



'STREAMLINING OF THE CODE CHANGE PROCESS'

The following comments by Eraring Energy relate to the MCE Discussion Paper 'Streamlining of the Code Change Process' dated March 2004.

As a general comment Eraring Energy supports the proposed code change process which should avoid the duplication and analysis by NECA and ACCC as currently experienced. In turn such avoidance should also speed up the code change process which at times has been very long and arduous.

Eraring Energy's comments will focus on whether the new model addresses the issues that we see in the old model for code change. In particular the code change related to the regional cost recovery of FCAS provision is a good example that we will make reference to.

1. Openness & Transparency

It is important that all market participants and other interested parties are fully aware of code change proposals as received and of the progress of the proposals through the various steps of the code change process.

As such it is important that the AEMC creates a web site where code change proposals can be tracked for progress and where the supporting information, rulings and outcomes can be seen.

Whilst it is stated that code change proposals once amended or rejected will be published at Step 2, we believe that the publication should commence immediately a proposal is received and before any assessment is made by the AEMC. If the proposal is then rejected or amended or passes through the preliminary screening test then a further update would occur to the published information.

Such full publishing will ensure that market participants etc are fully aware of a new code change proposal and thus do not duplicate their effort with a similar proposal and of course avoid the AEMC processing multiple proposals with similar intent.

2. Accountability

It is important that the AEMC is held accountable to process code change proposals in a timely and expeditious manner. In the example of the code change for the regional cost recovery of FCAS provision as initiated by Eraring Energy, we became frustrated by the delays and the apparent inaction by NECA to process the code change. Ultimately this code change took 2 years before actual implementation in the market for a change that was necessary due in part to an oversight by NEMMCO in the original implementation of the FCAS market.

We believe that the AEMC should be held accountable to meet the proposed time frames for processing code changes and be required to document reasons for any deviations as part of the publishing suggestions in section 1 above.



A further issue relates to the subsequent implementation by NEMMCO of a code change in that NEMMCO would in many cases need to amend its market IT systems. We believe that there should not be a special relationship between the AEMC and NEMMCO that addresses NEMMCO's requirements. Instead if NEMMCO has implementation issues then these should be raised by NEMMCO as part of the public process to progress a code change proposal. In addition rather than waiting at least 8 months for NEMMCO to implement a code change in the dispatch and settlements software (as part of their IT update cycle) there may be code changes that warrant a much faster implementation time – for example an outcome of the current MCE reform.

3. Net Benefits Test

In section 3.2 the discussion paper lists the information to be provided to support a code change application. Item (4) therein states *'prima facie demonstration that the code change proposal will result in a net benefit'*.

We believe that requiring code changes to meet a 'net benefit' is much too narrow and would eliminate a large number of important code changes that meet other requirements such as fairness, simplification, clarification and measures that promote productive, allocative or dynamic efficiency.

Take the example of the code change for regional cost recovery of FCAS provision. Here the FCAS market implemented by NEMMCO in September 2001 was found to have serious flaws within a matter of weeks. Basically the FCAS market was based on global recovery of FCAS provision however for times when regions were connected by a single transmission line (or the regions were actually separated due to a line tripping), the provision of FCAS services was no longer on a global basis yet was still recovered on a global basis. This resulted in generators in some regions being severely penalised for FCAS charges for which they had no ability to provide due to their geographic location and for which they were unfairly charged since the problem was in another region

The Eraring Energy code change required regional recovery of FCAS charges and thus fairly allocated both provision and cost recovery to reflect actual physical conditions. This particular code change would thus be classed as one of fairness and allocative efficiency with no net benefit (in the short term although there may be net benefits in the longer term).
