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Mr Ben Noone
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Australian Energy Market Commission
PO Box A2449
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Reference: ERC0240

Submitted via website

25 October 2018

Dear Mr Noone

Global settlement and market reconciliation – Draft rule determination, 30 August 2018

AGL welcomes the opportunity to comment on the AEMC's Draft Rule Determination on AEMO's rule change proposal to replace the current settlement by differencing approach with a global settlement framework and to implement this change at the same time as five-minute settlement.

As mentioned in AGL's submission to the Consultation Paper, AGL strongly supports the replacement of the current settlement by differencing framework with global settlement. This will provide transparency of UFE and unmetered loads, and create a level playing field in relation to the allocation of UFE between local and independent retailers. In AGL's view, settlement by differencing may have been suitable in the early stages of retail contestability, but 16 years after the introduction of full retail contestability and the significant fall in the market shares of local retailers, it is no longer appropriate.

As there are synergies in system development for five-minute settlement and global settlement, it is also an opportune time to implement global settlement. As a retailer, AGL does not anticipate significant incremental changes to systems and processes if global settlement is implemented as part of five-minute settlement. AGL's systems and processes that would be required to change for global settlement are the same settlement and reconciliation systems which are being modified for five-minute settlement in any case.

If global settlement is implemented separately from five-minute settlement, in AGL's assessment, there will be substantial additional costs for project initiation, program management and recruitment of IT resources. Whilst there may be a concern about the risk created by implementing global settlement concurrently with five-minute settlement, in AGL's view, this can be mitigated through adequate project management and system testing.

AGL also supports the AEMC's more preferred rule change which will require UFE to be allocated at the local area level and the retention of VTNs. AGL expects UFE at TNI level will also be available to market participants.



AGL also believes that DNSPs should have clear responsibilities and incentives to minimise UFE within their distribution networks as they have a holistic view of the loads on their networks and they also control the connections and inventories of unmetered and type 7 loads.

AGL's comments on the Draft Rule Determination and Draft Amendment to the NER are provided in the Attachments.

If you have any questions, please contact me on (02) 9921 2221 or Mark Riley on (03) 8633 6131

Yours sincerely

A handwritten signature in black ink that reads "Meng Goh".

Meng Goh
Senior Manager Regulatory Strategy



Attachment 1 – Comments on Draft Rule Determination

Calculation and allocation of UFE

The calculation and allocation of UFE is likely to be the key issue associated with the move to global settlement.

Where load crosses distribution boundaries, e.g. in Victoria where there are multiple distribution networks, the calculation of UFE will need to account for the load assigned to TNIs and any load moved between TNIs or across borders.

In rural areas, the TNIs are relatively discrete and the number of unmetered supplies and other causes of UFE are likely to be far lower than those in metropolitan areas. Calculating UFE at TNI levels (and allocation to DNSP level) is likely to be accurate in rural areas and will allow participants to identify and rectify UFE.

TNIs in metropolitan areas, however, are closely adjoining, and loads can be shunted between them to ensure reliability. Since the loads can be moved operationally and there are likely to be a large number of unmetered supplies and other causes of UFE, the calculation at TNI level will be more complicated as it may require joint assessment of UFE across a group of TNIs. However, since data is available at TNI level, there is still incentive to reduce UFE in those areas to benefit all impacted participants.

AGL believes that DNSPs should have clear responsibilities and incentives to minimise UFE within their distribution networks. DNSPs have a holistic view of the load on their network and would be able to identify inconsistent metered load from network load at a feeder or substation level. They also control the connection and inventory of unmetered and type 7 loads.

Treatment of Virtual Transmission Nodes (VTNs)

AGL supports the AEMC's proposal to retain VTNs for the management and settlement of customers which may be supplied by adjacent Transmission Nodes. This aligns with the issues likely to arise in the management of UFE within urban areas.

Treatment of Unmetered Loads

The issues associated with unmetered loads within the energy industry are complex. Unmetered loads can be thought of as one of two categories – predictable and unpredictable.

