

25 October 2018

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

DRAFT RULE DETERMINATION – National Electricity Amendment (Global Settlement and Market Reconciliation) Rule

Sumo welcomes the opportunity to respond to the Australian Energy Market Commission's 'Global Settlement' draft rule determination.

Sumo is a dynamic new entrant energy retailer and one of the fastest growing in the market. It commenced operations mid-2015 and now services over 65,000 small electricity and gas customers in Victoria and New South Wales.

The draft rule proposes to introduce a 'global settlement' framework for settlement of the demand side of the wholesale electricity market. In short, Sumo is not satisfied that the draft rule determination clearly identifies any real problem with Unaccounted For Energy (UFE) that needs to be solved – that is, the identified benefits of global settlements are not justified when weighed against the costs. Sumo is unable to assess the impact of a global settlements framework to Sumo (or others) to make an informed decision.

By reference to the reasons given in the draft rule determination for moving to global settlements, we note the following:

1. Lower levels of UFE

The draft rule determination provides that increased transparency of UFE will allow for investigation to take place to reduce UFE in areas where high UFE is present.

The current level of UFE – and therefore, the magnitude of the problem seeking to be addressed – is unknown. The draft rule determination states that UFE estimates range from 0.003 to 1.1 per cent of generation. This is a massive range.

Unless the level of UFE is known, it is very difficult to quantify the benefit that global settlements might deliver.

2. Fewer settlement disputes

Sumo notes that there is a lack of transparency as to the costs of settlements disputes (presumably because those disputes are confidential) and the extent to which a global settlements framework might reduce those costs. It is therefore not possible to adequately assess the benefit that could be derived from global settlements driving fewer settlements disputes.

3. Competition on equal terms

The draft rule determination concludes that to facilitate effective retail competition in the long term, it is important that where there are shared market costs, they are shared in a manner which does not distort competition by being disproportionately allocated to one group of retailers over others. While this may be true, it is still relevant to note that local retailers continue to derive a significant benefit from having acquired the local customer base: the number of customers remaining on standing offers may be declining, but many of those 'sticky' customers have merely transitioned to market contracts with those same retailers. Rather, Sumo considers that the Commission should support measures that encourage a competitive market by reducing barriers to entry and expansion in the market.

It should be noted that, although a local retailer currently bears the risk of UFE within its area, it is not clear whether this risk derives a benefit or a cost to the local retailer.

4. Improved risk allocation driving enhanced incentives

The draft rule determination states that generally risks should be allocated to those parties that are best placed to manage them, and that UFE risks are best able to be managed by all retailers in proportion to their 'accounted for' energy. It is not clear to Sumo how it might be able to manage the UFE risk in order to drive it down.

One particular concern with global settlements is the treatment of unmetered loads – along with other UFE risks, global settlements would transfer the settlement risk for unmetered loads from the local retailer to others. Retailers such as Sumo are in no position to manage UFE with respect to unmetered loads.

Overall, the net benefit identified by the Commission was between \$3m and \$5m a year compared to an implementation cost of \$10m. Given the reliability of the data used to support it, this does not seem to be a compelling case for change. Sumo therefore does not support the draft rule determination.

Please contact me if you would like to discuss any aspect of this submission.

Yours faithfully



Alex Fleming
GM – Legal, Regulatory & Compliance