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Dear Commissioners

Shortening the settlement cycle — draft determination — 8 August 2024

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We appreciate the Commission working with AEMO to consult with stakeholders on implementation options and alternatives that address the policy intent of the initial rule change proposal. AEMO's proposed approach involving an 'R0' revision appears to address concerns around data quality that arose with Globird's proposal and the Commission's draft determination.

We support all regulatory changes that reduce costs for market participants and for AEMO, which ultimately flow through to customers. On face value the proposed changes to settlement timing would appear to deliver improvements to current arrangements however the extent of any net benefit has not yet been quantified, and should be quantifiable. We recommend the Commission extend consultation on this rule change and allow for stakeholder consideration of further cost and benefit information to be provided by AEMO. A delay of several months should be easily accommodated given the proposed introduction of new settlement timings from April 2026.

The Commission's draft determination places considerable weight on benefits arising from reduced barriers to entry in the retail market. The retail market is already highly competitive. There are over 60 authorised retailers nationally,[1] with material discounting below standing offer price caps to attract new customers[2] and product innovation. Average retail margins per residential customer now at their lowest levels.[3] In any case, we consider that changes to settlement are unlikely to lower retailer costs to an extent that it would induce additional new entrants. The benefits of this rule change are

1 AER Retail Performance Data, Schedule 2 Quarter 3 2023-24.
2 ACCC, *Inquiry into the National Energy Market*, December 2023 report, p 66.
3 ACCC, *Inquiry into the National Electricity Market*, December 2023 report, Figure 2.12.

therefore most likely to be limited to reducing costs for existing retailers and hence lower customer bills.

In terms of benefits, AEMO's High Level Impact Assessment (HLIA) and recent public forums highlight that it is yet to properly quantify how settlement timing changes would affect its Maximum Credit Limits (MCL) for participants. There also appears to be some disagreement amongst retailers on whether key benefits will take the form of lower likelihood of call notices. AEMO's preliminary analysis is that call notices are unlikely to be affected.[4] Regarding MCLs, an offsetting effect of shorter settlement cycles is to magnify the impact of high price events and this should be explored in detail. AEMO's preliminary analysis is that the cost savings for retailers arising from MCL changes would be around $4 to $8 million per year.[5] This equates to less than one dollar per customer.

AEMO is also yet to quantify expected implementation costs and its qualitative HLIA is that system impacts will be "high". We expect the impacts on our own business in accommodating an additional R0 revision and others from AEMO's proposed implementation pathway may not be significant, but still material in the context of adding further process changes on top of other market reforms and AEMO-initiated changes currently on foot.

To the extent net benefits for all customers, once properly quantified, are marginal or subject to uncertainty, the Commission should consider whether this rule change should be pursued given other reform priorities[6] and concurrent system changes being processed by AEMO and industry. The Commission should also have regard to how any changes would contribute to AEMO's cost base and participant fees, which are growing, and mostly funded by larger retailers like EnergyAustralia.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
Regulatory Affairs Lead

[4] Submission - ERC0384 - Consultation Paper - AEMO - 20240405.PDF (aemc.gov.au) – page 4.
[5] ibid.
[6] Our priorities | AEMC