01 October 2024

Ms Anne Collyer
Chair
Australian Energy Markets Commission
Level 15, 60 Castlereagh Street
SYDNEY NSW 2000

Submitted electronically via the AEMC Rule change portal

Dear Ms Collyer,

RE: Shortening the settlement cycle Draft Determination

GloBird Energy Pty Ltd (**GloBird**) is pleased that the AEMC Draft Determination supports, and enhances the proposal to shorten the NEM settlement cycle. We support the draft preferable rule proposed by the AEMC.

We also support the proposal by AEMO, which is essentially the same but with:

- the advantage of a simpler approach to the final settlement; and
- management of the data quality issue raised by some participants.

We encourage the AEMC to adopt the AEMO proposal as a more preferable rule in the Final Determination. As the AEMC draft preferable rule and the AEMO alternative both address the same issue and vary only in efficiency of their solution, we urge the AEMC to move to its Final Determination as soon as possible.

We note that the AEMO proposal is less disruptive than our original proposal and recommend that the implementation period be shortened to 6 months to allow this beneficial rule change to be implemented quickly.

Our objectives

Our proposal included the objectives that we had for the Rule change. These were to:

- reduce the cash that needed to be held by a retailer so that it could respond to market calls.
- Lower the level of prudential instruments that retailers would need to lodge with AEMO
- As a result lower the amount of cash required to be held by smaller retailers to back up their prudential instruments

In our proposal GloBird noted that the risk for retailers under the current prudential regime is that:

- A call notice could still be triggered for a perfectly hedged retailer due to the differences in payment terms between Call Notice issued by AEMO and the payment on retailer's hedge contract, if there is a period of elevated wholesale prices.
- The current payment cycle has a 20 business days delay between the time when a retailer must provide credit support to AEMO to satisfy the Call Notice issued after the elevated wholesale price events, which is on the next business day, and the settlement time when the retailer is getting paid from their hedge contracts, which is usually on the AEMO final statement settlement day.
- A retailer's failure to provide the credit support to meet AEMO's call notice will be deemed as default event and trigger ROLR, this means a retailer must provide additional financial resources to cover any potential call notice amount.

Our proposal to shorten the settlement cycle to 10 days was aimed at halving this risk, as well as lowering the other costs to retailers.

We are pleased that these objectives were accepted by the AEMC and the level of benefits was not significantly challenged by respondents to the consultation paper. While some said that there should be more analysis, none provided such analysis during the consultation period.

Benefits to the market

We note that the AEMC, and the respondents to the consultation paper accepted that the benefits of the GloBird rule change to the market would be that:

- ✓ **Customers** would see lower prices due to the reduction of retailer costs and increased choice in both products and retailers due to the increased competition.
- ✓ **Regulators** could expect fewer retailer failures
- ✓ **AEMO** could reduce the amount of security that it would need to manage retailer failure and would have reduced financial exposure to retail failure. GloBird also noted that it would be easier for AEMO to achieve the Prudential Standard.
- ✓ **Retailers** would need less working capital, including security instruments lodged with AEMO.
- ✓ **Generators** would receive their monies from AEMO settlements earlier.

The Draft Determination

The preferable rule proposed by the AEMC in the draft determination altered the final settlement date to 11 business days after the end of the settlement week. This change allowed AEMO to avoid a draft and final settlement on the same day but was not a material change to the GloBird proposal.

