

Our Ref: 48846 - D12/71293

Contact Officer: Joanna Gall  
Contact Phone: (08) 8213 3461

20 July 2012

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

**Request for Rule Change – Requirement for AER authorisation of software changes by AEMO**

I am writing seeking an expedited Rule change in accordance with the provisions related to non-controversial rule changes under section 96 of the National Electricity Law.

Specifically, I am writing to propose an amendment to clause 3.17.1 of the National Electricity Rules (Electricity Rules) which requires the Australian Energy Market Operator (AEMO) to obtain authorisation from the Australian Energy Regulator (AER) for any alterations to any computer software required under Chapter 3 for the operation of the market.

The AER proposes that the clause be amended to remove the requirement for AEMO to obtain authorisation from the AER. The AER proposes that instead the clause should require AEMO to undertake software changes in accordance with the IT change management procedures developed in consultation with registered participants.

The attachment sets out further details of this proposal. Also enclosed is a letter of support from AEMO. If you have any questions please do not hesitate to contact Tom Leuner on 03 9290 1890, Peter Adams on 08 213 3408 or Joanna Gall on 08 8213 3461.

Yours sincerely



Andrew Reeves  
Chair

CC: Matt Zema

# National Electricity Rules

## Proposal to change clause 3.17.1

### A Name and address of person making the request

Australian Energy Regulator  
Level 38  
360 Elizabeth St  
MELBOURNE VIC 3000

### B Description of proposed rule

The proposal relates to clause 3.17.1 of the Electricity Rules, which currently requires that:

*The AEMO must not alter, reconfigure, reprogram or otherwise modify or enhance any computer software required under this Chapter 3 for the operation of the market unless such changes have been **duly authorised by the AER.***

The AER proposes:

- 1) that the bolded words ‘duly authorised by the AER’ be changed to ‘made in accordance with the document entitled “*IT Change Management Procedures Manual*”’; and
- 2) inserting in Chapter 10 of the Electricity Rules the following definition:

#### ***IT Change Management Procedures Manual***

The manual developed by *AEMO*, and amended from time to time, in consultation with *Registered Participants*.

### C Statement of Issues

The Australian Energy Market Operator (AEMO) uses numerous software programs to operate the wholesale electricity market. Since the commencement of the National Electricity Market (NEM), the National Electricity Market Management Company (NEMMCO, now AEMO) has been prohibited from making any changes to those software programs without authorisation from the National Electricity Code Administrator (NECA, now the AER).

The procedures that NEMMCO and AEMO followed when making amendments to software are set out in a document entitled *IT Change Management Procedure Manual* (the Manual). The Manual specifies that registered participants must be consulted about proposed changes and that changes be released to pre-production, and all registered participants notified, before changes are promoted to production.

In 1999, NECA implemented a particular approach by which it authorised software changes by NEMMCO. Under this process NECA did not give specific authorisation for individual software changes, but rather generally authorised changes subject to certain conditions. These conditions were that:

- the proposed change must have been subject to the change management procedures set out in the Manual, in particular the consultation requirement;

- that if six or more registered participants gave notice objecting to a proposed change, then the proposed change be withdrawn;
- where a proposed change was withdrawn by NEMMCO, either the participants' objections were resolved and the change was resubmitted through the change management procedure or NEMMCO put forward a specific application for authorisation from NECA. In this case, NECA would consult all registered participants, before deciding whether or not to authorise the change.

This approach was taken by NECA after appropriate consultation with NEMMCO and registered participants. To monitor the performance of the market software change management process, NECA imposed a reporting requirement on NEMMCO under clause 8.7.2 of the Code.

On 1 July 2005, the AER assumed NECA's responsibilities for authorising any changes in software by NEMMCO. The AER continued to apply the same methodology that NECA had devised, including requiring NEMMCO to undertake monthly performance reporting. During the thirteen years that this process has been in place, NEMMCO/AEMO has actively dealt with any issues raised by registered participants regarding software changes. The AER (and previously NECA) has never been requested to make a decision about whether to authorise a change to which registered participants had objected.

The AER has recently reviewed the process by which AER meets its obligations under 3.17.1. The AER reached the view that, given the processes established through the IT change management procedures, AER consideration of each individual amendment would add very little value.

The AER proposes that the requirement for AEMO to obtain authorisation from the AER be removed and be amended to require AEMO to undertake software changes in accordance with an IT change management process developed in consultation with registered participants. The AER considers that this change would essentially codify the current process by which AEMO amends the software. The AER considers that the approval arrangements built into the procedures, which do not require the participation of the AER, provide registered participants with the ability to raise and consult with AEMO on proposed amendments, including dealing with objections. The AER also notes that, in accordance with section 5.1 of the Manual, in the event that a representative number of registered participants were unable to resolve any dispute directly with AEMO, they would have recourse to the dispute resolution procedures under chapter 8 of the Electricity Rules.

