



# **Quarterly Compliance Report:**

## National Electricity and Gas Laws

January – March 2014

Published May 2014

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## Executive summary

The purpose of this 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 National Gas Law (**Gas Law**)—including the rules and regulations which sit under those Laws. This QCR covers the period 1 January to 31 March 2014 (**the March 2014 quarter**).<sup>1</sup>

Chapter one details our compliance and enforcement work undertaken for the gas markets. Of particular note, we introduce the Gas Supply Hub, a gas trading exchange which began operation at Wallumbilla, Queensland, on 20 March 2014. Under the National Gas Rules (**Gas Rules**) the AER is responsible for monitoring Gas Supply Hub members' compliance with rights and obligations specified in the Rules, including market conduct rules. We have developed mechanisms to monitor market outcomes and will report on trades undertaken through our weekly gas reports. We will also report any significant compliance issues in future QCRs.

We highlight that there were no data errors for the short term trading market (**STTM**) during the quarter. This is an improvement from the previous two quarters where we identified a number of errors. We also report on a late submission of data by Epic Energy which occurred last quarter. For the Victorian gas market we outline an event where Origin Energy failed to revise a withdrawal bid after AEMO issued a Supply Demand Point Constraint.

Chapter two discusses a number of matters under the National Electricity Rules (**Electricity Rules**), such as:

- generator rebidding activities and updates for two matters which are covered in our [Rebidding and technical parameters guideline](#)
- current transformer testing, including an infringement notice which was issued to Red Energy during the quarter
- metering compliance issues where a network service provider has either failed to register a connection with AEMO or failed to install a meter before energising a site. Due to the continuation of errors of this nature, we have put industry on notice that we will consider enforcement options in response to these non-compliances going forward
- our review of transmission business annual planning reports. We provide an update on this project, including a forum which was held with transmission businesses and steps these businesses are now taking to improve the annual planning review process.

We also provide a final write up for the electricity connections project. This project involved a survey of parties that have sought to connect to the National Electricity Market transmission network to assess the performance of Transmission Network Service Providers (**TNSPs**) in terms of timeliness, provision of information, cost, design, availability of competitive procurement and responsiveness to connection applicants' commercial requirements. An overview of survey responses and our key findings from the process can be found at section 2.3, while a complete summary of responses is at Appendix A.

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<sup>1</sup> Previous QCRs are available on [our website](#).

For those readers from network businesses, sections 2.3 (electricity transmission connections), 2.4 (electricity metering metrics) and 2.8 (network compliance projects) will be of particular relevance.

## 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>2</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>3</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 Rules and Gas Rules to identify appropriate focus areas and monitoring/compliance mechanisms. These mechanisms include our strategic compliance projects, audits, the imposition of reporting requirements, market monitoring, and targeted compliance reviews.<sup>4</sup>

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.

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

<sup>3</sup> 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.

<sup>4</sup> Provisions of the Gas Rules and Electricity Rules that have been targeted for review in previous quarters are listed in Appendix C.

# 1 Gas

We are responsible for monitoring, investigating and enforcing compliance with the Gas Law and Rules, including but not limited to, the Short Term Trading Market (**STTM**), the Victorian gas market and the Bulletin Board. This quarter we also assumed a new role for the Gas Supply Hub at Wallumbilla in Queensland, which commenced operations on 20 March 2014.

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

## Gas Supply Hub

AEMO has established a gas trading exchange, known as the Gas Supply Hub, at the request of the Standing Council on Energy and Resources, and in accordance with the Gas Law and Rules.

The Gas Supply Hub began operation on 20 March 2014 after a market trial period. It was established at Wallumbilla because of the close proximity to significant gas supply sources and demand locations. Wallumbilla is a major transit point between Queensland and the gas markets on Australia's east coast.

Products listed on the exchange are for the sale and purchase of gas delivered at one of the three major connecting pipelines at Wallumbilla—the Queensland Gas pipeline, the South West Queensland pipeline and the Roma to Brisbane pipeline. There are separate products for each pipeline (each pipeline is considered a trading location, and each has a number of delivery points) and delivery period (daily, day-ahead, balance-of-day and weekly).

Under the Gas Rules, the AER is responsible for monitoring Gas Supply Hub members' compliance with rights and obligations specified in the Rules, including market conduct rules. The market conduct rules seek to protect the integrity of the market by prohibiting members from a number of activities such as manipulating prices and acting fraudulently. The Rules also contain obligations in relation to submitting orders, the exchange of information and the performance of contracts. The market conduct rules are classified as both civil penalty provisions and conduct provisions under the National Gas Regulations.

We have developed mechanisms to monitor market outcomes and members' activities. Information on trades undertaken will be presented in our weekly gas reports.<sup>5</sup> We will review and, where appropriate, report on significant compliance issues in future QCRs.

## Short Term Trading Market

Part 20 of the Gas Rules sets out participants' responsibilities within the STTM, which encompasses three gas trading hubs: Adelaide, Sydney and Brisbane. The rules outline how wholesale gas is traded and include requirements for pipeline operators to submit pipeline capacity and allocation (gas flow) data.

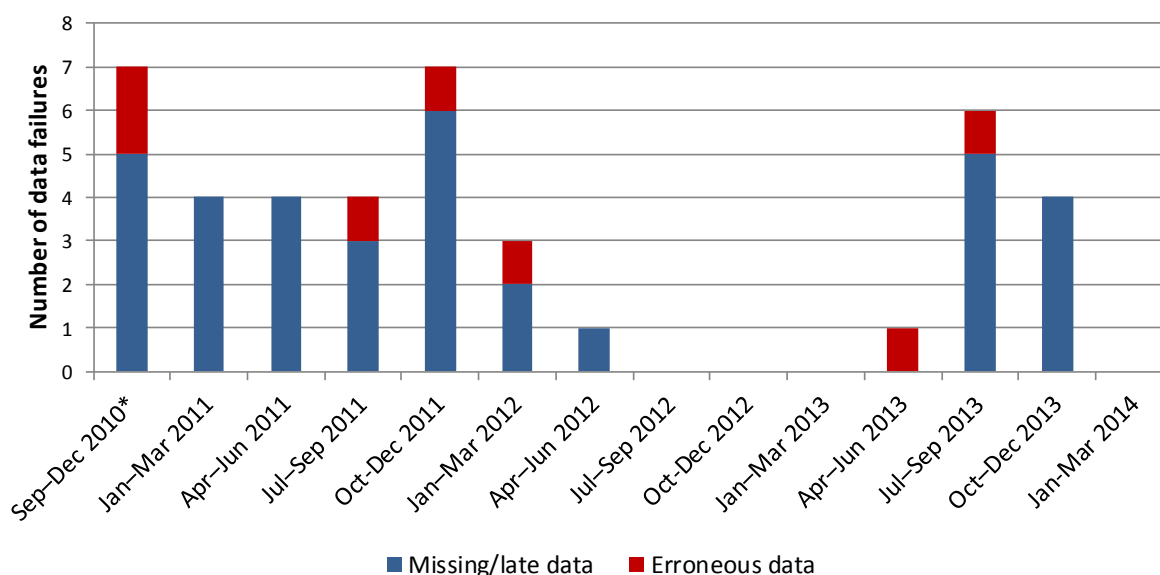
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<sup>5</sup> Available on [our website](#).

## 1.1 Capacity and allocation data quality

This quarter we continued to monitor the quality and timeliness of STTM data. Figure 2.1 below illustrates the performance of STTM participants in submitting capacity and allocation data from the start of the STTM to March 2014. Data failures are categorised as relating to either 'missing/late' or 'erroneous' data. Last quarter we expressed concerns over the number of data failures since mid-2013. There were no errors identified this quarter.

