



Quarterly Compliance Report:

National Electricity and Gas Laws

July – September 2013

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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 July to 30 September 2013 (**the September 2013 quarter**).¹

The first chapter provides an update on compliance and enforcement work undertaken for the gas markets. We highlight that there were six data errors for the short term trading market (**STTM**), four of which relate to Epic Energy for the Moomba to Adelaide pipeline. We are concerned by this increase after previously observing a significantly lower number of errors during late 2012 and early 2013. Our investigations into many of these matters are ongoing. Participants should review our [Compliance Bulletin No. 7](#) which outlines our expectations regarding the provision of data and information for the STTM and our approach to compliance in relation to these errors.

We also discuss counteracting market operator service (**MOS**) in the Adelaide STTM hub. High MOS service payments on a gas day last quarter triggered one of the AER's significant price variation (**SPV**) reporting triggers. We released the SPV report this quarter, outlining the factors that led to high MOS payments.

For the Victorian gas market, there is an update on remedial actions taken by Origin Energy in relation to a number of demand forecasting errors which occurred last quarter. We also discuss how a system error led Multinet Gas to incorrectly calculate temperature sensitivity factor values which are used by AEMO for market settlement.

Chapter two contains details of a number of electricity matters, such as:

- generator rebidding activities, including a warning issued with respect to a rebid
- a trip of Alinta Energy's Northern Power Station
- an update on instrument transformer testing, and a reminder that 2013-14 testing should be underway
- an introduction for our technical standards compliance program audit of AGL's Macarthur wind farm, the first wind farm to be examined under this process.

Of particular note in electricity is a clarification of our expectations for generators following dispatch instructions, following our strategic compliance project in this area in 2012. We emphasise that divergences for single dispatch intervals and under any market conditions can raise compliance concerns. In this project we generally focused on prolonged periods of divergence from target, however we have adjusted our business-as-usual monitoring mechanisms to identify all divergences.

For those readers from network businesses, sections 2.3 (electricity metering metrics) and 2.5 (electricity transmission connections) will be of particular interest.

¹ Previous QCRs are available on [our website](#).

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 participants² and other persons
- investigating breaches, or possible breaches, of provisions of the legislative instruments under our jurisdiction.

Consistent with our [statement of approach](#), we aim to promote high levels of compliance, and seek to build a culture of compliance in the energy industry. A culture of compliance will:

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

As part of this process, we undertake a continuous compliance risk assessment of the Electricity and Gas Rules to identify appropriate focus areas and monitoring/compliance mechanisms. These mechanisms include our strategic compliance projects, audits, the imposition of reporting requirements, market monitoring, and targeted compliance reviews.³

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 responses to breaches. In assessing compliance culture, we consider whether compliance programs and processes are effectively applied, up-to-date and tested regularly.

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

³ Provisions of the Gas Rules and Electricity Rules that have been targeted for review in previous quarters are listed in Appendix B.

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

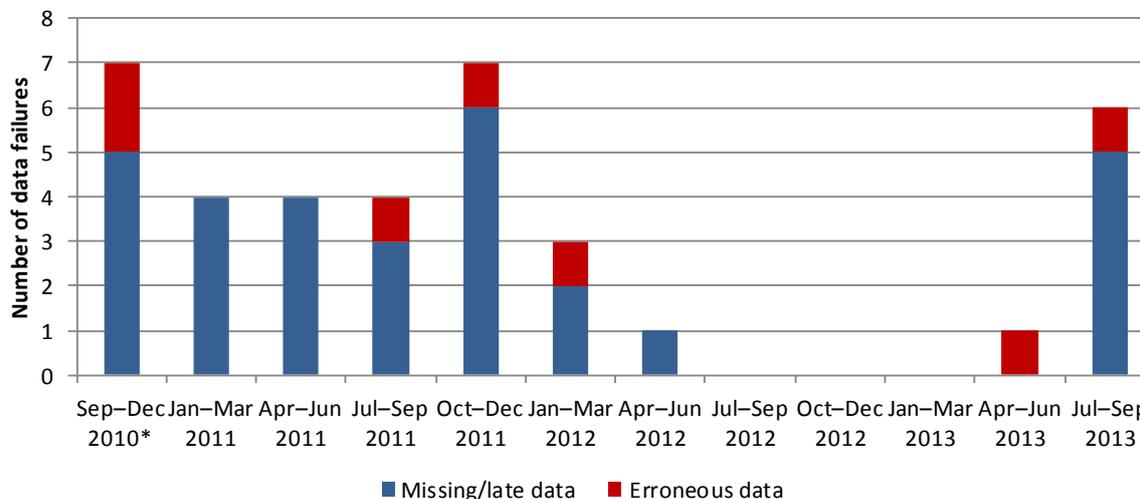
Short Term Trading Market

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.

