



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

3 October 2024

Dear Ms Collyer,

Shortening the settlement cycle – Draft determination

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission's (the Commission) on its more preferable draft rule to shorten the National Electricity Market (NEM) 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 provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

At the time of the initial consultation paper, ENGIE noted there was uncertainty around the implementation costs and impacts on data quality arising from shortening the settlement cycle. ENGIE does not consider that the draft determination presents sufficient information on these issues for industry to provide informed feedback on whether the benefits of the rule change request outweigh the costs and data quality issues that may arise. As such, ENGIE does not see strong merit in shortening the settlement cycle at this time, and believes it is likely the costs will outweigh the potential benefits.

Since the publication of the draft determination, the Australian Energy Market Operator (AEMO) has published its draft high-level implementation assessment (HLIA) of the rule change request. While the draft HLIA provides a broad indication of the AEMO resources required to implement the rule change request, there is not yet transparent information available to stakeholders on the expected cost to AEMO of implementing the reform.

ENGIE is supportive of reforms that improve the efficiency and competitiveness of the electricity market; however, as we highlight in this submission, ENGIE is concerned about this rule change being made before there is transparency and consultation on the costs and implementation issues that may arise. Recent

experience has illustrated that changes to system architecture can be highly costly while benefits are at times quite intangible for the market as a whole.

Potential benefits of the reform

ENGIE acknowledges that the rule change request can directly benefit some retailers by reducing the quantum of credit support that must be lodged with AEMO, due to a reduction in their maximum credit limit (MCL). Nonetheless, as identified in submissions to the consultation paper, a shorter settlement cycle would directly result in a higher volatility factor applied to the MCL, which is likely to reduce any benefits that may arise from the rule change request.

While the rule change request may still reduce the prudential requirements for smaller retailers, ENGIE considers that it is critical that the rule change is only implemented if there are notable positive benefits for consumers and the market. To make this determination, the Commission needs to undertake a more fulsome assessment of the implementation costs and data quality risks that would arise from the rule change.

Data quality concerns

ENGIE is concerned that compressing AEMO's timeframes to identify and correct meter data will reduce the accuracy of data at the initial settlement date and increase the reliance on 20 and 30 week revisions. Although AEMO has published some analysis on settlements processes and errors in response to the consultation paper¹, it noted that analysis has not yet been conducted on worst case or stress case scenarios. As AEMO noted, the shortened settlement cycle may result in inefficient market settlement operations where errors are resolved after money has changed hands, rather than before money changes hands under current arrangements.²

ENGIE acknowledges that in its draft HLIA, AEMO has now presented an alternative shorter settlement cycle ('pathway 3') with an additional four-week revision, which AEMO states would allow metering data quality to be maintained without the need for enhanced exceptions management.³ While this may address some concerns with data quality, it is unclear whether introducing an additional revision would have significant implementation costs on participants. This is discussed in more detail below.

Implementation costs

In its submission to the consultation paper, ENGIE noted that it would likely incur manageable implementation costs related to information technology system updates. However, as noted in the above section, the introduction of an additional revision could create additional implementation complexities and

¹ Australian Energy Market Operator 2024, Request for settlements analysis – Shortening the settlement cycle, 19 July, p. 3.

² Ibid, p. 3.

³ Australian Energy Market Operator 2024, Shortening the settlement cycle: Draft High-Level Implementation Assessment, 19 September, p. 12.

costs for participants. In particular, an additional revision would require participants to store an additional weeks' worth of AEMO data for every meter and asset, as well as running an extra set of invoices for the revision. ENGIE notes that facilitating the additional revision will require expansions in data storage, system capacity used for calculations, and additional staff resources to manage the additional tasks.

The introduction of an additional revision would also require participants to apply an extra revision on any related contracts (such as power purchasing agreements and load following arrangements), which would add to the data storage, system capacity, and staff resourcing requirements of the reform.

Shortening the settlement cycle will also impact on AEMO's operational processes and may result in AEMO incurring material implementation costs. In the draft HLIA, AEMO has provided an indicative assessment of the impacts on its staffing, processes and systems from different implementation pathways.⁴ The draft HLIA does not provide forecast or estimated costs that AEMO would incur under each of the implementation pathways. This makes it challenging for stakeholders to assess whether the costs of the rule change request are reasonable and justify progressing with shortening the settlement cycle.

ENGIE notes that AEMO has identified significantly different impacts from the different implementation pathways. It appears that 'pathway 3' would result in the least implementation impacts on AEMO, but would still involve 'high' system impacts. It is not clear at this stage how a rating of 'high' will translate into implementation cost estimates.

Concluding remarks

While AEMO's proposed 'pathway 3' may result in relatively lower implementation costs for AEMO, ENGIE reiterates its feedback that the introduction of an additional revision may impose notable implementation costs and complexities on participants. The alternative implementation options may be less costly for participants, but appear to require relatively higher implementation costs for AEMO and may result in data quality issues.

In the context of the potentially significant implementation issues and relatively minor benefits of the reform, ENGIE suggests the Commission reconsider the introduction of this rule change at this time. This rule change request would result in a fundamental change to the settlement process in the NEM, and should only be progressed if a fulsome consideration of the costs and benefits of the reform justifies the change.

⁴ Australian Energy Market Operator 2024, Shortening the settlement cycle: Draft High-Level Implementation Assessment, 19 September, p. 11-12.

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

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