

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

6 July 2018

Submitted online: www.aemc.gov.au

REF: ERC0240

Dear Mr Pierce

GLOBAL SETTLEMENT AND MARKET RECONCILIATION – CONSULTATION PAPER

Origin Energy (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission (AEMC) consultation paper for the introduction of global settlement and market reconciliation into the NEM.

Origin supports the rule change proposals intent to introduce a global settlement regime which aims to equitably allocate the true costs of unaccounted for energy (UFE) across all retailers.

Currently, local retailers bear all the risks and associated costs for UFE within their designated area, despite not being in a position to fully manage controllable parts of UFE such as commercial losses due to independent retailers. Any costs due to data errors or misallocation of energy is borne by the local retailers until a reconciliation of the data is undertaken months later. Allocating UFE accurately across all retailers will encourage retailers to better manage their portion of UFE and examine the best ways to manage these costs.

Origin supports aligning the global settlement changes with the 5-minute settlement process which will help to minimise both retailers' and AEMO's overall spend on the required IT and system changes. If these changes were made in a separate process, and adjustments to billing and settlement systems were to occur later, this would come at additional cost.

While the move to global settlement is an important step, at a more granular level, Origin also supports further increasing the efficiency of the settlements process through improved data transparency and accountability on the part of DNSPs. Data errors contribute to UFE, and in Origin's experience, resolving these errors has been problematic. Origin suggests that incentives (and/or a specific requirement) is added to the Rules for DNSPs to maintain the integrity of the data they hold, and expeditiously address any data errors - including those identified by retailers. This will ultimately lead to lower amounts of UFE, and thus see UFE costs reduced across all retailers.

Our responses to the questions raised in the Consultation Paper are set out in Attachment A.

Should you have any questions or wish to discuss this information further, please contact James Googan on james.googan@originenergy.com.au or (02) 9503 5061.

Yours sincerely,



Steve Reid
Group Manager, Regulatory Policy

Attachment A

Questions	Feedback
Chapter 5 – Section 5.1.1 – Allocating volumes of unaccounted for energy	
<p>1. To what extent is the full allocation of UFE to local retailers an issue?</p>	<p>Origin agrees with the consultation paper that Local Retailers bear all the risk for UFE.</p> <p>Local retailers under the current ‘Settlements by Differencing’ approach unfairly bear the risk of inaccurate consumption data due to:</p> <ul style="list-style-type: none"> • Incorrect metering at the current transformer meter (CTM) and/or at the customers metering levels. • Over and under estimation of consumptions while the local retailer waits for actual readings to be provided by the Meter Data Providers, and • NMIs standing data not being updated correctly on time. <p>The above results in local retailers cross subsidising the settlement by differencing errors until they are discovered through the revision cycle. This can take an extended period of time, and in some cases the errors are difficult to recover with some remaining unidentified. In other instances, the costs of recovery can prove greater than the actual recoverable amounts.</p> <p>One potential way to improve the accuracy of UFE is to require DNSPs to resolve data errors through greater data transparency. There is potential for millions of dollars in unders and/or overs that would continue to be unaccounted for if DNSPs are not compelled to rectify incorrect data.</p> <p>For example, Origin has observed some TNIs with far more UFE than can be explained by factors such as theft, and conversely found some TNIs where UFE was negative compared to published loss factors. We hypothesised that these anomalies were likely NMI-to-TNI allocation errors in the standing data maintained by the DNSPs</p>
<p>2. What are the UFE costs and volumes for local retailers?</p>	<p>We have previously provided this information to the AEMC on a confidential basis.</p>
<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>Origin supports the papers proposal that the global settlement calculations be undertaken at the TNI level. This will allow anomalies to be identified, investigated & remedied. Origin would not support patch-level calculations as they are too-high a level and have the potential to hide millions of dollars due to the sheer volume of energy involved.</p>

