



AUSTRALIAN
ENERGY
REGULATOR

Quarterly Compliance Report

January – March 2007

May 2007



© Commonwealth of Australia 2007

This work is copyright. Apart from any use permitted by the *Copyright Act 1968*, no part may be reproduced without permission of the Australian Competition and Consumer Commission. Requests and inquiries concerning reproduction and rights should be addressed to the Director Publishing, Australian Competition and Consumer Commission, PO Box 1199, Dickson ACT 2602.

Contents

1	Introduction	1
2	Compliance monitoring strategy	2
3	Compliance monitoring outcomes	3
3.1	Targeted provisions	3
3.1.1	Payment by Market Participants	3
3.1.2	Routine testing of equipment by Network Service Providers.....	4
3.2	Jurisdictional derogations	6
3.3	Technical standards compliance	6
3.4	Rebidding inquiries	7
3.4.1	Rebidding provisions	7
3.4.2	Inflexibility provisions	7
4	Investigations- \$5000/MWh reports	9
4.1	Investigation into the events of 11 January 2007	9
4.2	Investigation into the events of 16 January 2007.....	9
4.3	Investigation into the events of 23 January 2007.....	10
4.4	Investigation into the events of 24 January 2007.....	11
	Appendix A	12
	Appendix B	14

1 Introduction

The Australian Energy Regulator (AER) is responsible for compliance monitoring, reporting and enforcement in the National Electricity Market (NEM).

Section 15 of the National Electricity Law requires the AER:

- (a) to monitor compliance by Registered Participants and other persons with this Law, the Regulations and the Rules; and
- (b) to investigate breaches or possible breaches of provisions of this Law, the Regulations or the Rules that are not offence provisions.

In carrying out its monitoring functions, the AER collects and analyses information from Registered Participants and the National Electricity Market Management Company (NEMMCO). The AER ensures that, to the extent practicable, monitoring:

- (1) is consistent over time;
- (2) does not discriminate unnecessarily between Registered Participants;
- (3) is cost effective for the AER, all Registered Participants and NEMMCO; and
- (4) information is published, or otherwise made available to the market, subject to any confidentiality requirements.

The purpose of this report is to summarise the results of the AER compliance monitoring and enforcement activities during the period January – March 2007. It provides an overview of the results of investigations conducted by the AER including special reports into significant market or power system events, which have been published separately, and the results of the AER's targeted compliance program.

2 Compliance monitoring strategy

The AER monitors the operation and performance of the National Electricity Market (NEM), conducts special investigations in response to market outcomes and/or specific events and aims to encourage compliance by market participants.

The AER compliance monitoring program includes targeting a number of specific National Electricity Rules (NER) provisions each year. These provisions relate to areas in the NER where the AER's assessment of participant's obligations highlights a need for increased scrutiny. The AER has targeted 24 provisions for review in 2007. The AER assesses compliance with the targeted provisions through examining all, or a sample of, relevant market participants' behaviour. **Appendix A and B** summarise the provisions targeted, investigations and rebidding inquiries instigated since July 2005.

The review process encourages market participants to maintain an ongoing compliance management focus by targeting specific provisions of the NER and reviewing compliance. The AER also conducts a rolling program of reviews of participants' compliance strategies and plans. Those reviews are conducted cooperatively and involve one-on-one discussions with participants. The reviews provide the opportunity to engage participants and to discuss compliance strategies and critical challenges faced by the participant in discharging its obligations under the NER.

The AER's approach to monitoring compliance relies, in the first instance, on comprehensive observation and reporting. During the compliance review process, the AER assesses the adequacy of compliance from the information provided by the Registered Participants and may review compliance with these obligations at regular intervals.

In the January - March quarter, the AER focused its compliance monitoring program on the obligations of participants with respect to settlement payments under clause 3.15.16 of the NER and the obligations in relation to rebidding and the time stamping of rebids under clause 3.8.22(c)(2). The AER continued its review of Network Service Provider protection and control system compliance programs, required under clause 5.7.4(a1).

The AER has also conducted a comprehensive review of the National Electricity Rules, including a review of obligations and the risk and impact of potential breaches. The AER intends to use the results of this review to assist in refining its compliance and enforcement strategy, as well as targeting specific provisions for ongoing monitoring and assessment.

