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11 July 2019

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Mr Pierce,

Re: Electricity Rule Change Proposal (Five Minute Settlement and Global Settlement Implementation Amendments)

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Australian Energy Market Commission (the Commission) on its review of the Australian Energy Market Operator's (AEMO) proposed amendments to enable the five minute settlement and global settlement rule change.

We generally accept the proposed amendments proposed in the rule change. We believe that many of the changes will improve the clarity of the 5 minute settlement and global settlement rule change, reduce any administrative burden and avoid any unnecessary consequences of implementing both rule changes. There are some matters which we have identified below that we consider require further consultation and amendment from what has been proposed by AEMO.

Timing for AEMO to publish UFE data

Red and Lumo do not support AEMO's proposal to calculate and publish the aggregate UFE for each local area as if the new clause 3.15.5(a) were in effect from 1 July 2021.

Currently, the market does not have a reasonable understanding of UFE. There is a need for market participants to improve their understanding of the manner in which UFE will operate under global settlements. Therefore, we would appreciate the opportunity to work further with the Commission and AEMO to understand how UFE is going to be applied and rolled out under global settlements, before it is introduced.

We firmly believe that AEMO must undertake further consultation with affected parties on this matter before it introduced UFE.

The key matters that the AEMO should address in the consultation to educate retailers regarding the manner in which UFE is to be calculated and published would include:

- an explanation of the components of the formula used to calculate UFE under global settlement.
- the methodology applied to calculate the UFE formula and the manner in which it would be applied and rolled out.
- the financial impact of the UFE formula on non-local retailers based on their market share.

- AEMO's approach to recovering UFE through settlements and any wash up that will need to be accounted for by retailers.
- whether other regulatory obligations imposed on retailers have factored in this additional cost e.g. VDO.
- the impact of DLF/TLF on the calculation of UFE.

All of these matters are critical to retailers operationally and we would need to understand all of the details and impacts before AEMO calculate and publish the aggregate UFE for each local area.

Clarifying that UFE will not be allocated to distribution connected generators

Red and Lumo do not support the proposal by AEMO clarifying that UFE will not be allocated to distribution connected generators. The rule change attempts to clarify that the allocation of UFE should only apply to customer load and not to distribution connected generators. Without this, distributed connected generators would have an allocation of UFE which was not intended.

While we understand the aims AEMO is trying to achieve, the manner in which the proposal is drafted creates ambiguity in relation to who it applies to. For example, distribution connected generators is not a defined term in the NER. Therefore, it is not clear to us which form of generating unit that the rule change is trying to exempt from UFE—it could be interpreted to be every solar household with a NMI in the NEM. Additionally, if AEMO intended this rule change to apply to an “embedded generating unit”, then under the current definition of an “embedded generating unit”, it would also capture solar customers. An embedded generating unit is a generating unit connected within the distribution network and not having access to the transmission network. We are therefore unsure if AEMO intended this rule change to apply to all NMIs (including small customers) that had some form of generation.

As currently drafted, this is highly likely to have unintended consequences, therefore we are unable to support this change. We recommend the Commission seek further clarification as to the intent from AEMO before making its decision.

Removing retailer financial responsibility at transmission/ distribution boundary points

Red and Lumo do not support AEMO's proposal to remove retailer financial responsibility at transmission/ distribution boundary points.

AEMO intends to make this change to remove the requirement for there to be retailer financial responsibility at the boundary between transmission and distribution network. Without this change, under global settlement the local retailer would still be financially responsible for the metered energy for all transmission connection points feeding their local area as well as the distribution connection points in the local area.

However, we do not support this proposal unless a methodology has been put in place that will enable us to verify our correct proportion of UFE under global settlements. A significant and critical issue to our business is how to verify we have received the correct level of UFE. Under global settlement, we have no way to independently verify we have been allocated the right proportion of UFE. As such, we are well within our rights to have the opportunity to validate our financial responsibility for UFE.

We would welcome the opportunity to discuss this matter further with the Commission.

