

Reliability Panel AEMC

## ISSUES PAPER

# Template for Generator Compliance Programs

21 December 2011

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## **About the AEMC**

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005 to be the rule maker for national energy markets. The AEMC is currently responsible for rules and providing advice to the MCE on matters relevant to the national energy markets. We are an independent, national body. Our key responsibilities are to consider rule change proposals, conduct energy market reviews and provide policy advice to the MCE as requested, or on AEMC's initiative.

## **About the AEMC Reliability Panel (Panel)**

The Panel is a specialist body within the AEMC and comprises industry and consumer representatives. It is responsible for monitoring, reviewing and reporting on reliability, security and safety of the national electricity system and advising the AEMC in respect of such matters. The Panel's responsibilities are specified in section 38 of the National Electricity Law.

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# 1 Introduction

Under the National Electricity Rules (Rules), the Reliability Panel (Panel) established the template for generator compliance programs (template) in 2009 following extensive consultation. The template provides clarity to generators by defining an appropriate compliance framework to assist generators with developing and designing their compliance programs to meet the relevant technical requirements. The template also assists the Australian Energy Regulator (AER) with the enforcement and monitoring of generators' compliance with the technical requirements under the Rules. The Rules also provide that regular reviews of the template are to be undertaken, which ensures that the template remains consistent with the Rules and provides opportunities for its improvement. The Panel is undertaking such a review and this Issues Paper commences the Panel's review process. The purpose of this Issues Paper is to facilitate consultation and seek views on relevant issues.

## 1.1 Requirement for the review

Under clause 8.8.3(ba) of the Rules, the Panel is to review the template for generator compliance programs at least once every three years. In November 2011, the Australian Energy Market Commission (AEMC or Commission) provided terms of reference to the Panel for a review of the template to be completed by no later than 31 July 2012. Following this review, the Panel may amend the template in accordance with its recommendations. That is, the Panel will be able to make amendments to the template and not the Rules. To the extent that the Panel identifies any issues with the Rules as a result of this review process, the Panel will consider whether it would be appropriate to submit a Rule change proposal to the AEMC. Any such Rule change proposal would then be progressed by the AEMC through the Rule change process under the National Electricity Law (NEL).

## 1.2 Timetable for the review and consultation process

### Indicative timetable

Stage of review / milestone	Date
Issues Paper published	21 December 2011
Close of submissions on Issues Paper	8 February 2012
Draft Review of Template for Generator Compliance Programs published	28 March 2012
Close of submissions on draft review	2 May 2012
Public Meeting	16 May 2012
Final Review of Template for Generator Compliance Programs published	27 June 2012

For this review, the Panel is required to follow the consultation processes set out in clause 8.8.3 of the Rules (and any specific requirements in the terms of reference).<sup>1</sup> The Panel will undertake consultation with stakeholders through seeking comments and submissions on papers and determinations as well as through a public meeting. The key milestones and proposed dates are set out in the above table.

### **1.3 Submissions to the Issues Paper**

The Panel invites comments from interested parties in response to this Issues Paper by 8 February 2012.

Submissions may be lodged online through the AEMC's website [www.aemc.gov.au](http://www.aemc.gov.au) using the link entitled "online lodgement" and reference "REL0047". Or, if choosing to make submissions in hard copy, submissions may be posted to:

The Reliability Panel  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

### **1.4 Structure of the Paper**

The remainder of this Issues Paper is structured as follows:

**Chapter 2 Background** - sets out an overview of the background and development of the template.

**Chapter 3 Factors for consideration and key issues** - sets out a discussion of the key issues the Panel will consider in making its determination. Key questions for consultation are also outlined in this chapter.

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<sup>1</sup> The Terms of Reference for this review is published on the AEMC website.

## 2 Background

This chapter provides background on the development of the template.

### 2.1 AEMC review of enforcement and compliance with technical standards

In 2006, as directed by the Ministerial Council on Energy (MCE) the AEMC undertook a review of the enforcement of, and compliance with, technical standards.<sup>2</sup> The AEMC found that there should be clear and appropriate technical guidelines in place for all existing generators as well as clear processes for establishing the performance standards of new generators. It was also found that the Rules provided little guidance on the factors that should be taken into account when structuring a compliance program.