**Figure 1.1 Data failures since STTM commencement**



\* September 2010 has been grouped with the December 2010 quarter. Therefore, this data point represents four months.

## 1.2 Epic Energy—late STTM data

On 21 December 2013, Epic Energy failed to submit STTM facility allocation data for the Moomba to Adelaide Pipeline (**MAP**) for the 20 December 2013 gas day by the 11am cut-off time. AEMO published an event report in February 2014.<sup>6</sup>

Epic explained that the following sequence of events contributed to it missing the 11am cut-off:

- a shipper decided not to proceed with an agreed contract change without informing Epic of its decision. As a result, Epic submitted reports to AEMO that reflected what was in the agreement. As the shipper had not created an active trading right number, Epic's reports were not recognised by AEMO's systems and Epic received an error message.
- it failed to check whether the shipper had activated the new agreement in the contract registration page in the STTM web exchanger.
- it did not initially understand the error message received from AEMO and this issue was not resolved, in conjunction with the AEMO IT Help Desk, until after the cut-off time.

<sup>6</sup> This report is available on the [AEMO website](#).



Epic was able to successfully submit its allocation data before the 3pm extended cut-off time and there was no significant impact on the market.

To reduce the likelihood of reoccurrence, Epic has updated its procedures to ensure new contracts are active in AEMO market systems. We will continue to monitor Epic's submissions of data to AEMO.

### 1.3 Incitec Pivot—late final settlement payment

On 12 March 2014, AEMO notified the AER that Incitec Pivot had made a late payment with respect to the final settlement for January 2014. AEMO advised that this payment was received on 28 February at 12:33pm, 33 minutes after the 12 noon deadline as stipulated in gas rule 470.

Incitec Pivot explained that the late final settlement payment was due to:

- a failure by its front office staff to forward the invoice to its treasury department in a timely manner
- the unavailability of authorised signatories to process the payment.

Incitec Pivot has since taken a number of steps to improve the timeliness of its final settlement payments including:

- reiterating to staff the procedures for receiving and paying settlement invoices
- putting in place back-up procedures to ensure that these invoices are paid on time
- increasing the number of authorised signatories with respect to settlement payments in its treasury department.

We will continue to monitor Incitec Pivot's performance against the financial settlement obligations under the Gas Rules.

## Victorian gas market

Part 19 of the Gas Rules sets out participants' responsibilities in the Victorian gas market. The rules outline how wholesale gas is traded within the market and AEMO's obligations to operate the physical system. Two recent errors by participants are reported below.

### 1.4 Origin Energy—failure to update withdrawal bid

On 12 February, Origin Energy Uranquinty submitted a withdrawal bid for the Culcairn supply point to apply from 13 to 28 February in the Victorian gas market. On 13 February, AEMO issued a Supply Demand Point Constraint (**SDPC**) restricting flows at Culcairn to 0TJ/hour from 9am to 11am on 14 February. Gas rule 216(1) requires market participants to comply with scheduling instructions issued by AEMO in respect of a bid, including SDPCs, however Origin failed to revise its withdrawal bid to reflect the SDPC.

Origin explained that this error occurred in part because it participates under two participant IDs in the Victorian gas market: Origin Energy Uranquinty and Origin Energy Victoria. In this instance, rather than considering the position of the individual participants, the trader considered the impact of the SDPC on Origin's combined position which indicated that Origin had enough flexibility to manage the SDPC. However, the withdrawal bid for Origin Energy Uranquinty was higher than the SDPC limit.

Origin's traders have undergone additional training in relation to bidding for Culcairn. Origin has also introduced a new manual check to ensure SDPCs are identified and appropriately managed by traders. We will continue to monitor Origin's compliance with these requirements of the Gas Rules.

## 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.

Participants submit daily pipeline nominated and forecast delivery data as required by gas rule 173. During the quarter, one facility operator failed on three occasions to submit firm nomination Bulletin Board data to AEMO on the relevant gas day.

Participants submit daily production and pipeline flow data as required by gas rules 166 and 174. During the quarter, one facility operator failed on two occasions to submit daily flow Bulletin Board data to AEMO.

## 2 Electricity

We are responsible for monitoring, investigating and enforcing compliance under the Electricity Law and Rules.

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

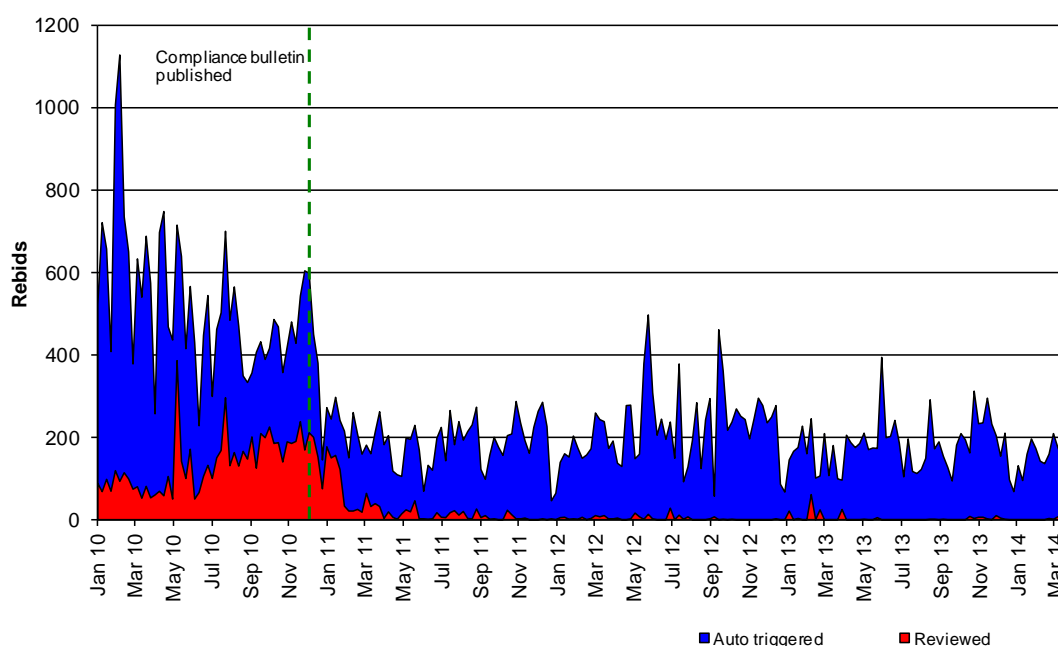
### 2.1 Rebidding

Scheduled generators and market participants operating in the National Electricity Market (**NEM**) submit electricity 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>7</sup>

We adopted a new strategy in relation to enforcing generator rebidding reason requirements in 2010.<sup>8</sup> Generators that submit offer, bid and/or rebid information that does not meet the requirements of the Electricity Rules will receive two warnings. On the third warning within six months, we will consider issuing an infringement notice. A participant's warning count is set to zero after six months.

Figure 2.1 shows that since 2010 the number of rebids detected by our internal compliance system has fallen markedly. The number of rebids which required further review has also fallen significantly.

**Figure 2.1** Rebids auto-triggered and reviewed per week



<sup>7</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>8</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.

We did not issue any warnings during the March quarter. Participants notified us of errors in their rebids on 22 occasions during the quarter and two participants had their warning counts reset to zero.

## 2.2 Rebidding and technical parameters guideline

Below are two updates for matters that are covered in our [Rebidding and technical parameters guideline](#).

