



Quarterly Compliance Report:

National Electricity and Gas Laws

July – September 2014

Published November 2014

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Executive summary

The purpose of the Quarterly Compliance Report (**QCR**) is to outline the Australian Energy Regulator's (**AER**) compliance monitoring and enforcement activity under the National Electricity Law (**Electricity Law**) and the National Gas Law (**Gas Law**)—including the rules and regulations which sit under those laws. This QCR covers the period 1 July to 30 September 2014 (**the September 2014 quarter**).

During the September 2014 quarter, we renewed our focus on ensuring participants comply with the information requirements of the Natural Gas Services Bulletin Board (**Bulletin Board**). As the east coast gas market changes with the advent of LNG exports from Gladstone, the Bulletin Board is becoming a critical tool for informing market participants on the east coast gas supply-demand outlook. Therefore, it is important for information provided to the Bulletin Board to be current, accurate and consistent with the requirements of the National Gas Rules (**Gas Rules**). During the September quarter, AER engaged with a range of participants, including LNG producers and the Australian Energy Market Operator (**AEMO**) on their obligations to provide information to the Bulletin Board (sections 1.11-1.14).

We also received notification from AEMO regarding its failure to publish the Victorian gas market's pricing schedule in accordance with the Gas Rules (section 1.9). Given the nature and breadth of this problem, we agreed with AEMO that it should lead an industry consultation process to develop a solution to this compliance matter. However, we still note our concern that AEMO did not identify this compliance issue earlier via its audit process.

In relation to the Short Term Trading Market (**STTM**), we continued to monitor counteracting Market Operator Service (**MOS**) in the Adelaide hub following the opening of the Elizabeth zone valve (section 1.4). We engaged with AGL over its pipeline deviations into the Adelaide and Sydney hubs (section 1.5) and corresponded with participants over variations cited between the provisional schedules and ex ante market schedule in the Brisbane and Adelaide hubs (section 1.6).

For the National Electricity Market (**NEM**), we observed a significant increase in rebids for review in September (section 2.1). The AER also engaged Hydro Tasmania over potential compliance issues arising from the management of a potential safety issue with one of the smaller dams in Hydro Tasmania's portfolio (section 2.2). Finally, we continued our work with AEMO to increase compliance levels with respect to instrument transformer testing (section 2.4).

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 participants¹ and other persons
- investigating breaches, or possible breaches, of provisions of the legislative instruments under our jurisdiction.

Consistent with our [statement of approach](#),² 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.

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.

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

² In April 2014, the AER released a combined Enforcement and Compliance Statement of Approach covering our functions under the Gas Law, Electricity Law and National Energy Retail Law. The document reflects the consistent approach taken by the AER to enforcing the energy laws across all markets.

1 Gas

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

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

Gas Supply Hub

Over the past quarter, we continued to develop our compliance monitoring framework of the GSH. In addition, we refined our public reporting arrangements of the GSH, including improving of information in our gas weekly reports and the GSH information in the industry statistics section on our website.

Under the Gas Rules, the AER is responsible for monitoring GSH members' compliance with obligations specified in the Gas Rules for the gas trading exchange, including market conduct rules.³ The market conduct rules seek to protect the integrity of the market by prohibiting exchange members from a number of activities such as manipulating prices. The market conduct rules also prohibit submitting offers to buy or sell if the relevant party is aware, or ought to be aware, that it will be unable to satisfy the obligations under resulting transactions. The effect of this rule is that GSH members must trade on the basis of gas they intend to physically deliver or receive at the GSH.

During the quarter we reviewed market data and engaged with GSH trading participants to ascertain whether they are complying with their delivery obligations.⁴ Overall, it appears delivery variations (the difference between the delivered quantity and the transaction quantity) in the GSH are infrequent. For example, no delivery variations were reported to AEMO for the first 300 trades in the GSH.⁵ When delivery variations do occur, they appear to be promptly resolved off-market.

We have also established a dedicated work program to refine our monitoring framework for price manipulation in the GSH. This involves stakeholder engagement including meeting with the United States' Federal Energy Regulatory Commission to discuss its approach to price manipulation in US energy markets. We will also continue to monitor possible developments which may impact upon prices in the GSH, such as the creation of an end of day price⁶ or the commencement of futures markets.

Our reporting arrangements for the GSH during the September quarter included enhancing our gas weekly to incorporate GSH prices in the east coast gas map which geographically captures market prices, production, consumption and pipeline flows.

³ Rule 545 of the National Gas Rules.

⁴ Clause 14.3 of the GSH Exchange Agreement places obligations on trading participants around the delivery and acceptance of gas under physical gas transactions.