The AEMC made a number of recommendations including that the AER should establish 'compliance guidelines' to facilitate the enforcement and monitoring of generators' compliance with technical standards. It recommended that the MCE submit a Rule change proposal to address the issues, however the National Generators Forum (NGF) submitted a Rule change proposal on these issues instead. The NGF proposed to make the changes recommended in the review with some modifications. It proposed that the Reliability Panel, rather than the AER, should be responsible for developing the compliance template. The Rule change also proposed that the Panel would undertake a review of the template at least once every three years. In the AEMC's determination, it agreed that the Panel should be the party responsible for the guideline, which was recast as the compliance 'template'. The AEMC also determined that regular reviews of the template would be undertaken. After the implementation of the Rule change, the Panel undertook the requirement to establish the compliance template. A review was carried out involving extensive consultation with stakeholders which was completed in July 2009. The template was implemented at this time.

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<sup>2</sup> As noted in the technical standards review, the term technical standards is not defined in the Rules but for the purposes of the development of the template, it was characterised as:

- the performance standards for Generators, Market Customers and MNSPs specified under clauses 4.13, 4.14 and 5.3.4A(g) that are prepared to be registered with NEMMCO;
- the automatic access standards, minimum access standards and performance criteria required for the connection of NSPs, Generators, Market Customers and MNSPs set out in schedules of 5.1, 5.2, 5.3, and 5.3a respectively, which in the case of Generators, Market Customers and MNSPs, form the basis for specific performance standards to be registered with NEMMCO; and
- the obligations of NSPs, Generators and Market Customers under clauses 5.2.3, 5.2.4 and 5.2.5.

## 2.2 Design of the template and compliance principles

The Panel considered nine compliance principles in developing the template. In this review process, the Panel will also consider these principles in assessing whether any amendments should be made to the template. These principles are:<sup>3</sup>

- Principle 1 -Where plant system performance may be variable with time, as for example with plant protection, control and alarm (PCA) systems, Generators are accountable for managing the functionality and integrity of systems and settings in accordance with the performance standards compliance program.
- Principle 2 - The corollary of Principle #1 is that where plant parameters are not subject to variability with time, the compliance regime should be restricted to confirmation that the plant continues to perform as intended with repeat testing when there are reasonable grounds to believe that the plant performance may have changed.
- Principle 3 - The materiality of the issue must be considered when contemplating a compliance testing regime.
- Principle 4 - A Generators active use and implementation of a compliance program that is consistent with the approved template and the Generator's compliance management framework will provide a reasonable assurance of compliance with the Generator's registered performance standards.
- Principle 5 - The template must therefore support the development of compliance programs which represent "good electricity industry practice"<sup>4</sup>. The template should specify the objectives and outcomes to be achieved by the testing or monitoring, and an appropriate test interval. The Generator should exercise diligence and good electrical industry practice to determine the detailed methods and procedures to be employed for its plant.
- Principle 6 - The compliance testing regime must be efficient, and reflect an equitable balance between risk management and the risk created by the test regime itself.
- Principle 7 - Where compliance to a performance standard cannot be directly tested, the compliance program should include a range of other compliance

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<sup>3</sup> AEMC Reliability Panel 2009, Template for Generator Compliance Programs, Final Report, 31 July 2009, Sydney.

<sup>4</sup> Good electricity industry practice is defined in Chapter 10 of the Rules as "The exercise of that degree of skill, diligence, prudence and foresight that reasonably would be expected from a significant proportion of operators of facilities forming part of the power system for the generation, transmission or supply of electricity under conditions comparable to those applicable to the relevant facility consistent with applicable regulatory instruments, reliability, safety and environmental protection. The determination of comparable conditions is to take into account factors such as the relative size, duty, age and technological status of the relevant facility and the applicable regulatory instruments."



testing methods to provide reasonable assurance that the performance standard continues to be met.

- Principle 8 - When developing a compliance program and operating under that program, a Generator can only be reasonably held accountable for the compliance of its plant to its registered performance standards and to equipment settings approved or provided by the Australian Energy Market Operator (AEMO) and or the Transmission Network Service Provider (TNSP).
- Principle 9 - Compliance programs should be reviewed and updated periodically.<sup>5</sup>

The design of the template is such that it supports a flexible application with appropriate controls. It is not an exhaustive document. It was designed on the basis that it forms part of a generator's overall compliance management framework. The Rules require generators to implement compliance programs that are consistent with the template but these programs do not have to be a direct copy of the template. This approach was taken by the Panel because it was recognised that different organisations would have their own approaches or are certified to varying standards.

