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Neville Henderson
Chairman, Reliability Panel
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Henderson,

Submission on the Template for Generator Compliance Programs Review 2015

The AER welcomes the opportunity to comment on the three-yearly review by the Reliability Panel (**Panel**) of the template for generator compliance programs (**template**) mandated under clause 4.15 of the National Electricity Rules (**Rules**).

Our response to matters raised in the Issues Paper published by the Panel on 13 November 2014 is set out below.

The role and purpose of the template

The AER considers that the template has an important role within the National Electricity Market (**NEM**) and that its purpose is still being achieved.

In 2007, the AER established an audit process relating to generators' technical performance standards compliance programs. We have since conducted regular audits to ensure that NEM-registered generators have developed and are maintaining robust and effective compliance programs in this area.

This has been achieved by, among other things, ascertaining whether—as required clause 4.15(c) of the Rules—these compliance programs are consistent with the template and are modified to be consistent with any amendments to the template. In this regard, the template is a key element for our review of compliance programs. Our “Generator Performance Standards” Information Booklet published in August 2013 provides a more detailed overview of our audit program.¹

¹ Available from the AER website at <https://www.aer.gov.au/node/21331>.

Compliance principles

The AER considers the current set of compliance principles to be still appropriate without the need to further add to them. In addition, the AER considers the template to be a useful guide for generators when developing, reviewing or modifying their compliance programs.

From our perspective, key issues around compliance programs are how generators translate what is in the template into practice on an ongoing basis, and the interpretation of what each registered performance requirement involves for their individual plant. Firstly, we observe that the linkage between the requirements in the template and the practices and procedures at the operational level (such as testing results) are not as strong as it could be. Secondly, we observe that generators can interpret the same performance obligation quite differently. We note that this is not an issue with the template itself, as the template is a guide and should not be overly prescriptive. We consider that our technical audit program is one means by which these issues can be addressed and learnings shared amongst industry.

Balancing prescription and flexibility

The AER is not aware of any particular technology change that should be reflected in the template at this stage. We do note this year saw the commencement of operations by the first NEM-registered solar farm (Royalla), with more differing electricity generation technologies expected in the future. In this regard, it is important that the template remains relevant for all types of generators.

The AER undertook its first technical compliance audit of a wind farm in 2013/14. Our experience was that the template was flexible enough to deal with this technology type. More broadly we have observed there is a trend, especially by wind generators, to rely on outsourced expertise, including that of overseas manufacturers, to manage technical plant issues. While this practice is not improper, generators need to ensure that these external parties are also well versed with all applicable performance requirements as part of an effective compliance program and supporting procedures.

With electronic systems now incorporating self-diagnostic capabilities, monitoring of performance becomes an automated process. This could also include some degree of automated testing. While this enhances generators' ability to detect performance issues, this is not a substitute for in-depth testing or a pro-active approach to identifying issues related to performance requirements prior to them occurring. To the extent that this creates a material risk, the template should reflect this capability but reinforce the need for both frequent testing and monitoring. Further, with generators being put in cold storage or mothballed in recent years, the template may need to reflect that a different testing regime may be appropriate to ensure these plants remain capable of meeting performance requirements upon return to service.

Usefulness of the template in terms of supporting compliance with the NER

The AER considers the template to be an important element of the compliance framework that is useful to all stakeholders. The AER is not aware of any Rule changes or amendments to performance standards that have impacted on the usefulness of the template or require changes to same.

Other relevant issues

The AER's experience with the template is as set out above, underpinned by our compliance audit program. The AER cannot comment on the direct experience of generators using the template. We note that, as part of a targeted compliance review following the previous review of the template, it emerged that not all generators were aware of the requirement to modify

their compliance programs within 6 months of any amendments to the template (see clause 4.15(c)(3)).

The factors that could be considered to improve or clarify the role and purpose of the template include:

- being more explicit about the need for ongoing and pro-active performance testing, monitoring and maintenance programs particularly for plants put in cold storage or mothballed, from time to time;
- recognising the value of integrating the performance monitoring and reporting framework under the compliance programs to which the template relates, into each generator business' broader governance, risk management and compliance framework to ensure that a reasonable assurance of compliance is achieved.

The AER would be pleased to provide further assistance to the Panel on this review. If you would like to discuss any aspect of this submission please contact me on (03) 9290 1465 or Joanna Gall on (08) 8213 3461.

Yours sincerely,



Peter Adams
A/General Manager | Wholesale Markets
Australian Energy Regulator

