# ZEN ENERGY'S RESPONSE TO THE AEMC NATIONAL ELECTRICITY AMENDMENT (SHORTENING THE SETTLEMENT CYCLE) RULE 2024 CONSULTATION PAPER

**11 April 2024**

Ms Anna Collyer
Chairperson
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically.

Dear Ms Collyer,

**Re: ERC0384 National Electricity Amendment (Shortening the Settlement Cycle) Rule 2024 Consultation Paper**

ZEN Energy (ZEN) welcomes the opportunity to make this submission to the Australian Energy Market Commission (the Commission's) consultation paper on the Globird Energy Rule Change National Electricity Amendment (Shortening the Settlement Cycle) Rule 2024.

ZEN strongly supports the rule change drafted by GloBird and views this as a proportionate and appropriate change where the benefits will vastly outweigh the minor costs for procedure and system changes which the Australian Energy Market Operator (AEMO) and market participants will need to undertake. The proposed 10 business day settlement length provides the optimal balance for all market participants and would be the least onerous for all parties and especially AEMO to implement.

**Estimated costs and benefits of shortening the NEM settlement cycle**

The costs of this change to retailers will be minimal and ZEN agrees with GloBird that as the same amount of money will be transacted in the market the main implementation and system changes impacting AEMO will primarily be procedural (such drafting changes to the settlement calendar).

Although there would potentially be some impact related to an increase in rebilling by AEMO (as an increase in the number of settlements would lead to a natural increase in rebilling work) this would only be a minor risk as issues with rebilling due to settlement data are already being addressed by the roll out of smart meters which will hit 100% of consumers by 2030 under the Accelerating Smart Meter Deployment rule change.

With the increasing prevalence of smart meters and data being more accurate the information and data gap between the 20 and 10 business day settlement cycle is negligible and there is limited justification to maintain a longer settlement cycle. To that end it would seem only natural that as we move to a more digitised market structure the settlement cycle would be shortened to better reflect the increasing speed of information and accuracy of settlement.

Smaller energy retailers play a crucial part in the energy market encouraging innovation and competition and lowering consumer prices. Over the past 2 years, however, small retailers have faced increasing pressures with many being forced to cease operations. In fact, the Australian Competition and Consumer Commission (ACCC) specifically highlighted this issue in its December 2023 Market Report noting that "small standalone retailers play an important role in the market, with their best offers generally competitive with the best offers offered by larger retailers, putting downward pressure on prices (for new customers)." It also highlighted the ongoing difficulties faces in supporting this competition warning that "small standalone retailers and new entrants may find it increasingly difficult to manage spot market price risk in the future."[1]

Furthermore, in the current market retailers have double capital demands including hedging and AEMO settlement which continues to put ongoing pressure on all retailers but has an impact felt most heavily on smaller non vertically integrated retailers. These pressures and costs were clearly a major factor which contributed to the collapse of numerous retailers over the past two years.

Although this proposed rule change will not entirely counter the external factors which caused numerous ROLR events over the over the past two years it will address some of the inevitable prudential risks and operate as a low-cost reform which will reduce some of the financial pressure on smaller retailers, removing a barrier to new market entrants and facilitating an increase in the competitiveness of the market.

**Benefits for consumers**

As this change will reduce the costs faced by retailers and therefore improve retailer viability it will also further improve competition which will see the main beneficiaries be consumers through reduced energy costs.

Smaller retailers are more often price setters in the market with the majority of the offers from smaller retailers being priced lower than larger established retailers who are incentivised to maintain market share rather than win new customers. Smaller retailers are also more heavily impacted by the costs of implementing regulatory reforms while often having margins lower than larger vertically integrated retailers. To help facilitate this competition it is crucial that reforms which reduce the financial pressure on smaller retailers such as this are progressed.

As this change will lead to a reduction in working capital costs for all retailers it will see a reduction in operating costs and therefore reductions in prices for consumers. Importantly, as this reform will be simple to implement, the benefits will not be eaten up by the costs of implementing the change which will see consumers benefit more quickly than some other reforms.

**Meeting the National Electricity Objective (NEO) and National Energy Retail Objective (NERO)**

This rule change will not only meet the NEO with the "long term interests of consumers of electricity with respect to price, quality, safety, reliability and security of supply of electricity" due to a reduction in the operating costs for all retailers which will inevitably be seen in reduced costs for consumers but will also help meet the emissions reduction targets of the NEO and the NERO.

Although some opponents to this rule change will likely claim that it will negatively impact the ability of small retailers to access financing, this seems to be a flawed assumption. Financial institutions currently have systems and processes set up to support provision bank guarantees for a 20-business day cycle and there appears little evidence that they would be unable to accommodate a move to a 10-business day cycle. As this change will improve the financial capacity and sustainability of smaller retailers it would seem only logical that this would free up these unnecessary capital restrictions to drive renewable transition which is clearly in line with the objectives aims of “reducing Australia's greenhouse gas emissions.”

**20 business day settlement period**

It is important to note that the 20-business day settlement cycle was established to accommodate a market where smart meters and the transmission of information via the internet was not anywhere near as prevalent as it is now. It was also developed in a time of low variability in wholesale prices, limited competition between retailers and concerns over the quality and accuracy of settlement data. The market has changed dramatically since then, and this reform logically reflects these changed market circumstances.

Most importantly, as noted we have seen an increasing improvement in data quality and reliability (through the smart meter roll out) and confidence in AEMO settlements through improved computational power. To that end a move to a 10-business day settlement cycle is a completely logical step along the development of a more digital, reflective, and responsive energy market that supports smaller retailers and fosters greater competition while lowering prices for consumers.