### **2.3 Role and purpose of the template**

The template provides clarity to generators by defining an appropriate compliance framework to assist generators with developing and designing their compliance programs to meet the relevant technical requirements. The template also assists the Australian Energy Regulator (AER) with the enforcement and monitoring of the generators' compliance with the technical requirements under the Rules.

The 2006 review noted the difficulty in establishing a single template for the broad range of types of plant and consequently it was decided not to consider a specific management approach or standard. Compliance arrangements in the NEM are dependant on the following factors:

- Generators will institute and maintain a generator compliance program based on the template;
- the AER will regularly conduct audits of selected Generator's compliance programs as part of its compliance monitoring activities; and
- Generators will engage with external auditors to independently audit their compliance programs to determine whether they are required to amend their compliance programs and amend it if required.<sup>6</sup>

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<sup>5</sup> AEMC Reliability Panel 2009, Template for Generator Compliance Programs, Final Report, 31 July 2009, Sydney.

<sup>6</sup> AEMC Reliability Panel 2009, Template for Generator Compliance Programs, Final Report, 31 July 2009, Sydney.

## **2.4 Provisions under the Rules**

Following from this review process, the Panel may make amendments to the template in accordance with its findings and recommendations. Compliance programs maintained by market participants will then need to be modified in accordance with the amended template by no later than 6 months after the amendments are published (or by a date determined by the Panel).<sup>7</sup>

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<sup>7</sup> Clause 4.15(c) of the Rules.

### **3 Factors for consideration and key issues**

The Panel considers that changes may have occurred since the introduction of the template that would affect how it operates. This review provides an opportunity to update the template. Below are the key issues for consideration that the Panel is consulting on.

#### **3.1 Key issues for consideration**

In order to ensure that the template remains effective, the Panel's consideration will include the key questions to be discussed during this consultation process as follows.

##### **3.1.1 Changes to the Rules**

The Panel will consider whether there have been any changes to the Rules which affect the operation of the template. Based on a preliminary examination there does not appear to be any Rule changes that have affected the template. The Panel notes that there are several Rule changes currently in the Rule change process and the Panel will monitor the progress of those Rule changes throughout this Review.

**Question 1      The Panel welcomes any comments on whether any changes to the Rules have impacted the template.**

##### **3.1.2 Changes in technology**

During the design of the template, the Panel considered that different technologies, types of plant, age of plant and size of plant be taken into account so that it would remain efficient. The design of the template is such that it provides a number of different test and monitoring methods for each performance standard in the template. However, the Panel considers that changes to technology may have occurred which could affect the efficiency of the template. The Panel welcomes any information or suggestions that would contribute to making the template remain current and effective.

**Question 2      What changes to technology have occurred (if any) which should be reflected in the template?**

##### **3.1.3 Changes to performance standards**

The Panel will consider whether any changes to the performance standards have occurred since the introduction of the template which need to be reflected in the template going forward. Based on a preliminary examination there does not appear to be any Rule changes that have affected the performance standards.

**Question 3**      **The Panel welcomes any comments on whether any changes to the performance standards have impacted the template.**

#### **3.1.4 Stakeholders experiences**

One of the key aspects of this review is considering the experiences of stakeholders in applying the template. The Panel is keen to understand how well the template has worked in practice and whether stakeholders have any suggestions on how the template may be clarified and improved.

**Question 4**      **What have stakeholder's experiences been with the template? Are there any suggestions to improve or clarify the template?**

#### **3.1.5 Other issues**

The Panel will consider any other relevant issues that are raised during the review including whether there were any market incidents that have occurred in the last three years since the template was introduced which may affect its efficiency.

**Question 5**      **What other factors, including outcomes of market incidents should be considered to further clarify and improve the template?**

## **A Current template for generator compliance programs**

[Published separately]

## **B Abbreviations**

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
NEM	national electricity market
Panel	Reliability Panel
Rules	National Electricity Rules