1.1 Capacity and allocation data quality

This quarter we continued to monitor the quality of STTM data. Figure 1.1 below illustrates the performance of STTM participants in submitting capacity and allocation data from the start of the STTM to September 2013. Data failures are categorised as relating to either 'missing/late' or 'erroneous' data.

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.

Against the recent trend of general improvement in the quality of data provided to the STTM, six data failures occurred this quarter, four of them involving Epic Energy (see section 1.2 below).

A failure to provide accurate and timely data can lead to inefficient pricing signals and market outcomes, resulting in inappropriate wealth transfers between participants. It may also undermine the integrity and reliability of the STTM, discouraging potential entrants or even causing participants to exit the market.

We are concerned with this quarter's spike in STTM capacity and allocation data errors and encourage participants to review our [Compliance Bulletin No. 7](#) which outlines our expectations regarding the provision of this data and information and our approach to compliance in relation to these errors.

1.2 Epic Energy—incorrect, missing and late STTM data

As stated above, this quarter Epic Energy as the facility operator for the Moomba to Adelaide Pipeline (**MAP**) failed to submit accurate and timely data to AEMO on four occasions. Following a period of handover and training with the support of Melbourne-based APA Group staff, Epic commenced STTM reporting obligations fully from a new stand-alone Adelaide control room on 1 July 2013.⁴ Epic stated that the data errors and delays in submitting data were due to the migration to a new IT system and a gap in knowledge transferred at the handover. We discuss each incident below. All of the incidents are subject to ongoing investigation by the AER.

Incorrect MAP allocation data

Between 29 June and 16 July 2013, Epic submitted incorrect allocation data for the MAP over 13 days. Epic explained that there was a loose connection with an input resistor that connects into a terminal at one of the meter runs at the Gepps Cross Meter Station. This caused a meter to display flow readings, even though there was no actual gas movement.

Missing MAP allocation data

On 5 August 2013, Epic failed to submit pipeline allocation data for the MAP to AEMO due an incorrect manual submission of allocation files following a failure of Epic's automated data systems. Epic advised that the automatic submission failed due to the expiry of a password within Epic's Customer Reporting System (**CRS**). The manual submissions of allocation files by Epic staff were also rejected because they were named and ordered incorrectly.

Late capacity data

On 8 August 2013, Epic failed to submit facility hub capacity data for the MAP to AEMO by the 9:30am cut-off. Epic explained that the File Transfer Protocol (**FTP**) application that delivers the files to AEMO's site failed to operate correctly and the automated alert notification within Epic's CRS also failed. One of Epic's pipeline controllers also incorrectly interpreted the 'generate' status on a report to reflect a successful submission to AEMO.

Late submission of MAP allocation data

On 4 September 2013, Epic failed to submit accurate allocation files by the cut-off time due to a system related issue. Epic explained that it experienced issues attempting to submit an actual value for Pelican Point which was greater than 10TJ, because its CRS was programmed to reject values greater than 10TJ.

Failure to provide required data to Envestra

In addition to the above matters covered by Part 20 of the Gas Rules, Epic has advised that it was also unable to provide Envestra, the operator of the Adelaide hub, with data on 19 August 2013

⁴ When APA Group acquired Epic Energy in December 2012 it was required to divest the Moomba to Adelaide Pipeline through an asset sale process. As part of this divestment, APA was required to provide operational support to the entity which now operates the MAP until the end of June 2013.

because of issues with the supervisory control and data acquisition (**SCADA**) system. As a result, estimated data was used for the Adelaide hub on this day.

