or, more recently, an R8 registrable retail exemption.

Retail exemptions do not specify metering requirements. However, PPA arrangements are also subject to the 'deemed' network exemption ND07.<sup>13</sup> All network exemptions are subject to the condition that meters comply with the requirements of the National Measurement Act. Therefore, meters without National Measurement Institute pattern approval are non-compliant with both the conditions of network exemption and federal law. Persons with compliance related concerns in this area can find further information, including pattern approval requirements and pattern approval application forms, on the National Measurement Institute's website.<sup>14</sup>

## 1.11 ElectraNet Proposal to Address the South Australian System Strength Gap

A Network Support and Control Ancillary Service (NSCAS) system strength gap for South Australia was identified by AEMO on 13 October 2017. Under clause 5.20C.3(c)(1) of the Electricity Rules, ElectraNet was required to use reasonable endeavours to have system strength services in place by 30 March 2018 on an ongoing basis.

On 14 March 2018, ElectraNet advised the AER that it interpreted the gap to be a fault level shortfall under the transitional provisions of the *Managing power system fault levels* rule changes, (clause 11.101.6(a)). Under these provisions, there is no requirement for a Regulatory Investment Test, however ElectraNet is required to economically assess and

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<sup>13</sup> ND07 pertains to residential, commercial and industrial sites where demand-side participation equipment and facilities are installed. The AER's [Network Service Provider Registration Exemption Guideline](#) sets out which electricity network activities are deemed exempt, registration requirements and the conditions associated with exemption classes.

<sup>14</sup> <http://www.measurement.gov.au/Industry/services/Pages/Pattern-Approval.aspx>

make available the least cost option to satisfy the system strength requirements. Accordingly, the AER has been liaising with ElectraNet and AEMO to ensure that this process is rigorously followed, given the costs involved and urgency in addressing this need. ElectraNet has sought AER endorsement of this approach to address the shortfall for the five year NSCAS planning horizon and beyond.

ElectraNet sought offers from market participants in South Australia to meet minimum generator dispatch requirements. ElectraNet determined that generator contracting to meet the system strength requirement was not an economically viable solution and proposed that AEMO continue with directing generation in the short term. It suggested fast-tracked investment in synchronous condensers as the most efficient medium term solution.

Based on the information provided, ElectraNet has demonstrated that it took reasonable steps to economically assess and make available the least cost option to provide system strength services through first seeking offers for these services from market participants and ultimately proposing the synchronous condenser solution, in accordance with clause 5.20C.3(c)(1) of the Electricity Rules.

The potential synchronous condenser solution is a contingent project under ElectraNet's transmission determination for the 2018–23 regulatory control period. If the contingent project is successfully triggered, ElectraNet may apply to us for approval to recover the efficient incremental revenue likely to be required as a result of undertaking the project. Ahead of that regulatory approval process, we have asked ElectraNet to keep us informed of any changes in conditions and circumstances, alongside any further developments in accordance with the Electricity Rules.

## 1.12 Generator 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.<sup>15</sup>

The efficient operation of the NEM relies heavily on the availability of good quality information. Offers, bids and rebids, which do not meet the relevant requirements of the Electricity Rules, have the potential to adversely affect the efficient operation of the NEM. Poor quality offers, bids and rebids can also adversely affect the AER's ability to monitor and enforce compliance with the Electricity Rules (including the requirement to submit rebids that are not false, misleading or likely to mislead).

In response to a persistently high number of poor quality offers, bids and rebids, in March 2011 we implemented the “three stage process”. This process was designed to monitor and enforce compliance with bidding and rebidding provisions in the Electricity Rules. Compliance Bulletin No. 3, *Monitoring and enforcing compliance of electricity offer, bid and*

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<sup>15</sup> 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'.



*rebid information in the National Electricity Market*<sup>16</sup> (first published in December 2010), discusses the process we apply when monitoring and enforcing compliance with the Electricity Rules provisions relating to bid and rebid information. It also explains the “three stage process” in detail.

According to the “three stage process”, 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 “three stage process” is intended to address the problems associated with poor quality offer, bid and rebid information by creating an incentive for relevant participants to have rigorous processes in place for submitting offers, bids and rebids.