The draft determination[1] noted that the benefits of the proposed change were significant:

> "*Shortening the NEM settlement cycle to 11 business days would reduce working capital requirements for market participants by:*
>
> - *lowering the quantum of credit support that market participants must lodge with AEMO as part of the prudential regime*
> - *shortening the settlement cycle for certain financial contracts, which would reduce the quantum of working capital that market participants may need to hold to respond to Call Notices from AEMO.*
>
> *Lowering working capital requirements for market participants, including retailers, would support increased investment in service innovation, lower barriers to retail electricity market entry, and reduce the risk of retailer failure. We consider that this in turn would have material benefits for consumers through access to better service offers, more choice, more competitive pressure on retail prices, and less customer disruption resulting from retailer failure.*
>
> *We also consider that this change would benefit smaller retailers in particular, which typically have less access to capital and higher financing costs and face different costs and risks to larger retailers. Smaller retailers play an important role in driving value for consumers in the retail electricity market. Lowering barriers to entry and driving competition is critical in delivering better outcomes for consumers, as new market entrants contribute to competitive outcomes through competing with existing retailers on price, product offering and innovation, and service quality."*

The preferable rule would achieve the objectives that GloBird had for its rule change and therefore is supported.

1 AEMC draft determination information sheet, www.aemc.gov.

The AEMO alternate approach

GloBird Energy applauds AEMO for recognising the concern raised by GloBird; that the length of time between the end of a settlement week and the settlement of that week caused high costs for retailers, and in particular smaller retailers.

Taking that issue on board, AEMO:

- Verified that the level of errors included in the draft settlement statements was low, and that the risk of settling earlier was correspondingly low.

  AEMO also noted that half of the errors were corrected withing the period between the draft and final statements, while the remainder were generally corrected at the first revision (R1).

- Proposed a simpler solution, namely:
  1. Settle pool amounts on the draft statement 9 days after the end of the settlement week.
  2. Settle intervention payments and related amounts on the 20th day as per current settlement.
  3. Conduct normal data checks and then make any adjustments at the same time as any intervention payments or, in any case, on the 20th business day when final settlements would normally have taken place (R0).
  4. Apply the normal corrections at R1.

This proposal achieves all of the objectives of GloBird in proposing the change, while reducing the change in procedures required. Settlement occurs earlier but the data checking and adjustments occur in their normal timeframe. This means that the costs to participants are not increased materially by the AEMO proposal.

This approach is better than the one proposed by GloBird and in the draft preferable rule. It is therefore considered to be the superior option and should be adopted in the Final Determination by the AEMC.

The value of the MCL

During the forum to discuss the AEMO option, there was significant discussion on the impact on the MCL. At its simplest the MCL is calculated by estimating the likely daily accruals of each retailer, based on normal sales, likely change, market volatility and the number of days that will elapse before AEMO identifies a breach and is able to act on that breach. This is currently 42 days, or 6 weeks.

If the settlement period is shortened, the number of elapsed days is reduced. In the case of the GloBird and AEMO proposals, AEMO would identify the breach two weeks earlier. This must allow a reduction in the MCL, although it is may not be linear reduction.

Impacts on participants

The AEMO approach minimises the actual changes required of participants. While settlement is moved forward by two weeks, the normal data checking and adjustments can occur in their current timeframes. In addition, the background work by AEMO for intervention settlement is unaffected.

As a result, the impact on market participant would be lower for the AEMO option than it would be for either of the GloBird approach or the AEMC preferable rule.

In our opinion, the costs for settlement processes are not materially increased by the AEMO approach, because revisions, including special revisions, are existing settlement practices and should already be supported by the industry. The existing process can be used to support the proposed 20 days (R0) revision with minimal changes.

GloBird therefore supports the AEMO approach as a more preferable rule.

The variations are minor so the AEMC should proceed to the Final Determination without delay

GloBird contends that the identified benefits of this rule change are high and vastly exceed the low impacts on participants. We therefore urge that the AEMC proceeds to a final determination, adopting the AEMO option, without delay.

We submit that the extended implementation period foreshadowed in the Draft Determination will now not be required, due to the low impact on participants and therefore ask that the AEMC provide for a 6 month implementation period, subject to AEMO being able to make the necessary adjustments to their procedures.

GloBird will be pleased to meet with the AEMC to further discuss this proposed Rule change. Please contact Nabil Chemali via email: **nabil.chemali@globirdenergy.com.au**

Yours sincerely

Hal Zo
Chief Executive Officer
GloBird Energy Pty Ltd