1.3 Jemena EGP—late allocation and capacity data

On 13 July 2013, Jemena EGP (**Jemena**) failed to submit facility hub capacity data to AEMO by the 9:30am cut-off. The following day, Jemena also failed to submit STTM facility allocation data by 11am. Jemena was able to meet later deadlines on both days, so the late submissions did not affect the final ex ante and ex post prices.

Jemena contacted the AER on 15 July to explain that the late submission was due to IT access and connectivity issues and also the speed of adoption of a manual work around processes by its staff.

Following this incident, Jemena has implemented a number of remedial measures, including updating its procedures relating to manual work around processes and providing additional training to its commercial operations team. In addition, to avoid similar access and connectivity issues in the future, STTM data is now saved to a separate file server that is not dependent on the availability of the Jemena-wide file share server.

The AER sought a series of commitments from Jemena to ensure that similar errors do not occur in future. Jemena made these commitments, including a commitment to conduct a monthly review of any failures to submit STTM data, along with any near misses, and to report the findings back to the AER each month until March 2014.

1.4 AGL capacity error for Camden

As reported in the [previous QCR](#), AGL submitted incorrect capacity information to AEMO for its Camden facility for the 1 April 2013 gas day.

This quarter, AGL advised that the IT issues related to its spreadsheet template format have been resolved. AGL implemented a number of measures aimed at preventing further STTM data issues, such as providing additional training to ensure gas traders are familiar with the processes and procedures around key operational tasks. AGL has also restructured its trading team to include a senior physical market trader to allow greater oversight and cross checking within the team. The weekday duty roster has also been restructured to better prepare traders for weekend duties.

Pursuant to an undertaking it provided to the AER, AGL has commenced an operational review which aims to identify further areas for improvement. AGL will report the outcome of this review to us by the end of October 2013.

1.5 AEMO administration of the Sydney hub price

In the [previous QCR](#), we reported that server performance issues in AEMO's data processing systems caused a delay in publishing the ex post price for the 29 March 2013 gas day. We met with AEMO to discuss the issue, and sought an update on its attempts to remedy the situation. AEMO outlined that it applied a software patch to ensure that data calculations are completed before the data is required for other scheduling calculations, to avoid the need to use default data in these calculations. The AEMO patch staggers the upload of information in its internal systems by uploading data as it becomes available, rather than waiting until all data is collected.

1.6 AEMO incorrect application of ex post pricing provisions

On 5 August 2013, following Epic's failure to provide allocation data, AEMO incorrectly determined that an administered ex post pricing state applied under rule 429 of the Gas Rules, rather than applying the default allocations for the MAP to calculate a 'delayed' ex post imbalance price for the 4 August gas day.

AEMO published a [report into this incident](#). The report explains that an ex post imbalance price was triggered, however while investigating what caused this, AEMO incorrectly concluded that it was due to an AEMO IT systems issue and it instead applied an administered ex post pricing state.

The error had no financial impact on participants as the administered ex post price and the 'delayed' ex post imbalance price were the same.

Following this incident, AEMO revised its operational processes to ensure that the delayed ex post imbalance price will continue until AEMO can confirm that there is an AEMO IT systems issue. At that stage, the administered ex post pricing state would be correctly applied. AEMO is also developing a patch (expected to be implemented in March/April 2014) which will make changes to the graphical user interface. This change has been designed to make it more obvious to users if uploaded files have not been successfully validated. AEMO has also updated its internal processes to avoid similar issues occurring in the future.

1.7 Counteracting MOS in the Adelaide hub

In the [September 2012 QCR](#) we discussed the issue of counteracting market operator service (**MOS**) in the Adelaide STTM. Counteracting MOS occurs in Adelaide when the MAP provides increase MOS at the same time as the SEA Gas pipeline provides a similar quantity of decrease MOS. Counteracting MOS may occur even when demand is forecast accurately and network/pipeline deviations are small.

On the 25 June 2013 gas day, MOS service payments in excess of \$250 000 were generated for the Adelaide STTM, meeting one of our significant price variation (**SPV**) reporting triggers. On 17 September, we released an [SPV Report](#) which explains the factors that led to such high MOS requirements on the day, and during winter 2013 more generally.