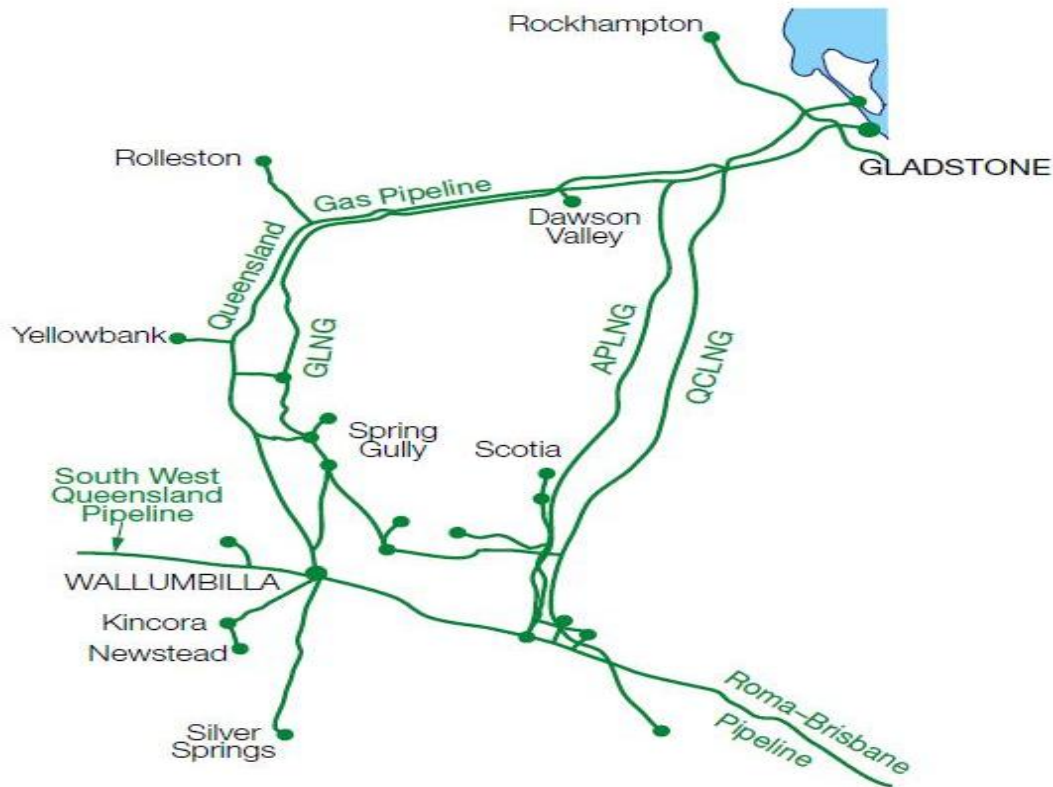
⁵ Clause 15.3 of the GSH Exchange Agreement provides that AEMO will assume that the delivery quantity was made available for delivery and accepted by the receiving participant, unless otherwise notified in accordance with clause 15.2.

⁶ As currently being considered by the GSH reference group.

GSH trade activity

In the GSH, there are four spot and forward trading products available to trade including balance-of-day (**BOD**), day-ahead, daily and weekly products for delivery of gas on the Roma to Brisbane Pipeline (**RBP**), South West Queensland Pipeline (**SWQP**) and Queensland Gas Pipeline (**QGP**).

Figure 1.1 Gas pipeline and production facilities in the Wallumbilla area, Queensland



Source: AEMO

Figure 1.2 shows trading continues to be intermittent, with no trades between 12 and 25 September. Trade prices this quarter have ranged between \$1.40/GJ and \$3.10/GJ, trending downwards compared to the previous quarter where prices ranged between \$1.75/GJ and \$4/GJ. This quarter saw the first trading of gas for delivery on the SWQP, with a number of trades through August and September. There still have been no trades for delivery of gas on the QGP, however there were several offers/bids made this quarter at prices below \$10/GJ.

Figure 1.3 shows that this quarter, the volume of gas traded under weekly products has increased relative to that traded under other products.

Figure 1.2 Volume traded and trade day volume weighted average prices since market start⁷

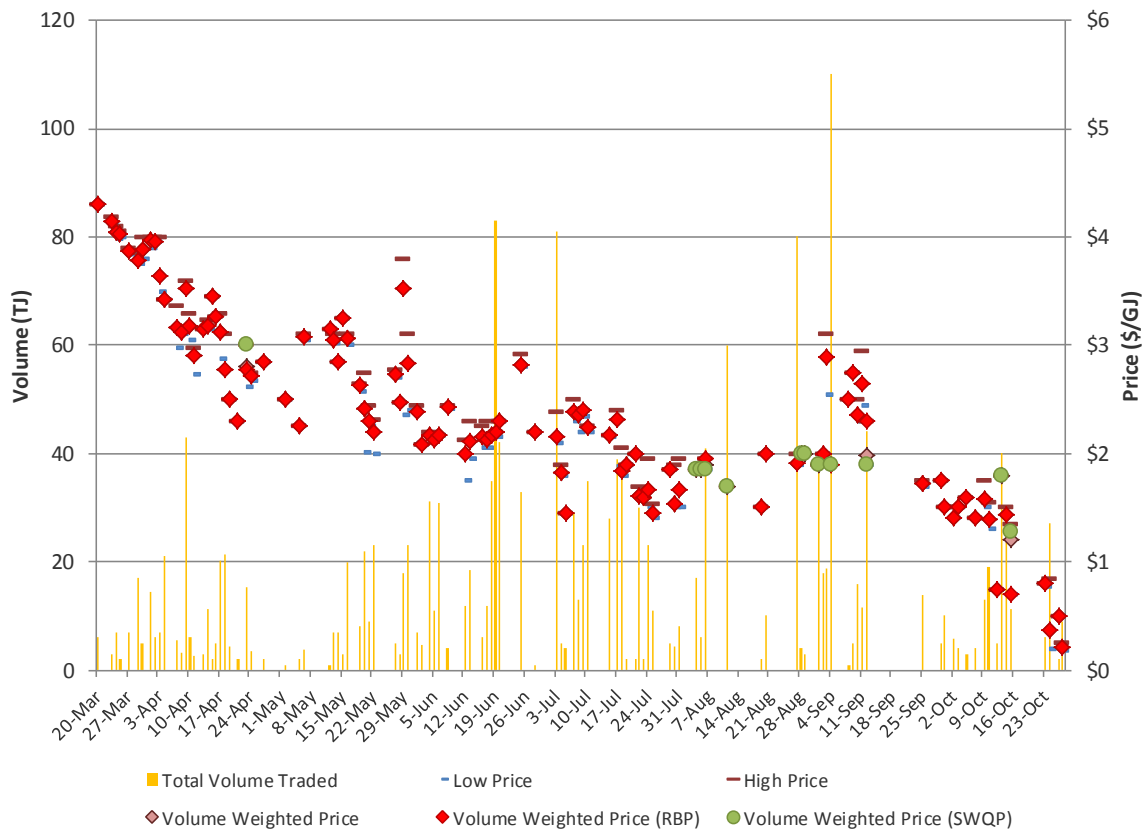
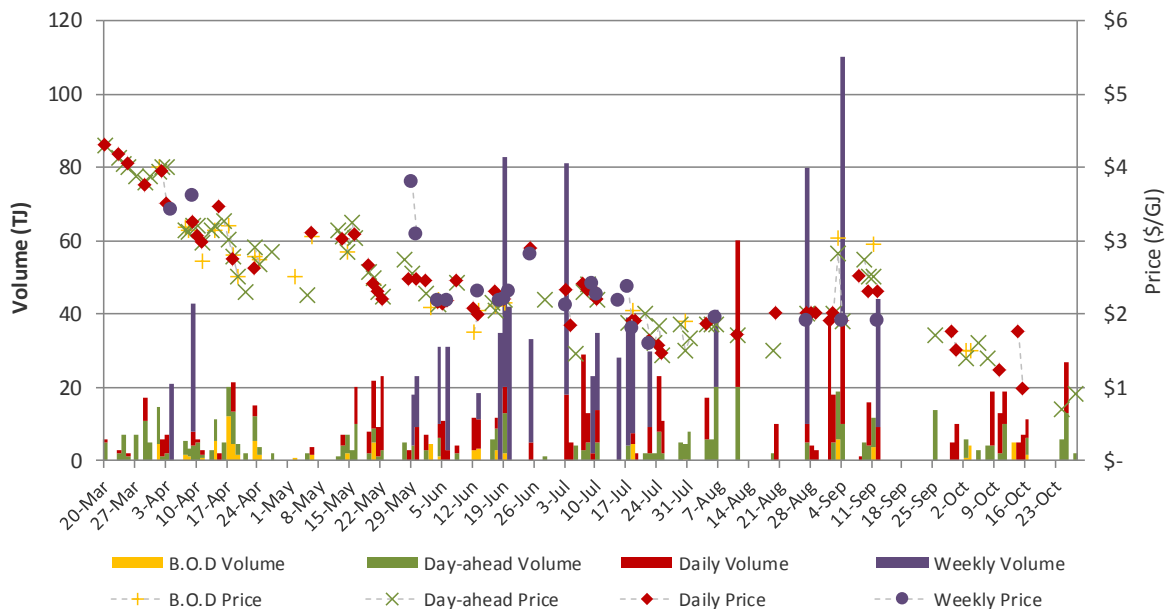


