

3 October 2024

11 Newton Street  
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Ms Anna Collyer  
Chair  
Australian Energy Market Commission  
Level 15, 60 Castlereagh Street  
Sydney NSW 2000

Reference: **ERC0384**

### **Draft rule determination – Shortening the settlement cycle**

Dear Ms Collyer and colleagues

Energy Locals Pty Ltd (ACN 606 408 879) (**Energy Locals**) welcomes the opportunity to provide a submission to the Australian Energy Market Commission (**AEMC**) in relation to the *Draft rule determination – National Electricity Amendment (Shortening the settlement cycle) Rule (Draft Determination)*.

Energy Locals is an authorised electricity and gas retailer that supports customers directly as well as via partnerships with newcomers to the energy retail sector, such as RACV, Indigo Power, IO Energy, Tesla, and others.

As a smaller retailer we have concerns about the implications a change to the settlement cycle may have on a retailer's working capital and resourcing. We have outlined these concerns in our submission.

#### **1. Working capital implications**

In the Draft Determination, AEMC has explained that a shorter NEM settlement cycle would reduce working capital requirements for market participants and that smaller retailers, in particular, will benefit from this.<sup>1</sup> While we acknowledge that retailers will benefit from a reduction in the quantum of credit support required, we do not fully agree with AEMC's suggestion that retailers will have a reduced working capital.

Small retailers are generally net payers to the Australian Energy Market Operator (**AEMO**) and therefore the shortening of the settlement cycle will increase the amount of working capital they require to operate. The shortening of the settlement cycle will be beneficial for generators who will receive payments in advance of the current cycle.

Retailers generally are required to bill their customers monthly and give appropriate payment terms. The increased time-cycle gap between retailers making payments and receiving payments will increase their operating costs and ultimately put upward pressure on prices offered to customers by small retailers. Such a change would shift a competitive advantage from small retailers to the larger gentailers who can rely on quicker receipt of payments for generation.

#### **2. Administrative burden due to increased frequency of processing settlements**

While the AEMC has suggested that market participants already settle on a weekly basis with AEMO, we disagree with the suggestion that the implementation costs will not be significant.<sup>2</sup> The additional revisions and processing required in connection with an increased frequency of settlement will create an administrative burden for retailers, which may require additional resourcing, changes to retailer systems and enhancements to data capability. In this regard, these costs will not just be incurred in connection with settlements with AEMO as there is expected to be a flow on impact for settlements with OTC contracts.

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<sup>1</sup> AEMC, *Shortening the settlement cycle*, Draft rule determination, 8 August 2024, p.i.

<sup>2</sup> Ibid, p.18

### 3. Consumer outcomes / impact on competition

We agree with the AEMC's comments in the Draft Determination that small retailers generally play a key role in creating competition. However, AEMC's suggestion that that retailers will have greater investment opportunity which will lead to great consumer outcomes is overly simplistic. On the contrary, it could adversely affect competition.

The AEMC has outlined that they expect that consumers will benefit from the shorter settlement cycle due to retailers having *more working capital to invest in service innovation*<sup>3</sup>. However, as outlined above, in many circumstances there may be an increase to retailer working capital costs which will add to the financial pressures that smaller retailers already face. Many retailers, particularly smaller retailers, operate within a very small margin due to the costs associated with customer acquisition and churn that can be more easily absorbed by retailers with larger customer bases. In this regard, we reiterate that the AEMC has acknowledged that there has been a high number of retailers exits in 2022 and 2023 and a lack of new market entrants.<sup>4</sup> We, therefore, urge the AEMC to carefully consider cost implications.

Similarly, Energy Locals considers it necessary for these costs to be reflected in the DMO/VDO, which in turn may increase energy costs to consumers.

### 4. Impact not fully known

In considering the Draft Determination, Energy Locals considers that further analysis is required to understand the full implications that the shortened settlement cycle will have on retailers. In this regard, the Maximum Credit Limit Analysis will determine the benefit of this proposal in compared to procedural cost of implementation ahead of the Final Determination.

We are still reviewing and considering the AEMO draft High-Level implementation assessment (HLIA).<sup>5</sup> We, therefore, urge the AEMC to work collaboratively with AEMO once all feedback has been received, noting that AEMO is accepting submissions until 14 October 2024.

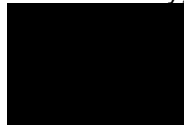
### 5. Implementation Period

If the proposed rule change is implemented, we agree that there must be an extensive implementation period. At a minimum, an 18-month implementation period following publication of the final rule is necessary.

In summary, Energy Locals recognises the intention of the reform and the intended benefits of the proposed shortened settlement cycle, however before we can fully support the rule change further analysis on the implications to retailers is required. At this stage, we have concerns that retailers' working capital will be negatively affected due to the gap in payments and cost recovery as well as increased resourcing and administrative burden on processing settlements more frequently.

We are very happy to discuss any aspect of our submission at any time.

Yours faithfully,



**Adrian Merrick**  
Chief Executive Officer  
Energy Locals Pty Ltd

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<sup>3</sup> Ibid, p.i.

<sup>4</sup> Ibid, p.6

<sup>5</sup> AEMO, *Shortening the Settlement Cycle: Draft High-level Implementation assessment – preliminary view for stakeholder feedback on the potential implementation approach by AEMO*, September 2024.