During the next quarter, the AER proposes to continue to review Network Service Provider compliance with clause 5.7.4(a1). Further, the AER will review compliance by Market Customers with their obligations in relation to power system security and general registration requirements. Additionally the AER will examine compliance with the metering requirements of Chapter 7 of the NER.

The AER is keen to hear from participants and other interested parties on any matters of compliance, in particular with respect to the specific areas targeted for review.

3 Compliance monitoring outcomes

As part of the compliance monitoring strategy, the AER conducts one-on-one meetings with market participants each quarter. During the March quarter, the AER met with two market participants and NEMMCO to discuss compliance issues. These discussions focussed on the AER's investigation into the events of 16 January 2007 and the methods by which the participants manage compliance with the NER.

3.1 Targeted provisions

3.1.1 Payment by Market Participants

The AER targeted the obligations of Market Participants with respect to settlements with NEMMCO. This followed an early review with NEMMCO that discovered that since the beginning of 2006, 14 Market Participants had made late payments. During the March quarter, two further participants were discovered to have made late settlement payments.

Clause 3.15.16 states that:

“On the 20th business day after the end of a billing period, or 2 business days after receiving a statement under clause 3.15.15, whichever is the later, and in accordance with the timetable each Market Participant must pay to NEMMCO in cleared funds the net amount stated to be payable by that Market Participant in that statement whether or not the Market Participant continues to dispute the net amount payable.”

Prompt settlement of market payments is required for the effective operation of the NEM. Due to NEMMCO's role in accepting payments and distributing those funds to the relevant companies, any payment after the 10.00am deadline can result in a deficit in the funds available for distribution. A shortfall in these funds will not be met by NEMMCO. The shortfalls can result in late payment to participants and undermine confidence in the market by participants and creditors.

The AER wrote to both participants identified by NEMMCO as having failed to comply with clause 3.15.16 during the March quarter. The AER sought information in relation to the following questions:

- what procedures the Market Participant has in place to ensure that the requirements of clause 3.15.16 are satisfied;
- how the Market Participant identifies late or inaccurate settlement; and
- how the procedures identified are monitored to ensure that compliance with clause 3.15.16 is maintained or improved.
- details of any unforeseen circumstances that have lead to settlement problems.

Review outcome

The participants' responses were reviewed against the requirements of the NER. The AER noted that both of the participants have reviewed their internal processes and implemented additional processes to ensure compliance.

Compliance processes

- One of the participants provided details of its internal processes that ensure it complies with the requirements of the NER. Some of the additional steps taken to avoid late payments as a result of the AER inquiries included:
 - Entering payments into the Exigo and Austraclear systems the day before settlement;
 - Monitoring the transactions up to the settlement time the next day; and
 - Confirming with NEMMCO when settlement has been made.

Banking processes

- The same participant noted that during the establishment of new settlement arrangements, as a result of a change of ownership, an error had occurred in relation to the bank account details. This error was not picked up until after the 10am deadline. The participant reports that this error is now fixed and no further delays have occurred since that time.

AER assessment

Based on the information provided by one of the participants, and the AER's assessment of that information against the requirements in the NER, the AER is satisfied that the participant reviewed is aware of the obligations with respect to clause 3.15.16 of the NER. The AER is continuing to work through settlement issues with the second participant identified. The AER considers, however, that the materiality of the late settlement payment, in this instance, is very low.

The AER notes that the occurrence of late settlement payments has dropped over the past 12 months, however, the AER has established reporting arrangements with NEMMCO with respect to late settlements, and will continue to monitor this area to ensure that such delays do not occur. The AER will closely monitor those participants who have been previously identified by NEMMCO as having made late payments, to ensure no repetition occurs.

3.1.2 Routine testing of equipment by Network Service Providers

The AER sought information from TransGrid regarding the obligations of a Network Services Provider in relation to routine testing of protection equipment in accordance with clause 5.7.4(a1) of the NER. This is the third Transmission Network Service Provider examined with respect to these obligations. The AER will continue to review these provisions with the remaining network service providers over the coming quarters.