Determining MLFs at 30 minute or shorter intervals

The current methodology for calculating Marginal Loss Factors (MLFs) is accurate. However, AEMO's rule change argues that there is negligible benefit in calculating Marginal Loss Factors (MLFs) on a five minute basis as the current National Electricity Rules (NER) methodology requires AEMO to calculate each Inter Regional Loss Factors (IRLF) as an annual weighted average of the MLFs, meaning the outcome under the current methodology will be similar irrespective of the granularity of the data. This proposition put forward is inaccurate.

However, we are reasonably satisfied that the outcome for calculating MLFs under the current methodology would be broadly similar to any methodology for calculating MLFs on a five minute basis. As a result, we are comfortable with this proposal.

Accommodating fast start plant in pre-dispatch

We are comfortable with the proposal to enable dispatch inflexibility profiles to be used to determine the five minute resolution pre-dispatch forecast. The fast start inflexibility profiles are currently used in the central dispatch process to ensure that dispatch instructions reflect the physical capabilities of the plant. AEMO argues that the NER 3.8.2(d) prohibits the use of inflexibility profiles to determine pre-dispatch schedules.

The 5 minute settlement rule change expands the definition of pre-dispatch in the NER 3.8.20(b) to include five minute pre-dispatch. This will ensure that the fast start inflexibility profiles are applied to pre-dispatch ensuring dispatch instructions reflect the physical capability of the plant.

Amending the spot-market operations timetable

We support a change to the spot market timetable rules that would allow AEMO to make minor administrative changes like adding, removing and amending NER references after rule changes. Allocating scarce resources to run and respond to the full rules based consultation to justify these minor administrative changes is inefficient. Therefore, we are comfortable amending the spot market operations timetable to allow AEMO to make these minor amendments as required.

Nevertheless, our support for this proposal is subject to the condition that it is restricted to the minor changes of adding, removing, amending NER references after rule changes and nothing more. We do not support any proposal that would give AEMO the power to make changes above and beyond what is proposed in the rule change.

Review of the reliability standard and settings

Red and Lumo are comfortable with AEMO's proposal to retain the reliability standard and settings guidelines in the transitional provisions for review by the reliability panel. The rule change would ensure that the reliability standard and settings guidelines are reviewed and appropriately updated as required prior to the implementation of 5 minute settlement by the reliability panel which is best placed as the body responsible for making those guidelines.

Assigning non-market unmetered loads to a TNI or VTN

Red and Lumo support the proposal by AEMO to assign non-market unmetered loads to a TNI or VTN. This proposal clarifies that each non-market unmetered load is to be assigned to a specified TNI or VTN, removing any potential unintended interpretation that all unmetered

load should be assigned to the same (single) TNI or VTN. The unintended consequence of a non-market unmetered load being allocated to a specific TNI or VTN would be inconsistent with global settlements regime.

Clarifying that all customer loads are market loads

Red and Lumo support AEMO's proposal that would make all customer loads (including non-market unmetered loads) classified as market loads. The change clarifies that non-market unmetered loads must be classified as market loads for the purposes of NEM settlement. If this did not occur and any loads were excluded from classification, the energy would be incorrectly allocated to other retailers as UFE calculation. Such an outcome would be inconsistent with global settlement.

Other issues - access to NMI standing data

Red and Lumo request that the Commission ensure that the rules are clear that local retailers will no longer have access to NMI standing data under global settlements. We consider that under global settlement, local retailers will no longer be classified as a 'registered participant with a financial interest' and therefore will not require access to NMI standing data. We understand that rule 7.15.5(c)(1) was drafted to allow local retailers to be able to access NMI standing data and specifically the energy consumed, as it was necessary for settlement purposes. However, the move to global settlement removes this requirement.

We would request that the Commission specifically confirm that local retailers will no longer have access to NMI standing data, unless they are accessing it as a 'retailer'. While we understand that this does not form part of the rule change proposal, it is highly related. Given the retailers' sensitivity of the NMI standing data, we look forward to the Commission clarifying its position on this matter.

About Red and Lumo

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, South Australia, New South Wales and Queensland and electricity to the ACT to approximately 1 million customers.

Should the Commission have any enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 0481 013 988.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou". The signature is stylized with loops and a long horizontal stroke at the end.

Ramy Soussou
General Manager Regulatory Affairs & Stakeholder Relations
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd