



Global settlement and market reconciliation

Consultation starts on rule change request

The AEMC is seeking feedback on an Australian Energy Market Operator (AEMO) rule change request. The request seeks to apply a 'global settlement' framework to the demand side of the wholesale electricity market.

Background to the rule change request

AEMO is responsible for settling the national electricity market (NEM) - making sure that market generators are paid for the energy they provide and retailers pay for the energy they use. The current settlement framework for the demand side of the NEM, known as 'settlement by differencing', was introduced when the NEM commenced in 1998. It was an appropriate approach at this time given the market structure and the available metering and IT system capabilities.

Under settlement by differencing, a local retailer is appointed to each distribution area in the market. Settlement is done by assuming that all energy in a distribution area is to be billed to the local retailer, except for the metered energy that is consumed by other retailers' customers. This means that local retailers bear all 'unaccounted for energy' (UFE) in their area, although they are largely unable to manage these costs.

UFE costs may be passed through to customers of the local retailer. However more retail competition has meant that more than half of small customers are now served by independent retailers in most regions.

Further, AEMO does not always receive metering data relating to local retailers' customers under settlement by differencing. Therefore it cannot fully reconcile settlement, and errors and anomalies in settlement are not easily identified. AEMO notes that this has resulted in disputes that have required resolution outside of the NEM settlement process.

Rule change request

AEMO submitted a rule change request to the AEMC that proposes to settle the demand side of NEM using a 'global settlement' framework. This approach treats all retailers equally in the settlements process by allocating a share of UFE (which can be a positive or negative amount) to all retailers in a distribution area.

AEMO would receive all metering data under a global settlement framework and would accurately reconcile the market. This would allow settlement errors and anomalies to be more easily identified, reducing the likelihood of disputes.

AEMO has not suggested a start date for global settlement. It has proposed that the IT system capability for global settlement should be developed in alignment with the design and build activities required for the introduction of five minute settlement in 2021. It notes that the process and system changes required to support global settlement are similar to those required for five minute settlement.

Written
submissions are
requested by
5 July 2018.

Consultation and next steps

The Commission has published a consultation paper on the rule change request and is seeking stakeholder feedback. Stakeholders' submissions will inform the Commission's assessment of the request.

The paper sets out a summary of, and background to, the rule change request and outlines the process for making submissions. Issues for stakeholder comment include:

- treatment of UFE under a global settlement framework:
 - calculating UFE
 - allocating UFE
 - the effect of UFE on pricing (including secondary price effects)
- treatment of virtual transmission nodes
- global settlement coverage
- implementation costs, savings and timing.

We invite stakeholders to provide written submissions on the consultation paper by **5 July 2018**. A template setting out consultation questions is available on our website to help stakeholders provide their views on the issues raised in the paper.

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7 June 2018