Clause 5.7.4(a1) requires that:

“A Network Service Provider must institute and maintain a compliance program to ensure that its facilities of the following types, to the extent that the proper operation of a facility listed in this clause may affect power system security, operate reliably and in accordance with their performance requirements under schedule 5.1:

- (1) protection systems;*
- (2) control systems for maintaining or enhancing power system stability;*
- (3) control systems for controlling voltage or reactive power; and*
- (4) control systems for load shedding.”*

Clauses 5.7.4(a2) to 5.7.4(a4) specify the requirements of the compliance program and the steps to be taken when advising NEMMCO that a facility does not comply with the performance standards.

The AER wrote to TransGrid seeking information with respect to the requirements of clause 5.7.4(a1) of the NER. Specifically the AER requested the following information:

- details of the compliance program instituted by TransGrid in accordance with clause 5.7.4(a1);
- the steps taken to monitor, test and provide a reasonable assurance of ongoing compliance of the various facilities in accordance with clause 5.7.4 (a2); and
- how TransGrid assesses whether its compliance program is in accordance with good electricity industry practice.

Review outcome

TransGrid provided detailed information regarding its obligations under clause 5.7.4(a1). Specifically, TransGrid detailed existing policy and procedures documentation and its application of a “National Electricity Market Compliance Management Policy” that ensures relevant obligations are complied with.

TransGrid notes that assets are managed under their Network Asset Management Procedures, which encompass separate maintenance policies for protection systems, substations, communications, metering and the inspection and maintenance of transmission lines.

Yearly technical performance assessments are carried out, during which the technical performance and compliance of TransGrid’s maintenance groups are audited. These are supplemented by quarterly asset performance reviews. TransGrid notes that a NEM compliance update process is in place to ensure ongoing compliance of its facilities with schedule 5.1 of chapter 5 of the NER.

Assessment of TransGrid’s compliance program, to ensure it is in accordance with *good electricity industry practice*, is done through ISO 9001 quality audits as well as internal and external benchmarking, including reviews of overseas practices.

AER assessment

Based on the information provided by TransGrid, the AER is satisfied that the practices and procedures in place provide a reasonable assurance of ongoing compliance of the various facilities in accordance with clause 5.7.4(a1). The AER will continue to review these provisions with the remaining network service providers over the coming quarters.

3.2 Jurisdictional derogations

Chapter 9 of the NER preserves certain jurisdiction-specific arrangements. These are known as jurisdictional derogations and exempt participants from compliance with specified provisions in the NER.

A series of chapter 9 derogations provide exemptions for Smelter Traders, Power Traders and Nominated Generators from complying with the NER:

- to the extent that there is any inconsistency between the NER and a contractual requirement under the relevant agreement; and
- any other specified exemption the jurisdictional derogations.

Power Traders must give notice to the AER of any act or omission which partly or wholly constitutes non-compliance with the NER. In accordance with clauses 9.4.4, 9.12.3 and 9.34.6 of the NER, the relevant participants have notified the AER that there were no matters of non-compliance for the March quarter.

AER assessment

The AER is satisfied that there were no instances where the actions of a participant classified as a Smelter Trader, Power Trader or Nominated Generator materially affected the efficient operation of the market during the quarter.

3.3 Technical standards compliance

The NGF and NEMMCO, in conjunction with the AER and AEMC, have jointly determined a transition process to register the actual technical performance of all incumbent generators, and to ensure all compliance programs are in place for those generators by 30 June 2007. On 7 December 2006, the AEMC approved a Rule change to establish arrangements for resolving the performance standards for generators that were connected, or in the process of connecting, at the date the current performance standards regime came into force in their region of the NEM.

The NGF and NEMMCO are continuing to progress the development of the technical performance standards for incumbent generators to ensure the matter is resolved by the June 2007 deadline.

The AER will continue to monitor the progress of this matter. As part of its quarterly compliance process, the AER plans to focus on generator technical compliance programs in the second half of 2007, along with its ongoing review of Network Service Provider compliance programs.

