Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

4 April 2024

To Anna Collyer,

Shortening the settlement cycle – Consultation paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission's (the Commission) consultation paper on GloBird Energy's rule change request to shorten the settlement cycle.

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE operates an asset fleet which includes renewables, gas-powered generation, diesel peakers, and battery energy storage systems. ENGIE also owns Simply Energy which provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE supports consideration of GloBird's rule change request and supports the settlement cycle being reduced from 20 business days following the end of a billing period. While we do not have a strong position on the optimal length of the settlement cycle, we consider that 10 business days may be an appropriate balance between the market benefits and the implementation considerations (such as IT costs and reductions in data quality).

On balance, we consider the market would benefit from shortening the settlement cycle

ENGIE expects that the rule change proposal would have varying impacts on the cash flow of different energy businesses, depending on their balance between generation and retail. The current length of the settlement cycle exposes generators to credit risk, while retailers have cash flow benefits from payments being deferred. Although generators would directly benefit from a shortened settlement cycle, we expect that the value of this reduced credit risk would ultimately flow through to lower contract prices over time.

While retailers may experience impacts to cash flow due to needing to settle earlier, the rule change proposal would directly benefit all retailers by reducing the quantum of credit support that must be lodged with the Australian Energy Market Operator (AEMO). As noted in GloBird's rule change proposal, the relative benefit of reduced AEMO prudential requirements would differ between participants and be of most direct benefit to smaller retailers.

In addition, we agree with GloBird that reduced working capital requirements would likely have broader market competition benefits by reducing barriers to entry to the retail market and potentially reducing the number of retailer failures. However, these benefits will be more challenging to quantify than the direct reduction in retailers' costs of prudential requirements.

Although the benefits of the rule change proposal may be more acutely felt by smaller retailers, ENGIE considers that on balance, GloBird's rule change proposal would result in an increase in overall market efficiency and reduce risk in the National Electricity Market.

It is unclear if the costs of implementation would be significant

ENGIE expects there to be some implementation costs; however, it is unclear if stated concerns around potential implementation costs will materialise. While ENGIE anticipates some manageable implementation costs, largely related to information technology system updates, it is not expected that these will be significant for individual entities. ENGIE is unable to assess how these implementation costs would be calculated for AEMO.

More broadly, a shorter settlement cycle may reduce the quality of data available at the initial settlement date, which may result in larger variances between the initial data and the 20 and 30 week revisions than occur today. This reduction in data quality at the time of settlement may effect retailers' accounting and cash flow, although the impact of upward and downward revisions should largely even out over time.

The impact of data quality issues and revisions may be more pronounced for retailers during the initial change-over period to the shorter settlement cycle, depending on the types of financial contracts they hold. ENGIE would support a transition period of around 12 months to allow participants to adequately prepare for the change in the settlement cycle.

Concluding remarks

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0436 929 403.

Yours sincerely,

Matthew Giampiccolo

Matthew Giampiccolo
Manager, Regulation and Policy