Figure 1.3 Volume traded and volume weighted average prices since market start by product type⁸



⁷ The volume weighted average (VWA) price is the average of all products traded on a trade day. The VWA price for each separate pipeline uses the price for products traded on that pipeline, volume weighted by the pipeline's traded quantity.

⁸ The volume shown for each product is the total volume of gas to be delivered through each trade cleared on a given trading day. Weekly product volumes appearing in the figure show the total volume traded (over each of the seven gas days) depicted on the day the trade took place. Balance-of-day (B.O.D) products are intra-day trades.

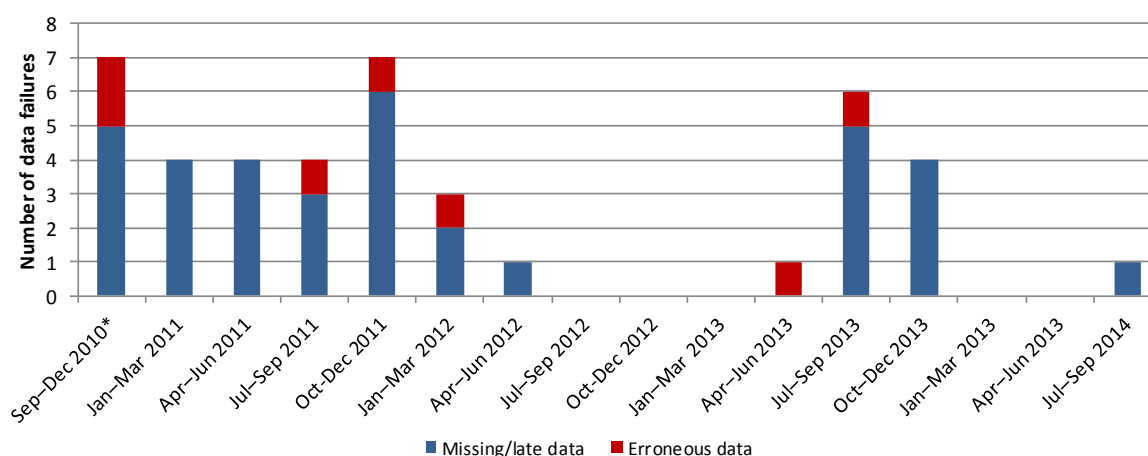
Short Term Trading Market

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 and timeliness of STTM data. Figure 1.4 below illustrates the performance of STTM participants in submitting capacity and allocation data from the start of the STTM to September 2014. Data failures are categorised as relating to either 'missing/late' or 'erroneous' data. This quarter there was one participant error (see section 1.7).

Figure 1.4 Data failures since STTM commencement



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

1.2 AEMO – Administered pricing 1 to 3 June

Last quarter we reported that on gas days 1 to 3 June 2014, AEMO did not publish ex post prices for the Adelaide and Sydney hubs within the timeframes required under rule 426 of the Gas Rules. As a result, AEMO applied administered ex post prices to these hubs, resulting in a different ex post price by up to 18 cents.⁹

AEMO's failure to publish ex post prices within required timeframes arose from changes to its market systems to facilitate new MOS processes. When the market system was changed on 2 June 2014, it incorrectly rejected valid pipeline allocation data files on the basis of MOS allocations that were not associated with any contract right holder at the Sydney hub. At the Adelaide hub, pipeline allocation data files that had been accepted were incorrectly invalidated by a later process.