### Technical parameters for bids and rebids

Section 4 of the AER Rebidding and technical parameters guideline provides an overview of how a generating unit's ramp rates can be altered through the Supervisory Control and Data Acquisition (**SCADA**) system. While this section of the guideline currently deals only with ramp rates, generating units have other parameters such as Frequency Control Ancillary Service (**FCAS**) enablement points and maximum availability which could also be altered through this process. Where two values for the same parameter have been entered via the bidding system or the SCADA system, AEMO's dispatch process will always use the more constraining of the two values.

Changes to technical parameter values entered via the SCADA system effectively allow a rebid to be made without requiring the information obligations of either Electricity Rules clause 3.8.3A or 3.8.22 to be satisfied. We remind participants that, in situations where a material difference emerges between any SCADA value and bid or offer data, a rebid (with a brief, verifiable and specific reason) should be submitted as soon as practicable to bring the bid or offer in line with the SCADA value.

We will continue to review differences between SCADA values and bid/offer data and follow these up with participants where there could be an impact on dispatch.

### Rebidding and reoffer text field character increase

AEMO issued Change Notice 906 in February 2014 outlining that the character limit of the 'rebidding and reoffer' text field will increase from 64 to 300 characters in the Electricity Market Management System mid-year (May 2014) release.

We do not intend to alter the rebidding protocol established under our Rebidding and technical parameters guideline as a result of this change. Accordingly, participants are not expected or required to utilise the 300 character capacity to its full extent with every rebid or reoffer. However, it would be appropriate to do so when using a 60 character shorthand would result in ambiguous and/or cryptic information, or where abbreviations are unclear. The 'see log' or 'SL' approach under the Guidelines remains in place, however, given the increased size of the field, participants may consider using this approach less often.

## 2.3 Electricity transmission connections

Our electricity transmission connections strategic compliance project commenced in December 2011. The project arose in response to concerns raised by connection applicants about the transmission network connection process. It involved a survey of parties that have sought to connect to the NEM transmission network.

The survey sought to assess compliance by Transmission Network Service Providers (**TNSP**) with the Electricity Rules and to determine how satisfied connecting customers were with the connection process. It focused on the performance of network businesses in terms of timeliness, provision of

information, cost, design, availability of competitive procurement and responsiveness to the connecting customer's commercial needs.

We developed the survey in consultation with the TNSPs and sent it to connecting customers in June 2013. Responses to the survey were due in August 2013 and would be treated confidentially, unless the respondent chose to waive that claim. We have reviewed the responses and provide a summary of them in Appendix A of this report, without identifying individual TNSPs or projects.

After summarising the responses, we provided a copy to the respondents, the TNSPs and AEMO (in its role as transmission planner for Victoria) for comment. The TNSPs together provided a response under their Grid Australia banner.

We also made an offer to respondents who raised potential compliance issues to follow these up with the relevant TNSP, however no respondents accepted this offer.

While the survey was sent to approximately 150 stakeholders in relation to connection enquiries submitted for over 350 projects, we received only 15 responses. Because of this, we have been cautious to draw any definitive conclusions from the results, however a number of common themes were raised in responses which are discussed below, along with the AER's response and comments provided by the TNSPs.

### **Overall TNSP performance regarding connections**

The responses did not indicate any widespread issues regarding the performance of TNSPs in providing connection services. Seven out of the twelve respondents who commented directly on TNSP performance stated that they were satisfied with the performance of the relevant TNSP for their projects. We have received further comments from connecting parties (either in their responses or in follow-up correspondence) suggesting that the performance of TNSPs has vastly improved over time as they have gained more experience. Further, all respondents who commented on whether the TNSP negotiated in good faith considered this to be the case.

While the sample size was small, there was no evidence of systemic compliance issues. It is encouraging that the respondents consider that TNSPs' systems and processes related to connection enquiries have improved over time as the number of connection enquiries increase. We consider that repeated dealings with the connecting parties are also likely to lead to more effective connection processes.

Following a review of the results, the TNSPs noted that responses relating to older projects may not accurately reflect the current practices of TNSPs which have continued to evolve since the transmissions connection framework was introduced.

### **Compliance of TNSPs**

There were instances where respondents indicated that the TNSP may not have complied with the requirements of the Electricity Rules, primarily related to not providing information within the required timeframe specified in the Rules. Some respondents noted that these delays led to delays for the project, while others considered the delay had no material effect.

A number of respondents considered that the timeframes mandated by the Electricity Rules for the TNSP to provide technical and other information for the project are not realistic for projects of this scale. This information is required soon after the connection enquiry is lodged, often before the details of the project have been scoped. Responses indicated that the TNSP, with agreement from the party

seeking application, may provide generic information to satisfy the requirements of the Electricity Rules, however this information may not be particularly useful.

We contacted the relevant respondents who raised concerns regarding non-compliances which they considered had negative consequences for their projects, to determine whether to raise these issues with the TNSP. Those respondents however, requested the matters not be taken further.

The responses indicated that non-compliance with the connections regime did not always have a material effect on the outcome of the project. This raises a question of whether the connections framework may be overly prescriptive to be practical, particularly regarding the timing for providing information. There is, however, a balance which must be struck between the level of prescription and the willingness of parties to undertake conflict resolution against another when there is an ongoing relationship. While less prescription may suit certain types of connections projects, we must be assured that there are appropriate procedures in place to ensure that project milestones are reached in a reasonable timeframe.

A TNSP has indicated to us that the timeframes are not always practical and when this is the case, it will discuss the requirements with the connecting party aiming to reach an 'agreeable' outcome, even if it does not strictly meet the requirements of the Electricity Rules.

The Australian Energy Market Commission (**AEMC**) noted that the current cost, complexity and time delays currently associated with connects are a concern and made a number of recommendations for the transmission connections regime in its Transmission Frameworks review [final report](#). The Standing Council of Energy and Resources (**SCER**) will consider these recommendations which may lead to changes in the Electricity Rules. We will continue to participate in this process.

### **Concluding comments**

While the response rate was very low compared to the number of projects identified, we consider there has been a general improvement in the connections process as more experience has been gained by TNSPs.

The survey results also did not appear to reveal any systemic compliance issues. We do, however, take this opportunity to remind connecting parties of the dispute resolution process that is available for the transmission connections process under the Electricity Rules. We are also available to discuss compliance issues should they arise.

We consider that the practicality of the defined timeframes in the Electricity Rules may be a particular area requiring further work. We will monitor SCER's developments in this area and contribute to this process as appropriate. Proponent's comments related to uncertainty about the types and costs of particular services offered by TNSPs may justify further guidance being developed by network businesses to ensure these processes are consistent, transparent and clearly understood by connecting parties.

Undertaking this survey has been a useful exercise to attempt to evaluate the satisfaction of parties seeking to connect to the transmission network. We will consider whether it is appropriate to conduct a similar survey for parties seeking to connect to the distribution network.

