



25 October 2018

Mr Kris Funstun
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

By electronic lodgement
ERC0240

Dear Mr Funstun

Draft Rule Determination – Global settlement and market reconciliation (ERC0240)

Alinta Energy (**Alinta**) welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) consultation on its draft determination for the global settlement rule change proposed by the Australian Energy Market Operator (**AEMO**).

Alinta is an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW, including 1,700MW of gas-fired generation facilities and 1,070MW of thermal generation facilities, and more than 1.2 million electricity and gas customers including more than 590,000 in east coast markets.

The diversity of Alinta's portfolio, its investment strategy, product offerings, and first-hand experiences in settling and reconciling energy transactions products across Australian energy markets, mean Alinta is well placed to provide informed comment in response to the consultation paper.

General Comments

Alinta is broadly supportive of the conceptual benefits potentially arising from the implementation of a global settlement framework including:

- Improving transparency and reducing disputes over settlement amounts.
- Ensuring costs are allocated in a manner that does not distort competition.
- Assigning risk in a manner that more closely aligns with incentives to manage unaccounted for energy (**UFE**).

Whilst Alinta supports the principles underpinning AEMO's proposed rule change and the more preferable draft rule made by the AEMC, Alinta is of the view that the benefits associated with global settlement are likely to be modest. In addition, Alinta is of the view that there are material costs associated with implementing the rule change, as well as real

risks associated with implementing global and 5 Minute settlement concurrently. As such, Alinta would encourage the AEMC focus its analysis within the final determination on quantifying both the benefits and costs for both AEMO and participants associated with the proposed move to a global settlement framework.

Nonetheless, if the decision to progress with the Global Settlement Rule change is made, Alinta has made some suggestions below, and recommends the proposed implementation date be extended to 1 July 2022.

Managing and minimising UFE

Alinta agrees in principle that second-tier retailers may face greater incentives to minimise UFE under the proposed rule relative to the settlement by difference approach historically applied in the NEM. However, as noted by the AEMC, there are limits faced by retailers on the amount of UFE they can practically manage and reduce.¹

Whilst second-tier retailers may face greater incentives to minimise UFE under a global settlement framework, they may not be best placed to identify and rectify the losses in a practical sense, due to their size and scale of their customer and compliance teams. In most instances it is actually AEMO and distribution businesses who are best placed to monitor commercial losses of energy in specific electrical sub-networks.

As such, Alinta supports the proposed measures contained in the draft rule recognising these pragmatic constraints, including the application of a materiality threshold and the capacity for market customers to request AEMO to undertake a review of likely causes of UFE.² Alinta would appreciate the AEMC's final determination providing appropriate guidance about how these measures can be applied in practise.

Smart Meter Deployment

To the extent that all retailers face incentives to reduce UFE, Alinta does not believe a material benefit of global settlement would be the acceleration of advanced meter deployments, except in cases where there are systemic and material errors that may arise from the net system load profile for a particular node subject to settlement by difference. The business case and speed of deploying advanced meters under a commercial roll out is not likely to be influenced by the settlement regime in place.

Proposed Implementation date of Global Settlement

If a decision to progress with the Global Settlement Rule change is made, Alinta would support leveraging the synergies associated with implementing the proposed global settlement and 5 minute settlement systems upgrades where it is possible *and efficient* to do so.

¹ AEMC (2018), *Draft Rule Determination – National Electricity Amendment (Global Settlement and Market Reconciliation) Rule*, page 29.

² Ibid.

However, in terms of the proposed implementation date of 1 July 2021, Alinta considers it critical the AEMC pragmatically assesses the short-term impacts and risks of aligning the implementation of 5 minute and global settlement. This is necessary given that both 5 minute and Global settlement represent a fundamental change to existing arrangements in both the spot, hedge and settlement markets.

Alinta is of the view that the proposed implementation date of 1 July 2021 for both 5 minute and global settlement increases the probability of unforeseen risks materialising at a precise time when the NEM is already experiencing significant regulatory and system wide change. As such, Alinta suggests the prioritisation of 5 minute settlement with the “in market” adoption of global settlement to follow 12 months later in July 2022, at a minimum.

This delay would allow industry sufficient time to gain market experience in 5 minute settlement while AEMO delivers allocated UFE data over an extended period to second-tier retailers. The implementation of 5 minute settlement will be a new process for all market participants, however global settlement will introduce the management and cost associated with UFE to second-tier retailers for the first time. A longer time frame for global settlement would support smaller retailers in assessing the magnitude, costs and risks of its allocated UFE and how to best address these.

Given the modest annual benefits associated with the proposed rule change, delaying the start of global settlement is necessary to support the transition for second tier retailers as they familiarise themselves with new UFE costings and settlement compliance processes. A later implementation date would also provide two years' worth of seasonal variation in the UFE data generated by AEMO, which may help reveal the materiality of UFE to individual retailers.

Conclusion

Alinta is supportive of the underlying economic premise of allocating costs to the participants that are best placed to identify and resolve any commercial losses which occur within the network. Nonetheless, there are real costs in progressing with global settlement which Alinta considers should be fully analysed within the AEMC's final determination.

In addition, the proposed implementation alignment of global and 5 minute settlement does not give second-tier retailers sufficient time to assess and develop strategies for managing UFE at a time when the market is managing the introduction of 5 minute settlement.

Alinta's recommendation for delaying the introduction of global settlement by 12 months is recognition that the complexities and risks associated with an aligned 5 minute and global settlement implementation date are tangible. Given this, a sensible and pragmatic implementation date of 1 July 2022 is more preferable in order to manage the transition to global settlement in a robust and secure manner. In Alinta's view, this would be consistent with the 'soft start' approach suggested by the AEMC.³

³ Ibid. pages 31, 61

Please contact Mr Anders Sangkuhl via email: anders.sangkuhl@alintaenergy.com.au or by phone 02 9375 0992 if you have any queries in relation to this submission.

Yours sincerely,



Jacinda Papps

Manager, National Wholesale Regulation