Wholesale Markets
Quarterly Compliance Report

October – December 2011

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AUSTRALIAN ENERGY REGULATOR

Inquiries about this report should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Telephone: (03) 9290 1444
Fax: (03) 9290 1457
Email: AERInquiry@aer.gov.au

Reference: 47638-D12/12884

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Glossary

ACCC	Australian Competition & Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Bulletin Board	The Natural Gas Services Bulletin Board established under Part 18 of the Gas Rules (also known as the National Gas Market Bulletin Board)
CRS	Customer Reporting System
EGP	Eastern Gas Pipeline
Electricity Law	National Electricity Law (a 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 (a Schedule to the National Gas Act)
GMS	Gas Management System
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
GSOO	Gas Statement of Opportunities
MOS	The market operator service by which capacity (in GJ) is provided to balance pipeline deviations by increasing or decreasing the quantity of natural gas supplied to or withdrawn from a hub using an STTM pipeline.
MSP	Moomba to Sydney Pipeline
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	The National Electricity Market being the electricity wholesale exchange operated and administered by AEMO, and the national electricity system, which covers the following regions: Queensland, New South Wales, Victoria , South Australia, and Tasmania
NPV	Net Present Value
PJ	Petajoule
RBP	Roma to Brisbane Pipeline
QCR	Quarterly Compliance Report issued by the AER
QSN	Queensland-South Australia-New South Wales
RIT-T	Regulatory investment test for transmission
STTM	Short Term Trading Market established under Part 20 of the Gas Rules
SWN	System Wide Notice
SWQP	South West Queensland Pipeline
TGP	Tasmanian Gas Pipeline
TJ	Terajoule
Victorian gas market	The Victorian Declared Wholesale Gas Market established under Part 19 of the Gas Rules

Executive Summary

The Australian Energy Regulator (**AER**) is responsible for monitoring compliance and enforcement under legislation and rules governing Australia's wholesale energy markets. Section 15 of the National Electricity Law[1] (**Electricity Law**) and section 27 of the National Gas Law[2] (**Gas Law**) set out the functions and powers of the AER, which include:

- monitoring compliance by energy industry participants[3] and other persons
- investigating breaches, or possible breaches, of provisions of the legislative instruments under the AER's jurisdiction.

This Wholesale Markets Quarterly Compliance Report (**QCR**) outlines the AER's compliance monitoring and enforcement activity in the wholesale energy markets over the period 1 October 2011 to 31 December 2011 (**the December 2011 quarter**).[4]

With respect to gas, this report provides an update on reviews and investigations, market events and other compliance matters for:

- the Natural Gas Services Bulletin Board (**Bulletin Board**)
- the Victorian Declared Wholesale Gas Market (**Victorian gas market**) and
- the Short Term Trading Market (**STTM**).

This report also summarises the results of targeted compliance reviews of the National Gas Rules (**Gas Rules**) undertaken by the AER—specifically, the obligation on AEMO to publish peak demand day information on the Bulletin Board and the obligations on registered participants under the Victorian gas market rules to notify AEMO of injection and withdrawal quantities and to provide and maintain financial guarantees (prudential requirements).

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[1] As enacted under the *National Electricity (South Australia) Act 1996* (SA).

[2] As enacted under the *National Gas (South Australia) Act 2008* (SA).

[3] Entities registered by the Australian Energy Market Operator (**AEMO**) under Chapter 2 of the Electricity Rules or in accordance with Part 15A of the Gas Rules.

[4] Previous reports available at http://www.aer.gov.au/content/index.phtml/itemId/692887.

In this report, the AER reiterates the importance of participants submitting pipeline allocation and capacity data in the STTM. Following a continuation of STTM facility data issues, the AER has released a Compliance Bulletin outlining that it will take a more active approach to the use of infringement notices and Court orders/penalties in response to such issues in the future.

With respect to electricity, this report provides an update on completed investigations and compliance matters relating to the National Electricity Rules (**Electricity Rules**). Specifically this report covers:

- the quality of information related to rebidding by generators
- a recently released compliance bulletin relating to instrument transformer testing
- the AER's advice on the validity of an Electricity Rules derogation
- information on technical audits to be undertaken in 2012
- compliance reporting from participants derogated under Chapter 9 of the Electricity Rules.

The AER has previously introduced five 'special projects' to address compliance issues in the wholesale gas and electricity markets. These projects were undertaken throughout 2011—one in gas and four in electricity. This QCR summarises the results of each of these projects, including an indication of whether each was successful when measured against the relevant metric.

Of particular note was the project concerning life support equipment. An audit carried out by the AER revealed that a number of businesses did not conduct the prescribed reconciliation process to ensure that customers' life support statuses are appropriately reflected in their systems. After contacting these businesses, the AER was informed that they had each taken corrective action and that the reconciliation process is now in place.

This QCR also introduces four projects for 2012—two in gas and two in electricity. In one project, the AER, recognising the difficulty in enforcing the Electricity Rules connections regime, will explore alternative methods to improve generator connections outcomes.

1 Introduction

The AER undertakes compliance monitoring and enforcement activities in the wholesale energy markets pursuant to the Electricity Law and Rules and the Gas Law and Rules.

Consistent with its statement of approach,[5] the AER aims to promote high levels of compliance, and seeks to build a culture of compliance in the wholesale energy industry. A culture of compliance will:

- reduce the risk of industry participants breaching their regulatory obligations
- ensure industry participants can engage confidently in commercial decisions and negotiations.

The compliance systems of a business will be taken into account in the event of a breach.

As part of this process, the AER undertakes a continuous compliance risk assessment of the Electricity Rules and Gas Rules to identify appropriate focus areas and monitoring mechanisms. These mechanisms include audits, targeted compliance reviews, market monitoring, and the imposition of reporting requirements.

In selecting the areas for review, the AER adopts 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 its monitoring functions, the AER aims for:

- consistency over time
- cost effectiveness for energy industry participants and the AER
- transparency (subject to confidentiality requirements).

[5] Available at http://www.aer.gov.au/content/index.phtml/itemId/685897/fromItemId/656069

While most obligations under the Electricity Rules and Gas Rules do not require registered participants to establish specific compliance programs, the AER takes into account a participant's compliance framework when determining its response to breaches. In assessing a compliance culture, the AER considers whether compliance programs and processes are effectively applied, up-to-date and tested regularly.

The AER welcomes comments and feedback from industry participants and other parties on matters of compliance, including the specific areas targeted, or proposed to be targeted, for review.

2 Gas

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

2.1 Investigations, market events and compliance issues

This part of the report provides an update on several gas markets matters, including:

- reviews and completed investigations
- market events
- other compliance matters and issues, including the release of the first compliance bulletin relating to the STTM (see section 2.1.3.1 below).

2.1.1 Bulletin Board

Part 18 of the Gas Rules sets out participant's responsibilities regarding the Bulletin Board. These obligations aim to facilitate greater transparency in gas production and gas pipeline conditions to assist trade within and between Australian gas markets. The obligations also require participants to identify and report any potential conditions where curtailment of gas use might be necessary. The AER monitors the quality and timeliness of information posted on the Bulletin Board.

2.1.1.1 Actual daily production and pipeline flow data

Participants submit daily production and pipeline flow data as required by gas rules 166 and 174, respectively.[6]

During the quarter there was one occasion of note where Bulletin Board data was submitted incorrectly. This concerned missing data for the Lang Lang facility for 7 December. AEMO advised Origin Energy (**Origin**) via email on 14 December 2011 that the data was missing and asked for it to be updated. The AER contacted Origin in January 2012 and was informed that Origin was unaware of the error as AEMO's email had been sent to a generic email account. Origin has provided AEMO with an

[6] Rule 169 also includes an obligation on storage providers to provide daily flow data.

updated email address and expressed to the AER its preference for urgent issues to be communicated by telephone. Origin is working to identify the reason for the incorrect data submission and in the meantime will carry out additional cross-checking to minimise the risk or reoccurrence.