Prior to the publication of Compliance Bulletin No.3, the AER’s systems automatically identified a significant number of offers, bids or rebids which potentially did not meet the requirements of the Electricity Rules, requiring further examination. At that time, staff conducted detailed examinations of approximately twenty percent of these instances, often by writing to relevant participants.

The Compliance Bulletin points out that before the introduction of the “three stage process”, most offers, bids or rebids, flagged by our systems as requiring further investigation, related to the following:

- a failure to provide a reason for a rebid (required by clause 3.8.22(c)(2)(i))
- using a generic and non-specific reason (e.g. "testing") which cannot be verified (required by clause 3.8.22(c)(2)(i))
- a failure to provide the “time adduced” (required by clause 3.8.22(c)(2)(ii))
- inflexible bidding without providing a technical reason (required by clause 3.8.19(a)), and
- submitting a ramp rate lower than the allowable threshold, without providing the required additional information to the market operator (AEMO) (required by clause 3.8.3A(e)).

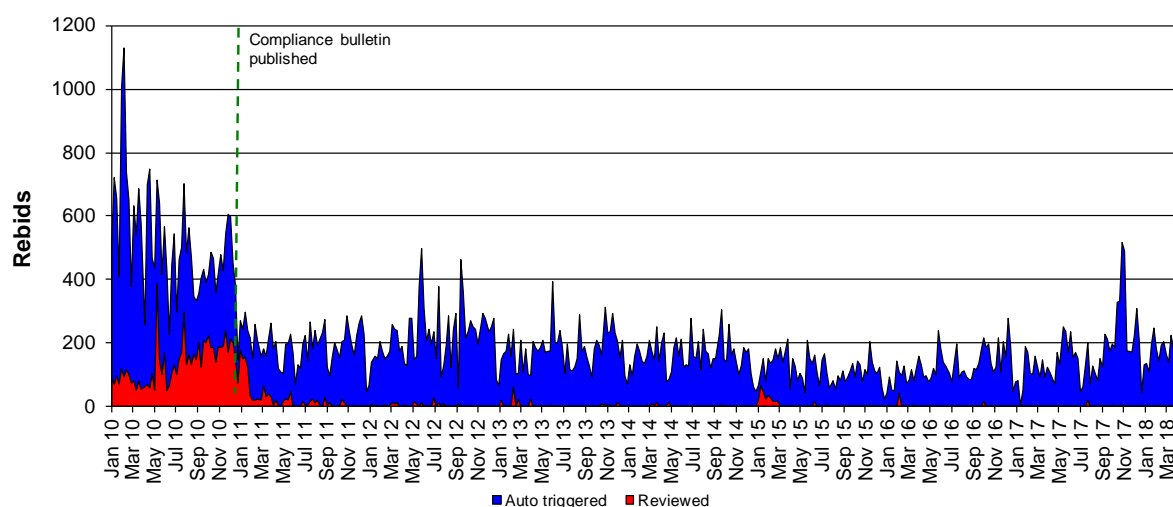
The blue area in **Figure 3** represents the number of rebids automatically triggered by our systems as requiring initial examination. The red area represents the rebids that we examined further.

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<sup>16</sup> <https://www.aer.gov.au/wholesale-markets/compliance-reporting/compliance-bulletin-no-3-monitoring-and-enforcing-compliance-of-electricity-offer-bid-and-rebid-information>



**Figure 3: Rebids auto-triggered and reviewed per week (adjusted<sup>17</sup>)**



**Figure 3** shows the number of rebids automatically triggered as requiring initial examination fell markedly shortly after Compliance Bulletin 3 was published (December 2010). Following publication, the number of rebids automatically triggered as requiring initial examination has, for the most part, plateaued at around 200 per week.<sup>18</sup>

The overall marked improvement is due to efforts made by generators to improve the quality of offers, bids and rebids that they submit to AEMO. The AER acknowledges the efforts made by participants to improve the quality of market information in this regard.

