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8 November 2018

Mr Ben Davis
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Mr Davis,

Re: Draft Rule Determination: National Electricity Amendment (Global Settlement and Market Reconciliation) Rule

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Australian Energy Market Commission (Commission) on the Draft Rule Determination: National Electricity Amendment (global settlement and market reconciliation) rule which moves retail settlements from the current 'settlements by difference' framework to a 'global settlements' framework.

The Commission identifies three broad benefits that are associated with the move to global settlements in its draft rule determination, specifically: improved transparency leading to fewer settlements disputes, competition for all retailers on equal terms, and improved risk that drives enhanced incentives.

Red and Lumo do not support the move to global settlements. As stated in our response to the consultation paper, we consider that there is no need to make the rule. There is a no benefit to industry and the change is not in the long term interests of consumers. In this submission we note some concerns with the concept that proceeding with global settlements meets a 'net benefit' test. Finally, given the Commission has indicated a willingness to proceed, despite our concerns, we have given consideration to implementation and other matters that should be taken into account when making the final determination.

Concerns regarding the net benefit test

The Commission uses a range of high level benefits and costs as part of its 'net benefit' test to conclude that a move to global settlements will deliver a net benefit. However, this test fails to weigh up the costs and benefits of different mechanisms for moving to a global settlement regime.

The benefits claimed in the 'net benefit' test are excessive. The Commission claims that the benefits of moving to a global settlements regime would provide benefits of between \$3 million and \$5 million a year based on the experience in New Zealand. It claims that the benefits would be in the form of reduced settlement disputes in the market. However, the New Zealand experience is not relevant to Australia in this instance. Further, Red and Lumo consider that the one off up-front costs of moving to a global settlements regime of less than \$2 million for all retailers is too low. The one off costs of \$2 million include IT system changes, the mobilisation of staff and the changes to data provision.

Implementation matters

Synergies with 5 minute settlements

We acknowledge that there are some project team benefits that can be realised through the implementation of global settlements alongside the 5 minute settlement implementation. Beyond that, however, there are limited synergies to streamline implementation. From a system perspective, the changes are unrelated and impact different business areas and systems in different ways.

Further, we also consider that the implementation of these should be considered separately by the Australian Energy Market Operator (AEMO) as it makes changes to the Procedures. These changes require different subject matter experts and discussing them in parallel creates confusion between the two changes and will lead to a sub-optimum outcome. We consider that AEMO should run a separate Procedures and systems streams in the 5 minute settlement process from that for global settlements, and review each at appropriate stages to ensure that there is no competing impacts between the two sets of changes.

We also consider that the commencement of global settlements should be delayed past the implementation of 5 minute settlements. The IT system builds and testing can be completed in parallel, however, the changes are quite significant on both sides, as such, we consider it prudent to have global settlements commence after 5 minute settlements. This will allow participants to understand the 5 minute settlements change, and once bedded down, global settlements can be operationalised.

AEMO and IEC procedural changes from draft rule

The Commission has included a timeline of the procedural changes in the draft rule to be implemented by AEMO and the Information Exchange Committee (IEC). Clause 11.[x].2(a) requires AEMO to complete all updates to Procedures by 1 December 2019. However, clause 11[x].2(b) requires the IEC to complete all recommendation to the B2B Procedures by 1 July 2019.

It is unclear why the IEC requires less time to implement the changes, and we suggest that both sets of Procedures should be required to be published by 1 December 2019. Having inconsistent Procedure timing creates confusion when they are unable to be amended and understood in parallel. Further, we consider that the transitional provisions in Chapter 11 should be explicit that both AEMO and the IEC must consult on the changes required, in accordance with the relevant consultative procedures outlined in Chapter 7 of the rules.

Draft rule amendments

Red and Lumo recommend that AEMO are required to establish, maintain and publish a set of Procedures in relation to the adjusted energy amount and unaccounted for energy (UFE) as contemplated in the draft rules. We consider that draft rule 3.15.5(b) and 3.15.5B should be expanded to include this obligation. Finally, we consider that the obligation on AEMO should also include the requirement to consult with and take account of the views affected parties and interested stakeholders in accordance with the Rules Consultation Procedure outlined in Chapter 7.

Finally, we recommend that the Commission consider whether there are further consequential amendments required to the management of the retailer of last resort provisions.



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 Con Noutso, Regulatory Manager on 0481 013 988.

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

Lumo Energy (Australia) Pty Ltd