

15th December 2020

Market Settlements
Australian Energy Market Operator

Submitted by email to: AEMO.Settlements@aemo.com.au

Dear Sir or Madam,

NEM Settlement under zero and negative regional demand conditions

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Australian Energy Market Operator’s (“**AEMO**’s”) *NEM Settlement under zero and negative regional demand conditions – Issues Paper*.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation. We have canvassed our membership on this issues paper and found a high level of interest which will be expressed in their individual submissions.

The Energy Council accepts AEMO’s position regarding the urgency of the issue which increased in the 2020 Electricity Statement of Opportunities, highlighting the need to anticipate such market trends and act as early as possible.

The issues paper focussed on one, critical, part of the settlement process which the Energy Council agrees must be resolved by Spring 2020: allocation to retailers of non-energy costs during zero or negative regional demand. In considering this, other issues emerge regarding settlements of these low demand situations. For example:

- How non-energy charges are distributed to generators during periods of zero or very low regional scheduled and semi-scheduled generation;
- Whether the allocation of non-energy charges to exporting customers is appropriate; and
- Whether the allocation of non-energy charges to customers in near-zero regional demand is appropriate.

These are all important matters that deserve a thorough review. Their resolution will require changes to AEMO’s systems, so ideally it would be best to consolidate in one project. AEMO is encouraged to consider whether time would permit any of the above matters to be included within this exercise in order to avoid additional systems changes.

Proposed Options

None of the Issues Paper’s options are ideal, but the Energy Council accepts that one of them, or something similar, is necessary due to the urgency described above. The Energy Council hopes that a superior enduring solution will emerge through the Integrating Energy Storage Systems Rule Change, but even if it does, it recognises it cannot be implemented before global settlement in May 2022.

The Energy Council and its membership notes that each of AEMO’s four options have elements of unfairness to varying degrees. In doing this, there is a trade-off with simplicity.

Options three and four, as they were presented in the paper, appear most distortionary and least favoured. However it is possible that with variations they could be improved and this will be articulated in some submissions.

Options one and two appear to be largely seeking to achieve the same objective: allocating non-energy costs roughly proportional to Market Customers' regional energy shares over an extended historical period of time. In the context of an urgent interim solution, the Energy Council accepts this approach.

Option two appears to achieve this objective in a slightly superior manner, in that it uses more recent shares (rolling average rather than previous calendar years) and does not exclude market customers registered in the current calendar year. It is not clear why AEMO considers a recently registered market customers' demand would be distorted in option two, except that it is likely to be relatively low due to the 12 month averaging, but this seems less of a distortion than excluding them entirely.

The detractor to option two may be that it is somewhat more complex to implement. Retailers are better placed to provide a view on the significance of that issue and to suggest useful variants to the first two options.

The Energy Council also suggests AEMO assessing whether the solution chosen should be applied when operational demand is low, but not zero, to avoid settlement anomalies for market participants. It may be necessary for AEMO's operational processes to identify a threshold at which the new arrangements take effect, rather than just zero operational demand.

Any questions about this submission should be addressed to the writer, by e-mail to ben.skinner@energycouncil.com.au.

Yours sincerely,



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