Predictable loads, such as public lights, have algorithms associated with them which can define the load profile quite accurately. Unpredictable loads are ones that are unpredictable for a variety of reasons, such as council barbeques which run for only a few hours on some days.

Historically, loads were unmetered as the cost of the meter and reading the meter manually would make them uneconomic. In addition, the meter was often placed in a less safe environment, such as a pole on a busy street corner for traffic lights, which increased the risk to the meter reader. With smart meters, one of the material costs now associated with metering equipment is placing it in a safe enclosure in a public area which requires space as well as the cost of the enclosure.

In recent years, there has been a more extensive rollout of small to medium load equipment in the public space where the proponent has sought unmetered supply, ranging from telecommunications equipment to micro parking sensors. The number and type of unmetered supplies connected are quite extensive while the inventory lists are less accurate. With the introduction of a globally settled



five-minute market, AGL believes that this is an opportunity to ensure a clear framework is established for the management of unmetered supplies. This could involve setting load bands where supplies would be metered, using network devices to record load profiles, and having clear NMI allocations to control connection points, connection equipment, customer and retailer, which could be the basis for network and customer billing.

Given that AEMO does not deal with unmetered loads, AGL believes that it is more appropriate for industry to develop the procedures and guidelines for the management of unmetered loads as part of the AEMO settlement processes. AGL believes that the framework needs to be established as well as a timeframe for inventory to be updated.

Treatment of Non-Market Generators

AGL agrees with the AEMC's proposal that existing non-market generators that export electricity must be settled through MSATS.

The AEMC has also proposed that registration for a new participant as a non-market generator is only available if the entirety of its generation is purchased by a customer located at the same connection point, and to sell any output to the market, the unit must also be registered. AGL notes that there are generation units producing supply for their own use most of the time (e.g. factories, hospitals) and there will be times when there is excess generation e.g. summer shutdowns, plant maintenance. Under this proposal, this generation would not be available to the market, unless the generator is registered. AGL suggests that, provided the metering is adequate, the FRMP could be accountable for these exports so that supply is available to the market.

Implementation timeframe

There has been a concern raised about the risk of implementing global settlement concurrently with five-minute settlement.

In the rule change proposal, AEMO has stated that the cost to implement global settlement would be moderate and only incremental to the costs to implement five-minute settlement, if both can be implemented in the same timeframe. This is because both changes require modification to the same data formats, MSATS, settlement systems and procedures.

In AGL's assessment, there are significant savings if global settlement is implemented at the same as five-minute settlement as the same systems and processes are being modified. If global settlement is implemented after an extended period after five-minute settlement, a separate project will need to be established requiring recruitment of new teams for project management, development, testing and implementation. The risk arising from concurrent development can be mitigated if adequate project management and system testing are conducted.

There are three general implementation scenarios:

- Scenario 1 – Global Settlement goes live with five-minute settlement;
- Scenario 2 – Global Settlement is slightly delayed after five-minute settlement;
- Scenario 3 – Global settlement delayed significantly after five-minute settlement.

Scenario 1

Under scenario 1, the costs to implement global settlement are considered as an incremental change in the scope of the project. There is only one go-live date on 1 July 2021 with the implementation of both five-minute settlement and global settlement.