Following the event, AEMO engaged Pricewaterhouse Coopers (**PWC**) to conduct an end-to-end investigation to determine the cause. PWC found that AEMO did not adequately recognise the potential risks associated with this process change, resulting in insufficient testing before the changes were implemented. PWC also identified the existence of information silos, and the failure by AEMO to apply a holistic business approach to manage this project, may have prevented the error being

⁹ Clause 429 of the Gas Rules.

detected earlier. In addition to engaging PWC, AEMO reviewed its internal Incident Management Plan and the associated Incident Coordination Team structure to assess how the event was managed.

AEMO has now instigated changes to prevent the reoccurrence of these problems. This includes improving its oversight and governance of projects to ensure risks are appropriately identified and managed. AEMO also intends to conduct a full review of the Gas Market Systems System Development Lifecycle framework to review and enhance the testing regime associated with any future system changes.

We consider AEMO has thoroughly addressed its failure in June to publish ex post prices within the required timeframes. In addition to establishing a review and implementing changes, AEMO regularly kept the AER and industry abreast of its steps to resolve the matter. We also consider that AEMO appropriately responded to the event via its Incident Management Plan.

1.3 AEMO – Disclosure of confidential information

The Gas Law prohibits AEMO from disclosing protected information to unauthorised recipients.¹⁰ This includes information given to AEMO in confidence or in connection with the performance of its statutory functions and classified under the Rules, the Procedures or the Regulations as confidential information.

In the June quarter QCR, the AER reported that AEMO had disclosed protected information to unauthorised recipients twice this year. The information included certain gas meter standing data, including a list of gas meter identification numbers with the associated retailer and distributor identified against each meter number. The list did not include customer details. According to AEMO, the recipient of this information has subsequently destroyed the information.

During the September quarter, AEMO provided a report to the AER outlining the specific causes of its wrongful disclosure of information and the steps it has taken to address these breaches. These steps include renegotiating service level agreements to improve data security and implementing additional caller identification security measures and data validation criteria.

The steps by AEMO are critical to ensure confidential information is properly protected and that the confidence by market participants in its operation of the NSW and ACT gas retail market is maintained.

1.4 Counteracting MOS in the Adelaide hub

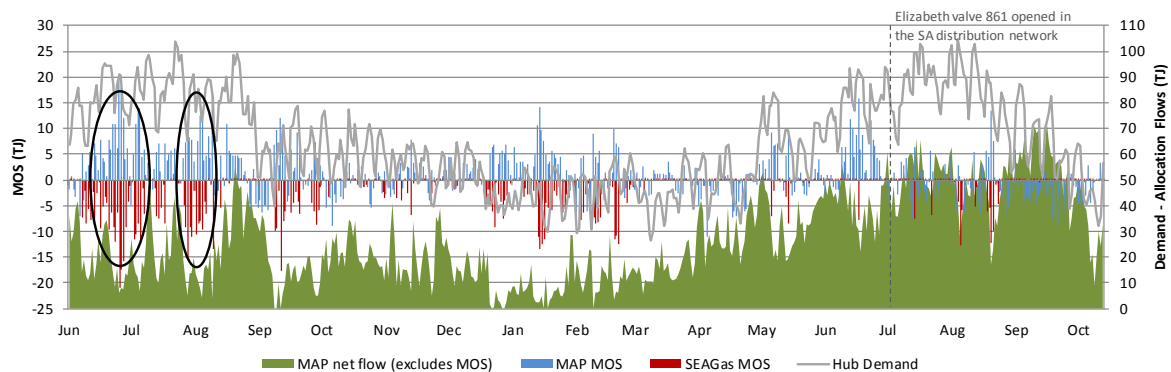
In the June quarter QCR, we reported on the opening of the Elizabeth zone valve in the South Australian gas distribution network. The valve was opened following observations that counteracting MOS¹¹ occurred when the SEAGas pipeline had not been able to deliver its nominated quantity of gas into the Elizabeth zone of the Adelaide distribution network.

In the months following the opening of the Elizabeth zone valve, the prevalence of counteracting MOS in the Adelaide hub has reduced in size and frequency as shown in Figure 1.5. However, there have been instances of counteracting MOS, causing MOS service payments to be paid by the market. For example, over the period 18 to 21 August, there was a total of 59.9 TJ of counteracting MOS in the Adelaide hub, leading to a total MOS service payment of \$349 946 for this period. In particular, on 20 August, counteracting MOS contributed to a MOS service payment of \$197 415 in the Adelaide hub.

¹⁰ Section 91G of the National Gas Law.

¹¹ Where there is increase MOS on the Moomba-to-Adelaide Pipeline and decrease MOS on the SEAGas pipeline well in excess of what is required to balance hub deviations.

Figure 1.5 Counteracting MOS in the Adelaide hub from June 2013



It appears renominations along the SEAGas pipeline contributed to the creation of counteracting MOS in the Adelaide hub. In particular, on 20 August, we observed that a 20 TJ increase between scheduled and nominated gas on the SEAGas pipeline coincided with a 20 TJ increase in MOS requirement along the SEAGas pipeline and similar quantities of increase MOS on MAP, thereby creating counteracting MOS in the Adelaide hub. Further inquiries also indicate renominations on SEAGas were made late in the day by Origin Energy and EnergyAustralia to apply overnight.

The Gas Rules enable participants to renominate gas if there has been a material change in conditions. However, rule 399(6) prohibits an STTM shipper or other person making a renomination for the purpose of creating a deviation for which MOS may be required. As a result, we engaged with Origin Energy and EnergyAustralia to understand why they changed their nominations along the SEAGas pipeline for gas day 20 August. In response, both participants provided details of a change in conditions which led to them to switch gas from MAP to SEAGas. Based on this information, we don't intend to seek further information from these parties regarding their renominations in the Adelaide hub for gas day 20 August.

