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Australian Energy Market Commission
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ERC0240 Global Settlement and Market Reconciliation

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council (the Energy Council) in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity provided by the Australian Energy Market Commission (the AEMC) to comment on the National Electricity Amendment (Global settlement and market reconciliation) Rule (the Proposed Rule).

We understand that AEMO is putting forward the Proposed Rule, to address three problems with the existing arrangements.

- **Unaccounted for energy** - AEMO cannot currently perform a full reconciliation of energy being settled, which means errors and anomalies in settlement cannot easily be identified. This has resulted in disputes that have required resolution outside the NEM settlement process.
- **Customers of local retailers bear the costs** - Treatment of losses and information access is different for local and independent retailers, with local retailers fully exposed to inaccuracies in commercial losses, and to errors in the calculation of technical losses resulting from the distribution of electricity across the distribution network. Access to metering data is also differentiated with local retailers able to access all metering data, whereas independent retailers are only able to access metering data for their customers, within any given distribution network area.
- **Lack of incentives** – There is a lack of incentives to reduce commercial losses and metering inaccuracies, as independent retailers are only charged for metered energy and local retailers cannot identify or resolve these losses, other than where they are the retailer for a connection point.

Context

The context in which Energy Consumers Australia addresses the benefits and costs of the Proposed Rule is that energy consumers have been experiencing dramatic increases in retail prices for energy services over the last decade. At the same time the energy system is transitioning to one with a higher level of distributed energy resources, most of which are connected to the distribution networks. To achieve the objective of affordable yet individualised energy services it is essential that the use of these distributed resources by consumers are optimised.

The requirements for optimisation have been previously considered by the AEMC in its *Distribution Market Model Review*. More recently the Australian Energy Market Operator (AEMO) and Energy Networks Australia (ENA) have commenced consultation on ‘how best to transition to a two-way grid that allows better integration of Distributed Energy Resources (DER) for the benefit of all consumers’ under the heading *Open Energy Networks*.¹

The *Open Energy Networks* process discusses the most effective method of ‘orchestrating’ DER. The *Open Energy Networks* consultation paper considers three scenarios for orchestration, a centralised Single Integrated Platform, a distribution network specific Two Step Tiered Regulated Platforms and a new Independent Distribution System Operator (DSO) role. These are only models for framing the discussion and other models are available. An example would be a variant of the second version with distribution network orchestration within a nationally consistent set of rules.

A critical issue in DER orchestration is the relationship between electricity distribution network needs and system wide needs and the potential reconciliation of conflicting objectives. As an example, the system as a whole might have a deficiency of generation that could be met by the discharge from storage systems, but the electricity distribution network has local reasons for storage systems to be charging not discharging.

Current arrangements for settlement by difference and the proposals for global settlement fail to incentivise management of the level of technical losses. Rather the focus is only on allocating those losses. The orchestration of DER can make a significant difference to these technical losses.

These two requirements, orchestration and loss minimisation, suggest that there is possible variant to the market settlement approach in which the DSO is the purchaser of the wholesale electricity at the spot price, and then the DSO allocates to retailers. The proposed global settlement approach, by contrast, seems to favour only the first of the options (a centralised model) considered in *Open Energy Networks*.

Accordingly, if the objective was to incentivise minimising technical losses, in our view it may be premature to determine that market settlement should move to global settlement.

Issues raised in the Consultation Paper

The AEMC’s *National Electricity Amendment (Global settlement and market reconciliation) Rule 2018 Consultation Paper* (the Paper) poses nine issues for consideration of the Proposed Rule. Energy Consumers Australia provides comments on five of these issues.

Issue 1 Allocating volumes of unaccounted for energy

1. To what extent is the full allocation of UFE to local retailers an issue?
2. What are the UFE costs and volumes for local retailers?
3. What are your views on AEMO’s high level design for global settlement, generally and in relation to allocation of UFE?
4. What other UFE allocation methods could be suitable and why?