The AER proposes to continue the current reporting obligation under clause 8.7.2 of the Electricity Rules, under which AEMO advises the AER of the outcomes of change management processes for software alterations. This would allow the AER to monitor the new arrangements to ensure there is no deterioration of the process.

## **D How the proposal contributes to National Electricity Objective**

The national electricity objective (the NEO) is as follows:

*to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –*

*(a) price, quality, safety, reliability and security of supply of electricity;*

*(b) the reliability, safety and security of the national electricity system.*

The AER considers that the proposed rule change is consistent with the NEO. The AER acknowledges that the computer software required under Chapter 3 is essential for the operation of the NEM. The AER is confident that the proposed change to the Electricity Rules would not jeopardise the functioning of that software. The rule change would codify current practice and require AEMO to follow and maintain a robust IT change management process developed in consultation with registered participants before making any amendments. The AER notes that, as referred to above, the process of consultation has worked effectively to date. The AER considers that the proposed change will create efficiencies by removing the AER from a process it has not actively participated in for several years, serving to streamline the process.

The AER also notes that AEMO also operates the STTM and the Victorian wholesale gas market through the use of computer software. Under the Gas Rules there is no obligation on AEMO to seek authorisation from the AER before undertaking changes to that software. Rather, the Gas Rules provide for AEMO to undertake consultation with registered participants. AEMO is modelling the change management process for gas based on its expertise and experience developed in electricity. Accordingly, the AER considers that its proposed change will provide consistency across gas and electricity.

#### **E Costs and benefits and potential impacts on those affected**

While the AER notes that, as a result of the proposed rule change, AEMO may incur a one-off cost as part of consulting with registered participants on the IT change management procedures; the AER anticipates this cost will be minimal. The AER considers that the proposed changes will not adversely impact on AEMO or registered participants. As discussed above, the proposal would serve to codify an existing practice. Further, the AER considers that the changes will serve to streamline the process to become more efficient for the benefit of all registered participants. The AER notes that it will continue to have an oversight role through its monitoring of AEMO's reporting obligations.

Attached to this rule change proposal is a letter of support from AEMO.



20 June 2012

Ms Michelle Groves  
Chief Executive Officer  
Australian Energy Regulator  
PO Box 520  
MELBOURNE VIC 3001

FROM THE OFFICE OF THE  
CHIEF EXECUTIVE OFFICER

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FILE No:
DOC: D12/93983
MARS/PRISM:

*Michelle*

Dear Ms Groves

**AER Rule Change to Amend Clause 3.17.1 of the National Electricity Rules**

The AER recently consulted with AEMO to obtain its view on amending clause 3.17.1 of the National Electricity Rules (NER). AEMO appreciates the AER doing so, and this letter, which you may share with AEMC, expresses AEMO's support for the AER in pursuing a rule change that will seek to:

- remove the requirement on AEMO to obtain the AER's authorisation for computer software modifications required under Chapter 3 of the NER for the operation of the market
- require AEMO to make computer software modifications in accordance with AEMO's IT Change Management Procedures Manual (the Manual) developed in consultation with Registered Participants.

The Manual currently covers the process for modifications of computer software required under Chapter 3, and this has been consulted on and accepted by Registered Participants. Under this process, the AER does not authorise each modification. The Manual includes a process for resolving disputes over software modifications, requiring AEMO to withdraw the change where six or more Registered Participants give notice objecting to the change. If this occurs and AEMO still wishes to make the computer software modification, it must submit an authorisation application to the AER who would consult with Registered Participants on the change. In the history of the National Electricity Market (NEM), there has not been a case where AEMO withdrew a computer software modification due to participant objections and later forwarded an authorisation application for this change to the AER.

AEMO considers the change to remove the AER as the authoriser of some computer software modifications codifies the current, and accepted, process. Given this, AEMO considers the proposed change to clause 3.17.1 of the NER is unlikely to have a significant impact on the NEM. AEMO also considers that the change contributes towards the national electricity objective because it would allow the process in the Manual to be simplified to remove the AER. This improves operational efficiency and still maintains Registered Participants' rights to object to an AEMO IT system change, through the NER's dispute resolution process.

The AER's proposed change would also increase the consistency in the way computer software modifications are treated in the NEM and other markets. While a minor benefit, this change might assist in AEMO simplifying operational practices across markets.

If the AEMC makes this rule change, AEMO intends consulting with Registered Participants to ensure an appropriately amended process is included in the Manual. This consultation

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would commence after the AEMC's final rule determination is published and should be completed within three months of this date.

If you have any enquiries, please do not hesitate to contact Terry Grimwade, Executive General Manager Market Performance on 03 9609 8520.

Yours sincerely

A handwritten signature in blue ink, appearing to read "M. Zema".

**Matt Zema**  
**Managing Director and Chief Executive Officer**