We will continue to monitor the creation of counteracting MOS in the Adelaide hub. In particular, we will seek information from participants whose renominations along a STTM pipeline coincide with the creation of large amounts of MOS.

1.5 AGL pipeline deviations in the Sydney and Adelaide hubs

Over the past quarter, the AER has been engaging with AGL over its pipeline deviations into the Sydney and Adelaide hubs.

On 16 May, AGL created a 31 TJ deviation into the Sydney hub. Based on our discussions with AGL, it appears AGL failed to nominate gas along the Eastern Gas Pipeline in accordance with the timelines set out in its transportation contract with its counterparty. As a result, the counterparty could not deliver against what AGL had scheduled; creating a deviation into the Sydney hub and contributing to a \$63 000 MOS service payment for that gas day.

Further to our discussions with AGL regarding the Sydney hub, AGL advised the AER that it had subsequently created a deviation into the Adelaide hub on 5 August as a result of a trader error. AGL reported that its trader misunderstood the profiling of gas on the SEAGas pipeline, and as a consequence, made an inappropriate renomination which created a substantial over-delivery of gas. However, following the error, AGL undertook immediate steps to prevent further deviations on the SEAGas pipeline, including effectively discontinuing trading of the service where the problem was identified. The MOS service payment for this gas day was \$54 000.

AGL has introduced further remedial steps to prevent these errors, and subsequent deviations from reoccurring. For example, it has changed its systems to prevent the submission of nominations after contractual deadlines. It has also engaged its counterparty to establish similar system lock-out functionality for renominations submitted after contractual deadlines.

While we acknowledge AGL's remedial steps, we note these recent errors follow a series of data errors by AGL in its capacity as an STTM facility operator and as an STTM trading participant. As a result, we have written to AGL regarding the errors and our expectations in relation to compliance. In particular, we have outlined to AGL that we expect an ongoing commitment to ensure it continues to implement systems and processes consistent with the good gas industry practice requirement in the Gas Rules.

We will be monitoring whether AGL's ongoing performance is consistent with good gas industry practice. STTM participants can find previous AER considerations of good gas industry practice including the AER's reference framework of Governance, Expertise, Implementation and Performance on the AER's website.

1.6 Best estimate, good faith D-3, D-2 & D-1 ex ante STTM offers

The Gas Rules require ex ante offers to be made in good faith and to reflect the trading participant's best estimate of gas it expects to supply on gas day.¹² Rule 410(2) of the Gas Rules requires these offers to be submitted in time for the D-3 provisional schedule.

This quarter, our systems identified participants who were regularly submitting zero volume for the provisional schedules (D-3, D-2), but then increasing their volumes for the final ex ante schedule in the Adelaide and Brisbane hubs. As a result, we engaged with a range of trading participants to ascertain why these differences were occurring.

In response, two trading participants suggested contractual arrangements with counterparties for non-firm gas led to changes in volume estimates for the final schedule. They explained they took steps to inform their offers by requesting a 3 day supply estimate from the producer. One participant noted it defaults to 0 TJ until it is confirmed that gas is available with the counterparty, often only in time for the ex-ante schedule.

The submission of ex ante offers from 3 days before the gas day is fundamental to the price discovery process underpinning the efficient operation of the STTM. Participants should actively engage with their counterparties to determine likely gas volumes. Open and early communication with the counterparty providing gas should assist in facilitating the provision of information in time for the D-3 schedule. However, we note there may be circumstances where full information is not provided in time for provisional schedules. In this case, we would expect consideration of other factors, such as historical indicators.

1.7 Epic Energy's late allocation data

On 29 July 2014, Epic Energy (**Epic**) failed to submit STTM facility allocation data for the MAP for the 28 July gas day by the 11 am cut-off time.

Epic explained the following sequence of events contributed to it missing the 11 am cut-off. Following successful lodgement of facility hub capacity data at 7.30 am, a Virtual Private Network (**VPN**) link

¹² Rule 410(1) of the Gas Rules.

between Epic and AEMO failed resulting in an inability for Epic to submit allocation data through its normal processes.

- Epic contacted AEMO to advise of the issue and seek a resolution to the problem, leading to AEMO proposing the submission of CSV data via email.
- The CSV data was later determined by AEMO to be insufficient and they advised that default data would be used in the event that Epic did not upload the required files before the deadline. The failure to achieve this resulted in a provisional ex post price being published.
- AEMO advised Epic of the requirement to submit accurate data before 3 pm to enable the publication of allocation volumes which would facilitate the release of an accurate delayed ex post pricing schedule.
- Epic successfully submitted the MSD and PAD files by 12.10 pm after its VPN connection resumed, with AEMO confirming the receipt of the data at 12.25 pm.

Epic was able to successfully submit its allocation data before the 3 pm extended cut-off time and there was no significant impact on the market. The revised ex post price was the same as the provisional ex post price published for the 28 July gas day.

1.8 Significant price variation report – 7 July (Brisbane hub)

On the 7 July gas day, the difference between the D-2 provisional price and the D-1 ex ante price was \$7.15/GJ in the Brisbane hub. As a result of this forecast price difference, the AER published a Significant Price Variation (**SPV**) report in accordance with the requirements under rule 498(1)(b) of the Gas Rules and our SPV guidelines.

Overall, our SPV report concludes the \$7.15/GJ fall in price appears to have been a response to a high provisional market price (driven by capacity constraints), leading to rebidding which reduced the ex-ante price. This market response is consistent with the price discovery process facilitated by provisional schedules and final schedules, where participants can refine their trading position based on material changes in the market.

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.

1.9 AEMO pricing schedule non compliance

During this quarter, AEMO advised of a failure to publish the Victorian gas market pricing schedule in accordance with the Gas Rules.¹³

In July 2014, AEMO advised us that the constraints of the declared transmission system (**DTS**) had been incorrectly applied to the pricing schedule. AEMO sought direction from us regarding next steps to resolve the non-compliance. In response, we agreed that given the breadth and nature of the problem, AEMO should engage with industry to develop a solution to achieve compliance.