Scenario 2

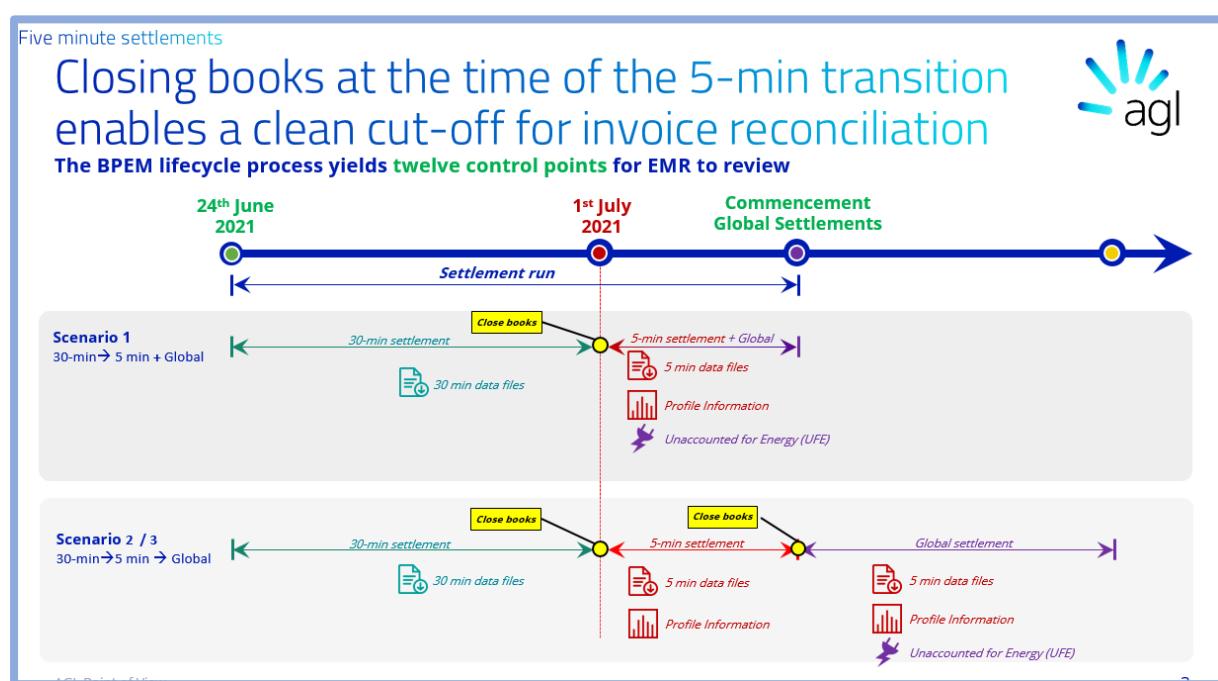
Under scenario 2, AGL would retain a portion of the project team, system developers, testers and system resources (facilities, storage, test system etc.) post 1 July 2021. The development of systems and processes for both five-minute settlement and global settlement will be undertaken at the same time but with separate go-live dates. There will be two system implementations and costs will be higher than scenario 1 due to the delay.

Scenario 3

Under Scenario 3, with an extended delay, it is expected that staff and resources would be released after five-minute settlement goes live, and a new project would be established to implement the global settlement at a later time.

The cost of initiating and running such a new project would be substantially higher than under the previous scenarios, as it would involve project initiation, program management and recruitment of resources. There will also be two system implementations.

From a settlement perspective, AGL considers that a common commencement date i.e. 1 July 2021 for both changes will reduce complexity and costs (Scenario 1). If the commencement dates are different, there will be additional set of five-minute data with settlement by difference which will need to be maintained until all revisions are complete (see infographic below).



Transitional Issues

AGL supports a common commencement date for both five-minute settlement and global settlement. AEMO has advised that, with a commencement date of 1 July 2021 for five-minute settlement, the wholesale settlement cycle is split i.e. a portion of the settlement bill will be in 30-minute intervals and the remaining portion in five-minute intervals. With the implementation of global settlement, it will be worthwhile to consider the transitional issues which could arise.



Attachment 2 - Comments on Draft Amendment to the NER

Clause 3.6.3(d2)

The reference to paragraph (d2) in this clause should be a reference to clause (d1).

Clause 3.6.3(d2)

This clause specifies the factors which AEMO should consider when granting an exemption. The first factor for consideration, clause 3.6.3(d2)(1), is the effort and likely costs that would be incurred by the DNSP.

AGL believes that AEMO should also consider the impact to the overall market and Market Customers.

Clause 3.15.5B(a)

Clause 3.15.5B(a) requires AEMO to establish a threshold for UFE at each transmission connection point.

It is unclear how this threshold will be determined and whether it will represent a long term efficient level of UFE. AGL anticipates that industry consultation will be required and that there will be a process to review the threshold from time to time.

In the initial move to global settlements, it is expected that UFE will start at a higher level and over time reduce, as was the case in New Zealand. When establishing a threshold, AEMO and industry should be cognisant that the initial threshold is likely to be higher than the long-term target threshold.