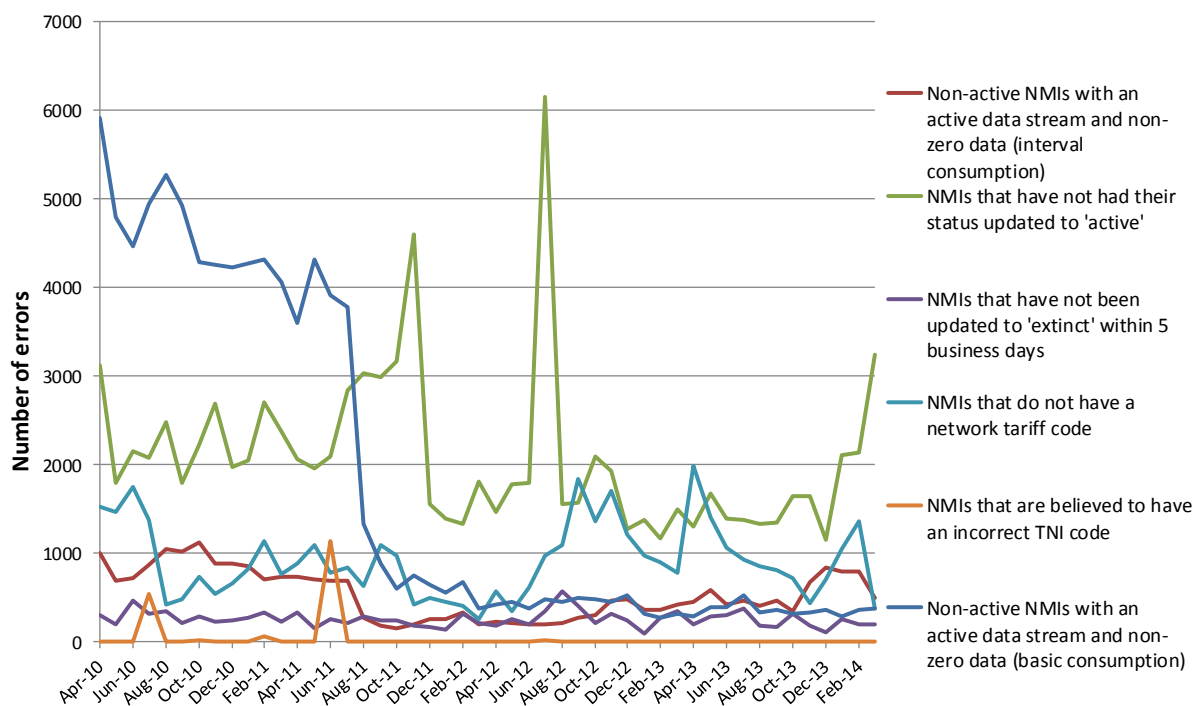
## **2.4 Electricity metering metrics**

In consultation with AEMO, we monitor the quality of metering data provided to AEMO's market settlement and transfer solution (**MSATS**) system. The MSATS system captures important connection

point information, such as the customer's relevant distribution loss factor and retailer of last resort. It also captures actual and aggregated metering data. AEMO is currently developing new reporting metrics and seeking to improve the performance of MSATS users using targeted compliance activities and participant engagement. We will continue to assist AEMO in this process.

Figure 2.2 below shows the number of MSATS errors made by each Local Network Service Provider (LNSP) in the last week of each month since April 2010. We have reviewed total error levels across the six error types and will be contacting LNSPs who have shown a consistently high number of errors over that period.

**Figure 2.2 Total MSATS errors across all LNSPs**



## 2.5 Current transformer testing

We released [Compliance Bulletin No. 6](#) on instrument transformer testing in December 2011 following a significant degree of non-compliance. The bulletin set out our expectations for instrument transformer testing as required by the Electricity Rules and sought a commitment from industry to demonstrate a willingness to comply with these requirements.

We proposed that each year a Responsible Person (RP) should test either 10 per cent of its metering installation population, or a sample of its meters in accordance with an alternative sampling method approved by AEMO. RPs were required to submit testing strategies and plans to AEMO by 1 July 2012, with the required level of testing to be completed by 30 June 2013.

In August 2013 AEMO provided us with a summary of testing for each RP to 30 June 2013. We reviewed the results and wrote to a number of RPs who had not completed the required testing, seeking reasons why the testing was not completed and to work with the RPs to ensure their obligations were met. .

The Electricity Rules stipulate that unless the responsible person has developed an asset management strategy that defines practices to meet the inspection and testing requirements of the Rules and is approved by AEMO, the maximum period between tests is ten years. The relevant rule is a civil penalty provision, meaning the AER may serve an infringement notice.

This quarter the AER issued an infringement notice to Red Energy in relation to its failure to test metering equipment in accordance with the Electricity Rules. Red Energy paid the infringement penalty on 21 March 2014.<sup>9</sup> An investigation report regarding this matter is available on [our website](#).

We take this opportunity to remind RPs that further testing may be required by 30 June 2014. Those who elected to test 10 per cent of their metering installation population must test a further 10 per cent of their population by 30 June 2014. RPs who are testing according to AEMO's alternative sampling method must continue to satisfy the requirements stated in the AEMO testing document through to 30 June 2017.<sup>10</sup>

## 2.6 Metering compliance issues

In the [previous QCR](#) we reported on three occasions where local network service providers (**LNSP**) either failed to register a connection with AEMO or energised a new connection point without a meter. This quarter a further two compliance issues of this nature arose.

While the occurrence of these types of non-compliance is still very low compared to total market connections, we are concerned by the pattern which has emerged in the past six months. It is essential that LNSPs have appropriate procedures and checks in place to ensure that the requirements applying to new or modified metering installations are appropriately met.

Breaches of this nature can have a material impact on the settlement of the market, particularly if the breach continues for a sustained period of time.

Accordingly, going forward, if a registered participant fails to register the connection with AEMO (as required under clause 5.3.7(g) of the Electricity Rules) or energises a new connection point without a meter (clause 7.3.1A), we will consider all enforcement options available to us. These obligations are classified as civil penalty provisions under the National Electricity Regulations which allows the AER to issue infringement notices in relation to breaches. Each infringement notice carries a civil penalty of \$20 000.

## 2.7 Technical audits

Auditing is one mechanism we use to verify and assess compliance by registered participants with their obligations. The audits aim to ensure participants have robust and effective compliance programs in place that are consistent with Good Energy Industry Practice.

We conduct regular technical compliance audits in the electricity sector of generators and network service providers. These audits generally focus on the Electricity Rules clauses 4.15 and 5.7.4, particularly the requirement on electricity generators and network service providers to institute and maintain a compliance program in accordance with prescribed requirements.

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<sup>9</sup> Payment of the infringement penalty is not an admission by Red Energy that it breached the Electricity Rules.

<sup>10</sup> Copies of this document are available from AEMO.



In particular, the mandated compliance program must:

- include procedures to monitor the performance of the plant in a manner that is consistent with good electricity industry practice
- provide reasonable assurance of ongoing compliance with applicable performance standards registered with AEMO.

We are currently conducting an audit of the South Australian transmission network service provider, ElectraNet. ElectraNet has submitted its response to the audit questionnaire. We will review the response and follow up further queries at a site visit with ElectraNet next quarter.

## 2.8 Network compliance projects

Last quarter we announced two projects which focus on the activities of network businesses—one for transmission business annual planning reports and the other for distribution reliability performance. An update for the transmission project is below.

### Review of transmission business annual planning reports

The Electricity Rules require transmission businesses to undertake an annual planning review, over a minimum planning horizon of ten years, and to publish an annual planning report (**APR**) setting out the results of the planning review. Together with the national transmission network development plan (**NTNDP**)<sup>11</sup> and the regulatory investment test for transmission (**RIT-T**),<sup>12</sup> the APR forms part of the transmission network planning and expansion framework set out in chapter 5 of the Electricity Rules and is intended to promote economically efficient and transparent network planning and investment.<sup>13</sup>

Transmission businesses are required to provide a snapshot of the state of the current network in the 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 2013, AEMO (as the Victorian transmission planner) approached the AER for feedback on its APR and whether it met the requirements of the Electricity Rules and the AER's expectations as a key stakeholder in the APR process. Following this interaction, we analysed the most recently published APRs from the other transmission businesses and found that all failed to completely satisfy the requirements of the Electricity Rules in one way or another.

