



# **Quarterly Compliance Report:**

## **National Electricity and Gas Laws**

April - June 2015

© **Commonwealth of Australia 2015**

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Corporate Communications,  
Australian Competition and Consumer Commission,  
GPO Box 4141,  
Canberra ACT 2601  
or [publishing.unit@acc.gov.au](mailto:publishing.unit@acc.gov.au)

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)  
AER Reference: 57759-D15/108634

# Contents

<b>Executive summary</b> .....	<b>1</b>
<b>Background</b> .....	<b>3</b>
<b>1 Electricity</b> .....	<b>4</b>
<b>1.1. APR review project</b> .....	<b>4</b>
1.1.1 Review of transmission business annual planning reports.....	4
1.1.2 Review of distribution annual planning reports .....	5
<b>1.2. Changes to meter churn procedures</b> .....	<b>5</b>
<b>1.3. Rebidding</b> .....	<b>8</b>
<b>1.4. Spot prices above \$5000/MWh reports</b> .....	<b>9</b>
<b>1.5. Instrument transformer testing</b> .....	<b>9</b>
<b>1.6. Energy Adequacy Assessment Projection</b> .....	<b>10</b>
<b>1.7. Technical audits</b> .....	<b>10</b>
1.7.1 Hydro Tasmania audit .....	11
1.7.2 Upcoming audits .....	12
1.7.3 Amended template for generator compliance programs .....	12
<b>1.8. Compliance review – connecting embedded generators</b> .....	<b>12</b>
<b>1.9. Jurisdictional derogations</b> .....	<b>12</b>
<b>2 Gas</b> .....	<b>14</b>
<b>2.1. Gas Supply Hub</b> .....	<b>14</b>
2.1.1 Void trades.....	14
<b>2.2. Short Term Trading Market</b> .....	<b>15</b>
2.2.1 Counteracting MOS.....	15
2.2.2 AEMO administered pricing event .....	15
<b>2.3. Victorian Gas Market</b> .....	<b>16</b>
<b>2.4. Natural Gas Services Bulletin Board</b> .....	<b>16</b>
2.4.1 Targeted compliance review.....	16

2.4.2	Late Bulletin Board Production Data.....	17
2.4.3	Bulletin Board registration and exemption .....	17

## Executive summary

The purpose of the Quarterly Compliance Report (QCR) is to outline 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. This QCR covers the period 1 April to 30 June 2015 (the June 2015 quarter).

In this QCR we provide updates on two major compliance projects. We also set out our position on the compliance with the Australian Energy Market Operator's (AEMO) Meter Churn Procedures and associated provisions of the National Electricity Rules (Electricity Rules) from 1 September.

### ***Electricity***

#### Annual Planning Reports

The National Electricity Rules (Electricity Rules) require transmission and distribution businesses to undertake annual planning reviews over a minimum planning horizon of ten years and five years respectively, and to publish the results in annual planning reports (APR). Given the importance of these reports, we have undertaken strategic compliance projects to assist transmission and distribution businesses improve the quality of information in their reports.

In summary, our review into transmission APRs found:

- while the majority of transmission businesses had begun to implement APR improvement plans, some of the substantive changes could not be implemented in time for the 2014 and 2015 APRs
- although the quality of APRs had improved in general, there remained areas for further improvement.

All transmission businesses have committed to continuing to work with us to improve the quality of information in their APRs and ensure compliance with the Electricity Rules requirements.

Following the initial success of the review of transmission APRs, this quarter we commenced a strategic compliance review of distribution APRs. The purpose of the review is to engage with distribution businesses to explore improvements to future APRs.

#### Instrument Transformer Testing

We continued to liaise with responsible persons (RP) regarding their obligations to test the accuracy of instrument transformers. During the quarter, a number of RPs testing under the alternative sampling method made significant progress towards meeting the requirements of their test plans. We are currently awaiting progress updates from RPs who elected to test 10 per cent of their population each year. We will consider our options for those RPs who failed to meet their obligations.

## Changes to Meter Churn Procedures

In March 2014 AEMO notified us that its *Meter Churn Procedure for Financially Responsible Market Participants* (the Procedures) are inconsistent with the certain clauses of the Electricity Rules. We issued a No Action to AEMO and announced in the June 2014 QCR we would be unlikely to pursue enforcement action against those participants who had relied on the Procedures to undertake meter churn. AEMO's revised procedures will take effect from 1 September 2015.

In the body of this report we set out our reasons for declining to grant a No Action for non-compliance with the revised Procedures (and associated Rules), following a related rule change proposal submitted by ERM Power. All relevant participants should ensure compliance with the revised procedures from 1 September.