Along with high hub demand and a tendency to nominate more gas on the SEA Gas pipeline rather than the MAP, we identified some physical issues within the Adelaide STTM as a driver behind the counteracting MOS. Firstly, the Elizabeth zone within the Adelaide distribution network is completely isolated from the SEA Gas pipeline and can only be serviced by the MAP. Secondly, due to the different pressures within the distribution network and between the different delivery points, it is difficult for the SEA Gas pipeline to service the part of the distribution network towards Taperoo. We understand Envestra is conducting an investigation into these physical issues which it expects to complete in late December. We will continue to monitor MOS outcomes in the Adelaide STTM.

1.8 Facility operator audits

Since 2011, we have been progressively undertaking compliance audits of STTM participants. This series of audits, which looks at compliance with information and data obligations under Part 20 of the Gas Rules, is an ongoing effort to improve the culture of compliance with STTM obligations across the industry. This quarter we commenced the fifth audit under this process, examining SEA Gas.

The audit will involve four steps:

- issuing SEA Gas an audit questionnaire
- reviewing the response from SEA Gas to ascertain whether it adequately meets the aims of the audit
- a site visit to SEA Gas's head office to discuss questions and issues that arose from the audit questionnaire response
- issuing SEA Gas with an audit report outlining conclusions and recommendations.

We have issued SEA Gas with the audit questionnaire and intend to complete the other steps of the audit next quarter. We will report the key findings from the audit in the next QCR.

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.

1.9 Origin Energy demand forecast error

As reported [last quarter](#), Origin submitted incorrect Victorian gas market demand forecasts to AEMO over multiple days in April 2013. Origin explained that this incident was the result of its demand forecasting software not correctly incorporating weather data into the forecasts. Origin repaired the issue with its forecasting software and introduced a manual check to ensure that the weather is correctly considered when forecasting.

This quarter Origin completed a review of its Victorian gas market forecasting processes to identify improvements that will ensure it continues to meet its data and information obligations. The key findings of this review included improvements that could be made to large commercial and industrial demand forecasts and a need for more frequent ex post reviews of Origin's forecasting performance.

Origin is undertaking a range of actions to address the findings of its review. The AER will continue to monitor the demand forecasting performance of all Victorian gas market participants.

1.10 Multinet Gas miscalculations of temperature sensitivity factor

In July 2013, AEMO notified the AER (in accordance with the process in section 91MB of the Gas Law) that Multinet Gas had, in AEMO's opinion, breached the Victorian retail market procedure by using erroneous data to calculate temperature sensitivity factor (**TSF**) values for the June 2013 preliminary settlement.

Multinet Gas has outlined its initial view that the erroneous data was a result of it transferring to a new IT system in July 2012 to prepare for the business-to-business requirements of the National Energy Retail Law and Rules. There was a failure of its new system to accurately relate 'read types' against 'actual read' values during high usage periods, which resulted in shorter than usual time periods being applied during TSF value calculations.

In a report to the AER, AEMO outlined its view that the incorrect data resulted in financial impacts for Origin Energy as the host retailer due to larger than usual differences between preliminary and final

settlement (since Origin was required to provide a prepayment to cover its inflated prudential exposure and to settle an inflated June 2013 final settlement amount). As the six-monthly revision on settlement has a higher level of actual data and trues up the estimated data used in the final settlement, any financial impact would be temporary.

AEMO has requested that Multinet provide updated data files by mid-October. Multinet is in the process of testing the data it will provide to AEMO to ensure that it is accurate. It will also provide the AER with an overview of remedial actions taken to ensure similar errors do not occur in the future. The AER's assessment of this matter is continuing.

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, two facility operators failed on a total of twelve occasions to submit firm nomination Bulletin Board data to AEMO on the relevant gas day. The missing nominations for one participant were due to an expired password. This issue was notified to the AER shortly after occurring.

Participants submit daily production and pipeline flow data as required by gas rules 166 and 174. During the quarter, three facility operators failed on a total of five occasions to submit daily flow Bulletin Board data to AEMO.

We will continue to track non-compliance with Bulletin Board requirements and pursue any systemic breaches.

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.