As a result, we launched a strategic compliance project last quarter to engage with transmission businesses and explore improvements that can be made to future APRs to meet stakeholder expectations and the requirements of the Electricity Rules.

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<sup>11</sup> The NTNDP, published annually by AEMO, covers all network limitations, and possible options for relieving them, which are part of, or materially affect, the transfer capability across national transmission flow paths. The minimum planning outlook in the NTNDP is 20 years.

<sup>12</sup> The RIT-T is a cost-benefit test which transmission businesses must undertake to assess the credible options (including non-network options) to address an identified need on their network where the cost of one of the options exceeds \$5 million. The preferred option is the one which maximises the economic benefit to all those who produce, consume and transport electricity in the NEM.

<sup>13</sup> Distribution businesses have similar obligations to prepare APRs.

In March, we hosted a workshop with the transmission businesses (including AEMO as the Victorian planner) to understand in more detail the APR process within each business and to discuss how the information contained in the reports could be improved. The aim of the workshop was to:

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

We sought to reach consensus on tangible improvements as a group and to obtain commitments from each business individually to deliver those improvements either immediately (where possible) or in future APRs. At the conclusion of the workshop, the businesses agreed to develop an 'APR improvement plan' and to publish these proposed improvements in their APRs going forward.

To assist in the development of these plans, AER staff have since met with the businesses individually to outline specific areas of concern with their APR processes. For example, we met with ElectraNet to discuss what, in our view, were shortcomings in its most recent APR. ElectraNet has since written to us setting out the improvements it intends to make in its upcoming APR. ElectraNet's improvement plan will be included in the 2014 APR to inform stakeholders of what improvements are intended, and also to obtain stakeholder feedback and input on what is planned. We consider these steps to highlight good practice and expect other businesses to do the same.

Given the initial success of this project, and positive response from the transmission businesses, a similar approach will be taken with the distribution business to ensure future distribution APRs will meet the expectations of stakeholders and are consistent with the new requirements of the Rules.

## 2.9 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:

- 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.<sup>14</sup>

The relevant participants must give us notice of any act or omission which partly or wholly constitutes non-compliance with the Electricity Rules. No instances of non-compliance were reported this quarter.

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<sup>14</sup> Refer to Electricity Rules clauses 9.4.3 (smelter trader: Vicpower Trading), 9.12.3 (power traders: Delta Electricity and Macquarie Generation) and 9.34.6 (nominated generators: CS Energy and Stanwell Corporation).

## Appendix A Electricity transmission connections – summary of survey results

The AER's electricity transmission connections strategic compliance project commenced in December 2011 in response to concerns raised by connection applicants about the transmission network connection process. It involved a voluntary survey of parties that have sought to connect to the National Electricity Market transmission network.

The survey sought to assess compliance by Transmission Network Service Providers (**TNSP**) with the National Electricity Rules (**Electricity Rules**) and to determine how satisfied connecting customers were with the connection process. It focused on the performance of network businesses in terms of timeliness, provision of information, cost, design, availability of competitive procurement and responsiveness to the connecting customer's commercial needs.

We developed the survey in consultation with the TNSPs and sent it to connecting customers in June 2013. Responses to the survey were due in August 2013 and would be treated confidentially, unless the respondent chose to waive that claim. We have reviewed the responses and summarise them below, without identifying individual TNSPs or connection projects.<sup>15</sup>

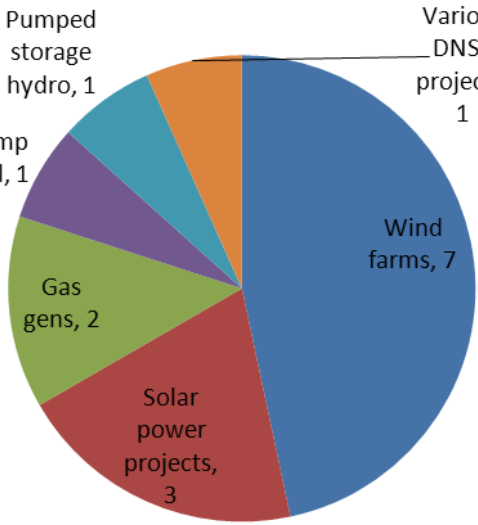
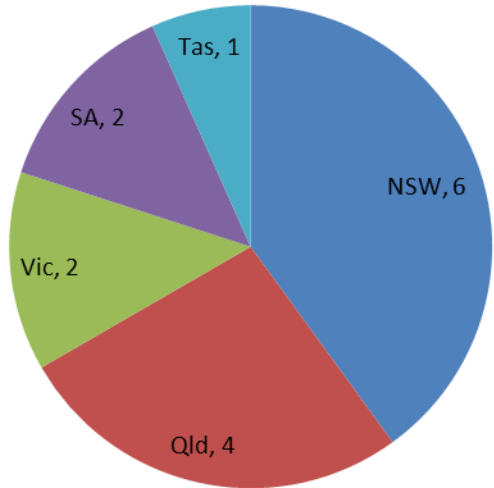
The survey was sent to approximately 150 stakeholders who had together lodged connection enquiries for over 350 projects. We received a total of 15 responses to the survey, relating to 15 separate projects.<sup>16</sup> Table 1 summarises the details of the responses, providing background information about the projects for which the survey was completed.

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<sup>15</sup> Note - none of the claims raised by respondents as part of this voluntary survey have been verified by the AER.

<sup>16</sup> Parties who have lodged connection enquiries for multiple projects were invited to submit a response for each project. Where this occurred, responses were treated separately and are not disclosed as coming from the same respondent to maintain confidentiality.

**Table 1: Summary of survey respondents**

Detail	Responses																					
Type of connection	 <p>A pie chart illustrating the distribution of connection types. The largest segment is Wind farms with 7 responses, followed by Solar power projects with 3 responses. Other categories include Gas gens (2), Pump mill (1), Pumped storage hydro (1), and Various DNSP projects (1).</p> <table border="1"> <thead> <tr> <th>Connection Type</th> <th>Number of Responses</th> </tr> </thead> <tbody> <tr> <td>Wind farms</td> <td>7</td> </tr> <tr> <td>Solar power projects</td> <td>3</td> </tr> <tr> <td>Gas gens</td> <td>2</td> </tr> <tr> <td>Pump mill</td> <td>1</td> </tr> <tr> <td>Pumped storage hydro</td> <td>1</td> </tr> <tr> <td>Various DNSP projects</td> <td>1</td> </tr> </tbody> </table>								Connection Type	Number of Responses	Wind farms	7	Solar power projects	3	Gas gens	2	Pump mill	1	Pumped storage hydro	1	Various DNSP projects	1
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Wind farms	7																					
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Pumped storage hydro	1																					
Various DNSP projects	1																					
Location of sought connection	 <p>A pie chart illustrating the location of sought connections. NSW has the highest number of responses with 6, followed by Qld with 4. Other locations include SA (2), Vic (2), and Tas (1).</p> <table border="1"> <thead> <tr> <th>Location</th> <th>Number of Responses</th> </tr> </thead> <tbody> <tr> <td>NSW</td> <td>6</td> </tr> <tr> <td>Qld</td> <td>4</td> </tr> <tr> <td>SA</td> <td>2</td> </tr> <tr> <td>Vic</td> <td>2</td> </tr> <tr> <td>Tas</td> <td>1</td> </tr> </tbody> </table>								Location	Number of Responses	NSW	6	Qld	4	SA	2	Vic	2	Tas	1		
Location	Number of Responses																					
NSW	6																					
Qld	4																					
SA	2																					
Vic	2																					
Tas	1																					
Date of connection enquiry lodgement		2008 or earlier	2009	2010	2011	2012	2013															
	Number of responses	3	3	1	2	2	3															