### **Gas**

Given the emergence of LNG production around Gladstone in Queensland, the Natural Gas Service Bulletin Board (Bulletin Board) and the Gas Supply Hub (GSH) continue to be areas of focus for the AER. This quarter we engaged with several Bulletin Board pipeline operators on their obligations to provide capacity outlook and actual flows to AEMO. All operators are continuing to make improvements to their processes to ensure compliance with the relevant obligations.

In the Short Term Trading Market (STTM), our analysis of the events in January which saw counteracting Market Operator Service (MOS) in the Adelaide hub did not uncover any breaches of the Rules.

## Background

The AER is responsible for monitoring compliance and enforcement under legislation and rules governing Australia's wholesale energy markets, including those applying to Network Service Providers. Section 15 of the Electricity Law and section 27 of the Gas Law set out our functions and powers, which include:

- monitoring compliance by energy industry participants<sup>1</sup> and other persons
- 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
- assist in ensuring industry participants can engage confidently in efficient energy markets.

As part of this process, we undertake a continuous compliance risk assessment of the Electricity and Gas Rules to identify appropriate focus areas and monitoring/compliance mechanisms. These 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
- transparency (subject to confidentiality requirements).

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.

---

<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 can be found [here](#). 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 AER projects in the electricity market.

## 1.1 APR review project

The Electricity Rules require transmission and distribution businesses to undertake annual planning reviews over a minimum planning horizon of ten years and five years respectively, and to publish the results in APRs.

As discussed below, we have recently worked with network businesses to help to improve the quality of their APRs.

### 1.1.1 Review of transmission business annual planning reports

Together with the national transmission network development plan (NTNDP) and the regulatory investment test for transmission (RIT-T), the Transmission APR forms part of the transmission network planning and expansion framework set out in chapter 5 of the Electricity Rules, which is intended to promote economically efficient and transparent network planning and investment.

Transmission businesses are required to provide a snapshot of the state of the current network in the Transmission APR, including an outline of emerging network constraints and proposed solutions. They are also required to outline opportunities for non-network investment and provide details on all proposed network augmentations and replacements of transmission network assets.

In the March 2014 QCR, we reported the launch of a strategic compliance project to engage with transmission businesses to help improve future Transmission APRs. We hosted a workshop in March 2014 with all transmission businesses (including AEMO as the Victorian planner) to understand their Transmission APR processes and discuss how to improve the quality of information in their reports. We also met with businesses individually to outline specific areas of concern with their 2013 Transmission APRs. As part of this, businesses committed to developing and implementing an 'APR improvement plan' for future Transmission APRs, beginning with the 2014 Transmission APRs.

In the first and second quarters of 2015 we met with each business to discuss their Transmission APR process and provide feedback on their 2014 Transmission APRs.

Our review of the Transmission APRs found that:

- while the majority of transmission businesses had begun to implement their APR improvement plans, some of the substantive changes outlined in the APR improvement plans could not be implemented in time for the 2014 and 2015 APRs
- although the quality of APRs had improved in general, there remained areas for further improvement. For example, in some cases the level of information in the APR was not



sufficient for a non-network service provider to identify potential commercial opportunities with the transmission business.

All transmission businesses have committed to continuing to work with us to improve the quality of information in their Transmission APRs and ensure compliance with the Electricity Rules requirements.

### 1.1.2 Review of distribution annual planning reports

In addition to the Distribution APR, distribution businesses are required to publish a demand side engagement (DSE) document outlining their strategy for engaging with non-network providers and to consider non-network options. Together with the regulatory investment test for distribution (RIT-D), the Distribution APR and DSE form the distribution network planning and expansion framework set out in chapter 5 of the Electricity Rules, intended to promote economically efficient and transparent network planning and investment.

As flagged in the March 2014 QCR, following the initial success of the review of transmission business APRs, this quarter we commenced a strategic compliance review of the 2014 Distribution APRs (including an assessment of DSE documents). The purpose of the review is to engage with distribution businesses to explore improvements to future Distribution APRs. In May we hosted a workshop attended by all distribution businesses. The purpose of the workshop was to:

- outline our views on the purpose of the Distribution APR and DSE provisions in the Electricity Rules
- discuss the needs and expectations of stakeholders (including the AER)
- discuss ways of addressing current shortcomings in Distribution APRs and DSE documents.

We are in the process of engaging with distribution businesses individually to provide feedback on their 2014 Distribution APR and DSE document. Each distribution business has committed to outline in writing their intended improvements to future Distribution APRs and DSE documents.