AER assessment

The AER will continue to monitor the Bulletin Board to ensure that accurate data and information is provided in accordance with the requirements under part 18 of the Gas Rules. It will consider enforcement action where appropriate.

2.1.1.2 Red flag on the Roma Brisbane pipeline—October 2011

On 16 October, APA Group revised its line pack capacity adequacy flag for the Roma to Brisbane Pipeline to 'red' on the Bulletin Board. This reflected that while nominations on the pipeline were for 188 TJ, capacity was only 177 TJ meaning a small amount of gas had to be curtailed (curtailment continued until 25 October).

APA informed the AER that pipeline damage caused by landslide activity (as a result of heavy rain) had reduced pipeline pressures and consumption to below consumer load levels. As a result, APA undertook contractual shedding and some gas shippers did not receive their full customer load requirements. APA advised that it would investigate the damage and conduct necessary repair work to return the pipeline to its full capacity as soon as possible. Following corrective work, APA was able to restore capacity to 219 TJ and update its flag for the pipeline back to 'green' for the 25 October gas day.

During this period, in accordance with Bulletin Board requirements, APA updated LCA flags and kept users informed of the event. Information posted on the Bulletin Board about operational restrictions and an estimated completion date for repair work assisted interested parties to understand the impact and duration of the event. The information provided by APA in this instance represents an improvement on the information provided on previous occasions where there have been LCA flag events.[7]

[7] See September 2010 QCR, www.aer.gov.au

2.1.2 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.

2.1.2.1 Compliance with scheduling instructions

The AER continued its review of market participant compliance with scheduling instructions.

Gas rule 216(1) states that, subject to subrules (2) and (4), if AEMO issues a scheduling instruction in respect of a bid, the market participant who submitted the bid must comply with the scheduling instruction in all material respects.

In the previous quarter, the AER identified three instances where nominated injection quantities at the Longford injection point were different to scheduled quantities on the gas day. During this quarter, AEMO instituted a new process to deal with this issue. This process dictates that on a gas day, if AEMO:

- identifies that total confirmed quantities for delivery at system points are different to total scheduled quantities and
- is informed that the confirmed amount is what has been nominated by shippers contractually at the system point[8]

then AEMO will ask all market participants at the system point to confirm nominations via a system wide notice.

Since introducing this policy, each notice issued by AEMO has resulted in market participants re-nominating such that total nominations have matched scheduled gas at the system point in the following schedule. AEMO will continue this process until the mismatch between scheduled and nominated gas reduces.

[8] AEMO, Gas Winter Operations Strategy. http://www.aemo.com.au/vicwholesalegas/vicscheduling.html. The strategy sets out further measures that AEMO will take if in responses to the SWN, renominations do not occur such that the schedule is matched. These haven't had to be used to date.

The AER reiterates that conforming with AEMO scheduling instructions is a crucial aspect of market operations, both to ensure the efficiency of the market and to protect the integrity of the declared transmission system. The AER will continue to monitor this issue and review the impact on market operations. It will pursue market participants if schedules are not conformed with.

2.1.3 Short Term Trading Market

Part 20 of the Gas Rules sets out participants' responsibilities within the STTM which now encompasses three gas trading hubs: Adelaide, Brisbane and Sydney. The rules outline how wholesale gas is traded and include requirements for pipeline operators to submit pipeline capacity and allocation (gas flow) data in their role as STTM facility operators/allocation agents. The Brisbane STTM hub commenced operations on 1 December 2011. Information about the operation of the Brisbane STTM has been incorporated into the AER's weekly gas report which is available on the AER website.[9]

This part of the report covers the following STTM matters:

- the AER's first compliance bulletin for the STTM concerning STTM facility data
- the AER's audit of APA
- STTM facility capacity and allocation data
- AEMO system issues.

2.1.3.1 Compliance Bulletin Number 7—STTM facility information and data

The AER published a compliance bulletin for the STTM on 9 December.[10] This bulletin was in response to a continuation of STTM facility data issues and placed STTM facility operators/allocation agents on notice that the AER will take a more active approach to the use of infringement notices and Court orders/penalties if late and/or incorrect data continued to be provided to AEMO. The bulletin summarised 24 instances of data issues since the STTM commenced on 1 September 2010.

[9] See http://www.aer.gov.au/content/index.phtml?itemId=729309.

[10] http://www.aer.gov.au/content/index.phtml/itemId/692887

The bulletin was sent to the four major STTM pipeline operators with a covering letter. These letters noted the impact of failures on ex ante and ex post prices and the administrative burdens associated with the need to correct data and the delayed publication of prices. The AER stressed that continued failures could harm confidence in the market and discourage new entry.

2.1.3.2 Audit of APA

In November, the AER commenced the first of a series of audits related to the STTM. The AER sent a questionnaire to APA in its capacity as an STTM facility operator (pipeline operator and allocation agent) for the Moomba to Sydney Pipeline. This questionnaire seeks to understand APA's compliance with information and data requirements under part 20 of Gas Rules.

The AER received a response detailing APA's organisational approach to achieving compliance with each of the part 20 requirements including capacity and allocation data requirements. APA provided the AER with the business policies and processes it considered relevant to achieving compliance.

The AER is in the process of reviewing this response and will soon visit APA's facilities to examine its systems first hand and to discuss its questionnaire response. Other facility operators will be reviewed during 2012.

2.1.3.3 STTM facility capacity and allocation data

The AER identified the following instances of non-compliant facility capacity and allocation data this quarter.

AGL—8 September 2011 and 1 October 2011 (capacity data)

Details of these incidents were reported in the September 2011 QCR. AGL has since notified the AER that system modifications have been made to resolve an issue with incorrect capacity data figures being submitted to the Sydney STTM for the Rosalind Park Facility. It indicated that this change should prevent a recurrence of incorrect data being submitted. Additionally, AGL has strengthened a fall-back measure to prevent incorrect data being submitted by updating internal procedures to reinforce the need for manual verification by traders. As a further fallback measure, AGL has

also revised its lower and upper capacity warnings to narrow the range of capacity volume which can be submitted to AEMO. These changes increase the likelihood that erroneous data will be detected before being submitted.

Epic Energy—Since STTM commencement (identified on 28 October 2011)

On 28 October, Epic Energy (Epic) notified the AER that it had discovered significant data issues with facility allocation data submitted for the Moomba to Adelaide Pipeline (**MAP**) involving the incorrect calculation of allocation data on days of scheduled backhaul. These errors had occurred from STTM commencement (1 September 2010) to 24 October 2011.

Once the problem was identified, Epic immediately ceased offering backhaul on MAP until the error could be fixed.

Epic has subsequently explained that there was an error in its formula for calculating allocations to the Adelaide Metro Delivery Point, such that quantities of backhauled gas had not been taken into account when calculating quantities of gas delivered to the STTM hub (i.e. forward haul allocations). Accordingly, on days when backhaul gas had been used, Epic had under-allocated the quantity of gas which had been delivered to the hub, affecting MOS allocations.

In a report presented at the December 2011 STTM consultative forum, AEMO indicated that the formula error had impacted on 90 gas days with estimated gross impact on payments and charges of $1.35 million. At the same forum, Epic reported that on 6 of the 90 gas days, it had discovered a further issue with the facility allocation information provided to AEMO relating to how it had allocated decrease MOS to from-the-hub services.

AEMO has informed the AER that Epic has now submitted corrected data for all 90 gas days. AEMO has now begun the processes of issuing revised settlement statements based on this corrected data. The administrative burden to accurately re-calculate financial outcomes for the months affected is significant. Furthermore, the impact of the data error cannot be revised in terms of the impact on the ex post price, and the financial positions that participants had taken as a response to these incorrect prices can not be changed.

