

5 July 2018

Mr. John Pierce
Chair
Australian Energy Market Commission
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By online submission

Dear Mr Pierce

Global Settlement – AEMO Submission

AEMO welcomes the opportunity to provide input to the Commission's Consultation Paper on the Rule Change Proposal related to Global Settlement.

AEMO is the independent National Electricity Market (NEM) and Western Australian Wholesale Electricity Market (WEM) market and systems operator, and the NEM National Electricity Transmission Planner. This role is undertaken within the legislated policy and market frameworks of the day and in adherence to the National Gas and Electricity Objectives and Rules.

AEMO's submission provides views on the allocation of unaccounted for energy, an approach for managed transition, and the treatment of non-market generators under a global settlement framework. The submission also considers a matter which has come to AEMO's attention since the original rule change request was proposed to the AEMC – the effect that a change to global settlement would have on role appointment at transmission node connection points.

For further information on the AEMO submission, please do not hesitate to contact myself or Violette Mouchaileh, Group Manager Market Enhancement on (03) 9609 8551.

Yours sincerely



Peter Geers
Executive General Manager, Markets

ALLOCATION OF UNACCOUNTED FOR ENERGY

The methodology adopted for the allocation of unaccounted for energy (UFE) will be critical in determining the range of benefits gained by moving to a global settlement framework. AEMO considers that the proposed rule, and associated processes and procedures required for implementation, should endeavor to allocate UFE at the most localised level possible. Similarly, the rule should seek to ensure that the market participants who are best placed to reduce the magnitude of UFE (i.e. the retailers responsible for the connection points in a given area) are appropriately incentivised to do so. The models presented in the consultation paper for UFE allocation as an alternate to the model proposed by AEMO in the rule change request appear to diminish the potential benefits of the global settlement framework to varying extents.

There are practical reasons for selecting the Transmission Node (TNI) as the focal point at which to settle UFE. As the current settlement framework is based on settlement at the TNI, the transition from differencing to global will be less complicated for AEMO systems (as there is an established TNI to NMI relationship) and for participant reconciliation of old versus new settlement statements. The high levels of confidence in the accuracy of the metered energy at the transmission node and its established efficacy in settlement processes in the NEM, and in like-markets overseas that have adopted a global settlement model, further support maintaining the TNI as the focal point for settlement, reconciliation and UFE allocation.

AEMO consider it likely that calculation of UFE will highlight a number of material anomalies that had hitherto been concealed due to the lack of a full retail market reconciliation process. Anomalies may include misallocation of NMIs to TNI, poor estimation of technical loss factors, unresolved issues with the management of Virtual Transmission Nodes (VTNs) and registration errors. The ability to identify and rectify these issues is a benefit of the global settlement framework, however it is important that market participant confidence in the allocation of losses is maintained alongside any such rectification. Accordingly, there would be value in establishing a transition approach that enables the calculation of settlement under a global framework to be performed for a period of time alongside the existing settlement processes.

AEMO could commence the publication of UFE for each TNI ahead of global settlement implementation to allow participants to understand the impact and work to resolve any major discrepancies.

A transition approach may be further aided by the establishment of a set of principles in the NER that AEMO must comply with in determining the point at which to allocate UFE. AEMO considers that a pragmatic approach such as this may enable regional and technical differences to be accommodated whilst obtaining the maximum benefits from the change. This may also assist in a transition away from the use of VTNs over time.

DISTRIBUTED RESOURCES EFFECT ON LOSS CALCULATIONS

The consultation paper discusses whether the increasing penetration of distribution-connected generation should be deliberated in the context of the global settlement proposal. AEMO agrees that this should be a matter for further consideration in the broader and ongoing review of distributed resources, but that it is secondary issue alongside the treatment of distributed resources in recovery arrangements. This issue will need to be debated regardless of the AEMC's determination on the proposal at hand.

NON-MARKET GENERATORS

AEMO's Generator Exemption and Classification Guide sets out how the conditions for classification of a Non-Market Generator are applied. The current guidelines involve a different treatment for a Local Retailer compared to other retailers:

- For a Local Retailer, a generating unit may be classified as Non-Market provided that (amongst other conditions) the generating unit is connected within the local area.
- For Customer other than the Local Retailer, the generating unit must be connected through a common metering installation.

This arrangement permits Local Retailers more flexibility to offset Non-Market generation against load within its local area. However, the introduction of global settlement has an unavoidable impact on these arrangements, due to the removal of the Local Retailer role.

As part of AEMO's rule request, AEMO outlined two options to reflect the impact of global settlement on Non-Market generation:

- Option 1 – this arrangement would effectively restrict the conditions on classification of Non-Market generation to those that apply for Customers other than Local Retailers, requiring load to exceed generation at the same connection point
- Option 2 – this arrangement would extend similar arrangements currently available to Local Retailers to all Customers, allowing generation to be offset against load within the same local area.

AEMO considers that the implications of these options extend beyond global settlement, and are becoming more significant with the growth of distributed generation. It would therefore be appropriate to adopt an option that has least impact to the participation of distributed generation, and that the arrangements are considered more fully as a separate review or rule change.

The rule drafting prepared in the rule request was on the basis of Option 2, and AEMO is of the view that this is the most appropriate transition arrangement for the implementation of global settlement.

OTHER MATTERS – NOMINATION OF METERING COORDINATOR AT THE TNI

A matter has come to AEMO's attention since submitting the original rule change proposal regarding the implication for role appointment at the TNI upon adopting a global settlement framework. As global settlement will remove the role of Local Retailer, Local Retailers' role as the *financially responsible Market Participant* (FRMP) for the connection point will be disestablished. The NER currently requires this role to be filled in order that the metering coordinator can be appointed¹, and limits the possible appointee to either the FRMP or the Local Network Service Provider (LNSP)².

AEMO considers that there are two practical methods to resolve this matter:

1. The LNSP for the connection point is nominated as the metering coordinator in the NER.

This has the advantage of ensuring continuity in provision of metering services, as LNSPs are operating as the metering coordinator for each of the affected connection

¹ National Electricity Rules clause 7.6.2(a)(1)

² National Electricity Rules clause 7.6.3(a)

points today. As LNSPs will already be developing, and possibly implementing a program to convert these current metering installations to be capable of five-minute recording, collection and processing, confidence in the ongoing management of these installations and the associated services, will be important. LNSPs are often the only parties authorised and trained to access areas where the affected metering installations are contained. AEMO notes that there is precedent in the NER for nomination of the LNSP as an exclusive provider of services at connection points critical to settlement³.

2. AEMO is tasked under the NER to appoint the metering coordinator.

AEMO has a minor role in appointment of metering data providers in the NEM⁴. AEMO's role could be extended to include nomination of the metering coordinator at the affected connection points.

The AEMC will need to consider the method for the LNSPs recovery of costs if option 1 is adopted. For option 2 to be viable, the restrictions on parties that can be appointed as metering coordinator for these connection points would need to be relaxed.

³ National Electricity Rules clause 7.2.1(b) - TNSP responsible for the provision, installation and maintenance of metering installation for an interconnector.

⁴ National Electricity Rules clause 7.8.13