## 1.2 Changes to meter churn procedures

The latest version of AEMO's *Meter Churn Procedure for Financially Responsible Market Participants* (the Procedures) comes into effect on 1 September 2015. Market participants are obligated to comply with the Procedures.<sup>3</sup> This section sets out the AER's position on compliance with the Procedures and associated obligations.

### ***AEMO's No Action request***

In March 2014 AEMO notified us that the Procedures are inconsistent with the requirements of clauses 7.2.1 and 7.3.4 (e), (i) and (m) of the Electricity Rules. AEMO advised that, contrary to the Electricity Rules, the Procedures allow retailers who have acquired new customers (these retailers are referred to as prospective FRMPs) to initiate a meter change

---

<sup>3</sup> See clauses 7.2.1(b), 7.3.4(m), 7.4.2 (bb), 7.4.2(e) of the Electricity Rules.

prior to those customers being formally transferred. AEMO requested that we issue No Action letters to it and participants until the Procedures are amended.

We issued AEMO with a No Action letter and in the June 2014 QCR we stated that we would be unlikely to pursue enforcement action against those participants who had relied on the Procedures to undertake meter churn.<sup>4</sup>

In December 2014 AEMO finalised the consultation process to bring the Procedures into compliance and requested participants to complete system changes by the end of June 2015, ahead of the Procedures coming into effect on 1 September 2015.

### ***ERM Power's rule change request***

In January 2015, ERM Power (ERM) submitted a rule change proposal to the AEMC in relation to meter replacement in the National Electricity Market (NEM) (called *Meter replacement processes*). The rule change proposal was submitted in response to AEMO's revised Procedures and sought to allow prospective FRMPs to initiate meter changes for new customers prior to the market transfer being effected (similar to how meter churn is permitted to occur under the current version of the Procedures). In its rule change proposal, ERM referred to the possibility of the AER providing a No Action letter to allow non-compliance with clauses 7.2.1 and 7.3.4 of the Electricity Rules, on the assumption that its rule change proposal will be adopted.

The AEMC commenced consultation on ERM's rule change proposal by publishing a consultation paper on 21 May 2015. Submissions closed on 2 July, with mixed feedback from stakeholders - retailers were generally supportive, while network service providers preferred meter churn to be conducted in line with clauses 7.2.1 and 7.3.4 (reflected in the revised Procedures). The next stage of consultation is yet to be announced.

Several stakeholders observed that the issues raised by ERM's rule change proposal would be addressed through the rule change proposed by the COAG Energy Council: *Expanding competition in metering and related services* (scheduled for final determination on 26 November 2015). They proposed that the AER not pursue non-compliance with clauses 7.2.1 and 7.3.4 until that rule takes effect (anticipated to be in December 2017).

### ***Compliance with clauses 7.2.1 and 7.3.4 for meter churn from 1 September 2015***

ERM met with the AER at staff level prior to submitting its rule change proposal and after the AEMC published its consultation paper, to raise the possibility of applying an industry-wide No Action. Two other retailers also subsequently approached the AER supporting this approach. We consulted with AEMO about whether the No Action was appropriate in this circumstance, as discussed below.

We assess No Action requests on a case by case basis. Given the AEMC is still in the early stages of consultation on ERM's rule change proposal, we do not have the benefit of its preliminary position for guidance.

According to ERM and other retailers, significant benefits would arise if the AER issued an industry-wide No Action, as follows:

---

<sup>4</sup> The June 2014 QCR is available on the [AER website](#).

- **Improved customer satisfaction:** allowing retailers to install replacement meters that provide enhanced services to new customers at or prior to the commencement of the contract ensures smooth delivery of the relevant services.
- **Reduced retailer costs:** under the revised Procedures, installation of a replacement meter occurs 26 business days or longer after market transfer, delaying the retailer's ability to deliver contracted services and requiring interim service and billing arrangements (incurring costs to the retailer).

As identified by AEMO in its original No Action request, the major concerns with the non-compliant procedures are:

- the prospective FRMP is not subject to Electricity Rules obligations for the relevant metering installation
- the incumbent RP is responsible for any metering non-compliance (and any associated civil penalties). In other words, should the activities of the prospective FRMP (or their appointed metering provider, or metering data provider) cause metering non-compliance to occur, the incumbent RP may have limited recourse to require the relevant metering provider to rectify the non-compliance
- there may be a situation where the market transfer of a customer does not eventuate, however the incumbent RP is left responsible for managing a meter change which was initiated by the prospective FRMP.