We have reported on generator bidding in our QCR publications since the first quarter of 2011. Given the sustained and significant reduction in the number of rebids automatically triggered for initial review, we have decided it is timely to stop including the rebidding section in each QCR.

It is our view that the “three stage process” has been a highly successful approach to monitoring and enforcement. In addition to improving the quality of information provided by participants through rebidding, the “three stage process” has encouraged a strong culture of compliance amongst many participants with very little cost. To this end, we will continue to use the “three stage process” for the foreseeable future. If, as part of our routine monitoring, we discover a sustained increase in the number of non-compliant rebids, we will consider re-introducing this item (and updates to **Figure 3**) in future QCRs.

<sup>17</sup> 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.

<sup>18</sup> The spike in rebids during December 2017 (shown at **Figure 3**) is predominantly associated with data errors by one participant. These data errors do not coincide with high priced periods and were self-reported, reflecting a culture of compliance.

## 2 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.

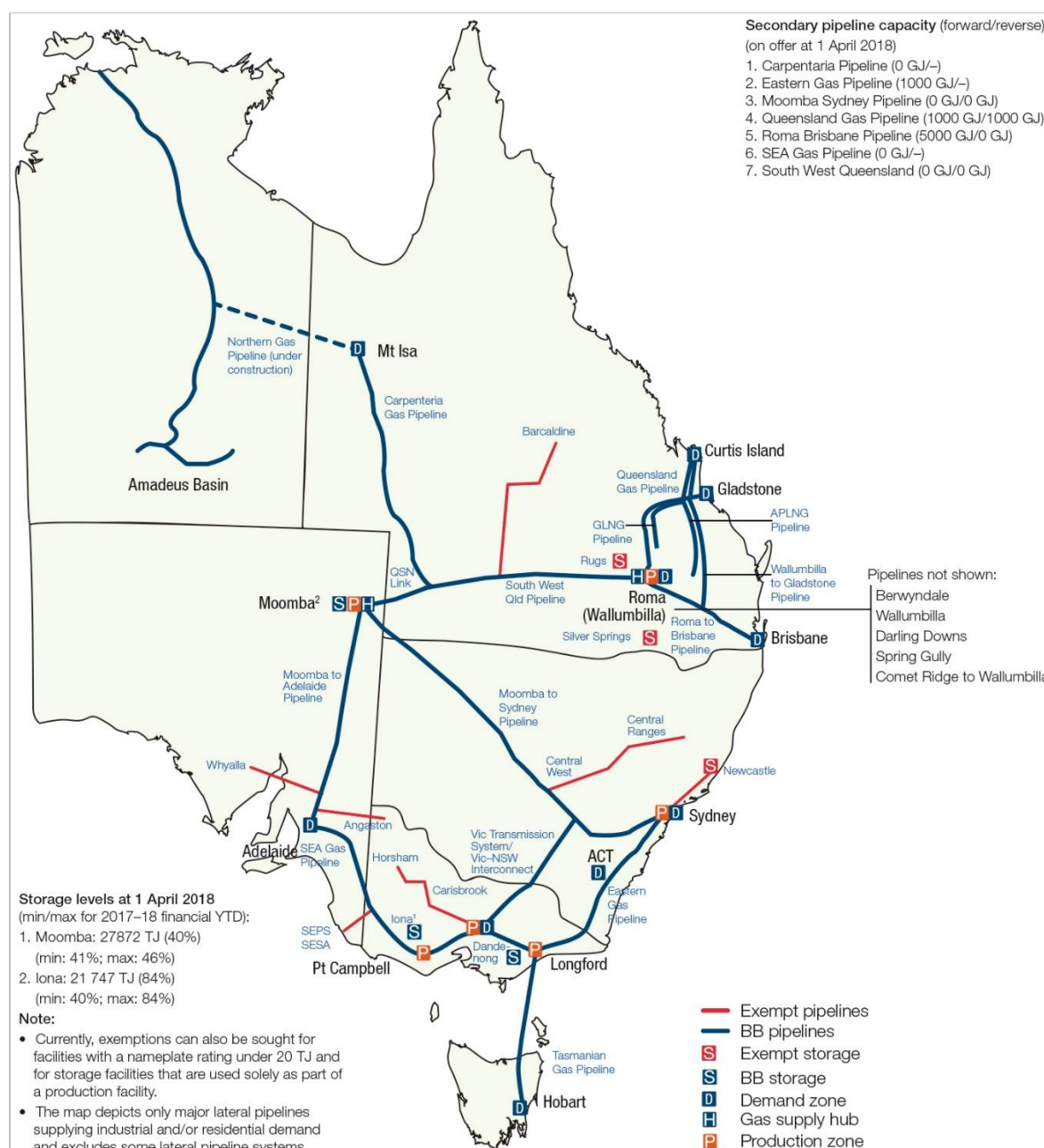
### 2.1 Natural Gas Services Bulletin Board