Questions		Feedback
4.	What other UFE allocation methods could be suitable and why?	<p>Origin recommends that an appropriate threshold for UFE at a TNI be implemented and that this threshold be set by engineering/technical experts in network metering settings through a working group.</p> <p>A threshold mechanism will ensure that, once breached, AEMO or the DNSP will be required to undertake a review of the TNI's UFE volumes to determine if there is an issue that needs to be resolved.</p> <p>One additional point Origin would like to see is that when the thresholds for each TNI have been breached, the investigation take place across a period of settlement weeks rather than letting the variances be accumulated quarterly or yearly. This would allow more accurate reconciliation of the data and ensure remedies are instigated quicker.</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?	<p>Origin believes that under global settlement, the distribution of UFE would be clearer, and more equitable for all retailers.</p> <p>We anticipate that with improved IT systems developed through the 5-minute settlement process, our data capabilities will increase and thus be able to reconcile settlement data better and account for UFE more accurately.</p>
6.	Do you consider that a move to global settlement would affect retailer competition, and if so, how? How could these effects be addressed?	<p>We anticipate that the application of UFE will be applied in proportion to the percentage of customers held in the various network boundaries. The application of this will mean the cost of energy is fair and equitable across the whole market, promoting balanced competitive behaviour amongst all retailers.</p>
Chapter 5 – Section 5.1.3 – Secondary price effects		
7.	What are your views on the levels of any secondary price effects from global settlement?	
8.	How would UFE be treated under the LRET, the SRES and jurisdictional environmental schemes?	<p>Origin understands that the liability for LRECs and SRECs is calculated at the TNI level. As a result, we don't believe the treatment of UFE will affect liability calculations for LRET, SRES, VEET or ESS</p>

Questions		Feedback
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?	As above, likely no impact.
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?	
11.	How should unmetered loads be managed?	
12.	What other categories of loads need to be considered in the UFE calculation?	
Chapter 5 – Section 5.4.1 – Implementation timing		
13.	What are your views on a start date for global settlement?	<p>Origin supports the alignment of global settlement with the 5-minute settlement work program and a simultaneous start date (1 July 2021).</p> <p>As part of the 5-minute settlement process, Origin must undertake extensive IT system changes which involves testing, compliance, new data systems and reconciliation processes.</p> <p>Combining global settlement with 5-minute settlement will allow these processes to occur concurrently and thus reduce implementation costs.</p> <p>Origin would not support delaying global settlement after 5-minute settlement has gone live, nor do we support a separate process at a later date. Both options are likely to result in added costs.</p>
14.	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?	We support aligning the start date for global settlement with that of 5-minute settlement.

Questions		Feedback
15.	What are your views on aligning the IT system development for global settlement with that of five-minute settlement?	We agree that 5 minute and global settlement should be aligned.
16.	What timeframes would be required for AEMO, retailers, DNSPs and MDPs to upgrade internal processes, procedures and IT systems for global settlement?	A concurrent start date of 1 July 2021 and a work program aligned with 5-minute settlement would allow sufficient time to ready systems.
Chapter 5 – Section 5.4.2 – Implementation costs and savings		
17.	What are the costs, synergies and risks involved in upgrading IT systems to accommodate global settlement?	<p>The synergy is to do one project to cater for both 5 minutes and global settlements at the same time. Our system will require re-design regardless and it is best to do this once.</p> <p>Project costs are not known at this early stage. The AEMC should note that there are common reports relevant to both 5 minute and global settlements.</p>
18.	What contract issues need considering?	<p>Some of our retail contracts will need to be reviewed to understand how pass through for the UFE component forms part of the bill.</p> <p>Unlikely to have wholesale market contracts impacts.</p>
Chapter 5 – Section 5.4.3 – Implementation – consideration of non-market generators		
19.	How should non-market generators be accommodated under a global settlement framework?	
Other comments on the rule change request or consultation paper		
20.	Do you have any other comments on the rule change request, high level design or the consultation paper?	