ERM raised a concern that, by waiting to become the RP before installing a new meter, market participants could breach their Schedule 7.2.3 obligation to ensure there is a compliant metering installation. Our position is that compliance with this obligation must be considered in the context of the rest of the Electricity Rules, which do not allow meter churn prior to becoming the RP.

We do not consider a No Action to be appropriate this circumstance. The key drivers for this decision are:

- there is no universal support for a No Action
- the benefit of allowing meter churn before market transfer accrues to a small number of customers across the NEM
- the customer dissatisfaction can be somewhat mitigated through retailer engagement
- the majority of affected participants have made the requisite system changes and could incur additional costs should the AEMC not make the requisite rule change
- AEMO considers the revised Procedures to be more efficient and provide clearer guidance on meter churn than the current Procedures
- a No Action would, in essence, remove regulatory oversight for any metering non-compliance (other than that relating to meter churn) that arises as a result of meter churn activities of a prospective FRMP
- the period of the No Action could extend up to two years.

We also took into consideration advice from AEMO on how non-compliance with the revised Procedures would impact on future work arising from the AEMC's competition in metering

rule change. AEMO’s view is that allowing a No Action would be detrimental to AEMO’s ability to undertake consequential amendments to the Procedures, particularly given the likely timeframes under which consultation would have to occur. All relevant participants should ensure compliance with the revised procedures from 1 September.

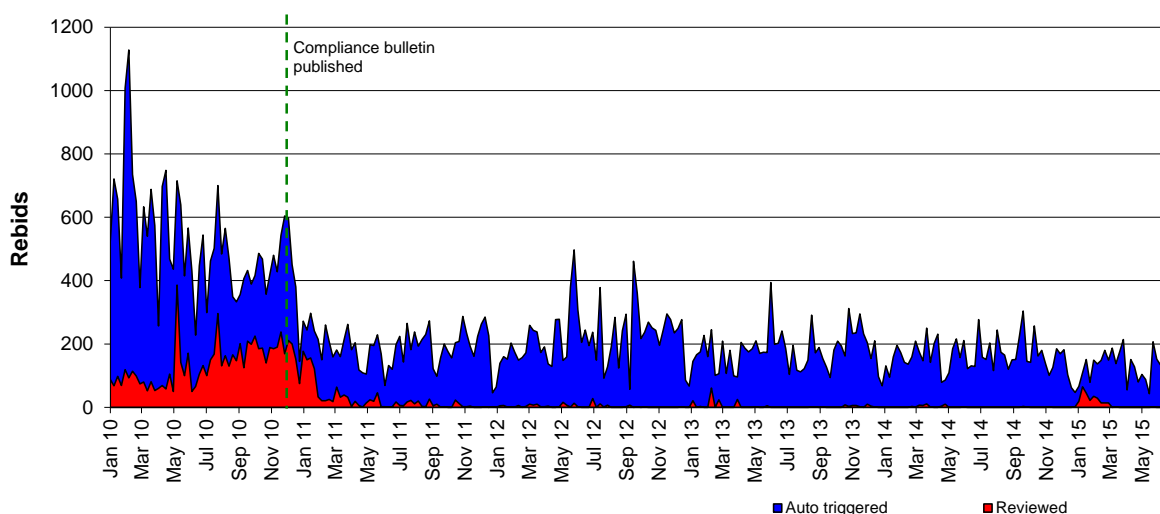
### 1.3 Rebidding

Scheduled generators and market participants operating in the 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>5</sup>

According to the “three stage process” introduced in late 2010,<sup>6</sup> we will consider issuing an infringement notice if we issue three notifications within a six month period to generators who submit offer, bid and/or rebid information that does not meet the requirements of the Electricity Rules. The warning count for a participant is set to zero after six months of the first warning being issued.

The number of rebids automatically triggered (indicated by the blue area in Figure 1) as requiring initial examination has fallen markedly since 2011, as shown in Figure 1.

**Figure 1: Rebids auto-triggered and reviewed per week (adjusted<sup>7</sup>)**



<sup>5</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’.

<sup>6</sup> 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.

<sup>7</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 in error. This error has since been corrected. Figure 1 has been adjusted by removing the erroneous rebids.

There were no warnings issued during the June quarter. The AER received 14 self-reporting notices from participants regarding errors in their rebids during the quarter and two participants had their warning counts reset to zero.

