



**EnergyAustralia**

LIGHT THE WAY

26 August 2021

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Dear Commissioners,

### **ERC0327 - NATIONAL ELECTRICITY AMENDMENT (SETTLEMENT UNDER LOW OPERATIONAL DEMAND) RULE**

EnergyAustralia (EA) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) discussion paper on Settlement Under Low Operational Demand into the National Electricity Market (NEM). EA is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. EA owns, contracts and operates a diversified energy generation portfolio that includes coal, gas, battery storage, demand response, solar and wind assets. Combined, these assets comprise 4,500MW of generation capacity.

EA is dedicated to building an energy system that lowers emissions and delivers secure, reliable and affordable energy to all households and businesses, which requires being a good neighbour in the communities we operate in. As part of this, we recognise Aboriginal and Torres Strait Islander peoples as the traditional custodians of this country and acknowledge their continued connection to land, waters, culture and community.

EA is appreciative of the AEMC's efforts to investigate whether current non-energy settlement arrangements are appropriate in light of declining minimum demand levels. Ensuring these settings are fit for purpose will be a vital enabler of a rapid and robust energy market transition.

#### **The Flooring Mechanism Needs To Be Justified Given Previous Changes**

The Australian Energy Market Operator (AEMO) has proposed a new flooring mechanism for non-energy settlement beyond the substitution methodology recently implemented under the NEM Settlement Under Low, Zero and Negative Demand Conditions (NEM Settlement Conditions) Final Determination. This is on the basis that:

- AEMO now has adequate resources to implement flooring,
- it will address equity issues and changing risk levels from increased penetration of Distributed Energy Resources (DER), and
- that such a process is, in fact, consistent with the Rules.

In principle, EA agrees that flooring would be an equitable and practicable mechanism for non-energy settlement. Indeed, had AEMO undertaken a more comprehensive analysis and articulation of flooring as part of the earlier rule change process, it is likely we would have supported it. However, with the substitution methodology now in place, EA questions whether the flooring solution is required and will be net beneficial.

AEMO contends that the continued acceleration in the uptake of DER will increase the risks of inequitable non-settlement outcomes. However, AEMO has provided no new information to substantiate this claim nor quantify how material the costs associated with any such risks might be. Lacking such evidence, it is hard to see how the equity conclusions in July's NEM Settlement Conditions Final Determination can be seen as being out of date or incorrect and, therefore, should be overturned. That is, with participants and the AEMC agreeing that the 150MWh substitution rule would adequately address most non-energy settlement equity concerns. Further, that any residual equity risks would be minimised by the short period before the long-term non-energy settlement solution in the Integrating Energy Storage rule change is implemented.

With little evidence being presented for additional benefit beyond the substitution methodology, it would seem the costs of implementing a flooring solution would have to be exceeding low for there to be an overall net market benefit. In particular, noting that costs have already been incurred to implement the substitution solution and that delays to the 5 Minute and Global Settlement projects may further complicate flooring implementation and timing. Although we do not envision a large cost impact to our systems and processes to accommodate flooring, we note that this may not be true of other market participants given differences in settlement technology, IT resourcing and funding arrangements.

Taking the foregoing into account, EA would support a new flooring mechanism if:

- additional net market benefits beyond the substitution solution can be demonstrated, or
- the costs and risks of introducing flooring are deemed to be so low that it can be considered a no-cost, no-regrets action.

### **AEMO's Interpretation Of The Rules Needs Further Consideration**

Following a re-examination of the Rules, AEMO now considers that the proposed flooring approach is how non-energy settlement should have been undertaken since NEM inception. EA does not consider the AEMO reinterpretation is conclusive, with a definitive answer possibly requiring contextual confirmation from the AEMC staff that made the original rule. This may not be achievable, but if it is and AEMO's reinterpretation is considered to be correct, it raises many startling questions. That is, with AEMO having effectively been in breach of its duties as the market operator for a significant time. Foremost amongst these issues is what should be done regarding previous non-energy settlements that would now be seen as incorrect.

EA stresses that it would be an extremely burdensome undertaking for market participants to try to identify, recalculate and unwind historical non-energy settlement payments going back to NEM inception at this point. Beyond introducing further additional costs to participants in helping AEMO to correct its previously mistaken interpretation, it is hard to see how this could be achieved practically, legally or equitably. That is, with customers having changed retailers, gone out of business,

changed ownership or been amalgamated within other corporate entities. EA, therefore, suggests that if the AEMC consider non-energy settlement restitution should occur, this is carried out by AEMO at its own expense without it being recoverable from market participants and customers.

We would welcome the opportunity to discuss this submission further with you. Should you have any questions, please contact me via [bradley.woods@energyaustralia.com.au](mailto:bradley.woods@energyaustralia.com.au) or on [REDACTED]

Regards,

**Bradley Woods**

Regulatory Affairs Lead