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Ben Noone
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Australian Energy Market Commission
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Online submission

5 July 2018

Dear Mr Noone,

Consultation Paper - Global settlement and market reconciliation, 7 June 2018

AGL welcomes the opportunity to comment on the AEMC's Consultation Paper on AEMO's rule change proposal to replace the current settlement by differencing approach with a global settlement framework.

As a local retailer in South Australia and in 2 distribution network regions in Victoria. AGL is well aware of the allocation issues relating to unaccounted for electricity losses (UFE) under the current settlement approach. Due to UFE, there are material discrepancies between retail and wholesale loads.

After 16 years of full retail contestability, the implementation of a global settlement framework is well overdue. Across the NEM, local retailers currently retain less than 40% market share but are responsible for all the UFE (after distribution losses). This distortion is accentuated in Victoria where the overall market share of local retailers has fallen below 25%.

As a retailer, AGL does not anticipate significant changes to systems and processes if global settlement is implemented. However, before global settlement can be implemented, the unmetered loads will need to be assessed. There is a large but not well documented number of these loads which are mainly of low value. Currently, the UFE includes a portion of these loads where the local retailer is responsible for the wholesale energy costs but does not receive any revenue.

AGL strongly supports the replacement of the current settlement by differencing framework with global settlement. This will provide transparency of UFE and unmetered loads, and create a level playing field in relation to the allocation of UFE between local and independent retailers. AEMO has stated that there are synergies in system development for five-minute settlement and global settlement. It is therefore an opportune time to also implement global settlement.

AGL's comments on the issues raised in the Consultation Paper are provided in the Stakeholder Feedback Form which is attached.

If you have any questions, please contact me on (02) 9921 2221 or mgoh@agl.com.au.

Yours sincerely,

A handwritten signature in black ink that reads 'Meng Goh'.

Meng Goh
Senior Manager Regulatory Strategy



Stakeholder feedback template

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in this paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

Organisation: AGL Energy Limited

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| Questions | | Feedback |
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| Chapter 5 – Section 5.1.1 – Allocating volumes of unaccounted for energy | | |
| 1. | To what extent is the full allocation of UFE to local retailers an issue? | <p>AGL is the host retailer in South Australia and in 2 distribution network regions in Victoria. This to a material issue to AGL.</p> <p>The current settlement by differencing framework results in discrepancies between retail loads and wholesale purchases. Currently, part of the UFE include unrecorded unmetered loads where the local retailer is responsible for the wholesale energy costs but do not receive any revenue for it.</p> <p>In AGL's case, there have been significant unexplained losses particularly in South Australia over many years. In South Australia, AGL's market share by customer numbers is less than 50%. AGL is happy to provide further information to the AEMC if required.</p> |
| 2. | What are the UFE costs and volumes for local retailers? | See above |

| Questions | Feedback |
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| <p>3. What are your views on AEMO's high level design for global settlement, generally and in relation to allocation of UFE?</p> | <p>AGL considers the high level design to be appropriate.</p> <p>An important part of assessing the UFE is to account for unmetered loads to ensure that it is not included in UFE. Some unmetered loads are charged by DNSPs at a fixed dollar cost without any energy load. It will be significant task to gather an inventory of these unmetered loads in the NEM – number and types of lights – and to establish profiles for them. However, this will be a valuable exercise to understand the energy demand in the NEM and ensure there is an accurate inventory of connections</p> <p>The design of the global settlement should also ensure that data is provided to retailers in a form sufficient to reconcile settlement amounts.</p> <p>It may be useful to consider the approach taken to manage this issue in other countries where there is a global settlement framework.</p> <p>Therefore, the implementation of global settlement will significantly improve the transparency of both unmetered loads and UFE. Importantly, the UFE allocation will provide a level playing field for local and second tier retailers</p> |

| Questions | | Feedback |
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| 4. | What other UFE allocation methods could be suitable and why? | <p>UFE could be treated in the same way that UAFG is treated in gas where there are two models available:</p> <ul style="list-style-type: none"> • The Victorian model where a benchmark amount is allocated to meters and the network pays or is paid. This places the obligation on the network which is balanced by the retailer. • The other model, as in NSW, is where the network is responsible for the energy losses which are incorporated into DUOS. <p>AGL does not consider that allocation by peak loads to be suitable for an energy-only market like the NEM, but may be more appropriate for a capacity market.</p> <p>Using inter-regional settlements residue is unsuitable as it does not address the key issue of unequal allocation of UFE.</p> |
| Chapter 5 – Section 5.1.2 – Effect on pricing of unaccounted for energy costs | | |
| 5. | How will local and independent retailers respond to change in the financial responsibility for UFE? In what way and to what extent? | The proposed design will ensure that UFE is shared equally and encourage both local and independent retailers to take responsibility for issues with customer metering and commercial losses. |
| 6. | Do you consider that a move to global settlement would affect retailer competition, and if so, how? How could these effects be addressed? | It provides a level playing field in relation to the energy losses for local and second tier retailers. After 16 years of FRC, local retailers across the NEM retain less than 40% market share but are liable for all of the UFE. In Victoria, local retailers have less than 25% market share. |
| Chapter 5 – Section 5.1.3 – Secondary price effects | | |

| Questions | | Feedback |
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| 7. | What are your views on the levels of any secondary price effects from global settlement? | In relation to green schemes, there will be some adjustments due to the re-allocation of UFE, but the impact will vary depending on the magnitude of UFE and whether the retailer is a local or independent retailer. |
| 8. | How would UFE be treated under the LRET, the SRES and jurisdictional environmental schemes? | Retailers' liability under green schemes are based on AEMO's settlement statements which is calculated at the TNI level. AGL anticipates that the UFE share for each TNI will be added onto the settlement amounts in AEMO's statements. |
| 9. | Under the proposed global settlement design, what information would be needed on settlement statements to support liability calculations for the LRET, the SRES and jurisdictional environmental schemes? | See point 8. |
| Chapter 5 – Section 5.1.4 – Calculating unaccounted for energy - unmetered loads | | |
| 10. | What are your views on the proposed method for calculating total UFE for a local area? | The approach to calculating UFE set out in section 3.2 of the Consultation Paper is reasonable. |
| 11. | How should unmetered loads be managed? | <p>Currently, some unmetered loads are allocated by networks as energy loads and others by a dollar value. All unmetered loads need to be allocated as an energy load with a relevant load profile produced for each load. The assessment of the inventory – number and type – of unmetered will be integral to the implementation of global settlement but it will also provide important information in the management of the NEM.</p> <p>The second option – agreement by retailer and DNSP - will not be accurate and should only be considered as a last resort.</p> |
| 12. | What other categories of loads need to be considered in the UFE calculation? | Unregistered generation such as rooftop solar needs to also be metered appropriately to ensure that the supply is being recognised within the local area. |

| Questions | | Feedback |
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| Chapter 5 – Section 5.2 – Treatment of virtual transmission nodes under global settlement | | |
| 13. | Are VTNs still an appropriate mechanism for the NEM? | |
| 14. | Which classes of customers would be affected if VTNs were removed? | |
| 15. | What price effects would occur if VTNs were removed? | |
| 16. | What are the possible options for treatment of VTNs should the proposed rule be made? Describe any other suitable options (or variations of the options presented). | It may be appropriate to minimise changes in relation to VTNs so that option 3 should be considered. The DNSPs will have an important input into this issue. |
| 17. | Depending on how VTNs are treated under global settlement, DNSPs may incur a once-off cost associated with mapping existing VTN customer meters to a physical TNI. What costs, effort, benefits or synergies would be associated with this activity? | |
| Chapter 5 – Section 5.3 – Global settlement coverage | | |
| 18. | Do you agree with AEMO's proposed coverage of global settlement? Are there other situations, perhaps legacy arrangements or future scenarios, where settlement by differencing should be maintained or used? | <p>AGL agrees that there may be situations as pointed out by AEMO where settlement by differencing is appropriate such as an embedded network or bulk supply point with only some child sites which are metered.</p> <p>In existing markets where retail contestability is introduced, AGL suggests that where settlement is being undertaken, it is appropriate to apply a global settlement framework. This will establish the data flows for the market, identify the level of UFE within that market and encourage the host retailer and distribution network business to resolve high levels of UFE prior to contestability. It is also possible that the costs of setting up a global settlement framework in the first place is likely to be much lower in the long run.</p> |
| Chapter 5 – Section 5.4.1 – Implementation timing | | |