## 1.4 Spot prices above \$5000/MWh reports

Under clause 3.13.7(d) of the Electricity Rules, we are required to publish a report when the spot price exceeds \$5000/MWh. This quarter we published a report in relation to the events of 5 March 2015 in Queensland, when the spot price exceeded \$5000/MWh on 6 occasions in the late afternoon. The report was published on 7 May within the statutory timeframe of 40 business days of the end of the week during which the event occurred.<sup>8</sup>

On the day, high temperatures (in excess of 36 degrees) led to very high demand. With a steep supply curve caused by participant rebidding and limited interconnector flows into Queensland, minor changes in availability, rebidding, or demand resulted in large price variations. No major compliance issues were identified as occurring at the time of high price.

## 1.5 Instrument transformer testing

Rule 7.2.5(d)(2) of the Electricity Rules requires the Responsible Person (RP) to ensure the components<sup>9</sup> (including current transformers (CT) and voltage transformers (VT)), accuracy and testing of each of its metering installations complies with the requirements of the Electricity Rules, the metrology procedures and procedures authorised under the Electricity Rules. Rule 7.2.5 (d) is a civil penalty provision.

Schedule 7.3.1 of the Electricity Rules requires the RP to test CTs and VTs (or instrument transformers) for accuracy every 10 years, unless an alternative 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, we became aware that CTs were not being tested in accordance with the Electricity Rules. In response, we published a compliance bulletin containing our expectations in relation to low voltage (LV) CT testing.<sup>10</sup> Specifically, the bulletin proposed that an RP should either test 10 per cent of its metering installation population each year, or a sample of its meters in accordance with an alternative sampling method approved by AEMO. RPs submitted testing plans to AEMO, with the initial round of testing to be completed within 12 months from 1 July 2012.

Last quarter we sought commitments from RPs yet to complete testing under the alternative sampling method, to do so by 30 June 2015. Several of these participants completed testing by the agreed date, while others made significant progress against their test plans. As part of reviewing the results for these RPs, we will confirm with AEMO that they meet the requirements of the alternative strategy.

---

<sup>8</sup> The report can be found on the [AER website](#).

<sup>9</sup> Metering installation components are defined by clause 7.3.1 of the Electricity Rules.

<sup>10</sup> The compliance bulletin can be found on the [AER website](#).

We are currently awaiting progress updates from the RPs who elected to test 10 per cent of their population each year. We requested that these RPs provide certain information regarding testing over the past three years, such as the population size as at 1 July each year and the number of tests conducted during the year. Once we have reviewed the responses we will consider our options regarding RPs who have failed to meet their obligations.

It has come to our attention that some RPs have made certain representations to their customers in relation to LV CT testing when arranging site access to conduct these tests. In particular, we are aware that statements have been made regarding both the AER's focus on compliance with the testing requirements and the consequences for the customer if it does not allow site access for the RP to conduct this testing. The AER takes this opportunity to remind RPs of the applicability of the Australian Consumer Law to their dealings with their customers, and in particular, the need to avoid making misleading and/or deceptive representations, including in relation to actions attributable to the AER.<sup>11</sup>

## 1.6 Energy Adequacy Assessment Projection

Clause 3.7C of the Electricity Rules requires AEMO to publish an Energy Adequacy Assessment Projection (EAAP) every quarter. The EAAP is designed to inform the market of the impact of water and fuel availability limits (energy constraints) on the supply-demand balance over the following two years.

As reported in the previous QCR, due to a range of factors (including that current market conditions indicated a supply shortfall was unlikely during the two year outlook period) AEMO advised that it would be unable to publish the December 2014 and March 2015 EAAPs. On the basis that market conditions indicated a supply shortfall was unlikely during the two year outlook period for these EAAPs, and AEMO's intentions around future compliance, as reported in the previous QCR we issued No Action letters, confirming that we would not take enforcement action on these occasions.

Recently AEMO sought a No Action letter in respect of the June EAAP. AEMO will publish an issues paper in July 2015 seeking formal stakeholder feedback on its proposal to publish the EAAP on an annual basis with a trigger for additional publications (when necessary to inform the market of potential reserve shortfalls). If stakeholder feedback is favourable, AEMO proposes to submit a fast track rule change request in September.

AEMO proposes to publish the next EAAP in August (rather than September, i.e. out of cycle and inconsistent with the EAAP guidelines timetable) at the same time as the Electricity Statement of Opportunities (ESOO). From December 2015, AEMO will publish EAAPs in accordance with the timetable, until if and when its Rule change takes effect.

Based on the above, we agreed to issue AEMO with a No Action letter.

