

**NATIONAL ELECTRICITY CODE
ADMINISTRATOR LIMITED**

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D01/25421



Mr M Rawstron
ACCC
470 Northbourne Avenue
DICKSON ACT 2602

Dear Mike,
ANCILLARY SERVICES

The jurisdictions have agreed to a request from NEMMCO to seek a further extension to the existing interim arrangements for ancillary services in order to allow for a longer transition to the new market-based arrangements. I enclose a copy of their formal application along with a background paper prepared by NEMMCO. The application extends the existing schedule 9G arrangements, with some minor amendments, until the end of March 2002. As the background paper by NEMMCO makes clear, however, NEMMCO currently intends to introduce the new ancillary services arrangements in late September this year. Schedule 9G to the Code will lapse once those new arrangements come into effect.

My earlier letter to Rod Shogren reiterated the need for a smooth and seamless transition to the new ancillary services arrangements. It underlined the need to be satisfied that adequate contract arrangements exist to manage the potential volatility in the new ancillary services markets, and that those new markets do not have adverse effects on the spot market. It also urged NEMMCO to be a 'smart buyer' of ancillary services. I therefore welcome NEMMCO's decision not to press ahead with implementation of the new arrangements to an arbitrary deadline. I urge NEMMCO to use the extra time this extension buys it to ensure that it completes a wide-ranging and thorough-going testing programme. The market cannot afford these arrangements to go wrong. This is more important than achieving a particular cut-over date.

Yours,

Stephen Kelly
Managing Director

Extension to chapter 9 ancillary services arrangements

Paul Bilyk's letter of 30 November 2000 advised that applications A90762 to A90764 had been granted interim authorisation. These applications amended Schedule 9G of the National Electricity Code to extend the existing Chapter 9 ancillary services arrangements until 31 August 2001.

The Commission has now made a final determination for applications numbered A90742 to A90744 in relation to amendments to the National Electricity Code which will introduce new ancillary services arrangements. These amendments were separate applications to those seeking the extension of Schedule 9G (which are contained in applications numbered A90762 to A90764). NEMMCO and Market Participants are in the process of preparing for the implementation of those new arrangements. However, it is now clear that the new arrangements will not be introduced prior to the expiration of Schedule 9G on 31 August 2001.

The participating jurisdictions and NEMMCO are proposing further amendments to Schedule 9G, which would have the effect of extending the operation of Schedule 9G for a further period to enable the implementation of new ancillary services arrangements. The further amendments are set out in the attachment.

The further amendments represent a variation to the applications numbered A90762 to A90764 and each of those applications as varied will remain on foot for the purposes of Part VII of the Trade Practices Act.

The existing interim authorisation will not authorise the arrangements and conduct under the applications as varied and it will be necessary for the Commission to grant a new interim authorisation in respect of the applications as varied.

The participating jurisdictions therefore request that:

- ◆ applications numbered A90762 to A90764 be varied so that Schedule 9G is amended in the manner set out in the attachment;
- ◆ pursuant to section 91(2AB), the Commission revoke the interim authorisation of 21 November 2001 granted to applications A90762 to A90764; and
- ◆ simultaneously with that revocation, pursuant to section 91(2)(d), the Commission grants a new interim authorisation in respect of varied applications numbered A90762 to A90764 (ie as varied by the further amendments set out in the attachment).

It will be necessary for the Commission to revoke the existing interim authorisation and grant the new interim authorisation before Friday 17 August 2001 to enable NECA and the participating jurisdictions to take the steps required under clause 9.1.1 of the Code and the National Electricity Law to make the changes.

The participating jurisdictions also request that the ACCC, under clause 9.1.1 of the Code, approve the amendments to Schedule 9G set out in the attachment. It is noted that granting of the interim authorisation contemplated above is considered by the ACCC and others to constitute approval for the purposes of clause 9.1.1(e).

7 August 2001

AMENDMENTS TO SCHEDULE 9G OF THE CODE

1 **PARAGRAPH 2 OF SCHEDULE 9G:** amend as follows:

- (a) Delete "and 6AA" and insert ", 6AA and 6AAA".
- (b) Delete "at the end of the earlier of" and insert "on the first to occur of the following times (in this Schedule 9G called the "End Time"):"
- (c) Delete "the date which *NEMMCO* notifies *Market Participants* as the date on which" and insert "the time".
- (d) Delete "resulting from the report of the Code Change Panel in relation to Ancillary Services dated August 2000" and insert "contemplated by the final determination entitled "National Electricity Code: Ancillary Services Amendments" produced by the *ACCC* dated 11 July 2001".
- (e) Delete "31 August 2001" and insert "the end of 31 March 2002".