¹³ Rule 221 (4) of the Gas Rules.

Since July, AEMO has consulted with industry to explain the scope and impact of the price scheduling problem in the Victorian gas market. This included one-on-one meetings as well as industry workshops. At an industry workshop in September, AEMO discussed the impact of complying with rule 221(4) on gas flows to NSW. AEMO explained to industry representatives that, to comply with rule 221(4) for NSW gas exports, this required AEMO to consider actual and projected operating conditions for the remainder of the gas day on either side of the point of interconnection. AEMO has scheduled a further workshop for late October to continue the discussion of issues raised at the September workshop, including how AEMO can comply with rule 221(4). We will continue to participate in these workshops and monitor the outcomes.

AEMO's failure to detect the departures in its pricing schedule from the Gas Rules for an extended period of time is a significant concern. The annual market audit process under rule 322 of the Gas Rules, which requires the review of scheduling and pricing processes by an external market auditor, did not detect this error. Accordingly, we will discuss further with AEMO how it intends to regularly review its practices for compliance.

1.10 Origin Energy and Energy Australia bidding errors

During the September quarter, EnergyAustralia and Origin Energy self-reported two gas bidding errors made in the Victorian gas market to the AER. These bidding errors affected subsequent pricing schedules, leading to a \$1/GJ to \$2/GJ fall in prices.

On 8 July, an EnergyAustralia trader submitted the wrong gas quantity for the 10 am schedule on that gas day. Instead of 5.4 TJ of gas, a trader scheduled to inject 54 TJ on the South West Pipeline. This affected the following pricing schedules, including a fall in price for the following schedule by approximately \$1/GJ.

On 19 September, Origin Energy made an error updating its bids for the 2 pm schedule for that gas day. As a result, Origin Energy was scheduled to inject 65 TJ from Longford which it was unable to inject under contracts and deviated in the market. This led to a decrease in prices at the 2 pm schedule of over \$2/GJ. Origin Energy notes the trader who made the error was new to trading in the Victorian gas market.

Origin Energy's bidding error is its second such error in the Victorian gas market this year. On 12 February 2014, Origin Energy made a withdrawal bid that did not reflect a Supply Demand Point Constraint. Origin Energy is reviewing its processes to minimise the risk of a similar error occurring in future. In the December 2014 quarter, we will engage Origin Energy to ascertain the details of the revised processes and report on them in the next QCR.

Overall, the occurrence of Victorian gas bidding errors this quarter acts as a timely reminder for participants to have sufficient processes in place around compliance with bidding requirements.¹⁴ In addition, if errors do occur, participants should respond proactively to ensure the problem does not reoccur. We note participants' past approach to resolving compliance issues is taken into account when considering what action, if any, should be taken.

Natural Gas Services Bulletin Board

Part 18 of the Gas Rules sets out participants' responsibilities regarding the Natural Gas Services Bulletin Board (**Bulletin Board**). These obligations aim to facilitate greater transparency in gas

¹⁴ Rules 213(2)(b)&(c).

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.

During the September quarter, a focus of the AER's wholesale markets compliance work program was ensuring participants are providing the required information to the Bulletin Board. This focus coincides with developments in Queensland; as LNG trains come on line and gas production and flows change rapidly, transparency through good quality information is vital. In addition, AEMO advised the AER that some Bulletin Board facility operators were not meeting their Bulletin Board information obligations under the Gas Rules.

Accordingly we have been engaging with participants this quarter, including LNG producers, to ensure they are providing the required information to the Bulletin Board, such as total production data and 3-day capacity outlook information. We have also been communicating with AEMO regarding its obligation to update the Bulletin Board map to reflect the data being reported by participants.

The Bulletin Board will remain a focus of the AER for some time. In the future, we expect to expand our work program to include any requirements arising out of current consultations regarding the Bulletin Board. This includes reporting requirements being considered through the Council of Australian Governments' Energy Council and AEMO's consultation on Bulletin Board zones.

1.11 QGC's registration of Ruby Jo and Bellevue production facilities

In October 2014, QGC registered its Ruby Jo and Bellevue production facilities with AEMO as Bulletin Board production facilities, including Kenya and Berwyndale South. As a result, QGC is now reporting total production inclusive of gas produced for export markets.

1.12 AEMO's Bulletin Board map

AEMO is currently undertaking a redevelopment of the Bulletin Board website, due for completion in December. As a result, AEMO has advised us that during this redevelopment process, it does not intend to update the current Bulletin Board map to add new production facilities. This includes updating the map to reflect the registration of APLNG's Condabri facility and QGC's Ruby Jo and Bellevue facilities. However, we have received a commitment from AEMO that it will add the new production facilities to the Bulletin Board map immediately after the deployment of the new website in December.

1.13 Targeted compliance review - capacity outlook data

Targeted compliance reviews form an important part of our monitoring program. The reviews explore participants' compliance practices and aim to improve stakeholder understanding of obligations. The AER will generally choose the obligation on the basis of its risk assessment of the Gas Rules, whereby obligations are identified as having a medium to high risk and impact will be selected for review. We also take into account previous industry performance with respect to the obligation.

In this quarter we targeted obligations relating to the provision of information by Bulletin Board facility operators to the Bulletin Board. This included rules 165 and 171 of the Gas Rules. In particular:

- Rule 165 requires a production facility operator to provide to AEMO, in respect of each gas day for BB production facility that it operates, the daily production capacity outlook for that BB production facility for that gas day, day +1 and day +2.

- Rule 171 requires a pipeline operator to provide to AEMO, in respect of each gas day for each of its BB pipelines, the pipeline operator's good faith estimate of the quantity of natural gas that, under normal operating conditions, can be transported through that BB pipeline on that gas day, day + 1 and day + 2.
- Clause 5.4 of the BB Procedures sets out the information and timing requirements which must be met in order to comply with clauses 165 and 171.