## 1.7 Technical audits

Clause 4.15 of the Electricity Rules requires generators to institute and maintain compliance programs to meet their individual generator performance standards (GPS). These

---

<sup>11</sup> The Australian Consumer Law is set out in Schedule 2 of the [Competition and Consumer Act 2010](#).

compliance programs must be consistent with the template published by the Reliability Panel, include procedures to monitor the plant in a manner consistent with good electricity industry practice and provide reasonable assurance of ongoing compliance.

Participants with sound compliance programs are best placed to meet their performance standards and associated obligations under the Rules. Each year, we undertake technical audits on different participants to ensure they have robust and effective compliance programs in place.

### 1.7.1 Hydro Tasmania audit

This quarter we finalised our audit of Hydro Tasmania, which is owned by the Tasmanian Government. The vast majority of its 2400 MW portfolio is comprised of hydro generation, along with small amounts of wind and gas fired generation. We focused on the largest hydro generator in the portfolio, the 432 MW Gordon Power Station.

At the time of conducting our technical audit, Hydro Tasmania was in the final stages of implementing an enhanced GPS compliance program. Hydro Tasmania has been undergoing an organisational restructure since 2014 and, therefore, was also in the final stages of revising and enhancing their governance arrangements, organisation-wide compliance framework and business systems.

In the context of clause 4.15 of the Rules, our technical audit revealed that Hydro Tasmania has adopted a common GPS compliance program across its generation portfolio. The following initiatives will make for future improvements to performance standard related matters:

- **Clearer accountability and reporting lines for GPS matters.** Hydro Tasmania now links risk and compliance management to operational delivery. As such, business line areas are responsible for meeting compliance obligations, and the compliance team provides quality assurance.
- **Improved linkages between GPS compliance programs and operational delivery of performance monitoring and testing,** achieved by developing a standalone performance standard framework (no longer a subset of Asset Management).
- **Changes to processes** to ensure performance monitoring and testing outcomes are appropriately captured, actioned and fed into future GPS activities.
- **Changes to incident reporting procedures,** including making it easier for staff to report potential compliance issues and automating the escalation of unresolved incidents, which strengthens processes to identify any GPS non-compliance and deliver remedial actions.

We were satisfied that, provided all the improvements are implemented and appropriately maintained, Hydro Tasmania demonstrated that its performance standards compliance program meets the requirements of clause 4.15 of the Electricity Rules.

## 1.7.2 Upcoming audits

We recently commenced a technical compliance audit of EnergyAustralia's Yallourn Power Station, to be discussed in upcoming QCRs.

## 1.7.3 Amended template for generator compliance programs

In June 2015 the Reliability Panel completed its review of the template for generator compliance programs, resulting in an amended template.

The template is designed to assist existing and new registered participants who own or operate generating plants to which performance standards apply under the Electricity Rules, to develop and design compliance programs to meet the relevant performance standard. It is also intended to assist us with the monitoring and enforcement of compliance in this area. The Reliability Panel amended the template to improve its clarity and to reflect changes in generation technology, new monitoring techniques and changes in plant operational modes.

We take this opportunity to remind Participants that, pursuant to clause 4.15(c)(3) of the Electricity Rules, they are required to modify their compliance programs (to the extent that it may be required) to ensure that they are consistent with the revised template, by 18 December 2015.

## 1.8 Compliance review – connecting embedded generators

We recently completed a review of distributors' compliance with information requirements under Chapters 5 and 5A of the Electricity Rules.

Amendments to Chapter 5 (from 1 October 2014) and 5A<sup>12</sup> (from 1 March 2015) are designed to make it easier for registered (above 5 MW) and non-registered (below 5 MW) embedded generators, respectively, to connect to electricity distribution networks. Under the changes, distributors are required to provide certain information on their websites including, for example, a register of completed embedded generator projects that have successfully connected to the network, and an information pack setting out process requirements and potential costs.

Following our review, certain distributors have improved the presentation and accessibility of information on their websites and/or have committed to making further improvements before the end of the next quarter.

We will also review certain obligations regarding embedded generator connections as part of our distribution APR process, the outcomes of which will be discussed in future QCRs.

## 1.9 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:

---

<sup>12</sup> Chapter 5A applies in National Electricity Customer Framework jurisdictions only.



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

Relevant participants must notify the AER at [AERinquiry@aer.gov.au](mailto: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.

## 2 Gas

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

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

### 2.1 Gas Supply Hub

Under Part 22 of the Gas Rules, the AER is responsible for monitoring GSH members' compliance with obligations specified in the Gas Rules for the gas trading exchange.<sup>13</sup> This includes market conduct rules.