3.4 Rebidding inquiries

3.4.1 Rebidding provisions

The rebidding provisions of Clause 3.8.22(c) of the NER require Scheduled Generators and Market Participants to provide:

- (1) all rebids to NEMMCO electronically unless otherwise approved by NEMMCO;*
- (2) to NEMMCO, at the same time as the rebid is made:*
 - (i) a brief, verifiable and specific reason for the rebid; and*
 - (ii) the time at which the event(s) or other occurrence(s) adduced by the Scheduled Generator or Market Participant as the reason for the rebid occurred;*

Clause 3.8.22(c) of the NER requires a scheduled generator or market participant to provide information to the AER to substantiate and verify the reason for a rebid¹.

During the March quarter, the AER wrote to six participants seeking more information with respect to rebidding reasons and the obligation of clause 3.8.22(c)(2)(i). These requests sought explanations of failures to provide a timestamp, which represents the time at which the event(s) or other occurrence(s) adduced by the Participant as the reason for the rebid occurred.

The AER has noted continued instances of rebids failing to include a timestamp, as required under 3.8.22(c)(2)(i). Largely, these failures have been the result of operator error, combined with current market system software inflexibilities. The AER notes that all of the relevant participants have instituted new training procedures to reduce the amount of operator based errors and have begun to update software to introduce additional checks to ensure a timestamp is included with the rebid

The AER reminds participants of the obligations of clause 3.8.22(c)(2) and will continue to monitor compliance with this provision to ensure the requirements is fully satisfied. The AER will closely monitor those participants who have been previously identified, to ensure no repetition occurs.

3.4.2 Inflexibility provisions

The inflexibility provisions of Clause 3.8.19(b) of the NER states that:

- (b) Where a Scheduled Generator or Market Participant advises NEMMCO that a scheduled generating unit, scheduled network service or scheduled load is inflexible in accordance with clause 3.8.19(a) the Scheduled Generator or Market Participant must:*

¹ A rebid is defined in chapter 10 of the NER as a variation to a bid or offer made in accordance with clause 3.8.22.

(1) provide NEMMCO with a brief, verifiable and specific reason why the scheduled generating unit, scheduled network service or scheduled load is inflexible at the same time as it advises NEMMCO of the inflexibility; and

(2) provide to the AER, upon written request, in accordance with the guidelines issued by the AER from time to time in accordance with the NER consultation procedures such additional information to substantiate and verify the reason for such inflexibility as the AER may require from time to time. The AER must provide information provided to it in accordance with this clause 3.8.19(b)(2) to any Market Participant that requests such information, except to the extent that the information can be reasonably claimed to be confidential information.

During the March quarter the AER wrote to three participants seeking further information to substantiate and verify the reason for these inflexibility rebids. The AER was satisfied with the responses in relation to two participants' use of the inflexibility provisions. The AER is continuing to examine the circumstances surrounding one participant's use of these provisions.

4 Investigations- \$5000/MWh reports

The AER is required to publish a report covering the circumstances in which the spot price exceeded \$5000/MWh, pursuant to clause 3.13.7 (d) of the Rules. That report should:

- describe significant factors contributing to the spot price exceeding \$5000/MWh, including withdrawal of generation capacity and network availability;
- assess whether rebidding pursuant to clause 3.8.22 contributed to the spot price exceeding \$5000/MWh;
- identify the marginal scheduled generating units; and
- identify all units with offers for the trading interval equal to or greater than \$5000/MWh and compare these dispatch offers to relevant dispatch offers in previous trading intervals.

4.1 Investigation into the events of 11 January 2007

At 4 pm on 11 January 2007, the spot price in New South Wales peaked at \$5092/MWh. At the time, prices were generally aligned with Victoria and Queensland with spot prices of \$3147/MWh and \$3383/MWh respectively. South Australia and Tasmania were exporting at their nominal limits. The national demand was close to record levels and significantly higher than forecast.

AER assessment

The AER examined the incident and published a \$5000/MWh report in February 2007 detailing the event. Furthermore, the AER reviewed compliance with the NER including the ‘good faith’ rebidding provisions in clause 3.8.22A but did not identify any breaches.

4.2 Investigation into the events of 16 January 2007

On 16 January, high temperatures across New South Wales, Victoria and South Australia, saw national demand reach a new record of 31 720 MW at 3 pm. A new record of 9012 MW occurred in Victoria at the same time. In South Australia demand peaked at 2813 MW soon after, only 60 MW short of the record.