We targeted these provisions because AEMO reported to the AER that capacity outlook data is not actively being updated by all Bulletin Board participants; such that the most recently-submitted data can be several years old. In addition, AEMO reported that capacity outlook data for certain Bulletin Board facilities is missing, sometimes for a number of time periods. We considered a targeted compliance review would assist us to assess whether parties have sufficient processes in place to facilitate compliance with their information provision obligations set out in rules 165 and 171.

We wrote to Origin Energy, Santos and Esso to ascertain their compliance approach with respect to clause 165. We also wrote to AEMO, in its role as a pipeline operator, to request information about its compliance with clause 171. In particular, we asked the three facility operators and AEMO to provide details of their systems and procedures around compliance with Bulletin Board information requirements, including details of any quality assurance process to ensure accurate three day capacity outlook.

Overall, the responses appear to provide limited but sufficient detail regarding their approach to compliance with the provision of information on the Bulletin Board. Each facility operator described the process it has in place to submit the information to AEMO and to ensure the accuracy of this information.

AEMO, in its response, identified two instances where it has not revised the 3 day capacity outlook to reflect a material change in pipeline capacity. To improve compliance, AEMO is in the process of improving its system and procedures. This includes the Gas Real Time Operations team developing a system that will be used to update capacity outlook daily.

1.14 Missing data

Under the Gas Rules, Bulletin Board facilities must submit a range of production and flow data to AEMO for publication on the Bulletin Board. This includes daily pipeline nominated and forecast delivery data¹⁵ and daily production and pipeline flow data.¹⁶ During the quarter, one facility operator failed on two occasions to submit firm nomination Bulletin Board data to AEMO on the relevant gas day. Further, six facility operators failed to submit daily flow Bulletin Board data to AEMO on a total of 26 occasions.

We will continue to monitor participants' compliance with the Bulletin Board requirements of the Gas Rules. In particular, we will be engaging with Bulletin Board facility operators over the next quarter to ensure they are updating their short term capacity outlook in accordance with requirements of the Gas Rules.

¹⁵ Rule 173 of the Gas Rules.

¹⁶ Rules 166 and 174 of the Gas Rules.

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.

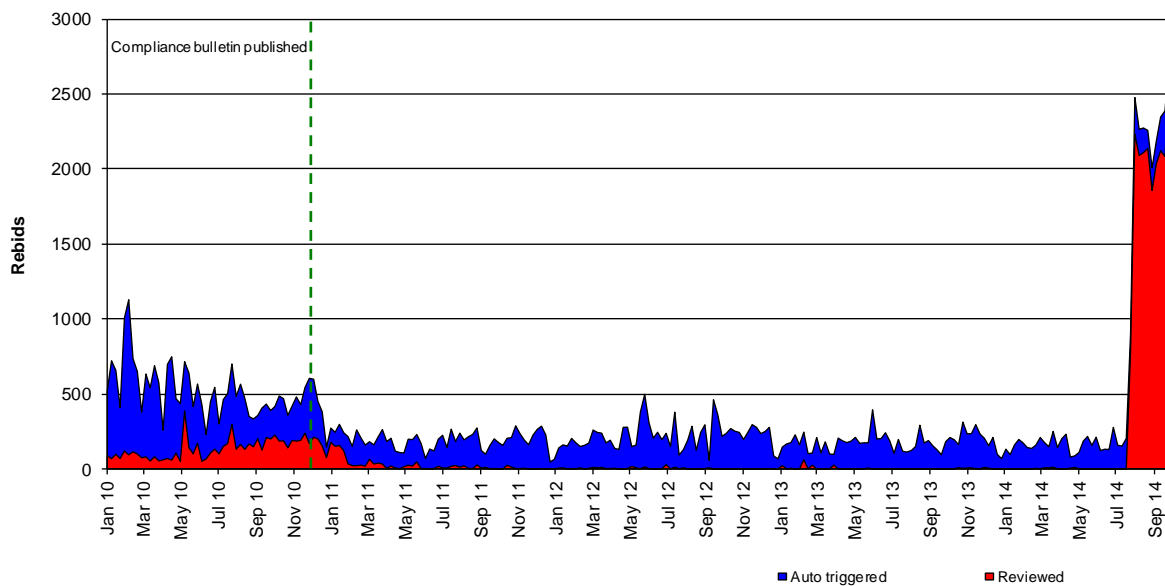
2.1 Rebidding

Scheduled generators and market participants operating in the 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.¹⁷

We adopted a new strategy in relation to enforcing generator rebidding reason requirements in late 2010.¹⁸ 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, with the exception of this quarter, the number of rebids detected by our internal compliance system has fallen markedly since 2011.