<p>Level of experience with, or knowledge of, connections within the organisation prior to submitting the connection enquiry</p>	<p>One respondent considered itself to have little experience, particularly with a project of that scale.</p> <p>Others considered themselves to have good or excellent experience. Five noted that they had previously completed numerous similar connection projects throughout the NEM.</p>
<p>Consultants hired for the connection process</p>	<p>Eight employed the services of external consultants, while the other seven completed the connection application process themselves.</p>
<p>Did the enquiry proceed to a formal connection application?</p>	<p>Of the 15 respondents:</p> <ul style="list-style-type: none"> <li>• Seven completed a connection application and the connection is either completed or scheduled to be completed in the future.</li> <li>• Three intend to complete a connection application and expect to complete the connection in the future.</li> <li>• Two completed a connection application but do not expect to complete the connection in the future.</li> <li>• Three did not proceed with a connection application and do not expect to complete the connection in the future.</li> </ul>
<p>At what stage of the connection process did you decide not to proceed?</p>	<p>The five projects which did not result in a connection were terminated for the following reasons:</p> <ul style="list-style-type: none"> <li>• One due to financial considerations.</li> <li>• One due to the decreased demand in electricity.</li> <li>• For one, because an economic feasibility study run in parallel with connection enquiry came back infeasible.</li> <li>• Two due to unfavourable detailed project feasibility assessments following the connection enquiry.</li> </ul>

The survey was split into three sections—connection enquiry, connection application and overall experience.

### **Part A—Connection enquiry**

Thirteen respondents provided comments for some or all of the questions contained in the connection enquiry section. Questions from this section of the survey and an overview of common themes of responses and notable comments are highlighted below.

## 1. TNSP request for further information

After submitting a connection enquiry, the TNSP has five business days to request further information relating to the enquiry.<sup>17</sup> The survey asked whether further information was requested, whether that request was considered to be reasonable and if so whether it was requested within this time.

Thirteen parties responded to this question. Of those, six were requested to provide the TNSP with further information. Most noted that the information they were required to provide was reasonable, with one respondent adding that the TNSP was generally available to clarify requirements as needed.

### Notable comments:

One respondent claimed that the TNSP's request for information was received longer than 5 business days after their enquiry was submitted, however they considered that this had no material effect on the project.

Other respondents stated that there was an ongoing exchange of information with the TNSP throughout the project whereby connection issues and options were discussed including the information that should be provided to allow the assessment of these issues and options. They considered that this process worked well for them, although one commented that this process could be quicker if a closer relationship could be established with the TNSP's technical advisors.

Numerous respondents considered that 5 business days is not enough time to identify all required information.

## 2. TNSP provision of information

TNSPs are required to provide information within 10 business days of receiving the connection enquiry.<sup>18</sup> The survey asked whether the information was provided in full within this time and whether the information provided was to a satisfactory standard to assist with the connection enquiry.

Twelve parties responded to this question. Seven parties received the information from their TNSP within the required 10 business days, four claim to have received the information after this time and one could not recall the timing of this data. Three of the four parties who claimed to have received this information after 10 business days stated this had no effect on the project, while the other said it delayed the project. All but three parties stated that the information provided was satisfactory.

### Notable comments:

One respondent noted that for its project, only generic information can be provided by the TNSP at that early stage.

Another claimed that not all information was provided. Only indicative timeframes were provided, with no details regarding the duration of each activity. This ultimately hindered its ability to proceed to the application stage.

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<sup>17</sup> In accordance with clause 5.3.2(b)

<sup>18</sup> In accordance with clause 5.3.3(b)

Two respondents claimed that no preliminary program was provided. While some indications of typical timeframes have been provided verbally, no firm timelines were provided in writing.

### **3. Contestability of services**

The information provided by the TNSP under clause 5.3.3(b) includes an indication of whether any services the TNSP proposes to provide are contestable in the relevant jurisdiction. The survey asked whether the respondent considered the TNSP's characterisation of which services were contestable to be accurate.

Thirteen parties responded to this question. Six respondents considered the characterisation to be accurate, while others did not respond directly to the question. Two enquirers claimed that no contestability details were provided to them.

#### Notable comments:

One respondent noted that contestability information was not provided, however it felt it had sufficient knowledge of what was/wasn't contestable itself.

One respondent considered that the works classified as non-contestable were inconsistent with other states. The TNSP required for all works to be combined which the respondent considered to be an expensive hurdle.

Others considered there was confusion as to the nature of prescribed, regulated, negotiated and contestable services, with one noting that the TNSP acknowledged that some elements of the project may be contestable without stating which elements those were and another stating that this information was only given in generic terms.

### **4. Technical information**

TNSPs are required to provide technical information within 20 business days of receiving the connection enquiry.<sup>19</sup> The survey asked whether the information was provided in full within this time and whether the information was presented in an understandable way. It also asked whether a technical expert (internal or consultant) was used to interpret this information.

Twelve parties responded to this question. Nine received the information within the required timeframe, while two did not comment on timeliness. One respondent claimed to have not received technical information from the TNSP. All twelve respondents noted that the information was presented in a way that could be understood.

#### Notable comments:

One respondent noted that only generic technical information can be provided by the TNSP at this stage of a project which is not very useful. It considers that the chapter 5 requirements in the early stage of the project to be unrealistic, as not all details are known (for example, generator characteristics).

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<sup>19</sup> In accordance with clause 5.3.3(b1)

Similarly, another respondent was provided generic information by the TNSP but noted that further technical information was to be provided through a paid service as part of the TNSP's connection process.

Another respondent considered that its project was delayed because technical data was not provided by the TNSP.

## **Part B—Connection application**

Nine respondents provided comments for some or all of the questions contained in the connection application section. Questions from this section of the survey and an overview of common themes of responses and notable comments are highlighted below.

### **1. Negotiated access standards**

For each technical requirement where the proposed arrangement will not meet the automatic access standards nominated by the TNSP pursuant to clause 5.3.3(b1), the connection applicant must submit a proposal for a negotiated access with the application to connect.<sup>20</sup> The TNSP must accept or reject this proposal within 30 business days and if rejected, propose an acceptable alternative to the applicant. The survey asked whether proposals for negotiated access standards were responded to in the required time, whether they were accepted in the first instance, and whether any alternative standards suggested by the TNSP were workable alternatives.

Eight parties responded to this question. Highlights of their comments are below.

#### Notable comments:

One respondent submitted a negotiated access standards proposal in draft form as power system studies had not been completed at that time. The TNSP had a long timeframe for providing an offer to connect so the finalisation of access standards was not considered to be a primary concern.

One respondent who was still in the process of progressing a proposal for a negotiated access standard stated that it considered other requirements such as AEMO's standard for power system data communications to be bigger issues than performance standards.

Another respondent considered the TNSP to have a policy of doing all access standard studies themselves, not recognising third party work which had already been undertaken and a reluctance to provide the required information. As a result it was uneconomical to engage a third party to undertake studies and propose the access standards and it engaged the TNSP to perform this work directly. The TNSP does not provide the network information that it used for system studies and the information available from AEMO did not reflect the information used by the TNSP so it was difficult for any third party to replicate the TNSP's results or to interrogate those results to resolve issues. There were delays when the TNSP encountered issues with its model and there was limited visibility as to what the issues were. This led to a long and expensive process, however the TNSP agreed to undertake phased system studies on more than one supplier which assisted in a tendering process.

