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Mr Ben Davis
Director
Australian Energy Market Commission

Submitted 06/07/2018 via email ben.davis@aemc.gov.au

Re: Global Settlement and Market Reconciliation

Dear Mr Davis

Flow Power sincerely thanks AEMO for giving us the opportunity to submit our views on the proposed change in the settlement rule from “differencing” to “global”, in order to distribute the Unaccounted for Energy (UFE) costs to all retailers.

While Flow Power appreciates that the existing rule was introduced in the late nineties and an increased number of players in the industry may warrant a change, we would warn that the proposed change outlined in the settlement rule may not achieve the desired benefits of the consultation paper.

Flow Power would like to submit the following for your consideration and review:

1. AEMO considers that by passing on the UFE costs, retailers would become prudent to detect, investigate and take corrective actions to reduce the aforementioned costs.

We feel that it is unreasonable to expect independent retailers to maintain adequate infrastructure and ensure that all the connections are metered, energy consumption is appropriately recorded and there is no theft of power in the regions that they service.

Flow Power believes that it is not within our operational capabilities and absorbing the UFE costs will not achieve the desired results.

2. Please note, the ratio of independent retailers to local retailers could vary from region to region and from one state to another. If the global settlement rule is adopted, it will result in customers paying a different rate per unit of consumption from one region to another – even from the same power source.

Change to global settlement will increase costs for independent retailers. It will lighten the competitive environment and discourage new players from entering the market.

3. There is no incentive for independent retailers to reduce UFE losses, this is one of the reasons behind AEMO’s move towards global settlement.

If the costs are charged to local retailers, the losses from UFE could easily be identified and managed. We believe that the losses will become diluted and go unnoticed if costs are distributed to all retailers.

4. The consultation paper (Section 2.5) indicates that after the introduction of the global settlement in New Zealand, UFE losses were reduced to 0.8%. In contrast, the UFE in Australia, in the current environment, is estimated to only range from 0.003 to 1.1% in relation to generation.

This is why there is no need for revision of the settlement rule in Australia at present.

5. Any cost charged to independent retailers for UFE losses will be passed onto the customer. This will raise the following issues:

a) At Flow Power, our customers are given complete transparency over all costs that are passed onto them. UFE costs will come as a separate line item in customer bills. This will necessitate a huge change in the programming of invoices and additional software development costs associated with producing customer invoices.

b) Flow Power offers wholesale prices to industrial customers, pass-through charges associated with UFE costs will have a cascading effect on the economy. This is a point that we must stress.

6. AEMO has stated that there are systemic, practical and technical issues for settlement reconciliation. This is due to the allocation of UFE to local retailers and charges to independent retailers for only metered energy.

We respectfully submit that AEMO could likely take steps toward improving the processes for an accurate reconciliation of the settlement, instead of changing the settlement rule itself.

In closing, the allocations of the costs should be apportioned to those retailers who have the most ability to control it. It should also incentivise the minimisation of those costs. As a commercial and industrial only retailer, Flow Power has minimal ability to affect this.

If you have any further questions please contact Liz Fletcher on liz.fletcher@flowpower.com.au

Yours sincerely,



Matthew van der Linden

Managing Director

Flow Power