
What is Global Settlement?

This factsheet provides an overview of what Global Settlement is and how AEMO is implementing this change. The factsheet is high-level and generic. Other fact sheets explain specific topics in the 5 Minute Settlement (5MS) and Global Settlement Program.

Current settlement arrangements

AEMO is responsible for settlement in the National Electricity Market (NEM) – making sure market generators are paid for the energy they provide, and retailers pay for the energy their customers use.

The wholesale market is currently settled through the settlement-by-difference methodology, which has been in place since the start of the NEM in 1998. This arrangement allowed the market to operate without the need for an expensive and impractical upgrade to metering of all customers. However, it entrenches different treatment of retailers: those that were incumbent at the start of the market (referred to as Local Retailers) and those retailers that have subsequently entered the market.

Since market start there have been significant changes in metering, with the roll-out of smart meters and advances in communication technology. There are also a significant number of customers that have changed retailers, and the concept of the Local Retailer is no longer necessary in many jurisdictions.

What is Global Settlement?

Global Settlement is an alternative methodology to settlement-by-difference, in which there is no need for a Local Retailer.

Effectively, this means all retailers are settled in the same way.

On 6 December 2018, the Australian Energy Market Commission (AEMC), the rule-maker for the NEM, passed a final rule to implement Global Settlement¹ across the NEM.

Which participants are impacted by Global Settlement?

The main impact will be on Market Customers (electricity retailers), Meter Data Providers, Distribution Businesses and AEMO.

What are the benefits of Global Settlement?

Global Settlement will mean that AEMO settles the market using the same process for all retailers. This will provide a greater level of visibility of energy uncertainties, known as Unaccounted for Energy (UFE). There are many sources of UFE, some examples include electrical losses, unmetered loads and estimation errors.

The process is also expected to lead to fewer settlement disputes because of the improved ability

¹ Information on the rule change and the AEMC's deliberations can be found at: <https://www.aemc.gov.au/rule-changes/global-settlement-and-market-reconciliation>.

to identify metering errors, and will assist in other areas such as forecasting and the management of distributed energy resources.

Global Settlement will also create an incentive for the industry to reduce UFE, such as by rolling out smart metering or reviewing unmetered connections.

What is AEMO's role in the Rule change?

On March 2018, AEMO submitted a formal Rule change request to the AEMC, proposing a Global Settlement framework across the NEM.

How will AEMO implement Global Settlement?

As well as updating procedures, AEMO is also responsible for implementing the Rule by updating any relevant processes and systems to support market readiness for Global Settlement.

AEMO will be integrating the implementation of Global Settlement into the current 5MS implementation program. Many systems and processes are impacted by both these changes, so it makes sense for them to be implemented in parallel.

AEMO intends to consult on all aspects of the program and has set up an engagement structure that will ensure market participants can be as involved in helping to shape the final procedures and systems as they wish to be, or as their resources allow (see table below).

AEMO is cognisant of resource constraints on smaller participants, and the interactions between

various change programs in the NEM, and has strategies in place to deal with both these issues.

Which procedures are impacted by Global Settlement?

Metering and settlements procedures will be affected by global settlement. As part of the procedure change work required for 5MS, AEMO will also update relevant [procedures](#) in-line with Global Settlement, and develop new procedures if necessary.

Which AEMO systems will be impacted by Global Settlement?

The main impact will be to AEMO's retail systems ([MSATS](#)). This includes:

- Determination and publication of UFE
- Changing the settlement processes to global settlement instead of settlement by difference.

When will Global Settlement come into effect?

Global Settlement will begin on 6 February 2022. However, UFE data will be published by AEMO from 1 July 2021 to ease the transition to Global Settlement.

Further information

For any further enquiries, please contact AEMO's 5MS and GS team at 5ms@aemo.com.au.

5 Minute Settlement and Global Settlement engagement structure

Engagement method	Purpose
Forums, working groups, and focus groups	Program co-ordination, information-sharing, procedure and system development
One-on-one meetings	In-depth and confidential discussions with participants
Information sessions	General information on the program, open to all
Targeted briefing sessions	Subject-specific briefings
Email updates	Fortnightly information on current events
Website	General program information repository