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Australian Energy Market Commission
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5th July 2018

Submitted online to: <https://www.aemc.gov.au/rule-changes/global-settlement-and-market-reconciliation>

Dear Mr Noone,

Global Settlement and Market Reconciliation
Reference: ERC0240

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission’s (“**AEMC’s**”) *Global Settlement and Market Reconciliation Consultation Paper*.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over ten million homes and businesses.

Discussion

At the start of the National Electricity Market when host retailers were stapled to local distribution businesses, settlement by differencing was an appropriate least-cost approach to manage the introduction of retail contestability. At the time it was wholly appropriate to allocate the inevitable variations in energy settlement across a distribution area to the host retailers. However as full retail contestability has been introduced (in some states more than 15 years ago) and competition amongst retailers continues to strengthen, the model now demonstrates weaknesses. The burden of Unaccounted For Energy (“**UFE**”) now rests heavier on local retailers, and may increase if their market shares decline further. *In extremis*, if all customers were using retailers other than the host, settlements by differencing would become unworkable. With less than 40% of customers across the National Electricity Market remaining with their local retailer,¹ it is now appropriate to consider the merits of change.

Like all changes to settlement systems, large system costs are involved. In that respect, the Energy Council thanks the Australian Energy Market Operator (“**AEMO**”) for proposing the rule change in order to take advantage of the changes required to implement the Five Minute Settlement rule change (ERC0201). However the Energy Council is concerned that the plan to exactly coincide global settlement and market reconciliation’s implementation with Five Minute Settlement² may cause unnecessary complications, and compromise both changes’ implementation. Nevertheless in order to avoid the greater costs of designing and running separate settlement systems, the Energy Council supports concurrent implementation.

The AEMC’s task is to determine whether the change satisfies the National Electricity Objective. It has indicated that it will test the change by considering “Prices that reflect the cost of supply and value of its use”, “Price and quantity risk allocation” and “Regulatory and administrative burden”.³ The Energy Council submits that more work needs to be done to assess the proposed change’s costs. As it stands the only cost identified for implementation is the “less than \$5m” reported by the AEMC as having been estimated by AEMO⁴ (but not mentioned in its rule change request), but there is no detail behind this estimate, nor does this consider the costs of system changes by market participants and distribution network service providers. Once these costs have been identified, then it is important for the benefits of the proposed change to be assessed. A starting

¹ Consultation Paper, p.4

² AEMO, Electricity Rule Change Proposal, p.3 and Appendix A, p.15.

³ Consultation Paper, p.18

⁴ Ibid., p.27

point may be for the AEMC to identify the improved market accuracy occurring as a result of the Victorian advanced metering infrastructure rollout, and attribute a value to the improvement.

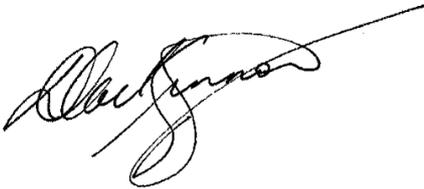
One of the matters being addressed by the rule change is the inequitable treatment of different retailers. Such inequity harms the vibrancy of competition. In that respect, the Energy Council suggests that this long-term, indirect benefit to customers be included in the benefit assessment, even if it is of a qualitative nature.

Conclusion

While acknowledging the advantages of a global settlement approach in a highly competitive retail market and supporting the equitable allocation of Unaccounted For Energy between retailers, the Energy Council believes that the AEMC should conduct further work to identify the industry costs and likely benefits from implementing the proposed rule change.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Duncan MacKinnon', with a long horizontal flourish extending to the right.

Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council