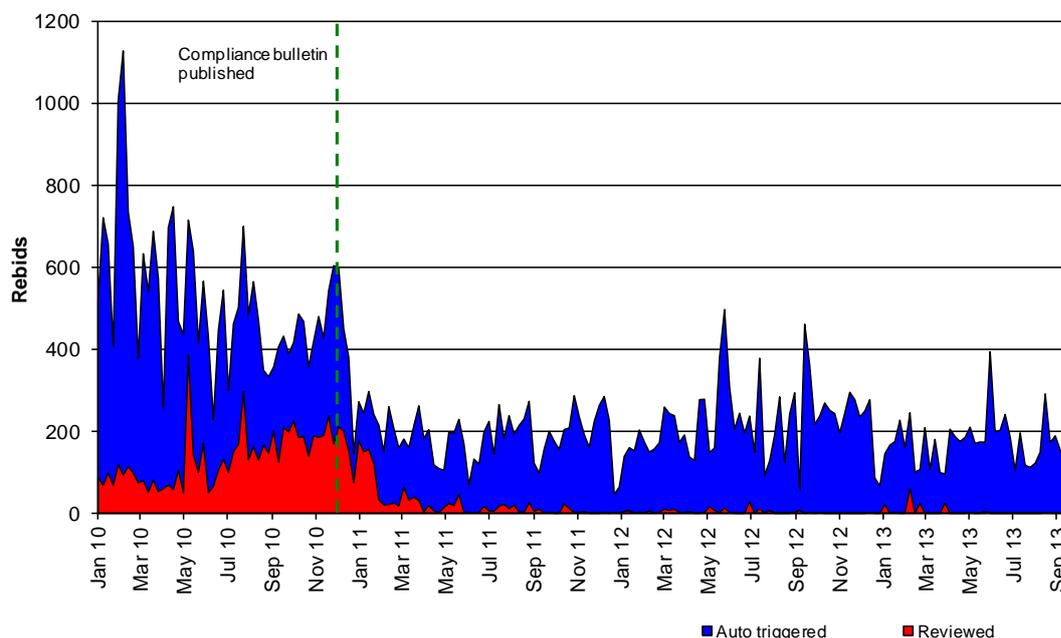
2.1 Rebidding

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.⁵

We adopted a new strategy in relation to enforcing generator rebidding reason requirements in 2010.⁶ 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



⁵ 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'.

⁶ 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.

During the September quarter, we issued one warning. It was an initial warning with respect to a rebid which did not contain a time adduced in the reason and the reason was not verifiable or specific. Participants notified us that there was an error in their rebids on 12 occasions.

2.2 Trip of Northern Power Station

Alinta Energy decided that the generating units of its Northern Power Station would be kept offline for extended periods from July 2012, limiting their operation to only the peak periods of the year. With the expectation that this mode of operation may become prevalent throughout the NEM (due to prevailing market conditions and policy developments) we decided to carry out a technical audit of Northern Power Station which focused on how Alinta Energy would maintain a technical performance testing regime while the plant was offline.

If a generator remains offline and its technical compliance and testing programs lay dormant, then the risk to the power system may be heightened when it returns to service. The audit of Northern Power Station considered Alinta Energy's governance practices and expertise surrounding its compliance systems. It also examined how Alinta implemented systems to meet its obligations, and then measured performance against those obligations. The outcome of this audit was summarised in our [September 2012 QCR](#).

In February 2013, unit 1 of Northern Power Station tripped after a credible transmission event. The unit trip occurred when low voltage supplies to the generator were interrupted. The systems that would normally change over to an alternate supply under these circumstances failed. These systems, despite being ancillary to the generator, are critical components to ensure the generator can operate effectively during such conditions. We wrote to Alinta Energy concerned that on the surface such a failure should have been discovered prior to this event. Regular testing to ensure automatic changeovers of voltage supplies is routine in all power stations.

We sought for Alinta to conduct a full investigation, particularly since it had recently upgraded the instrumentation and control system for Northern Power Station and revised its compliance program as part of our audit process.

Alinta's investigation found that as part of the instrumentation and control system upgrade, despite implementing the appropriate settings within these sub-systems (as specified in the generator's original design) the upgraded systems were far more sensitive than the 1960's technology that was originally installed. Although testing of these systems had been conducted when they were commissioned, this particular issue had not previously been identified.