#### 2.1.1 Bulletin Board Reporting Arrangements

The Natural Gas Services Bulletin Board (Bulletin Board) website depicts the daily operation of Australia's interconnected east coast gas markets. Under the National Gas Law, AEMO is responsible for collecting and collating information in relation to natural gas services and for publishing information on the Bulletin Board. Persons responsible for that information must report it to AEMO in accordance with the National Gas Rules.

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

**Figure 4: Natural Gas Services Bulletin Board (1 April 2018)**



## 2.1.2 Bulletin Board reform

### New reporting arrangements in 2018

Since its inception in 2008, the Bulletin Board has evolved toward providing more market transparency, with new reporting requirements to take effect later in 2018. At the direction of the CoAG Energy Council, the Australian Energy Market Commission (AEMC) has developed and finalised the National Gas Amendment (Improvements to Natural Gas

Bulletin Board) Rule 2017 No.3. The amendment to Part 18 of the Gas Rules was published in September 2017 and will take effect from 30 September 2018.<sup>19</sup>

The new amendment will remove many existing reporting exemptions and impose additional layers of reporting on facilities that already report. This includes storage facilities that have been exempt from reporting under the current zonal model and small lateral pipelines (e.g. the Central Ranges Pipeline in New South Wales and the Whyalla Gas Pipeline in South Australia) that will be reporting to the Bulletin Board for the first time. Further, a reduction to the reporting threshold (to capture facilities with a 10TJ/day or above nameplate rating) means many smaller gas facilities will now appear on the Bulletin Board.

Gas market participants should be aware of the impending changes to their reporting obligations, including the reporting requirements imposed through AEMO's redrafting of the Bulletin Board Procedures. The obligations will apply to Northern Territory (NT) gas facilities, which will be reporting to the Bulletin Board, also for the first time. The future connection of the NT's gas pipeline system to the east coast gas grid will impose Bulletin Board reporting requirements on NT gas facilities 90 days after the commissioning of that connection<sup>20</sup>.

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

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

AEMO has published a 'project deliverables and timelines' document on its website.<sup>21</sup> This includes timelines for new participant registration. Gas market participants should consult these timelines in the context of their readiness to report.

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

As highlighted in our December 2017 report, gas market participants should be aware of the strengthening of the compliance framework through the introduction of civil penalty provisions in Part 18 of the Gas Rules. From 30 September 2018, obligations requiring facility operators to register for the Bulletin Board will be subject to civil penalty. Information

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<sup>19</sup> *ibid* (National Gas Rule Change Request and Proposal).

<sup>20</sup> The Northern Gas Pipeline will connect Tennant Creek in the Northern Territory to Mt Isa in Queensland. The pipeline is scheduled to be commissioned in late 2018.

<sup>21</sup> *GBB 2018 Project Deliverables and Timelines*: <http://aemo.com.au/Gas/Natural-Gas-Services-Bulletin-Board>

reporting obligations will also be subject to civil penalty through the introduction of a Bulletin Board information standard. The information standard will apply to submitted information, updates to that information and the maintenance of equipment from which that information is derived. That is, in accordance with:

...the practices, methods and acts that would reasonably be expected from an experienced and competent person engaged in the ownership, operation or control of a BB facility in Australia of that type acting with all the due skill, diligence, prudence and foresight and in compliance with all applicable legislation (including these rules), authorisations and industry codes of practice<sup>22</sup>.