AGL suggests that AEMO should be able, and potentially required, to undertake more reviews of UFE to assist industry, especially within the first years of operation of global settlements, without requiring a request from a specific market participant.

There may also be a need to establish and monitor UFE at VTNs to accommodate loads which are routinely moved between actual transmission connection points for operational purposes particularly in metropolitan areas.

Clause 3.15.5B(b)

Clause 3.15.5B(b) only requires AEMO to review any excursions when requested by a Market Customer or a *large customer*.

AGL believes that DNSPs and other indirectly affected parties should also be able to request a review.

Clause 3.15.5B(d)

Clause 3.15.5B(d) requires participants to reasonably assist AEMO in undertaking a review.

It is likely that the main drivers causing UFE, especially in the initial years of global settlement, will be related to unmetered supply, complex connection allocations or operational activities, which are conducted by DNSPs. As such, AGL believes that the DNSPs should have a clear set of obligations



and incentives to manage the levels of UFE within their network, in the same way that Gas Networks have obligations to manage Unaccounted for Gas within their networks.

Clause 3.15.5B(e)

AGL proposes that all timeframes in the Rules be kept as business days to be consistent with other timeframes stated in the NER.

In addition, due to the likely complexity of information gathering, participants may not be able to provide the requested information within the set timeframes. AGL proposes that, where justifiable, there should be an allowance for AEMO to defer the publication of the report.

Clause 7.6.3

Clause 7.6.3(a) refers to clause 7.6.3A(a). This should be clause 7.6.3A.

Clause 7.6.3A

Clause 7.6.3A of the NER requires the Local Network Service Provider (LNSP) to be appointed the Metering Coordinator at transmission network connection points which connect to distribution networks, on the basis that these are points which energy moves from wholesale to retail.

However, there are numerous points across the NEM where feeders originating in one distribution network is connected to a supply point which is the responsibility of another LNSP/DNSP and another retailer. In this case, the energy needs to be allocated between the two DNSPs and the retailers. These metering installations on these boundary crossing have been previously provided by the LNSPs/DNSPs .

Under the current Rules (Power of Choice), the retailer is responsible for metering on these boundary crossings, not the LNSP/DNSP. AGL does not believe that it is appropriate for a retailer to be responsible for the provision of this type of metering which is used to allocate loads between LNSPs/DNSPs and retailers.

AGL recommends that this provision be extended to allow LNSPs/DNSPs to provide metering used in boundary crossings between distribution networks, which are not customer meters.

Clause 11.[x].2

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 *Information Exchange Committee* (IEC) to complete all recommendation to the *B2B Procedures* by 1 July 2019, six months earlier.

To complete its recommendations, the IEC will need time to review the AEMO procedural changes, consult on proposed changes and publish the B2B procedures. However, the timeframe requires the IEC to complete its recommendations before AEMO updates its procedures. Participants will also need time to implement these changes. This generally takes at least 6 months to review and another 12 to implement, especially if the issues are complex or contentious.

As it is likely that the amendments to AEMO's procedures may require subsequent changes to *B2B Procedures*, the proposed timing for B2B Procedures in the transitional rules can be aligned better.



Clause 11.[x].4

Clause 11.[x].4(c) requires Distribution Networks to provide AEMO with estimated volumes of non-market unmetered load in accordance with the metrology procedure.

It is unclear what obligations will exist for franchise unmetered load to be identified, classified, inventoried with appropriate profiles developed for these connections.

The submission by the ENA¹ suggest that there are 8,000 – 10,000 unmetered connections totalling 10-11 GWh of load. Profile errors in non-market unmetered load will lead to changes in UFE and incorrect load allocations to the host retailers, which is exacerbated when the intervals are priced at VoLL.

While AGL accepts that it may not be possible in the first instance to implement appropriate controls of these unmetered services, there should be rules in place for these connections and these rules should require the compilation of the inventory and load profiles to be completed within an appropriate timeframe and cost.

¹ ENA submission on Global Settlements to AEMC, 5 July 2018