



EnergyAustralia

LIGHT THE WAY

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Dear Commissioners,

2018 – AEMC – Global Settlement and Market Reconciliation – Consultation Paper

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM). In the retail market we operate as a first-tier retailer in Ausnet and Ausgrid distribution zones and as a second tier in other mainland network zones.

We welcome the opportunity to comment on the AEMC's consultation paper on the *Global Settlement and Market Reconciliation* rule change proposal (the consultation paper) submitted by the Australian Energy Market Operator (AEMO).

EnergyAustralia recognise that there are benefits associated with adopting a global settlements framework. These include:

- A less complex settlement methodology.
- The ability for AEMO to more accurately calculate and analyse unaccounted for energy (UFE) and to report on this information. This would enable participants to observe trends and measure the impacts of market changes on the level of UFE. Changes that could affect the level of UFE include the roll-out of interval meters, changes in distribution loss factor (DLF) calculations, meter audit programs, etc. AEMO have indicated in the rule change request that the availability of UFE data will enable industry to identify causes of UFE and remedy any issues. We request more information on how AEMO envisage that UFE data can be used to reduce the volume of UFE in the market.
- A more equitable allocation of the cost of unaccounted for energy between retailers and customers.

- Reducing the number of meter data file types generated by meter data providers (MDPs) which will streamline the data produced.
- The ability for AEMO to identify errors and anomalies in settlements data faster, reducing the likelihood for off-market settlements and disputes.

While a global settlements framework would be a more sensible approach in the current market than settlements by differencing, a change to global settlements is not cost free. In assessing this change, the AEMC should be cognisant of whether the costs for transitioning outweigh the benefits the change would provide.

The consultation paper does not provide a comprehensive view on estimated total costs for implementing and operationalising this change. AEMO have provided a valuation of \$5m for their estimated implementation costs (contingent on concurrent implementation with the *Five-minute settlement* rule change). It is not clear how this value has been calculated. We would like to understand the breakdown of this cost and whether it includes all additional change analysis, system development, testing and resourcing required (in addition to costs associated with implementing *Five-minute settlements*). Further, total industry costs have not been quantified by the AEMC yet. There are likely to be substantial costs for all retailers for system and processing changes, detracting from the possible benefits.

AEMO and retailer implementation costs are ultimately borne by customers and it is important that all the expected financial impacts of implementing this change are well understood before proceeding. EnergyAustralia request that the AEMC obtain a greater level of detail regarding likely industry costs for implementation in addition to information on the ongoing costs and benefits. It's not yet clear that the proposed change will have a net benefit. Poorly justified projects will add unnecessary costs to customer bills and have the potential to displace other more critical reforms.

Should the AEMC choose to progress this rule change, the following comments on particular design elements will require further consideration.

Current uses of Local Retailer (LR) data

Every National Metering Identifier (NMI) within the NEM is assigned a local retailer (LR). A key purpose of this role is to identify which retailer is the first-tier retailer when calculating settlements using the settlements by differencing methodology. However, this role is utilised in several other ways within the market. In their rule change proposal, AEMO indicated that with a move to global settlements, this role would no longer be required. While not specifically highlighted in the consultation paper, in discussion with the AEMC, the AEMC have indicated they would like to understand the impact of changes to the local retailer role could have on other market processes. EnergyAustralia has identified the following issues for further consideration by the AEMC:

❖ *Ensuring Parent Financially Responsible Market Participants (FRMPs)¹ for embedded networks continue to receive data for their on-market child meters*

Local retailers currently receive 'LR data' for consumption at meters where they are the LR regardless of whether they are the FRMP. This data is provided for settlement reconciliation as outlined in the consultation paper.

For embedded networks, parent meter² FRMPs are provided with the LR meter data for all child meters within their network. This includes data for child customers that have contracted independently with a FRMP that is not the same as the parent meter FRMP. This information is required to allow the parent FRMP to reconcile between consumption at the parent meter and aggregate consumption of all the child meters in its network. This data is provided by the Meter Data Provider (MDP) of the child meter. The MDP identifies the recipient of the meter data as the retailer assigned the LR role for the relevant child meter.

Care should be taken when drafting the rule change to preserve the ability of MDPs to be able to identify which participant to send 'on-market' child meter data to. Options could include retaining the LR role within MSATS and repurposing it to mean a parent retailer if there is an embedded network flag on a parent meter, or providing an alternate means for MDPs to recognise where to send the data.

❖ *Ensuring that the Retailer of Last Resort (ROLR) has timely access to historical meter data for customers of a suspended retailer*

When a retailer is suspended from the market, its customers are automatically transferred to a nominated Retailer of Last Resort (such an event is referred to as a ROLR event). When this occurs, the ROLR requires historical consumption data for these customers. This data is used to ensure the retailer is appropriately hedged to protect against the financial volatility of the new load. It is also used for C&I customers to determine an appropriate price and contract for the customer, based on load profiles, demand values and consumption volumes. Often, the ROLR and the LR are the same retailer so when a ROLR event occurs, the retailer has access to historical consumption data. If ROLRs no longer receive this data in advance of an event, there could be financial contagion if ROLRs are unable to appropriately hedge their financial risk, as well as delays in setting up customers on appropriate contracts. This is currently an issue in cases where the designated ROLR (as determined by the AER when a ROLR event occurs) differs from the local retailer, but would become a broader issue under this propose change as no ROLRs would have access to historical data. This would be particularly significant if a large number of customers were transferred during the ROLR event.

A possible solution is to ensure that historical meter data is provided by AEMO within 24 hours of a ROLR event occurring, with an indication from AEMO regarding the aggregate size of the load being transferred to be provided within 12 hours.

¹ A FRMP is the retailer responsible for consumption at a connection point.

² For embedded networks, the 'parent' meter, that connects to the distribution network, is visible to the market and participates in market settlement processes. Members of the network, connection points known as 'child' meters, may or may not be visible to the market depending on whether they have ever contracted independently with another retailer. Meters that are not 'on-market' are settled by the parent retailer. Meters that are 'on-market' are settled within the market settlement processes.

Reconciliation data availability and calculation transparency

The consultation paper does not provide details of what information will be provided to retailers for reconciliation under global settlements. Data requirements would depend on which methodology is selected to allocate UFE. For example, if UFE is charged to retailers based on some proportional allocation, retailers will require visibility of the data used to calculate their share. This could include the total calculated UFE for a TNI and the retailer's market share for that TNI, or total TNI consumption plus the sum of the retailer's meter data and the aggregate sum of all other retailer's data related to that TNI. It is important that retailers can understand and verify invoices and calculations by AEMO to minimise disputes and provide a validation of the settlement values.

Conclusion

EnergyAustralia recognises that, in concept, a global settlements system is preferable to settlement by differencing and that changing systems would enhance reconciliation capabilities likely leading to more efficient and accurate settlement calculations as well as a more equitable distribution of UFE. However, this change will come at a cost and the AEMC should explore whether on balance this change is in the interests of customers. We strongly suggest that the AEMC seek to fully understand the costs and benefits of the change when making their decision.

If you would like to discuss this submission, please contact Georgina Snelling on 03 8628 1126 or Georgina.Snelling@energyaustralia.com.au.

Regards

Melinda Green

Industry Regulation Leader