The AER will be engaging with gas market participants over the next few months, with a view to ensuring that they are aware of their registration obligations and prepared for reporting. We will work with AEMO, as part of its consultation processes, to ensure that facilities captured by Bulletin Board reporting requirements are committing to the Bulletin Board registration timelines and will be fully compliant from 30 September.

### **2.1.3 Bulletin Board compliance matters**

#### **AER audit of Santos compliance with Bulletin Board reporting**

In previous QCRs we reported on Santos's restatement of the storage volume at its Moomba Lower Daralingie Beds (LDB). Santos submitted revised data to the Bulletin Board on 18 September 2017, reducing the volume from 39 887 TJ to 29 850 TJ.

We also reported on our request to Santos that it revise historical data for Moomba LDB such that the timeline of storage volumes, prior to 18 September 2017, more accurately reflects receipts and withdrawals leading up to the storage volume restatement. Santos made these changes and, on 8 December 2017, AEMO informed participants of the revision.

Late in the March 2018 quarter, the AER commenced a formal audit of Santos's compliance with information reporting requirements under Part 18 of the Gas Rules. This audit will investigate the internal processes through which Santos reports information to the Bulletin Board, with emphasis on the reporting processes for Moomba LDB.

Our audit will reflect the AER's governance, expertise, implementation and performance (GEIP) framework. This framework acts as a guide through which the AER assesses the organisational procedures and structures; human resources; and compliance programs of a market participant. Our GEIP framework will guide the Santos audit and we will report outcomes in the June 2018 QCR.

We again emphasise that the Bulletin Board informs commercial, regulatory and policy decisions and observers should be able to consult the Bulletin Board with confidence that its data is reliable. From 30 September 2018, reporting will be subject to civil penalties under the new Bulletin Board information standard.

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<sup>22</sup> Gas Rule 165(2), National Gas Amendment (Improvements to Natural Gas Bulletin Board), Rule 2017 No.3:  
<http://www.aemc.gov.au/Rule-Changes/Improvements-to-Natural-Gas-Bulletin-Board>

## **AER assessment of reporting of Medium Term Capacity Outlooks**

Part 18 of the Gas Rules requires operators of production facilities, storage facilities and pipelines to provide medium term capacity outlooks to AEMO on each date that these operators issue medium term capacity outlooks to shippers. Operators must do so in accordance with clause 175A and the Bulletin Board Procedures. This information is published on the Bulletin Board and makes transparent the expected capacity of a Bulletin Board facility for the outlook period, including the timing and duration of activities that affect the facility's daily capacity.

The AER has identified compliance with clause 175A of the Gas Rules as an area that warrants investigation and we will examine the standard of participant reporting in this area. We will be looking to confirm that the medium term capacity outlooks submitted by operators reasonably reflects their knowledge of future plant capability and availability. We will also look to confirm that operators are submitting updates to this information when it is no longer accurate. The AER will commence this work during the June 2018 quarter and report outcomes in upcoming QCRs.

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

AEMO and the AER have jointly examined the application of Bulletin Board reporting requirements to AGL's Silver Springs Pipeline and Silver Springs Storage Facility in South East Queensland. The Storage Facility has been subject to an exemption declaration since September 2015. The exemption was on the basis that the Storage Facility was not connected to a Bulletin Board pipeline.

On 28 March 2018, AEMO revoked this exemption on the basis that the storage facility is connected to a Bulletin Board pipeline (the Silver Springs Pipeline). The revocation was made in accordance with Gas Rule 152(1), under which AEMO may revoke an exemption where it has reasonable grounds to believe that the facility no longer meets the criteria for exemption.<sup>23</sup>

The revocation is effective from 1 June 2018. The facility operator must, as a consequence of the revocation, then register for the Bulletin Board. Both the Silver Springs Storage Facility and the Silver Springs Pipeline will be captured by Bulletin Board reporting requirements.