The AER has confirmed with the other pipeline operators that the issue Epic has identified does not exist across the other pipelines. The AER has also written to Epic seeking more information as to how the errors occurred. These inquiries are continuing.

Jemena EGP—5 November 2011

Jemena submitted revised allocation data for the 5 November gas day at 2:27pm on 6 November. This revised data was a correction of data submitted prior to the cut-off time of 9:30am. The data was corrected to account for a technical issue affecting the data which was caused by a SCADA[11] system time clock. Shortly after the event, Jemena notified the AER that it was undertaking a full investigation and would increase its monitoring and verification of the SCADA time clock until the cause of the fault was rectified.

Jemena has subsequently outlined to the AER the measures it has taken to prevent a recurrence of these incidents, including instituting control room alarms and communicating the issue with its pipeline team and management.

Epic—16 November 2011 (capacity data)

Epic submitted its capacity data one minute after the cut-off time of 9.30am. The ex ante price was unaffected since the data was received in time for the calculation at 11am. In this instance, Epic submitted the data file late because of a problem with its data file transfer system which disabled transmission of the file.

AEMO released an event report for this day which discusses the issue and the mechanisms that Epic has put in place to limit the likelihood of a recurrence, by removing the cause of the problem and by bringing forward the window for generation of the data file (in case of future lock ups).[12]

[11] SCADA is an acronym for Supervisory Control and Data Acquisition.

[12] See http://www.aemo.com.au/STTM/sttmnotices.html.

Jemena Eastern Gas Pipeline—19 November 2011 (allocation data) and 21 November (capacity data)

Jemena did not submit STTM facility allocation data on 20 November by the cut-off time of 11am, however, as an interim solution, it submitted information by 2pm using a third party service provider. The ex post price for 19 November was not affected because the data was submitted before the 3pm calculation of an ex post imbalance price.

In addition, Jemena did not submit capacity data for 21 November for the Eastern Gas Pipeline **(EGP)** by the cut-off time of 9.30am or in time for the 11am calculation of the ex ante price. However, Jemena noted that because the actual capacity and the default capacity used for the EGP in this case were the same, the ex ante price was unaffected.

Jemena informed the AER that these data errors were the result of faulty IT hardware with ineffective redundancy. Jemena outlined that it experienced a connectivity issue early on 20 November. When the connection was switched to a back up link, the link was found to be inactive. Jemena then experienced delays in acquiring a hardware replacement for the connection device.

Shortly after the event, Jemena outlined to the AER a number of actions it is taking to prevent a recurrence, including: an investigation into the ineffective redundancy; communicating the issue within its pipelines team and management to increase awareness of the potential risks; and having replacement parts on hand. It has also rolled out ongoing STTM training with key personnel and IT staff.

APA—28 and 29 November Moomba to Sydney Pipeline data not passing validation tests (capacity data)

On 28 and 29 November, AEMO systems identified that APA's Moomba to Sydney Pipeline (**MAP**) data values were outside thresholds set for validation purposes. This is the first time this validation process has been used since it was introduced in mid 2011 as a safeguard against potentially incorrect capacity data being submitted.

An AEMO report relating to this event identified that the process worked as

expected.[13] The capacity data submitted by APA was an accurate representation of its daily capacity which was reduced to account for maintenance work on the MSP. A breakdown in communicating the reduced capacity to AEMO (involving both APA and AEMO), meant that the reduction was not recorded and the process acted correctly to identify that the amount of available capacity submitted (205 TJ) was below the lower warning threshold (227.5 TJ). APA was able to confirm that the submitted amounts were correct so they were used in the calculation of the ex ante price.

No compliance issues arose as a result of these validations. However, the validation process being correctly triggered gives confidence that the process will pick up any data which is submitted outside thresholds in the future.

AEMO—December 8 (allocation data system issue)

AEMO identified a system issue which affected the determination of ex post prices and occurred due to the different data submission deadlines of the Sydney and Adelaide STTM hubs (which require allocation data by 11am) and the Brisbane hub (which requires allocation data by 12:30pm). The issue occurred when AEMO used default allocation data for the Brisbane hub before the Roma to Brisbane Pipeline allocation data deadline. That is, AEMO systems incorrectly checked for valid data at 11am for the Brisbane hub, when this should only have been done for the Sydney and Adelaide hubs.

AEMO has published a report which outlines two system errors associated with this issue and how they will be addressed.[14] A system fix was implemented on 22 December and is intended to prevent Brisbane allocation data being checked until after 12:30pm.

APA—31 December 2011 (allocation data)

APA did not submit allocation data for the Roma to Brisbane Pipeline for the 31 December gas day prior to the Brisbane hub cut-off time of 12:30pm. APA was then unable to submit the allocation data in time for the 4.30pm calculation of the

[13] See http://www.aemo.com.au/STTM/sttmnotices.html.

[14] See http://www.aemo.com.au/STTM/sttmnotices.html

ex post price for the Brisbane hub because of a defect in AEMO's systems.

APA has informed the AER that it experienced an issue with its primary server and decided at 12:10pm to publish data from a back up system. The publication from the back up system was delayed by two separate IT communication issues.

APA is taking the following actions in response to these issues:

- reviewing the effectiveness of its communication contracts
- raising the issue with the software vendor
- introducing an 11.30am cut-off for making the decision to publish from back up system to allow more time to complete this process and
- reviewing this incident with AEMO.

AEMO has reviewed the data acceptance issue which prevented APA's allocation data from being accepted between the 12:30pm cut-off time and the 4:30pm ex post price publication time. AEMO is working on a temporary system fix to address this issue. A more permanent fix will be made towards the end of the year as part of more comprehensive IT system changes.

AER Assessment

In the September 2011 quarter the AER identified and assessed four compliance matters with respect to facility operators. This quarter, the AER identified seven incidents of late or incorrect STTM facility capacity or allocation data, one of which has affected STTM data on 90 days between 23 November 2010 and 24 October 2011.

The AER reiterates that pipeline allocation and capacity data plays a crucial role in the STTM. 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. The AER's December 2011 compliance bulletin foreshadows that it will be more likely to issue infringement notices and/or institute Court proceedings in response to STTM

facility data breaches. The AER is continuing to investigate many of the errors referred to in this QCR.

2.2 Targeted compliance reviews

Targeted compliance reviews are an important part of the AER's compliance monitoring program. The reviews explore participants' compliance practices and aim to improve stakeholder understanding of obligations with which they are required to comply. Table 1 lists the gas provisions targeted in the December 2011 quarter.[15]

Table 1: Gas Rules provisions targeted for review

Rule	Relevant parties (subject to the current review)	Obligation
180	AEMO	Obligation to publish peak demand day information
219	TRUenergy, SEAGas and Esso Australia	Obligation for Victorian Gas Market participants to notify AEMO of injection and withdrawal quantities.
254	Australian Power and Gas, Lumo Energy and Simply Energy	Obligation for Victorian Gas Market participants to provide and maintain security (prudential requirements).

2.2.1 Obligation to estimate and publish peak demand day information

Gas rule 180 requires AEMO, in consultation with authorised representatives in each participating jurisdiction, to make reasonable endeavours to estimate and then publish the following information on the Bulletin Board on an annual basis:

- the total forecast demand for natural gas (in terajoules) on the peak demand day in the period from May to September for each demand zone
- the total forecast demand for natural gas (in terajoules) on the peak demand day in the period from November to March for each demand zone.

A failure to publish the relevant information could reduce transparency in the market. It could also negatively impact stakeholder confidence in the Bulletin Board and reduce the overall benefit of the Bulletin Board.

[15] Appendix A of this report lists all provisions targeted over the last four quarters.

Response summary

The AER requested information from AEMO on the processes it uses to transform information gained through consultation into estimates of the total forecast demand for natural gas on the peak demand day for the May to September and November to March periods for each demand zone.