The market conduct rules require GSH members to trade on the basis of gas they intend to physically deliver or receive. They also prohibit activities which are fraudulent, dishonest or in bad faith as well as activities designed to manipulate prices.

#### 2.1.1 Void trades

Clause 13.4(b) of the Gas Supply Hub Exchange Agreement provides that a transaction is void if AEMO fails to send the relevant trading participants a confirmation of the transaction within 15 minutes of it being made.

In the previous QCR we reported on transactions voided by AEMO on 9 January 2015 (human error), 16 March 2015 (expired password) and 24 March 2015 (data transfer error). AEMO reviewed the events and presented its findings at the Gas Supply Hub Reference Group meeting of 23 April 2015.

AEMO has taken the following measures to prevent similar problems from happening in the future:

- commissioned an independent, external audit of the incidents to confirm it has appropriate strategies in place
- enhanced its site transfer process to ensure applications have re-started correctly
- resolved problems with the account expiry parameter in Trayport
- streamlined the registration process for new GSH participants to reduce the risk of human error
- implemented an IT solution to resolve a discrepancy between the GSH and EMMS systems
- commenced testing modifications to its software alerting system to confirm that trades that appear in its internal systems match external confirmation reports. The changes should be implemented later this year.

---

<sup>13</sup> Rule 545 of the Gas Rules.

## 2.2 Short Term Trading Market

Part 20 of the Gas Rules sets out participants' responsibilities for trading in the STTM. The STTM has trading hubs in Adelaide, Sydney and Brisbane. The Gas Rules govern how wholesale gas is traded and include requirements for pipeline operators to submit pipeline capacity and allocation (gas flow) data.

### 2.2.1 Counteracting MOS

Under Gas Rule 399(6), STTM shippers must not make a nomination or renomination in respect of an STTM pipeline, or do any other thing, for the purpose or primary purpose of creating or increasing a pipeline deviation for which MOS may be required. When MOS is required, there is an associated cost which is paid by market participants.

Increase MOS occurs when a pipeline supplies gas in excess of the nominated supply quantity, and decrease MOS occurs when a pipeline stores gas in excess of demand requirements. Counteracting MOS describes the situation where increase and decrease MOS occur simultaneously and in similar quantities. In Adelaide, counteracting MOS generally takes the form of decrease MOS on the SEAGas pipeline, and increase MOS on the Moomba to Adelaide pipeline (MAP).

Counteracting MOS occurred in the Adelaide hub on a number of days in January this year. To assess whether the operators of the MAP and SEAGas pipelines complied with Rule 399(6) on these days, we reviewed data provided by the participants, as follows:

- We examined whether any participants financially benefited from behaviour that may have also caused MOS. We did not find any evidence to suggest this occurred.
- We compared participants' scheduled hourly deliveries into the Adelaide hub on days with and without counteracting MOS. While there was no discernible difference, we noticed participants tended to schedule more gas for delivery towards the end of the day than at the beginning.

Our analysis did not uncover any breaches.

### 2.2.2 AEMO administered pricing event

Gas Rule 426 requires AEMO to inform participants of each hub's ex post imbalance price for the previous gas day within 5 and a half hours of the start of each gas day, and to publish the prices as soon as practicable after. Rule 429 provides that if AEMO fails to do so, an administered ex post pricing state applies. The ex post imbalance price is equal to the lesser of the ex ante market price for that hub and gas day and the administered price cap.

On 20 May, an AEMO system failure prevented it from publishing the ex post imbalance price for the Sydney hub and as such AEMO declared an administered ex post pricing state, whereby the administered price was set at the ex ante price. The administered price was \$2.10/GJ – had an administered ex post pricing state not been declared, the ex post imbalance price would have been \$2.60/GJ.

Deviation prices were not affected by the administered ex post pricing state and as such there was no market impact.

AEMO has made improvements to its IT systems (including an alert to identify server performance problems) to prevent the problem from happening again. AEMO has also engaged Context Information Security to review the event. This review is still ongoing.

## **2.3 Victorian Gas Market**

Part 19 of the Gas Rules sets out participants' responsibilities for trading in the Victorian gas market.

There were no substantive compliance outcomes this quarter.

## **2.4 Natural Gas Services Bulletin Board**

Part 18 of the Gas Rules sets out participants' responsibilities regarding the Bulletin Board. These obligations aim to facilitate greater transparency in gas production and gas pipeline flows to assist gas trading. The obligations also require participants to identify and report any potential conditions where curtailment of gas use might be necessary. It requires Bulletin Board production facility operators to take account of short term trends in gas field performance (which are constraining or will constrain overall production capability), in their 7-day outlook.