Alinta Energy rectified the causes of the trip by replacing the affected relay and modifying software logic related to low coal bunker level signals, as well as modifying related testing procedures. While these remedial actions were taken swiftly, this case highlights the importance for all generators to be fully aware of, and remain vigilant about, the configuration of their plant and the scope of technical performance testing.

It is not enough to simply implement a compliance program and procedures; these must be supported by ongoing testing and maintenance of the plant. While we do not intend to pursue the Alinta Energy matter further at this stage, we take this opportunity to urge generators to implement testing systems and procedures that fully reflect the configuration and operations of their plant to avoid incidents like this occurring.

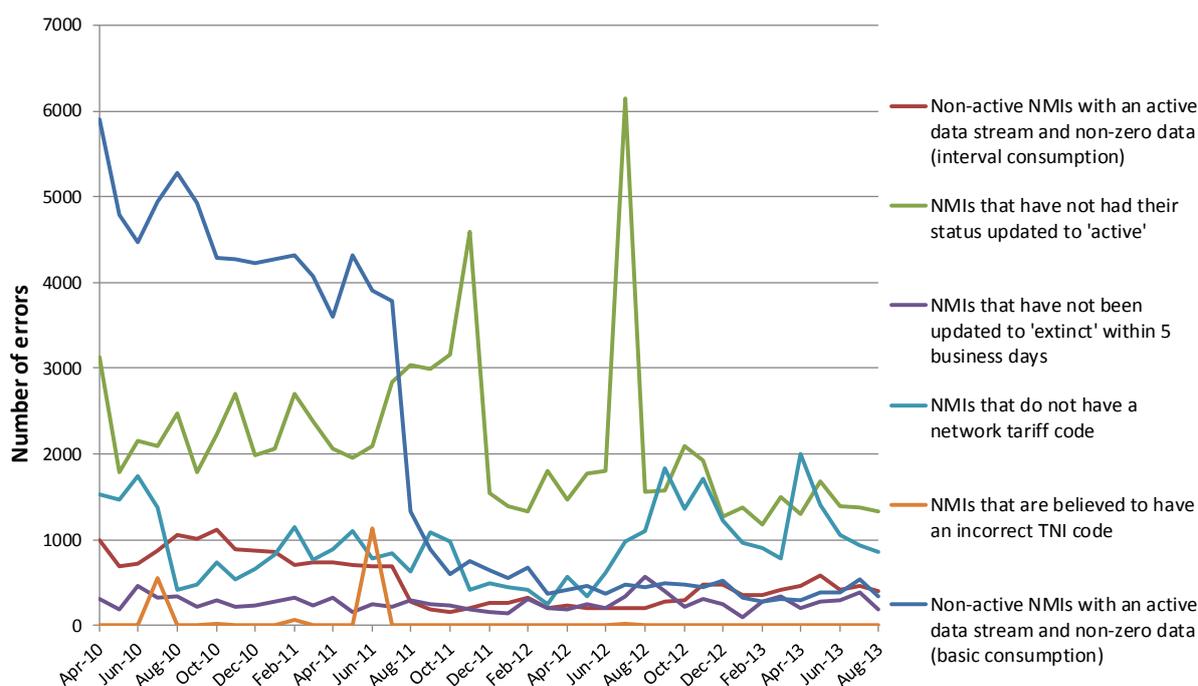
2.3 Electricity metering metrics

As highlighted by the AEMC's Power of Choice review,⁷ metering arrangements play a crucial role in the current and future operation of the NEM. It is important to ensure participants comply with their metering obligations under the Electricity Rules in order to facilitate effective and efficient metering processes.

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 errors 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



2.4 Participants not following dispatch instructions

Also in December 2011, the AER commenced a strategic compliance project to examine the ability of generators to follow the dispatch instructions given to them by AEMO. Clause 4.9.8(a) of the Electricity Rules requires a Registered Participant (namely, a generating unit) to comply with dispatch

⁷ Available on the [AEMC website](#).

instructions from AEMO unless doing so would, in the Registered Participant's reasonable opinion, 'be a hazard to public safety or materially risk damaging equipment'.