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<sup>20</sup> In accordance with clause 5.3.4(e)



Two respondents commented on the iterative nature of developing standards. One noted that the TNSP has been helpful in developing engineering solutions, but where AEMO sign off has been required it has become quite an involved process. Another is in the process of negotiating a number of amendments to the Use of System Agreements which include access standards.

## **2. Offer to connect**

The TNSP must make an offer to connect within the timeframe set out in the (original or modified) preliminary program.<sup>21</sup> The offer to connect must contain terms and conditions as specified by clauses 5.3.6(b) and (b1). The survey asked for details on any changes made to the original preliminary program, whether the offer to connect was made within the timeframe specified in that program, whether the time taken to process the application was considered to be reasonable, whether terms and conditions were transparent and whether the connection agreement was presented in a comprehensible way.

Nine parties responded to this question. Highlights of their comments are below.

### Notable comments:

Three respondents commented that the overall time taken to process the application was reasonable. One of these respondents noted that bringing technical experts into discussions caused some delays, another considered that the time for undertaking access standards studies was drawn out, while the third noted that while agreements were presented in an understandable way, it sought clarification from the TNSP on the proposed terms and conditions.

One respondent stated that its connection application was planned to coincide with a major network upgrade and the TNSP fast tracked the application to fit with the available timeframe.

Another respondent noted delays to its project. It claimed that the TNSP provided a timeframe verbally at the start of the project (but no preliminary program was provided) and no formal timeframe updates were provided for the steps required to sign a connection agreement or for the connection itself. It considered the verbally indicated timeframes for connection offer and connection to be unreasonably long (the respondent considered these could be undertaken much quicker by a private company) and the respondent considered there to be no transparency regarding the work being undertaken by the TNSP.

One respondent raised concerns with the risk margins included in the terms and conditions. It considered that the TNSP's liability regime placed all of the risk on the applicant and the termination regime guaranteed the TNSP would be paid, particularly since terms and conditions of connection were not negotiable.

One responded commented that at times it has been possible to engage a consultant to conduct a full assessment of the terms and conditions proposed in the access agreement, however the quality of independent expertise is very much dependant on the experience of staff within consulting businesses.

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<sup>21</sup> In accordance with clause 5.3.6(a)

### 3. Cost

The TNSP's offer to connect must be 'fair and reasonable' and consistent with the reliable operation of the power system.<sup>22</sup> The survey asked whether the applicant considered the offer made by the TNSP to be fair and reasonable and whether any cost breakdown was provided by the TNSP enabled negotiation of proposed connection costs.

Nine parties responded to this question. Highlights of their comments are below.

#### Notable comments:

One respondent commented that the offer to connect was fair and reasonable, while another considered that only the technical aspects of the offer were fair and reasonable.

Another respondent considered costs to be high and the time required to implement the connection to be lengthy, but this was driven by the complexity of the connection point. The costs were supported by information available publically and results of studies undertaken by the TNSP (which were sometimes also verified by an independent consultant).

One respondent commented that there was no transparency in costs which made it difficult to determine whether the offer was fair and reasonable.

#### The following comments were made by respondents who considered that the offer presented by the TNSP was not fair and reasonable:

- The commercial returns for the TNSP during the connection application process and charges outlined in the offer to connect were considered excessive for a monopoly non-regulated business compared to regulated returns and considering the lower risk profile. The cost transparency for annual connection charges is not adequate and not what the respondent would consider to be in line with the intention of the Electricity Rules.
- Only cost estimates have been provided for the project so far, but these are considered to be significantly higher than if a private contractor was hired to carry out the same works.
- There can be an assumption by the TNSP that the connecting generator should fund the full cost of all works required to raise network performance to full compliance, even if the network is not compliant before the new connection is constructed. Network and SCADA costs are sometimes charged even when the applicant proposes solutions which would ensure compliance (such as not generating at the new connection point at certain times).
- The cost breakdown contained in the offer was reasonable given the complexity of the project – the connection impacted on many terminal stations and the distribution network but the TNSP provided a solution that was well presented and represented what the respondent considered to be lowest cost.
- The cost breakdown was not considered to be adequate or in line with the intentions of the Electricity Rules. Actual capital costs were not disclosed which did not provide transparency

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<sup>22</sup> In accordance with clause 5.3.6(c)

of the returns for the TNSP or allow an assessment of value for money or commercial competitiveness.

- A cost breakdown was not provided, and a separation of negotiated and contestable costs, and transparency around the amortisation of costs would have been useful.

#### **4. Design**

The TNSP must use reasonable endeavours to provide an offer to connect in accordance with reasonable requirements of the connection applicant, such as location and levels of service.<sup>23</sup> The offer may contain various options with respect to these aspects. The survey asked whether the applicant considered the TNSP's proposed design of the connection to be fair and reasonable and whether options which could support the connection were adequately considered and proposed by the TNSP.

Nine parties responded to this question. Six commented that the design proposed by the TNSP was fair and reasonable, while others did not respond directly to the question. Numerous options for the connection were provided to six respondents, while two were presented with only one option. Highlights of comments are below.

##### Notable comments:

One respondent considered that although the TNSP understood the network reliability and security requirements, the final design requirements for the non-contestable works were overdesigned compared to the level of risk acceptable for the type of connection sought.

Another respondent commented that the connection required the construction of a new switchyard. The location chosen by the TNSP differed from the proposed location, and appeared to be one that will be convenient for the TNSP for potential future use of the infrastructure. This will lead to higher costs than the proposed location as it requires investment in an additional transmission line. The respondent considers that the alternate location it proposed does not create any reliability or safety impacts on the power system.

Two respondents noted that while they suggested various options to the TNSP, the TNSP's offer included only one design option.

#### **5. Responsiveness**

The survey asked whether the applicant considered the TNSP provided sufficient time and access to relevant personnel to discuss and negotiate terms of the connection agreement and whether negotiations were undertaken in good faith.

Nine parties responded to this question. Six were satisfied that the TNSP provided sufficient time and access to staff to negotiate the connection, while three did not consider this to be the case. All respondents considered that the TNSP acted in good faith when negotiating the connection agreement.

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<sup>23</sup> In accordance with clause 5.3.6(d)

### Notable comments:

Three respondents considered the responsiveness of the respective TNSPs to be poor. All noted that the contact person they were given at the TNSP had changed numerous times during their projects. The contact persons were often not responsive to enquiries, sometimes requiring repeated contact from the applicant before progress updates were provided. These respondents noted that the TNSP was not forthcoming in arranging meetings or discussions to resolve technical queries, with one noting that no opportunity was provided to meet with the TNSP's technical experts.

One respondent noted that its designated contact person had no technical knowledge which did not assist the process.

## **Part C—Overall experience**

Twelve respondents provided comments for some or all of the overall experience section. Questions from this section of the survey and an overview of common themes of responses and notable comments are highlighted below.

### **1. TNSP performance in connection process**

The survey sought comments on the TNSP's performance throughout the connection process.

Twelve parties responded to this question. Seven were satisfied with the TNSP's overall performance, while others did not respond directly to the question. Comments from all respondents are summarised below.

#### Respondents who expressed satisfaction with the TNSP's performance made the following comments:

- The TNSP demonstrated a commitment to providing good connection services. There was ready access to all commercial and administrative parts of the organisation, and more formalised access to technical experts.
- The TNSP cooperated in the years leading up to when the formal enquiry was submitted and was helpful in assisting to overcome challenges associated with the project.
- The TNSP was solution driven and responsive to our needs, acting commercially and being prepared to price risks.