## **2.2 Victorian Declared Wholesale Market**

### **2.2.1 Significant Price Variation**

On 29 January 2018, the AER published a Significant Price Variation (SPV) report in relation to high ancillary service payments on 30 November 2017 in the Victorian Declared Wholesale Gas Market (DWGM). We published this report in accordance with clauses 354

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<sup>23</sup> Link to AEMO exemption notice: <http://www.gasbb.com.au/~media/Documents/Notices/2018/20180328%20-%20Notice%20of%20Revocation%20of%20Exemption%20-%20Silver%20Springs%20Storage%20Facility.pdf>



and 355 of the Gas Rules, which require the AER to define what constitutes an SPV in the DWGM and to monitor for and report on their occurrence.

On 30 November 2017, daily ancillary service payments in the DWGM reached \$265 929, exceeding the AER's \$250 000 reporting threshold. The payments were a consequence of an unplanned outage at the Longford Gas Plant. This required the sourcing of higher priced gas to offset the shortfall from loss of Longford supply.

We did not identify any compliance concerns relating to participant response to reduced supply from Longford on the day. Our significant price variation report is available on the AER website.<sup>24</sup>

## 2.3 Gas Supply Hub

### 2.3.1 Wallumbilla and South East Queensland price errors

The Wallumbilla Gas Supply Hub (GSH) is a wholesale trading exchange. Exchange participants can trade gas products at two locations – a single trading location at Wallumbilla and an in-pipe trading location (known as South East Queensland) on the Roma Brisbane Pipeline (RBP). A spread product platform is also available for physical trading of gas between Wallumbilla and South East Queensland, enabling participants with transportation rights to arbitrage price between the two locations.

On 6 April 2018, a spread trade coding issue led to price errors at the Wallumbilla and South East Queensland trading locations. This generated a \$49.95/GJ price for Wallumbilla and \$49.50/GJ price for South East Queensland. This followed a similar error on 12 June 2017 through which transaction prices were incorrectly set at \$50.00/GJ and \$49.50/GJ.

AEMO traced the 6 April error back to incorrect matching of some spreads against the reference price. AEMO subsequently issued a market notice to advise that the Wallumbilla and South East Queensland prices had been manually adjusted to \$7.50/GJ and \$7.05/GJ respectively<sup>25</sup>.

The AER monitors activity in the Gas Supply Hub to ensure that trading exchange members are complying with their market conduct obligations under Part 22 of the Gas Rules. We monitor for price manipulation and any other participant behaviours that could adversely affect the integrity of the trading exchange. In this regard, we work closely with AEMO and note its timely resolution of this particular issue. AEMO worked with software providers to rectify the problem and has conducting testing to ensure the error is not repeated.

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<sup>24</sup> <https://www.aer.gov.au/wholesale-markets/market-performance/significant-price-variation-report-30-november-2017-victorian-gas-market>.

<sup>25</sup> The reference price methodology uses the price of the most recent (on the trading day) transaction at either trading location if available. If no trades have occurred on the trading day then the default reference price (Wallumbilla Benchmark Price) is used in the calculation. On 6 April, AEMO manually adjusted prices to correctly reflect the Wallumbilla Benchmark Price in relation to the \$0.45/GJ outright spread trade.

## 2.4 Retail Market Procedures

Under the Gas Law, AEMO has the ability to make procedures regulating a retail gas market (Retail Market Procedures).<sup>26</sup> Queensland, Victoria, New South Wales, ACT and South Australia each have their own Retail Market Procedures. The procedures impose a number of obligations on participants including in relation to the provision of metering data; the Gas Interface Protocol<sup>27</sup>; customer transfer processes; and settlements. Section 91MB of the Gas Law provides that AEMO and each person to whom the Retail Market Procedures (Procedures) are applicable must comply with the Procedures.

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

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

AEMO has published its compliance process for the Retail Market Procedures.<sup>28</sup> The publication outlines the criteria that AEMO uses to determine if apparent breaches of the Retail Market Procedures have occurred, and whether these breaches are material or immaterial.

### 2018 March Quarter

During the period between December 2017 and February 2018, AEMO did not report any 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. The AER is satisfied with the materiality classification of the breaches and the corrective measures taken by AEMO in relation to the breaches.