Figure 2.1 Rebids auto-triggered and reviewed per week from January 2010



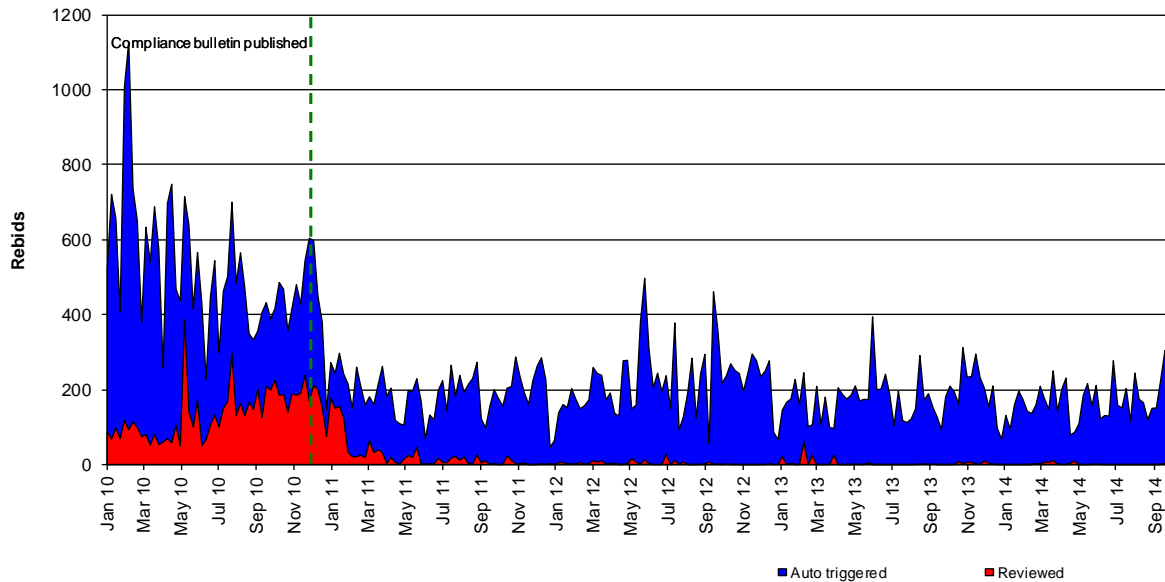
The significant increase in the number of counts of rebids that the automatic systems have triggered for review is due to the failure of an automated bidding system by one participant that submitted rebids without a time adduced. This issue was raised with the participant, who adjusted their systems.

¹⁷ 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'.

¹⁸ 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.

Figure 2.2 shows that once the number of counts related to the relevant participant's rebidding has been excluded, the remaining number of rebids detected by our automatic rebidding analysis systems is consistent with the trend which has developed since 2011.

Figure 2.2 Rebids auto-triggered and reviewed per week from January 2010 (adjusted)



There were no warnings issued during the September quarter. The AER received 11 self-reporting notices from participants regarding errors in their rebids during the quarter and two participants had their warning counts reset to zero.

2.2 Hydro Tasmania – management of dam levels

In late June 2014, Hydro Tasmania raised a potential safety issue with one of the smaller dams in its portfolio. The issue related primarily to the possibility of damage to assets if sufficient rain was received to overtop the dam wall. This was due to a significant reduction in the operation of the embedded hydro generators, which led to higher dam water levels compared to normal levels for that point of the season. With most of winter remaining, Hydro Tasmania considered there was a possibility of sufficient rain to cause water to overtop the dam wall.

While Hydro Tasmania was pursuing a range of mitigation strategies to reduce water levels, these would not prevent overtopping in the event of high rainfall. Hydro Tasmania indicated the best way to manage dam levels was to operate the relevant hydro units and export the energy to the grid. However, Hydro Tasmania did not have a direct connection to the transmission network; the hydro units were embedded units supplying a load customer in Tasmania, who held the relevant connection arrangement with TasNetworks.

This raised a number of issues under the Rules around:

- Whether a connection arrangement would remain prescribed under clause 11.6.11 if the network service provider requested a change to the arrangement, and
- Whether the units could export energy to the grid without a direct connection and contrary to the terms of the existing connection arrangement.

After extensive discussion with AEMO, TasNetworks and Hydro Tasmania, we issued letters of no action to allow dispatch of the generation into the network without a formal connection agreement, subject to a permanent solution. We continue to receive reports on the success of the water level management, developments with respect to a formal connection arrangement and overall arrangements to avoid a recurrence of similar issues.

2.3 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.¹⁹

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.

2.4 Current transformer testing

The Electricity Rules require current transformers (**CTs**) to be tested every 10 years, unless it is the subject of an asset management strategy that defines an alternative testing practice (other than time-based) which has been approved by AEMO.²⁰

In 2011, AEMO alerted the AER to a widespread failure by Responsible Persons (**RPs**) to test low voltage CTs in accordance with the Electricity Rules. In response we released a Compliance Bulletin outlining our interpretation of the Rules and our expectations that RPs comply with the testing requirements by testing a sample of their metering installations in accordance with an alternative testing practice or 10% of low voltage CTs per annum from 1 July 2012. Following a review of testing undertaken to 30 June 2013, we established that Red Energy did not complete the required testing. In response, the AER issued an infringement penalty notice to Red Energy in February 2014.²¹

In the September quarter, AEMO provided the AER with an update regarding industry low voltage CT testing levels in accordance with the asset management strategy. In particular, the update highlighted a number of RPs who had chosen, but were not meeting, the alternative testing practice prescribed for low voltage CT testing. The update did not include an assessment of RPs who have chosen to test 10% of low voltage CTs per year. AEMO will provide this information to the AER next year.

The lack of compliance presented in AEMO's report is of concern. We will, however, review AEMO's final compliance report to the AER regarding the RPs who test low voltage CTs in accordance with the alternative testing practice, which is due to the AER in early 2015, before determining what action if any is appropriate.

¹⁹ Refer to Electricity Rules clauses 9.4.3, 9.12.3 and 9.34.6.

²⁰ Clause 7.2.5(1)(d) and schedule 7.3.1(a) and 7.3.1(c) of the Electricity Rules.

²¹ Red Energy paid the infringement notice penalty on 21 March 2014.

Appendix A: Shortened forms

Shortened form	Full title
ACCC	Australian Competition & Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
BOD	Balance-of-day
Bulletin Board	Natural Gas Service Bulletin Board
CT	Current Transformer
DTS	Declared Transmission System
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
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
GSH	Gas Supply Hub
GJ	Gigajoule
MAP	Moomba to Adelaide pipeline
MOS	Market Operator Service
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
PWC	Pricewaterhouse Coopers
QCR	The AER's quarterly compliance report
QGP	Queensland Gas Pipeline
RBP	Roma-to-Brisbane Pipeline
RP	Responsible Person
SPV	Significant Price Variation
STTM	Short Term Trading Market
SWQP	South West Queensland Pipeline
TJ	Terajoules