AEMO must be assured that, other than in the limited circumstances allowed by the Electricity Rules, generating units will follow dispatch instructions at all times. This enables AEMO to assess its security management options based on accurate information and where necessary, issue directions to participants to maintain power system security.

When generators do not follow dispatch instructions, system security may be put at risk. There may also be market inefficiencies and higher costs through greater reliance on Frequency Control Ancillary Services (**FCAS**) (and potentially lower network utilisation through higher safety margins in network limit calculations). Not following dispatch instructions may also be a method by which generators attempt to manipulate market outcomes. We released a [compliance bulletin](#) outlining our expectations for generators following dispatch instructions in December 2006. The bulletin draws a distinction between following dispatch instructions and AEMO's non-conformance procedures which are established under clause 3.8.23 of the Electricity Rules.

As part of this strategic compliance project, we examined generation data and identified all dispatch intervals (**DI**) where actual generation for a unit differed from its generation target. We then applied combinations of materiality thresholds such as price at the time of the incident, whether a constraint directly affecting the unit was binding and the number of DIs over which the non-compliance occurred, to isolate the incidents that we considered to be the most concerning. We contacted participants in relation to divergences and their responses proposed a number of initiatives that would be implemented to prevent future divergences. A number of these initiatives are discussed in our [March 2013 QCR](#).

We continue to monitor participants' divergence from dispatch instructions as part of our routine monitoring. While instances of participants not following dispatch instructions under the circumstances described above are concerning, we would like to emphasise that the market impacts for divergences from dispatch instructions even in a single DI, and under any market conditions, can also be significant. We have adjusted our monitoring mechanisms to identify all divergences, no matter how long they last, and will continue to contact participants for explanations as appropriate. A number of investigations of participants not following dispatch instructions are ongoing at the moment.

2.5 Electricity transmission connections

Our electricity transmission connections strategic compliance project commenced in December 2011 in response to concerns raised by connection applicants about the Transmission Network Service Provider (**TNSP**) connection process. It involves a survey of parties that have sought to connect to the National Electricity Market transmission network.

The survey seeks to assess compliance by TNSPs with the Electricity Rules and to determine how satisfied connecting customers were with the connection process. It focuses 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.

The survey, which was developed in consultation with the TNSPs, was finalised and sent out last quarter. We are currently reviewing survey responses and deciding on next steps for this project.

While no information identifying individual TNSPs or connection projects will be published, we may decide to publish some of the aggregated results and lessons learnt in the next QCR, if appropriate.⁸

2.6 Instrument transformer testing update

We released [Compliance Bulletin No. 6](#) on instrument transformer testing in December 2011. The bulletin sets out our expectations for instrument transformer testing as required by the Electricity Rules and sought for industry to demonstrate a willingness to comply with these requirements by testing a sample of their instrument transformers.

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 did not complete the required testing, despite attempts by the AER and AEMO to resolve any outstanding issues. We are currently considering enforcement options in relation to incomplete testing.

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 2017.⁹

2.7 Technical audits

Auditing is one mechanism we use to verify and assess compliance by registered participants with their technical performance standard 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.

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.

⁸ Respondents were able to waive confidentiality to allow us to discuss their connection project with the relevant TNSP. Even if confidentiality is waived, we will not publish information identifying the individual TNSP or project.

⁹ Copies of this document are available from AEMO.

During the quarter, we commenced an audit of AGL's 420MW Macarthur wind farm in Victoria. This is the first wind farm to be examined under our compliance audit program. AGL has submitted its response to the audit questionnaire. We will review the response and follow up further queries with AGL at our visit to the Macarthur wind farm site next quarter.

2.8 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.¹⁰

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.

¹⁰ 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: Shortened forms

Shortened form	Full title
ACCC	Australian Competition & Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AMI	Advanced Metering Infrastructure
CATS	Consumer Administration and Transfer Solution
Electricity Law	National Electricity Law (Schedule to the National Electricity Act)
Electricity Rules	The National Electricity Rules 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 National Gas (South Australia) Regulations made under the National Gas Act
Gas Rules	The National Gas Rules 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	National Electricity (South Australia) Act 1996 (South Australia)
National Gas Act	National Gas (South Australia) Act 2008 (South Australia)
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 B: 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