#### The following comments relate to responsiveness:

- There were some delays due to lack of sufficient personnel to respond to queries which caused frustration but no major delays for the project.
- For a project which is still underway: the TNSP's timeframes have been unacceptable and the TNSP has required intermediate steps in between the statutory connection enquiry and connection application stages. It has been impossible to get written indications of timeframes and any verbal indications seem unreasonable compared to a private contractor undertaking the same works. Verbally indicated timeframes are consistently missed and are leading to substantial delays for the project.

- All timeframes from the TNSP were slow compared to a private consultant undertaking the same technical design and estimating works. The project was delayed as a result.
- Without regularly reaching out to the TNSP's contact person, it felt like the project was forgotten.

The following comments relate to project cost:

- Returns were considered excessive for a monopoly non-regulated business, there was a lack of transparency in charges and obstructions to third party consultants undertaking system studies.
- Transparency around costs was an issue.

The following comments were also made:

- The project, which is still underway, is being delayed as a direct result of the TNSP not providing sufficient information during the enquiry stage of the project.
- Technical information, when provided, was satisfactory.
- Compared to previous connection projects, dealings with this TNSP were challenging due to limitations in negotiating a fair and equitable connection arrangement.

## **2. TNSP administration of the connection process**

The survey sought comments on the TNSP's administration of the connection process, such as whether it provided a single point of contact and whether financial arrangements with the TNSP were managed effectively.

Twelve parties responded to this question. Nine were satisfied with the TNSP's administration of the connection process, while others did not respond directly to the question. Comments from all respondents are summarised below.

Respondents who expressed satisfaction with the TNSP's performance made the following comments:

- There were some challenges in contacting the relevant person, but the flexibility to be able to talk with the person responsible for system studies was useful.
- Very satisfied with the single point of contact and that the TNSP provided upfront schedules of rates and price estimates for studies. The TNSP proactively undertook discussions with other affected parties.
- The TNSP's processes improved significantly as the project progressed.

The following comments were also made:

- The overall fee charged by the TNSP appeared to be very large.
- There appears to be a lack of communication between the TNSP's contact person and others within the business who are responsible for technical and legal work for the project.

- The arrangements around the payment of the connection application fee are transparent although there is an impression that the cost of connection works will not be made transparent and will be high compared to a private contractor carrying out the same works.
- A single point of contact was provided but it was difficult for that person to drive and coordinate the activities of a range of specialists from other parts of the organisation.

### 3. Other matters

The survey provided an opportunity for respondents to comment on other matters associated with the connection.

Eight parties responded to this question. Their comments are summarised below.

The following comments proposed changes to the Electricity Rules requirements relating to the connection process:

- The connections process in chapter 5 is not suitable for wind farm connections as the level of detail required from both the TNSP and proponent in the enquiry and connection stages is not practical. TNSPs use work-around ways to comply with the Rules requirements in order to process the enquiry. This should be reviewed in terms of the practicality of the arrangements for wind farm connections, to facilitate collaboration between the two parties to accommodate uncertainties and unknowns in the early stages of the process.
- Options for connection at more than one point in a network are provided as part of the offer to connect (under 5.3.6(e)), however this should be done as part of the enquiry response stage (under 5.3.3) as it affects commercial and technical decisions at the early stage of a project. The information is less useful later in the project as scoping activities may have already commenced (land tenure/access, detailed design and network studies).

The following comments relate to the commercial aspects of the connections process:

- The profit and financial return expectations of the TNSP in processing and establishing a connection are not consistent with our consideration of the intent of the Electricity Rules. Profits during the connection process are too high and at least some aspects of connection option and feasibility analysis should be included under the TNSP's prescribed network role. All connection processes are currently charged at high rates, in some cases above private industry costs.
- The TNSP's refusal to provide sufficient transparency around capital costs and annual charges for the offer to connect is not in accordance with the requirements of the Electricity Rules and masks what are considered to be excessive returns for lower risk business compared to regulated works.
- Costs appear to be significantly higher than would be charged by a private contractor.

The following comments were also made:

- A monopoly situation is created due to the lack of ability to engage third party consultants to undertake system studies.

- We funded the construction of new transmission lines and network upgrades necessary to accommodate the connecting generator. However, the TNSP has since provided access to other users to the detriment of observed service levels and no compensation which is not considered to be a fair and reasonable outcome.
- The TNSP was engaged to undertake fault level investigations prior to submitting the enquiry as there were potential issues with the site. The study was refined during the enquiry and connection stages. While not a standard process, it was beneficial to the project. This option is now embedded in the connection process by some TNSPs (for example during scoping exercises after the connection enquiry stage is completed).
- The primary concern is that the long expected timeframe to achieve connection is significantly delaying the project. The delay seems to be due to ineffective management, understaffing and poor approval processes within the TNSP. It would be quicker for a private business to undertake the design and construction works, and this would be a desirable outcome, even if this was at a higher cost.

## Appendix B Shortened forms

Shortened form	Full title
ACCC	<a href="#">Australian Competition &amp; Consumer Commission</a>
AEMO	<a href="#">Australian Energy Market Operator</a>
AER	<a href="#">Australian Energy Regulator</a>
AMI	Advanced Metering Infrastructure
CATS	Consumer Administration and Transfer Solution
Electricity Law	National Electricity Law (Schedule to the National Electricity Act)
Electricity Rules	The <a href="#">National Electricity Rules</a> made under Part 7 of the Electricity Law
FCAS	Frequency Control Ancillary Service
Gas Law	National Gas Law (Schedule to the National Gas Act)
Gas Regulations	The <a href="#">National Gas (South Australia) Regulations</a> made under the National Gas Act
Gas Rules	The <a href="#">National Gas Rules</a> made under Part 9 of the Gas Law
GEIP	Good Energy Industry Practice
GJ	Gigajoule
LCA	Linepack capacity adequacy
MAP	Moomba to Adelaide pipeline
MOS	Market Operator Service
MSATS	Market Settlement and Transfer Solution
MT PASA	Medium Term Projected Assessment of System Adequacy
MW	Megawatt
MWh	Megawatt hour
National Electricity Act	<a href="#">National Electricity (South Australia) Act 1996 (South Australia)</a>
National Gas Act	<a href="#">National Gas (South Australia) Act 2008 (South Australia)</a>
NEM	National Electricity Market
NMI	National Meter Identifier
QCR	The AER's quarterly compliance report
RIT-T	Regulatory investment test for transmission
RP	Responsible Person
SCADA	Supervisory control and data acquisition
STTM	Short Term Trading Market
SWN	System Wide Notice
TJ	Terajoule



## Appendix C Previous targeted compliance reviews

Below is a summary of the Electricity Rules and Gas Rules provisions we have targeted in recent quarters

Quarter ending	Industry	Rule	Description
June 2011	Gas	172	Provision of linepack capacity adequacy indicators for the Bulletin Board
		378	Obligation to update information registered with AEMO
		435	Requirement to provide good faith, best estimate contingency gas offers
September 2011	Gas	300	Obligation to protect metering installations from unauthorised interference
		403	Obligation to investigate the circumstances of a MOS shortfall
		410	Obligation to make good faith, best estimate price taker bids (demand forecasts)
December 2011	Gas	180	Obligation to publish peak demand day information
		219	Obligation to notify AEMO of injection and withdrawal quantities
		254	Obligation to provide and maintain security (prudential requirements)
March 2012	Gas	336	Emergency procedures awareness
September 2012	Gas	213(2)(b) and (c)	Injection and withdrawal bids in the Victorian gas market
March 2013	Electricity	4.15	Compliance with performance standards
June 2013	Electricity	8.6.6	AEMO requirements for confidential information
December 2013	Electricity	7.8.2	Security controls for energy data