With the development in Queensland of LNG trains and the need for greater transparency regarding gas production and flows, a focus of the AER's wholesale markets compliance work program is ensuring participants are providing accurate, complete and timely information to the Bulletin Board.

The Bulletin Board remains a focus of the AER in 2015 and we will continue to monitor compliance with Bulletin Board requirements, including any additional reporting requirements arising out of the Council of Australian Governments' Energy Council and AEMO's consultation on Bulletin Board demand zones.

### **2.4.1 Targeted compliance review**

Following on from previous QCRs and compliance reviews, in May 2015 we engaged with Bulletin Board pipeline operators Epic Energy, APA Group, SEAGas, Tasmanian Gas Pipeline and Jemena on their obligations to provide capacity outlook and actual flows to AEMO (Rules 171 and 174(1)).

Some observations from our engagement with these operators are:

- Each pipeline operator advised that they have automated and manual verification processes to ensure the accuracy of the data they provide to AEMO. All pipeline operators reconcile data daily and have implemented alarms to notify of delivery/receipt/validation errors. Jemena, SEAGas and Tasmanian Gas Pipeline also advised that they verify data accuracy with the SCADA system. SEAGas noted that it reflects changes in its daily capacity figures by submitting new files to AEMO regardless of the magnitude of the resultant change.
- Several pipeline operators also outlined their quality assurance processes. For example, APA and Epic advised that they use external auditors to monitor for non-compliance.

Tasmanian Gas Pipeline advised that it conducts spot checks on the Bulletin Board website to ensure the accuracy of data transfer to AEMO.

- Epic also advised that it ensures timely communication with AEMO by updating their AEMO contact list monthly.
- All operators have been compliant with the obligation to report a 7-day capacity outlook since the obligation was introduced in January 2015.

These are important obligations and we will continue to work with participants to ensure their processes are geared to meeting compliance.

## **2.4.2 Late Bulletin Board Production Data**

Rule 166 of the Gas Rules requires Bulletin Board production facility operators to submit daily production data to AEMO for each production facility it operates. Clause 5.5 of the Bulletin Board procedures sets out the relevant timing and information requirements.

We are currently engaging with relevant participants on several instances in the June quarter of potential failures to submit data to AEMO in the required timeframe. We will report our findings in the September quarter QCR.

## **2.4.3 Bulletin Board registration and exemption**

Rule 147 requires all gas pipeline, storage and production facilities to register with AEMO unless they meet the exemption criteria in rules 149(5), 150(5) and 151(7) of the Gas Rules, respectively.

Given the level of interest in the Bulletin Board, information on registrations and exemptions this quarter are provided below.

### **Registrations**

Participants registered the following new facilities on the Bulletin Board this quarter:

- Woleebee Creek and Jordan production facilities, owned by Queensland Gas Company (QGC).
- Eurombah Creek and Condabri North production facilities, owned by Australia Pacific LNG.

### **Exemptions**

AEMO granted the following exemptions from registration this quarter:

- Pipelines operated by GLNG Operations Pty Ltd:
  - Gladstone transmission pipeline (Petroleum Pipeline Licences (PPL) 166, 167 and 168)
  - Comet Ridge to Wallumbilla Loop (PPL 118)
  - Fairview Laterals (PPLs 147 and 164).

- Production facilities operated by Santos TOGA Pty Ltd and Santos CSG Pty Ltd:
  - Fairview Hub Compression Station 4 (F-HCS-04 on PL 232)
  - Roma Hub Compression Station 2 (R-HCS-02 on PL8/PLA318).
- The Newcastle Gas Storage Facility operated by AGL Upstream Investments Pty Limited.

AEMO granted the pipeline exemptions on the basis they will not be used to transport gas between production and demand zones, and the exemptions for the facilities on the basis they are not connected to Bulletin Board pipelines. The exemptions granted to the pipelines and production facilities will be automatically revoked when the Curtis Island Demand Zone comes into operation. As a result of the new zone, relevant gas facilities will be defined as Bulletin Board Facilities and will have obligations to report to the Bulletin Board. The new zone and related reporting obligations will become effective when two or more LNG export projects come into operation. Based on the current timelines of these projects, this is estimated to be by September/October 2015.

AEMO rejected the application for exemption for the Fairview Hub Compression Station 5 (F-HCS-05 on petroleum lease (PL 91)). As a result, quantities from Fairview Compressor Station 5 are now reported against Fairview Production Facility.