AEMO advised that the Bulletin Board gas peak demand day forecasts are prepared using three key inputs: the Gas Statement of Opportunities (**GSOO**) peak demand day forecasts, historical daily Bulletin Board pipeline flow data and previous Bulletin Board peak demand day forecasts.

AEMO indicated that its process for creating the seasonal Bulletin Board gas peak demand day forecasts for each major pipeline in the Eastern and South Eastern Interconnected Gas System involves:

- separation of Bulletin Board pipeline flow data into gas consumption occurring at major demand hubs and consumption that occurs along the pipeline between supply and demand hubs
- creating separate GSOO peak demand day forecasts for customers who are supplied off pipeline hubs and customers within a demand hub
- creating peak demand day pipeline forecasts for the Bulletin Board, which assumes injection into the pipeline will supply the peak gas demand from lateral customers and the peak demand from the entire demand hub.

Review outcomes

Based on this response, the AER is satisfied that AEMO has sufficient processes in place to publish gas peak demand day forecasts on the Bulletin Board.

2.2.2 Obligation to notify AEMO of injection and withdrawal quantities

Gas rule 219 requires participants in the Victorian Gas Market who are registered as a Producer, Storage Provider or an interconnected transmission pipeline service provider to notify AEMO, as soon as possible, of the total quantity of gas that it intends to inject into and withdraw. The rule also states that if there is a material change to a quantity of gas previously notified to AEMO, then the participant must

promptly notify AEMO of the change.

A failure to meet this requirement or to update this information as required may lead to inaccurate schedules.

Response summary

The AER requested information from Esso Australia, SEAgas and TRUenergy Gas Storage. Each of these participants was asked to provide:

- details of the systems and processes used to ensure that it notifies AEMO of any gas injection and withdrawal quantities for itself and on behalf of other market participants within the required timeframe

- details of the systems and processes used to ensure that it promptly notifies AEMO of any material changes to previously notified gas quantities with an explanation of what it would consider to be a 'material change' in this context and how such a change is detected in its systems.

Esso Australia advised that when it receives gas injection nominations from market participants, its automated nomination systems issue a notice to its operations staff, who in turn notify AEMO of the intended gas injection quantities. It also advised that any changes in volume of nominated gas injection quantities are promptly communicated to AEMO.

Similarly, SEAgas confirms the quantities for daily injections to AEMO. It advised that it does not differentiate between 'material' and 'non-material' changes and as such, all flow changes are notified to AEMO when they occur.

TRUenergy Gas Storage indicated that the procedure it has in place for managing gas nominations into the South West Pipeline includes specific processes for confirming nominations. TRUenergy Gas Storage's response stated its preference that AEMO send a schedule confirmation request at every schedule, even where there has been no change from the previous schedule.

Review outcomes

Responses from these businesses indicate that they have well established processes for

notifying AEMO of withdrawals and injections of gas quantities. All participants indicated awareness of the requirements and demonstrated a process to inform AEMO of nominations and changes to nominations.

2.2.3 Obligation to provide and maintain financial guarantees (prudential requirements)

Gas rule 254 contains prudential requirements and places an obligation on market participants to provide and maintain security. Failure to comply with this rule could affect the financial security of the market, especially if non-compliance was widespread.

Response summary

The AER requested information from Australian Power and Gas (**APG**), Lumo Energy and Simply Energy. Each of these participants was asked to provide:

- the details of the systems and processes used to ensure it complies with all relevant requirements relating to security deposits. In particular, the systems in place to ensure that the amount undrawn or unclaimed under the security held by AEMO on its behalf never falls below its minimum allowable exposure.

APG advised that it maintains a bank guarantee to cover its minimum exposure as determined by AEMO. The Settlements team at APG undertakes a number of daily measures, such as:

- acquiring market data from the Bulletin Board to determine APG's market exposure
- determining APG's prudential position by comparing its daily market exposure to its trading limits
- determining whether any action is required based on APG's prudential position.

Similarly, Simply Energy provides bank guarantees to AEMO to cover its minimum exposure. Upon receiving advice from AEMO every three months about the level of its minimum exposure in each wholesale gas market, Simply Energy (through its parent company, International Power) forecasts its likely withdrawals from each market to assess the level of security that is needed.

Simply Energy also indicated that it has put in place a monthly process to review bank guarantees held by AEMO to ensure that it complies with the gas rules 254 to 264. Due to a large number of margin calls received from AEMO in 2011, Simply Energy recently instituted a review of its forecasting processes to manage its withdrawals more accurately. It is of the view that this will improve its management of its overall position during winter peak seasons, resulting in more accurately calculated bank guarantees to cover its minimum requirements and also minimise future margin calls. In addition, Simply Energy advised that it is reviewing its systems for responding to margin calls.

To ensure compliance with rule 254, Lumo Energy advised that it undertakes liquidity reporting, forward projections and monitors its supply and demand positions. It uses a risk policy framework to govern its spot market trading activities. Unusual market events are reported to Lumo Finance who react to any financing requirements. Lumo Energy advised that historically, it has been a net recipient from AEMO for gas sales and therefore, monitoring has generally indicated a nil payable amount to AEMO for gas supply.

Similar to Simply Energy and APG, Lumo Energy provides bank guarantees to AEMO which are set at a level that is enough to meet expected supply requirements. Lumo Energy also outlined its funding access and processes for funding settlement.

Review outcomes

APG, Simply Energy and Lumo Energy all appear to have instituted sufficient processes to ensure that they provide and maintain security with AEMO. The AER considers that the processes these businesses have put in place to monitor their supply and demand positions and undertake forward projections assist in maintaining financial security in the market.

2.2.4 Upcoming targeted compliance reviews

The AER will continue to target provisions under the Gas Rules as part of its ongoing compliance review process. The AER intends to target rule 336 in the upcoming

quarter.[16] This rule contains obligations relating to emergency procedures awareness.

A list of all provisions targeted over the last four quarters is provided in appendix A.

[16] The AER will endeavour to give, via its quarterly compliance reports, advanced notice of forthcoming targeted compliance reviews. This information is indicative only and the listed provisions may not be targeted subject to prevailing operational requirements and other industry events. The AER will also target other provisions by using other compliance and enforcement mechanisms, as required.

3 Electricity

The AER is responsible for monitoring, investigating and enforcing compliance with the national electricity arrangements under the Electricity Law and Rules.

3.1 Investigations, market events and compliance issues

This part of the report provides an update on reviews, investigations[17] and compliance matters in the electricity market.

3.1.1 Rebidding

The AER has continued to monitor generator rebidding reasons as part of its 2011 special project. See section 4.1.5 for more details.

3.1.2 Transformer Testing Compliance bulletin

The AER released a compliance bulletin on instrument transformer testing on 6 December 2011. The bulletin sets out the AER's expectations in regard to instrument transformer testing as required by the Electricity Rules.

The bulletin was published in response to the AER becoming aware of a systemic failure by industry to test instrument transformers in accordance with the Electricity Rules. Industry has formed a Current Transformer Testing working group (**CTTWG**) in conjunction with AEMO to identify and develop an acceptable sample testing approach consistent with the AER's expectations.

The AER will closely monitor progress of the CTTWG and work with AEMO to ensure an acceptable level of testing is conducted over the coming year.

The bulletin is available on the AER's website.[18]

[17] Published investigation reports are available on the AER website at http://www.aer.gov.au/content/index.phtml/itemId/656186.

[18] See http://www.aer.gov.au/content/index.phtml?itemId=692887.

3.1.3 Derogation under National Electricity rule 9.9B relating to Responsible Persons for Metering Installations

In August 2011, a number of Local Network Service Providers (**LNSPs**) and electricity retailers in Victoria sought clarification from the AER on whether the derogation set out by rule 9.9B of the Electricity Rules had expired.

