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19 July 2018

Mr Ben Davis  
Director  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1245

Submitted via email

Dear Mr Davis

### **Re: Global Settlement and Market Reconciliation Consultation Paper**

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Market Commission's (the Commission) consultation paper on a rule change proposal by the Australian Energy Market Operator (AEMO) on global settlement and market reconciliation. We apologise for the delay in providing the Commission with this submission.

AEMO purport that this rule change is required as it cannot complete a full reconciliation due to an absence of metering data. This results in the different treatment of losses and there are a lack of incentives on independent retailers to rectify any issues in metering inaccuracies.

Red and Lumo disagree with the need for this rule change, particularly as AEMO has not provided supporting evidence to prove that a change is warranted. Below we consider these rationales that AEMO have put forward suggesting that a rule change is required. Further we are concerned regarding the impacts that a move to global settlements may have on competition, particularly in light of the 5 minute settlement implementation.

#### **AEMO unable to reconcile settlement**

AEMO under the current regulatory instruments has the ability to change the procedures to enable it to collect metering data for all type 5, 6 and 7 metering installations. The current regulatory instruments require all type 1 – 4 metering installation data to be provided to AEMO by the metering data provider, and for type 5 and type 6 metering installations, only second tier data is provided to AEMO.

In order to facilitate this requirement, metering data providers have a rule in their system to exclude first tier metering installation data from being delivered to AEMO. However, we understand this rule is not uniformly implemented across all metering data providers. This suggests that where a customer has transferred away from the local retailer and then returned at any point to the local retailer, AEMO will continue to receive that data.

As AEMO has the ability to obtain the data required to reconcile settlement through the existing regulatory framework and could improve this process as a first step. Therefore, we question whether a change as substantial as global settlement is required in order for AEMO to identify any anomalies in settlement data.

Red and Lumo consider that the Commission should also analyse how many disputes have occurred as a result of the anomalies that AEMO has not been able to identify, the cost to industry associated with resolving those disputes compared against the costs to implement

global settlements. AEMO allude to the disputes that occur, however, have not provided any data associated to quantify the magnitude of these disputes.

AEMO also suggests in its rule change proposal that it requires all metering data in order to better fulfil its statutory functions, presumably to better serve market participants in the settlement of the electricity market. Red and Lumo note that AEMO also settles many gas markets by difference. We note that this rule change only focuses on AEMO wanting to rectify anomalies in electricity settlements.

### **Treatment of losses**

AEMO suggest that their proposal is intended to deliver fairer outcomes as the treatment of losses is different for local and independent retailers. It would achieve this by allocating Unaccounted for Energy (UFE) away from host retailers to independent retailers, based on the proportion of energy that they use in a host retailer's distribution area. We consider that this is likely to reduce competition and increase barriers to entry in the retail market, as smaller independent retailers do not have the equivalent financial backing as local retailers.

As such, by taking on a portion of the UFE this will reduce their ability to compete in the market. We are concerned that in light of the five minute settlement rule change, along with the lack of evidence that this will not lessen competition, that this allocation will impact the ability for non-local retailers to compete. We have formed this view on the basis of our internal calculations, as AEMO is unable to accurately quantify the extent of the implication for non-local retailers taking on UFE. With the lack of evidence, it cannot be proved that a move to global settlements will benefit the market and increase competition, more than the costs to implement it.

The lack of evidence to support the treatment of losses is further complicated by the fact that UFE can be either a negative or a surplus provided to host retailers. There is no commentary or evidence provided by AEMO in their rule change proposal regarding how many times local retailers are paid, compared to how many times local retailers are paying for the UFE. Further, we would encourage AEMO to provide the Commission and industry information regarding what affect the penetration of smart metering data in Victoria has had on settlements by differencing for local and independent retailers.

The Commission claims that AEMO has tried to calculate estimates for the size of UFE for distribution areas, however have only managed to estimate based on approximations to draw any conclusions.<sup>1</sup> AEMO has also attempted to use international data on electricity losses to calculate estimates for the size of UFE but because the international definition (which comprises of commercial losses and unaccounted for technical losses) is broader than UFE in Australia, this can only be used as a guide for Australian conditions. It is not a sound basis for proceeding with a major industry change.