| Questions | | Feedback |
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| 19. | What are your views on a start date for global settlement? | <p>AGL's preference is for global settlement to be introduced as soon as possible. However, the timeframe for the implementation of global settlement will depend on the timing required to establish the inventory and load profiles of the unmetered loads.</p> <p>Although the system development of global settlement and five-minute settlement will be concurrent, there is no requirement for both to commence at the same time.</p> <p>An option to consider is to commence global settlement reporting ahead of implementing the actual settlement. This could encourage action to minimise high levels of UFE, if present, prior to actual settlements occurring.</p> |
| 20. | What are your views on a staged commencement of global settlement, for example, by jurisdiction or distribution area? How would a staged commencement best be implemented? | <p>There seems no reason to stage the start date as the changes would have been tested and many retailers operate in multiple jurisdictions, in particular, the host retailers</p> <p>It may be possible to stage global settlement reporting ahead of actual settlement.</p> |
| 21. | What are your views on aligning the IT system development for global settlement with that of five minute settlement? | <p>This is appropriate as AEMO has assessed that there are cost savings by aligning the IT development for both changes at the same time.</p> |
| 22. | What timeframes would be required for AEMO, retailers, DNSPs and MDPs to upgrade internal processes, procedures and IT systems for global settlement? | <p>AGL does not anticipate this to be a significant issue for retailers. DNSPs may have to develop better load algorithm systems for unmetered supplies and provide them in standard metering files.</p> |

| Questions | | Feedback |
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| 23. | What are the costs, synergies and risks involved in upgrading IT systems to accommodate global settlement? | AGL does not anticipate that there will be significant costs to implement global settlement. |
| 24. | A move to global settlement would increase data handling because MDPs would need to send additional data to AEMO. What would the incremental cost of this activity be? | The MDPs currently deliver all meter data to the local retailer. Under global settlement, this will be delivered to AEMO instead. The key change for the MDPs is to provide the local retailer with meter relevant only to customers where the local retailer is the FRMP. AGL does not anticipate that there will be significant incremental cost of doing this. |
| 25. | What level of savings would there be from MDPs no longer needing to support and deliver an AEMO specific data file? | |
| 26. | What level of savings could be expected by retailers from reduction in settlement statement reconciliation? | Minimal change in NMI / network reconciliation. Substantial improvements for local retailers in aligning wholesale and retail positions. |
| 27. | Are there any other costs that market participants may incur if there is a move to global settlement? If so, what are they? | As a retailer, AGL does not anticipate that there will be material costs involved. |
| 28. | What contract issues need considering? | In cost pass-through contracts, UFE may need to be accounted for if it is not covered under other provisions of the contract. |
| Chapter 5 – Section 5.4.3 – Implementation – consideration of non-market generators | | |
| 29. | How should non-market generators be accommodated under a global settlement framework? | UFE will be allocated to retailers only. There should be no impact on non-market generators if they have appropriate meters installed. |
| Other comments on the rule change request or consultation paper | | |

| Questions | | Feedback |
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| 30. | Do you have any other comments on the rule change request, high level design or the consultation paper? | <p>AGL strongly support the implementation of a global settlements approach. AGL agrees with the reasons set out by AEMO, particularly, a level playing field between local and second tier retailers. This will also require a more accurate assessment of non-contestable unmetered loads which are currently relatively unknown.</p> <p>This is an opportune time for implementing global settlement as there are cost savings when aligned with the changes for the five-minute settlement framework.</p> <p>It is also useful to consider how global settlement is implemented in other countries including NZ.</p> <p>Given the relatively short time-frame for the implementation of the 5-minute settlement, the inclusion of global settlement will affect the scope of the design and development of the impacted systems. The project management of the two settlement aspects will need to be carefully undertaken.</p> |