Rule 9.9B provides that in Victoria, the Responsible Person (**RP**) for relevant metering installations is the LNSP.[19] It also states that the derogation will expire on the earlier of:

a. 31 December 2013; and

b. the commencement under the National Electricity Law of amendments to the Rules that:

    1. facilitate the rollout of smart meters, advanced metering or similar metering installations of at least the equivalent scope and purpose of the AMI rollout; and

    2. provide for an orderly transfer of the regulation of relevant metering installations under this rule 9.9B to the regulation of metering installations under the Rules.

After examining the matter, the AER informed the relevant parties that the conditions for the expiry of the derogation in rule 9.9B have not been met. This view is based on:

- The expiry conditions in rule 9.9B.2(b) are only satisfied if the relevant amendments to the Electricity Law and Rules are applied in Victoria.[20] This is currently not the case as section 16B of the *National Electricity (Victoria) Act*

[19] A relevant metering installation is defined as a metering installation for a connection point located in Victoria (other than type 1 or type 2) in respect of which volume consumption of the customer is less than 160MWh per annum of energy and which:

a) is installed on or after 1 July 2009, unless the market participant is the RP for the metering installation which has been installed in accordance with the ordinary replacement cycle of the market participant; or

b) was installed before 1 July 2009, unless the market participant was the RP for the metering installation at 1 July 2009, and the metering installation is not located at a high voltage point.

[20] The Electricity Law is defined in chapter 10 of the Rules as the law 'set out in the schedule to the *National Electricity (South Australia) Act 1996 (SA)* and applied in each of the participating jurisdictions.'

2005 (Vic) displaces the application of Part 8A of the Electricity Law in Victoria and rules made under it, such as rule 11.36.

- Even on an alternative view, namely that rule 9.9B.2(b) does not require that the necessary amendments to the Electricity Rules under the Electricity Law be applied in Victoria, the conditions in sub-paragraphs (1) and (2) of 9.9B.2(b) are still not satisfied because:

    - There have not been amendments to the Rules that facilitate the rollout of smart meters of at least the equivalent scope and purpose of the AMI rollout in Victoria. Rule 11.36 simply provides that the distributor is the RP for providing smart meters if a determination under Part 8A of the Electricity Law is made. Rule 11.36 on its own does not provide for the rollout of smart meters nor does it specify the terms and conditions for any such rollout.

    - The Electricity Rules have not yet been amended to transfer the regulation of relevant metering installations in Victoria to the regulation of metering installations under the Rules for the purposes of Rule 9.9B. The regulation of relevant metering installations in Victoria continues to be governed by the AMI Order in Council.

- Finally, the Ministerial Council on Energy's Explanatory Note for the Smart Meter Transitional Rule[21] (that is, rule 11.36) specifically states that the rule is not intended to trigger the condition in 9.9B.2(b)(2) and that the Victorian derogation in Rule 9.9B will continue to apply when rule 11.36 is made.

Therefore, it remains that the LNSP is the only person who can be the RP for a relevant metering installation in Victoria (as defined by rule 9.9B.1).

3.2 Technical Audits

Auditing is one mechanism used by the AER to verify and assess compliance by registered participants with their obligations. The audits aim to ensure participants

[21] See http://www.mce.gov.au/emr/smart_meters/default.html. In the Explanatory Note, what is now rule 11.36 is referred to as the 'proposed rule 11.28.'

have robust and effective compliance programs in place that are consistent with good energy industry practice.[22]

The AER has established a program of regular technical compliance audits which targets electricity generators and network service providers on a rotating basis. These audits generally focus on the Electricity Rules clause 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.

The generator compliance program must:

- be consistent with the template for generator compliance programs
- include procedures and processes 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.

The AER has carried out a number of technical audits in 2011 (a summary of the audit findings was contained in the September 2011 QCR. Technical Audits will continue in 2012, with a focus on South Australia.

3.3 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.[23]

The relevant participants must give notice to the AER of any act or omission which

[22] For a discussion on good energy industry practice, see page 27 of AER Quarterly Compliance Report January–March 2011 (available at http://www.aer.gov.au/content/index.phtml/itemId/692887).

[23] Refer to 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) of the Electricity Rules.

partly or wholly constitutes non-compliance with the Electricity Rules. No instances of non-compliance were reported in the December 2011 quarter.

4 Special projects

The AER has carried out five special projects during 2011, one in gas and four in electricity. These projects seek to address specific concerns in the wholesale gas and electricity markets using a variety of techniques, with metrics to measure the success of the projects.

The AER will be continuing one of these projects in 2012 as well as commencing three new projects (see section 4.2).

4.1 2011 special project conclusions

Below is a conclusion for each of the 2011 projects, including an indication of whether each was successful when measured against the relevant metric.

4.1.1 STTM data quality

One of the 2011 special projects focussed on improving data quality in the STTM. The aim of the project was to reduce the amount of missing, late or erroneous data by participants in the STTM. Failure to provide timely, quality information to the STTM can lead to inefficient pricing and adverse market outcomes.

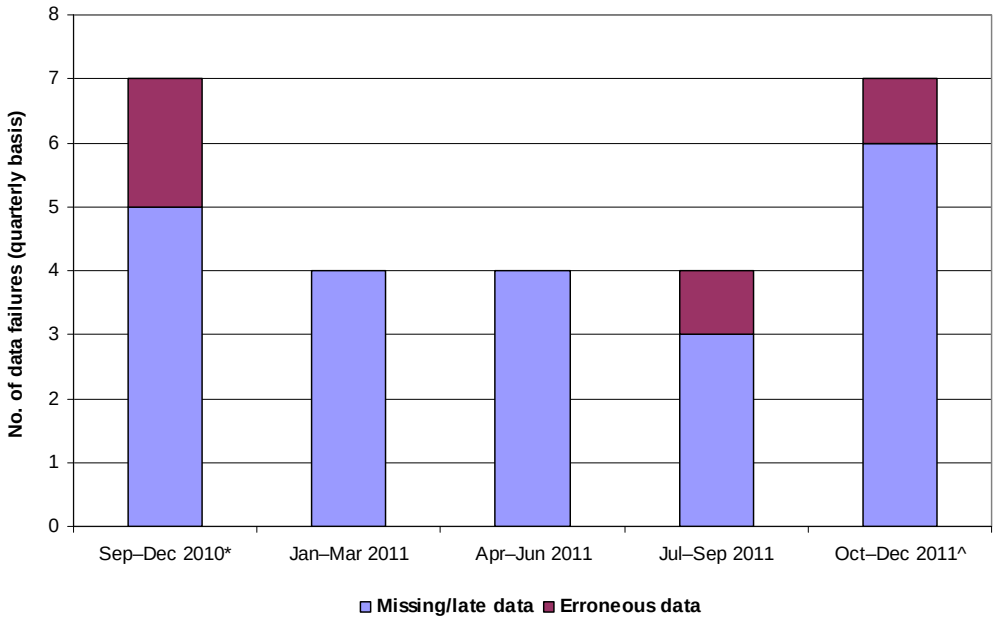
The AER took a variety of actions during 2011, including:

- Meeting with Chief Executives and Regulatory Managers of the four major STTM pipeline operators in February 2011 to explain their responsibilities
- Following up all data failures and reporting on each failure
- Seeking commitments from industry participants to improve processes
- Commencing audits

The metric used to measure the effectiveness of the project was a quarterly count of data failures that were categorised as either ‘missing/late’ or ‘erroneous’. Each incident is categorised as either ‘missing/late’ or ‘erroneous’. Figure 1 provides an indication of the STTM facility operators’ performance based on the metric by comparing data failures on a quarterly basis since the STTM start on

1 September 2010. This figure shows the distribution of those errors across STTM pipeline operators and highlights the number of errors which lead to significant price events.