AEMO reported the following immaterial breaches of the Retail Market Procedures during the 2018 March quarter:

- AEMO's non-compliance between December 2017 and February 2018 with the South Australian (SA) Retail Market Procedures (RMP) relating to the requirement to immediately notify relevant parties of a pending transfer request and acknowledging medium priority transactions within 270 minutes:
  - On 9 December 2017, 30 Transfer Confirmation Notification (TFR-CONF-NOTIF) transactions and 93 medium priority transactions exceeded the transaction acknowledgement time of 270 minutes by 90 minutes and 2 hours respectively.

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<sup>26</sup> See sections 91M and 91MB of the National Gas Law.

<sup>27</sup> 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).

<sup>28</sup> <http://www.aemo.com.au/-/media/Files/PDF/0090-0014-pdf.pdf>



- On 12 December 2017, 132 Transfer Confirmation Notification transactions and 59 medium priority transactions exceeded the transaction acknowledgement time by 107 minutes and 5-7 hours respectively.
- On 13 December 2017, 11 medium priority transactions exceeded the transaction acknowledgement time by 20 minutes.
- On 9 January 2018, 7 medium priority transactions exceeded the transaction acknowledgement time by 50 minutes.
- On 11 January 2018, 108 Transfer Confirmation Notification transactions and 3 medium priority transactions exceeded the transaction acknowledgement time by 90 minutes.
- On 17 January 2018, 1 medium priority transaction exceeded the transaction acknowledgement time by 6 hours and 34 minutes.
- AEMO's 15 January 2018 non-compliance with the SA RMP relating to the timely provision of the user profiled forecast data and the heating degree day (HDD) to the user. As a result of a system related issue, the following SA market reports were delayed by between 10 and 15 minutes:
  - 16 Heating Degree Day (HDD) reports
  - 48 Sub-network Profiled Forecast (NPF) reports
  - 54 Participant Profile Forecast (PPF) reports
  - 14 User Profile Forecast (UPF) reports

AEMO advised that all the incidents mentioned above were caused by a system connection related issue. AEMO advised that it has implemented a number of changes to its system to address the connection exhaustion issues. AEMO advised that it will continue to monitor the performance of the gateway application and database.

The following immaterial breaches of the Retail Market Procedures were also reported by AEMO during the 2018 March quarter:

- AEMO's 9 February 2018 non-compliance with the Victorian and Queensland RMP: 130 medium priority transactions exceeded the transaction acknowledgement time of 270 minutes by between 10 minutes and 5 hours due to an application defect that occurred following an IT infrastructure hardware failure. AEMO advised that it has implemented additional measures to monitor such issues as well as escalated the application defect to the application vendor to investigate and address the defect.
- AEMO's non-compliance between 15 and 18 February 2018 with the Victorian RMP relating to the publication of the average daily flow weighted heating value by 5pm for a gas day on the Market Information Bulletin Board (MIBB). This incident was caused by a software defect. The defect caused a processing failure resulting in missing input data for the heating value calculation. On 19 March 2018, AEMO re-processed the missing

input data and re-ran the heating value calculation. Following this incident, AEMO reviewed its monitoring processes and is developing measures to mitigate against reoccurrence.

- AEMO's 17 February 2018 non-compliance with the requirement to meet timely provision of the Network Allocation Data (NAD) for the NSW-ACT Retail Market for the STTM. The data was delayed by 42 minutes due to a large number of monthly RoLR (Retailer of Last Resort) files and associated access related issues that prevented the deletion of associated files.<sup>29</sup>
- AEMO's non-compliance with the SA RMP since it was first issued in October 2009. Specifically, this relates to the requirement upon AEMO to, from time to time, determine and publish guidelines for the profiles to be used in Division 5.4.2 of the SA RMP. AEMO has not ever published the profile guidelines. AEMO advised that it intends to remove this obligation as part of the SA RMP harmonisation project that is currently being undertaken by the AEMO Regulatory Change team.

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<sup>29</sup> The monthly RoLR files are routinely transferred and were not, in this case, associated to a RoLR event.