AEMC

INFORMATION

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Global settlement and market reconciliation

Stakeholder submissions invited on draft rule

The Australian Energy Market Commission (AEMC) has made a draft rule to move settlements of the demand side of the wholesale electricity market from the current 'settlements by difference' framework to a 'global settlements' framework.

The draft rule, which is a more preferable rule, is in response to a rule change request submitted by the Australian Energy Market Operator (AEMO) on 16 March 2018. The draft rule is generally consistent with AEMO's rule change request but varies in some specific design elements of global settlements.

What are settlements by differencing and global settlements?

The current market settlement framework, known as settlement by differencing, has been in place since the start of the national electricity market (NEM). It was designed at a time when local retailers supplied electricity to all small customers. Under this approach, electricity within a distribution area is billed to the local retailer except for the loss-adjusted metered electricity that is consumed by the customers of independent retailers within the area. This means that the local retailer for an area bears the cost and risk of all residual electricity losses in that area – known as unaccounted for energy (UFE). UFE includes unaccounted for technical losses, commercial losses and accumulation meter profiling errors.

Under a global settlement framework every retailer is billed for the loss-adjusted metered electricity that is consumed by their customers within the area. The UFE is then allocated to market participants on the basis of a pre-determined methodology. For example, under the Commission's methodology in the draft rule, UFE is allocated to market customers in the area, pro-rated based on their 'accounted-for' energy.

Why move to a global settlement framework?

The three key reasons why the Commission has made a draft rule to move to a global settlement framework are:

1. *Improved transparency, leading to fewer settlement disputes and lower levels of UFE.* Under global settlements AEMO will be able to fully reconcile energy within each distribution network because it will receive data from all retailers in the area. Full reconciliation will allow for better and timelier identification, mitigation and prevention of settlement errors. This will reduce costs of resolving settlement disputes, which are currently substantial. Increased transparency of UFE will also allow for investigation to take place to reduce UFE in areas where high UFE is present.
2. *Competition on equal terms.* No matter how well designed, some UFE will occur within an electricity system. This is a shared cost of the system. 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. The draft rule does this by allocating UFE to all retailers based on their accounted for energy within each local area.
3. *Improved risk allocation driving enhanced incentives.* Under the Commission's preferred global settlements design, UFE is allocated to all retailers in the local area, pro-rated based on their 'accounted-for' energy. By allocating UFE to retailers they face the risk of UFE and therefore will be provided with improved incentives to reduce UFE (for example, by installing

smart meters). Through this process, it is expected that UFE levels will be lower under global settlement.

Key detailed design elements of global settlement under the draft rule

The key design features of global settlements within the draft rule are:

- *The level at which UFE is allocated*: UFE to be allocated at the local area (i.e. DNSP network) level. This approach is consistent with retaining virtual transmission nodes (VTNs). Transparency of UFE at the TNI level is important and the draft rule sets out an information framework to allow AEMO to calculate and publish the volume of UFE for every transmission node identifier (TNI).
- *Who and how to allocate UFE*: The UFE calculated for each TNI/VTN will be aggregated to the local area level and allocated across all market customers (i.e. retailers) in that area, pro-rated based on their 'accounted-for' energy.
- *Treatment of VTNs*: National Metering Identifiers (NMIs) can continue to be assigned to a VTN for the purposes of settlements. DNSPs would also be required to assign NMIs to a TNI, in addition to a VTN (where relevant), to allow AEMO to calculate UFE on a TNI basis for transparency and to facilitate identification of sources of UFE.
- *Accounting for energy associated with unmetered loads*: AEMO to include in the metrology procedures guidance to incorporate non-type 7 unmetered loads in settlement.

Implementation

The draft rule requires global settlements to commence on 1 July 2021 to coincide with the start date of five minute settlement. By implementing global settlements simultaneously with the five minute settlement final rule implementation significant cost savings will be achieved.

Submissions

Submissions to the draft determination and draft rule are due by 25 October 2018.

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