The amended clause will therefore read:

"2. Period of Derogation

This Schedule 9G commences on the *Code commencement date* and (except for paragraphs 2, 6, 6AA and 6AAA) expires on the first to occur of the following times (in this Schedule 9G called the "End Time"):

- (a) the time the new *ancillary services* arrangements contemplated by the final determination entitled "National Electricity Code: Ancillary Services Amendments" produced by the *ACCC* dated 11 July 2001 take effect; and
- (b) the end of 31 March 2002.

2 **PARAGRAPH 5.4(a) OF SCHEDULE 9G:** insert the words "or paragraph 6AAA" after the words "Except as provided in paragraph 5.8".

3 **NEW PARAGRAPH 6AA(b)(3):** replace the words from and including "resulting from" with "contemplated by the final determination entitled "National Electricity Code: Ancillary Services Amendments" produced by the *ACCC* dated 11 July 2001."

4 **NEW PARAGRAPH 6AAA OF SCHEDULE 9G:** insert the following new paragraph 6AAA after existing paragraph 6AA:

"6AAA Notwithstanding paragraph 5.4, if *NEMMCO* is a party to an agreement for the provision to *NEMMCO* of *ancillary services* and one or more schedules to that agreement is due to terminate, then *NEMMCO* may, by agreement with the service provider under that agreement, extend the period which the service provider is obliged to provide the kind of *ancillary services* to which the schedule relates or those schedules relate on terms and conditions agreed between *NEMMCO* and the service provider."

5 **PARAGRAPH 6.2A(a) OF SCHEDULE 9G:** insert the words “and before the End Time” after the words “30 June 2000” and add the following new paragraph (aa) and (ab) at the end:

“(aa) For the purposes of applying this paragraph 6.2A in order to settle transactions contemplated by this Schedule 9G in respect of *trading intervals* which occur prior to the End Time, the other provisions of Schedule 9G (and particularly paragraph 5.8) will continue to apply.

(ab) Clause 3.15.6A does not apply to *trading intervals* which occur prior to the End Time.”

6 **PARAGRAPH 6.2A(b) OF SCHEDULE 9G:** in paragraph (2) of the definition of “TASP”, delete the words from and including “, but”.

7 **PARAGRAPH 6.2A(d)(2)(C) OF SCHEDULE 9G:** delete.

8 **PARAGRAPH 6.2A(d)(4)(C) OF SCHEDULE 9G:** delete.

9 **PARAGRAPH 6.2A(d)(4)(e) OF SCHEDULE 9G:** delete.

Schedule 9G Extension – NEMMCO background paper

Extension of schedule 9G

Schedule 9G of the NEM Code is a jurisdictional derogation, which underpins the existing arrangements for ancillary service agreements. These arrangements have been in place since the commencement of the NEM in December 1998, and are due to expire on the 31 August 2001.

Following a review into ancillary service arrangements, NEMMCO is now in the process of implementing the changes necessary to introduce new market based arrangements. Initially it was expected that these new arrangements could be introduced prior to the 31 August deadline. Although the systems have been fully developed and tested, there remain some outstanding matters to be finalised before the new ancillary service market can be introduced. NEMMCO cannot precisely estimate the time required for the outstanding work as some of the activities are not under NEMMCO's direct control. However it is expected that the new arrangements can commence in late September 2001.

Since the new ancillary service arrangements cannot be introduced prior to the 31 August deadline, it is necessary to seek an extension of schedule 9G. It is proposed that the extension of schedule 9G continue until the earliest of the new market commencement date, or 31 March 2002. In recommending the 31 March 2002 end date, the following key issues have been considered:

Market commencement date not finalised

Although NEMMCO is reasonably confident that the new arrangements can be introduced in late September, some uncertainty exists regarding the market commencement date. An industry committee (cut-over committee) has been established to make the final recommendation to commence the market, and NEMMCO is working very closely with this committee to ensure a successful outcome. However, since the decision to commence is not under the direct control of NEMMCO, there remains some uncertainty.

Elapsed time to achieve an extension

There is approximately 2 months of elapsed time required to achieve an extension of schedule 9G and the associated ancillary service agreements.

Desire to avoid further 9G extensions

The process of extending schedule 9G and the ancillary service agreements, is administratively complex and time consuming. In addition, there is a direct cost associated with new applications (when needed) to the ACCC. It is highly desirable therefore to avoid the need for any future extensions of schedule 9G.

Need to avoid Christmas holiday and summer period

Since the process to extend schedule 9G and the ancillary service agreements involves a great deal of effort by a number of separate jurisdictions and businesses, it is important to avoid the Christmas / new year holiday period.

Stable operation through summer

The summer months of January, February and early March are the peak demand periods for Victoria and South Australia, where ancillary services are critically important in preserving the security of the power system. As a result, it is undesirable to introduce new ancillary service arrangements in this period.