ZEN Energy would thank the Commission for the opportunity to comment on the consultation paper. Should you wish to discuss or have any further enquiries regarding this submission, please contact compliance@zenenergy.com.au

**Yours sincerely**

Glenn Garnaut
Chief Governance Officer
ZEN Energy Pty Ltd

'ZEN Energy's Journey' was commissioned to tell the ZEN story and the journey to reconciliation with Australia's indigenous people. The artist, Brooke Sutton, is a proud Kalkadoon woman from Queensland, Australia.

Scan QR Code or click here to watch a video of Brooke explaining the meaning behind the painting.

We acknowledge the Traditional Custodians of the land, waters and knowledge for the places where we gather collaborate and strengthen communities. In our work, we recognize the importance of Country – not just as a place, but how it maintains community, family, kin, lore and language. We pay our respects to Elders past, present and emerging.

# ZEN ENERGY

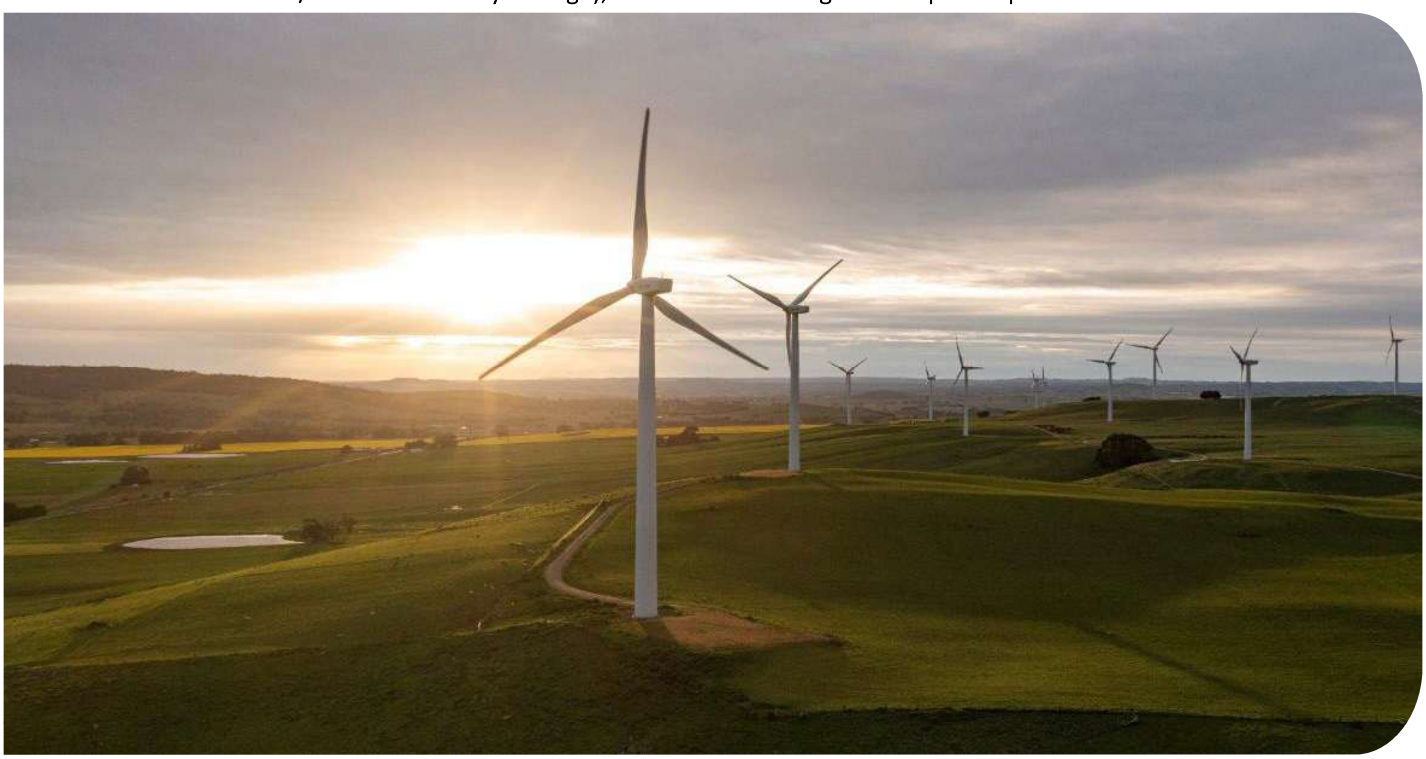
## About us

**ZEN stands for Zero Emissions Now, our call to action. We believe that by turning towards low cost, renewable energy, our communities will become more sustainable and prosper accordingly. Our purpose is to lead communities into a zero-carbon world.**

ZEN is accelerating Australia's path to becoming a renewable energy Superpower and is Australia's first electricity retailer to have a near-term science-based emissions reduction target in line with limiting global warming by 1.5°C. In the 6 years since we obtained our electricity retail license, ZEN has brought together a community of sustainability-driven customers (governments, businesses, industries, and residents), renewable energy suppliers and capital partners.

Some of our key customers include the South Australian Government, CSIRO's sites in New South Wales, Victoria, and the Australian Capital Territory and the Southern Sydney Regional Organisation of Councils (SSROC) which comprises twenty-five local councils in New South Wales. In 2023, ZEN has delivered more than 1.3 TWh of renewable energy.

Having grown our portfolio of power purchase agreements including over 20 solar and wind farms, ZEN is now developing its own utility-scale projects which include the Templers Battery Project (111MW/270 MWh) expected to commence construction in 2024, and the Solar River Solar (200MW solar PV and 100MW/200MWh battery storage), which is in late stage development phase.



ZEN ENERGY

AUSTRALIA'S **FIRST ENERGY COMPANY** COMMITTED TO **LIMITING GLOBAL WARMING** BY **1.5°C.**