Figure 1: Data failures since STTM commencement



Of these events, three had significant effect on price. A significant effect on price occurs where the AER considers that the error has caused the ex ante or ex post price to be more than $2/GJ different to what it would have been had no error occurred.

Figure 1 shows a reduction in the number of data errors occurred after the AER met with the Chief Executives and Regulatory Managers of the major pipeline operators in February 2011. However, the AER is highly concerned that there has been an increase in the number of errors this quarter and that the reductions in the number of data errors in other quarters did not represent the degree of compliance expected by the AER and the industry.

Having observed that the number of data errors was continuing (and indeed increasing), in December 2011, the AER released a compliance bulletin that announced a targeted compliance strategy whereby it will consider issuing infringement notices with associated penalties and/or seek Court based orders and sanctions if the AER believes that a participant has failed to provide STTM facility data consistent with the Gas Rules.

This special project was not successful in 2011, although the AER hopes that its actions have contributed to the number of failures being less than they might otherwise have been. Due to continuing concerns in relation to compliance, the AER will continue its special project to improve data quality in the STTM in 2012 and report on data failure counts each quarter (see section 4.2.1). The AER hopes that the new approach to enforcement detailed in the December compliance bulletin, and the continued roll-out of audits, will improve performance against the metric over 2012.

4.1.2 Electricity metering data quality

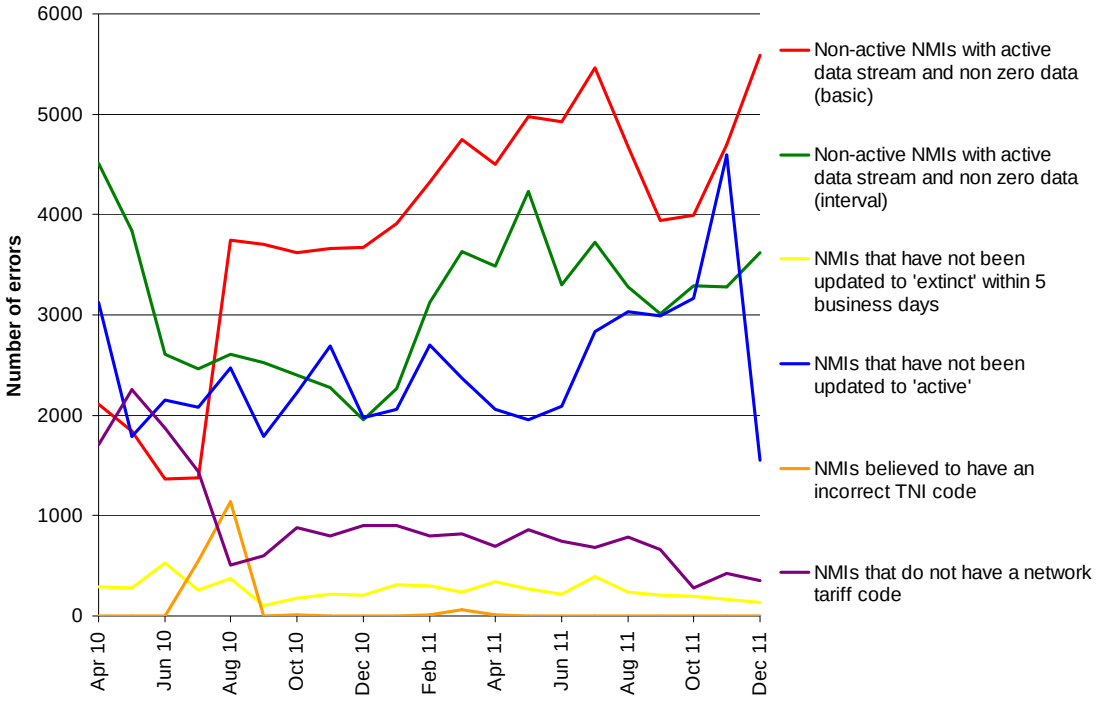
In December 2010, the AER announced a special project relating to compliance with the Market settlement and transfer solution (**MSATS**) procedures with the aim of reducing inefficiencies in the customer transfer and settlement processes.

AEMO's MSATS system facilitates customer transfers and market settlements. The MSATS procedures establish the information which must be provided by retailers, service providers (including distributors and metering providers) and AEMO for the MSATS system. Compliance with the MSATS procedures is required by clause 7.2.8 of the Electricity Rules and is a civil penalty provision.

In June 2011, the AER targeted a number of Local Network Service Providers (**LNSPs**) who appeared to demonstrate poor levels of compliance with some indicators in the MSATS procedures. As a result, the LNSPs improved their compliance with the relevant indicators.

However, the AER is of the view that there still needs to be a significant improvement in the level of participant compliance with the MSATS procedures. Figure 2 below shows the number of errors against a selection of MSATS indicators that LNSPs have recorded since March 2010. The figure shows that while there has been a reduction in the number of errors for certain types of data (e.g. ensuring that each National Metering Identifier (**NMI**) has a network tariff code, which has implications for retailers billing customers), there has been little improvement in the general level of compliance with other important indicators. For instance, there have been increases in the number of errors where non active NMIs have an active data stream, which can cause system inefficiencies.

Figure 2: Errors against a selection of MSATS indicators



On the basis of the AER's continuing concerns, it will continue to monitor performance and target compliance with the MSATS procedures in 2012. In particular, in AER will track the number of each of the 6 key errors (shown in figure 2 above) and report them in each of the 2012 QCRs. The AER considers that this will assist in continuing to reduce inefficiencies in the market and ensure that settlement in the market is not affected by these types of errors.

4.1.3 Customer site details notification process – life support equipment

In the middle of 2011, the AER commenced an additional special project focussing on certain obligations relating to customers on life support equipment.

The business to business (**B2B**) procedures contain processes and information provisions which support communication between retailers and distributors. The Customer site details notification (**CSDN**) process is one of the six B2B procedures. It defines standard processes and transaction requirements for the communication of customer and site details from retailers and distributors, including whether a customer requires life support equipment.

Compliance with the obligations in the CSDN process is important to ensure that the status of customers associated with life support equipment is appropriately registered onto the systems of retail and distribution businesses. Obligations under the CSDN process are essential to ensure that premises at which life support customers reside are not mistakenly de-energised.

The AER's project focussed on whether retailers and distributors are appropriately recording and reporting on customers who are identified as requiring life support equipment.

As part of the project, the AER wrote to a number of retail and distribution businesses seeking information from each on:

- which customers were registered in its systems as requiring life support equipment
- the date the customers were registered as requiring life support equipment and
- dates and times of communication between retailers and distributors regarding the status of life support customers.

The results of the audit showed that retail and distribution businesses were generally compliant with the obligations in the CSDN process. However, the audit revealed process errors in the systems of some businesses. Further, the audit showed that some retail and distribution businesses did not conduct a reconciliation process in accordance with the requirements in the CSDN process. The reconciliation process is designed to ensure that the status of life support customers is regularly updated and reflected in retail and distribution businesses' systems.

On the basis of the above information, the AER contacted the relevant retail and distribution businesses in November 2011 to obtain:

- reasons why a reconciliation process was not conducted
- the frequency of reconciliation processes undertaken
- reasons why process errors occurred and a confirmation that any errors identified by the AER had been resolved.

Responses received by the businesses indicated that outstanding reconciliation processes identified in the audit had since been conducted in accordance with the CSDN process. The businesses confirmed that the identified process errors had been rectified.

The AER considers that this audit has been successful as businesses have taken corrective action in relation to breaches identified. Businesses also have a heightened awareness of their obligations in relation to life support obligations. These obligations will be an area of continued focus for the AER under the National Energy Retail Law and the B2B procedures.