The allocation of unaccounted for energy (UFE) currently effectively penalises the customers of the local area retailer without providing any mechanism for the local area retailer to manage the size of these costs. As the market share of local retailers declines, it becomes a bigger relative impost on these customers.

¹ See <https://www.aemo.com.au/-/media/Files/Electricity/NEM/DER/2018/OEN-Final.pdf>

However, the unaccounted for energy in part arises from the inaccuracy in estimating distribution system losses, and as AEMO acknowledges there are no incentives to minimise losses.

Two alternatives to the Proposed Rule are possible to make the allocation of UFE fairer. The first is to auction the function of being the local area retailer on a periodic basis, however, this option can't be achieved through a rule change. The second would be to allocate UFE to the distribution network that could recover the cost through distribution network charges.

Issue 2 Effect on pricing of unaccounted for energy costs

1. How will local and independent retailers respond to change in the financial responsibility for UFE? In what way and to what extent?
2. Do you consider that a move to global settlement would affect retailer competition, and if so, how? How could these effects be addressed?

It is unclear how independent retailers, who have not previously borne these costs, will respond to what may be small changes in their costs. We assume that given the relative inelasticity of demand, independent retailers could be expected to pass through these costs into their retail prices. However, this increase in costs could extend to an increase in retail prices charged by all retailers, given the hypothesis developed by Finncorn about the price setting behaviour of large Tier 1 retailers with significant market shares.²

Issue 7 Implementation timing

1. What are your views on a start date for global settlement?
2. 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?
3. What are your views on aligning the IT system development for global settlement with that of five minute settlement?
4. What timeframes would be required for AEMO, retailers, DNSPs and MDPs to upgrade internal processes, procedures and IT systems for global settlement?

If the only intent of the Proposed Rule was to better allocate losses, global settlement could be an appropriate mechanism and has been adopted in other jurisdictions for this reason. However, given the other two issues – unaccounted for energy and lack of incentives – it is not clear that the case has been made for the implementation of global settlement. As a no regrets option, we consider that those parts of the Proposed Rule that change the data to be collected by AEMO could be adopted, together with the major revision to data gathering arising from the implementation of five-minute settlement.

Issue 8 Implementation costs and savings

1. What are the costs, synergies and risks involved in upgrading IT systems to accommodate global settlement?
2. 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?
3. What level of savings would there be from MDPs no longer needing to support and deliver an AEMO specific data file?
4. What level of savings could be expected by retailers from reduction in settlement statement reconciliation?
5. Are there any other costs that market participants may incur if there is a move to global settlement? If so, what are they?
6. What contract issues need considering?

² *State of Play: Quantifying the competitive outcomes of retailing in the NEM*
<http://energyconsumersaustralia.com.au/publication/state-play-quantifying-competitive-outcomes-retailing-nem/>

The AEMC should request the information on costs to be broken down by the costs of the changed meter data requirements and the implementation of global settlement itself (which does have additional implementation costs). These costs include organizational process costs and repricing costs for independent retailers.

Issue 9 Implementation – consideration of non-market generators

1. How should non-market generators be accommodated under a global settlement framework?

This issue – the treatment of Distributed Energy Resources – is the primary issue that we believe needs to be resolved before a decision is made to move to global settlement. The decision on how they are accommodated needs to be considered as part of the overall issues for the orchestration of distributed energy resources. The price of energy and settlement can be considered along with other value streams from DER.

Conclusion

While we do not support the Proposed Rule's introduction of global settlement, we believe that there could be significant benefits to be gained from that part of the Proposed Rule that change the data to be captured by AEMO. It is not necessary for AEMO to implement global settlement to more accurately estimate unaccounted for losses, only to have all the data.

Accordingly, Energy Consumers Australia supports those parts of the Proposed Rule that result in AEMO capturing all market metering data.

If you have any questions regarding our submission, please contact Energy Consumers Australia on 02 9220 5500 or david.havyatt@energyconsumersaustralia.com.au.

Yours sincerely,



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