The record demand in Victoria and the commercial decision by some Victorian generators to price a significant amount of their capacity at close to the price cap, resulted in significant imports from neighbouring regions with all of the transmission interconnectors into Victoria at near full capacity by 3 pm. Maximum exports from South Australia saw generation dispatch in South Australia exceed 3000 MW for the first time ever. As a result, the spot price in Victoria exceeded \$5000/MWh at 2.30 pm and in both Victoria and South Australia at 3 pm.

At 3.02 pm, bushfires in north east Victoria and in the vicinity of the fully loaded transmission lines from the Snowy region caused a number of those lines to automatically open, severing the connection to Melbourne. As a result around 1700 MW of imports were lost. The disturbance also triggered a number of other transmission lines to automatically disconnect including the South Australia to Victoria interconnector, resulting in a further loss of 300 MW of supply to Victoria. The resulting supply-demand imbalance caused the power system frequency to fall, and the operation of automatic emergency control systems, which saw around 2600 MW of customer load in Victoria interrupted.

The process to restore the interrupted load began immediately. The Victoria to South Australia interconnector was reconnected at 3.42 pm with all load in Victoria restored by 6.15 pm. The interconnection between Melbourne and the Snowy region was restored around 11.30 pm.

Spot prices remained high through the afternoon, exceeding the \$5000/MWh threshold at 4 pm in South Australia. At 4.20 pm, NEMMCO overrode the price in Victoria and set the price to \$10 000/MWh for the next two hours. Following the disturbance, NEMMCO directed a number of participants to assist in restoring the security of the power system.

AER assessment

In February 2007, the AER published a preliminary \$5000/MWh report, examining the pricing outcomes prior to the separation event. The AER is continuing to investigate this incident.

4.3 Investigation into the events of 23 January 2007

On Tuesday 23 January, the spot price in Queensland exceeded \$5000/MWh in two trading intervals, reaching \$5920/MWh and \$7939/MWh at 3 pm and 3.30 pm respectively. Demand at the time was at near-record levels.

A planned network outage at Tarong, combined with the loss of 120 MW of generation at Swanbank, resulted in flows between Tarong and Brisbane exceeding secure limits. NEMMCO managed the increased flows on the Tarong to Brisbane path by invoking constraints to limit flows on the three flow paths into Tarong. The constraints restricted the dispatch of cheaper generation in South West and Central Queensland by around 1000 MW, significantly increasing the Queensland price. The constraints invoked by NEMMCO restricted flows from New South Wales by a further 425 MW.

Five-minute prices in Victoria, Snowy and New South Wales exceeded \$4000/MWh during the 3.30 pm trading interval. The constraints were withdrawn at 3.25 pm. The use of these constraints was not forecast through the market systems.

AER assessment

In this incident, Powerlink took the network outage to allow maintenance of a circuit breaker, as part of an upgrade program related to Kogan Creek. The timing of the outage in the peak summer period had a major impact on prices. Powerlink is

responsible for the timing and planning of outages. NEMMCO has the role of assessing planned network outages for their impacts on power system security.

This incident highlights the impact that planned outages can have on the market. The AER is developing a new service standards incentive scheme, which aims to link the impact of outages to the transmission service providers' revenues. The AER will commence its consultation process later this year, with a view to finalising the new incentive scheme by early next year.

4.4 Investigation into the events of 24 January 2007

On Wednesday 24 January, the spot price in Queensland exceeded \$5000/MWh for one trading interval, reaching \$6261/MWh at 11 am. High prices continued throughout the day, with a new record demand of 8340 MW at 3 pm. Conditions on this day were similar to those of the previous day when prices also exceeded \$5000/MWh.

A planned network outage at Tarong resulted in flows approaching secure limits between Tarong and Brisbane. NEMMCO managed flows on the Tarong to Brisbane path by invoking constraints, as part of an agreed management strategy with Powerlink, from around 9 am to limit flows on the three flow paths into Tarong. The constraints restricted the dispatch of cheaper generation in South West and Central Queensland by more than 1000 MW, significantly increasing the Queensland price. The constraints invoked by NEMMCO restricted flows from New South Wales by a further 400 MW.