More equitable UFE arrangements between retailers, global settlements will reduce a non-local retailer's ability to compete so the broader impact on market efficiency and consumer outcomes is unclear. As a result, we have serious concerns whether this rule change is consistent with the National Electricity Objective (NEO).

We contend that if AEMO changed the procedures to gather all the metering data, they would be able to understand the implications for all retailers, local and independent retailers, and only at that point should a rule change progress with the data to understand the implications for all retailers and an assessment of the impacts on competition can occur.

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<sup>1</sup> AEMC 2018, Global settlement and market reconciliation, Rule Determination, 7 June, 2018, Sydney p.11

## **Lack of incentives on independent retailers to rectify metering inaccuracies**

The rule change request suggests that independent (non-local) retailers have little to no incentives to rectify metering inaccuracies. Red and Lumo note the requirements in rule 11.86.7(g), (h) and (i) that requires all retailers, not just local retailers, to replace any meters that are considered to have malfunctioned. As a result, all retailers will promptly action all requests from the local network service provider (LNSP) where they have identified a metering installation that is inaccurate. Prior to the change on 1 December 2017 that created 11.86.7, Red and Lumo promptly issued service orders to the LNSP to replace any meters.

Irrespective of the requirement, it is inaccurate to suggest that retailers, independent or otherwise, are not incentivised to rectify any metering inaccuracies. It is in both the retailer and the customer's interest to have an accurate bill, based on accurate meter read. Metering is also subject to national standards and the National Measurement Act obligations. Therefore, AEMO suggesting that there is a lack of incentives on independent retailers, or any retailer in fact, to rectify metering inaccuracies is incorrect and possibly even trying to conflate an issue that does not exist.

## **Cost benefit analysis required**

Red and Lumo firmly believe that this rule change is not required at this time as there is insufficient evidence provided by AEMO to support a move to global settlements. However, should the Commission consider that a rule change is warranted, a full cost benefit analysis is also warranted.

AEMO has been unable to quantify the costs and benefits associated with this rule change proposal, it has only been noted that there will be a \$5 million dollar cost saving to implement this change alongside the five minute settlement.

Costs borne by AEMO are ultimately borne by consumers, and paid for by retailers. Understanding the costs to implement this change is important to understand whether or not this rule change proposal meets the NEO. Further, in terms of costs, it is not clear:

- how AEMO arrived at \$5 million dollar cost savings. The Commission should interrogate this estimate and also compare it with other recent industry changes of similar magnitude.
- what are the costs to implement without aligning to five minute settlement implementation
- what the cost differentials are to industry, based on the current settlement and/or five minute settlements
- what are the other industry costs associated with implementing the change.

As noted, AEMO has chosen to lodge a rule change request instead of changing the procedures to collect the data in order to make an assessment, alongside being able to identify any anomalies in settlement data. As a result, determination of the benefits to industry is difficult.

The Commission must ensure that in order to address the issues raised in the consultation paper, they also consider consequential amendments including network and market settlement arrangements.

## **Conclusion**

We do not consider that AEMO has made a case to warrant a rule change at this time. This rule change has a real unintended consequence of eroding competition in retail markets by

reducing the ability for small independent retailers to compete. Moving a cross subsidy from a local retailer to an independent retailer may make the UFE arrangements more equitable but will make the retail market less competitive.

Further we consider that it is imperative that the costs and benefits are clearly articulated in order for the Commission to assess the NEO. AEMO has not presented a quantifiable case regarding the size of the UFE, the costs associated with settlement disputes, the costs associated with the change to IT systems. Compared with the benefits associated with the change. Especially, as all of these costs are ultimately borne by consumers, who the change must be in the long term interests of.

### **About Red and Lumo**

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, South Australia, New South Wales and Queensland to approximately 1 million customers.

Should the Commission have any enquiries regarding this submission, please call Stefanie Macri, Manager - Regulatory Affairs on 0481 009 645.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

**Ramy Soussou**  
General Manager Regulatory Affairs & Stakeholder Relations  
**Red Energy Pty Ltd**  
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