4.1.4 De-energisation service order completion rates

In December 2010 the AER announced a special project focussing on completion rates for de-energisation service orders. This followed a compliant in August 2010 alleging a series of delays and failures by Distribution Network Service Providers (**DNSPs**) to complete such orders. The project sought to decrease the incompletion rates of de-energisation service orders, in particular those attributed to access issues and use the rates as a benchmark to measure the performance of DNSPs with regard to the completion of de-energisation service orders going forward.

The B2B procedures contain processes and information provisions which support communication between retailers and distributors. Under the B2B service order processes, a retailer may request a DNSP to disconnect the electricity supply to a customer under certain prescribed circumstances, such as when the premises becomes vacant or when a customer fails to pay its bill.

Following a request from a retailer, clause 2.6.1 of the B2B service order processes requires a DNSP to use reasonable endeavours to complete de-energisation service orders. A systemic failure to complete these requests can lead to inefficient costs being incurred by registered participants and increased costs of unserved energy.

The complaint highlighted that up to 24.2% of de-energisation service order requests were incomplete and that DNSPs were not using reasonable endeavours to complete these orders. The incompletion rate for de-energisation service orders, especially those attributed to access issues (i.e. an inability to access the necessary equipment to

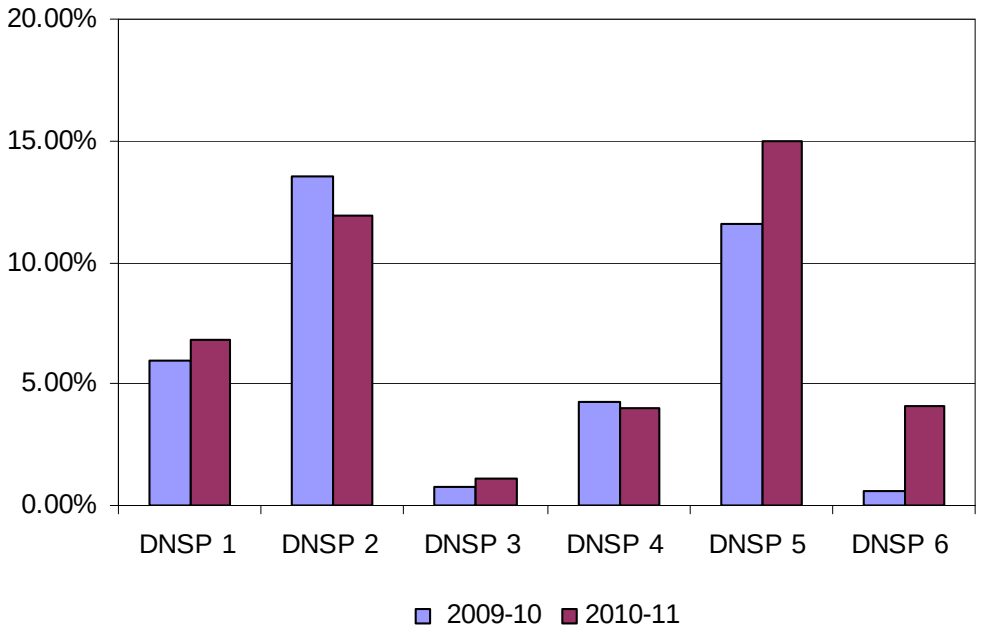
allow de-energisation at a property), was inconsistent with incompletion rates for other meter reading services.

The AER wrote to six DNSPs seeking detailed information about de-energisation service orders. The AER also wrote to three retailers requesting information about their service order processes and observed completion rates for de-energisation service orders in 2009–10 and 2010–11. This data would be used as benchmarks to measure the performance of DNSPs with regard to the completion rates of de-energisation service orders

After bringing this issue to the DNSPs' attention, the AER wrote follow-up letters to them in late 2011 quarter requesting information about their service order processes and observed rates of completion for de-energisation service order requests in 2010-2011.

Figure 3 compares the DNSPs' 2009-2010 and 2010–2011 incompletion rates that can be attributed to access issues.

Figure 3: Incompletion rates that can be attributed to access issues



The responses showed that bringing this area of concern to the attention of DNSPs did not result in an overall decrease of incompletion rates for de-energisation orders.

However, the project did find that:

- Incomplete de-energisation service order rates by the six DNSPs were well below the 24.2% highlighted in the initial complaint. In particular four of the six DNSPs had incompletion rates of less than 10% in both financial years.

- Incomplete meter reading rates should not be compared against incomplete de-energisation service order rates in determining whether reasonable endeavours have been used, as the meter is often located in a different location to the fuse, which must be accessed to successfully complete a de-energisation request.

- DNSPs are continuing to take steps to improve de-energisation completion rates.

The AER considers compliance with the B2B service order processes to be important to the efficient operation of the NEM and will monitor DNSPs' performances in this area from time to time and report any findings in future QCRs.

4.1.5 Generator rebidding reasons

Scheduled generators and market participants operating in the NEM submit wholesale electricity offers and bids for each of the 48 intervals in a trading day. The offers and bids include available capacity for up to 10 price bands, and can be varied through rebidding.[24]

The AER adopted generator rebidding reasons as one of its special projects for 2011. The AER considers that accurate and timely information is a cornerstone of the NEM design. As part of this project, the AER's implemented a new rebidding enforcement strategy, set out in the AER's *Compliance Bulletin No. 3,* which was published in December 2010 and came into effect on 1 March 2011.[25] Generators that submit offer, bid and/or rebid information that does not meet the requirements of the Electricity Rules will receive two warnings. On a third occasion within six months,

[24] 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'.

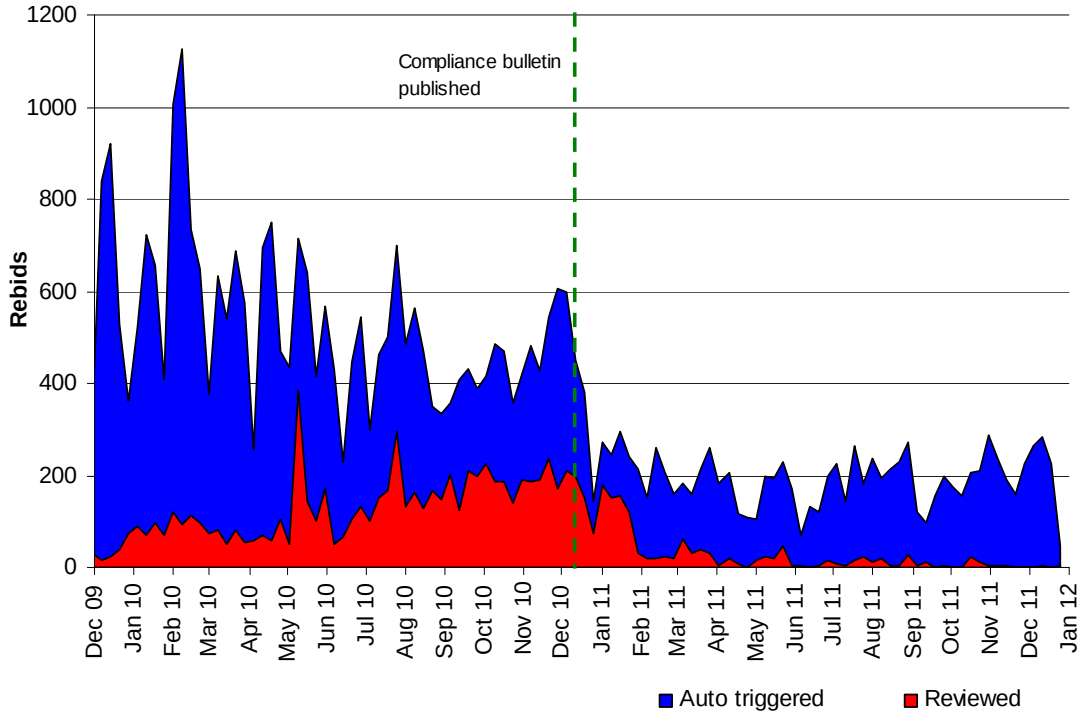
[25] The compliance bulletin is available at http://www.aer.gov.au/content/index.phtml/itemId/692887.

the AER will consider issuing an infringement notice.

