

23 October 2018



Mr Prabpreet Calais
Project Leader, Global Settlements and Market Reconciliation
Australian Energy Markets Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

By electronic lodgment: <https://www.aemc.gov.au/contact-us/lodge-submission>

Dear Mr Prabpreet

Re: Global Settlements and Market Reconciliation Draft Rule Determination (ERC0240)

Aurora Energy welcomes the opportunity to provide feedback on the Australian Energy Market Commission (AEMC) draft rule determination on global settlements and market reconciliation (the draft determination).

Aurora Energy is a Tasmanian Government owned energy retailer, providing energy services to over 99 per cent of Tasmania's electricity customers. As a stand-alone retailer supplying over 283,000 Tasmanian residential and business customers, Aurora Energy's core focus is to generate value for its customers and the broader Tasmanian community.

The Tasmanian energy market exhibits a number of attributes that differentiate it from the rest of the National Electricity Market (NEM). For example, retail competition is yet to emerge for residential customers, with Aurora Energy being the only residential retailer in the State. As well, two virtual transmission nodes (VTNs) operate in Tasmania (one for the greater Hobart area and one for the greater Launceston area). These were established when Tasmania joined the NEM due to the high level of interconnectability between the transmission and distribution systems within these areas, whereby the relevant transmission nodes for customers change on a regular basis.

In the context of these unique circumstances, Aurora Energy's wishes to raise the following issues in relation to the AEMC's draft determination.

Net benefit of global settlements

Aurora Energy is concerned that the AEMC has not provided robust evidence that the efficiency benefits of global settlements will outweigh the costs of implementation. Without quantification of the total volume of Unaccounted for Energy (UFE), including at a jurisdictional level, it not possible to assess the benefits of global settlements compared to the up front and ongoing costs of implementation, which are likely to be material. This is particularly the case in Tasmania where Aurora Energy currently serves the majority of Tasmanian customers and hence efficiency benefits are likely to be marginal compared to the cost of implementation. These costs will ultimately be passed through to Tasmanian customers for no commensurate benefit.

Aurora Energy is of the view that, prior to the AEMC's determination:

- a detailed analysis of the costs versus benefits of introducing global settlements should be undertaken, including at a jurisdictional level; and
- AEMO should quantify and provide to retailers detail of the quantum of UFE by jurisdiction to assist them to assess the impact of the proposed rule change.

Aurora Energy notes the AEMC's conclusion that global settlements "*will provide for more effective retail competition in the long run because costs and risks will be allocated in a manner which does not distort competition*". Aurora Energy considers that global settlements may inhibit retail competition, as costs and risk will be transferred from larger incumbent retailers to smaller independent retailers who, by virtue of their size, are less able to manage this risk. This may have the unintended consequence of eroding competition in retail markets by creating a barrier to entry and reducing the ability for small independent retailers to compete.

Treatment of virtual transmission nodes (VTNs)

Implementation costs of the introduction of global settlements are likely to be material for Aurora Energy (currently estimated to be greater than \$500K), with the potential for significantly greater costs depending on the treatment of VTNs for settlement purposes. In Tasmania, any change to existing VTN arrangements would be administratively onerous in order to assign each distribution connection point to a single Transmission Node Identifier (TNI), and the costs of global settlements would likely outweigh any benefits (which have yet to be quantified or demonstrated for Tasmania).

For this reason, Aurora Energy supports the retention of VTNs for settlement purposes and the proposal within the draft determination that Distribution Network Service Providers (DNSPs) may apply for an exemption from having to assign each connection point on its distribution network to a single TNI.

Commencement date

Should global settlements proceed, Aurora Energy is of the view that the start date should not be aligned with that of five minute settlements due to the likely material implementation costs and risks. Systems and data impacts of global settlements, including changes to the Australian Energy Market Operator's (AEMO's) systems and procedures have yet to be clarified. Aurora Energy is concerned that the final design detail, including the ultimate treatment of VTNs, could see retailers facing an administratively complex and onerous path to compliance that will be unable to be resourced at the same time as implementation of five minute settlements.

To ensure there is sufficient time and resources available for system upgrades and other necessary changes, Aurora Energy is of the view that global settlements should not be introduced until after five minute settlements has commenced.

If you have any questions regarding this submission please contact Hayden Moore, Regulatory & Policy Manager at hayden.moore@auroraenergy.com.au

Yours sincerely



Kane Ingham
General Manager Commercial Services