AER assessment

The AER notes that the circumstances for this incident were substantially the same as for 23 January 2007.

Appendix A

Summary of AER targeted provisions, investigations and rebidding inquiries

Quarter	Rule provision	Description	Participants targeted	Outcome
December 2005	2.3.4(h)	Market Customer – Local retailers classification of connection points	9	Review complete
	7.1.4(a)	Obligations of Market Participants to establish metering installations	9	Review complete
	7.2.2(a)	Responsibility of Local Network Service Provider – metering installations	12	Review complete
June 2006	3.7A	TNSP - Market information on planned network outages	7	Review complete
	3.8.7A(k)	Market ancillary service offers	1	Review complete
	3.15.16	Late settlement payment by market participants – NEMMCO	1	Reporting arrangement established
	4.8.12	System restart plan and local black system procedures – NEMMCO	1	Review complete
	4.3.4	TNSP– General obligation to assist NEMMCO in its power system security obligations following the events of 22 March 2006	1	Review complete
	5.7.4	TNSP - Routine testing of protection equipment– following the events of 24 February 2006	1	Review complete
	September 2006	3.8.7A(k)	Market ancillary services offers	3
4.9.9B		Ancillary service plant changes	3	Review complete
3.15.16		Settlements payment by market participants	14	Review complete
4.8.12		System restart plan and local black system procedures	6	Review complete
5.2.1		Obligations of Registered Participants– following the events of 25 May 2006	1	Review complete
December 2006	3.8.7A(k)	Market ancillary services offers	3	Review complete
	4.9.9B	Ancillary service plant changes	3	Review complete
	5.7.4	Routine testing of equipment by NSPs	1	Review complete
March 2007	3.15.16	Settlements payment by market participants	2	Ongoing (1 participant, see page 4)
	5.7.4	Routine testing of equipment by NSPs	1	Review complete
Investigations				
31 October 2005		Investigation into the loss of telecommunications capability; power system security; generator rates of change; conformance with dispatch instructions; dispatch and pricing; and information provided to the		Final report published on 12 October 2006

		market.		
22 March 2006	3.8.19/3.8.22	Inflexibility rebidding - infringement notice issued to AGL Hydro		notice issued on 28 July 2006
23 May 2006		\$5000 report issued on 27 October 2006 – no further action		Review complete
20 July 2006		\$5000 report – no further action		Review complete
11 January 2007		\$5000 report – no further action		Review complete
16 January 2007		\$5000 report – no further action		Review complete
16 January 2007		Investigation into power system incident 16 January 2007 (Victoria)		Ongoing (see page 9)
23 January 2007		\$5000 report – no further action		Review complete
24 January 2007		\$5000 report – no further action		Review complete

Appendix B

Summary of rebidding inquiries under clauses 3.8.22 and 3.8.19

Rebidding inquiries	Company	Date of event	Outcome
September 2005	Delta Electricity	12 July 2005	Review complete
	TRUenergy	7 July 2005	Review complete
December 2005	Macquarie Generation	1 December 2005	Review complete
March 2006	NRG Flinders	16 February 2006	Review complete
September 2006	Macquarie Generation	19 July 2006	Review complete
	Macquarie Generation	20 July 2006	Review complete
	Callide Power Trading	20 July 2006	Review complete
	Callide Power Trading	24 July 2006	Review complete
	National Grid Australia	18 August 2006	Review complete
	Tarong Energy	21 June 2006	Review complete
	Tarong Energy	24 August 2006	Review complete
December 2006	Alinta	Various	Review complete
	Delta Electricity	Various	Review complete
	Enertrade	Various	Review complete
	Hydro Tasmania	Various	Review complete
	Macquarie Generation	Various	Review complete
	Braemar	Various	Review complete
	VicPower	Various	Review complete
March 2007	Ecogen	Various	Review complete
	Enertrade	24 January 2007	Ongoing (see page 8)
	Eraring Energy	Various	Review complete
	Flinders Power	Various	Review complete
	International Power	Various	Review complete
	LYMMCO	28 January 2007	Review complete
	Macquarie Generation	Various	Review complete
	Tarong Energy	23 January 2007	Review complete
	TRUenergy	Various	Review complete