In accordance with the three stage process, when six months has elapsed from the date a participant received an initial warning, the participant's 'warning count' is reset to zero.

The AER has reviewed the change in generator behaviour as a result of the new strategy. Figure 4 shows that since the Compliance Bulletin was published (December 2010), the number of rebids triggered by the AER's internal compliance monitoring system has fallen markedly (shown in blue on the figure). The number of rebids which required further review by AER staff has also fallen significantly (shown in red on the figure).

Figure 4: Rebids auto-triggered and reviewed per week



The following table shows for each quarter in 2011 the number of initial and second warnings issued by the AER in accordance with its revised rebidding enforcement strategy. The AER notes that one participant has had an additional alleged breach after a second warning. The AER is investigating this further.

Table 2: Data failures since STTM commencement

Rule	Initial warning	Second warning	Contacts from generators regarding bids
Quarter 1 (from 1 March only)	4	-	-
Quarter 2	3	1	14
Quarter 3	2	2	21
Quarter 4	4	-	12

The table also shows the number of contacts received from generators to declare erroneous of questionable bids/rebids. The AER believes that a reasonable number of contacts to the AER to declare mistakes reflects a stronger focus on the quality of bids and a commitment to compliance within electricity trading teams.

During the December 2011 quarter, the AER issued four initial warnings as a result of:

- one rebid which failed to include a time adduced
- one rebid which did not include a brief, verifiable and specific reason
- two rebids which provided a ramp rate below the minimum allowed without a technical reason.

Rebidding reasons will not continue as a special project in 2012, however, this is not to suggest that the AER's approach will change. The AER will maintain the three stage process outlined in *Compliance Bulletin No. 3* during 2012.

4.2 Special Projects for 2012

4.2.1 STTM data quality

As noted in section 4.1.1, the AER is not satisfied with the reduction in STTM data errors that have been realised as a result of its 2011 special project targeting compliance in this area. Therefore, this special project will continue in 2012.

4.2.2 Poor demand forecasting in the STTM

Rule 410(1) of the Gas Rules requires each STTM market participant who expects to withdraw quantities of natural gas from a hub on a gas day to submit in good faith ex ante bids or price-taker bids (and any revisions to those bids) to reflect the participant's best estimate of the quantity it expects to withdraw in each hour of that gas day.

Demand forecasts are a primary input for scheduling and are used to calculate the ex ante price.

Poor demand forecasting leads to inefficiencies in dispatch whereby the ex ante price is set on the basis of more or less gas offers than are required. It can also lead to wealth transfers in the STTM, for example where large amount of MOS (balancing gas which is parked on or loaned from pipelines) is required as a result of poor forecasts. In monitoring these markets, the AER has identified ongoing occurrences of poor demand forecasting from some market participants and would like to discourage participants from such behaviour.

Accordingly, the AER has designed a special project which aims to highlight participants' performance in demand forecasting in the STTM. This project will run throughout 2012, with final results to be delivered in the December 2012 QCR.

The AER will survey gas retailers on what areas of demand are the least predictable (and therefore can often lead to forecasting errors) and encourage them to develop systems to better manage this unpredictability. This should increase retailers' awareness of their obligations with regard to demand forecasting.

The AER will compare 'allocation' quantities (i.e. what the participant actually demanded on the gas day) to initial scheduled quantities for the STTM. This will show how much each participant has deviated from its demand forecast on a gas day. This data will be tracked from the respective market starts until the end of 2012, with a reduction in on-the-day differences between scheduled and allocated volumes being an indicator of this project being successful.

4.2.3 Participants not following dispatch instructions

This special project will look generators' ability to follow the dispatch instructions given to them by AEMO. It will also develop metrics to measure the number of times dispatch instructions are not followed and find ways to reduce these occasions.

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.

Generators failing to follow dispatch puts the electricity system at risk and creates inefficiencies and higher costs through greater reliance on Frequency Control Ancillary Services (and potentially lower network utilisation through higher safety margins in network limit calculations), and may also be a method of manipulating market outcomes.

It is also important that market participants fulfil their responsibility to provide timely information on their availability to AEMO. This enables all parties to respond appropriately to forecast system security issues.

4.2.4 Electricity transmission connections

In recent years, many connection applicants have raised concerns about the TNSP connections process. Poor TNSP connection practices increase generators' costs, cause delays and discourage efficient new entry of generation capacity. Such outcomes are particularly problematic given the need for the electricity network to respond to changes to market conditions and environmental policy developments. Therefore the TNSP connection process will be a special project for 2012, and will likely be continued in 2013.

The relevant provisions of the Electricity Rules were designed to be high level, with detailed issues to be resolved via a dispute resolution mechanism.[26] However,

[26] See NER 5.4A.

connection applicants may be reluctant to jeopardise their future relationship with the TNSP by entering into dispute resolution.

Given the ambiguity of the Electricity Rules, the AER has found it difficult to enforce the connections regime using traditional enforcement methods. We are therefore exploring alternative methods to improve connections outcomes.

The AER is considering whether to conduct a survey of parties who have sought a TNSP connection. This survey would seek connection applicants' views on different aspects of TNSP performance in relation to connection such as responsiveness, cost and timeliness. Responses would be confidential and the anonymity of survey participants would be protected. The results could be used to:

- identify areas where breaches of the Rules may be occurring. This information could be used in developing the terms of reference for a TNSP compliance audit
- compare TNSP performance, with a view to publishing the aggregated results. This may put pressure on under-performing TNSPs to improve their performance in this area.

This project will only be worthwhile if connection applicants are willing to participate, however generators have been reluctant to go 'on the record' in the past. Accordingly, the AER intends to seek generator feedback before making a decision in relation to this project and whether, indeed, the project should go ahead at all.

If it goes ahead, this project will be taking place at the same time as the AEMC's Transmission Frameworks Review (**TFR**), which is likely to recommend changes to the connections framework. The AER will design its work in a way that is complementary the Transmission Framework Review, which may involve adapting our work program to reflect broader industry developments and making submissions to the TFR on the connections issue.

Appendix A: Targeted provisions summary

This is a summary of the provisions under the Electricity Rules and Gas Rules targeted by the AER using a variety of compliance mechanisms in the last four quarters. The targeted compliance reviews listed below are completed reviews. Special projects are listed by reference to the quarters in which they were commenced and undertaken. The same provision may be targeted over a number of quarters involving different participants.

Quarter ending	Industry	Mechanism	Rules & Clauses	Description
March 2011	Gas	Targeted compliance review	216	Failure to conform to scheduling instructions
		Targeted compliance review	387	Compliance with respect to registration of services and trading rights
		Targeted compliance review	399	Conditions relating to MOS
June 2011	Gas	Targeted compliance review	172	Provision of linepack capacity adequacy indicators for the Bulletin Board
		Targeted compliance review	378	Obligation to update information registered with AEMO
		Targeted compliance review	435	Requirement to provide good faith, best estimate contingency gas offers
September 2011	Gas	Targeted compliance review	300	Obligation to protect metering installations from unauthorised interference
		Targeted compliance review	403	Obligation to investigate the circumstances of a MOS shortfall

Quarter ending	Industry	Mechanism	Rules & Clauses	Description
		Targeted compliance review	410	Obligation to make good faith, best estimate price taker bids (demand forecasts)
December 2011	Gas	Targeted compliance review	180	Obligation to publish peak demand day information
		Targeted compliance review	219	Obligation to notify AEMO of injection and withdrawal quantities
		Targeted compliance review	254	Obligation to provide and maintain security (prudential requirements)